greater WELLINGTON
REGIONAL COUNCIL

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| Committee | Council |
| Author | Mike Timmer, Treasurer |

# WRC Holdings Group 2010/11 draft Statement of Intent

## 1. Purpose

To receive the 2010/11 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. Significance of the decision

The matters for decision in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

## 3. Background

WRC Holdings Ltd and its 100% owned subsidiary companies, Port Investments Ltd (PIL), Pringle House Ltd (PHL), and Greater Wellington Rail Ltd (GWRL) are Council Controlled Trading Organisations (CCTOs) as defined under the Local Government Act (LGA) 2002.

The companies noted above, together with CentrePort, form the WRC Holdings Group. A single SOI 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 SOI is provided to the shareholder by 1 March, covering the projected results for the three financial years from 1 July 2010.

The directors of WRC Holdings Ltd considered the SOI on 24 February 2010. Greater Wellington, as the shareholder, is now required to note the draft SOI, and where it considers necessary, provide comments back to WRC Holdings directors.

## 4. Statement of Intent

The draft SOI for 2010/11 and the following two years is attached (refer **Attachment 1**).

The following is a summary of the financial results for the 2010 SOI incorporating the 2009 SOI figures for 2009/10 year and the 2010 SOI projections for the next three years.

| | 2009/10 $000 | 2010/11 $000 | 2011/12 $000 | 2012/13 $000 |
|---|---|---|---|---|
| Net profit (deficit) before tax (NPBT) | 7,758 | 7,370 | 7,582 | 8,358 |
| Net profit (deficit) after tax (NPAT) | 3,793 | 4,001 | 3,957 | 4,346 |
| Return on total assets | 3.66% | 4.50% | 3.81% | 3.53% |
| Return on shareholders equity | 1.41% | 1.40% | 1.17% | 1.19% |
| Dividends | 1,249 | 966 | 646 | 514 |

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:

| | 2010/11 $000 | 2011/12 $000 |
|---|---|---|
| NPBT (2009/10 SOI) | 9,060 | 11,218 |
| NPBT (2010/11 SOI) | 7,370 | 7,582 |
| Increase (Decrease) | (1,588) | (3,636) |
| Dividends (2009/10 SOI) | 271 | 75 |
| Dividends (2010/11SOI) | 966 | 646 |
| Increase (Decrease) | 695 | 571 |

The decrease in profitability is due to a fall in CentrePort's results stemming from a sharp increase in interest expense offset by improved earnings before interest and tax (EBIT). The increase in interest expense is predominately due to increased borrowing margins assumed by CentrePort.

The forecast dividends (from WRC Holdings) in both years have increased; this is entirely due to the lower cost of borrowing in Port Investments Limited.

The dividend policy for WRC Holdings Group (excluding CentrePort) is to pay out 100% of net profit after tax (NPAT) but excluding revaluation gains and losses, CentrePort's current policy is payout 40-60% of NPAT.

## 5. Detailed Operating Budgets

The draft operating budgets are attached (refer **Attachment 2)** cover each of the 100% owned companies within the WRC Holdings Group.

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

### 5.1 Pringle House Ltd (PHL)

Total rental revenue is largely unchanged over the ten years as no rental increases have been budgeted. The Council's tenancy is up for review this year and at this stage it is assumed that this will be reviewed.

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 2010/11 is $769,655.

Overall, the 2010/11 PHL budget shows a net profit of $253,668, after payment of the subvention to GWRC.

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

### 5.2 Port Investments Ltd (PIL)

The projected dividend from CentrePort (PIL's share) for the three years is expected to be $3.077 million, consistent with last year's SOI.

Projected interest expense on PIL's $44 million loan from WRC Holdings has decreased from last year's projection due to lower interest rates. Interest rates are expected to rise over the SOI period; however, $20 million of the debt is now locked in at a base funding cost of 4.03%.

### 5.3 Greater Wellington Rail Ltd (GWRL)

This company owns GWRC's investment in rail rolling stock.

The Government has indicated that the rail rolling stock should be owned by KiwiRail.

The mechanics and timing of any sales to KiwiRail have not been discussed in any great detail with the Government at this stage.

There are a number of issues which will need to be finalised:

- Timing
- Mechanism for the sale
- Taxation
- Funding

It is assumed, for the purpose of the SOI, the trains are not sold given the uncertainly around forecasting a date and the details of how a transfer would be conducted.

### 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. It 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 to CBA is offset by the income received from PIL on its $44 million advance.

Dividends payable by WRCHL decline from $965,763 in 2010/11 to $514,039 in 2012/13, reflecting the rise in interest rates (which lowers the profits in PIL).

## 6. CentrePort

The major impact on the three years is the sharp rise in finance costs from $9.3 million to $16.1 million in 2010/11. There are two main reasons for this large increase.

a) An increase in the net margin paid on CentrePort’s facilities on their debt of around $191 million. This will add approximately $3.8 million to the cost of debt.

b) The NZ Customs building will be completed in 2010. Once this occurs CentrePort will cease to capitalise interest to the cost of the project and will expense it.

CentrePort is forecasting to pay a dividend of $4.0 million in each of the three years.

The Directors of WRC Holdings met via teleconference on 24 February to receive CentrePort’s Statement of Corporate Intent (SCI).

The outcome from this was an acceptance of their draft SCI with suggested changes to the social objectives and the addition of CentrePort being a leader and promoter of regional economic development.

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## 7. 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 2010/11, and forwards any comments or recommendations to the directors of WRC Holdings Ltd for their consideration.*

| Report prepared by: | Report approved by: |
|---|---|
| Mike Timmer<br>Treasurer | Barry Turfrey<br>Chief Financial Officer |

Attachment 1: WRC Holdings Group – 2010/11 Draft Statement of Intent