

Delta Utility Services Limited

Interim Report

For the six months ended

31 December 2022

Delta Utility Services Limited

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Delta Utility Services Limited

Directors' report

The Directors of Delta Utility Services Limited ("the Company") present their interim report for the six months ended 31 December 2022.

Review of operations

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

During the first half of financial year 2023 (FY23), Delta continued to experience strong demand for its core services. Despite ongoing disruption with unprecedented levels of COVID/sick leave and staff turnover, Delta remained a fundamental part of the communities we operated in. Delta are pleased with our response to high workloads during this period and were grateful for contributing factors, such as settled weather, working in our favour.

It has certainly been a challenging operational period for the Company with the implementation of the living wage, fuel price increases and inflationary pressures are challenging our ability to achieve acceptable margins. It also become evident over this period that price increase mechanisms within our major contracts are not fully reflective of these current pressures.

All of the Delta operational divisions have improvement plans in place to turn around their results. The Power and Communications divisions plan is now well established and a substantial recovery has been noted. Strategy sessions held over the next quarter will focus on these improvement plans.

Our people are the foundational pillar of our business. Multiple times every day many of them are exposed to critical risks. This is why our safety vision of 'Everyone Home Safe, Every Day' and our laser focus on planning and preparation is of utmost importance. The Company's safe work completion ratio remains at 99% (percentage of work complete without harm) for all work completed during the period. We are continuing to make gains based on small continuous improvements in all targeted areas with the help and involvement of our Kaitiaki o Te Mahi Pai representatives. We remain cautious and aware of the potentially life changing risk we work with every day and are always looking to get better.

Delta's commitment to safety, quality, and environmental sustainability continued in the first half of FY23 with the establishment of a Health, Safety, Environment and Quality role, the roll out of a Carbon Emission and Waste reduction strategy as well as recertification of our integrated ISO 45001, ISO 9001 and ISO 14001 accreditations.

Total operating revenue of \$58.177 million was \$6.437 million (12%) higher than for the same period last year. This increase is driven off an increase in workplans for our major customs and also due to the fact that there was a nationwide lockdown in August/September 2021 - inhibiting the Company's ability to complete planned work during that period.

Staff resourcing has proved problematic in recent times with increased demand in the economy, strict border measures in place and low unemployment rates making it harder to attract and retain skilled staff. The Company has reviewed its Employee Value Proposition and is in the process of developing a Retention strategy as well as a Culture and Diversity strategy to address this issue.

The Company's net profit after income tax of \$1.180 million (FY22: \$2.919 million, HY22: \$0.498 million) provided a return on average shareholder's equity of 8.8% HY23 (FY22: 11%, HY21: 4%).

Delta received \$1.844 million in surplus sale proceeds from the Yaldhurst Development during the period.

Delta continues to invest significant time and resource into ensuring its business management processes and its underpinning systems are robust and fit for purpose. The Company is now well into the rollout of its field mobilisation software and is pleased with the increased visibility and real time information that it is providing.

Delta Utility Services Limited

Directors' report *continued*

Result

\$000

Operating profit before income tax	1,636
Less Income tax expense	456
	1,180

Seasonality

There is limited seasonality of earnings within the Company.

Dividends

No dividends were paid during the period.

Change of Directors

Mr B J Wood retired as a Director and the Chair on 16 October 2022.

Ms P J Carnahan was appointed as a Director on 1 August 2022 and became the Chair on 16 October 2022.

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 2022 and authorises them for issue on 6 February 2022.



Peter Carnahan Chairman



Tony Allison Director

Delta Utility Services Limited

Statement of Comprehensive Income For the six months ending 31 December 2022

	Unaudited 6 months to 31 Dec 2022 \$'000	Unaudited 6 months to 31 Dec 2021 \$'000	Audited 12 months to 30 Jun 2022 \$'000
Operating revenue	58,177	51,740	108,915
Surplus Sale proceeds from Yaldhurst Development	1,844	-	4,470
COVID-19 Wage Subsidy	-	684	684
COVID-19 Leave Support Scheme	93	-	147
Other Sundry revenue	401	419	792
Gain on sale of assets	100	33	25
Interest revenue	-	89	89
Total revenue	60,615	52,965	115,122
Less expenses:			
Audit fees	43	37	98
Employee remuneration and benefits	27,458	24,861	51,379
Subcontractor Costs	10,995	9,419	20,912
Materials	8,686	8,041	17,371
Plant and Vehicle Costs	3,378	2,353	5,752
Depreciation on fixed assets	2,163	2,089	4,311
Depreciation on right of use asset	1,389	1,336	2,709
Directors' fees	119	107	213
Increase/(Decrease) in Provision for Doubtful Debts	2	(39)	(69)
Bad debts written off/(written back)	10	-	-
Donations	5	5	9
Interest to Dunedin City Treasury Limited	253	171	363
Interest leases	144	135	269
Other operating expenses	4,334	3,759	8,073
Total expenses	58,979	52,274	111,390
Net profit before tax	1,636	691	3,732
Income tax expense / (refund)	456	193	813
Net profit after tax	1,180	498	2,919
Other comprehensive income	-	-	-
Total comprehensive income	1,180	498	2,919

Delta Utility Services Limited

Statement of Changes in Equity For the six months ending 31 December 2022

	Share capital \$'000	Retained earnings \$'000	Total equity \$'000
Unaudited			
Equity as at 1 July 2022	17,000	9,153	26,153
Total comprehensive income	-	1,180	1,180
Distribution to owners	-	-	-
Equity as at 31 December 2022	<u>17,000</u>	<u>10,333</u>	<u>27,333</u>
Unaudited			
Equity as at 1 July 2021	17,000	8,834	25,834
Total comprehensive income	-	498	498
Distribution to owners	-	(1,000)	(1,000)
Equity as at 31 December 2021	<u>17,000</u>	<u>8,332</u>	<u>25,332</u>
Audited			
Equity as at 1 July 2021	17,000	8,834	25,834
Total comprehensive income	-	2,919	2,919
Distribution to owners	-	(2,600)	(2,600)
Equity as at 30 June 2022	<u>17,000</u>	<u>9,153</u>	<u>26,153</u>

Delta Utility Services Limited

Balance Sheet As at 31 December 2022

		Unaudited 6 months to 31 Dec 2022 \$'000	Unaudited 6 months to 31 Dec 2021 \$'000	Audited 12 months to 30 Jun 2022 \$'000
	<i>Note</i>			
Current assets				
Cash and cash equivalents		1,426	260	405
Trade and other receivables		12,474	12,553	12,836
Work in progress		10,711	11,425	9,917
Inventories - materials and stores		4,198	3,510	4,037
Total current assets		28,809	27,748	27,195
Non-current assets				
Property, plant and equipment	5	25,347	24,388	24,575
Right-of-use asset	7	10,378	9,736	10,122
Deferred tax asset		741	999	741
Intangible assets	6	3,063	3,008	3,013
Total non-current assets		39,529	38,131	38,451
Total assets		68,338	65,879	65,646
Current liabilities				
Trade and other payables		7,386	6,827	9,578
Borrowings		34	45	35
Provisions		5,168	5,485	5,189
Lease liability current		2,692	2,492	2,538
Taxation payable		1,432	1,286	976
Total current liabilities		16,712	16,135	18,316
Non-current liabilities				
Borrowings	8	15,900	16,750	13,000
Provisions		457	467	412
Lease liability term		7,936	7,195	7,765
Total non-current liabilities		24,293	24,412	21,177
Total liabilities		41,005	40,547	39,493
Equity				
Share capital		17,000	17,000	17,000
Retained earnings		10,333	8,332	9,153
Total equity		27,333	25,332	26,153
Total liabilities and equity		68,338	65,879	65,646

