

9 April 2021

Commerce Commission
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Wellington 6140
New Zealand

By email: registrar@comcom.govt.nz

Attention: Jeff Hamilton

PUBLIC VERSION

Response to Commerce Commission Statement of Issues dated 22 March 2021

1 Introduction

- 1.1 This submission is made on behalf of Nelmac Limited (**Nelmac**) on the matters raised by the Commerce Commission (**Commission**) in its Statement of Issues dated 22 March 2021 (**SOI**), in respect of the proposed acquisition of Nelmac's Betta Bins business by Can Plan Limited (**Can Plan**) (**Proposed Acquisition**).
- 1.2 This version of the submission is the public version, where confidential information has been redacted. The Commission has received a separate confidential version of this submission with no redactions applied.
- 1.3 The information provided to the Commission in the interview with Nelmac on 1 April 2021 and subsequently provided by ourselves and Mr Lindsay Coll of Nelmac, is commercially sensitive information, for which confidentiality is claimed.

2 Summary

- 2.1 In summary, Nelmac submits as follows:
 - 2.1.1 The relevant product markets for the purposes of the Commission considering giving a clearance for the Proposed Acquisition are:
 - (a) the market for the provision and collection of general waste bags and small bins up to 240L; and
 - (b) the market for the provision and collection of general waste bins of 660L and larger.
 - 2.1.2 These product markets include residential and commercial customers (where residential and smaller commercial customers use bags and bins up to 240L, and larger commercial customers use 660L and larger bins), and green waste collection services.
 - 2.1.3 There is a geographic separation of markets for the areas:
 - (a) north and east of Nelson City up to and including Cable Bay, largely coinciding with postcode 7071; and

- (b) of Stoke, Richmond and Nelson City (but where the market for Stoke, Richmond, and Nelson City may also extend to the wider Nelson-Tasman region).

2.1.4 In the factual:

- (a) although Nelmac submits that the market definitions are wider than that assumed by the Commission for the purposes of the SOI, the risk of horizontal unilateral and coordinated effects is low whichever market definition is applied due to existing market forces and the threat of expanding competitors/new entrants; and
- (b) although Nelmac does not consider there to be any separate market or markets for green waste, in the event the Commission does make that determination, the risk of conglomerate effects in that market or markets is low due to competitors' independent (and often aggressive) pricing and business strategies.

2.1.5 The Commission has not identified the correct counterfactual in the SOI for the purposes of comparing the state of competition with the factual. The correct counterfactuals are that:

- (a) Counterfactual 1: []; or
- (b) Counterfactual 2: [].

2.2 Nelmac submits that the Commission should be satisfied that the Proposed Acquisition will not have, or would not be likely to have, the effect of substantially lessening competition in the relevant markets, and particularly where the correct counterfactuals are used for the purposes of comparison.

3 Nelmac's governance structure and approval of disposal of assets

3.1 The Commission may be assisted by some additional information in relation to Nelmac's governance structure.

3.2 Nelmac is owned by Nelson City Council (**NCC**). It is a council-controlled organisation with an independent board. Nelmac's high-level objectives and activities are summarised in the NCC long term plan.¹

3.3 Nelmac's strategic direction and day-to-day decisions are made by Nelmac's independent board and management.

3.4 NCC sets strategic objectives and targets through its annual Letter of Expectation,² which Nelmac's board uses to inform Nelmac's Statement of Intent (which, in turn, is adopted by NCC) in accordance with Schedule 8 of the Local Government Act 2002.

3.5 Nelmac's current Statement of Intent includes the following objectives:

- 3.5.1 Return on equity targets.
- 3.5.2 Limits on equity ratios, capping debt to ensure financial stability.
- 3.5.3 Carbon reduction targets (reduction every year, to a 25% reduction within 5 years).
- 3.5.4 5% net profit contribution to community organisations.

¹ NCC Long Term Plan 2018 – 2028 (current) can be viewed [here](#).

² Letter of expectation for the 2020/2021 financial year can be viewed [here](#).

- 3.6 A copy of Nelmac's Statement of Intent for the 2020 – 2021 financial year is **attached**.
- 3.7 NCC has approved, through the adoption of the Statement of Intent, acquisitions and divestments of interests to meet Nelmac's operating needs and strategic objectives subject to:³
- 3.7.1 A value limit of \$1.5 million, where any acquisition or divestment in excess of this amount requires prior approval from NCC; and
- 3.7.2 NCC are advised in writing within 14 days.

THE RELEVANT MARKETS (PARAGRAPHS 19 TO 38 OF THE SOI)

4 Overview

- 4.1 Nelmac submits that the relevant product markets for the purposes of the Commission considering giving a clearance for the Proposed Acquisition are:
- 4.1.1 the market for the provision and collection of general waste bags and small bins up to 240L; and
- 4.1.2 the market for the provision and collection of general waste bins of 660L and larger.
- 4.2 These markets include residential and commercial customers (where residential and smaller commercial customers use bags and bins up to 240L, and larger commercial customers use 660L and larger bins), and green waste collection services.
- 4.3 However, Nelmac submits that there is likely a further geographic separation of these markets between the area serviced almost exclusively by Betta Bins in the areas north and east of Nelson City up to and including Cable Bay, largely coinciding with postcode 7071, and the rest of the Stoke, Richmond and Nelson City geographic area (but where the market for Stoke, Richmond, and Nelson City may also extend to the wider Nelson-Tasman region).
- 4.4 The reasons for these views and submissions on the specific matters the Commission raises in its SOI in relation to market definition are set out below in this section.

5 Smaller wheelie bins and larger bins are distinct product markets (paragraphs 24 to 26 of the SOI)

- 5.1 Nelmac agrees with the Commission that there are likely to be separate product markets for the provision and collection of:
- 5.1.1 bins up to 240L; and
- 5.1.2 660L and larger bins.
- 5.2 The reasons for this are those identified by the Commission at paragraphs 25 and 26 of the SOI.

6 Rubbish bags and smaller wheelie bins are in the same product market (paragraphs 27 to 29 of the SOI)

- 6.1 Nelmac agrees with the Commission's preliminary view that rubbish bags and smaller wheelie bins are likely to be in the same market.
- 6.2 The Commission correctly identifies that, on the demand side, rubbish bags and smaller wheelie bins are both likely to be options for customers with smaller amounts of waste. On the

³ At section 12 of the Statement of Intent.

supply side, the same trucks are used to collect bags and wheelie bins up to 240L, and bags and smaller bins are generally collected together along the same residential routes.

- 6.3 Additionally, and as the Commission correctly identifies, suppliers who do not currently offer bags could relatively easily (at pace and cost-effectively) begin to supply them in response to any increase in price for the collection of bags. Bags can easily be purchased by suppliers and are relatively inexpensive.
- 6.4 Nelmac disagrees with the possible counter arguments posed by the Commission (at paragraphs 27.1 and 27.2 of the SOI), which could justify separate market definitions, for the following reasons:
- 6.4.1 Although some smaller customers may prefer bags or even feel compelled to use them, in the face of any price rise in the collection of bags it is highly likely that those customers would switch to using smaller bins. Bins could even end up being favoured by such customers, given that the customer would not need to purchase bags from a retailer (or directly from a supplier) on a regular basis and could simply contract directly with the supplier (either on a subscription basis, or on a pay-as-you-go basis).
- 6.4.2 The Commission notes that some customers may have to use bags in steep areas where trucks cannot operate. However, if a truck can't safely access a street for bin collection, neither can a truck safely access the same street for bag collection. Consumers would need to walk their bag or bin down to a collection point. There are only three partial streets that are too steep for trucks to access (approx. 50 households total). Currently, Nelmac uses a van to collect these bins (120L & 240L) and bags and drops these at a collection point. Bin customers then collect their empty bins from the collection point.
- 6.5 In response to the Commission's view about a service provider's access to retail shelf space to sell its bags (at paragraph 28 of the SOI), Nelmac does not see access to retail shelf space (for example, in a supermarket) to be a barrier for such suppliers. Nelmac supplies its bags to retailers based on the demand for bags from the retailer, and where there is no contract requiring, for example, a set number of bags to be supplied. Retailers are happy to sell bags due to the markup added. Further, bags can be sold by service providers direct to customers through the internet or by phone.

7 No separate markets for residential and commercial customers (paragraphs 30 and 31 of the SOI)

- 7.1 Nelmac submits that there is no further market separation for residential and commercial customers.
- 7.2 The Commission notes, at paragraph 30 of the SOI, that it has received evidence that smaller commercial customers can be charged more than residential customers for smaller bins and that commercial customers are sometimes offered stricter contract terms than residential customers. It says that, because Nelmac and others are able to price-discriminate, commercial customers should be in a different market than residential customers.
- 7.3 While commercial customers are charged differently than residential customers this is due to factors of cost, in that commercial customers' waste is different in nature, type, volume (being larger than residential customers'), and frequency of collection.
- 7.4 Pricing for both 'residential' and 'commercial' customers is derived from cost of supply plus a margin, where margins for each are roughly comparable when providing the same types of service (for example, collection of smaller bins).
- 7.5 Further, while commercial customers may enter into fixed-term contracts with Nelmac, it is also relatively common for residential customers to enter into 12-month contracts.

