

Report 16.350
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File CCAB-8-680

Committee Council
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WRC Holdings Statement of Intent covering the years ended 30 June 2017, 2018 and 2019

1. Purpose

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

2. Background

The final SOI was approved by the Board of WRC Holdings Limited after its meeting on 28 June 2016 and delivered to the Council Chair before 30 June 2016.

The final SOI has been updated with CentrePort's final SOI.

The changes to the SOI from the draft Council received in March can be divided into two categories, the words and the numbers.

2.1 Changes to the words

The following notable alterations have been made to the SOI.

The changes to the words were centred around section 3.1 - Objectives, with the word "Ensure" removed under 3.1 (d) bullet points.

In Section 3.1(f) the words 'where possible' were removed at the end of the paragraph.

Section 5 - Environmental Objectives, have been updated include a base line to measure environmental incidents, and have clarified the measurement methodology for greenhouse gas emissions.

In section 7.6 the interest rates used have been updated with new lower rates.

2.2 Changes to the numbers

Overall the numbers are improved over the draft SOI. This is a result of saving in interest cost due to lower floating interest rate, lower depreciation and the correction of modelling error.

The changes are discussed below relating to each company.

Greater Wellington Rail Limited (GWRL)

The fixed asset spend has been updated to reflect the currently planned project timing. The capex plan has increased by \$18 million to \$28 million. This is due to the timing around the last deliveries of the Matangi.

Depreciation has been reduced by \$300,000 in 2016/17 to better reflect the current timing of capital expenditure. This directly impacts the surplus/deficit, but being a non-cash item, it has no impact on dividends.

The \$12 million sale of the Inventory to Transdev Wellington Limited that is part of the arrangement in relation to the rail contract will be utilised by GWRL to fund the capital expenditure.

In the draft SOI it was proposed to pay a dividend to Council and use the funds to build the Transport Reserve. This is still achieved but now in a more simplistic manner. The impact is favourable in the vicinity of \$400,000 as the saving related to this was a modelling error in the proposed budget.

The loss from the depreciation amounting to around \$18 million continues to impact the Group's results.

Port Investments Limited

The interest cost on the \$44 million loan from WRCH has been reduced in all years to reflect the movement lower in interest rates since the draft SOI was presented.

This has a significant impact on lowering the cost to around \$350,000 in the 2016/17 year and the out years, as we had a rising interest rate trajectory in the proposed SOI which is now almost flat. Presently all borrowing is at the floating rate, with the benefits passed on via a higher dividend to Council.

Performance Targets

	2016/17 (\$000)	2017/18 (\$000)	2018/19 (\$000)
Surplus (loss)before tax - Final	(393)	990	970
<i>Surplus (loss) before tax – Draft</i>	<i>(1,511)</i>	<i>544</i>	<i>459</i>
Surplus (loss) after tax- Final	1,498	2,415	2,348
<i>Surplus (loss) after tax – Draft</i>	<i>420</i>	<i>1,979</i>	<i>1,859</i>
Earnings before interest, tax & depn- Final	34,587	37,486	39,846
<i>Earnings before interest, tax & depn – Draft</i>	<i>34,083</i>	<i>37,882</i>	<i>40,273</i>
Return on total assets – Final	1.1%	1.3%	1.4%
<i>Return on total assets- Draft</i>	<i>1.0%</i>	<i>1.4%</i>	<i>1.4%</i>
Return on shareholder equity - Final	0.3%	0.5%	0.5%
<i>Return on shareholder equity – Draft</i>	<i>0.1%</i>	<i>0.4%</i>	<i>0.4%</i>
Shareholders equity to total assets - Final	60.8%	60.8%	60.9%
<i>Shareholders equity to total assets – Draft</i>	<i>60.5%</i>	<i>60.8%</i>	<i>61.2%</i>
Dividends – Final	3,552	3,966	4,273
<i>Dividends- Draft</i>	<i>2,784</i>	<i>3,559</i>	<i>3,842</i>

As expected, the above numbers are heavily influenced by the loss after tax emanating from GWRL, i.e. \$12.9 million, \$13.2 million and \$14.2 million over the 3 years respectively.

This relates to GWRL depreciation expense which is not funded by Council, and acts to reduce the equity in GWRL over time commensurate with the reduced value of the assets in GWRL.

Taking out the operating result of GWRL form the above WRC Group numbers, the results and the financial ratios are notably different.

	WRC Group - Excluding GWRL		
Net profit before tax (NPBT)	17,566	19,404	20,790
Return on average assets (EBIT)	7.4%	7.6%	7.7%
Return on shareholder equity (NPAT)	6.3%	6.4%	6.5%
Shareholders equity/Total assets	47.1%	46.9%	47.4%
Dividend distribution	3,552	3,966	4,273

Attachment 1 incorporates is the final SOI and **Attachment 2**, contains the detailed financial statements.

3. The decision-making process and significance

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

3.1 Significance of the decision

Part 6 requires GWRC 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.

3.2 Engagement

No engagement on this matter is necessary.

4. Recommendations

That the Council:

1. ***Receives the report.***
2. ***Notes the content of the report***
3. ***Notes the proceeds from the Inventory sale by GWRL to Transdev NZ Limited are to be used to fund future capital expenditure in GWRL.***

Report prepared by:

Report approved by:

Mike Timmer
Treasurer

David Humm
GM Corporate Services/ CFO

Attachment 1: Final WRC Holdings Group Statement of Intent

Attachment 2: Port Investments Ltd - Operating Budget 2016/26, Greater Wellington Rail Ltd - Operating Budget 2016/26, WRC Holdings Limited - Operating Budget 2016/26