

CANTERBURY REGIONAL LANDFILL JOINT COMMITTEE AGENDA

MONDAY 20 APRIL 2009

AT 9AM

IN THE CAMELLIA ROOM, CIVIC OFFICES

Committee: Councillor Sally Buck (Christchurch City Council) (Chairperson)
Councillor Robbie Brine (Waimakariri District Council)
Mayor Garry Jackson (Hurunui District Council)
Councillor Lindsay Philips (Selwyn District Council)
Councillor Bob Shearing (Christchurch City Council)
Councillor Bev Tasker (Ashburton District Council)
Councillor Mike Wall (Christchurch City Council)

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1. **APOLOGIES**

2. **MINUTES OF MEETING OF THE CANTERBURY REGIONAL LANDFILL JOINT COMMITTEE HELD ON 11 AUGUST 2008**

**CHRISTCHURCH CITY COUNCIL
MINUTES OF A MEETING OF THE
CANTERBURY REGIONAL LANDFILL JOINT COMMITTEE**

**Held in the No 3 Committee Room, Civic Offices
On Monday 11 August 2008 at 9.30am**

PRESENT: Councillor Sally Buck (Chairperson)(Christchurch City Council),
Councillor Robbie Brine (Waimakariri District Council),
Mayor Garry Jackson (Hurunui District Council),
Councillor Bev Tasker (Ashburton District Council), and
Councillor Mike Wall (Christchurch City Council).

APOLOGIES: Apologies for absence were received and accepted from:
Councillor Lindsay Philips (Selwyn District Council),
Councillor Bob Shearing (Christchurch City Council), and
Don Young and Kitty Waghorn (Waimakariri District Council).

IN ATTENDANCE: Simon Collin (Christchurch City Council),
Zefanja Potgieter (Christchurch City Council),
Tony McKendry (Committee Adviser, Christchurch City Council).

1. **MINUTES OF MEETING 14 JULY 2008**

It was **resolved** that the minutes of the Canterbury Regional Landfill Joint Committee held on 14 July 2008 be confirmed.

2. **MATTERS ARISING**

Nil.

3. **APPOINTMENT OF DIRECTOR – TRANSWASTE CANTERBURY LTD (TCL)**

Councillor Robbie Brine retired from the discussion and voting on the above item. The report submitted by Tony McKendry, Committee Adviser, outlining the recommendations from Sheffield Ltd in respect of the appointment of a director on the Board of Transwaste Canterbury Ltd was considered by the Joint Committee.

The Committee **resolved** to appoint Councillor Robbie Brine to the Board of Transwaste Canterbury Ltd as a nominee director, with effect from 11 August 2008 up to 10 August 2011.

4. **RESOLUTION TO EXCLUDE THE PUBLIC [SECTION 7(2)(A)] – PROTECTION OF PRIVACY OF NATURAL PERSONS**

The Committee **resolved** to adopt the resolution to exclude the public set out on page 4 of the agenda relating to clause 3 – “Appointment of Director – Transwaste Canterbury Ltd (TCL)” be adopted.

The meeting concluded at 9.38am.

3. TRANSWASTE CANTERBURY LTD – INTERIM REPORT TO 31 DECEMBER 2008

General Manager responsible:	General Manager City Environment, DDI 941-8608
Officer responsible:	Peter Langbein
Author:	Peter Langbein

PURPOSE OF REPORT

1. This report reviews and comments on the half year accounts of Transwaste Canterbury Ltd (TWC) to 31 December 2008 (**Attachment 1**).

OPERATIONS

2. The Statement of Objectives and Performance contained in the interim report indicate all measures have been achieved or are in progress except for (1) Shareholder Interests – forecast landfill revenue for the full year at \$26.3m is 8% lower than the \$28.6m target, and the full year EBIT of \$9.5m is 10% less than the \$10.6m target; and (2) Community Relations – 4 customer complaints (3 from the same party re noise) were received compared with a target of nil. There is no indication that any other targets will not be met by 30 June 2009.

FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE	% Change	6 months 31-Dec-08 \$m	6 months 31-Dec-07 \$m	Last Year Actual \$m
<i>Operating Revenue Including Discontinued Operations</i>				
Total Revenue		13.4	13.1	26.7
Total Expenses		10.4	9.9	21.2
<i>Operating Revenue Excluding Discontinued Operations</i>				
Total Revenue	3.9%	13.4	12.8	25.2
Total Expenses	4.5%	13.4	12.8	25.2
	8.4%	10.4	9.6	19.5
NPAT (<i>net profit after tax</i>)	-14.0%	2.2	2.5	4.1

