NOTICE OF MEETING

Notice is hereby given of an
Extraordinary Meeting of the
Invercargill City Council
to be held in the Council Chamber, First Floor
Civic Administration Building,
101 Esk Street, Invercargill
On Tuesday 21 November 2017 at 4.00 pm

His Worship the Mayor Mr T R Shadbolt JP
Cr R R Amundsen (Deputy Mayor)
Cr R L Abbott
Cr A J Arnold
Cr K F Arnold
Cr T M Biddle
Cr A H Crackett
Cr I L Esler
Cr G D Lewis
Cr D J Ludlow
Cr I R Pottinger
Cr L F Soper
Cr L S Thomas

RICHARD KING
CHIEF EXECUTIVE

A G E N D A

1. APOLOGIES

Cr K Arnold, Cr I L Esler and Cr A Arnold.

2. REPORT OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

To be circulated separately.

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TO:	**EXTRAORDINARY COUNCIL**
FROM:	**DIRECTOR OF FINANCE AND CORPORATE SERVICES**
MEETING DATE:	**TUESDAY 21 NOVEMBER 2017**

2016/17 ANNUAL REPORT SUMMARY

Report Prepared by: Melissa Short – Manager, Strategy and Policy

SUMMARY

The Annual Report Summary needs to be adopted by Council and made available to the public prior to 30 November 2017.

RECOMMENDATIONS

That the Annual Report Summary is adopted by Council.

IMPLICATIONS

1.	*Has this been provided for in the Long Term Plan/Annual Plan?* The Annual Report Summary highlights key areas of the Annual Report.
2.	*Is a budget amendment required?* No
3.	*Is this matter significant in terms of Council's Policy on Significance?* No
4.	*Implications in terms of other Council Strategic Documents or Council Policy?* No
5.	*Have the views of affected or interested persons been obtained and is any further public consultation required?* No
6.	*Has the Child, Youth and Family Friendly Policy been considered?* Not applicable

FINANCIAL IMPLICATIONS

No financial implications arise from this report.

ANNUAL REPORT SUMMARY

The Local Government Act 2002 requires Council to make publicly available both its Annual Report and a Summary of its Annual Report, within one month of its adoption. The summary must represent, fairly and consistently, the information regarding the major matters dealt with in the Annual Report. The Annual Report Summary is attached as (***Appendix 1***) for Council's consideration. The Annual Report Summary has been audited by Audit New Zealand, Council's auditors. Once adopted by Council, an Audit Report will be provided for inclusion in the Summary.

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Mayor's Comment

He karere na te koromātua

The Local Government elections results of 2016 were surprising with one third of our most experienced sitting Councillors being replaced. Generally speaking the public have reacted positively to the changes. The other surprise is that the attempts at amalgamation have failed in Hawkes Bay, Wellington and Nelson when put to the vote and our future will now be decided by the new Government el[illegible]ed in September 2017. Considering the la[illegible] number of changes made regarding the [illegible]er o[illegible]cal Government over the last de[illegible]ade [illegible]kely [illegible]re changes are [illegible]n the pipel[illegible]e. P[illegible]ssib[illegible] he [illegible]atest challenge [illegible]e City Co[illegible]nc[illegible] [illegible]ould fa[illegible] m[illegible] be th[illegible]titud[illegible] of cha[illegible]ge[illegible] ta[illegible]ing [illegible]la[illegible]e a[illegible] an [illegible]cutive lev[illegible] Greg[illegible]ulv[illegible] o[illegible] th[illegible] ILT, [illegible]ich[illegible]d Ki[illegible] Mark O'Co[illegible] o[illegible] South P[illegible]rt, [illegible]hn Pren[illegible]rgast of C[illegible]S ha[illegible] [illegible]esigned withi[illegible] a rela[illegible]ively short time fr[illegible]n last y[illegible]s Annual Re[illegible] I wrote ab[illegible] my concern[illegible] [illegible]ver [illegible] ele[illegible]tri[illegible]ity transmission costs and the Christmas lights from China. We seemed to be taking a hammering over both these issues. This year we could be facing far more positive responses to Council initiatives. The branding of Invercargill's CBD has been a spectacular success. The Stags trip to Japan along with their new CD is proving incredibly popular. The electricity authority is heroically refusing to buckle under pressure from the political powerho[illegible]e of Auckland. They are insisting tha[illegible]orm is neede[illegible] Finally Council will be [illegible]ting with sty[illegible] our new water purificatio[illegible]t at [illegible]olme. W[illegible] need to fin[illegible] an [illegible]te[illegible]ive s[illegible]rce [illegible]ater [illegible] magnetic [illegible]er[illegible]a[illegible] surve[illegible] sh[illegible]ul[illegible] hel[illegible] us ach[illegible] this obj[illegible]tiv[illegible] [illegible]ll thin[illegible] cons[illegible]ered w[illegible] can fe[illegible] proud [illegible]ou[illegible] [illegible]chiev[illegible]nt[illegible]

Invercargill
CITY COUNCIL

Chief Executive’s Comment

He karēre na te tumu whararae

Council’s Vision:
Creating an exciting, innovative, safe, caring and friendly City offering lifestyles based on a healthy environment and diverse growing economy.

I am pleased to present the Invercargill City Council’s 2016/17 Annual Report. This will be my final comment as Chief Executive of Invercargill City Council, and it is only fitting I go out the way I arrived at the building – balancing the books – from the ICC Treasury Department to the role of Chief Executive it has been an interesting journey across many financial years and journal entries.

This Annual Report is one that the Council, Staff and Community alike can be proud of. We are focusing our attention on areas that have been driven by demand, renewing our infrastructure network and investing in our Central Business District.

In late 2016 the Southland Regional Development Strategy launched their Action Plan on how we can grow our City to entice more residents and visitors to experience everything we have to offer, we are working hard to achieve a number of areas of this. An important part of this is reinvigorating our Central Business District. Council believes that our CBD is something we can be proud of and have invested in building a business hub right in the heart. This is expected to be fully tenanted soon and will bring in rental income for our Council in the upcoming years, as well as retaining existing businesses in an area we anticipate to grow.

To add to this we have been achieving great success with numerous Council-run events within the CBD such as a Halloween event for children trick or treating around the stores, Christmas events where families were encouraged to create gingerbread houses and hosting a Matariki Festival that lit up the City.

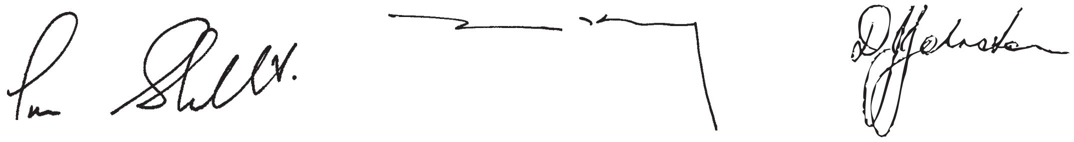
Further, our Council has developed a new brand specifically for our City branding. ‘Dream Big’ tells the story of our quiet achievers, how we celebrate our successes and remind ourselves that we live in a City where anything is possible. This brand inspires not only our CBD but the entire City, reminding us that we live in a City where we can dream big and have it all. This has been successful in its launch and I look forward to seeing how it is developed and progresses in the future.

I would like to take this opportunity to thank both the Councillors former and existing, as well as Staff that I have had the pleasure of working with over the past 31 years. I could not have asked for a better group of people to share my working weeks with and feel honoured to have worked alongside you all. Together we have achieved many great things for Invercargill.

Over my time at Council, I have witnessed a number of big changes to this City, and it continually transitions into a better and greater place to live and work. I look forward to seeing what the Council can achieve in the upcoming years; I for one know that this City offers a fabulous lifestyle and that we are incredibly lucky to live in the best part of the world.

Richard King
CHIEF EXECUTIVE

In the opinion of the Council and management of Invercargill City Council, this Summary Annual Report represents fairly and consistently the financial position and operations of Council as detailed in the Annual Report 2016/17. This Summary Annual Report is authorised for release by the undersigned on 21 November 2017.



Tim Shadbolt, Mayor

Richard King,
Chief Executive Officer

Dean Johnston
Director of Finance
and Corporate Services

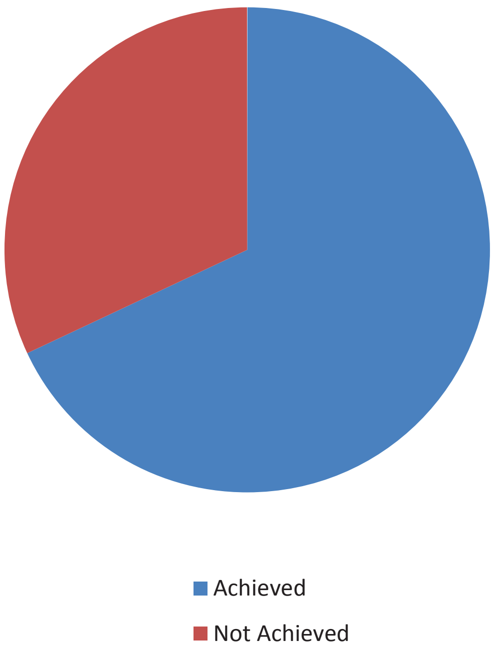
Summary of Service

SUMMARY OF ACTIVITIES AND LEVELS OF PERFORMANCE

The 2016/17 Annual Plan identified 100 levels of service against which its performance would be measured for its activities. 29 of these were Department of Internal Affairs measures. The levels of service were what Council wanted to provide to its community and the actual measurement indicates whether or not it has been delivered.

Council achieved 66 out of 100 measures.

In the graph (right), "Achieved" means that the 2016/17 performance measure was met or exceeded. "Not Achieved" means the 2016/17 performance measure was not undertaken or not provided to the target level.



This Annual Report details the performance measures and their achievement for the activities. A summary of how these activities positively contribute towards Council's four Community Outcomes is detailed below.

Community Outcome	Activity and Performance Measure	2016/17 Target	2016/17 Actual
Healthy lifestyle in a healthy environment.	Civil Defence - Percentage of surveyed households prepared for an emergency including self-sufficiency for three days.	60% by 2021	Achieved Residents - 57% Farmers - 52% (2015/16: Achieved)
	Libraries and Archives - Membership as a percentage of the total population.	65% - 75%	Achieved - 71.83% (2015/16: Achieved)
	Passenger Transport - Homes in the Invercargill urban area are within 400 metres of a serviced bus route.	90%	Achieved - routes are unchanged from previous years - 90% (2015/16: Achieved)
	Pools - Number of visits to Splash Palace per head of Invercargill population.	At least 6	Achieved - 7.8 visits based on population of 51,696 (2015/16: Achieved 7.6)
	Public Toilets - Automated toilets are available 24 hours a day.	95%	Achieved - 95% (2015/16: 99%)
	Water Supply - Ministry of Health Grade.	Invercargill - Aa Bluff - Aa	Not Achieved - Invercargill is Aa, Bluff is Ab. (2015/16: Not Achieved)

Community Outcome	Activity and Performance Measure	2016/17 Target	2016/17 Actual
A diverse and growing economy.	Compliance - Parking patrols of Council managed parking spaces.	Average 100 hours patrolling per week.	Achieved (2015/16: Achieved - average of 108 hours)
	Destinational Marketing - Number of tourism businesses using Venture Southland services.*	>25	Achieved - 133 (78 trade/ conference/media, 43 campaign, 12 product development) (2015/16: Achieved - 105)
	Enterprise - Business Mentor Programme.	50 mentor/client matches.	Not Achieved - 36 (2015/16: Not Achieved)
	Investment Property - Rate of return is at least equal to the current market interest rate.	Achieve current market interest rate.	Achieved - 5.93% (2015/16: Achieved - 5.08%)
	Solid Waste Management - Maintain a regional materials discarded rate of 605kg disposed per person.	Maintain.	Not Achieved - 678kg (2015/16: Not Achieved - 653kg)
	Pools - Percentage of Swim School customers who rater their experience as good or very good when surveyed.	80%	Achieved - 92% (2015/16: Achieved - 85%)

* NB. The results are for the Southland Region, not just Invercargill.

Community Outcome	Activity and Performance Measure	2016/17 Target	2016/17 Actual
A city that is a great place to live and visit.	Building Control - Accreditation as a Building Consent Authority is retained.	100%	Not Achieved - 99.2% (2015/16: Not Achieved - 99.06%)
	Democratic Process - Percentage of residents survey respondents who provide a rating of satisfied or greater with the opportunities Council provides for community involvement in decision making.	50%	Not Achieved - 34% (2015/16: Not Achieved - 34%)
	Destinational Marketing - Number of media and famil* opportunities facilitated.	8 per year	Achieved - 30 (19 media, 11 trade) (2015/16: Achieved - 40)
	Housing - Rental does not exceed 30% of the gross superannuation benefit	<30%	Achieved - all rents are below 30% (2015/16: Achieved - all rents are below 30%)
	Parks and Reserves - Percentage of urban residents within 500 metres of a park or reserve.	100%	Achieved. (2015/16: Not Achieved - 96%)
	Passenger Transport - All members of the community have the opportunity to use the public transport.	Total Mobility Scheme is administered.	Achieved - Total Mobility administered and delivered to the community. (2015/16: Achieved - Total Mobility administered and delivered to the community).

*Famil – a free or low-cost trip for travel agents or consultants, provided by a travel wholesaler as a means of promoting their service.

