

" COUNCILS PARTNERING FOR VALUE AND SERVICE "



Financial Policy

Introduction

BOPLASS Ltd is a Council Controlled Organisation owned by the Environment Bay of Plenty (Bay of Plenty Regional Council), Rotorua District Council, Western Bay of Plenty District Council, Kawerau District Council, Tauranga City Council, Opotiki District Council, Whakatane District Council, Taupo District Council and Gisborne District Council and has been established to investigate, develop and deliver shared services, joint procurement and communications where and when that can be done more effectively for any combinations of some or all of the councils.

The expected benefits that can be achieved through shared services are:

- improved levels and quality of service
- a co-ordinated and consistent approach to the provision of services
- reductions in the cost of support and administrative services
- opportunities to develop new initiatives
- economies of scale resulting from a single entity representing many councils in procurement.

These benefits and opportunities can apply to all councils irrespective of location or size.

This policy applies to the funding of activities and operational requirements of the company. It encompasses the relevant aspects of the strategic documents that have been approved by the Directors of BOPLASS Ltd and include:

BOPLASS Ltd Statement of Intent,
Strategy and Action Plan
and any other applicable policy decisions of the Directors.

In approving the Policy the Directors have noted the unique position that the company is in and that as a company it operates at the margins of Local Government. The policy allows for flexibility in the development of funding models according to the activities involved and the services provided

Our Vision

"COUNCILS PARTNERING FOR VALUE AND SERVICE"

Objectives of BOPLASS Ltd

Working together with the full support and involvement of staff, we will provide benefit to councils and their stakeholders through improved levels of service, reduced costs, improved efficiency and/or increased value through innovation.

These will be achieved primarily through:

Joint Procurement

Being the procurement of services or products by two or more councils from an external provider regardless of whether the service is paid for through BOPLASS or individually by participating councils.

Shared Services

Being the participation of two or more councils in the provision of a common service which may be jointly or severally hosted.

The purpose of this policy is to address policy requirements associated with the funding of BOPLASS activities.

Nature and Scope of Activities

The principle nature and scope of the activities of BOPLASS Ltd are set out in the company's Statement of Intent and are the principles which underlie this policy.

- *Use Joint Procurement to add value to goods and services sourced for its constituent councils.*
- *Facilitate Shared Services that benefit councils and their stakeholders through improved levels of service, reduced costs, improved efficiency, innovation and/or increased value.*
- *Pursue best practice in the management of all activities to obtain best value and minimise risk.*
- *Demonstrate fiduciary responsibility by ensuring that its activities are adequately funded from savings achieved, levies, council contributions, or Government funding where available.*
- *Allow other councils or organisations to participate in its activities where this will benefit its constituent councils directly or indirectly.*
- *Represent the collective views of its shareholders in matters with which it is associated.*

Legislative Environment

BOPLASS Ltd recognises that its financial operations must be consistent with the principles of its councils enabling legislation, the Local Government Act 2002. (LGA) s14, which requires them to:

- Act in an open, transparent and democratically accountable manner
- Act efficiently and effectively,
- Collaborate and co-operate with other local authorities and bodies to achieve desired outcomes and make efficient use of resources

- undertake any transactions in accordance with sound business practice

BOPLASS Ltd seeks to apply these principles in a sound business environment having regard to all applicable legislation and any obligations under the Companies Act 1993 under which it was formed.

Funding Requirements

The company's business may be divided into 3 broad categories

Governance

Company administration, auditing and reporting, strategic direction, communications, Board matters.

Research and Development

Development of future capacity including the possibility of business units for combined service delivery. Promotion of new initiatives, investigation of new projects, use of consultants for feasibility studies etc

Operations

Joint procurement, project implementation and administration, delivery of shared services

Of these three categories only one (Operations) offers the opportunity of derived funding which means the others must be funded from operations surplus or by direct contribution.

Annual Funding requirements

Annual funding requirements are identified by means of a budget attached to the Statement of Intent which is circulated to councils for their approval and/or comment. *(see action 1 below)*

CURRENT POLICY

Strategy 4: *Demonstrate fiduciary responsibility by ensuring that its activities are adequately funded from savings achieved, levies, council contributions, or Government funding where available. (BOPLASS Strategy and Action Plan V5 2010)*

- 1** Annual Budgets prepared, approved and implemented.
- 2** All Activities assessed for funding potential and where appropriate levied to recover costs and /or provide additional revenue
- 3** Potential government or other funding sources for specific shared services identified and accessed where available.

Desired Outcome

Activity and administration costs are budgeted for and have identified sources of revenue

Council operational contributions reviewed annually or as otherwise required to ensure use of funds is managed within annual limits.

Annual funding provides for fixed council contributions with no increase in rate.

Action 1

Annual Budgets prepared, approved and implemented.

A three year forecast is required to be included in the annual statement of Intent for submission to councils, the first year is the budget for the next financial year and is approved with the SOI.

Income and expenditure are monitored and reported to the Board at regular meetings

Action 2

All Activities assessed for funding potential and where appropriate levied to recover costs and /or provide additional revenue.

