



# ANNUAL REPORT SUMMARY 2018-19



# Message from the **CHAIR AND CHIEF EXECUTIVE**



2018-19 was another busy financial year for Horizons Regional Council, with our work programmes for Year 1 of the Long-term Plan making significant progress.

In mid-2018 Horizons was successful in securing funding from central government to help with Council's erosion control programme, the Sustainable Land Use Initiative (SLUI). \$300,000 was secured from the Ministry for Primary Industries through a special funding round under the Hill Country Erosion Fund. The extra boost was really helpful in providing poplar and willow poles for the Ruapehu District, which was storm damaged in March 2018, and planting riparian zones on roughly 500 hectares of hill country throughout the region.

Council recommended a three staged approach to freshwater management in August 2018. This approach is now underway and includes notifying the Proposed Plan Change 2 of the One Plan, which looks to update nitrogen leaching numbers to the latest version of Overseer and to provide a pathway for existing farmers and growers in target catchments to apply for resource consent. The second part of the package is broader proposed plan changes. The third stage is an approach to better freshwater outcomes across the region through collaborative catchment processes. This programme is called Our Freshwater Future, and the first of these catchment reviews will be in the Manawatū Catchment.

Later in 2018, we received the tick of approval from the Environmental Protection Authority (EPA) to use the gall mite *Aceria vitalbae* for biological control against the invasive pest plant, old man's beard. Importing this gall mite is a world first, introducing the insect from the northern hemisphere home range of the pest, and an accumulation of 10 years hard work to organise funding, rigorous testing and going through a thorough EPA applications process to ensure the agent only affects the intended host. Biological control methods aren't just limited to old man's beard either, as success is already being seen by the Scotch broom gall mite. Our biosecurity staff were able to collect mite infested plants to provide to landowners in December 2018.

In November 2018, the Ōroua River was recognised at the New Zealand River Awards for the most improved river within our region for dissolved reactive phosphorous (DRP),

and second most improved nationally. The same month, progress of initiatives to improve the Manawatū River Catchment through the Manawatū River Leaders' Accord were celebrated with an inaugural festival in November 2018.

Come summer time, and our communities were engaged with swim spot clean-ups held across the region as part of our summer swimming campaign. The campaign was in its third successful year, however, this was the first time Horizons had hosted the clean-up events which provided community members an opportunity to contribute towards improving both water quality and the environment. These events attracted up to 60 people each, noting the weather varied between pouring with rain and glorious summer days.

To round off a successful year was the release of our State of Environment report, which reveals the state and trends of our climate, air, land and water. Data for the report was collated and written from staff across our science, land, biodiversity and biosecurity, river management and communication teams. This data helps to inform both our regulatory and non-regulatory programmes looking forward.

This message is just a snapshot of some key projects that have taken place over the past year at Horizons. We encourage you to take a good look at the activity reports inside this document to find out more. As a council, it is now important to look ahead to the opportunities that the 2019-20 year will bring. We intend to continue our stringent financial approach and maintain our quality of service while undertaking work that will see our region grow environmentally, socially, and economically.

**BRUCE GORDON  
CHAIR**

**MICHAEL MCCARTNEY  
CHIEF EXECUTIVE**

This summary is a snapshot of our work programmes in the year from 1 July 2018 to 30 June 2019, taken from the audited full financial statements included in the Annual Report 2018-19, which was adopted by Horizons Regional Council on 5 November 2019.

The information presented in these summary financial statements do not show a complete understanding, as provided by the full financial statements contained within the Annual Report 2018-19. The Annual Report is obtainable from Horizons Regional Council offices, or can be downloaded from our website [www.horizons.govt.nz](http://www.horizons.govt.nz).

The Annual Report 2018-19 has been audited, and received an audit opinion dated 5 November 2019. The audit opinion was unmodified with an emphasis of matter in relation to the impact of the 2016 Kaikoura Earthquake on the parent and group investments as outlined on page 7 of the annual report summary.