Delta Utility Services Limited

Statement of Cash Flows For the six months ending 31 December 2022

		Unaudited 6 months to 31 Dec 2022 \$'000	Unaudited 6 months to 31 Dec 2021 \$'000	Audited 12 months to 30 Jun 2022 \$'000
Cash flow from operating activities	<i>Note</i>			
<i>Cash was provided from</i>				
Receipts from customers		58,570	48,306	106,776
Interest received		-	-	3,663
COVID-19 Wage Subsidy		-	684	684
COVID-19 Leave Support Scheme		93	-	84
Net GST refund / (paid)		448	342	71
		59,111	49,332	111,278
<i>Cash was disbursed to</i>				
Payments to suppliers & employees		58,375	50,594	103,029
Intra-group tax payments		-	-	672
Interest paid		254	148	350
		58,629	50,742	104,051
Net cash flow from operating activities	3	482	(1,410)	7,227
Cash flow from investing activities				
<i>Cash was provided from</i>				
Sale of property, plant and equipment		100	79	55
Receipts from loans		1,844	7,674	8,510
		1,944	7,753	8,565
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		2,840	4,046	6,528
		2,840	4,046	6,528
Net cash flow from investing activities		(896)	3,707	2,037
Cash flow from financing activities				
<i>Cash was provided from</i>				
Receipts from borrowings		54,050	45,200	94,950
		54,050	45,200	94,950
<i>Cash was disbursed to</i>				
Repayment of borrowings		51,150	44,950	98,450
Repayments of lease liabilities		1,465	1,434	2,906
Dividends paid		-	1,000	2,600
		52,615	47,384	103,956
Net cash flow from financing activities		1,435	(2,184)	(9,006)
Net increase in cash and cash equivalents		1,021	113	258
Opening cash and cash equivalents		405	147	147
Closing cash and cash equivalents		1,426	260	405

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2022

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 2022 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 2022 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 2022.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2022.

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2022.

Certain disclosures have been restated to reflect changes in accounting policy and to ensure consistency with the current period.

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2022

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

	Unaudited 6 months to 31 Dec 2022 \$'000	Unaudited 6 months to 31 Dec 2021 \$'000	Audited 12 months to 30 Jun 2022 \$'000
Net profit after tax	1,180	498	2,919
<i>Items not involving cash flows</i>			
Depreciation	2,163	2,089	4,311
Depreciation - RoU Asset	1,389	1,336	2,709
Other non-cash items	181	(221)	341
<i>Impact of changes in working capital items</i>			
(Increase) / decrease in trade and other receivables	373	8,749	8,499
(Increase) / decrease in work in progress	(794)	(5,451)	(3,943)
(Increase) / decrease in inventories	(161)	(6)	(534)
Increase / (decrease) in trade and other payables	(2,192)	(1,568)	1,173
Increase / (decrease) in provision for tax	456	193	(117)
Increase / (decrease) in employee entitlements	(24)	536	180
<i>Items classified as investing or financing activities</i>			
Net gain on sale of property, plant and equipment	(100)	(33)	(25)
Investment in Financial Instrument	(1,844)	(7,674)	(8,510)
Movement in capital creditors in accounts payable	(145)	142	224
Net cash inflows from operating activities	482	(1,410)	7,227

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2022

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 2022 \$'000	Unaudited 6 months to 31 Dec 2021 \$'000	Audited 12 months to 30 Jun 2022 \$'000
<i>Sales of Services to DCC Group Entities:</i>			
Capital works constructed	23,828	18,433	48,296
Rent	244	235	470
	24,072	18,668	48,766
<i>Sales of Services to DCC:</i>			
Other contracting	5,467	4,405	9,993
<i>Amounts Receivable by the Company at period end from DCC Entities:</i>			
Receivable from DCC	933	841	1,149
Receivable from DCC Group Entities	3,550	4,666	4,989
	4,483	5,507	6,138
<i>Intrgroup Transfers:</i>			
Tax Compensation paid	-	-	672
<i>Purchases of Goods and Services from DCC Group Entities:</i>			
Interest	253	171	363
Contracting services and supplies	-	1	1
Rent / Administration	144	185	332
Tax Compensation / Tax loss offsets	-	-	339
	397	357	1,035
<i>Purchases of Goods and Services from DCC:</i>			
Contracting services and supplies	45	46	91
Other	40	39	77
	85	85	168
<i>Amounts Payable by the Company at period end to DCC Entities:</i>			
Payable to DCC	23	9	18
Payable to Dunedin City Council entities	66	961	96
	89	970	114

