MWRC Holdings Limited

Statement of Intent for three years: 2019-20, 2020-21 & 2021-22.

Issued to Horizons Regional Council

1. Introduction

The Final Statement of Intent (SOI), under schedule 8 of the Local Government Act 2002 (LGA) is:

- a public declaration of the activities and intentions of MWRC Holdings Ltd (MWRCH) and the objectives to which those activities will contribute,
- an opportunity for the council shareholder to influence the direction of MWRCH, and
- a basis for the accountability of the directors to the shareholder for the performance of MWRCH.

This SOI is being delivered before 1 March 2019 and feedback is sought prior to 1 May 2019. The final SOI incorporating shareholder comments will be adopted by the board on 10 June 2019, ahead of 30 June 2019 in compliance with clause 4 of Schedule 8 of the Local Government Act 2002. The shareholder now needs to agree this SOI.

2. Background

Council has a number of investments that must be prudently managed for the benefit of ratepayers. Council's objectives for its investments focus largely on maximising the returns on a consistent basis while minimising risks.

However, Council is driven by a broad range of objectives (e.g. social, economic, cultural, and environmental) and these do not necessarily fit well with the more commercial objectives for its investments.

Council needs to manage its investments as effectively as possible in order to maximise and smooth its investment returns.

To help achieve these objectives, Council formed a Council Controlled Trading Organisation (CCTO) in December 2009 to own and manage its investments, under a limited liability company structure. This enables a broad mix of Council and professional directors with a clear focus on the investment objectives.

3. Objectives of MWRCH

The primary role of MWRCH is to prudently manage the Council's existing trading investments to deliver maximum returns on an ongoing basis while growing shareholder value. Currently these investments are the 23.08% shareholding in CentrePort Ltd with a current value of $27.3 million and the North Street Investment Property worth $3.05 million. A further investment by MWRCH involving a development at 23 Victoria St current estimated value is $27 million.

In addition MWRCH manages the $2.6 million investment in a Private Wealth portfolio. This value was as published at 31 December 2018.

Secondary objectives include:

- seeking additional investment opportunities that have the potential to enhance the economic well-being of the region, provide an adequate financial return and match the risk profile of Council
- maintaining and building the financial strength of MWRCH through appropriately directed and diversified commercial investment, in line with a policy agreed with Council
- advising Council on strategic issues relating to its trading investments including, but not limited to, ownership structures, capital structures and rates of return
- return on investment in businesses that contributes to the social, environmental, economic and cultural well being of the Horizons region

- inform Council as soon as practical of any significant developments regarding the companies investments

4. Governance

MWRCH will conduct itself in accordance with its Constitution, its annual Statement of Intent agreed with Council, the provisions of the Companies Act 1993 and the LGA.

MWRCH is governed by its directors. To ensure an effective linkage between the Council and MWRCH, at least one of the directors are sitting councillors. To maximise access to independent and commercial expertise, at least one director with appropriate professional, commercial and investment skills will be appointed to the board. Their selection, appointment and remuneration will be in accordance with the Council's director's selection and remuneration policy.

The board composition will always be balanced in terms of the numbers of Council and independent directors. The board typically meets eight times a year and has an AGM which the shareholder attends. There is also regular contact with management outside of these meetings where needed to assist with the governance of MWRCH's activities.

MWRCH will report six monthly to Council detailing its performance against its objectives as per this SOI (see also Section 11 below).

Any key investment decisions are also referred to Council for approval.

5. Nature and Scope of Activities

The principle nature and scope of the activity of MWRCH is to:

- Hold and manage the 23.08% shareholding in CentrePort Ltd.
- Hold and manage the $3.05 million North Street Investment Property.
- Hold and manage the development of 23 Victoria Ave investment property.
- To manage the $2.6 million Hobson Wealth investment as directed by council with a focus on growth assets which protect Horizons capital base. This investment is owned by council but managed by MWRC Holdings Ltd.
- To operate within the developed process for identifying and evaluating potential investment opportunities in a non-political environment.
- To develop sound and prudent strategies and policies for its trading and capital intensive investments
- To research and develop new investment opportunities that meet Council's objectives, which is to enhance the economic well-being of the region, provide an adequate financial return and match the risk profile of the Council.

6. Proposed and Future Investments

After a competitive process the Board has been successful in securing a long term anchor tenant for a development at the 23 Victoria Ave site. This development has a projected value of $27 million (including land) and has now commenced.

