

Regional Software Holdings Ltd
Six Month Report to Shareholders
31 December 2015

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Introduction

Regional Software Holdings Limited (RSHL) was incorporated in October 2012. This report covers the 6 months from 1 July 2015 to 31 December 2015 as required by Section 66 of the Local Government Act 2002.

RSHL has no subsidiaries or joint ventures.

Type of Entity and Legal Basis

RSHL is a Public Limited Liability Company incorporated and registered under the Companies Act 1993 and is a council-controlled organisation as defined in section 6 of the Local Government Act 2002.

The Company's purpose or mission

The primary objective is to provide 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.

Structure of the Company

The Company comprises of a Board of six directors. The Board oversee the governance of RSHL. In addition there is a general manager who is responsible for the day-to-day operations of RSHL and reporting to the Board. Each Shareholder is entitled to separately appoint one director each.

Main sources of RSHL's cash and resources

Funds are received by way of levies from each Council. These levies are set annually in the Statement of Intent. These are the primary source of funding to RSHL.

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. Some shareholder councils are 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.

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.

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:

- 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).

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.

Objectives

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

The secondary objective of RSHL is to:

- Achieve the objectives of its Shareholders, both commercial and non-commercial as specified in this Statement of Intent.
- Be a good employer.

- 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.

Service Performance

Progress against the Statement of Intent (SOI) performance measures is reported in the following section.

Items of significance during the six months include:

- Development of a refreshed RSHL Strategic Direction, along with a supporting Roadmap for the delivery of the work programme for 2015/16.
- Delivery of IRIS Mobile Data Capture, which marked the completion of the original RCCDG Project scope.
- Completion of a technology platform review of all the underlying components of the IRIS solution along with the development of a proposed technology roadmap for upgrades aimed at ensuring that we have a sound understanding of the investment and activity required to keep the IRIS solution up to date from a technology perspective.
- Improved operational processes for the delivery of software enhancements to a more flexible and agile approach.
- Four IRIS releases successfully delivered in the current year to date. These have included seven major enhancements, fifteen minor enhancements and seventy-two support fixes in total.
- The Advisory Group have included quarterly 'in-person' meetings in the schedule, enabling the group to have more in-depth discussion on our direction, opportunities and priorities.
- Discussions with Datacom aimed at exploring the opportunities for strengthening the relationship between RSHL and Datacom in ways that could benefit both organisations.

Performance Measures

The following performance measures were incorporated into the Statement of Intent for the 2015-16 financial year.

Performance Measures		For the period ending 31 December 2015
Non Financial	IRIS Advisory Groups meets regularly & is effective (Self-assessed by the Advisory Group, compared to expectations in the Terms of Reference for the Advisory Group)	On track. The Advisory Group meets monthly. This has included an in-person meeting each quarter.
	95% of Support requests are resolved within agreed timeframes (as per section 13 of Support Contract)	On track. No Priority 1 issues were logged during the period. Other support requests were resolved according to priority agreed between RSHL and Datacom.
	IRIS user groups meet and effectively control their support and minor development budgets	On track.

		The User Group continues to meet fortnightly and this remains effective in managing the support and minor enhancement priorities and budgets
	IRIS annual development projects have approved business cases, and are completed on time and within budget.	On track. Development projects have progressed based on approved business cases and within overall budget and agreed timeframes.
	Reporting and Payments (Section 9.3 of Business Plan) are completed on time	On track.
	Consider a new service area or areas outside of the current scope of IRIS ¹	Business Intelligence and Customer Portal are two new service areas currently being progressed through the Major Enhancements “pipeline”.

Performance Measures		For the period ending 31 December 2015
Financial	RSHL will operate within its budget	On track. Expenditure against the available funding is being closely monitored and is currently tracking close to budget.
	Annual charges: increase in cost to councils not to exceed the CPI	Not applicable in this reporting period.
Growth	Respond to requests from Councils with the intent of adding one further Council to IRIS as a shareholder or customer by end of 2018	In progress. Informal discussions held with three councils who have expressed interest in IRIS.

