3. TRANSWASTE CANTERBURY LTD – DRAFT STATEMENT OF INTENT FOR THE YEAR ENDING 30 JUNE 2012

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Officer responsible:	Water and Waste Manager
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INTRODUCTION

The purpose of this report is to review and comment on the draft Statement of Intent ('SoI') for the years ending June 2012 to 2014 provided by Transwaste Canterbury Ltd ('TCL') (**Attachment 1**).

The letter from Gill Cox (Chairman) dated 15 March 2011 (**Attachment 2)** should be read in conjunction with this review. It should be noted that per c) on the letter there is significant uncertainty resulting from the recent earthquake with regard to future volumes of waste to the landfill. The current year forecast revenue is $2.1m higher than budget due to waste volumes being 9 per cent higher than budget. The Board has provided "best estimate" provisional figures for this SoI with a finalised SoI to be provided to shareholders by 30 June 2011 following the full budget process for 2012 being completed.

COMMENTS ON THE SOI

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.

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

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

Financial Performance ($'000s)	**2011/12**	**2012/13**	**2013/14**
Current Forecast:			
Revenue	30,186	32,178	32,486
EBIT	12,468	13,129	12,853
Average Return on Invested Capital since 1999	9%	10%	10%
Shareholders' Funds to Total Assets	40%	42%	42%
Last Year's Forecast:			
Revenue	28,075	28,983	
EBIT	10,535	11,296	
Average Return on Invested Capital since 1999	9%	9%	
Shareholders' Funds to Total Assets	35%	35%	

Forecast Revenue has increase by 7.5 per cent and 11 per cent for the next two periods compared to last years SoI, with the forecast EBIT showing an increase of 18.3 per cent and 16.2 per cent respectively. These increases are in line with the increase reported in the draft Interim accounts to 31 December 2010 noted above.

The 2012 forecast revenue suggests a 5 per cent increase in total revenue compared to the forecast for the current year to 30 June 2011 (per the interim accounts to December 2010). The EBIT increase is 22.5 per cent compared to the forecast to June 2011.

The forecast Equity Ratio (shareholders funds to total assets) of 40 per cent represents a relatively high level of debt (Total Liabilities at December 2010 was $36.6, with interest bearing loans at $23.9m), which is due to the 100 per cent dividend policy.

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The forecast RoI shows a return on investment since inception of 9 per cent for 2012 and 10 per cent for 2013 and 2014 compared with last year 's SoI forecasting the next two years at 9 per cent. 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.

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

Indicative Dividends ($'000s)	**2011/12**	**2012/13**	**2013/14**
Current Forecast:			
Total Dividend (100%)	**6,700**	**7,700**	**7,900**
All Councils share (50%)	3,350	3,850	3,950
Last Year's Forecast:			
Total Dividend (100%)	**5,887**	**6,472**	
All Councils share (50%)	2,944	3,236	

The forecast dividend for 2012 has increased by 13.8 per cent, while the same for 2013 has increased by 19 per cent.

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 28 per cent, the approximate NPAT available for the 100 per cent dividend policy would be $8.4m for 2012, $8.8m for 2013, and $8.6m for 2014, which is in line with the indicative dividends shown above.

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.

RECOMMENDATION

That the SoI be approved.