

Regional Software Holdings Ltd
Six Month Report to Shareholders
31 December 2017

Table of Contents

Table of Contents	1
Introduction	2
Nature and Scope of Activities to be Undertaken	2
Mission	3
Vision	3
Values	3
Objectives	4
Service Performance	4
Performance Measures	4
RSHL Financial Position	5
Shareholdings & Directors	6
Financial Statements	7
Statement of Financial Performance	7
Statement of Financial Position	8
Statement of Cash Flows	9
Notes to the Financial Statements	10

Introduction

Regional Software Holdings Limited (RSHL) was incorporated in October 2012. This report covers the 6 months from 1 July 2017 to 31 December 2017 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.

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 Integrated Regional Information System (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.

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:

- Four IRIS releases have been successfully delivered in the current year to date. These have included four RSHL funded major enhancements, two minor enhancements, sixteen support fixes and one RC funded major enhancements.
- The implementation of IRIS at Hawke’s Bay Regional Council is underway. The first phase of the project is progressing within budget and scope, with the timeline currently being re-assessed. RSHL have provided Project Management support and subject matter expertise and guidance from across the RSHL councils.
- RSHL has presented a proposal to the Regional Council Special Interest Groups (SIGs) and to the RCEO Forum for RSHL to be leveraged as the ‘vehicle’ for promoting common and consistent processes across the sector and to deliver and operate shared software and information solutions on behalf of the SIGs. This proposal has received strong support and planning is underway for delivering the first initiative from this proposal.

Performance Measures

The following performance measures were incorporated into the Statement of Intent for the 2017-18 financial year.

Performance Measures		For the period ending 31 December 2017
Non-Financial	RSHL Advisory Group 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 (AG) meets monthly by video conference and quarterly in-person. The AG continues to operate in an effective and constructive manner.
	A robust and consistent process operates to develop, approve, communicate and refine the annual roadmap for RSHL major enhancement projects is developed and approved.	On track. The major enhancement roadmap for 2017/18 has been developed and approved by the Advisory Group, and this continues to be reviewed and refined by the AG on an ongoing basis to ensure that the roadmap aligns with shifting priorities and available funding.

	Major Enhancement projects identified on the Annual Roadmap are completed on time and within budget.	On track. Delivery is within budgets and timelines agreed in the Statements of Work or variations to these.
	Budgets and processes for support and minor enhancements are effectively managed. (Assessed by the Advisory Group).	On track. The delivery of support and minor enhancements continues to be managed effectively and the budgets closely monitored.
	User (non-IT) participation in RSHL management and development processes is increased. (Measured by membership of formal RSHL groups).	Not on track. The RSHL User Groups have continued to be effective and meet regularly. RSHL subject matter experts have also been engaged in workshops supporting the HBRC implementation of IRIS and providing input to other expressions of interest. However, there hasn't been a willingness from user group members to become more involved in the other aspects of RSHL management and operation.
	Reporting and Payments (Section 9.3 of Business Plan) are completed on time.	On track. RSHL has completed all reporting and payments within the required timeframes.
	Consider a new service area or areas outside of the current scope of IRIS ¹ .	On track. A proposal to the Regional Council SIGs and RCEO Forum to leverage RSHL as a vehicle for delivering collaborative initiatives for the sector has received strong support and planning is underway to implement the operating model and for delivery of the first initiative on the work programme (ReCoCo) is underway.
	An independent director will be appointed to the Board by December 2017	Achieved. Asbjorn Aakjaer joined the Board as a Director in November 2017.
Financial	RSHL will operate within 5% (plus or minus) of its overall annual budget.	On track. Expenditure against the available funding is being closely monitored. This is currently tracking over budget due to higher depreciation costs than expected.
	Annual charges will be kept to a maximum of 2% increase year on year	On track
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.	Achieved. Hawke's Bay RC has become a customer of RSHL and is currently in the process of implementing IRIS.

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

RSHL Financial Position

Operational income from Member’s Contribution is tracking favourable to budget with the third quarterly invoice being issued in December. The E-Learning income reflects an additional agreement within the shareholders to purchase the E-learning software separate to the usual share holder contributions.

Other income arises from a collaborative approach to purchasing the 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.

Overall operating expenditure is tracking higher than the budget due to higher Depreciation costs as the previously large level of Work in Progress is now being capitalised with each release. The overall operating costs are being monitored.

RSHL continues to have a strong balance sheet, with assets growing annually. Accounts receivable are 100% current. Liabilities remain minimal and accounts payable are 100% current.

Cash-flow is favourable to budget due to the third quarterly invoice being released in December. It is expected that the cash-flow will finish closely aligned to budget.

