RITANZ Case Study

North Harbour Contracting Ltd

2026 Baker Tilly Case Competition

Drafted by RITANZ and UACC

Sponsored by the Restructuring Insolvency & Turnaround Association NZ

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From: UACC Case Team

To: UACC Baker Tilly Case Competition Teams

CC: Rachael Peacock [Executive Director, RITANZ]

Subject: North Harbour Contracting Ltd – A Construction Business Under Pressure

Kia ora team,

Your client today is North Harbour Contracting Ltd (NHC), a privately owned New Zealand construction contractor working mainly on residential and small commercial projects in the upper North Island. NHC acts as a head contractor, managing subcontractors across areas such as civil works, structural trades, services, and interior fitout. Over the past few years, the company built a solid reputation by delivering medium-sized projects for developers and owner-operators.

At first glance, NHC's business appears straightforward: win projects, manage delivery, complete milestones, and receive progress payments. In reality, construction businesses depend heavily on timing. Cash goes out constantly through wages, subcontractor payments, suppliers, equipment hire, and tax, while some money is tied up in work already completed but not yet fully paid for. This means cashflow can become a major problem very quickly when conditions worsen.

NHC is now facing that reality. After the 2020-2022 COVID construction boom, the New Zealand building market has slowed. There are fewer projects, competition is tougher, and profit margins are lower. On top of this, one of NHC's larger projects has been delayed and is involved in payment disputes, putting even more pressure on cashflow. Although the company is still operating, its financial position is weak, with a $2.5 million bank facility close to maturity, and only $52,000 in cash.

The board is divided. Some directors believe the business can still be stabilised through a careful restructuring. Others are concerned that continued trading may worsen outcomes for creditors and expose directors to increasing legal and financial risk. The board has asked your team to urgently advise on the best path forward.

Your team is required to advise the board by answering:

- Should North Harbour Contracting Ltd continue trading under a restructuring plan, or is a turnaround no longer realistic?
- If not, what alternative is most appropriate: a managed wind-down, sale of projects or assets, or a formal insolvency process?

Additionally, your strategies should identify immediate implementation priorities and outline how the decision impacts key stakeholders in the company.

Our research team has compiled background information on the company, the New Zealand construction market, and the practical restructuring and liquidation context for your review.

Best of luck,

UACC Case Team

North Harbour Contracting Ltd (NHC) is a privately owned New Zealand construction business operating primarily as a head contractor across residential, mixed-use, and small commercial projects.

In recent years, the company grew during a period of strong construction activity, where developers remained active and contractors with reliable delivery capability were able to expand their project pipelines. In this environment, NHC established a position in the upper North Island market by taking on medium-scale projects and coordinating a network of specialist trades.

During stronger trading conditions, the business generated steady revenue and maintained acceptable margins. In FY2023, NHC reported revenue of approximately $21.5 million, net profit of around $950,000, and gross margins of approximately 20 percent. These figures suggest a contractor that had reached a stable operating scale, capable of managing multiple projects and generating consistent earnings when market conditions were supportive.

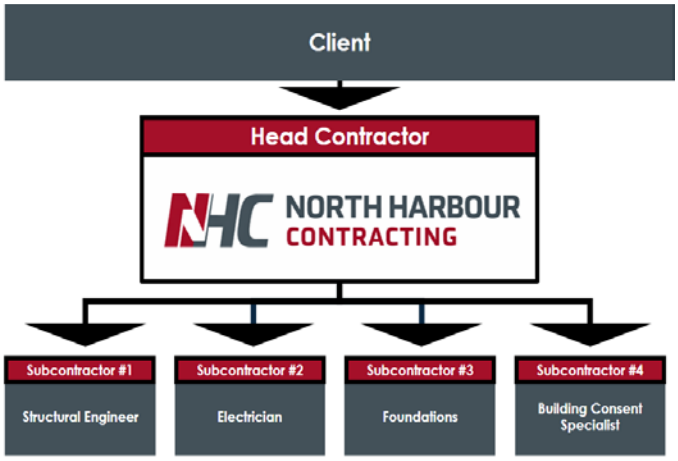
Business Model

NHC operates as a head contractor. This means the company is responsible for managing the delivery of construction projects, including coordinating subcontractors, procuring materials and services, and ensuring projects are completed to the required standard and timeline.

The business undertakes both **build-only** and **design-and-build** contracts. Under build-only arrangements, the client is responsible for the design, while NHC manages construction delivery. Under design-and-build arrangements, NHC is responsible for both designing and constructing the project. While this model can offer greater pricing flexibility, it also exposes the company to higher risk if project costs increase or timelines are extended.

