greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

Report	11.540
Date	25 October 2011
File	CFO/09/02/02
Committee	Council
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WRC Holdings Limited Financial Statements for the year ending 30 June 2011

1. Purpose

To approve, as Shareholder, the audited financial statements of WRC Holdings Ltd, for the year ending 30 June 2011.

2. 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.

1.1 Significance of the decision

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

On 20 October 2011 the directors of WRC Holdings Ltd considered and approved the 2010/11 financial statements. This was later than planned due to a change in the accounting methodology for Greater Wellington Rail Limited.

As a result of this delay, WRC Holdings Ltd and Greater Wellington Rail Ltd breached section 67(1) of the Local Government Act 2002, as the audited financial statements were not available within 3 months of 30 June 2011.

The audited financial statements for WRC Holdings Ltd are attached (refer **Attachment 1**) along with a copy of the Audit Report (refer **Attachment 2**).

4. Comment

The financial statements comprise Pringle House Limited, Port Investments Ltd, Greater Wellington Rail Limited, Greater Wellington Transport Limited, Greater Wellington Infrastructure Limited and CentrePort Limited. The financial statements include both parent company and consolidated financial information.

5. Overview of the financial results

5.1 Pringle House Ltd (PHL)

Pringle House achieved a net surplus for the year before tax and revaluations of $1,116,000, compared to a budget of $1,006,000.

Operating expenditure was lower than budget mainly in repairs and maintenance, and rental revenue was ahead of budget due to a greater allowance for vacancy than occurred.

A dividend of $208,000 will be paid to WRC Holdings and a subvention payment of $908,000 will be paid to Greater Wellington.

5.2 Port Investments Ltd (PIL)

PIL reported a net surplus for the year of $1,129,000, compared to the budgeted surplus of $873,000.

The improved result against budget is almost entirely due to the lower interest costs on the $44 million loan from WRC Holdings Ltd.

A dividend of $1,129,000 will be paid to WRC Holdings Ltd.

5.3 Greater Wellington Rail Limited (GWRL)

The accounting for GWRL was changed due to its reclassification from a Profit Orientated Entity (POE) to a Public Benefit Entity (PBE).

Previously, in conjunction with audit we decided on a POE. Audit has now left us with little practical option other than to move to a PBE.

A PBE requires that all grants (including grants for capital expenditure) are recognised through the Statement of Comprehensive Income, previously under a POE they were reported in the Balance Sheet.

Under a POE, the valuation of the assets utilises a discounted cash flow methodology based on the assets revenue generation, clearly the assets would be valued at a very low level. Under a PBE assets are valued at a Depreciated Replacement Cost (DRC), which better reflects their value.

As a result of this, GWRL produced a profit before tax of $120,000,000 for the year ended 30 June 2011, composed mainly from the following revenue items:

- $40,044,000 in grants from Greater Wellington to cover the Matangi purchase.

- $83,417,000 was recognised on the write-up of the Ganz Mavag trains, non-rail infrastructure, and stock received from KiwiRail.

Profit after tax was $86,000,000 reflecting a deferred tax liability (accounting adjustment only) of $34,000,000, due to GWRL receiving the rail assets for $1 and potentially could sell them at a profit and incur tax. Over time this accounting entry will reverse as the assets are depreciated to nil.

Total Assets of GWRL at 30 June were $197,000,000.

5.4 Greater Wellington Transport Limited and Greater Wellington Infrastructure Limited

For the period ended 30 June 2011 these companies had no transactions.

5.5 CentrePort Ltd

CentrePort achieved an underlying profit before tax and fair value adjustments of $14,730,000, an increase of $1,040,000 compared to $13,690,000 in 2010. The increase was attributed mainly to higher Port revenues than budget. This compares to the Statement of Corporate Intent (SCI) of $13,150,000. A dividend of $4,000,000 was declared plus a supplementary dividend after balance date of $700,000.

5.6 WRC Holdings Ltd (WRCH)

WRCH achieved a net profit for the year of $1,203,000 before tax and fair value adjustments. This compares to a budgeted surplus $895,000. The budget for the dividend was set at a conservative level at the time of the global financial crisis.

The interest expense from borrowing is lower than budgeted, due to lower interest rates and margin paid on the debt. This is offset by a lower interest income from PIL.

A dividend of $1,204,000 is to be paid to Greater Wellington.

Ordinary share capital was increased by $13,346,000 representing the 20% component of the Matangi project funded by Greater Wellington.

6. Financial performance - Statement of Intent (SOI)

$(000)	Actual 2011 Rail PBE $000	Actual 2011 $000	Target 2011 $000	Actual 2010 $000
Net Surplus Before Tax	50,277	13,719	11,471	12,846
Net Surplus After Tax	48,757	12,199	6,983	10,242
Earnings before interest, tax & depreciation	73,397	36,839	37,327	27,352
Return on Total Assets	11.6%	6.8%	4.81%	3.8%
Return on Equity (excluding revaluations)	21.8%	8.6%	3.1%	11.1%
Shareholders Equity to Total assets	39.6%	29.3%	23.9%	35.8%
Dividends $000	1,204	1,204	940	1,196

The above table shows two results for the year end 30 June 2011. The ***first Actual column*** is the audited results accounting for GWRL as a PBE; the ***second Actual column*** has GWRL accounted for under the same assumption as the SOI budget.

Thus the second column provides a better comparison to plan and analysis has focused on this compared to target. The adjustments to GWRL which flow through to the WRC holdings accounts have already been discussed above.

The better ***surplus before and after tax*** compared to target is emanating mainly from CentrePort Limited as noted above, coupled with lower interest costs in Port Investments Limited.

Earnings before interest tax and depreciation is below budget due to interest and depreciation costs being lower than budget, but offset by a higher net profit before tax.

While the asset base has increased the profitability has more than offset this. ***The return on equity*** is above budget as the net profit after tax has increased at a faster rate that equity over the year.

Shareholders funds, being a smaller base, have increased relatively more than the assets as a result of the non-budgeted rail assets being taken over. This is offset by lower Matangi additions compared to budget. Note Matangi additions increase assets 100% and increase equity only 20%.

The dividend from WRC Holdings has improved due to a higher dividend from CentrePort Limited than budget and lower interest costs.

7. Communication

No communication is necessary.

8. Recommendations

That the Council:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*
3. ***Approves,** as sole shareholder, the 2010/11 financial statements of WRC Holdings Ltd.*

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

Attachment 1: WRC Holdings Ltd – 2010/11 financial statements

Attachment 2: Audit Report