



He Kupu Whakahou Mahere Roa 2024-34 Long-term Plan amendment

Ngā panoni

Summary of changes

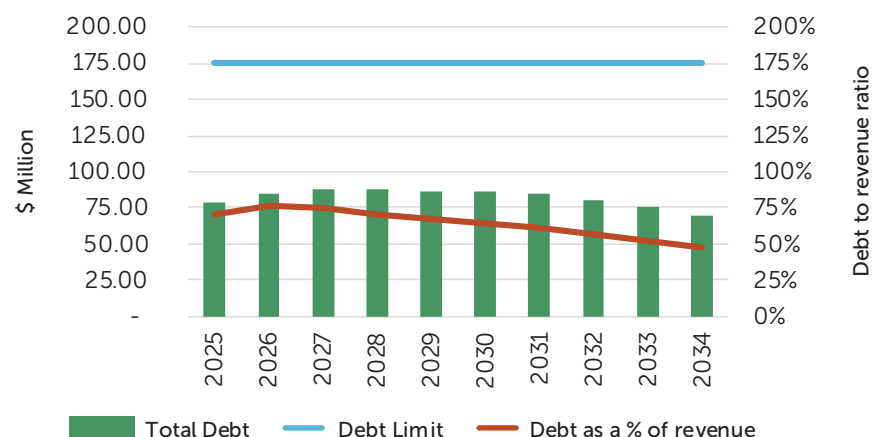


The full 2024-34 Long-term Plan can be found at Horizons' service centres and online at www.horizons.govt.nz.

Current LTP disclosure	Proposed change
Financial Strategy Page 141 Horizons and our holdings company, MWRC Holdings Ltd, has a range of investments, including CentrePort Ltd, property and a share portfolio.	Update to: Horizons and our holdings company, MWRC Holdings Ltd, has a range of investments, including property and equity investments.
Financial Assumptions Page 303 Assumption 10 We assume that revenue from our investments will remain stable, including dividends received from CentrePort Ltd.	Update to: We assume that revenue from our investments will remain stable, including dividends received from investments.
Financial Assumptions Page 303 Assumption 10 CentrePort's SOI is signalling stable dividends over the next 2 years.	Remove this sentence.

Current LTP disclosure	Proposed change
Financial Assumptions Page 307 Assumption 18 We have assumed MWRC Holdings will retain ownership of this shareholding for this Plan. Council may decide to divest this shareholding, therefore reducing the potential investment revenue. High A decision to sell would require further public consultation. Any sale would generate funds for reinvestment.	Update to: We have assumed MWRC Holdings Ltd will investigate selling their shareholding in CentrePort Limited, are able to sell for a reasonable price and invest in a managed fund which will be able to generate returns at least as favourable as those we are receiving currently. Council may not be able to obtain equivalent returns from a managed fund, therefore reducing the potential investment revenue. Low Council are unlikely to sell for a price that results in a lower rate of return than what is currently being received on the CentrePort shares. Investing in a managed fund spreads the risk of the rate of return being unfavourable compared to the current rate of return.
Statement on Council Controlled Organisations Page 317 It should be noted that the company's main investment (23.08 per cent of the shares in CentrePort Limited) is considered a strategic asset under our Significance and Engagement Policy.	Remove this sentence.
Statement on Council Controlled Organisations Page 318 To hold and manage the 23.08% shareholding in CentrePort Ltd.	Remove this sentence.

Proposed Debt vs. Limit



Investments

The primary purpose of our investments, as outlined in Council's Investment Policy, is to generate revenue to further the vision and community outcomes identified in this plan. Horizons and our holdings company, MWRC Holdings Ltd, has a range of investments, including CentrePort Ltd, property and a share portfolio. In managing its investments, Council generally is not driven by commercial considerations alone. As a public body, it is accountable in terms of the social, economic, environmental and cultural wellbeing of its communities. These considerations may lead to Council making investment decisions that would not be made on commercial financial considerations alone.

Council aims to achieve the following returns from the investments it holds.

- Working capital funds- a return in excess of the Reserve bank's 90 bill rate.
- A return on Net Investment Assets held by MWRC Holdings Ltd of 3.33%
- A dividend return in excess of \$2 million

In the previous Financial Strategy Council's approach to managing increasing cost of services and responding to COVID was to defer MWRCH debt repayment to maximise return from investments to offset rates.

