EcoCentral Ltd
Statement of Intent
For the year ended 30 June 2019

Contents

1. Introduction

This Statement of Intent (SOI) is prepared in accordance with Section 64(1) of the Local Government Act 2002 (LGA).

The SOI specifies for EcoCentral Limited (ECL), the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the company may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable SOI is a public and legally required expression of the accountability relationship between the company and its Shareholder, Christchurch City Holdings Limited (CCHL) & its ultimate owner, being the Christchurch City Council (CCC).

ECL is made up of three divisions:

1. EcoSort – The materials recovery facility (MRF) that the Company owns and operates at Parkhouse Road. It processes recyclable materials collected from the wider Canterbury Region such as paper, glass, plastics, metals and sells the output product commercially to external parties. Ownership of the facility passes back to CCC in 2024.

2. EcoDrops – ECL is contracted to operate on behalf of CCC the three solid waste transfer stations at Parkhouse Road, Metro Place, and Styx Mill Road. The facilities are open to the public along with commercial customers for the disposal of most household waste and commercial general waste.

3. EcoShop – This provides a reuse retail warehouse which runs in conjunction with the EcoDrops. All types of previously-owned goods are collected from EcoDrops, carefully sorted, priced and then sold to the Christchurch public at our location on Blenheim Road.

The SOI is reviewed annually with CCHL & CCC, and covers a three-year period. EcoCentral Ltd is a Council-Controlled Trading Organisation (CCTO) for purposes of the Local Government Act 2002.

2. Contact Details

Address and Registered office
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Christchurch 8442

Board
David Kerr (Chair)
Sarah Smith
Sinead Horgan
Mark Jordan

Chief Executive
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3. Objectives

EcoCentral Limited is responsible for the operation of the EcoSort (Materials Recovery Facility) and the refuse and recycling EcoDrops which includes drop-off centres that assist in the handling, separating and disposal of all waste types. These facilities receive refuse and have recycling collection options throughout the city for both households and commercial premises.

ECL also operates the EcoShop on 191 Blenheim Road. This facility receives material from the EcoDrops, prepares that material for sale and retails products to the public, thereby diverting material from landfill.

The objectives of ECL are:

Health & Safety objectives

> To protect and ensure the safety and wellbeing of all staff, customers and contractors visiting our sites by driving a safety focused culture, adopting best-practice processes and equipment available to the industry

Sustainability objectives

- To process a high proportion of CCC controlled waste into usable resources, with a target of minimizing the residual waste sent to landfill.
- Ensuring that the EcoDrops, EcoSort and EcoShop are available and fully operational 7 days per week (excluding the five major public holidays) to achieve this objective.
- To identify, develop and implement innovative processes that reduce waste and help create a circle economy.

Environmental objectives

- Encourage sustainable resource use and provide facilities for the diverting of waste from landfill where that waste can be converted into reusable resources, in a commercially viable manner, with minimal environmental impact.
- ECL intends to work with CCC on developing education strategies to improve waste minimisation.
- To operate all facilities in 100% compliance with the consents governing their operation.

Economic objectives

- Ensure that ECL's operations generate annual operating surpluses allowing the Company to continue its term debt repayment program and make a positive contribution against the capital employed.
- To undertake sound strategic & financial planning to ensure that capacity is available to meet the waste & recycling processing needs of Christchurch City in a commercially viable manner.

Social objectives

- Assist CCC in empowering, educating and encouraging the community in recycling surplus resource and waste in the community.
- Working with CCC to encourage the users of the systems operated by ECL in Christchurch to understand and embrace the concept of waste minimization and resource recovery and assist in the development of a more sustainable community.
- Be a good employer and provide safe and clean facilities, demonstrating best practice in the industry.

4. Nature and Scope of Activities

ECL is a Council-Controlled Trading Organisation (CCTO) for the purposes of the Local Government Act 2002 and the Companies Act 1993.