Community Outcome	Activity and Performance Measure	2016/17 Target	2016/17 Actual
Strong, innovative leadership.	Animal Services - An increase in new dog registrations.	5% increase in new dog registrations from the 2015/16 registration period.	Achieved with an increase of 5% 2015/16 period: 8757 2016/17 period: 9194 (New measure)
	Compliance - Reduction in the number of infringements being sent to Courts for collection. (Number of tickets paid as a percentage total issued.)	75% of all tickets issued are paid without the need to refer to the Courts for collection.	Not Achieved - 67% of tickets issued were paid without being referred to the Courts. This is an improvement of 3% from 2015/16. (New Measure)
	Roading - Council's cycling network is fully marked.	Increasing percentage.	Achieved - Additional cycle network completed. (2015/16: Achieved)
	Sewerage - Service disruptions for individual properties are less than 12 hours.	100%	Not Achieved - 86% (2015/16: Not Achieved - 87.5%)
	Building Control - Statutory time frames for processing consents are met.	100%	Not Achieved - 99.25% (2015/16: Not Achieved - 99.06%)
	Stormwater - Complaints of stormwater blockage responded to within one hour.	90%	Not Achieved - 75% (2015/16: Achieved - 91.76%)

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Uncompleted Projects

Not all projects planned and funded in 2016/17 were completed. Projects valued over $100,000 which will now be completed or undertaken in 2017/18 are:

Community Services	
▪ Passenger Transport - National Regional Ticketing Project	$174,000 (funded from Rates)
▪ Passenger Transport - New Bus Shelter improvements	$265,000 (funded for Rates and NZTA)
Infrastructure and Services	
▪ Drainage - Sewerage - Clifton - Waste Water Treatment Plant	$1,572,239 (funded from Rates and Special Reserves)
▪ Drainage - Sewerage - Beatrice Street Treatment Pond	$150,000 (funded from Loans and Rates)
▪ Drainage - Sewerage - Mersey Street raising main	$950,000 (funded from Rates)
▪ Drainage - Sewerage - Queens Park Pipes	$130,000 (funded From Rates)
▪ Drainage - Stormwater Renewals - Prestonville pump installation	$125,236 (funded from Rates)
▪ Parks and Reserves - Operational plant	$235,663 (funded from Rates)
▪ Parks and Reserves - Surrey park grandstand	$256,125 (funded from Rates)
▪ Parks and Reserves - Storage Building	$200,000 (funded from Rates)
▪ Parks and Reserve - Chinese garden	$600,000 (funded from Special Reserves)
▪ Property - Bluff Service Centre	$109,000 (funded from Special Reserves)
▪ Property - Scottish Hall	$280,000 (funded from Loans)
▪ Property - Museum	$106,000 (funded from Special Reserves)
▪ Property - Library	$1,369,355 (funded from Loan and Special Reserves)
▪ Property - Administration Building	$3,526,000 (funded from Loan)
▪ Property - Splash Palace	$1,400,000 (funded from Loan)
▪ Roading - Surveillance Cameras	$154,919 (funded from Rates)
▪ Roading - Administration (Bluff boat ramp works)	$500,000 (funded from Loans)
▪ Roading - Streetlight 11 year programme	$368,000 (funded from Rates and NZTA)
▪ Roading - Chipseal Maintenance	$262,962 (funded from Rates and NZTA)
▪ Roading - Traffic Service renewals	$205,687 (funded from Rates and NZTA)
▪ Water - Branxholme duplicate pipeline	$280,000 (funded from Rates)
▪ Water - Supply to Awarua Industrial Estate	$100,000 (funded from Rates)
▪ Water - Branxholme plant upgrade	$345,000 (funded from Loan)
▪ Water - Emergency water supply	$202,000 (funded from Loan)
▪ Water - Waikiwi Pump Station pump and equipment	$240,000 (funded from Loan and Rates)
▪ Water - City Pump station and equipment	$200,000 (funded from Rates)
▪ Solid Waste - Transfer Station renewals	$196,643 (funded from Rates)
Finance and Policy	
▪ Investment Property - Don Street Development	$1,098,344 (funded from Loan)
▪ CBD Redevelopment - Inner City Upgrade capital works	$5,110,906 (funded from Loan and Special Funds)
▪ Grants - Walkway to Bluff (with Southland Regional Council)	$200,000 (funded from Rates)

Financial Overview

Financial Performance Summary	2015/16 $000	2016/17 $000
Rates Revenue	47,883	49,003
Other Revenue, Other Gains & Losses and Interest Revenue	36,614	37,927
Operating Expenditure including Interest Expenditure	83,645	86,962
Operating Surplus/(Deficit)	852	(32)
Working Capital (excluding loan facility)	8,551	(14,629)
Total Assets	783,386	938,060
External Debt	71,248	85,986
Fixed Assets (Net Book value)	670,691	812,463

Financial Statistics Summary	2015/16 $000	2016/17 $000
Proportion of rates to Total Operating Revenue	56.67%	56.37%
Average rate revenue per rateable property	$1,914.94	$1,944.87
External Term Debt (as a percentage of total assets)	9.09%	9.17%
External Term Debt (per rateable property)	$2,849.35	$3,412.68

Ratepayer Data	2015/16	2016/17
Total Rateable Properties	25,005	25,196

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Financial Prudence Benchmarks

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

The Council is required to include this Statement in its Annual Report 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.

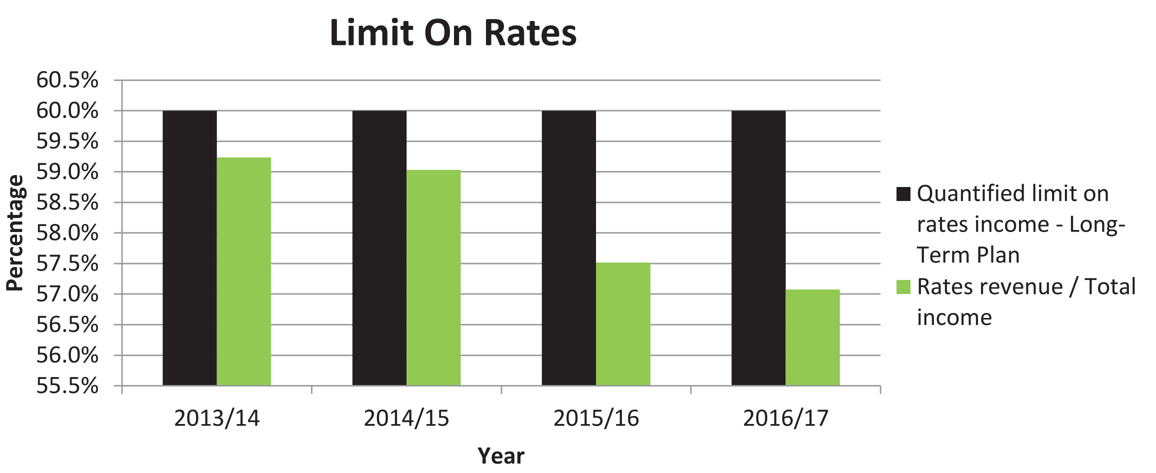
KEY Benchmark Met | Benchmark Not Met | Benchmark

RATES (INCOME) AFFORDABILITY BENCHMARK

	2013/14 $000	2014/15 $000	2015/16 $000	Year of Annual Report 2016/17 $000
Total Rates Revenue - Annual Report	45,781	46,022	47,883	49,003
Other income - Annual Report	31,504	31,940	35,369	36,854
Total Income - Annual Report	77,285	77,962	83,252	85,857

The Council meets the rates affordability benchmark if -
- its actual rates income equals or is less than each quantified limit on rates; and
- its actual rates increases equal or are less than each quantified limit on rates increases.

The following graph compares the Council's actual rates income with the limit imposed in the Long-Term Plan being ***"Rates revenue as a source will not exceed 60% of its total revenues".***



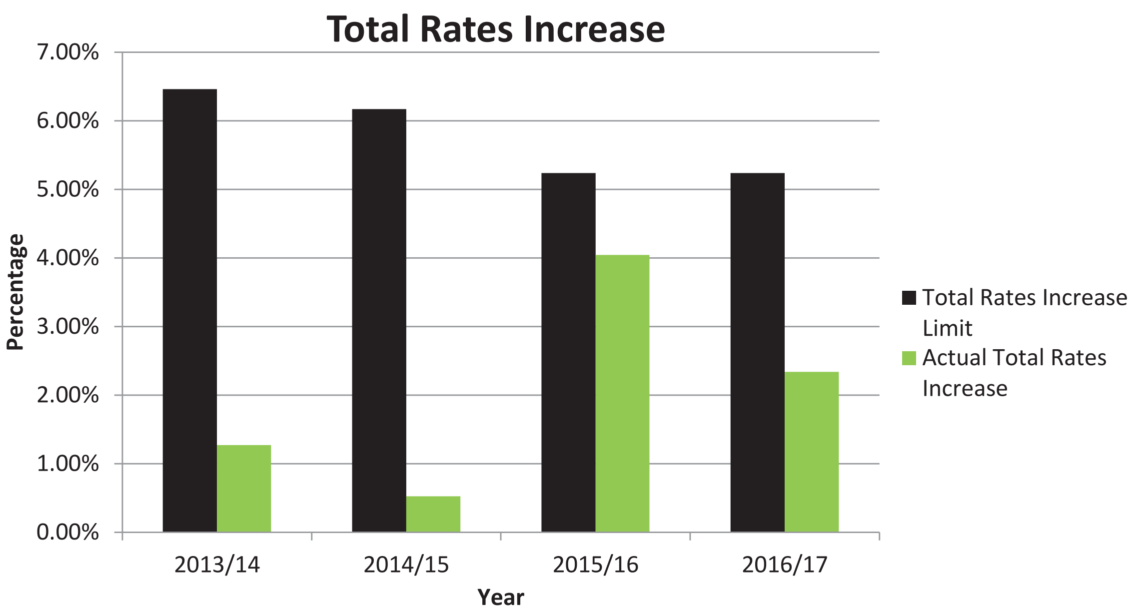
Council aims to maintain the rates collected at a maximum of 60% of the total Council revenue. Council has achieved this over the past four years.

TOTAL RATES INCREASE

	2013/14 $000	2014/15 $000	2015/16 $000	Year of Annual Report 2016/17 $000
Total Rates Revenue - Annual Report	45,781	46,022	47,883	49,003
LGCI (Local Government Cost Index)	3.46%	3.17%	2.24%	2.24%
Additional Limit	3.00%	3.00%	3.00%	3.00%

The Council meets the rates affordability benchmark if -
- its actual rates income equals or is less than each quantified limit on rates; and
- its actual rates increases equal or are less than each quantified limit on rates increases.

The following graph compares the Council's actual rates income with the limit imposed in the Long-Term Plan being ***"Total rates increases will be limited to forecast LGCI + 3.0%".***



Council's financial strategy aims to limit rates increase to forecast LGCI + 3.0%. As shown above Council has achieved this goal for the last four financial years.

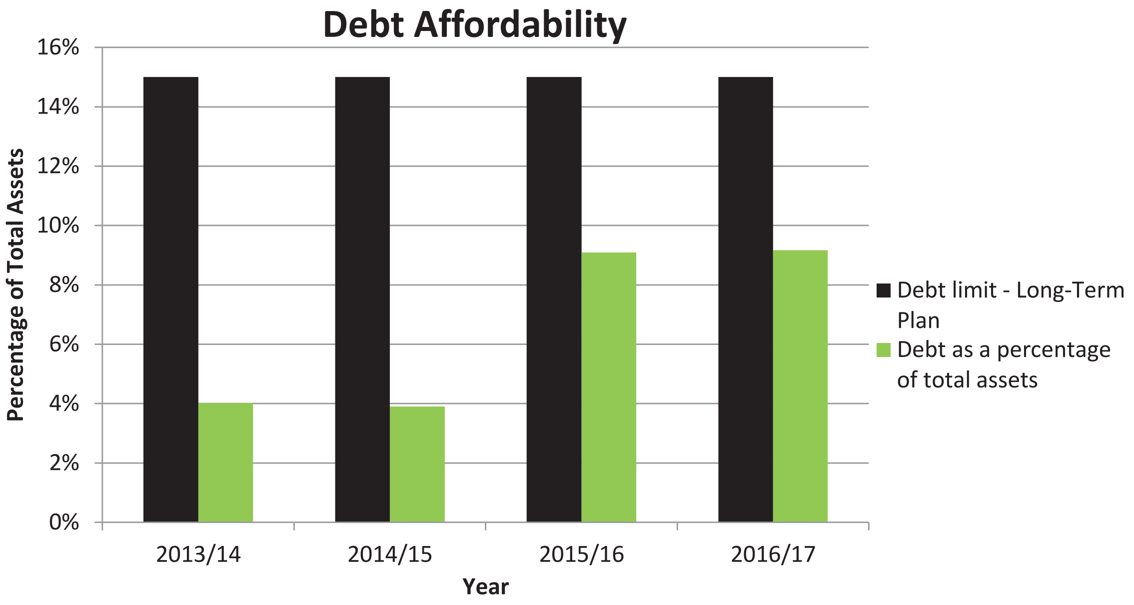
DEBT AFFORDABILITY BENCHMARK

	2013/14 $000	2014/15 $000	2015/16 $000	Year of Annual Report 2016/17 $000
Total Assets - Annual Report	740,095	739,944	783,386	938,060
External Borrowing	29,716	28,861	71,248	85,986

The Council meets the debt affordability benchmark if its actual borrowings is within each quantified limit on borrowing.

Council's current and historical limit per the Long-Term Plan is that borrowing of external funds is limited to 15% of total assets.

The following graph compares the Council's actual borrowing with this limit.



