

DRSL

Statement of Intent



2011

Our role and contribution

Dispute Resolution Services Limited (DRSL) was established in July 1999 as a subsidiary of the Accident Compensation Corporation (ACC) to provide independent dispute resolution services for the ACC.

On 1 July 2011 DRSL was incorporated under the *Public Finance Act 1989* as an independent Crown Owned Company wholly owned by the New Zealand Government.

DRSL is a specialist dispute resolution company providing services and systems to resolve disputes between organisations and the people they come in contact with.

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Introduction

This Statement of Intent (SOI) is in respect of DRSL. It is submitted in accordance with Section 139 of the *Crown Entities Act 2004*.

DRSL is incorporated under the *Companies Act 1993*.

The purpose of the SOI is twofold: firstly to enable the Crown to contribute and confirm the company's objectives and strategies; and secondly to provide a base against which the company's actual performance can later be assessed.

This SOI outlines for Parliament, Ministers and interested stakeholders DRSL's high-level operating intentions, objectives and performance expectations for the financial year commencing 1 July 2011 and the following two financial years.

Board Foreword

The Board of Directors, (Board) of DRSL is accountable to the Shareholding Ministers in the manner set out in the Act.

This SOI presents a medium- to long-term picture of the results DRSL is pursuing, how we intend to achieve and measure our progress towards those results, the challenges DRSL faces and the implications for capability.

The SOI fulfils our statutory requirements under the *Crown Entities Act 2004*, including the financial and non-financial measures and standards by which DRSL will be assessed in the coming year.

In preparing this SOI, we have been acutely aware of the challenging fiscal environment in which we operate as a result of the pressure on Government finances following the global economic recession and more recently the Christchurch earthquake. Consequently, as a Board we have ensured that our focus is sharply on our core business to assure both Parliament and the public that the investment in DRSL is being managed effectively and efficiently and is contributing towards improving outcomes.



Peter Blades
Chairman



Marie Bismark
Director



Background

DRSL has approximately 120 staff nationally with main offices in Auckland, Wellington and Christchurch.

In the main, DRSL offers a range of dispute resolution services to ACC, but in the last few years it has broadened its services over a range of industry sectors, including the telecommunications dispute resolution service (TDR) and financial service sector dispute resolution service (FDR).

This document outlines the strategic context within which DRSL works, together with medium term measures and the forecast of service delivery for the first year.

Operating Environment

The environment in which the company is operating is characterised by:

- An increasing government and public interest in dispute resolution practices;
- The likelihood of changes to existing ACC legislation and the requirement to provide cost-effective services in order to compete successfully in the dispute resolution services market;
- Limited access to resources and funds;
- The need to positively contribute to the social and economic fabric of New Zealand.

DRSL will maintain its existing business partnerships by maximising its positional advantages. At the same time it must leverage the opportunities inherent in its new structure by developing new partnerships across both government and the private sector. This must be achieved in a resource-constrained environment where funds for growth must be generated from operating activities and efficiency gains.

DRSL will ensure that its organisational and financial health is sound and that its infrastructure, processes and people fit the needs of the business.

Future Market Environment

DRSL enters a new era as an independent Crown Owned Company from July 1 2011.

This will bring opportunities and challenges as the company repositions itself to support government in its wider social and economic obligations as well as maintaining its competitive edge and expanding its business.

The environment in which the company will operate is characterised by:

- A need to provide cost-effective, profitable services;
- Across-government initiatives to reduce agency overheads by outsourcing non-core activities;
- The likely opening up of a proportion of ACC's business to the private sector and the implications arising from that;
- Limited access to resources and funds;
- A commitment to continuous improvement;
- The pursuit of quality, efficiency and effectiveness through innovation;
- An increasing focus on the use of new technology distribution channels;
- An increasing interest in non-judicial dispute resolution practices;
- The need to positively contribute to the social and economic fabric of New Zealand.

The company will need to maintain its existing business partnerships by maximising its positional advantages.

The company must take on many governance and accountability responsibilities previously in the hands of its former owner ACC. In addition it must ensure that its organisational and financial health are sound and that its infrastructure, processes and people fit the needs of a professional services company.

Our vision We are the 'Centre of Excellence' for complaints management and dispute resolution services in New Zealand.

Our values Our fundamental values are to pursue excellence in all we do through integrity, empathy, innovation and teamwork.

Our mission Provide New Zealand organisations and their customers a range of solutions to manage and resolve complaints and disputes that are: accessible; fair; independent; accountable; efficient; effective; and that serve to protect consumers' rights, improve organisations' capabilities and strengthen public trust in those organisations.



