

2019/20

# Annual Plan



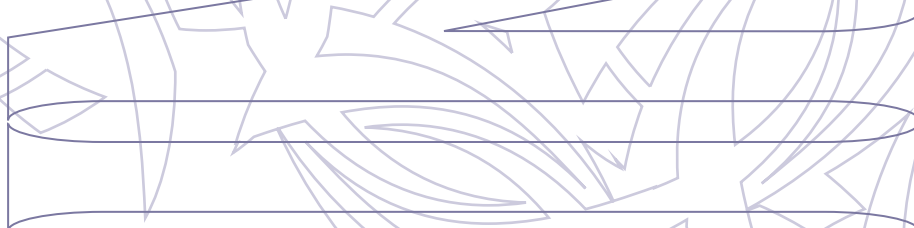
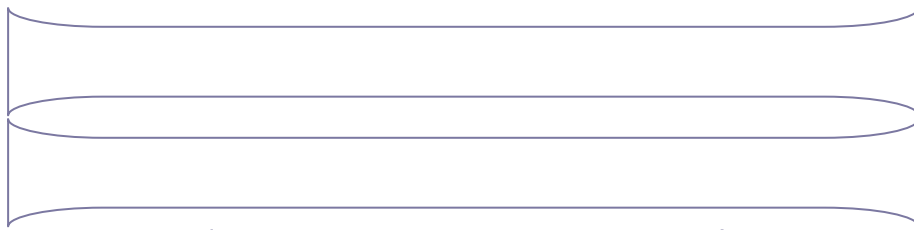
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# Mayor's Comment



Invercargill needs to promote itself as an innovative, vibrant city. At present, we are undergoing major projects that will improve our basic infrastructure. These improvements will create a solid foundation for a wide range of exciting initiatives.

One of our major challenges will be the threat to our environment. The younger generation are marching in the streets and demanding that Councils should face the issues relating to Climate Change. All over the South Pacific, small nations such as New Zealand are facing extensive damage from storms, slips and rising sea levels. Dozens of bridges around Southland are starting to collapse and although most of the damage is occurring in neighbouring territorial authorities there will be collateral damage to milk processing plants within our city borders if this trend continues.

Now for the good news. In a few weeks large jets will be flying on regular return flights from Invercargill to Auckland. This is the longest jet service within New Zealand and will dramatically improve the connectivity between the biggest city in the North Island and the third biggest city in the South Island. It should help us attract over 10,000 new citizens to our city. Already house prices are improving and large shopping retailers such as Kmart should be open by Christmas. Tourism is now considered to be New Zealand's biggest export earner and Invercargill is firmly entrenched as a hub

for the 'Free Independent Travellers'. Our network of world class sporting facilities helps us to attract numerous events to our region. The iconic Burt Munro Challenge and Bluff Seafood and Oyster Festival are just two examples. The Bill Richardson Transport World otherwise known as the Truck Museum along with the Motorcycle Mecca and E Hays & Sons will provide more upmarket attractions for those interested in heritage wheels. There are also specialist displays at the Bluff Maritime Museum and the Awarua Communications Museum.

We have undertaken many attempts at urban renewal but the inner city development spearheaded by HWCP and referred to as The Block is by far the most bold development Council and the private sector have been committed to in recent decades. The residents and rate payers of Invercargill can most certainly look forward to an exciting decade.

A handwritten signature in black ink, appearing to read 'L. Shill'. The signature is written in a cursive, flowing style.

# Chief Executive's Comment



In 2018 Council worked with our community to develop the Long-term Plan looking out to 2028. For the 2019/20 year there are no significant changes to what we put forward to you as part of the Long-term Plan process.

As a result, we did not hold a formal consultation process. This Annual Plan does not go into detail about everything Council will be doing in the 2019/20 year, for this information you will need to look at the 2018-2028 Long-term Plan on our website.

Council continues its commitment to the maintenance and development of our core infrastructure. In doing so, a number of projects are being carried through from prior years and this is increasing the overall capital works programme scheduled for 2019/20. Council has also made changes to the timing of some projects; the Living Dinosaurs project has been deferred to 2021/22 to align with the Museum Redevelopment project.

The efficiency and effectiveness of our service delivery remains a top priority, and as such, \$1 million has been allocated to begin an IT strategy that will review and update our key software systems. It is anticipated that these changes will have an ongoing positive impact on how we deliver our services, and how you in the community can engage with Council.

The four community well-beings have been re-introduced to the legislation outlining Council's purpose and role within the community. This acknowledges that achieving the aspirations of the community requires an economic, social, cultural and environmental perspective. As a Council we will continue to work with you in the community to ensure we are delivering the activities and services that you desire in the most efficient and affordable way.

I am looking forward to another positive year, building on our achievements and improving the quality of life that we all enjoy here in the Deep South.

# Readers' Guide



This Annual Plan is much more concise than previous Annual Plans. The information below has been provided to assist you with understanding Council's planning and reporting cycle and to direct you to the right document to find the information that you are looking for.

## Long-Term Plan

The Long-term Plan (LTP) sets out Council's priorities for the next ten years and how we will promote the current and future interests of the Community. It is based on a set of assumptions of how our future will look. The LTP is reviewed every three years to ensure that it remains relevant and reflects changes in the City, the economy and the priorities of the Community. The LTP includes the services that Council will provide, the projects that we will undertake, the cost of doing the work, how it will be paid for and how we will measure our performance.

Our current LTP was adopted in June 2018 and covers ten years up until 2028.

The Long-term Plan is available on Council's website, <https://icc.govt.nz/public-documents/long-term-plan-2018-2028/>, or for reference at the Invercargill Public Library or Bluff Service Centre and Library.

Our LTP outlines our anticipated levels of service for the 2019/20 year. We believe we are on-track for achieving these levels of service and delivering what we said we would in our activities. Take a look at the Activity Section of the LTP to find out more about what we are delivering.

## Annual Plan

An Annual Plan is developed in the two years between LTPs, showing in detail any changes to what was included in the LTP. The purpose of the Annual Plan is to contain the budget for the 2019/20 year and to identify any significant differences between what was proposed in the 2018-28 LTP and what is now planned for the 2019/20 year. The Annual Plan doesn't repeat any information that is included in the LTP so you will need to refer to the 2018-28 LTP for further information.

This Annual Plan covers the year from 1 July 2019 to 30 June 2020.

