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Committee Council  
Author Mike Timmer, Treasurer/Acting Chief Financial Officer

## **WRC Holdings Statement of Intent covering the years ended 30 June 2015, 2016 and 2017**

### **1. Purpose**

To receive the final Statement of Intent (SOI) of WRC Holdings Limited.

### **2. Background**

The Council considered the draft SOI for WRC Holdings Limited at their meeting on 19 March 2014, after the Chair had received a copy in late February. The Council did not request any changes for the WRC Holdings Limited Board.

The final SOI has been updated with CentrePort's Statement of Corporate Intent, financial forecasts and performance measures.

### **3. Changes from the draft SOI**

The changes can be divided into two categories, the words and the numbers.

#### **3.1 Changes to the words**

The following notable alterations have been made to the SOI.

##### **Section 4.1.4 – Greater Wellington Rail Limited (GWRL)**

The operational performance targets have been updated to reflect the Annual Plan 2014-15 targets:

- (a) (i) changed from 90% to 99.3%
- (a) (iii) changed from 2.6/5.0 to 2.4/5.0
- (b) (iii) MDBF Ganz fleet – 10,000 km to 8,500 km
- (b) (iv) MDBF carriage fleet – 45,000 km to 40,000 km

## **Section 7.5 - Financial statements commentary**

Some minor changes were made to paragraphs 2, 3, 6 and 7, to update the changes to the final SOI from CentrePort and changes to GWRL stemming from changes in the capital expenditure timing and depreciation forecast.

## **Section 8.4 - Port Investments Limited**

Paragraph 4 has been updated to reflect the change in dividend from CentrePort.

### **3.2 Changes to the numbers**

#### **3.2.1 Pringle House Limited (PHL)**

The revised financials make the following assumptions:

- Rental from the Regional Council Centre (RCC) has reduced to \$20,000 a month to cover RCC operational costs after an allowance for revenue from the 2 Degrees Cell site on the roof.
- Costs of running the RCC have been revised down from \$227,000 to \$196,000, providing a net holding cost for the RCC before company costs of \$182,000 as previously reported.
- The RCC is assumed to be sold at a price that provides for zero equity to remain in PHL after sale. This has meant we have provided for a \$459,000 write up from the \$1.64 million valuation which had been adjusted in the balance sheet at 30 June 2014. No decision on when a sale may occur had been made by Council at the time the SOI was completed. This continues to be an assumption for planning purposes consistent with the draft plan assumption.

#### **3.2.2 Port Investments Limited (PIL)**

The equity position of PIL has improved from the draft SOI, after the receipt of a \$1.250 million interim dividend from CentrePort. CentrePort have provided for an indicative further interim dividend of \$1.250 million in their SOI before 30 June 2014. Other forecasted dividends remain unchanged.

#### **3.2.3 CentrePort Limited**

CentrePort's financial performance is discussed under CentrePort's SOI (Report 14.293 refers). CentrePort's SOI is very similar to their draft SOI.

#### **3.2.4 Greater Wellington Rail Limited (GWRL)**

The fixed asset spend has been updated to reflect the currently planned project timing and in particular the purchase of the next 35 Matangi units and the retrofitting of the existing units.

There are some minor changes to expenses to better reflect current information, with a notable reduction in insurance cost with recent revised cost estimates. These are offset by lower grant revenue to match them.

The depreciation numbers have been updated to reflect the change in the capital programme and correct previous estimates. The latter have significant impacts on the Group's result and stem from the recent valuations updates on

both Rolling stock & Infrastructure. The valuations have resulted in lower values and consequently lower depreciation. There is no cash impact from this adjustment.

This loss from the depreciation continues to impact the Group's results.

### 3.2.5 WRC Holdings Limited

WRC Holdings Limited just records what occurs in its subsidiary companies. Notable entries are the adjustments coming through from PHL, reflecting the write down of the RCC by \$650,000 in 2013/14. This is offset hypothetically by a profit on sale in 2014/15 of \$459,000 which leaves PHL with no equity.