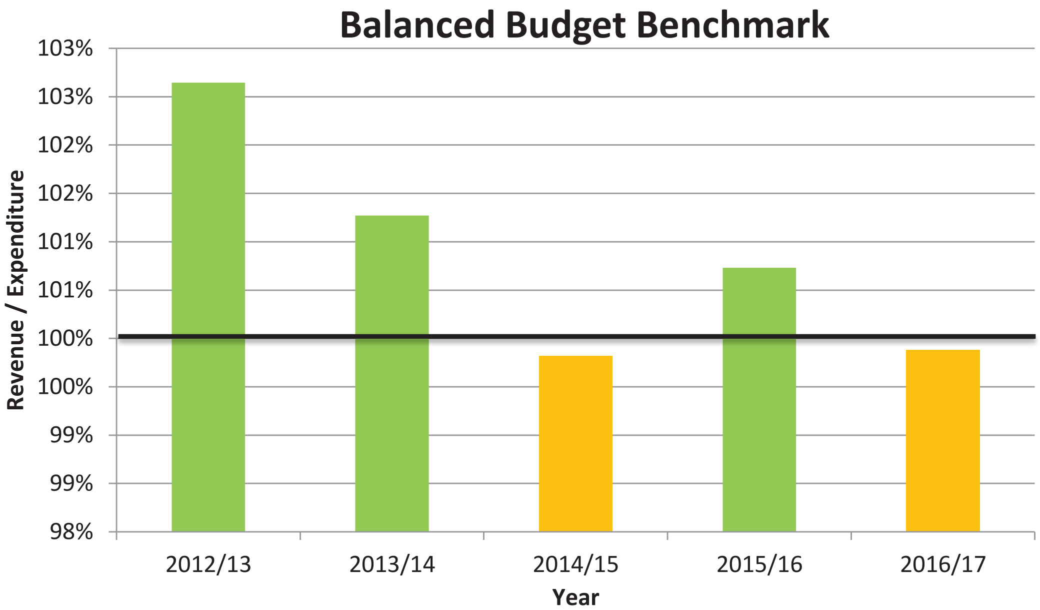
The Council has a low percentage of debt in relation to total assets, and is mindful of keeping debt to a manageable level. Council considers that setting a borrowing limit of 15% of assets will assist in prudently managing Council's borrowing activities to ensure the ongoing funding of Council.

During the 2016/17 year Council increased actual debt from around $72m up to $86m. The 2016/17 year was also an asset revaluation year and this saw the Council's total assets increase from $741m to $908m. The effect of these two increases has meant the above benchmark has remained around 9% over the past two years.

BALANCED BUDGET BENCHMARK

	2012/13	2013/14	2014/15	2015/16	Year of Annual Report 2016/17
	$000	$000	$000	$000	$000
Total Revenue (Excluding *)	76,776	77,285	77,962	84,474	87,495
Total Expenditure (Excluding ^)	74,797	76,314	78,104	83,860	87,602

The following graph displays the Council's revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant and equipment) as a proportion of operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant and equipment). The Council meets this benchmark if its revenue equals or is greater than its operating expenses.



* Excludes - Development contributions, financial contributions, vested assets, gains on derivative financial instruments and revaluation gains.

^ Excludes - Losses on derivative financial instruments and revaluations of property, plant and equipment.

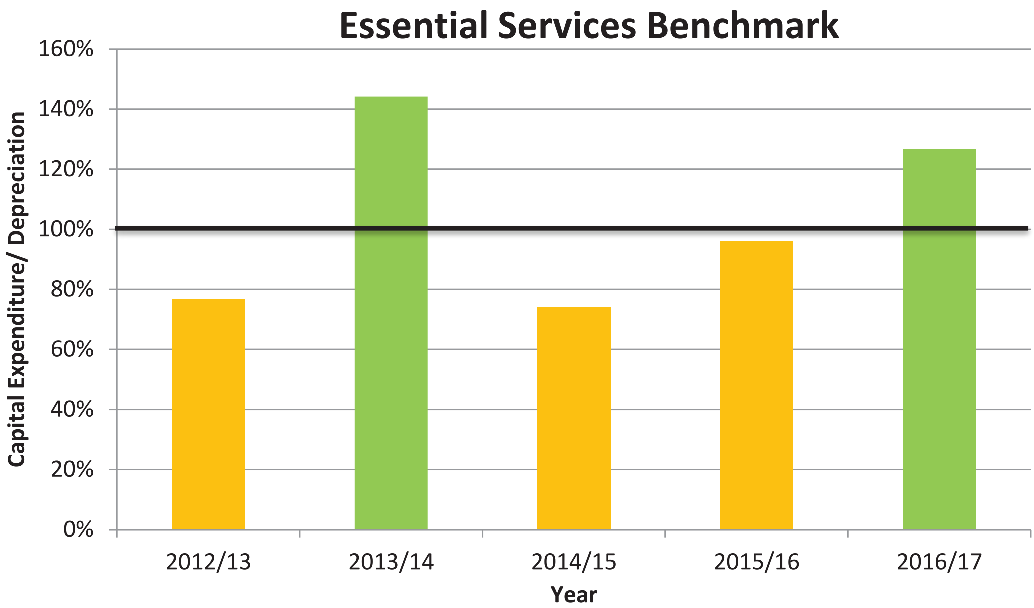
Note: Only revaluations of property, plant and equipment are excluded. Revaluation gains and losses on forestry, investments, investment property and carbon credits are included.

Council is aware of the issue of affordability and financial sustainability. Council revenue has been greater than its operating expenses for three of the past five years. Council continues to investigate efficiencies to reduce expenditure and increase other revenue, and by doing so reduce the revenue needed from rates.

ESSENTIAL SERVICES BENCHMARK

	2012/13 $000	2013/14 $000	2014/15 $000	2015/16 $000	Year of Annual Report 2016/17 $000
Capital Expenditure (Additions) *	11,047	21,468	12,455	16,684	23,977
Depreciation ^	14,412	14,895	16,839	17,373	18,928

The following graph displays the Council's capital expenditure on network services as a proportion of depreciation on those network service assets. The Council meets this benchmark if its capital expenditure on network services equals or is greater than the depreciation of those network service assets.



* Capital expenditure on network assets has been deemed to be additions to Infrastructural Assets as per Note 12: Property, plant and equipment.

^ Depreciation on network assets has been deemed to be depreciation of Infrastructural Assets as per Note 12: Property, plant and equipment.

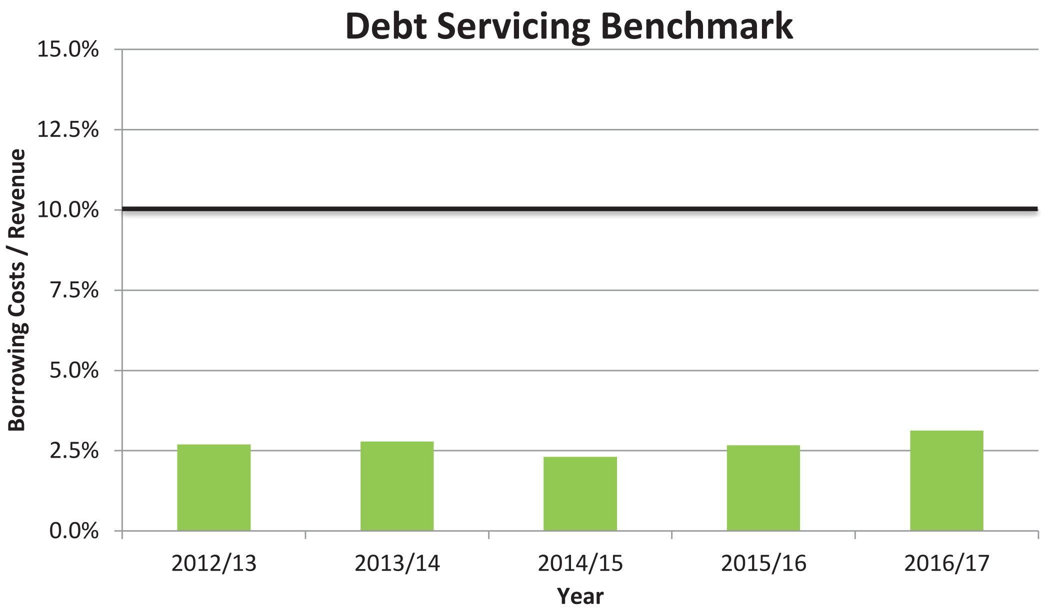
Over time Council's capital expenditure should equal its depreciation, which will mean that Council is replacing its assets as they deteriorate. However, due to some projects being large, it is hard to assess this on a year-by-year basis. During the 2016/17 year Council spent more on capital expenditure than depreciation. This was largely due to the completion of some large capital projects, in particulary the Branxholme treatment plant upgrade.

DEBT SERVICING BENCHMARK

	2012/13 $000	2013/14 $000	2014/15 $000	2015/16 $000	Year of Annual Report 2016/17 $000
Borrowing Costs *	2,070	2,154	1,801	2,253	2,738
Revenue (Balanced Budget)	76,776	77,285	77,962	84,474	87,495

The following graph displays the Council's borrowing costs as a proportion of revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant and equipment).

Because Statistics New Zealand projects that the Council's population will grow more slowly than the national population growth rate, then Council meets the debt servicing benchmark if its borrowing costs equal or are less than 10% of its revenue.



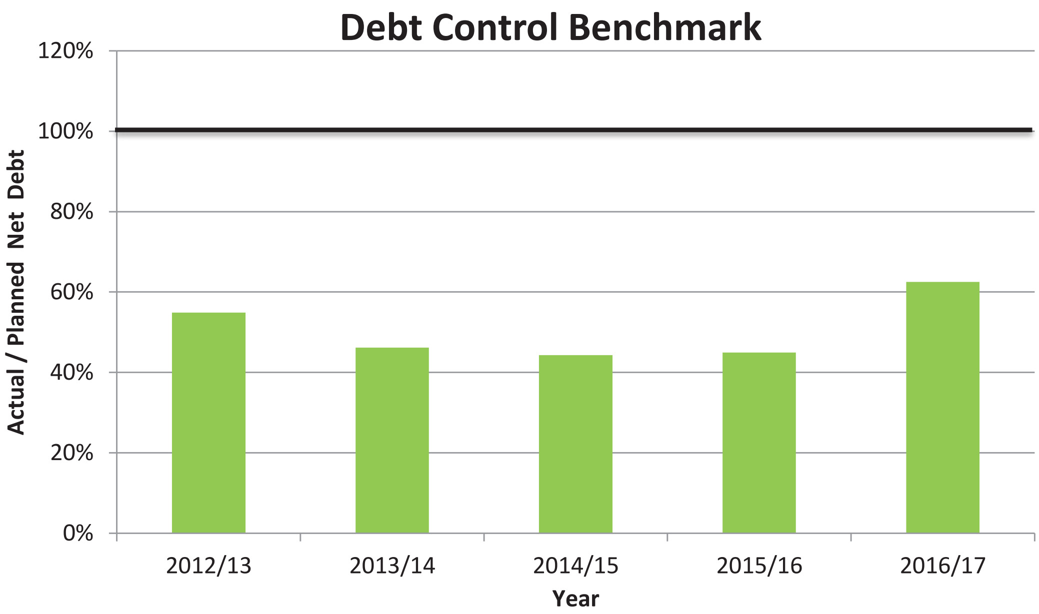
* Deemed to be Finance Expenses from the Statement of Comprehensive Revenue and Expense.

Council's cost of debt is well under the legislative threshold of 10% of revenue. Borrowing costs have increased over the past two years due to the refinancing of internal debt with external debt.

DEBT CONTROL BENCHMARK

	2012/13	2013/14	2014/15	2015/16	Year of Annual Report 2016/17
Actuals	$000	$000	$000	$000	$000
Financial Assets - Annual Report *	21,843	13,746	15,278	59,529	60,704
Financial Liabilities - Annual Report ^	50,958	38,989	39,803	81,978	96,838
Actual Net Debt	29,115	25,243	24,525	22,449	36,134
Planned					
Financial Assets *	10,855	12,699	16,063	7,833	55,847
Financial Liabilities ^	63,918	67,368	71,436	57,791	113,616
Planned Net Debt	53,063	54,669	55,373	49,958	57,769

The following graph displays the Council's actual net debt as a proportion of planned net debt. In this statement net debt means financial liabilities less financial assets (excluding trade and other receivables).



* Financial Assets (excluding trade and other receivables) - as per Annual Report or Annual Plan (LTP) - Statement of Financial Position.

^ Financial Liabilities - as per Annual Report or Annual Plan (LTP) - Statement of Financial Position

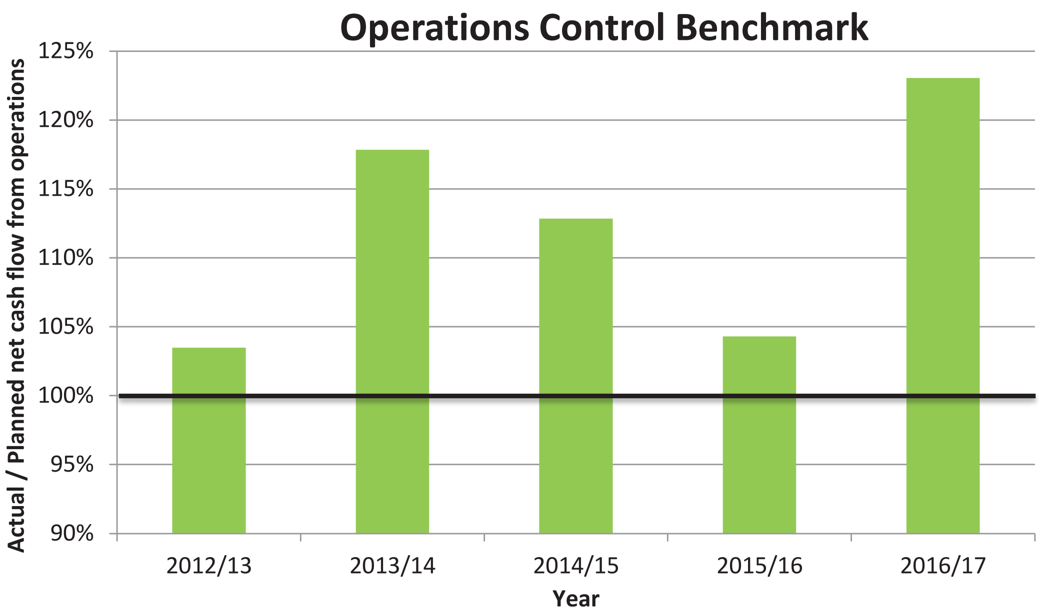
Council's actual net debt position has consistently been below its planned net debt position for the past five years. Council's net debt has remained lower than planned net debt due to the deferral of large debt funded capital projects, in particular the capital work required for the Civic Adminstration Building.

