



value beyond boundaries™

STATEMENT OF INTENT FOR 2011-2012

30 June 2011

Local Authority Shared Services Limited

Introduction

This Statement of Intent is a public declaration of the activities and intentions of the Waikato's Council Controlled Organisation, Local Authority Shared Services Limited. The statement outlines the Directors' accountabilities to the shareholders for corporate performance, as is intended by Schedule 8 of the Local Government Act 2002.

Objectives of LASS

Local Authority Shared Services (LASS) has been promulgated to provide the councils in the Waikato region with a vehicle to procure shared services. It provides a mechanism for the development of new services which are available to be joined by any shareholder that so chooses. It also provides those councils that wish to develop new services with a company structure under which they can develop and promote services to other local authorities.

In the early to mid 2000's the relationship between local authorities within the Waikato Region continued to strengthen. As a result of this a range of initiatives were considered by Waikato local authorities with the most beneficial being the Local Authority Shared Services (LASS). At the inception of this initiative the shareholders identified that improvements could be made in back of office activities by implementing shared services, improvements being gained through cost savings, streamlining of work processes and improved services.

This vehicle was been chosen as it was considered the most appropriate mechanism for improving, and achieving cost reductions in back of office services across the region. Over the period the company has been operating benefits have been delivered in the form of:

- Improved level and quality of service
- Co-ordinated approach to the provision of services
- Reductions in the cost of services
- Opportunity to develop new initiatives
- Opportunity for all councils irrespective of location or size to benefit from joint initiatives
- Leverage provided from economy of scales resulting from a single entity representing councils leveraging procurement opportunities.

At this stage these gains have been realised by shareholders in the Shared Valuation Data Service (SVDS) and the Waikato Regional transport model (WRTM) Both these operations will continue to target options for improvements in the existing software that will benefit the users.

The LASS Directors will continue to seek any new opportunities, either from internal investigations, or from Council's and C.E.O. initiatives that are presented to it with a sound business case.

New services that are intended to be initiated under the LASS umbrella will only be adopted where a business case shows that they provide some form of benefit to the shareholders. The benefits that may be gained include development of intellectual property through new business services, protection of council data, improved levels of service and/or reduced cost. All such proposals will be presented to the Shareholders for approval prior to implementation.

Nature and scope of Current Activities.

There are currently two major operations under the LASS umbrella.

Firstly, the Shared Valuation Data Service (SVDS). This operational system is providing both timely and accurate valuation data to member councils and shareholders. The SVDS has become the accepted valuation service in the region, and the service is showing interest from councils outside the present shareholders.

Secondly, the Waikato Regional Transportation Model (WRTM). This model is now complete, has passed all its pre – operational peer reviews and became operational in early 2011. This Model, built within its budgeted cost, provides accurate information to councils for their transport modelling requirements. It is expected that this model will become the industry standard, and it is already attracting interest from councils outside the shareholding councils.

No specific shared services are under review at the present time. However, some opportunities in the area of procurement have been identified and will receive some review in early 2011.

From feedback from Shareholder Councils and the CEO Forum, the LASS Directors will continue to discuss their role in the development of business cases for shared services at its future meetings. These investigations will include reporting to shareholders on the alternative mechanisms to develop shared services.

Directors are mindful of the current political environment, and see these investigations of possible shared services as a key focus of their role.

Governance

LASS shall have six Directors appointed as follows:

- a. One appointed by Waikato Regional Council
- b. One appointed by Hamilton City Council
- c. One appointed by Waikato District Council
- d. One by agreement between Thames Coromandel, Hauraki and Matamata Piako District Councils
- e. One by agreement between Waipa, Otorohanga and Waitomo District Councils
- f. One by agreement between South Waikato, Taupo and Rotorua District Councils

With the increased interest in council shared services, the LASS Directors will be recommending that the Board be increased to include the CEO of each shareholding Council. (12 in total)

Unless otherwise agreed by the appointing Councils' each appointee shall be a Chief Executive of a local authority. In addition the board may appoint up to three professional directors to supplement the Directors expertise.

LASS will conduct itself in accordance with its constitution, its annual Statement of Intent agreed with shareholders, and provisions of the Local Government Act 2002.