ECL holds a long term contract with CCC to:

1. Operate the EcoSort. The ownership of this facility transfers back to council at the end of the contract term in 2024; and

2. Run the CCC owned three EcoDrops at Styx Mill Road, Metro Place and Parkhouse Road.

ECL also operates the EcoShop at 191 Blenheim Road which receives material from the recycling centres based at the EcoDrop sites. The EcoShop site is leased long term from a commercial third party.

ECL is regarded as a ‘for profit’ CCTO.

5. Governance

EcoCentral’s Board of Directors is responsible for the corporate governance of the company. The Board and management are committed to ensuring the company operates to the recognised principles of best practice governance and adheres to high ethical standards.

This Statement presents an overview of the main corporate governance policies of the company.

Role of the Board of Directors

The Board is responsible for the proper direction and control of the company’s activities. The Board guides and monitors the business and affairs of the company on behalf of the shareholder, CCHL, to whom it is accountable. CCHL is in turn responsible to its shareholder, CCC.

The primary function of the Board is to ensure that the company meets its objectives and requirements as listed in the SOI. Additionally, the Board has obligations under the Local Government Act 2002 to deliver an annual Statement of Intent and relevant half-yearly and annual reports to the Shareholder.

All Directors endorse and are required to comply with the New Zealand Institute of Directors’ Code of Proper Practice for Directors.

Conflict of Interest
The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between the company and their interests. Where conflicts do exist, then the Directors concerned must disclose their interest, excuse themselves from any Board discussions and not receive any Board papers in respect of those interests.

Board Composition
The directors of ECL are appointed by the shareholder CCHL for terms of up to three years. Board membership currently consists of four non-executive directors.

The Board has delegated to the Chief Executive the day-to-day leadership and management of the company. The Chief Executive has formally delegated certain authorities to direct reports and has established a formal delegated authority framework for those direct reports to sub-delegate as appropriate.

The company may also make use of external advisors from time to time.

The Board is responsible for reviewing the company's accounting policies, reporting practices and resultant financial statements. It also considers external audit reports; audit relationship matters and fees as well as delegated authorities.

Board Committees

Audit & Risk Committee

Membership of the committee consists of two members of the Board, the committee is regulated by approved terms of reference that address membership, functions, responsibilities, authorities and reporting procedures. The committee is chaired by a director who is not the Board Chairman. The ECL Audit and Risk Committee monitors risk management processes, oversees the findings of external auditors and monitors legislative compliance.

Remuneration Committee

Membership of the committee consists of the Board Chairman, who also chairs the committee and one other director. The committee convenes at least annually to review the performance of the Chief Executive and the recommended pay reviews of the Chief Executive's direct reports. The committee then makes recommendations to the board on the Chief Executive's remuneration package. In considering the remuneration policy, the Company is especially conscious of its public responsibilities in the setting of remuneration for senior executives, which is closely managed by the Board and made publicly available via the annual report.

ECL ensures remuneration levels are set at responsible limits to enable the Company to attract and retain the people it needs to manage and operate its business.

Health and Safety
The issue of health & safety is deemed the responsibility of the full Board on a continuing basis.

Controlling and Managing Risk
The Board has a formal risk assessment framework identifying potential risks to the company and adopting appropriate mitigating measures to minimize or eliminate the risk.

Foreign Exchange Risk
A formal Treasury Policy in conjunction with the use of independent advice on products and levels of coverage is utilised by ECL to manage its foreign exchange risk due to sales of recyclable products being primarily in US currency.

6. Performance Targets

Financial Performance Targets
The financial performance targets for the company are as follows:

	2019 $'000	2020 $'000	2021 $'000
Total Revenue	35,301	35,500	35,730
Net Profit After Tax	685	619	550
Return on Equity	7.9%	6.8%	5.9%

The forecast returns reflect the continuing reduction in volumes at the EcoDrop, due to increased competition for commercial refuse. The EcoSort earnings have been forecast after taking into account the impact of China's import ban of recycled waste products, which has dramatically affected the market prices for commodities.

The forecast ratio of Shareholders' funds to total assets for the next three years is:

	2019	2020	2021
Shareholders Equity%	64.7%	65.7%	66.6%

This is calculated as the equity of ECL divided by the total assets of ECL expressed as a percentage as at the end of the financial year.

The forecast capital structure for the next three years is:

	2019 $'000	2020 $'000	2021 $'000
Equity	8,873	9,243	9,543
Debt to CCHL	-	-	-
Total Assets	13,715	14,058	14,332

Operational Performance Targets

In addition to the above financial performance measures, ECL will use the following measures to assess its performance of the 2018/19 financial year:

Performance Targets	Performance Measure 2017 / 18
EcoDrop Waste Minimisation	 Investigate at least 2 new initiatives for diversion from waste stream
EcoSort MRF plant efficiency % Waste %	 75% 9%
EcoShop / Resource Recovery Number of Customer sales Total tonnes diverted from landfill	 142,000 per annum At least 8,000 tonnes
Health & Safety TRIFR (Total recordable incidents per 200,000 hours worked) AS/NZS 4801	 <20 Maintain AS/NZS4801 Health & Safety certification, while planning transition to ISO45001 (currently in draft for public comment).
Sustainable Business Practices Improve operational efficiency of machinery and plant to reduce greenhouse gas emissions	 Reduced kilowatt hours per tonne Develop a sustainability plan to further support the CCC's goal of becoming carbon neutral by 2030.

7. Accounting Policies

ECL has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the CCHL group.

The company’s current Accounting Policies are attached to this Statement of Intent as Appendix One.

8. Distributions

ECL will consider a dividend to the shareholder CCHL from residual cash after operating cash flow is applied to necessary capital expenditure, including looming capital expenditure initiatives, finance costs, the reduction of debt and maintaining reserves sufficient to meet the company’s future obligations. ECL recognises that a significant portion of its revenues are susceptible to commodity and foreign exchange price fluctuations. For this reason, the directors consider it prudent for the company to maintain cash reserves and/or borrowing capacity to ensure the company can withstand unfavourable short-term commodity and foreign exchange movements. The dividends payable to the shareholder CCHL will be determined by the ECL Board after consideration of the company’s funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

The normal dividend policy is to forecast payments of one instalment in October of each financial year.

	2019 $’000	2020 $’000	2021 $’000
Dividend Paid	250	250	250

9. Information to be provided to the Shareholder

An annual report will be submitted to the Shareholders. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period provided to the Shareholder.

A quarterly report will be provided to shareholders which reports on health and safety practices and performance within the company.

Half-yearly reports will also be provided to the Shareholder. These reports will contain unaudited information and comply with NZ IAS 34.

Annual reports will be produced and will provide

- a comparison of the performance of the ECL with the statement of intent; and
- an explanation of any material variances between that performance and the statement of intent;

The statement of intent will be submitted to the Shareholder for consultation annually, as required by the Local Government Act 2002. The Directors will include any other information they consider appropriate. Where it is appropriate, revised forecasts will be submitted to the Shareholder.

The company will operate on a "no surprises" basis in respect of significant Shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

The company will provide information requested by the Shareholder in accordance with the requirements of the Local Government Act 2002.

10. Acquisition and Divestment Policy

The subscription or acquisition of securities in any company or organization, or a divestment of part of the existing business, will only be considered where it is consistent with the long-term commercial objectives of ECL.

When the subscription, acquisition or divestment is considered by Directors to be significant to the company's business operations, it will be subject to consultation with the Shareholder. Any significant investment or acquisition is subject to a post investment review.

11. Compensation Sought from Local Authority

At the request of the Shareholder, the Company may undertake activities that are not consistent with normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of providing such activities.

Currently, no such activities are undertaken or envisaged.

12. Community Focus

Through its stewardship of Council resources, ECL plans to deliver the following to the local community:

- Management of infrastructure, assets and resources in a way that supports economic growth of the city providing employment for local staff, supporting local waste minimisation initiatives and seeking additional waste diversion opportunities.
- Ensuring infrastructure, assets and financial resources are well-managed and used efficiently.
- Continuing the partnership with Nurse Maude to provide a shared community focus by supporting the Nurse Maude activities whilst reducing waste.
- Identifying other partnering opportunities to enhance educational outcomes to increase recycling in the community.
- Demonstrate environmental leadership by using infrastructure, assets and resources in a sustainable manner which values natural resources and aims to reduce waste to landfill.

