

Delta Utility Services Limited

Interim Report

For the six months ended

31 December 2020

Delta Utility Services Limited

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Delta Utility Services Limited

Directors' report

The Directors of Delta Utility Services Limited present their interim report for the six months ended 31 December 2020.

Review of operations

The principal activity of the Company is the provision of contracting services, which encompasses a broad range of energy and environmental services to local authority and private sector customers. Our core business centres on the construction, operation and maintenance of essential energy and environmental infrastructure.

During the first half of financial year 2021, Delta has continued to deliver on its existing long-term contracts and provide a quality service to our customers. Ongoing global disruption with COVID-19 has continued throughout the first half of FY21 and has, in part, affected some of Delta's supply chains. Robust planning and strong relationship management with both suppliers and customers has helped reduce the impact and has allowed Delta to manage adequately during this time.

Strength in our quality of work and customer engagement has been a major focus for Delta. In the second half of FY21 we hope these attributes continue to be recognised by our customers as we go into extremely competitive tender processes for some of our existing contracts.

Delta continued to provide electricity distribution services to Aurora Energy in Dunedin, Central Otago and Queenstown Lakes, and to Nelson Electricity and Network Tasman in the Nelson and Tasman regions. Delta has also started to provide services to other neighbouring distribution networks, as well as continuing work with private developers and the generation sector.

Delta delivers a wide range of environmental services in sports turf management, horticulture, roadside vegetation control and park and reserve maintenance throughout the South Island.

We maintained good steady workflow across all our operating divisions (Power and Communications, Environmental Services, and Metering and Field Operations). Changeable and at times unseasonal poor weather has created challenges for our Environmental Services team and we have also noted an overall increase in line distribution faults for this time of year which has kept our crews busy.

Every day, our people operate in working environments with critical risk exposure. Our focus continues to be on robust planning, ensuring effective controls are in place to mitigate harm, and upholding our safety vision of 'Everyone Home Safe, Every Day'. The company's total recordable injury frequency rate (TRIFR) of 4.48 per 200,000 hours worked is slightly higher than in the same period last year and the year ended 30 June 20 (FY20: 3.69, HY20: 3.88) We have subsequently increased training in areas where injuries were occurring more frequently and increased our engagement with staff to ensure a high quality planning focus on all tasks.

Total operating revenues of \$49.166 million were \$0.501 million (1%) lower than for the same period last year, largely due to lower volumes of Power and Communications (Customer Initiated/Developer) work across both Central Otago and Tasman regions.

Delta remains comfortable with progress towards the recovery of its historic debt related to infrastructure services provided for the Yaldhurst Village subdivision.

The Company's net profit after income tax of \$1.262 million (FY20: \$1.963 million, HY19: \$0.395 million) provided a return on average shareholder's equity of 11% (FY20: 9%, HY20: 4%). The increase on prior year reflects more consistent workflow from our customers, better job planning and ensuring we are adequately resourced for the work at hand.

Significant progress on our new ERP system has continued in FY21. Our dedicated internal team is undertaking the modernisation of our systems and processes, whilst providing an integrated software that will further support Delta's ability to deliver exceptional services.

The Directors expect a satisfactory result at year-end.

Delta Utility Services Limited

Directors' report *continued*

Result

\$000

Operating profit before income tax	1,655
Less Income tax expense	393
	1,262

Seasonality

There is limited seasonality of earnings within the Company.

Dividends

A dividend of \$875,000 was declared and paid during the period.

Change of Directors

There were no changes in directors during the period.

Events after balance sheet date

There were no significant events after the reporting period that would require adjustment or disclosure.

Statement of responsibility

The Directors accept responsibility for the preparation of the interim financial statements and the judgements used in them.

The Directors accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and in the opinion of the Directors, the interim financial statements fairly reflect the financial position and operations of Delta Utility Services Limited.

The Board of Directors of Delta Utility Services Limited present the interim financial statements, set out on pages 4 to 13, for the six months ended 31 December 2020 and authorises them for issue on 28 January 2021.



