

Regional Software Holdings Ltd
Six Month Report to Shareholders
31 December 2016

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Introduction

Regional Software Holdings Limited (RSHL) was incorporated in October 2012. This report covers the 6 months from 1 July 2016 to 31 December 2016 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.

The Company's Purpose or Mission

The primary objective is to provide 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.

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.

The high level scope of the IRIS product is in Appendix 5 of the Business Plan.

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:

- Three IRIS releases have been successfully delivered in the current year. These have included three RSHL funded major enhancements, twenty-two minor enhancements, twenty-eight support fixes and three RC funded major enhancements.
- RSHL submitted a proposal in response to an RFP for Regulatory Management Information Systems at Hawkes Bay Regional Council. The proposal has been shortlisted and the RSHL team has continued to engage positively with the Hawkes Bay evaluation team. RSHL has been selected as the preferred vendor to Hawkes Bay Regional Council.
- Carol Cottam has replaced Graham Alsweiler as the Advisory Group Chair.
- Jane Carroll has joined the Advisory Group as the member for Environment Southland. Jane has previously attended as a non-member.
- Neil Selman has replaced Graham Alsweiler as Environment Southland’s Board representative.
- The Advisory Group have continued quarterly ‘in-person’ meetings, enabling the group to have more in-depth discussion on our direction, opportunities and priorities.

Performance Measures

The following performance measures were incorporated into the Statement of Intent for the 2016-17 financial year.

Performance Measures		For the period ending 31 December 2016
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 meets monthly. This has included an in-person meeting each quarter.
	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 process to develop, approve and adjust the annual roadmap continues to operate effectively through the Advisory Group in-person and monthly video conference meetings.
	Major Enhancement projects identified on the Annual Roadmap are completed on time and within budget.	On track. Development projects have progressed based on approved business cases and have been delivered within budget and agreed timeframes.
	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).	The RSHL User Groups have continued to be effective and meet regularly. 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.
	Consider a new service area or areas outside of the current scope of IRIS ¹ .	Business Intelligence and Customer Portal are two new service areas that were considered last year and are now being progressed through the Major Enhancements 'pipeline'. Online Services for Registers is another new service area being considered this year.

Performance Measures		For the period ending 31 December 2016
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 under budget, but the work programme for the remainder of the year is expected to bring overall expenditure close to budget.
	Annual charges: increase in cost to councils not to exceed the CPI.	The annual charges increase for 2016-17 have exceeded the CPI by a small margin. The increase for 2016/17 was 3% and was approved by both the shareholders and the Board of Directors.
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.	In progress. RSHL has submitted a proposal in response to an RFP for Regulatory Management Information Systems from HBRC.

RSHL Financial Position

Operational income from Member's Contribution is tracking favourable to budget with the third quarterly invoice being issued in December. Other income arises from a collaborative approach to purchasing 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 lower than budget (44% as opposed to 50%). Excluding charges that have received in full for the year (Audit Fees, Insurance and the Objective Contract) everything else is tracking to budget or below budget. It is expected that by year end the operating budget will align (or very close to) budget. Project work is underway and it is expected that by the end of the year the capital budget will be 100% utilised.

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

RSHL continues to have a strong balance sheet, with assets growing annually. Accounts receivable are 70% current and the one invoice that is greater than 30 days has since been cleared. 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 Nicholson	Northland Regional Council
Michael McCartney	Horizons Regional Council
Les Gibbs	West Coast Regional Council
Appointment pending	Southland Regional Council