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 Nicolson	Northland Regional Council
Ged Shirley	Horizons Regional Council
Les Gibbs	West Coast Regional Council
Neil Selman	Southland Regional Council

Financial Statements

Statement of Financial Performance

For the Six Month Period Ending 31 December 2017

	Notes	31 Dec 2017 6 Months Unaudited \$	31 Dec 2016 6 Months Unaudited \$	30 June 2018 12 Months SOI \$	30 June 2017 12 Months Audited \$
Income					
Members contribution		823,901	821,749	1,098,534	1,047,581
Members contribution – E-Learning		44,094	-	-	-
Interest income		104	327	-	571
Other income	1	73,138	57,750	58,905	77,648
Total Income		941,236	879,826	1,157,439	1,125,800
Expenses					
Administration & Technical Support	2	6,783	11,498	46,029	34,000
Audit fees		-	5,094	5,237	5,189
Datacom support charges		115,802	86,186	203,205	260,720
Management fees		73,821	53,071	120,454	121,102
Cyber Environmental Charges		4,438	5,116	13,303	10,297
Implementation Costs		15,388	-	-	19,898
Other Direct Software Expenses		2,625	57,750	58,905	57,750
External Contractor & Consultants		2,645	-	-	-
Independent Director		2,500	-	30,000	-
Legal Expenses		315	-	-	-
Cognise Licencing		1,569	-	-	-
Objective SaaS contract		57,750	-	-	-
Depreciation		362,526	338,037	680,306	688,589
Total Expenses		646,162	556,752	1,157,439	1,197,545
Operating Surplus		295,074	323,074	-	(71,745)
Taxation		-	-	-	-
Net Profit After Tax		295,074	323,074	-	(71,745)
Total Comprehensive Income		295,074	323,074	-	(71,745)

The accompanying notes form part of these financial statements.

Statement of Financial Position

For the Six Month Period Ending 31 December 2017

	Notes	31 Dec 2017 6 Months Unaudited \$	31 Dec 2016 6 Months Unaudited \$	30 June 2018 12 Months SOI \$	30 June 2017 12 Months Audited \$
Assets					
Current assets					
Bank Accounts and Cash	3	239,471	258,152	161,702	353,075
Debtors and Prepayments	4	367,941	388,179	-	22,882
GST Receivable		-	-	-	6,547
Withholding Tax Paid		208	973	-	186
Total Current Assets		607,620	647,304	161,702	382,690
Non-Current Assets					
Property, Plant and Equipment	5	5,106,333	5,197,066	5,214,781	5,102,358
Non-Current Assets		5,106,333	5,197,066	5,214,781	5,102,358
Total Assets		5,713,952	5,844,370	5,376,483	5,485,048
Liabilities					
Current Liabilities					
Creditors and Accrued Expenses	6	87,843	99,310	-	177,426
GST		23,414	42,619	-	-
Income Tax		-	-	-	-
Total Current Liabilities		111,256	141,929	-	177,426
Total Liabilities		111,256	141,929	-	177,426
Net Assets		5,602,696	5,702,441	5,376,483	5,307,622
Represented By:					
Equity					
Equity		5,149,150	5,149,150	5,149,150	5,149,150
Current Year Earnings		295,074	323,074	227,333	(71,745)
Retained Earnings		158,473	230,217	-	230,217
Total Equity	7	5,602,696	5,702,441	5,376,483	5,307,622

The accompanying notes form part of these financial statements.

MJ Nield - Chairman

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G Shirley – Director

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Statement of Cash Flows
For the Six Month Period Ending 31 December 2017

Notes	31 Dec 2017 6 Months Unaudited \$	31 Dec 2016 6 Months Unaudited \$	30 June 2018 12 Months SOI \$	30 June 2017 12 Months Audited \$
Cash flows from Operating Activities				
Cash was provided from:				
Receipts from Customers	583,332	484,202	1,098,534	1,047,581
Interest	104	327	-	571
Other Income	57,750	57,750	58,905	57,750
Tax Refunds Received	-	-	-	848
Total Operating Receipts	641,186	542,279	1,157,439	1,106,751
Cash was applied to:				
Payments to Suppliers	310,820	211,104	477,133	417,963
Net GST Movement	26,050	(31,955)	-	(40,608)
Interest/Withholding Tax	22	75	-	-
Total Operating Payments	336,892	179,224	477,133	377,355
Net cash from operating	304,294	363,055	680,305	729,396
Cash flows from Investing Activities				
Cash was applied to:				
Purchase of Fixed/Intangible Assets	417,898	301,661	690,688	573,080
Total Investment Payments	417,898	301,661	690,688	573,080
Net cash from investing	(417,898)	(301,661)	(690,688)	(573,080)
Cash flows from Financing Activities				
Cash was provided from:				
Capital raised	-	-	-	-
Total Financing Receipts	-	-	-	-
Net cash from financing	-	-	-	-
Net increase (decrease) in cash flow for the year	(113,604)	61,394	(10,382)	156,316
Opening Cash Balance	353,075	196,758	172,084	196,759
Closing Cash Balance	239,471	258,152	161,702	353,075
Made up of:				
Westpac Current Account	206,642	51,790	25,000	68,290
Westpac Online Saver Account	32,828	206,362	136,702	284,785
	239,471	258,152	161,702	353,075