3. It should be noted that Total Revenue for the 2007 period includes a one-off gain on the sale of Mt Cass farm land of \$541,000. Revenue and expenses from this and other discontinued operations (farming operations) are nil this year, but were \$355,000 net revenue for the six months, and \$306,000 for the full year 2007. These were excluded from the Operating Revenues and Expenses in the interim report (but were included in the NPAT result). The above table shows the results as reported last year (including), as well as the like for like comparison reported this year (excluding).
4. Core Operating Revenue is 3.9% ahead of the same period last year, reflecting a corresponding increase in waste volumes and gate charges. Core Total Expenses are up 8.4%, with the two main increases in expenses being \$350k (3.6%) of storm damage, and \$352k (3.7%) of unrealised loss on interest rate swaps – any future swap instruments will be hedge accounted (direct to Equity Reserves).
5. The impact on the NPAT of these, other expense increases, and the drop in net profit from the discontinued operations of \$355,000, is a decrease of 14.0%.

FINANCIAL POSITION	% Change	31-Dec-08 \$m	31-Dec-07 \$m	Last Year 30-June \$m
Current Assets	63%	9.8	6.0	9.7
Non-current Assets	3%	54.1	52.5	50.9
Current Liabilities	40%	(2.8)	(2.0)	(3.8)
Non-current Liabilities	9%	(41.2)	(37.7)	(39.1)
Shareholders' Equity	5%	19.9	18.9	17.7

3 Cont'd

6. TCL's net asset position has improved since last June balance date by \$2.2m - being the \$2.2m net profit for the period. No dividend has been provided for in the report (\$4.1 for the full year to June 2008).
7. The \$54.1 million of non-current assets comprises approximately \$47m in respect of the landfill development and \$4.4m of land.
8. Non-current liabilities of \$41.2m include a \$34.6m draw down on a \$36m multi option credit facility with Westpac. They also include a \$1.9 million landfill aftercare provision – this provision will gradually increase over the life of the landfill, helping to ensure that sufficient funds are retained within the company to complete the required remedial work once the landfill is full. The balance of \$4.7m is the deferred income tax liability of \$4.4m, and \$0.352m liability re the unrealised loss on the interest rate swaps.

CASH FLOWS	% Change	6 months	6 months	Last Year
		31-Dec-08	31-Dec-07	Actual
		\$m	\$m	\$m
Operating	-14%	2.5	2.9	7.9
Investing	4%	(2.9)	(2.8)	(6.5)
Financing	0%	0.9	0.9	0
Net Cash Flows	-46%	0.5	1.0	1.4

9. Operating cash flows decreased because receipts from customers increased by 2.8% while payments to suppliers and employees increased by 5.7% and interest paid by 11.5%.
10. Investing cash outflows involved a 4.4% net increase in the payments for property, plant and equipment, and forestry.
11. Financing net inflows of \$0.9m included decreased borrowing under the Westpac facility of \$0.95m (\$2.150m last year), offset by no dividend payment (\$1.273m last year).

IMPACT OF CCC DECISION RE KERBSIDE COLLECTION

12. It should be noted that the change in kerbside rubbish collection by Christchurch City Council from early 2009 is designed to reduce the overall tonnage of rubbish sent to the Kate Valley Landfill. This could have a material impact on the revenues received by TCL, and also on the expected life of the landfill.

STAFF RECOMMENDATION

It is recommended that the Committee receive this report for information.

4. TRANSWASTE CANTERBURY LTD – DRAFT STATEMENT OF INTENT

General Manager responsible:	General Manager City Environment, DDI 941-8608
Officer responsible:	Peter Langbein
Author:	Peter Langbein

PURPOSE OF REPORT

1. The purpose of this report is to review and comment on the draft Statement of Intent ('Sol') for the years ending June 2010 to 2012 provided by Transwaste Canterbury Ltd ('TCL').
2. The letter from Gill Cox (Chairperson) dated 26 February 2009 should be read in conjunction with this review (**Attachment 2**). It should be noted that per **c**) on the letter, the Board decided last week not to pursue a share repurchase at this stage, and that the figures in the current draft reflect this. Gill and Steve Watson will talk to the meeting on 20 April regarding the figures likely to be in the final Sol, once likely tonnage and CPI figures have been determined.