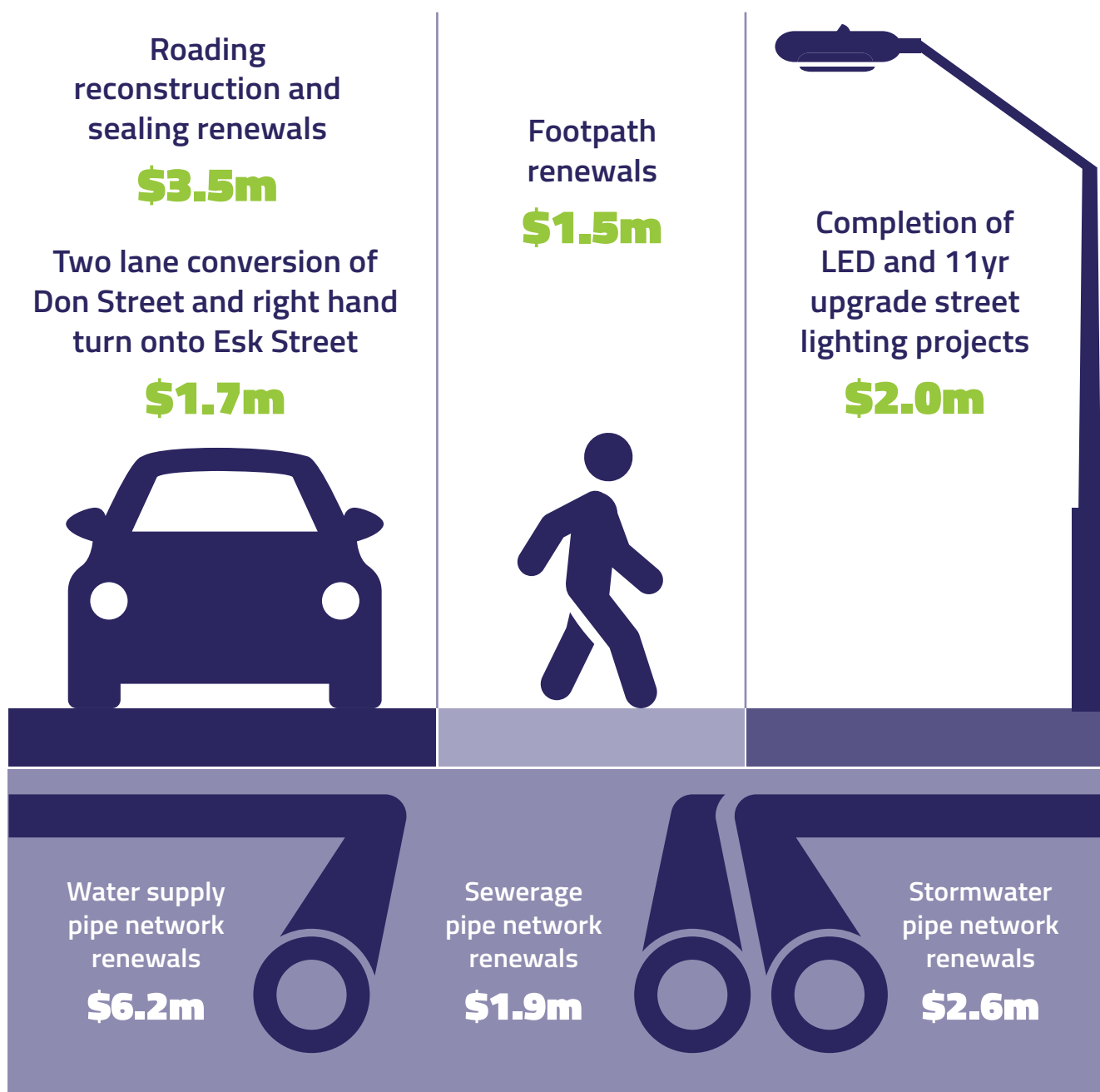
## Annual Report

The Annual Report explains how the Council has progressed in achieving its planned projects, services and financial results and is produced at the end of each financial year.

The most recent Annual Report is for the 2017/18 year. It can be found on Council's website [www.icc.govt.nz](http://www.icc.govt.nz), or for reference at the Invercargill Public Library or Bluff Service Centre and Library.

# Major Projects for 2019/20

## Core Infrastructure Projects



The capital programme is continuously reviewed by Council and projects can be subject to changes in timing. The overall capital programme is still expected to be delivered over the period of the Long-term Plan 2018-28, with some projects naturally being deferred to future years as priority is given to other work, or funding requirements change.

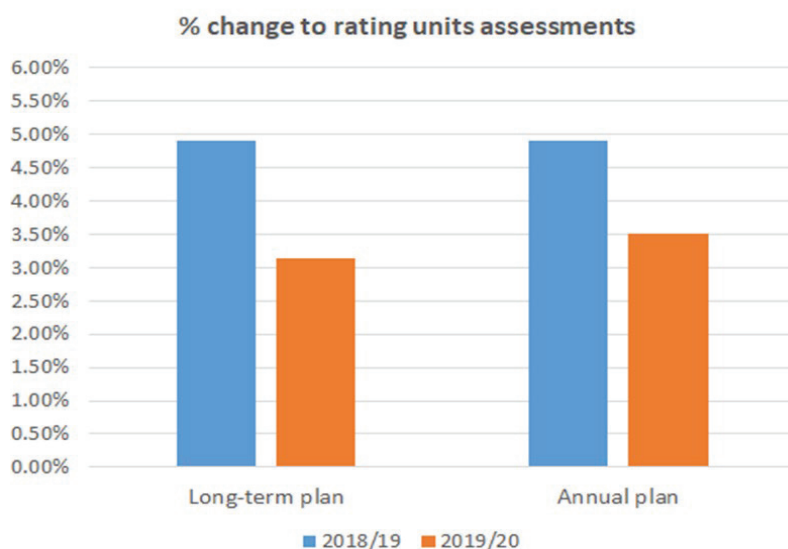


# Rates Overview



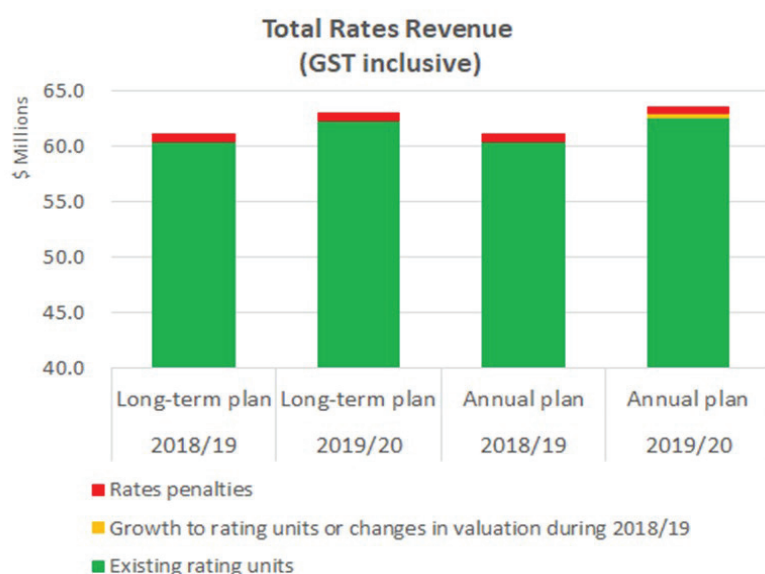
**3.50%** increase every rating unit can expect to pay in 2019/20

**\$63.7 million** projected rates revenue collection (including rates penalties)



All Invercargill City Council ratepayers can expect a 3.50% increase to their rates assessment in 2019/20.

This is higher than the 3.14% increase projected in the Long-term Plan 2018-2028. On-going reviews of Council operations have delivered additional savings above the savings targets set in the Financial Strategy of the Long-term Plan. This has been off-set by an increase of \$300,000 in the grant to the Southland Indoor Leisure Centre Charitable Trust above Long-term Plan levels.



Total rates revenue will increase from \$61.1m to \$63.7m, an increase of 4.28%.

Existing rating units will generate \$62.5m rate revenue for the 2019/20 year.

Growth within the city will create additional rating units or will change existing rating valuation for some properties. This growth will generate an additional \$0.5m rates revenue.

## Penalties

Ratepayers who do not pay by set payment dates will incur rate penalties, which is estimated to generate \$0.7m rates revenue.