Ministers' Priorities

DRSL will focus on the priorities set out in the Ministers' annual Letter of Expectations, namely:

1. Establish DRSL as a stand-alone entity committed to delivering profitable and effective dispute resolution services.
2. Ensure DRSL delivers its services in a timely way such as to meet all statutory and contractual obligations.
3. Strengthen the company's underlying commercial disciplines.

Additionally, *The Crown Entities Act 2004* requires that the SOI contain information on how the company proposes to manage organisational health and capability.

Reporting Requirements

DRSL's reporting requirements are to produce:

- A statement of intent annually;
- An annual report; and
- Quarterly performance reports of financial and operational performance.

DRSL strives to ensure strong working relationships and open communication with its Ministers, including regular discussions with the Minister of Accident Compensation or the delegated responsible Minister.

DRSL meets regularly with the Department of Labour covering the quarterly report, the performance information and commentary, emerging issues and major achievements.

DRSL reporting includes maintaining a 'no surprises' policy, where early communication is provided on any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest, whether positive or negative.

Organisation Health and Capability

DRSL's organisation capability is delivered through its resources of:

- People, leadership and organisational culture;
- Breadth of strategic and operational relationships;
- Communications, knowledge, analysis, and information; and
- Processes, technology, physical assets and structures that support employees in their work.

People and culture

DRSL aims to be an employer of choice that attracts and retains people with the skills and the motivation needed to achieve high-quality results. DRSL's vision, mission and values underpin the spirit of service. The organisation's values, developed through a collaborative process with staff, are to pursue excellence in all we do through:

- **Integrity** – creating an environment of openness through positive communication and transparency and treating people fairly and impartially;
- **Empathy** – encouraging our staff to identify people's needs by asking, listening and seeking clarification;
- **Innovation** – fostering an environment for all staff to participate in continuous improvement, looking for ways of improving performance of themselves, their team and DRSL; and
- **Teamwork** – providing opportunities for staff to work cooperatively with each other to improve quality, generate and share new ideas and ways of working to improve the performance of the team and its customers.

Being a good employer

DRSL is a good employer, providing an environment where employees feel valued and respected, where difference is celebrated and diversity encouraged. Policies and procedures are transparent, with opportunities for staff engagement and feedback. DRSL works to ensure it makes maximum use of the skills and strengths of all staff. This is achieved through:

- Demonstrating leadership and vision through clearly articulating its values and the importance of its people and their diversity;
- Emphasising accountability and building a positive, shared workplace culture;
- Building on existing engagement processes with employees;
- Ensuring that recruitment practices continue to avoid barriers or biases to employing the best person for the job and, once employed, people receive a comprehensive induction process;
- Creating an active learning environment and continuing to take an equitable approach to developing all employees;
- Ensuring that employees can achieve work/life balance through flexible work practices;
- Maintaining a transparent, fair, gender-neutral remuneration system;
- Providing a zero-tolerance environment to all forms of harassment and bullying, in line with our existing organisational values; and
- Continuing to provide a safe and healthy workplace by taking a proactive approach to employee health and wellbeing.

DRSL's Outcomes

Outcome Approach

The approach taken to identify DRSL outcomes uses a Board-driven model of stakeholder objectives mapped to the organisation's activities that lead to the high-level outcomes that DRSL aims to achieve. A major part of the analysis is identifying the DRSL priorities and focusing on measuring important performance indicators.

The following high-level outcomes, and the priorities associated with them, have been developed to support the Ministers' priorities.

The High-Level Outcomes

The Ministerial priorities which are set out earlier in this document provide the foundation for the development of these outcomes.

Ministers' priority 1

Establish DRSL as a stand-alone entity committed to delivering profitable and effective dispute resolution services.

Outcome: Establish DRSL as a well-run, stand-alone entity

- Establish a transformation plan;
- Implement an independent information and communication technology infrastructure;
- Implement effective strategic and business planning processes;
- Establish an effective brand;
- Meet stakeholder expectations.

Ministers' priority 2

Ensure DRSL delivers its services in a timely way such as to meet all statutory and contractual obligations.

Outcome: Disputes are dealt with appropriately and cost-effectively

- Deliver cost-effective and value for money services;
- Ensure DRSL services are used by clients and their consumers;
- Resolve disputes professionally;
- Provide a cost-efficient complement to courts and tribunals.

Outcome: Effective relationships with government shareholders are established and expectations met

- Understand Government's needs and perspectives;
- Develop effective relationships with the two Shareholding Ministers;
- Develop effective relationships with Ministerial advisors.