The financial forecasts include expected returns from this investment. Based on assumptions made the board is targeting to have the development complete by the third quarter of 2019. Rent returns and debt repayment will commence from this time.

MWRCH may also explore opportunities to cross invest with other local authorities where there are demonstrable benefits for both parties.

7. Balance Sheet Ratios

The LGA requires the SOI to include the projected ratio of shareholder funds to total assets within the Forecast Statement of Financial Position.

	2019/20	2020/21	2021/22
Shareholder funds / total assets	66.2%	65.6%	68.8%
Net debt ($M)	18.43	18.28	16.97
Equity ($M)	37.2	37.8	39.1

8. Accounting Policies

Financial statements will be prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP), the Financial Reporting Act 1993 and the NZ PBE's Tier 2)

The financial statements have been prepared in accordance with Tier 2 Public Benefit Entity (PBE) Standards. MWRCH is not publically accountable and expenditure is not higher than $30 million.

9. Performance Targets

The targets are to:

- provide a minimum cash return on investment to the Council of 65% of NPAT, it should be noted that the current variability around CentrePort dividend levels and the Victoria Avenue development could put pressure on achieving the cash return
- operate within agreed budgets,
- maintain the following financial performance targets.

	2019/20 $000	2020/21 $000	2021/22 $000
Net Profit/(Loss) Before Tax	300	119	1,281
Income Return on Total Assets[1]	0.81%	0.32%	3.33%
Dividends	1,392	2,100	1,000
Ground Lease	132	132	132
Debt Repayment	-	-	1,000
Capital Growth/(Loss) on Investments	0.36%	1.23%	1.22%

[1] Return on Total Assets is the net profit before interest, tax, depreciation (EBITDA) divided by the average total assets.

10. Distributions to Shareholder

The Board wish to note that under normal commercial practice distribution of income usually is set at 40% to 50% of Net Profit After Tax (NPAT) to allow for reinvestment in the Company. To take into account the fact that the company is under considerable financial pressure to meet both a dividend to its shareholder and repay the borrowings from its shareholder, it is proposed that the distribution to Council via subvention payment and/or dividend be (subject to the company's solvency test requirements being met):

- a minimum of 65% of NPAT arising from the net earnings of the CentrePort dividend and North St investment,
- Victoria Avenue's net return to fund the repayment the external loan to its shareholder in the timeliest manner.

Should an interim dividend be declared by the Board, it would be passed onto Council in February once the half-year financial statements are complete. Should a final dividend will be declared in June, the Board propose issuing the dividend after the financial statements have been audited. It should be noted that there is uncertainty regarding the dividend due to the on-going uncertainty around CentrePort. In addition, the returns from the 23 Victoria Avenue development will not be confirmed until the development is complete and fully tenanted.

11. Information to be provided to the Shareholder

The company will deliver the following statements to Council:

- Within three months of the end of the financial year audited Financial Statements (complying with LGA, NZGAAP and PBE standards), Statement of Service Performance plus a summary of how the company has performed against its objectives.
- Within 2 months of the end of the half year (31st December each year), interim financial statements that comply with PBE IAS 34 "Interim Financial Reporting". This will include a progress report on company activities and service performance against targets.

12. Procedures for the Purchase and Acquisition of Investments

Before MWRCH limited acquires a significant investment it will seek approval of its shareholder.

13. Estimate of Commercial Value of the Shareholders' Investment

The Directors' estimate of the commercial value of the Shareholders' investment in MWRCH is equal to the Shareholders' equity in the Company. Reassessment of the value of this shareholding shall be undertaken in September each year, after the CentrePort results are known.

The current value at 30 June 2018 of the CentrePort Ltd investment has taken into account the impact of the Kaikoura Earthquake.