# Financial Overview

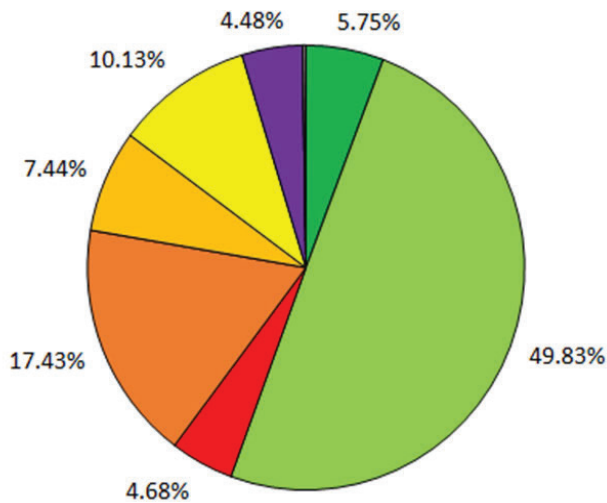
	2018/19 Long-term Plan \$,000	2019/20 Long-term Plan \$,000	2019/20 Annual Plan \$,000
Rates revenue (GST inclusive) *	60,405	62,299	63,678
Rates revenue change +	4.91%	3.14%	4.28%
Rates revenue (GST exclusive) *	52,526	54,173	55,372
Total revenue	93,264	98,426	99,361
Operating expenditure	96,862	99,076	99,550
Operating surplus/(deficit)	(3,598)	(650)	(189)
Total comprehensive revenue & expense	43,355	293	754
Total assets	993,790	1,001,200	979,506
Total liabilities (excluding borrowings)	15,509	15,640	16,523
Borrowings	99,866	106,852	90,700
Total equity	878,415	878,708	872,283

\* Rates revenue for the 2019/20 Annual Plan includes rates penalties. The Long-term Plan 2018/19 and 2019/20 comparison figures excludes rates penalties.

+ Rates revenue change calculation compares the 2019/20 Annual Plan including rates penalties to the Long-term Plan 2018/19 plus rates penalties.

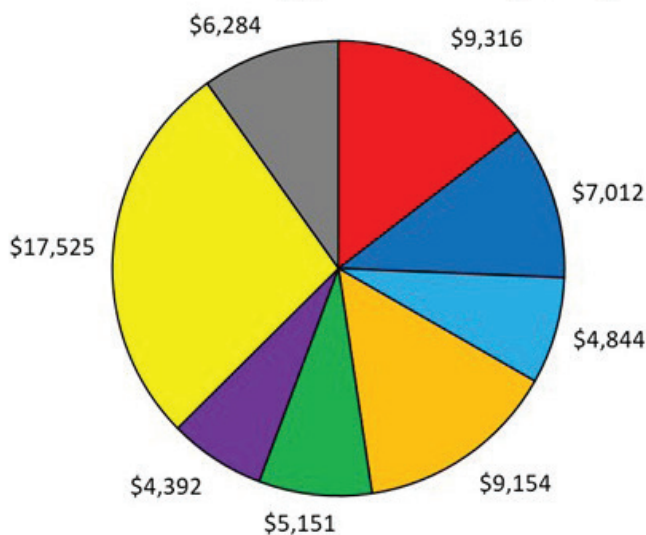


## 2019/20 Funding



- General rates, uniform annual general charge, rates penalties
- Targeted rates
- Subsidies and grants for operating purposes
- Fees and charges
- Interest and dividends from investments
- Local authorities fuel tax, fines, infringement fees, and other receipts
- Subsidies and grants for capital expenditure
- Increase (decrease) in debt
- Gross proceeds from sale of assets

## 2019/20 Rates Revenue distribution by group of activity (\$,000 including GST)

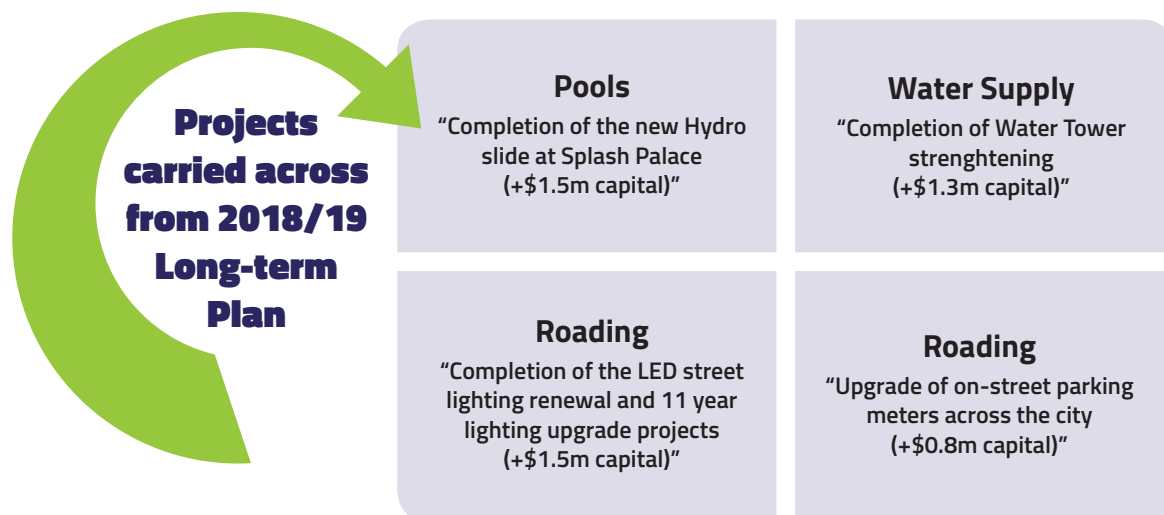


- Roothing
- Sewerage
- Stormwater
- Water Supply
- Solid Waste
- Development and Regulatory
- Social and Cultural ~
- General ^

~ The group of activities called "Social and Cultural" includes Museum, Housing Care Services, Libraries and Archives, Parks, Cemeteries, Pools, Passenger Transport and Regional Heritage.

^ The group of activities called "General" includes Arts and Creativity Invercargill, Living Dinosaurs project, City Centre Revitalisation, Community Development, Specialised Community Services, Regional Development, Investment Property, Investments, Public Toilets, Halls and Theatre Services, Democratic Services and Support Services.

# Refinements of the Annual Plan 2019/20



## New projects & changes to existing plans



# Funding Impact Statement

The Funding Impact Statement is made up of three parts:

- Rating policy information for 2019/20
- Rating samples for 2019/20
- Funding Impact Statement - Invercargill City Council for 2019/20

The Funding Impact Statement should be read in conjunction with the Revenue and Financing Policy.

Figures in this statement are GST inclusive unless stated.

# Rating policy and information for 2019/20

The following rates will be set by Council for the financial year commencing 1 July 2019 and ending 30 June 2020.

## General Rate

Invercargill City Council charges a general rate. The rate is charged based on the capital value of the Rating Unit.

The general rate is to fund the activities of Emergency Management, Grants, Total Mobility, Public Toilet, Civic Theatre, Democratic Process, Destination Marketing, Enterprise, Community Development, other support services and 15% of both street lighting and footpaths. It is based on the capital value of that rating unit.

The general rate is charged differentially based on the classification of the land following application of the definitions in the Rating Valuation Rules 2008. Rural -Farming is defined as a Rating Unit greater than 18Ha.

In order to maintain an equitable rating impact and preserve the relationship which exists between residential, rural, commercial, utilities and large industrial rating units, differentials have been applied.

The differentials are set out in the table below.

Differentials applied in setting rates		%
Residential	Base Rate	100.00
Residential – Multi Units	Base Rate	100.00
Commercial	Base Rate	100.00
Industrial	Base Rate	100.00
Rural-Farming	Base Rate	-25.00
Utilities	Base Rate	100.00

Differentials are applied by Council in the following manner whether the rate is a fixed dollar or a percentage of the capital value. A guide to the application of differentials to a fixed charge of \$100 is set out below:

- A property with a 100% differential would have 100% of the fixed charge, that is \$100 applied to it;
- A property with a -25% differential would have 100% less 25%, or 75% of the \$100 fixed charge, that is \$75 applied to it; and

- A property with a +25% differential would have 100% plus 25%, or 125% of the \$100 fixed charge, that is \$125 applied to it.

