greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

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Committee	Council
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WRC Holdings Group final Statement of Intent for the 3 years 2012/13 to 2014/15.

1. Purpose

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

2. The decision-making process and significance

No decision is being sought in this report.

3. Background

The Council considered the draft SOI for WRCH at their meeting on 27 March 2012 after the Chair had a received a copy in late February. The Council did not request any changes for the WRC Holdings Board.

The final SOI has been updated with CentrePort's updated financial forecasts as well as the changes to the other subsidiary companies since February 2012.

The SOI was presented to the WRC Holdings Board on 19 June 2012 and is now finalised.

4. Changes from the draft SOI

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

4.1 Changes to the words

The following notable alterations have been made to the SOI.

Reasons for the WRC Holdings Group - Section 2

The second and third bullet points were expanded respectively with the addition of the following:

"Where appropriate" was added to the third bullet point, and the fourth bullet point was refined to reflect that directors with a commercial background are "to provide advice and expertise at a governance level". The fifth bullet point has been ammended to add in "optimise the opportunities" of owning commercial assets.

Activities of the Group – GWRL Section 3.2

This section has been updated to better reflect the activities of GWRL which have been moving, to some extent, over the last year and into the future.

Financial and Operational Performance Targets (GWRL) – Section 4.14

Item (b) was expanded to include - that asset management plans are in place "and that they optimise the value of the assets".

CentrePort performance targets – Section 5

The financial performance targets have been inserted as they were not available when the draft SOI was prepared.

Financial commentary – Section 7

This has been updated to reflect the changes to the financial statements emanating from changes to the numbers detailed below.

Issues facing the Group – Section 8.0

The section on CentrePort has been inserted as it was not available at the time the draft SOI was prepared.

Issues facing the Group – Section 8.0

The section on Pringle House has been updated to reflect current conditions.

Issues facing the Group – Section 8.0

The section on GWRL has been updated to reflect the current situation.

4.2 Changes to the numbers

4.2.1 Pringle House Limited

The Regional Council Centre known as Pringle House was recently deemed an earthquake prone building. As a result of recent reports on the building, it appears uneconomic to bring the building up to the current earthquake code. At this juncture the future of Pringle House remains uncertain.

For budgeting purposes we have taken out the $10 million equity injection to pay for seismic work scheduled for 2013/14 and 2014/15. Pringle House has a lease with Greater Wellington, which is current until June 2019. Pringle House has 15 years to rectify this earthquake prone status, after it has been formally advised by the Wellington City Council.

We have assumed the rental to Chartis Limited will not be renewed when it is up for review in September 2013.

Based on the above, we have assumed business as usual until the path ahead becomes clearer.

4.2.2 Port Investments Limited

The gross dividend from CentrePort has been reduced by $200,000 for both 2012/13 and 2013/14 from $4.7 million to $4.5 million and increased in the 2014/15 year by $200,000 to $4.9 million. The impact on PIL is a $153,846 reduction in dividend for each of the two years, and an increase of $153,846 in the 2014/15 year.

The interest expense on the $44,000,000 loan from WRC holdings has been reduced, reflecting a lower 90 day bank bill rate. This has had the impact of reducing interest expense by $126,000, $114,000, and $305,000 for the 3 years respectively.

4.2.3 CentrePort Limited

CentrePort have provided an updated statement of Comprehensive Income with their SCI, which now reports income from associates as equity earning. The difference being the Equity earnings (includes Harbour Quays earnings) are reported before tax, compared to Associates income which they previously reported after tax.

A comparison of the draft SCI to the final SCI reveals the following:

The updated net profit after tax has reduced as follows, $1,465,000, $764,000 and $112,000, for the three years respectively.

This is driven by lower port revenues (9% reduction in container trade volumes in 2012/13) and lower property revenues in 2012/13, due to loss of rental from the Rugby Union building, due to its seismic condition.

In 2013/14 and 2014/15 Port revenues have increased compared to the draft SCI, but are offset by lower property revenues (due to the rental loss noted above, and new revenue from the proposed new development delayed). The net impact of which is overall reduced revenue. This, coupled with an increase in interest cost due to higher levels of capital expenditure discussed below, impacts on profitability.

