QRS
QUALITY ROADING AND SERVICES (WAIROA) LIMITED

Statement of Corporate Intent 2021-2024

Covering period 1 July 2021 to 30 June 2024

Foreword

Quality Roading and Services (Wairoa) Ltd (QRS) connects workers to their jobs, creates opportunities for the community, and protects it from an increasingly unpredictable natural environment.

QRS is incorporated and domiciled in New Zealand and wholly owned by Wairoa District Council. It is a Council Controlled Trading Organisation as defined in Section 6 of the Local Government Act 2002.

Our speciality is civil construction and road maintenance. We have quarry operations, a large-scale heavy diesel workshop, and offer civil engineering skills, experience and equipment.

The company believes strongly in the importance of people, performance, communities and partnerships (PPCP).

In 2019 QRS consolidated into a company of excellence successfully tendering for contracts of national significance and delivering fit-for-purpose road maintenance at a time of public demand and challenging conditions. Our **people** are the driving force behind our success. The culture at QRS rewards good **performance** and celebrates success. We actively connect with our **community** supporting everyone who visits, lives and works in the district. A key to success has been the revitalised relationship and **partnership** QRS has fostered with its sole shareholder (and client) WDC. Through improved communication both organisations are thinking in a similar way and focussed on what's 'best for Wairoa'.

This Statement of Corporate Intent (SCI) sets out the overall activities and intentions of QRS for the financial year 1 July 2021 to 30 June 2022 and the two succeeding financial years. It also states the objectives to which those activities will contribute.

QRS looks forward to continuing its significant contribution to Wairoa District Council and the communities that it serves.

Guy Gaddum

Guy Gaddum
Quality Roading and Services
Chairman
March 2021

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Version Control

DATE	VERSION
18 February 2021	V1
15 June 2021	V2 June submission final

1. Nature and scope of company activities

QRS and its staff are an integral part of Wairoa and the wider district. Our speciality is civil construction and road maintenance and offer a full range of civil engineering skills, experience and equipment.

The principal activities of QRS are:

- Roading maintenance and associated construction
- Civil construction
- Quarrying
- Heavy transport

2. Mission and vision

WDC mission: The Wairoa District Council exists so that residents and visitors alike can enjoy the community in which they live and visit, supported by local decision-making to promote the social, economic, environmental and cultural well-being of the Wairoa District in the present and for the future.

WDC vision: Connected Communities, Desirable Lifestyles, Treasured Environments

QRS vision: A STRONG AND SUCCESSFUL COMPANY GROWING THE WAIROA COMMUNITY.

3. Governance

The role of the board is to effectively represent WDC and not to act contrary to the interests of WDC whilst adding long term value to the company.

The board will regularly review and monitor the management of the company by:

Determining purpose and direction: establishing objectives which are appropriate to the environment and circumstances.

Developing an effective governance culture: Ensuring the company's objectives are understood and endorsed by management; consider policies that will strengthen the company's performance; and engage effectively with the chief executive and leadership team.

Holding to account: satisfying itself that the company is achieving its objectives; agreeing with management a set of financial and non-financial key performance indicators relevant to the agreed objectives.

The board will hold quarterly governance meetings with WDC. Day-to-day management of the company will be delegated to the chief executive.

4. Ratio of shareholder funds to total assets

To provide the company with the capacity to grow whilst maintaining an efficient capital structure that minimizes risk, QRS will target the ratio of shareholder funds to total assets for each year at not less than 45%.

The shareholder funds and total assets are defined as disclosed in the audited statement of financial position as at 30 June.

5. Accounting policies

The company's accounting policies comply with the requirements of the Financial Reporting Act 1993 and are consistent with generally accepted accounting principles.

Details of the accounting policies and their application are contained in Appendix 2.

6. Procurement

WDC to engage with QRS at a governance level for non-subsidised work thereby giving both organisations the opportunity to strategically provide the best benefits for Wairoa. If in doubt, the shareholder, as the contracting entity may apply principles of transparency and non-discrimination.

