

# Regional Software Holdings Limited

## Statement of Intent 2015/2016/2017

Feb 2015

Version 1.0

### 1 Introduction

This Statement of Intent is a public declaration of the activities and intentions of 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.

#### 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. 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

#### 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.

#### **1.5 Possible New Customers and Shareholders**

RSHL seeks to reduce costs to the existing shareholders by increasing the user base for IRIS.

RSHL responds to requests from Councils and organisations that show potential interest in using the IRIS software.

The potential market for the IRIS application is New Zealand Regional Councils and Unitary Authorities.

## **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;

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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

- (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.

### **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 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, the provisions of the Local Government Act 2002 and the Companies Act 1993.

### **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 PBE's Tier 3)

Appendix 1 includes RSHL's Accounting Policies

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.

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<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

## 6 Performance Targets and Other Measures

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

		2015/16	2016/17	2017/18
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)	Applies each year		
	95% of Support requests are resolved within agreed timeframes (as per section 13 of Support Contract)	Applies each year		
	IRIS user groups meet and effectively control their support and minor development budgets	Applies each year		
	IRIS annual development projects have approved business cases, and are completed on time and within budget.	Applies each year		
	Reporting and Payments (Section 9.3 of Business Plan) are completed on time	Applies each year		
	Consider a new service area or areas outside of the current scope of IRIS <sup>7</sup>	Applies each year		

		2015/16	2016/17	2017/18
Financial	RSHL will operate within its budget	Applies each year		
	Annual charges: increase in cost to councils not to exceed the CPI	Applies each year		

		2015/16	2016/17	2017/18
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	Applies once in 3 year period		

## 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

<sup>7</sup> Consider does not mean commit to do, but to identify & evaluate one or more opportunities

application to Operating Expenses for the subsequent fiscal year<sup>8</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 the following unaudited statements: 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 November, for the financial year that commences on the following June. This early presentation is to allow Shareholder 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. Including, but not limited to, an update on any outcomes arising from any changes in shareholding, including the effect on individual Council's shareholdings and apportionment of costs.
- 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>9</sup>.

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<sup>8</sup> Shareholders Agreement, clause 7.4

<sup>9</sup> RSHL Subscription & Shareholders Agreement Section 5.1 (b)

## **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.

## **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>
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

## Statement of Intent 2015-2018

### Regional Software Holdings Limited Statement of Comprehensive Revenue and Expenses For the 12 Months to 30 June

2014-2015 Budget		2015-2016 SOI	2016-2017 Indicative	2017-2018 Indicative
	<b>Non-Exchange Revenue</b>			
1,004,492	Members Contribution	1,034,627	1,065,666	1,097,636
1,004,492		1,034,627	1,065,666	1,097,636
	<u>Other revenue</u>			
	New member contributions	-	-	-
	Sundry revenue	-	-	-
1,004,492	<b>Total revenue:</b>	<b>1,034,627</b>	<b>1,065,666</b>	<b>1,097,636</b>
	<b>Expenditure</b>			
	<u>Administration costs</u>			
84,280	Administration costs	86,808	89,413	92,095
4,920	Audit & other fees	5,068	5,220	5,376
189,552	IRIS service desk	195,239	201,096	207,129
89,200	Management Fees	91,876	94,632	97,471
367,952	<i>Total administration costs</i>	378,991	390,360	402,071
	Sundry other costs			
636,540	Depreciation	655,636	675,305	695,565
<b>1,004,492</b>	<b>Total expenditure:</b>	<b>1,034,627</b>	<b>1,065,665</b>	<b>1,097,636</b>
	<b>Surplus/(deficit) before Taxation</b>	-	-	-
	Taxation			
	<b>Surplus/(deficit) after Taxation</b>	-	-	-

### Regional Software Holdings Limited Statement of Changes in Net Assets/Equity For the 12 Months to 30 June

2014-2015 Forecast		2015-2016 SOI	2016-2017 Indicative	2017-2018 Indicative
5,149,150	Opening Equity	5,149,150	5,149,150	5,149,150
4,432	Retained Earnings	4,432	4,432	4,432
	Comprehensive income for the year	-	-	-
<b><u>5,153,582</u></b>	<b>Closing equity</b>	<b><u>5,153,582</u></b>	<b><u>5,153,582</u></b>	<b><u>5,153,582</u></b>

**Regional Software Holdings Limited**  
**Statement of Financial Position**  
**As at 30 June**

2014-2015 Budget		2015-2016 SOI	2016-2017 Indicative	2017-2018 Indicative
<b>ASSETS</b>				
<b>Current assets</b>				
72,000	Cash and cash equivalents	70,272	70,272	70,272
	- Trade and other receivables	-	-	-
	- Accrued Revenues	-	-	-
<b>Fixed assets</b>				
5,081,582	Intangible Assets	5,083,310	5,083,310	5,083,310
5,153,582	<b>Total assets</b>	5,153,582	5,153,582	5,153,582
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
0	Accrued expenses	-	-	-
	- Income in advance	-	-	-
	- Trade and other payables	-	-	-
0	<b>Total liabilities</b>	-	-	-
5,153,582	<b>NET ASSETS</b>	<b>5,153,582</b>	<b>5,153,582</b>	<b>5,153,582</b>

**Represented by:**

2014-2015 Forecast		2015-2016 SOI	2016-2017 Indicative	2017-2018 Indicative
<b>Equity</b>				
5,149,150	Equity	5,149,150	5,149,150	5,149,150
4,432	Retained Earnings	4,432	4,432	4,432
<b>5,153,582</b>	<b>Total Equity</b>	<b>5,153,582</b>	<b>5,153,582</b>	<b>5,153,582</b>