Directors

The current Directors are:

| Director | Position | Director Appointed By |
|------------------------|------------------------------|---|
| Langley Cavers (Chair) | CEO Hauraki District Council | Thames-Coromandel, Hauraki and Matamata-Piako District Councils |
| Peter Guerin | CEO Rotorua District Council | Rotorua, South Waikato and Taupo District Councils |
| Chris Ryan | CEO Waitomo District Council | Waipa, Otorohanga and Waitomo District Councils |
| Bob Laing | CEO Environment Waikato | Environment Waikato |
| Gavin Ion | CEO Waikato District Council | Waikato District Council |
| Barry Harris | CEO Hamilton City Council | Hamilton City Council |

Process for Future Developments

- All new proposed shared services will have a business case developed for presentation to the Directors. This business case will be approved by the Directors prior to any service proceeding. The development of the new service will be fully funded by those councils that wish to promote that service.
- Any potential new service would be initiated by either in-house Director investigation or from shareholding councils and / or their CEO'S. The directors of LASS see their role changing from one of an enabler, to that of an initiator of potential new services.

Activities for which the Board seeks Compensation:

It is noted that other shared services may be developed during the year that this Statement of Intent is current. Any such services will only be delivered under the LASS umbrella after the Directors have considered each individual business case including the proposed budget and agreed that the proposed service meets the objectives of LASS.

Any ongoing activities to identify, develop and procure shared services will be budgeted for in advance, subject to the business case, and either funded and staffed by individual Councils without LASS involvement, or agreed by the Directors to be funded by the LASS with consequent recovery from participating councils.

Shareholders will continue to contribute to the operational costs of the LASS on an annual basis.

Performance Targets

Performance targets relate to the level of services that are current or under development. It is envisaged that these targets will expand as new services are developed.

1. **Shareholder Survey:** The company will carry out an annual survey of shareholders to assist the Directors in developing improvements on behalf of the shareholders, and to receive a majority of shareholder approval on the service provided.
2. **Costs Control:** Administration expenditure shall not exceed that budgeted by more than 5% unless prior approval is obtained from the Directors.
3. **Cashflow:** The company maintains an overall positive cashflow position.
4. **Reporting:** The Board will provide a written report on the business operations and financial position of the LASS on a six monthly basis.
5. **Statutory Adherence:** There will be an annual report to directors that all statutory requirements of the LASS are being adhered to.
6. **SVDS Availability:** That SVDS is available to users at least 99% of normal working hours.
7. **SVDS Sales Data Delivery:** That at least 98% of agreed timelines are met for sale and property files that have been delivered to the FTP server for access to customers.
8. **SVDS Major Enhancement Development Hours:** That over 50% of the Intergen support hours are spent on major development work.
9. **WRTM:** That all required modelling reports are actioned within the required timeframe.
10. **WRTM:** That a full report on progress of the model be provided to the LASS Board twice each year.

Policy Statement:

Statement of Accounting Principles

Financial statements will be for a company wholly owned by local authorities within the Waikato Region in the proportion of one share per local authority. Financial statements will be prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) and the Financial Reporting Act 1993 and the NZ IFRS Standards.

Specific Accounting Principles

The following particular principles which have a significant effect on measurement of financial position are to apply.

- Accounts Receivable are to be stated at their expected realisable value after writing off any known bad debts and providing for doubtful debts.
- Investments to be valued at the prevailing market value.
- Fixed assets to be recorded at cost, less accumulated depreciation.

Intangible Assets

- Where intangible assets are purchased, such as intellectual property and computer software, these are to be capitalised and written off on a straight line basis over their expected life, but no greater than seven years.
- Depreciation / Amortisation is to be provided on a straight line basis on all assets other than land, and align with normal accepted depreciation for the types of services being developed.

Impairment Testing

Assets with a finite life are reviewed annually for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Balance Sheet Ratios

The Local government Act 2002 requires the SOI to include the projected ratio of shareholders funds to total assets within the Forecast Statement of Financial Position.

The LASS has an accumulated shareholders funds of \$2,192,087 at 31 December 2010, which relates to 94.7% of total assets. The only liabilities of the LASS are trade creditors.

The Forecast Financial Statements for the years 2012-2014 are attached to this statement.

