

WHITESTONE CONTRACTING LIMITED

DRAFT STATEMENT OF INTENT 2020/21

1. Introduction

This Statement of Intent has been prepared in accordance with Section 64 of the Local Government Act 2002.

It outlines the activities and intentions of Whitestone Contracting Limited and the company's objectives. Performance targets and measures are specified, along with the Company's policies relating to governance and other matters.

The Statement of Intent is reviewed annually by Whitestone Contracting Limited following consultation with Waitaki District Council.

2. The Company

2.1 Background

Whitestone Contracting Limited (WCL) was established in 1991 and is 100% owned by the Waitaki District Council (Shareholder).

Under the provisions of the Local Government Act 2002, it is deemed to be a Council Controlled Trading Organisation.

The principal goal of Council-controlled organisations (CCTO) is to operate as a successful long-term business with the prime objective of managing the company's assets on an economic, environmental and socially sustainable basis.

Shareholder objectives for continued ownership and control include:

- Stimulating a competitive contracting sector in our district;
- Supporting local opportunities for a diverse labour market;
- Obtaining a good return on investment commensurate with the business risks of WCL and the risk appetite of the Shareholder

2.2 Nature and Scope of Activities

The nature of the WCL's activities will include those of a contractor and those activities of a trading organisation that the Directors consider are profitable, appropriate and in the best long term interests of WCL and the Shareholder.

The scope of activities undertaken by WCL include, but are not limited to, physical works for maintenance and construction including roading works, reticulation construction and maintenance, landscaping services, private sector contracting including mechanics workshop, quarry and landfill operations and equipment hire.

2.3 Objectives

The principal objective of WCL is to operate as a successful business and grow Shareholder wealth. WCL has a vision to be a reputable and trusted contractor thereby providing a financial return on investment to its Shareholder commensurate with risk; and thereby benefitting the region.

In general, WCL is focused on continual improvement of its systems and processes to improve operations. It also seeks to support local employment, the environment and the community, while at the same time maximising profit and performance in a sustainable way. As a company it recognises its Shareholder's objectives for ownership, including providing cost effective delivery of local services and assisting in the maintenance and improvement of good quality local infrastructure.

In pursuing the principal objective WCL and directors shall:

- Manage the WCL's business activities in an efficient, effective and safe manner.
- Ensure governance, structures, leadership and processes are in place and operating effectively across WCL to deliver a Zero Harm culture and achieve strategic safety goals
- Grow Shareholder wealth
- Ensure assets and liabilities are prudently managed consistent with the nature of a contracting business.
- Maximise the long term viability and profitability consistent with the Shareholder's objectives for ownership.
- Manage the business with the objective of achieving agreed business growth.
- Consolidate, and when financially advantageous, expand the Company operations in to the private and public sectors using the skill, abilities and management techniques that are available within WCL.
- Maintain a diversified portfolio of work and clients to ensure continuity of returns to the Shareholder.
- Continue to review WCL structure to ensure the most efficient structure is in place to enhance profitability.
- Be customer focused and ensure good customer contract results as measured against contract specifications.
- Ensure that the Company is disciplined with expenditure and seeks to maximise revenue.
- Achieve the most efficient use of staff resources, capital assets and working capital through innovative management and sound business practises.
- Develop and get agreement from the shareholder on a significant asset acquisition/disposal process and to proactively engage on this mutually agreed approval process.
- Provide a work environment that recruits, fosters and maintains safe, competent, motivated, committed and productive employees and developing its people to their potential.
- Recognise and reward excellent performance by staff.
- Act in an environmentally and socially responsible manner and implement sustainable business practices.
- Ensure transparent and informed relationships are maintained with the Shareholder within the spirit of 'no surprises'.

3. Reporting and Performance Measures

3.1 Reporting Frequency and Content

A Director of WCL shall attend any meeting at which the Annual Report or Half Yearly Report is presented to the Shareholder. The following information will be available to the Shareholder based on an annual balance date of 30th June.

Draft Statement of Intent

Each year, the Directors shall (for so long as the Company remains a Council controlled trading organisation), deliver to the Shareholder a Draft Statement of Intent for the following year which fulfils the requirements of **Schedule 8 of the Local Government Act 2002.**

Completed Statement of Intent

The board will consider comments on the draft Statement of Intent made on or before 1st May. By the commencement of the financial year to which the Statement of Intent relates, the Directors (for so long as WCL remains a CCO) will deliver to the Shareholder a Statement of Intent for the following year which fulfils the requirements of Schedule 8 of the Local Government Act 2002.

Modifications to Statement of Intent

The Shareholders may by resolution require the board to modify the Statement of Intent in the manner specified in the resolution. Every modification required by a resolution must be consistent with the objectives of the constitution, and lawful. The Board is required to prepare and adopt a modified Statement of Intent that incorporates the modifications in the resolution and deliver it to each Shareholder within 1 month of the date of its adoption, and make the modified Statement of Intent publicly available within 1 month of its adoption.

Quarterly Report

WCL will report to the Shareholder committee quarterly on KPI targets as well as individual contract performance reports at the completion of contract works for the Shareholder.