7.6 Overall, the collection of commercial waste is carried out by the same trucks and crew that collect residential waste.

8 Green waste and general waste are in the same markets (paragraphs 32 and 33 of the SOI)

8.1 The Commission continues to investigate whether green waste and general waste collection are in separate markets.

8.2 To put Nelmac's green waste collection service into context, green waste collection makes up approximately [] of Nelmac's total revenue.

8.3 Nelmac submits that there is no separate market for green waste for the following reasons:

8.3.1 On the demand side, customers can substitute green waste collection for general waste collection if the price for green waste services increased. Green waste generally goes to the same location at the refuse station as general waste.

8.3.2 On the supply side, although suppliers (including Nelmac) may use different trucks to collect green waste and general waste (up to 240L bins), the same vehicles can be used to collect those types of waste if needed. Further, and as noted above, there is no difference for suppliers in where the waste goes – both general waste and green waste go to the same location at the refuse station as required by the NCC.

9 Relevant geographic market (paragraphs 34 – 38 of the SOI)

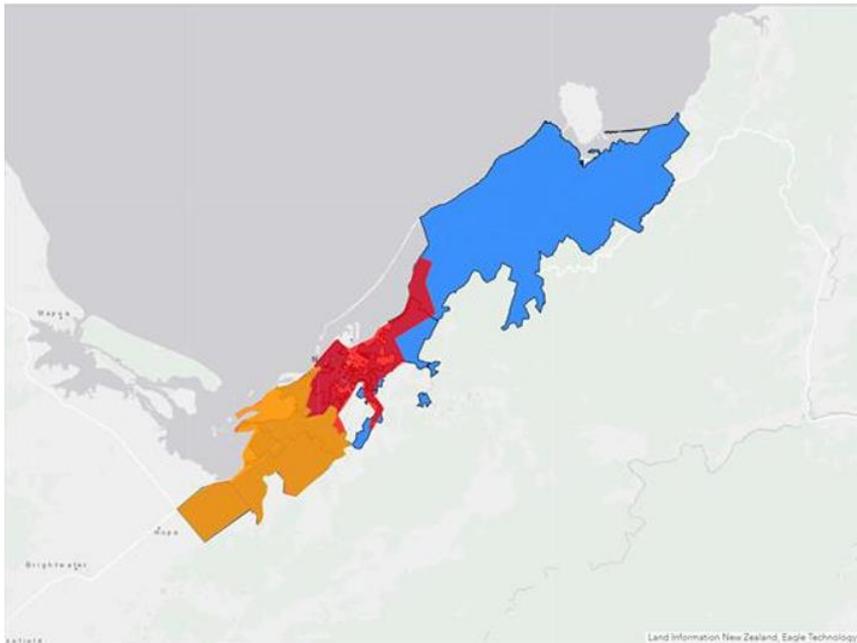
9.1 The Commission's preliminary view is that the geographic market may be no wider than Richmond, Stoke, and Nelson, those areas being the areas of substantive competitive overlap between Can Plan and Nelmac.

9.2 Nelmac submits that there is a geographic separation of markets for the areas:

9.2.1 north and east of Nelson City up to and including Cable Bay, largely coinciding with postcode 7071; and

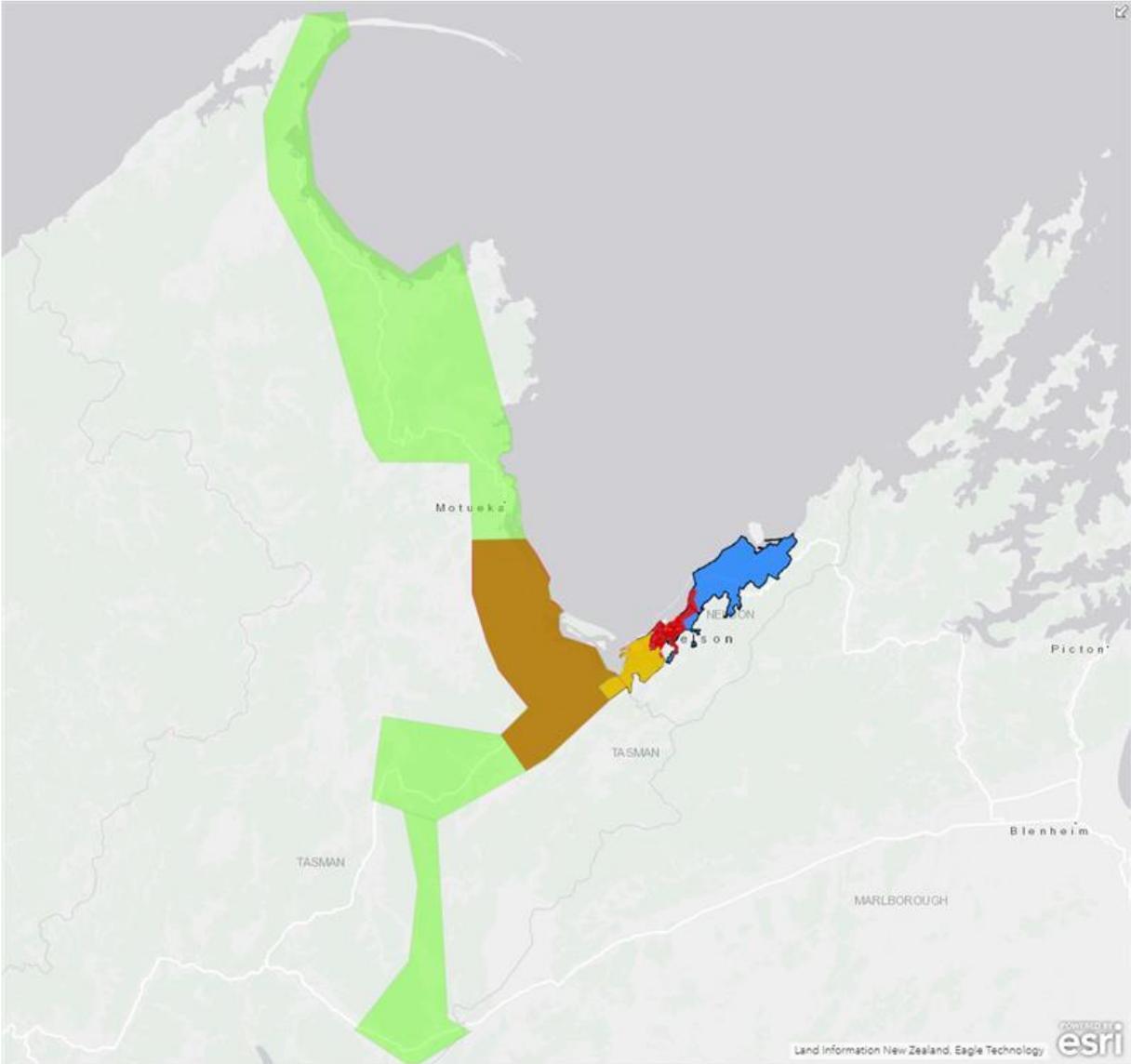
9.2.2 of Stoke, Richmond and Nelson City (but where the market for Stoke, Richmond, and Nelson City may also extend to the wider Nelson-Tasman region).