Outcome: Consumers are aware of, and able to access, our dispute resolution services

- Identify barriers to accessing dispute resolution services;
- Agree key messages to consumers;
- Maximise information and access to resources;
- Communicate where, when and how to access DRSL services.

Outcome: Organisations reduce disputes and have effective processes to deal and learn from them

- Assist organisations to understand why, when and how to best use DRSL's services to optimise their own dispute prevention efforts.

Ministers' priority 3

Strengthen the company's underlying commercial disciplines.

Outcome: Successfully grow the business

- Understand and market DRSL's value proposition within the existing customer base and to targeted potential future clients;
- Establish DRSL as the market leader/centre of excellence in dispute resolution;
- Optimise services to current clients.

Managing the organisation's health and capability

Outcome: The company is a good employer

- Position the company as an employer of choice that attracts and retains good people.

Statement of Forecast Service Performance

Ministers' priority 1

Establish DRSL as a stand-alone entity committed to delivering profitable and effective dispute resolution services

Performance measures	Performance target
The financial information and service performance information systems and controls meet audit requirements.	The 2011-12 annual audit report expresses an unqualified opinion on the financial statements.
A separate information technology infrastructure and systems from the current provider ACC implemented.	Successfully implement information technology infrastructure change by 31 March 2012.
A financial management system separate from that of the current provider ACC implemented.	Successfully implement financial management system change by 30 June 2012.
Contract with ACC for the 2011-12 year renegotiated.	ACC contract finalised by 30 December 2011.
Company revenue increased.	New and existing business opportunities in 2011-12 meet the additional revenue target of \$1M.
Customer satisfaction research for ACC, TDR, and FDR measured against key performance indicators conducted.	Customer satisfaction surveys show there are a higher proportion of 'promoters' than 'detractors' as measured by Net Promoter Score. Surveys of end-user satisfaction reported six monthly.
ISO9001 accreditation continued.	Accreditation confirmed at each Telarc audit.
Strategic and business planning policy revised.	In place by 30 June 2012.
DRSL brand reviewed.	Completed by 30 June 2012.
Stakeholder analysis conducted.	Analysis completed by 30 June 2012.

Ministers' priority 2

Ensure DRSL delivers its services in a timely way such as to meet all statutory and contractual obligations

Performance measures	Performance target
Government reporting requirements met.	100% compliance.
Timeliness key performance indicators achieved.	All statutory and contractual obligations will be achieved. ACC disposition rate of at least 100%. 90% completed reviews within nine months.
An external, independent review of decisions conducted.	85% of ACC review decisions examined by an independent expert will meet minimum standards.
Deliver cost-effective and value for money services.	Maintain our position in the lower quartile of dispute resolution providers for cost-per-employee and cost-per-resolution.
Consumer research to identify barriers to accessing dispute resolution services conducted.	Research completed by 30 June 2012.

Ministers' priority 3

Strengthen DRSL's underlying commercial disciplines

Performance measures	Performance target
Achieve an acceptable and positive return on revenue.	Return on revenue meets or exceeds the 2011-12 business plan target.
Achieve positive cash flow.	Cash flow meets or exceeds forecast.
Achieve retained earnings year-on-year growth.	Retained earnings meet or exceed forecast.

Organisation health and capability

The company is a good employer.

Performance measures	Performance target
Improve or at least maintain the satisfaction of our staff measured against the previous two years in the 'Best Workplaces' rating.	Overall satisfaction 2011-12 78.9%
Maintain a satisfactory level of voluntary staff turnover.	Voluntary turnover 2011-12 7.5%
Maintain a high average rating of employee performance.	Average rating is 'exceeded' (4 on a 5-point scale)
Provide a recognised level of work safety management practices.	Maintain ACC 'primary' level standard.
Continue Investors-In-People accreditation.	Maintain Investors-In-People accreditation at each audit.

Financial Performance Measures

	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14
Operating Margin			
EBITDAF/Revenue	8.1%	10.8%	12.4%
Return on Revenue pre tax			
Operating surplus before Tax/Revenue	3.9%	5.9%	7.3%
Return on Revenue			
Net Surplus after Tax/Revenue	2.8%	4.3%	5.2%
Return on Shareholders' Equity			
Net Surplus after Tax/Shareholders' Equity	14.1%	16.6%	17.0%
Return on Share Capital			
Net Surplus after Tax/Share Capital	109%	155%	192%
Return on Assets			
Net Surplus after Tax/Total Assets	8.2%	10.6%	11.6%
Solvency Ratio 1			
(Net Surplus after Tax + Depreciation)/ (Long Term Liabilities + Short Term Liabilities)	49%	64%	72%
Solvency Ratio 2			
Current Ratio			
Current Assets/Current Liabilities	2.19	2.44	2.63
Liquid Ratio			
(Cash + Accounts Receivable + Short Term Deposits)/ Current Liabilities	1.26	1.67	2.02