A differential of -100% means that the charge does not apply to that property.



## Targeted Rate

Invercargill City Council charges various targeted rates. Targeted rates are charged:

- per rating unit that falls within the relevant definition set out under the General Rules; and/or
- for the Residential Multi Unit category where stated they are charged on the basis of separately used or inhabited part of the rating unit (SUIP) using the capital value adjusted for each unit; and/or
- for non-residential water, sewerage and drainage the rate is adjusted based on capital value as per below.

		* %
Less than \$50,001	Base Fixed Charge	-20
From \$50,001 - \$100,000 *	Base Fixed Charge	100
\$100,001 - \$200,000	Base Fixed Charge	+20
\$200,001 - \$400,000	Base Fixed Charge	+40
\$400,001 - \$1,000,000	Base Fixed Charge	+100
\$1,000,001 - \$3,000,000	Base Fixed Charge	+200
\$3,000,001 - \$5,000,000	Base Fixed Charge	+300
\$5,000,001 +	Base Fixed Charge	+400

\* Base rate

SUIP is defined as any part of a rating unit separately occupied by the owner or any other person who has the right to occupy that part by virtue of a tenancy, lease, licence or other agreement.

The targeted rates are charged differentially based on:

- the use to which the land is put; and/or
- the provision or availability to the land of a service provided by, or on behalf of, Invercargill City Council; and/or
- location
- the Council will not be inviting lump sum contributions in respect to any targeted rates.

## Additional Rating Policies

In addition to the Policy and method of collecting rates as outlined over the page. The following additional policies will also be applied.

### Rating of Utilities

Utilities will be charged only the following rates:

- General Rate
- Regulatory Services Rate
- Rooding Rate
- Parks and Reserves Rate
- Cemeteries Rate
- Libraries Rate
- Pools Rate
- Regional Heritage Rate
- Business Development
- General Waste Management

All utilities are rated at their full capital value.

### Rating of Non-Rateable Land

Rating units which are deemed to be non-rateable under the Local Government (Rating) Act 2002 will be rateable for water, sewerage and refuse collection where these services are provided (Section 9 of that Act). These rating units will be assessed in the same manner as other ratepayers and according to their residential or non-residential status. Churches, community groups, residential homes and pensioner housing will be classified as residential for this purpose. All other non-rateable rating units will be classified as non-residential.

### Industrial

Industrial Property is subject to a differential to the effect that the maximum value for the property is \$25,000,000.

### Serviceable Rating Unit

Council has determined that a vacant serviceable rating unit is a property where the closest property boundary is less than:

- 100 metres from a water access point; or
- 30 metres from a sewerage access point; or
- 30 metres from a drainage access point; and

it is not impracticable to access the relevant service.

Council has determined that a serviceable rating unit, on which a building is erected, is a property where the building is less than

- 100 metres from water; or
- 60 metres from sewerage; or
- 60 metres from drainage; and

it is not impracticable to access the relevant service.

### Vacant Rating Units

Vacant rating units where services are available but not connected will be charged 50% of the water, sewerage and drainage rates.





Rate	Purpose
General Rate	To fund the activities of Emergency Management, Grants, Total Mobility, Public Toilets, Civic Theatre, Democratic Process, Destinalational Marketing, Enterprise, Community Development, other Support Services and 15% of both street lighting and footpaths
Parks and Reserves	To fund provision of Parks and Reserves in the District
Pools	To fund provision of Aquatic Facilities in the District.
Regulatory Services	To fund the function of Resource Management, Environmental Health, Animal Services and Building Services
Roading	To fund the provision of Roothing Services
Cemeteries	To fund the operation of Council's Cemeteries
Libraries	To fund provision of Library Services in the District
Regional Heritage	To fund Council's contribution to the operation of Southland museums and heritage
Business Development	To fund all costs associated with the redevelopment of commercial areas
Economic Development	To fund economic, sporting and cultural development initiatives
Footpaths	To fund provision of footpaths in the areas marked in Map A
Street Lighting	To fund the provision of street lighting in the areas marked in Map A
Transport	To fund the cost of subsidised public transport in the areas marked in Map B
Drainage Makarewa	To fund the costs of drainage in the areas marked in Map C

Rate	Purpose
Drainage Myross Bush	To fund the costs of drainage in the areas marked in Map D
Community Centres	To fund the cost of operating a community centre in each of the areas marked in Map E
Community Board	To fund costs within the Bluff Community Board marked in Map F
Drainage Redmayne Road	To fund the costs of drainage in the areas marked in Map G
City Centre Co-ordinator	To fund the costs of the City Centre Co-ordinator in the areas marked in Map H
Water	To fund the provision of reticulated water
Sewerage	To fund the provision of reticulated sewerage
Drainage	To fund the costs of drainage, other than in the areas marked on Maps
Refuse collection	To fund the provision of refuse removal and kerbside recycling in the services area
General waste management	To fund the education and administration service



## Total Rates to be Collected

Rating valuations were last reviewed in 2017. The table of Rating Change below shows some examples of different properties, their valuation change and the impact this has had on the rates payable by the ratepayer.

**Table of Rating Changes**

Type of Property	Rateable Value (Current) \$	Rateable Value (proposed) \$	Rates 2018/19 \$	Rates 2019/20 \$	\$ Change Annual	\$ Change Weekly	% Change Rates
Residential	130,000	130,000	1,802	1,865	63	1.21	3.50%
Residential*	255,000	265,000	2,291	2,411	121	2.32	5.27%
Residential	350,000	350,000	2,662	2,755	93	1.79	3.50%
Commerical	750,000	750,000	5,998	6,208	210	4.04	3.50%
Commerical*	1,090,000	1,150,000	8,757	9,284	527	10.14	6.02%
Commerical	3,590,000	3,590,000	19,352	20,029	677	13.03	3.50%
Farms	620,000	620,000	1,427	1,476	50	0.96	3.50%
Farms*	1,730,000	1,780,000	2,943	3,125	181	3.49	6.17%
Farms	8,500,000	8,500,000	13,206	13,668	462	8.89	3.50%
Industrial	1,030,000	1,030,000	6,911	7,153	242	4.65	3.50%
Industrial*	2,200,000	2,250,000	12,245	12,842	597	11.48	4.88%
Industrial	19,500,000	19,500,000	54,246	56,144	1,899	36.51	3.50%

\* denotes where property value has changed

## Rating Tables

	Residential		Residential Multi Unit			
			First Unit		Each Additional Unit	
	Base Rate	%	Base Rate	%	Base Rate	%
<b>General Rate</b>	0.00075492	100	0.00075492	100	0.00075492	-100
<b>Targeted Rate</b>						
<b>Parks and Reserves Uniform Annual Charge</b>	59.51	100	59.51	100	59.51	-100
<b>Parks and Reserves Base Rate</b>	0.00096208	100	0.00096208	100	0.00096208	-100
<b>Pools Uniform Annual Charge</b>	29.76	100	29.76	100	29.76	-100
<b>Pools Base Rate</b>	0.00036248	100	0.00036248	100	0.00036248	-100
<b>Regulatory Services Base Rate</b>	0.00051036	100	0.00051036	100	0.00051036	-100
<b>Roading Base Rate</b>	0.00078257	100	0.00078257	100	0.00078257	-100
<b>Cemeteries Base Rate</b>	0.00004408	100	0.00004408	100	0.00004408	-100
<b>Libraries Base Rate</b>	200.16	100	200.16	100	200.16	-25
<b>Regional Heritage Base Rate</b>	42.56	100	42.56	100	42.56	-25
<b>Business Development Rate</b>	0.00048203	-100	0.00048203	-100	0.00048203	-100
<b>Economic Development Base Rate</b>	0.00017163	-100	0.00017163	-100	0.00017163	-100