MWRC Holdings Ltd
Statement of Comprehensive Revenue and Expenses
For the 12 Months to 30 June

2018/19 $000 Outlook		2019/20 $000 SOI	2020/21 $000 Indicative	2021/22 $000 Indicative
	Revenue			
923	Dividends	1,154	1,385	1,385
247	Rent Revenue	1,552	1,899	1,899
28	Interest	20	6	31
1,198	**Total Revenue**	2,726	3,290	3,315
	Expenditure			
163	Administration and Accountancy Services	150	75	74
105	Project/Facility Management	40	40	40
10	Director Fees	10	10	10
132	Ground Lease	132	132	132
-	Finance Cost	431	539	507
106	Insurance	110	110	110
71	Other	74	74	74
-	Depreciation	23	31	27
73	Technical Services	65	60	60
660	**Total Expenditure**	1,035	1,071	1,034
538	**Net profit before taxation**	1,691	2,219	2,281
-	Tax	-	-	-
538	**Net profit after taxation**	1,691	2,219	2,281
400	Dividend to Shareholder	1,392	2,100	1,000
400	**Total Distribution to Shareholder**	1,392	2,100	1,000
74%	Percentage to Shareholder	82%	95%	43%

MWRC Holdings Ltd
Statement of Changes in Net Assets/Equity
For the 12 Months to 30 June

2018/19 $000 Outlook		2019/20 $000 SOI	2020/21 $000 Indicative	2021/22 $000 Indicative
36,549	**Opening Equity**	36,687	37,169	37,785
-	Capital Introduced			
538	Net Surplus (Deficit) for the year	1,691	2,219	2,281
(400)	Dividends Paid	(1,392)	(2,100)	(1,000)
-	Asset Revaluation Adjustment	183	497	-
36,687	**Closing Equity**	37,169	37,785	39,066

MWRC Holdings Ltd
Statement of Financial Position
As at 30 June

2018/19 $000 Outlook		2019/20 $000 SOI	2020/21 $000 Indicative	2021/22 $000 Indicative
	Equity			
31,500	Contributed Capital	31,500	31,500	31,500
1,918	Reserves	2,101	2,598	2,598
3,269	Accumulated Funds	3,568	3,687	4,968
36,687	**Total Equity**	37,169	37,785	39,066
	Assets			
4,271	Cash and Cash Equivalents	511	1,502	711
-	Income Tax Receivable	-	-	-
4,271	Total Current Assets	511	1,502	711
27,300	CentrePort	27,300	27,300	27,300
23,265	Investment Property	28,090	28,588	28,588
-	Fit Out Assets	209	177	151
54,836	**Total Assets**	56,110	57,567	56,750
	Liabilities			
3,130	Payables and Accruals	1,922	2,763	1,665
19	Deferred Tax	19	19	19
15,000	Borrowings	17,000	17,000	16,000
18,149	**Total Liabilities**	18,941	19,782	17,684
36,687	**Net Assets**	37,169	37,785	39,066
	Financial Performance			
0.38%	Return on total assets	0.81%	0.32%	3.33%
-	Growth on Investments	0.36%	1.23%	1.22%

MWRC Holdings Ltd
Statement of Cash Flows
For the 12 Months to 30 June

2018/19 $000 Outlook		2019/20 $000 SOI	2020/21 $000 Indicative	2021/22 $000 Indicative
	Cash flows from Operating Activities			
	Cash received from			
923	Dividends	1,154	1,385	1,385
284	Other Income	1,786	2,183	2,183
28	Interest	20	6	31
2,175	GST received/(paid)	593	(79)	(206)
	Cash applied to			
-	Interest Paid	(395)	(530)	(510)
(758)	Payments to suppliers & employees	(2,342)	(581)	(575)
(525)	Cash Flows from other operating activities	-	-	-
2,127	**Net cash from Operating Activities**	816	2,384	2,308
	Cash flows from Investing and Financing Activities			
	Cash received from			
-	Liquid Investments	-	-	-
15,000	Proceeds from Loan Borrowings	2,000	-	-
-	Investment By Shareholder	-	-	-
	Cash applied to			
-	Liquid Investments	-	-	-
(18,246)	Long Term Investments	(5,571)	-	-
-	Repayment of Loans	-	-	(1,000)
	Dividends Paid	(400)	(1,392)	(2,100)
(3,246)	**Net cash from Investing and Financing Activities**	(3,971)	(1,392)	(3,100)
(1,119)	**Net increase (decrease) in cash flow**	(3,155)	992	(792)
4,541	**Opening cash balance**	3,422	267	1,259
3,422	**Closing cash balance**	267	1,259	467

Statement of Accounting Policies
MWRC Holdings Ltd

Statement of accounting policies

MWRC Holdings Limited (MWRCH) is a Council Controlled Trading Organisation (CCTO), owned 100% by the Horizons Regional Council (HRC). MWRCH was incorporated on 14 December 2009, and commenced trading on 15 December 2009. MWRCH was primarily incorporated for the purposes of managing the investments of HRC, and has designated itself a Public Benefit Entity (PBE) for Financial Reporting purposes, in keeping with the designation of the shareholder. These Interim Financial Statements are in compliance with PBE IAS 34.