Half Yearly Report

Within two months after the end of the first half of each financial year, the Directors shall deliver to the Shareholder an un-audited report containing the information required by the Financial Reporting Act 2013 and a commentary on the results for the first six months together with a report on the 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.

Annual Report

Within two months after the end of each financial year, the Directors shall deliver to the Shareholder an annual report and audited financial statements in respect of the financial year, containing the following information as a minimum:

A report on the operations of WCL to enable an informed assessment of the Company's performance including: Performance against targets in this Statement of Intent.

- Performance against the Corporate Governance Statement.
- Audited financial statements as required under the Financial Reporting Act 1993.
- A report on compliance with WCL's Tendering Policy

3.2 Performance Targets and Measures

Over the next three years, WCL's performance targets are to:

Financial

- Achieve a before income tax return (prior to donations, sponsorships and subvention payments) on opening shareholders funds that exceeds 8%.
- Rate of shareholder's funds to total assets > 40%.

Quality Services

- Maintain ISO 9001 registration and related quality assurance programmes

Health and Safety

- Maintain a high standard of health and safety in relation to WCL's employees, customers, suppliers, subcontractors and the public, as measured by maintaining NZS4801 safety management systems accreditation.

- Maintain a total injury frequency rate of no greater than 2 per 200,000 hours worked or 10 per million hours worked.

Environmental

- Maintain ISO 14001 standard to ensure the company has systems in place to environmental and legislative and regulatory requirements.
- Full compliance with Resource Management Act – no breaches.

Community

- Support community initiatives with over \$50,000 of sponsorship per annum.

Ratio of Consolidated Shareholders' Funds to Total Assets

'Shareholders' Funds' (Equity) are defined as the paid-up capital plus any retained tax paid profits earned and less any dividends distributed to Shareholders. They include accumulated surpluses, revaluation reserves, trust funds and any other reserves or funds which have been accumulated in accounts known as either 'Revenue Reserves' or 'Capital Reserves'.

'Total Assets' are defined as the sum of all current and non-current assets plus investments of WCL.

The ratio of consolidated Shareholder funds to total assets will be in the range of 60% - 80% (and in accordance with WCL's business plan).

Directors Estimate of WCL Value

The estimated value of WDC's investment in WCL is greater than the paid up capital and retained earnings. The directors will advise the Shareholder on an annual basis if they believe the value to differ materially from this state.

4. Governance, Policy and Procedures

4.1 Corporate Governance Statement

a) Role of the Board of Directors

The Directors' role is defined in Section 58 of the Local Government Act 2002. This section states that it is the role of a Director of a Council Controlled Trading Organisation to assist the organisation to meet its objectives and any other requirements in its Statement of Intent. This does not limit the other duties a director to the Council-Controlled Trading Organisation may have. The Board consults with WCL's Shareholder in preparing and reviewing the Statement of Intent.

The Board meets on a regular basis and is responsible for the proper direction and control of WCL's activities. This responsibility includes such areas of stewardship as the identification and control of WCL's business risks, the integrity of management information systems and reporting to Shareholders. While the Board acknowledges that it is responsible for the overall control framework of WCL, it recognises that no cost effective internal control system will preclude all error and irregularities. The system is based upon written procedure, policies and guidelines, organisational structures that provide an appropriate division of responsibility, a total quality management audit system, and the careful selection and training of qualified personnel.

The Board recognises that the ultimate shareholder is a territorial local authority and that this imposes additional legislative and compliance demands on the company and that their actions have an impact on Council.

To achieve this governance the Directors will:

- Conduct regular briefings with the designated Shareholder representatives to discuss emerging risk and opportunities of the business, the general forecast performance expectations and to learn of relevant changes in Shareholder policies, expectations or risk appetite.
- Act on an informed basis, in good faith with due diligence and care and in the best interests of the Shareholder and WCL.
- Act in accordance with the constitution and Statement of Intent.
- Ensure compliance with applicable legislation and regulation.
- Review and guide corporate strategy, major plans of action, risk policy, annual budgets and annual plans, set performance objectives, monitor implementation and corporate performance, and oversee major capital investment expenditures, acquisitions and divestments.
- Monitor and manage potential conflicts of interest of management, board members and Shareholder.
- Ensure WCL's financial management is consistent with good business practice.
- In the spirit of no surprises, keep the Shareholder informed on significant events and issues, including those sensitive to publicity that may arise from the Shareholder being a political organisation.
- Promote a culture which requires all employees to adhere to high levels of ethical behaviour.
- Ensure WCL continues to develop a Zero Harm health and safety culture that manages risk, behaviour and outcomes to a high standard to avoid harm to people so that all staff return home safely every day.
- Provide a healthy and safe environment and ensure all Health and Safety Act obligations are met by the Company.
- Monitor the effectiveness of overall governance and make changes as needed.
- Maintain the company's economic sustainability through the mitigation of business risk and to develop and maintain a comprehensive risk management strategy.
- Keep the shareholder informed of matters of substance affecting the Company.

b) The Role of the Shareholder

The Board aims to ensure that the Shareholder is informed in a timely manner of all major developments affecting the Group's state of affairs. The Shareholder is consulted on the review of WCL's Statement of Intent and is responsible for the appointment of directors. Information is communicated to the Shareholder in the Annual Report, the Interim Report and special meetings where required.