Procedures for the Purchase and acquisition of Shares.

The Board will give approval before LASS subscribes for, purchases or otherwise acquires shares in any company or other organisation, which is external to the group.

Inventories

- It is not envisaged that the company will hold inventories, other than those that might relate to providing computer based services to a number of parties. They will be valued at net realisable value.

Taxation

- Taxation will be provided as required against the company in line with the required legislation.

In accordance with the Public Audit Act 2001 and the Local Government Act 2002, the Auditor General will be responsible for the audit of the company's financial statements.

It is not envisaged that the board will make any recommendation about dividends, as in the initial five years any savings will be used to reduce service costs or for reinvestment in new services and upgrades.

Value of Shareholder's Investment

The Directors' estimate of the commercial value of the shareholders' investment in the LASS is equal to the shareholders equity in the company. Reassessment of the value of this shareholding shall be undertaken on or about 1 March each year.

Compensation

Directors of the LASS, will not receive any fees or expenses for work undertaken on behalf of the LASS.

As the basis of funding of LASS, payment will be sought from all local authorities that receive services from LASS.

Information to be provided to Shareholders

The company will deliver the following Statements to shareholders:

- Within two months of the end of the first half of the financial year Statement of Financial Performance, Statement of Changes in Equity Statement of Financial Position, Statement of Cashflows and Service Performance.
- Within three months of the end of the financial year the following audited statements: Statement of Financial Performance, Statement of Changes in Equity, 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.

Review of Statement of Intent

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.

Local Authority Shared Services

Company Summary

For the 12 Months Ended 30 June 2012

| | Budget Jun-12 | Budget Jun-13 | Budget Jun-14 |
|---|------------------|------------------|------------------|
| Revenue | | | |
| Recovery of Admin Costs | 13,550 | 14,316 | 14,820 |
| Internal Cost Recovery | 59,000 | 61,334 | 62,930 |
| Interest Received | 1,200 | 1,200 | 1,200 |
| SVDS Member Charges | 697,403 | 717,476 | 738,151 |
| SVDS Data & Software Sales | 120,000 | 123,600 | 127,308 |
| WRTM Cost Recovery | 127,000 | 67,000 | 67,000 |
| WRTM Reserve Realisation | 40,000 | 0 | 0 |
| WRTM External Users | 40,000 | 40,000 | 40,000 |
| Total Revenue | 1,098,153 | 1,024,926 | 1,051,409 |
| Operating Expenditure | | | |
| CA Operating Expenditure | 72,550 | 75,650 | 77,750 |
| SVDS Operating Expenditure | 605,362 | 622,638 | 640,432 |
| WRTM Operating Expenditure | 207,000 | 107,000 | 107,000 |
| Total Operating Expenses | 884,912 | 805,288 | 825,182 |
| Earnings Before interest, tax and depreciation/amortisation (EBITDA) | 213,241 | 219,638 | 226,227 |
| Non-Cash Operating Expenditure | | | |
| CA Non Cash Expenditure | 127 | 127 | 127 |
| SVDS Non Cash Expenditure | 431,330 | 192,681 | 209,122 |
| WRTM Non Cash Expenditure | 328,122 | 328,122 | 328,122 |
| Total Non-Cash Operating Expenditure | 759,579 | 520,930 | 537,371 |
| Earnings Before interest and tax (EBIT) | (546,338) | (301,292) | (311,144) |
| Net Surplus (Deficit) before tax | (546,338) | (301,292) | (311,144) |
| Capital Expenditure | | | |
| SVDS Enhancements | 213,241 | 219,638 | 226,227 |
| Total Capital Expenditure | 213,241 | 219,638 | 226,227 |