Financial Statements

Statement of Financial Performance

For the Six Month Period Ending 31 December 2016

	Notes	31 Dec 2016 6 Months Unaudited \$	31 Dec 2015 6 Months Unaudited \$	30 June 2017 12 Months SOI \$	30 June 2016 12 Months Audited \$
Income					
Members contribution		821,749	517,314	1,095,666	1,034,626
Interest income		327	1,814	-	2,806
Other income	1	57,750	57,750	59,482	57,750
Total Income		879,826	576,878	1,155,148	1,095,182
Expenses					
Administration & Technical Support	2	11,498	15,839	73,962	28,437
Audit fees		5,094	-	5,220	5,094
Datacom support charges		86,186	98,561	202,612	172,961
Management fees		53,071	77,572	120,965	141,574
Cyber Environmental Charges		5,116	3,680	7,581	9,280
Other Direct Software Expenses		57,750	57,750	59,483	57,750
External Contractor & Consultants		-	-	-	51,671
Independent Director		-	-	30,000	-
Depreciation		338,037	300,321	655,325	625,532
Total Expenses		556,752	553,723	1,155,148	1,092,298
Operating Surplus		323,074	23,155	-	2,884
Taxation		-	-	-	-
Net Profit After Tax		323,074	23,155	-	2,884
Total Comprehensive Income		323,074	23,155	-	2,884

The accompanying notes form part of these financial statements.

Statement of Financial Position

For the Six Month Period Ending 31 December 2016

	Notes	31 Dec 2016 6 Months Unaudited \$	31 Dec 2015 6 Months Unaudited \$	30 June 2017 12 Months SOI \$	30 June 2016 12 Months Audited \$
Assets					
Current assets					
Bank Accounts and Cash	3	258,152	408,990	172,266	196,758
Debtors and Prepayments	4	388,179	-	-	-
GST Receivable			-	-	45,663
Withholding Tax Paid		973	614	-	888
Total Current Assets		647,304	409,604	172,266	243,309
Non Current Assets					
Property, Plant and Equipment	5	5,197,066	5,106,937	5,204,217	5,284,399
Non Current Assets		5,197,066	5,106,937	5,204,217	5,284,399
Total Assets		5,844,370	5,516,540	5,376,483	5,527,708
Liabilities					
Current Liabilities					
Creditors and Accrued Expenses	6	99,310	132,440	-	148,341
GST		42,619	(15,538)	-	-
Income Tax		-	-	-	-
Total Current Liabilities		141,929	116,902	-	148,341
Total Liabilities		141,929	116,902	-	148,341
Net Assets		5,702,441	5,399,638	5,376,483	5,379,367
Represented By:					
Equity					
Equity		5,149,150	5,149,150	5,149,150	5,149,150
Current Year Earnings		323,074	23,155	227,333	2,883
Retained Earnings		230,217	227,333	-	227,334
Total Equity	7	5,702,441	5,399,638	5,376,483	5,379,367

The accompanying notes form part of these financial statements.

MJ Nield - Chairman
27 February 2017

M McCartney – Director
27 February 2017

Statement of Cash Flows
For the Six Month Period Ending 31 December 2016

Notes	31 Dec 2015 6 Months Unaudited \$	31 Dec 2014 6 Months Unaudited \$	30 June 2016 12 Months SOI \$	30 June 2015 12 Months Audited \$
Cashflows from Operating Activities				
Cash was provided from:				
Receipts from Customers	484,202	596,970	1,093,366	1,114,368
Interest	327	1,804	2,300	2,011
Other Income	57,750	53,625	59,483	53,625
Tax Refunds Received	-	-	-	514
Total Operating Receipts	542,279	652,399	1,155,149	1,170,518
Cash was applied to:				
Payments to Suppliers	211,104	254,227	499,823	459,042
Net GST Movement	(31,955)	38,227	-	66,567
Interest/Withholding Tax	75	(6)	-	-
Total Operating Payments	179,224	292,448	499,823	525,609
Net cash from operating	363,055	359,951	655,326	644,909
Cashflows from Investing Activities				
Cash was applied to:				
Purchase of Fixed/Intangible Assets	301,661	392,049	675,305	889,229
Total Investment Payments	301,661	392,049	675,305	889,229
Net cash from investing	(301,661)	(392,049)	(675,305)	(889,229)
Cashflows from Financing Activities				
Cash was provided from:				
Capital raised	-	-	-	-
Total Financing Receipts	-	-	-	-
Net cash from financing	-	-	-	-
Net increase (decrease) in cashflow for the year	61,394	(32,098)	(19,979)	(244,320)
Opening Cash Balance	196,758	441,078	192,245	441,078
Closing Cash Balance	258,152	408,980	172,266	196,758
Made up of:				
Westpac Current Account	51,790	23,429	25,000	160,555
Westpac Online Saver Account	206,362	385,561	147,266	36,203
	258,152	408,980	172,266	196,758

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 2016

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 2016

1. Other Income

	31-Dec-16 6 Months <u>Unaudited</u>	31-Dec-15 6 Months <u>Unaudited</u>	30-Jun-17 12 Months <u>SOI</u>	30-Jun-16 12 Months <u>Audited</u>
Recovery of other direct software expenses	57,750	57,750	59,482	57,750
Total Other Income	57,750	57,750	59,482	57,750

2. Administration Costs

	31-Dec-16 6 Months <u>Unaudited</u>	31-Dec-15 6 Months <u>Unaudited</u>	30-Jun-17 12 Months <u>SOI</u>	30-Jun-16 12 Months <u>Audited</u>
Administration Support	7,473	8,605	63,992	20,936
Insurance	1,785	1,780	1,820	1,780
Consultants and Technical Support	2,152	5,437	8,000	5,683
Bank Fees	88	17	150	38
Total Administration Support	11,498	15,839	73,962	28,437

3. Bank Accounts and Cash

	31-Dec-16 6 Months <u>Unaudited</u>	31-Dec-15 6 Months <u>Unaudited</u>	30-Jun-17 12 Months <u>SOI</u>	30-Jun-16 12 Months <u>Audited</u>
Current Account	51,790	23,429	25,000	160,555
Savings Account	206,362	385,561	147,266	36,203
Total Bank Accounts and Cash	258,152	408,990	172,266	196,758

4. Debtors and Prepayments

	31-Dec-16 6 Months <u>Unaudited</u>	31-Dec-15 6 Months <u>Unaudited</u>	30-Jun-17 12 Months <u>SOI</u>	30-Jun-16 12 Months <u>Audited</u>
Debtors & Prepayments	206,362	-	-	-
Total Debtors & Prepayments	206,362	-	-	-

5. Property, Plant and Equipment

IRIS Software Intellectual Property

Carrying amount as of 01 July 2015	5,077,552
Additions	429,277
Work in Progress	403,102
Depreciation Expense	(625,532)

Carrying Amount as of 30 June 2016	5,284,399
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Carrying amount as of 01 July 2016	5,284,399
Additions	433,635
Current Year Work in Progress	220,171
Less 2015-16 Work in Progress (included in opening balance)	(403,102)
Depreciation Expense	(338,037)

Carrying Amount as of 31 December 2016	5,197,066
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6. Creditors and Accrued Expenses

	31-Dec-16 6 Months <u>Unaudited</u>	31-Dec-15 6 Months <u>Unaudited</u>	30-Jun-17 12 Months <u>SOI</u>	30-Jun-16 12 Months <u>Audited</u>
Creditors and Accrued Expenses	99,310	132,440	-	148,341
Total Creditors and Accrued Expenses	99,310	132,440	-	148,341

7. Equity

	31-Dec-16 6 Months <u>Unaudited</u>	31-Dec-15 6 Months <u>Unaudited</u>	30-Jun-17 12 Months <u>SOI</u>	30-Jun-16 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	230,217	227,333	-	227,334
Surplus/(Deficit) for the year	323,074	23,155	227,333	2,883
Balance at 30 June	553,291	250,488	227,333	230,217
Total Equity	5,702,441	5,399,638	5,376,483	5,379,367

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 arms 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 \$58,936.57 (including GST) (2015: \$89,204 (incl. GST)).

RSHL purchased administrative services from Horizons Regional Council (HRC) (15.50% shareholder) to the value of \$7,795.00 (2015 \$9,504.75) (including GST).