Rather than completing all work in-house, NHC operates at the centre of a broader network. Specialist trades such as structural works, electrical services, plumbing, civil works, and interior fitout are typically delivered by subcontractors. NHC's role is to manage this network through tendering, planning, site management, coordination, and commercial oversight. This model allows the company to take on a wider range of projects than it could with its own workforce alone. However, it also means NHC is dependent on subcontractor performance, effective project management, and consistent access to working capital to keep projects moving.

NHC Subcontractor Model



Construction businesses operate with significant working capital requirements. Cash is paid out continuously to subcontractors, suppliers, wages, and other operating costs as projects progress. Revenue, however, is typically received through staged progress payments. Even then, a portion of each payment, often around 5–10%, is withheld as a retention until practical completion and, in some cases, until the end of the defect's liability period. For a contractor managing multiple projects, this means that a portion of earned revenue may remain tied up for extended periods. While these amounts are recorded as assets, they are not immediately available to fund ongoing operations, which can place pressure on cashflow when conditions tighten.

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Project Mix and Customer Base

NHC primarily operates in residential developments, mixed-use projects, and smaller commercial jobs. Its customers include developers, investors, and owner-operators rather than large infrastructure or public-sector clients.

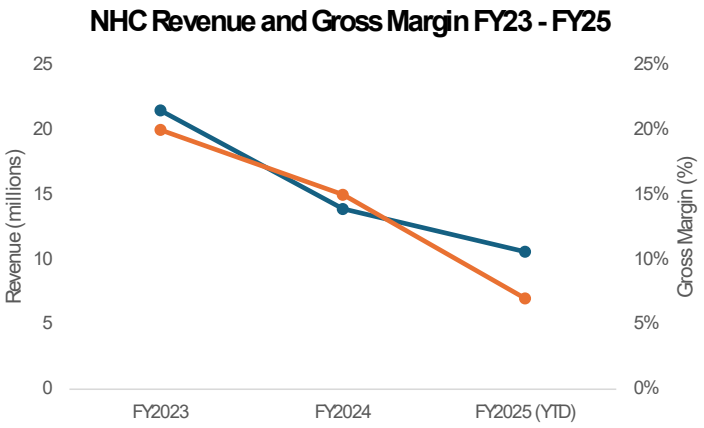
This segment of the market can provide a steady flow of work when development activity is strong and financing is accessible. However, it is also more sensitive to changes in interest rates, market confidence, and access to funding. As a result, demand for projects, and therefore contractor workloads, can fluctuate significantly with broader economic conditions.

Operating Structure

As a privately owned company, NHC operates with close links between ownership, management, and governance. The directors are responsible for strategic decision-making, financing choices, and overseeing the company's response to changing market conditions.

In a business such as NHC, decisions around project selection, working capital management, and capital allocation can have immediate effects on liquidity and operational stability. These decisions become particularly important when trading conditions tighten, as the margin for error reduces and the company's ability to absorb financial pressure becomes more limited.

Post COVID Market Struggles



Following a period of strong growth during the 2020–2022 construction boom, market conditions in New Zealand began to shift. Rising interest rates increased the cost of borrowing and reduced the viability of new developments, leading to a contraction in project pipelines.

As fewer projects entered the market, competition among contractors intensified. Pricing became more aggressive, particularly in the residential and mid-tier segments where NHC operates. This placed downward pressure on margins at the same time as overall workload declined. These changes are reflected in NHC's financial performance. In FY2023, the company reported revenue of approximately $21.5 million, net profit of around $950,000, and gross margins of approximately 20 percent. By FY2024, revenue had declined to approximately $13.9 million, with gross margins falling to around 15 percent. By FY2025 year to date, revenue had decreased further to approximately $10.6 million, while gross margins had compressed to around 7 percent.

Period	Revenue	Gross Margin
FY2023	$21.5m	20%
FY2024	$13.9m	~15%
FY2025 (YTD)	$10.6m	~7%

Project-level Pressure

The deterioration in market conditions was compounded by problems on a major project. One of the company's larger jobs experienced delays, cost overruns, and disputed variations. In a contracting business, issues of this sort can have effects well beyond a single site. Delays disrupt scheduling, cost overruns absorb already thin margins, and disputed variations create uncertainty over whether completed work will ultimately be paid for. In NHC's case, the outcome of those claims remained uncertain and placed additional pressure on both cashflow and reported profitability.