Local Authority Shared Services

Company Administration

For the 12 Months Ended 30 June 2012

| | Budget Jun-12 | Budget Jun-13 | Budget Jun-14 |
|---|------------------|------------------|------------------|
| Revenue | | | |
| Recovery of Admin Costs - Shareholders | 13,550 | 14,316 | 14,820 |
| Recovery of Admin Costs - WRTM | 29,500 | 30,667 | 31,465 |
| Recovery of Admin Costs - SVDS | 29,500 | 30,667 | 31,465 |
| Total Revenue | 72,550 | 75,650 | 77,750 |
| Operating Expenditure | | | |
| Accountancy Fees | 3,750 | 4,000 | 4,250 |
| Audit Fees | 16,500 | 17,500 | 17,500 |
| Bank Charges | 350 | 400 | 450 |
| Financial Services | 19,500 | 20,500 | 21,500 |
| Insurance | 2,750 | 3,000 | 3,250 |
| IT Services | 250 | 250 | 250 |
| Legal Fees | 1,500 | 2,000 | 2,500 |
| LASS Administration & Operations | 27,000 | 27,000 | 27,000 |
| Printing, Stationary & Postage | 750 | 800 | 850 |
| Sundry Expenses | 200 | 200 | 200 |
| Total Operating Expenditure | 72,550 | 75,650 | 77,750 |
| Earnings Before interest, tax and depreciation/amortisation (EBITDA) | 0 | 0 | 0 |
| Non-Cash Expenses | | | |
| Provision for Depreciation | 127 | 127 | 127 |
| Net Surplus (Deficit) before tax | (127) | (127) | (127) |

| Local Authority Shared Services | | | |
|---|--------------------------|--------------------------|--------------------------|
| Shared Valuation Database Service (SVDS) | | | |
| For the 12 Months Ended 30 June 2012 | | | |
| | Budget Jun-12 | Budget Jun-13 | Budget Jun-14 |
| Revenue | | | |
| Member Charges | 697,403 | 717,476 | 738,151 |
| Interest Received | 1,200 | 1,200 | 1,200 |
| Data & Software Sales | 120,000 | 123,600 | 127,308 |
| Total Revenue | 818,603 | 842,276 | 866,659 |
| Operating Expenditure | | | |
| Direct Costs | | | |
| Management Services | 361,042 | 371,874 | 383,030 |
| Hosting Contract | 81,119 | 83,552 | 86,059 |
| Software Support | 105,029 | 108,180 | 111,425 |
| Contingency | 10,000 | 10,300 | 10,609 |
| Provision of Facilities by EW | | | |
| Contract Management Services | 13,367 | 13,768 | 14,181 |
| Recovery of Admin Services | 29,500 | 29,500 | 29,500 |
| Secretarial Services | 5,305 | 5,464 | 5,628 |
| Total Operating Expenditure | 605,362 | 622,638 | 640,432 |
| Earnings Before interest, tax and depreciation/amortisation (EBITDA) | 213,241 | 219,638 | 226,227 |
| Non-Cash Expenses | | | |
| Provision for Depreciation | 1 431,330 | 192,681 | 209,122 |
| Earnings Before interest and tax (EBIT) | (218,089) | 26,957 | 17,105 |
| Net Surplus (Deficit) before tax | (218,089) | 26,957 | 17,105 |
| Capital Expenditure | | | |
| Enhancements | 213,241 | 219,638 | 226,227 |
| Total Capital Expenditure | 213,241 | 219,638 | 226,227 |
| Total Cash Expenditure (Opex, Interest & Capital) | 818,603 | 842,276 | 866,659 |

Notes

1. The original SVDS operating system asset is depreciated over a period of 7 years. This 7 year period ends in 2012. The ongoing reduced provision for depreciation is to cover regular annual enhancements made to the original asset.

| Local Authority Shared Services | | | |
|---|--------------------------|--------------------------|--------------------------|
| Waikato Regional Transport Model (WRTM) | | | |
| For the 12 Months Ended 30 June 2012 | | | |
| | Budget Jun-12 | Budget Jun-13 | Budget Jun-14 |
| Revenue | | | |
| Shareholder Cost Recovery | 127,000 | 67,000 | 67,000 |
| Reserve Realisation | 40,000 | 0 | 0 |
| External Users | 40,000 | 40,000 | 40,000 |
| Total Revenue | 207,000 | 107,000 | 107,000 |
| Operating Expenditure | | | |
| Recovery of Admin Services | 29,500 | 29,500 | 29,500 |
| Commercial Manager | 16,000 | 16,000 | 16,000 |
| Annual Schedule of Works Reviews | 4,500 | 4,500 | 4,500 |
| Minor Model Upgrades | 20,000 | 20,000 | 20,000 |
| Peer Review Expenses | 5,000 | 5,000 | 5,000 |
| Census Update | 100,000 | 0 | 0 |
| External User Costs | 32,000 | 32,000 | 32,000 |
| Total Direct Costs (Model Build) | 207,000 | 107,000 | 107,000 |
| Total Operating Costs | 207,000 | 107,000 | 107,000 |
| Earnings Before interest, tax and depreciation/amortisation (EBITDA) | 0 | 0 | 0 |
| Non-Cash Expenses | | | |
| Provision for Depreciation | 328,122 | 328,122 | 328,122 |
| Earnings Before interest and tax (EBIT) | (328,122) | (328,122) | (328,122) |
| Net Surplus (Deficit) before tax | (328,122) | (328,122) | (328,122) |

