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Committee	Policy, Finance and Strategy
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WRC Holdings Group - 2007/08 draft Statement of Intent

1. Purpose

To receive the 2007/08 draft Statement of Intent (SOI) of the WRC Holdings Group (refer **Attachment 1**). The SOI covers the following companies:

- Pringle House Ltd (PHL)
- Port Investments Ltd (PIL)
- WRC Holdings Ltd (WRCHL)
- Greater Wellington Rail Ltd (GWRL)
- Greater Wellington Infrastructure Ltd (GWIL)
- Greater Wellington Transport Ltd (GWTL)

2. Background

2.1 Statement of Intent

WRC Holdings Ltd and its 100% owned subsidiary companies, PIL, PHL, GWIL, GWTL, and GWRL are Council Controlled Trading Organisations (CCTOs) as defined under the Local Government Act 2002. GWRL, GWIL and GWTL are intended to hold the Council's investment in public transport infrastructure.

The companies noted above, together with CentrePort, form the WRC Holdings Group. A single SOI is prepared for the group and provided to the shareholder pursuant to section 64 (5)(b) of the Local Government Act 2002.

The Local Government Act 2002 requires that a draft SOI be provided to the shareholder by 1 March, covering the projected results for the three financial years from 1 July 2007. The shareholder is required, as soon as practicable, to either agree to the SOI, or take all practicable steps to require the SOI to be modified.

WRC Holdings Ltd directors are required to consider any comments made by the shareholder on the draft SOI before 1 May, and to deliver the completed SOI to the shareholder by 30 June.

Due to the different timing requirements between the Local Government Act and the Port Companies Act, no updated information from CentrePort has been able to be included at the time of writing this report. The Committee should note, therefore, that the information included for CentrePort is based on CentrePort's 2006/07 SCI. .

2.2 Detailed Operating Budgets

Underpinning the WRC Holdings Group SOI information are the detailed budgets for PHL, PIL, GWIL, GWTL, GWRL and WRCHL.

GWRL will own the Council's investment in rail rolling stock and GWIL the rail infrastructure, such as station improvements, integrated ticketing etc. GWTL will own the trolley bus wires.

Further explanation of the composition of these budgets is included in section 4 of this report.

3. Statement of Intent

As noted in section 1 of this report, the draft SOI for 2007/08 and the following two years is attached as **Attachment 1** of this report.

The 2007/08 SOI is largely based on the final SOI for 2006/07.

3.1 Financial Projections

The detailed budgets included in this report assume a $4.77 million total dividend payout from CentrePort. However, as CentrePort has yet to provide an updated SCI, it is possible that the numbers presented will change prior to finalisation of the SOI being finalised in June 2007. The Committee should note that the numbers are all in 2007/08 dollars. The key financial projections contained within the draft SOI are as follows:

	2007/08 $000	2008/09 $000	2009/10 $000
Net profit (deficit) before tax (NPBT)	5,119	5,393	1,114
Net profit (deficit)after tax (NPAT)	1,585	1,367	(2,954)
Return on total assets	4.06%	3.98%	2.22%
Return on shareholders equity	(0.23%)	(0.34%)	(1.65%)
Dividend stream	251	530	666

Contrasting these figures with last year's SOI, the changes in the key lines are as follows:

	2007/08 $000	2008/09 $000
NPBT (2006/07 SOI)	3,522	(3,212)
NPBT (2007/08 SOI)	5,119	5,393
Increase (Decrease)	1,597	8,605
Dividend stream (2006/07 SOI)	678	1,049
Dividend stream (2007/08 SOI)	251	530
Increase (Decrease)	(427)	(519)

The impact of the investments in public transport infrastructure is evident in the large decrease in profitability. This is due to the depreciation of those assets. However, delay in the arrival of the new EMUs has reduced the depreciation in the earlier years, resulting in increased profitability.

These losses are non cash losses and with increasing cash profits the dividends are forecast to rise. Currently, our policy is to pay out 100% of the net profit after tax, excluding revaluation gains and transport depreciation.

4. Detailed Operating Budgets

The draft operating budgets cover each of the 100% owned companies within the WRC Holdings Group. As noted in section 3.1 of this report, we have not yet received updated budget information from CentrePort and we have, therefore, had to use our best estimate of the likely CentrePort results going forward.

Key assumptions and significant changes from last year's budget numbers follow:

4.1 Pringle House Ltd (PHL)

- Total rental revenue is largely unchanged over the ten years, except for increases in rent in 2007/08 and revenue from the standby generator.

  The majority of the net profit in PHL is paid directly to Greater Wellington as a subvention payment, as this is the most effective way to provide a return to the shareholder. The projected subvention payment to Greater Wellington in 2007/08 is $704,701.

Overall, the 2007/08 PHL budget shows, after payment of the subvention to the Council, a net profit of $151,646. This net profit, which has reduced due to the increased subvention paid directly to Greater Wellington, has been budgeted to be paid to WRCHL by way of dividend.

