



**Statement of Intent for three years:
2021-22, 2022-23 & 2023-24**

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 was delivered before 1 March 2021 and feedback was sought prior to 1 May 2021. The final SOI incorporating shareholder comments has been adopted by the board on 21st June 2021, ahead of 30 June 2021 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 \$70.0 million, the North Street Investment Property valued at \$3.15 million, the new development at 23 Victoria Avenue valued at \$24.1 million and the 7 Victoria Avenue Investment Property valued at \$1.1 million.

In addition MWRCH manages the \$3.9 million investment in a Private Wealth portfolio. This value was as published at 31 May 2021.

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 company's 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 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 be a minimum of two directors with no maximum number as per the company constitution. 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. The board will use its discretion in determining what is key, however as a general guide investments over \$500k will be referred to Council.

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 \$3.15 million North Street Investment Property.
- Hold and manage the \$24.1 million Victoria Ave Investment property.
- Hold and manage the \$1.1 million Victoria Ave Investment property.
- To manage the \$3.9 million Hobson Wealth investment as directed by council with a focus on increased returns rather than capital growth assets. 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

The development at the 23 Victoria Ave site is complete, with key tenants being IR, Objective and the Horizons and PNCC emergency management teams in occupancy. A tenant for the café space has been secured and are in the final stages of fit out for their leased space. The retail space remains untenanted at present.

The financial forecasts include expected returns from this investment to facilitate debt repayment and dividend returns.

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.

	2021/22	2022/23	2023/24
Shareholder funds / total assets	81.1%	81.1%	81.6%
Net debt (\$M)	15.2	15.1	15.0
Equity (\$M)	84.3	84.4	87.6

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. 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 debt repayment and/or reinvestment in the Company. To take into account the fact that the company is under financial pressure to maximise distributions to its shareholder, it is proposed that the dividend distribution to Council be increased to a minimum of 90% for the period covered by this Statement of Intent (subject to the company's solvency test requirements being met).

In line with this increased distribution no debt repayment is planned for the period covered by this SOI. This will be reviewed should there be a significant change in current interest rates.

10. Performance Targets

The targets are to:

- operate within agreed budgets,
- maintain the following financial performance targets.

	2021/22 \$000	2022/23 \$000	2023/24 \$000
Net Profit/(Loss) Before Tax	2,298	2,344	2,346
Income Return on Net Assets ¹	2.73%	2.78%	2.68%
Income Return on Net Assets ¹ excluding Investment in CentrePort	7.17%	7.53%	7.06%
Dividend Payments (excludes subvention payments)	2,236	2,221	2,221
Debt Repayment	-	-	-

¹ Return on Net Assets is calculated as the net profit before tax divided by the net assets.

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 2020 of the CentrePort Ltd investment has taken into account the impact of the Kaikoura Earthquake and uncertainties regarding Covid-19 impacts.

14. Covid-19 response

The pandemic had an initial negative impact on the Hobson Wealth portfolio value with a significant reduction coinciding with the Level 4 lockdown. This has recovered to pre Covid levels however there remains uncertainty regarding the long term impacts on the portfolio value.

The pandemic's long term impact on CentrePort is constantly developing. CentrePort's response is also constantly developing to ensure the Port's financial viability in the short term, while also planning for the future. The latest Statement of Intent continues to forecast strong financial results with the regeneration of the port a key strategic priority.