Where BOPLASS incurs costs in relation to an activity those costs will be apportioned back to councils on an agreed basis appropriate to the activity.

Where savings are identified to councils, a contribution to BOPLASS will be sought at an agreed percentage and may be collected directly from councils, as a surcharge on the service or as a rebate to BOPLASS from the supplier.

Consideration will be given to alternative methods of funding which will provide additional revenue to BOPLASS as each project is initiated.

Action 3

Potential government or other funding sources for specific shared services identified and accessed where available.

As a shared Service is initiated investigation will be made to ascertain whether alternative funding is available.

Action 4

Council operational contributions reviewed annually or as otherwise required to ensure use of funds is managed within annual limits.

The current policy of the Board is that direct contributions from councils should not be subject to annual increase and will remain at the set level (currently \$54,710 March 2011) unless changed by Board resolution.

Additional guidelines

In considering funding issues at the board meeting in March 2009 the Directors noted the following guidelines:

- Levy for base costs (small)
- Where BOPLASS provides a service, it is to be run at a profit
- Where savings are made, levy hard
- Savings accrue to activity
- Investigate the virtual bank suggestion

(Minutes BOPLASS 9 March 2009)

Future Funding Methodology

Funding Sources

Council Contributions

These have been identified as contributing to the general administration costs of the organisation and are fixed by the Board.

Activity Group Levies

Membership of an activity Group incurs a levy which is based on broad population bands equivalent to large, medium or small councils.

Those fees are currently:

Small	\$500
Medium	\$1000
Large	\$2000

These levies contribute to the operations and administration of the activity groups.

Administration Fees

Administration Fees are payable where BOPLASS provides or has facilitated supply of a service or product and has been required to pay directly for the product or service recovering the cost from participating councils. It is charged as a percentage of the originating cost. The current minimum fee is 3.5%.

Recognition of savings

The requirement is to balance the amount of the funds available through savings against the potential requirements of the company. The taking of too great an amount from savings achieved negates the benefit to councils and acts as a disincentive to participating staff. On the other hand if BOPLASS is consistently underfunded it will not be able to achieve its full potential and will not have the resources to investigate potential shared services.

The directors have determined that BOPLASS will take a strong position on levies on savings and the directors will review the targeted percentage of savings to be taken from projects and in addition may vary the target for individual projects. The current target is 10%.

Shared Service Costs

The Board has recognised that implementation of shared services may incur significant upfront costs and that savings and other benefits may not be fully realised until after implementation is complete.

Some of these costs will inevitably be incurred by the company in the form of consultancy fees or commissioned assistance and occasionally by councils who provide assistance beyond the expected level of participation. Such costs will be budgeted in advance and levied as for any other service.

Other costs will involve time and administration contributed by BOPLASS beyond the normal level of an activity group. The board may at its discretion request an additional contribution from participating councils in recognition of these costs.

Collection

Four methods of collection are envisaged:

- Where cost of service is negotiated by BOPLASS but charged directly to councils BOPLASS will invoice councils directly for the targeted percentage of savings.
- Alternatively BOPLASS will negotiate a rebate from the supplier payable to BOPLASS based on total transaction costs.
- Where cost of service is charged to BOPLASS and apportioned to councils in calculating the charges BOPLASS will include the administration fee and the agreed % of savings.
- Where BOPLASS provides a service pursuant to a Service Level Agreement participating councils will be charged on a cost plus basis.

Alternative funding Sources

The company will continue to investigate and where appropriate utilise alternative funding sources which may include sponsorship, fundraising

events or other activities consistent with the aims and objectives of the company and the objective of benefiting councils.

Taxation

BOPLASS Ltd acknowledges its responsibility in the matter of taxation and notes:

- That it is not the intention of the company to operate at a profit.
- That in the event that the company purchases services from a council, income from a CCO is taxable in the hands of the council under the Income Tax Act.

Financial Reporting

Financial reporting will be in accordance with the requirements of the Statement of Intent as set out below.

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. As BOPLASS Ltd has minimal capital (\$9,000 of paid up capital), and does not expect to acquire any material assets, the Board believes that this ratio does not add any value to the SOI and is therefore not included at this time.

As asset owning shared services are approved, the Board will, if appropriate, provide a mechanism for the recognition of each council's contribution.

The Forecast Financial Statements for the years 2010-2013 are attached to this statement.

Accounting Policies

Statement of Accounting Principles

The company will adopt accounting practices that comply with NZ IFRS, the requirements of the LGA and the Financial Reporting Act 1993.

Measurement Basis

The company will follow generally accepted international accounting principles for reporting of earnings and financial position.

Specific Accounting Principles

The following are principles which will have a significant effect on the measurement of financial position:

- Accounts Receivable are stated at their expected realisable value after writing off any known bad debts and providing for doubtful debts.
- Investments are valued at the prevailing market value.
- Fixed assets are recorded at cost, less accumulated depreciation, other than where freehold lands may be required. The latter will be valued on the basis of normal accounting processes for the valuation of land.
- Any liability for overseas funding of equipment, systems or services is based on the prevailing exchange rate as at balance date.
- Where intangible assets are purchased, such as intellectual property, these are capitalised and written off on a straight line basis over their expected life, but no greater than four years.
- Depreciation is provided on a straight line basis on all assets other than land, and aligns with normal accepted depreciation for the types of services being developed.
- It is not envisaged that the company will hold inventories, other than those that might relate to providing information services to a number of parties. They will be valued at net realisable value.
- Taxation will be provided as required in line with relevant legislation.
- In accordance with the Public Audit Act 2001 and the Local Government Act 2002, the office of the Auditor General will be responsible for the audit of the company's financial statements.