No increase in rental income or any gains/losses from the revaluation has been assumed.

4.2 Port Investments Ltd (PIL)

- The projected dividend from CentrePort is expected to increase during the period to $3.67 million. This reflects higher profits in CentrePort but also higher dividends to reflect the loss of subvention payments from CentrePort. This loss is due to the write off of the old container cranes and the higher tax depreciation on the new container cranes. CentrePort will not be in a position to impute dividends and pay subventions to PIL for the next couple of years. It is likely these numbers will change following receipt of Centerport's SOI.

- Projected interest expenditure on PIL's $44 million loan from WRCHL has decreased by $242,000 over current year's forecast due to lower expected interest rates in 2007/08. Interest rates are expected to fall in 2007/08 and remain constant thereafter.

- The fall in interest rate expense in later year's results in increasing dividends to WRC Holdings based on higher profits. The dividends are expected to increase to $4.19 million by 2009/10.

4.3 WRC Holdings Ltd (WRCHL)

- Forecast dividends from PIL and PHL are the main source of profitability in WRCHL. Interest charged on the $44 million loan to CBA is offset by the income received from PIL. Therefore, operating expenses and revenue increase and decrease together.

- The major change in the company is the impairment of investments of $1.43 million in 2007/08 rising to $6.68m million in 2009/10. By 2015/16 the impairment charge has risen to $26.07 million. This impairment reflects the reduced value in GWRL and GWTL caused by the depreciating transport assets.

  These amounts are non cash expense items and will not affect the dividends that can be paid by WRCHL.

- Dividends payable by WRCHL rise from $134,819 in 2006/07 to $530,044 in 2008/09, reflecting the fall in interest rates which have produced larger dividends from PIL.

4.4 Greater Wellington Rail Ltd (GWRL)

It is proposed that this company will own Council's investment in rail rolling stock. They will then be leased to Toll.

The assets involved are:

70 new rail units	$222 million
Purchase refurbishment of 88 Ganz Mavag	$101 million
Wairarapa Carriages	$ 26 million
Total	$349 million

The majority of the funding for these assets will come from the Government by way of grant to the Council. The Council may then provide funding by way of a capital grant or capitalise GWRC through injections of equity sufficient to purchase the assets.

As the attached 10 year forecasts show, the company makes substantial losses over the period. This is due to the depreciation of the assets.

The funding and lease arrangements for these assets may change over the next few months, but current forecasts are our best estimates today. It should be noted that these losses are caused by non cash expenditure and therefore the companies will remain solvent.

Depreciation rises from $1.08 million in 2007/08 to $13.35 million in 2014/15 as the rail rolling stock is fully purchased by that date. Depreciation remains constant for the remaining years thereafter.

The costs include the cost to maintain and insure the rail assets and the costs of running the CCTO. These costs will be recovered by a charge back to GWRC.

4.5 Greater Wellington Infrastructure Ltd (GWIL)

It is intended that GWIL will own the Council's investment in non rolling stock infrastructure.

The assets will include station improvement, carparks etc.

As with GWRL, these assets will be largely funded by the Crown by way of a grant to the Council. The Council, through WRCHL, would then subscribe to share capital in GWIL or a capital grant to fund these assets.

As with GWRL, the ten year forecasts indicate large losses in the company over time due to the depreciation of the assets with little complementary income.

Depreciation will be $0.34 million in 2007/08 rising to $12.72 million in 2015/16 as more assets are purchased.

The costs include the cost to maintain the rail infrastructure assets and the costs of running the CCTO. These costs will be recovered by a charge back to the GWRC.

4.6 Greater Wellington Transport Ltd (GWTL)

The company will own the Trolley Bus overhead wires. As these will be taken over for one dollar there is no funding required. The assets may have to be revalued upwards, but at this stage it is unclear what the amount of any revaluation may be.

As a result no ten year Asset or Depreciation numbers are included. The costs include the cost to maintain the trolley wires and the costs of running a company. These costs will be recovered by a charge back to the GWRC.

5. WRC Holdings Directors

The Directors of the WRC holdings Group will be considering the SOI at their meeting on 19 February. Any changes to the SOI requested by the Directors will be updated for the Committee

6 Recommendations

That the Committee recommend that the Council

(1) ***receives*** *the report*

(2) ***notes*** *its contents*

(3) ***receives*** *the draft Statement of Intent of WRC Holdings Group for 2007/08, and the immediately following two years and any comments or recommendations of the Council, as Shareholder, be forwarded to the Directors of WRC Holdings Ltd for their consideration prior to the finalisation of the Statement of Intent in June 2007.*

Report prepared by:	Report approved by:
Mike Timmer Treasurer	Barry Turfrey Chief Financial Officer

Attachment 1: WRC Holdings Group – 2007/08 Draft Statement of Intent