OPERATIONS CONTROL BENCHMARK

	2012/13 $000	2013/14 $000	2014/15 $000	2015/16 $000	Year of Annual Report 2016/17 $000
Actual Net Cash flows from Operations *	18,530	20,248	20,906	20,370	23,094
Planned Net Cash flows from Operations ^	17,907	17,183	18,526	19,530	18,769

This graph displays the Council's actual net cash flow from operations as a proportion of its planned net cash flow from operations.

The Council meets the operations control benchmark if its actual net cash flow from operations equals or is greater than its planned net cash flow from operations.



* Taken from the Statement of Cash Flows in the relevant year's Annual Report.
^ Taken from the Statement of Cash Flows in the relevant year's Long-term Plan.

Council has consistently met the operations control benchmark, with actual net cash flows from operations slightly higher than planned cash flows in all five years.

Summary Statements

SUMMARY STATEMENT OF FINANCIAL POSITION

As at June 30, 2017

	Council Actual 2017 ($000)	Council Budget 2017 ($000)	Council Actual 2016 ($000)	Group Actual 2017 ($000)	Group Actual 2016 ($000)
Equity	**836,485**	**739,907**	**696,746**	**930,483**	**767,465**
Represented by:					
Current assets	34,178	16,525	42,026	38,331	43,210
Non-current assets	903,882	840,930	741,360	1,104,446	927,271
Total assets	938,060	857,455	783,386	1,142,777	970,481
Current liabilities	48,807	16,326	33,475	53,634	152,679
Non-current liabilities	52,768	101,222	53,165	158,660	50,337
Total liabilities	101,575	117,548	86,640	212,294	203,016
Net assets	**836,485**	**739,907**	**696,746**	**930,483**	**767,465**

SUMMARY STATEMENT OF CHANGES IN NET ASSETS

For the year ended June 30, 2017

	Council Actual 2017 ($000)	Council Budget 2017 ($000)	Council Actual 2016 ($000)	Group Actual 2017 ($000)	Group Actual 2016 ($000)
Balance at 1 July	696,746	694,070	696,108	767,465	763,762
Total comprehensive revenue and expense for the year	139,739	45,837	638	163,018	3,703
Balance at 30 June	**836,485**	**739,907**	**696,746**	**930,483**	**767,465**
Attributable to:					
Invercargill City Council	836,485	739,907	696,746	927,632	764,614
Minority interest	-	-	-	2,851	2,851
Balance at 30 June	**836,485**	**739,907**	**696,746**	**930,483**	**767,465**
Components of net assets					
Retained earnings	393,975	397,502	398,739	459,036	443,731
Restricted and non-restricted reserves	31,250	20,484	26,518	31,797	27,065
Hedging reserve	(501)	(568)	(1,122)	(2,425)	(4,493)
Carbon credit revaluation reserve	335	-	340	335	340
Asset revaluation reserve	411,426	322,489	272,271	441,740	300,822
	836,485	**739,907**	**696,746**	**930,483**	**767,465**

SUMMARY STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended June 30, 2017

	Council Actual 2017 ($000)	Council Budget 2017 ($000)	Council Actual 2016 ($000)	Group Actual 2017 ($000)	Group Actual 2016 ($000)
Total Revenue	83,887	82,588	82,209	111,660	108,380
Less:					
Operating expenditure on activities	84,224	85,913	81,392	110,657	103,137
Results from operating activities	(337)	(3,325)	817	1,003	5,243
Less:					
Net finance costs	768	1,752	1,210	4,507	4,076
Operating surplus (deficit) before tax	(1,105)	(5,077)	(393)	(3,504)	1,167
Plus:					
Other gains/(losses)	1,073	696	1,245	21,599	3,604
Share of associates' and joint ventures' surplus (deficit)	-	-	-	4,830	3,681
Surplus (deficit) before tax	(32)	(4,381)	852	22,925	8,452
Less:					
Income tax expense	-	-	-	2,988	2,774
Surplus (deficit) after tax	**(32)**	**(4,381)**	**852**	**19,937**	**5,678**
Attributable to:					
Invercargill City Council	(32)	(4,381)	852	19,916	5,657
Minority interest	-	-	-	21	21
	(32)	**(4,381)**	**852**	**19,937**	**5,678**
Other comprehensive revenue and expense					
Property, plant and equipment revaluation gains/(losses)	139,155	50,218	-	141,018	-
Carbon credit revaluation gains/(losses)	(5)	-	340	(5)	340
Cash flow hedges	621	-	(554)	2,068	(2,315)
Total other comprehensive revenue and expense	139,771	50,218	(214)	143,081	(1,975)
Total comprehensive revenue and expense	**139,739**	**45,837**	**638**	**163,018**	**3,703**
Total comprehensive revenue and expense attributable to:					
Equity holders of the Council	139,739	45,837	638	162,997	3,682
Minority interest	-	-	-	21	21
	139,739	45,837	638	163,018	3,703

SUMMARY CASH FLOW STATEMENT

For the year ended June 30, 2017

	Council Actual 2017 ($000)	Council Budget 2017 ($000)	Council Actual 2016 ($000)	Group Actual 2017 ($000)	Group Actual 2016 ($000)
Net cash flows from operating activities	23,094	18,769	20,370	23,360	23,911
Net cash flows from investing activities	(38,551)	(27,040)	(58,707)	(32,683)	(73,144)
Net cash flows from financing activities	14,734	8,220	42,387	10,844	46,793
Net increase (decrease) in cash, cash equivalents and bank overdrafts	(723)	(51)	4,050	1,521	(2,440)
Cash, cash equivalents and bank overdrafts at the beginning of the year	8,519	4,419	4,469	11,378	13,818
Cash, cash equivalents and bank overdrafts at the end of the year	**7,796**	**4,368**	**8,519**	**12,899**	**11,378**

Explanation of Major Variances

For the year ended June 30, 2017

Actual 2017 against Budget 2017

Statement of Financial Position

1. Current assets are higher than budget because some actual financial asset investments, including some short term deposits, were reclassified from non-current assets to current assets but remained as non-current assets in the budget.

2. Non-current assets are higher than budget because the 3 yearly revaluation of Council's infrastructure assets was significantly higher than anticipated. These revaluations are prepared by Council staff and then reviewed by AECOM NZ Ltd.

3. Current liabilities are higher than budget because $35m of actual loans being reclassified from non-current to current but remaining as non-current liabilities in the budget. Non-current liabilities are lower than budget for the same reason. Total borrowings were less than budget because some capital expenditure projects have been deferred.

Statement of Comprehensive Revenue and Expense

4. Total revenue was higher than budget because of rental revenue from commercial sites being greater than anticipated.

5. Operating expenditure on activities was lower than budget due to operational savings within the Infrastructure areas of Council. Major areas where savings have been reduced are Contractor costs($604k),Electricity ($314k), Street Cleaning expenses ($214k) and Waste collection charges ($235k). These General expenditure savings are a result of Management judgements in accessing expenditure requirements within the financial year.

6. Net finance costs were lower than budget due to the Council's average rate of borrowing being lower than anticipated during 2016/17 and because some loan funded capital expenditure projects have been deferred.

7. Other gains/(losses) were higher than budget due to the revaluation of Council's forestry assets being higher than anticipated. These valuations were provided by independent valuers.

Actual 2017 against Actual 2016

Statement of Comprehensive Revenue and Expenses

1. Total revenue was higher than 2016 because of an increase in rates revenue and from Council activities such as timber sales, dog registrations and dividends received.

2. Operating expenditure on activities was higher than 2016 because of increases in depreciation, employee expenses, and in the administration areas of Council.

Notes to the Financial Statements

For the year ended June 30, 2017

The full financial statements are contained in the Annual Report, which can be viewed on the Council website at www.icc.govt.nz. Annual Report hard copies are available from the Civic Administration office at 101 Esk Street, Invercargill.

Basis of preparation

The Council is a public benefit entity for financial reporting purposes. The financial statements have been prepared in accordance with Tier 1 PBE accounting standards and comply with Public Benefit Entity standards and other applicable Financial Reporting Standards, as appropriate for public benefit entities. The Annual Report 2016/17 includes a Statement of Compliance to this effect.

The summary financial statements are in compliance with PBE FRS 43 - Summary Financial Statements.

Audit New Zealand has audited Council's full Annual Report and Summary and has issued an unmodified report on both.

The disclosures included in the summary financial statements have been extracted from the full financial information in the Annual Report 2016/17 which was adopted by the Council on 31 October 2017.

The summary financial statements cannot be expected to provide as complete an understanding as provided by the full financial statements.

The summary financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars.

There have been no significant changes to accounting policies during the year.

Events after balance date

Invercargill City Forests Limited, a subsidiary of ICC sold its 24.9% share in IFS Forestry Group Limited on 30 September, 2017.

Audit Opinion

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Invercargill
CITY COUNCIL

INVERCARGILL CITY COUNCIL • PRIVATE BAG 90104 • INVERCARGILL 9840 • NEW ZEALAND
PHONE (03) 211 1777 • FAX 03 211 1433 • www.icc.govt.nz

TO:	**EXTRAORDINARY COUNCIL**
FROM:	**DIRECTOR OF FINANCE AND CORPORATE SERVICES**
MEETING DATE:	**TUESDAY, 21 NOVEMBER 2017**

FINANCIAL POLICIES

Report Prepared by: Melissa Short – Manager, Strategy and Policy

SUMMARY

The revised Investment and Liability Management Policies are provided for Council's consideration.

RECOMMENDATIONS

That the Investment Policy and the Liability Management Policy be adopted.

IMPLICATIONS

1.	*Has this been provided for in the Long Term Plan/Annual Plan?* Yes
2.	*Is a budget amendment required?* No
3.	*Is this matter significant in terms of Council's Policy on Significance?* No
4.	*Implications in terms of other Council Strategic Documents or Council Policy?* Amends two key policies.
5.	*Have the views of affected or interested persons been obtained and is any further public consultation required?* No
6.	*Has the Child, Youth and Family Friendly Policy been considered?* Not applicable.

FINANCIAL IMPLICATIONS

No financial implications arise from this report.

FINANCIAL POLICIES

The Liability Management (Appendix 1) and Investment (Appendix 2) Policies are two of the key policies that help Council direct and inform its Long-term Plan process.
Members of the Financial Services team have reviewed the policies and have made recommendations for minor changes as listed below:

Investment Policy

- Amend “accounting function” to “treasury function” throughout the document.
- Addition of the word “total” on page 6. The sentence now reads “Investment Property – a financial assessment including a calculation and assessment of the total cost of ownership, and the likely returns to be generated from that ownership.”
- Page 6 - Amend the “short term and long term cash flow projections which are updated monthly” to be “weekly”.
- Page 6 - Delete the bullet that reads “A target average daily balance of $0 to $100,000 is aimed for in the main bank account, with surplus transferred to call deposits”.

Liability Management

- Page 4 - Amend “25 years” to read “an appropriate period of time determined by the asset involved” in the Intergenerational Equity bullet point.
- Page 5 – Add “or operating surpluses” to the list in the first bullet.
- Page 5 – Add “used to repay debt or” in the second bullet.

****

LIABILITY MANAGEMENT POLICY

Effective from 29 October 2014

Purpose

Council borrows for the following primary purposes:

- General debt to fund Council's capital works primarily on infrastructure assets. The use of debt is seen as an appropriate and efficient mechanism for promoting intergenerational equity between current and future ratepayers in relation to Council's assets and investments.
- Short term debt to manage timing differences between cash inflows and outflows, and to maintain Council's liquidity.
- Specific debt associated with significant "one-off" projects and non-financial investments from time to time.
- Borrowing through hire purchase, credit, deferred payment or lease arrangements in the ordinary course of Council business.

Scope

Local Government Act 2002 Requirements

Section 104 of the Local Government Act 2002 provides that the Liability Management Policy required to be adopted under Section 102(1) must state the local authority policies in respect of liability management, including:

(a) Interest rate exposure

(b) Credit exposure

(c) Liquidity

(d) Debt repayment

Objectives

The objectives of the Liability Management Policy are consistent with market best practice and will take into account Council's 10 year plans as set out in the Long-Term Plan. The key Liability Management objectives in relation to borrowings are to:

- Prudently manage Council's borrowing activities to ensure the ongoing funding of Council.
- Borrow only under Council approved facilities and as permitted by this policy.
- Minimise borrowing costs within prudent risk management control limits.

- Manage exposure to adverse interest rate movements.
- Ensure operational controls and procedures to protect Council against financial loss, opportunity cost and other inefficiencies are maintained.

Borrowing Management and Internal Controls

Council approves policy parameters in relation to borrowing activities.