From year 2 of this Long-term plan MWRC Holdings Ltd plan to start the repayment of the debt owed to Council of \$18.5 million, at a rate of \$1.2 million per year. This will result in a reduction in the dividend revenue paid to Council by a similar amount, and a subsequent increase in the rate demand it would otherwise need to ask of its communities.

As a result of the Revenue and Financing Policy review process, Council has changed the use of its investment funds from offsetting the General Rate, to 80% of investment revenue offsetting the General Rate and 20% to offset the Uniform Annual General Charge to better reflect the proportion of funding required for the activities rated for via the General Rate and UAGC.

Unexpected events

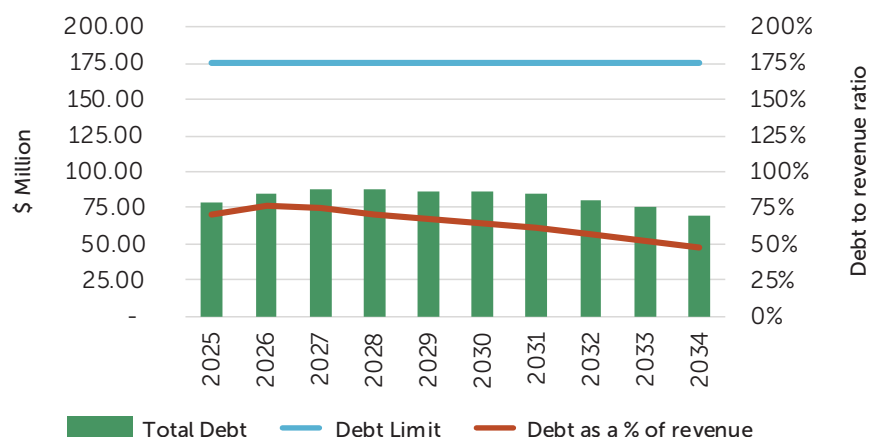
Unexpected events (such as a flood or storm event) can have a significant impact on Horizons' activities and finances, and it would be imprudent not to prepare accordingly. Our flood protection and drainage infrastructure, currently valued at more than \$990M, are our main areas of risk. Due to their nature, these assets are exposed to natural hazard risk.

As noted in point 3 of the "Strategic Context" section above, we assume that there will be Central Government funding available to assist with the cost of recovery from a significant event, but this assumption comes with a high level of uncertainty about whether such support will be made available, and if so, how much. See forecasting assumption no. 3, Recovery from Significant Adverse Events, page 291. Insurance costs are becoming less and less affordable. Over the next few years, we will explore alternative insurance models, looking to provide us with cost-effective protection against unexpected events.

Financial assumptions

Council's forecasting assumptions for this Long-term Plan, including its financial assumptions, can be found on page 291.

Proposed Debt vs. Limit



Investments

The primary purpose of our investments, as outlined in Council's Investment Policy, is to generate revenue to further the vision and community outcomes identified in this plan. Horizons and our holdings company, MWRC Holdings Ltd, has a range of investments, including property and equity investments. In managing its investments, Council generally is not driven by commercial considerations alone. As a public body, it is accountable in terms of the social, economic, environmental and cultural wellbeing of its communities. These considerations may lead to Council making investment decisions that would not be made on commercial financial considerations alone.

Council aims to achieve the following returns from the investments it holds.

- Working capital funds- a return in excess of the Reserve bank's 90 bill rate.
- A return on Net Investment Assets held by MWRC Holdings Ltd of 3.33%
- A dividend return in excess of \$2 million

In the previous Financial Strategy Council's approach to managing increasing cost of services and responding to COVID was to defer MWRCH debt repayment to maximise return from investments to offset rates.

From year 2 of this Long-term plan MWRC Holdings Ltd plan to start the repayment of the debt owed to Council of \$18.5 million, at a rate of \$1.2 million per year. This will result in a reduction in the dividend revenue paid to Council by a similar amount, and a subsequent increase in the rate demand it would otherwise need to ask of its communities.

As a result of the Revenue and Financing Policy review process, Council has changed the use of its investment funds from offsetting the General Rate, to 80% of investment revenue offsetting the General Rate and 20% to offset the Uniform Annual General Charge to better reflect the proportion of funding required for the activities rated for via the General Rate and UAGC.