## DISCLOSURES

Horizons' full financial statements were prepared in accordance with the requirements of the Local Government Act 2002, which include the requirement to comply with New Zealand generally accepted accounting practices (NZ GAAP).

These summary financial statements have been prepared to comply with Public Benefit Entity Standard (PBE Standard) FRS43. This standard also requires Horizons to make the following disclosures:

- This Annual Report Summary 2018-19 is prepared for Horizons Regional Council, which is the trading name of the Manawatū-Whanganui Regional Council, a local authority governed by the Local Government Act 2002. These summary financial statements are for the year ended 30 June 2019, and are presented for the Horizons Group, which consists of:
  - Horizons Regional Council (the "Parent Entity")
  - A subsidiary MWRC Holdings Limited (a Council Controlled Trading Organisation (CCTO))
- Horizons has designated itself as a Public Benefit Entity (PBE) and applies New Zealand Tier 1 Public Benefit Entity Accounting Standards (PBE Accounting Standards). These standards are similar to International Public Sector Accounting Standards, with amendments for the New Zealand regulatory environment. As Horizons meets the definition of a PBE, it applies specific recognition and measurement requirements that apply to PBE's. The information and specific disclosures included in this summary have been extracted from the full financial statements, included in the Annual Report 2018-19.
- Horizons has made an explicit and unreserved statement of compliance with PBE standards in its "Notes to the Financial Statements" on page 107 of the full financial statements.

## GENERAL

### Financial Overview

These summary financial statements are presented in New Zealand dollars, which is our functional currency, and all values are rounded to the nearest thousand dollars (\$000s).

### STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSES FOR THE YEAR ENDED 30 JUNE 2019 (\$000)

	LTP Year 1 2018-19	Council Actual 2018-19	Group Actual 2018-19	Council Actual 2017-18	Group Actual 2017-18
Revenue					
Rates	44,616	44,338	44,338	41,496	41,496
Subsidies and grants	5,234	8,252	8,252	6,091	6,091
Development and financial contributions	-	-	-	-	-
Finance revenue	1,384	494	1,528	851	930
Other revenue	9,539	10,975	10,734	13,016	12,662
<b>Total Revenue</b>	<b>60,773</b>	<b>64,059</b>	<b>64,852</b>	<b>61,453</b>	<b>61,178</b>
Personnel costs	19,898	18,605	18,605	18,531	18,531
Depreciation and amortisation expense	4,090	3,908	3,908	3,676	3,676
Finance costs	1,519	1,384	1,384	858	858
Other expenses	32,789	36,987	37,185	32,651	32,531
<b>Total Expenses</b>	<b>58,296</b>	<b>60,884</b>	<b>61,083</b>	<b>55,715</b>	<b>55,595</b>
Surplus/(Deficit) Before Tax	2,476	3,175	3,769	5,739	5,583
Income tax expense/benefit	-	-	(87)	-	8
<b>Surplus/(Deficit) After Tax</b>	<b>2,476</b>	<b>3,175</b>	<b>3,856</b>	<b>5,739</b>	<b>5,575</b>
<b>Other comprehensive revenue and expense</b>					
Financial assets at fair value through other comprehensive revenue and expense	178	384	12,084	363	363
Gain on property, plant, and equipment revaluations	970	82,284	82,284	9,086	9,086
<b>Total Other Comprehensive Revenue and Expense</b>	<b>1,148</b>	<b>82,668</b>	<b>94,368</b>	<b>9,449</b>	<b>9,449</b>
<b>Total Comprehensive Revenue and Expense</b>	<b>3,624</b>	<b>85,843</b>	<b>98,224</b>	<b>15,188</b>	<b>15,025</b>

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019 (\$000)

