

Our Governance Model

Main Roads governance approach directs and manages our business activities to optimise performance, achieve regulatory compliance and deliver value for customers aligned to values-driven management. Our governance model shows the relationships between our Minister, Commissioner and Corporate Executive supported by sub-committees.



Empowering Legislation

Main Roads Act

The *Main Roads Act 1930*, amended in 1996, establishes the Commissioner of Main Roads as a corporate body and sets out the powers and duties of the office.

Other Empowering Legislation

- The *Land Administration Act 1997* provides powers for the resumption of, and entry on to land
- Section 131 (Liability for damage to road infrastructure) of the *Road Traffic (Administration) Act 2008*
- Regulation 297 of the *Road Traffic Code 2000* provides the Commissioner with the power to erect road signs and traffic signals, and install road marking

- Section 40 of the *Road Traffic (Vehicles) Act 2012* provides the Commissioner with the authority to give an access approval for a complying restricted access vehicle to be on a road.
- Section 33 of the *Road Traffic (Vehicles) Act 2012* provides the Commissioner with the authority to modify a mass or dimension requirement, as provided in the Regulations.

We have processes and controls in place to ensure that we comply with other State and Commonwealth legislation and regulations which impact on our activities.

Our Commitment

In reviewing and considering our own corporate governance practices we consider the Public Sector Commission Guidelines as well as the application of ASX Corporate Governance Council principles within our own operating context. The following table provides a summary of our commitment against each of these principles which is further enhanced throughout the report.

PSC Governance Principles	ASX Governance Principles	Our Commitment
1. Government and public sector relationship – <i>The organisation's relationship with the government is clear</i>		We have structures in place to ensure clear lines of communication with the Minister for Transport, our Portfolio partners and other government agencies
2. Management and oversight – <i>The organisation's management and oversight is accountable and has clearly defined responsibilities</i>	1. Lay solid foundations for management and oversight – A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.	Keeping WA Moving clearly outlines our Aspiration, Strategic Areas of Focus, Guiding Principles and Values
3. Organisational structure – <i>The organisation's structure serves its operations</i>	2. Structure the board to add value – A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively	Corporate Executive is our lead governance body, it is made up of the leader from each Directorate and is supported by a number of sub committees. Details of their roles and achievements are included in this report
4. Operations – <i>The organisation plans its operations to achieve its goals</i>		Our Business Planning and reporting process ensures that our activities are aligned to our strategic plan and achieving the outcomes for each of our services
5. Ethics and integrity – <i>Ethics and integrity are embedded in the organisation's values and operations</i>	3. Act ethically and responsibly – A listed entity should act ethically and responsibly	Our Code of Conduct and Integrity Framework ensure our commitment to professional behaviours that are consistent with our values and guiding principles
6: People – <i>The organisation's leadership in people management contributes to individual and organisational achievements</i>		Workforce planning across the Portfolio is a high priority and we invest in leaders who will genuinely challenge the status quo
7. Finance – <i>The organisation safeguards financial integrity and accountability</i>	4. Safeguard integrity in corporate reporting – A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting	Financial integrity is achieved through our Financial Management Manual, Audit and internal processes. The Budget Committee reviews and manages our financial performance on a monthly basis

PSC Governance Principles	ASX Governance Principles	Our Commitment
<p>8. Communication – <i>The organisation communicates with all parties in a way that is accessible, open and responsive</i></p>	<p>5. Make timely and balanced disclosure – A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities</p>	<p>We work with the community and our customers to provide consistent communications and services of value by understanding their needs</p>
<p>9. Risk management – <i>The organisation identifies and manages its risks</i></p>	<p>7. Recognise and manage risk – A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework</p>	<p>Our Risk Management process is a part of our integrated annual business planning process. We work closely with our Portfolio colleagues to ensure consistency and enable tracking of high priority risks</p>

Governing Bodies

Corporate Executive

Corporate Executive is our peak decision-making body. Its objective is to 'set clear strategic direction to deliver government priorities, meet our aspiration purpose and achieve agreed performance goals'. It has a charter that identifies its role, outcomes and responsibilities.

A profile of each member of the Corporate Executive is included in the Leadership section of this report.

The Managing Director has a performance agreement with the Commissioner, while all members of Corporate Executive have performance agreements with the Managing Director.

Some of the key focus areas of Corporate Executive during the past year included:

- Monitor delivery of critical projects and meet performance targets
- Activate and champion the Aboriginal Employment Initiatives Taskforce
- Review and approve of the new Disability Access Inclusion Plan
- Review and refresh the Keeping WA Moving strategic direction
- Monitor the deployment of activities through the Corporate Business Plan
- Oversee and direct deployment of new road maintenance contracts
- Review and promote activities to mitigate the risk of cyber-crime

Executive Committees

Management Review and Audit Committee

This Committee ensures appropriate management practices and controls are in place, leading to efficient and effective business performance. It provides independent, objective assurance and advice and reports on a quarterly basis.

Role	Executive Members:
<ul style="list-style-type: none"> • Assists the Commissioner of Main Roads, the Managing Director and Corporate Executive to ensure that adequate management practices and controls are developed and maintained by all levels of management 	Peter Woronzow (Chair)
<ul style="list-style-type: none"> • Considers audits and reviews of the Management Review and Audit Branch 	Philip D'Souza
<ul style="list-style-type: none"> • Ensures audits and reviews are in accordance with the Annual Audit Plan 	Doug Morgan
<ul style="list-style-type: none"> • Reviews and approves the Annual Audit Plan 	Nicole Walton

Some of the key focus areas of the committee during the past year included:

- Comprehensive risk based and strategic Annual Audit Plan for 2017-2018 was approved
- 30 internal audits were monitored and approved
- Quarterly audit progress reports were discussed and approved
- Quarterly status reports of audit findings were monitored and approved

Budget Committee

This committee commenced in December 2017 and meets monthly with the objective to ensure financial management oversight and best use of funds to achieve our strategic outcomes.

Role	Executive Members:
Be the peak decision-making body for Financial and Budget Management, Investment Planning, Program Development and Delivery and has accountability for <ul style="list-style-type: none"> • Investment Planning • Program Development • Annual finance and budget performance 	Peter Woronzow (Chair) Philip D'Souza Doug Morgan Leo Coci Des Snook John Erceg Tony Earl Nicole Walton Neville Willey

Some of the key focus areas of the committee during the past year included:

- Future Roads Project (Urban) – Administrative Road Classification Process and Criteria
- Findings and recommendations in relation to the amended criteria for determining administration of roads (State or Local Government) within built up areas
- Oversight of Major Project Contract Savings and the Management of Contract/Project Contingency
- Oversight and governance of the Agency's Financial Outcomes and ensure the outcomes stay within the Financial Target as set in the Agency's Resource Agreement
- Oversight of the temporary personnel expenditures and the Agency's Salary Expenditure Limit
- Governance and provision of direction of Future Asset Investment Program: including the Investment Planning Cycle, sound Business Case Strategy, successful negotiation strategy with MRWA's external funding providers (i.e. Commonwealth Government, Royalties for Regions, Road Safety Commission/WA Police)

Corporate Safety Health and Wellbeing Committee

This committee is part of the high-level governance arrangement reflecting the importance we place on the safety of our workforce and is chaired by the Executive Director Human Resources. It also includes all members of Corporate Executive along with safety representatives from each Directorate.

Role	Executive Members:
<ul style="list-style-type: none"> • Presides over safety, health and wellbeing issues from high-level strategy to reviews of individual incidents • Acts as a primary Occupational Safety and Health channel and reports to Corporate Executive on full-time and contracted employees 	Neville Willey (Chair) Peter Woronzow Philip D'Souza Doug Morgan Leo Coci Des Snook John Erceg Tony Earl Nicole Walton

Some of the key focus areas of the committee during the past year included:

- Review of dashboard – lead and lag indicators
- Identify trends for incidents, near misses, hazard reporting
- Review of the alcohol and other drugs procedure
- WorkSafe notifications – updating committee
- Obtaining Federal Safety Commission accreditation
- Review of the SHW policy statement
- Review of corporate SHW three-year strategy.

More information on our health and safety activities is included in the Safety, Health and Wellbeing section.

Asset Management Committee

The objective of this committee is to guide the development, implementation and operation of our Asset Management System to meet the needs of our strategic direction.

Role	Executive Members:
<ul style="list-style-type: none"> Implement a system that delivers cost effective, sustainable, systematic and coordinated management of our assets across the asset management lifecycle Ensure that responsibility for asset management activities is assigned and we have appropriate skills Ensure that the information flow of asset risks, criticality and value for financial planning and reporting is in place Deliver the Strategic Asset Management Plan and Asset Management Plans Seek integration with other corporate and Portfolio processes and systems Coordinate activities to respond to external drivers 	John Erceg (Chair) Doug Morgan Des Snook Philip D'Souza

Some of the key focus areas of the committee during the past year included:

- Detailed Road Map to achieve an Asset Management System aligned with the requirements of ISO 55001
- Asset Management System – Progress has been achieved on a number of initiatives including:
 - comprehensive review of each Region's road maintenance 10 Year Network Delivery Plan to ensure accuracy and consistency across the state
 - development of a Resurfacing Asset Management Plan
 - development of a Pavement Asset Management Plan
 - development of a State-Wide Road Maintenance Management Plan
 - completion of 9 strategic route strategies
 - review of asset management capability
 - development of a set of Asset Management Objectives.

Main Roads Investment Committee

This committee is the peak decision-making body for strategic network development strategy and investment planning, and for overseeing development of the Ten-Year Investment Plan.

Role	Executive Members:
<ul style="list-style-type: none"> Review and endorse the long-term Network Development Strategy and Plan (20 Year Horizon) Establish the investment focus and link organisational strategic objectives with outcomes that address defined needs and problems Review and endorse the Ten-Year Investment Plan Review and endorse project priorities for the annual Investment Planning and Budget cycle Approve the allocation of definition and development funding 	Doug Morgan (Chair) Philip D'Souza Tony Earl Leo Coci Des Snook John Erceg

Some of the key focus areas of the committee during the past year included:

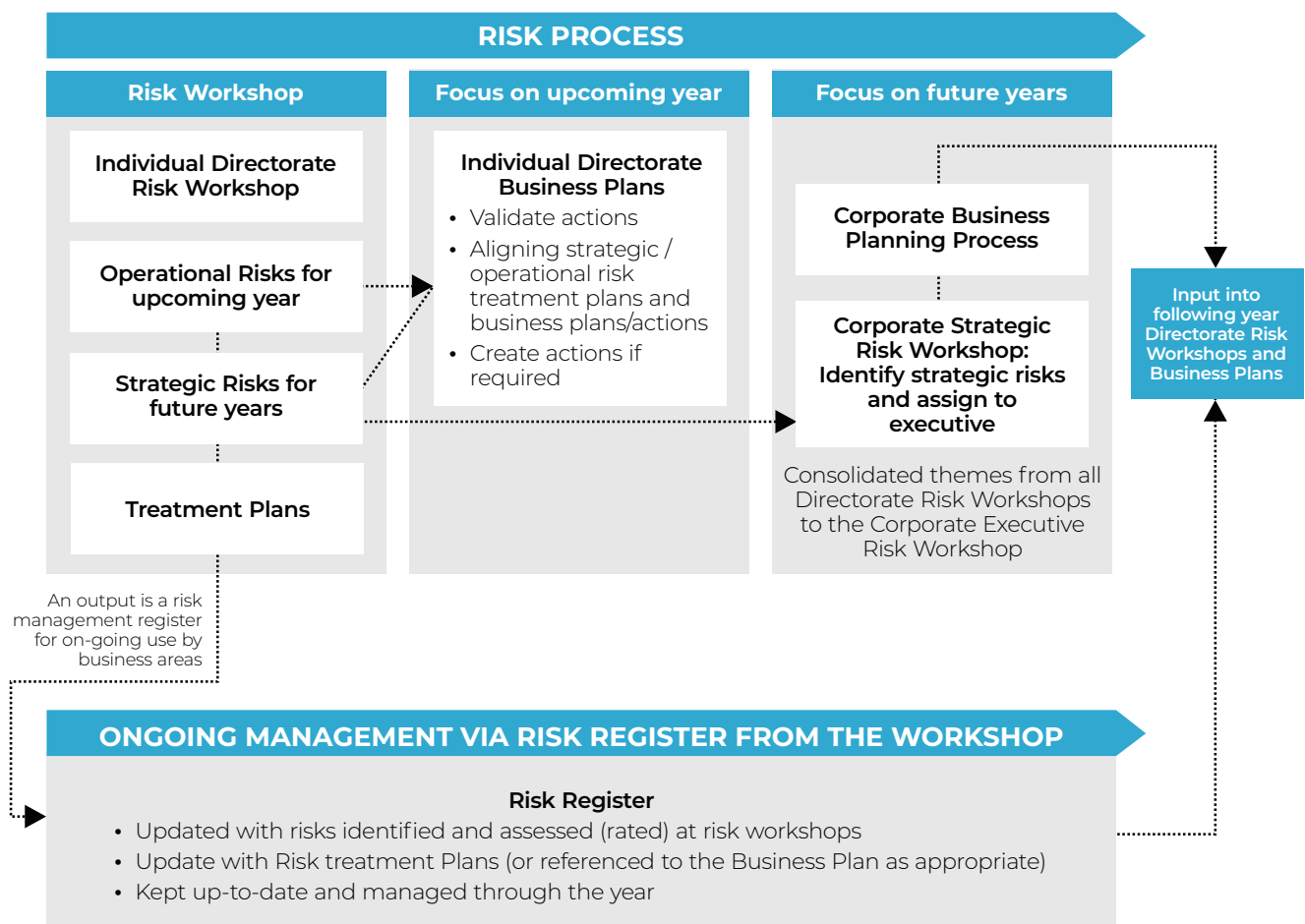
- Providing strategic oversight to ensure the development and submission of high priority projects to Department of Transport and the Minister for Transport for consideration in the State Budget Process
- Overseen the development of the new Budget and Investment Planning Framework
- Approval of priority projects to be subject to the new V2.0 rating tool developed by the Infrastructure Sustainability Council of Australia (ISCA) framework.

Risk Management

Risk is an inherent part of everything we do, risk management is a continuous function that affects all facets of our lives and is something we act upon either consciously or subconsciously. From an organisational viewpoint, the systematic management of risk is crucial at all levels whether it be from a strategic viewpoint or in our day-to-day operations.

Our risk management approach aligns with the context within which we operate, taking account of the regulatory, financial, safety, political, economic environment, compliance requirements, reputational exposures, community expectations and other governance needs. We adopt AS/NZS 31000: 2009 Risk Management – Principles and Guidelines Standard as our general approach to risk management.

Along with the Public Transport Authority and Department of Transport, Main Roads has implemented a portfolio-wide risk reference table. A single approach allows for consistency and tracking of high-level risk assessment and prioritisation across the three agencies. This diagram outlines the annual risk process.



The following were our principle risks and opportunities identified last year aligned against the material issues

Risk Theme	Material Issues	Key Resources Impacted
Strategic Alignment <ul style="list-style-type: none"> Meeting the needs of new government 	Good public policy Procurement practices	Customers Know-How
Outcomes <ul style="list-style-type: none"> Inability to adequately maintain the network Failure to coordinate and implement key projects Inability to achieve congestion management outcomes Not delivering against the Road Safety Management System (ROSMA) 	Road safety Congestion and freight productivity Regional presence and development Indigenous heritage and native title Value for money	Network performance Assets Customers
Capability <ul style="list-style-type: none"> Inadequate strategic asset management Inability to maintain sustainable funding model 	Congestion and freight productivity Regional presence and development Value for money	Know-How People Assets Financial capital
Communication <ul style="list-style-type: none"> Ineffective engagement with stakeholders 	Local communities	Customers Assets Network performance

A key component of our risk management framework is the facilitation of regular risk review workshops for corporate and key business areas.

Additional Governance Disclosures

Delegation of Authority

Our Delegation of Authority Manual outlines administrative responsibilities for officers and their authority to carry out day-to-day tasks. The Delegation of Authority is in accordance with the amended *Main Roads Act 1930* (WA) and the principle of public administration set out in section 7(d) of the *Public Sector Management Act 1994* (WA). Employees are aware that delegation limits are specified in the Delegation of Authority Manual and that they must not be exceeded.

Ministerial Directives

There were no directives issued by the Minister for Transport under Section 19B of the *Main Roads Act 1930* (WA), as amended, during the year.

Freedom of Information

The *Freedom of Information Act 1992* (WA) gives the public a general right to apply for access to documents held by government agencies. An information statement has been produced in accordance with the requirements of the Freedom of Information Act and is available on our website. This statement provides a guide on how to apply for access to documents, as well as information about documents that may be available outside of freedom of information (FOI) process. During the year, we received 59 FOI applications. Any FOI enquiries can be emailed to: foi@mainroads.wa.gov.au

Integrity Framework

Main Roads developed and implemented a new Integrity Framework in 2017-18 which consolidates and clarifies policies and processes in relation to fraud and corruption, gifts and benefits, conflict of interest, lobbyists, and misconduct. Features of the Integrity Framework include biennial fraud and corruption risk workshops, a detection program, and increased transparency through a central fraud and corruption incident register. The framework was developed in a consultative fashion and is aligned with Australian Standard 8001. The Integrity Framework is available to all employees via the iRoads intranet site.

Corruption Prevention

We have strategies in place to prevent the misappropriation of funds and inappropriate use of public property that includes a comprehensive annual audit plan to provide a balanced mix of financial, operational and information technology audits. In addition, Risk Management is considered an integral part of the annual business planning, project planning and the overall management of safety and environment. Risks are managed and monitored at all levels. Main Roads' Integrity Framework clearly sets out the relevant policies and obligations for all employees with respect to preventing, mitigating and reporting instances of fraud and corruption.

Conduct and Ethics

All employees are expected to abide by Public Sector Code of Ethics, Main Roads Code of Conduct, Main Roads Values, Integrity Framework and Corruption and Crime Procedures and Guidelines. When a complaint or a report of alleged inappropriate behaviour or misconduct is received, management is required to act undertaking an initial review of the information or complaint. The outcome of this review determines the most appropriate action which may include:

- discipline
- grievance resolution
- performance management
- Corruption and Crime Commission Procedures
- improvement actions.

Staff may also report directly to the Corruption and Crime Commission or the Public Sector Commission.

Customer Privacy

Main Roads, as with all WA state government agencies, is not subject to the *Privacy Act 1988* (Cth) and to date there is no equivalent statute in WA. However, the long standing practice has been to adhere, where possible, to the Australian Privacy Principles set out in Schedule 1 of the *Privacy Act 1988*.

We value the privacy of our customers. Our external website sets out clearly our privacy policy and discloses how data may be used when our website is accessed or through Bluetooth technology. We analyse data to assist in reducing congestion and helping the WA public make smart choices including when driving in peak hour traffic. Visitors to the Main Roads website can opt out of data analytics and Google advertising by following the link available on our privacy page. In relation to customer privacy, no attempt is being made to identify users or their browsing activities except, in the unlikely event of an investigation, where a law enforcement agency may exercise a warrant to inspect the service provider's logs.

We also conduct projects during the year for which bespoke privacy policies may be created depending on the activity. For example the travel surveys pilot study that involved volunteers wearing GPS devices to collect specific data on travel patterns. The Addinsight Bluetooth system utilises Bluetooth detectors at signalised intersections on the road network to anonymously track Bluetooth enabled devices. The Bluetooth receivers picks up passing vehicles using car stereos and hand free kits and then calculates travel time along a segment of road. We can then use this system to help monitor travel time, excess delays and performance along a route.

If a customer subscribes to any services on our website, their email address and other personal information provided will be maintained on our mailing list. We log the following information for statistical purposes:

- the addressee's server address
- the addressee's top level domain name (e.g. .com, .gov, .au, .uk etc.)
- the number of times an email was opened
- the type of browser used.

