

Licensing Trusts

- 18.001** As statutory auditor of all licensing trusts, we have watched the sector with interest over the years, and last reported on it in 1997.¹ Our concerns have been about financial performance, going concern, and legislative change. We have regularly expressed the need for structural reform of licensing trusts to allow them to operate their businesses in a more appropriate environment.
- 18.002** In our 1997 report, we noted the recommendations that we had made to the Advisory Committee considering amendments to the Sale of Liquor Act 1989. To date there has been no legislative change concerning licensing trusts. However, we understand that legislation is currently being drafted following Cabinet consideration of the recommendations by the Advisory Committee. We await these changes with interest.
- 18.003** We decided to have a further look at the financial performance of all licensing trusts. We previously reported on the results for the licensing trust sector for the period 1991 to 1995. Figure 18.1 on the next two pages shows individual results for 1996 to 1998, and Figure 18.2 on page 124 shows the aggregate results for 1991 to 1998.
- 18.004** 1995-96 appeared to be a good year for licensing trusts overall. However, the situation has declined over the last two years, with a large number of trusts showing pre-tax losses.
- 18.005** We still have concerns about the decreasing ability of some trusts to continue operating. In our view, this situation could be alleviated by legislative changes to allow licensing trusts to restructure their business activities in a way that will enable them to better meet the challenges of a competitive industry.

¹ *Second Report for 1997*, parliamentary paper B.29[97b], pages 97-99.

Figure 18.1
Financial Performance of Licensing Trusts 1996-98

Based on figures extracted from the 1995-96, 1996-97 and 1997-98 audited financial statements; except that 1998 figures were not available for Parakai, and the figures for Johnsonville, Porirua, Terawhiti, Wainuiomata and Wellington South are unaudited. Otumoetai ceased trading in 1996.

Trust	Total Assets		Equity	
	1998 \$	1997 \$	1998 \$	1997 \$
Ashburton	7,442,540	6,997,154	6,176,299	5,718,195
Birkenhead	1,827,055	617,905	1,367,704	577,358
Cheviot	1,378,684	1,291,500	1,204,339	1,251,646
Clutha	3,724,353	3,838,095	3,125,041	3,037,704
Flaxmere	734,832	749,205	310,638	249,113
Geraldine	1,234,737	997,495	507,261	487,562
Hawarden	291,546	295,928	272,734	271,591
Invercargill	37,185,426	36,322,742	33,096,102	31,543,180
Johnsonville	1,753,000	4,200,000	834,000	1,101,000
Masterton	8,000,000	13,167,322	8,000,000	8,090,927
Mataura	6,428,946	6,245,746	5,387,833	5,277,929
Mt. Wellington	42,983,275	46,087,719	18,578,353	20,735,422
Oamaru	8,494,000	8,336,000	3,349,000	3,765,000
Okara	2,176,770	2,267,511	1,413,704	1,509,665
Otumoetai	—	—	—	—
Papatoetoe	1,727,635	1,748,735	833,520	852,753
Parakai	N.A.	499,902	N.A.	481,058
Porirua	5,728,000	7,752,000	4,059,000	6,025,000
Portage	10,546,000	10,726,000	6,638,000	5,273,000
Rimutaka	988,381	951,219	213,379	211,004
Te Kauwhata	281,256	317,492	181,111	191,821
Terawhiti	1,590,000	1,645,000	365,000	452,000
Wainuiomata	1,168,000	1,206,000	543,000	575,000
Waitakere	14,361,542	12,617,849	11,155,184	9,742,174
Wellington South	1,299,000	1,156,000	(292,000)	(361,000)
Wiri	3,284,952	2,467,335	1,727,180	1,511,695
Totals	164,629,930	172,501,854	109,046,382	108,588,403
		179,897,944		112,823,154

LICENSING TRUSTS AND ASSOCIATED CHARITABLE TRUSTS

B.29[99b]

