

# **DELTA UTILITY SERVICES LTD**

**Statement of Intent  
for the Year Ending 30 June 2016**

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## 1 INTRODUCTION

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This Statement of Intent (Sol) sets out for Delta Utility Services Limited (hereafter referred to as “Delta” or “the Company”) the nature and scope of its activities, objectives, key performance targets and other measures by which performance may be judged.

## 2 STRATEGIC DIRECTION

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### 2.1 Vision

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We make our communities better places to live by providing reliable, quality infrastructure for everyday life.

### 2.2 Mission

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To become New Zealand's leading infrastructure specialist in energy and environmental services. We do this by providing smart thinking and quality services with highly satisfied customers and strong performance and by always working safely.

### 2.3 Corporate Goals

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The principal goal of Delta is to operate as a successful business, achieving its goals and objectives as specified in this Sol. The specific goals of Delta are as follows:

#### General

- To ensure that the Sol and operating policies for the Company are consistent with the operating policies of the Shareholder for the business
- To ensure that the Sol and operating strategies are adhered to
- To keep the Shareholder informed of matters of substance affecting Delta
- To perform regular reviews of the operating strategies, financial performance and service delivery of the Company
- To grow the Company into a leading New Zealand business while taking into account the free cash flows required to meet the objectives of the ultimate shareholder
- To further diversify and expand the Company's activities in the operation and management of infrastructure assets.

## Community, People, Safety and Environment

- To operate personnel policies and practices which promote a non-discriminatory, culturally sensitive, equal opportunity workplace
- To promote safe work practices and harmonious industrial relations
- To act as a socially responsible and environmentally aware corporate citizen and to contribute to, or assist where possible, the Dunedin City Council community outcomes (as listed in the Annual Plan)
- To bring to the attention of the Shareholder any strategic or operational matters where there may be a conflict between the Dunedin City Council's community outcomes (as listed in the Annual Plan) and those of the Company and to seek the Shareholder's view on these. The Company will be mindful that the ultimate shareholder is the custodian of the community's interest and accepts that this may create a greater need for consultation with the ultimate shareholder than what might be required in a normal commercial situation.

## Financial

- To optimise the financial returns achieved and the value added by Delta. Particular attention will be given to cash flow performance
- To maintain the Company's financial strength through sound and innovative financial management
- To ensure that the financial reporting requirements of Delta and of the Shareholder are met.

## 2.4 Specific Objectives for the Year Ending 30 June 2016

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In pursuit of its corporate goals, Delta has the following objectives for the year ending 30 June 2016:

### General

- To review the Statements of Intent and Strategic Plans for consistency with the objectives of Dunedin City Holdings Limited (DCHL)
- To review the operating activities of Delta for compliance with the goals and objectives stated in the Sol and Strategic Plan
- To report all matters of substance to the Shareholder.

## Community, People, Safety and Environment

- To continue to review the activities undertaken by the Company for purposes of fulfilling its health and safety responsibilities
- To maintain good employer status by:
  - (i) complying with all employment legislation
  - (ii) ensuring no complaints of discrimination are received
  - (iii) operating open and non-discriminatory employment practices

- To ensure no transgression of environmental and resource laws
- Maintain all existing environmental accreditations
- To review fuel efficiency of the Company's fleet and identify areas for improvement
- To support community well-being through our sponsorship programme.

#### **Financial**

- To achieve all financial projections
- To ensure that the reporting requirements of the Company and the Shareholder are met.

### **3 NATURE AND SCOPE OF ACTIVITIES**

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Delta's principal activities are the management, construction, operation and maintenance of electricity infrastructure assets and the provision of contracting and related services.

Delta's total assets were \$56.5 million as at 30 June 2014, and the Company generated revenues of \$96.6 million for the year then ending.

### **4 GOVERNANCE**

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#### **4.1 Shareholder**

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Delta is ultimately owned by Dunedin City Council and accordingly is a Council Controlled Trading Organisation (CCTO) as defined by the Local Government Act 2002.

Delta is a wholly owned subsidiary of DCHL. The ultimate owner of DCHL is Dunedin City Council.

The undertaking by Delta of any activity of a nature or scope not provided for in the Company's mission or goals is subject to the prior approval of the Shareholder.

#### **4.2 Board of Directors**

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The Directors' role is defined in Section 58 of the Local Government Act which requires that all decisions relating to the operation of a CCTO shall be made pursuant to the authority of the directorate of the CCTO and its Sol.