Local Authority Shared Services

Balance Sheet As at 30 June 2012

| | Budget Jun-12 | Budget Jun-13 | Budget Jun-14 |
|----------------------------------|------------------|------------------|------------------|
| Capital | | | |
| Retained Earnings | (218,576) | (764,914) | (1,066,205) |
| SVDS Shares | 1,607,001 | 1,607,001 | 1,607,001 |
| WRM Shares | 1,350,000 | 1,350,000 | 1,350,000 |
| Net Surplus (Deficit) | (546,338) | (301,292) | (311,144) |
| Total Capital | 2,192,087 | 1,890,796 | 1,579,652 |
| Assets | | | |
| Current Assets | | | |
| Accounts Receivable | 43,815 | 22,253 | 22,253 |
| BNZ - Call a/c | 108,638 | 111,827 | 113,776 |
| BNZ - Cheque a/c | 58,498 | 71,613 | 67,239 |
| GST Payable (Refund Due) | 12,994 | 10,853 | 15,767 |
| RWT on Interest | 360 | 360 | 360 |
| Total Current Assets | 224,306 | 216,905 | 219,394 |
| Non-Current Assets | | | |
| Intangible Assets @ Cost | 5,219,621 | 5,439,259 | 5,665,486 |
| Less Accumulated Depreciation | (3,129,350) | (3,650,279) | (4,187,649) |
| Total Non-Current Assets | 2,090,271 | 1,788,980 | 1,477,837 |
| Total Assets | 2,314,577 | 2,005,885 | 1,697,231 |
| Liabilities | | | |
| Current Liabilities | | | |
| Trade and other Payables | 122,490 | 115,089 | 117,579 |
| Total Current Liabilities | 122,490 | 115,089 | 117,579 |
| Total Liabilities | 122,490 | 115,089 | 117,579 |
| Net Assets | 2,192,087 | 1,890,796 | 1,579,652 |

**Local Authority Shared Services
Statement of Cashflows
For the 12 Months Ended 30 June 2012**

| | Budget Jun-12 | Budget Jun-13 | Budget Jun-14 |
|--|--------------------------|--------------------------|--------------------------|
| Cashflows from Operating Activities | | | |
| Interest Received | 1,200 | 1,200 | 1,200 |
| Receipts from Other Revenue | 957,765 | 952,556 | 961,580 |
| Payments to Suppliers | (753,663) | (729,971) | (738,082) |
| Taxes Paid | (126) | 360 | 360 |
| Goods & Services tax (net) | 10,924 | 11,795 | (1,256) |
| Net cash from operating activities | 216,100 | 235,940 | 223,801 |
| Cashflows from Investing Activities | | | |
| Purchase of Intangible Assets | (213,241) | (219,638) | (226,227) |
| Net Cash from Investing Activities | (213,241) | (219,638) | (226,227) |
| Net Increase in cash, cash equivalents and bank accounts | | | |
| | 2,859 | 16,302 | (2,426) |
| Cash, cash equivalents and bank accounts at the beginning of the period | 164,277 | 167,136 | 183,439 |
| Cash, cash equivalents and bank accounts at the end of the period | 167,136 | 183,439 | 181,014 |
| Summary of Bank Accounts | | | |
| BNZ - Cheque a/c | 58,498 | 71,613 | 67,239 |
| BNZ - Call a/c | 108,638 | 111,827 | 113,776 |
| Closing Balance of Bank | 167,136 | 183,439 | 181,014 |