## BENCHMARKS

**What is the purpose of this statement?**

The purpose of this statement is to disclose the Council's planned financial performance in relation to various benchmarks to enable the assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

The Council is required to include this statement in its Annual Plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

| Benchmark | | Planned | Met |
|---|---|---|---|
| Rates affordability benchmark: | | | |
| Income | 60% | 57.4% | YES |
| Increases (LGCI + 3%) | 4.9% | 4.7% | YES |
| Debt affordability benchmark: | 15% | 11.9% | YES |
| Balanced budget benchmark: | 100% | 99.8% | NO |
| Essential services benchmark: | 100% | 88.5% | NO |
| Debt servicing benchmark: | 10% | 5.0% | YES |

**Notes**

**Rates affordability benchmark**

(1) For this benchmark,—

(a) the council's planned rates income for the year is compared with quantified limits on rates contained in the financial strategy included in the council's long-term plan; and

(b) the council's planned rates increases for the year are compared with quantified limits on rates increases for the year contained in the financial strategy included in the council's long-term plan.

(2) The council meets the rates affordability benchmark if—

(a) its planned rates income for the year equals or is less than each quantified limit on rates; and

(b) its planned rates increases for the year equal or are less than each quantified limit on rates increases.

**Debt affordability benchmark**

(1) For this benchmark, the council's planned borrowing is compared with quantified limits on borrowing contained in the financial strategy included in the council's long-term plan.

(2) The council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing.

(3) The Council's 2015-2025 Long-Term Plan anticipated that our limit on borrowings would remain at or below 7% (being debt over assets), with an overall upper limit of 15%. In the 2017/18 Annual Plan we are now forecasting an 12% debt over asset ratio. This is mainly because of a $30 million transaction with Invercargill City Holdings Limited (ICHL). In October 2015, Council approved a major transaction for ICHL, enabling Electricity Invercargill Limited to add further capital to the Southern Generation Partnership for the purchase of the Aniwhenua Power Station. The raising of $30 million of debt was also approved for this transaction. In January 2016 Council approved that Council borrow $30 million in its own name and on lend this to ICHL at a market interest rate ICHL would be able to obtain in its own right, thus making an interest margin to ICC. This interest margin has been calculated in the 2017/18 Annual Plan to be $150,000 which has been used to offset rates.

**Balanced budget benchmark**
(1) For this benchmark, the council's planned revenue (excluding development contributions, vested assets, financial contributions, gains on derivative financial instruments, and revaluations of property, plant, or equipment) is presented as a proportion of its planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment).

(2) The council meets the balanced budget benchmark if its revenue equals or is greater than its operating expenses.
(3) The council does not meet the balanced budget benchmark (is running a deficit) in 2017/18. This is due to Council underfunding depreciation for the Roading Activity (in particular footpaths).

**Essential services benchmark**
(1) For this benchmark, the council's planned capital expenditure on network services is presented as a proportion of expected depreciation on network services.
(2) The council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.
(3) Although council does not meet the essential services benchmark in 2017/18, over time council's capital expenditure should equal its depreciation on network services. Council replaces its assets as they deteriorate therefore due to some projects being large, the benchmark will fluctuate above and below each year.

**Debt servicing benchmark**
(1) For this benchmark, the council's planned borrowing costs are presented as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment).
(2) Because Statistics New Zealand projects that the council's population will grow slower than the national population growth rate, it meets the debt servicing benchmark if its planned borrowing costs equal or are less than 10% of its planned revenue.