In addition to the obligations of the Local Government Act, the Company is also covered by the Companies Act 1993 which places other obligations on the Directors.

The Directors are responsible for the preparation of the Sol which, along with the three-year financial plan, is provided to Delta's Shareholder. Monthly, six monthly and annual reports of financial and operational performance are provided to the Shareholder.

The Directors of Delta are responsible for the overall control of the Company but no cost-effective internal control system will permanently preclude all errors or irregularities. The control systems operating within Delta reflect the specific risks associated with the activities of the Company.

### 4.3 Information to be Reported to the Shareholder

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**Monthly reports** will be delivered to Delta's Shareholder. These reports will comprise:

- Income statement
- Balance sheet
- Statement of cash flows
- Activity report.

**Half yearly reports** will be delivered to Delta's Shareholder within 6 weeks of the end of the six month period. These reports will comprise:

- Directors' report - a review of performance over the half year
- Unaudited financial statements for the six month period.

**Annual reports** will be delivered to the Shareholder within 3 months of the end of the financial year. These reports will include:

- Directors' report - a review of Delta's performance over the full year, including a comparison of performance against objectives and key performance measures
- Audited financial statements, comprising:
  - Income statement
  - Statement of movements in equity
  - Balance sheet
  - Statement of cash flows
  - Notes to the financial statements
- Auditor's Report on the above Financial Statements and performance targets, with other measures by which the performance of Delta has been judged in relation to its objectives.

**The Statement of Intent** covering the following financial period beginning on 1 July will be delivered to the Shareholder annually in draft form by 1 December and in final form by 30 June.

## 5 FINANCIAL AND ACCOUNTING POLICIES

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### 5.1 General Accounting Policies

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Delta 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 the New Zealand Institute of Chartered Accountants of 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 Sol.

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

### 5.2 Acquisition/Divestment

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Delta 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 Delta. In order to maximise benefit to the Shareholder, shares or assets may also be sold in response to, or in anticipation of, ongoing changes in the marketplace.

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.

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.

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.

### 5.3 Transactions with Related Parties

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Dunedin City Council is the sole shareholder in DCHL. DCHL is the sole shareholder in Delta. Transactions between Delta, Dunedin City Council and other Dunedin City Council controlled entities will be conducted on a wholly commercial basis. Charges from Dunedin City Council and its other companies, and charges to Dunedin City Council and its other companies will be made for services provided as part of the normal trading activities of the Company.

<b>Related Party</b>	<b>Transaction</b>
Aurora Energy Limited	Provision of operating and management services
City Forests Limited	Provision of roading services and reserves maintenance
Dunedin City Council	Provision of greenspace services, other contracting services and rates
Dunedin City Holdings Limited	Provision of management services in accordance with the agreement between the parties and other functions appropriate between parent and subsidiary
Dunedin City Treasury Limited	Provision of treasury services
Taieri Gorge Railways	Provision of consulting services

## **5.4 Group Purchasing**

Delta undertakes to operate “group” purchasing of goods and services, unless it is demonstrated conclusively to the Shareholder that the total combined cost to the group and to Dunedin City Council of such group purchasing is greater than the total combined cost to the group and to Dunedin City Council of ceasing to purchase such goods and services as a group, including the cost to the group and to Dunedin City Council of ceasing any such group purchasing.

## **5.5 Estimate of Commercial Value of the Investment**

The commercial value of the Shareholder’s investment in Delta 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.

## **5.6 Use of Otago Manufactured Goods and Services**

Delta will endeavour to use Otago manufactured goods and services where possible, subject to price, quality and other strategic considerations being met.

## **5.7 Compensation Sought from Local Authorities**

At the request of the Shareholder, Delta 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, Delta does not have any activities in respect of which its Board wishes to seek compensation from any local authority.

## 6 DIVIDEND POLICY

The Directors will apply the following principles when approving dividend amounts for payment:

- Borrowing to pay dividends should be avoided
- Individual Company policy may be based on either after tax profit or a proportion of net operating cash flow
- Asset realisation amounts are to be considered for distribution where re-investment is not required
- The Company has adopted a target Shareholder Funds to Total Assets ratio (equity ratio) of 50%. Budgeted dividend levels between DCHL and its subsidiaries will be agreed as part of the annual business planning cycle
- As a guideline, annual dividend payments will be budgeted at up to 75% of after-tax profit, subject to maintenance of the target equity ratio
- Interim dividends will be paid by 31 December and 30 June based on forecast, with a final dividend based on the actual year end result thereafter.

