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ASHBURTON CONTRACTING LIMITED

STATEMENT OF INTENT FROM 1 JULY 2019

(28 May 2019)

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(Covering the Financial Year Ended 30 June 2020)

1. PREAMBLE

This Statement of Intent (SOI) is required by section 64 of the Local Government Act 2002.

The Board of a Council Controlled Trading Organisation must deliver to the Council a draft Statement of Intent on or before 1 March each year. The Board must;
a) consider any comments on the draft Statement of Intent that are made to it within two months of 1 March by the Council, and
b) deliver the completed Statement of Intent to the shareholders on or before 30 June each year.

2. GOVERNANCE

Role of the Board

The collective responsibility of the Directors is to direct the management of the Company.

The Board carries out its responsibilities by setting the Company's strategic direction, providing leadership to put this into effect, appointing the Chief Executive Officer (CEO), agreeing targets and objectives and monitoring performance. The CEO has been delegated responsibility for the day-to-day management of the Company. He has an executive team to assist him.

Board Composition

The Company's Constitution provides the Board will consist of not more than five directors of whom not more than one shall be a member or employee of any Local Authority. Directors of the Company are appointed by the shareholder by notice in writing to the Company. The term of appointment shall be for a maximum period of three years, but may be for a lesser period as specified by the Council at the time of appointment. Retiring directors are eligible for re-election.

Board Meetings

Each year there are twelve scheduled directors' meetings. The Board is able to meet at other times if there is business to be conducted. Any two directors have the power to summon a meeting of the Board.

Remuneration of Directors

The Shareholder by ordinary resolution from time to time sets a total maximum amount payable for annual directors' fees divided among the directors as they consider appropriate. Director's Fees may be reviewed on an annual basis with a maximum review interval of two years. The Directors shall engage an independent consultant to provide a recommendation to the Shareholder.

Board Interaction with Management

Board policy is to make site visits to view Company operations and to familiarise directors with issues associated with the business. These visits usually involve interaction between directors and management and direct access to employees when their particular area of expertise is required. Most contact is with the CEO whom the Directors hold accountable for the operational performance of the Company.

Directors Obligations

Directors' Interests

A Directors' Interests Register is maintained and records particulars of notices given by Directors in regard to positions and shareholdings held in other companies and entities. The Register is reviewed annually as part of the Company's annual reporting process. All Board Meetings contain an agenda item addressing any changes to Directors Interests or Conflicts of Interest.

Officers Interests

A Register of interests of senior management is maintained.

Directors' and Officers' Insurance and Indemnity

The Company has arranged Directors' and Officers' Liability Insurance which ensures directors and officers will incur no monetary loss as a result of actions undertaken by them as directors and officers. Certain actions are specifically excluded, for example, criminal acts and the incurring of penalties and fines which may be imposed in respect of breaches of the law.

Financial Results

Management prepare monthly accounts which are provided to the Directors as part of the Board Report for review.

Unaudited half yearly summary reports are prepared for the Ashburton District Council.

The Company prepares Annual Accounts which are audited by Audit New Zealand. The directors review and sign the Annual Accounts which are incorporated in the Annual Report.

External Auditor

Section 70 of the Local Government Act 2002 requires that the Auditor General is the auditor of Council Controlled Organisations.

3. OBJECTIVES

The principal objectives of Ashburton Contracting Ltd are in accordance with section 59 of the Local Government Act 2002 to:

a) be a successful business; 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) conduct its affairs in accordance with sound business practice.

4. NATURE AND SCOPE OF ACTIVITIES

The nature of the Company's activities are that of a civil and roading contractor. Its activities include excavation, transport, construction, drainage, civil works, pipeline installation and surfacing (chip sealing/hotmix).

The company manufactures hotmix and readymix concrete.

The company has a vehicle repair workshop which services internal and external customers.

The company carries out quarrying and the supply of aggregates and landscaping products.

The company maintains water, sewer and wastewater facilities.

The company is a partner in the Lake Hood Extension Project (LHEP) joint venture.

The company supplies goods, materials, services and equipment for sale or hire.

The company engages in any other relevant activity as determined by the directors in consultation with the Shareholder from time to time.

5. RATIONALE AND OBJECTIVES FOR ASHBURTON DISTRICT COUNCIL OWNERSHIP

The rationale for the ongoing ownership of the Company in terms of contributing to the Ashburton District Council Long Term Plan is:-

a) To ensure local capacity and capability to undertake civil works, particularly focused on infrastructure.

b) To promote competition in the district for civil construction and maintenance activities.

c) To form part of a balanced portfolio of Council investments.

d) To provide a commercial rate of return on the Council's investment.

