

STATEMENT OF CORPORATE INTENT 2019-2021



This Statement of Corporate Intent (SCI) is submitted by the Board of the New Zealand Railways Corporation (Corporation) in accordance with section 14 of the State-Owned Enterprises Act 1986 (SOE Act). It sets out the Board's and the Shareholding Ministers' overall intentions and objectives for the Corporation from 1 July 2018. This SCI applies for the financial year ending 30 June 2019 and for the two subsequent financial years.

Following the restructure of the Crown's investment in rail operations, which took effect from 31 December 2012, the Corporation has continued to support the creation of a sustainable rail business in New Zealand in the period since the previous SCI.

The Corporation is a statutory corporation and not a company, so it does not have shares or shareholders. Its responsible Ministers are the Minister of Finance and the Minister for State Owned Enterprises. Those Ministers are referred to in this SCI as the "Shareholding Ministers", to reflect the terminology used in the SOE Act.

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Introduction

The primary role of the Corporation is to make available around 17,700 hectares of railway land to KiwiRail Limited under a long-term lease (the “Core Lease”) which enables KiwiRail Limited to enjoy the commercial benefit of the land for nominal consideration. The 2012 restructure of the Crown’s investment in rail operations made KiwiRail Holdings Limited the State-Owned Enterprise (SOE) that is responsible for the financial performance of that investment. In this SCI, KiwiRail Holdings Limited and its subsidiaries are referred to as “KiwiRail”. This gives the Corporation a role to support KiwiRail, and the Corporation and KiwiRail work together, for the benefit of the Crown’s commercial rail portfolio, the Crown and New Zealand as a whole. In the period since the previous SCI, the Corporation has continued to support the creation of a sustainable rail business in New Zealand.

The Corporation previously owned and operated the KiwiRail business. The Crown restructured its investment in rail operations on 31 December 2012 and vested virtually all of the Corporation’s assets and liabilities (but not land) in KiwiRail. This was done to enable KiwiRail to account and report in a way that more fairly reflects its commercially-focused rail and ferry business.

Following that restructure, the Corporation’s only significant asset is railway land. The New Zealand Railways Corporations Act 1981 (NZRC Act), which

establishes the Corporation, gives the Corporation the power to administer Crown land held for railway purposes and the Corporation acts as the Crown’s agent in respect of that land. The value of the land is included in the financial statements of the Corporation. This SCI refers to “railway land” as all Crown land held for railway purposes except that which is administered by Land Information New Zealand and is no longer needed for railway operations.

The Corporation’s role is to make available railway land to KiwiRail, in accordance with the Corporation’s powers under the NZRC Act and other legislation, and to account for the value of the land in its financial statements. The Corporation is not expected to derive any return from the land and is not expected to operate a rail business. It has leased the railway land to KiwiRail through the Core Lease for nominal consideration, to enable KiwiRail to enjoy the commercial benefit of the land and support the Crown’s investment in rail operations as a whole.

The Corporation is expected to undertake the usual reporting functions of an SOE, comply with its obligations and exercise its statutory powers lawfully. To minimise its costs and avoid duplication of work with KiwiRail, the Corporation has also entered into a Management Agreement under which KiwiRail performs corporate and administrative services for the Corporation for a nominal charge.

Objectives

The primary objective of the Corporation is to hold railway land and make it available to KiwiRail. It does so to enable KiwiRail to enjoy the commercial benefit of the land through the Core Lease granted to KiwiRail. As agreed with the Shareholding Ministers, the Corporation also accounts for the value of the land in its financial statements.

The Corporation is to avoid duplication of effort with KiwiRail and to minimise the operating costs of the Corporation. KiwiRail is the SOE responsible for the financial performance of the Crown's investment in rail operations and should meet the costs of operating its rail business. The cost of the Corporation meeting its functions should be met by KiwiRail, and work that could be done by either SOE should be done by KiwiRail.

The Corporation is not expected to make an operating surplus, make any return on capital or return a dividend.

