

Delta Utility Services Limited

Statement of Intent

for the year ending 30 June 2020

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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, 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.

2 PURPOSE OF STATEMENT OF INTENT

This Statement of Intent (Sol) sets out the Company’s planned activities 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 2020 Annual Report. This Sol takes shareholder comments into consideration.

3 OBJECTIVES

As defined in Section 59 of the Local Government Act (LGA), the principal objectives of a council-controlled trading organisation are to:

- “a) achieve the objective of its shareholder, both commercial and non-commercial, as specified in the statement of intent; and
- b) be a good employer (as per clause 36 of Schedule 7 LGA); 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 central to the achievement of Delta’s objectives. Delta’s safety vision is “Everyone Home Safe, Every Day”.

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.

Our purpose is to deliver innovative, high quality infrastructure services, by providing smart, sustainable thinking to our customers and always working safe, therefore ensuring we achieve our vision of being a leading infrastructure specialist.

We're a team of more than 550 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 \$60.7 million as at 30 June 2018, and it generated revenues of \$93.6 million for the year then ended.

5 CORPORATE GOVERNANCE STATEMENT

In addition to the obligations of the Local Government Act 1992, 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 system 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. Six-monthly and annual reports of financial and operating performance are provided to the shareholder.

6 PERFORMANCE TARGETS AND OTHER MEASURES

Goals	Objectives	Performance Measures
<i>Community</i>		
<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	Sponsorship \$ per annum Targets: 2020 \$25,000 2021 \$25,000 2022 \$25,000
To support community recreation and visitor experience	Maintain parks, reserves, sportsfields, walking tracks and amenities in the northern part of the city including significant tourist attractions (eg the Railway Station and Chinese Gardens)	Achieve KPIs on service contracts Targets: 2020 Achieved 2021 Achieved 2022 Achieved
<i>Economic Development</i>		
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: 2020 Plan delivered 2021 Plan delivered 2022 Plan delivered

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Goals	Objectives	Performance Measures
<i>People</i>		
<i>It is the skill and dedication of our people that makes the difference for our customers and keeps everyone safe at work.</i>		
To maintain the health and wellbeing of staff	Monitor absences due to illness	Sick leave % based on total hours worked Targets: 2020 ≤ 2.5% 2021 ≤ 2.5% 2022 ≤ 2.5%
	Implement an employee wellbeing programme	Programme implemented by 30 June 2020
To continue to develop Delta's apprenticeship scheme	Develop skill sets and succession planning through Delta's apprenticeship scheme	Average number of apprentices per annum Targets: 2020 ≥ 20 2021 ≥ 20 2022 ≥ 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: 2020 ≤ 15% 2021 ≤ 14% 2022 ≤ 13%

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Goals	Objectives	Performance Measures
<i>Safety</i>		
<i>Our safety vision 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: 2020 3.50 2021 3.50 2022 3.50
		Maximum total lost time injury frequency rate per 200,000 hours worked Targets: 2020 1 2021 1 2022 1

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Goals	Objectives	Performance Measures
<i>Environment</i>		
<i>We are committed to continual improvement in our environmental performance, to the prevention of harm to the environment and to the adoption of sustainable work practices.</i>		
To ensure full compliance with environmental and resource consents	Maintain all existing environmental accreditations Existing environmental accreditations presently include: <ul style="list-style-type: none"> • Enviro-Mark Gold accreditation is held for all Delta depots 	Maintain all existing environmental accreditations held at 30 June of previous financial year. Measured as maintained or not maintained during the period. Targets: 2020 Maintained 2021 Maintained 2022 Maintained
	Maintain full compliance with the Resource Management Act (RMA)	Number of breaches Targets: 2020 0 2021 0 2022 0
To improve fuel efficiency and therefore lower carbon emissions	Maintain or lower fuel efficiency in the Company's light commercial / passenger fleet	Maximum litres of fuel used per 100 km Targets: 2020 9.50 2021 9.25 2022 9.00

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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: 2020 Approved 2021 Approved 2022 Approved
Bring to the attention of the Shareholder any strategic or operational matters where there may be 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: 2020 All potential conflicts notified 2021 All potential conflicts notified 2022 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: 2020 All substantive matters reported within 24 hours 2021 All substantive matters reported within 24 hours 2022 All substantive matters reported within 24 hours

7 PERFORMANCE MEASURES

In its Annual Report the company will record its performance relating to the targets stated in Section 6.