Council approves, by resolution, the borrowing requirement for each financial year in the Annual Plan or Long-Term Plan or by later resolution during the year.

Council considers the impact on its borrowing limits as well as the size and the economic life of the asset that is being funded and its consistency with Council's Long-Term Plan.

A resolution of Council is not required for hire purchase, leased, credit or deferred purchase of goods if:

- The period of indebtedness is less than 365 days; or
- The goods or services are obtained in the ordinary course of operations on normal commercial terms for amounts not exceeding in aggregate $50,000.

Council's Chief Executive has overall responsibility for the operations of Council.

The Director of Finance and Corporate Services reviews regular treasury reports to ensure compliance with policies, procedures and risk limits and has overall responsibility for setting risk management strategies in relation to the implementation of this treasury policy. The Director will also oversee the management of Council's relationship with financial institutions and the negotiation of borrowing facilities with bankers, the appointment of brokers/arrangers/managers.

Council's borrowing activities are managed centrally through its accounting function. The accounting function is broadly charged with the following responsibilities:

- Manage Council's borrowing programme to ensure funds are readily available at margins and costs favourable to Council.
- Raise authorised and appropriate borrowing, in terms of both maturity and interest rate strategies.
- Manage the impact of market risks such as interest rate risk and liquidity on Council's borrowing by undertaking appropriate hedging activity in the financial markets.
- Minimise adverse interest rate related increases on ratepayer charges and maintain overall interest costs within budgeted parameters.
- Provide timely and accurate reporting of treasury activity and performance.

Council is prohibited from borrowing in a foreign currency by Section 113 of the Local Government Act 2002.

Interest Rate Exposure

Interest rate risk management refers to managing the impact that movements in interest rates can have on Council's cash flows. This impact can be both favourable and unfavourable. Council's ongoing borrowing requirement gives rise to direct exposure to interest rate movements.

Fixed / Floating Profile

Interest is incurred on any bank funding facility, issuance of local authority stock and other borrowing arrangements. This policy recognises that the longer the term of borrowing, the greater the interest rate risk. Longer term fixed rate borrowings may be of benefit if market interest rates rise, but equally may not allow the Council to take advantage of periods of low interest rates.

A balance is achieved through having variable terms with regard to interest rate resets.

The Council manages its interest rate exposures by defining minimum and maximum hedging percentages within various time buckets. These parameters are reviewed annually by the Director of Finance and Corporate Services. Any changes recommended must be approved by the full Council before inception. The table below shows an example of how minimum and maximum hedged or fixed rate exposure requirements within various time buckets are detailed in operational procedure and reporting documentation.

Interest Rate Maturity Profile Limit		
	Minimum Fixed Rate	**Maximum Fixed Rate**
Zero to two years	50%	100%
Two to five years	30%	80%
Five to ten years	0%	60%

Any hedging outside the determined parameters or for longer than 10 years must be approved by the Council, before initiation.

When managing the interest rate risk of the Council the hedging percentages relate to total core debt. Core debt cannot exceed borrowing projections as per the Long-Term Plan or Annual Plan or as approved by the Council.

Interest Rate Risk Management Contracts

Interest rate risk can be managed by using interest rate risk management contracts that allow the re-profiling of the portfolios including the:

- Hedging of up to 100% of repricing risk on existing fixed rate debt and issue yield risk on planned new debt within the next 12 month period.
- Converting fixed rate borrowing into floating rate or hedged borrowing and floating rate borrowing into fixed or hedged borrowing within the overall parameters of this policy.

The following interest rate risk management instruments are approved by Council:

- Interest Rate Swaps
- Forward Rate Agreements
- Interest Rate Options on approved underlying instruments, eg on Interest Rate Swaps or bonds.
- Interest Rate Collar Strategy, but only where the ratio of the face value and interest rate exposure on bought to sold legs is 1:1.

Credit Exposure

Council hedging can only be undertaken with approved New Zealand Registered Banks.

Liquidity and Funding Risk

Liquidity management refers to the timely availability of funds to Council when needed, without incurring penalty costs. Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and terms of existing facilities. A key factor of funding risk management is to reduce the concentration of risk at any one point in time so that if one-off internal or external negative credit events occur, the overall interest cost is not unnecessarily increased.

The following guidelines have been established to provide Council with appropriate levels of liquidity at all times, as follows:

- Cash flow forecasts will be produced to assist in the matching of operational and capital expenditure to revenue streams and borrowing requirements.
- Council will maintain its financial investments in liquid instruments.
- Council will ensure that, where sinking funds or Council created investments are maintained to repay borrowing, these investments are held for maturities not exceeding the relevant borrowing repayment date.
- To minimise the impact of unexpected cash surpluses, the Council will take advantage of the efficiencies of any floating rate loan facility.

The following guidelines have been established to control funding risk:

- To avoid concentration of debt maturity dates no more than 50% or $25 million (whichever is the highest) of total debt can be subject to refinancing on a rolling 12 month basis. Total debt is defined as total existing external debt.

Debt Repayment

Repayment of debt (interest and principal) is governed by:

- Affordability of debt servicing costs.
- Intergenerational equity principles (debt will be repaid over the life of the asset or an appropriate period of time determined by the asset involved, whichever is the lesser).
- Maintenance of prudent debt levels and borrowing limits.

- Council repays borrowings from general, special funds, the existing specific sinking fund, or operating surpluses allocated to that borrowing.
- Where a loan is raised for a specific purpose and the funds are no longer required, the funds will be used to repay existing debt or held in a special fund until the funds can be applied against a future borrowing.

Borrowing Mechanisms

In developing strategies for new borrowing (in relation to source, term, size and pricing) Council takes into account the following:

- Available and Council approved sources, terms and types of borrowing.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates, margins and total cost relative to term and nature of the borrowing.
- The market's outlook on future interest rate movements as well as Council's own.
- Legal documentation and financial covenants.

Guarantees

Council provides guarantees for banks for loans between the bank and non-profit bodies advances where Council considers the guarantee to be beneficial to the community in accordance with Council's policies on loan guarantees. Clear parameters for maximum levels of exposure are set in the loan guarantees policy.

The non-profit bodies are to forward their financial statements to Council annually. Should the guarantee be called upon, Council takes immediate steps to recover the money.

Guarantees require the prior approval by way of Council resolution.

Leases

Council utilises finance leases (as opposed to an operational lease ie renting) as a means of financing some office equipment.

Glossary

Approved Risk Management Instruments

Interest rate swap ("IRS").

Interest Rate Swap

An interest rate swap is an agreement between Council and a counterparty (usually a bank) protecting Council against a future adverse interest rate movement. Council pays (or receives) a fixed interest rate and receives (or pays) a floating interest rate. The parties agree to a notional principal amount, the future interest rate, the settlement dates and the benchmark floating rate, which is usually off the Reuters page containing the daily rate sets for BKBM (bank bill reference rates).

Objective

To provide Council with certainty as to its interest rate cost on an agreed principal amount for an agreed period. Floating rate sets are typically every three or six months over the life of the swap.

Example

Council fixes its interest rate for three years at 6.50%, on a quarterly basis on a portion of its planned borrowings by entering into a three year 6.50% fixed rate swap. The floating rate reference is three month BKBM.

Outcome

On a swap-reset date, the three month bank bill rate is at, say 4.75%. Council borrows from its bank the principal, for three months at 4.75% plus Council's margin. At the same time the bank pays Council 4.75% on the principal amount for a three month period. Council then pays the bank 6.50% on the principal amount for a three month period. This means that Council's effective interest rate is 6.50% plus its margin. In practice cash flows would be netted off if the swap and the underlying borrowing facility were with the same bank.

Monitoring and Auditing

The Audit and Risk Committee will monitor the application of this Policy via reports from Executive staff.

Revision History:	Amended following Council resolution of 21 November 2017
Reference Number:	A804696
Effective Date:	29 October 2014
Review Period:	This Policy will be reviewed every six (6) years, unless earlier review is required due to legislative changes, or is warranted by another reason requested by Council.
Supersedes:	2009 Liability Management Policy
New Review Date:	October 2020
Associated Documents/References:	
Policy Owner:	Invercargill City Council

INVESTMENT POLICY

Effective from 21 November 2017

Purpose

Council holds financial investments sufficient to match reserve accounts created by Council resolution and as a result of short term cash flow surpluses.

Local Government Act 2002 Requirements

Section 105 of the Local Government Act 2002 provides that the Investment Policy adopted under Section 102(1) must state Council policies in respect of investments, including:

(a) The mix of investments,

(b) The acquisition of new investments,

(c) An outline of the procedures by which investments are managed and reported on to Council.

(d) An outline of how risks associated with investments are assessed and managed.

Objectives

The objectives of this Investment Policy are consistent with market best practices and will take into account the requirements of Council's Annual Plan and Long-Term Plan. The key Investment Policy objectives are to:

- Prudently manage Council's investment assets in the interests of the Council's district and its inhabitants and ratepayers, only for lawful purposes and so as to safeguard against loss.
- Manage investments in accordance with the Local Government Act 2002; administer, manage and account for its funds and exercise the care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.
- Maximise investment income within a prudent level of investment risk. Council recognises that as a responsible public authority any investments that it does hold should be of relatively low risk. It also recognises that lower risk generally means lower returns.
- Invest only in approved securities and asset classes as permitted by this policy. Accordingly, only creditworthy counterparties are acceptable.
- Ensure investments are maintained at an appropriate level of liquidity to enable the provision of cash flow when required.
- Minimise potential risk due to adverse interest rate movements.

- Regularly review the performance and credit worthiness of all investments.
- Maintain operational controls and procedures to best protect Council against financial loss, opportunity cost and other inefficiencies.

Investment Management and Internal Controls

Council approves policy parameters in relation to borrowing and investment activities.

In making any investment decisions the Director of Finance and Corporate Services considers:

- The desirability of diversifying investments.
- The nature of existing investments.
- The risk of capital loss or depreciation.
- The potential for capital appreciation.
- The likely income return.
- The length of the term of the proposed investment.
- The marketability of the proposed investment during, and on the determination of the term of the proposed investment.
- The effect of the proposed investment in relation to tax liability.
- The likelihood of inflation affecting the value of the proposed investment.

Council's Chief Executive has overall responsibility for the operations of Council.

The Director of Finance and Corporate Services has financial management responsibility over Council's investments.

Investment Portfolio

An investment is an asset held by Council that provides service potential or future economic benefit to Council. Investments include property; ownership in Council related trading entities and financial assets. A financial asset is any asset that is cash or the contractual right to receive cash including the financial investment instruments.

Council invests in the following assets:

- Financial investments (excluding day to day cash management activity).
- Property investments.
- Cash and working capital management.

Financial Investments

Council maintains financial investments for the following primary reasons:

- Invest amounts allocated to special reserves.
- Invest surplus cash and working capital funds.

The following are approved financial investments:

- Government investments (treasury bills, government stock).
- New Zealand Registered Bank investments (call and term deposits, registered certificates of deposit), subject to Counterparty Exposure Limits.

- Local authority investments subject to Counterparty Exposure Limits.
- State Owned Enterprise investments subject to Counterparty Exposure Limits.
- Corporate investments (corporate bonds, promissory notes) subject to Counterparty Exposure Limits.

Acquisition/Disposition and Revenue

Interest income from financial investments is credited to general funds or special reserves and is included in the Statement of Comprehensive Revenue and Expenses.

Proceeds from the disposition of financial investments are used for operational and capital expenditure purposes or for the purpose for which they have been established, as approved in the Annual Plan or Long-Term Plan.

Management Procedures

Financial investment strategy is set by the Director of Finance and Corporate Services and implemented by the Financial Controller with day to day management centrally through its treasury function. The treasury function is broadly charged with the following responsibilities:

- Assist the Director of Finance and Corporate Services in developing its investment strategy by reviewing on a regular basis, cash flow forecasts incorporating plans for approved expenditure and strategic initiatives, evaluation of the outlook for interest rates and the shape of the yield curve, and where applicable, seeking appropriate financial advice.
- Develop and maintain professional relationships with the financial markets in general and Council's main relationship bank in particular.
- Manage Council's investments within its strategic objectives and ensure that surplus cash is invested in liquid and creditworthy instruments.
- Manage the impact of market risks such as interest rate risk and liquidity on Council's investments and currency risk on investments by undertaking appropriate hedging activity in the financial markets.
- Minimise adverse interest rate related increases on ratepayer charges and maintain overall revenues within budgeted parameters.
- Manage the overall cash and liquidity position of Council's operations.
- Provide timely and accurate reporting of treasury activity and performance for management and the Council.

Investment Risk: Credit Risk – Counterparty Exposure Limits

Council's primary objective when investing is the protection of its capital. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties are selected on the basis of their Standard and Poor's (S&P) rating except for unrated Local Authorities secured by charge over rates, which are governed by individual counterparty limits.

More specifically, Council minimises its credit exposure by:

- Ensuring all investment, cash management, interest rate risk management and any foreign exchange transactions are undertaken with entities (excluding Government) that have a Standard and Poor's (S&P) credit rating of at least A2 for short term and A- for long term except for unrated Local Authorities secured by charge over rates, which are governed by individual counterparty limits and State Owned Enterprises which must have minimum credit ratings of A2 and BBB respectively.
- Limiting total exposure to prescribed amounts and portfolio limits.
- Rigorous monitoring of compliance against set limits.