Customers' email addresses are confidential and used only for the purpose for which it has been provided. It will not be added to a mailing list unless you have given specific permission as part of the requested service. We will not use or disclose email addresses to any third party without explicit consent, nor will customers get any unsolicited bulk email or 'spam' with commercial offers or advertisements.

Public Interest Disclosures

We are committed to the aims and objectives of the *Public Interest Disclosure Act 2003*. We recognise the value and importance of contributions by staff to enhance administrative and management practices and strongly support disclosures being made by staff regarding improper conduct. The Public Interest Disclosure Guidelines are available online for all staff.

Conflicts of Interest

Our Code of Conduct requires all employees to ensure our personal, financial and political interests do not conflict with our performance or ability to perform in an impartial manner. Where a conflict of interest occurs, it should always be resolved in favour of the public interest rather than personal interest.

We have a Conflict of Interest and Gifts and Benefits register, maintained by the Manager Legal and Insurance Services. We consider conflict of interest to include:

- decisions that are biased, as a result of outside activities or private employment
- outside activities that result in less than satisfactory work performance or cause breaches of standards such as those relating to occupational safety and health
- information gained from official employment that is used for private gain
- government resources that are used for private gain
- government time that is used to pursue private interests
- acceptance of gifts or benefits
- disclosure of confidential information obtained during the course of duty
- breach of ethics
- the granting or receiving of favours for political, status, relationship, personal or business advantage
- actions jeopardising government and Main Roads policies and procedures
- actions which place Main Roads at risk.

Each Corporate Executive member signs a representation memorandum addressed to the Managing Director including a section on personal interests in our contracts. The Chief Finance Officer, Managing Director and Accountable Authority then sign a Management Representation letter to the Auditor General addressing categories including Internal Controls and Risk Management.

Other than usual contracts of employment of service, no senior officers, firms of which senior officers are members or entities in which senior officers have substantial interests, had any interests in existing or proposed contracts with us during the financial year.

Acceptance of Gifts and Benefits

Our Integrity Framework states that Main Roads employees and Contract Personnel engaged by Main Roads must not:

- be influenced, or perceived to be influenced, by the offer or receipt of gifts or benefits
- Engage in actions where a conflict of interest, or perceived conflict, arises in the course of their duty or contract obligations.

Where a Conflict of Interest, whether actual, potential or perceived, has been identified strict procedures including declaration to the Manager Legal and Insurance Services must be followed.

Business Continuity Management

The Public Sector Commissioner’s Circular 2015–03 and Treasurer’s Instruction 825 (Risk Management and Security) require agencies to ensure Business Continuity Plans are in place enabling the agency to respond to, and recover from, any business disruption. To ensure compliance, we have developed Business Continuity Action Plans. Business Continuity Management supports the values, principles and corporate focus of the agency’s Risk Management Policy.

Benefits include:

- increasing ability to minimise the consequences of any outage
- ensuring timely resumption of vital services
- greater protection of agency reputation and public image
- effective and efficient allocation and use of assets, finances and resources
- ensuring good corporate governance.

All Main Roads branches and directorates in the Perth Metropolitan area have a Business Continuity Action Plan in place and function within an overarching Business Continuity Management Procedure.

Integrated Management System

The Main Roads Integrated Management System (IMS) has been certified to the Quality, Safety and Environment standards for approximately 17 years.

Our IMS brings together our systems and processes into one framework, providing consistency in how we plan and manage projects, contracts, supply, environment and safety.

CURRENT CERTIFICATION	
Standard	Processes
Quality Management System ISO 9001:2015	Project Management Contract Management Supply Corporate
Environmental Management System ISO 14001:2015	Environmental
Safety, Health and Wellbeing Management AS/NZS 4801:2001	Safety, Health & Wellbeing

In April 2018 we undertook a surveillance audit of our IMS confirming that we continue to comply with the requirements of International and Australian Standards, maintaining our existing certification through to 2019. All 2018 Audit findings were rated at a low level.

During 2018 our focus has been to ensure continuous improvement in the IMS. Our activities have included:

- Regular ongoing feedback on IMS matters is sought from all directorates and regions
- Policy statements for Quality, Safety and Environment were reviewed and approved by Corporate Executive
- Combined internal audits were undertaken to confirm that all three management systems are effective and continue to meet the requirements of the standards
- IMS Working Group met regularly to ensure audit findings are addressed by the appropriate people
- Process Owners Reference Group discusses continuous improvement of our business processes and improved integration of the three management systems
- 2018 annual review of the IMS was attended by top management and employees
- Development of Depot Inspections, Depot Audit Templates and Depot Audit Schedules
- Continued delivery of the successful IMS awareness training for the organisation to ensure that both management and employees were aware of their obligations.

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Statement of Certification

Key Performance Indicators

We hereby certify that the key performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the Commissioner of Main Roads performance and fairly represent the performance of the Commissioner of Main Roads for the financial year ended 30 June 2018.

Financial Statements

The accompanying financial statements of the Commissioner of Main Roads have been prepared in compliance with the provisions of the *Financial Management Act 2006* (WA) from proper accounts and records to present fairly the financial transactions for the financial year ended 30 June 2018 and the financial position as at 30 June 2018.

At the date of signing, we are not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.



Philip D'Souza
A/CHIEF FINANCE OFFICER
28 August 2018



Peter Woronzow
A/MANAGING DIRECTOR OF MAIN ROADS
28 August 2018



Richard Sellers
ACCOUNTABLE AUTHORITY
28 August 2018

Auditor General's Opinion

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

COMMISSIONER OF MAIN ROADS

Report on the Financial Statements



Auditor General

Opinion

I have audited the financial statements of the Commissioner of Main Roads which comprise the Statement of Financial Position as at 30 June 2018, the Statement of Comprehensive Income, Statement of Changes in Equity, and Statement of Cash Flows for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the operating results and cash flows of the Commissioner of Main Roads for the year ended 30 June 2018 and the financial position at the end of that period. They are in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and the Treasurer's Instructions.

Basis for Opinion

I conducted my audit in accordance with the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Commissioner in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial statements. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibility of the Commissioner for the Financial Statements

The Commissioner is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and the Treasurer's Instructions, and for such internal control as the Commissioner determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Commissioner is responsible for assessing the agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Western Australian Government has made policy or funding decisions affecting the continued existence of the agency.

Auditor's Responsibility for the Audit of the Financial Statements

As required by the *Auditor General Act 2006*, my responsibility is to express an opinion on the financial statements. The objectives of my audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Commissioner.
- Conclude on the appropriateness of the Commissioner's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Commissioner regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Controls

Opinion

I have undertaken a reasonable assurance engagement on the design and implementation of controls exercised by the Commissioner of Main Roads. The controls exercised by the Commissioner are those policies and procedures established by the Commissioner to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions (the overall control objectives).

My opinion has been formed on the basis of the matters outlined in this report.

In my opinion, in all material respects, the controls exercised by the Commissioner of Main Roads are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities have been in accordance with legislative provisions during the year ended 30 June 2018.

The Commissioner's Responsibilities

The Commissioner is responsible for designing, implementing and maintaining controls to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities are in accordance with the *Financial Management Act 2006*, the Treasurer's Instructions and other relevant written law.

Auditor General's Responsibilities

As required by the *Auditor General Act 2006*, my responsibility as an assurance practitioner is to express an opinion on the suitability of the design of the controls to achieve the overall control objectives and the implementation of the controls as designed. I conducted my engagement in accordance with Standard on Assurance Engagements ASAE 3150 *Assurance Engagements on Controls* issued by the Australian Auditing and Assurance Standards Board. That standard requires that I comply with relevant ethical requirements and plan and perform my procedures to obtain reasonable assurance about whether, in all material respects, the controls are suitably designed to achieve the overall control objectives and the controls, necessary to achieve the overall control objectives, were implemented as designed.

An assurance engagement to report on the design and implementation of controls involves performing procedures to obtain evidence about the suitability of the design of controls to achieve the overall control objectives and the implementation of those controls. The procedures selected depend on my judgement, including the assessment of the risks that controls are not suitably designed or implemented as designed. My procedures included testing the implementation of those controls that I consider necessary to achieve the overall control objectives.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Limitations of Controls

Because of the inherent limitations of any internal control structure it is possible that, even if the controls are suitably designed and implemented as designed, once the controls are in operation, the overall control objectives may not be achieved so that fraud, error, or noncompliance with laws and regulations may occur and not be detected. Any projection of the outcome of the evaluation of the suitability of the design of controls to future periods is subject to the risk that the controls may become unsuitable because of changes in conditions.

Report on the Key Performance Indicators**Opinion**

I have undertaken a reasonable assurance engagement on the key performance indicators of the Commissioner of Main Roads for the year ended 30 June 2018. The key performance indicators are the key effectiveness indicators and the key efficiency indicators that provide performance information about achieving outcomes and delivering services.

In my opinion, in all material respects, the key performance indicators of the Commissioner of Main Roads are relevant and appropriate to assist users to assess the Commissioner's performance and fairly represent indicated performance for the year ended 30 June 2018.

The Commissioner's Responsibility for the Key Performance Indicators

The Commissioner is responsible for the preparation and fair presentation of the key performance indicators in accordance with the *Financial Management Act 2006* and the Treasurer's Instructions and for such internal control as the Commissioner determines necessary to enable the preparation of key performance indicators that are free from material misstatement, whether due to fraud or error.

In preparing the key performance indicators, the Commissioner is responsible for identifying key performance indicators that are relevant and appropriate having regard to their purpose in accordance with Treasurer's Instruction 904 *Key Performance Indicators*.

Auditor General's Responsibility

As required by the *Auditor General Act 2006*, my responsibility as an assurance practitioner is to express an opinion on the key performance indicators. The objectives of my engagement are to obtain reasonable assurance about whether the key performance indicators are relevant and appropriate to assist users to assess the agency's performance and whether the key performance indicators are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

I conducted my engagement in accordance with Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the Australian Auditing and Assurance Standards Board. That standard requires that I comply with relevant ethical requirements relating to assurance engagements.

An assurance engagement involves performing procedures to obtain evidence about the amounts and disclosures in the key performance indicators. It also involves evaluating the relevance and appropriateness of the key performance indicators against the criteria and guidance in Treasurer's Instruction 904 for measuring the extent of outcome achievement and the efficiency of service delivery. The procedures selected depend on my judgement, including the assessment of the risks of material misstatement of the key performance indicators. In making these risk assessments I obtain an understanding of internal control relevant to the engagement in order to design procedures that are appropriate in the circumstances.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

My Independence and Quality Control Relating to the Reports on Controls and Key Performance Indicators

I have complied with the independence requirements of the *Auditor General Act 2006* and the relevant ethical requirements relating to assurance engagements. In accordance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, the Office of the Auditor General maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Matters Relating to the Electronic Publication of the Audited Financial Statements and Key Performance Indicators

This auditor's report relates to the financial statements and key performance indicators of the Commissioner of Main Roads for the year ended 30 June 2018 included on the Commissioner of Main Roads website. The Commissioner of Main Roads' management is responsible for the integrity of the Commissioner of Main Roads' website. This audit does not provide assurance on the integrity of the Commissioner of Main Roads' website. The auditor's report refers only to the financial statements and key performance indicators described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements or key performance indicators. If users of the financial statements and key performance indicators are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial statements and key performance indicators to confirm the information contained in this website version of the financial statements and key performance indicators.



CAROLINE SPENCER
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia

28 August 2018

Performance Measures

KEY PERFORMANCE INDICATORS

Introduction

Around the world governments and communities are seeking to better understand if the services being delivered by agencies are meeting the goals and outcomes expected of them. One way to determine this is through timely, accurate and meaningful performance information as an essential part of good management. Done well, this assists in improving accountability and transparency and aids us in our decision making. At Main Roads we use performance measurement to gain insight into, and make judgements about, the effectiveness and efficiency of the services we provided to the community.

We measure our progress in meeting strategic goals and outcomes, gather and analyse performance data and then use that data to drive improvements and successfully measure the deployment of actions into outcomes. Our measures support decision making by:

- providing guidance and direction on how efficient and effective we are
- indicating where improvements might be necessary
- identifying potential areas of risk
- determining if our customers are satisfied
- measuring our success in delivering agreed Government goals and outcomes.

Our performance measures are integrated within a monthly evaluation and reporting process that is reviewed by our Corporate Executive Leadership team.

Alignment with Government Goals

Main Roads contributes towards the achievement of three broad goals identified by the Western Australian Government. We achieve the delivery of these goals through a service based outcome approach. We have six services that drive our outcome based decision making used to achieve the delivery of transport and road related services to our customers on behalf of the Government. This table illustrates the relationship between our services and desired outcomes, and the government goals they contribute to.

Main Roads		Government Goals
Service	Outcome	
Road Safety	A safe road environment	Strong Communities Safe communities and supported families
Infrastructure for community access	Improved community access and roadside amenity	
Infrastructure for State Development	Facilitate economic and regional development	Future Jobs and Skills Grow and diversify the economy, create jobs and support skills development
Road System Management	Reliable and efficient movement of people and goods	Better Places A quality environment with liveable and affordable communities and vibrant regions
Road Efficiency Improvements		
Road Network Maintenance	A well maintained road network	

In this report are agreed key effectiveness indicators which measure the extent of impact and success in the delivery of our services against the achievement of desired outcomes. The key efficiency indicators monitor the relationship between the services delivered and the resources used to produce our services.

Understanding our measures

The following provides a more detailed overview supporting two of the more prominent measures found in this report.

Community Perception

Four of the measures are derived from an annual Community Perceptions Survey that reflects the satisfaction levels of our customers in metropolitan and rural areas. These measures are Community Satisfaction with Main Roads, Road Safety, Provision of Cycleway and Pedestrian Facilities and Road Maintenance. An external research company collected the data by way of an online survey. The results are based upon a random and representative sample (age, gender and region) of 1,441 people (729 in the Metropolitan area and 712 in rural areas). When extending these results to estimate the percentage of satisfied Western Australians, the overall sampling error is +/- 2.58% at the 95% confidence interval. The data is also weighted to reflect the actual population distribution based on ABS statistics. In each case, respondents rated Main Roads performance as terrible, poor, okay, good or excellent in terms of road safety, providing cycleway and pedestrian facilities, road maintenance and overall performance. The reported results represent only the total of okay, good and excellent.

On Time and On Cost

The delivery of infrastructure in a State that is as climatically and geologically diverse as Western Australia provides many challenges. Eight of our efficiency measures are based on reporting against the delivery of our contracts in terms of time and cost. To recognise the complexity in achieving this, and consistent with approaches taken in other road agencies, all reporting against these measures includes a 10% margin when calculating the final outcome.

Changes to the measures this period

There has been only one minor change to the methodologies underpinning our measures this financial year.

Network Configuration - Bridges

Bridges are assessed for strength and width using agreed criteria. This monitoring of bridge strength and width ensures a safe and efficient road network focussed on improved access and transport efficiencies. This measure is an indicator of the number of bridges that meet, or are above, the agreed criteria. The result is recorded as a percentage of the total number of bridges on main roads and highways. A modification was made to the methodology for Bridge strength criteria this year which resulted in a slight increase in the number of bridges meeting the criteria. The minor modification excluded the vehicle category of "quads" from the calculation due to these type of vehicles are rarely being used by operators and therefore not truly reflecting the access needs of the network. The change resulted in the number of bridges meeting the required rating rising from 92% to 94%. To reflect the change in methodology the prior year's figures have been amended and are included in this report for consistency in reporting previous results.

Structure

The following table provides a summary of our service outcomes and measures for each indicator showing the trend over time as well as providing a status report as to how the results for 2017-18 compared against the targets from the State Budget Papers. The remainder of this section provides commentary on the efficiency and effectiveness indicators for each of the six outcome based services.

SUMMARY OF KEY PERFORMANCE MEASURES AND OUTCOMES

	2015	2016	2017	2018 Target	2018 Actual	
Road Safety						
% Community Satisfaction of road safety	94	91	90	90	88	
Black Spot location indicator	9.7	9.1	8.43	8.26	7.92	
% of contracts completed on time	94	91	77	90	89	
% of contracts completed on budget	94	87	93	90	92	
Road Efficiency and Road System Management						
% Community Satisfaction	96	91	87	90	88	
Road network permitted for use by heavy vehicles	B Double - 27.5m %	98	98	97	96	
	Double RT - 27.5m %	97	97	97	96	
	Double RT-36.5m %	80	80	80	78	
	Triple RT-53.5m %	45	45	45	44	
% Network configuration	Roads	91	91	92	90	
	Bridges	Strength	89	92	92	91
		Width	95	96	96	96
% of contracts completed on time	72	98	68	90	83	
% of contracts completed on budget	100	98	93	90	100	
Average \$ cost of network management per million vehicle km travelled	5,226	5,572	5,291	5,300	5,388	
State Development						
Average return on construction expenditure	5.6	4.2	3.2	2.6	3.3	
% of contracts completed on time	100	100	40	90	75	
% of contracts completed on budget	100	75	100	90	100	
Road Maintenance						
% Smooth Travel Exposure	96	N/A	96	N/A	N/A	
% Community Satisfaction road maintenance	95	88	84	90	82	
% Preventative maintenance indicator	85	86	85	85	84	
Average \$ cost of network maintenance per lane kilometre of road network	6,776	7,177	7,753	7,250	9,129	
Community Access						
% of the year that 100% of the Main Roads' State road network is available	93	89	92	95	87	
% Community satisfaction with cycleways and pedestrian facilities	76	83	87	90	89	
% of contracts completed on time	85	91	100	90	64	
% of contracts completed on budget	92	100	100	90	100	

Road Safety

Outcome: Providing a safe road environment

This service seeks to reduce the State's road fatality rate to the lowest in Australia by minimising road factors contributing to road trauma and reducing the serious crash injury rate. We demonstrate this through the following measures:

	2018 Target	2018 Actual
% Community Satisfaction of road safety	90	88
Black Spot location indicator	8.26	7.92
% of contracts completed on time	90	89
% of contracts completed on budget	90	92

Effectiveness Indicators

Community Satisfaction with Road Safety

This indicator represents how satisfied the community is with Main Roads' overall performance in area of road safety. The 2018 survey results show that Main Roads is still performing well in this area, achieving an 88% okay or better rating, only a slight, but not statistically significant, decrease from 2017. The Great Southern Region experienced the most significant drop in results however the Kimberley and the South West Region both saw improvements from 2017.

Black Spot Location Indicator

The indicator gives a measure of the number of locations on the road network that meet State Black Spot criteria based on an analysis of crash history. The measure uses a sliding window to determine whether the number of locations eligible for funding is increasing or decreasing, considering the amount of travel in the State. The four-year trend continues to show a gradual decline in the number of eligible black spot locations with the current result once again being the lowest recorded since the implementation of the Black Spot program in 2001, coming in below the estimated target.

Efficiency Indicators

Percentage of Contracts Completed on Time

This indicator represents the percentage of contracts delivered on time in the Road Safety Service. The result achieved was 89% against a target of 90%. There were eight contracts that were over time, two of which are works in progress, a third had a variation issued and as at 30 June had not been approved. Of the remaining five contracts, all were delayed due to inclement weather.

Percentage of Contracts Completed on Budget

This indicator represents the percentage of contracts delivered on budget in the Road Safety Service. The result achieved was 92%, which is slightly higher than the target of 90%. There were six contracts that exceeded budget, three have had variations issued and as at 30 June had not been yet approved whilst a further two contracts are being reviewed and are subject to further administrative analysis. The remaining contract was over budget due to pavement issues and works to correct it has been undertaken.

Efficiency and Road System Management

Outcome: Reliable and efficient movement of people and goods

The Efficiency Service seeks to improve the efficiency, capacity and utilisation of the existing road network whilst the Road System Management Service seeks to optimise real-time management of the network, provide traveller information, asset management planning and to support service delivery throughout the organisation. Together these services contribute to achieving the outcome.