The Shareholder is expected to:

- Deal with issues raised by WCL in a prompt, expedient and professional manner.
- Maintain a high level of communication with WCL on relevant matters.
- Ensure transparent and collaborative relationships are maintained with WCL.

c) Board Appointments

Directors are appointed by the Shareholder in accordance with Shareholder policy. The Board is subject to the Shareholder's director rotation policy requiring all of the directors retire over any three-year period. Directors are appointed for up to a maximum period of three years. Ideally

directors are rotated on regular basis. Retiring Directors shall be eligible to apply for reappointment.

d) Director and Board Performance

The Board formally reviews its performance, and the performance and contribution of individual directors on an annual basis, taking into account the current and future needs of WCL, and performance improvement, processes are implemented as required. The Chairman of the Board will report to the Shareholder on any particular mix of skills the board requires of any new Director.

e) Board Committees

The Board maintains a number of standing committees that focus on particular areas of the Board's responsibilities. These include:

Audit/Finance and Risk:

The committee:

- Monitors the audit function and reviews the adequacy and quality of the annual audit process;
- Ensures WCL maintains property accounting records and complies with all relevant legislation.
- Monitors changing business risk analysis and mitigation strategies.

Remuneration:

The committee reviews the remuneration and performance of the Chief Executive Officer.

f) Company Management Structure

The Management of WCL is delegated to the Chief Executive, who will manage WCL in accordance with the directives of the Board and good business practice.

g) Treasury Policy

There is no exposure to foreign exchange and interest rate risk is managed in accordance with the Group's Policy Manual that sets limits of management authority. No speculative investments are approved and investments not with a registered bank require board approval.

h) Code of Conduct

The Board has adopted policies for its members, executives and staff, specifying the business standards and ethical considerations in conducting its business with stakeholders. The policy includes:

- Corporate governance matters (as described);
- Relationships with employees and customers (ethics, health and safety);
- Confidentiality of company information;
- Environmental responsibilities.

i) Audit

External auditors are used to evaluate the quality and reliability of information provided to the Shareholders.

4.2 Dividend Policy

WCL is committed to maximising the long-term sustainable distribution flow to the shareholder and maintain a distribution intent of paying 75% of any net after tax return to the shareholder, subject to capital requirements of Whitestone Contracting Limited.

Any distribution needs to be prudent in the circumstances and meet the solvency test.

Some, or all, of the distributions to the Shareholder may be made, with agreement of the Shareholder, by subvention payment, or other mutually agreed method after taking account of all tax considerations.

WCL will declare dividends and make subvention payments, or other distributions, consistent with the amounts recommended by the Directors as suited to sustain the viability of the business in accordance with clause 3.2 - subsection (i).

4.3 Accounting Policies

WCL's accounting policies will comply with the legal requirements of the Companies Act 1993, the Financial Reporting Act 1993 and Local Government Act 2002 and be consistent with generally accepted accounting principles. A full statement of Accounting Policies will be presented in WCL's Annual Report.

4.4 Significant decisions affecting land or water

Before the company makes a decision that may significantly affect land or a body of water, it will take into account the relationship of Maori and their culture and traditions with their ancestral land, water, sites, Wāhi Tapu, valued flora and fauna and other taonga.

4.5 Procedures for Acquisition of Other Interests

The procedure to be followed for share acquisitions will be at the discretion of the Directors unless the acquisition qualifies as a significant acquisition or a major transaction.

A significant acquisition is defined as an acquisition with a value more than 20% of WCL's total value.

The Directors will consult the Shareholder prior to completing a significant acquisition.

A major transaction is defined as an acquisition involving more than 50% of the total assets of the Company or when a new CCO is established. Such a transaction requires a special resolution of the Shareholder.

4.6 Procedures for Divestment of assets or Interests

A significant divestment is defined as a divestment with a value more than 20% of WCL's total value.

The Directors will consult the Shareholder prior to completing a significant divestment.

A major transaction is defined as a divestment involving more than 50% of the total assets of the Company. Such a transaction requires a special resolution of the Shareholder

4.7 Activities for Which WCL Seeks Compensation from any Local Authority.

WCL undertakes work on a contractual basis for several local authorities, including the Shareholder. On occasions, WCL seeks compensation for breach of contract. Should compensation be sought or obtained from the Shareholder, the details shall be recorded in the annual report of WCL and the Shareholder.

Currently WCL does not provide facilities or amenities, make grants or perform regulatory or other government functions.

The Shareholder is not permitted to provide any guarantee, indemnity or security in respects of the assets, liabilities or trading activities of WCL.

4.8 Sales of Goods/Services to the Shareholder.

WCL provides goods and services to the Shareholder as part of its normal business activities. These goods and services shall be charged for on a commercial basis.

4.9 Tendering Policy

WCL has a Tendering Policy relating to the supply of goods and services to WCL from suppliers and directors. This excludes supplies for physical works.

Compliance with the Tendering Policy is reported in WCL's Annual Report.

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