**Regional Software Holdings Limited**  
**Statement of Cash Flows**  
**For the 12 Months to 30 June**

2014-2015 Budget		2015-2016 SOI	2016-2017 Indicative	2017-2018 Indicative
<b>Cashflows from Operating Activities</b>				
<b><u>Cash received from:</u></b>				
1,004,492	Receipts from customers	1,034,627	1,065,666	1,097,636
-	- Interest	-	-	-
-	- Income Tax Paid (refunded)	-	-	-
1,004,492	<i>Total Operating Receipts</i>	<b>1,034,627</b>	<b>1,065,666</b>	<b>1,097,636</b>
<b><u>Cash applied to:</u></b>				
367,952	Payments to suppliers & staff	378,991	390,360	402,071
-	- Income Tax Paid (refunded)	-	-	-
-	- Interest W/holding tax paid	-	-	-
367,952	<i>Total Operating Payments</i>	<b>378,991</b>	<b>390,360</b>	<b>402,071</b>
636,540	<b>Net cash from operating</b>	<b>655,636</b>	<b>675,305</b>	<b>695,564</b>
<b>Cashflow from Investing Activities</b>				
<b><u>Cash received from:</u></b>				
-	- Sale of Fixed Assets	-	-	-
-	<i>Total Investment Receipts</i>	-	-	-
<b><u>Cash applied to:</u></b>				
636,540	Purchase of Fixed/ Intangible assets	655,636	675,305	695,564
-	Investment deposits	-	-	-
636,540	<i>Total Investment Payments</i>	<b>655,636</b>	<b>675,305</b>	<b>695,564</b>
(636,540)	<b>Net cash from investing</b>	<b>(655,636)</b>	<b>(675,305)</b>	<b>(695,564)</b>
<b>Cashflow from Financing Activities</b>				
<b><u>Cash received from:</u></b>				
-	Capital contributions	-	-	-
-	<i>Total Financing Receipts</i>	-	-	-
<b><u>Cash applied to:</u></b>				
-	Capital repaid	-	-	-
-	<i>Total Financing Payments</i>	-	-	-
-	<b>Net cash from financing</b>	-	-	-
-	<b>Net increase (decrease) in cashflow for the year</b>	-	-	-
72,000	Opening cash balance	70,272	70,272	70,272
72,000	<b>Closing cash balance</b>	<b>70,272</b>	<b>70,272</b>	<b>70,272</b>
<b>Made up of:</b>				
72,000	Current account	70,272	70,272	70,272
-	- Autocall account	-	-	-
<b>72,000</b>		<b>70,272</b>	<b>70,272</b>	<b>70,272</b>

## **Appendix 1: Accounting Policies**

### **1 General Information**

#### **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.

#### **Measurement Base**

The financial statements will be prepared on a historical cost basis.

#### **Differential Reporting**

RSHL qualifies for differential reporting because it is neither publically accountable or large as defined by the Framework for Differential Reporting. Other than the inclusion of a Statement of Cash Flows, all available differential reporting concessions will be applied in preparing financial statements.

#### **Basis of Preparation of the Financial Statements**

The prospective financial statements have been 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 prospective financial statements have been prepared to comply with Public Benefit Entity Standards (PBE Standards) for a Tier 3 entity. RSHL is adopting the PBE standards for the first time.

The reporting period for these prospective financial statements is the year ending 30 June.

### **2 Summary of Significant Accounting Policies**

#### **Revenue**

Revenue is measured at the fair value of consideration received or receivable Revenue may be derived from either exchange or non-exchange transactions.

#### **Exchange transactions**

Exchange transactions are transactions where RSHL receives assets (primarily cash) or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services, or use of assets) to another entity in exchange.

### **Non-exchange transactions**

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, where RSHL either receives value from or gives value to another entity without directly giving or receiving approximately equal value in exchange

An inflow of resources from a non-exchange transaction recognised as an asset, is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As RSHL satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Specific accounting policies for major categories of revenue are outlined below:

- Revenue from other services is recognised when the service has been rendered to a third party.
- Sales of goods are recognised when the goods are delivered.
- Interest income is accrued on a time basis, by reference to the investment principle and the effective interest applicable.
- Dividends (net of imputation credits) are recognised when the right to receive payment has been established.
- Where a physical asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as revenue. Assets vested in the Council are recognised as revenue when control over the asset is obtained.
- Revenue derived through acting as an agent for another party is recognised as a commission or fee on the transaction.

### **Expenditure**

Expenditure will be recognised on an accrual basis when the service has been provided, or the goods received. 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.

### **Cash and Cash Equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. All these deposits are reflected at their fair value.

### **Goods and Services Tax (GST)**

All items in the prospective financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the balance sheet.

Commitments and contingencies are disclosed exclusive of GST.

### **Changes in Accounting Policy**

Other than RSHL adopting PBE Standards for the first time this year there have been no other changing in the accounting policies.

### **Income Tax**

Income tax expense includes current tax and deferred tax

Current tax is the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

### **Trade and Other Payables**

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or in the normal operating cycle of the business if longer. If not, they will be presented as non-current liabilities. Trade payables will be recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### **Intangible Assets**

#### *Software acquisition and development*

Costs that are directly associated with the development of the IRIS software suite will be recognised as an intangible asset.

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

#### *Amortisation*

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful life and associated amortisation rate for the IRIS software suite is 10 years and 10%.

Note For Info: Requirements for Statement of Intent

Source: Office of the Auditor General

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

<b>Item</b>	<b>Section</b>
Statement of intent	This document
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Accounting policies	5
Performance targets and other measures by which the performance of the group may be judged in relation to its objectives	6
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)