COMMENTS ON THE STATEMENT OF INTENT

3. There have been no material changes to the Objectives and Performance Targets in section 5 of the Sol except for the Financial Performance Targets noted below.
4. The Summary of Significant Accounting Policies (section 7) is materially unchanged from last year's Sol.
5. The following table compares the current projections with those contained in last year's Sol:

Financial Performance (\$'000s)	2009/10	2010/11	2011/12
<i>Current Forecast:</i>			
Revenue	30,896	33,447	35,347
EBIT	10,828	12,777	14,177
Average Return on Invested Capital since 1999	9%	10%	11%
Shareholders' Funds to Total Assets	36%	37%	38%
<i>Last Year's Forecast:</i>			
Revenue	30,495	31,706	
EBIT	11,675	12,435	
Average Return on Invested Capital since 1999	10%	11%	
Shareholders' Funds to Total Assets	36%	36%	

6. Forecast revenue has increased by 1.3% and 5.5% for the next two periods, with the forecast EBIT showing a decline of 7.3% for 2010, and an increase of 2.7% for 2011.
7. The 2010 forecast revenue suggests a 23% increase in core total revenue over the two years from June 2008 (\$25.2m) which may be ambitious in light of the six months to December 2008 showing a 3.9% growth, and also in light of the current implementation by the Christchurch City Council of the three bin system. The EBIT increase over the two years from June 2008 (\$9.0) is 21% (2.2% growth for the latest six month period).
8. The forecast equity ratio (shareholders funds to total assets) of 36% to 38% represents a relatively high level of debt (total liabilities at December 2008 was \$44m, with interest bearing loans at \$35m), which is due to the 100% dividend policy.
9. The forecast capex over the next few years is significantly lower than for recent years. This coupled with \$5m of net proceeds expected on the settlement of the sale of Tiromoana Station means that the forecast levels of the Westpac loan are \$29m at June 2009, \$26m at 2010, \$23m at 2011, and \$21m at 2012 – this assumes the settlement will be in June 2009, and not July.

4 Cont'd

10. The forecast RoI shows a return on investment since inception of 9% to 2010 and 10% to 2011, compared with last year's Sol forecasting these years at 10% and 11% respectively. In simple terms this is the cumulative NPAT expressed as a return on the cumulative investment. This is not a measure of the dividend stream. However over time, if the 100% dividend policy continues, this measure will equate to the total dividends as a return on the total investment.
11. The following table compares forecast dividends with last year's Sol:

Indicative Dividends (\$'000s)	2009/10	2010/11	2011/12
Current Forecast:			
Total Dividend (100%)	4,228	7,518	8,574
All Councils share (50%)	2,114	3,759	4,287
Last Year's Forecast:			
Total Dividend (100%)	4,780	7,515	
All Councils share (50%)	2,390	3,757	

12. The forecast dividend for 2010 has reduced by 11.5%, while the same for 2011 has held steady.
13. By taking the forecast EBIT for each year per the previous table, and applying interest at 8.6% on the Westpac facility levels as above, and tax at 30%, the approximate NPAT available for the 100% dividend policy would be \$6.0m @ 70% = \$4.2m for 2010, \$7.56m for 2011, and \$8.66m for 2012, which is in line with the indicative dividends shown above. However as previously mentioned, the forecasted EBITs may be ambitious. The 2011 and 2012 years will have actual tax paid, therefore the dividends will have actual imputation credits available, hence they are not reduced here by the 30% applied to the 2010 dividend.
14. Paragraph 3.3 refers to the contracting out of the landfill and transport operations to Canterbury Waste Services Ltd ('CWS'). The ability of TCL to monitor and control these contracts, and ensure the level of return to CWS is not excessive is a critical element in TCL's ability to protect the interests of its shareholders. We are advised that CWS's reports are independently audited by appropriately qualified people as well as receiving detailed review by the TCL Board and advisers, and that the relationship is working well.

STAFF RECOMMENDATION

It is recommended that the Committee approve the draft Transwaste Canterbury Ltd Statement of Intent.

5. TRANSWASTE CANTERBURY LIMITED: APPOINTMENT OF CHAIRPERSON

General Manager responsible:	General Manager City Environment, DDI 941-8608
Officer responsible:	Mark Christison
Author:	Zefanja Potgieter

PURPOSE OF REPORT

1. The purpose of this report is to appoint Mr Gill Cox as Chairperson of Transwaste Canterbury Ltd for the period 9 June 2009 to 8 June 2011.

BACKGROUND

2. The Shareholders' Agreement and constitution provide for the appointment of the Transwaste Chairperson which rotates biennially between Group A (commercial) and Group B (territorial authority) directors. Mr Cox has been chairperson for the two previous terms, firstly as appointed by territorial authority directors and subsequently as appointed by the commercial directors - which term ends on 8 June 2009. It is therefore now again the turn of the territorial authority directors to appoint the chairperson, and it is recommended that Mr Cox be reappointed.
3. Mr Cox's existing term as Canterbury Landfill Joint Committee director extends up to the 2011 Transwaste annual general meeting, some four months past the end of the upcoming term as chairperson (8 June 2011).

STAFF RECOMMENDATION

That the Committee's directors on the Transwaste Canterbury Ltd Board be instructed to move the appointment of Mr Gill Cox as Chairperson of the Board for the period 9 June 2009 to 8 June 2011.