	LTP Year 1 2018-19	Council Actual 2018-19	Group Actual 2018-19	Council Actual 2017-18	Group Actual 2017-18
Total current assets	11,227	13,449	18,827	16,245	20,469
Total non-current assets	576,688	672,620	686,738	566,760	568,375
<b>Total Assets</b>	<b>587,916</b>	<b>686,069</b>	<b>705,590</b>	<b>583,005</b>	<b>588,844</b>
Total current liabilities	11,931	13,972	16,039	21,828	22,601
Total non-current liabilities	35,000	40,806	40,806	15,729	15,748
<b>Total Liabilities</b>	<b>46,931</b>	<b>54,778</b>	<b>56,845</b>	<b>37,557</b>	<b>38,348</b>
<b>Net Assets (Assets Minus Liabilities)</b>	<b>540,984</b>	<b>631,291</b>	<b>648,720</b>	<b>545,448</b>	<b>550,496</b>
Asset revaluation reserves	162,350	252,086	252,086	169,802	169,802
Fair value through other comprehensive revenue and expense reserve	328	1,062	14,680	678	2,596
Restricted reserves	8,237	9,545	9,545	12,183	12,183
Infrastructure insurance reserves	2,940	3,440	3,440	2,820	2,820
Accumulated funds	367,129	365,158	368,969	359,965	363,094
<b>Total Equity</b>	<b>540,984</b>	<b>631,291</b>	<b>648,720</b>	<b>545,448</b>	<b>550,496</b>

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019 (\$000)

	LTP Year 1 2018-19	Council Actual 2018-19	Group Actual 2018-19	Council Actual 2017-18	Group Actual 2017-18
Balance at 1 July	537,360	545,448	550,496	530,260	535,471
Total comprehensive revenue and expense for the year	3,624	85,843	98,224	15,189	15,025
<b>Balance at 30 June</b>	<b>540,984</b>	<b>631,291</b>	<b>648,720</b>	<b>545,448</b>	<b>550,496</b>

## STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2019 (\$000)

	LTP Year 1 2018-19	Council Actual 2018-19	Group Actual 2018-19	Council Actual 2017-18	Group Actual 2017-18
Net cash flow from operating activities	6,899	8,389	8,195	6,535	6,583
Net cash flow from investing activities	(23,113)	(27,033)	(26,248)	(14,866)	(11,865)
Net cash flow from financing activities	8,000	15,116	14,961	5,000	5,000
<b>Net (decrease)/increase in cash, cash equivalents and bank overdrafts</b>	<b>(8,214)</b>	<b>(3,528)</b>	<b>(3,092)</b>	<b>(3,330)</b>	<b>(279)</b>
Cash, cash equivalents, and bank overdrafts	11,790	6,682	11,222	10,012	11,501
<b>Closing cash balances</b>	<b>3,576</b>	<b>3,154</b>	<b>8,130</b>	<b>6,682</b>	<b>11,222</b>

## EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Explanation of major variances from HRC's estimated figures in the Annual Plan 2018-2019 are as follows:	"Long-term Plan Year 1" \$000	Actual \$000	Variance \$000
<b>Subsidies and Grants</b>	5,234	8,251	3,017
Transport incurred higher than budgeted expenses resulting in an increased subsidy received of \$900k from NZTA. Additional contracted funding was received through partnerships with Central Government Agencies including MFE & MPI for our SLUI, Wilding Conifer and Manawatū River Accord projects.			
<b>Finance Revenue</b>	1,384	494	(890)
No dividends received, subvention payment from MWRC Holdings was less than anticipated due to lower than expected profits.			
<b>Other Revenue</b>	9,539	10,975	1,436
The key variances for other revenue is made up of a number of unbudgeted additional revenue streams as a result of additional services and programmes identified post Long-term Plan. Examples of this being special projects such as the Ashhurst Domain (\$0.346 million), MFE contributions (\$0.438 million), MWRC Holdings: lease and other revenue (\$0.399 million), National Cycle Education (\$0.128 million), Ruapehu Alpine Bus Service (\$0.381 million), and increase in incident fine revenue (\$0.309 million). The balance is made up of multiple smaller variance across various projects.			
<b>Personnel Costs</b>	19,898	18,605	1,293
Budgeted roles taking time to recruit to meet required skills and experience.			
<b>Other Expenses</b>	32,789	36,987	(4,198)
Additional costs associated with increased grants and other revenue, as mentioned above. Examples being Transport, Wilding Conifer, and Manawatū River Accord projects.			
<b>Gain (Loss) on Asset Revaluation</b>	970	82,284	81,314
Infrastructure assets revalued a year earlier than anticipated due to significant movements in asset values. Also the full land and buildings portfolio was revalued rather than a portion which was budgeted for.			
<b>Cash and Cash Equivalents</b>	3,575	3,154	(421)
Refer to Statement of Cashflows for full details. Key drivers are an additional acquisition of investments (see Loan to CCO below), and increased expenditure (see Other Expenses above), offset by increased revenue and borrowings, and a higher budgeted opening balance.			
<b>Receivables</b>	4,387	6,955	2,568
Receivables higher than budget due to several large contracts being invoiced in June. All debtors are expected to meet their obligations.			
<b>Accruals</b>	2,441	1,688	(753)
Timing of year end accruals, all obligations will be met in July.			
<b>Inventory on Hand</b>	600	1,154	554
Higher stock levels than budgeted. Inventory on hand is similar to previous years.			
<b>Investments in Other Entities</b>	2,906	3,164	258
The Hobson Wealth investment portfolio returns were higher than expected.			
<b>Investments in CCO's</b>	32,298	32,876	578
Actual results reflect ownership MWLASS, RSHL and MWRC Holdings Ltd; no new investments were taken on in 2017-18. LGFA deposits have increased as a result of the increase in loans drawn down.			
<b>Loan to CCO</b>	11,100	15,000	3,900
Increase in advance to MWRC Holdings due to timing of when funding was required, resulting in funding brought forward to 2020.			
<b>Investment property</b>	-	2,500	2,500
Land re-classified as investment property for 17-23 Victoria Avenue which was not budgeted for in the LTP.			
<b>Forestry Assets</b>	2,757	5,362	2,604
Forestry revaluations higher than anticipated in the Long-term Plan.			
<b>Intangible Assets</b>	4,548	3,993	(555)
Delays in planned projects such as the Electronic Records Management System.			
<b>Operational Assets</b>	56,362	64,631	8,269
Revaluation of land and buildings, and operational works completed and capitalised which were not budgeted to be complete this financial year.			
<b>Infrastructural Assets</b>	463,680	542,054	78,374
Revaluation of Infrastructure assets at year end (river systems and drainage systems). This was not planned to be completed this year.			
<b>Trade and Other Payables</b>	9,840	12,214	(2,373)
Areas of the organisation incurring more costs in June resulting in an increase in payables.			
<b>General and Employee Entitlements Provision</b>	1,891	1,710	181
Anticipated an increase in leave provision which did not eventuate as a result of proactive management.			
<b>Debt - non-current portion</b>	35,000	40,000	(5,000)
Increase in advance to MWRC holdings due to timing of when funding was required, resulting in debt brought forward to 2020.			

## STATEMENT OF SERVICE PERFORMANCE

During the year Horizons achieved 79.34% of all its targets (last year's achievement was 82.05%). Three out of the 6 Groups of Activities reported on in the 2018-19 Annual Report showed an improvement in targets achieved over the financial year (last year five).

Land and Water Management, Flood Protection and Control Works, and Investment, which was close to target, reported lower levels of achievement (last year one). Both the Regional Leadership and Governance Activities increased from 85% to 88%, with the Environmental Reporting, Governance, Information and Strategic Management Activities achieving 100% of their applicable targets. The Emergency Management Activity achieved 88%. Biosecurity and Biodiversity Management achieved 93%, with the Biodiversity Activity achieving 100%.