Figure 18.1
Financial Performance of Licensing Trusts 1996-98... continued

Trust	Profit/(Loss) Before Tax		Return on Total Assets			Return on Equity			
	1998 \$	1997 \$	1996 \$	1998 %	1997 %	1996 %	1998 %	1997 %	1996 %
Ashburton	668,781	614,943	918,398	8.99	8.79	13.81	10.83	10.75	17.22
Birkenhead	790,346	(145,748)	(150,100)	43.26	(23.59)	(20.14)	57.79	(25.24)	(20.76)
Cheviot	60,715	100,230	102,905	4.40	7.76	8.43	5.04	8.01	8.66
Clutha	87,337	92,581	209,699	2.35	2.41	4.77	2.79	3.05	6.13
Flaxmere	62,715	26,277	56,027	8.53	3.51	7.52	20.19	9.85	22.49
Geraldine	29,546	48,290	45,097	2.39	4.84	4.31	5.82	9.90	9.83
Hawarden	4,727	6,057	499	1.62	2.05	0.17	1.73	2.23	0.19
Invercargill	2,512,458	2,873,286	3,344,722	6.76	7.91	9.82	7.59	9.11	11.24
Johnsonville	(257,000)	(1,180,000)	1,244,847	(14.66)	(28.10)	20.86	(30.82)	(107.18)	41.12
Masterton	(203,072)	7,671	746,782	(2.54)	0.06	5.17	(2.54)	0.09	7.40
Mataura	176,830	223,459	747,701	2.75	3.58	12.28	3.28	4.23	14.50
Mt. Wellington	394,422	831,753	826,388	0.92	1.80	1.82	2.12	4.01	4.40
Oamaru	(370,000)	(146,000)	1,400,000	(4.36)	(1.75)	16.77	(11.05)	(3.88)	32.47
Otara	(95,961)	4,766	125,010	(4.41)	0.21	5.48	(6.79)	0.32	8.31
Otumoetai	(19,233)	(40,050)	430,492	(1.11)	(1.01)	14.53	(2.31)	(2.08)	0.00
Papatoetoe	N.A.	(32,766)	(17,698)	N.A.	(6.55)	(2.33)	N.A.	(6.81)	(4.60)
Parakai	(959,000)	(994,000)	(3,840)	(16.74)	(12.82)	(0.73)	(23.63)	(16.50)	(0.94)
Porirua	2,007,000	1,654,000	124,527	19.03	15.42	1.16	30.24	31.37	1.36
Portage	2,375	50,851	2,429,000	0.24	5.35	23.45	0.24	24.10	57.59
Rimutaka	(10,710)	(21,903)	(19,616)	(3.81)	(6.90)	(1.58)	(5.91)	(11.42)	(4.56)
Te Kauwhata	(88,000)	(910,000)	1,318	(5.53)	(55.29)	0.38	(24.11)	(201.33)	0.62
Terawhiti	(22,000)	(402,000)	5,609	(1.88)	(33.33)	0.15	(4.05)	(69.91)	0.41
Wainuiomata	2,116,989	1,688,955	2,994	14.74	13.39	14.28	18.98	17.34	0.22
Waitakere	90,000	(948,000)	1,621,793	6.93	(82.09)	5.80	(30.82)	N/A	19.49
Wellington South	363,877	283,717	108,009	11.08	11.50	9.33	21.07	18.77	16.66
Wiri	7,343,142	3,708,721	232,811	4.5	2.1	8.1	6.7	3.4	12.9
Totals			14,511,022						
<i>Average</i>									

LICENSING TRUSTS AND ASSOCIATED CHARITABLE TRUSTS

*Figure 18.2
Aggregate Financial Performance of Licensing Trusts
1991 to 1998*

Year	Total Assets \$m	Equity \$m	Surplus/(Deficit) Before Tax (\$m)	Return on Equity %	Number of Trusts	Number of Trusts Reporting Pre-tax Losses
1997-98 ^{2,3}	164.6	109.0	7.3	6.7	24	9
1996-97 ³	172.5	108.6	3.7	3.4	25	10
1995-96	179.9	112.8	14.5	12.9	26	4
1994-95	178.6	103.7	9.7	9.4	26	6
1993-94	173.9	87.2	6.3	7.2	27	7
1992-93	168.5	70.4	4.4	6.3	27	7
1991-92	189.1	86.1	(0.1)	(0.1)	27	11
1990-91	209.2	96.9	0.3	0.2	27	10



² The results for 1997-98 do not include Parakai, as figures were not available. Also, the figures for Johnsonville, Porirua, Terawhiti, Wainuiomata and Wellington South are unaudited.

³ Otumoetai ceased trading in 1996.

Associated Charitable Trusts and Other Organisations

- 18.006** Nearly all licensing trusts have an associated charitable trust, which carries out distributions of gaming machine proceeds and licensing trust charitable funds to the community in the licensing trust's area. Many licensing trusts also have management companies.
- 18.007** The Audit Office is the appointed auditor of most of the charitable trusts and all of the management companies. However, this is not a statutory appointment – the audits are carried out by arrangement with the entities concerned. As we have stated previously, in our view the Audit Office should be the statutory auditor of such entities on the basis that those entities are managing the businesses of publicly owned bodies or are distributing the profits of those bodies.
- 18.008** We have had concerns in recent years over the uncertainty surrounding the legal powers of some charitable trusts and management companies. In one instance, the law was not clear as to the ability of a charitable trust to make a loan to another organisation. In another instance, it was not clear whether the business arrangements of a management company allowed a licensing trust to meet its objectives under the legislation.
- 18.009** In our view, some of the business arrangements being made by licensing trusts were never envisaged by the current legislation. We hope that any legislative change will take into account the changing environment in which licensing trusts and their associated organisations are operating.