Commercial		Industrial		Rural-Farming		Contiguous Property	
Base Rate	%	Base Rate	%	Base Rate	%	Base Rate	%
0.00075492	100	0.00075492	100	0.00075492	-25	0.00075492	100
59.51	100	59.51	100	59.51	100		
0.00096208	-100	0.00096208	-100	0.00096208	-100	0.00096208	100
29.76	100	29.76	100	29.76	100		
0.00036248	-100	0.00036248	-100	0.00036248	-100	0.00036248	100
0.00051036	100	0.00051036	100	0.00051036	-25	0.00051036	100
0.00078257	100	0.00078257	100	0.00078257	-25	0.00078257	100
0.00004408	100	0.00004408	100	0.00004408	-25	0.00004408	100
200.16	100	200.16	100	200.16	100		
42.56	100	42.56	100	42.56	100		
0.00048203	100	0.00048203	100	0.00048203	-100	0.00048203	100
0.00017163	100	0.00017163	100	0.00017163	-100	0.00017163	100

## Rating Tables continued

	Residential		Residential Multi Unit			
			First Unit		Each Additional Unit	
	Base Rate	%	Base Rate	%	Base Rate	%
<b>Targeted Rate</b>						
Water Base Rate	385.74	100	385.74	100	385.74	-25
Sewerage Base Rate	249.85	100	249.85	100	249.85	-25
Drainage Base Rate	174.4	100	174.4	100	174.4	-25
Water Base Rate (non-residential)	513.6	-100	513.6	-100	513.6	-100
Sewerage Base Rate (non-residential)	607.14	-100	607.14	-100	607.14	-100
Drainage Base Rate (non-residential)	453.72	-100	453.72	-100	453.72	-100
Refuse Collection Base Rate (per wheelie bin)	197.63	100	197.63	100	197.63	-25
General Waste Management Rate	0.00011657	100	0.00011657	100	0.00011657	-100



Commercial		Industrial		Rural-Farming		Contiguous Property	
Base Rate	%	Base Rate	%	Base Rate	%	Base Rate	%
385.74	-100	385.74	-100	385.74	-100		
249.85	-100	249.85	-100	249.85	-100		
174.4	-100	174.4	-100	174.4	-100		
513.6	100	513.6	100	513.6	-100		
607.14	100	607.14	100	607.14	-100		
453.72	100	453.72	100	453.72	-100		
197.63	100	197.63	100	197.63	-100		
0.00011657	100	0.00011657	100	0.00011657	-100	0.00011657	100

## Targeted Rates Payable by Location

	Residential		Residential Multi Unit			
			First Unit		Each Additional Unit	
	Base Rate	%	Base Rate	%	Base Rate	%
<b>Targeted Rate by location</b>						
Footpaths Base Rate – within Invercargill and Bluff Urban Areas (Map A)	0.00031963	100	0.00031963	100	0.00031963	-100
Street Lighting Base Rate – within Invercargill and Bluff Urban Areas (Map A)	0.00008351	100	0.00008351	100	0.00008351	-100
Transport Base Rate – within Invercargill City Area only (Map B)	0.00010747	100	0.00010747	100	0.00010747	-100
Drainage Makarewa Base Rate – within the Makarewa Drainage Area (Map C)	84.8	100	84.8	100	84.8	-100
Drainage Myross Bush Base Rate – within the Myross Bush Rate (Map D)	83.64	100	83.64	100	83.64	-100
Community Centre – Awarua Rate – locations for Community Centres (Map E)	32.09	100	32.09	100	32.09	-100
Community Centre – Myross Bush Rate – locations for Community Centres (Map E)	30.53	100	30.53	100	30.53	-100





Commercial		Industrial		Rural-Farming		Contiguous Property	
Base Rate	%	Base Rate	%	Base Rate	%	Base Rate	%
0.00031963	100	0.00031963	100	0.00031963	100	0.00031963	100
0.00008351	100	0.00008351	100	0.00008351	100	0.00008351	100
0.00010747	100	0.00010747	100	0.00010747	100	0.00010747	100
84.8	100	84.8	100	84.8	100		
83.64	100	83.64	100	83.64	100		
32.09	100	32.09	100	32.09	100		
30.53	100	30.53	100	30.53	100		

## Targeted Rates Payable by Location continued

	Residential		Residential Multi Unit			
			First Unit		Each Additional Unit	
	Base Rate	%	Base Rate	%	Base Rate	%
<b>Targeted Rate by location</b>						
Community Centre – Otatara Rate – locations for Community Centres (Map E)	15.53	100	15.53	100	15.53	-100
Town Hall – Bluff Rate – locations for Community Centres (Map E)	17.08	100	17.08	100	17.08	-100
Bluff Community Board Base Rate – within the Bluff Ward (Map F)	0.00033239	100	0.00033239	100	0.00033239	-100
Drainage Redmayne Road Base Rate – within the Redmayne Road Drainage District (Map G)	81.62	100	81.62	100	81.62	-100
City Centre Co-ordinator Base Rate (Map H)	0.00030462	-100	0.00030462	-100	0.00030462	-100



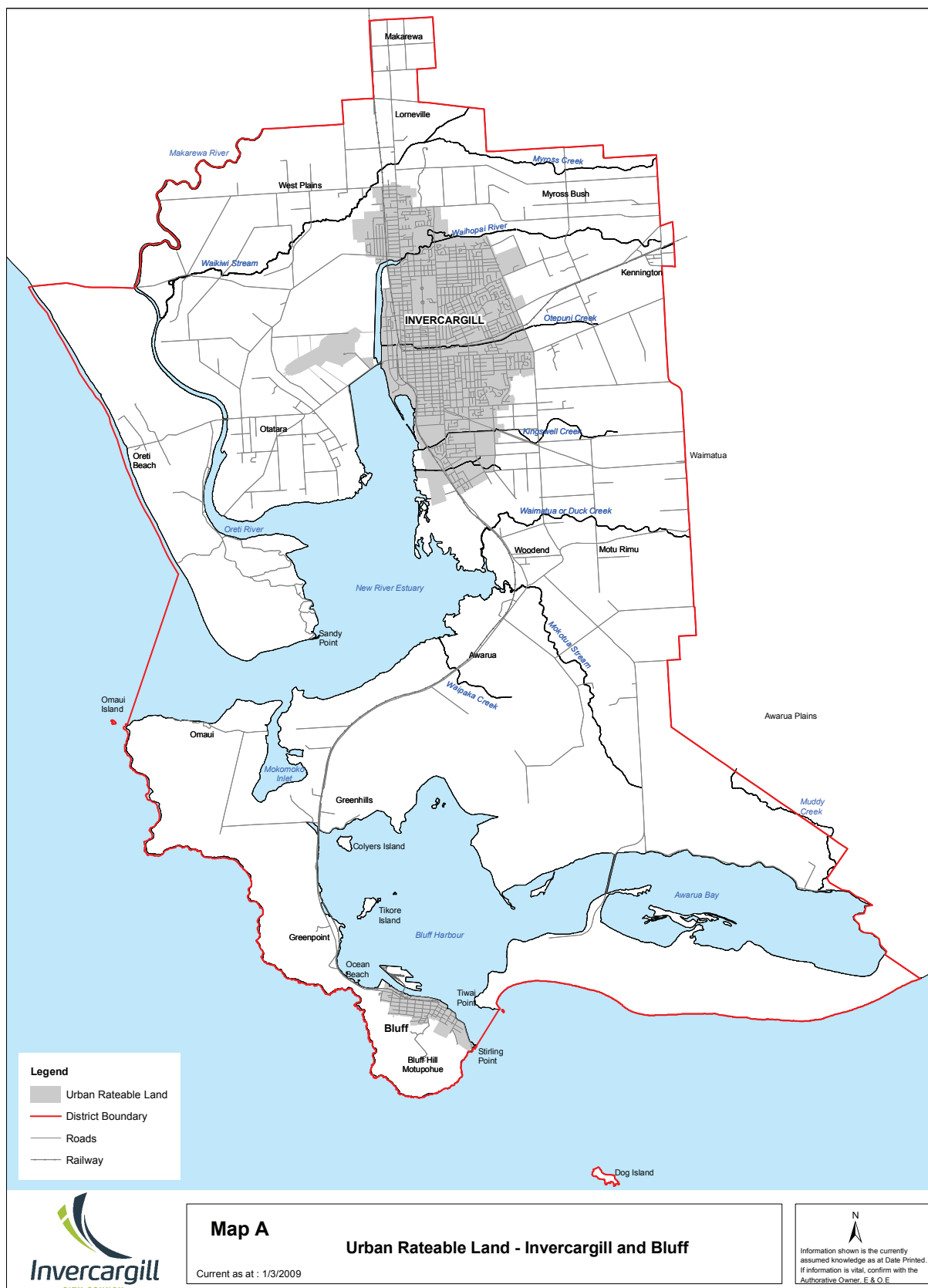
Commercial		Industrial		Rural-Farming		Contiguous Property	
Base Rate	%	Base Rate	%	Base Rate	%	Base Rate	%
15.53	100	15.53	100	15.53	100		
17.08	100	17.08	100	17.08	100		
0.00033239	100	0.00033239	100	0.00033239	-25	0.00033239	100
81.62	100	81.62	100	81.62	100		
0.00030462	100	0.00030462	100			0.00030462	100

