MWRC Holdings Limited

Final Statement of Intent for 2018/19 – 2020/21

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 draft SOI was delivered before 1 March 2018 and feed back was sought by 1 May 2018. The final SOI incorporating shareholder comments has been adopted by the board on 14 May 2018 ahead of 30 June 2018 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 is referred to below.

In addition MWRCH manages the $2.4 million investment in a Private Wealth portfolio. This value was as published at 30 June 2017.

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.
- To develop sound and prudent strategies and policies for its trading and capital intensive investments
- To operate within the developed process for identifying and evaluating potential investment opportunities in a non-political environment.
- To manage the $2.4 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 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.
- To carry out and complete the development of 23 Victoria Avenue, as set out below.

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 an indicative value of $25.1 million 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 will begin from this time.

This development is intended to be funded partly by the introduction of additional shareholder funds ($6.1 million) and partly by loans (currently estimated to be in the order of $18.0 million). MWRC Holdings Ltd are seeking loan funding through council but this requires that provision is made as part of Council's 2018-28 Long Term Plan. Any loan from council would be on terms and conditions that are no more favourable than those that would apply if Council were borrowing the money.

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 shareholders funds to total assets within the Forecast Statement of Financial Position.

	2018/19	2019/20	2020/21
Shareholders funds / total assets	76.9%	67.3%	67.7%
Net debt ($M)	11.0	18.0	18.0
Equity ($M)	37.2	37.5	38.2

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.

Appendix 1 includes MWRCH's Accounting Policies

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.

	2018/19	2019/20	2020/21 $000
Net Profit/(Loss) Before Tax ($000)	531	1,714	2,072
Income Return on Total Assets[1]	1.29%	3.29%	3.70%
Dividends and subvention payments ($000)	-	1,485	1,458
Capital Growth/(Loss) on Investments	-	-	-

[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 shareholder is under considerable financial pressure 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 in 2018/19,
- a minimum of 65% of NPAT in 2019/20,
- a minimum of 65% of NPAT in 2020/21.

Should an interim dividend be declared it will be paid in February once the half-year financial statements are complete. The final dividend will be declared in June and paid 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 2017 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

2017/18 $000 Outlook		2018/19 $000 SOI	2019/20 $000 Indicative	2020/21 $000 Indicative
	Revenue			
-	Dividends	923	1,154	1,385
-	Rent Revenue	234	1,764	1,899
30	Interest	10	20	25
263	**Total Revenue**	1,167	2,938	3,309
	Expenditure			
249	Company Expenses	636	1,224	1,237
249	**Total Expenditure**	636	1,224	1,237
15	**Net profit before taxation**	531	1,714	2,072
-	Tax	-	-	-
15	**Net profit after taxation**	531	1,714	2,072
10	Dividend to Shareholder	-	1,450	1,410
10	**Total Distribution to Shareholder**	-	1,450	1,410
-5%	Percentage to Shareholder	0%	85%	68%
209	Admin	164	274	274
0	Coy Exps	0	0	0
10	Dir Fees	10	10	10
0	Finance Cost	413	810	810
30	Other	50	95	95
0	Subvention	0	35	48
249	**Total**	**636**	**1,224**	**1,237**

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

2017/18 $000 Outlook		2018/19 $000 SOI	2019/20 $000 Indicative	2020/21 $000 Indicative
30,611	**Opening Equity**	33,716	37,246	37,510
3,100	Capital Introduced	3,000		
15	Net Surplus (Deficit) for the year	531	1,714	2,072
(10)	Dividends Paid	-	(1,450)	(1,410)
-	Asset Revaluation Adjustment	-	-	-
33,716	**Closing Equity**	37,246	37,510	38,172

MWRC Holdings Ltd
Statement of Financial Position
As at 30 June

2017/18 $000 Outlook		2018/19 $000 SOI	2019/20 $000 Indicative	2020/21 $000 Indicative
	Equity			
28,500	Contributed Capital	31,500	31,500	31,500
1,918	Reserves	1,918	1,918	1,918
3,298	Accumulated Funds	3,828	4,092	4,754
33,716	**Total Equity**	37,246	37,510	38,172
	Assets			
110	Cash and Cash Equivalents	113	118	170
400	Cash and Cash Equivalents	900	1,156	1,766
8	Income Tax Receivable	3	6	7
519	Total Current Assets	1,016	1,280	1,942
27,300	CentrePort	27,300	27,300	27,300
6,150	Investment Property	20,150	27,150	27,150
33,969	**Total Assets**	48,466	55,730	56,392
	Liabilities			
242	Payables and Accruals	209	209	209
11	Deferred Tax	11	11	11
-	Borrowings	11,000	18,000	18,000
253	**Total Liabilities**	11,220	18,220	18,220
33,716	**Net Assets**	37,246	37,510	38,172
	Financial Performance			
-0.68%	Return on total assets	1.29%	3.29%	3.70%
0.05%	Growth on Investments	1.57%	0.71%	1.77%
		76.9%	67.3%	67.7%

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

2017/18 $000 Outlook		2018/19 $000 SOI	2019/20 $000 Indicative	2020/21 $000 Indicative
	Cash flows from Operating Activities			
	Cash received from			
-	Dividends	923	1,154	1,385
234	Other Income	234	1,764	1,899
30	Interest	10	20	25
	Cash applied to			
-	Interest Paid	(413)	(810)	(810)
(233)	Payments to suppliers & employees	(248)	(379)	(379)
(8)	Tax expense	(3)	(3)	(1)
22	**Net cash from operating**	503	1,746	2,119
	Cash flows from Investing Activities			
	Cash received from			
-	Liquid Investments	-	-	-
	Cash applied to			
-	Liquid Investments	-	-	-
(3,100)	Long Term Investments	(14,000)	(7,000)	-
	Short Term Loan			
(3,100)	**Net cash from investing**	(14,000)	(7,000)	-
	Cash flows from Financing Activities			
	Cash received from			
3,100	Investment By Shareholder	14,000	7,000	-
	Cash applied to			
-	Dividend & Subvention payments	-	(1,485)	(1,458)
2,100	**Net cash from financing**	14,000	5,515	(1,458)
(978)	**Net increase (decrease) in cash flow**	503	261	661
1,488	**Opening cash balance**	510	1,013	1,274
510	**Closing cash balance**	1,013	1,274	1,935