## 8. TRANSWASTE CANTERBURY LIMITED - STATEMENT OF INTENT

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|---|---|
| **General Manager responsible:** | Bob Lineham, Director of Strategic Investments |
| **Officer responsible:** | As above |
| **Author:** | Richard Simmonds |

### PURPOSE OF REPORT

1. The purpose of this report is to seek the approval of the Council of the draft Statement of Intent (attached) received from Transwaste Canterbury Ltd ('TCL') and to briefly comment on their year to date results.

### RECOMMENDATION

It is recommended that the Council recommend to its representatives on the Canterbury Waste Subcommittee that they approve the draft SoI of Transwaste Canterbury Ltd.

### BACKGROUND ON TRANSWASTE CANTERBURY LIMITED - STATEMENT OF INTENT

2. The Council owns a 37.85% shareholding in Transwaste Canterbury Ltd ('TCL'), a company established by a combination of local councils and two private sector companies to develop and operate a regional landfill.

3. The local councils, including Christchurch City Council, have established a Canterbury Waste Subcommittee ('CWSC') which, amongst other roles, monitors the activities of TCL. The CWSC comprises representatives from each of the council shareholders. However, this report is specifically directed to Christchurch City Council in its role as a 37.5% shareholder in TCL.

### TRANSWASTE CANTERBURY LTD STATEMENT OF INTENT

4. Other than for the updating of the company's financial projections and dividends, there are no changes of substance compared with the previous year's SOI.

5. The company has prepared a new financial model in order to determine an appropriate level of charging and an appropriate return on investment for the shareholders.

6. The following table compares the current projections with those contained in last year's SoI:

**Financial performance ($'000s)**

| | 2006/07 | 2007/08 | 2008/09 |
|---|---|---|---|
| ***Current forecast:*** | | | |
| Revenue | 23,730 | 26,717 | 28,565 |
| EBIT | 7,494 | 10,159 | 11,677 |
| ***Last year's forecast:*** | | | |
| Revenue | 20,503 | 20,872 | - |
| EBIT | 6,420 | 6,607 | - |

7. Forecast revenues and profits have improved, reflecting increased volumes and also the recently announced increase in gate prices.

8. The following table compares forecast dividends to all councils with last year's SoI:

**Indicative dividends ($'000s)**

| | **2006/07** | **2007/08** | **2008/09** |
|---|---|---|---|
| ***Current forecast:*** | | | |
| Council dividends | 2,005 | 2,889 | 3,354 |
| ***Last year's forecast:*** | | | |
| Council dividends | 2,005 | 2,876 | 1,801 |

9. Note that the above dividends are in respect of the councils' 50% share only – total dividends paid by TCL will be twice this amount. The Christchurch City Council's share of the currently forecast dividends is $1,519K, $2,189K and $2,541 respectively.

10. It is noted that there are no significant changes in forecast dividends in the first two years, but a substantial increase in the third year (the earlier forecasts had been based on free cash flows rather than net profits, which meant that whenever TCL was faced with significant capital expenditure, the cash available for dividends fell sharply. The revised model effectively smooths out these fluctuations in dividends by basing them on forecast profit rather than cash flows).

11. The forecast equity ratio (shareholders funds to total assets) of 31% to 32% represents a relatively high level of debt (it currently stands at $33 million). However, TCL's steady revenues and costs enable this level of gearing to be maintained. Additionally, the potential realisation of surplus farmland in future years would enable debt to be retired.

12. 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.

13. The company has operated successfully in its first half year of trading, with both revenues and waste volumes 2% higher than initially budgeted.