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Report 00.629

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Report to the Policy and Finance Committee
from Greg Schollum, Chief Financial Officer

WRC Holdings Limited – 2000/01 Draft Statement of Corporate Intent

1. **Purpose**

To receive the draft Statement of Corporate Intent (SCI) of the WRC Holdings Group for 2000/01 and the following two years (refer **Attachment 1**).

2. **Background**

WRC Holdings Limited and its subsidiary companies, Pringle House Limited and Port Investments Limited, are LATEs as defined under the Local Government Act 1974. These companies, together with CentrePort, form the WRC Holdings Group. A single Statement of Corporate Intent can be provided for the group under the Local Government Act (in terms of the three LATEs). However, CentrePort is also required under the Port Companies Act to produce its own SCI.

The Local Government Act requires the directors of WRC Holdings to consider any comments made by the shareholders on the draft SCI before 31 August and to deliver the completed SCI back to shareholders by 30 September.

The workshop on 8 August considered the issue of corporate social responsibility and the extent to which the SCI documents should reflect financial, environmental and social performance. I believe the workshop discussion was very valuable in helping to determine a way forward. Discussions, quite rightly in my view, focused on the main operating company within the WRC Holdings Group – CentrePort.

As the Committee is aware, the WRC Holdings Group is essentially an investment vehicle for the Council, with the only operational role being the ownership and management of the Regional Council Centre. None of the three LATEs employ staff and there is little impact from the three companies on the environment.

The CentrePort draft SCI is being considered separately by the Committee (refer Report 00.628).

3. Comment

The Committee is asked to separately consider issues associated with:

- the words;
- the numbers.

3.1 The Words

For the reasons outlined above, the draft SCI attached has essentially been prepared on the basis of last year's wording, with the following additions:

- Amending section 2.1 as follows:

*a) to operate as a successful **and responsible** business.*

- Amending section 6.1 as follows:

The performance measures have been further explained to make it clear how the figures have been derived.

3.2 The Numbers

The Committee will be aware that the numbers contained in the WRC Holdings SCI have been driven largely by the requirements of the Council (i.e., the Council's budgeting process, which starts much earlier than the company's, has traditionally driven the Council's funding requirement from the WRC Holdings Group).

This is necessarily the case because of the legislative requirements on the timing of adoption of Council's Long Term Financial Strategy/Annual Plan.

The WRC Holdings Group figures in the draft 2000/01 SCI are as follows:

	2000/01 \$000	2001/02 \$000	2002/03 \$000
Net profit before tax	6,657	7,156	7,746
Net profit after tax	4,112	4,305	4,591
Return on total assets	12.2%	12.3%	11.8%
Return on shareholders funds	27.3%	22.7%	19.9%
Dividends	\$263	\$268	\$272

The projected dividend figures in the draft SCI to be paid from WRC Holdings Limited to the Council are all above what the Council has budgeted to receive from the WRC Holdings Group. (The Council's budget was prepared several months ago, so you would not expect the two sets of figures to equate.)

Contrasting the key figures with last year's SCI shows the following:

	2000/01 \$000	2001/02 \$000
NPAT		
- old SCI	4,207	4,329
- new SCI	4,112	4,305
Difference	(95)	(24)
Dividends to Council		
- old SCI	543	550
- new SCI	263	268
Difference	(280)	(282)

The major change between the two SCIs relates to reduced dividend expectations from WRC Holdings to the Council.

This is as a result of two main factors:

- Increased interest expenditure projected in Port Investments Limited (PIL) as a result of increased interest rate assumptions, and as a result of the adjustment clause increasing the purchase price of PIL's investment in CentrePort by \$3.2 million. (This is offset within the Council where the Council is projecting a higher return from its bank deposit investments).
- Increased dividend income expected in Port Investments Limited as a result of the 60% payout percentage from CentrePort now being "locked in" (the 1999/2000 WRC Holdings SCI was prepared on the basis of a 60% payout in 1999/2000 with only 50% payout in 2000/01 and beyond).

These two factors have combined to produce a reduced level of projected profit within Port Investments Limited which has impacted on the dividends payable to WRC Holdings, and in turn to the Council.

However as noted above, while the projected returns from the WRC Holdings Group have dropped, Council's returns from its bank deposits are projected to increase.

4. **Communications**

The SCI process for WRC Holdings is really a matter of machinery. There are no significant communications opportunities arising at this time.

5. Recommendations

- (1) *That the report be received and the contents noted.*
- (2) *That the draft Statement of Corporate Intent of WRC Holdings Limited for 2000/01, and the immediately following two years, be received and any comments or recommendations of the Council, as Shareholder, be forwarded to the WRC Holdings directors for their consideration.*

GREG SCHOLLUM
Chief Financial Officer

Attachment 1: WRC Holdings Group – draft Statement of Corporate Intent 2000/01.