9.3 Nelmac has produced the following map (described in detail further below) which assists in illustrating this separation between the area north and east of Nelson City and the Nelson City, Stoke and Richmond areas, where the areas shaded blue (being the areas north and east of Nelson City up to and including Cable Bay, largely coinciding with postcode 7071) are almost exclusively serviced by Betta Bins:



- 9.4 The Blue shaded areas north and east of Nelson City up to and including Cable Bay, largely coinciding with postcode 7071 are sparsely populated, where Nelmac estimates there are approximately 700 households (out of an approximate total of 24, 855 households in the total area serviced by Betta Bins). There are a number of small settlements in this area, and other houses spread out in semi-rural settings which can be ~5kms apart.
- 9.5 Due to the low population density in this area, it is less attractive for rival firms to move into this area to compete and which is why Betta Bins has remained as the almost exclusive service provider in this area. It is likely that the economics of operating in such a lower density area mean that it will be served by one provider in the foreseeable future (rather than other competitors seeking to compete in the area).
- 9.6 This area is in contrast to the areas of Stoke, Richmond and Nelson City which are mainly town centre, urban and suburban areas and (in the residential parts) for the most part densely populated. In these areas, Nelmac, Can Plan, Smart and Waste Management compete for customers.
- 9.7 For the reasons above, Nelmac submits that the Commission should adopt two separate geographic markets for the areas north and east of Nelson City up to and including Cable Bay, largely coinciding with postcode 7071, and the areas of Stoke, Richmond and Nelson City (but where the market for Stoke, Richmond, and Nelson City may also extend to the wider Nelson-Tasman region).
- 9.8 Nelmac submits that there would be no difference in competition in the areas north and east of Nelson City up to and including Cable Bay, largely coinciding with postcode 7071, in the factual, as instead of Betta Bins being the sole operator in that area it will be the merged firm.
- 9.9 There would also be no difference in competition in this area in any counterfactual (either in the one assumed by the Commission for the purposes of its SOI or the ones identified by Nelmac as being the correct counterfactuals further below).
- 9.10 In the event the Commission does not agree that a separate geographic market exists for the areas north and east of Nelson City up to and including Cable Bay, largely coinciding with postcode 7071, Nelmac submits that the Commission should, at the least, recognise the particular conditions of this area (as described above) that mean only one significant supplier is likely to ever provide collection services in that area, such that there is not likely to be any substantial lessening of competition in the factual compared to any counterfactual in respect of that area.

9.11 Finally, Nelmac considers that the second geographic market covering Stoke, Richmond and Nelson City may also extend to the wider Nelson-Tasman region, taking into account that customers from that wider region may be provided with collection services by several firms in that wider region (including Can Plan, Smart, Waste Management and, to a much lesser extent, Betta Bins), the standard pricing by firms across the region, and (notwithstanding Nelmac’s experience in seeking to expand into the Tasman District, which reflects Nelmac’s circumstances rather than general market conditions) that it is reasonably possible for most firms to provide services across all or part of the wider area. The below map illustrates the participants in the markets across those areas:



Where:

- Light Green – SMART
- Brown – SMART, CanPlan and potentially Waste Management
- Orange – SMART, CanPlan, Waste Management & Betta Bins
- Red – CanPlan, Waste Management & Betta Bins
- Blue – almost entirely Betta Bins

9.12 Nelmac submits further on these points below.

WITH AND WITHOUT SCENARIOS

10 Overview

- 10.1 The Commission's preliminary view is that, in the factual, there may be the potential for horizontal unilateral and coordinated effects in the Commission's assumed market for residential general waste collection, and possible conglomerate effects in the market for collection of green waste.
- 10.2 The Commission continues to investigate whether there is likely to be any substantial lessening of competition in the factual compared to the Commission's assumed counterfactual (at paragraph 42 of the SOI) that Betta Bins would continue to compete independently in the market.
- 10.3 Nelmac submits that:
- 10.3.1 in the factual:
- (a) although Nelmac submits above that the market definitions are wider than that assumed by the Commission for the purposes of the SOI, the risk of horizontal unilateral and coordinated effects is low whichever market definition is applied due to existing market forces and the threat of expanding competitors/new entrants;
 - (b) although Nelmac does not consider there to be any separate market or markets for green waste, in the event the Commission does make that determination, the risk of conglomerate effects in that market or markets is low due to competitors' independent (and often aggressive) pricing and business strategies;
- 10.3.2 the Commission has not identified the correct counterfactual for the purposes of comparing the state of competition with the factual. The correct counterfactuals are that:
- (a) Counterfactual 1: []; or
 - (b) Counterfactual 2: [].
- 10.3.3 the Commission should be satisfied that the Proposed Acquisition (in the factual) will not have, or would not be likely to have, the effect of substantially lessening competition in the markets, and particularly where the correct counterfactuals are used for the purposes of comparison.
- 10.4 The reasons for these views are set out below.

11 Factual: Market forces preventing horizontal unilateral effects (paragraphs 43 – 58 of the SOI)

- 11.1 As already submitted above, Nelmac considers that there would be no change in the level of competition in the areas north and east of Nelson City up to and including Cable Bay, largely coinciding with postcode 7071, in the factual compared with any counterfactual.
- 11.2 Although the merged firm may, in the factual, hold a relatively high market share in the areas of Stoke, Richmond, and Nelson City, material competitive constraints would remain such that the merged firm would be unable to profitably increase prices above (and/or reduce quality below) the level that would prevail without the merger. The competitive constraints are even stronger if the wider Nelson-Tasman region is included in this geographic market.

- 11.3 Further, Nelmac submits that market share is a poor indicator of the state of the market and the competition that exists between rival firms. Market share data is largely based on historic figures, where Can Plan and Nelmac have previously been the only competitors in the areas of Stoke, Richmond and Nelson City. This has now changed, and most notably due to the rapid expansion of Smart into those areas and the provision of services by Waste Management.
- 11.4 Nelmac submits that to get an accurate picture of the state of competition in the market, the Commission should look to the geographic areas where Betta Bins, Can Plan, Smart and Waste Management currently operate collection routes, and the areas where Smart is currently expanding into, as set out below.
- 11.5 Nelmac submits that due to these factors any risk of horizontal unilateral effects would be low.

Competitive restraint coming from Smart Environmental

- 11.6 Nelmac submits that the Commission mischaracterises and greatly minimises the competitive constraint coming from Smart in the SOI (at paragraph 49).
- 11.7 Smart is currently a vigorous competitor in the geographic areas of Stoke, Richmond, and Nelson City, and there is (and will remain in the factual) the constant threat of Smart moving further into Nelson City.
- 11.8 Nelmac considers that the Commission should take the following into account when assessing the level of competition Smart brings:
- 11.8.1 Smart noticeably entered Richmond in approximately late 2019.
- 11.8.2 Approximately 16 months later, Smart has expanded (and continues to expand) rapidly to cover approximately 70% of residential households in Stoke, Richmond and Nelson (where Smart is currently willing and able, according to its website, to service approximately 16,800 households out of a total of approximately 24,192 households).⁴
- 11.8.3 Smart supplies services also in the wider Nelson-Tasman region (as set out in the map above), and so was (and still is) well-placed to expand into the areas of Richmond, Stoke and Nelson City where Betta Bins and Can Plan were historically, for the most part, the only competitors.
- 11.8.4 This is likely a result of Smart aggressively competing in the market, including implementing aggressive pricing strategies. Examples of this are as follows:
- (a) Smart's website currently advertises that it is discounting new customers' first-year waste collection subscription.⁵
 - (b) Approximately 12 months ago, Smart completed an aggressive leaflet drop significantly under-pricing Nelmac on the supply and collection of 120L bins. This had the effect of some Betta Bins customers switching to Smart.
 - (c) Nelmac notes from Can Plan's clearance application that it, too, has experienced Smart's aggressive strategies where Smart has specifically targeted Can Plan's customers.
- 11.8.5 As the Commission points out (at paragraph 49.1 of the SOI), Smart is the third-largest national supplier of waste collection services behind Waste Management and EnviroWaste. Smart is well-resourced and appears (from its prior and current activities in the market) to be highly motivated to acquire additional market share and expand

⁴ Figures explained further below.