This was particularly damaging given the company's operating model. As a head contractor, NHC was still required to keep paying subcontractors, suppliers, wages, and site costs as projects progressed, even when incoming cash became slower or less certain. That meant the business could not easily pause and wait for disputed revenue to be resolved. Instead, the strain accumulated inside the company's working capital position.

Cashflow Deterioration

As trading conditions worsened, the company's financial pressure became increasingly a cashflow problem rather than just an earnings problem. The balance sheet continued to show activity and reported assets, but much of that value was tied up in work in progress, disputed receivables, and retentions that could not readily be converted into cash. In practical terms, NHC was still doing work and carrying value on paper, but it had less and less liquidity available to meet immediate obligations.

By early 2025, the pressure had become severe. Cash on hand had fallen to approximately $52,000. Against this, the company owed around $2.0 million in trade creditors, approximately $1.0 million in retentions to subcontractors, and roughly $750,000 in unpaid PAYE and GST. Its secured ANZ bank facility of $2.5 million was also nearing maturity.

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Taken together, these figures indicate a business that remains operational, but with limited liquidity and a reduced ability to withstand further disruption.

Stakeholder Pressures

As NHC's financial position deteriorated, pressure began to build across its key stakeholders:

The company's secured lender, **ANZ**, faces a $2.5 million facility nearing maturity, with refinancing uncertain. If continued support is not provided, the bank may seek to enforce its security.

Subcontractors and suppliers are exposed through delayed payments, with approximately $2.0 million in trade payables outstanding. Continued delays increase the risk of work disruptions, legal action, or loss of subcontractor support.

Inland Revenue is owed approximately $750,000 in PAYE and GST. Given increased enforcement activity in the construction sector, this represents a growing compliance and liquidation risk.

At the same time, **customers** may become concerned about project delivery, particularly where delays or disputes are already present. This can further affect confidence and disrupt future cash inflows.

Together, these pressures create a situation where even small disruptions could significantly impact the company's ability to continue operating.

Capital Allocation Decisions

The company's position was further affected by decisions made during the downturn. Despite declining performance and tightening liquidity, NHC paid a $1.0 million dividend to shareholders and repaid approximately $200,000 of shareholder loans. These outflows reduced available cash at a time when financial flexibility was becoming increasingly important.

In stronger market conditions, such decisions may have been sustainable. However, in a deteriorating environment, they can limit the company's ability to manage working capital pressures and respond to emerging risks.

The Tipping Point

By early 2025, the combined impact of declining market conditions, project-level disruptions, and ongoing working capital pressures has pushed NHC into a critical position with limited margin for error remaining.

Although the company remains operational and continues to deliver projects, its liquidity is now severely constrained. With limited cash reserves, growing creditor balances, and a bank facility nearing maturity, the business has little capacity to absorb further delays or disruptions.

At this point, the company's challenges are no longer isolated to individual projects or short-term fluctuations. Instead, they have become structural, affecting the company's ability to meet obligations as they fall due.

The board must now determine how to respond to this position, balancing the need to preserve value with the risks associated with continuing to trade under increasing financial pressure, managing outcomes for both creditors and stakeholders.

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Construction Struggles

North Harbour Contracting's position reflects a broader feature of the construction industry rather than a problem unique to one company. Contractors often appear substantial because they are managing large projects, employing site teams, and coordinating a wide network of subcontractors and suppliers. Yet the underlying economics of the business can be fragile. Cash must be paid out continuously to keep projects moving, while a portion of the value created on site may not be received until later through progress payments, final accounts, and retentions. This means a contractor can remain busy and still come under severe pressure if payments slow, disputes emerge, or margins narrow.

This vulnerability is built into the way many projects are contracted. In build-only arrangements, the client retains responsibility for design while the head contractor is responsible for delivery, workmanship, materials, and subcontractor coordination. In design-and-build arrangements, the contractor also takes on design responsibility, which can offer greater flexibility in stronger markets but also brings greater exposure to design risk and cost overruns if the job moves off track.

In both cases, contractors are usually required to fund a meaningful share of costs up front and recover cash progressively over the life of the project.

Retentions

Retentions add a further layer of pressure. As work is completed, progress payments are made, but a portion of each payment is commonly withheld as retention, usually 5-10%, as security for completion of the works and the fixing of defects. In practice, those sums build up over the life of a project, with part released at practical completion and the balance often released only after the defects liability period, which may be six to twelve months later. For a contractor operating on thin margins, retentions can therefore represent a meaningful share of expected profit while still being unavailable as immediate cash.