Nature and Scope of Activities

Following the Vesting Order, the Corporation is not legally obliged to pursue its statutory functions under the NZRC Act (due to section 30(2) of the New Zealand Railways Corporation Restructuring Act 1990). Nonetheless, any activities of the Corporation should be consistent with the Corporation's statutory function under the NZRC Act of arranging for a safe and efficient rail service. The Corporation will not itself conduct that operation and, consistent with its statutory function, the Corporation has entered into arrangements with KiwiRail to enable the Corporation to meet the above objectives:

- The Corporation has, along with the Crown, granted a long-term lease to KiwiRail for nominal consideration, under which KiwiRail can enjoy the commercial benefit of the land.
- The Corporation has also entered into a Management Agreement with KiwiRail, which requires KiwiRail to perform corporate and administrative services for the Corporation for a nominal charge.

The scope of the Corporation's activities is therefore aligned to its role and objectives and activities have been / will mainly be undertaken when required by law or as a result of requests from KiwiRail. The Corporation and KiwiRail are expected to work

together and communicate openly, which will be assisted by the Chair of the Corporation also being the Chair of KiwiRail. This reflects the expectation of the Shareholding Ministers and the applicable legislation.

As a result of the Vesting Order and other legislation, the Corporation has no employees and no significant income from operating activities.

Particular activities of the Corporation are described below.

Railway land

The lease of railway land gives KiwiRail comprehensive rights to enjoy the land and primary responsibility for administering the land. The Corporation therefore has a minimal ongoing role in administering the land.

The Corporation will continue to have responsibility to include the value of railway land in its financial statements. As a part of preparing its financial statements it will periodically need to arrange for a revaluation of the land (a revaluation last occurred as at 30 June 2017). KiwiRail can undertake that revaluation in accordance with the Management Agreement.

Under the Core Lease, KiwiRail can undertake many activities in relation to the land without requiring the consent or involvement of the Corporation. KiwiRail also carries the legal risks associated with use of the land, and would compensate the Corporation for any loss it may suffer under the indemnity provided in the lease.

KiwiRail is able to sub-lease railway land for periods of time within the term of the lease. The Corporation expects that KiwiRail will undertake sub-leasing activity that meets KiwiRail's business interests and which complies with the Corporation's statutory obligations regarding railway land.

If KiwiRail requires additional land to conduct its business, it may purchase land in its own name or may require the Corporation to acquire new land. KiwiRail may arrange for the Corporation to purchase new land or request the Corporation to exercise its powers to compulsorily acquire additional land. Whenever KiwiRail does exercise such powers under the Core Lease to require the Corporation to purchase additional land:

- the purchase cost of the land (including associated expenses) will be funded by KiwiRail (or a grant from another interested party on behalf of KiwiRail); and
- the Corporation will be required to lease to KiwiRail any land that is acquired on the same terms as the existing Core Lease.

KiwiRail may also identify railway land that it believes should be sold and request the Corporation to surrender it from the Core Lease, sell it and provide the sale proceeds to KiwiRail. When KiwiRail requests that the Corporation sell land, the Board is expected to:

- rely on KiwiRail to find a prospective buyer and negotiate sale terms conditional on satisfaction of all requisite statutory approvals and clearances for sale (and the Corporation is not expected to evaluate the value of the proposal against any alternatives);
- seek a report from KiwiRail on the effect of the proposal on the future development of the railway;
- comply with applicable statutory obligations, including obtaining the consent of the Minister responsible for the NZRC Act in accordance with section 24(a) of that Act;
- seek confirmation from KiwiRail that all requisite statutory approvals and clearances for sale have been met;
- consider how such a sale would impact upon the Corporation's functions contained in section 12 of the NZRC Act, in particular, its function to arrange for safe and efficient rail freight and passenger transport services in New Zealand; and
- comply with its obligation under the lease to provide to KiwiRail proceeds from the sale of land surrendered from the Core Lease.

The Shareholding Ministers expect that the proceeds from selling any railway land should go to KiwiRail to support its business as the SOE responsible for the financial performance of the Crown's investment in rail operations. The

Shareholding Ministers are aware that, as a result of the reduction in the Corporation's asset base, the value of the Corporation's net equity will decrease.