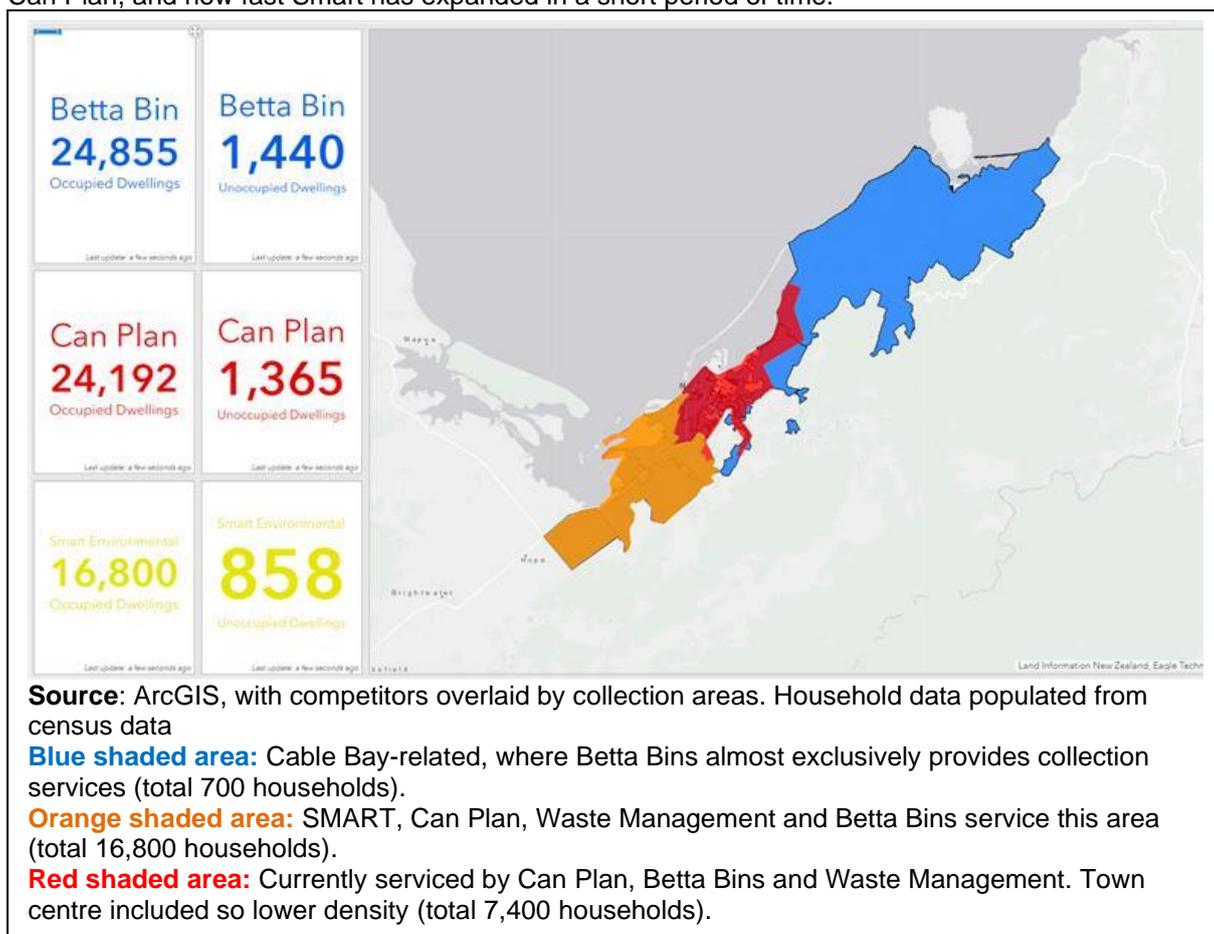
⁵ Link: <https://www.smartenvironmental.co.nz/bins-for-your-home/>

its refuse collection business in the Nelson City area at pace. It has existing assets, systems and personnel in place to easily expand its operations.

11.8.6 [].

11.9 Nelmac submits that the factors set out above establish that Smart will serve as a key competitive constraint on the merged firm. This constraint will increase as Smart continues to expand and move further into Nelson City.

11.10 In order to get a reasonably accurate picture of the state of the market and Smart's current area of competitive overlap with Nelmac and Can Plan, Nelmac has produced the following infographic which clearly shows the key areas of competitive overlap between Beta Bins and Can Plan, and how fast Smart has expanded in a short period of time:⁶



Competitive constraint from Waste Management and EnviroWaste

11.11 The Commission notes in the SOI that Waste Management focuses mostly on providing waste collection services to larger commercial customers in Stoke, Richmond and Nelson City, but does provide smaller bin collection services (both to residential and commercial customers) in this area.

⁶ To produce this, Nelmac has: Overlaid Beta Bins collection service on a map using ArcGIS, overlaid Can Plan collection routes based on the routes printed on Can Plan's supermarket bags, overlaid Smart collection areas based on addresses where Smart would accept bin collection services according to its website ([here](#)), and overlaid total household numbers in those areas from 2018 census information available for download in GIS format ([here](#)).

- 11.12 Nelmac submits that the Commission understates Waste Management's smaller bin collection services in these areas, and further submits that Waste Management does, and will serve as a material competitive constraint on the merged firm in the factual.
- 11.13 Although Waste Management may not have (to date) been as aggressive as Smart in obtaining customers for its smaller bin collection services in the Stoke, Richmond and Nelson City areas, Waste Management does currently provide, and is able and willing to provide any further customers, such services in all of those areas.⁷
- 11.14 Further, Waste Management:
- 11.14.1 is a large, well-resourced firm, with the expertise and capital required to expand quickly;
- 11.14.2 has a large national presence, is well-known, and is well-established in the wider Nelson-Tasman region, competing directly against Can Plan (and others) in many of those areas; and
- 11.14.3 may be further incentivised to expand its smaller bins collection services in Stoke, Richmond and Nelson City and increase its customer share in the event of any attempt by the merged firm to profitably increase prices (and/or reduce quality of services).
- 11.15 With very little by way of barriers to expansion (discussed further below), it is entirely possible (more so likely) that Waste Management will continue to expand its services in the Richmond, Stoke, and Nelson City areas.
- 11.16 Nelmac submits that EnviroWaste would also serve as a competitive constraint (although less-so than Waste Management) through the threat of expansion in providing a small bin collection service in Stoke, Richmond and Nelson City. Although, to the best of Nelmac's knowledge, EnviroWaste does not currently provide smaller bin collection services in these areas, the other factors contained in paragraph 11.14 above apply equally to EnviroWaste as they do to Waste Management.
- 11.17 Nelmac submits that for the reasons above, both firms could relatively easily expand in Richmond, Stoke and Nelson City, and so would pose a real and substantial threat to (and constraint on) the merged firm.

Limited barriers to entry and expansion

- 11.18 The Commission correctly identifies in the SOI (at paragraph 51) that some of the costs of entry and/or expansion may not be prohibitive, including the costs of vehicles (where used vehicles can be purchased relatively inexpensively), licensing, bins, bags and crews, where those costs are small compared to the potential revenue that may be expected from any new entrant or expanding competitor.
- 11.19 The Commission's preliminary findings, however, indicate that there may be other potential barriers that could be more difficult to overcome (at paragraph 52 of the SOI).
- 11.20 Importantly, Nelmac submits that the barriers to expansion or entry are highly dependent on the specific characteristics of the firm seeking to expand/enter, and the geographic area in which it is trying to do so.
- 11.21 As already submitted above, it is highly likely that the geographic areas north and east of Nelson City and up to and including Cable Bay, largely coinciding with postcode 7071, will continue to be serviced by one provider in the factual and in any counterfactual that is adopted for the reasons set out in section 9 above. For those reasons, Nelmac has considered below

⁷Link: <https://www.wastemanagement.co.nz/for-home/product-groups/wheelie-bins>

the specific barriers to entry the Commission has identified as they relate particularly to Stoke, Richmond and Nelson City.

- 11.22 Nelmac submits that the need to obtain a number of customers quickly in order for a collection route to be profitable is not in itself prohibitive or restrictive on a new entrant or expanding firm. Profitability from routes comes from gradually and incrementally increasing customer share on routes.
- 11.23 A new entrant or expanding firm could, for example, mitigate or overcome the risks coming from a smaller customer base in a new geographic area by investing in smaller collection vehicles and smaller crew (reducing overheads) until a higher customer share is established and further expansion can occur.
- 11.24 Route density is also only daunting for new entrants/expanding firms if margins on collection are very low. As healthy margins can be applied to collection services, this further mitigates risk coming from failing to immediately acquire high route density.
- 11.25 For a firm like Smart, who already has a strong foot hold in the Stoke and Richmond areas, and some in Nelson City (and, of course, in the wider Nelson-Tasman region), barriers to further expansion into Nelson City are low where it can (and has) incrementally added further streets and suburbs to its collection area as it acquires a denser customer base in each area it expands into. This, together with it being a well-resourced business and where it already has the necessary trucks and crew necessary to acquire more customers, means that Smart can relatively easily continue to move further into Nelson City.
- 11.26 For firms such as Waste Management and EnviroWaste, for the reasons set out above at paragraph 11.14, those firms will also relatively easily be able to overcome any such barriers and will likely be well-used to doing so in other parts of the country with less population density than Stoke, Richmond and Nelson City.
- 11.27 One potential issue is that some residential customers are on 12 month contracts for the supply of waste collection, meaning that those customers may not be able to switch to a rival supplier until the contract is up for renewal.
- 11.28 However, this is an issue that has always existed, and Nelmac notes that Smart has grown rapidly despite it and so it cannot be a significant barrier. For its part, Nelmac does receive requests from customers to remove their bins at the expiry of their contracts (although it does not have a reliable record of the number of customers that do so, or their reasons).
- 11.29 In terms of risk coming from the potential for NCC to move to a rates-based contract for kerbside waste collection (as identified by the Commission at paragraph 52.4 of the SOI), this is a risk shared by all current competitors and potential new entrants. However, Nelmac is not aware of any proposed change in policy and, if there were to be any, there would likely be a lengthy consultation process together with significant time before implementation, such that any business has time to move to a different operating model and/or divest of its assets.
- 11.30 Nelmac also submits that, if prices were to increase by any significant amount (for example, by the merged firm), the threat of the NCC moving to a rates-based contract would provide a further competitive constraint, where the Council would be likely to consider shifting to a rates-based arrangement. The NCC response to significant price increases could also extend to selection of any potential future provider of the NCC Recycling contract
- 11.31 Finally, Nelmac notes that the Commission's views as to barriers of entry in the SOI do not appear to be consistent with the view the Commission has taken previously on this issue. Specifically, Nelmac is aware of the Commission's views in its Decision numbers 622 – 625 (re Transpacific Industries Group (NZ) Limited and Ironbridge Capital Pty Limited) where the Commission considered that barriers to entry and expansion arising from economies of density and scale are not likely to be high in the Nelson area.