Council approval is required to add to or delete from the counterparty exposure limits. The following table summarises credit requirements and limits:

Institution	**Minimum S&P Short Term Credit Rating** [1]	**Minimum S&P Long Term Credit Rating** [2]	**Total Exposure Limit for Each Counterparty**	**Portfolio Limit (% of Total Portfolio)**
Government	N/A	N/A	Unlimited	100%
New Zealand Registered Banks				
➢ On balance sheet exposures	A2	AA-	$35 million	80%
➢ Off balance sheet exposures	A2	AA-	$10 million	N/A
Strongly Rated Corporates, SOEs (on balance sheet exposures only), Local Authorities with rates as security (on balance sheet exposures only)	A2 (N/A for Local Authorities)	A- (BBB for SOEs, N/A for Local Authorities)	$5 million [Face Value]	50%

1. Short term refers to securities with a remaining maturity of 12 months or less.
2. Long term refers to securities with a remaining maturity of more than 12 months.

If any counterparty's credit rating falls below the minimum specified in the above table then all practical steps are taken to reduce the credit exposure to that counterparty to zero as soon as possible or in any case within three months of the downgrade being notified. Exposures to each counter party are computed as follows:

On-Balance Sheet

- Total principal invested with that counterparty.
- International equities currency exposure on foreign currency hedging converted on the day at the spot rate.

Off-Balance Sheet

Credit exposure on interest rate contracts computed by multiplying face value of outstanding transactions by an interest rate movement factor of 5%, per calendar year or part thereof of the life of the instrument.

Interest Rate Risk

Interest rate risk refers to the impact that movements in interest rates can have on Council's cash flows. Council's financial investments give rise to direct exposure to interest rate movements. Interest rate risk is managed by Council as part of its overall investment strategy.

The following interest rate risk management instruments are approved by Council:

- Interest Rate Swaps.
- Forward Rate Agreements.
- Interest Rate Options on approved underlying instruments, eg on Interest Rate Swaps or bonds.
- Interest Rate Collar Strategy, but only where the ratio of the face value and interest rate exposure on bought to sold legs is 1:1.

Council does not enter into incidental arrangements within or outside New Zealand in currency other than New Zealand currency.

Liquidity Risk

Liquidity risk management refers to the timely availability of funds to Council when needed, without incurring penalty costs.

Because of Council's credit rating criteria, all investments would be readily saleable in the secondary market, which addresses Council's liquidity requirements, even though there may be a pricing risk if there was a forced sale in adverse market conditions. Nevertheless, at least 25% of financial investments must mature within the ensuing 12 months.

The average duration* of the total investment portfolio would normally be between two and three years.

* *Duration is a mathematically calculated term representing the average of the time weighted cash flows of the investment, discounted at current yields.*

Property Investments

Council's property investments include:

- Property owned by Council either for the development needs of the district or for investment purposes which could include land, buildings and ground leases.

Council's primary objective for property owned for development needs or for investment purposes is that it is important for the economic, physical and social development of the Invercargill district and to achieve an acceptable rate of return. Council generally follows a similar assessment criteria in relation to the acquisition of new property investments.

Acquisition/Disposition and Revenue

Prior to acquisition of property for the development needs of the district or for investment purposes the property will be assessed as follows:

- Property for the development needs of the district – a financial and non financial assessment of economic, physical and social benefit to the district, the cost of owning the property and the cost of ownership and assessment.

- Investment property – a financial assessment including a calculation and assessment of the total cost of ownership, and the likely returns to be generated from that ownership.

Proceeds from the disposition of property investments are used for retirement of debt relating to such property, or allocated to general funds, endowment funds or special funds. All income from property investments is shown in the Statement of Comprehensive Revenue and Expenses and forms part of general funds.

Management Reporting and Procedures

Council reviews the performance of its property investments on at least a six monthly basis, and ensures that the benefits of continued ownership are consistent with its stated objectives.

Investment Risks

Insurance cover is held for all property investments. A risk assessment is carried out prior to acquisition of a property investment.

Cash and Working Capital Management

Cash management deals with the net balance in Council's main bank accounts. The treasury function is responsible for managing Council's cash surpluses and/or deficits.

Council maintains a Daily Balancing Report (bank reconciliation) and short term and long term cash flow projections which are updated weekly and which form the basis of its cash management activity. Generally cash management surpluses are available for periods less than 90 days.

Cash management instruments are limited to:

- Call deposits with New Zealand Registered Banks.
- Corporate Commercial Paper with a maturity less than three months.
- Term deposits (less than three months) with registered banks.
- The use of interest rate risk management instruments on cash management balances is not permitted.

Cash and the counterparties on cash management instruments may only be invested with approved counterparties within the limits detailed.

Monitoring and Auditing

The Audit and Risk Committee will monitor the application of this Policy via reports from Executive staff.

Revision History:	9 December 2014
Reference Number:	A804694
Effective Date:	21 November 2017
Review Period:	This Policy will be reviewed every three (3) years, unless earlier review is required due to legislative changes, or is warranted by another reason requested by Council.
Supersedes:	2009 Investment Policy
New Review Date:	November 2020
Associated Documents/References:	Appendix 1 – Approved Risk Management Instruments
Policy Owner:	Invercargill City Council

Appendix 1

Approved Risk Management Instruments

Examples of the Use Derivative Products

Forward Rate Agreement

An agreement between Council and counterparty (usually a bank) protecting Council against a future adverse interest rate movement. Council and the counterparty agree to a notional future principal amount, the future interest rate, the date and the benchmark rate, which is contained on the Reuters system.

Objective
To provide Council with certainty as to its interest rate cost on an agreed principal amount for an agreed period. A Forward Rate Agreement (FRA) typically applies to a three month period, starting at some point within the next 12 months.

Example
Council wishes to provide certainty on a portion of its floating rate borrowings over the event risk posed by an expected change in monetary policy at a point in the future. A borrower's FRA is purchased in say, March, at 6.00% for protection through the June to September period. It is described as a 3X6 FRA, ie the rate applies to a borrowing for three months starting in three months' time.

Outcome
If on the rate set date in June, the three month interest rate has climbed to, say, 8.00%, Council receives the difference between this and the FRA rate of 6.00%. It then borrows at 8.00%, the payment received making the effective borrowing rate 6.00%, plus its margin.

Interest Rate Swap

An interest rate swap is an agreement between Council and a counterparty (usually a bank) protecting Council against a future adverse interest rate movement. Council pays (or receives) a fixed interest rate and receives (or pays) a floating interest rate. The parties agree to a notional principal amount, the future interest rate, the settlement dates and the benchmark floating rate, which is usually off the Reuters page containing the daily rate sets for BKBM (bank bill reference rates).

Objective
To provide Council with certainty as to its interest rate cost on an agreed principal amount for an agreed period. Floating rate sets are typically every three or six months over the life of the swap.

Example
Council fixes its interest rate for three years at 6.50%, on a quarterly basis on a portion of its planned borrowings by entering into a three year 6.50% fixed rate swap. The floating rate reference is three month BKBM.

Outcome
On a swap-reset date, the three month bank bill rate is at, say 4.75%. Council borrows from its bank the principal, for three months at 4.75% plus Council's margin. At the same time the bank pays Council 4.75% on the principal amount for a three month period. Council then pays the bank 6.50% on the principal amount for a three month period. This means that Council's effective interest rate is 6.50% plus its margin. In practice cashflows would be netted off if the swap and the underlying borrowing facility were with the same bank.

Interest Rate Collar

The combined purchase (or sale) of a cap or a floor with the sale (or purchase) of another floor or cap. Unlike an outright option purchase there is no premium payable but conversely participation in favourable movements is limited.

Objective
To provide Council with certainty as to its interest rate cost on an agreed principal amount for an agreed period, but at the same time avoid the need to pay an up front premium.

Example
Council wishes to secure a worst case borrowing rate of 7.50% for the next five years, but wishes to avoid paying a premium. In exchange for the worst case protection at 7.50%, Council accepts a best case outcome at 6.00%. In this structure Council has bought and sold options, with the respective option premiums offsetting each other. On each quarterly rate set date Council will have a rate between 6.00% and 7.50%, the parameters of the collar.

Outcome
If on each rate set date the three month interest rate is in excess of 7.50% Council exercises its option and pays 7.50%, for that three month period, its worst case rate. If on each rate set date the three month interest rate is below 6.00%, the bank exercises its option on Council and Council pays 6.00%, Council's best case rate. If on any rate set date the three month interest rate is between 6.00% and 7.50%, Council borrows at the market rate.

TO:	**EXTRAORDINARY COUNCIL**
FROM:	**DIRECTOR OF FINANCE AND CORPORATE SERVICES**
MEETING DATE:	**TUESDAY, 21 NOVEMBER 2017**

RATING POLICIES

Report Prepared by: Melissa Short – Manager, Strategy and Policy

SUMMARY

The current Rates Postponement and Rates Remission Policies are provided for Council's consideration.

RECOMMENDATIONS

That the Rates Postponement and Rates Remission policies be continued without amendment.

IMPLICATIONS

1.	*Has this been provided for in the Long Term Plan/Annual Plan?* Yes
2.	*Is a budget amendment required?* No
3.	*Is this matter significant in terms of Council's Policy on Significance?* No
4.	*Implications in terms of other Council Strategic Documents or Council Policy?* Confirms two key policies.
5.	*Have the views of affected or interested persons been obtained and is any further public consultation required?* No
6.	*Has the Child, Youth and Family Friendly Policy been considered?* Not applicable.

FINANCIAL IMPLICATIONS

No financial implications arise from this report.

RATING POLICIES

The Rates Remission (Appendix 1) and Rates Postponement (Appendix 2) Policies are key policies that assist the Community to understand when and how rates may be remitted or postponed.

The policies are due for review in 2020, but as Council is preparing its 2018-2028 Long-term Plan, staff considered it timely to offer the policies for review.

Should Council recommend any amendments, consultation would need to be undertaken with the community.

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RATES REMISSION POLICY

Effective from 29 October 2014

Purpose

This policy outlines the objectives sought to be achieved by the remission of rates and the conditions and criteria to be met in order for rates to be remitted.

Remissions for Community, Sporting and other Organisations

Objectives

To facilitate the ongoing provision of not for profit community services, sporting and recreational opportunities for the residents of the district.

The purpose of granting rates remission to an organisation is to:

- Assist the organisation's survival; and
- Make membership of the organisation more accessible to the general public, particularly disadvantaged groups. These include children, youth, young families, aged people, those with disabilities and economically disadvantaged people.

Conditions and Criteria

This part of the policy will apply to land owned and occupied by a community, sporting or charitable organisation, which is used exclusively or principally for sporting, recreation, or community purposes.

The policy will not apply to groups or organisations whose primary purpose is to address the needs of adult members (over 18 years) for entertainment or social interaction.

The remission is set at 50% of all rates with the exception of targeted rates for water supply, sewage disposal or refuse collection. Properties used for community residential purposes will be set at 100% except for targeted rates for water supply, sewage disposal or refuse collection. Council will, however, decide the amount of rates to be remitted on a case by case basis.

Applications for remission must be made on the prescribed form (available from Council offices or from the Bluff Service Centre).

The application for rates remission must be made to Council prior to the commencement of the rating year. Applications received during a rating year will be applicable from the commencement of the following rating year. Applications will not be backdated.

Organisations making application should include the following documents in support of their applications:

- Statement of objectives; and
- Financial accounts; and
- Information on activities and programmes; and
- Details of membership or clients.

The policy shall apply to such organisations as approved by Council as meeting the relevant criteria. Council may delegate the authority to make such approvals to particular Council officers as specified by a resolution of Council.

In granting remissions under this part of the policy Council may specify certain conditions before remission will be granted. Applicants will be required to agree in writing to these conditions and to pay any remitted rates if the conditions are violated.

Remissions for Economic Development

Objectives

Council is committed to supporting and promoting a profitable business sector. Rates relief is tangible evidence of this commitment.

Conditions and Criteria

Council favours developments that directly or indirectly have the potential to boost employment opportunities in the district in the long term. This can be new building developments or the alteration of existing buildings. Residential development is not included in this policy.

Specifics

(i) The development cost should be at least $100,000 for the following industries:

  (a) Downstream industries (eg forest products, aluminium, fishing).

  (b) Industries unaffected (largely) by freight costs (eg high tech, information collection and distribution and education).

  (c) Tourism related activities.

  Council also has discretion to consider applications under $100,000 in special circumstances.

(ii) The development cost for all other activities must be at least $250,000.

(iii) Rates may be remitted for up to three years and Council may impose conditions as to the completion of the development.

(iv) Developments which in Council's opinion are in direct competition with other operational businesses will not be eligible, however relief may be granted during the construction period.

Consideration of Other Matters

Each application will be treated on its merits and Council will have regard to:

(i) The financial advantage to the district, including job creation.

(ii) The extent to which the viability of the development is reliant on rates relief and whether such relief would expedite the development.

(iii) The provision of any free public amenities or public facilities (other than those required by another Act), such as public viewing areas and restrooms, landscaping and environmental improvement, fountains and outdoor sculptures.

(iv) Other issues specific to the application including:

- The ability of the applicant to pursue sound business practices.
- The better utilisation of the city's infrastructural assets.
- Promotional factors of benefit to the city.

Applications for the remission for economic development should be made at the planning stage and will be considered by the Finance and Policy Committee of Council. In considering applications Council may decide to seek independent verification of any information provided on an application.

Council will decide what amount of rates will be remitted on a case by case basis. For the purposes of this part of the policy, a project will be viewed as having commenced when a building consent is issued.

In granting remissions under this part of the policy Council may specify certain conditions before remission will be granted. Applicants will be required to agree in writing to these conditions and to pay any remitted rates if the conditions are violated.

Remission of Rates on Land Protected for Natural, Cultural or Historic Conservation Purposes

Objectives

To preserve and promote natural resources and heritage to encourage the protection of land for natural, cultural or historic purposes.

Conditions and Criteria

Ratepayers who own rating units which have some feature of natural, cultural or historic heritage which is voluntarily protected may qualify for remission of rates under this part of the policy.