A construction company may show retentions and receivables as assets, but those items do not necessarily help meet this week's wages, supplier invoices, tax obligations, or subcontractor claims. Recent changes in New Zealand law requiring retention money in commercial contracts to be held on trust have improved protection for subcontractors, but they have also reduced the extent to which head contractors can rely on retention balances as a source of working capital. The result is that a business can look solvent on paper while still facing a severe liquidity problem in practice.

Director Responsibilities

As financial pressure increases, the directors' position becomes more constrained. Under New Zealand law, directors must not allow a company to trade recklessly or incur obligations that it cannot reasonably meet. Once a company enters serious financial difficulty, the board must consider not only the interests of shareholders, but also the likely effect of continued trading on creditors and other stakeholders. For North Harbour Contracting's directors, that issue is sharpened by weak liquidity, rising creditor balances, unpaid tax obligations, and uncertainty around ongoing bank support. If NHC continues to operate as a company, it needs to consider how its directors can justify continuing to trade and manage potential legal exposure in the future.

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Liquidation

If North Harbour Contracting's position continues to deteriorate, the board may need to consider either a formal insolvency process or a less formal attempt to stabilise the business. In New Zealand, the main formal processes include:

- **Liquidation**: the company is wound up and control passes to a liquidator (often a specialist practitioner from an accounting or law firm). The liquidator gathers and sells assets, deals with creditor claims, and distributes any available funds according to the legal order of priority.
- **Receivership**: a receiver is appointed, usually by a secured creditor, to take control of the assets covered by that security and recover value for that creditor.
- **Voluntary administration**: an administrator takes control of the company while creditors consider whether the business can be restructured, sold, or placed into liquidation.

These formal processes are not the only options available to the board. A capital injection would involve new money being introduced into the business, whether by existing shareholders, new investors, or another funding source. An informal workout would involve negotiating directly with key stakeholders such as the bank, Inland Revenue, and major creditors without entering a formal insolvency process. Alternatively, a managed wind-down would involve completing selected work, avoiding new commitments, and reducing losses while the company still retains control. The issue for North Harbour Contracting's board is therefore not simply which option exists in theory, but which of these options remains practically available.

Strategic Options

By this stage, the question facing North Harbour Contracting's board is no longer whether the company is under pressure, but what response remains realistically available. While the business continues to operate and retains some underlying value, its liquidity is critically constrained, creditor pressure is increasing, and refinancing remains uncertain. Three possible options the board could pursue are:

Continue trading

One option is to attempt to stabilise the business and continue trading under a restructuring plan. This would involve reducing costs, tightening working capital management, focusing only on viable projects, and seeking support from key stakeholders such as the bank, Inland Revenue, and major creditors. It may also require fresh capital from shareholders or another investor if the company is to maintain enough liquidity to keep operating. The case for this option is that NHC is still an active business with projects, relationships, and a platform that may retain value if brought back under control. The difficulty is that a restructuring requires time, liquidity, and confidence, all of which are in short supply. With only around $52,000 in cash, significant creditor balances, unpaid tax, and a bank facility nearing maturity, the company has limited capacity to absorb further setbacks. A restructuring may preserve the most value if the business can genuinely recover, but it may also deepen losses if the company is already beyond a realistic turnaround.

Managed wind-down or partial sale

A second option is to preserve value through a controlled exit rather than a full turnaround. This could involve a managed wind-down, the sale or transfer of selected projects, or the sale of plant, contracts, or other assets. Under this path, the company would stop taking on new risk and instead focus on reducing losses, protecting value in live work, and managing an orderly reduction of operations. This approach recognises that the business may no longer be suitable for ongoing trading, but may still have enough structure and stakeholder cooperation left to avoid a disorderly collapse. For North Harbour Contracting, this option may be attractive if the board believes a full rescue is unlikely but that some value can still be preserved through careful sequencing. It may offer better outcomes than an immediate insolvency process if projects can be completed or transferred in an orderly way. However, it still requires discipline, stakeholder cooperation, and enough short-term funding to manage the process.

Formal insolvency

Another avenue NHC could explore is a formal insolvency process, such as voluntary administration or liquidation. This becomes more relevant if the company is no longer realistically recoverable, if refinancing is unavailable, or if continued trading would worsen outcomes for creditors. A formal process can provide clarity and impose external control on a deteriorating situation, particularly where more informal options are no longer credible. At the same time, formal insolvency is likely to be disruptive. Projects may be delayed or halted, subcontractors and suppliers may suffer losses, and whatever value remains in the business may need to be realised under distressed conditions. For that reason, this option is usually most appropriate when the board concludes that the company can no longer trade safely or preserve value through a more controlled path.