6. PERFORMANCE MEASURES

a) Budgeted profit before tax for ACL Parent is achieved. ACL Parent excludes LHEP.

b) The annual rate of return on ACL Parent average shareholder's funds will be a *target* of *12%* before tax based on the rolling average of the last 5 years (excluding any subvention payments and the before tax profit or loss relating to the LHEP).

c) The Company will maintain its ISO 9001 certification.

d) The Company will comply with the Resource Management Act.

e) The Company will ensure business management procedures and practices meet with the requirements of the Auditor such that the Company receives an unqualified audit report of its annual Financial Statements.

f) The Company will (a) maintain its current accreditation of Accident Compensation Commission Work Safety Management Plan Tertiary Qualified (expires 31 December 2019) and (b) strive to reduce its lost time injury frequency rate year upon year.

g) The Company will achieve its annual budgeted external revenue.

7. LAKE HOOD EXTENSION PROJECT (LHEP) POLICY

The Company will actively participate in and manage the performance of its investment in the Lake Hood Extension Project and report on its progress in the Notes to the Financial Statements of the Annual Report.

8. FINANCIAL FORECASTS

The budget projection for the year ending 30 June ***2020*** and forecast projections for each of the years ending 30 June ***2021*** and 30 June ***2022*** will be disclosed to the shareholder, on a confidential basis, in a timely manner to enable the Council to incorporate this information in its Annual Plan.

9. RATIO OF EQUITY TO TOTAL ASSETS

a) Equity is defined as the paid up capital, plus any tax paid profits earned and less any dividends distributed to shareholders. They include undistributed profits which have been accumulated in accounts known as either "Revenue Reserves" or "Capital Reserves".

b) Total Assets are defined as the sum of all current assets, investment assets and fixed assets of the Company.

c) The ratio of Equity to Total Assets will be no less than 50%.

10. DIRECTORS' ESTIMATE OF THE COMPANY VALUE

The Directors estimate that the commercial value of the shareholder's investment in Ashburton Contracting Ltd will be represented by the opening balance of Equity.

11. REPORTING TO SHAREHOLDER

The Company will report to the Shareholder on both a regular basis and as and when necessary. The following information will be available to the shareholder based on an annual balance date of 30 June:

11.1 Draft Statement of Intent

The directors shall deliver to the shareholder a Draft Statement of Intent on or before 1 March each year which fulfils the requirements of section 64 of the Local Government Act 2002.

11.2 **Completed Statement of Intent**

The directors shall deliver to the shareholder a completed Statement of Intent on or before 30 June each year, which fulfils the requirements of section 64 of the Local Government Act 2002.

11.3 **Reporting**

Within two months after the end of the first half and the second half of each financial year, the Directors will meet with the shareholder and deliver to the Shareholder, a report containing the following unaudited information as a minimum in respect of the period year under review:

a) An Income Statement disclosing actual and budgeted revenue and expenditure and comparative figures for the same period in the previous financial year.

b) A Statement of Changes in Equity with comparative figures for the same period in the previous financial year.

c) A Balance Sheet period with comparative figures for the same period in the previous financial year.

d) An abbreviated Statement of Cash Flows with comparative figures for the same period in the previous financial year.

e) A commentary on the results for the period under review. Where the Report is in respect of the first six months, the report will contain an outlook for the second six months with reference to any significant factors that are likely to have an effect on the Company's performance, including an estimate of the financial result for the year based on that outlook.

f) Commentary on the Company's performance with regard to Health and Safety including appropriate graphical information on the Company's performance and KPIs.

11.4 **Quarterly Reports**

In addition, an abbreviated report, content to be agreed between the Board and the Ashburton District Council to maintain an overview on the Company and its operations, be provided at quarterly intervals between the half yearly report and the annual report.

11.5 Annual Report

Within three months of the end of each financial year, the Directors shall deliver to the Shareholder, an Annual Report which shall contain audited Financial Statements in respect of the financial year, containing the following information as a minimum:

a) A Directors' Report including a summary of the financial results, a review of operations, a comparison of performance in relation to objectives and any recommendation as to dividend.

b) An Income Statement disclosing actual and budgeted revenue and expenditure with comparative figures from the previous Annual Report.

d) A Statement of Changes in Equity at the end of the year with comparative figures from the previous Annual Report.

e) A Balance Sheet at the end of the year with comparative figures from the previous Annual Report.

f) A Statement of Cash Flows with comparative figures from the previous Annual Report.

g) An auditor's report on the above statements and the measurement of performance in relation to objectives.