### Land and Water Management Group

The Land Management Activity achieved all 6 of the performance indicators set. This included mapping 3,156 hectares of erosion control works in targeted SLUI catchments, and 22,968 hectares of Whole Farm Plans mapped. The Water Quality and Quantity Activity achieved 17 of the 19 key performance indicators set. Across the 2018-19 year, a total of 114km of stream fencing has been completed, 136,145 plants have been established in stream margins and 7 barriers to fish passages have been repaired. The Resource Consent and Pollution Management Activity achieved 2 of the 8 indicators set, with another 1 not applicable.

### STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019 NON FINANCIAL TARGETS

Group of Activities	No. of targets 2018-19	Achieved 2018-19	Measure not available or applicable 2018-19	Partially or not achieved 2018-19	% Achieved 2018-19	% Achieved 2017-18
Land and Water Management	34	25	1	8	75.76%	85.19%
Flood Protection and Control Works	33	19	3	11	63.33%	70.37%
Biosecurity and Biodiversity Management	17	13	3	1	92.86%	92.86%
Regional Leadership and Governance	33	28	1	4	87.50%	85.29%
Transport	9	7	2	0	100.00%	70.00%
Investment	5	4	0	1	80.00%	100.00%
<b>TOTALS 2018-19</b>	<b>131</b>	<b>96</b>	<b>10</b>	<b>25</b>	<b>79.34%</b>	
<b>TOTALS 2017-18</b>	<b>124</b>	<b>96</b>	<b>7</b>	<b>21</b>		<b>82.05%</b>

### Regional Leadership and Governance

Of the overall 33 key performance indicators for this Group, 28 were achieved, 4 were not achieved and 1 was not applicable. The Community Relationships Activity achieved 8 out of 10 key performance measures. The Communications Project Group achieved 1,680 media mentions, only 170 below the target of 1,850. A network outage meant that the 24-7 call centre availability performance measure for the Customer Service Project Group was not achieved. The Environmental Reporting Activity achieved all 6 of its key performance measures.

Emergency Management achieved 7 out of 8 performance measures. Due to appropriate external resources being unavailable not all outputs were completed for hazard information update being carried out to update information as per the approved project plan. These are being carried over for completion in 2019-20. The Governance Activity achieved 3 of the 4 performance targets, with the fourth being not applicable. The Information Activity achieved all 3 performance indicators set. The Iwi Activity did not achieve its key performance measure, surveying of iwi and hapū in the region on their satisfaction with their collaborative relationships with Horizons. This survey has now been postponed until 2019-20 financial year. Strategic Management achieved the only key performance measure set out the year.

### Biosecurity and Biodiversity Group

The Biosecurity Activity achieved 8 of the 12 performance indicators set. This included maintaining possum densities at below 10% of residual trap-catch, treating all known rookeries to reduce crop losses and damage, and monitoring of released biological agents to assess establishment and host damage. The Biodiversity Activity achieved all 5 of the key performance indicators, which included exceeding the number of community-based biodiversity improvements projects supported by 20.

### Transport

The Road Safety Education Activity achieved its key performance indicator, delivering a total of 41 road safety programmes across the region. Transport Planning Activity achieved 2 of 4 performance measures, with the others being not applicable; and the Passenger Transport Activity achieved all 4 of the key performance indicators set for the year.

## Flood Protection and Control Works

The River and Drainage General Activity achieved 5 of its 9 key performance indicators. 3 of the measures not achieved were new and included completing the Forest Road Audit, completing the operations and maintenance manuals for the Forest Road and Lower Manawatū Schemes, and completing the Koputaroa Scheme Classification review. Only 8 environmental grants were funded instead of 10 due to the amount of available funding. The River and

Drainage Scheme Activity achieved 14 of its 24 performance measures. Three of these were not applicable, while 2 of the not achieved included the stopbanks in the Mangatainoka Scheme only reaching 88% of the agreed 90% maintenance level, and in the South Eastern Ruahine Scheme the agreed measured condition ratings for stopbanks and bed control structures have not been met due to flood events.

