

Regional Software Holdings Limited

Draft Statement of Intent 2021/2022/2023

February 2020
Version 1.0

1 Introduction

This Statement of Intent is a 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 Vision

To provide a high-quality shared service for the regional¹ council sector (and associated agencies) that delivers value to customers, shareholders and the sector.

1.2 Mission

Deliver shared solutions to the regional council sector along with collaborative outcomes through sector special interest groups to achieve:

- Consistent, good-practice regional council specific processes and functions
- Value through economies of scale
- Reduced risk through ensuring continuity of supply and control of the destiny of regional council sector specific software
- Greater influence for the sector with central government through cohesion and collaboration

1.3 Nature and Scope of Activities to be Undertaken

RSHL provides a framework for collaboration between the shareholders and across the sector. It supports the procurement or development of shared solutions in a manner that provides greater consistency in how we operate our core processes. RSHL provides a more cost effective alternative than individual councils can achieve on their own.

The company operates by facilitating collaborative initiatives between councils and through managed contractual arrangements. Some councils are both customers of RSHL and providers of service to RSHL.

RSHL activities are currently grouped into two key programmes of work:

IRIS	The IRIS Programme delivers the IRIS software platform to shareholder and customer councils. The IRIS software has been in use for 8 years and is currently in use at 7 councils.
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¹ Including unitary authorities

	<p>The 7 councils actively collaborate on the use of IRIS and the future development roadmap.</p> <p>IRIS Next Generation RSHL and the member councils have determined that the IRIS software platform will need to be replaced within the next 3-5 years.</p> <p>The intention is that IRIS NextGen will be cloud based with better online and mobile features. IRIS NextGen will be more efficient for staff and customers.</p> <p>Along with the software solution, we anticipate implementing consistent “good practice” processes for the sector.</p> <p>Over the next two years, RSHL will identify:</p> <ul style="list-style-type: none"> • The IRIS NextGen solution. • A transition plan for existing users • A growth plan to attract new councils to the programme. <p>The indicative budgets for 2021/22 and 2022/23 include increased member contributions for the creation of IRIS NG. These contributions are subject to shareholder approval in the 2021/22 and 2022/23 SOI. By February 2021 we will have better information about costs, and options for financing these - however councils are encouraged to consider inclusion of these indicative costs as part of their LTP budgeting process.</p>
ReCoCo	RSHL delivers collaborative technology projects for groups of regional councils under the ReCoCo Programme. The ReCoCo programme is led by the Corporate and Finance Special Interest Group.

1.4 Values

In all RSHL decisions and interactions the Board and staff together with 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 participating 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 Opportunities for Growth

RSHL has extended its collaboration framework and service delivery beyond the scope of the IRIS software product.

- RSHL will deliver collaborative outcomes through the sector special interest groups.

- RSHL will work alongside the special interest groups to agree and deliver the collaborative work programme and this will operate on a cost recovery basis.
- RSHL will provide a vehicle for delivering shared solutions and services to the sector in order to achieve consistent, good practice regional sector specific processes.

RSHL seeks to increase the value delivered to customers, shareholders and the sector.

RSHL will do this by attracting more councils to participate in collaborative projects under the IRIS and ReCoCo programmes of work. 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.

RSHL will attract new councils to participate in defining and procuring the eventual replacement for IRIS.

The potential market for RSHL to offer products and services 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:²

- 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.

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.³ The Constitution allows each Director to appoint an alternative director.⁴ The Constitution also allows the Shareholders to appoint independent directors.⁵ The Constitution requires that the Board collectively must have relevant knowledge and experience of finance, public bodies, management, governance, and IT management.⁶

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

² From: Constitution of regional Software Holdings Ltd, Section 1.1

³RSHL Shareholders Agreement clause 4.1

⁴ RSHL Constitution clause 8.3

⁵ RSHL Constitution clause 8.4

⁶ RSHL Constitution clause 8.6

- 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

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.

Appendix 1 includes RSHL's Accounting Policies

6 Performance Targets and Other Measures

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

		2020/21	2021/22	2022/23
Non Financial	Undertake an annual survey of IRIS users and shareholder/customer Councils in relation to product performance, Datacom support and RSHL support. Provide a summary of the survey results in the annual report, including performance against the baseline. Survey results to be the same or better than the previous year.	Applies each year		
	Develop, approve, communicate and refine the product strategy for IRIS and IRIS NG. Draft strategy presented to the Board by 31 December 2020	Applies in the 2020/2021 year only.		
	Prepare and adopt the annual IRIS major enhancement roadmap by 30 June for delivery in the subsequent year.	Applies each year		
	Major Enhancement projects are completed within approved budget or (for items in progress) on track against their agreed timeline and budget at 30 June of each year.	Applies each year		
	Budgets for support and minor enhancements are approved by the Board by 30 June each year and delivery within these budgets is effectively	Applies each year		

	managed by the Advisory Group and the General Manager	
Financial	RSHL will operate within approved budget, with any material variations approved by the Board	Applies each year
	Annual charges for shareholders and customers to be at level approved by the Board and Shareholder Councils based upon the approved operating budget and budgets for major and minor enhancements.	Applies each year
Growth	Monitor the regional council sector market and explore/respond to opportunities to expand the customer and/or shareholder base of RSHL.	Applies each year
	Engage with councils in the sector to evaluate options for the eventual replacement of the current IRIS software package. The objective is to identify a solution that can be adopted by an increasing number of councils in the sector.	Applies each year
	Be a service delivery vehicle for wider regional council sector and related bodies information management projects (ReCoCo) and related shared services. Projects to be delivered on time and on budget as agreed in each of the Statements of Work between RSHL and the ReCoCo Advisory Group.	Applies each year

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 RSHL 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”⁷. 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 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 Financial Position, Statement of Cashflows, Service Performance plus a summary of how the company has fared against its

⁷ Shareholders Agreement, clause 7.4

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 by the shareholders and deliver the completed Statement of Intent to the shareholders by 30 June each year
- Preparation of a draft Business Plan will begin each November, for the financial year that commences on the following June. This early preparation is to allow Shareholder Councils the ability to include any changes in Annual Fees, or any other form of financial impact, in their 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 approved budgets
- 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"⁸.

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.

⁸ *RSHL Subscription & Shareholders Agreement* Section 5.1 (b)

The technologies used to develop the IRIS product will eventually reach the end of their useful life. From time to time, RSHL will need to reinvest to ensure the underlying technology remains fit for purpose and current. In the next three years, RSHL will identify the technologies for the next iteration of IRIS and the level of re-investment required. Future statements of intent will provide for this reinvestment. The impact on the residual value of the existing IRIS product will be reassessed at that time.

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:

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

Statement of Intent 2020-2021
Regional Software Holdings Limited
Statement of Financial Performance
For the 12 Months to 30 June

2019/20 Budget	Notes	2020/21 SOI	2021/22 Indicative	2022/23 Indicative
Income				
1,139,931	Members Contribution	1,196,928	1,747,514	2,516,420
1,139,931		1,196,928	1,747,514	2,516,420
<u>Other Income</u>				
600	Interest Received	600	600	600
	Saas	0	0	0
	Cognise & Elearning licences	0	0	0
65,905	Council Specific Funding	125,163	127,692	130,271
151,432	User Funding	154,612	157,735	160,921
	Sundry Income	0	0	0
1,357,868	Total Income	1,477,303	2,033,541	2,808,213
Expenditure				
<u>Administration costs</u>				
9,125	Administration costs	10,322	10,373	10,420
29,395	Accounting & Technical Support	27,264	57,336	28,015
5,900	Audit & Legal fees	5,900	6,019	6,141
208,260	Datacom Support Services	212,815	217,284	221,847
150,000	Technical Services	524,200	978,698	1,121,645
20,000	Environment Charges	22,000	22,444	22,898
50,400	Management Fees	190,400	190,400	190,400
155,000	Personnel Costs	158,255	161,452	164,713
1,600	Promotional Costs	16,000	1,600	1,600
30,600	Independent Director's Fees	30,630	31,249	31,880
9,000	Travel & Meeting Costs	18,750	18,750	18,750
77,905	Other Direct Software	125,163	127,692	130,271
1,042,970	<i>Total administration costs</i>	1,341,699	1,823,297	1,948,581
<u>Sundry other costs</u>				
786,423	Depreciation	900,438	920,438	990,438
1,829,393	Total expenditure:	2,242,137	2,743,735	2,939,018
	Surplus/ (Deficit) from RSHL Activities	(764,834)	(710,194)	(130,806)
ReCoCo Activity				
<u>Income</u>				
210,000	Regional Sector Funding	220,000	220,000	220,000
	Total Income	220,000	220,000	220,000
<u>Expenses</u>				
110,000	Regional Sector Share Services Expenditure	220,000	220,000	220,000
	Total expenditure:	220,000	220,000	220,000
	Operating Surplus for ReCoCo Activities	0	0	0
(471,525)	Surplus/(Deficit) before Tax	(764,834)	(710,194)	(130,806)
	Income Tax Expenses			
(471,525)	Surplus/(Deficit) after Tax	(764,834)	(710,194)	(130,806)

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

2019/20 Budget	Notes	2020/21 SOI	2021/22 Indicative	2022/23 Indicative
ASSETS				
Current assets				
137,932		630,630	140,874	50,506
	Bank Accounts and Cash			
	Debtors and Prepayments			
Non Current Assets				
5,202,007		3,518,909	3,298,471	3,258,034
	Property, Plant & Equipment			
<u>5,339,939</u>	Total Assets	<u>4,149,539</u>	<u>3,439,346</u>	<u>3,308,540</u>
LIABILITIES				
Current liabilities				
	Creditors and Accrued Expenses	0	0	0
	Income Received in Advance	0	0	0
<u>0</u>	Total liabilities	<u>0</u>	<u>0</u>	<u>0</u>
<u>5,339,939</u>	NET ASSETS	<u>4,149,539</u>	<u>3,439,346</u>	<u>3,308,540</u>

REPRESENTED BY:

2019/20 Budget		2020/21 SOI	2021/22 Indicative	2022/23 Indicative
Equity				
5,149,150	Equity	5,149,150	5,149,150	5,149,150
(0)	Current Year Earnings	(764,834)	(710,194)	(130,806)
190,790	Retained Earnings	(234,777)	(999,611)	(1,709,805)
<u>5,339,939</u>	Total Equity	<u>4,149,539</u>	<u>3,439,345</u>	<u>3,308,540</u>

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

2019/20 Budget	Notes	2020/21 SOI	2021/22 Indicative	2022/23 Indicative
Cashflows from Operating Activities				
Cash received from:				
361,432	Receipts from customers	374,612	377,735	380,921
1,205,836	Shareholder contributions	1,322,091	1,875,206	2,646,691
600	Interest	600	600	600
	Income Tax Paid (refunded)	0	0	0
1,567,868	Total Operating Receipts	1,697,303	2,253,541	3,028,213
Cash applied to:				
857,185	Payments to suppliers	1,561,699	2,043,297	2,168,581
	Income Tax Paid (refunded)	0	0	0
	Interest W/holding tax paid	0	0	0
857,185	Total Operating Payments	1,561,699	2,043,297	2,168,581
710,683	Net cash from operating	135,604	210,244	859,632
Cashflow from Investing Activities				
Cash received from:				
0	Sale of Fixed Assets	0	0	0
	Investment Maturities	0	0	0
0	Total Investment Receipts	0	0	0
Cash applied to:				
600,000	Purchase of Fixed/ Intangible assets	200,000	700,000	950,000
	Investment deposits	0	0	0
600,000	Total Investment Payments	200,000	700,000	950,000
(600,000)	Net cash from investing	(200,000)	(700,000)	(950,000)
Cashflow from Financing Activities				
Cash received from:				
0	Capital contributions	0	0	0
0	Investment maturities	0	0	0
0	Total Financing Receipts	0	0	0
Cash applied to:				
	Capital repaid			
0	Total Financing Payments	0	0	0
0	Net cash from financing	0	0	0
110,683	Net increase (decrease) in cash-flow for the year	(64,396)	(489,756)	(90,368)
402,865	Opening cash balance	695,026	630,630	140,874
513,548	Closing cash balance	630,630	140,874	50,506
Made up of:				
25,000	Current account	25,000	25,000	25,000
488,548	Auto-call account	605,630	115,874	25,506
513,548		630,630	140,874	50,506

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.

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

Statement of Compliance

The prospective 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.

These prospective financial statements comply with PBE Standards.

Presentation Currency and Rounding

The prospective 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.

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.

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 include 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%. Revising changing to 20% over five years

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.

Note For Info: Requirements for Statement of Intent
 Source: Office of the Auditor General
<http://www.oag.govt.nz/2007/corporate-intent/appendix2.htm>

Item	Section
Statement of intent	This document
Coverage over three financial years and updated annually	1 & 8 & 6
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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)