This policy applies only to property over which a protection order or covenant has been issued under the following Acts:

Section 6	Historic Places Act 1993
Section 39	Heritage New Zealand Pouhere Taonga Act 2014
Section 22	Queen Elizabeth the Second National Trust Act 1977
Sections 76 and 77	Reserves Act 1977
Section 27	Conservation Act 1987

Land that is non-rateable under Section 8 of the Local Government (Rating) Act and is liable only for rates for water supply, sewage disposal or refuse collection will not qualify for remission under this part of the policy.

Applications must be made in writing. Applications should be supported by documentary evidence of the protected status of the rating unit (eg a copy of the covenant or other legal mechanism).

The Director of Finance and Corporate Services shall have the authority to remit rates under this section. Remissions may be granted subject to conditions. Applicants will be required to agree in writing to any conditions and to pay any remitted rates if the conditions are violated.

Remission of Penalties

Objective

The objective of this part of the remission policy is to enable Council to act fairly and reasonably in its consideration of rates which have not been received by Council by the penalty date due to circumstances outside the ratepayer’s control.

Conditions and Criteria

Automatic remission of the penalties incurred on instalment one will be made where the ratepayer pays the total amount due for the year on or before the penalty date of the second instalment.

Remission of one penalty will be considered in any one rating year where payment has been late due to significant family disruption. Remission will also be considered in the case of death, illness, or accident of a family member.

Remission of the penalty will be granted if the ratepayer is able to provide evidence that their payment has resulted from matters outside their control. Each application will be considered on its merits and remission will be granted where it is considered just and equitable to do so.

The Director of Finance and Corporate Services shall have the authority to remit penalties under this section.

Monitoring and Auditing

The Audit and Risk Committee will monitor the application of this Policy via reports from Executive staff.

Revision History:	NIL
Reference Number:	A804698
Effective Date:	29 October 2014
Review Period:	This Policy will be reviewed every six (6) years, unless earlier review is required due to legislative changes, or is warranted by another reason requested by Council.
Supersedes:	2009 Rates Remission Policy
New Review Date:	October 2020
Associated Documents/References:	Rates Remission Application Form (A355596)
Policy Owner:	Invercargill City Council

RATES POSTPONEMENT POLICY

Effective from 29 October 2014

Purpose

The objective of this policy is to assist ratepayers experiencing extreme financial circumstances which affect their ability to pay rates.

Conditions and Criteria

1. Only rating units used solely for residential purposes (as defined by Council) will be eligible for consideration for rates postponement for extreme financial circumstances.
2. Only the person entered as the ratepayer, or their authorised agent, may make an application for rates postponement for extreme financial circumstances. The ratepayer must be the current owner of, and have owned for not less than five years, the rating unit which is the subject of the application. The ratepayer must not own any other rating units or investment properties (whether in the district or in another district).

The ratepayer (or authorised agent) must make an application to Council on the prescribed form (copies can be obtained from Council offices, or from the Bluff Service Centre).

Council will consider, on a case by case basis, all applications received that meet the criteria described in the first two paragraphs under this section. Council will delegate authority to approve applications for rates postponement to particular officers.

When considering whether extreme financial circumstances exist, all of the ratepayer's personal circumstances will be relevant including the following factors: age, physical or mental disability, injury, illness and family circumstances.

Before approving an application Council must be satisfied that the ratepayer is unlikely to have sufficient funds left over, after the payment of rates, for normal health care, proper provision for maintenance of his/her home and chattels at an adequate standard as well as making provision for normal day to day living expenses.

Where Council decides to postpone rates the ratepayer must first make acceptable arrangements for payment of future rates, for example by setting up a system for regular payments.

Any postponed rates will be postponed until:

- The death of the ratepayer(s); or
- Until the ratepayer(s) ceases to be the owner of the rating unit; or
- Until the ratepayer(s) ceases to use the property as his/her residence; or
- Until a date specified by Council.

Each ratepayer who has successfully applied for postponement will be the subject of review every three years.

Council will charge an annual fee on postponed rates for the period between the due date and the date they are paid. This fee is designed to cover Council's administrative costs.

Council will charge interest on the total amount postponed. The interest will be assessed annually and calculated using the average interest rate incurred by Council on its overdraft.

The policy will apply from the beginning of the rating year in which the application is made although Council may consider backdating past the rating year in which the application is made depending on the circumstances.

The postponed rates or any part thereof may be paid at any time. The applicant may elect to postpone the payment of a lesser sum than that which they would be entitled to have postponed pursuant to this policy.

Postponed rates will be registered as a statutory land charge on the rating unit title. This means that Council will have first call on the proceeds of any revenue from the sale or lease of the rating unit.

Monitoring and Auditing

The Audit and Risk Committee will monitor the application of this Policy via reports from Executive staff.

Revision History:	NIL
Reference Number:	A804688
Effective Date:	29 October 2014
Review Period:	This Policy will be reviewed every six (6) years, unless earlier review is required due to legislative changes, or is warranted by another reason requested by Council.
Supersedes:	2009 Rates Postponement Policy
New Review Date:	October 2020
Associated Documents/References:	Rates Postponement Application Form (A355596)
Policy Owner:	Invercargill City Council

TO:	**EXTRAORDINARY COUNCIL**
FROM:	**DIRECTOR OF FINANCE AND CORPORATE SERVICES**
MEETING DATE:	**TUESDAY, 21 NOVEMBER 2017**

FINANCIAL STRATEGY UPDATED

Report Prepared by: Melissa Short – Manager, Strategy and Policy

SUMMARY

The Financial Strategy has been amended with minor updates.

RECOMMENDATIONS

That the draft Financial Strategy be adopted for inclusion in the Long-term Plan development process and provided for audit.

IMPLICATIONS

1.	*Has this been provided for in the Long Term Plan/Annual Plan?* Yes
2.	*Is a budget amendment required?* No
3.	*Is this matter significant in terms of Council's Policy on Significance?* No
4.	*Implications in terms of other Council Strategic Documents or Council Policy?* No
5.	*Have the views of affected or interested persons been obtained and is any further public consultation required?* No
6.	*Has the Child, Youth and Family Friendly Policy been considered?* Not applicable

FINANCIAL IMPLICATIONS

No financial implications arise from this report.

FINANCIAL STRATEGY

Since the adoption of the draft Financial Strategy in October, more information has become available and the Financial Strategy amended accordingly. It should be noted that some areas of the Financial Strategy will not be able to be completed until decisions made regarding the Long-term Plan.

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FINANCIAL STRATEGY 2018 - 2028

This Financial Strategy seeks to maintain our assets at an effective and efficient level, alongside minimising the risk to criticality of the City's infrastructure assets that allow the City to continue to operate in a productive manner.

The balance that the Council seeks to achieve is dependent on many factors, the following are key:

- A focus on core infrastructure looking to maintain existing levels of service, renewing this in a cyclic fashion and improving the quality of service provided to users;
- Ensuring core Council debt remains below $140 million;
- Receiving increasing dividends from Invercargill City Holdings Limited (ICHL);
- Researching other avenues for funding outside of rates and loan funding.
- Continuously reviewing operational expenditure for short and long term cost savings.

Background

Invercargill City Council seeks to enhance the City and preserve its character while embracing innovation and change. The Council continues to work in the belief that Invercargill is a very special place with a distinctive character; however this is not to say that the City will not face challenges. The Council acknowledges that Invercargill will be exposed to a number of challenges with a significant one being that we are experiencing a demographic change toward an ageing population with less growth than forecast. However, acknowledgment of this challenge is the first hurdle to overcome and the Council is looking to the future as to how we can disrupt this demographic change, by attracting both more and younger people to live in our City.

There is a consistent theme within the Council's Community Outcomes. The Outcomes demonstrate that the Council will maintain a strong, safe and well-utilised City with an increased, more diverse and active population who encourage the development of future technology and embrace the facilities offered to them.

The Council seeks to encourage this through the development of growth projects and sustainability of existing services. However, it is not anticipated that land use will change to an extent that would have an impact on debt over this course.

With growth anticipated to occur, the Council notes that the current infrastructure network is set to service the community, provided it is renewed when required. The Council's infrastructure network has been built to service a population much larger than what currently resides within the City so, provided the necessary renewal work is undertaken when recommended, the City will be prepared to receive and welcome new members to the community over the next decade. Given that a number of the Council's assets were built at the same or a similar time, and therefore generally require renewal at a similar time, there will be peaks in renewal costs that are evident in this Strategy.

This Strategy operates in line with the Infrastructure Strategy, and observes that over the next ten years the cost to the Invercargill Community to preserve, renew and maintain our infrastructure assets will be significantly higher than previous renewal costs. As a consequence of this the rates increase will be higher than in previous years. This Strategy details that any new growth projects over this period of increased focus on our infrastructure, will be loan-funded in order to reduce the real cost to the community during the ten years.

Key Challenges

The key corporate strategic issues and challenges facing the Invercargill City Council are:

- Meeting our long-term renewal expectations for infrastructure.
- Encouraging growth projects whilst ensuring financial and operational sustainability for future generations.
- Ensuring that Council works in a financially prudent manner that promotes the current and future interests of the community.
- The City's changing demographic profile and its ability and willingness to pay.
- Responding to the changing environment (both natural and technological) and retaining Invercargill's character including its built environment.

Capital Expenditure

Invercargill City Council is heading into a period of increased expenditure on capital assets particularly renewal of existing assets within the 3 Waters area of infrastructure. This capital expenditure is planned to increase over the next five years before levelling out over the last five years of the Long-term Plan.

Ordinarily, renewal work would be funded from rates rather than borrowings as this avoids the significant long-term cost of borrowing annually. But, as some of these renewal programmes present significant capital expenditure, Council will, where appropriate, use debt funding to spread the cost. This is particularly required for the 3 Waters infrastructure area where this strategy is solidly employed due to the renewal work of our pipe network being needed earlier than what was forecast.

The Council is also looking to upgrade community assets. This is being accomplished through the addition of a new pool and hydroslide at Splash Palace, funding contributions to the redevelopment of our existing Museum, and exploring the possible future use of Andersons House.

In addition to this, the Council is also seeking to grow the City with new assets being planned within the life of the Long-term Plan, namely a new living dinosaur exhibition, a new Arts Centre, a Regional Storage Facility for museum and art collections and an additional Water Supply.

New and growth capital expenditure, such as the Arts Centre, would be funded by debt.

Further information on the Council's core capital expenditure can be found in the Invercargill City Council Infrastructure Strategy.

Funding Core Infrastructure Assets Renewals

The Council has previously funded core infrastructure asset renewals on a when-required basis. The Council now, over the course of the Long-term Plan, aims to fund these assets to 100% of depreciation.

Council aims to fund core infrastructure assets by the following dates:

- Stormwater systems to be funded at 100% of depreciation by 2022
- Wastewater systems to be funded at 100% of depreciation by 2022
- Water Supply systems to be funded at 100% of depreciation by 2028
- Roads, Bridges and Footpaths to be funded at 100% of depreciation by 2028.

Some of the capital construction of roads and footpaths is funded by subsidies received from the New Zealand Transport Agency. This means that the Council does not need to fund 100% of the depreciation of these activity areas solely from rates.

Depreciation is calculated on an annual basis and currently represents 16% of total operating expenditure. Charging depreciation each year spreads the cost of an asset over its useful life. Generally, depreciation is funded by income (including rates) in the same year that the depreciation is incurred.

This funding will be applied to pay for the current capital renewal programme and any related outstanding debt. Excess funds will be held in depreciation reserves which will earn interest and provide funding for the replacement of relevant infrastructure assets in the future.

When the cost of infrastructure capital renewals exceed the rate funding of depreciation and exhausts depreciation reserves, the Council will need to borrow funds to cover the short fall.

Intergenerational Equity

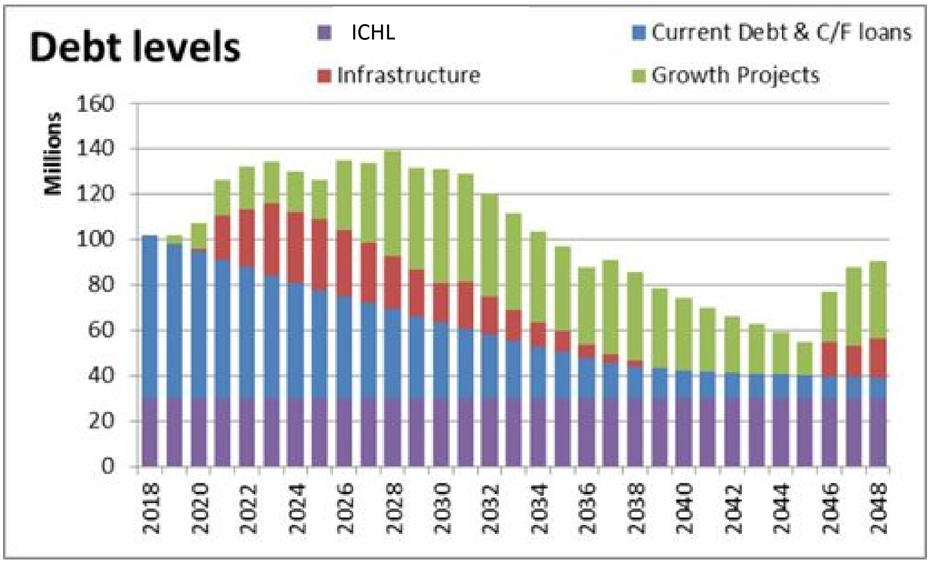
The services that the Council provides are costly due to the value and amount of assets that are used. The Council's strategy is to ensure that both current and future ratepayers pay their fair share of the cost of providing services. Intergenerational equity is achieved through loan funding long-term assets and drawing rates to pay for the loan over an extended period of time. This ensures that both current and future users pay for the assets. Examples of this can be found in the Invercargill City Council Infrastructure Strategy.