RSHL Financial Position

Operational income from Member’s Contribution is tracking to budget with 50% of the annual budget having been billed to participating Councils as at 31 December 2015. Other income arises from a collaborative approach to purchasing annual stakeholder engagement subscriptions through Objective Corporation Limited for three participating Councils. RSHL has acted as an aggregator to get a better deal for this service than the Councils could have achieved on their own. All costs incurred are directly recovered.

¹ Consider does not mean commit to do, but to identify & evaluate one or more opportunities

Variance across the operational expenditure has occurred for a number of reasons; Administrative support may finish slightly behind budget; it is anticipated that any reduction in this area will be offset against management fees. Management fees are tracking ahead of budget (84% vs. 50%); this is currently being forecast that these fees will exceed budget by year end. However any increase in one area of expenditure is anticipated to be offset in another area.

Project work is underway and it is expected that by the end of the year an additional \$220,000 of costs will be incurred and subsequently capitalised. This has arisen as a result of the equivalent value in projects being carried forward as committed works at the end of June 2015.

Cash-flow remains favourable to budget, primarily as a result of the under-spend in 2014-15. With the additional programme of works carried across from 2014-15, it is expected that the cash-flow will align much closer to budget by year end. Councils have been invoiced up until 31 December and there is no outstanding Accounts Receivable as at 31 December 2015. Accounts Payable are all current, with 85% being Datacom expenses.

Shareholdings & Directors

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:

Shareholder	Percentage	# of shares
Waikato Regional Council	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

The Directors appointed for the period that this six monthly report covers were:

Director	Appointed By
Mike Nield (Chairman)	Taranaki Regional Council
Mike Garrett (Deputy Chairman)	Waikato Regional Council
Malcolm Nicholson	Northland Regional Council
Michael McCartney	Horizons Regional Council
Chris Ingle	West Coast Regional Council
Graham Alsweiler	Southland Regional Council

Financial Statements

Statement of Financial Performance

For the Six Month Period Ending 31 December 2015

	Notes	31 Dec 2015 6 Months Unaudited \$	31 Dec 2014 6 Months Unaudited \$	30 June 2016 SOI \$	30 June 2015 Audited \$
Income					
Members contribution		517,313	502,246	1,034,627	1,150,475
Carry-over of operation income from June 2014		-	145,984	-	-
Interest income		1,814	653	-	1,361
Other income	1	57,750	58,438	-	54,313
Total Income		576,877	707,371	1,034,627	1,206,149
Expenses					
Administration support & external fees	2	15,839	19,039	86,808	26,344
Audit fees		-	-	5,068	4,977
Datacom support charges		98,561	58,997	195,239	149,973
Management fees		77,572	60,737	91,876	154,596
Cyber Environmental Charges		3,680	4,920	-	10,440
Other Direct Software Expenses		57,750	54,313	-	54,313
Pre Sales		-	23,053	-	27,566
Depreciation		300,321	268,304	655,636	556,762
Total Expenses		553,723	489,362	1,034,627	984,970
Operating Surplus		23,155	217,958	-	221,179
Taxation		-	-	-	(1,723)
Net Profit After Tax		23,155	217,958	-	222,902
Total Comprehensive Income		23,155	217,958	-	222,902

The accompanying notes form part of these financial statements.