We demonstrate this through the following measures:

		2018 Target	2018 Actual	
% Community Satisfaction		90	88	
Road network permitted for use by heavy vehicles	B Double - 27.5m %	96	97	
	Double RT - 27.5m %	96	97	
	Double RT-36.5m %	78	80	
	Triple RT-53.5m %	44	45	
% Network configuration	Roads	90	92	
	Bridges	Strength	91	94
		Width	96	96
% of contracts completed on time		90	83	
% of contracts completed on budget		90	100	
Average \$ cost of network management per million vehicle km travelled		5,300	5,388	

Effectiveness Indicators

Community Satisfaction

This indicator represents how satisfied the community is with Main Roads' overall performance in the management and operation of the State road network. 88% of survey participants rated Main Roads' performance as okay or better, a slight increase on 2017 results. Three regions either met or exceeded the 90% target with the Kimberley region achieving 96%. Wheatbelt had the lowest overall performance rating of 61%.

Road Network Permitted for use by Heavy Freight Vehicles

This indicator relates to the efficient movement of goods within Western Australia and the percentage of available State roads accessed by the following types of vehicles B-Doubles, Double road trains and Triple road trains. The use of larger vehicles with greater payloads can increase the overall efficiency of freight transport operations, resulting in lower transport costs. However, to maintain road safety and guard against infrastructure damage, restrictions are placed on some trucks. Because of the relatively high efficiency of these vehicles, the proportion of roads accessible to them is an important factor in the overall efficiency of freight transport in this State. Over the past four years the trend has remained relatively consistent with minor fluctuations in results attributed to changes in ownership of roads between State and Local Government.

Network Configuration-Roads

This indicator shows the percentage of travel undertaken on roads meeting specific criteria for seal width, carriageway width and curve rating. The indicator gives a measure of the ability of Main Roads to plan for and maintain roads to desirable standards. In 2018, 92% of travel was undertaken on roads meeting the seal width, carriageway width and curve rating criteria which is above the target of 90% for that period. The results over the four-year period are relatively consistent and demonstrate that Main Roads continues to plan and program works to address roads that are below the criteria.

Network Configuration – Bridges

Like the roads measure, bridges are assessed for strength and width using agreed investigatory criteria. The monitoring of bridge strength and width needs to ensure a safe and efficient road network relating to improved access and transport efficiencies. These measures are indicators for the number of bridges that meet, or are above, the investigatory criteria, recorded as a percentage of the total number of bridges on main roads and highways. Bridges that do not meet the investigatory criteria for strength or width are considered in assessing, scoping and prioritising works, as part of the ten-year bridge strategy.

Strength – The results of this indicator show that 94% of the bridges meet the agreed criteria for strength against a target of 91%.

Width – In relation to width, 96% of bridges meet the criteria against a target of 96%.

It should be noted that a minor modification was made to the methodology for Bridge strength criteria this year which resulted in a slight increase in the number of bridges meeting the criteria. The modification excluded the vehicle category of “quads” from the calculation due to these types of vehicle rarely being used by operators and therefore not truly reflecting the access needs of the network. Prior year’s figures have been amended and are included in this report for consistency in reporting previous results. The modified outcome for each previous year was immaterial i.e. less than a 2% change and is still meeting the respective years targets.

Efficiency Indicators

Percentage of Contracts Completed on Time

This indicator represents the percentage of contracts delivered on time in the Road Efficiency Service. The result achieved was 83%, which is below the target of 90%. Of the four contracts that were late, one is on hold pending further approvals being received, whilst two of the contracts were late due to contractor issues with resourcing and non conformance with Australian Standards for barrier railing. The final late contract was delayed due to inclement weather, an extension of time has since been granted however, at the time of reporting had not been approved.

Percentage of Contracts Completed on Budget

This indicator represents the percentage of contracts that were delivered on budget in the Road Efficiency Service. There are no contracts over budget for this Service therefore the result achieved was 100% which is above the target of 90%.

Average Cost of Network Management

This indicator measures the financial efficiency of the Road System Management program in terms of cost per million vehicle kilometres travelled to manage the road system. In order to compare current figures with previous years all figures have been adjusted and reported in terms of current year’s dollars. In respect of the current year, the result of \$5,388 per million vehicle kilometres travelled is slightly higher than the target of \$5,300.

State Development

Outcome: Facilitating economic and regional development

This service expands the road network in accordance with State and Commonwealth transport and land use strategies that will facilitate the economic and regional development of the State. We demonstrate this through the following measures:

	2018 Target	2018 Actual
Average return on construction expenditure	2.6	3.3
% of contracts completed on time	90	75
% of contracts completed on budget	90	100

Effectiveness Indicators

Return on Construction Expenditure

New road and bridge construction networks add to the capacity of the road network. Return on Construction Expenditure is based on Benefit Cost Ratio (BCR) estimates of a set of projects undertaken each year. It indicates the extent to which road and bridge construction expenditure will deliver future economic benefits to the community. This indicator represents the expenditure weighted BCR for the State Development Service and Road Efficiency Service for which a BCR has been calculated. The BCR came ahead of target with an expenditure weighted average result of 3.3 against the target of 2.6.

Efficiency Indicators

Percentage of Contracts Completed on Time

This indicator represents the percentage of contracts delivered on time in the State Development Service. The result achieved was 75%, which is below the target of 90%. There was only one contract late and this was due to the time taken in obtaining approvals from the Water Corporation for work around its infrastructure, this was further compounded by inclement weather resulting in delays in laying asphalt.

Percentage of Contracts Completed on Budget

This indicator represents the percentage of contracts delivered on budget in the State Development Service. There are no contracts over budget for this Service therefore the result achieved was 100% which is above the target of 90%.

Road Maintenance

Outcome: Providing a well maintained road network

This service seeks to maintain the existing road and bridge network by maximising asset life and minimising whole of life costs. We demonstrate this through the following measures:

	2018 Target	2018 Actual
% Smooth Travel Exposure	N/A	N/A
% Community Satisfaction road maintenance	90	82
% Preventative maintenance indicator	85	84
Average \$ cost of network maintenance per lane kilometre of road network	7,250	9,129

Effectiveness Indicators

Community Satisfaction of Road Maintenance

This indicator represents how satisfied the community is with Main Roads' overall performance in the maintenance of the State road network. 82% of survey participants rate our performance as okay or better, a slightly lower result than 2017. Regionally, South West and Kimberley were the two regions to improve on last year and the Metro region achieved the highest result, for the second year running, of 88%.

Preventative Maintenance Indicator

The Preventative Maintenance Indicator provides a measure of the proportion of sealed state road network which has a surfacing age younger than its optimal target age. The indicator provides a measure of proactive maintenance undertaken on the network on an annual basis, sections of the network with a surfacing age younger than target age are classified as 'Good'. This year the analysis shows that 84% of the network is good which is just below the target of 85%, the overall result is slightly lower than previous year's results. A review of the data identified an immaterial error in prior year calculations that overestimated the target age. The impact has seen variations of less than 2% over the last three years results. Prior year's figures have amended and in each case, the outcome meets the target for those respective years.

Smooth Travel Exposure

This indicator is based on the percentage of travel undertaken on the State road network meeting specific roughness criteria. The period 2017-18 is a non-reporting period, the next result will be reported in 2018-19.

Efficiency Indicators

Average Cost of Network Maintenance per Lane Kilometre of Road Network

This indicator identifies the financial efficiency of road and roadside maintenance works by showing the cost per lane kilometre to maintain acceptable travel conditions on the State roads. In determining the cost basis expenditure on structures and infrastructure depreciation has been excluded. In order to compare current figures with previous years all figures have been adjusted and reported in terms of current year's dollars which can influence the trend result. This year's result shows a variance against the target with the result being higher than estimated. Contributing factors towards the higher result include additional funding being made for resealing and rehabilitation works along with additional work from natural disasters, more than double last year's expenditure.

Community Access

Outcome: Improving community access and roadside amenity

This service seeks to provide infrastructure that will increase personal mobility and community access. We demonstrate this through the following measures:

	2018 Target	2018 Actual
% of the year that 100% of the Main Roads' State road network is available	85	87
% Community satisfaction with cycleways and pedestrian facilities	90	89
% of contracts completed on time	90	64
% of contracts completed on budget	90	100

Effectiveness Indicators

Unplanned Road Closure on the State Road Network

Generally 100% of Main Roads Road sealed network is available to all road users; however, there are unplanned road closures due to a number of reasons including flooding, cyclones, bushfires and major road crashes, which may vary in duration. The availability of the sealed road network is measured as a percentage of calendar days that the whole network is available to the road user. Closure is determined by measuring the number of whole days (24 hours commencing from the time the road is closed) that any section of the sealed road network is closed. This year the road network was available 87% of the year, which exceeds the 85% target. The greatest number of closures was in the Great Southern region reflecting the September and October flooding event.

Community Satisfaction with Cycleways and Pedestrian Facilities

This indicator represents how satisfied the community is with Main Roads' performance in the construction, maintenance and management of cycleways and pedestrian facilities. Of the four community satisfaction indicators, Cycleways and Pedestrians is the only one to show an upward trend, with 89% of participants rating it as okay or better in 2018. Regionally, results in the Metro, Pilbara, South West and Wheatbelt have all improved since 2017.

Efficiency Indicators

Percentage of Contracts Completed on Time

This indicator represents the percentage of contracts delivered on time in the Community Access Service. The result achieved was 64%, which is below the target of 90%. Of the four contracts that were late two are still works in progress whilst of the remaining two, one was delayed to issues with installation of drainage whilst the second contract was delayed due to large volumes of waste on site and procurement delays with materials not being supplied on time.

Percentage of Contracts Completed on Budget

This indicator represents the percentage of contracts delivered on budget in the Community Access Service. The result achieved was 100% which is above the target of 90%.

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STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

	Note	2018 \$000	2017 \$000
COST OF SERVICES			
Expenses			
Employee benefits expenses	3.1(a)	72,081	67,556
Supplies and services	3.3	519,093	472,690
Depreciation and impairment expense of infrastructure assets	5.2.1	343,782	363,669
Depreciation, amortisation and impairment expense - other	5.1.1, 5.3.1	5,296	5,140
Grants and subsidies	3.2	271,179	275,923
Other expenses	3.3	51,427	143,486
Total cost of services		1,262,858	1,328,464
Income			
<i>Revenue</i>			
Sale of goods and services	4.2	10,970	11,234
Commonwealth grants and contributions	4.3	772,639	263,474
Contributions to roadworks	4.4	108,341	93,090
Grants from other bodies	4.5	9,731	22,409
Interest revenue	4.6	6,004	5,210
Other revenue	4.7	11,300	10,939
Total revenue		918,985	406,356
<i>Gains</i>			
Gain/(loss) on disposal of non-current assets	4.8	(708)	(3,257)
Total gains		(708)	(3,257)
Total income other than income from State Government		918,277	403,099
NET COST OF SERVICES		344,581	925,365
Income from State Government	4.1		
Income from State Government		897,792	923,910
Services received free of charge		1,672	1,846
Other funds received from State Government		183,337	150,849
Total income from State Government		1,082,801	1,076,605
SURPLUS FOR THE PERIOD		738,220	151,240
OTHER COMPREHENSIVE INCOME			
Items not reclassified subsequently to profit or loss			
Changes in asset revaluation surplus	9.8	(34,166)	(1,916,165)
Total other comprehensive income		(34,166)	(1,916,165)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		704,054	(1,764,925)

See also note 2 'Schedule of Income and Expenses by Service'.

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2018

	Note	2018 \$000	2017 \$000
ASSETS			
Current Assets			
Cash and cash equivalents	7.1	283,742	91,984
Restricted cash and cash equivalents	7.1	251,059	183,136
Receivables	6.1	116,822	97,589
Amounts receivable for services	6.2	38,936	30,303
Inventories	6.3	3,932	3,379
Prepayments	6.4	9,715	13,894
Non-current assets classified as held for sale	9.7	11,620	1,579
Total Current Assets		715,826	421,864
Non-Current Assets			
Receivables	6.1	238	1,147
Amounts receivable for services	6.2	2,502,858	2,214,931
Inventories	6.3	5,408	1,912
Prepayments	6.4	367	1,157
Property, plant and equipment	5.1	426,473	477,030
Infrastructure	5.2	43,802,551	43,126,425
Intangible assets	5.3	14,828	13,498
Total Non-Current Assets		46,752,723	45,836,100
TOTAL ASSETS		47,468,549	46,257,964
LIABILITIES			
Current Liabilities			
Payables	6.5	318,133	283,493
Employee related provisions	3.1(b)	28,426	27,433
Other provisions	6.6	1,877	5,744
Total Current Liabilities		348,436	316,670
Non-Current Liabilities			
Employee related provisions	3.1(b)	4,925	5,034
Total Non-Current Liabilities		4,925	5,034
TOTAL LIABILITIES		353,361	321,704
NET ASSETS		47,115,188	45,936,260
EQUITY			
	9.8		
Contributed equity		5,052,392	4,574,692
Reserves		27,636,301	27,670,467
Accumulated surplus		14,426,495	13,691,101
TOTAL EQUITY		47,115,188	45,936,260

The Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Note	Contributed Equity \$000	Reserves \$000	Accum- ulated surplus/ (deficit) \$000	Total Equity \$000
Balance at 1 July 2016	9.8	4,258,913	29,586,632	13,539,861	47,385,406
- Surplus		-	-	151,240	151,240
- Other comprehensive income		-	(1,916,165)	-	(1,916,165)
Total comprehensive income for the period		-	(1,916,165)	151,240	(1,764,925)
Transactions with owners in their capacity as owners:					
- Capital appropriations		307,721	-	-	307,721
- Other contributions by owners		31,608	-	-	31,608
- Distributions to owners		(23,550)	-	-	(23,550)
Total		315,779	-	-	315,779
Balance at 30 June 2017		4,574,692	27,670,467	13,691,101	45,936,260
Balance at 1 July 2017		4,574,692	27,670,467	13,691,101	45,936,260
Correction of errors in prior period		2,826	-	(2,826)	-
- Surplus		-	-	738,220	738,220
- Other comprehensive income		-	(34,166)	-	(34,166)
Total comprehensive income for the period		2,826	(34,166)	735,394	704,054
Transactions with owners in their capacity as owners:					
- Capital appropriations		336,556	-	-	336,556
- Other contributions by owners		156,538	-	-	156,538
- Distributions to owners		(18,220)	-	-	(18,220)
Total		474,874	-	-	474,874
Balance at 30 June 2018		5,052,392	27,636,301	14,426,495	47,115,188

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	Note	2018 \$000	2017 \$000
CASH FLOWS FROM STATE GOVERNMENT			
Service appropriation		568,932	605,922
Capital appropriation		336,556	307,721
Holding account drawdown		32,300	60,606
Road Trauma Trust Fund		57,671	87,158
Natural disaster funds		97,017	50,681
Royalties for Regions Fund		138,250	11,832
Net cash provided by State Government		1,230,726	1,123,920
Utilised as follows:			
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee benefits		(71,793)	(67,884)
Supplies and services		(519,639)	(461,970)
Grants and subsidies		(251,228)	(209,667)
GST payments on purchases		(149,346)	(145,679)
Finance costs		-	-
Receipts			
Sale of goods and services		128,704	119,364
Commonwealth grants and contributions		772,639	263,475
Interest received		5,630	6,685
GST receipts on sales		20,225	22,562
GST receipts from taxation authority		128,100	120,671
Other receipts		12,745	7,948
Rent received		3,575	3,752
Net cash provided by/(used in) operating activities	7.1.2	79,612	(340,743)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments			
Purchase of non-current assets		(15,225)	(21,272)
Purchase of infrastructure assets		(1,038,819)	(958,064)
Receipts			
Proceeds from sale of non-current assets		3,387	11,815
Net cash provided by/(used in) investing activities		(1,050,657)	(967,521)
Net increase/(decrease) in cash and cash equivalents		259,681	(184,344)
Cash and cash equivalents at the beginning of the period		275,120	460,207
Cash balance transferred to Other State Agencies		-	(743)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	7.1.1	534,801	275,120

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

1 Basis of preparation

The Commissioner of Main Roads (Main Roads) is a WA Government entity and is controlled by the State of Western Australia, which is the ultimate parent. Main Roads is a not-for-profit entity (as profit is not its principal objective).

A description of the nature of its operations and its principal activities have been included in the 'Overview' which does not form part of these financial statements.

Statement of compliance

These general purpose financial statements have been prepared in accordance with:

- 1) The *Financial Management Act 2006* (**FMA**)
- 2) The *Treasurer's Instructions* (**the Instructions or TI**)
- 3) *Australian Accounting Standards* (**AAS**) including applicable interpretations
- 4) Where appropriate, those **AAS** paragraphs applicable for not-for-profit entities have been applied.

The *Financial Management Act 2006* and the *Treasurer's Instructions* (the Instructions) take precedence over AAS. Several AAS are modified by the Instructions to vary application, disclosure format and wording. Where modification is required and has had a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

Basis of preparation

These financial statements are presented in Australian dollars applying the accrual basis of accounting and using the historical cost convention. Certain balances will apply a different measurement basis (such as the fair value basis). Where this is the case, the different measurement basis is disclosed in the associated note. All values are rounded to the nearest thousand dollars (\$'000).

Judgements and estimates

Judgements, estimates and assumptions are required to be made about financial information being presented. The significant judgements and estimates made in the preparation of these financial statements are disclosed in the notes where amounts affected by those judgements and/or estimates are disclosed. Estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances.

Contributed equity

AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* requires transfers in the nature of equity contributions, other than as a result of a restructure of administrative arrangements, to be designated by the Government (the owner) as contributions by owners (at the time of, or prior to, transfer) before such transfers can be recognised as equity contributions. Capital appropriations have been designated as contributions by owners by TI 955 *Contributions by Owners made to Wholly Owned Public Sector Entities* and have been credited directly to Contributed equity.

The transfers of net assets to/from other agencies, other than as a result of a restructure of administrative arrangements, are designated as contributions by owners where the transfers are non-discretionary and non-reciprocal.

2 Agency outputs

This section includes information regarding the nature of funding Main Roads receives and how this funding is utilised to achieve the agency's objectives.

	<u>Note</u>
Agency objective	2.1
Schedule of Income and Expenses by Service	2.2

2.1 Agency objectives

Mission

Our aspiration is to provide world class outcomes for our customers through a safe, reliable and sustainable road-based transport system.

Main Roads is predominantly funded by Parliamentary appropriation hypothecated from Motor Vehicle License Fees raised under the *Road Traffic Act 1974*. It also receives grants from the Commonwealth Government.

Services

Main Roads provides the following services:

Service 1: Infrastructure for State Development

The objective of this program is to expand the road network in accordance with Government transport and land use strategies that will facilitate the economic and regional development of the State.

Service 2: Road System Management

The objective of this program is to optimise real time management of the network, provide traveller information and support delivery of projects.

Service 3: Road Efficiency Improvements

The objective of this program is to improve the efficiency, capacity and utilisation of the existing road network.

Service 4: Road Network Maintenance

The objective of this program is to maintain the existing road and bridge network by maximising asset life and minimising whole of life costs.

Service 5: Road Safety

The objective of this program is to reduce the road fatality rate to be the lowest in Australia, minimise road factors contributing to road trauma and reduce the serious crash injury rate.

Service 6: Infrastructure for Community Access

The objective of this program is to provide infrastructure that will improve personal mobility and community access, including increasing the quality of access where appropriate, providing levels of access commensurate with community expectations and meeting minimal levels of appropriate access.

