greater WELLINGTON
REGIONAL COUNCIL

Report	09.300
Date	25 May 2009
File	CFO/09/02/01
Committee	Council
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WRC Holdings Group 2009/10 draft Statement of Intent

1. Purpose

To receive the 2009/10 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. 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 2009. However, due to the current economic environment this timetable has been extended to allow up to date information to be received from CentrePort. The directors of CentrePort considered their Statement of Corporate Intent (SCI) on 30 April.

The directors of WRC Holdings Ltd considered the SOI at their meeting on 19 May. Greater Wellington, as the shareholder is now required, as soon as practicable, to either agree to the SOI, or take all practicable steps to require the SOI to be modified.

3. Statement of Intent

The draft SOI for 2009/10 and the following two years is attached (refer **Attachment 1**).

The following analysis compares last years SOI to this year's draft SOI, followed by a commentary on the significant variances.

	2008/09 $000	2009/10 $000	2010/11 $000	2011/12 $000
Net profit before tax (NPBT)	9,620	7,758	9,060	11,218
Net profit after tax (NPAT)	5,098	3,793	4,994	6,533
Return on total assets	4.19%	3.66%	4.60%	5.96%
Return on shareholders equity	2.56%	1.41%	2.10%	2.99%
Dividend stream	1,147	1,249	271	75

Contrasting these figures with last year's SOI, the changes in the key lines are as follows:

	2009/10 $000	2010/11 $000
NPBT (2008/09 SOI)	9,132	8,910
NPBT (2009/10 SOI)	7,758	9,060
Increase (Decrease)	(1,374)	150
Dividend stream (2008/09 SOI)	445	432
Dividend stream (2009/10 SOI)	1,249	271
Increase (Decrease)	804	(161)

The decrease in profitability is largely a result of the fall in the CentrePort's result.

CentrePort has been impacted by lower volumes through the port coupled with lower margins. The start of rental income from the BNZ building has partly offset this fall.

The forecast dividends in 2009/10 have increased. This is entirely due to the lower interest costs in Port Investments Limited resulting from lower interest rates.

In the 2010/11 year the dividend is forecast to decline as CentrePort reduces its dividend payments.

The dividend policy for WRCH Group (excluding CentrePort) is to pay out 100% of net profit after tax but excluding revaluation gains and losses.

CentrePort is forecasting to maintain the same level of dividend in 2009/10. However, due to lower profitability and the economic environment there is a serious question as to whether this level of dividend will be paid.

3.1 Pringle House Ltd (PHL)

Total rental revenue is largely unchanged over the ten years.

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 Regional Council (GWRC) in 2009/10 is $819,543.

Overall, the 2009/10 PHL budget shows a net profit of $268,564, after payment of the subvention to GWRC.

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

3.2 Port Investments Ltd (PIL)

The projected dividend from CentrePort (PIL’s share) is expected to be $3.977 million, similar to this year’s. However, this level of dividend for 2009/10 is not assured, due to the current economic environment impacting on CentrePort.

Projected interest expense on PIL’s $44 million loan from WRCHL has decreased from last year’s projection due to lower interest rates. However, interest rates are expected to rise over the SOI period.

This, coupled with lower dividends from CentrePort, reduces profitability.

3.3 Greater Wellington Rail Ltd (GWRL)

This company owns Greater Wellington’s investment in rail rolling stock.

The Labour Government purchased the rail assets from Toll in 2008. At that time it indicated that the rail assets owned by GWRL should be held by KiwiRail.

This sale/transfer was confirmed by the National Government earlier this year.

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

It is assumed, for the purpose of the SOI, the trains will be sold by the end of 2009/10.

3.4 CentrePort

The CentrePort result is forecast to decline, due to the economic environment impacting on volumes and margins through the port.

3.5 WRC Holdings Ltd (WRCHL)

WRCHL is the holding company for PIL, PHL and GWRL. Its income is sourced from dividends and interest income from its subsidiaries. It has a $44 million loan from the Commonwealth Bank of Australia (CBA).

Interest charged on the $44 million loan to CBA is offset by the income received from PIL.

Dividends payable by WRCHL decline from $687,732 in 2009/10 to $238,044 in 2011/12, reflecting the rise in interest rates (which lowers the profits in PIL) and lower dividends from CentrePort.

4. 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 2009/10, and forwards any comments or recommendations 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: WRC Holdings Group – 2009/10 Draft Statement of Intent