Statement of Financial Position

For the Six Month Period Ending 31 December 2015

	Notes	31 Dec 2015 6 Months Unaudited \$	31 Dec 2014 6 Months Unaudited \$	30 June 2016 SOI \$	30 June 2015 Audited \$
Assets					
Current assets					
Bank Accounts and Cash	3	408,990	110,915	70,272	441,078
Debtors and Prepayments	4	-	305,395	-	86,861
Withholding Tax Paid		614	421	-	620
Total Current Assets		409,604	416,731	70,272	528,559
Non Current Assets					
Property, Plant and Equipment	5	5,106,937	4,997,168	5,083,310	5,077,552
Non Current Assets		5,106,937	4,997,168	5,083,310	5,077,552
Total Assets		5,516,540	5,413,898	5,153,582	5,606,111
Liabilities					
Current Liabilities					
Creditors and Accrued Expenses	6	132,440	37,258	-	229,627
GST		(15,538)	3,377	-	-
Income Tax		-	1,723	-	-
Total Current Liabilities		116,902	42,358	-	229,627
Total Liabilities		116,902	42,358	-	229,627
Net Assets		5,399,638	5,371,540	5,153,582	5,376,484
Represented By:					
Equity					
Equity		5,149,150	5,149,150	5,149,150	5,149,150
Current Year Earnings		23,155	217,958		
Retained Earnings		227,333	4,432	4,432	227,334
Total Equity	7	5,399,638	5,371,540	5,153,582	5,376,484

The accompanying notes form part of these financial statements.



MJ Nield - Chairman
25 February 2016



M McCartney – Director
25 February 2016

Statement of Cash Flows
For the Six Month Period Ending 31 December 2015

Notes	31 Dec 2015 6 Months Unaudited \$	31 Dec 2014 6 Months Unaudited \$	30 June 2016 SOI \$	30 June 2015 Audited \$
Cashflows from Operating Activities				
Cash was provided from:				
Receipts from Customers	596,970	368,097	1,034,627	1,045,603
Interest	1,814	653	-	1,361
Other Income	53,625	44,000	-	54,313
Total Operating Receipts	652,409	412,750	1,034,627	1,101,277
Cash was applied to:				
Payments to Suppliers	254,227	622,808	378,991	443,347
Net GST Movement	38,227	51,966	-	(16,562)
Income Tax	(6)	183	-	-
Total Operating Payments	292,448	674,957	378,991	426,785
Net cash from operating	359,961	(262,207)	655,636	674,492
Cashflows from Investing Activities				
Cash was applied to:				
Purchase of Fixed/Intangible Assets	392,049	-	655,636	606,536
Total Investment Payments	392,049	-	655,636	606,536
Net cash from investing	(392,049)	-	(655,636)	(606,536)
Cashflows from Financing Activities				
Cash was provided from:				
Capital raised	-	155,216	-	155,216
Total Financing Receipts	-	155,216	-	155,216
Net cash from financing	-	155,216	-	155,216
Net increase (decrease) in cashflow for the year	(32,088)	(106,991)	-	223,172
Opening Cash Balance	441,078	217,906	70,272	217,906
Closing Cash Balance	408,990	110,915	70,272	441,078
Made up of:				
Westpac Current Account	23,429	96,615	70,272	426,619
Westpac Online Saver Account	385,561	14,300	-	14,459
	408,990	110,915	70,272	441,078

The GST (net) component of cash flows from operating activities reflects the net GST paid to and received from the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent.

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the Six Months Ending 31 December 2015

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

Regional Software Holdings Limited (RSHL) is a Council Controlled Organisation (CCO), owned by Waikato Regional Council (32.75%) Northland Regional Council (16.75%) Horizons Regional Council (15.50%) Taranaki Regional Council (15.50%) Southland Regional Council (15.50%) and West Coast Regional Council (4.00%.) RSHL was incorporated on 17 October 2012. RSHL was primarily incorporated for the purposes of managing the investment and development of IRIS Software, and has designated itself a Public Benefit Entity (PBE), in keeping with the designation of the shareholders.

The financial statements are those of RSHL, for the six months ended 31 December 2015, and were authorised for issue by the Board of Directors on 25 February 2016.

Public Benefit Entity Simple Format Reporting

RSHL qualifies for Public Benefit Simple Format Reporting – Accrual (PBE-SFR-A) on the basis that the Company does not have publically accountable (as defined) and has total annual expenses of less than \$2 million.