8 FINANCIAL FORECASTS

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

	Year ending 30/06/2020	Year ending 30/06/2021	Year ending 30/06/2022
Shareholder's Funds to Total Assets	≥ 37%	≥ 40%	≥ 43%

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 adoption of IFRS 15 Leases has also negatively impacted this ratio.

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 30/06/2020 \$000	Year ending 30/06/2021 \$000	Year ending 30/06/2022 \$000
Dividend/subvention distributions	1,500	1,500	1,750

c) Other financial forecasts

	Year ending 30/06/2020 \$000	Year ending 30/06/2021 \$000	Year ending 30/06/2022 \$000
EBITDA	≥11,995	≥12,275	≥12,419
Net profit after tax	≥2,633	≥2,803	≥2,895
Return on Shareholder's funds	≥11%	≥11%	≥11%
Cash flow from operations	≥5,563	≥6,703	≥6,892
Capital expenditure	≤4,802	≤3,909	≤3,884
Term borrowings	≤21,650	≤18,650	≤15,750
Shareholder's funds	≥23,588	≥24,891	≥26,037

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

9 DIVIDEND POLICY

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

- As a guideline, annual dividend payments will not exceed 75% of after-tax profit, subject to the Directors' obligations to act in accordance with their statutory duties and in the best interests of the Company.
- 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.

10 REPORTING TO THE SHAREHOLDER

	Monthly	Quarterly	Half Yearly	Annual
Statement of Financial Performance	X	X	X	X
Statement of Financial Position	X	X	X	X
Statement of Cash Flows	X	X	X	X
Statement of Service Performance against SOI targets		X	X	X
Statement of Movement in Equity			X	X
Notes to the Financial Statements			X	X
Directors' Report			X	X
Auditor's Report				X
Statement of Intent (Draft)				Prior to 5 December
Statement of Intent (Final)				Prior to 30 June

11 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 + 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.

The Company's Statement of Intent forecasts incorporate the NZ IFRS 16 Lease changes which are required to be adopted for periods beginning on or after 1 January 2019.

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 DCHL group and are fully listed in the Company's annual report.

12 ACQUISITION/DIVESTMENT OF SHARES OR ASSETS 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 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.

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.

13 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 in respect of which its Board wishes to seek compensation from any local authority.

14 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.

15 OTHER MATTERS AS AGREED BY THE SHAREHOLDER AND THE BOARD

- a) 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.
- b) The approval of the Shareholder is also required before the Company could dispose of any segment of its business or shares in a subsidiary or associated company where the value of the asset to be disposed of exceeds the investment delegated authority set out in Section 12 above.

16 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 Venues Management Limited and Dunedin Stadium Property Limited.

Dunedin City Holdings Limited owns 72% of Dunedin Railways Limited and 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.

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	Corporate hosting / training events Provision of greenspace services

17 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.

18 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.

The Company will disclose in our Annual Report the proportion of staff receiving above the living wage (as calculated by the New Zealand Family Centre Social Policy Unit).

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

APPENDIX 1: DUNEDIN CITY COUNCIL VISION: DUNEDIN IS ONE OF THE WORLD'S GREAT SMALL CITIES

The vision of the Dunedin City Council Long Term Plan is to make Dunedin an attractive place to work, live, study and visit.

This is achieved by the following Strategic Framework.