	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14
Equity Ratio			
Equity to Total Assets	0.58	0.64	0.68
Debt to Equity Ratio			
(Short Term Debt + Long Term Debt)/Total Shareholders' Equity	0.71	0.56	0.47
Debt to Total Assets			
Total Debt/Total Assets	0.42	0.36	0.32

Financial Commentary

Fiscal Constraint

There is an expectation of a downturn in ACC reviews in the 2011-2012 year and the two following years. Although difficult in the short-term, commensurate cost reductions are reflected in the projected expenditure.

Capital Expenditure

Capital expenditure such as premises and information technology refreshment programmes and lease renewals will be funded by the prudent setting aside of any operating surplus in term deposits. The Board will consult with the shareholder Ministers on significant items of new capital expenditure. Capital expenditure estimates are:

- 2011-12 \$1,527,000;
- 2012-13 \$971,000;
- 2013-14 \$956,000.

Dividend Policy

The ability to provide dividends will be governed by the capital structure, profitability, capital expenditure requirements and any excess cash generated. The dividend policy will be set by the Board following consultation with the shareholding Ministers.

Assumptions

The key financial assumptions in the forecasts include a substantial reduction of the cost structure to match the reduction in revenue from reduced review volumes from ACC. Projections for new business growth are very conservative, since timing, scale and market sector are substantially uncertain. Similarly, projections exclude legislative change implications.

Financial statements

Statement of comprehensive income

Actual 2010-11 \$000		Forecast 2011-12 \$000	Forecast 2012-13 \$000	Forecast 2013-14 \$000
Income				
13,115	Income from reviews, mediations, transcripts	12,672	11,261	11,149
1,911	Income from other parties for services provided	1,750	1,800	1,850
425	New business and other income	1,000	1,400	1,650
48	Interest	15	10	25
15,499	Total income	15,437	14,471	14,674
Expenditure				
-7,739	Employee benefits	-8,124	-7,420	-7,530
-7,228	Administration, information technology, facilities management, depreciation	-6,705	-6,192	-6,080
-14,967	Total expenditure	-14,829	-13,612	-13,610
532	Operating surplus before tax	608	859	1,064
-128	Income tax expense	-170	-241	-298
404	Net surplus and total comprehensive income attributable to owners	438	618	766

Statement of financial position

Actual 2010-11 \$000	Forecast 2011-12 \$000	Forecast 2012-13 \$000	Forecast 2013-14 \$000
Current assets			
549	500	500	500
2,026	1,500	1,548	1,418
		475	1,175
1,826	1,472	1,166	926
4,401	3,472	3,689	4,019
Non-current assets			
779	1,440	1,670	2,296
189	410	450	300
968	1,850	2,120	2,596
5,369	5,322	5,809	6,615
Current liabilities			
117	75	110	130
648	700	700	700
400			
908	813	700	700
2,073	1,588	1,510	1,530
Non-current liabilities			
360	360	310	330
263	263	260	260
623	623	570	590
2,696	2,211	2,080	2,120
2,673	3,111	3,729	4,495
Equity			
400	400	400	400
2,273	2,711	3,329	4,095
2,673	3,111	3,729	4,495

Statement of cash flows

Actual 2010-11 \$000	Forecast 2011-12 \$000	Forecast 2012-13 \$000	Forecast 2013-14 \$000
Cash flows from operating activities			
15,264	15,948	14,913	15,105
50	15	10	25
-14,374	-14,449	-13,260	-13,188
-99	-	-	-
-191	-156	-217	-286
-52	-	-	-
598	1,358	1,446	1,656
Cash flows from investing activities			
	120		
-540	-1,127	-436	-826
-5	-400	-535	-130
-545	-1,407	-971	-956
Cash flows from financing activities			
		-475	-700
-1,850	-		
-1,850	-	-475	-700
-1,797	-49	0	0
2,346	549	500	500
549	500	500	500

Notes to the financial statements

For the Year Ended 30 June 2011

1. Summary of accounting policies

a. Reporting entity

Dispute Resolution Services Limited (the "Company") is a limited liability company incorporated and domiciled in New Zealand. Effective 20 June 2011, all the shares held by the Accident Compensation Corporation (ACC) were transferred to the Minister of ACC and the Minister of Finance and on that date became a Crown Entity in terms of the *Entities Act 2004*, and is wholly owned on behalf of the Crown by the 2 afore mentioned Ministers. In 2010 the immediate and ultimate parent of the company was ACC and for the year ended 2011 they held this position until 22 June 2011. The principal activity of the company is the provision of personal injury review and mediation services.

b. Statement of compliance

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for public benefit entities.

