

# Regional Software Holdings Limited

## Statement of Intent

27 June 2013

Version 2

### 1 Introduction

This Statement of Intent is a public declaration of the activities and intentions of the Council Controlled Organisation, Regional Software Holdings Limited (RSHL). The statement outlines the Directors' accountabilities to the shareholders for corporate performance, as is intended by Schedule 8 of the Local Government Act 2002.

RSHL has no subsidiaries or joint ventures.

RSHL's mission, vision, and key performance indicators are shown below.

#### 1.1 Nature and Scope of Activities to be Undertaken

RSHL provides a framework for collaboration between the shareholders. It supports the procurement or development of shared software resource products and services in a manner that provides a more cost effective alternative than individual councils can achieve on their own.

The company operates through managed contractual arrangements, and by facilitating collaborative initiatives between shareholder councils' staff. Shareholder councils could be both customers of RSHL and providers of service to RSHL.

The scope of activities for RSHL is not necessarily limited to the IRIS application suite. Future activities will be identified by Shareholder Councils. New opportunities will be identified, and priorities set in the Business Plan, other opportunities may arise and be investigated on a case by case basis. New activities will require explicit Board approval.

The high level scope of the IRIS product is in Appendix 5 of the Business Plan

#### 1.2 Mission

Provide long term shared software resources that are relevant to regional council activities and are fit for purpose, reliable, robust, resilient and cost effective.

#### 1.3 Vision

To develop, maintain and licence the Software Intellectual Property to the Shareholders and other customers on an ongoing basis.

To ensure the Company operates in a cost effective manner that reduces costs and risks to the Shareholders.

To provide a framework for collaboration between the shareholder councils and other customers for the development and implementation of an IT platform or IT platforms over the long term,

To provide RSHL shareholders and customers with application software products and services in a manner that achieves: <sup>1</sup>

- Continuity of supply
- Influence / control of the destiny of Regional Council sector specific software
- Risk reduction
- Economies of scale
- Some standardisation of practice, or adoption of best practice.

The current flagship of RSHL is the Integrated Regional Information System (IRIS).

## 1.4 Values

In all RSHL decisions and interactions the board and staff together with member council participants who may be working within the RSHL framework will observe the following values and ethos:

- The best decision is that which provides the best end result, primarily for our shareholder councils but also our customer councils, and indirectly the communities they serve.
- We are forward thinking and innovative
- We are responsive and deliver value
- We are professional and accountable
- We are flexible and open
- Our solutions will be practical, appropriate to the scale of the problem and affordable
- Where appropriate we will utilise codes of practice and standards produced by industry groups
- All parties to any decision or interaction will be treated with respect, dignity, integrity, and honesty.

## 2 Objectives

The principal objective of RSHL is to deliver on the vision, mission and values.

The secondary objective of RSHL is to: <sup>2</sup>

- (a) achieve the objectives of its Shareholders, both commercial and non-commercial as specified in this Statement of Intent;
- (b) be a good employer;
- (c) exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which the Company operates and by endeavouring to accommodate or encourage these when able to do so.

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<sup>1</sup>From: Interim Memorandum of Understanding & Syndicated Purchasing Agreement – expanded to include ‘products’

<sup>2</sup> From: Constitution of regional Software Holdings Ltd, Section 1.1

### **3 Board's Approach to Governance**

Members of RSHL's Board of Directors are appointed by the shareholders to govern and direct RSHL's activities. The Shareholders Agreement states that each shareholder has the right to appoint one Director, and that person will be the CEO, or a person nominated by the CEO.<sup>3</sup> The Constitution allows each Director to appoint an alternative director.<sup>4</sup> The Constitution also allows the Shareholders to appoint independent directors.<sup>5</sup> The Constitution also requires that the Board collectively must have relevant knowledge and experience of finance, public bodies, management, governance, and IT management.<sup>6</sup>

The Board is the overall final body responsible for all decision-making within the company. The Board is accountable to its shareholders for the financial and non-financial performance of the company.

Directors' behaviour is to comply with Institute of Directors' standards for Code of Conduct. The purpose of the code is to clarify how the Board of Directors shall define and deal with:

- The role and fundamental obligations of the Board
- Independence and conflict of interest, including conflict with management
- Board procedures, including the role of the Chairman and interaction with the General Manager
- Reliance on information and independent advice
- Confidentiality of company information
- Board and Director performance review and development

RSHL will conduct itself in accordance with its Constitution, its annual Statement of Intent agreed with shareholders, and provisions of the Local Government Act 2002.

### **4 Ratio of Consolidated Shareholder's Funds to Total Assets**

It is intended that the proportion of equity to total assets be in excess of 60%.

### **5 Accounting Policies**

Financial statements will be prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP), the Financial Reporting Act 1993 and the NZ IFRS Standards.

The following particular principles which have a significant effect on measurement of financial position are to apply:

- Accounts Receivable are to be stated at their expected realisable value after writing off any known bad debts and providing for doubtful debts.
- Investments to be valued at the prevailing market value.
- Fixed assets to be recorded at cost, less accumulated depreciation.
- Depreciation will not be funded.<sup>7</sup>

<sup>3</sup>RSHL Shareholders Agreement clause 4.1

<sup>4</sup>RSHL Constitution clause 8.3

<sup>5</sup>RSHL Constitution clause 8.4

<sup>6</sup>RSHL Constitution clause 8.6

<sup>7</sup>PriceWaterhouse Coopers Report *IRIS CCO - Advice on Preferred Structure* dated 23 December 2009 Section 4

- Depreciation / Amortisation is to be provided on a straight line basis on all assets other than land, and align with normal accepted depreciation for the types of services being developed.

#### Intangible Assets

- Where intangible assets are purchased, such as intellectual property and computer software, these are to be capitalised and written off on a straight line basis over their expected life, but no greater than ten years.

#### Impairment Testing

- Assets with a finite life are reviewed annually for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

#### Inventories

- It is not envisaged that the company will hold inventories, other than those that might relate to providing computer based services to a number of parties. They will be valued at net realisable value.

#### Taxation

- Taxation will be provided as required against the company in line with the required legislation.

In accordance with the Public Audit Act 2001 and the Local Government Act 2002, the Auditor General will be responsible for the audit of the company's financial statements.

## 6 Performance Targets and Other Measures

Performance targets by which the success of the company may be judged in relation to its objectives are:

		2012/13	2013/14	2014/15
Non Financial	IRIS Development project to be completed on time to budget	Applies	n/a	n/a
	IRIS software is deployed in all 6 shareholder councils within 12 months of availability *	Applies	Applies	n/a
	95% of Support requests are resolved within agreed timeframes *	Applies	Applies	Applies
	IRIS user groups meet and effectively control their support and minor development budgets *	Applies	Applies	Applies
	IRIS annual development projects are completed on time to budget, and all development projects have approved business cases.	n/a	Applies	Applies
	Consider a new service area or areas outside of the current scope of IRIS <sup>8</sup>	n/a	n/a	Applies

<sup>8</sup> Consider does not mean commit to do, but to identify & evaluate one or more opportunities

		2012/13	2013/14	2014/15
Financial	RSHL will operate within its budget	Applies	Applies	Applies
	Annual charges: increase in cost to councils not to exceed the CPI	n/a	Applies	Applies

		2012/13	2013/14	2014/15
Growth	One new Council added to IRIS as shareholder or customer by end of 2013 *	n/a	Applies	n/a

\* It should be noted that the achievement of some of the above performance targets are dependent on decisions to be made by parties over which the board of directors has limited influence.

## 7 Distribution of Profits to Shareholders

RSHL does not have an objective to make a profit. It seeks to provide products and services at lower costs, and / or higher levels of service than shareholder councils can achieve on their own.

In order for IRIS to be subject to tax, generally it must meet the business test. Fundamental to this is a profit motive. Given the basis under which this CCO operates is to minimise the costs and generally operate on a cost recovery basis and that a pecuniary profit is not intended and highly unlikely, the lack of a profit motive is real.

The RSHL Shareholders Agreement states "If Operating Expenses for a fiscal year are less than the budgeted amount for such year, the Company will retain the funds for application to Operating Expenses for the subsequent fiscal year"<sup>9</sup>. Therefore there will not be a profit available for distribution.