Unexpected events

Unexpected events (such as a flood or storm event) can have a significant impact on Horizons' activities and finances, and it would be imprudent not to prepare accordingly. Our flood protection and drainage infrastructure, currently valued at more than \$990M, are our main areas of risk. Due to their nature, these assets are exposed to natural hazard risk.

As noted in point 3 of the "Strategic Context" section above, we assume that there will be Central Government funding available to assist with the cost of recovery from a significant event, but this assumption comes with a high level of uncertainty about whether such support will be made available, and if so, how much. See forecasting assumption no. 3, Recovery from Significant Adverse Events, page 291. Insurance costs are becoming less and less affordable. Over the next few years, we will explore alternative insurance models, looking to provide us with cost-effective protection against unexpected events.

Financial assumptions

Council's forecasting assumptions for this Long-term Plan, including its financial assumptions, can be found on page 291.

Assumption	Description of risk	Level of uncertainty about assumption	Potential effects of uncertainty on financial estimates
Source data: www.berl.co.nz			
¹ Where applicable; many services are fixed fee and therefore do not attract inflation.			
² Note that the Local Government Cost Index is different from Consumer Price Index (CPI).			
8. Dividend Revenue			
These revenue streams are based on expectations of MWRC Holdings Limited, as outlined in the company's Statement of Intent (SOI). We assume that revenue from our investments will remain stable, including dividends received from CentrePort Ltd. From year 2 of the Plan, the dividend received from MWRC Holdings Limited will be reduced to allow for the repayment of debt.	Profits from the Investment portfolio held and managed by MWRCH provides dividend revenue to Council to reduce the rates burden on ratepayers. There is a risk funds may not be available to pay a dividend to Council due to changes to the investment portfolio. Centre Port's SOI is signalling stable dividends over the next 2 years.	Medium. The dividend revenue assumption is assessed annually.	Any reduction would need to be met by increased rates revenue or the use of existing reserves – if \$1,000,000 was not received by HRC, then \$1,000,000 of reserves would need to be utilised to hold rates at the same level.
9. Interest Rate Charges			
Interest rates have increased significantly over the past few years, however, expectation is these will plateau. This has an impact on both interest revenue and expense, and the impact will in turn flow into the rates paid by ratepayers. The interest rates we have used in the formulation of this LTP are: Interest paid on loans: Range from 5.0% to 4.0% over the 10 years.	If there are sudden changes in interest rates this will impact on rate requirements. Part of this risk is mitigated by the on-charging to MWRC Holdings Ltd that will need to meet any interest rate movement.	2024-34 - Low 2035-38 - Low to medium 2038-41 - Medium	Little or no impact expected as Council receives external treasury advice to ensure debt is managed to take advantage of the best rates available to mitigate exposure to interest rate rises.
10. Interest Revenue			
The recent trend of increasing rates will continue for the short term, with small increases following over the life of the plan.	Interest rates continue to rise, resulting in more income earned from investing available cash. We will also be exposed to increased debt service costs.	2021-24 - Low 2025-28 - Low to medium 2028-31 - Medium	Little or no impact expected due to a transition in investing activities from passive investments to active investments to create returns to Council and maximise any offset of rates.

Assumption	Description of risk	Level of uncertainty about assumption	Potential effects of uncertainty on financial estimates
Source data: www.berl.co.nz			
¹ Where applicable; many services are fixed fee and therefore do not attract inflation.			
² Note that the Local Government Cost Index is different from Consumer Price Index (CPI).			
8. Dividend Revenue			
These revenue streams are based on expectations of MWRC Holdings Limited, as outlined in the company's Statement of Intent (SOI). We assume that revenue from our investments will remain stable, including dividends received from investments. From year 2 of the Plan, the dividend received from MWRC Holdings Limited will be reduced to allow for the repayment of debt.	Profits from the Investment portfolio held and managed by MWRCH provides dividend revenue to Council to reduce the rates burden on ratepayers. There is a risk funds may not be available to pay a dividend to Council due to changes to the investment portfolio.	Medium. The dividend revenue assumption is assessed annually.	Any reduction would need to be met by increased rates revenue or the use of existing reserves – if \$1,000,000 was not received by HRC, then \$1,000,000 of reserves would need to be utilised to hold rates at the same level.
9. Interest Rate Charges			
Interest rates have increased significantly over the past few years, however, expectation is these will plateau. This has an impact on both interest revenue and expense, and the impact will in turn flow into the rates paid by ratepayers. The interest rates we have used in the formulation of this LTP are: Interest paid on loans: Range from 5.0% to 4.0% over the 10 years.	If there are sudden changes in interest rates this will impact on rate requirements. Part of this risk is mitigated by the on-charging to MWRC Holdings Ltd that will need to meet any interest rate movement.	2024-34 - Low 2035-38 - Low to medium 2038-41 - Medium	Little or no impact expected as Council receives external treasury advice to ensure debt is managed to take advantage of the best rates available to mitigate exposure to interest rate rises.
10. Interest Revenue			
The recent trend of increasing rates will continue for the short term, with small increases following over the life of the plan.	Interest rates continue to rise, resulting in more income earned from investing available cash. We will also be exposed to increased debt service costs.	2021-24 - Low 2025-28 - Low to medium 2028-31 - Medium	Little or no impact expected due to a transition in investing activities from passive investments to active investments to create returns to Council and maximise any offset of rates.

