

# COUNCIL CONTROLLED ORGANISATIONS

The Council operates three Council Controlled Organisations (CCOs). These organisations independently manage facilities and deliver services. The following information explains what the organisations do and how their performance is measured.

Council has previously sought feedback from the community on its continued involvement in the Waikato Regional Airport Limited and Tanlaw Corporation. Council resolved to continue its shareholding in both organisations.

## Tanlaw Corporation Limited

### *Why does it exist?*

Tanlaw Corporation was established in 1992 as a wholly owned local authority trading enterprise. Council wished to separate the development of its work programme and planning from the physical works. Tanlaw was established to achieve this and to operate as a profitable business for the benefits of the Council, and ultimately Waikato District ratepayers. The Council holds shares in this organisation as this operation provides roading and related services, which are seen as being part of the core business of Council.

Since its formation, the Company has generally traded profitably and provided significant dividends which supplement Council's income.

Tanlaw provides services to Council and a number of other clients.

The relationship between Council and Tanlaw is arms' length and most of the work is fully contestable through the tender process.

### *What does it do?*

Tanlaw's core business is civil engineering, road construction and maintenance, quarry operations and any associated business.

Performance Measures	2009	2010	2011	2012
Ratio of consolidated shareholder's funds to total assets	55%	55%	55%	55%
Net profit after tax as a % of average shareholder's funds	4.00%	4.00%	4.50%	5.00%
Debt / equity ratio	30:70	30:70	30:70	30:70
Interest coverage	2:1	2:1	2:1	2:1

## Waikato Regional Airport Limited

### *Why does it exist?*

In December 1995, the Council, along with four other local authorities, purchased the crown's 50% shareholding in the Waikato Regional Airport Ltd (WRAL). The purchase increased Council's shareholding to 15.625%. Council considers that the airport is a significant infrastructural asset for the region and is important for economic growth and development. For this reason, the Council has elected to retain its shareholding. In addition, the Local Government Act defines shareholding in an airport as a strategic asset.

### *What does it do?*

The company's objectives are to provide affordable, reliable and safe access to the air transport system and to enhance the economic development of the Waikato region on a commercially sound basis.

Performance Measures	2009/10	2010/11	2011/12
Net profit after tax to average shareholders' funds	0.50%	0.76%	0.65%
Net profit before tax/interest to total assets	2.28%	2.37%	2.28%
Net profit after tax to total assets	0.32%	0.55%	0.48%
Net profit before tax/interest to average shareholders' funds	3.49%	3.29%	3.13%
Percentage of Non Landing Charges Revenue** **Non-landing charges revenue is defined as revenue that has not been recovered directly from airlines.	81.42%	78.59%	78.90%
Earnings Before Interest, Taxation and Depreciation (EBITDA)	2,878,199	3,018,928	3,064,081
Total Liabilities/Shareholders Funds (Debt/Equity Ratio)	26:74	27:73	27:73
Interest Rate Cover The interest cover measures the number of times the Net Profit Before Interest, Tax and Depreciation (EBITDA) covers interest paid on debt and is used as an indicator of under-capitalisation. The forecast interest coverage of 2.4:1 for 2008/2009 complies with the ASB Bank's requirement that the interest rate coverage ratio does not fall below 1.5.	2.4:1	2.8:1	2.8:1

Over the past few years, a major redevelopment has been undertaken at the airport. The additional borrowing that was undertaken to fund this development has now been stabilised.

On 6 October 2008, Air NZ informed WRAL that as of April 2009, they are cancelling all scheduled flights from Hamilton International Airport to Sydney, the Gold Coast, and to Brisbane.

Air NZ attributed the cancellation of the service to two main factors:

- Huge increase in capacity out of Auckland – at low prices.
- Current economic down turn reducing passenger numbers.

WRAL has calculated the approximate loss in revenue from the reduction in schedules to be \$2million.

To mitigate the loss in revenue from the cancellation in flights, WRAL is taking the following measures:

- Thorough review of all operating expenses and capital expenditure.
- Attempting to reduce debt through sales of property surplus to requirements.

- Continuing promotion of Airport to 'low-cost Airlines' with objective of securing another airline offering trans-Tasman flights from Hamilton International Airport.

- Consideration of debt structure.
- Review of shareholders capital.

WRAL has met with shareholders to ensure they are fully informed about the impact of the cuts on WRAL's financial performance and to gain alignment on capital and maintenance focus for the next few years.

WRAL has identified eight strategic goals that recognise the strategic intent of the business:

- Deliver sustainable airport operations for the North Island.
- Become the leading freight and distribution hub in the central North Island.
- Grow national and international connectivity in the region.
- Utilise airport property to promote economic development in the region.
- Develop airport capability according to the customer and connectivity requirements.

- Position and promote Hamilton International Airport as the preferred North Island regional airport.
- Deliver value to its customers.
- Enable its people to deliver.

These strategic goals are expanded upon, and achievements to date are recorded in the WRAL 2008 Annual Report.

Shareholders have made a financial commitment to work with the airport to promote the region. Council has budgeted \$71,000 per annum in the LTCCP as our share.

The Airport Directors have invoked their right to call up capital to the value of \$12 million. The Waikato District Council component is \$1.875 million and is due for payment in July 2009. Council plans to borrow the money and look at repayment options during the course of the year.

## *Local Authority Shared Services Limited*

Local authorities of the Waikato Region have established Local Authority Shared Services (LASS) Ltd as a Council Controlled Organisation by way of a company, in which each local authority will have a single share. The company operates as an umbrella for future development of shared services through the Region.

LASS Ltd is jointly owned by the 13 local authorities of the Region, being: Waikato Regional Council (Environment Waikato), Hamilton City Council, Franklin, Hauraki, Matamata-Piako, Otorohanga, Rotorua, South Waikato, Taupo, Thames-Coromandel, Waikato, Waipa and Waitomo District Councils.

### *Why does it exist?*

The local authorities of the Waikato Region have worked closely together over a number of years on mutually beneficial joint projects. These projects have demonstrated the benefits that can be gained both in terms of outcomes achieved and reduction in costs to the community.

The Councils believe that the company will generate savings through economies of scale and through additional purchasing power and the ability to recover costs.

### *What does it do?*

There are a number of services provided by local authorities, particularly in respect of information collection and management, where improved services at lower aggregate cost can be achieved by having a number of authorities participate in purchase or development of the infrastructure for the service, and ongoing operation of it.

Historically, the above have been addressed by one Council developing the service and sharing it with others on an agreed basis.

### *Performance Measures*

The following performance measures have been set for the company during the first three years of the LTCCP project. The Directors are focused on ensuring that the products being offered continue to provide state of the art and cost effective processes for the shareholders.

The Performance Targets are as follows:

1. Positive cash flow will be maintained so that the equity ratio is maintained at a minimum of 40 percent.
2. Customers will be surveyed annually to ensure that there is at least 90% satisfaction with the services provided.
3. Expenditure shall not exceed that budgeted by more than 5% unless prior approval is obtained from the Directors.
4. The CEO will provide a written report on the business operations and financial position of the LASS as a minimum on a six monthly basis