greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

Report	12.68
Date	29 February 2012
File	CFO/09/02/01
Committee	Council
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Update to WRC Holdings Group Statement of Intent 2011/12 for Council

1. Purpose

To note the update to the Statement of Intent (SOI) for the period ending 30 June 2011 and the following two years, as provided for by section 4 of schedule 8 of the Local Government Act 2002 (LG Act).

2. The decision-making process and significance

The matter requiring decision in the report has been considered by officers against the requirements of Part 6 of the Local Government Act 2002 (the Act).

Officers have considered the significance of the matter, taking the Council's significance policy and decision-making guidelines into account. Officers recommend that the matter be considered to have low significance.

Officers do not consider that a formal record outlining considering of the decision-making process is required in this instance.

3. Background

The Council approved the SOI for WRC Holdings at the meeting on 29 June 2011.

During the 2010/11 June year end audit it became apparent that the accounting methodology for Greater Wellington Rail Limited (GWRL) needed to be changed from a Profit Orientated Entity (POE) to a Public Benefit Entity (PBE).

The financial reporting of GWRL under a PBE is significantly different to that of the budget which was prepared under a POE. As a result of this the above mentioned SOI has become redundant.

Reporting under a POE now results in all Grant revenue for capital expenditure from Greater Wellington reported as revenue through the profit and loss account of GWRL. This means big profits in the years when capital expenditure is incurred and contrasts with losses from depreciation expenditure in the years where there is no capital expenditure.

Previously, reporting under a PBE, had capital grants recorded in the balance sheet as they were received to cover asset purchases and then released each year to the profit and loss account to cover the depreciation. This meant GWRL ran at close to breakeven.

An updated SOI was presented to the Board of WRC Holding at their recent meeting and is now being provided to the shareholder.

The starting point for the change from a POE to a PBE was to restate the 2010/11 opening balances using the changes made to the 30 June 2011 year end audited accounts.

A summary of the other major changes are noted below and are highlighted in the SOI document for comparative purposes.

4. Summary of amendments to the June approved SOI

4.1 Paragraph 4.1.3 - WRC Holdings

The financial performance indicators – Return on Equity (ROE) and Return on Assets (ROA) have changed.

For example the new budgeted ROE has moved from 2.2% to 5.1% and the ROA from 3.4% to 4.8% in the 2011/12 year. This is because the impairment charge of $1.26 million on the equity contribution for the Matangi trains is not recognised under a PBO.

4.2 Paragraph 4.1.5 - Greater Wellington Rail Limited

The financial performance indicators – Return on Equity (ROE) and Return on Assets (ROA) have changed.

For example the new budgeted ROE has moved from -3.85% to +57.07% and the ROA from -0.55% to +43.03% in the 2011/12 year. This is primarily because capital contributions amounting to $132 million from Greater Wellington in 2011/12 are now recorded as revenue in the year received via the Profit and Loss account under PBE accounting. Previously these receipts were added to the balance sheet as ‘Income received in advance’ and released to the Profit and Loss account to match depreciation.

4.3 Paragraph 6.0 - Financial information

The prospective financial statements have all been updated, with the exception of the statement of cashflow, which remains unchanged as there are no cash implications for changing from a POE to PBE.

Prospective Statement of Comprehensive Income

The main changes are the increase in Grant from GWRC (capital contributions) as noted above and an increase in taxation expense in the 2011/12 year. The taxation expense is an accounting adjustment – the same as we had at 30 June 2011. This increase in deferred taxation and tax charge will unwind in future years as the company makes losses, and occurs in 2012/13 and 2013/14, ie, it is not a real tax liability due for payment.

Prospective statement of financial position

The main change here is the increase in the opening equity position; higher income emanating from GWRL; higher level of assets due to new assets from KiwiRail at 30 June 2011; and higher non-current liabilities due to the deferred tax adjustment.

4.4 Paragraph 6.6 – Financial performance targets

These have all altered with the exception of the dividend, which is unaffected by the accounting changes as would be expected.

4.5 Paragraph 6.7 - Basis of preparation

A new fourth paragraph has been inserted to denote the status of the subsidiary companies.

The updated SOI is appended to this report as **Attachment 1**.

5. Communications

No communications are required at this time.

6. Recommendations

That the Council:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*
3. ***Receives** the Updated Statement of Intent for WRC Holdings Ltd for 2011/12 and provides feedback to WRC Holdings if required within one month.*

Report prepared by:	Report approved by:
Mike Timmer Treasurer	Bruce Simpson Chief Financial Officer

Attachment 1: Updated WRC Holdings Group Statement of Intent