2.2 Schedule of income and expenses by service Schedule of Income and Expenses by Service for 2016-17 and 2017-18 (All amounts in \$'000)

	ROAD SAFETY		ROAD SYSTEM MANAGEMENT		ROAD EFFICIENCY IMPROVEMENTS		INFRASTRUCTURE FOR COMMUNITY ACCESS		ROAD NETWORK MAINTENANCE		INFRASTRUCTURE FOR STATE DEVELOPMENT		Roadworks Capitalised/ Expenses not allocated to Outputs		TOTAL	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
COST OF SERVICES																
Expenses																
Employee benefits expense	4,462	5,360	64,509	57,289	9,156	9,273	1,617	1,215	9,155	8,811	5,812	5,273	(22,609)	(19,665)	72,081	67,556
Supplies and services	129,527	215,278	69,685	64,476	305,836	333,550	113,622	41,729	482,151	390,761	459,320	353,915	(1,041,047)	(927,018)	519,093	472,690
Depreciation of infrastructure assets	0	0	0	0	0	0	0	0	343,782	363,669	0	0	0	0	343,782	363,669
Depreciation and amortisation of other non-current assets	446	800	411	435	879	1,052	372	138	1,923	1,655	1,265	1,060	0	0	5,296	5,140
Grants and subsidies	28,223	61,426	1,621	1,850	14,367	14,662	20,970	4,273	206,630	198,676	1,000	(47)	(1,632)	(4,917)	271,178	275,923
Infrastructure assets retired / replaced	0	0	0	0	0	0	0	0	0	0	0	0	51,427	143,486	51,427	143,486
Total cost of services	162,658	282,865	136,226	124,051	330,217	358,537	136,581	47,355	1,043,641	963,571	467,596	360,201	(1,013,861)	(808,115)	1,262,858	1,328,464
Income																
Revenue																
Sale of goods and services	60	178	2,446	2,316	932	(547)	(50)	222	7,340	8,453	41	55	0	0	10,970	11,234
Commonwealth grants and contributions	28,927	16,819	0	4,505	364,721	65,705	6,463	0	54,529	46,424	318,000	130,020	0	0	772,639	263,474
Contributions to roadworks	12,365	10,910	0	157	8,956	32,627	57,280	29,697	21,021	13,624	8,718	6,075	0	0	108,341	93,090
Grants from other bodies	819	2,967	755	1,301	1,616	3,760	684	497	3,533	10,106	2,324	3,778	0	0	9,731	22,409
Interest revenue	505	690	466	302	997	874	422	115	2,180	2,350	1,434	878	0	0	6,004	5,210
Other revenue	951	1,448	877	635	1,876	1,836	795	242	4,103	4,933	2,698	1,844	0	0	11,300	10,939
Total revenue	43,626	33,011	4,545	9,217	379,098	104,813	65,796	30,774	92,706	85,890	333,215	142,651	0	0	918,985	406,356
Gains																
Gain on disposal of non-current assets	(60)	(431)	(55)	(189)	(117)	(547)	(50)	(72)	(257)	(1,469)	(169)	(549)	0	0	(708)	(3,257)
Total gains	(60)	(431)	(55)	(189)	(117)	(547)	(50)	(72)	(257)	(1,469)	(169)	(549)	0	0	(708)	(3,257)
Total income other than income from State Government	43,567	32,580	4,490	9,028	378,980	104,266	65,746	30,702	92,449	84,421	333,046	142,102	0	0	918,277	403,099
NET COST OF SERVICES	119,091	250,285	131,736	115,023	(48,763)	254,270	70,835	16,653	951,192	879,150	134,350	218,099	(1,013,861)	(808,115)	344,581	925,365
INCOME FROM STATE GOVERNMENT																
Service appropriation	64,535	82,653	86,499	108,769	55,434	158,606	79,065	27,339	602,655	451,939	9,604	94,604	0	0	897,792	923,910
Services received free of charge	141	244	130	107	278	310	118	41	607	832	399	311	0	0	1,672	1,846
Other State Government Funds	53,223	90,393	0	0	0	0	3,081	0	124,189	60,456	2,844	0	0	0	183,337	150,849
Capital contribution	67,000	54,756	942	452	132,646	52,397	3,954	3,758	53,785	25,392	216,547	96,269	(474,875)	(233,024)	0	0
Total income from State Government	184,899	228,047	87,571	109,328	188,357	211,312	86,218	31,159	781,236	538,620	229,394	191,184	(474,875)	(233,024)	1,082,801	1,076,605
SURPLUS/DEFICIT FOR THE PERIOD	65,808	(22,238)	(44,165)	(5,694)	237,120	(42,958)	15,383	14,486	(169,956)	(340,530)	95,044	(26,915)	538,986	575,091	738,220	151,240

The Schedule of Income and Expenses by Service should be read in conjunction with the accompanying notes.

3 Use of our funding

Expenses incurred in the delivery of services

This section provides additional information about how Main Roads' funding is applied and the accounting policies that are relevant for an understanding of the items recognised in the financial statements. The primary expenses incurred by Main Roads in achieving its objectives and the relevant notes are:

	Notes	2018 \$000	2017 \$000
Employee benefits expenses	3.1(a)	72,081	67,556
Employee related provisions	3.1(b)	33,351	32,467
Grants and subsidies	3.2	271,179	275,923
Other expenditure	3.3	570,520	616,176

3.1(a) Employee benefits expenses

	2018 \$000	2017 \$000
Wages and salaries	122,408	118,200
Termination benefits	4,137	-
Superannuation – defined contribution plans ^(a)	12,512	12,160
	139,057	130,360
Less: capitalised to infrastructure	(66,976)	(62,804)
	72,081	67,556

(a) Defined contribution plans include West State Superannuation Scheme (WSS), Gold State Superannuation Scheme (GSS), Government Employee Superannuation Board Scheme (GESBs) and other eligible funds.

Wages and salaries: Employee expenses include all costs related to employment including wages and salaries, fringe benefits tax and leave entitlements.

Termination Benefit: Payable when employment is terminated before normal retirement date, or when an employee accepts an offer of benefits in exchange for the termination of employment. Termination benefits are recognised when the agency is demonstrably committed to terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Superannuation: The amount recognised in profit or loss of the Statement of Comprehensive Income comprises employer contributions paid to the GSS (concurrent contributions), the WSS, the GESBs, or other superannuation funds. The employer contribution paid to the Government Employees Superannuation Board (GESB) in respect of the GSS is paid back into the Consolidated Account by the GESB.

GSS (concurrent contributions) is a defined benefit scheme for the purposes of employees and whole-of-government reporting. It is however a defined contribution plan for Main Roads purposes because the concurrent contributions (defined contributions) made by Main Roads to GESB extinguishes Main Roads' obligations to the related superannuation liability.

Main Roads does not recognise any defined benefit liabilities because it has no legal or constructive obligation to pay future benefits relating to its employees. The Liabilities for the unfunded Pension Scheme and the unfunded GSS transfer benefits attributable to members who transferred from the Pension Scheme, are assumed by the Treasurer. All other GSS obligations are funded by concurrent contributions made by the Main Roads to the GESB.

The GESB and other fund providers administer public sector superannuation arrangements in Western Australia in accordance with legislative requirements. Eligibility criteria for membership in particular schemes for public sector employees vary according to commencement and implementation dates.

3.1(b) Employee related provisions

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered up to the reporting date and recorded as an expense during the period the services are delivered.

	2018 \$000	2017 \$000
Current		
<i>Employee benefits provisions</i>		
Annual leave ^(a)	12,783	12,445
Long service leave ^(b)	15,310	14,726
	28,093	27,171
<i>Other provisions</i>		
Employment on-costs ^(c)	333	262
Total current employee related provisions	28,426	27,433
Non-current		
<i>Employee benefits provisions</i>		
Long service leave ^(b)	4,867	4,986
<i>Other provisions</i>		
Employment on-costs ^(c)	58	48
Total non-current employee related provisions	4,925	5,034
Total employee related provisions	33,351	32,467

(a) Annual leave liabilities: Classified as current as there is no unconditional right to defer settlement for at least 12 months after the end of the reporting period. Assessments indicate that actual settlement of the liabilities is expected to occur as follows:

	2018 \$000	2017 \$000
Within 12 months of the end of the reporting period	10,274	9,345
More than 12 months after the end of the reporting period	2,509	3,100
	12,783	12,445

The provision for annual leave is calculated at the present value of expected payments to be made in relation to services provided by employees up to the reporting date.

(b) Long service leave liabilities: Unconditional long service leave provisions are classified as current liabilities as Main Roads does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Pre-conditional and conditional long service leave provisions are classified as non-current liabilities because Main Roads has an unconditional right to defer the settlement of the liability until the employee has completed the requisite years of service.

Assessments indicate that actual settlement of the liabilities is expected to occur as follows:

	2018 \$000	2017 \$000
Within 12 months of the end of the reporting period	4,225	3,869
More than 12 months after the end of the reporting period	15,952	15,843
	20,177	19,712

The long service leave liabilities are calculated at present value as Main Roads does not expect to wholly settle the amounts within 12 months. The present value is measured taking into account the present value of expected future payments to be made in relation to services provided by employees up to the reporting date. These payments are estimated using the remuneration rate expected to apply at the time of settlement, employee retention rates and discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(c) Employment on-costs: The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including workers' compensation insurance. The provision is the present value of expected future payments.

Employment on-costs, including workers' compensation insurance, are not employee benefits and are recognised separately as liabilities and expenses when the employment to which they relate has occurred. Employment on-costs are included as part of 'Other expenses, Note 3.3, and are not included as part of Main Roads' 'employee benefits expense'. The related liability is included in 'Employment on-costs provision'.

	2018 \$000	2017 \$000
<u>Employment on-costs provision</u>		
Carrying amount at start of period	310	163
Additional provisions recognised	81	147
Carrying amount at end of period	391	310

Key sources of estimation uncertainty – long service leave

Key estimates and assumptions concerning the future are based on historical experience and various other factors that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Several estimates and assumptions are used in calculating Main Roads' long service leave provision. These include:

- Expected future salary rates
- Discount rates
- Employee retention rates; and
- Expected future payments

Changes in these estimations and assumptions may impact on the carrying amount of the long service leave provision.

Any gain or loss following revaluation of the present value of long service leave liabilities is recognised as employee benefits expense.

3.2 Grants and subsidies

	2018 \$000	2017 \$000
<u>Recurrent</u>		
Grants and subsidies to local government and other bodies ^(a)	266,082	204,928
<u>Capital</u>		
Grants and subsidies to local government and other bodies ^(a)	500	-
Grants of non-current assets to other bodies	4,597	70,995
Total grants and subsidies	271,179	275,923

Transferred infrastructure assets at fair value to Local Government and other bodies based on formal proclamation. The following assets were transferred during 30 June 2018: Bussell Highway (Shire of Busselton) and Marble Bar Road Diversion (Roy Hill Mining).

Transactions in which the agency provides goods, services, assets (or extinguishes a liability) or labour to another party without receiving approximately equal value in return are categorised as 'Grant expenses'. Grants can either be operating or capital in nature.

Grants can be paid as general purpose grants which refer to grants that are not subject to conditions regarding their use. Alternatively, they may be paid as specific purpose grants which are paid for a particular purpose and/or have conditions attached regarding their use.

Grants and other transfers to third parties (other than contribution to owners) are recognised as an expense in the reporting period in which they are paid or payable. They include transactions such as: grants, subsidies, personal benefit payments made in cash to individuals, other transfer payments made to public sector agencies, local government, non-government schools, and community groups.

3.3 Other expenditure

	2018 \$000	2017 \$000
<u>Supplies and services</u>		
Insurance ^(a)	4,177	4,386
Accommodation, lease and plant hire charges ^(b)	5,914	5,508
Electricity, gas and water	9,098	8,428
Building maintenance and equipment ^(c)	6,809	7,416
Advertising	127	328
Communications	5,282	4,890
Consultants and contractors	465,153	419,841
Consumables	2,626	1,674
Materials	3,813	4,297
Other	16,094	15,922
Total supplies and services expenses	519,093	472,690

(a) Include payments to Risk Cover

(b) Include payments to Department of Finance

(c) Include payments to Department of Finance

	2018 \$000	2017 \$000
<u>Other</u>		
Non-current assets retired/replaced	51,073	55,422
Write-down of non-current assets classified as held for sale	1,831	796
Write-(back)/down of infrastructure works in progress	(1,477)	87,268
Total other expenses	51,427	143,486
Total other expenditure	570,520	616,176

Supplies and services

Supplies and services are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any materials held for distribution are expensed when the materials are distributed.

Operating leases are expensed on a straight line basis over the lease term as this represents the pattern of benefits derived from the leased properties.

Repairs, maintenance and cleaning costs are recognised as expenses as incurred.

Other

Non-current assets replaced or retired: Non-current assets replaced or retired during the year have been expensed at their carrying amount.

Write-down of non-current assets classified as held for sale: Non-current assets held for sale measured at lower of carrying amount and fair value less selling costs.

Write-(back)/down of infrastructure works in progress: This amount represents the net of following items -

- (a) A further \$5.267 million write down of additional contract bid costs relating to the cancelled Roe Highway Extension Stage 8 and Stage 9
- (b) An environmental credit offset of \$6.744 million with Department of Water and Environmental Regulation as a result of final assessment of the cancelled Roe Highway Extension Stage 8 and Stage 9. This credit will be utilised for future projects.

4 Main Roads' funding sources

This section provides additional information about how Main Roads obtains its funding and the relevant accounting policy notes that govern the recognition and measurement of this funding. The primary income received by Main Roads and the relevant notes are:

	Notes	2018 \$000	2017 \$000
Income from State Government	4.1	1,082,801	1,076,605
Sale of goods and services	4.2	10,970	11,234
Commonwealth grants and contributions	4.3	772,639	263,474
Contributions to roadworks	4.4	108,341	93,090
Grants from other bodies	4.5	9,731	22,409
Interest revenue	4.6	6,004	5,210
Other revenue	4.7	11,300	10,939
Gain/(loss)	4.8	(708)	(3,257)

4.1 Income from State Government

	2018 \$000	2017 \$000
Appropriation received during the period:		
Motor vehicle licence fees ^(a)	557,889	596,065
Untied funds ^(b)	332,019	321,199
Motor vehicle permit fees ^(c)	7,459	6,221
Salaries and Allowances Act 1975	425	425
	897,792	923,910
Services received free of charge from other State government agencies during the period ^(d) :		
WA Land Information Authority (Landgate)	333	618
Department of Justice (State Solicitor's Office)	1,141	1,083
WA Police Services (Road Safety Commission)	98	66
Department of Mines, Industry Regulations and Safety	71	79
Other	29	-
Total services received	1,672	1,846
Other funds received from State Government		
Road Trauma Trust Fund ^(e)	53,020	90,393
Natural disaster funds ^(f)	124,189	60,180
Royalties for Regions Fund ^(g)	6,128	276
Total other funds	183,337	150,849
Total Income from State Government	1,082,801	1,076,605

Service appropriations

Service appropriations are recognised as revenues at fair value in the period in which Main Roads gains control of the appropriated funds. Main Roads gains control of appropriated funds at the time those funds are deposited in the bank account or credited to the 'Amounts receivable for services' (holding account) held at Treasury.

Service appropriations fund the net cost of services delivered (as set out in note 2.2). Appropriation revenue comprises the following:

- Cash component; and
- A receivable (asset).

The receivable (holding account - note 6.2) comprises the following:

- The budgeted depreciation expense for the year; and
- Any agreed increase in leave liabilities during the year.

(a) Motor vehicle licence fees

Motor vehicle licence fees for cars and light vehicles are raised under the Road Traffic Act 1974. The total licence fees collected in 2017-18 was \$894.445 million (2016-17: \$842.741 million). An amount of \$557.889 million (2016-17: \$596.065 million) was received as a service appropriation and the balance of \$336.556 million (2016-17: \$246.676 million) appropriated as a capital contribution by owners and included under 'Contributed Equity' in the Statement of Financial Position.

(b) Untied funds

Untied funds are appropriations from the Consolidated Fund. The total appropriation from the Consolidated Fund in 2017-18 was \$332.019 million (2016-17: \$382.244 million). This includes a service appropriation of \$332.019 million (2016-17: \$321.199 million) and no capital contribution (2016-17: \$61.045 million). The service appropriation includes a cash component of \$3.159 million (2016-17: \$3.211 million) and a \$328.860 million (2016-17: \$317.988 million) non cash component.

(c) Motor vehicle permit fees

The vehicle standards for dimensions and mass are prescribed under the *Road Traffic (Vehicles) Regulations 2014*. Under the regulations, a permit is required to access certain parts of the WA road network for vehicles. Main Roads charges a fee to issue the permits in accordance with the regulations.

(d) Services received free of charge (Non-reciprocal contributions)

Non-reciprocal contributions including Services Received Free of Charge that are not contributions by owners are recognised at their fair value. Contributions of services are only recognised when a fair value can be reliably determined and the services would be purchased if not donated.

Other funds received from State Government*(e) Road Trauma Trust Fund*

Funds provided by Road Safety Commission to undertake road projects improving road safety in Western Australia. Revenue is recognised by reference to the stage of completion of the transaction.

(f) Natural disaster funds

Funds provided by the Office of Emergency Management for re-opening and re-instatement of roads damaged by declared natural disasters. Revenue is recognised when a claim is made to Department of Fire and Emergency Services.

(g) Royalties for Regions Fund

The recurrent funds are committed to projects and programs in WA regional areas. Royalties for Regions funds are recognised as revenue at fair value in the period in which Main Roads obtains control over the funds. Main Roads obtains control of the funds at the time the funds are deposited into Main Roads' bank account.

4.2 Sale of goods and services

	2018 \$000	2017 \$000
Sale of goods and services ^(a)	10,970	11,234

This amount represents works undertaken for other public and private bodies and includes the recovery of expenditure from the Commonwealth Department of Infrastructure and Regional Development under service delivery arrangements with the Shires of Christmas Island and Cocos (Keeling) Island. The amounts expended or set aside for expenditure during 2017-18 are summarised at note 9.11 'Indian Ocean Territories'.

Revenue from for minor works project is recognised based on percentage completed. However, revenue from the sale of goods and disposal of other assets is recognised when the significant risks and rewards of ownership transfer to the purchaser and can be measured reliably.

(a) Includes payments received from Department of Transport and Public Transport Authority.

4.3 Commonwealth grants and contributions

	2018 \$000	2017 \$000
Land Transport Infrastructure Projects	769,596	260,755
Interstate Road Transport Act 1985	3,043	2,719
	772,639	263,474

Land Transport Infrastructure Projects

Non-reciprocal grants are received from the Commonwealth Government through the *National Land Transport Act 2014*. The objective of this Act is to assist national and regional economic and social development by improving the performance of land transport infrastructure. Programs funded under this arrangement include the Heavy Vehicle Safety and Productivity and the Black Spot Program along with funding for the National Road Projects.

At 30 June 2018, \$206.427 million of the National Land Transport Act 2014 grants recognised as revenue remained unspent on approved projects (at 30 June 2017 the amount was \$40.442 million). The unspent amount is non-restricted in nature and disclosed under note 7.1.1 'Cash and cash equivalents'.

At 30 June 2018, \$233.852 million of the National Partnership on Infrastructure Projects in WA grants recognised as revenue remained unspent on approved projects (at 30 June 2017 the amount was \$181.672 million). The unspent amount is restricted in nature and disclosed under note 7.1.1 'Restricted cash and cash equivalents'.

Interstate Road Transport Act 1985

A charge is levied under the Act on interstate commercial vehicles that are exempt from State charges and the revenue raised is distributed in accordance with the damage attributed to interstate vehicles in each State. The revenue is non-reciprocal in nature.

For **non-reciprocal grants**, revenue is recognised at fair value when Main Roads obtains control over the assets comprising the contributions, usually when cash is received.

4.4 Contributions to roadworks

	2018 \$000	2017 \$000
Contributions to roadworks ^(a)	108,341	93,090

This revenue represents contributions by both public and private bodies towards the cost of works performed on highways and main roads. Revenue is mainly recognised by reference to the stage of completion of the transaction.

(a) Includes payments received from Public Transport Authority.

4.5 Grants from other bodies

	2018 \$000	2017 \$000
Grants from local government authorities and other bodies		
Transferred infrastructure assets at fair value ^(a)	426	8,420
Local Government contribution to traffic signal construction	258	967
Developers contribution to roadworks ^(b)	9,047	13,022
	9,731	22,409

(a) Transferred infrastructure assets at fair value are transfers from Local Government and other bodies to State Government based on formal proclamation. Transferred assets during 30 June 2018 includes O'Neill Road and Albany Highway intersection upgrade – Shire of Plantagenet.

(b) The developers contribution to roadworks relate to construction costs met by private developers on roads owned by Main Roads. Roadworks include: Forrest Highway Ramps, Great Northern Highway New Airport Access Road and Pinjarra South Yunderup Road.

Revenue is recognised at fair value when Main Roads obtains control over the assets.

4.6 Interest revenue

	2018 \$000	2017 \$000
Land Transport Infrastructure Projects interest revenue	5,988	5,192
Other interest revenue	16	18
	6,004	5,210

Revenue is recognised as the interest accrues.

4.7 Other revenue

	2018 \$000	2017 \$000
Rental income	3,566	3,705
Assets not previously recognised	443	-
Other	7,291	7,234
	11,300	10,939

Other revenues are mainly recognised at fair value when Main Roads obtains control over the assets comprising the contributions, usually when cash is received.

4.8 Gain/(loss)

	2018 \$000	2017 \$000
<u>Net proceeds from disposal of non-current assets</u>		
Land acquired for roadworks	1,209	9,482
Land and buildings	2,143	2,758
Plant, equipment and vehicles	74	23
	3,426	12,263
<u>Carrying amount of non-current assets disposed</u>		
Land acquired for roadworks	1,579	12,099
Land and buildings	2,542	3,413
Plant, equipment and vehicles	13	8
	4,134	15,520
Net gain/(loss)	(708)	(3,257)

Realised and unrealised gains are usually recognised on a net basis. These include gains arising on the disposal of non-current assets and some revaluations of non-current assets.

Gains and losses on the disposal of non-current assets are presented by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses. Gains and losses are recognised in profit or loss in the statement of comprehensive income (from the proceeds of sale).

Selling expenses (e.g. sales commissions netted from agency receipts) are ordinarily immaterial. Where the amounts are material, additional disclosure is warranted.

Insured non-current assets written-off as a result of an insurable event should be treated as other expenses (write-off of assets destroyed by fire/storm/earthquake etc.). The subsequent insurance recovery is to be treated as other income when it is received or receivable.

5 Key assets

This section includes information regarding the key assets Main Roads utilises to gain economic benefits or provide service potential. The section sets out both the key accounting policies and financial information about the performance of these assets:

	Notes	2018 \$000	2017 \$000
Property, plant and equipment	5.1	426,473	477,030
Infrastructure	5.2	43,802,551	43,126,425
Intangible assets	5.3	14,828	13,498
Total key assets		44,243,852	43,616,953

5.1 Property, plant and equipment

	2018 \$000	2017 \$000
<u>Land</u>		
At fair value	64,995	73,348
	64,995	73,348
<u>Buildings</u>		
At fair value	86,526	89,133
Accumulated depreciation	(8)	(80)
	86,518	89,053
<u>Buildings under construction</u>		
Construction costs	2,117	4,953
	2,117	4,953
<u>Plant, equipment and vehicles</u>		
At cost	42,076	40,634
Accumulated depreciation	(30,085)	(26,921)
	11,991	13,713
<u>Surplus assets</u>		
At fair value	82,345	98,383
	82,345	98,383
<u>Land acquired for roadworks</u>		
At fair value	178,507	197,580
	178,507	197,580
Total property, plant and equipment	426,473	477,030

Information on fair value measurements is provided in Note 8.3.

Reconciliations of the carrying amounts of property, plant, and equipment at the beginning and end of the reporting period are set out in the table below.

Year ended 30 June 2018	Land \$000	Buildings \$000	Buildings under construc- tion \$000	Plant, equip- ment and vehicles \$000	Surplus assets \$000	Land acquired for road- works \$000	Total \$000
Carrying amount at 1 July 2017	73,348	89,053	4,953	13,713	98,383	197,580	477,030
Additions ^(a)	409	-	5,957	3,055	35	309	9,765
Disposals	-	-	-	(21)	-	-	(21)
Classified as held for sale	(1,698)	(2,648)	-	-	(8,147)	(3,500)	(15,993)
Transfers	(1,586)	8,694	(8,793)	-	109	1,576	-
Transfer (to) / from infrastructure	-	-	-	-	(4,355)	(6,657)	(11,012)
Equity contribution / (distribution)	(61)	(36)	-	-	(736)	-	(833)
Revaluation increments / (decrements)	(5,417)	(3,039)	-	-	(2,901)	(10,801)	(22,158)
Impairment losses	-	-	-	-	-	-	-
Depreciation	-	(5,506)	-	(4,756)	(43)	-	(10,305)
Carrying amount at 30 June 2018	64,995	86,518	2,117	11,991	82,345	178,507	426,473

(a) Include payments made to Department of Finance and Department of Justice (State Solicitor's Office)

Year ended 30 June 2017	Land \$000	Buildings \$000	Buildings under construc- tion \$000	Plant, equip- ment and vehicles \$000	Surplus assets \$000	Land acquired for road- works \$000	Total \$000
Carrying amount at 1 July 2016	93,082	101,419	7,352	15,950	112,649	217,012	547,464
Additions	1,283	-	15,272	2,801	(95)	1,003	20,264
Disposals	-	(599)	-	(8)	(3)	-	(610)
Classified as held for sale	(1,396)	(1,733)	-	121	(7,272)	(168)	(10,448)
Held for sale removed from disposal program	-	-	-	-	-	-	-
Transfers	412	17,259	(17,671)	-	-	-	-
Transfer (to) / from infrastructure	(9,834)	-	-	-	5,077	(177)	(4,934)
Equity contribution / (distribution)	71	(167)	-	(2)	-	-	(98)
Revaluation increments / (decrements)	(10,270)	(20,178)	-	-	(11,943)	(20,090)	(62,481)
Impairment losses	-	-	-	-	-	-	-
Depreciation	-	(6,948)	-	(5,149)	(30)	-	(12,127)
Carrying amount at 30 June 2017	73,348	89,053	4,953	13,713	98,383	197,580	477,030

5.2 Infrastructure

	2018 \$000	2017 \$000
<u>Roads and principal shared paths</u>		
Earthworks at fair value	12,978,704	12,669,429
Accumulated depreciation	(2,987,397)	(2,943,369)
	9,991,307	9,726,060
<u>Pavement and drainage at fair value</u>		
Pavement and drainage at fair value	9,169,546	8,856,036
Accumulated depreciation	(5,405,575)	(5,166,385)
	3,763,971	3,689,651
<u>Seals at fair value</u>		
Seals at fair value	1,428,076	1,392,851
Accumulated depreciation	(865,743)	(820,634)
	562,333	572,217
<u>Land under roads</u>		
At fair value	23,540,388	23,820,634
	23,540,388	23,820,634
<u>Bridges</u>		
At fair value	5,654,159	5,459,264
Accumulated depreciation	(1,725,080)	(1,640,727)
	3,929,079	3,818,537
<u>Road furniture</u>		
At fair value	618,018	555,434
Accumulated depreciation	(235,001)	(206,510)
	383,017	348,924
<u>Infrastructure work in progress</u>		
At cost	1,632,456	1,150,402
	1,632,456	1,150,402
Total Infrastructure	43,802,551	43,126,425

Reconciliations of the carrying amounts of infrastructure at the beginning and end of the reporting period are set out in the table below.

Year ended 30 June 2018	Roads and principal shared paths \$000	Land under roads \$000	Bridges \$000	Road furniture \$000	Work in progress \$000	Total \$000
Carrying amount at 1 July 2017	13,987,928	23,820,634	3,818,537	348,924	1,150,402	43,126,425
Additions ^(a)	-	-	-	-	1,058,541	1,058,541
Retirements	(47,099)	-	(3,057)	(910)	-	(51,066)
Transfers	405,660	18,688	97,546	57,009	(578,903)	-
Transfer (to) / from land acquired for roadworks	-	11,012	-	-	-	11,012
Revaluation increments / (decrements)	236,209	(310,186)	57,005	4,964	-	(12,008)
Highways and main roads reclassified as local roads	(4,034)	(109)	(454)	-	-	(4,597)
Local roads classified as highways and main roads	7,576	-	-	1,944	-	9,520
Equity contribution / (distribution)	(8,578)	349	17,772	(3,453)	939	7,029
Write-back of infrastructure work in progress	-	-	-	-	1,477	1,477
Depreciation	(260,051)	-	(58,270)	(25,461)	-	(343,782)
Carrying amount at 30 June 2018	14,317,611	23,540,388	3,929,079	383,017	1,632,456	43,802,551

(a) Include payments to Department of Biodiversity Conservation & Attractions, Department of Justice (State Solicitor's Office) and Western Power

Year ended 30 June 2017	Roads and principal shared paths \$000	Land under roads \$000	Bridges \$000	Road furniture \$000	Work in progress \$000	Total \$000
Carrying amount at 1 July 2016	14,960,168	24,382,292	3,926,451	364,642	955,849	44,589,402
Additions	-	-	-	-	943,596	943,596
Retirements	(37,563)	-	(16,118)	(1,139)	-	(54,820)
Transfers	455,013	19,151	130,097	63,235	(667,496)	-
Transfer (to) / from land acquired for roadworks	-	(4,900)	-	-	9,834	4,934
Revaluation increments / (decrements)	(1,110,605)	(562,205)	(132,669)	(48,285)	-	(1,853,764)
Highways and main roads reclassified as local roads	(17,747)	(10,024)	(43,224)	-	-	(70,995)
Local roads classified as highways and main roads	11,588	30	8,259	2,532	-	22,409
Equity contribution / (distribution)	7,386	(3,710)	4,350	(7,313)	(4,114)	(3,401)
Write-down of infrastructure work in progress	-	-	-	-	(87,267)	(87,267)
Depreciation	(280,312)	-	(58,609)	(24,748)	-	(363,669)
Carrying amount at 30 June 2017	13,987,928	23,820,634	3,818,537	348,924	1,150,402	43,126,425

Information on fair value measurements is provided in Note 8.3.

Property, plant and equipment and infrastructure

Initial recognition

Items of property, plant and equipment and infrastructure, costing \$5,000 or more are measured initially at cost. Where an asset is acquired for no or nominal cost, the cost is valued at its fair value at the date of acquisition. Items of property, plant and equipment and infrastructure costing less than \$5,000 are immediately expensed direct to the Statement of Comprehensive Income (other than where they form part of a group of similar items which are significant in total).

Subsequent measurement

Subsequent to initial recognition of an asset, the revaluation model is used for the measurement of land, buildings and infrastructure.

Land is carried at fair value. Buildings and infrastructure are carried at fair value less accumulated depreciation and accumulated impairment losses. All other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Land and buildings

Land and buildings are independently valued annually by the Western Australian Land Information Authority (Valuations and Property Analytics) and recognised annually to ensure that the carrying amount does not differ materially from the asset's fair value at the end of the reporting period.

Land, buildings, surplus assets and land acquired for roadworks were revalued as at 1 July 2017 by the Western Australian Land Information Authority (Valuations and Property Analytics) in conjunction with estimations by Main Roads' management. The valuations were performed during the year ended 30 June 2018 and recognised at 30 June 2018.

The estimations have been made in relation to the value of certain Metro and Rural properties where the values were not available at the end of the reporting period from information provided by Valuation Services for the period 1 July 2016 to 1 July 2017. These properties have been valued based on the average percentage increase for the Metro and Rural areas respectively over the period 1 July 2016 to 1 July 2017. The average percentage increases have been determined by calculating the movement in the value of Main Roads' Metro and Rural properties where Valuation Services have provided a value. The effective date of the valuations is 1 July 2017. In undertaking the revaluation, fair value was determined by reference to market values of Freehold land \$58.631 million (2016-17: \$67.221) and Buildings \$72.136 million (2016-17: \$74.948). For the remaining balance, fair value of buildings was determined on the basis of current replacement cost and fair value of land was determined on the basis of comparison with market evidence for land with low level utility (high restricted use land) Please refer to note 8.3 Fair value measurement for the remaining balance.

Infrastructure

Infrastructure is independently valued every 3 years by reference to the cost of a new asset and adjusted in the intervening years by reference to a cost index (ABS Road and Bridge Construction Cost Index or rates obtained by professional estimators specialising in road infrastructure works) to ensure asset values do not materially differ from fair value. The value of roads and principal shared paths (earthworks, drainage, pavements and seals), bridges and road furniture at 30 June 2018 is based on the current replacement cost determined at 30 June 2018 calculated using construction unit rates provided by a professional quantity surveying firm and multiplying these by the units that form the infrastructure asset. A cost index (ABS Road and Bridge Construction Cost Index) has been applied to principal shared paths and certain road furniture assets to ensure asset values do not materially differ from fair value.

Fair value for infrastructure assets is determined by reference to the cost of replacing the remaining future economic benefits embodied in the asset, i.e. the current replacement cost. Current replacement cost is generally determined by reference to the market observable replacement cost of a substitute asset of comparable utility and the gross project size specifications, adjusted for obsolescence and optimisation (where applicable). Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence.

Subsequent transfer

Land acquired for road reserves is initially reported as 'land acquired for roadworks' under 'property, plant and equipment' until the land is required for road construction. It is then transferred to 'land under roads' and reported as part of infrastructure assets.

Land determined to be surplus to the requirements of the road reserve is available for disposal and is transferred to 'surplus land' or 'non-current assets held for sale' depending on the timetable for disposal.

Wherever possible, the properties are rented or leased until required for roadworks. Income from these properties is recognised as revenue in the financial year it is earned.

Revaluation model for land and buildings

Fair Value where market-based evidence is available:

The fair value of land and buildings is determined on the basis of current market values determined by reference to recent market transactions. When buildings are revalued by reference to recent market transactions, the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount.

Fair value in the absence of market-based evidence:

Buildings are specialised or where land is restricted: Fair value of land and buildings is determined on the basis of existing use.

Existing use buildings: Fair value is determined by reference to the cost of replacing the remaining future economic benefits embodied in the asset, i.e. the current replacement cost. Where the fair value of buildings is determined on the current replacement cost basis, the asset cost is adjusted for consumed economic benefit. Accumulated depreciation is eliminated against the gross carrying amount of the asset and the net carrying amount restated to the revalued amount.

Restricted use land: Fair value is determined by comparison with market evidence for land with similar approximate utility (high restricted use land) or market value of comparable unrestricted land (low restricted use land).

Revaluation model for infrastructure assets

Fair value of infrastructure, other than land under roads, has been determined by reference to the current replacement cost (existing use basis) as the assets are specialised and no market-based evidence of value is available. The replacement cost is determined by Main Roads every third year by reference to the cost of a new asset and adjusted in the intervening years by reference to a cost index (ABS Road and Bridge Construction Cost Index or rates obtained by professional estimators specialising in road infrastructure works) to ensure asset values do not materially differ from fair value. The value of roads and principal shared paths (earthworks, drainage, pavements and seals), bridges and road furniture at 30 June 2018 is based on the current replacement cost determined at 30 June 2018 calculated using construction unit rates determined by a professional quantity surveying firm and multiplying these by the units that form the infrastructure asset. A cost index (ABS Road and Bridge Construction Cost Index) has been applied to principal shared paths and certain road furniture assets to ensure asset values do not materially differ from fair value.

When infrastructure is revalued, the accumulated depreciation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Infrastructure work in progress comprises capital project expenditure at cost, which is capitalised following the completion of projects.

The fair value of land under roads (i.e. land under roadways, and road reserves, including land under footpaths, nature strips and median strips) is based on the market value of the land adjoining the road reserve. The land values are provided by geographic location on an annual basis by the Western Australian Land Information Authority (Valuation Services) as follows:

- Metropolitan area – median value for single residential land for each Local Government Area. Land parcels up to 899 square metres are assumed to have a single residential zoning.
- South West Region – nominal unimproved valuation rates covering the south west of the State from Geraldton to Esperance.
- Balance of State – nominal unimproved valuation rates based on leasehold rates for Crown land.

The most significant assumptions and judgements in estimating fair value are made in assessing whether to apply the existing use basis to assets and in determining estimated economic life. Professional judgement by the valuer is required where the evidence does not provide a clear distinction between market type assets and existing use assets.

Derecognition

Upon disposal or derecognition of an item of property, plant and equipment and infrastructure, any revaluation surplus relating to that asset is retained in the asset revaluation surplus.

Asset revaluation surplus

The asset revaluation surplus is used to record increments and decrements on the revaluation of non-current assets on a class of assets basis.

Insurance

Main Roads regularly reviews its insurance arrangements including areas where self-insurance is deemed to be economically justified. Self-insurance covers the risks of natural disasters causing damage to infrastructure assets. Currently, these self-insurance areas are:

- roads, bridges and road furniture

5.1.1 Depreciation and impairment expense of property, plant and equipment asset

	2018 \$000	2017 \$000
Charge for the period		
Plant, equipment and vehicles	4,756	5,149
Buildings	5,549	6,978
Total depreciation for the period	10,305	12,127
Less: depreciation capitalised to infrastructure	(6,360)	(7,945)
	3,945	4,182

As at 30 June 2018 there were no indications of impairment to property, plant and equipment or infrastructure.

5.2.1 Depreciation and impairment expense of infrastructure assets

	2018 \$000	2017 \$000
Charge for the period		
Roads - earthworks	803	809
Roads - pavements and drainage	176,513	180,869
Roads - seal	82,735	98,634
Bridges	58,270	58,609
Road furniture	25,461	24,748
Total depreciation for the period	343,782	363,669

A fraction of road seal on the road network and a bridge was impaired as part of the impairment assessment of property, plant and equipment, infrastructure and intangible assets at 30 June 2018.

Road Seal

There were 388 road seal assets impaired by reducing useful life. These road seal assets are planned to be fully or partially retired during next financial year.

Bridge

Koondinee Creek Bridge is impaired reducing the useful life by 16 years. The bridge has a low headroom and about to be replaced by a culvert. This will result in additional depreciation expenditure over the bridge's remaining useful life.

Finite useful lives

All infrastructure, property, plant and equipment having a limited useful life are systematically depreciated over their estimated useful lives in a manner that reflects the consumption of their future economic benefits. The exceptions to this rule include assets held for sale and land.

Depreciation is generally calculated on a straight line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life. Typical estimated useful lives for the different asset classes for current and prior years are included in the table below:

Road Infrastructure:

Pavement and drainage:

Gravel roads	12 years
Metropolitan asphalt roads	40 years
Rural sealed roads	50 years
Seals	7 to 19 years
Bridges	60 to 100 years
Road furniture	5 to 50 years

Property, Plant & Equipment:

Buildings	25 to 40 years
Plant and vehicles	5 to 10 years
Equipment and furniture	5 to 10 years
Computer hardware and software ^(a)	3 to 5 years

(a) Software that is integral to the operation of related hardware

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, and adjustments should be made where appropriate.

Road earthworks generally have an infinite life. The small percentage of earthworks that are depreciated, have been assessed to be substandard in terms of horizontal alignment and therefore impacted by technical obsolescence. An engineering review is completed annually to identify these segments in accordance with UIG Interpretation 1055 'Accounting for Road Earthworks'.

Land has infinite life and is not depreciated. Depreciation is not recognised in respect of land because the service potential has not, in any material sense, been consumed during the reporting period.