#### Performance Targets

	2014/15 (\$000)	2015/16 (\$000)	2016/17 (\$000)
Surplus (loss) before tax - Final	16	(961)	(1,648)
<i>Surplus (loss) before tax – Draft</i>	<i>(4,873)</i>	<i>(4,956)</i>	<i>(1,713)</i>
Surplus (loss) after tax- Final	2,114	968	410
<i>Surplus (loss) after tax – Draft</i>	<i>(1,881)</i>	<i>(1,936)</i>	<i>320</i>
Earnings before interest, tax & depn- Final	32,209	33,461	35,518
<i>Earnings before interest, tax &amp; depn – Draft</i>	<i>30,866</i>	<i>32,849</i>	<i>34,291</i>
Return on total assets – Final	1.6%	1.4%	1.3%
<i>Return on total assets- Draft</i>	<i>0.9%</i>	<i>0.8%</i>	<i>1.1%</i>
Return on shareholder equity - Final	(0.3%)	(0.5%)	(0.6%)
<i>Return on shareholder equity – Draft</i>	<i>(1.3%)</i>	<i>(1.2%)</i>	<i>(0.7%)</i>
Shareholders equity to total assets - Final	55.7%	59.6%	62.5%
<i>Shareholders equity to total assets – Draft</i>	<i>55.5%</i>	<i>59.8%</i>	<i>63.2%</i>
Dividends – Final	2,275	2,325	2,463
<i>Dividends- Draft</i>	<i>2,215</i>	<i>2,299</i>	<i>2,506</i>

As expected, the above numbers are heavily influenced by the loss after tax emanating from GWRL, i.e. \$10.4 million, \$11.4 million and \$12.7 million over the 3 years respectively. This relates predominately to GWRL depreciation expense which is not funded by Council, but acts to reduce the equity in GWRL over time commensurate with the reduced value of the assets in GWRL.

The major change between the draft and final SOI is emanating from changes in the depreciation in GWRL as this was revised down by \$3.5 million, \$3.9 million for the 2014/15 and 2015/16 years respectively. This relates to a reduction in assets values from the recent year-end asset valuation work. The

PHL updated valuation has flowed through; this now requires a profit on sale of \$459,000 to wind up PHL in 2014/15 with zero equity, consistent with our draft SOI assumption of zero equity on wind-up.

The dividends are the only numbers not affected by the impact of GWRL and remain steady between the draft and final SOI.

You are referred to the individual company financial performance targets contained in **Attachment 1**, section 4 of the SOI, which show the detailed financial performance targets behind these consolidated numbers, and **Attachment 2**, which contains the detailed financial statements.

#### **4. The decision-making process and significance**

Officers recognise that the matters referenced in this report may have a high degree of importance to affected or interested parties.

The matters requiring decision in this report have been considered by officers against the requirements of Part 6 of the Local Government Act 2002 (the Act). Part 6 sets out the obligations of local authorities in relation to the making of decisions.

##### **4.1 Significance of the decision**

Part 6 requires Greater Wellington Regional Council to consider the significance of the decision. The term 'significance' has a statutory definition set out in the Act.

Officers have considered the significance of the matter, taking the Council's significance policy and decision-making guidelines into account. Officers recommend that the matter be considered to have low significance.

Officers do not consider that a formal record outlining consideration of the decision-making process is required in this instance.

#### **5. Recommendations**

*That the Council:*

1. ***Receives the report.***
2. ***Notes the content of the report***
3. ***Approves the Statement of Intent as a final document***

Report prepared by:

**Mike Timmer**

Treasurer/Acting Chief Financial Officer

**Attachment 1:** Final WRC Holdings Group Statement of Intent

**Attachment 2:** Pringle House Ltd– Operating Budget 2014/16, Port Investments Ltd - Operating Budget 2014/16, Greater Wellington Rail Ltd - Operating Budget 2014/16, WRC Holdings Limited - Operating Budget 2014/16