

COUNCIL 23. 2. 2012

7. CHRISTCHURCH CITY HOLDINGS LTD – SUBSIDIARY PERFORMANCE AGAINST STATEMENT OF INTENT

General Manager responsible:	General Manager Regulation and Democracy Services, DDI 941-8462
Officer responsible:	General Manager, Regulation and Democracy Services
Author:	Peter Mitchell

PURPOSE OF REPORT

1. The purpose of this report is to summarise the Christchurch City Holdings Ltd's subsidiaries' performance in the 2011 financial year.

EXECUTIVE SUMMARY

2. Please see **Attachment A** for a report.

STAFF RECOMMENDATION

It is recommended that the Council note the report.



To: Chief Executive Officer, Christchurch City Council
 From: Bob Lineham, Chief Executive, CCHL
 Date: 18 December 2011
 Subject: **Subsidiary performance against Statements of Intent**

This is a report submitted for consideration by the Council at its February 2012 meeting.

Purpose of report

The purpose of this report is to summarise the CCHL subsidiaries' performance in the 2011 financial year in the context of the Local Government Act's requirements that their principal objectives be:

- achieving the objectives of its shareholders as set out in the Statement of Intent (Sol);
- being a good employer;
- exhibiting a sense of social and environmental responsibility; and
- conducting their affairs in accordance with sound business practice..

In terms of performance against Sols, the scope of this report is restricted to the more specific objectives and targets of the CCTOs – ie. those that can be quantified and that are formally reported against in their annual reports.

Performance targets as reported by CCTOs in annual reports

Performance against specific targets by each company (other than LPC who do not publish specific Sol targets) is summarised in the attached table (Schedule 1).

As would be expected, the series of earthquakes and aftershocks during the year had a significant impact on most of the companies, and this has flowed through to their performance against certain targets which were set pre-earthquakes.

Other principal objectives required by statute

Section 59 of the Local Government Act 2002 requires CCOs to have the following principal objective:

- (a) achieve the objectives of its shareholders, both commercial and non-commercial, as specified in the statement of intent; and
- (b) be a good employer; and
- (c) exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and

- (d) if the council-controlled organisation is a council-controlled trading organisation, conduct its affairs in accordance with sound business practice.

Item (a) has been considered above. In terms of items (b), (c) and (d), CCHL believes that all the companies are compliant.

Conclusion

In broad terms the CCTOs have met the performance objectives set out in their Sols, except where earthquakes have had a negative impact, and variances from target are explainable.

Recommendation

For information.



Bob Lineham
CHIEF EXECUTIVE

CCTO performance v Sol targets – key measures

Orion New Zealand Ltd

Performance measure	Target	Actual FY11		Comment
Profit after tax	\$39.4m	\$28.4m	X	Not achieved due to earthquakes
Return on equity	5.9%	4.3%	X	Not achieved due to earthquakes
Dividends	\$37.5m	\$37.5m	✓	Achieved
Share buyback	\$82m	-	X	Not achieved due to earthquakes
Duration of supply interruptions – SAIDI (Orion network only – ie. excl Transpower) (minutes per year per customer)	Urban 19 Rural 412 Overall 64	N/A	X	Targets not achieved due to earthquakes. Not possible to reliably calculate SAIDI measures, but missed by wide margin.
Environmental impact	Promote and enable various demand side initiatives	Achieved	✓	Continued to implement a centralised load management exercise with upper SI companies. Currently examining longer term funding for the system, which is transferable to other parts of NZ.
Community Energy Action/home insulation	Continue to support Community Energy Action and ensure a further 500 low income homes are insulated	Achieved	✓	ONZ has sponsored CEA since its inception in 1994. \$150K financial support plus assistance with IT and other issues. CEA unable to access some files, and cannot provide exact number of homes insulated, but they have confirmed the target was met
Lost-time accidents	Zero lost-time accidents	1 employee injury accident resulting in 2 days lost time (2010: 3 and 16). 8 contractor injury accidents resulting in 178 days of lost time (2010: 13 and 84)	X	A very challenging target re ONZ's contractors due to the physical and diverse work required on the network.

Christchurch International Airport Ltd

Performance measure	Target	Actual FY11		Comment
Total revenue	\$97.8m	\$97.4m	✓	Aeronautical revenues were down due to earthquake impacts, but commercial revenues were ahead of target
EBITDA from operations	\$62.9m	\$59.9m	✗	Profitability impacted by earthquakes, Chilean ash cloud and slow start to ski season
Adjusted surplus after tax	\$25.6m	\$21.8m	✗	As above
Aircraft departures	73,560	69,396	✗	As above, plus airlines continuing to focus on improved aircraft loadings and route yields.
Domestic passengers International passengers	4.40m 1.67m	4.29m 1.49m	✗	As above
Ratio of aeronautical revenue to commercial revenue	46.6%	42.6%	✓	The renegotiation of several key concession agreements and improved retail and parking revenues, lifted the ratio of non-aeronautical to aeronautical revenues
Waste management	<ul style="list-style-type: none"> increase level of material diverted from landfill from 15% to 23% by 2011 	Achieved	✓	Total material recycled was 238.6 tonnes – 28.3% of material diverted from landfill.
Energy	<ul style="list-style-type: none"> Achieve further 5% (Kwh/m²) energy consumption reduction over 2010 levels by 2013 Maintain carbon neutral status 	<ul style="list-style-type: none"> Achieved 11% reduction from FY2008 base year Re-certified until 2013 	✓ ✓	Energy usage reduced from 335.8 Kwh/m ² to 314.3 Kwh/m ² through implementation of comprehensive energy management programme.
Corporate social responsibility	Support Ellerslie Flower Show and targeted sponsorship activities	2011 Ellerslie Show cancelled		New programme of Christmas donations implemented, and new sponsorship programme organised