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2022

4 Related Party Transactions *continued*

Transactions with Companies in which Directors have an interest

	Unaudited 6 months to 31 Dec 2022 \$'000	Unaudited 6 months to 31 Dec 2021 \$'000	Audited 12 months to 30 Jun 2022 \$'000
<i>Services provided to Companies in which Directors have an interest:</i>			
Mainpower New Zealand (Mr B J Wood is a Director)	-	60	60
A.G. Foleys Limited (Ms J George is a Director)	6	2	6
CORDE Ltd (formerly Sicon Ltd) (Mr SW Grave is Chairman)	-	11	20
Trojan Holdings Ltd (Mr P Carnahan is a Director)	1	1	-
<i>Amounts receivable from Companies in which Directors have an interest:</i>			
A.G. Foleys Limited (Ms J George is a Director)	1	1	1
CORDE Ltd (formerly Sicon Ltd) (Mr SW Grave is Chairman)	-	10	-
<i>Purchases from Companies in which Directors have an interest:</i>			
Mainpower New Zealand (Mr B J Wood is a Director)	4	3	5
A.G. Foleys Limited (Ms J George is a Director)	4	10	18
Whitestone Contracting Limited (Mr S W Grave is a Director)	-	-	7
Fern Energy Ltd (Mr P Carnahan is a Director)	61	-	-
Trojan Holdings Ltd (Mr P Carnahan is a Director)	12	10	11
<i>Amounts payable to Companies in which Directors have an interest:</i>			
Mainpower New Zealand (Mr B J Wood is a Director)	1	-	-
A.G. Foleys Limited (Ms J George is a Director)	-	1	-
Fern Energy Ltd (Mr P Carnahan is a Director)	8	-	-
Trojan Holdings Ltd (Mr P Carnahan is a Director)	4	2	1

Delta Utility Services Limited

Notes to the Financial Statements (unaudited) For the six months ending 31 December 2022

5 Property, Plant and Equipment

	Unaudited 6 months to 31 Dec 2022 \$'000	Unaudited 6 months to 31 Dec 2021 \$'000	Audited 12 months to 30 Jun 2022 \$'000
Additions	2,804	3,211	5,461
Disposals (Book Value)	-	27	68
Capital commitments	804	-	1,541

There have been no material changes to the fair value assessment methods for property, plant and equipment asset classes between 30 June 2022 and 31 December 2022.

6 Intangible Assets

	Unaudited 6 months to 31 Dec 2022 \$'000	Unaudited 6 months to 31 Dec 2021 \$'000	Audited 12 months to 30 Jun 2022 \$'000
Additions	181	675	881
Disposals (Book Value)	-	-	1

There have been no material changes to the fair value assessment method for intangible assets between 30 June 2022 and 31 December 2022.

7 Right-of-use Asset

	Unaudited 6 months to 31 Dec 2022 \$'000	Unaudited 6 months to 31 Dec 2021 \$'000	Audited 12 months to 30 Jun 2022 \$'000
Additions	1,737	3,226	2,296
Disposals (Book Value)	92	-	78

There have been no material changes to the fair value assessment method for right-of-use assets between 30 June 2022 and 31 December 2022.

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 2022 and 31 December 2022.

Delta Utility Services Limited

Notes to the Financial Statements (unaudited)
For the six months ending 31 December 2022

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 2022 \$'000	Unaudited 6 months to 31 Dec 2021 \$'000	Audited 12 months to 30 Jun 2022 \$'000
Performance Bonds	377	585	377

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

Peter Carnahan
Jane George
Steven Grave
Tony Allison

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

DELTA UTILITY SERVICES LIMITED

Statement of Service Performance update
for the period ended
31 December 2022

STATEMENT OF SERVICE PERFORMANCE

for the period ended 31 December 2022 - continued

PERFORMANCE MEASURE	TARGET	STATUS	DESCRIPTION
The Shareholder			
Consult with the Shareholder on matters to be included in the Company's Statement of Intent	Shareholder approval of the Company's Statement of Intent	On track	Draft Statement of Intent provided to DCHL in line with timetable.
Consult with the Shareholder at the earliest possible time on matters where conflict may or could result	No unnotified potential conflicts	On track	Nothing to note.
Keep the Shareholder informed of all substantive matters	Report all substantive matters to the Shareholder within 24 hours	On track	Nothing to note.
Community			
Maintain community support through local sponsorship/donations	\$25,000 of sponsorship/ donations per annum	On track	\$13,000 in sponsorship / donations was provided to community groups during the period.
Support community recreation and visitor experience in Dunedin	Achieve KPIs on service contracts	On track	Target KPIs were maintained or exceeded on average throughout the period.
Maintain essential infrastructure to support Dunedin City Council's strategy to be one of the world's great small cities	Deliver maintenance services per contractual arrangements	On track	Delta generally met or exceeded its KPI's on maintenance contracts held with Aurora Energy and the Dunedin City Council throughout the period.

STATEMENT OF SERVICE PERFORMANCE

for the period ended 31 December 2022 - continued

PERFORMANCE MEASURE	TARGET	STATUS	DESCRIPTION
People			
Reduce harm to employees and contractors	≤ 3.50 total recordable injury frequency rate (TRIFR) per 200,000 hours worked	On track	TRIFR for the period was 3.18 per 200,000 hours worked.
	≤ 1.00 total lost time injury frequency rate (LTIFR) per 200,000 hours worked	Behind target	LTIFR for the period was 1.27 per 200,000 hours worked.
Ensure full compliance with all Health and Safety legislation	Maintain all existing Health and Safety accreditations	On track	ISO45001 accreditation maintained (Audit Sept 2022)
Maintain the health and wellbeing of staff	Lower than 2.5% sick leave based on hours	Behind target	Staff sick leave was 3.3% of total hours during the period.
	Maintain an employee wellbeing programme	On track	An employee wellbeing programme was maintained during the period.
Develop skill sets and succession planning through Delta's apprenticeship scheme	Ensure that all direct employees are paid at the living wage or above		
	Average number of apprentices in the scheme of 20 or more per annum	On track	Apprenticeship numbers averaged over 38 during the period.
Maintain a positive and satisfying working environment with low levels of voluntary staff turnover	Below 11.0% staff turnover	Behind target	Voluntary staff turnover is 17.17% over the period.

STATEMENT OF SERVICE PERFORMANCE

for the period ended 31 December 2022 - continued

PERFORMANCE MEASURE	TARGET	STATUS	DESCRIPTION
Environment			
Ensure a well-recognised environmental accreditation is maintained	Maintain all existing Environmental accreditations	On track	Maintained (Audit Sept 2022)
Maintain full compliance with the Resource Management Act (RMA)	0 – number of breaches	On track	There were no breaches of the RMA during the period.
Maintain or lower fuel efficiency in the Company's light commercial / passenger fleet	≤ 9.25 litres fuel used per 100 kilometres	On track	Fuel efficiency across the Delta light commercial /passenger fleet was calculated at 9.13 litres per 100 kilometres during the period.
Contribute to the Dunedin City Council's Carbon Neutrality initiatives	Implement an emissions and waste reduction strategy and associated targets for inclusion in our 2022/2023 Statement of Intent.	On track	Strategy developed and implemented

PERFORMANCE MEASURE	TARGET \$000	STATUS	AS AT 31 DECEMBER \$000
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FINANCIAL OBJECTIVES

• EBITDA	≥11,526	Behind target	5,585
• Net profit after income tax	≥3,504	Behind target	1,180
• Shareholder's equity	≥27,861	On Track	27,333
• Return on Shareholder's funds	≥14%	Behind target	8.8%
• Cash flow from operations	≥10,744	Behind target	482
• Capital expenditure	≤5,995	On Track	4,722
• Term debt	≤9,900	Behind target	15,900
• Dividends	≥2,000	Behind target	0
• Shareholder's equity to total assets	≥43%	Behind target	40%