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

2020/21		2021/22	2022/23	2023/24
\$000		\$000	\$000	\$000
Outlook		SOI	Indicative	Indicative
	Revenue			
4,646	Dividends	1,385	1,385	1,385
1,863	Rent Revenue	2,066	2,120	2,128
1	Interest	83	89	92
6,510	Total Revenue	3,534	3,594	3,605
	Expenditure			
40	Administration and Accountancy Services	33	33	30
129	Project/Facility Management	72	72	72
-	Director Fees	-	-	-
132	Ground Lease	132	132	132
542	Finance Cost	510	510	510
-	Insurance	110	110	121
186	Other	201	201	201
-	Depreciation	-	-	-
-	Subvention payment	114	129	129
112	Technical Services	63	63	63
1,141	Total Expenditure	1,235	1,250	1,258
5,369	Net profit before taxation	2,298	2,344	2,346
-	Tax	-	-	-
5,369	Net profit after taxation	2,298	2,344	2,346
2,100	Dividend to Shareholder	2,236	2,221	2,221
2,100	Total Distribution to Shareholder	2,350	2,350	2,350

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

2020/21		2021/22	2022/23	2023/24
\$000		\$000	\$000	\$000
Outlook		SOI	Indicative	Indicative
79,785	Opening Equity	83,054	84,321	84,444
-	Capital Introduced			
5,369	Net Surplus (Deficit) for the year	2,298	2,344	2,346
(2,100)	Dividends Paid	(2,236)	(2,221)	(2,221)
-	Asset Revaluation Adjustment	1,205	-	2,986
83,054	Closing Equity	84,321	84,444	87,555

MWRC Holdings Ltd
Statement of Financial Position
As at 30 June

2020/21		2021/22	2022/23	2023/24
\$000		\$000	\$000	\$000
Outlook		SOI	Indicative	Indicative
	Equity			
31,500	Contributed Capital	31,500	31,500	31,500
44,618	Reserves	45,823	45,823	48,809
6,936	Accumulated Funds	6,998	7,121	7,246
83,054	Total Equity	84,321	84,444	87,555
	Assets			
4,326	Cash and Cash Equivalents	4,461	4,584	4,710
-	Income Tax Receivable	-	-	-
11	Other Receivables	11	11	11
4,337	Total Current Assets	4,472	4,595	4,721
70,000	CentrePort	70,000	70,000	72,100
28,346	Investment Property	29,551	29,551	30,437
102,683	Total Assets	104,023	104,146	107,258
	Liabilities			
2,629	Payables and Accruals	2,702	2,702	2,703
-	Deferred Tax	-	-	-
17,000	Borrowings	17,000	17,000	17,000
19,629	Total Liabilities	19,702	19,704	19,703
83,054	Net Assets	84,321	84,444	87,555
	Financial Performance			
2.64%	Return on net assets	2.73%	2.78%	2.68%
-	Growth on Investments	1.23%	1.22%	4.26%

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

2020/21		2021/22	2022/23	2023/24
\$000		\$000	\$000	\$000
Outlook		SOI	Indicative	Indicative
	Cash flows from Operating Activities			
	<i>Cash received from</i>			
4,646	Dividends	1,385	1,385	1,385
1,821	Other Income	2,375	2,438	2,447
-	Interest	82	89	92
(100)	GST received/(paid)	(195)	(225)	(226)
	<i>Cash applied to</i>			
(540)	Interest Paid	(510)	(510)	(510)
(808)	Payments to suppliers & employees	(703)	(704)	(712)
146	Cash Flows from other operating activities	-	-	-
5,165	Net cash from Operating Activities	2,434	2,473	2,476
	Cash flows from Investing and Financing Activities			
	<i>Cash received from</i>			
-	Liquid Investments	-	-	-
-	Proceeds from Loan Borrowings	-	-	-
-	Investment By Shareholder	-	-	-
	<i>Cash applied to</i>			
-	Liquid Investments	-	-	-
(3,196)	Long Term Investments	-	-	-
-	Repayment of Loans	-	-	-
(1,250)	Dividends Paid	(2,100)	(2,350)	(2,350)
(4,446)	Net cash from Investing and Financing Activities	(2,100)	(2,350)	(2,350)
719	Net increase (decrease) in cash flow	334	123	126
1,408	Opening cash balance	2,127	2,461	2,584
2,127	Closing cash balance	2,461	2,584	2,710

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 de-recognition, 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