## OTHER DISCLOSURES

### Contingent Liabilities

Horizons has an investment in pre-1990 forestry, and although Horizons may have a potential liability for deforestation penalties should these be harvested and not replanted, Horizons does not consider these to be significant.

#### Local Government Funding Agency (LGFA)

The Council is a guarantor of LGFA. The LGFA was incorporated in December 2011 with the purpose of providing debt funding to local authorities in New Zealand. It has a current credit rating from Standard and Poor's of AA+ and a foreign currency rating of AA.

As at 30 June 2019, the Council is one of 52 local authority borrowers and guarantors of the LGFA. Also together with the other shareholders and guarantors, the council is a guarantor of all the LGFA's borrowings. The LGFA's loans to local authorities are \$9.5 billion (2018: \$8.6 billion), of which the Group and the Council have borrowed \$0.035 billion (2018: \$0.025 billion). As a result, the Group and the council's cross-guarantee on LGFA's loans to other local authorities is \$9.5 billion (2018 \$8.6 billion).

PBE Accounting Standards require the Group and the Council to recognise the guarantee liability at fair value. However, the Group and the Council have been unable to determine a sufficiently reliable fair value for the guarantee, and therefore has not recognised a liability. The Group and the Council consider the risk of the LGFA defaulting on repayment of interest or capital to be very low on the basis that:

- The Council is not aware of any local authority debt default events in New Zealand; and
- Local government legislation would enable local authorities to levy a rate to recover sufficient funds to meet any debt obligations if further funds were required.

There are no other contingent liabilities.

### Contingent Assets

Horizons has no significant contingent assets at balance date (last year nil).

### Associate/Subsidiary Contingent Liabilities

MWRC Holdings Ltd has entered into an agreement with a future tenant and the agreement contains construction timelines which are required to be met. Should these not be met there is potential liability for the company (there were no contingent liabilities or guarantees in 2018).

### Liabilities of Associates/Subsidiaries for Which the Group is Severally Liable

There are no liabilities for which Horizons is severally liable (last year nil).

### Operating Lease Commitments

Horizons has an operating lease commitment as Lessee as at 30 June 2019 relating to leasing of printers and copiers (same as last year). Horizons also has an operating lease commitment as Lessee for land leased for the Whanganui Service Centre and at 717 Tremaine Avenue, Palmerston North. Total commitment for this at 30 June 2019 is \$0.316 million (last year \$0.367 million).

There are General Operating Land Lease commitments for Horizons as Lessors, primarily in respect of river and drainage scheme land leased out for agricultural purposes. Total commitments for Council and Group for these at 30 June 2019 are \$5.251 million (last year \$5.104 million).

Horizons has a new ground lease to MWRC Holdings Ltd for 17-23 Victoria Ave, Palmerston North. Total commitment as Lessee for this at 30 June 2019 is \$4.488 million (last year \$4.620 million).

There are operating lease commitments for MWRC Holdings Ltd as Lessors in respect of a property at 28 North Street, Palmerston North. Total commitments for these at 30 June 2019 are \$1.215 million (last year \$1.402 million).

Total commitments as Lessors is \$9.739 million for Horizons and \$6.466 million for the Group (last year \$9.724 million and \$6.506 million).

Council Actual 2017-18 \$000	Group Actual 2017-18 \$000		Council Actual 2018-19 \$000	Group Actual 2018-19 \$000
<b>Infrastructural Assets</b>				
1,058	1,508		1,655	1,655
<b>Software</b>				
139	139		-	-
<b>Scientific/Hydrological Equipment</b>				
99	99		65	65
<b>Buildings</b>				
-	2,668		-	4,782
<b>Total Other Commitments</b>				
1,296	3,964		1,719	6,501

## IMPACT OF THE 2016 KAIKOURA EARTHQUAKE ON PARENT AND GROUP INVESTMENTS

### Overview

CentrePort's property and port assets sustained significant damage during the 14 November 2016 (Kaikoura) earthquake. CentrePort is the single largest investment that MWRC Holdings Ltd owns and represents 80% of the \$49 million of MWRC Holdings Ltd net assets at 30 June 2019.