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 2017

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 2016, and were authorised for issue by the Board of Directors on 27 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 2017

1. Other Income

	31-Dec-17 6 Months <u>Unaudited</u>	31-Dec-16 6 Months <u>Unaudited</u>	30-Jun-18 12 Months <u>SOI</u>	30-Jun-17 12 Months <u>Audited</u>
Recovery of other direct software expenses	57,750	57,750	58,905	57,750
Hawkes Bay Regional Council Reimbursements	15,388	-	-	19,898
Total Other Income	73,138	57,750	58,905	77,648

2. Administration Costs

	31-Dec-17 6 Months <u>Unaudited</u>	31-Dec-16 6 Months <u>Unaudited</u>	30-Jun-18 12 Months <u>SOI</u>	30-Jun-17 12 Months <u>Audited</u>
Administration Support	1,852	7,473	39,103	32,091
Insurance	1,970	1,785	-	1,785
Consultants and Technical Support	2,867	2,152	6,926	-
Bank Fees	94	88	-	124
Total Administration Support	6,783	11,498	46,029	34,000

3. Bank Accounts and Cash

	31-Dec-17 6 Months <u>Unaudited</u>	31-Dec-16 6 Months <u>Unaudited</u>	30-Jun-18 12 Months <u>SOI</u>	30-Jun-17 12 Months <u>Audited</u>
Current Account	206,642	51,790	25,000	68,290
Savings Account	32,828	206,362	136,702	284,785
Total Bank Accounts and Cash	239,471	258,152	161,702	353,075

4. Debtors and Prepayments

	31-Dec-17 6 Months <u>Unaudited</u>	31-Dec-16 6 Months <u>Unaudited</u>	30-Jun-18 12 Months <u>SOI</u>	30-Jun-17 12 Months <u>Audited</u>
Debtors & Prepayments	367,941	388,179	-	22,882
Total Debtors & Prepayments	367,941	388,179	-	22,882

5. Property, Plant and Equipment

IRIS Software Intellectual Property

Carrying amount as of 01 July 2016	5,284,399
Additions	183,604
Work in Progress	403,387
Depreciation Expense	(688,589)
Work in Progress written off/impaired	(85,641)
Carrying Amount as of 30 June 2016	5,097,160
Carrying amount as of 01 July 2017	5,097,160
Additions	329,175
Work in Progress	
Depreciation Expense	(361,818)
Carrying Amount as of 31 December 2017	5,065,517

E-learning Software

Carrying amount as of 01 July 2016	-
Additions	-
Work in Progress	5,198
Carrying Amount as of 30 June 2017	5,198
Carrying amount as of 01 July 2017	5,198
Additions	37,327
Depreciation expense	(709)
Carrying Amount as of 31 December 2017	41,816

Total Asset Carrying Amount as of 30 June 2017	5,106,333
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6. Creditors and Accrued Expenses

	31-Dec-17 6 Months <u>Unaudited</u>	31-Dec-16 6 Months <u>Unaudited</u>	30-Jun-18 12 Months <u>SOI</u>	30-Jun-17 12 Months <u>Audited</u>
Creditors and Accrued Expenses	87,843	99,310	-	177,426
Total Creditors and Accrued Expenses	87,843	99,310	-	177,426

7. Equity

	31-Dec-17 6 Months <u>Unaudited</u>	31-Dec-16 6 Months <u>Unaudited</u>	30-Jun-18 12 Months <u>SOI</u>	30-Jun-17 12 Months <u>Audited</u>
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	158,472	230,217	227,333	230,217
Surplus/(Deficit) for the year	295,074	323,074	-	(71,745)
Balance at end of period	453,816	553,291	227,333	158,472
Total Equity	5,602,696	5,702,441	5,376,483	5,307,622

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 arm's 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 \$84,247.43 (including GST) (Dec 2016: \$58,936.57 (incl. GST)).

RSHL purchased administrative services from Horizons Regional Council (HRC) (15.50% shareholder) to the value of \$3,972,42 (Dec 2016 \$7,795.00) (including GST).