12. ACCOUNTING POLICIES

The accounting policies adopted for Ashburton Contracting Limited are documented in Appendix 1. Note: NZIFRS 15 Revenue is due for implementation in the 30 June 2019 Annual Accounts and NZIFRS 16 is due for implementation for the 30 June 2020 year.

13. DIVIDEND POLICY

13.1 The Company will, subject to the directors having completed a solvency certificate and discussion with the Council, distribute by way of dividend the expected 50% of the ACL Parent Company's operating surplus after tax.

13.2 The ACL Parent Profit after Tax excludes any realised capital gains/losses, revaluation movements and any after tax profits/losses arising from the LHEP.

14. CHARITABLE GIFTS POLICY

14.1 The Company may make charitable gifts to qualifying entities in terms of the 2007 Income Tax Act. Qualifying entities are those entities which are not carried on for private pecuniary profit and whose funds are wholly applied to charitable, benevolent, philanthropic or cultural purposes within New Zealand. The limit of the gifts is the level of taxable income for the Company. Charitable gifts for less than $20,000 in total in any one financial year will not require prior formal approval of the Ashburton District Council.

14.2 Any charitable gift in excess of $20,000 must have the formal agreement of the Company Directors and the Ashburton District Council regarding the recipient qualifying entity, the project and the amount of the gift.

15. PROCEDURES FOR ACQUISITION OF INTERESTS IN OTHER COMPANIES OR ORGANISATIONS

15.1 As a general policy, any proposed investment by the Company in other companies or organisations will be required to meet the weighted average cost of capital (WACC) of the proposed investment(s).

15.2 If the directors believe that the Company should invest in, or otherwise acquire, an interest in another company or organisation, the directors will obtain prior approval of the shareholder by special resolution.

16. SALES OF GOODS/SERVICES TO LOCAL AUTHORITIES

16.1 The Company will provide goods and services to the Ashburton District Council as part of its normal business activities. These goods and services shall be charged for on a commercial basis.

16.2 Ashburton Contracting Limited, under any contract with Ashburton District Council, will be required to meet levels of service determined by the Council.

Appendix I

ACCOUNTING POLICIES

Significant Accounting Policies

Ashburton Contracting Limited (the "Company") is a company domiciled in New Zealand.

The Company is a Council Controlled Trading Organisation as defined in Section 6 (1) of the Local Government Act 2002, wholly owned by the Ashburton District Council and is a profit-orientated entity for financial reporting purposes.

The Company's business includes contracting for physical works, both maintenance and construction, offering goods and services for sale and plant and equipment for hire. These activities occur predominantly in the Ashburton district and immediate surrounding areas and may be undertaken in other geographical areas.

Statement of Compliance

The financial statements have been prepared in accordance with the Financial Reporting Act 1993, Generally Accepted Accounting Practice in New Zealand (NZ GAAP), the pronouncements of the New Zealand Institute of Chartered Accountants and they comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The Company qualifies as a Tier 2 for profit reporting entity and has elected to report under the reduced reporting regime. The Company has in some cases chosen to include information within its accounts used for the financial reporting requirements of its parent.

Basis of Preparation

The financial statements are presented in New Zealand dollars, rounded to the nearest thousand. They are prepared on the historical cost basis except that Land and Buildings and Investment Properties are stated at their fair value.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Property, Plant and Equipment

Owned Assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses, except for Land and Buildings which are valued annually by a registered valuer and are stated at fair value.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Certain items of property, plant and equipment that have been revalued to fair value on or prior to 1 July 2005, the date of transition to NZ IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a quality asset which is determined to be an asset that takes a period of greater than one year to get ready for the intended use are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds.

Leased Assets
Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are stated at the lower of the fair value of the asset or the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

Subsequent Costs
Subsequent Costs are recognised in the carrying amount of an item of property, plant and equipment. The subsequent cost is capitalised 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 the profit or loss ***as*** an expense ***when*** incurred.

Depreciation
Depreciation is charged to profit or loss on either straight-line or diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. Lower value assets (cost less than $50,000) are depreciated at the current maximum rates allowed by the Inland Revenue Department as these rates approximate the useful lives and residual values associated with these assets. Land is not depreciated.