Other proposed competitive constraints

- 11.32 Nelmac agrees with Can Plan where it submits, in its application, that NCC has substantial countervailing power due to its ability to contract for recycling and waste collection services.
- 11.33 Nelmac understands that the NCC may retender the recycling contract at the expiry of the current contract in June 2023. This is of particular significance where Nelmac is aware that Smart operates dual-use trucks which are capable of collecting both recyclables and general waste at the same time, meaning that if Smart obtains that recycling contract its services will become even more competitive where it is potentially able to greatly reduce supply costs by collecting recyclables and general waste during the same collection runs.
- 11.34 Nelmac also notes that Smart currently holds the recycling contract with the Tasman District Council, likely increasing its chances of winning the Nelson recycling contract, if tendered by the Council (given that it is a tried and tested recycling service operator in the Tasman region).
- 11.35 Although the likelihood of Smart obtaining this contract is far from certain, it is nonetheless yet another example of a potential threat to the merged firm which, Nelmac submits, should be taken into account by the Commission.
- 11.36 In terms of Can Plan's submission that households could substitute a significant portion of their waste to recycling in response to a price increase for general waste collection (as commented on by the Commission at paragraphs 53 and 54 of the SOI), Nelmac submits that this point is valid. It is possible that in such circumstances customers could make more of an effort to separate and recycle general waste, and/or make different purchases to reduce, for example, food packaging or only buy products with recyclable waste in an effort to keep volumes of general waste as low as possible.

Impact on green waste

- 11.37 As submitted above, Nelmac does not consider there to be any separate market for the provision of green waste collection.
- 11.38 However, if the Commission does consider a separate market exists for green waste, Nelmac submits that the merged firm would face, in particular, demand-side constraint due to the high substitutability of general waste collection vs green waste collection.
- 11.39 The reasons for this are set out above at section 8 such that any attempted increase in price (and/or reduction in quality) by the merged firm in providing such services would be undermined by customers cancelling their green waste service and possibly increasing the volume of their current general waste collection services (for example, increasing their bin size from 120L to 240L) to account for the increase in general waste volume.
- 11.40 The Commission also sets out other viable alternatives for customers to dispose of their green waste at paragraph 57 of the SOI which Nelmac agrees with.

12 Factual: Market forces preventing horizontal coordinated effects (paragraphs 59 – 67 of the SOI)

- 12.1 Nelmac submits that the state of competition in the factual, and in the areas of Stoke, Richmond and Nelson City⁸, would be such that the risk of any horizontal coordinated effects from competitors would be low, because:
- 12.1.1 the market is highly competitive. Smart's aggressive pricing and marketing strategies as outline above at section 11, and its rapid expansion into the relevant geographic areas reflect this.

⁸ The issue of horizontal effects does not arise for the area north and east of Nelson City up to and including Cable Bay, largely coinciding with postcode 7071, as there is likely to only ever be one provider in that area.

12.1.2 although competitors' prices can often be easily acquired from, for example, the internet, retailers or by phone, communication between competitors is, in Nelmac's experience, extremely limited and firms compete on their own unique business characteristics and strategies.

12.1.3 any attempted coordinated effects by the merged firm would increase the incentive of new entrants/expanding firms where they could see the possibility to compete vigorously on price, service area, and services offered to gain market share.

13 Factual: Market forces preventing conglomerate effects (paragraphs 68 – 70 of the SOI)

13.1 As already submitted above, Nelmac does not consider there to be any separate market for the collection of green waste.

13.2 In the event that the Commission takes the view that there is that separate market, however, Nelmac submits that there is no real risk of conglomerate effects in the areas of Stoke, Richmond and Nelson City as the merged entity would be prevented from leveraging any market power it has due to the threat of existing competition expanding, new entrants entering the market and the threat of a council-rates based contract.

13.3 For example, the merged firm would be unable to increase profits in its green waste collection business by bundling or tying this service with general waste collection services in the relevant geographic areas, as customers who do not currently use green waste services (or who do not want them) will be incentivised to quickly switch to existing competition, or otherwise existing competitors will likely expand into/new entrants will enter those areas to acquire those customers.

14 Comparing the state of competition in the factual to the most likely counterfactuals

14.1 At paragraph 42 of the SOI, the Commission assumes for the purpose of the SOI that Can Plan and Betta Bins would continue to compete independently.

14.2 Nelmac submits that this is the incorrect counterfactual to adopt, and that the correct counterfactuals are as follows:

14.2.1 Counterfactual 1: []; or

14.2.2 Counterfactual 2: [].

14.3 Nelmac submits that in comparing the state of competition in the factual compared to either of those counterfactuals the Commission should be satisfied that the Proposed Acquisition will not have, or would not be likely to have, the effect of substantially lessening competition in the relevant markets.

Counterfactual 1: []

14.4 [] (**Counterfactual 1**).

14.5 []

14.6 []

14.6.1 []

14.6.2 []

14.7 []

14.8 []

14.9 []

14.10

14.10.1

14.10.2

14.10.3

(a)

(b)

(c)

(d)

14.11 Having regard to the state of competition in the factual compared to Counterfactual 1, Nelmac submits that the Proposed Acquisition in the factual will not have, or would not be likely to have, the effect of substantially lessening competition in the relevant markets.

Counterfactual 2:

14.12 (**Counterfactual 2**).

14.13

14.13.1

(a)

(b)

14.13.2

14.13.3

14.13.4

(a)

(b)

(c)

14.13.5

14.13.6

14.13.7

14.14

14.15

14.16

14.16.1

14.16.2

14.16.3 []

14.16.4 []

14.16.5 []

14.17 []

14.17.1 []

14.17.2 []

14.17.3 []

(a) []

(b) []

(c) []

14.18 Having regard to the state of competition in the factual compared to Counterfactual 2, Nelmac submits that the Proposed Acquisition in the factual will not have, or would not be likely to have, the effect of substantially lessening competition in the relevant markets.

Yours sincerely



Nick Crang
Partner

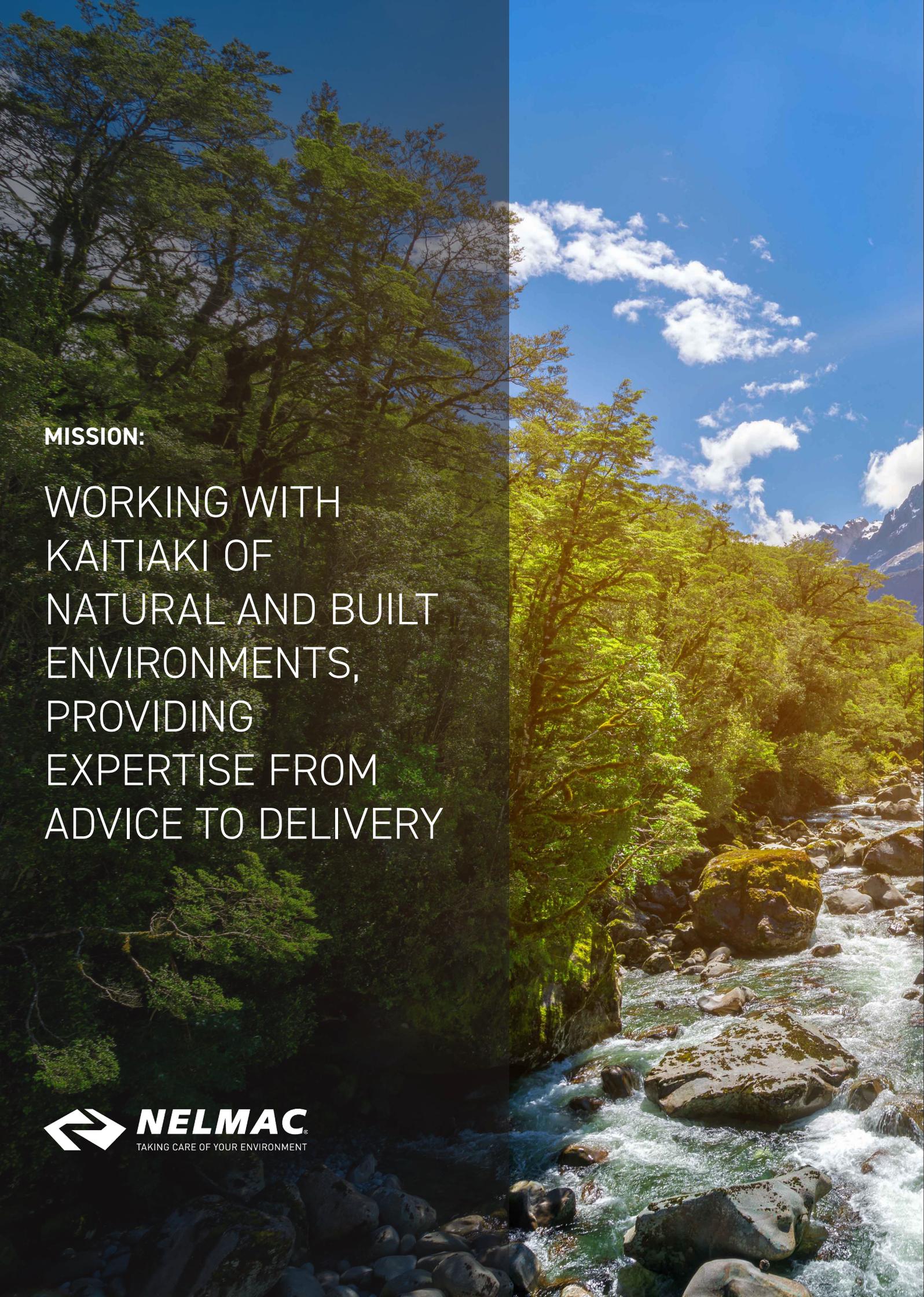
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NELMAC
TAKING CARE OF YOUR ENVIRONMENT

