4. TRANSWASTE CANTERBURY LTD – DRAFT STATEMENT OF INTENT

General Manager responsible:	General Manager City Environment, DDI 941-8608
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PURPOSE OF REPORT

1. The purpose of this report is to review and comment on the draft Statement of Intent ('SoI') for the years ending June 2011 to 2013 provided by Transwaste Canterbury Ltd ('TCL'). **(Attachment 1)**

   The letter from Gill Cox (Chairman) dated 1st March 2010 should be read in conjunction with this review. It should be noted that per b) on the letter there is significant uncertainty surrounding future volumes of waste to the landfill due to economic conditions and the introduction of the three bin system, as a result the forecast has reduced significantly as is explained further below. It should further be noted per d) and e) on the letter that, given this uncertainty, the Board has provided "best estimate" provisional figures for this SoI with a finalised SoI to be provided to shareholders by 30 June 2010 following the full budget process for 2011 being completed.

COMMENTS ON THE STATEMENT OF INTENT

2. There have been no material changes to the Objectives and Performance Targets in section 5 of the SoI except for the Financial Performance Targets noted below.

3. The Summary of Significant Accounting Policies (section 7) is materially unchanged from last year's SoI.

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

Financial Performance ($'000s)	**2010/11**	**2011/12**	**2012/13**
Current Forecast:			
Revenue	26,260	28,075	28,983
EBIT	9,093	10,535	11,296
Average Return on Invested Capital since 1999	9%	9%	9%
Shareholders' Funds to Total Assets	35%	35%	35%
Last Year's Forecast:			
Revenue	33,447	35,347	
EBIT	12,777	14,177	
Average Return on Invested Capital since 1999	10%	11%	
Shareholders' Funds to Total Assets	37%	38%	

5. Forecast Revenue has decreased by 21.5 per cent and 20.5 per cent for the next two periods compared to last years SoI, with the forecast EBIT showing a decline of 28.8 per cent for 2011, and a decrease of 25.7 per cent for 2012. This is indicative of the concerns outlined above over tonnages to landfill in light of the 3 bin system.

6. The 2011 forecast revenue suggests a 6.3 per cent increase in total revenue compared to the forecast for the current year to 30 June 2010 (per the interim accounts to December 2009). The EBIT increase is 26.3 per cent compared to the forecast to June 2010.

7. The forecast Equity Ratio (shareholders funds to total assets) of 35 per cent represents a relatively high level of debt (Total Liabilities at December 2009 was $41.5 million, with interest bearing loans at $29.6 million), which is due to the 100 per cent dividend policy.

8. The forecast RoI shows a return on investment since inception of 9 per cent across the next three years, compared with last year's SoI forecasting the next two years at 10 per cent and 11 per cent 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 per cent dividend policy continues, this measure will equate to the total dividends as a return on the total investment.

9. The following table compares forecast dividends with last year's SoI:

Indicative Dividends ($'000s)	2010/11	2011/12	2012/13
Current Forecast:			
Total Dividend (100%)	**4,830**	**5,887**	**6,472**
All Councils share (50%)	2,415	2,944	3,236
Last Year's Forecast:			
Total Dividend (100%)	**7,518**	**8,574**	
All Councils share (50%)	3,759	4,287	

10. The forecast dividend for 2011 has reduced by 35.8 per cent, while the same for 2011 has reduced by 31.3 per cent.

11. By taking the forecast EBIT for each year per the previous table, and applying interest at 8.6 per cent on the Westpac facility levels as above, and tax at 30 per cent, the approximate NPAT available for the 100 per cent dividend policy would be $4.8 million for 2011, $5.9 million for 2012, and $6.6 million for 2012, which is in line with the indicative dividends shown above.

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.

STAFF RECOMMENDATION

That the Statement of Intent be approved.