Brian Wood Chairman



Tony Allison Director

Delta Utility Services Limited

Statement of Comprehensive Income For the six months ending 31 December 2020

	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited 12 months to 30 Jun 2020 \$'000
Operating revenue	48,666	49,233	99,599
Gain on sale of assets	140	42	83
Interest revenue	360	392	758
Total revenue	49,166	49,667	100,440
Less expenses:			
Audit fees	36	38	70
Employee remuneration and benefits	23,993	23,444	46,665
Materials	9,206	9,523	19,162
Depreciation on fixed assets	2,028	2,039	4,110
Depreciation on right of use asset	1,286	1,127	2,320
Directors' fees	106	106	213
Bad debts written off	-	-	1
Donations	6	5	9
Interest to Dunedin City Treasury Limited	310	467	854
Interest other	5	90	1
Interest leases	91	-	176
Other operating expenses	10,444	12,616	24,688
Total expenses	47,511	49,455	98,269
Net profit before tax	1,655	212	2,171
Income tax expense / (refund)	393	(183)	208
Net profit after tax	1,262	395	1,963
Other comprehensive income	-	-	-
Total comprehensive income	1,262	395	1,963

Delta Utility Services Limited

Statement of Changes in Equity For the six months ending 31 December 2020

	Share capital \$'000	Retained earnings \$'000	Total equity \$'000
Unaudited			
Equity as at 1 July 2020	17,000	6,044	23,044
Total comprehensive income	-	1,262	1,262
Distribution to owners	-	(875)	(875)
Equity as at 31 December 2020	<u>17,000</u>	<u>6,431</u>	<u>23,431</u>
Unaudited			
Equity as at 1 July 2019	17,000	5,581	22,581
Total comprehensive income	-	395	395
Distribution to owners	-	(750)	(750)
Equity as at 31 December 2019	<u>17,000</u>	<u>5,226</u>	<u>22,226</u>
Audited			
Equity as at 1 July 2019	17,000	5,581	22,581
Total comprehensive income	-	1,963	1,963
Distribution to owners	-	(1,500)	(1,500)
Equity as at 30 June 2020	<u>17,000</u>	<u>6,044</u>	<u>23,044</u>

Delta Utility Services Limited

Balance Sheet As at 31 December 2020

		Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited 12 months to 30 Jun 2020 \$'000
Current assets				
Cash and cash equivalents		1,728	1,460	220
Trade and other receivables		10,673	14,916	14,224
Work in progress		8,031	7,644	6,824
Inventories - materials and stores		2,978	2,913	3,070
Total current assets		23,410	26,933	24,338
Non-current assets				
Property, plant and equipment	5	23,873	24,783	23,471
Term Receivable		9,497	10,545	10,023
Right-of-use asset	7	7,622	5,291	5,531
Deferred tax asset		1,044	903	886
Intangible assets	6	2,728	1,008	1,872
Total non-current assets		44,764	42,530	41,783
Total assets		68,174	69,463	66,121
Current liabilities				
Trade and other payables		6,802	7,035	8,023
Borrowings		92	-	63
Provisions		5,202	4,078	4,763
Lease liability current		2,433	2,122	1,747
Taxation payable		2,011	326	1,460
Total current liabilities		16,540	13,561	16,056
Non-current liabilities				
Borrowings	8	22,250	29,800	22,550
Provisions		641	682	627
Lease liability term		5,312	3,194	3,844
Total non-current liabilities		28,203	33,676	27,021
Total liabilities		44,743	47,237	43,077
Equity				
Share capital		17,000	17,000	17,000
Retained earnings		6,431	5,226	6,044
Total equity		23,431	22,226	23,044
Total liabilities and equity		68,174	69,463	66,121

