

1. **APOLOGIES**
2. **MINUTES OF MEETING OF THE CANTERBURY REGIONAL LANDFILL JOINT COMMITTEE HELD ON 9 NOVEMBER 2009**

CHRISTCHURCH CITY COUNCIL

**MINUTES OF A MEETING OF THE
CANTERBURY REGIONAL LANDFILL JOINT COMMITTEE**

**Held in Committee Room 3, Civic Offices
on Monday 9 November 2009, at 10.30am.**

PRESENT: Councillor Sally Buck (Chairperson)(Christchurch City Council)
Councillor Robbie Brine (Waimakariri District Council)
Councillor Lindsay Philips (Selwyn District Council)
Councillor Bob Shearing (Christchurch City Council)
Councillor Mike Wall (Christchurch City Council)

IN ATTENDANCE: Mark Christison (Christchurch City Council)
Jane Parfitt (Christchurch City Council)
Simon Collin (Christchurch City Council)
Kitty Waghorn (Waimakariri District Council)
Dave Hock (Selwyn District Council)
Zefanja Potgieter (Christchurch City Council)
Sean Rainey (Christchurch City Council – Minutes secretary)

APOLOGY: Apologies for absence was received and accepted from
Mayor Garry Jackson and Councillor Bev Tasker.

1. **MINUTES OF MEETING – 13 JULY 2009**

It was **resolved** that the minutes of the Canterbury Regional Landfill Joint Committee held on 13 July 2009, be confirmed.

2. **FUTURE REVIEW OF CONTRACTS RELATING TO KATE VALLEY LANDFILL**

Brian Lester (Ashburton District Council) provided information on recent developments regarding the Kate Valley Landfill transportation contracts. Mr. Lester highlighted several anomalies in the current practice which should be addressed and that a greater degree of transparency is required in the future.

The Committee **resolved** that staff prepare a report on the 2012 review of Kate Valley contracts for consideration by the Committee in early in 2010.

3. **APPOINTMENT OF A REPRESENTATIVE TO ATTEND THE TRANSWASTE CANTERBURY LTD ANNUAL GENERAL MEETING**

The Committee **resolved** that Councillor Bev Tasker be appointed as the Canterbury Landfill Joint Committee proxy at the Annual Meeting of Transwaste Canterbury Limited to be held on 20 November 2009.

The Committee **resolved** that Councillor Mike Wall be appointed as the alternate for the above meeting.

4. **NON-COUNCILLOR DIRECTORS – TRANSWASTE CANTERBURY LTD (TCL)**

The Committee **resolved** that future processes for identifying suitable candidates for these two positions be approved to commence in February 2011 and June 2012 respectively and that staff report back to the Committee as to how this is funded.

The meeting concluded at 11am.

3. TRANSWASTE CANTERBURY LTD – INTERIM REPORT TO 31 DECEMBER 2009

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

PURPOSE OF REPORT

1. This report reviews and comments on the half year accounts to 31 December 2009.
Attachment 1

OPERATIONS

2. The Statement of Objectives and Performance contained in the interim report indicates all measures have been achieved or are in progress except for 1) Shareholders Interests – forecast revenue for the full year is \$24.7m which is 13.3% lower than the target of \$28.5m, with the full year EBIT forecast at \$7.2m, 27.3% lower than the target of \$9.9m, as a consequence average return on investment is forecast at 8.6% against a target of 9% and 2) Good Employer – there has been one Lost Time Injury which equates to 0.6 LTIs per 100,000 hours worked where the target was nil. There is no indication that any other targets will not be met by 30 June 2010.

FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE	% Change	6 months 31-Dec-09 \$million	6 months 31-Dec-08 \$million	Last Year Actual \$million
Operating Revenue	-5.2%	12.7	13.4	25.3
Total Revenue	-5.2%	12.7	13.4	25.5
Total Expenses	-3.8%	10.0	10.4	19.3
NPAT (<i>net profit after tax</i>)	-9.1%	2.0	2.2	4.5

3. The six months to 31 December 2009 include \$1,095,000 (2008 – nil) of waste minimisation levy revenue and expense. This levy is payable to the Ministry for the Environment and is on-charged to customers. Taking this into account the revenue would be reduced to \$11.6 million, a reduction of 13.4% compared to the same period the previous year. This reflects the reduced tonnage to landfill which is forecast to be 15% lower than budget.
4. Total expenditure is down 3.8%, however taking the waste minimisation levy into account the expenditure is actually down \$1.5 million or 14.4%. This is a driven primarily by two factors, reduced interest expense (\$0.8 million) which is a consequence of both a reduced loan amount and lower interest rates, and reduced operating expenditure (\$0.6 million) which aligns with reduced tonnage to landfill.

FINANCIAL POSITION	% Change	31-Dec-09 \$million	31-Dec-08 \$million	Last Year 30-June \$million
Current Assets	5%	10.3	9.8	9.8
Non-current Assets	4%	53.9	54.1	54.6
Current Liabilities	25%	(3.5)	(2.8)	(2.6)
Non-current Liabilities	8%	(38.0)	(41.2)	(41.1)
Shareholders' Equity	14%	22.7	19.9	20.7

5. Overall the net asset position has improved since last balance date by \$2.0 million, being the Net Profit for the period.
6. The \$53.9 million of non-current assets comprises approximately \$47 million in respect of landfill development and \$4.4 million of land.

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7. Non-current liabilities of \$38.0 million include \$29.6 million drawn down of a \$36 million multi option credit facility with Westpac. This is a reduction of \$3.75 million since the last balance date. They also include \$2.1 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 is comprised of \$6.0 million deferred tax liability and \$0.3 million liability for the unrealised loss on interest rate swaps.

CASH FLOWS	% Change	6 months 31-Dec-09 \$m	6 months 31-Dec-08 \$m	Last Year Actual \$m
Operating	60%	4.0	2.5	6.3
Investing	72%	(0.8)	(2.9)	(5.5)
Financing	-511%	(3.7)	0.9	(1.8)
Net Cash Flows	-200%	(0.5)	0.5	(1.0)

8. Operating cash flows increased by \$1.5 million because of reduced payments to suppliers (\$1.2 million) and lower interest paid (\$0.3 million).
9. Investing cash flows improved by \$2.1 million In the six months to 31 December 2008 there was a \$3.8 million payment for the purchase of property, plant & equipment with \$0.9m of proceeds on sale of assets, compared to \$0.8m of purchases and nil sales proceeds in the current period.
10. Financing cash flows in the current period represent the repayment of borrowings of \$3.75 million.

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 2011 to 2013 provided by Transwaste Canterbury Ltd ('TCL').

Attachment 2

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 3 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 Sol with a finalised Sol 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 Sol except for the Financial Performance Targets noted below.
3. The Summary of Significant Accounting Policies (section 7) is materially unchanged from last year's Sol.
4. The following table compares the current projections with those contained in last year's Sol:

Financial Performance (\$'000s)	2010/11	2011/12	2012/13
<i>Current Forecast:</i>			
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%
<i>Last Year's Forecast:</i>			
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% and 20.5% for the next two periods compared to last years Sol, with the forecast EBIT showing a decline of 28.8% for 2011, and a decrease of 25.7% 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% 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% compared to the forecast to June 2010.
7. The forecast Equity Ratio (shareholders funds to total assets) of 35% represents a relatively high level of debt (Total Liabilities at December 2009 was \$41.5 million, with interest bearing loans at \$29.6m), which is due to the 100% dividend policy.

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8. The forecast Rol shows a return on investment since inception of 9% across the next three years, compared with last year's Sol forecasting the next two 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.
9. The following table compares forecast dividends with last year's Sol:

Indicative Dividends (\$'000s)	2010/11	2011/12	2012/13
<i>Current Forecast:</i>			
Total Dividend (100%)	4,830	5,887	6,472
All Councils share (50%)	2,415	2,944	3,236
<i>Last Year's Forecast:</i>			
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%, while the same for 2011 has reduced by 31.3%.
11. 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 \$4.8million for 2011, \$5.9million for 2012, and \$6.6million 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.