To maintain a 45% dividend payout ratio (Current SCI policy is 40%-60%) the dividend has been reduced by $200,000 in both the 2012/13 and 2013/14 years but increased it by $200,000 in the 2014/15 year, which was previously incorrectly calculated. Ten thirteenths of this dividend is payable to Port Investments limited.

Capital expenditure has been increased by $13 million over the 3 years compared to the draft SCI figures. This, coupled by a reduction in operating cash flow of $4 million, is funded by $17 million of additional debt.

Of the $13 million increase in capital expenditure, $10 million is on investment acquisitions with the balance on seismic upgrades.

In terms of CentrePort’s debt, it is important to note that it was already increasing by $23 million over the 3 year period. It is now increasing by $40 million to $145 million in June 2014/15. This is emanating from a $77 million capital programme, with the balance funded by business operations. It shall be noted that this is still within the banking covenant set for CentrePort.

4.2.4 Greater Wellington Rail Limited

The fixed asset spend has been updated to reflect current planned project timing and with the option of purchasing further Matangi units, as opposed to refurbishing the GANZ Mavag in order to provide the necessary capacity in the future.

This has impacted on the level of depreciation and capital grant received from Greater Wellington. At this point no final decision on the best option for providing capacity has been made however for planning purposes the purchase option numbers have been used as opposed to the refurbish option.

The refurbish of the GANZ Mavag option has a capital cost of $80 million with depreciation spread over 10 years. The option of purchasing further Matangi units has a capital cost of $141 million with depreciation spread over 30 years.

The plan now includes an allowance for repairs and maintenance on the recently acquired Infrastructure assets from KiwiRail, as well as the Infrastructure assets acquired from Greater Wellington on 30 June 2012.

The transport administration fee has been revised up to include a recovery of rail assets management overhead not previously charged.

These cost increases are matched with an increased operational grant from Greater Wellington to cover them.

The equity contribution for the trains has been updated to reflect current arrangements with the Crown. Consistent with previous calculations, the capital purchase cost, less the Crown contribution, is funded by equity from Greater Wellington via WRC Holding Limited.

4.2.5 WRC Holdings Limited

The impact of the CentrePort dividend flows through as noted above.

Performance Targets

	2012/13 ($000)	**2013/14 ($000)**	**2014/15 ($000)**
Surplus before tax - Final	19,919	21,570	52,700
Surplus before tax – Draft	*15,244*	*9,970*	*9,294*
Surplus after tax- Final	14,528	15,749	37,952
Surplus after tax – Draft	*12,238*	*8,385*	*7,865*
Earnings before interest, tax & depn- Final	54,779	59,434	91,386
Earnings before interest, tax & depn – Draft	*51,930*	*50,183*	*52,249*

Return on total assets – Final *Return on total assets- Draft*	4.3% *3.4%*	4.4% *2.6%*	8.0% *2.6%*
Return on shareholder equity - Final *Return on shareholder equity – Draft*	3.1% *2.4%*	3.1% *1.4%*	7.7% *1.2%*
Dividends – Final *Dividends- Draft*	2,672 *2,699*	2,491 *2,528*	2,892 *2,428*

As expected, the above numbers are heavily influenced by the large capital grants received by GWRL reporting through the statement of comprehensive income, as a result of purchasing rail assets and associated deferred taxation expense related to this.

GWRL surplus after tax is $2.3 million, $3.5 million and $25.7million for the three years.

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.

The dividends are the only numbers not affected by this impact. They are less than previously planned and this is primarily due to a reduction in the dividend from CentrePort in the first two years and a revision up by CentrePort in the 2014/15 year. These are offset or negated by interest savings in PIL in the first two years, with the savings also flowing through to the 2014/15 year.

5. Communications

No communications are necessary.

6. Recommendations

That the Council:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*

Report prepared by: Report approved by:

Mike Timmer
Treasurer

Bruce Simpson
Chief Financial Officer

Attachment 1: WRC Holdings Group Statement of Intent
Attachment 2: Pringle House Ltd– Operating Budget 2012/15
Port Investments Ltd - Operating Budget 2012/15
Greater Wellington Rail Limited - Operating Budget 2012/15
WRC Holdings Limited - Operating Budget 2012/15