The estimated useful lives are as follows:

• Buildings	30- 50	years
• Plant and Equipment	3-38	years
• Office Equipment & Fixtures	3-10	years
• Land Improvements	20	years

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

Non-Current Assets Held for Sale
On initial classification as held for sale, non-current assets are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses are included in profit or loss.

Intangible Assets
Intangible assets acquired by the Company are stated at cost less accumulated amortisation and impairment losses.

Amortisation of intangible assets with a finite life is charged to profit or loss on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful life of software is three to ten years.

Trade and Other Receivables
Work in Progress
Work in progress is stated at cost plus profit recognised to date less a provision for foreseeable losses and progress billings. Cost comprises direct material and direct labour together with production overheads.

Trade and Other Receivables
Trade and other receivables are stated at their cost less impairment losses. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

Inventories
Inventories are stated at the lower of cost and net realisable value using weighted average. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cash and Equivalents
Cash and cash equivalents comprise cash balances and call deposits with original maturities of less than 3 months. Bank overdrafts that are repayable on demand form an integral part of the Company's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in profit or loss. For revalued assets the impairment loss is recognised in other comprehensive income for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in profit or loss.

Reversal of Impairment

Impairment losses are reversed when there is a change in the estimates used to determine the recoverable amount. For revalued assets the reversal of an impairment loss is recognised in other comprehensive income and credit to the revaluation reserve. However, to the extent that an impairment loss for that asset was previously recognised in profit or loss, a reversal of the impairment loss is also recognised in profit or loss.

Investments

Investment Property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the property annually.

Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment property is accounted for as described under the Revenue Policy below.

Other Investments

Investments in equity securities held by the Company are recorded at fair value.

Joint Venture

The Joint Venture has been incorporated into the financial statements using the equity method.

Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the balance sheet 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 any deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates or substantially enacted at the balance date.

Current tax and deferred tax is charged or credited to profit or loss, except when it relates to items recognised in other comprehensive income, in which case the tax is dealt with in other comprehensive income.

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.

Employee Entitlements

The Company has made provision in respect of entitlements for annual leave, long service leave and retirement gratuities. The provision is calculated on an actual entitlement basis at current rates of pay.

The Company recognises a liability for sick leave to the extent that compensated absences in the coming year are expected to be greater than sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent the Company anticipates it will be used by staff to cover those future absences.

Obligations for contributions to defined contribution superannuation plans are recognised as an expense in profit or loss when they are due.

Revenue

Goods and Services Sold

Revenue from the sale of goods and services is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods, or where there is continuing management involvement with the goods or services.

Construction Contracts

Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract at balance date. The stage of completion is measured by reference to the contract costs incurred up to balance date as a percentage of the total estimated costs for each contract.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses.

An expected loss on construction contracts is recognised immediately as an expense in profit or loss.

Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

Expenses

Operating Lease Payments
Payments made under operating leases are recognised in profit or loss in the period in which they are incurred.

Finance Lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term on an effective interest basis.

Net Financing Costs
Net financing costs comprise interest payable on borrowings, interest receivable on funds invested and dividend income. Interest income is recognised in profit or loss as it accrues. Dividend income is recognised in profit or loss on the date the Company's right to receive payment is established.

Trade and Other Payables

Trade and Other Payables are stated at cost.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Loans

Loans are non-derivative financial instruments. Subsequent to initial recognition, loans are measured at amortised cost using the effective interest method.

Goods and Services Tax (GST)

All amounts are shown exclusive of GST, except for trade receivables and payables that are stated inclusive of GST.

Derivative Financial Instruments and Hedging

The Company uses derivative financial instruments (including forward currency agreements) to hedge risks associated with foreign currency. Such derivative financial instruments are initially recognised at fair value on the date at which the derivative is entered into and are subsequently remeasured to fair value.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss for the year.

The Company does not hedge account.

Changes in Accounting Policies

All policies have been applied on a consistent basis with those used in previous years.

New Accounting Standards

NZIFRS 15 Revenue from Contracts with Customers comes into effect for all reporting periods ending on or after 1 January 2018. This will apply to the reporting period covered by this Statement of Intent ie 30 June 2020. The Company is working with Ernst Young to comply with the requirements of IFRS 15 for 30 June 2019 Annual Accounts.

NZIFRS 16 Leases. This comes into force in relation to the reporting period ending on or after 1 January 2019. This will be applicable to the 30 June 2020 reporting period. The Company has commenced its analysis of the requirements for IFRS 16.