## 7 PERFORMANCE MEASURES

The following long-term indicators and targets will demonstrate continuous management improvement and are integral to the Company meeting its goals and objectives.

### 7.1 General

Performance Measure	Actual 13/14	Target 14/15	Target 15/16	Target 16/17	Target 17/18	Measured by
The Sol will be submitted to and approved by DCHL, ensuring consistency across the Dunedin City Holdings Limited Group	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017	Sol submitted to Shareholder by target date specified
Monthly financial results will be provided to DCHL in line with the agreed timetable between Delta and the Shareholder	Monthly	Monthly	Monthly	Monthly	Monthly	Information distributed to Shareholder per agreed timeframe
Monthly board reports, which review the operating activities of Delta for compliance with the goals and objectives stated in the Sol and the Strategic Plan will be prepared	Monthly	Monthly	Monthly	Monthly	Monthly	Information distributed to Delta Board monthly in accordance with Board calendar

## 7.2 Community, People, Safety and Environment

Performance Measure	Actual 13/14	Target 14/15	Target 15/16	Target 16/17	Target 17/18	Measured by
<b>Community</b>						
Support community initiatives	15,896	20,000	20,000	20,000	20,000	Sponsorship \$ per annum
<b>People</b>						
Support Delta apprenticeship scheme	10	10	10	10	10	Average number of apprentices per annum
Monitor absences due to illness	1.5%	2.5%	2.5%	2.5%	2.5%	Sick leave % based on hours
Monitor voluntary leavers relative to permanent staff	11.4%	15.0%	15.0%	15.0%	15.0%	Staff turnover %
<b>Safety</b>						
Reduce harm to employees and contractors	8.79	7.50	7.00	6.50	6.00	Total recordable injury frequency rate (TRIFR) per 200,000 man hours
Zero serious harm events involving members of the public	0	0	0	0	0	Target of 0
Maintain Tertiary Level ACC workplace management practices accreditation	✓	Obtain	Obtain	Obtain	Obtain	Measured as obtained (✓) or not obtained (✗) during the period
<b>Environment</b>						
Maintain all existing environmental accreditations	✓	Obtain	Obtain	Obtain	Obtain	Maintain all existing environmental accreditations held at 30 June of previous financial year. Measured as obtained (✓) or not obtained (✗) during the period
Maintain full compliance with the Resource Management Act (RMA)	0	0	0	0	0	Number of breaches
Maintain or lower fuel efficiency	10.70	10.50	10.25	10.25	10.25	Litres of fuel used per 100 km

## 7.3 Financial

The following targets have been prepared using a number of realistic assumptions about the future and relate to events and actions which have not yet occurred and may not occur. In deriving these targets, judgement has been applied to the uncertain future regulatory and commercial environments in which Delta operates.

<b>Financial year ending 30 June</b>	<b>13/14</b>	<b>14/15</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>
	Actual	Budget	Target	Target	Target
	\$000	\$000	\$000	\$000	\$000
EBITDA	11,386	11,588	11,720	11,126	10,482
Net profit after income tax	5,587	4,071	4,610	4,733	4,194
Shareholder's funds	13,757	15,398	17,828	20,061	21,755
Cash flow from operations	6,990	13,648	9,974	8,215	8,478
Capital expenditure	3,659	8,897	6,421	9,395	5,395
Term debt	29,775	23,494	21,728	23,828	20,328
Dividends	2,500	2,500	2,500	2,500	2,500
<b>At 30 June</b>					
Shareholder's funds to total assets	24.3%	30.3%	31.0%	32.9%	37%

Delta has adopted a target Shareholder Funds to Total Assets ratio (equity ratio) of 50%. The above figures are milestones which the Company is aiming to meet on the way to this targeted ratio.

"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.

### Key assumptions

The key assumptions employed during the preparation of our financial performance targets included:

- Revenue from Aurora Energy Ltd maintenance and capital works is derived from the expenditure forecasts included within Aurora Energy Ltd's latest Asset Management Plan
- External metering income is projected to decline, due to smart meter installations
- Retention of existing third party revenue contracts including the Green Island landfill management contract
- No unforeseen impairments to existing asset values
- No major investments/divestments
- No large natural disasters
- No future decisions by the Government, the Commerce Commission or the Electricity Authority resulting in a materially adverse financial impact on the Company.