Distributions to Shareholders

The Company is not expected to make profits that would ordinarily be distributed by way of dividends. Any surplus funds remaining from an activity or the annual operations of the company shall be carried forward to the ensuing year and may be used to reduce service costs, invest in further developing other services, and/or as the directors may decide.

Information to be Provided to Shareholders

The company will deliver the following statements to shareholders:

- On a three monthly basis the Financial Position and Cashflow.
- Within two months of the end of the first half of the financial year: Financial Performance, Movements in Equity, Financial Position, Cashflow and Service Performance.

- Within three months of the end of the financial year the following audited statements: Financial Position, Movements in Equity, 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.
- Regular summaries of activities.

Other Strategies

Job costing

Job costing will be required for all significant projects and activities

Overheads and Administration

General administration and overhead costs will be on costed as part of total labour costs in determining the hourly rate for staff.

Major Transactions

The requirement of the Companies Act 1993 in regard to Major Transactions is noted. (See appendix 1)

In dealing with any matters Advisory Committees shall have regard to all strategies set out in the Strategy and Action plan and in particular those relating to fiduciary responsibility and best practice.

The Board of Directors of BOPLASS Ltd shall have the final say on all matters.

Delegations

(Amended by Board resolution 11 February 2011)

The Board have provided specific delegations and these are confirmed as part of this policy.

1. The Chairman and the Chief Executive Officer have delegated authority for expenditure as approved in the budget or by resolution of the Board to the value of \$50,000.
2. The Chairman may approve unbudgeted expenditure to the value of \$20,000 any significant expenditure to be reported to the next Board meeting.
3. The Chief Executive Officer may approve unbudgeted expenditure to the value of \$10,000 any significant expenditure to be reported to the next Board meeting.
4. In the absence of the CEO The Business Development Manager may approve expenditure to the value of \$5,000

5. Where a procurement initiative or contract is approved and underwritten by the participating Local Authorities and revenues are assured the transaction may be approved by the Chairman and one Director without limit.

R Carter
Chief Executive Officer

Major transactions

The following are the excerpts from the Companies Act 1993

Section 129

Major Transactions

(1) A company must not enter into a major transaction unless the transaction is—

- (a) approved by special resolution; or
- (b) contingent on approval by special resolution.

(2) In this section,—

assets includes property of any kind, whether tangible or intangible

major transaction, in relation to a company, means:

- (a) the acquisition of, or an agreement to acquire, whether contingent or not, assets the value of which is more than half the value of the company's assets before the acquisition; or
- (b) the disposition of, or an agreement to dispose of, whether contingent or not, assets of the company the value of which is more than half the value of the company's assets before the disposition; or
- (c) a transaction that has or is likely to have the effect of the company acquiring rights or interests or incurring obligations or liabilities, including contingent liabilities, the value of which is more than half the value of the company's assets before the transaction.

(2A) Nothing in paragraph (b) or paragraph (c) of the definition of the term major transaction in subsection (2) applies by reason only of the company giving, or entering into an agreement to give, a charge secured over assets of the company the value of which is more than half the value of the company's assets for the purpose of securing the repayment of money or the performance of an obligation.

(2B) In assessing the value of any contingent liability for the purposes of paragraph (c) of the definition of major transaction in subsection (2), the directors—

- (a) must have regard to all circumstances that the directors know, or ought to know, affect, or may affect, the value of the contingent liability; and
- (b) may rely on estimates of the contingent liability that are reasonable in the circumstances; and
- (c) may take account of—
 - (i) the likelihood of the contingency occurring; and
 - (ii) any claim the company is entitled to make and can reasonably expect to be met to reduce or extinguish the contingent liability.

(3) Nothing in this section applies to a major transaction entered into by a receiver appointed pursuant to an instrument creating a charge over all or substantially all of the property of a company.

Special resolution definition and requirements

special resolution means a resolution approved by a majority of 75% or, if a higher majority is required by the constitution, that higher

majority, of the votes of those shareholders entitled to vote and voting on the question

Powers exercised by special resolution

(1) Notwithstanding the constitution of a company, when shareholders exercise a power to—

- (a) adopt a constitution or, if it has one, alter or revoke the company's constitution:
- (b) approve a major transaction:
- (c) approve an amalgamation of the company under [section 221](#):
- (d) put the company into liquidation,—
the power must be exercised by special resolution.

(2) A special resolution pursuant to paragraph (a) or paragraph (b) or paragraph (c) of subsection (1) can be rescinded only by a special resolution.

(3) A special resolution pursuant to paragraph (d) of subsection (1) cannot be rescinded in any circumstances.