13. Sustainable Business Practices

ECL will continue to pursue opportunities to innovate and improve efficiency within the EcoSort plant as equipment upgrades occur considering better energy consumption and efficiency. The pursuit of sustainable, reliable alternative mobile plant including electric and other fuel options will be part of the capital review programme for the Company in 2019, supporting the extensive changes already achieved in this area to date.

14. Innovative/Disruptive and New Technologies

ECL will continue to seek further opportunities to utilise technology and engineering improvements to enhance the efficiency and productivity of the EcoSort and to provide a better customer experience at the EcoDrops. It will also consider the opportunity to incorporate emerging robotic technologies to improve output quality control.

15. Estimate of Commercial Value

The Board estimates the commercial value of ECL to be at least that which is stated as shareholders' equity in the Company's audited financial statements.

Appendix 1

Statement of Significant Accounting Policies

A. Reporting Entity
These are the Accounting Policies of ECL. ECL is registered under the Companies Act 1993 and is domiciled in New Zealand. The company is a Council Controlled Trading Organisation as defined by Section 6 of the Local Government Act 2002.

The primary objective of the company is to manage the Transfer Stations, Material Recovery Facility & Ecoshop. Accordingly, the Company has designated itself as a profit orientated entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The Accounting Policies were authorised for by the Board of Directors for the Accounts for the Accounting Period ending 30th June 2017.

B. Statement of Compliance
The financial statements of ECL have been prepared in Accordance with New Zealand generally accepted accounting practice. They comply with NZ IFRS.

C. Basis of Financial Statement Preparation
The financial statements are prepared under the historical cost convention, as modified by the revaluation of investment properties.

The functional and presentation currency is New Zealand dollars, and all values are
Rounded to the nearest thousand dollars ($, 000).

In preparing these financial statements ECL has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Owned assets
Items of property, plant and equipment acquired from the Meta group of companies in August 2009 are stated at fair value at acquisition less accumulated depreciation and impairment losses. Other items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

When parts of an item of property, plant and equipment have different useful lives, those assets are accounted for on a component basis.

(ii) Leased assets
Leases in terms of which ECL assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are operating leases and are not recognised on the Company's balance sheet.

(iii) Subsequent costs
ECL recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic

benefits embodied within the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

(iv) Depreciation
Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:
- Buildings – 15 to 50 years depending on the type of construction
- Leasehold improvements – The lesser period of the lease and their estimated useful life
- Plant, vehicles and other equipment – 3 to 25 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

E. Intangible Assets
(i) Goodwill
All business combinations are accounted for by applying the purchase method. Goodwill has been recognised in the acquisition of the operations, assets, and liabilities of the Meta group of companies.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is tested annually for impairment against the cashflows of the business.

(ii) Other intangible assets
Intangible assets other than goodwill are stated as cost less accumulated amortisation and impairment losses.

(iii) Subsequent expenditure
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Amortisation
Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are tested systematically for impairment at each annual balance sheet date. Other intangible assets are amortised from the date that they are available for use.

The estimated useful lives are as follows:
- Software – 3 years
- Restrictive covenants – The lesser period of the covenant and its estimated useful life

F. Borrowing Costs
Borrowing costs are recognised as an expense in the period in which they are incurred.

G. Income Tax
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

H. Cash and Cash Equivalents
Cash and cash equivalents comprise cash balances and call deposits, and other short term highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows, and in current liabilities on the balance sheet.

I. Trade and Other Receivables
Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less impairment provision.

J. Inventory
Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of manufactured inventories and work in progress, cost includes a share of overheads based on normal operating capacity.

K. Impairment
The carrying amounts of the Company's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

L. Trade and Other Payables
Creditors and other payables are initially measured at fair value and subsequently valued at amortised cost.

M. Interest-Bearing Borrowings
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

N. Equity
Ordinary shares and redeemable preference shares are classified as equity.

O. Goods and Services Tax
The financial statements are prepared exclusive of GST with the exception of receivables and payables that are shown inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.