

Regional Software Holdings Ltd

Six Month Report to Shareholders
31 December 2018

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Introduction

Regional Software Holdings Limited (RSHL) was incorporated in October 2012. This report covers the 6 months from 1 July 2018 to 31 December 2018 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 seven 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 of the six Shareholder entities are entitled to appoint one director each with one independent director appointed by the Board.

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 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.

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.

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

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:

- One IRIS release has been successfully delivered in the current year to date. This included one RSHL funded major enhancement, eleven minor enhancements and twenty-six support fixes.

- The first phase of the implementation of IRIS at Hawke’s Bay Regional Council went live on 26th November 2018 with no significant issues experienced. This involved the Consents and Compliance functionality. The implementation of the Incidents and Enforcements functionality is progressing well, with go-live planned for 11th February 2019. RSHL have provided Project Management support, subject matter expertise and guidance from across the RSHL councils.
- RSHL has received funding from across the regional council sector to deliver collaborative projects that are put forward by the Regional Council Special Interest Groups (SIGs) as part of the ReCoCo initiative (Regional Council Collaboration). The initiative aims to leverage RSHL as the ‘vehicle’ for delivering common and consistent processes across the sector. The first three ReCoCo initiatives have been approved and are currently underway

Performance Measures

The following performance measures were incorporated into the Statement of Intent for the 2018-19 financial year.

Performance Measures		For the period ending 31 December 2018
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.	To be undertaken in the 3 rd Quarter 2018-19
	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.	On Track High-level technology direction and roadmap for IRIS was presented, discussed and agreed at the in-person Board Meetings in November 2018 and January 2019.
	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.	On track
	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.	On Track
	User Groups and business representatives are engaged in the development of the Major Enhancement Annual Roadmap.	On Track Business Intelligence representatives from several regional councils have been involved in developing the roadmap.
Financial	RSHL will operate within 5% (plus or minus) of its shareholder approved annual budget.	On track for year end, however the ReCoCo budget of \$500k revenue and expenditure will not be meet, the agreed value is now \$220k. This should have NIL

		impact on the final overall financial results.
	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.	On track
	Monitor the regional council sector market and explore/respond to opportunities to expand the customer and/or shareholder base of RSHL. <i>(Applies once in 3 year period)</i>	On Track Business Intelligence representatives from several regional councils have been involved in developing the roadmap.
	Consider, evaluate and, if appropriate, implement new service areas or areas outside of the current scope of IRIS ¹	On Track This is largely being achieved through the ReCoCo initiative.
	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.	On Track Three ReCoCo initiatives have been approved for delivery by RSHL and are currently underway or having Statements of Work developed.

RSHL Financial Position

Revenue is tracking favourable to budget with 3 quarters of shareholder contributions being invoiced to date. The invoicing for ReCoCo has been completed, the actual value is \$210k against the Budget of \$500k. The December accounts reflect the income as \$220k with a credit raised in January of \$10k.

Operating expenditure is tracking favourable to budget with the ReCoCo spend being slower than expected as we await projects from the ReCoCo Advisory Group, it is possible that the full funding from ReCoCo will not be fully utilised by year end. Expenditure to date on IRIS software is progressing however it is possible that the capital spend budget may not be fully utilised at year end.

The cash position is looking favourable due to the full ReCoCo funding being received early in the year.

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

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 2018

	Notes	31 Dec 2018 6 Months Unaudited \$	31 Dec 2017 6 Months Unaudited \$	30 June 2019 12 Months SOI \$	30 June 2018 12 Months Audited \$
Income					
Members contribution		838,183	823,901	1,117,579	1,151,350
User funding		117,939		148,463	-
Regional sector shared services		220,000	1	500,000	-
Interest income		155	104	600	277
Other income	1	72,312	117,231	62,750	77,255
Total Income		1,248,589	941,236	1,829,392	1,228,882
Expenses					
Administration & Technical Support	2	15,925	9,743	31,820	42,870
Audit fees		-	-	5,400	5,250
Datacom support charges		103,456	115,802	178,000	278,468
Management fees		65,394	73,821	157,500	148,773
Environmental Charges		5,556	4,438	10,500	9,476
Implementation Costs		4,575	15,388	-	19,505
Other Direct Software Expenses		67,358	61,944	112,750	68,041
Travel, meeting & promotional costs		3,532		17,000	
Independent Director		15,000	2,500	30,000	18,627
Regional sector shared services		15,956	-	500,000	-
Depreciation		397,878	362,526	786,423	740,460
Total Expenses		694,630	646,162	1,829,392	1,331,470
Operating Surplus		553,959	295,074	-	(102,588)
Taxation					
Net Profit After Tax		553,959	295,074	-	(102,588)

The accompanying notes form part of these financial statements.

Statement of Financial Position
For the Six Month Period Ending 31 December 2018

	Notes	31 Dec 2018 6 Months Unaudited \$	31 Dec 2017 6 Months Unaudited \$	30 June 2019 12 Months SOI \$	30 June 2018 12 Months Audited \$
Assets					
Current assets					
Bank Accounts and Cash	3	490,772	239,471	137,932	305,693
Debtors and Prepayments	4	422,088	367,941	-	6,317
GST Receivable		-	-	-	33,237
Withholding Tax Paid		130	208	-	94
Total Current Assets		912,990	607,620	137,932	345,341
Non-Current Assets					
Property, Plant and Equipment	5	4,990,914	5,106,333	5,202,007	5,025,893
Non-Current Assets		4,990,914	5,106,333	5,202,007	5,025,893
Total Assets		5,903,904	5,713,953	5,339,939	5,371,234
Liabilities					
Current Liabilities					
Creditors and Accrued Expenses	6	88,543	87,843	-	166,199
GST		56,367	23,414	-	-
Income Tax		-	-	-	-
Total Current Liabilities		144,910	111,257	-	166,199
Total Liabilities		144,910	111,257	-	166,199
Net Assets		5,758,994	5,602,696	5,339,939	5,205,035
Represented By:					
Equity					
Equity		5,149,150	5,149,150	5,149,150	5,149,150
Current Year Earnings		553,959	295,074	-	(102,588)
Retained Earnings		55,885	158,472	190,790	158,472
Total Equity	7	5,758,994	5,602,696	5,339,939	5,205,035

The accompanying notes form part of these financial statements.

MJ Nield - Chairman

Xx xx xx

G Shirley – Director

Xx xxx xx

Statement of Cash Flows
For the Six Month Period Ending 31 December 2018

	Notes	31 Dec 2018 6 Months Unaudited \$	31 Dec 2017 6 Months Unaudited \$	30 June 2019 12 Months SOI \$	30 June 2018 12 Months Audited \$
Cash flows from Operating Activities					
Cash was provided from:					
Receipts from Members		886,893	583,332	1,117,579	1,148,084
Interest		155	104	600	277
Other Income			57,750	711,213	94,926
Total Operating Receipts		887,048	641,186	1,829,392	1,243,288
Cash was applied to:					
Payments to Suppliers		(347,315)	(310,820)	(1,042,970)	(503,931)
Net GST Movement		24,855	(26,050)	-	(26,111)
Interest/Withholding Tax		-	(22)	-	-
Total Operating Payments		(322,460)	(336,8920)	(1,042,970)	(530,042)
Net cash from operating		564,588	304,294	786,422	713,246
Cash flows from Investing Activities					
Cash was applied to:					
Purchase of Fixed/Intangible Assets		(379,510)	(417,898)	(785,248)	(760,628)
Total Investment Payments		(379,510)	(417,898)	(785,248)	(760,628)
Net cash from investing		(379,510)	(417,898)	(785,248)	(760,628)
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		185,078	(113,604)	1,175	(47,382)
Opening Cash Balance		305,693	353,075	136,758	353,075
Closing Cash Balance		490,772	239,471	137,932	305,693
Made up of:					
Westpac Current Account		130,796	206,642	25,000	141,786
Westpac Online Saver Account		359,976	32,829	112,932	163,907
		490,772	239,471	137,932	305,693

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 2018

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 2018, and were authorised for issue by the Board of Directors on xx February 2018.

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 2018

1. Other Income

	31-Dec-18	31-Dec-17	30-Jun-19	30-Jun-18
	6 Months	6 Months	12 Months	12 Months
	<u>Unaudited</u>	<u>Unaudited</u>	<u>SOI</u>	<u>Audited</u>
Recovery of other direct software expenses	67,946	101,844	62,750	57,750
Hawkes Bay Regional Council Reimbursements	4,366	15,388	-	19,505
Total Other Income	72,312	117,232	62,750	77,255

2. Administration Costs

	31-Dec-18	31-Dec-17	30-Jun-19	30-Jun-18
	6 Months	6 Months	12 Months	12 Months
	<u>Unaudited</u>	<u>Unaudited</u>	<u>SOI</u>	<u>Audited</u>
Administration Support	520	1,852	2,825	1,851
Accounting & Technical Support	13,171	5,512	23,295	35,667
Legal expenses	-	315	5,700	315
Insurance	2,125	1,970	-	1,970
External contractors	-	-	-	2,933
Bank Fees	109	94	-	134
Total Administration Support	15,925	9,743	31,820	42,870

3. Bank Accounts and Cash

	31-Dec-18	31-Dec-17	30-Jun-19	30-Jun-18
	6 Months	6 Months	12 Months	12 Months
	<u>Unaudited</u>	<u>Unaudited</u>	<u>SOI</u>	<u>Audited</u>
Current Account	130,796	206,642	25,000	141,786
Savings Account	359,976	32,828	112,932	163,907
Total Bank Accounts and Cash	490,772	239,471	137,932	305,693

4. Debtors and Prepayments

	31-Dec-18	31-Dec-17	30-Jun-19	30-Jun-18
	6 Months	6 Months	12 Months	12 Months
	<u>Unaudited</u>	<u>Unaudited</u>	<u>SOI</u>	<u>Audited</u>
Debtors	422,088	367,941	-	6,317
Prepayments	-	-	-	-
Total Debtors & Prepayments	422,088	367,941	-	6,317

5. Property, Plant and Equipment

IRIS Software Intellectual Property

Carrying amount as of 01 July 2017	5,097,160
Additions	426,340
Work in Progress	281,100
Depreciation Expense	(737,625)
Work in Progress written off/impaired	(80,772)

Carrying Amount as of 30 June 2018 **4,986,203**

Carrying amount as of 01 July 2018	4,986,203
Additions	51,016
Work in Progress*	311,883
Depreciation Expense	(395,711)

Carrying Amount as of 31 December 2018 **4,953,350**

* WIP includes individual Council funded for Waikato Regional Council \$26,078 & Taranaki Regional Council \$6,710.

E-learning Software

Carrying amount as of 01 July 2017	5,198
Additions	37,327
Depreciation	(2,835)

Carrying Amount as of 30 June 2018 **39,690**

Carrying amount as of 01 July 2018	39,690
Additions	-
Depreciation expense	(2,126)

Carrying Amount as of 31 December 2018 **37,564**

Total Asset Carrying Amount as of 31 December 2018 **4,990,914**

6. Creditors and Accrued Expenses

	31-Dec-18 6 Months <u>Unaudited</u>	31-Dec-17 6 Months <u>Unaudited</u>	30-Jun-19 12 Months <u>SOI</u>	30-Jun-18 12 Months <u>Audited</u>
Creditors	79,434	87,843	-	160,069
Accrued expense – Waikato Regional Council Dec 2018	9,109	-	-	-
Accrued Expense – Audit NZ	-	-	-	5,250
Accrued expense – Environment Charges Feb 2018	-	-	-	839
Accrued expense – Xero Software subscription June 2018	-	-	-	41
Total Creditors and Accrued Expenses	88,543	87,843	-	166,199

7. Equity

	31-Dec-18 6 Months <u>Unaudited</u>	31-Dec-17 6 Months <u>Unaudited</u>	30-Jun-19 12 Months <u>SOI</u>	30-Jun-18 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	55,884	158,472	190,790	158,472
Surplus/(Deficit) for the year	553,959	295,074	-	(102,588)
Balance at end of period	609,843	453,546	190,790	55,884
Total Equity	5,578,994	5,602,696	5,339,257	5,205,035

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 \$83,330 (including GST) (Dec 2017: \$84,247.43 (incl. GST)).

RSHL purchased administrative services from Horizons Regional Council (HRC) (15.50% shareholder) to the value of \$11,799 (Dec 2016 \$3,972.42) (including GST).