

# INVESTMENTS

part 6

# INVESTMENTS

## OVERVIEW

Greater Wellington has a significant portfolio of investments comprising:

- Liquid financial deposits
- Administrative properties (eg, depots)
- Forestry and business units
- Equity investments in the WRC Holdings Group (including CentrePort)
- Rail rolling stock and related transport infrastructure

Greater Wellington's philosophy in managing investments is to optimise returns in the long-term while balancing risk and return considerations. It recognises that as a responsible public authority any investments that it holds should be held for the long-term benefit of the community, with any risk being appropriately managed. It also recognises that lower risk generally means lower returns.

From a risk management point of view, Greater Wellington is well aware that its investment returns to the rate line are exposed to the success or otherwise of its two main investments – the WRC Holdings Group (including CentrePort) and its liquid financial deposits. At an appropriate time in the future Greater Wellington believes that it could continue to reduce its risk exposure by reducing its investment holdings and using the proceeds to repay debt. The timing of these divestments will be in accordance with Greater Wellington's objective to optimise the overall return to ratepayers.

It is important to appreciate that Greater Wellington's investments contribute approximately 12% to the total level of regional rates. In other words, regional rates would need to be 12% higher were it not for the contribution from Greater Wellington's investments.

## LIQUID FINANCIAL DEPOSITS

Greater Wellington holds \$33 million in liquid financial deposits as a result of selling its interest in CentrePort to one of its wholly owned subsidiaries, Port Investments.

Greater Wellington regularly reviews the rationale for holding these liquid financial deposits, taking into account:

- General provisions of our treasury management policy, including Greater Wellington's attitude to risk and creditworthy counterparties.
- Specific provisions of Greater Wellington's treasury management policy to hold sufficient deposits or have committed funds available as part of its self-insurance of infrastructural assets
- The rate of return from alternative uses of these funds
- The requirement to hedge the \$44 million debt within the WRC Holdings Group

## TREASURY MANAGEMENT

Greater Wellington's treasury management is carried out centrally to maximise its ability to negotiate with financial institutions.

Greater Wellington then on-lends these funds to activities that require debt finance. This allows the true cost of debt funding to be reflected in the appropriate areas. The surplus is then used to offset regional rates.

#### **ADMINISTRATIVE PROPERTIES**

Our interests in the Upper Hutt and Mabey Road depots, and the Masterton office building are grouped to form an investment category, Administrative Properties. It is intended that the new Masterton office building will be constructed for around \$6 million and owned by Pringle House Ltd. Pringle House is a wholly owned Council Controlled Trading Organisation (CCTO) which currently owns the Regional Council Centre at 142 Wakefield Street, Wellington.

#### **FORESTRY AND BUSINESS UNITS**

Greater Wellington and its predecessor organisations have been involved in forestry for many years, primarily for soil conservation and water quality purposes.

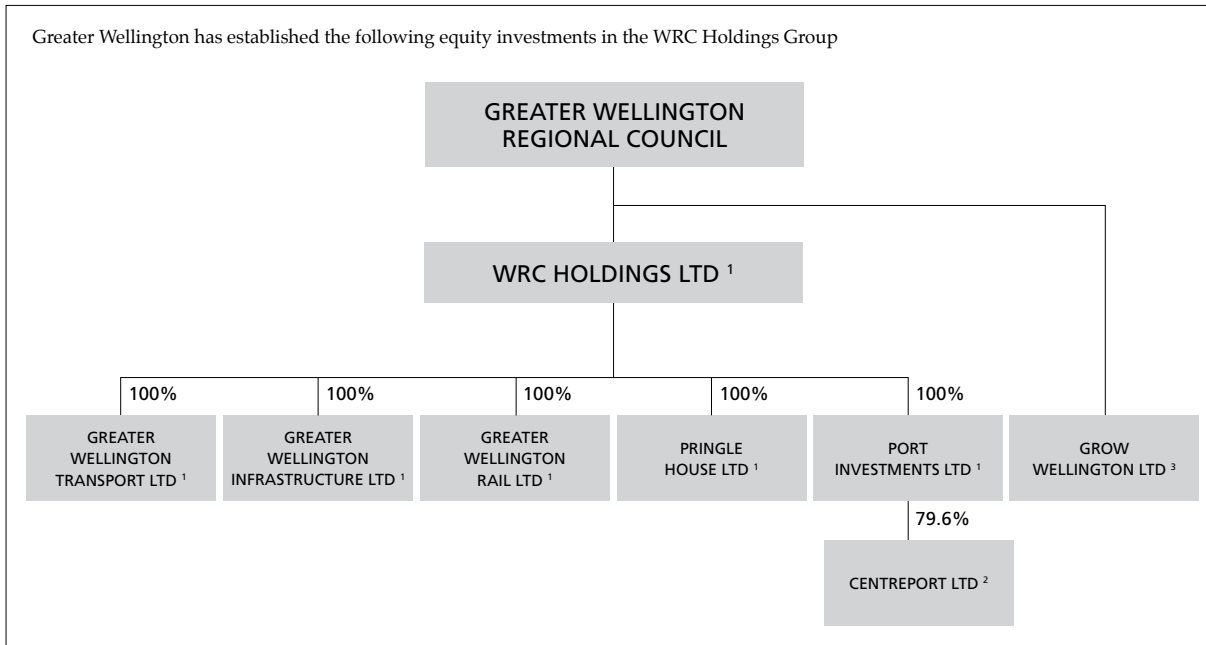
Greater Wellington currently holds 6,000 hectares of plantation and soil conservation reserve forests of which approximately 4,000 hectares are in the western or metropolitan part of the region, with the remaining 2,000 hectares in the Wairarapa.