7. Performance targets

The following performance targets are the measures by which the company's performance will be judged as published in the 2018-2028 Land Transport Activity Management Plan commonly referred to as the Long Term Plan. These revenue targets are significantly smaller than the past two years. They have incorporated the reduced visibility of the pipeline of large external contracts in the district and the PGF related projects coming to an end. However, the introduction of the WDC preferred supplier procurement policy with anticipated annual revenue of $2,000,000 being considered for QRS does support the below matrix.

	2021/2022	2022/2023	2023/24
Target revenue	$19,298,500	$20,000,000	$21,000,000
Net profit after-tax	$575,739	$567,000	$596,000
Shareholder Distribution forecast	$250,000	$250,000	$250,000
Net profit pre-tax of opening shareholder funds	6%	6%	6%
Ratio of Shareholders funds	>45%	>45%	>45%

8. Reports to the shareholder

9.1 General

The company will disclose information on its operations as is necessary to enable the shareholder to make an informed assessment of the performance of the company.

9.2 Draft Statement of Corporate Intent

The board will deliver to the shareholder a draft Statement of Corporate Intent on or before 1 March each year.

9.3 Completed Statement of Corporate Intent

The Board will:
(a) consider any comments on the draft Statement of Corporate Intent that are made to it within two months of March by the shareholder; and

(b) deliver the completed Statement of Corporate Intent to the shareholder on or before 30 June each year.

9.4 Quarterly update

The company will provide a quarterly update to a full general meeting of WDC.

9.5 Half year reporting

The Board will, by 28 February each year, deliver to the shareholder unaudited financial statements consisting of:

- Statement of financial position
- Statement of financial performance
- Cash flow statement for the six months to 31 December, together with statements of explanation and accounting policies upon which the financial statements are based.
- A written report on operations of the company during the period, and the amount of any interim distribution recommended, and the outlook for the next six months including any significant changes to previous forecasts or reports.

The company will make a formal presentation of the report at a meeting called by the shareholder. This meeting will be a formally constituted meeting of WDC called in terms of the Local Government Act 2002.

9.6 Annual Report

The Company will make available to the Shareholder and the public, audited financial statements in accordance with Section 67 of the Local Government Act 2002 within three months after the end of each financial year, being 30 September.

The annual general meeting of the company will be held no later than 21 days after the delivery of the annual report to the shareholder.

The company will make a formal presentation of the report to a meeting called by the shareholder. This meeting will be a formally constituted meeting of WDC called in terms of the Local Government Act 2002.

9. Consent for shareholding

Notwithstanding anything else contained in the constitution or the act, the board may not subscribe for, purchase, or otherwise acquire shares in any other company or other person without the prior written approval of the shareholder.

10. Estimate of commercial value of the shareholder's investments

The board will make an estimate of the commercial value of the company each year. An independent valuation will be performed once every three years. The shareholder will be advised of the value of their investment accordingly.

11. Profit distribution policy

Distribution Payments

The company will pay the shareholder a minimum annual distribution of $250,000. This includes an interim distribution of $50,000 after the six-monthly result, subject to the company passing the solvency test and board signing a solvency certificate.

In arriving at a recommendation in respect to a distribution the board will have regard to the company's:

- vision and objectives.
- financial performance for the past financial year taking regard for the future commercial environment.
- ability to meet financial commitments.
- investment proposals and profitability thereof
- ability to secure suitable financial arrangements
- requirements to reinvest in renewal of assets
- shareholder expectations with respect to overall performance of the company's commercial outcomes.

The Board may recommend the payment of distributions in addition to those contained within this statement of corporate intent.

12. Treasury policy

Corporate Objectives

Ensure the company is able to meet its future commitments as they fall due in both the short and long term through active treasury risk management. QRS will:

1. Reduce company cost of borrowing through effective control and management of its interest rate risk, and manage the company's exposure to interest rate risk within acceptable levels.