Assumption	Description of risk	Level of uncertainty about assumption	Potential effects of uncertainty on financial estimates
18. CentrePort Limited Shareholding			
MWRC Holdings Limited currently hold 23.08% shareholding in CentrePort Limited, with the balance held by Greater Wellington. This shareholding generates an annual dividend to MWRC Holdings Ltd, who in turn pay a dividend to Council. We have assumed MWRC Holdings Ltd will retain ownership of this shareholding for this Plan.	Council may decide to divest this shareholding, therefore reducing the potential investment revenue.	High	A decision to sell would require further public consultation. Any sale would generate funds for reinvestment.

Assumption	Description of risk	Level of uncertainty about assumption	Potential effects of uncertainty on financial estimates
18. CentrePort Limited Shareholding			
MWRC Holdings Limited currently hold 23.08% shareholding in CentrePort Limited, with the balance held by Greater Wellington. This shareholding generates an annual dividend to MWRC Holdings Ltd, who in turn pay a dividend to Council. We have assumed MWRC Holdings Ltd will investigate selling their shareholding in CentrePort Limited, are able to sell for a reasonable price and invest in a managed fund which will be able to generate returns at least as favourable as those we are receiving currently.	Council may decide to divest this shareholding, therefore reducing the potential investment revenue.	Low	Council are unlikely to sell for a price that results in a lower rate of return than what is currently being received on the CentrePort shares. Investing in a managed fund spreads the risk of the rate of return being unfavourable compared to the current rate of return.

Ngā rōpū a te kaunihera

Statement on council controlled organisations



What is a Council Controlled Organisation?

A Council Controlled Organisation (CCO) is an organisation where a council (or a number of councils) either directly or indirectly controls the organisation.¹ This control can be ownership of shares, voting rights or the power to appoint directors or trustees. Currently, Council has three CCOs:

1. MWRC Holdings Limited;
2. MW LASS Limited; and
3. Regional Software Holdings Limited.

Significant Policies for our Council Controlled Organisations

- Policy on Appointment and Remuneration of Directors
- Investment Policy
- MWRC Holdings Statement of Intent
- Regional Software Holdings Statement of Intent

1. MWRC Holdings Limited

Description and objectives

MWRC Holdings Limited is our investment holding company that manages Council's income-generating assets such as port investments, property rentals/developments and short-term cash investments. In addition, MWRC Holdings Limited manages a portfolio of New Zealand and international equities for Council.

The company was established in December 2009 with the objective of providing a commercial basis for the management of Council's medium and long-term investments. Investment in this company is provided for in our Investment Policy, which can be found on our website, www.horizons.govt.nz. It should be noted that the company's main investment (23.08 per cent of the shares in CentrePort Limited) is considered a strategic asset under our Significance and Engagement Policy.

¹The definition of a Council Controlled Organisation is set out in Section 6 of the LGA 2002.

Ngā rōpū a te kaunihera

Statement on council controlled organisations



What is a Council Controlled Organisation?