NELMAC STATEMENT OF INTENT

FINANCIAL YEAR 2020 - 2021



MISSION:

WORKING WITH
KAITIAKI OF
NATURAL AND BUILT
ENVIRONMENTS,
PROVIDING
EXPERTISE FROM
ADVICE TO DELIVERY



NELMAC
TAKING CARE OF YOUR ENVIRONMENT

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1.0 INTRODUCTION

This Statement of Intent is presented by the Directors of Nelmac Limited (Nelmac) in accordance with Schedule 8 of the Local Government Act 2002. Nelmac is a Council-Controlled Trading Organisation (CCTO), solely owned by Nelson City Council (NCC, the Shareholder). This Statement of Intent summarises Nelmac's objectives, nature and scope of activities to be undertaken, forecast financials, performance targets and other measures in relation to its objectives for the three year period from 1 July 2020 to 30 June 2023.

2.0 OBJECTIVES

Nelmac's overarching goal can be summarised as Kaitiakitanga, which for Nelmac means the guardianship, protection, care and upkeep of our stakeholders' natural and built environments. Our Vision is to enhance New Zealand's environment for community wellbeing. Our Mission is to work with Kaitiaki of natural and built environments, providing expertise from advice to delivery. To achieve our Vision, Mission and Objectives below, Nelmac lives by the following Values:

- We are one team.
- We have a positive impact.
- We strive to do things differently.
- We do as we say.
- Relentless pursuit of zero harm.

Nelmac's Objectives are to:

- Protect Our Core Business
- Improve Sustainability
- Protect & Develop our People
- Enhance our Environment
- Grow and Diversify our Customer Base

Nelmac's pursuit and achievement of these Objectives result in additional benefits to our Shareholder, such as:

- Ensuring that NCC as Shareholder and strategic partner is a priority, along with assisting NCC towards best practices and continuous improvement in environmental asset management and maintenance.
- Profits generated from serving NCC and other clients are passed to the Shareholder as a distribution or reinvested into the 100% NCC-owned business.
- A sizeable local employer dedicated to attracting, developing and retaining skilled staff in the region.
- Retaining significant investment in the region, with Nelmac's head office and key professional leadership positions based in Nelson.
- Support of other regional businesses through local procurement of plant, materials and subcontracted services.
- Expansion of Nelmac's services to national clients, such as Department of Conservation and OSPRI, increases Nelson's visibility across the country.

- Significant local presence and scale enabling immediate support during times of civil emergency and a key responder in the event of rural fires, flooding, land subsidence, earthquakes and civil defense.
- An active supporter of the community through sponsoring and working with government, sport & recreation groups and non-profit organisations.
- Active pursuit of opportunities for partnerships and collaborations with other leading Nelson based organisations, in order to develop Nelson as a centre of excellence to attract talent and expert knowledge and services.
- We will continue to develop and grow our iwi engagement strategy, to build stronger relationships and unlock opportunities for Nelmac growth and for iwi participation.

3.0 NATURE AND SCOPE OF ACTIVITIES

For over two decades, Nelmac has enhanced the wellbeing of New Zealand communities by providing environmental asset management services in the core areas of Recreation, Conservation and Three Waters, along with Refuse & Recycling and Landscape Architecture & Planning services.

Nelmac's service offerings and activities include:

WATER

- Three Waters Utilities operations, maintenance and construction (for freshwater, stormwater and wastewater networks)
- Wastewater treatment facility operations and maintenance
- Civil water projects
- Reinstatement works following utility repairs or construction
- Supervisory Control and Data Acquisition (SCADA) - remote data monitoring and control

RECREATION

Parks and Open Spaces Management

- Maintenance of parks and reserves
- Construction and maintenance of sports grounds
- Arboriculture services, including tree pruning, tree felling and line clearance work
- Construction, maintenance and compliance of playgrounds
- Vegetation control to roads, utilities and ecological linkages
- Cemetery management and maintenance
- Landscape construction for local authority, commercial and private clients

Facilities Management

- Recreational and community service asset management, e.g. marina, campgrounds, crematoria
- Building asset maintenance
- Plumbing, electrical, carpentry, joinery and painting trades
- Light construction
- Engineering – fitting and fabrication

CONSERVATION

- Conservation reserve maintenance & asset management for local authorities
- Biosecurity, pest plant and animal monitoring and control
- Ecological planning, management and restoration
- Track and trail design, build and maintenance
- Wholesale nursery, including production of eco-sourced plants

LANDSCAPE ARCHITECTURE & PLANNING

- Urban park and civic space design
- Landscape design, commercial and private
- Revegetation planning
- Project management of landscape construction/planting
- Resource consent and planning advice/assessments

REFUSE & RECYCLING

- Refuse collection, residential and commercial
- Recycling collection, residential and commercial
- Street bin servicing and cleaning

ADDITIONAL SERVICES

- Emergency services response, such as flooding, fires and windstorms
- Traffic management for events, emergencies and major projects
- Vehicle and equipment maintenance and general engineering services

4.0 STRATEGY

Nelmac specialises in delivering integrated environmental asset management services underpinned by whole of life asset management. The Company is also moving towards more collaborative contracts and long-term relationships with clients.

4.1 Divisional Strategies

Each Nelmac Division is guided by its own Divisional Objective and Strategy to drive both near-term and longer-term achievements and progress toward the overall company objectives:

- Water Division: A strong regional New Zealand supplier of three waters asset management, operations and construction services
- Recreation Division: Through business excellence, become one of New Zealand's best providers of parks and facilities maintenance services in order to retain current and gain diversified market share
- Conservation Division: A recognised national leader in conservation, particularly in biosecurity, track building/maintenance and ecology
- Other key departments: The preferred landscape architect/planner and waste management provider for councils and large property/facility owners in Nelmac geographical areas

Successful delivery of our divisional strategies is underpinned by:

- The expertise of our people
- Development of our intellectual property in water, conservation, ecology and asset management of the natural and built environment
- Growth targeted at strategic opportunities and leveraging of our core competencies
- Adoption of field data collection technology which enables smart programming of work, proof of service, data integration with client systems, and seamless dashboard style reporting

Nelmac's long-term strategy is shaped by our markets still maturing in funding, procurement practices and asset management disciplines along with the consolidation of our core competencies.

4.2 Asset Management and Capital Expenditure Strategy

As an environmental asset management company, our assets are often dedicated to individual contracts. Some level of plant sharing is possible but usually limited. As such, Nelmac's business growth relies on sufficient headroom or ability to utilise retained earnings and/or raise capital/debt in order to secure opportunities that offer a compelling business case.

Nelmac's capital assets play a fundamental role in enabling our strategic growth, maintaining profitability and continuous improvement in service quality and efficiency. Our asset management strategy drives our efforts to manage, maintain and maximize the life and productivity of our capital assets – plant, fleet and depots. Our capital expenditure strategy includes (1) an ongoing process to prioritise new assets to sustain and grow our business in the immediate and near future, (2) a systematic financial evaluation for each significant new investment and (3) instigating the review of major assets as to whether they are fit for purpose (for service delivery and health and safety).