At a Group level CentrePort represents an investment of \$39 million and represents 90% of Horizons Group Other Financial Assets.

### (i) Council's Investment in MWRC Holdings Ltd

Council holds its investment in MWRC Holdings Ltd at cost at the parent level

### (ii) Group Investment in the Unlisted CentrePort Shares

The carrying value of the Company's 23.08% shareholding in CentrePort as at 30 June 2019 has been increased.

CentrePort's property and port assets sustained significant damage during the earthquake. CentrePort has received significant funds from its material damage and business interruption insurance cover. The remainder of the insurance proceeds related to the earthquake are expected to be received in the 2020 financial year.

The earthquake's impact on CentrePort's cash flows this year and over the period of its forecasts is material. In particular the extent of the company's future capital spend on port operating assets remains a matter of considerable uncertainty and with a very material impact on the valuation of the Council's shareholding.

The valuation advice for port operations was determined using a discounted cash flow methodology based on the following information provided by CentrePort:

- 2020 – 2022 Statement of Intent (SOI)
- Previously provided forecast statements in the 2019 to 2028 10 year plan model
- Guidance on to forecast longer term capital expenditure
- Forecast operations revenue
- An asset based approach was used for the commercial property interest

### Uncertainties in the Valuation Advice

The MWRC Holdings Ltd Directors' note that there are key uncertainties highlighted in the fair value valuation advice they have received. Those uncertainties include:

- Tax allocation of insurance proceeds
- Capital expenditure may be greater or lesser than expected and at the time of the preparation of the CentrePort forecasts
- There was significant uncertainty as to the future spend arising from CentrePort's desire to build resilience into the port's infrastructure
- CentrePort's future operating performance may be better or worse than expected over the forecast period

### Assumptions

The independent valuation advice is based on the following key assumptions:

- In material respects, most key forecasts assumptions are as per the SOI and 10 year plan prepared by CentrePort.
- An annual maximum capital expenditure spend of \$102 million in any one year

- CentrePort will continue to provide port services at its current site and consistent with its current scale and scope of operations
- A valuation date as at 30 June 2019
- Mid period cash-flow timing
- A tax rate of 28%, with tax being paid in the year incurred
- A nominal terminal growth rate of 2.0%
- A discount rate range of 6.1% to 6.7%

The valuation assessment assumes 2% annual growth, if annual growth is 1%, then the valuation would decrease by \$6.7m or 17.1%. If annual growth is 3%, then the valuation would increase by \$10.3m or 26.3%.

A discount of 35% has been applied due to MWRC Holdings minority shareholding. MWRC Holdings has little control over CentrePort's operations as the other shareholder Greater Wellington has a majority shareholding of greater than 75%. This discount reflects the lower value this shareholding has since it has limited ability to influence strategy setting, dividend policy and the right to refuse the transfer of shares.

### Sensitivity Analysis

Sensitivity analysis has been completed where changes in key inputs to assumptions would significantly change the fair value. The change to the valuation from changing these inputs has been estimated as follows:

- The weighted average cost of capital (WACC) utilised to determine the DCF of the port operations ranged from 6.1% to 6.7% across the 10-year forecast period. If the WACC was increased by 0.5% for every time period, the impact on the value of the Council's shareholding would be a reduction of \$4.4m or 11.2%. If the WACC was reduced by 0.5% for every time period the impact on the value of the shareholding would be an increase of \$5.7m or 14.4%.
- If the value of CentrePort's commercial property interests was to vary by \$10m, the value impact would be \$1.5m or 3.8%.
- If the capital expenditure forecasts were to decrease by 5% from those assumed in the valuation, the value impact would be an increase of \$4.0m or 10.0%. If the capital expenditure forecasts were to increase by 5% from those assumed in the valuation, the value impact would be a decrease of \$4.0m or 10.0%.
- If the discount rate applied for the minority interest was to vary by 5% (to 30% or 40%) the value impact would be \$3.0m or 7.7%.