Delta Utility Services Limited

Statement of Cash Flows For the six months ending 31 December 2020

		Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited 12 months to 30 Jun 2020 \$'000
Cash flow from operating activities	<i>Note</i>			
<i>Cash was provided from</i>				
Receipts from customers		51,583	47,557	95,277
Interest received		-	2	3
COVID-19 Wage Subsidy		-	-	3,841
Net GST refund / (paid)		171	(7)	388
		51,754	47,552	99,509
<i>Cash was disbursed to</i>				
Payments to suppliers & employees		44,394	46,546	89,757
Intra-group tax payments		-	1,302	543
Interest paid		287	567	929
		44,681	48,415	91,229
Net cash flow from operating activities	3	7,073	(863)	8,280
Cash flow from investing activities				
<i>Cash was provided from</i>				
Sale of property, plant and equipment		167	119	205
Receipts from loans		-	2,216	2,836
		167	2,335	3,041
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		3,242	2,736	4,492
		3,242	2,736	4,492
Net cash flow from investing activities		(3,075)	(401)	(1,451)
Cash flow from financing activities				
<i>Cash was provided from</i>				
Receipts from borrowings		42,200	43,675	80,175
		42,200	43,675	80,175
<i>Cash was disbursed to</i>				
Repayment of borrowings		42,500	39,225	82,975
Repayments of lease liabilities		1,315	1,102	2,435
Dividends paid		875	750	1,500
		44,690	41,077	86,910
Net cash flow from financing activities		(2,490)	2,598	(6,735)
Net increase in cash and cash equivalents		1,508	1,334	94
Opening cash and cash equivalents		220	126	126
Closing cash and cash equivalents		1,728	1,460	220

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2020

1 Reporting entity

The financial statements presented here are for the reporting entity Delta Utility Services Limited.

Delta Utility Services Limited ("the Company") is a Council Controlled Trading Organisation as defined in the Local Government Act 2002. The Company, incorporated in New Zealand under the Companies Act 1993, is a wholly owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

The financial statements of Delta Utility Services Limited are for the six months ended 31 December 2020 and comply with the Financial Reporting Act 1993.

The financial statements are presented in New Zealand dollars (the functional currency of the Company) and have been rounded to the nearest thousand.

The Company is a Tier 1 for-profit entity as defined by the External Reporting Board (expenses over \$30 million).

2 Basis of Preparation

The financial statements for the period ended 31 December 2020 are unaudited.

The financial statements have been prepared in accordance with and comply with NZ IAS 34, Interim Financial Reporting, and should be read in conjunction with the audited financial statements for the year ended 30 June 2020.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2020.

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2020.

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2020

3 Reconciliation of Operating Surplus to Net Cash Flows from Operating Activities

	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited 12 months to 30 Jun 2020 \$'000
Net profit after tax	1,262	395	1,963
<i>Items not involving cash flows</i>			
Depreciation	2,028	2,039	4,110
Depreciation - RoU Asset	1,286	1,127	2,320
Other non-cash items	(37)	(809)	(226)
<i>Impact of changes in working capital items</i>			
(Increase) / decrease in trade and other receivables	4,437	323	2,030
(Increase) / decrease in work in progress	(1,207)	(1,294)	(474)
(Increase) / decrease in inventories	92	(231)	(388)
Increase / (decrease) in trade and other payables	(1,221)	209	1,260
Increase / (decrease) in provision for tax	551	(1,066)	69
Increase / (decrease) in employee entitlements	453	(134)	497
<i>Items classified as investing or financing activities</i>			
Net gain on sale of property, plant and equipment	(140)	(42)	(83)
Investment in Financial Instrument	(360)	(1,330)	(2,836)
Movement in capital creditors in accounts payable	(71)	(50)	38
Net cash inflows from operating activities	7,073	(863)	8,280

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2020

4 Related Party Transactions

Transactions with Dunedin City Council

The Company undertakes transactions with Dunedin City Council (DCC) and other DCC controlled entities.

During the year, the Company provided services and traded with the DCC Group in respect of the following transactions:

	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited 12 months to 30 Jun 2020 \$'000
<i>Sales of Services to DCC Group Entities:</i>			
Capital works constructed	12,775	13,182	26,279
Network maintenance and contracting services	10,022	9,686	17,655
Administration / Accounting / Tax / Rent	214	212	427
	<u>23,011</u>	<u>23,080</u>	<u>44,361</u>
<i>Sales of Services to DCC:</i>			
Other contracting	2,631	3,086	5,465
<i>Amounts Receivable by the Company at period end from DCC Entities:</i>			
Receivable from DCC	544	598	368
Receivable from DCC Group Entities	<u>4,065</u>	<u>7,482</u>	<u>6,646</u>
	4,609	8,080	7,014
<i>Intragroup Transfers:</i>			
Tax Compensation received	-	-	759
<i>Purchases of Goods and Services from DCC Group Entities:</i>			
Interest	315	467	854
Contracting services and supplies	686	393	591
Rent / Administration	427	248	582
Tax Compensation / Tax loss offsets	12	-	24
Management fee	-	25	50
	<u>1,440</u>	<u>1,133</u>	<u>2,101</u>
<i>Purchases of Goods and Services from DCC:</i>			
Contracting services and supplies	56	43	138
Other	<u>48</u>	<u>42</u>	<u>90</u>
	104	85	228
<i>Amounts Payable by the Company at period end to DCC Entities:</i>			
Payable to DCC	12	3	34
Payable to Dunedin City Council entities	<u>1,197</u>	<u>226</u>	<u>905</u>
	1,209	229	939

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2020

4 Related Party Transactions *continued*

Transactions with Companies in which Directors have an interest

	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited 12 months to 30 Jun 2020 \$'000
<i>Services provided to Companies in which Directors have an interest:</i>			
Naylor Love Construction (Mr T J Kempton is the Chairman and a Shareholder)	1	108	111
<i>Amounts receivable from Companies in which Directors have an interest:</i>			
Naylor Love Construction (Mr T J Kempton is the Chairman and a Shareholder)	-	45	-
<i>Purchases from Companies in which Directors have an interest:</i>			
Mainpower New Zealand (Mr B J Wood is a Director)	3	5	9
E-Spatial Limited (Mr B J Wood is a Director)	3	5	13
Naylor Love Construction (Mr T J Kempton is the Chairman and a Shareholder)	-	115	115
<i>Amounts payable to Companies in which Directors have an interest:</i>			
Mainpower New Zealand (Mr B J Wood is a Director)	-	-	1
E-Spatial Limited (Mr B J Wood is a Director)	-	3	3

Mr T D Allison was a Director of Dunedin International Airport Ltd during the period. Transactions with this entity are included under transactions with the Dunedin City Council group.

Transactions with Executive Staff

There were no material transactions with executive staff during the period.

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2020

5 Property, Plant and Equipment

	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited 12 months to 30 Jun 2020 \$'000
Additions	2,224	2,415	2,992
Disposals (Book Value)	27	76	91
Capital commitments	358	204	464

There have been no material changes to the fair value assessment methods for property, plant and equipment asset classes between 30 June 2020 and 31 December 2020.

6 Intangible Assets

	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited 12 months to 30 Jun 2020 \$'000
Additions	1,089	371	1,432
Disposals (Book Value)	-	-	-

There have been no material changes to the fair value assessment method for intangible assets between 30 June 2020 and 31 December 2020.

7 Right-of-use Asset

	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited 12 months to 30 Jun 2020 \$'000
Additions	3,433	1,257	2,729
Disposals (Book Value)	56	-	40

There have been no material changes to the fair value assessment method for right-of-use assets between 30 June 2020 and 31 December 2020.

8 Term Borrowings

There has been no material changes to the accounting treatment of the term loan from Dunedin City Treasury Limited between 30 June 2020 and 31 December 2020.

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2020

9 Financial Instruments

All financial assets are recognised at cost/face value while financial liabilities are recognised at amortised cost except derivative financial instruments which are recognised at fair value.

10 Contingent Liabilities

	Unaudited 6 months to 31 Dec 2020 \$'000	Unaudited 6 months to 31 Dec 2019 \$'000	Audited 12 months to 30 Jun 2020 \$'000
Performance Bonds	1,006	1,142	1,243

The performance bonds issued are principally in favor of South Island Local Authorities for contract work. There is no indication that any of these contingent liabilities will crystallise in the foreseeable future.

Delta Utility Services Limited

Directory

Directors

Brian Wood
Steven Grave
Tony Allison
Trevor Kempton

Registered Office

33 Sturdee St
Dunedin
New Zealand

Bankers

Westpac Banking Corporation

Solicitors

Gallaway Cook Allan
Anderson Lloyd

Tax Advisors

Deloitte

Auditor

Audit New Zealand on behalf of the Controller and Auditor-General