

Report 08.305
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WRC Holdings Draft Statement of Intent

1. Purpose

To receive the 2008/09 draft Statement of Intent (SOI) of the WRC Holdings Group (refer **Attachment 1**). The SOI covers the following companies:

- Pringle House Ltd (PHL)
- Port Investments Ltd (PIL), including CentrePort
- WRC Holdings Ltd (WRCHL)
- Greater Wellington Rail Ltd (GWRL)

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

Statement of Intent

WRC Holdings Ltd (WRCHL) and its 100% owned subsidiary companies, PIL, PHL, and GWRL are Council Controlled Trading Organisations (CCTOs) as defined under the Local Government Act 2002.

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

The Local Government Act 2002 requires that a draft SOI be provided to the shareholder by 1 March, covering the projected results for the three financial years from 1 July 2008. The shareholder is required, as soon as practicable,

to either agree to the SOI, or take all practicable steps to require the SOI to be modified.

WRCHL directors are required to consider any comments made by the shareholder on the draft SOI before 1 May, and to deliver the completed SOI to the shareholder by 30 June.

Due to the different timing requirements between the Local Government Act and the Port Companies Act, the updated information from CentrePort was only received at the end of April. The Directors of WRCHL decided to delay the release of the SOI to shareholders until the updated information was received from CentrePort. This was received in late April and the updated SOI was considered by Directors at their meeting on 14 May 2008.

4. Statement of Intent

4.1 Financial projections

	2008/09 (\$000)	2009/10 (\$000)	2010/11 (\$000)
Net profit (deficit) before tax	8,162	9,132	8,910
Net profit (deficit) after tax	4,068	4,818	5,475
Earnings before interest, tax and depreciation.	29,165	38,484	43,986
Return on total assets	4.35%	4.93%	4.11%
Return on shareholder equity	1.66%	1.89%	1.98%
Dividends	245	445	432

4.2 Financial projections from the previous SOI

	2008/09 (\$000)	2009/10 (\$000)
Net profit (deficit) before tax	5,393	1,114
Net profit (deficit) after tax	1,367	(2,954)
Return on total assets	3.98 %	2.22%
Return on shareholder equity	(0.34%)	(1.65%)
Dividends	530	666

The improved financial performance of the Group when compared with the previous SOI is due to:

- Higher revenues and margins from CentrePort
- Change in the accounting treatment and funding for GWRL.

4.3 Pringle House Ltd (PHL)

- Total rental revenue is largely unchanged over the three years.

The majority of the net profit in PHL is paid directly to Greater Wellington as 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 2008/09 is \$805,980.

In 2008/09 the net profit after subvention payments will be \$293,694, this will be paid to WRCHL by way of dividend.

No increase in rental income or any gains/losses from revaluation of the building have been assumed.

4.4 Port Investments Ltd (PIL)

- The projected dividend from CentrePort is proposed to increase during the period to \$3.977 million. This reflects higher profits in CentrePort but also higher dividends to reflect the loss of subvention payments from CentrePort. This loss is due the higher tax depreciation on the new container cranes and other assets. CentrePort will not be in a position to make subvention payments to PIL for the next couple of years.
- Projected interest expense on PIL's \$44 million loan from WRCHL has increased to \$3.652 million due to higher interest rates.
- The increased finance costs reduces the dividend payable in 2008/09 to \$234,250. The dividends are expected to increase to \$473,000 by 2010/11.

4.5 WRC Holdings Ltd (WRCHL)

- Forecast dividends from PIL and PHL are the main source of profitability in WRCHL. Interest charged on its \$44 million loan to Commonwealth Bank of Australia is offset by the interest income received from PIL.
- Dividends payable by WRCHL to Greater Wellington rises to \$432,442 in 2010/11.

4.6 Greater Wellington Rail Ltd (GWRL)

GWRL will own the Council's investment in rail rolling stock. They will then be leased to Toll.

The assets involved are:

Type	Number	Status	Funded ⁽¹⁾
SW Cars	18	Delivered and in service	60% grant, 40% Government interest free loan.
EMUs	90-96 ⁽²⁾	Contract signed, delivery commences, in 2010	90% grant, 10% funded by GWRC.
SE Carriages	6	Contract signed, into service December 2008	100% funded by interest free loan from the Government
EE Cars	2	Contract signed, into service September 2008	100% funded by interest free loan from the Government

Notes:

(1) This is how GWRC has and will be been funded. In respect of GWRL it will be funded by a mixture of capital grants and share capital.

(2) GWRL has contracted for a firm delivery of 90 units (45, 2 car sets).

5. 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 2008/09, and forwards any comments or recommendations of the Council to the Directors of WRC Holdings Ltd for their consideration.*

Report prepared by:

Report approved by:

Mike Timmer
Treasurer

Barry Turfrey
Chief Financial Officer

Attachment 1: Statement of Intent for WRC Holdings Group