Basis of Preparation

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of Compliance

The financial statements of MWRCH have been prepared in accordance with the requirements of the Local Government Act 2002, which include the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZGAAP).

The financial statements have been prepared to comply with Public Benefit Entity Standards (PBE Standards) for a Tier 2 entity. MWRCH is not publicly accountable and our expenditure is not higher than $30 million. These financial statements comply with PBE standards.

Revenue

Revenue is measured at the fair value of consideration received or receivable.

Specific accounting policies for major categories of revenue are outlined below:

Other Revenue

Other forms of revenue including rental, fees, charges, and other revenues are recognised on an accrual basis.

Dividends received are recognised when the right to the payment is established.

Interest revenue is recognised using the effective interest method. Interest revenue on an impaired financial asset is recognised using the original effective interest rate.

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the term of the lease.

Expenditure

Expenditure is recognised on an accrual basis when the service was provided, or the goods received.

Income Tax

Income tax expense may comprise both current and deferred tax, and is calculated using tax rates that were enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements, and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which MWRCH expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination or transactions recognised in other comprehensive revenue and expense, or directly in equity.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, on demand or call deposits, other short-term deposits with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities, in the statement of financial position.

Trade and Other Receivables

Trade and other receivables are initially stated at their face value, less any provision for impairment.

Other Financial Assets

Financial assets are initially recognised at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit.

Purchases and sales of financial assets are recognised on trade-date, the date on which MWRCH commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and MWRCH has transferred substantially all the risks and rewards of ownership.

Financial assets are classified into the following categories for the purpose of measurement:

- fair value through surplus or deficit;
- loans and receivables;
- held-to-maturity investments; and
- fair value through other comprehensive revenue and expense.

The classification of a financial asset depends on the purpose for which the instrument was acquired. MWRCH has the following assets:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

After initial recognition, they are measured at amortised cost, using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

Fair value through other comprehensive revenue and expense

Financial assets at fair value through other comprehensive revenue and expense are those that are designated into the category at initial recognition or are not classified in any of the other categories above.

They are included in non-current assets unless management intends to dispose of, or realise, the investment within 12 months of balance date. MWRCH includes in this category:

- investments that it intends to hold long-term but which may be realised before maturity; and
- shareholdings that it holds for strategic purposes.

These investments are measured at their fair value, with gains and losses recognised in other comprehensive revenue and expense.

On derecognition, the cumulative gain or loss previously recognised in other comprehensive revenue and expense.

Impairment of Financial Assets

Financial assets are assessed for evidence of impairment at each balance date. Impairment losses are recognised in the surplus or deficit.

Loans and receivables

Impairment is established when there is evidence that the Council and group will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership, or liquidation and default in payments are indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written-off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits, local authority stock, government bonds, and community loans, are recognised directly against the instrument's carrying amount.

Financial assets at fair value through other comprehensive revenue and expense

For equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment.

For debt investments, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are objective indicators that the asset is impaired.

If impairment evidence exists for investments at fair value through other comprehensive revenue and expense, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

Equity instrument impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

If in a subsequent period the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed in the surplus or deficit.

Investment Property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs. After initial recognition, all investment property is measured at fair value at each reporting date. Gains or losses arising from a change in the fair value of investment property are recognised in the surplus or deficit.

Payables

Short-term creditors and other payables are recorded at their face value.

Borrowings

Borrowings are initially recognised at their fair value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless MWRCH has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Borrowing Costs

All borrowing costs are recognised as an expense in the period in which they are incurred.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in "finance costs".

Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves.

The components of equity are:

- Investment revaluation reserves;
- Accumulated funds
- Contributed capital.

Investment Revaluation Reserves

These reserves relate to the revaluation of MWRCH's investment in CentrePort Limited. This reserve comprises the cumulative net change in the fair value through other comprehensive revenue and expense.

Goods and Services Tax (GST)

These financial statements are presented net of GST, except for receivables and payables which are inclusive of GST. Where GST paid is not recoverable, due to it relating to exempt items, the GST inclusive amount is recognised as part of the related asset or expense including the GST relating to investing and financing activities.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or recovered from, the Inland Revenue Department is recognised as an item in operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST