

DELTA UTILITY SERVICES LIMITED

STATEMENT OF INTENT

For the year ending 30 June 2024



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1 INTRODUCTION

Delta Utility Services Ltd (“the Company”) provides contracting services, including the construction, operation, and maintenance of essential energy and environmental infrastructure. It is a Council Controlled Trading Organisation (CCTO) owned wholly by Dunedin City Holdings Ltd (DCHL), which is wholly owned by Dunedin City Council.

A CCTO is required by law to produce a Statement of Intent (SOI). A SOI is an annual planning document which sets out the Company’s planned activities, objectives and financial forecasts for the next three years. It includes performance measures and targets which form the basis of the Company’s organisational accountability and will be reported on in the Company’s Annual Report. This SOI takes shareholder comments into consideration.

2 OBJECTIVES

As a CCTO, the Company has the following objectives, as defined in the Local Government Act 2002:

- a) *achieve the objectives of its shareholder, both commercial and non-commercial, as specified in the statement of intent; and*
- b) *be a good employer; and*
- c) *exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and*
- d) *conduct its affairs in accordance with sound business practice.*

Health and Safety performance is essential to the achievement of Delta’s objectives. Delta’s safety goal is “Everyone Home Safe, Every Day”.

The Company’s strategy will be to maximise consistent long-term annual dividend returns with an expectation of providing a commercial level of return on investment to its shareholder, appropriate to the sector it operates in

Delta’s focus for FY2024 will be to improve its financial results whilst reviewing any opportunity to expand and diversify its operations whilst minimising our carbon footprint and continually improving Health and Safety outcomes.

Delta has adopted a target to be net zero carbon by 2030, as a contribution to the Council’s goal of achieving net carbon neutrality city-wide by 2030. Over the 2024 financial year we will build on existing work to develop a roadmap to 2030. We will engage with our shareholders DCHL and Dunedin City Council regarding non-controllable emissions and the potential cost of offsetting residual emissions. We will also work with the Dunedin City Council to identify alternative or complementary opportunities to contribute to the Dunedin City Council’s goal city-wide net zero carbon goal. As a Dunedin City Council owned Company, the Company aims to contribute to the Dunedin City Council’s strategic framework and achievement of city objectives.

3 APPROACH TO GOVERNANCE

In addition to the obligations of the Local Government Act 2002 (LGA), the Company is also subject to the requirements of the Companies Act 1993 and is governed by directors in accordance with the law and best practise.

As defined in Section 58 of the LGA:

- (1) *The role of a director of a council-controlled organisation is to assist the organisation to meet its objectives and any other requirements in its statement of intent.*
- (2) *This section does not limit or affect the other duties that a director of a council-controlled organisation has.*

The Board meets on a regular basis to direct and control the company's activities. Directors are appointed by the shareholder, Dunedin City Holdings Ltd.

The Board accepts that it is responsible for the overall control systems operating within the company but recognises that no cost-effective internal control system will permanently preclude all errors or irregularities. The control systems reflect the specific risks associated with the business of the company.

The Shareholder reviews and approves the SOI and three-year financial plan. Monthly, six-monthly and annual reports of financial and operating performance are provided to the shareholder.

4 NATURE AND SCOPE OF ACTIVITIES

The principal activity of the Company is the provision of contracting services, which include the construction, operation, and maintenance of essential energy and environmental infrastructure. The undertaking by the Company of any activity of a nature or scope not provided for in the Company's mission or goals would be subject to the prior approval of the Shareholder.

As noted in the Company's Business Strategy our purpose is to be local professionals with innovative ideas, passionate about serving our communities. This purpose directly relates to our vision of great people shaping better communities together. Our values of Do it First, Do it Right, Do it Together allow us to make a difference through fresh thinking, dependability, and working together.

We're a team of more than 600 skilled professionals, with a dedication and passion for the job. We are committed to our people, safety, and the environment, and support the communities we live and work in.

The Company's total assets were \$65.6 million as at 30 June 2022, and it generated operational revenues of \$108.9 million for the year then ended.

5 PERFORMANCE TARGETS AND OTHER MEASURES

The company will record its performance relating to the targets stated in Section 5 and 6 in its annual report.

Goals	Objectives	Performance Measures
Community		
<i>We are big believers in supporting the communities in which we operate. Our main contribution is through the essential infrastructure services we provide every day. Plus, we support organisations in the local community, nurture the next generation of smart thinking infrastructure specialists, and promote our brand to our stakeholders.</i>		
To make a positive contribution to the communities in which we operate	Maintain community support through local sponsorship/donations whilst ensuring that no monies are provided to companies deemed inconsistent with the Dunedin City Council's ethical position	Sponsorship \$ per annum Targets: 2024 \$25,000 2025 \$25,000 2026 \$25,000
To support community recreation and visitor experience	Maintain parks, reserves, sports fields, walking tracks, and amenities in the northern part of Dunedin city, including significant tourist attractions (e.g. the Railway Station and Chinese Gardens)	Achieve KPIs on service contracts Targets: 2024 Achieved 2025 Achieved 2026 Achieved
To promote economic development	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 Targets: 2024 Plan delivered 2025 Plan delivered 2026 Plan delivered

Goals	Objectives	Performance Measures
People		
<i>It is the skill and dedication of our people that makes the difference for our customers and keeps everyone safe at work.</i>		
<i>Our safety goal is 'Everyone Home Safe, Every day'. We are committed to the provision of safe and healthy work environments for our workers and the public.</i>		
To ensure safe and healthy outcomes for our people are expected. This goal is reflected in the attention to detail with regards to how we plan and prepare our work across all areas of service delivery	Reduce harm to employees and contractors	Maximum total recordable injury frequency rate (TRIFR) per 200,000 hours worked Targets: 2024 3.50 2025 3.50 2026 3.50
		Maximum total lost time injury frequency rate per 200,000 hours worked Targets: 2024 1 2025 1 2026 1
To ensure full compliance with all Health and Safety legislation	Maintain all existing Health and Safety accreditations.	Maintain ISO 45001 Occupational Health and Safety Management System throughout the period.
To maintain the health and wellbeing of staff	Monitor absences due to illness	Sick leave % based on total hours worked Targets: 2024 ≤ 3.5% 2025 ≤ 3.5% 2026 ≤ 3.5%
	Maintain an employee wellbeing programme	Programme maintained throughout the year
	Ensure that all direct employees are paid at living wage or above	No employee is paid at less than the living wage

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Goals	Objectives	Performance Measures
Become a more diverse business and an employer of choice for all	Promote diversity, equity and inclusion within the business	Develop both a People and Culture strategy as well as a Diversity, Equity and Inclusion strategy
To continue to develop Delta's apprenticeship scheme	Develop skill sets and succession planning through Delta's apprenticeship/trainee scheme	Average number of apprentices/trainees per annum Targets: 2024 ≥ 20 2025 ≥ 20 2026 ≥ 20
To maintain a positive and satisfying working environment with low levels of voluntary staff turnover	Monitor voluntary leavers relative to permanent staff	Staff turnover % Targets: 2024 ≤ 17% 2025 ≤ 16% 2026 ≤ 15%

Goals	Objectives	Performance Measures
<i>Environment</i>		
<i>We are committed to continual improvement in our environmental performance, prevention of harm to the environment and adoption of sustainable work practices. As part of this Delta will measure and publicly report our Greenhouse Gas (GHG) emissions, and progress towards our emissions and waste reduction strategies and targets, in our Annual Report.</i>		
To ensure a well-recognised environmental accreditation is maintained	Maintain all existing Environmental accreditations.	Maintain ISO14001 accreditation throughout the period
To ensure full compliance with environmental and resource consents	Maintain full compliance with the Resource Management Act (RMA)	Number of breaches Targets: 2024 0 2025 0 2026 0
Become net zero carbon by 2030	Implement Delta's Carbon Emission and Waste reduction strategy developed in the 2022 financial year, and achieve our FY2024 targets	Undertake an Energy audit of our major depots Implement a new and refreshed recycling programme Reduce idle time of Delta vehicles by 10% Undertake a review of scope 3 emissions and areas that the business could begin to measure.