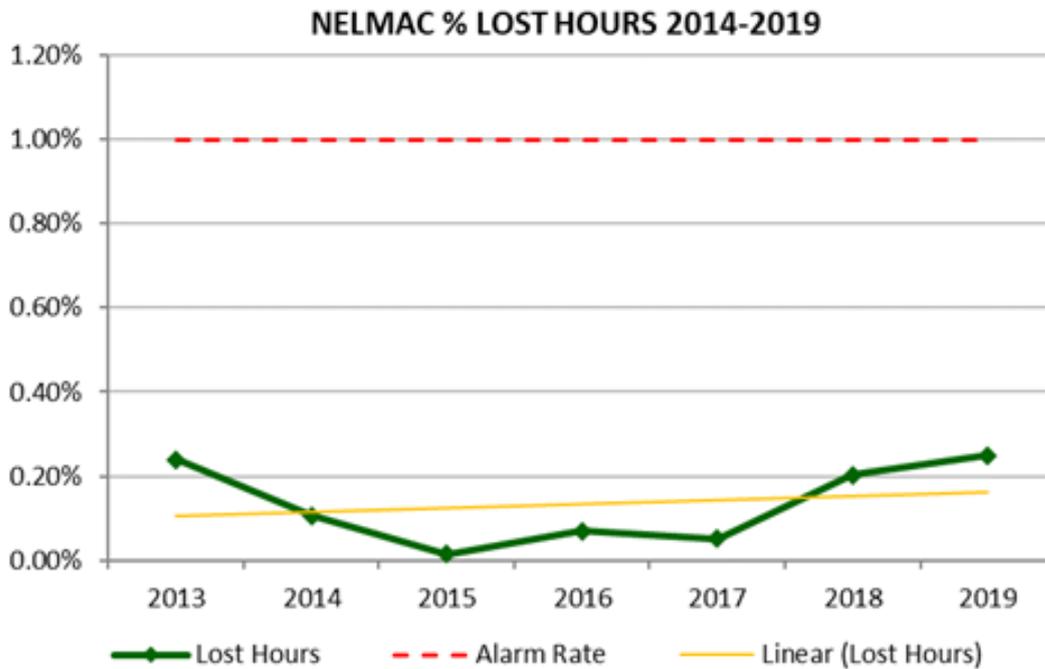
4.3 Health and Safety

Prioritising Health and Safety is a key focus. We are continually refining our response to workplace safety events supported by a significant emphasis on staff engagement, together with responding to trends identified by our lead indicators.

Health and Safety is a primary agenda item for the Board of Directors at each monthly meeting. In addition, critical risk incident information is reviewed by the Board as well as any findings and corrective actions from any Nelmac ICAM investigations. Nelmac has adopted Bow-tie training through the company's Leadership Development Programme. Bow-tie is a risk assessment tool which enables Nelmac to identify critical risks and put in place effective controls for risk mitigation.

The journey towards Zero Harm is on-going and at the forefront of operations across the company. Nelmac has developed and implemented a set of seven golden rules, which guide staff behaviours relating to our critical risks.

One of Nelmac's key safety indicators is "percentage of workday losses vs. hours worked" which is tracking well below the SOI target of 1%.



4.4 Risk Management

Nelmac is adopting an Enterprise Risk Management (ERM) approach to managing risk and uncertainty in achieving the company's objectives.

At Nelmac, ERM will be an ongoing process which permeates all aspects of the business including:

- Strategy, critical business risks, business excellence, sustainability, change and project management, plus operational delivery including health and safety.
- Environmental risks, including natural hazards and climate change.
- Emergency response planning in the event of any potential civil emergency caused by storm, earthquake, fire, flooding or similar.
- The company maintains an Emergency Management and Recovery Plan which includes the following elements: Business Continuity, Emergency Action, Recovery and other.

4.5 Sustainability

Nelmac is committed to advancing our corporate sustainability. Our next step is to develop a Sustainability Plan, with mid-term priorities, activities and targets, including how the company will measure our carbon foot-print as well as set and meet a carbon emissions reduction target. The plan will also describe how the company intends to address the drivers and impacts of climate change (e.g., risk resilience, mitigation, adaptation).

In the immediate term, we are progressing on opportunities to advance our sustainability goals, such as:

1. Transitioning to a lower-carbon and more fuel-efficient fleet.
2. Assisting clients to assess and identify sustainability opportunities and risks, including for climate mitigation, adaptation or resilience.
3. Developing sustainability solutions related to Nelmac's core businesses.
4. Providing financial or in-kind support to community organizations/initiatives.

5.0 CORPORATE GOVERNANCE

5.1 Role of the Board

- Ensuring the Company meets its objectives as defined in this Statement of Intent.
- Ensuring the Company complies with all its lawful obligations.
- Ensuring the shareholders are kept well informed on all relevant issues.
- Making decisions as to strategy and policy.
- Employing the Chief Executive (including entering into a performance management agreement, reviewing performance and setting remuneration).
- Ensuring sound financial management of the Company.
- Ensuring the Company is regularly monitoring business risks and that appropriate insurance is maintained.
- Ensuring the Company has in place a process for annual reporting against statutory/legislative requirements and complies with the reporting requirements outlined under Performance Measures in Section 9 of this document.

5.2 Composition of the Board

- The Board is made up of five non-executive Directors
- The Shareholders, after consultation with the Board, will be responsible for appointing directors to the Board.
- The Shareholders have formally adopted a policy/procedure for appointment of Directors, dated November 2015.
- The shareholders will set total remuneration for the Board at the Annual General Meeting. The Board will be responsible for deciding the apportionment of this amount.

5.3 Board Code of Conduct

- All Board members will be required to comply with Nelmac's Code of Ethics and the New Zealand Institute of Directors' "Code of Proper Practice for Directors".
- All Board members will apply their best endeavours to ensure the Company achieves the economic, social and environmental objectives defined in Section 3 of this document.
- All Board members will apply their best endeavours to ensure the Company complies with the requirements of its Constitution and this Statement of Intent.

5.4 Board Committees

Nelmac has established four Board sub committees encompassing Audit and Risk, Health and Safety and Remuneration. Under its terms of reference, each subcommittee is chaired by a member of the Board who is not the Board Chairman and is attended by other Nelmac directors, the CEO and the relevant Nelmac executives.

In fulfilling their responsibilities, the committees seek and receive independent advice and make recommendations to the Board for its consideration.

Board Health and Safety Committee

The objective of the Board Health and Safety Committee is to provide assurance and assistance on the company's health and safety systems, and its external accountability and reporting responsibilities.

The committee also assists the Board regarding:

- Monitoring of health and safety systems
- Company health and safety culture
- Critical risks

Board Audit Committee

The objective of the Audit Committee is to provide assurance and assistance on the company's financial control and compliance framework, along with compliance to external accounting and reporting responsibilities.

Board Risk Committee

The objective of the Audit and Risk Committee is to provide assurance and assistance on the company's risk, control and compliance framework.

- The committee also assists the Board regarding:
- The monitoring and review of risk management framework and processes.
- The committee satisfies the Board that adequate insurance is in place for the company's size and risk profile.

Board Remuneration Committee

The objective of the Remuneration Committee is to provide assurance and assistance on the company's remuneration strategy and employment conditions for their Chief Executive (CE) and other senior executives.

The committee assists the Board regarding:

- Remuneration, retention and recruitment strategy.
- Remuneration arrangements, training and development plans for the CE and other senior executives.
- Succession plans for the CEO and other senior executives.

Board Performance Management

The Board reviews its own performance regularly.

The Chair will reference these evaluations and any strategic consideration regarding the skill-mix of the Board when making recommendations to the Shareholder on the reappointment or recruitment of Board members.

6.0 FINANCIAL

When preparing the below forecasts, Nelmac have assumed that there will be no material change to their business activities.