Debt

Over the course of the last three years, the Council's debt has grown modestly. This has been largely due to the Branxholme Water Treatment Plant upgrade and the Don Street Business House development.

The Council's debt (excluding Invercargill City Holdings Limited (ICHL) bond) remains relatively low against the Council's total assets base (6% as at 30 June 2017). While the Council remains focused on keeping debt to a manageable level over the course of the Long-term Plan, large infrastructure projects as well as future growth projects necessitate the need for the Council to take on an increased level of debt.

Over the course of the Long-term Plan, the Council's debt is forecast to peak at $140 million in 2028. However, following this peak, the debt is forecast to slowly decrease over the next twenty years to below $60 million. It should be noted that this forecast excludes future growth projects beyond the 2028 year.



Security for Borrowings

It is the Council's policy to give rates as security. The Council also gives assets as security; however, it is not legal to give water assets, including wastewater and stormwater, as security.

The Council currently maintains an AA- credit rating.

Operating Surpluses and Cashflow

The Council must ensure that each year's projected operating revenues are set at a level sufficient to meet that year's operating expenses, unless the local authority resolves that it is financially prudent not to do so.

The Council aims to operate a surplus for the duration of the Long-term Plan. However, due to underfunding depreciation on some assets, deficits may result in early years. With the Council's aim to fund 100% of the depreciation of core infrastructure assets by 2028, surpluses may occur in the later years of the Long-term Plan.

If an area of the Council has an operating surplus it is applied to carry-forwards, where applicable, in the first instance, otherwise is used to repay debt or placed in a reserve.

The Council holds two different types of reserves:

- Restricted; and
- Non-restricted.

Restricted reserves are held for a specific purpose and money is only available to be removed for that reason. In contrast a non-restricted reserve can be for a variety of reasons. These reserves build up or reduce over time as a result of operating surpluses or deficits.

The Council will ensure that there are sufficient cash resources available to meet its obligations. The Council's current assets need to outweigh current liabilities, where current assets include cash on hand and available lines of credit. The Council has access to credit facilities of up to $50 million, and short-term investments.

Council reviews operational expenditure for short and long-term cost savings and has established operational savings targets for the first three years of the Long-term Plan. These savings are intended to improve efficiencies within activities and services without impacting the current level of service being provided.

The targets for each year are:

Year	Savings Target	Cumulative Target
2018/19	$500,000	$500,000
2019/20	$300,000	$800,000
2020/21	$200,000	$1,000,000

Managing Financial Investments and Equity Securities

The Council holds investments in companies, property and cash.

Investments in Companies/Trusts

The Council is an equity holder in two companies and has a controlling influence over two trusts. The principal reason for holding an equity interest in these investments is to achieve efficiency and community outcomes, as well as providing a financial return on investment for ratepayers. The Council's interest in the companies and trusts are as follows:

COMPANY	SHAREHOLDING/INTEREST	PRINCIPAL REASON FOR INVESTMENT	BUDGETED RETURN
Invercargill City Holdings Ltd	100%	To undertake commercial opportunities and provide dividend returns to the City.	$5,850,000 for 2018/19 year
Invercargill Venue and Events Management Ltd	100%	To provide venue management and events promotion for the City, in line with community outcomes.	Nil.
Southland Museum and Art Gallery Trust Board	Controlling interest	To provide specialised governance for the Museum.	Nil.
Bluff Maritime Museum Trust	Controlling interest	To provide specialised governance for the Museum.	Nil.
Invercargill City Charitable Trust	100%	To provide access to recreational and cultural events within the City, in line with community outcomes.	Nil.
Invercargill Community Sports and Recreation Trust	100%	To increase Invercargill residents' active participation in sports and physical activities and arts and cultural activities.	Nil.

The Council has no plans to change its shareholding, although in accordance with good practice this is reviewed regularly.

Property Investments

The Council's Investment Property Department oversees the development and undertaking of investment in property within the City. The properties are divided into four categories:

1. Strategic properties which are held for purposes other than immediate return (potential future development).
2. Endowment properties which have been either allocated (per above) or purchased from endowment funds.
3. Trading properties (fee simple, no classification on title, currently leased).
4. Other properties (land) being prepared for disposal, usually acquired through rating sale or abandonment.

The Council's objective is to maximise return from endowment and trading properties, however due to historic lease arrangements (21 year Glasgow leases) the return from these properties is below market rates. The objective for the net return on investment from both endowment and trading properties is at least equal to current market interest rates.

Strategic property is held for purposes other than a return on investment. These parcels of land and/or buildings have been purchased as a site earmarked for future development.

Cash Investments

The Council holds cash for two main reasons:

1. To ensure strong lines of liquidity and access to cash remains available to Council.
2. To support the balance of reserves through short-term investments (90 to 360 days) to maximise return on investment.

Rates and Affordability

The Council has come through a period of medium-level rates rises over the previous three years (15/16: 3.89%, 16/17: 2.32% and 17/18: 3.95%). This was due to the Council focusing on ensuring that rates were low and consistent from year to year.

For future years there are some key challenges that will present themselves in relation to affordability. This will occur as the Council enters a period of accelerated capital expenditure to develop our services, whilst looking to be a growing and innovative City.

Increasing costs of providing council services is likely to intensify the affordability issues in the future. In certain years of the Long-term Plan, pressure from required infrastructure renewals has led to rates increases that are less affordable than what the Council would like.

Below is a table of key growth projects that the Council intends to undertake over the course of the Long-term Plan and the year that will be heavily impacted:

Project	Year impacted
Art Centre	Operating and capital loan funding from 2023 Design and set-up costs between 2019 - 2022
Living Dinosaurs	Operating from 2020
Regional Storage Facility	Operating from 2025
Additional Water Supply	Capital loan funding from 2026
Museum Development	Operating from 2028

A larger rates increase will not necessarily occur in these years as growth projects are loan-funded and will be paid back over time so as not to unfairly unburden the current ratepayers with the large costs associated with these projects.

The Council seeks to embrace innovation and change over the upcoming years, and with the constant evolution and growth of technology we are witnessing and experiencing the change first-hand. The Council will seek to uphold their vision and utilise any improvements in the delivery of services and improvement of internal services. The Council has been slowly undertaking changes in light of this with the development of the MyInvercargill app which offers a forum for the community to pay rates or register their dog amongst a number of other services. Further, the Imagine Invercargill website allows for increased engagement and a community focus with members of the community able to suggest a change for the community at the touch of a keypad.

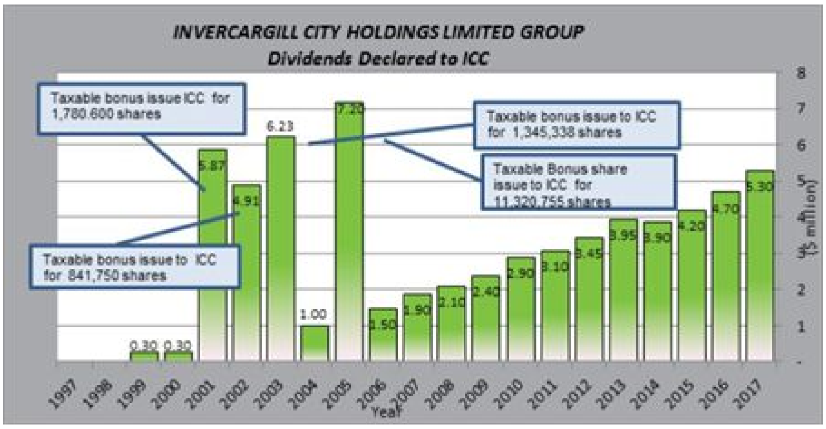
Invercargill City Holdings Limited (ICHL)

Invercargill City Holdings Limited is a 100% owned subsidiary of Invercargill City Council. ICHL was formed to provide a clear differentiation between Council’s core ratepayer orientated activities and its commercial trading enterprises and investments. It was established for the purpose of consolidation and management of existing Council companies, with the responsibility of control and oversight of the performance of the Council Owned Companies activities on behalf of the ultimate shareholder, Invercargill City Council.

Companies that sit within the ICHL group include, Invercargill City Forests Limited, Invercargill City Property Limited, Invercargill Airport Limited and Electricity Invercargill Limited (EIL). Within EIL sits a number of utility based entities. One of the main purposes of ICHL is for these individual companies to trade profitably in order for ICHL to return a dividend to Council and help offset the rates demand as a result.

ICHL has historically given a dividend to Council since 1999.

Below is a graph that outlines the history of the ICHL dividend. This dividend is forecast to increase over the next ten years with $5,850,000 predicted for the 2018/19 year. Should this dividend fail to increase as predicted, Council would have less income received to minimise the impact on the general rates draw.



Council has noted that they cannot be financially reliant on an increasing dividend to match 10% of the general rates draw every year. Whilst ICHL strives to produce greater dividends year on year this is not necessarily going to be in line with the anticipated rates requirement increase. With significant rates rises anticipated over the next ten years Council will need to utilise other strategies to subsidise the rates, such as the use of fees and charges or decreasing operational expenditure where possible.

Disclosure 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 Long-term 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.

For the year ended 30 June 2017, the Council met seven of the eight prescribed financial benchmarks (further information is available on page 9-17 of the Council's 2016/17 Annual Report).

Three of the eight benchmarks are used as Financial Parameters within the Financial Strategy, limit on rates, limit on rates increases and limit on borrowing. Two of the Financial Benchmarks compare actual performance against planned performance, so therefore cannot be used in the Long-term Plan document.

Limits on Rates

The Council is required under the Local Government Act to include a statement on quantified limits on rates. The Local Government Rates Inquiry suggests that around 50% of a council's operating revenue should be taken from rates. Currently the Council draws about 57% of its operational revenue from rates and proposes to limit the rates collected each year to a maximum of 60% of total Council revenue.

The Council aims to maintain the rates collected to between the range of 50% and 60% of total Council revenue and intends to increase user-pays methods to enable the income required from rates to maintain steady without significant rates increases. The Council will also seek efficiencies in how services are delivered to assist with maintaining rates revenue at a steady level.

Rates are an important source of funding for the Council, but they are not the only source available. You can see more about how the Council funds its services in the Financial Management section of the Long-term Plan. The Council's Revenue and Financing Policy sets out the funding of its operational and capital expenditure and the sources of those funds on an individual activity basis.

Throughout the Long-term Plan rates fund approximately 58% of the Council's total revenue. This consists of approximately 13% of general rates and 87% of targeted rates. Uniform annual charges (meaning every ratepayer in the district pays the same amount) are also used for services supplied that can be used equally by all members of the community.

Limits on Rates Increases

The Council recognises that the cost of providing council services (LGCI) is rising at a higher rate than the Consumer Price Index (CPI). The Council is also mindful of affordability issues amongst our ratepayers. The Council continues to investigate cost-cutting methods to ensure that the revenue required to run the Council is kept relatively steady. The rates increases reflect the money required each year.

The Council is setting a maximum limit on rates increases at the Local Government Cost Index (LGCI) plus 3%. The forecast LGCI increases for the next ten years are shown in the table below, but for example, if the LGCI change was 2.20%, the Council's rates increase would be no more than 5.20%. The Council recognises that this increase could potentially be higher than household income, so although a maximum limit has been set, the Council will endeavour to achieve lower increases when planning projects and services that rely on rates revenue.

Local Government Cost Index (LGCI)

Year	*Local Government Cost Index % Adjustment*
2018/19	*2.0*
2019/20	*2.2*
2020/21	*2.2*
2021/22	*2.2*
2022/23	*2.3*
2023/24	*2.3*

2024/25	*2.4*
2025/26	*2.5*
2026/27	*2.6*
2027/28	*2.7*

Changes in the consumer price index (CPI) are used as the basis for measuring the inflation faced by households. It gives a picture of how the prices of the goods and services purchased by the typical New Zealand household are changing over time. It is therefore heavily represented by food, accommodation and transport costs, which collectively make up over 50 percent of the index. The Council however purchases a different mix of goods and services. The Council's 'basket' is dominated by changes in the Local Government cost adjustors such as labour costs, land and materials associated with assets. There is therefore a difference between changes in CPI and the Council's cost (LGCI). To enable the Council to best predict what the future cost of providing its services will be, we have based future inflationary costs on the LGCI rather than CPI. The additional 3% is to allow the Council to undertake new projects, for example the Art Centre.

Limits on Borrowing

The two most common measures of limits on the borrowing of Council are as a percentage of assets or a percentage of income. Insert levels of borrowing for course of Long-term Plan once these numbers are available.

The Council considers that setting a borrowing limit of 15% of assets will assist in prudently managing Council's borrowing activities to ensure the ongoing funding of Council. Council will continue to consider and approve the borrowing requirement for each financial year in the Annual Plan or Long-term Plan recognising that borrowing capacity does not have to be fully utilised.

Balanced Budget Benchmark

The Council meets this benchmark if its revenue equals or is greater than its operating expenses. Will include further information once Council has confirmed their budgets and will know if they're operating a surplus/deficit, and can then comment on future years.

Essential Services Benchmark

The Council meets this benchmark if its capital expenditure on network services equals or is greater than depreciation on network services. Although not reaching the target in every financial year, over time Council's capital expenditure should equal its depreciation. This will mean Council is replacing its assets as they deteriorate, however due to some projects being large it is hard to assess this on a year by year basis.

Debt Servicing Benchmark

The Council meets the debt servicing benchmark if its borrowing costs equal or are less than 10% of its revenue.