greater WELLINGTON
REGIONAL COUNCIL

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WRC Holdings Group 2012/13 draft Statement of Intent

1. Purpose

To receive the 2011/12 draft Statement of Intent (SOI) of the WRC Holdings Group (refer **Attachment 1**) and to identify any matters for consideration by the directors of WRC Holdings.

2. The decision-making process and significance

The matter requiring decision in the report has been considered by officers against the requirements of Part 6 of the Local Government Act 2002 (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.

3. Background

WRC Holdings Ltd and its 100% owned subsidiary companies, Port Investments Ltd (PIL), Pringle House Ltd (PHL), are Council Controlled Trading Organisations (CCTOs) and Greater Wellington Rail Ltd (GWRL) is a Council Controlled Organisation (CCO) as defined under the Local Government Act (LGA) 2002. Greater Wellington Transport Ltd and Greater Wellington Infrastructure Ltd are not included in the SOI as they have no business activity and have been expressly exempted by Council resolution on 11 February 2011 to produce an SOI.

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

The LGA 2002 requires that a draft SCI for CentrePort and a draft SOI for WRC Holdings is provided to the shareholder by 1 March, covering the projected results for the three financial years from 1 July 2011.

The directors of WRC Holdings Ltd considered the draft SCI financials for CentrePort and draft SOI for WRC Holdings on 27 February 2012.

A letter enclosing the draft WRC Holdings SOI (incorporating the CentrePort SCI) was sent to the Chair of Greater Wellington on 29 February (refer **Attachment 2**).

Greater Wellington, as the shareholder, is now required to note the draft WRC Holdings Ltd SOI, which incorporates draft financial statements from CentrePort, and where it considers necessary, provide comments back to WRC Holdings Ltd directors.

This meeting is to receive the draft SOI and invite comments. The final version must be passed by Council on or before 30 June 2011.

4. Statement of Intent

As noted in section 1 of this report, the draft SOI (incorporating the CentrePort draft financials) for 2012/13 and the following two years is attached (refer **Attachment 1**).

The following is a summary of the financial forecast for the 2011/12 year and the projected SOI figures for the next three years.

	2011/12 $000	2012/13 $000	2013/14 $000	2014/15 $000
Net profit (deficit) before tax (NPBT)	128,370	15,244	9,970	9,294
Net profit (deficit) after tax (NPAT)	93,140	12,238	8,385	7,865
Earning before interest, tax and depreciation	161,676	51,930	50,183	52,249
Return on total assets	21.2%	3.4%	2.6%	2.6%
Return on shareholders equity	34.8%	2.4%	1.4%	1.2%
Shareholders equity to total assets	39.6%	55.1%	55.1%	55.6%
Dividends	2,457	2,699	2,528	2,428

The following analysis compares last year's SOI to this year's draft SOI followed by a commentary on the significant variances.

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

	2012/13 $000	2013/14 $000
NPBT (2011/12 SOI)	11,287	10,844
NPBT (2012/13 SOI)	15,244	9,970
Increase (Decrease)	3,957	(874)
Dividends (2011/12 SOI)	2,380	2,497
Dividends (2012/13 SOI)	2,699	2,528
Increase (Decrease)	319	31

NPBT - Net profit before tax

The increase in profitability in the 2012/13 year is due to the increase in GWRL's profit (accounting related) offsetting CentrePort's deteriorating result since last year. CentrePort's port revenue has reduced from $55 million to $52.7 million.

The reduction in profitability in the 2013/14 year is similar to the above in terms of CentrePort, due again to declining profitability with port revenue going from $56.7 million to $53.7 million. GWRL shows an increase in profit, but this is due to the accounting methodology.

Dividends

Dividends from CentrePort have been increased in 2012/13, but reduced in 2013/14, which impacts the dividend from the Group.

5. Detailed Operating Budgets

The draft operating budgets were provided to WRC Holdings Ltd directors. The commentary on these budgets, including the key assumptions and significant changes from last year's budgets, are discussed below.

5.1 Pringle House Ltd (PHL)

Total rental revenue is largely unchanged over the SOI period as no rental increases have been budgeted per advice from our property consultants Jigsaw Property. The lease with Vector has expired and it is assumed that it will take up to 6 months to get this space leased.

Costs have been inflated by 2.5% per year.

The majority of the net profit in PHL is paid directly to Greater Wellington by way of 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 2012/13 is $677,699.