Basis of Preparation of the Financial Statements

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period. The financial statements have been prepared on a historical cost basis.

Statement of Compliance

The financial statements of RSHL have been prepared in accordance with the requirements of the Local Government Act 2002 and the Companies Act 1993, which include the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZGAAP).

The financial statements have been prepared in accordance with Tier 3 Public Benefit Entity (PBE) Standards. RSHL adopted the PBE standards for the first time in July 2014.

These financial statements comply with PBE Standards.

Presentation Currency and Rounding

The financial statements have been prepared in New Zealand dollars and there will be rounding in the numbers in the financial statements, as the financial model used calculates to the cent but the annual report is rounded to the nearest dollar.

The functional currency of RSHL is New Zealand dollars.

Changes in Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Summary of Significant Accounting Policies

Revenue

Revenue is measured at the fair value of consideration received or receivable.

Members Contributions and Other forms of Revenue (excluding investment revenue), including fees, charges, and other revenues are recognised on an accrual basis.

Interest revenue is recorded as it is earned.

Expenditure

Expenditure is recognised on an accrual basis when the service was provided, or the goods received.

Costs associated with maintaining the IRIS software suite are recognised as an expense when incurred.

Bank Accounts and Cash

Cash and cash equivalents includes cash on hand, on demand or call deposits, other short-term deposits with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are presented as a current liability in the Statement of Financial Position.

Debtors

Debtors are initially recorded at the amount owed. When it is likely the amount owed (or some portion) will not be collected, a provision for impairment is recognised and the loss is recorded as a bad debt expense.

Inventories

Inventory is initially recorded at cost. Goods held for sale are subsequently measured at the lower of cost and their selling process. Goods for use or distribution are subsequently measured at cost and written down if they become obsolete.

Goods and Services Tax (GST)

RSHL is registered for GST; these financial statements are presented net of GST, except for receivables and payables which are inclusive of GST. Where GST paid is not recoverable, due to it relating to exempt items, the GST inclusive amount is recognised as part of the related asset or expense including the GST relating to investing and financing activities.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to, or recovered from, the Inland Revenue Department is recognised as an item in operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

Income Tax

Income tax expenses calculated using the taxes payable method. As a result no allowance is made for deferred tax. Tax expense includes the current tax liability and adjustments to prior year tax liabilities.

Creditors and Accrued Expenses

Creditors and accrued expenses are measured at the amount owed.

Property, Plant and Equipment

Software acquisition and development

Costs that are directly associated with the development of the IRIS software suite are recognised as property, plant and equipment.

Depreciation

Depreciation begins when the asset is available for use and ceases at the date that the asset is derecognised. The depreciation charge for each period is recognised through the Statement of Financial Performance.

The carrying value is depreciated on a straight-line basis over its useful life. The useful life and associated depreciation rate for the IRIS software suite is 10 years and 10%.

Where software in this category is replaced, upgraded or determined by RSHL to be of no further operational benefit, a change in value will be recognised through the Statement of Financial Performance. This change in value will be the difference between the carrying value of the original item and its fair value.

Critical Accounting Estimates and Assumptions

In preparing these financial statements, RSHL has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

Additional Disclosure

The Companies Act 1993 requires disclosure of the amount of donations, audit fees, fees for other services from the auditor, and the number of employees of the company who received remuneration and other benefits above \$100,000 per annum, in brackets of \$10,000. For this financial year, no staff were employed by RSHL. The audit fee for the six months period is expected to be \$nil (GST exclusive) paid to Audit New Zealand.