Goals	Objectives	Performance Measures
<i>The Shareholder</i>		
<i>We are committed to communicating our activities and strategy clearly to our shareholder and to continue to maintain an active dialogue.</i>		
Engage with the Shareholder annually on opportunities for the Company to contribute, or assist where possible, with Council's community outcomes (as listed in the Annual Plan)	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 Targets: 2024 Approved 2025 Approved 2026 Approved
Bring to the attention of the Shareholder any strategic or operational matters where there may be a conflict between the Council's community outcomes and those of the Company and seek the Shareholder's view on these	Consult with the Shareholder at the earliest possible time on matters where conflict may or could result	Potential conflicts notified to the Shareholder Targets: 2024 All potential conflicts notified 2025 All potential conflicts notified 2026 All potential conflicts notified
Keep the Shareholder informed of all substantive matters	On a "no surprises" basis, advise the Shareholder promptly of any substantive matter that has the potential to impact negatively on the Shareholder and the Company with a particular focus on the media	Substantive matters reported to the Shareholder within 24 hours Targets: 2024 All substantive matters reported within 24 hours 2025 All substantive matters reported within 24 hours 2026 All substantive matters reported within 24 hours

6 FINANCIAL/ECONOMIC TARGETS

a) The ratio of Shareholder's Funds to Total Assets and the definition of those terms

	Year ending 30/06/2024	Year ending 30/06/2025	Year ending 30/06/2026
Shareholder's Funds to Total Assets	≥ 47%	≥ 51%	≥ 56%

The Company has adopted a target Shareholder's Funds to Total Assets ratio (equity ratio) of 50%, but expects this ratio will fluctuate depending on a variety of circumstances including asset renewal and investment cycles.

The Company is presently focused on increasing its equity ratio towards the targeted level.

"Shareholder's Funds" are represented by the paid-up capital, reserves created by the revaluation of specific assets, and retained earnings.

"Total Assets" means the aggregate amount of all current and non-current assets.

b) Estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to the Shareholder

	Year ending 30/06/2024 \$000	Year ending 30/06/2025 \$000	Year ending 30/06/2026 \$000
Dividend/subvention distributions	1,000	2,000	2,250

Note: The dividend estimates are heavily reliant on attaining the forecast financial results, which are dependant on retaining the current level of work at projected margins.

c) Other financial forecasts

	Year ending 30/06/2024 \$000	Year ending 30/06/2025 \$000	Year ending 30/06/2026 \$000
EBITDA	≥ 10,669	≥ 13,033	≥ 13,630
Net profit after tax	≥ 2,161	≥ 3,681	≥ 4,106
Return on Shareholder's funds	≥ 7%	≥ 12%	≥ 13%
Cash flow from operations	≥ 9,778	≥ 10,981	≥ 11,497
Capital expenditure	≤ 3,500	≤ 4,500	≤ 4,250
Term borrowings	≤ 9,500	≤ 7,900	≤ 5,400
Shareholder's funds	≥ 29,175	≥ 30,855	≥ 32,712

The projections provided have been prepared using the best information available at the time of preparation.

7 ACCOUNTING POLICIES

a) General Accounting Policies

The Company is a Tier 1 For-profit entity as defined by the External Reporting Board and reports in accordance with Tier 1 For-profit Accounting Standards. The Company's accounting policies are based on NZ IFRS standards and interpretations, as recognised by Chartered Accountants Australia and New Zealand.

NZ IFRS standards and interpretations are subject to change and therefore the Company's accounting policies are also subject to change during the period of the SOI.

b) Particular Accounting Policies

The particular accounting policies, which materially affect the measurement and reporting of financial performance and financial position, are consistent across the Dunedin City Holdings Limited group and are fully listed in the Company's annual report.

8 DIVIDEND POLICY

Delta aims to manage its long-term capital structure so it has sufficient flexibility to cope with significant capital replacements and investments without the need to seek additional capital or borrowings, while at the same time maintaining a sustainable and reliable dividend stream to our shareholder.

Delta's dividend policy is to pay dividends within the range of 50-75% of the Company's net surplus after tax, subject to the Directors' obligations to act in accordance with their statutory duties. The actual level of dividend will be determined by the Directors each year in light of the circumstances that exist at the time.

In arriving at a dividend recommendation, Directors will consider:

- The Company's financial performance, in particular, the cash flows from operations;
- The ratio of DCHL's shareholders funds to total assets (equity ratio);
- The Company's future investment plans and profitability thereof;
- The Company's ability to raise loans and the terms thereof; and
- The Company's current cost of borrowings.

Dividends will be paid by 31 December and 30 June (based on forecast) with provision for a further final dividend based on actual year-end results.

9 COMMERCIAL VALUE OF SHAREHOLDER'S INVESTMENT

The commercial value of the Shareholder's investment in the Company is considered by the Directors to be not less than the Shareholder's funds as disclosed in the Statement of Financial Position published in the last Annual Report.

This will be considered annually when the Statement of Intent is completed.

10 TRANSACTIONS WITH RELATED PARTIES

Dunedin City Council is the sole Shareholder of Dunedin City Holdings Limited.

Dunedin City Holdings Limited is the sole Shareholder of Delta Utility Services Limited, Aurora Energy Limited, City Forests Limited, Dunedin City Treasury Limited, Dunedin Railways Limited, Dunedin Venues Management Limited, and Dunedin Stadium Property Limited.

Dunedin City Holdings Limited owns 50% of Dunedin International Airport Limited.

Transactions between the Companies, Dunedin City Council and other Dunedin City Council controlled enterprises will be on a wholly commercial basis.

Charges from Dunedin City Council and its other entities and charges to Dunedin City Council and its other entities will be made for goods and services provided as part of the normal trading activities of each Company.

Delta will undertake to obtain all debt funding from Dunedin City Treasury Limited, with any exceptions agreed with the Dunedin City Holdings Limited board.

Related Party Transactions

Aurora Energy Ltd	Provision of maintenance and construction services
City Forests Ltd	Provision of roading services and reserves maintenance
Dunedin City Council	Provision of greenspace services
Dunedin City Holdings Ltd	Functions appropriate between parent companies and subsidiaries
Dunedin City Treasury Ltd	Provision of debt funding to the Company generating interest payments to DCTL
Dunedin Venues Management Ltd	Provision of greenspace services

11 OTHER MATTERS AGREED BY DELTA UTILITY SERVICES AND THE SHAREHOLDER

Information to be provided to the shareholder:

	Quarterly	Half Yearly	Annual
Key financial performance indicators	X	X	X
Statement of Financial Performance		X	X
Statement of Financial Position		X	X
Statement of Cash Flows		X	X
Statement of Movement in Equity		X	X
Notes to the Financial Statements		X	X
Statement of Service Performance against SOI targets		X	X
Directors' Report		X	X
Auditor's Report			X
Statement of Intent (Draft)			Prior to 23 February
Statement of Intent (Final)			Prior to 30 June

Working with the Shareholder

The Company will undertake to keep the Shareholder informed of all substantive matters, as set out in the performance targets above. The Company will work to build a culture of accountability and constructive working practices between the Shareholder and the Company. It is expected that any conflicts that may arise between the Shareholder and the Company will be resolved directly between the Shareholder and the Company, in accordance with appropriate governance practices.

Acquisition/Divestment of Assets, or Shares in any Company or Organisation

The Company will only invest in the shares of another company or invest in an entity if the investment is considered to be likely to produce added value to the Company. In order to maximise the benefit to the Shareholder, shares or assets may also be sold in response to, or in anticipation of, on-going changes in the marketplace.

If the Directors intend that the Company or its subsidiaries should acquire assets, they will obtain prior approval of the Shareholder where an investment into the new assets exceeds \$5 million. For the purpose of this section, "asset(s)" includes a group of assets similar in type, cost, and useful life that are purchased together and can be identified and maintained as one asset or group of assets following purchase.

If the Directors intend that the Company or its subsidiaries should subscribe for or otherwise acquire issued capital or an interest in any company or organisation (other than minimum holdings in listed companies in related industries) exceeding a total investment of \$5 million they will obtain prior approval of the Shareholder.

The approval of the Shareholder is required before disposal by the Company of any segment of its business or shares in a subsidiary or associate company where the value of the asset to be disposed of exceeds the investment delegated authority of \$5 million.

Compensation Sought

At the request of the Shareholder, the Company may undertake activities that are not consistent with its normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of undertaking such activities.

At present, the Company does not have any activities of this nature.

Group Facility Use

The Company will undertake to operate "Group" purchasing of goods and services, unless it is demonstrated conclusively to the Shareholder that the total combined cost of such Group purchasing to the Group and Dunedin City Council (including the costs of ceasing any such Group purchasing), is greater than any alternative identified.

Other agreements

The company will not accept sponsorship or give naming rights to companies involved in activities deemed inconsistent with Dunedin City Council's ethical position.