It is assumed that legislation will remain in place to receive revenues of 60 emission trading units per hectare at a value of \$25 per unit for the pre-1990 plantings. This provides revenue of \$2.5 million in 2009/10, \$2.9 million in 2013/14, \$380,000 in 2015/16 and \$1.8 million in 2018/19.

The overall investment policy of Greater Wellington with regard to forestry is to maximise long-term returns while meeting soil conservation, water quality and recreational needs. This policy assumes that harvesting will be on a sustainable yield basis and will be maintained without any demand on regional rates. In fact, both the plantation and reserve forest business units are required to budget for an internal dividend irrespective of the projected operating result for the year. The level of internal dividend contribution to the rate line from forestry is currently \$225,000 per year and will continue to be reviewed annually.

Our other business units, Akura Conservation Centre (land and river management materials) and the Wairarapa Workshop (vehicle equipment and repairs), are also required to return to us an internal dividend in the same way as plantation forestry and reserve forests. The internal dividend rate is based on the net assets employed by each of these businesses. The level of internal dividend will continue to be reviewed annually.

## WRC HOLDINGS GROUP



<sup>1</sup> Council-Controlled Trading Organisation in accordance with the Local Government Act 2002

<sup>2</sup> Commercial Port Company pursuant to the Port Companies Act 1988 and not a Council Controlled Organisation in accordance with the Local Government Act 2002

<sup>3</sup> Council-Controlled Organisation in accordance with the Local Government Act 2002

WRC Holdings Ltd and Port Investments Ltd are in essence investment holding companies. The main operating companies in the Group are CentrePort Ltd and Pringle House Ltd. Each year WRC Holdings Ltd provides to Greater Wellington, as 100% shareholder, a Statement of Intent for the WRC Holdings Group.

The WRC Holdings Group structure was set up for the following reasons that are still applicable:

- Appropriate separation of management and governance
- Imposing commercial discipline on the Group's activities to produce an appropriate return by ensuring appropriate debt/equity funding and requiring a commercial rate of return
- Separation of Greater Wellington's investment and commercial assets from its public good assets

The WRC Holdings Group is Greater Wellington's prime investment vehicle and the main mechanism by which it will own and manage any additional equity investments should they be acquired in the future. Periodically, Greater Wellington reviews the structure to determine if it is still an appropriate vehicle for holding its investments.

In addition, Greater Wellington has minor equity interests in Civic Assurance and Airtel Ltd. These investments are owned directly by Greater Wellington rather than via the WRC Holdings Group.

Grow Wellington acts as an economic development agency. Further discussion on this is included in the Regional Sustainability Development Group of Activities under the activity Wellington Regional Strategy.

## WRC Holdings – Statement of Intent

### OBJECTIVES OF THE GROUP

The primary objectives and scope of the Group shall be to:

- Support Greater Wellington's strategic vision, and operate as a successful, sustainable and responsible business
- Own and operate Greater Wellington's headquarters at 142-146 Wakefield Street, Wellington (known as the Regional Council Centre) on a cost-effective basis
- Own Greater Wellington's interest in CentrePort, to maximise the commercial value of CentrePort to the shareholders and to protect the shareholders' investment, including land and property, while maintaining CentrePort's strategic value to the economy of the region
- Own Greater Wellington's current and future investments in rail rolling stock
- Effectively manage any other investments held by the Group to maximise the commercial value to the shareholders and to protect the shareholders' investment

The financial objectives of the Group shall be to:

- Where possible, provide a commercial return to shareholders
- Adopt policies that prudently manage risk and protect the investment of shareholders

The environmental objectives of the Group shall be to:

- Operate in an environmentally responsible and sustainable manner
- Minimise the impact of any of the Group's activities on the environment
- Raise awareness of environmental issues within the Group
- Encourage CentrePort and Pringle House to be more energy efficient and make greater use of renewable energy

The social objectives of the Group shall be to:

- Be a leading organisation and a superior employer
- Provide a safe and healthy workplace
- Participate in development, cultural and community activities within the regions in which the Group operates
- To help sustain the economy of the region

### PERFORMANCE TARGETS

FINANCIAL	2009/10	2010/11
Net profit/(deficit) before tax	\$9.1 million	\$8.9 million
Net profit/(deficit) after tax <sup>1</sup>	\$4.8 million	\$5.5 million
Return on total assets <sup>2</sup>	4.9%	4.1%
Return on shareholders' funds <sup>3</sup>	1.9%	2.0%
Dividends <sup>4</sup>	\$0.4 million	\$0.4 million

<sup>1</sup> Net profit after tax, but before deduction of minority interest

<sup>2</sup> Earnings before interest and tax as a percentage of average total assets

<sup>3</sup> Net profit after tax (and after deduction of minority interest) as a percentage of average shareholder equity (excluding minority interest)

<sup>4</sup> Dividends (interim and final) paid or payable to the shareholder

### ENVIRONMENTAL

#### CentrePort

- CentrePort to comply with AS/NZS 14000: Environmental Management Standards
- CentrePort to comply with its Port Noise Management Plan
- CentrePort to maintain an environment issues register of environmental complaints for monitoring and actioning purposes. The register to be reported to CentrePort's Health, Safety and Environment Committee on a regular basis (meets at least three times per annum)
- CentrePort will hold a minimum of three environmental consultative committee meetings in 2009/10 comprising CentrePort and affected stakeholders (customers, port users, local authorities and residential groups). The meetings provide a forum to identify and inform on a range of environmental port-related matters
- Implement and maintain monitoring systems for fumigant discharges associated with the pest treatment of cargoes

#### Group

- The Group to comply with all conditions under resource consents and permits held, and full adherence to the requirements of environmental law generally
- Establish a sustainability programme with measurable performance criteria

**SOCIAL****CentrePort**

- CentrePort to maintain tertiary level of compliance with the ACC Workplace Safety Management Practices Programme and comply with the AS/NZS 4801: Occupational Health and Safety Management Systems
- CentrePort to maintain compliance with the International Ship & Port Security (ISPS) Code which promotes security against terrorism within the port environment
- CentrePort to undertake risk assessments and implement any mitigating procedures relating to the Port & Harbour Safety Code which promotes safety and excellence in marine operations
- To undertake a level of sponsorship appropriate to CentrePort
- To meet regularly with representative community groups of CentrePort

**GENERAL****CentrePort**

- CentrePort Board has partitioned the company into two business streams of port and property. Shareholders support this initiative to achieve an optimum company structure, while simultaneously developing the property asset base and maintaining focus on the port operations. CentrePort and shareholders will continue to work collaboratively on the implementation of an optimum company structure encompassing legal entities, asset segregation, and financing and dividend policy

**Group**

- CentrePort will, in consultation with the shareholders, continue to develop performance targets in the environmental and social areas in order to be able to maintain triple bottom line reporting in accordance with best practice
- When developing “property held for development”, the Board is to adhere to the following principles:
  - Properties may be developed without the building being fully pre-let so long as tenancy risk is managed prudently
  - Property developments must not compromise port operations
  - Developments are to be undertaken only if they are able to be funded without additional capital from shareholders
  - Management of tenancy risk means that each single property investment has committed rental income (via executed lease contracts) that is sufficient to meet forecast interest costs on (i) the cost of the site development related to the development and (ii) the cost of the construction of the development and the vacant net lettable area of the proposed development is no greater than 25%

**DIRECTORS OF WRC HOLDINGS AND IT SUBSIDIARIES (EXCLUDING CENTREPORT)**

Anne Blackburn

Peter Blades

Ian Buchanan

John Burke

Peter Glensor

Fran Wilde (Chair)

## CENTREPORT

### Statement of Corporate Intent

#### OBJECTIVES OF THE COMPANY

The primary objectives of the Company shall be to:

- Operate as a successful, sustainable and responsible business
- Be customer focused and provide superior service
- Be the industry leader in transport logistics solutions

The financial objectives of the Company shall be to:

- Provide a commercial return to shareholders
- Adopt policies that prudently manage risk and protect the investment of shareholders

The environmental objectives of the Company shall be to:

- Operate in an environmentally responsible and sustainable manner
- Raise awareness of environmental issues within the Company

The social objectives of the Company are to be socially responsible and have a positive and sustainable impact on the social systems (employees, customers, suppliers, local community and wider society) by:

- Being a learning organisation and superior employer
- Providing a safe and healthy workplace
- Participating in and encouraging development, and cultural and community activities within the regions in which the Company operates
- Consulting with employees, stakeholders and community where appropriate

#### PERFORMANCE TARGETS

FINANCIAL	2009/10	2010/11
Net profit before tax	\$11.3m	\$12.7m
Net profit after tax	\$8.4m	\$9.4m
Return on total assets <sup>1</sup>	6.4%	6.8%
Return on shareholders' funds <sup>2</sup>	4.2%	4.6%
Dividends	\$5.17m	\$5.17m
Dividend distribution <sup>3</sup>	62%	55%

<sup>1</sup> Net profit before interest and tax as a percentage of average total assets

<sup>2</sup> Net profit after tax as a percentage of average shareholders' funds

<sup>3</sup> Dividend as a percentage of net profit after tax

The target for return on shareholders' funds is to be in the top four of comparable New Zealand ports.

#### ENVIRONMENTAL

- Develop a formal environmental management system consistent with the standards specified in AS/NZ ISO 14001: 2004
- Formally review the company's compliance with all environmental legislation, district and regional plans, and conditions of resource consents held, at least annually
- Establish a sustainably programme with measurable performance criteria covering as a minimum the monitoring of waste and greenhouse gas emissions
- Undertake the monitoring of environmental discharges in accordance with implemented management plans in the areas of:
  - Port noise
  - Stormwater discharges to the Coastal Marine Area
  - Fumigants associated with the pest treatment of cargoes

- Maintain an environment issues register of environmental complaints and issues for monitoring and actioning purposes. The register to be reported to CentrePort's Health, Safety and Environmental Committee on a regular basis (meets at least three times per annum)
- CentrePort will hold a minimum of three environmental consultative committee meetings in 2008/09 comprising CentrePort and effected stakeholders (customers, port users, local authorities and residential groups). The meetings provide a forum to identify and inform on a range of environmental port-related matters

#### **SOCIAL**

- Provide opportunities for employee growth, development, improvement and recognition
- Maintain tertiary level of compliance with the ACC Workplace Safety Management Practices Programme, and comply with the AS/NZS 4801: Occupational Health and Safety Management Systems
- Annual review of Health and Safety Policy
- Maintain compliance with the International Ship & Port Security (ISPS) Code, which promotes security against terrorism within the port environment
- Undertake risk assessments and implement any mitigating procedures relating to the Port and Harbour Safety Code, which promotes safety and excellence in marine operations
- To undertake an appropriate level of sponsorship.
- To meet regularly with representative community groups

#### **GENERAL**

The Company will, in consultation with shareholders, continue to develop performance targets in the environmental and social areas in order to be able to maintain triple bottom line reporting in accordance with best practice.

When developing "property held for development" the Board is to adhere to the following principles:

- Properties may be developed without the building being fully pre-let so long as tenancy risk is managed prudently
- Property developments must not compromise port operations
- Developments are to be undertaken only if they are able to be funded without additional capital from shareholders

Definition of terms (above para refers):

Management of tenancy risk means that each single property investment has committed rental income (via executed lease contracts) that is sufficient to meet forecast interest costs on (i) the cost of the site development related to the development and (ii) the cost of the construction of the development and the vacant net lettable area of the proposed development is no greater than 25%.

The Board has resolved to partition the company into two business streams of port and property. Shareholders support this initiative to achieve an optimum company structure, while simultaneously developing the property asset base and maintaining focus on the port operations. The Company and shareholders will continue to work collaboratively on the implementation of an optimum company structure encompassing legal entities, asset segregation, financing from the possible sell-down of property assets (the financial forecasts in the SCI do not include any allowance for a sell-down of property interests) and dividend policy.

*Note: The performance targets are those provided by the directors of CentrePort in the Statement of Corporate Intent (SCI) for the 2008/09 financial year.*

Shareholders of CentrePort

- Port Investments Ltd – 76.9%
- Horizons Regional Council – 23.1%

#### **DIRECTORS OF CENTREPORT**

David Benham

Richard Janes

Jim Jefferies

Malcolm Johnson

Warren Larson (Chairperson)

Mark Peterson

## FINANCIAL INFORMATION

### INVESTMENTS

#### PROSPECTIVE INCOME STATEMENT

	2009/10 \$000s	2010/11 \$000s	2011/12 \$000s
<b>INCOME STATEMENT</b>			
Operating revenue	15,683	13,550	13,988
Operating expenditure	356	(4,856)	6,900
<b>Earnings before interest</b>	<b>15,327</b>	<b>18,406</b>	<b>7,088</b>
Interest	(2,990)	(1,789)	(992)
<b>Operating surplus/(deficit)</b>	<b>18,317</b>	<b>20,195</b>	<b>8,080</b>
<b>Less/(add):</b>			
Contribution to general rates	7,705	7,543	6,109
<b>Earnings retained</b>	<b>10,612</b>	<b>12,652</b>	<b>1,971</b>

#### OPERATING SURPLUS OF INDIVIDUAL INVESTMENTS

Liquid financial deposits	2,478	2,268	2,310
WRC Holdings	10,701	15,286	4,645
Treasury management	3,077	2,083	1,521
Forestry	2,061	29	116
Business units and property	-	529	(512)
<b>Operating surplus</b>	<b>18,317</b>	<b>20,195</b>	<b>8,080</b>

	2009/10 \$000s	2010/11 \$000s	2011/12 \$000s
<b>NET CONTRIBUTION TO GENERAL RATES FROM INDIVIDUAL INVESTMENTS</b>			
Liquid financial deposits	2,478	2,268	2,310
WRC Holdings	955	1,389	1,407
Treasury management	4,178	3,272	2,806
Forestry	225	225	225
Business units and property	(131)	389	(639)
<b>Total contribution to general rates</b>	<b>7,705</b>	<b>7,543</b>	<b>6,109</b>

For more information on the revenue and financing mechanisms applicable to this group of activities, please refer to the Revenue and Financing Policy in the *Policies Document*, p35

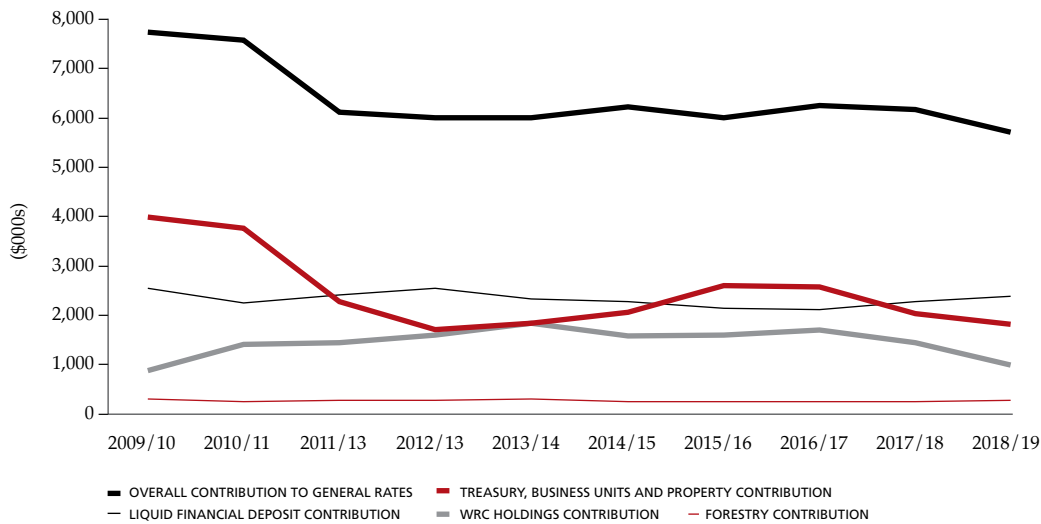
Please note that all figures on this page exclude GST.

## INVESTMENTS

### 10-YEAR FINANCIAL FORECAST

This graph places the prospective income statement for the next year in the context of the 10-year planning horizon.

Please note that these figures exclude GST.



(\$000s)	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Overall contribution to general rates	7,705	7,543	6,109	6,018	6,192	5,970	6,186	6,138	5,711	5,455
Liquid financial deposit contribution	2,478	2,268	2,310	2,475	2,310	2,228	2,063	2,063	2,228	2,228
WRC Holdings contribution	955	1,389	1,407	1,722	1,824	1,534	1,423	1,386	1,356	1,341
Forestry contribution	225	225	225	225	225	225	225	225	225	225
Treasury, business units and property contribution	4,047	3,661	2,167	1,596	1,833	1,983	2,475	2,464	1,902	1,661