

Regional Software Holdings Limited

Statement of Intent 2020/2021/2022

June 2019
Version 0.3

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 Vision

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

1.2 Mission

Sponsor collaboration through the Regional Council special interest groups and provide a vehicle for delivering shared solutions and services to the sector in accordance with our values and in a manner that achieves:

- Consistent, common and efficient 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 with central government through demonstration of a more cohesive and collaborative sector

1.3 Nature and Scope of Activities to be Undertaken

RSHL provides a framework for collaboration between the shareholders and across the wider regional council sector. It supports the procurement or development of shared software services and products in a manner that provides greater consistency in how we operate our core processes and 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 councils' staff. Some councils are both customers of RSHL and providers of service to RSHL.

RSHL seeks to reduce costs to the existing shareholders and increase its influence in Regional Council sector information systems by increasing the user base for IRIS and by expanding the common product suite.

Whilst the current flagship of RSHL is the Integrated Regional Information System (IRIS), the scope of activities for RSHL is not 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.

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 and increase its influence in Regional Council sector information systems by increasing the user base for IRIS and expanding the product suite.

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.

RSHL seeks to extend its collaboration framework and service delivery beyond the scope of the IRIS software product. In line with this intention, RSHL will sponsor collaboration through the Regional Council special interest groups and provide a vehicle for delivering shared solutions and services to the sector in order to achieve consistent, common and efficient regional council specific processes and value through economies of scale. 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.

2 Objectives

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

The secondary objective of RSHL is to:¹

- a) achieve the objectives of its Shareholders, both commercial and non-commercial as specified in this Statement of Intent;

¹ From: Constitution of regional Software Holdings Ltd, Section 1.1

- 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.² The Constitution allows each Director to appoint an alternative director.³ The Constitution also allows the Shareholders to appoint independent directors.⁴ The Constitution requires that the Board collectively must have relevant knowledge and experience of finance, public bodies, management, governance, and IT management.⁵

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

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.

²RSHL Shareholders Agreement clause 4.1

³ RSHL Constitution clause 8.3

⁴ RSHL Constitution clause 8.4

⁵ RSHL Constitution clause 8.6

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:

		2019/20	2020/21	2021/22
Non Financial	Undertake an annual survey of users and shareholder/customer Councils in relation to product performance, Datacom support and RSHL support. Baseline to be developed following the completion of the first survey.	Applies each year		
	Develop, approve, communicate and refine the annual roadmap for RSHL major enhancement projects. Draft annual roadmap presented to the Board by 31 December of each year for the following year. Adoption by the Board by 30 June of each year.	Applies each year		
	Major Enhancement projects identified on the Annual Roadmap are all 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 managed by the Advisory Group.	Applies each year		
	User Groups and business representatives are engaged in the development of the Major Enhancement Annual Roadmap.	Applies each year		
Financial	RSHL will operate within 5% (plus or minus) of its shareholder approved annual budget.	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
	Consider, evaluate and, if appropriate, implement new service areas or areas outside of the current scope of IRIS ⁶	Applies each year
	Be a service delivery agent 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 Regional Council Corporate Services SIG.	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 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
- 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

⁶ Consider does not mean commit to do, but to identify & evaluate one or more opportunities

⁷ Shareholders Agreement, clause 7.4

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"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. When providing other services over the Sector RSHL seeks to recover any costs incurred.

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.

All activities for which compensation is sought will be undertaken at arms-length with recovery of all associated costs.

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. Whilst there is currently no outstanding need for reinvestment, future statements of intent will identify and provide for this reinvestment

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 2019-2020
Regional Software Holdings Limited
Statement of Financial Performance
For the 12 Months to 30 June

2018-19		2019/20	2020/21	2021/22
Budget		SOI	Indicative	Indicative
	Income			
1,117,579	Members Contribution	1,139,931	1,163,869	1,188,311
1,117,579		1,139,931	1,163,869	1,188,311
	<u>Other Income</u>			
600	Interest Received	600	600	600
62,750	Council Specific Funding	65,905	67,289	68,702
500,000	Regional Sector Share Services	210,000	210,000	210,000
148,463	User Funding	151,432	154,612	157,859
1,829,392	Total Income	1,567,868	1,596,371	1,625,472
	Expenditure			
	<u>Administration costs</u>			
2,825	Administration costs	9,125	9,153	9,179
	Accounting & Technical			
23,295	Support	29,395	29,515	29,637
11,100	Audit & Legal fees	5,900	6,024	6,150
178,000	Datacom Support Services	208,260	212,633	217,099
50,000	Technical Services	150,000	153,150	156,366
10,500	Environment Charges	20,000	20,420	20,849
157,500	Management Fees	50,400	50,400	50,400
-	Personnel Costs	155,000	155,000	155,000
10,000	Promotional Costs	1,600	1,600	1,600
30,000	Independent Director's Fees	30,600	31,243	31,899
7,000	Travel & Meeting Costs	9,000	9,000	9,000
500,000	Regional Sector Share Services	110,000	110,000	110,000
62,750	Other Direct Software	77,905	79,541	81,211
1,042,970	<i>Total administration costs</i>	857,185	867,678	878,389
	<u>Sundry other costs</u>			
786,423	Depreciation	827,855	967,115	1,058,921
1,829,393	Total expenditure:	1,685,040	1,834,793	1,937,310
-	Surplus/(deficit) before Tax	(117,172)	(238,423)	(311,838)
	Income Tax Expenses			
-	Surplus/(deficit) after Tax	(117,172)	(238,423)	(311,838)

Regional Software Holdings Limited
Statement of Financial Position

As at 30 June

2018-19 Budget		2019/20 SOI	2020/21 Indicative	2021/22 Indicative
	ASSETS			
	Current assets			
137,932	Bank Accounts and Cash	513,548	292,241	39,323
-	Debtors and Prepayments	-	-	-
	Non Current Assets			
5,202,007	Property, Plant & Equipment	4,703,489	4,686,374	4,627,454
<u>5,339,939</u>	Total Assets	<u>5,217,038</u>	<u>4,978,615</u>	<u>4,666,777</u>
	LIABILITIES			
	Current liabilities			
-	Creditors and Accrued Expenses	-	-	-
-	Income Received in Advance	-	-	-
<u>-</u>	Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<u>5,339,939</u>	NET ASSETS	<u>5,217,038</u>	<u>4,978,615</u>	<u>4,666,777</u>

Represented by:

2018-19 Budget		2019/20 SOI	2020/21 Indicative	2021/22 Indicative
	Equity			
5,149,150	Equity	5,149,150	5,149,150	5,149,150
-	Current Year Earnings	(117,172)	(238,423)	(311,838)
190,790	Retained Earnings	185,059	67,887	(170,536)
<u>5,339,939</u>	Total Equity	<u>5,217,037</u>	<u>4,978,614</u>	<u>4,666,776</u>

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

2018-19 Budget		2019/20 SOI	2020/21 Indicative	2021/22 Indicative
	Cashflows from Operating Activities			
	<u>Cash received from:</u>			
711,213	Receipts from customers	361,432	364,612	367,859
1,117,579	Shareholder contributions	1,205,836	1,231,158	1,257,013
600	Interest	600	600	600
-	Income Tax Paid (refunded)	-	-	-
1,829,392	<i>Total Operating Receipts</i>	1,567,868	1,596,371	1,625,472
	<u>Cash applied to:</u>			
1,042,970	Payments to suppliers	857,185	867,678	878,389
-	Income Tax Paid (refunded)	-	-	-
-	Interest W/holding tax paid	-	-	-
1,042,970	<i>Total Operating Payments</i>	857,185	867,678	878,389
786,422	Net cash from operating	710,683	728,692	747,083
	Cashflow from Investing Activities			
	<u>Cash received from:</u>			
-	Sale of Fixed Assets	-	-	-
-	Investment Maturities	-	-	-
-	<i>Total Investment Receipts</i>	-	-	-
	<u>Cash applied to:</u>			
785,248	Purchase of Fixed/ Intangible assets	600,000	950,000	1,000,000
-	Investment deposits	-	-	-
785,248	<i>Total Investment Payments</i>	600,000	950,000	1,000,000
(785,248)	Net cash from investing	(600,000)	(950,000)	(1,000,000)
	Cashflow from Financing Activities			
	<u>Cash received from:</u>			
-	Capital contributions	-	-	-
-	Investment maturities	-	-	-
-	<i>Total Financing Receipts</i>	-	-	-
	<u>Cash applied to:</u>			
-	Capital repaid	-	-	-
-	<i>Total Financing Payments</i>	-	-	-
-	Net cash from financing	-	-	-
1,175	Net increase (decrease) in cash-flow for the year	110,683	(221,308)	(252,971)
136,758	Opening cash balance	402,865	513,548	292,241
137,932	Closing cash balance	513,548	292,241	39,323
	Made up of:			
25,000	Current account	25,000	25,000	25,000
112,932	Auto-call account	488,548	267,241	14,323
137,932		513,548	292,241	39,323

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%.

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
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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)