The valuation advice including calculating the discount rate has been carried out by an independent third party (PWC) with experience in valuing investments of this type.

Subsequent to the valuation being performed CentrePort Limited have reached a settlement with their insurers. This resolves the uncertainty around the insurance proceeds. The Council have subsequently received independent valuation advice and have confirmed that this settlement doesn't materially change the fair value of the CentrePort shares.

### Events after Balance Date

Other than the insurance settlement for CentrePort, refer to details noted above, there are no other subsequent events. For 2018 MWRC Holdings Ltd. has negotiated a construction contract with McMillan Lockwood for the development at 23 Victoria Avenue, Palmerston North. This contract was signed on 14 August 2018.



## INDEPENDENT AUDITOR'S REPORT

### To the readers of Horizons Regional Council's summary of the annual report for the year ended 30 June 2019

The summary of the annual report was derived from the annual report of the Horizons Regional Council for the year ended 30 June 2019.

The summary of the annual report comprises the following summary statements on pages 2 to 7:

- the summary statement of financial position as at 30 June 2019;
- the summaries of the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended 30 June 2019;
- the notes to the summary financial statements that include accounting policies and other explanatory information; and
- the summary statement of service performance.

### Opinion

In our opinion:

- the summary of the annual report represents, fairly and consistently, the information regarding the major matters dealt with in the annual report; and
- the summary statements comply with PBE FRS-43: Summary Financial Statements.

### Summary of the annual report

The summary of the annual report does not contain all the disclosures required by generally accepted accounting practice in New Zealand. Reading the summary of the annual report and the auditor's report thereon, therefore, is not a substitute for reading the full annual report and the auditor's report thereon.

The summary of the annual report does not reflect the effects of events that occurred subsequent to the date of our auditor's report on the full annual report.

### The full annual report and our audit report thereon

We expressed an unmodified audit opinion on the information we audited in the full annual report for the year ended 30 June 2019 in our auditor's report dated 5 November 2019.

That report also includes an emphasis of matter paragraph drawing attention to note 17 of the full annual report that explains how the fair value of shares in CentrePort Limited (CentrePort) has been determined and the uncertainties in measuring that fair value. Although the fair value is based on the best information available, due to the significant damage sustained by CentrePort in the Kaikoura earthquake, there is a high degree of uncertainty and judgement about:

- the future capital expenditure to be incurred and the timing of that expenditure;
- the impact on CentrePort's operations and demand for its services and how this affects revenue; and
- the tax treatment related to insurance proceeds received.

These uncertainties and judgements could have a material effect on the carrying value of the Regional Council's shares in MWRC Holdings Limited of \$31.5 million and the fair value of the group's shares held in CentrePort of \$39 million. Note 17 of the full annual report also states that CentrePort's insurance claim was settled after balance date. An extract of note 17 of the full annual report is included in the summary of the annual report on page 7.

### Council's responsibility for the summary of the annual report

The Council is responsible for preparing the summary of the annual report which includes preparing summary statements, in accordance with PBE FRS-43: Summary Financial Statements.

### Auditor's responsibility

Our responsibility is to express an opinion on whether the summary of the annual report represents, fairly and consistently, the information regarding the major matters dealt with in the full annual report and whether the summary statements comply with PBE FRS 43: Summary Financial Statements.

Our opinion on the summary of the annual report is based on our procedures, which were carried out in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests in the Regional Council or its subsidiaries and controlled entities.



Debbie Perera  
Audit New Zealand  
On behalf of the Auditor General  
Palmerston North, New Zealand  
4 December 2019



# horizons

REGIONAL COUNCIL



For more information visit [www.horizons.govt.nz](http://www.horizons.govt.nz)  
or freephone Horizons on **0508 800 800**