2. Manage funding risk by the selection of the best available methods for long term financing requirements.

3. Manage the company's return on funds invested through the effective control and management of its interest risk and maintain company exposure to interest risk within acceptable levels.

3. Maintain adequate internal controls to ensure that funds are invested and borrowed in accordance with company policy.

4. Know that company assets can be given as security. The use of long-term funds will be restricted to development and establishment of capital assets and the repayment of equity.

13. Investment policy

WDC believes it is important to maintain expertise in construction, roading and maintenance in the district, balanced with an intent to reduce ratepayer costs by providing effective, sustainable competition and providing community support.

As those ratepayers do not have any direct involvement with how that investment is determined, the directors owe a special duty of care to how that investment is managed.

In addition, the company will supply WDC with all business cases for investments above $500,000 for review prior to committing to the investment.

As an overall investment policy and in alignment with the WDC Investment Policy (item 4.3 dated 5 August 2015) and the WDC Long Term Plan 2018-2028, the company will endeavour to maximise the return on opening shareholder funds whilst acting within legislative parameters, maintaining investment risk within acceptable limits, and ensuring the company's funds are properly safeguarded.

The company will also operate as per Section 59 of the Local Government Act 2002 which states that the principle objective of a CCO (Council Controlled Organisation) is to:

- achieve the objectives of its shareholders, both commercial and non-commercial, as specified in the Statement of Corporate Intent
- be a good employer
- 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 if the CCO is a CCTO (Council Controlled Trading Organisation), it will conduct its affairs in accordance with sound business practice.

While the company's ability to provide regular distributions is a strategic objective in the WDC investment policy, growth opportunities are also available with reinvestment in the business.

Using a collaborative approach to economic development WDC agree in principle that QRS future-proof its assets by building a fit-for-purpose operational hub at QRS acknowledging that in time this asset will maximise the company's profit thereby ensuring long term financial stability.

In addition, WDC and QRS will go beyond formal governance structures to encourage collaborative behaviour and or identify opportunities for collaborative solutions for the benefit of the community.

Meanwhile, QRS continues to balance its return on shareholder value by contributing to the community socially and financially. The company invests in organisations that have a core focus of assisting the environment, children, and causes that support social wellness for individuals and the community of Wairoa.

Appendix 1 Collaboration policy

Quality Roading and Services (QRS) has embraced working collaboratively as a key pillar for achieving its vision of professional and growing; and sustaining a profitable and locally valuable business on a foundation of safety and quality.

QRS believes that working collaboratively will also maximise employee satisfaction, minimise conflict and produce sustainable outcomes for the business and our clients.

To achieve these goals QRS will endeavour to develop, maintain and monitor a culture of collaboration, both internally and externally with clients and stakeholders, based on:

- building trust with each other
- looking forward, not back
- providing timely responses
- having open, honest and frank communication
- being respectful of each other
- no surprises approach
- being positive and constructive

QRS will support the ideal of continuous improvement in working collaboratively.

Nigel Pollock
Chief executive officer
March 2021

Appendix 2 Accounting policies

The company's accounting policies comply with the requirements of the Financial Reporting Act 1993 and are consistent with generally accepted accounting principles.

The general accounting principles recognised as appropriate for the measurement and reporting of results and financial position on a historical cost basis have been followed.

The following particular accounting policies which materially affect the measurement of results and financial position have been applied.

1. Revenue Recognition

QRS is in the business of providing road maintenance and construction and sale of aggregate. Revenue from contracts with customers is recognised when control of the physical work completed on the clients asset or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

2. Sale of aggregate

Revenue from sale of aggregate is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the aggregate. The normal credit term is 30 to 60 days upon delivery.