6.1 Statement of Comprehensive Income

	Actual	Actual	Forecast	Forecast	Forecast	Forecast
(\$000)	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Gross Revenues	31,595	34,737	38,805	38,286	39,272	40,257
Operating Expenditure (Incl Interest & Depn)	30,504	34,168	38,100	37,482	38,251	39,210
EBITDA	2,341	1,857	2,047	2,197	2,447	2,503
EBIT	1,228	752	847	945	1,157	1,179
Net Profit before Subvention Payments	1,091	602	712	804	1,021	1,047
Subvention Payments (in lieu of Dividend)			356	402	511	523
Retained Net Profit Before Tax			356	402	511	523
Taxation @ 28%	310	181	100	113	143	147
Net Profit after taxation	781	421	256	289	368	377
<i>Dividend Declared (paid in following year)</i>	391	210				
<i>Gross Distribution before Tax</i>	545	301	356	402	511	523

Dividend and Subvention Payment are paid in following year

6.2 Statement of Cash Flows

	Actual	Actual	Forecast	Forecast	Forecast	Forecast
(\$000)	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Cash from Customers	30,590	33,806	39,175	38,799	39,881	40,881
Cash disbursed	29,131	32,506	37,888	37,056	37,930	38,859
Net Cash from operations	1,459	1,301	1,287	1,743	1,950	2,022
Cash Invested	(1,212)	(1,306)	(1,500)	(1,429)	(1,508)	(1,517)
Cash from Financing	179	320	(424)	-	-	-
Subventions Payments				(356)	(402)	(511)
Dividends Paid	(384)	(391)	(210)			
NET INCREASE/(DECREASE) IN CASH	42	(77)	(847)	(42)	41	(5)
Opening Cash Balance	54	96	19	80	38	79
CLOSING CASH BALANCE	96	19	80	38	79	73

6.3 Statement of Financial Position

	Actual	Actual	Forecast	Forecast	Forecast	Forecast
(\$000)	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Share Capital	2,000	2,000	2,000	2,000	2,000	2,000
Retained Earnings	6,696	6,726	6,772	7,061	7,429	7,805
Reserves	-	-	-	-	-	-
Equity	8,696	8,726	8,772	9,061	9,429	9,805
Current Assets	5,825	6,225	6,016	6,117	6,220	6,326
Non Current Assets	10,138	10,268	10,543	10,832	11,200	11,577
Total Assets	15,964	16,493	16,559	16,949	17,420	17,902
Current Liabilities	4,463	4,643	5,086	5,188	5,292	5,397
Borrowings	2,804	3,124	2,700	2,700	2,700	2,700
Total Liabilities	7,268	7,767	7,786	7,888	7,992	8,097
Net Assets	8,696	8,726	8,772	9,061	9,429	9,805

NOTE:

The Company has adopted a Bank Debt to Equity ratio (equity ratio) of up to 55%, but expects this ratio will fluctuate, depending on a variety of circumstances including asset renewal and investment cycles.

7.0 PERFORMANCE MEASURES

Objective Area	Goal	Measure	Timeframe
Quality of Service	Maintain A/NZS ISO 9001 Quality Accreditation	ISO 9001 Accredited	June 2021
	Improve on 2019 Pulse survey	Exceed score of 4.16	June 2021
	Improve on 2020 Net promoter score in FY 2022	Exceed score from 2020 of 5.5	June 2022
Sustainability and Community	Enhance the sustainability plan to incorporate climate change responsiveness	Risk resilience, mitigation and adaption strategies included in sustainability plan	June 2021
	Reporting of planned initiatives and impact on reducing carbon emissions	Carbon emissions included in annual report and compared against 2020 baseline	June 2021
	Reduced carbon emissions year on year (adjusted for COVID)	Reduce overall carbon emission compared with 2020	June 2021
	Support community organisations/ initiatives	25% overall carbon reduction compared to 2020	June 2025
People and Safety	Employee Turnover comparable to industry average	Financial or in-kind contributions equivalent to 5% of net profit after tax	June 2021
	Reduce average total recordable injury frequency rate (TRIFR)	Employee Turnover within 5% of the national industry average	June 2021
	Maintain ISO 45001 accreditation for health & safety	TRIFR reduction from 12% to under 10%	June 2021
Non-shareholder business	Profitable growth in non-NCC work	ISO 45001 accredited	June 2021
Equity ratios	Profitable year on year growth in non-NCC work	Profitable year on year growth in non-NCC work from 2020 to 2021	June 2021
	Return on Equity is at or above industry benchmarks	EBIT Return on Equity benchmark based on a sample of industry pairs	June 2021
	Bank Debt to Equity Ratio within acceptable risk tolerance	Bank Debt to Equity Ratio at or below 55%	June 2021

8.0 COVID-19

A Nelmac Crisis Management Team (CMT) has been operational since February 2020, consisting of a range of experienced personnel with key connections across our three divisions and the Corporate Services teams. As the worldwide situation began to evolve, the CMT gathered to develop Nelmac's response for when the virus would inevitably hit New Zealand shores. Nelmac's response plan identified five clear stages which have since aligned with the government's four alert level system.

The plan takes into account:

- Which essential service teams needed to remain operational & how we keep these teams safe
- Volunteers to backfill essential service roles to ensure continuation of service
- Protection of high risk and vulnerable staff
- The recent travel history of staff
- Technology requirements needed to enable people working from home
- Pay arrangements structured to accommodate variability in work patterns across departments

When the government alert level system was announced in March, much of our plan remained the same. This increased the confidence Nelmac staff had in the CMT and the response plan. Approximately one third of the workforce continued to provide Essential Services under Level 4 lockdown.

Managing the health, safety and wellbeing of all staff remains the priority through the crisis. Providing consistent communication, access to personal protective equipment, and access to flu vaccinations (with an additional person of the employee's choosing) ensures we continue to look after staff effectively and that we respond effectively. This combined with all the planning and backup plans, ensure we are prepared for the long haul if required.

Post lockdown we undertook a condensed budgeting and strategic planning cycle, which was more tactical in focus and included multiple scenarios that could eventuate over the next 12 to 18 months. This process also included engaging with our customers to understand the forward impact on demand for our services. We updated our shareholder in May with a revised 2021 forward guidance of \$800k compared with a pre COVID SOI target of \$1,073k.

9.0 INFORMATION TO BE PROVIDED TO SHAREHOLDER

9.1 Statement of Intent

Information	Reporting Date
<p>Draft Statement of Intent:</p> <p>The Directors shall deliver to the shareholder a draft SOI which fulfils the requirements of Schedule 8 of the Local Government Act 2002 before March 1 each year</p>	Before March 1 each year
<p>Statement of Intent:</p> <p>After considering shareholders' comments on the draft, the Directors shall deliver to the shareholder a SOI which fulfils the requirements of Schedule 8 of the LGA 2002 and which meets the shareholder's approval annually before 30 June each year.</p>	Before June 30 each year

9.2 Annual Report

Information	Reporting Date
<p>The Directors shall deliver to the shareholders an annual report prepared to comply with Section 67 of the LGA 2002, Finance Reporting Act & International Financial Reporting Standards, and audited financial statements in respect of the financial year, containing the following information as a minimum:</p> <ul style="list-style-type: none"> • Directors' report including a summary of the financial results, a review of operations, a comparison of performance in relation to objectives and any recommendations as to dividend. • Revenue statement disclosing actual and budgeted revenue and expenditure, and comparative figures from previous years. • Statement of financial position at the end of the year. • Statement of cash flow • Auditor's report on the above statements and the measurement of performance in relation to objectives. 	Within three months of the end of the financial year

9.3 Half Yearly Report

Information	Reporting Date
<p>The Directors shall deliver to the shareholder an unaudited report containing the following as a minimum in respect of the period under review:</p> <ul style="list-style-type: none">• Revenue statement disclosing actual and budgeted revenue and expenditure, and comparative figures from previous years.• Statement of financial position (summarized) at the end of the half year.• Statement of cash flow (summarized)• Commentary on the results for the first six months together with a report on the outlook for the second six months with reference to significant factors likely to have an effect on the company's performance, including an estimate of the financial result for the year based on that outlook	<p>Within two months of the end of the first half of each financial year</p>

10.0 DISTRIBUTION POLICY

The company will distribute to the shareholder at least either 50% of the taxable profit by way of subvention payments and dividends, or 50% of tax paid profit by way of dividends. This is provided that, there are no specific reasons why the Directors consider that the company is unable to meet this distribution policy. If so, they shall notify the shareholder and discussion shall be held in respect of variance from that policy.

11.0 ACCOUNTING POLICIES

General Accounting Policies:

The accounting policies recognised by the NZ Institute of Chartered Accountants for the measurement and reporting of profit and financial position will be adopted by the company.

Particular Accounting Policies:

Specific accounting Policies will be detailed in the financial statements.

12.0 PROCEDURE FOR ACQUISITION / DIVESTMENT

Nelmac may at times, consider the acquisition, subscription or divestment of interests to meet its operating needs and strategic objectives.

When such an acquisition, subscription or divestment of interests is valued at more than \$1.5 million the Directors will obtain the prior approval of the shareholder by special resolution. Approval will not be required where the value is equal to or less than \$1.5 million, however the shareholder will be advised in writing within 14 days.

13.0 DIRECTORS' ESTIMATE OF COMPANY VALUE

The Directors estimate that the opening balance of Shareholder's funds in the annual accounts represent the net value of the company's assets. The value of Nelmac as a 'going concern' is greater than the net value of its assets. The Directors will promptly advise the Shareholders if they believe the value of Nelmac as a "going concern" risk falling below the net value of the company's assets.