Impairment of assets

Non-financial assets, including items of property, plant and equipment and infrastructure assets are tested for impairment whenever there is an indication that the asset may be impaired. Where there is an indication of impairment, the recoverable amount is estimated. Where the recoverable amount is less than the carrying amount, the asset is considered impaired and is written down to the recoverable amount and an impairment loss is recognised.

Where an asset measured at cost is written down to recoverable amount, an impairment loss is recognised through profit or loss.

Where a previously revalued asset is written down to its recoverable amount, the loss is recognised as a revaluation decrement through other comprehensive income.

As Main Roads is a not-for-profit agency, the recoverable amount of regularly revalued specialised assets is anticipated to be materially the same as fair value.

If there is an indication that there has been a reversal in impairment, the carrying amount shall be increased to its recoverable amount. However this reversal should not increase the asset's carrying amount above what would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated, where the replacement cost is falling or where there is a significant change in useful life. The exception is road earthworks when the alignment of a section of road may be assessed to be deficient and the useful life of the asset is revised from infinite to finite. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of asset's future economic benefits and to evaluate any impairment risk from declining replacement costs.

5.3 Intangible assets

	2018 \$000	2017 \$000
<u>Computer software and licences</u>		
At cost	30,903	27,989
Accumulated amortisation	(16,084)	(14,500)
	14,819	13,489
<u>Drainage easements</u>		
At cost	9	9
	9	9
Total intangible assets	14,828	13,498
Reconciliations:		
<u>Computer software and licences</u>		
Carrying amount at start of period	13,489	14,472
Additions	4,523	1,835
Amortisation expense	(3,193)	(2,818)
Carrying amount at end of period	14,819	13,489

Intangible assets

Initial recognition

Acquisitions of intangible assets costing \$5,000 or more and internally generated intangible assets costing \$250,000 or more that comply with the recognition criteria as per AASB 138.57 (as noted below), are capitalised. The cost of utilising the assets is expensed (amortised) over their useful lives. Costs incurred below these thresholds are immediately expensed directly to the Statement of Comprehensive Income.

Intangible assets are initially recognised at cost. For assets acquired at no cost or for nominal cost, the cost is their fair value at the date of acquisition.

6 Other assets and liabilities

This section sets out those assets and liabilities that arose from Main Roads' controlled operations and includes other assets utilised for economic benefits and liabilities incurred during normal operations:

	Notes	2018 \$000	2017 \$000
Receivables	6.1	117,060	98,736
Amounts receivable for services (Holding Account)	6.2	2,541,794	2,245,234
Inventories	6.3	9,340	5,291
Prepayments	6.4	10,082	15,051
Payables	6.5	318,133	283,493
Other provisions	6.6	1,877	5,744

6.1 Receivables

	2018 \$000	2017 \$000
<u>Current</u>		
Trade debtors	47,990	23,754
Other debtors	1,321	2,719
Allowance for impairment of receivables	(243)	(2,205)
Trade debtors – unbilled receivables	24,244	26,511
GST receivable	32,269	30,824
Accrued revenue	11,241	15,986
Total current	116,822	97,589
<u>Non-current</u>		
Trade debtors	238	1,147
Total non-current	238	1,147
Total receivables	117,060	98,736

Main Roads does not hold any collateral or other credit enhancements as security for receivables.

Receivables are recognised at original invoice amount less any allowances for uncollectible amounts (i.e. impairment). The carrying amount of net trade receivables is equivalent to fair value as it is due for settlement within 30 days.

6.1.1 Movement of the allowance for impairment of receivables

	2018 \$000	2017 \$000
Reconciliation of changes in the allowance for impairment of receivables:		
Balance at start of period	2,205	2,247
Doubtful debts expense	102	127
Amounts written off during the year	(2,064)	-
Impairment losses reversed during the period	-	(169)
Balance at end of period	243	2,205

The collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written-off against the allowance account. The allowance for uncollectible amounts (doubtful debts) is raised when there is objective evidence that Main Roads will not be able to collect the debts.

6.2 Amounts receivable for services (Holding Account)

	2018 \$000	2017 \$000
Current	38,936	30,303
Non-current	2,502,858	2,214,931
Balance at end of period	2,541,794	2,245,234

Amounts receivable for services represents the non-cash component of service appropriations. It is restricted in that it can only be used for asset replacement or payment of leave liability.

Main Roads receives funding on an accrual basis. The appropriations are paid partly in cash and partly as an asset (holding account receivable). The accrued amount receivable is accessible on the emergence of the cash funding requirement to cover leave entitlements and asset replacement.

6.3 Inventories

	2018 \$000	2017 \$000
<u>Current</u>		
Inventories held for distribution:		
- Construction and maintenance materials	1,177	212
- Electrical Stores	2,755	3,167
Total current	3,932	3,379
<u>Non-current</u>		
Inventories held for distribution:		
- Construction and maintenance materials	5,408	1,912
Total non-current	5,408	1,912
Total inventories	9,340	5,291

Inventories held for distribution (for roadworks) are measured at cost, adjusted when applicable for any loss of service potential. Costs are assigned on a standard, average or last known cost basis.

Inventories held for resale are valued at the lower of cost and net realisable value.

6.4 Prepayments

	2018 \$000	2017 \$000
<u>Current</u>		
Contractor's advance	8,854	12,578
Prepaid insurance	861	1,316
Total current	9,715	13,894
<u>Non-current</u>		
Prepaid insurance	367	1,157
Total non-current	367	1,157
Total prepayments	10,082	15,051

Prepayments represent payments in advance of receipt of goods or services and that part of expenditure made in one accounting period covering a term extending beyond that period.

6.5 Payables

	2018 \$000	2017 \$000
<u>Current</u>		
Trade creditors	6,600	7,174
Major contracts and services	196,655	193,631
Property acquisitions liability ^(a)	57,083	33,527
Contractors' retention	623	641
Funds received in advance	50,648	43,091
Performance bonds / surety	971	319
Accrued salaries ^(b)	5,553	5,110
Total current	318,133	283,493
<u>Non-current</u>		
Trade creditors	-	-
Total current	-	-
Total Payables	318,133	283,493

Payables are recognised at the amounts payable when Main Roads becomes obliged to make future payments as a result of a purchase of assets or services. The carrying amount is equivalent to fair value, as settlement is generally within 30 days.

- (a) A property acquisition liability has been recognised in respect of properties for which a Notice of Resumption under the Land Administration Act 1997 has been issued and formal possession has taken place but where settlement has not been achieved at the end of the reporting period. Liabilities in such circumstances have been based on valuations and include costs of acquisition. This liability is included in Payables.
- (b) Accrued salaries represent the amount due to staff but unpaid at the end of the reporting period. Accrued salaries are settled within a fortnight of the reporting period end. Main Roads considers the carrying amount of accrued salaries to be equivalent to its fair value.

6.6 Other provisions

	2018 \$000	2017 \$000
<u>Current</u>		
Site restoration	1,877	5,744
Total Current	1,877	5,744
Total other provisions	1,877	5,744

6.6.1 Provision for restoration

Main Roads has a legal obligation to restore the site cleared for the purposes of constructing Roe Highway Extension (Stage 8). The associated expense is disclosed in Note 5.2 Infrastructure Work In Progress.

A provision for remediation is recognised when:

- 1) there is a present obligation as a result of development activities undertaken,
- 2) it is probable that an outflow of economic benefits will be required to settle the obligation, and
- 3) the amount of the provision can be measured reliably.

The estimated future obligations include the costs of restoring the affected areas.

The provision for future remediation costs is the best estimate of the present value of the expenditure required to settle the remediation obligation at the reporting date, based on contractor's professional judgement. Future remediation costs are reviewed annually and any changes in the estimate are reflected in the present value of the remediation provision at each reporting date.

Movements in other provisions

	2018 \$000	2017 \$000
<u>Site restoration cost provision</u>		
Carrying amount at start of period	5,744	-
Movement in provisions	(3,867)	5,744
Carrying amount at end of period	1,877	5,744

7 Financing

This section sets out the material balances and disclosures associated with the financing and cashflows of Main Roads.

	Notes
Cash and cash equivalents	7.1
Commitments	7.2

7.1 Cash and cash equivalents**7.1.1 Notes to the Statement of Cash Flows**Reconciliation of cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2018 \$000	2017 \$000
Cash and cash equivalents	283,742	91,984
Restricted cash and cash equivalents	251,059	183,136
	534,801	275,120
<u>Restricted cash and cash equivalents</u>		
Contractor's deposits ^(a)	623	1,363
Land Transport Infrastructure Projects ^(b)	233,852	181,672
Commonwealth Paid Parental Leave Scheme ^(c)	11	4
Royalties for Regions Fund ^(d)	16,573	97
	251,059	183,136

(a) Contractor's deposits

Amounts withheld from contractors payments pending satisfactory completion of works.

(b) Land Transport Infrastructure Projects

Funds provided as part of National Partnership on Infrastructure Projects in Western Australia.

(c) Commonwealth Paid Parental Leave Scheme

Funds held in this account are to be used for purposes of meeting payments to eligible working parents with 18 weeks of Parental Leave Pay.

(d) Royalties for Regions Fund

Unspent funds are committed to projects and programs in WA regional areas.

For the purpose of the Statement of Cash Flows, cash and cash equivalent (and restricted cash and cash equivalent) assets comprise cash on hand and short-term deposits with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value.

7.1.2 Reconciliation of net cost of services to net cash flows provided by/(used in) operating activities

	Note	2018 \$000	2017 \$000
Net cost of services		(344,581)	(925,365)
<i>Non-cash items:</i>			
Depreciation expense – infrastructure	5.2.1	343,782	363,669
Depreciation and amortisation expense – other assets	5.1.1, 5.3.1	5,296	5,140
Grants to other bodies	3.2	4,597	70,995
Grants received from other bodies	4.5	(9,731)	(22,409)
Services received free of charge	4.1	1,672	1,846
Infrastructure assets retired/replaced	3.3	51,427	143,486
Assets not previously recognised		(443)	-
Adjustment for other non-cash items		-	-
Net (gain)/loss on sale of property, plant and equipment	4.8	708	3,257
<i>(Increase)/decrease in assets:</i>			
Receivables ^(a)		5,681	(97)
Inventories		(3,606)	787
Prepayments		4,969	(4,108)
<i>Increase/(decrease) in liabilities:</i>			
Payables ^(a)		20,402	20,522
Provisions		884	345
Net GST receipts/(payments) ^(b)		137,882	120,977
Change in GST in receivables/payables ^(c)		(139,327)	(119,788)
Net cash provided by/(used in) operating activities		79,612	(340,743)

(a) Note that the Australian Taxation Office (ATO) receivable/payable in respect of GST and the receivable/payable in respect of the sale/purchase of non-current assets are not included in these items as they do not form part of the reconciling items.

(b) This is the net GST paid/received, i.e. cash transactions.

(c) This reverses out the GST in receivables and payables.

The mandatory application of AASB 2016-2 Amendments to *Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107* imposed disclosure impacts only. Main Roads is not exposed to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

7.2 Commitments

7.2.1 Non-cancellable operating lease commitments

	2018 \$000	2017 \$000
Commitments for minimum lease payments are payable as follows:		
Within 1 year	4,671	3,421
Later than 1 year and not later than 5 years	12,643	2,405
Later than 5 years	9,034	-
	26,348	5,826

Operating leases are expensed on a straight line basis over the lease term as this represents the pattern of benefits derived from the leased properties.

Main Roads has entered into a number of non-cancellable leases for buildings with various terms. Annual lease payments may increase based on CPI or rate specified in the agreements.

7.2.2 Capital commitments

Capital expenditure commitments, being contracted capital expenditure additional to the amounts reported in the financial statements, are payable as follows:

	2018 \$000	2017 \$000
Within 1 year	524,133	589,636
Later than 1 year and not later than 5 years	127,762	490,048
Later than 5 years	-	-
	651,895	1,079,684

The total presented for capital commitments are GST inclusive.

7.2.3 Other expenditure commitments

Other expenditure commitments predominantly comprise maintenance commitments for road infrastructure assets contracted for at the end of the reporting period but not recognised as liabilities, are payable as follows:

	2018 \$000	2017 \$000
Within 1 year	218,847	351,462
Later than 1 year and not later than 5 years	346,996	45,991
Later than 5 years	487	-
	566,330	397,453

The total presented for other expenditure commitments are GST inclusive.

Judgements made by management in applying accounting policies – operating lease commitments

Main Roads has entered into a number of leases for buildings for branch office accommodation. Some of these leases relate to buildings of a temporary nature and it has been determined that the lessor retains substantially all the risks and rewards incidental to ownership. Accordingly, these leases have been classified as operating leases.

8 Risks and Contingencies

This note sets out the key risk management policies and measurement techniques of Main Roads.

	Notes
Financial risk management	8.1
Contingent assets	8.2.1
Contingent liabilities	8.2.2
Fair value measurements	8.3

8.1 Financial risk management

Financial instruments held by Main Roads are cash and cash equivalents, restricted cash and cash equivalents, loans and receivables and payables. Main Roads has limited exposure to financial risks. Main Roads' overall risk management program focuses on managing the risks identified below.

(a) Summary of risks and risk management

Credit risk

Credit risk arises when there is the possibility of Main Roads' receivables defaulting on their contractual obligations resulting in financial loss to Main Roads.

The maximum exposure to credit risk at the end of the reporting period in relation to each class of recognised financial assets is the gross carrying amount of those assets inclusive of any allowance for impairment as shown in the table at note 8.1(c) 'Ageing analysis of financial assets' and note 6.1 'Receivables'.

Credit risk associated with Main Roads' financial assets is minimal because the main receivable is the amounts receivable for services (holding account). For receivables other than government, Main Roads trades only with recognised, creditworthy third parties. Main Roads has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. In addition, receivable balances are monitored on an ongoing basis with the result that Main Roads' exposure to bad debts is minimal. At the end of the reporting period there were no significant concentrations of credit risk.

Liquidity risk

Liquidity risk arises when Main Roads is unable to meet its financial obligations as they fall due.

Main Roads is exposed to liquidity risk through its trading in the normal course of business.

Main Roads has appropriate procedures to manage cash flows including drawdowns of appropriations by monitoring forecast cash flows to ensure that sufficient funds are available to meet its commitments.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect Main Roads' income or the value of its holdings of financial instruments. Main Roads does not trade in foreign currency and is not materially exposed to other price risks.

Other than as detailed in the interest rate sensitivity analysis table at note 8.1(e), Main Roads is not exposed to the interest rate risk. Majority of cash and cash equivalents are non-interest bearing and restricted cash and cash equivalents are interest bearing. Main Roads has no borrowings as at 30 June 2018.

(b) Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are:

	2018 \$000	2017 \$000
<u>Financial assets</u>		
Cash and cash equivalents	283,742	91,984
Restricted cash and cash equivalents	251,059	183,136
Loans and receivables ^(a)	2,626,585	2,313,146
Total financial assets	3,161,386	2,588,266
<u>Financial liabilities</u>		
Financial liabilities measured at amortised cost	318,133	283,493
Total financial liability	318,133	283,493

(a) The amount of loans and receivables excludes GST recoverable from the ATO (statutory receivable).

(c) Ageing analysis of financial assets

	Carrying Amount \$000	Not past due and not impaired \$000	Past due but not impaired					Impaired financial assets \$000
			Up to 1 month \$000	1-3 months \$000	3 months to 1 year \$000	1-5 years \$000	More than 5 years \$000	
2018								
Cash and cash equivalents	283,742	283,742	-	-	-	-	-	-
Restricted cash and cash equivalents	251,059	251,059	-	-	-	-	-	-
Receivables ^(a)	84,791	52,020	31,789	457	201	81	-	243
Amounts receivable for services	2,541,794	2,541,794	-	-	-	-	-	-
	3,161,386	3,128,615	31,789	457	201	81	-	243
2017								
Cash and cash equivalents	91,984	91,984	-	-	-	-	-	-
Restricted cash and cash equivalents	183,136	183,136	-	-	-	-	-	-
Receivables ^(a)	67,912	48,704	7,083	9,834	86	-	-	2,205
Amounts receivable for services	2,245,234	2,245,234	-	-	-	-	-	-
	2,588,266	2,569,058	7,083	9,834	86	-	-	2,205

(a) The amount of receivables excludes the GST recoverable from the ATO (statutory receivable).

(d) Liquidity risk and interest rate exposure

The following table details Main Roads' interest rate exposure and the contractual maturity analysis of financial assets and financial liabilities. The maturity analysis section includes interest and principal cash flows. The interest rate exposure section analyses only the carrying amounts of each item.

Interest rate exposures and maturity analysis of financial assets and financial liabilities											
	Weighted Average Effective Interest Rate %	Carrying Amount \$000	Interest rate exposure			Nominal Amount \$000	Maturity date				
			Fixed interest rate \$000	Variable interest rate \$000	Non- interest bearing \$000		Up to 1 month \$000	1-3 months \$000	3 months to 1 year \$000	1-5 years \$000	More than 5 years \$000
2018											
<u>Financial Assets</u>											
Cash and cash equivalents	-	283,742	-	-	283,742	283,742	283,742	-	-	-	-
Restricted cash and cash equivalents	1.97	251,059	-	251,059	-	251,059	251,059	-	-	-	-
Receivables ^(a)	-	84,791	-	-	84,791	84,791	84,791	-	-	-	-
Amounts receivable for services	-	2,541,794	-	-	2,541,794	2,541,794	4,330	7,576	27,030	263,918	2,238,940
		3,161,386	-	251,059	2,910,327	3,161,386	623,922	7,576	27,030	263,918	2,238,940
<u>Financial Liabilities</u>											
Payables	-	318,133	-	-	318,133	318,133	318,133	-	-	-	-
		318,133	-	-	318,133	318,133	318,133	-	-	-	-

(a) The amount of receivables excludes the GST recoverable from the ATO (statutory receivable).

Interest rate exposures and maturity analysis of financial assets and financial liabilities											
	Weighted Average Effective Interest Rate %	Carrying Amount \$000	Interest rate exposure				Maturity date				
			Fixed interest rate \$000	Variable interest rate \$000	Non-interest bearing \$000	Nominal Amount \$000	Up to 1 month \$000	1-3 months \$000	3 months to 1 year \$000	1-5 years \$000	More than 5 years \$000
2017											
<u>Financial Assets</u>											
Cash and cash equivalents	-	91,984	-	-	91,984	91,984	91,984	-	-	-	-
Restricted cash and cash equivalents	1.98	183,136	-	183,136	-	183,136	183,136	-	-	-	-
Receivables (a)	-	67,912	-	-	67,912	67,912	67,912	-	-	-	-
Amounts receivable for services	-	2,245,234	-	-	2,245,234	2,245,234	5,635	11,269	50,712	351,417	1,826,201
		2,588,266	-	183,136	2,405,130	2,588,266	348,667	11,269	50,712	351,417	1,826,201
<u>Financial Liabilities</u>											
Payables	-	283,493	-	-	283,493	283,493	283,493	-	-	-	-
		283,493	-	-	283,493	283,493	283,493	-	-	-	-

(a) The amount of receivables excludes the GST recoverable from the ATO (statutory receivable).

(e) Interest rate sensitivity analysis

The following table represents a summary of the interest rate sensitivity of Main Roads' financial assets and liabilities at the end of the reporting period on the surplus for the period and equity for a 0.25% change in interest rates. It is assumed that the change in interest rates is held constant throughout the reporting period.

	Carrying amount \$000	-25 basis points		+25 basis points	
		Surplus \$000	Equity \$000	Surplus \$000	Equity \$000
2018					
<u>Financial Assets</u>					
Restricted cash and cash equivalents	251,059	(628)	(628)	628	628
Total Increase/(Decrease)		(628)	(628)	628	628
2017					
<u>Financial Assets</u>					
Restricted cash and cash equivalents	183,136	(458)	(458)	458	458
Total Increase/(Decrease)		(458)	(458)	458	458

8.2 Contingent assets and liabilities

Contingent assets and contingent liabilities are not recognised in the statement of financial position but are disclosed and, if quantifiable, are measured at nominal value.

Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

8.2.1 Contingent assets

There was no contingent asset as at 30 June 2018.

8.2.2 Contingent liabilities

The following contingent liabilities are excluded from the liabilities included in the financial statements:

	2018 \$000	2017 \$000
Contract claims in dispute	5,560	9,310
Resumption claims in dispute	244,885	249,411
	250,445	258,721

Contract claims in dispute

Claims have been submitted by contractors in relation to services provided under roadwork contracts. The contingent liability is the difference between the amount of the claim and the liability estimated and recognised by Main Roads based on legal advice.

Resumption claims in dispute

Claims have been lodged by owners of property acquired for road construction purposes. The contingent liability is the difference between the owner's claim and the estimated settlement price determined and recognised by Main Roads in accordance with an independent valuation.

Contaminated sites

Under the Contaminated Sites Act 2003, Main Roads is required to report known and suspected contaminated sites to the Department of Water and Environmental Regulation (DWER). In accordance with the Act, DWER classifies these sites on the basis of the risk to human health, the environment and environmental values. Where sites are classified as contaminated – remediation required or possibly contaminated – investigation required, Main Roads may have a liability in respect of investigation or remediation expenses.

During the year, Main Roads reported sixteen suspected contaminated sites to DWER. Two sites were classified as contaminated – remediation required, four were classified as possibly contaminated – investigation required, two were awaiting classification and eight were classified as remediated for restricted use. Main Roads is unable to assess the likely outcome of the classification process, and accordingly, it is not practicable to estimate the potential financial effect or to identify the uncertainties relating to the amount or timing of any outflows. Whilst there is no possibility of reimbursement of any future expenses that may be incurred in the remediation of these sites, Main Roads may apply for funding from the Contaminated Sites Management Account to undertake further investigative work or to meet remediation costs that may be required.

8.3 Fair value measurements

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Fair value at end of period \$000
Assets measured at fair value:				
2018				
Non-current assets classified as held for sale (Note 9.7)	-	10,912	708	11,620
Land (Note 5.1)	-	58,631	6,364	64,995
Buildings (Note 5.1)	-	72,136	14,382	86,518
Surplus assets (Note 5.1)	-	49,773	32,572	82,345
Land acquired for roadworks (Note 5.1)	-	136,793	41,714	178,507
Infrastructure (Note 5.2)	-	-	42,170,095	42,170,095
	-	328,245	42,265,835	42,594,080

Assets measured at fair value:	Level 1 \$000	Level 2 \$000	Level 3 \$000	Fair value at end of period \$000
2017				
Non-current assets classified as held for sale (Note 9.7)	-	1,579	-	1,579
Land (Note 5.1)	-	67,221	6,127	73,348
Buildings (Note 5.1)	-	74,948	14,105	89,053
Surplus assets (Note 5.1)	-	63,396	34,987	98,383
Land acquired for roadworks (Note 5.1)	-	152,101	45,479	197,580
Infrastructure (Note 5.2)	-	-	41,976,023	41,976,023
	-	359,245	42,076,721	42,435,966

Valuation techniques to derive Level 2 fair values

Level 2 fair values of Non-current assets held for sale, Land, Buildings, Surplus assets and Land acquired for roadworks are derived using the market approach. Market evidence of sales prices of comparable land and buildings in close proximity is used to determine price per square metre.

Non-current assets held for sale have been written down to fair value less costs to sell. Fair value has been determined by reference to market evidence of sales prices of comparable assets.

Fair value measurements using significant unobservable inputs (Level 3)

	Non-current asset held for sale \$000	Land \$000	Buildings \$000	Surplus assets \$000	Land acquired for roadworks \$000	Infra- structure \$000
2018						
Fair value at start of period	-	6,127	14,105	34,987	45,479	41,976,023
Additions	-	64	-	342	1,479	605,525
Revaluation increments/ (decrements) recognised in Profit or Loss	-	-	-	-	-	-
Revaluation increments/ (decrements) recognised in Other Comprehensive Income	-	(92)	(146)	(722)	(2,543)	(12,008)
Transfers from/(to) Level 2/ Level 3	708	265	1,025	972	23	-
Disposals	-	-	-	(2,979)	(2,724)	(55,663)
Depreciation expense	-	-	(602)	(28)	-	(343,782)
Fair value at end of period	708	6,364	14,382	32,572	41,714	42,170,095
Total gains or losses for the period included in profit or loss, under 'Other Gains'	-	-	-	-	-	-

	Non-current asset held for sale \$000	Land \$000	Buildings \$000	Surplus assets \$000	Land acquired for roadworks \$000	Infra-structure \$000
2017						
Fair value at start of period	-	5,901	16,021	42,158	48,087	43,633,553
Additions	-	-	23	931	201	685,718
Revaluation increments/ (decrements) recognised in Profit or Loss	-	-	-	-	-	-
Revaluation increments/ (decrements) recognised in Other Comprehensive Income	-	162	(888)	(4,750)	(5,139)	(1,853,764)
Transfers from/(to) Level 2/ Level 3	-	64	(63)	(3,321)	2,330	-
Disposals	-	-	(138)	(4)	-	(125,815)
Depreciation expense	-	-	(850)	(27)	-	(363,669)
Fair value at end of period	-	6,127	14,105	34,987	45,479	41,976,023
Total gains or losses for the period included in profit or loss, under 'Other Gains'	-	-	-	-	-	-

Valuation processes

There were no changes in valuation techniques during the period.

Transfers in and out of a fair value level are recognised on the date of the event or change in circumstances that caused the transfer. Transfers are generally limited to assets newly classified as non-current assets held for sale as Treasurer's Instructions require valuations of land, buildings and infrastructure to be categorised within Level 3 where the valuations will utilise significant Level 3 inputs on a recurring basis.

Land, surplus assets and land acquired for roadworks (Level 3 fair values)

Fair value for restricted use land is based on comparison with market evidence for land with low level utility (high restricted use land). The relevant comparators of land with low level utility is selected by the Western Australian Land Information Authority (Valuation Services) and represents the application of a significant Level 3 input in this valuation methodology. The fair value measurement is sensitive to values of comparator land, with higher values of comparator land correlating with higher estimated fair values of land.

Buildings (Level 3 fair values)

Fair value for existing use specialised building assets is determined by reference to the cost of replacing the remaining future economic benefits embodied in the asset, i.e. the current replacement cost. Current replacement cost is the current cost of an asset less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired economic benefit, or obsolescence, and optimisation (where applicable) of the asset. Current replacement cost is generally determined by reference to the market observable replacement cost of a substitute asset of comparable utility and the gross project size specifications adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence.

Infrastructure (Level 3 fair values)

Fair value for infrastructure assets is determined by reference to the cost of replacing the remaining future economic benefits embodied in the asset, i.e. the current replacement cost. Current replacement cost is current cost of an asset less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired economic benefit, or obsolescence, and optimisation (where applicable) of the asset. Current replacement cost is determined every third year by reference to the cost of a new asset and adjusted in the intervening years by reference to a cost index (ABS Road and Bridge Construction Cost Index or rates obtained by professional estimators specialising in road infrastructure works) to ensure asset carrying values do not materially differ from fair value.

Basis of Valuation

In the absence of market-based evidence, due to the specialised nature of some non-financial assets, these assets are valued at Level 3 of the fair value hierarchy on an existing use basis. The existing use basis recognises that restrictions or limitations have been placed on their use and disposal when they are not determined to be surplus to requirements. These restrictions are imposed by virtue of the assets being held to deliver a specific community service.

Significant Level 3 inputs used by Main Roads are derived and evaluated as follows:

Selection of land with restricted utility

Fair value for restricted use land is determined by comparison with market evidence for land with low level utility. Relevant comparators of land with low level utility are selected by the Western Australian Land Information Authority (Valuation Services).

Historical cost per square metre floor area (m²)

The cost of constructing specialised buildings with similar utility area extracted from financial reports of Main Roads, then indexed by movements in CPI.

Consumed economic benefit/obsolescence of asset

These are estimated by the Western Australian Land Information Authority (Valuation Services).

Historical cost per cubic metre (m³)

The fair value of road infrastructure comprising of earthworks, pavements (including drainage and seals), bridges and road furniture is calculated using construction unit rates determined by a professional quantity surveying firm and multiplying these by the units that form the infrastructure asset.

The fair value of road infrastructure comprising of principal shared paths and certain road furniture are extracted from financial records of Main Roads and indexed by movements in the ABS Road and Bridge Construction cost index.

Selection of land adjoining road reserve

The fair value of road infrastructure comprising of land under roads is determined by comparison with the unimproved land values for land tax purposes maintained by the Western Australian Land Information Authority (Valuation Services).

Information about significant unobservable inputs (Level 3) in fair value measurements

Description	Fair value 2018 \$000	Fair value 2017 \$000	Valuation technique(s)	Unobservable inputs
Land, Surplus asset and Land acquired for roadworks	80,650	86,593	Market approach	Selection of land with similar approximate utility
Buildings	14,382	14,105	Current replacement cost	Historical cost per square metre floor area (m ²) Consumed economic benefit/obsolescence of asset
Infrastructure (Earthworks)	9,991,307	9,726,060	Current replacement cost	Historical cost per cubic metre (m ³)
Infrastructure (Pavements including drainage and seals)	4,326,304	4,261,868	Current replacement cost	Historical cost per cubic metre (m ³)
Infrastructure (Bridges)	3,929,079	3,818,537	Current replacement cost	Historical cost per cubic metre (m ³)
Infrastructure (Road furniture)	383,017	348,924	Current replacement cost	Consumed economic benefit/obsolescence of asset
Infrastructure (Land under roads)	23,540,388	23,820,634	Market approach	Selection of land adjoining road reserve

Reconciliations of the opening and closing balances are provided in Notes 5.1 and 5.2.

Amendments to AASB 136

Mandatory application of AASB 2016-4 *Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities* has no financial impact on Main Roads as Main Roads is classified as not-for-profit and regularly revalues specialised infrastructure, property, plant and equipment assets. Therefore, the recoverable amount of such assets is expected to be materially the same as fair value.

9 Other disclosures

This section includes additional material disclosures required by accounting standards or other pronouncements, for the understanding of this financial report.

	Notes
Events occurring after the end of the reporting period	9.1
Correction of prior period errors	9.2
Future impact of Australian standards issued not yet operative	9.3
Key management personnel	9.4
Related parties	9.5
Remuneration of auditor	9.6
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Equity	9.8
Supplementary financial information	9.9
Services provided free of charge	9.10
Indian Ocean Territories	9.11
Explanatory statement (Controlled Operations)	9.12

9.1 Events occurring after the end of the reporting period

There were no events occurring after the end of the reporting period that have any financial effect on the results reported on these financial statements.

9.2 Correction of prior period errors

\$2.826 million deficit related to Road Safety Commission which was incorrectly recognised as 'Contributed Equity' during 2016-17. The deficit is reclassified as 'Accumulated Deficit' during 2017-18.

9.3 Future impact of Australian standards issued not yet operative

Main Roads cannot early adopt an Australian Accounting Standard unless specifically permitted by TI 1101 *'Application of Australian Accounting Standards and Other Pronouncements'* or by an exemption from TI 1101. Where applicable, Main Roads plans to apply the following Australian Accounting Standards from their application date.

		Operative for reporting periods beginning on/after
AASB 9	<p><i>Financial Instruments</i></p> <p>This Standard supersedes AASB 139 <i>Financial Instruments: Recognition and Measurement</i>, introducing a number of changes to accounting treatments.</p> <p>Main Roads has not assessed that recognition of expected credit losses yet which may increase the amount of impairment losses recognised as Other expenses in the Statement of Comprehensive Income, and thus have an adverse impact on the agency's Surplus/(Deficit) for the period.</p>	1 Jan 2018

		Operative for reporting periods beginning on/after
AASB 15	<p><i>Revenue from Contracts with Customers</i></p> <p>This Standard establishes the principles that the agency shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The mandatory application date of this Standard is currently 1 January 2019 after being amended by AASB 2016-7.</p> <p>Main Roads income is principally derived from appropriations which will be measured under AASB 1058 and will be unaffected by this change. However, Main Roads has not yet determined the potential impact of the Standard on Commonwealth grants to deliver infrastructure. The terms and conditions attached to these revenues may defer revenue recognition until Main Roads has discharged its performance obligations</p>	1 Jan 2019
AASB 16	<p><i>Leases</i></p> <p>This Standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Main Roads has not yet determined the application or the potential impact of the Standard.</p> <p>Whilst the impact of AASB 16 has not yet been quantified, the entity currently has operating lease commitments for \$26,348k. The worth of non-cancellable operating leases which Main Roads anticipates most of this amount will be brought onto the statement of financial position. Interest and amortisation expense will increase and rental expense will decrease.</p>	1 Jan 2019
AASB 1058	<p><i>Income of Not-for-Profit Entities</i></p> <p>This Standard clarifies and simplifies the income recognition requirements that apply to not-for-profit (NFP) entities, more closely reflecting the economic reality of NFP entity transactions that are not contracts with customers. Timing of income recognition is dependent on whether such a transaction gives rise to a liability, or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset) received by Main Roads. Main Roads anticipates that the application will not materially impact appropriation or untied grant revenues.</p>	1 Jan 2019
AASB 1059	<p><i>Service Concession Arrangements: Grantors</i></p> <p>This Standard addresses the accounting for a service concession arrangement (a type of public private partnership) by a grantor that is a public sector agency by prescribing the accounting for the arrangement from the grantor's perspective. Timing and measurement for the recognition of a specific asset class occurs on commencement of the arrangement and the accounting for associated liabilities is determined by whether the grantee is paid by the grantor or users of the public service provided. Main Roads has not identified any public private partnerships within scope of the Standard.</p>	1 Jan 2019
AASB 2010-7	<p><i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Int 2, 5, 10, 12, 19 & 127]</i></p> <p>This Standard makes consequential amendments to other Australian Accounting Standards and Interpretations as a result of issuing AASB 9 in December 2010.</p> <p>The mandatory application date of this Standard has been amended by AASB 2012-6 and AASB 2014-1 to 1 January 2018. Other than the exposures to AASB 9 noted above, Main Roads is only insignificantly impacted by the application of the Standard.</p>	1 Jan 2018

		Operative for reporting periods beginning on/after
AASB 2014-1	<p><i>Amendments to Australian Accounting Standards</i></p> <p>Part E of this Standard makes amendments to AASB 9 and consequential amendments to other Standards. These changes have no impact as Appendix E has been superseded and Main Roads was not permitted to early adopt AASB 9.</p>	1 Jan 2018
AASB 2014-5	<p><i>Amendments to Australian Accounting Standards arising from AASB 15</i></p> <p>This Standard gives effect to the consequential amendments to Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. The mandatory application date of this Standard has been amended by AASB 2015-8 to 1 January 2018. Main Roads has not yet determined the application or the potential impact of the Standard.</p>	1 Jan 2018
AASB 2014-7	<p><i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)</i></p> <p>This Standard gives effect to the consequential amendments to Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 9 (December 2014). Main Roads has not yet determined the application or the potential impact of the Standard.</p>	1 Jan 2018
AASB 2015-8	<p><i>Amendments to Australian Accounting Standards – Effective Date of AASB 15</i></p> <p>This Standard amends the mandatory application date of AASB 15 to 1 January 2018 (instead of 1 January 2017). It also defers the consequential amendments that were originally set out in AASB 2014-5. There is no financial impact arising from this Standard.</p>	1 Jan 2018
AASB 2016-3	<p><i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i></p> <p>This Standard clarifies identifying performance obligations, principal versus agent considerations, timing of recognising revenue from granting a licence, and, provides further transitional provisions to AASB 15. Main Roads has not yet determined the application or the potential impact when the deferred AASB 15 becomes effective from 1 January 2019.</p>	1 Jan 2018
AASB 2016-7	<p><i>Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities</i></p> <p>This Standard defers, for not-for-profit entities, the mandatory application date of AASB 15 to 1 January 2019, and the consequential amendments that were originally set out in AASB 2014-5. There is no financial impact arising from this standard.</p>	1 Jan 2018
AASB 2016-8	<p><i>Amendments to Australian Accounting Standards Australian Implementation Guidance for Not for Profit Entities</i></p> <p>This Standard inserts Australian requirements and authoritative implementation guidance for not for profit entities into AASB 9 and AASB 15. This guidance assists not-for-profit entities in applying those Standards to particular transactions and other events. There is no financial impact.</p>	1 Jan 2019

9.4 Key management personnel

Main Roads has determined key management personnel to include cabinet ministers and senior officers of Main Roads. Main Roads does not incur expenditures to compensate Ministers and those disclosures may be found in the Annual Report on State Finances. The remuneration of the incumbent Commissioner of Main Roads is met by the Department of Transport.

The total fees, salaries, superannuation, non-monetary benefits and other benefits for senior officers of Main Roads for the reporting period are presented within the following bands:

Compensation of members of the accountable authority

Compensation Band (\$)	2018	2017
0 - 10,000	2	2

Compensation of senior officers

Compensation Band (\$)	2018	2017
360,001 - 370,000	1	-
330,001 - 340,000	-	1
260,001 - 270,000	-	1
250,001 - 260,000	2	-
240,001 - 250,000	1	-
230,001 - 240,000	2	2
220,001 - 230,000	1	2
210,001 - 220,000	1	1
200,001 - 210,000	1	1
190,001 - 200,000	1	1
160,001 - 170,000	-	1
20,001 - 30,000	-	-
10,001 - 20,000	-	1

	2018 \$000	2017 \$000
Short term employee benefits	1,915	2,029
Post-employment benefits	248	264
Other long term benefits	62	10
Termination benefits	206	-
The total compensation of senior officers	2,431	2,303

Total compensation includes the superannuation expense incurred by Main Roads in respect of senior officers. The change in bands comparing to previous year is mainly due to acting arrangements.

9.5 Related parties

Main Roads is a wholly owned public sector entity that is controlled by of the State of Western Australia.

Related parties of Main Roads include:

- all cabinet ministers and their close family members, and their controlled or jointly controlled entities;
- all senior officers and their close family members, and their controlled or jointly controlled entities;
- other departments and statutory authorities, including related bodies, that are included in the whole of government consolidated financial statements (i.e. wholly-owned public sector entities);
- associates and joint ventures, of a wholly-owned public sector entity; and
- the Government Employees Superannuation Board (GESB)

Significant transactions with government related entities

In conducting its activities, Main Roads is required to transact with the State and entities related to the State. These transactions are generally based on the standard terms and conditions that apply to all agencies. Such transactions include:

- income from State Government (Note 4.1)
- contributed equity (Note 9.8)
- services received free of charge from other government agencies (Note 4.1)
- income from Road Trauma Trust Fund (Note 4.1)
- income from Natural disaster fund (Note 4.1)
- income from Royalties for Regions Fund (Notes 4.1 and 9.8)
- superannuation payments to GESB (Note 3.1(a))
- remuneration for services provided by the Auditor General (Note 9.6)
- payments mainly for vegetation clearing permits required for road construction to Department of Biodiversity Conservation & Attractions amounting \$3.5 million (Note 5.2)
- payments for property management expenses and fleet leasing to the Department of Finance amounting \$13.8 million (Notes 3.3 and 5.1)
- commitments of \$26.3 million future lease payments to the Department of Finance (Note 7.2)
- payments mainly for road maintenance to Department of Biodiversity Conservation & Attractions amounting \$1.0 million (Note 3.2)
- payments mainly for land acquisition used for road construction to State Solicitor's Office amounting \$29.2 million (Notes 5.1 and 5.2)
- payments mainly for service relocation enabling road construction to Western Power amounting \$21.2 million (Note 5.2)
- insurance payments of \$2.6 million to Risk cover fund (Note 3.3)
- payments mainly received as contribution to roadworks from Public Transport Authority amounting \$81.2 million (Note 4.2 and 4.4)
- payments mainly received from Department of Transport by providing service and as contribution to roadworks amounting \$14.6 million (Note 4.2)

Material transactions with other related parties

Outside of normal citizen type transactions with Main Roads, there were no other related party transactions that involved key management personnel and/or their close family members and/or their controlled (or jointly controlled) entities.