Standards and interpretations issued but not yet effective

The company has not applied the following standards and interpretations that have been issued but are not yet effective:

Reference	Title	Application date of standard	Impact on financial statements
NZ IFRS 9	Financial Instruments: Recognition and Measurement	1 January 2013	Disclosure only
NZ IFRS 27	Separate Financial Statements	1 January 2013	NIL
NZ IAS 28	Investments in Associates and Joint Ventures	1 January 2013	NIL
NZ IFRS 7	Financial Instruments: Disclosures	1 July 2011	Disclosure only
NZ IFRS 8	Operating Segments	1 January 2011	Disclosure only
NZ IFRS 10	Consolidated Financial Statements	1 January 2013	NIL
NZ IFRS 11	Joint Arrangements	1 January 2013	NIL
NZ IFRS 13	Fair Value measurement	1 January 2013	Disclosure only
FRS 44	New Zealand Additional Disclosures	1 January 2011	Disclosure only

The company will apply these, where applicable, for the reporting period beginning on or after the application dates set out above.

Notes to the financial statements

For the Year Ended 30 June 2011

c. Basis for preparation

The financial statements have been prepared in accordance with the *Crown Entities Act 2004*, the *Companies Act 1993* and the *Financial Reporting Act 1993*. The financial statements have also been prepared on the historical cost basis.

The functional and presentation currency is New Zealand Dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

d. Revenue recognition

Revenue is measured at the fair value of consideration given for completed review and mediation cases and an estimate of Work In Progress is made at year end for those cases that have not been completed.

All revenue is recognised in the period that the services are provided.

Interest revenue is recognised, as interest accrues using the effective interest method.

e. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

f. Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are non-interest bearing and are generally on 0-30 day terms.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due accordingly to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

g. Property, plant and equipment

Property, plant and equipment are recorded at historical cost less depreciation to date and any accumulated impairment losses.

Notes to the financial statements

For the Year Ended 30 June 2011

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the income statement.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation

All property, plant and equipment other than land are depreciated on a straight line basis at rates, which will write off their cost less estimated residual value over their expected useful lives.

Leasehold improvements are depreciated over the lower of the remaining life of the lease or 10 years.

Furniture, Fittings and Equipment	4 years
Network Equipment	5 years
Personal Computer Equipment	3 years

h. Intangible assets

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software by the Company, are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Notes to the financial statements

For the Year Ended 30 June 2011

Amortisation

Computer software assets are amortised on a straight-line basis over their estimated useful lives of between 5 to 7 years. Amortisation begins when the asset is available for use and ceases at the date the asset is disposed of. The amortisation charge for each period is recognised in the income statement.

i. Impairment of non-financial assets

Assets with a finite useful life are reviewed for impairment whenever events or changes in circumstance 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.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the Company would, if deprived of the asset, replace its remaining future economic benefits or service potential. The value in use or cash-generating assets is the present value of expected cash flows. If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the income statement.

j. Goods and Services Tax (GST)

These financial statements have been prepared on a GST exclusive basis.

Unpaid/ (overpaid) GST at balance date is included in current liabilities/ (current assets).

Receivables and payables are disclosed inclusive of GST if applicable.

k. Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employees expected to be settled within 12 months are measured at their nominal values based on accrued entitlements at current rates of pay.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Notes to the financial statements

For the Year Ended 30 June 2011

l. Payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

m. Provisions

Provisions are recognised when the Company has a present obligation (either legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Onerous contracts

Present obligations arising under onerous contracts are recognised as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the contractual obligations exceed the economic benefits estimated to be received.

n. Income tax

Income tax for the period is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred income tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using the tax rates that have been enacted or substantially enacted by balance date.

Notes to the financial statements

For the Year Ended 30 June 2011

o. Operating Leases

Where most of the risk and rewards of ownership are retained by the lessor, leases are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

p. Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2. Critical accounting estimates and assumptions

The following Accounting Estimates and or assumptions that are critical to the accounts have been used in the preparation of these accounts.

Work in Progress

Work in Progress at year end is calculated based on an estimated stage of completion.

Impairment of Intangible Assets

The company determines whether software intangible assets are impaired on an annual basis.

This requires an estimation of the asset's recoverable amount based on its value in use.

This requires management's estimates of future cash flows associated with the asset.