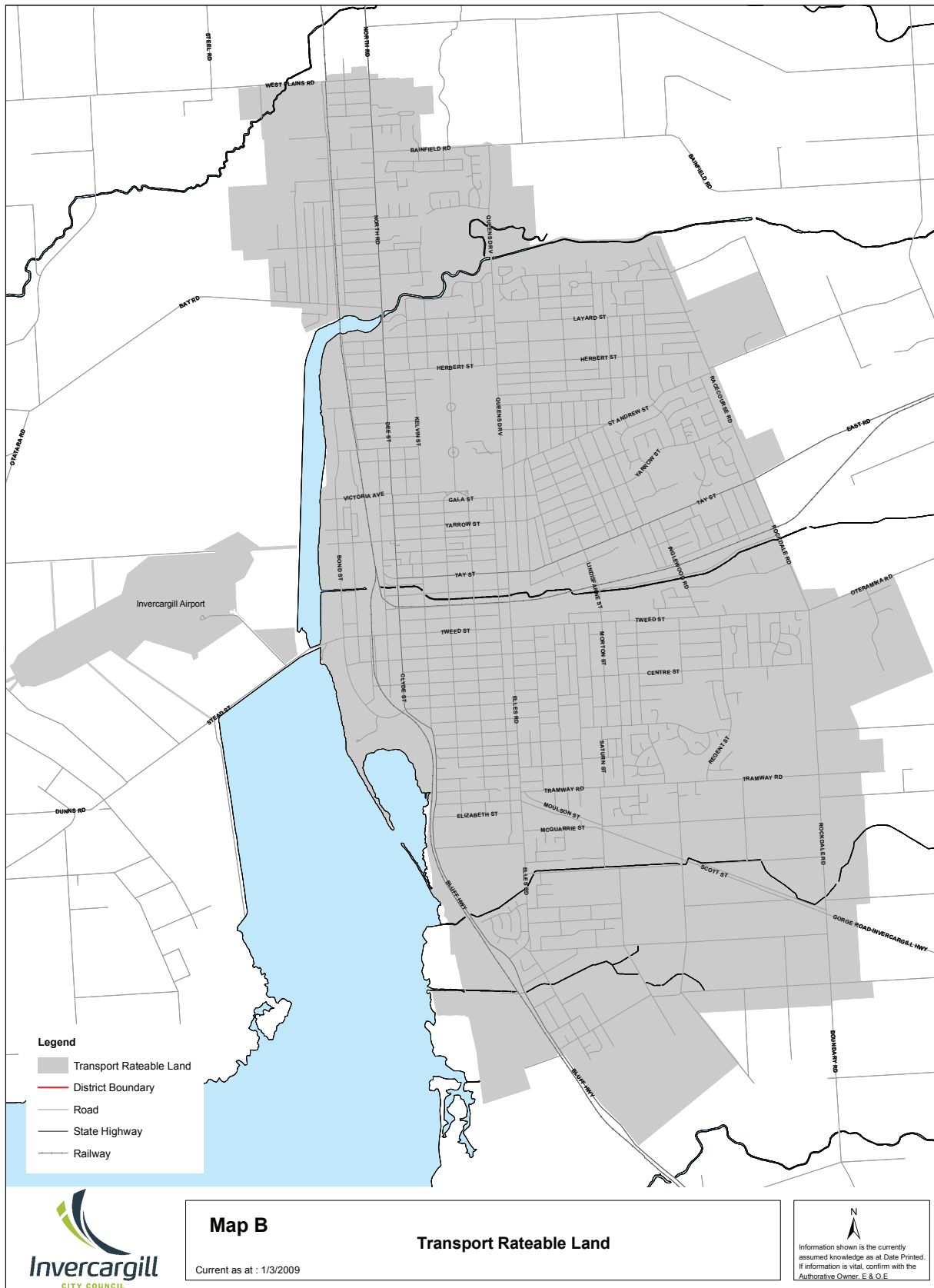


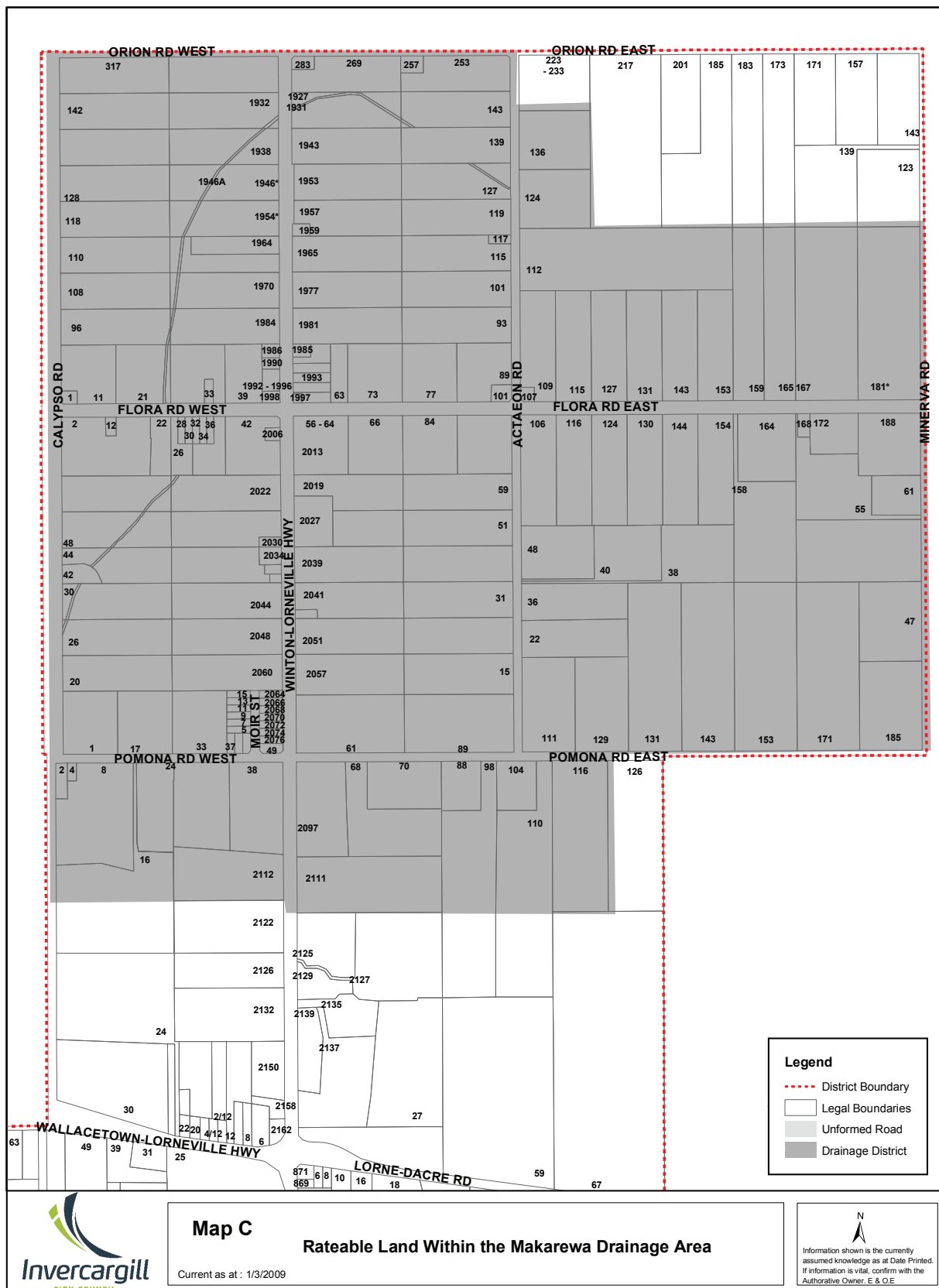
## Total Rates to be Collected

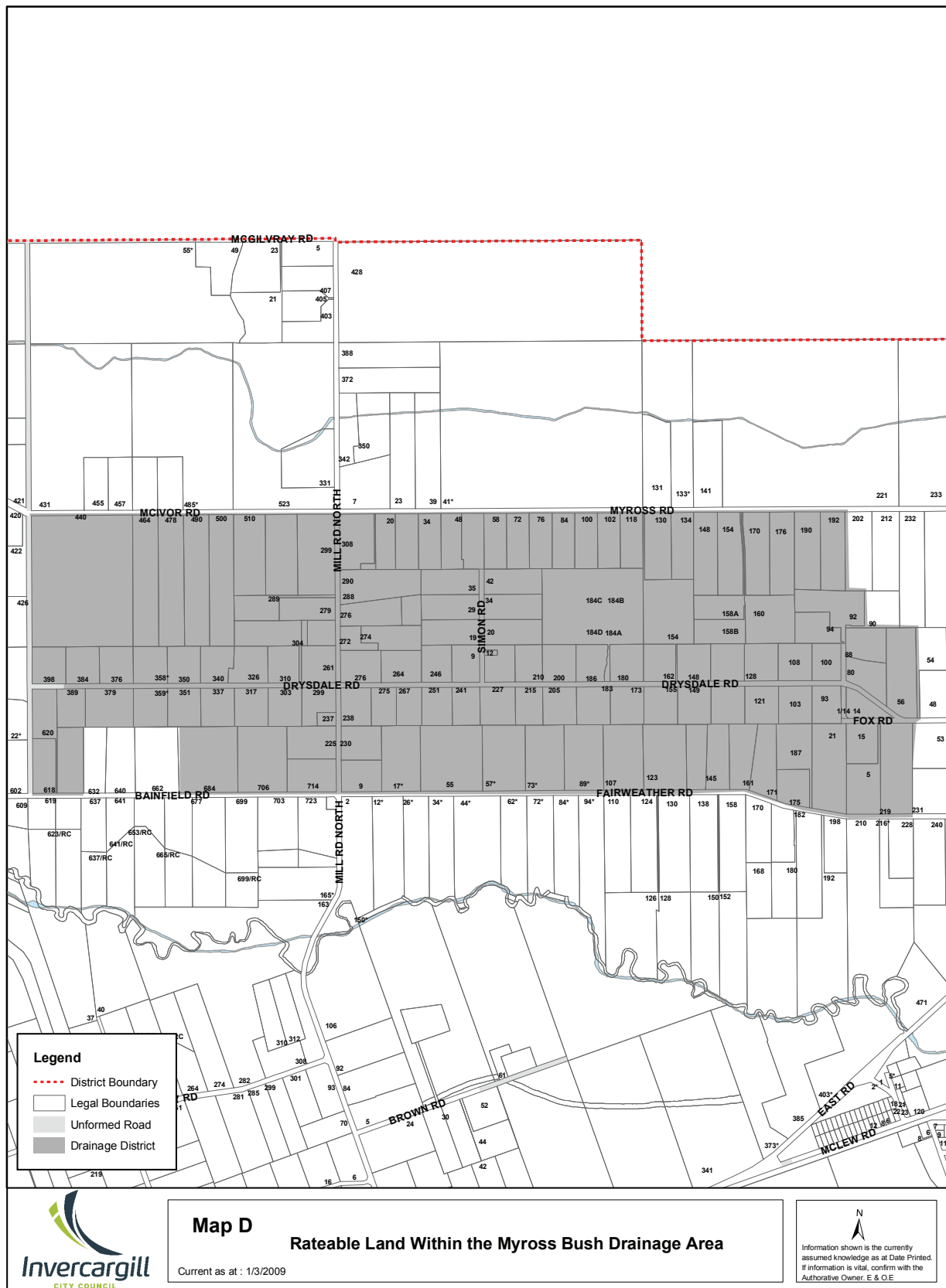
The table below shows the total rates to be collected for Council's activities for 2019/20 compared to 2018/19 (excluding rates penalties)

Total increase in rates	2018/19 (\$ GST inclusive)	2019/20 (\$ GST inclusive)
General Rate	5,658,871	5,900,845
Regulatory Services	3,825,649	3,989,232
Roading	5,861,236	6,111,904
Parks & Reserves	6,972,110	7,270,260
Cemeteries	330,436	344,557
Libraries	4,786,027	4,990,799
Pools	2,797,574	2,917,223
Regional Heritage	1,017,594	1,061,094
Footpaths	1,783,844	1,860,278
Street Lighting	463,661	483,475
Transport	592,769	618,093
Sewerage	6,724,781	7,012,457
Drainage	4,619,348	4,816,888
Drainage - Makarewa	13,273	13,840
Drainage - Myross Bush	10,102	10,533
Drainage - Redmayne Road	2,760	2,878
Refuse Collection	4,099,860	4,275,209
General Waste Management	839,730	875,613
Water	8,778,591	9,153,934
Economic Development	230,000	239,842
Business Development	709,994	740,361
City Centre Co-ordinator	142,594	148,690
Community Centre - Awarua	3,565	3,718
Community Centre - Myross Bush	15,870	16,558
• Community Centre - Otatara	19,320	20,143
• Bluff Town Hall	21,275	22,182
• Bluff Community Board	84,065	87,658
<b>Net Rates</b>	<b>60,404,899</b>	<b>62,988,266</b>