The Corporation is not expected to consider acquiring or selling railway land when it is not requested by KiwiRail.

Treaty of Waitangi/Te Tiriti o Waitangi

The Corporation is committed to complying with its obligations under the Treaty of Waitangi/Te Tiriti o Waitangi settlement legislation, as part of its role holding railway land.

Some iwi and hapū have been granted an option to purchase railway land (though in most cases the land in question is administered by Land Information New Zealand), and if that option is exercised then the Corporation may be obliged to sell the land (with assistance from KiwiRail under the Management Agreement).

In addition, some iwi and hapū have been granted a right of first refusal (RFR) to be offered the opportunity to purchase railway land before it is disposed of to a third party. An RFR is only expected to be triggered as a consequence of requests and proposals from KiwiRail to sell or otherwise dispose of railway land. The Corporation is expected to request reports from KiwiRail on compliance with RFR obligations when considering such proposals.

Residual liabilities

The Corporation is expected to deal with any of KiwiRail's creditors who pursue claims against the Corporation, by ensuring that the claim is referred to and dealt with by KiwiRail.

As a result of the Vesting Order, the Corporation's liabilities that existed before 31 December 2012 have been vested in KiwiRail¹. Although KiwiRail has assumed those liabilities, the Corporation remains contingently liable. Creditors of KiwiRail may seek to pursue claims against the Corporation if KiwiRail does not meet its obligations. In such cases the Corporation is protected by statutory indemnities from KiwiRail and from the Crown.

1. All material liabilities of the Corporation were vested, but the Corporation has retained some of the liabilities it had before 31 December, such as certain obligations related to the Corporation's retained interest in rail land. See Schedule 3 of the Vesting Order for a complete list of obligations and liabilities the Corporation retained. KiwiRail is responsible for managing such obligations on behalf of the Corporation under the Management Agreement and the Core Lease.

Statutory compliance

The Board will oversee compliance with the Corporation's statutory obligations (with assistance from KiwiRail under the Management Agreement), including the following obligations:

- preparing financial statements (which will include the value of railway land) and arranging for their audit by the Auditor-General;
- submitting an annual report, half-yearly report and statement of corporate intent to Shareholding Ministers each year in accordance with the SOE Act;
- dealing with any requests for information made to the Corporation under the Official Information Act 1982 (though most information previously held by the Corporation has been vested in KiwiRail); and
- maintaining adequate records in accordance with the Public Records Act 2005.

General governance

The Board will also:

- ensure there are 'no surprises' for the Crown (in accordance with the SOE Owner's Expectation Manual);
- manage any conflicts of interest;
- appoint a General Manager of the Corporation pursuant to the NZRC Act (and this is expected to be an employee of KiwiRail at no cost to the Corporation);
- monitor the performance of KiwiRail under the Management Agreement;
- arrange for directors' and officers' insurance cover and directors' indemnities, in accordance with the NZRC Act; and
- hold Board meetings as it deems necessary to perform its role.

Any expansion of activities into areas beyond those set out in this SCI will be subject to agreement with the Shareholding Ministers.

Performance Measures

The Shareholding Ministers do not expect the Corporation to make an operating surplus, make any return on capital or return a dividend.

The performance measures and targets to be applied to the operation of the Corporation for the 2018/19 to 2020/21 financial years are to comply with its obligations under the Core Lease, the SOE Act, the NZRC Act and other relevant legislation, and only incur expenditure which it will be able to meet.

Distribution Policy

The Corporation does not hold, and is not expected to hold, any assets that enable it to trade for profit. The Crown and the Corporation have agreed that distributions are not expected.

Information to be Provided to Shareholding Ministers

To enable the Shareholding Ministers to assess the performance of the Corporation, an annual report will be submitted in accordance with section 15 of the SOE Act.

The half-yearly report required under section 16 of the SOE Act will include an unaudited cash flow statement, balance sheet and such details as are necessary to permit an informed assessment of the Corporation's performance during that reporting period.