Enable Services Ltd

Performance measure	Target	Actual FY11		Comment
Revenue	\$3,544K	\$4,873K	✓	Revenue exceeded target despite earthquakes. ESL was active in assisting customers to re-connect post-quake, and also experienced demand for urgent connections from new customers
NPAT	\$304K	\$454K	✓	Reflects above-noted factors re improved revenue
Circuits connected	450	546	✓	As per revenue. Also, ESL made a substantial number of pre-earthquake connections for CCC and CDHB
Telecommunications ducting installed	260 km	211 km	✗	ESL halted major network installation pending the outcome of the UFB contract. Following the earthquakes ESL re-commenced network extensions to connect relocating customers where the investment was viable
Network reliability	99.9%	99.996%	✓	No reliability problems to date, despite earthquakes
Aggregate demand from schools	60 schools connected	58 schools connected	✗	Marginally under target. Schools have remained a priority, despite earthquakes
Continued support for providing crime camera capability	Crime cameras connected	Crime cameras connected	✓	
Environmentally friendly design standards	All ducting and optical fibre to be underground	All network installed underground	✓	Trenchless technology used where possible

City Care Ltd

Performance measure	Target	Actual FY11		Comment
Revenue	\$146.0m	\$237.5m	✓	Dramatic increase in workload and revenues following earthquakes
Profit for the period	\$3.8m	\$11.3m	✓	As above. Additional \$4m dividend paid for FY11
Equity to total assets	62%	44%	✗	The increase in revenues caused a large increase in receivables and hence total assets. This, combined with an additional \$4m dividend payment, resulted in a lower equity/asset ratio. The ratio remains satisfactory, but below Sol target which was based on steady rather than rapid growth
Return on average equity	12.0%	32.5%	✓	As per revenue and profit
New business	Secure two new long term contracts > \$2m p.a.	Achieved	✓	Two new contracts
Current contracts	Retain 90% of long term maintenance contracts	Achieved	✓	
CO2 emissions	Externally verify the ISO 14064 greenhouse gas assertion for the base year, and establish greenhouse gas management programme	Achieved	✓	
Lost time incident frequency	20% reduction in lost time incidents	9.6% reduction rate	✗	For the last two years LTIs have been well within City Care's internal targets and have continued to improve. But unable to achieve a 20% reduction from an already low base
Client satisfaction	Maintain current level through annual survey	Slight decrease from 71.6% to 69.9%	✗	

Staff satisfaction	Maintain current level through annual survey	Achieved	✓	
Training	5% increase in number of staff qualifications	Achieved	✓	

Red Bus Ltd

Performance measure	Target	Actual FY11		Comment
Revenue	\$31.2m	\$23.2m	X	Red Bus lost a number of contracts with effect from 1 November, and patronage as a whole declined severely following the Feb earthquake
Interest cover	At least 1.1 times	9.0 times	✓	High interest cover due to reduced interest expense following repayment of debt, and recording of insurance receivable
Number of passengers	10.0m	5.5m	X	As per revenue
Minimum fleet utilisation in peak	85%	Not measurable		Red Bus not currently required to deliver its contracted level of service (frequency and routes) due to earthquake damage to Canterbury bus network and infrastructure
Percentage of trips not run	Less than 1%	Not measurable		All bus routes and timings affected by earthquakes – measurement systems began to be reinstated in late June 2011. Insufficient information for this measure for the year
Percentage of trips starting on time	99%	Not measurable		As per above
Percentage of bus fleet with Euro 2 or above emission compliant engines	85%	78%	X	Surplus older buses retained for Ministry of Education earthquake school relocation services
Employees holding a NZQA qualification	More than 55%	70%	✓	Achieved

EcoCentral Ltd

Performance measure	Target	Actual FY11		Comment
Revenue	\$25.4m	\$35.0m	✓	The earthquakes had a massive impact on the amount of material handled by EcoCentral, and hence its gross revenues.
Profit for the period	\$2.0m	\$2.3m	✓	Profits were well up from the previous year's \$0.1m, and ahead of budget. However, while the earthquakes increased volumes, there was also a lower quality of co-mingled recyclables received by the EcoSort which increased the cost of sorting and hence adversely impacted on margins.
Shareholder's funds to total assets	10.7%	8.6%	✗	EcoCentral's strong financial performance enabled it to repay \$3.8m of debt during the year, although its closing equity ratio was marginally under target.
Residual waste from the Material Recovery Facility - % of residual of the total received	<6%	7.2%	✗	For the reason noted above, residual waste from the EcoSort was slightly higher than targeted.
Amount of diverted waste from the EcoDrops - % of the total volume received which is diverted to other users	>25%	47%	✓	EcoCentral were successful in diverting a large amount of material to other users, despite the massive earthquake-related increase in volumes

Selwyn Plantation Board Ltd

Performance measure	Target	Actual FY11		Comment
Forest harvesting	150,000 tonnes	132,272 tonnes	X	The forests were sold subsequent to balance date
Re-planting	300 ha	278 ha	X	With the pending sale of the forest estate, operations consistent with the forest management plan continued
Ratio of equity to total assets	95%	88%	X	The company has a high equity ratio and no debt. In January 2011, the company made a \$26.1m capital repayment to shareholders from the proceeds of asset sales
Return on equity	1.0%	8.8%	✓	Profit and return on equity are significantly impacted by gains/losses on sale and asset revaluations
EBIT to total assets	1.0%	9.9%	✓	As above
Forest Stewardship Council certification	Retain FSC accreditation through the PF Olsen Ltd Group Scheme	Achieved	✓	