3. Variable consideration

QRS does not enter into variable consideration arrangements nor provide any volume rebates. In addition, there are no financing components or warranty obligations beyond normal retentions held by the customer for road construction projects.

4. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

5. Goods and services tax

The financial statements have been prepared exclusive of goods and services tax (GST) with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense.

6. Employee benefits

Provision is made in respect of the Company's liability for annual leave, sick leave, long service leave and retirement gratuities.

The provision for sick leave is based on the additional amount that the company expects to pay as a result of the unused entitlement that has accumulated at balance date.

The provision for gratuities is based on the number of weeks the employee will be paid at retirement, the expected pay rate along with the probability of the employee still being employed by QRS at retirement age.

The provision for long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

Expected future payments for gratuities and long service leave are discounted using market yields at the reporting date.

Defined contribution pension plan obligations are recognised as an expense in the statement of comprehensive income as incurred.

7. Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past result. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a financing cost.

8. Taxation

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except when the deferred income tax asset relating to the deductible temporary difference arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

9. Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently at amortised cost less an allowance for any uncollectable amounts. The Company assesses impairment losses by estimating the expected credit loss that may exist within its portfolio of accounts receivable based on its historical experience of credit loss arising from accounts receivable.

10. Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

11. Inventories

Inventories are valued on the basis of the lower of cost, determined on a first-in, first-out basis, and net realisable value.

12. Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

There are six classes of property, plant and equipment:

- Freehold land
- Quarries

- Freehold buildings
- Plant, equipment and vehicles
- Office equipment and furniture
- Computer hardware

The quarry asset class includes all development costs in relation to the Tangihanga Joint arrangement, accounted for by QRS in accordance with accounting policy(s).

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the statement of comprehensive Income in other operating expenses.

13. Depreciation

Depreciation is provided on a straight-line basis on freehold buildings and quarries. Freehold land is not depreciated.

Plant, equipment and motor vehicles, office equipment and furniture, and computer hardware are depreciated at rates calculated to allocate the assets cost less estimated residual value over their estimated useful lives. The rates for major classes of assets have been estimated as follows:

Quarries	3.3% Straight Line
Freehold Buildings	3.3% Straight Line
Plant, Equipment & Motor Vehicles	20% Diminishing Value
Office Equipment and Furniture	20% Diminishing Value
Computer Hardware	48% Diminishing Value

Depreciation is calculated on a monthly basis from the date of acquisition. The assets useful lives, residual values and depreciation method are reviewed at least every financial year.

14. Intangible assets

Intangible assets acquired separately are capitalised at cost. Following initial recognition, the cost model is applied to all classes or intangible assets.

The useful lives of all intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate.

The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

The amortisation of the software class of intangible assets is estimated at 20%-48% diminishing value, depending on the nature of the software.

15. Statement of cash flows

Operating activities include cash received from all income sources of the company and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of the company.

16. Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised and as well as through the amortisation process.

17. Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the end of the financial year that are unpaid and arise when QRS becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

18. Leases

NZ IFRS 16 'Leases' was adopted on 1 July 2019. The Company applied the modified retrospective transition method and thus prior comparatives were not restated. The Company has elected to present right-of-use assets and lease liabilities separately in the statement of financial position. Depreciation of right-of-use assets is included in depreciation in the statement of comprehensive income. The cash outflows related to the principal portion of the lease liability and the related interest are presented separately within the financing activities in the statement of cashflows.

19. Significant accounting judgements, estimates and assumptions – quarry aftercare

A provision has been made for the present value of anticipated costs of future restoration of quarry sites. The provision includes future cost estimates associated with quarry aftercare.

The calculation of this provision requires assumptions such as application of environmental legislation and life of metal extraction from each quarry site. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting both the expense or asset (if applicable) and provision.

20. Contract assets and contract liabilities

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

A trade receivable represents the company's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

A contract liability is the obligation to transfer goods or services to a customer for which the company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the company transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when company performs under the contract.