

4. FAIR RATE OF RETURN

RR 10140

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Corporate Plan Output: Solid Waste	

The purpose of this report is to advise the Subcommittee of the decision by Transwaste Canterbury Limited (JVCo) concerning the method of fixing a value for the Fair Rate of Return for its Shareholders and also for Canterbury Waste Services Contract.

BACKGROUND

As stated in the Memorandum of Understanding between the Transwaste Canterbury Ltd (TCL) partners and embodied in the Shareholders agreement, the main company operating objective is to operate as a successful business and achieve a Fair Rate of Return (FRR). The FRR is defined in the Statement of Corporate Intent for TCL as follows:

Objective:

4.1 To operate as a successful business

Performance Target:

(b) To investigate and make long term investment decisions that will allow the Company, once the Regional landfill is operating, to achieve a Fair Rate of Return. this is an appropriate risk adjusted return on investment, bearing in mind the objective is to achieve recovery of at least the weighted average cost of capital. Assessment of an appropriate risk adjusted return will include allowance for an appropriate risk free return on investment, market risk premium, special waste industry factors and any other particular risks relating to the nature of the operations.

In addition Canterbury Waste Services (Waste Management Ltd and Envirowaste Services Ltd) who is contracted to TCL to find the new landfill site, construct and operate the new landfill and provide waste haulage services is also required to achieve (no more than) a Fair Rate of Return.

ASSESSORS FOR FAIR RATE OF RETURN

At its Board meeting on Friday 11 June 1999, Transwaste Canterbury Limited agreed to appoint Mr Peter Taylor of Ernst and Young as assessor for the purpose of investigating and fixing the FRR.

It will be appreciated that the value placed on the FRR is all important in terms of striking a balance between achieving reasonable return on investment and keeping refuse disposal charges for shareholders and citizens down at a fair level. Because of this high level of importance it is proposed by the Board of TCL that the Canterbury Waste Sub-Committee also appoint an assessor (name of person to be advised) and that this person, following suitable independent investigation, reaches agreement with Mr Taylor on a final value for the FRR.

In the event that the TCL and CWSC assessors cannot reach agreement, TCL resolved that a third independent referee would be appointed to adjudicate and make a final binding decision.

Chairman's

Recommendation: That the information be received.