Notes to the Financial Statements for the Six Month Period Ending 31 December 2015

1. Other Income

	31-Dec-15 6 Months <u>Unaudited</u>	31-Dec-14 6 Months <u>Unaudited</u>	30-Jun-16 <u>SOI</u>	30-Jun-15 12 Mths <u>Audited</u>
Recovery of other direct software expenses	57,750	58,438	-	54,313
Total Other Income	57,750	58,438	-	54,313

2. Administration Costs

	31-Dec-15 6 Months <u>Unaudited</u>	31-Dec-14 6 Months <u>Unaudited</u>	30-Jun-16 <u>SOI</u>	30-Jun-15 12 Mths <u>Audited</u>
Administration Support	8,605	16,995	79,383	15,585
Insurance	1,780	1,775	1,780	1,775
Consultants and Technical Support	5,437	207	5,500	8,909
Bank Fees	17	62	150	75
Total Administration Support	15,839	19,039	86,808	26,344

3. Bank Accounts and Cash

	31-Dec-15 6 Months <u>Unaudited</u>	31-Dec-14 6 Months <u>Unaudited</u>	30-Jun-16 <u>SOI</u>	30-Jun-15 12 Mths <u>Audited</u>
Current Account	23,429	96,615	70,272	426,619
Savings Account	385,561	14,300	-	14,459
Total Bank Accounts and Cash	408,990	110,915	70,272	441,078

4. Debtors and Prepayments

	31-Dec-15 6 Months <u>Unaudited</u>	31-Dec-14 6 Months <u>Unaudited</u>	30-Jun-16 <u>SOI</u>	30-Jun-15 12 Mths <u>Audited</u>
Debtors	-	305,395	-	86,861
Total Debtors & Prepayments	-	305,395	-	86,861

5. Property, Plant and Equipment
IRIS Software Intellectual Property

Carrying amount as of 01 July 2014	4,922,377
Additions	457,941
Work in Progress	253,996
Depreciation Expense	(556,762)

Carrying Amount as of 30 June 2015	5,077,552
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Carrying amount as of 01 July 2015	5,077,552
Additions	228,827
Work in Progress	100,879
Depreciation Expense	(300,321)

Carrying Amount as of 31 December 2015	5,106,937
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6. Creditors and Accrued Expenses

	31-Dec-15	31-Dec-14	30-Jun-16	30-Jun-15
	6 Months	6 Months	SOI	12 Mths
	Unaudited	Unaudited		Audited
Creditors and Accrued Expenses	132,440	37,258	-	229,627
Total Creditors and Accrued Expenses	132,440	37,258	-	229,627

7. Equity

	31-Dec-15	31-Dec-14	30-Jun-16	30-Jun-15
	6 Months	6 Months	SOI	12 Mths
	Unaudited	Unaudited		Audited
Contributed Capital				
Balance at 01 July	5,149,150	5,149,150	5,149,150	5,149,150
Capital Contribution	-	-	-	-
Balance at 30 June	5,149,150	5,149,150	5,149,150	5,149,150
Accumulated Surpluses				
Balance at 01 July	227,333	4,432	4,432	4,432
Surplus/(Deficit) for the year	23,155	217,958	-	222,902
Balance at 30 June	250,488	222,390	4,432	227,334
Total Equity	5,399,638	5,371,540	5,153,582	5,376,484

8. Commitments

There are no significant commitments at balance date, (nil previous years).

9. Contingencies

There are no contingent liabilities at balance date and no contingent assets at balance date, (previous year: Nil).

10. Related Party Transactions

Related party transaction disclosures have not been made for transactions with related parties that are within a normal supplier/client or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect RSHL would have adopted in dealing with the party at arms length in the same circumstances.

Related Party Transactions Significant to RSHL Requiring Disclosure:

RSHL purchased management services from Waikato Regional Council (WRC) (32.75% shareholder) to the value of \$89,204 (including GST) (2014: \$106,474 (incl. GST)). At 31 December 2015 \$13,207. (including GST)

RSHL purchased administrative services from Horizons Regional Council (HRC) (15.50% shareholder) to the value of \$9,504.75 (2014 \$2,742) (including GST).