## 8 Information to Be Provided to the Shareholders

The company will deliver the following Statements to shareholders:

- Within two months of the end of the first half of the financial year Statement of Financial Performance, Statement of Changes in Equity Statement of Financial Position, Statement of Cashflows and Service Performance.
- Within two months of the end of the financial year the following audited statements: Statement of Financial Performance, Statement of Changes in Equity, Statement of Financial Position, Statement of Cashflows, Service Performance plus a summary of how the company has fared against its objectives and prospects for the next financial year, and a report on the company's medium to long-term plans.
- The Directors shall approve by 1 March of each year a Draft Statement of Intent for the consideration of shareholders. The Directors must then consider any comments on the Draft Statement of Intent that are made to it within two months of 1 March by the shareholders and deliver the completed Statement of Intent to the shareholders by 30 June
- A draft Business Plan will be prepared each October, for the financial year that commences on the following June. This early presentation is to allow Shareholder

<sup>9</sup> Shareholders Agreement, clause 7.4

Councils the ability to include any changes in Annual Fees, or any other form of financial impact, in their Council's budget processes. The Board are to approve the business plan by the end of March prior to the commencement of the new financial year.

- Any new developments which have not been covered in the statement of corporate intent for the year.
- Details of possible scenarios that might be foreseen that could result in annual fees increasing above the CPI index.
- Any other information which would normally be available to a shareholder, thereby enabling the shareholder to assess the value of its investment in the company.

## **9 Procedures for Major Transactions and Other Acquisitions and Disposals**

The Company will not enter into major transactions as defined in Section 129(2) of the Companies Act 1993 without the consent of the shareholders.

## **10 Procedures for Issue of Shares**

The RSHL shareholder agreement requires the approval of the Shareholders holding at least of 75% of the shares for "the issuing or acquisition of any Shares or any change to the rights attaching to any Shares".<sup>10</sup>

## **11 Activities for Which Compensation Is Sought**

Payment of an Annual Fee for IRIS will be sought from all customers of RSHL, which includes Shareholder Councils, for annual support and development fees, as set out in the License Agreement. The IRIS annual support fee also includes funding to cover the cost of running RSHL.

It is noted that other products or services may be delivered by RSHL. Any such services will only be delivered after the Directors have considered each individual business case including the proposed budget and agreed that the proposed service meets the objectives of RSHL.

Any ongoing activities to identify develop or procure additional products or services will be budgeted for in advance, subject to the business case. The subsequent recovery from one or more shareholder or customer councils will be agreed by the Directors on a case by case basis in accordance with the RSHL Constitution.

## **12 Estimate of Commercial Value of The Shareholder's Investment**

The Directors' estimate of the commercial value of the Shareholders' investment in RSHL is equal to the Shareholders' equity in the Company. Reassessment of the value of this shareholding shall be undertaken on or about 30 June each year.

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<sup>10</sup> Shareholders Agreement clause 5.1(b)

### 13 Shareholding

Regional Software Holdings Limited (RSHL) was formed on 17 October 2012. At the time of formation the company issued 10,000 shares to its shareholders based on a previously agreed sizing formula. The following shareholding was agreed:

<b>Shareholder</b>	<b>Percentage</b>	<b># of shares</b>
Environment Waikato	32.75%	3,275
Northland Regional Council	16.75%	1,675
Horizons Regional Council	15.50%	1,550
Taranaki Regional Council	15.50%	1,550
Southland Regional Council	15.50%	1,550
West Coast Regional Council	4.00%	400

Note For Info: Requirements for Statement of Intent

Source: Office of the Auditor General

<http://www.oag.govt.nz/2007/corporate-intent/appendix2.htm>

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An estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to the shareholders	7
The kind of information to be provided to the shareholders/ shareholding Ministers by the organisation during the course of the next three financial years	8 (Shareholders)
Procedures to be followed before any member or the group subscribes for, purchases, or otherwise acquires shares in any company or other organisation	9
Any activities for which the board seeks compensation from any local authority, Harbour Board, or the Crown (whether or not the relevant entity has agreed to provide the compensation)	11 (Local authority)
The board's estimate of the commercial value of the Crown/shareholders' investment in the group and the manner in which, and the times at which, that value is to be reassessed	12 (Shareholders)
Other matters that are agreed by the shareholders/ shareholding Ministers and the board	none (Shareholders)
Annual report should contain information that is necessary to enable an informed assessment of the operations of the parent entity and its subsidiaries, including a comparison of performance with the relevant statement of intent or statement of corporate intent	8 (Plus explanation of material variances)