APPENDIX 2: STRATEGIC FRAMEWORK

Strategy	Priority	Explanation
Social Wellbeing Strategy (2013)	Connected people	Making people feel connected and involved in community and city affairs.
	Vibrant and cohesive communities	Building better communities both at a local/geographic level and communities of interest.
	Healthy and safe people	Promoting good health and ensuring people feel safe, and are safe.
	Standard of living	Promoting a good work/ life balance and full employment.
	Affordable and healthy homes	People are living in warm and healthy homes and affordable housing options are available to all.
Economic Development Strategy (2012)	Business vitality	Improving the ease of doing business. Growing the value of exports.
	Alliances for innovation	Improving linkages between industry and research. Increasing scale in innovative and tradable sectors.
	A hub for skills and talent	Increasing the retention of graduates. Building the skills base. Growing migrant numbers.
	Linkages beyond our borders	Increasing international investment. Establishing strategic projects with other cities.
	A compelling destination	Marketing Dunedin and exporting education uplift.
Te Ao Tūroa - Environment Strategy (early draft themes)	Connecting people with the environment	Dunedin's community enjoys and is connected with the natural environment.
	Guardianship of the environment	Dunedin's community actively works together to understand, enhance and celebrate the values of the natural environment.
	Protecting and enhancing the environment	Dunedin protects, restores and enhances its natural heritage, biodiversity, landscapes and ecosystems.
	Responding to environmental changes	Dunedin limits its impact on, and adapts to, environmental changes, including climate change.
	Sustainable resource use	Dunedin reduces reliance on non-renewable resources, minimises waste and uses water responsibly.
Ara Toi – Arts & Culture Strategy	Identity pride	Building unity and community pride by celebrating the city's character, diversity and individuality through arts and culture.
	Access and inclusion	Enabling self-expression and sharing of ideas to connect diverse people.
	Creative economy	Capitalising on the economic growth of the arts and culture sector.
	Inspired connections	Utilising existing networks and fostering new connections to facilitate creativity.
Spatial Plan (2012)	A liveable city	A healthy and safe environment; quality air and water; a connected community; recreation, leisure & learning, opportunities; healthcare, and warm housing.
	An environmentally sustainable and resilient city	Resilient ecosystems and communities; actively responding to climate change; reducing dependence on non-renewable resources; seismic-strengthened heritage buildings.
	A memorable and distinctive city	Protecting significant landscapes; quality architecture and urban design; memorable and engaging public art; celebrating Tangata Whenua and European heritage; actively re-using built heritage.
	A city that enables a prosperous and diverse economy	Maintaining and growing our rural economy, industrial base and world class communications; attracting and retaining internationally-focused people; supporting and benefiting from the tertiary education sector.
	An accessible and connected city	An urban form that supports accessibility from a range of modes and sustainable transport choices; a safe and efficient road network; affordable and convenient public transport; it is safe and pleasant to walk and cycle.
	A vibrant and exciting city	A successful arts and culture scene, vibrant central city and local centres.
Parks & Recreation Strategy (early draft themes)	Well-connected open spaces	Managing green and open spaces to provide for social interaction and physical health and wellbeing.
	Accessible recreational facilities	Making recreational open spaces and facilities accessible to all.
	Collaborate to provide and protect	Working collaboratively to improve recreation and environmental outcomes.
Integrated Transport Strategy (2013)	Safety	Prioritising safety improvements according to risk.
	Travel choices	Prioritising investment and space to improve the provision of active modes and public transport.
	Connectivity of centres	Improving connections within and between centres and the central city for public transport and active modes.
	Freight	Efficiently and effectively moving freight.
	Resilient network	Integrating land use and transport to reduce demand for vehicle travel and increasing the resilience of the transport network.
Three Waters Strategy (2010)	Meeting water needs	Meeting the safe and quality water needs of the city for the next 50 years from existing water sources.
	Adaptable supply	Being able to adapt our water supply to a variety of future climate change and population scenarios.
	Environmental protection	Improving the quality of our discharges to minimise the impact on the environment.
	Maintaining service levels Kaitiakitaka	Ensuring that, as a minimum, key service levels are maintained into the future. Adopting an integrated approach to management of the three waters and embrace the concept of kaitiakitaka.