KiwiRail will consult with its Shareholding Ministers on matters that would have a material effect on the scale, scope, financial return or risk of the activities of the Corporation, including:

- any substantial expansion of activities outside of those described in this Statement;
- any substantial capital (or equity) investment; and
- any other significant transactions.

Accounting Policies

The Corporation's accounting policies reflect that its assets are held for public benefit purposes, rather than to generate a commercial return. The accounting policies adopted by the Corporation reflect generally accepted accounting practice for a public sector public benefit entity. Details of the accounting policies and their application are contained in the Appendix.

Capital Structure and Value of Crown Investment

The estimated capital structure for the years ending 30 June is set out below. The forecast and planned reductions in the value of equity represent the sale of land..

Financial year ending		Total Liabilities \$m	Equity \$m	Total Assets \$m
30 June 2018	Forecast	-	3,483.6	3,483.6
30 June 2019	Plan	-	3,465.4	3,465.4
30 June 2020	Plan	-	3,450.4	3,450.4
30 June 2021	Plan	-	3,448.2	3,448.2

Notes: Equity includes retained earnings. Forecasts do not include the impact of any future land revaluations as they cannot be reliably estimated at the time this SCI was prepared.

Financial year ending		Equity Value Reduction (Sale of Land) \$m
30 June 2018	Forecast	39.7
30 June 2019	Plan	18.2
30 June 2020	Plan	15.0
30 June 2021	Plan	2.2

Notes: The land sales for the 2019 - 2021 financial years are estimates based on KiwiRail's strategic plan.

The land assets of the Corporation have an accounting book value of \$3.5bn based on an independent market valuation by Jones Lang LaSalle as at 30 June 2017.

The Board's estimate of the current commercial value of the Crown's investment in the Corporation as at the effective date of this SCI is nil. The valuation was assessed using the discounted cash flow (DCF) methodology to calculate the Corporation's Net Present Value.

The DCF value is estimated to be nil because the Corporation is not expected to generate any cash flows for the foreseeable future as:

- Railway land is leased to KiwiRail for \$1 per annum until 31 December 2070. Under the Core Lease, the Corporation has granted to KiwiRail the right to the proceeds from any future sale of that land.
- The valuation assumes the railway land will continue to be used for railway purposes at a

nominal rental when the existing Core Lease with KiwiRail expires.

The Corporation is expected not to borrow money from any person or to lend money to any person. Under the NZRC Act, the Corporation may only borrow money with the approval of the Minister of Finance.

Acquisition of Shares by the Corporation

As a result of the Vesting Order, the Corporation owns no shares and has no subsidiaries.

It is not anticipated that the Corporation will make any purchase of shares or assets, given its objectives.

Activities for which Crown Compensation is Sought

There are no activities for which the Board seeks compensation from the Crown.

Directory

Directors

Chair Trevor D Janes

Directors Rt. Hon. Paul East Q.C.
Sharon Shea

Executive

General Manager Jonathon Earl

Auditors Clint Ramoo, Audit New Zealand
on behalf of the Auditor-General
Level 2, 100 Molesworth Street
PO Box 99, Wellington 6140

Registered office L4, Wellington Railway Station,
Bunny Street, Wellington 6011

Appendix - Statement of Accounting Policies

Reporting Entity

The Corporation is a statutory corporation established pursuant to the NZRC Act and is included within the First Schedule of the SOE Act. The Corporation is designated as a Public Sector Public Benefit Entity (PBE) defined as “a reporting entity whose primary objective is to provide goods and services for community or social benefit and where equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders”.

The primary objective of the Corporation is to make available approximately 17,700 hectares of railway land to KiwiRail to enjoy the commercial benefit of the land for nominal consideration.

Basis of Preparation

Statement of compliance

The Corporation's financial information is prepared in accordance with New Zealand Generally Accepted Accounting Practice as appropriate for Public Sector PBEs reporting under Tier 2 of the PBE Standards. The Corporation does not have public accountability and is not large as defined on the Accounting Standards Framework of the External Reporting Board.

The financial information also complies with the NZRC Act and the SOE Act.