9.6 Remuneration of auditor

Remuneration paid or payable to the Auditor General in respect of the audit for the current financial year is as follows:

	2018 \$000	2017 \$000
Auditing the accounts, financial statements and key performance indicators	239	229
Other audits	30	25
	269	254

9.7 Non-current assets classified as held for sale

The following table represents a summary of assets held for sale:

	2018 \$000	2017 \$000
Freehold land and buildings		
Opening balance	1,579	7,439
Assets reclassified as held for sale	15,993	11,448
Assets removed from current disposal program	-	(1,000)
Assets sold	(4,120)	(15,512)
Write-down of assets from carrying value to fair value less selling costs	(1,832)	(796)
Closing balance	11,620	1,579

Information on fair value measurements is provided in Note 8.3.

Main Roads disposes freehold land and buildings where it is no longer required for road construction, outside the defined road planning requirement or no longer required for operational purposes. If the freehold land and buildings are not required by Government, then they are sold at public auction or tender in the first instance and thereafter by private treaty. Non-current assets classified as held for sale are expected to settle within 12 months.

Non-current assets (or disposal groups) held for sale are recognised at the lower of carrying amount and fair value less costs to sell, and are disclosed separately from other assets in the Statement of Financial Position. Assets classified as held for sale are not depreciated or amortised.

Mandatory application of AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle requires disclosure changes and no financial impact. Main Roads has no interests in other entities that are classified as held for sale, held for distribution to owners in their capacity as owners or discontinued operations in accordance with AASB 5.

9.8 Equity

The Western Australian Government holds the equity interest in Main Roads on behalf of the community. Equity represents the residual interest in the net assets of Main Roads. The asset revaluation surplus represents that portion of equity resulting from the revaluation of non-current assets.

	Notes	2018 \$000	2017 \$000
Contributed equity			
Balance at start of period		4,574,692	4,258,913
Correction of errors in prior period	9.2	2,826	-
<u>Contributions by owners</u>			
Capital contributions		336,556	307,721
<u>Other contributions by owners</u>			
Royalties for Regions Fund - Regional Infrastructure and Headwork Account		132,122	11,556
<u>Transfer of net assets from other agencies</u>			
Public Transport Authority		24,303	19,932
Western Australian Planning Commission		52	-
Department of Planning, Lands and Heritage		61	120
Total contributions by owners		493,094	339,329
<u>Distributions to owners</u>			
Transfer of net assets to other agencies			
Public Transport Authority		(17,326)	(23,332)
Department of Planning, Lands and Heritage		(894)	(216)
Road Safety Commission		-	(2)
Total distributions to owners		(18,220)	(23,550)
Balance at end of period		5,052,392	4,574,692
Reserves			
<u>Asset revaluation surplus</u>			
Balance at start of period		27,670,467	29,586,632
Net revaluation increments/(decrements)			
Earthworks, Drainage, Pavements and Seals		236,209	(1,110,605)
Bridges		57,005	(132,669)
Land under roads		(310,186)	(562,205)
Road Furniture		4,964	(48,285)
Land and Buildings		(22,158)	(62,401)
Balance at end of period		27,636,301	27,670,467
<u>Accumulated surplus</u>			
Balance at start of period		13,691,101	13,539,861
Correction of errors in prior period		(2,826)	-
Result for the period		738,220	151,240
Income and expense recognised directly in equity		-	-
Balance at end of period		14,426,495	13,691,101
Total Equity at end of period		47,115,188	45,936,260

9.9 Supplementary financial information

(a) Write-offs

During the financial year \$2,064k (2017: \$9k) was written off the Main Roads' asset register under the authority of:

	2018 \$000	2017 \$000
The accountable authority	81	9
The Minister	197	-
Executive Council	1,786	-
	2,064	9

(b) Losses through theft, defaults and other causes

	2018 \$000	2017 \$000
Fixed asset stocktake discrepancies	8	-
Damage to public property	-	-
Inventory - stocktake discrepancies and obsolete/contaminated materials	-	-
	8	-

(c) Gifts of public property

	2018 \$000	2017 \$000
Gifts of public property provided by Main Roads	21	33
	21	33

(d) Restricted Access Vehicle permits ^(a)

	2018 \$000	2017 \$000
Regulatory fees	7,447	6,236
Transfer payments	7,458	6,221
Cash held in lieu of transfer	23	34

(a) Main Roads collects the Restricted Access Vehicle permits fees in accordance with *Road Traffic (Vehicles) Regulations 2014*. The receipts are paid into the Consolidated Fund and are subsequently appropriated to Main Roads.

9.10 Services provided free of charge

During the year the following services were provided to other agencies free of charge for functions outside the normal operations of Main Roads:

	2018 \$000	2017 \$000
Department of Transport – accommodation costs and provision of traffic modelling services	112	31
Department of Planning, Lands and Heritage – traffic modelling services	49	68
Public Transport Authority – provision of professional services	218	186
Department of Water and Environmental Regulation – provision of professional services	138	
Services provided free of charge to other agencies	39	3
	556	288

9.11 Indian Ocean Territories

Main Roads provides road management services to Indian Ocean Territories under service delivery arrangements with the Shires of Christmas Island and Cocos (Keeling) Islands. The amounts expended or set aside for expenditure during 2017-18 are summarised below:

	2018 \$000	2017 \$000
Amount brought forward for recovery	5	(25)
Amount received during the period	(68)	(30)
	(63)	(55)
Expenditure during the year	36	60
Amount carried forward for recovery	(27)	5

9.12 Explanatory statement (Controlled Operations)

All variances between estimates (original budget) and actual results for 2018 and between the actual results for 2018 and 2017 are shown below. Narratives are provided for key variations selected from observed major variances, which are generally greater than:

- 5% and \$25.0 million for the Statements of Comprehensive Income and Cash Flows; and,
- 5% and \$25.0 million for the Statement of Financial Position.

	Variance Note	Original Budget	Actual	Actual	Variance between estimate and actual	Variance between actual results for 2018 and 2017
		2018 \$000	2018 \$000	2017 \$000	\$000	\$000
9.12.1 Statement of Comprehensive Income Variances						
Expenses						
Employee benefits expenses		75,867	72,081	67,556	(3,786)	4,525
Supplies and services	1A	549,492	519,093	472,690	(30,399)	46,403
Depreciation and impairment expense of infrastructure assets	2	382,186	343,782	363,669	(38,404)	(19,887)
Depreciation, amortisation and impairment expense - other		2,525	5,296	5,140	2,771	156
Grants and subsidies	3	222,605	271,179	275,923	48,574	(4,744)
Other expenses	B	41,709	51,427	143,486	9,718	(92,059)
Total cost of services		1,274,384	1,262,858	1,328,464	(11,526)	(65,606)
Income						
<i>Revenue</i>						
Sale of goods and services		-	10,970	11,234	10,970	(264)
Commonwealth grants and contributions	4C	1,037,285	772,639	263,474	(264,646)	509,165
Contributions to roadworks		115,866	108,341	93,090	(7,525)	15,251
Grants from other bodies		-	9,731	22,409	9,731	(12,678)
Interest revenue		10,179	6,004	5,210	(4,175)	794
Other revenue		13,936	11,300	10,939	(2,636)	361
Total revenue		1,177,266	918,985	406,356	(258,281)	512,629
<i>Gains</i>						
Gain/(loss) on disposal of non-current assets		200	(708)	(3,257)	(908)	2,549
Total gains		200	(708)	(3,257)	(908)	2,549
Total income other than income from State Government		1,177,466	918,277	403,099	(259,189)	515,178
NET COST OF SERVICES		96,918	344,581	925,365	247,663	(580,784)
Income from State Government						
Income from State Government		896,877	897,792	923,910	915	(26,118)
Services received free of charge		2,700	1,672	1,846	(1,028)	(174)
Other funds received from State Government	D	169,474	183,337	150,849	13,863	32,488
Total income from State Government		1,069,051	1,082,801	1,076,605	13,750	6,196
SURPLUS/(DEFICIT) FOR THE PERIOD		972,133	738,220	151,240	(233,913)	586,980
OTHER COMPREHENSIVE INCOME						
Items not reclassified subsequently to profit or loss						
Changes in asset revaluation surplus		-	(34,166)	(1,916,165)	(34,166)	1,881,999
Total other comprehensive income		-	(34,166)	(1,916,165)	(34,166)	1,881,999
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		972,133	704,054	(1,764,925)	(268,079)	2,468,979

	Variance Note	Original Budget 2018 \$000	Actual 2018 \$000	Actual 2017 \$000	Variance between estimate and actual \$000	Variance between actual results for 2018 and 2017 \$000
9.12.2 Statement of Financial Position Variances						
ASSETS						
Current Assets						
Cash and cash equivalents		151,991	283,742	91,984	131,751	191,758
Restricted cash and cash equivalents		233,107	251,059	183,136	17,952	67,923
Receivables		80,694	116,822	97,589	36,128	19,233
Amounts receivable for services		75,054	38,936	30,303	(36,118)	8,633
Inventories		3,863	3,932	3,379	69	553
Prepayments		10,507	9,715	13,894	(792)	(4,179)
Non-current assets classified as held for sale		7,439	11,620	1,579	4,181	10,041
Total Current Assets		562,655	715,826	421,864	153,171	293,962
Non-Current Assets						
Receivables		3,873	238	1,147	(3,635)	(909)
Amounts receivable for services		2,431,423	2,502,858	2,214,931	71,435	287,927
Inventories		2,215	5,408	1,912	3,193	3,496
Prepayments		436	367	1,157	(69)	(790)
Property, plant and equipment	5 E	570,713	426,473	477,030	(144,240)	(50,557)
Infrastructure	6	47,548,575	43,802,551	43,126,425	(3,746,024)	676,126
Intangible assets		9,263	14,828	13,498	5,565	1,330
Total Non-Current Assets		50,566,498	46,752,723	45,836,100	(3,813,775)	916,623
TOTAL ASSETS		51,129,153	47,468,549	46,257,964	(3,660,604)	1,210,585
LIABILITIES						
Current Liabilities						
Payables		298,145	318,133	283,493	19,988	34,640
Employee related provisions		27,236	28,426	27,433	1,190	993
Other provisions		-	1,877	5,744	1,877	(3,867)
Total Current Liabilities		325,381	348,436	316,670	23,055	31,766
Non-Current Liabilities						
Employee related provisions		4,886	4,925	5,034	39	(109)
Other provisions		-	-	-	-	-
Total Non-Current Liabilities		4,886	4,925	5,034	39	(109)
TOTAL LIABILITIES		330,267	353,361	321,704	23,094	31,657
NET ASSETS		50,798,886	47,115,188	45,936,260	(3,683,698)	1,178,928
EQUITY						
Contributed equity		4,981,677	5,052,392	4,574,692	70,715	477,700
Reserves	7	31,140,818	27,636,301	27,670,467	(3,504,517)	(34,166)
Accumulated surplus		14,676,391	14,426,495	13,691,101	(249,896)	735,394
TOTAL EQUITY		50,798,886	47,115,188	45,936,260	(3,683,698)	1,178,928

	Variance Note	Original Budget	Actual	Actual	Variance between estimate and actual	Variance between actual results for 2018 and 2017
		2018 \$000	2018 \$000	2017 \$000	\$000	\$000
9.12.3 Statement of Cash Flows Variances						
CASH FLOWS FROM STATE GOVERNMENT						
Service appropriation	F	568,017	568,932	605,922	915	(36,990)
Capital appropriation	G	316,371	336,556	307,721	20,185	28,835
Holding account drawdown	8 H	67,617	32,300	60,606	(35,317)	(28,306)
Road Trauma Trust Fund	I	53,020	57,671	87,158	4,651	(29,487)
Natural disaster funds	J	102,145	97,017	50,681	(5,128)	46,336
Royalties for Regions Fund	K	137,319	138,250	11,832	931	126,418
Net cash provided by State Government		1,244,489	1,230,726	1,123,920	(13,763)	106,806
CASH FLOWS FROM OPERATING ACTIVITIES						
Payments						
Employee benefits		(75,867)	(71,793)	(67,884)	4,074	(3,909)
Supplies and services	L	(543,894)	(519,639)	(461,970)	24,255	(57,669)
Grants and subsidies	9 M	(222,605)	(251,228)	(209,667)	(28,623)	(41,561)
GST payments on purchases		(147,054)	(149,346)	(145,679)	(2,292)	(3,667)
Receipts						
Sale of goods and services		116,808	128,704	119,364	11,896	9,340
Commonwealth grants and contributions	10 N	1,037,285	772,639	263,475	(264,646)	509,164
Interest received		10,179	5,630	6,685	(4,549)	(1,055)
GST receipts on sales		11,808	20,225	22,562	8,417	(2,337)
GST receipts from taxation authority		135,000	128,100	120,671	(6,900)	7,429
Other receipts		10,736	12,745	7,948	2,009	4,797
Rent received		3,200	3,575	3,752	375	(177)
Net cash provided by/(used in) operating activities		335,596	79,612	(340,743)	(255,984)	420,355
CASH FLOWS FROM INVESTING ACTIVITIES						
Payments						
Purchase of non-current assets		(17,342)	(15,225)	(21,272)	2,117	6,047
Purchase of infrastructure assets	11 O	(1,450,163)	(1,038,819)	(958,064)	411,344	(80,755)
Receipts						
Proceeds from sale of non-current assets		2,000	3,387	11,815	1,387	(8,428)
Net cash provided by/(used in) investing activities		(1,465,505)	(1,050,657)	(967,521)	414,848	(83,136)
CASH FLOWS FROM FINANCING ACTIVITIES						
Payments						
Repayment of borrowings		-	-	-	-	-
Net cash provided by/(used in) financing activities		-	-	-	-	-
Net increase/(decrease) in cash and cash equivalents		114,580	259,681	(184,344)	145,101	444,025
Cash and cash equivalents at the beginning of the period		270,518	275,120	460,207	4,602	(185,087)
Cash balance transferred to Other State Agencies		-	-	(743)	-	743
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		385,098	534,801	275,120	149,703	259,681

Major Estimate and Actual (2018) Variance Narratives

- 1 Supplies and services expense was less than anticipated by \$30.4 million (5.5%) mainly due to reallocation of a proportion of supplies and services cost to various capital projects.
- 2 Depreciation expense was less than anticipated by \$38.4 million (10.0%) due to the large decrease in value of the infrastructure assets under the revaluation process.
- 3 Grant and subsidies expense was higher than anticipated by \$48.6 million (21.8%) mainly due to additional funding provided to Local Governments for WA Natural Disaster Relief and Recovery Arrangement.
- 4 Commonwealth grants and contributions was less than anticipated by \$264.6 million (25.5%) mainly due to delays in projects and amended Commonwealth milestones.
- 5 Property, plant and equipment was \$144.2 million (25.3%) lower than budgeted amount due to falling property values assessed by the Land Information Authority (Landgate).
- 6 Infrastructure was overestimated by \$3.7 billion (7.9%) mainly because 2017-18 initial budget was established on higher 2016-17 estimated actual figures. The 2016-17 actual figure decreased due to the comprehensive revaluation of infrastructure assets resulting a fall in current replacement values.
- 7 Reserves was overestimated by \$3.5 billion (11.3%) mainly because 2017-18 initial budget was established on higher 2016-17 estimated actual figures for infrastructure. The 2016-17 actual figure decreased due to the comprehensive revaluation of infrastructure assets resulting a fall in current replacement values.
- 8 The Holding account drawdown was \$35.3 million (52.2%) less than anticipated due to a revised budget during the mid-year review process.
- 9 Grant and subsidies payments exceeded estimate by \$28.6 million (12.9%) mainly due to additional funding provided to Local Governments for WA Natural Disaster Relief and Recovery Arrangement.
- 10 Commonwealth grants and contributions was \$264.6 million (25.5%) less than anticipated mainly due to delays in projects and amended Commonwealth milestones.
- 11 Purchase of infrastructure assets was underspent by \$411.3 million (28.4%) mainly due to a number of Capital Works projects being delayed which included Great Northern Highway Muchea-Wubin (\$140.0 million) and Northlink WA (\$202.0 million).

Major Actual (2018) and Comparative (2017) Variance Narratives

- A Supplies and services expense increased by \$46.4 million (9.8%) mainly due to payments made to contractors for additional maintenance works on the roads.
- B Other expenses is \$92.1 million (64.2%) lower than 2016/17 financial year due to Perth Freight Link project being written off during 2016/17 and resulted in higher than expected expense.
- C Commonwealth grants and contributions increased by \$509.2 million (193.2%) mainly due to increased milestone payments (\$278.6 million) received from the Commonwealth as more projects met milestones compared to last year. The increase was also due to the one off National Partnership payment (\$226.0 million) made to support road infrastructure projects including the Murdoch Drive Extension to Roe Highway, Reid Highway Duplication (Altone Road to West Swan Road), Roe Highway Kalamunda Road Interchange, Wanneroo Road (Joondalup Drive to Hall Road), Karel Avenue Duplication and Wanneroo Road Joondalup Drive Interchange.
- D Other funds received from State Government increased by \$32.5 million (21.5%) mainly due to additional grant funding from WA Natural Disaster Relief and Recovery Arrangements and Road Trauma Trust Account.
- E Property, plant and equipment decreased by \$50.6 million (10.6%) due to falling property values assessed by the Land Information Authority (Landgate).
- F The decrease of recurrent service appropriation by \$37.0 million (6.1%) is mainly due to higher allocation of capital appropriation to fund capital projects from motor vehicle license fees during the financial year.
- G The increase of capital appropriation by \$28.8 million (9.4%) is mainly due to lower allocation of recurrent appropriation from motor vehicle license fees during the financial year.

- H The decrease of \$28.3 million (46.7%) in Holding account drawdown was due to the approved amount being revised since previous year.
- I Road Trauma Trust Fund receipts decreased by \$29.5 million (33.8%) mainly due to reduced number of funded projects compared to previous year.
- J Natural disaster funds receipts increased by \$46.3 million (91.4%) mainly due to higher number of claims paid compared to previous year.
- K The increase of \$126.4 million (91.4%) was due to higher revenue received from Department of Primary Industries and Regional Development for 15 additional Royalties for Regions projects. Major projects include: Great Northern Highway – Muchea to Wubin, Margaret River Parameter Road and Great Eastern Highway Passing Lanes.
- L Supplies and services payments increased by \$57.7 million (12.5%) mainly due to additional payments made to contractors for additional maintenance works on the roads.
- M Grant and subsidies payments increased by \$41.6 million (19.8%) mainly due to additional funding provided to Local Governments for WA Natural Disaster Relief and Recovery Arrangement.
- N Commonwealth grants and contributions increased by \$509.2 million (193.2%) mainly due to increased Milestone Payments (\$278.6 million) received from the Commonwealth as more major projects met the milestones. The increase is also due to the one off National Partnership payment (\$226.0 million) made to support road infrastructure projects including the Murdoch Drive Extension to Roe Highway, Reid Highway Duplication (Altone Road to West Swan Road), Roe Highway Kalamunda Road Interchange, Wanneroo Road (Joondalup Drive to Hall Road), Karel Avenue Duplication and Wanneroo Road Joondalup Drive Interchange.
- O Purchase of infrastructure assets increased by \$80.8 million (8.4%) as more Commonwealth funded projects undertaken during this year compared to last year. Commonwealth funded projects include Northlink WA and Armadale Road Duplication.