A Council Controlled Organisation (CCO) is an organisation where a council (or a number of councils) either directly or indirectly controls the organisation.¹ This control can be ownership of shares, voting rights or the power to appoint directors or trustees. Currently, Council has three CCOs:

1. MWRC Holdings Limited;
2. MW LASS Limited; and
3. Regional Software Holdings Limited.

Significant Policies for our Council Controlled Organisations

- Policy on Appointment and Remuneration of Directors
- Investment Policy
- MWRC Holdings Statement of Intent
- Regional Software Holdings Statement of Intent

1. MWRC Holdings Limited

Description and objectives

MWRC Holdings Limited is our investment holding company that manages Council's income-generating assets such as port investments, property rentals/developments and short-term cash investments. In addition, MWRC Holdings Limited manages a portfolio of New Zealand and international equities for Council.

The company was established in December 2009 with the objective of providing a commercial basis for the management of Council's medium and long-term investments. Investment in this company is provided for in our Investment Policy, which can be found on our website, www.horizons.govt.nz.

¹The definition of a Council Controlled Organisation is set out in Section 6 of the LGA 2002.

Nature and scope of activities

MWRC Holdings Limited is charged with commercially managing our medium to long term investments, which currently comprise the following:

- To hold and manage the 23.08% shareholding in CentrePort Ltd.
- To hold manage the \$3.67 million 28 North Street investment property.
- To hold manage the \$25 million 17-23 Victoria Ave investment property.
- To hold manage the \$1.1 million 7 Victoria Ave investment property.
- To hold manage the \$0.8 million 184 Grey Street investment property.
- To hold manage the \$2.0 million 40 Bowen Street investment property.
- To manage the \$3.797 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 are to enhance the wellbeing of the region, provide a return per shareholder's requirements and match the risk profile of Council.

Key performance targets

MWRC Holdings' current performance targets are set out in its 2024-26 Statement of Intent as shown below.

The targets are to:

- Operate within agreed budgets; and
- Maintain the following financial performance targets.

	2023-24 \$000	2024-25 \$000	2025-26 \$000
Net Profit/(Loss) Before Tax	2,430	2,650	2,816
Income Return on Total Assets ¹	3.05%	3.33%	3.47%
Income Return on Net Assets excluding Investment in CentrePort	6.56%	7.22%	6.79%
Dividend Payment (excluding subvention payments)	2,049	2,226	1,110
Debt Repayment	-	-	1,500

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

MW LASS Limited

Description and objectives

MW LASS Limited is a council-controlled organisation (CCO) set up in 2008 by seven councils (Horizons Regional Council and Horowhenua, Manawātū, Rangitikei, Ruapehu, Tararua and Whanganui District Councils) within the region to investigate efficiencies and cost savings for the participating councils. We own one seventh or approximately 14% of this company. The company is considered to be a CCO under the Local Government Act 2002, but the member councils have resolved that it is exempt for the purposes of Section 6(4)(i) of that Act.

Nature and scope of activities

MWRC Holdings Limited is charged with commercially managing our medium to long term investments, which currently comprise the following:

- To hold manage the \$3.67 million 28 North Street investment property.
- To hold manage the \$25 million 17-23 Victoria Ave investment property.
- To hold manage the \$1.1 million 7 Victoria Ave investment property.
- To hold manage the \$0.8 million 184 Grey Street investment property.
- To hold manage the \$2.0 million 40 Bowen Street investment property.
- To manage the \$3.797 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 are to enhance the wellbeing of the region, provide a return per shareholder's requirements and match the risk profile of Council.

Key performance targets

MWRC Holdings' current performance targets are set out in its 2024-26 Statement of Intent as shown below.

The targets are to:

- Operate within agreed budgets; and
- Maintain the following financial performance targets.

	2023-24 \$000	2024-25 \$000	2025-26 \$000
Net Profit/(Loss) Before Tax	2,430	2,650	2,816
Income Return on Total Assets ¹	3.05%	3.33%	3.47%
Income Return on Net Assets excluding Investment in CentrePort	6.56%	7.22%	6.79%
Dividend Payment (excluding subvention payments)	2,049	2,226	1,110
Debt Repayment	-	-	1,500

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

MW LASS Limited

Description and objectives

MW LASS Limited is a council-controlled organisation (CCO) set up in 2008 by seven councils (Horizons Regional Council and Horowhenua, Manawatū, Rangitikei, Ruapehu, Taranaki and Whanganui District Councils) within the region to investigate efficiencies and cost savings for the participating councils. We own one seventh or approximately 14% of this company. The company is considered to be a CCO under the Local Government Act 2002, but the member councils have resolved that it is exempt for the purposes of Section 6(4)(i) of that Act.