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Conclusion

North Harbour Contracting Ltd now faces a critical decision. While the business remains operational and continues to hold projects and assets, declining margins, strained cashflow, rising creditor pressure, and uncertainty around continued bank support have placed its future in doubt.

What was once a viable contracting business is now under significant financial pressure, with limited capacity to absorb further disruption. The board must now determine whether the company can still be stabilised, or whether value is better preserved through an alternative course of action.

The board has asked your team to address the following questions:

- Should North Harbour Contracting Ltd continue trading under a restructuring plan, or is a turnaround no longer realistic?
- If not, what alternative is most appropriate: a managed wind-down, sale of projects or assets, or a formal insolvency process?

In answering the above, you should consider the immediate implementation priorities that should follow, and how the chosen path would affect key stakeholders.

NHC Limited

All amounts in $'000

Statement of Financial Position (Balance Sheet)

	FY23	FY24	FY25 (YTD)
Assets – Current			
Cash	1,020	1,480	52
Trade receivables	1,600	1,400	1,300
Work in progress (incl. disputed variations)	4,200	3,000	3,100
Retention receivable	1,700	1,500	1,500
Total current assets	**8,520**	**7,380**	**5,952**
Assets – Non-current			
Property, plant & equipment	750	750	750
Security deposit	2,500	2,300	2,000
Total non-current assets	**3,250**	**3,050**	**2,750**
Total assets	**11,770**	**10,430**	**8,702**
Liabilities – Current			
Trade creditors	(2,800)	(1,800)	(2,000)
Retentions payable	(1,000)	(700)	(1,000)
PAYE & GST payable	(500)	(250)	(750)
Employee entitlements	(500)	(350)	(400)
Total current liabilities	**(4,800)**	**(3,100)**	**(4,150)**
Liabilities – Non-current			
Bank loan – secured	(2,000)	(2,500)	(2,500)
Customer deposits	(2,500)	(2,300)	(2,000)
Shareholder current account	(500)	(1,500)	(300)
Contingent / other liabilities	(250)	(500)	(1,000)
Total non-current liabilities	**(5,250)**	**(6,800)**	**(5,800)**
Total liabilities	**(10,050)**	**(9,900)**	**(9,950)**
Net assets / (liabilities)	**1,720**	**530**	**(1,248)**

Opening equity	770	1,720	530
Profit / (loss) for year	950	(190)	(1,778)
Dividends declared	0	(1,000)	0
Closing equity	**1,720**	**530**	**(1,248)**

Notes to Financial Information

A significant portion of work in progress (WIP) relates to uncertified claims and disputed variations, which may not be recoverable in full or within expected timeframes

Retention receivables are typically only recoverable upon project completion and expiry of defects liability periods, often 6–12 months after practical completion.

A portion of trade receivables is subject to delayed payment and collection risk.

The company's bank facility of $2.5 million is approaching maturity, with refinancing uncertain.

The business is currently experiencing negative operating cashflow, despite reporting significant asset balances.

These factors limit the company's ability to convert accounting assets into cash to meet immediate obligations.

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NHC Limited

Statement of Profit or Loss (Summary)

	FY23	FY24	FY25 (YTD)
Revenue	21,500	13,900	10,600
Cost of sales	(17,200)	(11,815)	(9,838)
Gross profit	**4,300**	**2,085**	**762**
Operating expenses	(3,100)	(1,950)	(2,200)
EBIT	**1,200**	**135**	**(1,438)**
Interest expense	(250)	(325)	(340)
Net profit / (loss)	**950**	**(190)**	**(1,778)**
Gross Margin	20%	15%	7%

Cost of Sales

	FY23	FY24	FY25 (YTD)
Materials and supplies	6,200	4,400	3,900
Direct labour (site staff)	4,300	3,200	2,800
Subcontractor costs	6,000	3,900	3,100
Site overheads & plant	700	315	38
Total cost of sales	**(17,200)**	**(11,815)**	**(9,838)**

Operating Expenses

	FY23	FY24	FY25 (YTD)
Salaries & wages (office/management)	1,350	900	1,050
Rent, utilities & office costs	420	300	330
Insurance (incl. liability/ACC)	260	180	210
Motor vehicles & travel	210	140	170
Professional fees (legal/accounting/consulting)	180	110	150
IT, software & communications	120	80	110
Marketing & business development	70	45	60
Depreciation & equipment not in job costs	220	90	70
Other overheads (training, H&S, misc.)	270	105	50
Total operating expenses	**(3,100)**	**(1,950)**	**(2,200)**

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