Overall, the 2011/12 PHL budget shows a net profit of $183,664 after payment of the subvention to GWRC.

No gains/losses from the revaluation of the building have been assumed.

The balance sheet shows two equity injections of $5,000,000, one in 2013/14 and the other in 2014/15. This is for remedial work to bring the building up to a higher standard to improve any seismic risk issues.

At this stage no adjustment to the rental has been provided for to reflect that some building vacancy is possible.

5.2 Port Investments Ltd (PIL)

The projected dividend from CentrePort (PIL's share) is expected to be $3.615 million for the 3 years, plus subvention revenue of $1.0 million for each of the years.

The dividend from CentrePort is based on CentrePort's SCI projections of paying out between 41% and 43% of net profit after tax. This compares to their policy of paying out between 40% and 60%.

CentrePort is able to provide subvention payments to PIL and these are forecast at $1 million each year increasing to $1.25 million from 2017/18. These can be directly offset against tax losses and have a significant cash benefit to the Group.

Projected interest expense on PIL's $44 million loan from WRC Holdings is projected to rise gradually over the SOI period reflecting a gradual increase in interest rates.

5.3 Greater Wellington Rail Ltd (GWRL)

GWRL holds rolling stock and other related rail assets such as stations. It is presently in the process of acquiring the Matangi train units from Rotem Mitsui in South Korea. It is forecast to undertake a major refurbishment of the Ganz Mavag trains beginning in 2012/13 and continuing on until 2016/17, at a cost of $80 million. The funding for this expenditure is split 40% as share capital via the balance sheet, with the balance of 60% via the Profit and Loss account. The grant revenue from Greater Wellington creates a significant deferred tax liability. This is because the capital grants are treated as income and if the trains were sold, a tax liability would arise, however, the depreciation expense over future years will offset this liability.

All operating costs (excluding depreciation) are met with a matching grant from Greater Wellington.

The statement of comprehensive income shows some mixed results and is influenced by the level of capital grant, the level of depreciation and the level of deferred tax. In the early years capital grants are high, leading to higher deferred tax charges. As time progresses depreciation increases, leading to bigger losses and a reversal of the deferred tax adjustment to an income.

The balance sheet has equity contributed up until 2016/17 for the Matangi and Ganz Mavag trains at a rate of 20% and 40% of the capital expenditure respectively. The deferred tax liability reduces over time reflecting a greater depreciation change than capital grants.

5.4 WRC Holdings Ltd (WRCHL)

WRCHL is the holding company for PIL, PHL and GWRL. Income is sourced from dividends and interest income from its subsidiaries.

WRCHL has a $44 million loan via commercial paper backed by a facility from the Commonwealth Bank of Australia (CBA).

Interest charged on the $44 million loan by CBA is offset by the income received from PIL on its $44 million advance.

Costs are inflated by 2.5% and interest costs are rising gradually reflecting a general increase in base interest rates. However, $20 million of the $44 million debt is now locked in at a base funding cost of 4.03% until September 2014.

Dividends payable by WRCHL reduce from $2.7 million in 2012/13 to $2.4 million in 2014/15, reflecting the rise in interest rates (which lowers the profits in PIL).

5.5 CentrePort Ltd

CentrePort is showing a flat to declining level of profitability, with projected profit after tax forecast of $11.4 million for the 2012/13 year, moving to $11.1 million in 2014/15.

Dividend is constant at $4.7 million of which $^{10}/_{13}$ or 76.9% is PIL's share.

CentrePort is also in a position to pay PIL a $1.0 million subvention payment per year as noted above.

A detailed Statement of Corporate Intent for CentrePort, incorporating the performance indicators and other related information, was not available for incorporation to this draft SOI for WRC Holdings Ltd.

6. Recommendations

That the Council:

(1) ***Receives*** *the report.*

(2) ***Notes*** *the content of the report.*

(3) ***Receives*** *the draft Statement of Intent of WRC Holdings Group for 2012/13 and forwards any comments or recommendations to the directors of WRC Holdings Ltd for their consideration.*

Report prepared by:	Report approved by:
Mike Timmer Treasurer	Bruce Simpson Chief Financial Officer

Attachment 1: WRC Holdings Group – 2012/13 Draft Statement of Intent

Attachment 2: Copy of letter to Chair, Greater Wellington Regional Council