This prospective financial information comprises a projection for the years ending 30 June 2019, 30 June 2020 and 30 June 2021. As a projection, the financial information is prepared on the basis of one or more hypothetical but realistic assumptions, which reflect possible courses of action for the prospective financial information period as at the date this information has been prepared. The prospective financial information may vary from actual results.

Measurement base

The Corporation's financial statements are prepared on the basis of historical cost, except for land measured at fair value.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance

and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Unless otherwise specified, all financial information in this SCI is stated in New Zealand dollars and all values are expressed in millions of dollars (\$m).

Changes in accounting policies

There have been no changes in accounting policies since the previous SCI.

Critical Judgements

Transactions relating to sale and purchase of land

The sale and purchase of land are treated as common control transactions as the Crown is the ultimate parent of KiwiRail and the Corporation. The sale of the Corporation's land and the transfer of the proceeds is regarded as a reduction on equity of the Corporation whilst KiwiRail's acquisition of land for the Corporation is treated as an increase in equity of the Corporation.

Transactions relating to sale and purchase of land

Transactions relating to the sale and purchase of assets are between entities under common control by the Crown and therefore these transactions are treated as an increase/reduction in the value of equity of the Corporation.

Significant Accounting Policies

The following accounting policies are consistently applied to all reporting periods presented in the Corporation's financial information.

(a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable by the Corporation and represents amounts receivable for goods and services provided in the normal course of business once significant risk and rewards of ownership have been transferred to the buyer.

(b) Property, plant and equipment

(i) Recognition and Measurement

Property, plant and equipment is recognised on purchase or construction at cost and is subsequently revalued on a class basis to fair value. Land is the only asset class the Corporation holds.

Where an asset is acquired for nil or nominal value the asset is recognised initially at fair value.

(ii) Revaluation

Land is revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. Fair value is determined from market-based evidence by an external, independent valuer. Valuations are undertaken in accordance with the standards issued by the New Zealand Property Institute with the following bases of valuation adopted:

- *Rail corridor* – land associated with the rail corridor is valued based on adjacent use ('across the fence'), as an approximation to fair value.

Any revaluation increase arising on the revaluation of land is credited to the revaluation reserve of the asset class, except to the extent that it reverses a revaluation decrease for the same asset class previously recognised in surplus or deficit, in which case the increase is credited to the surplus or deficit to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of a class of asset is charged as an expense to the surplus or deficit to the extent that it exceeds the balance, if any, held in the asset class revaluation reserve relating to a previous revaluation of that class of asset.

Other additions between revaluations are recorded at cost.

(iii) De-recognition

Gains and losses arising from de-recognition of property, plant and equipment are treated as a reduction in value of the net equity in the Corporation. Any balance attributable to the derecognised asset in the asset revaluation reserve is transferred to retained earnings.

(iv) Impairment of non-cash-generating assets

The carrying amounts of the Corporation's non-cash-generating assets are reviewed at each reporting date to determine if there is any indication of impairment. If any such indication exists, the non-cash-generating asset's recoverable service amount will be determined. The recoverable service amount of an asset is the higher of its value in use and its fair value less costs to sell.

If an asset's carrying amount exceeds its recoverable service amount, the asset is impaired and the carrying amount is written down to the

recoverable service amount. For revalued assets, the impairment loss is treated as a revaluation decrease (see b (ii) above).

(v) Depreciation

Land is not depreciated

(vi) Assets held for sale

Where an asset's carrying amount is to be recovered through a sale transaction rather than continuing use it is classified as held for sale and separately identified as a current asset on the Statement of Financial Position. Assets held for sale are held at the lower of their carrying amount and fair value less costs to sell.

(c) Leases

Operating leases

Operating leases are defined as leases under which substantially all the risks and rewards of ownership of the applicable asset or assets remain with the lessor. Operating lease payments and receipts are recognised in the surplus or deficit in accordance with the pattern of benefits derived or received.

(d) Income tax

The Corporation is exempt from income tax as a public authority as defined in the Income Tax Act 2007.

(e) Goods and services tax (GST)

All items in the financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