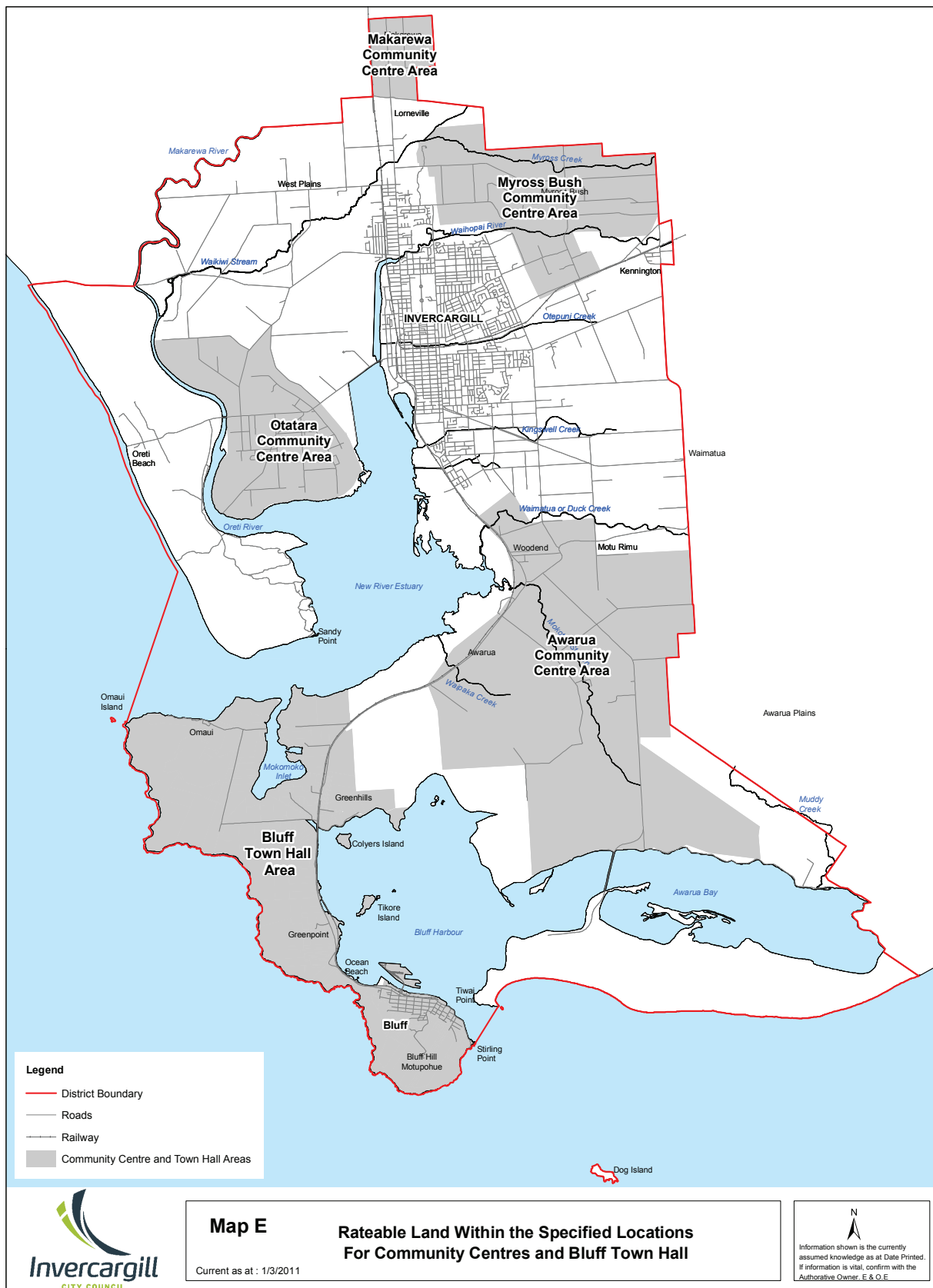


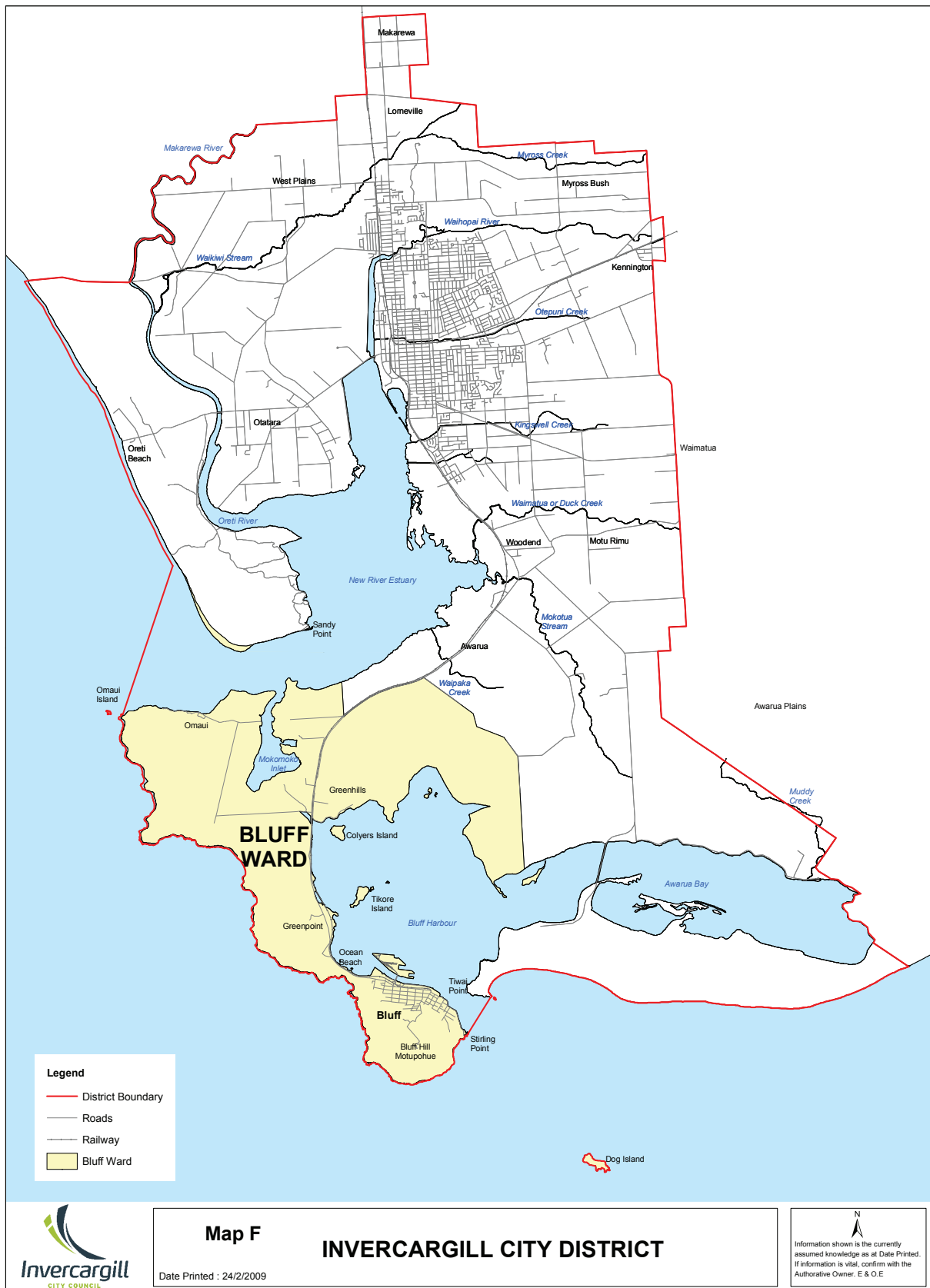


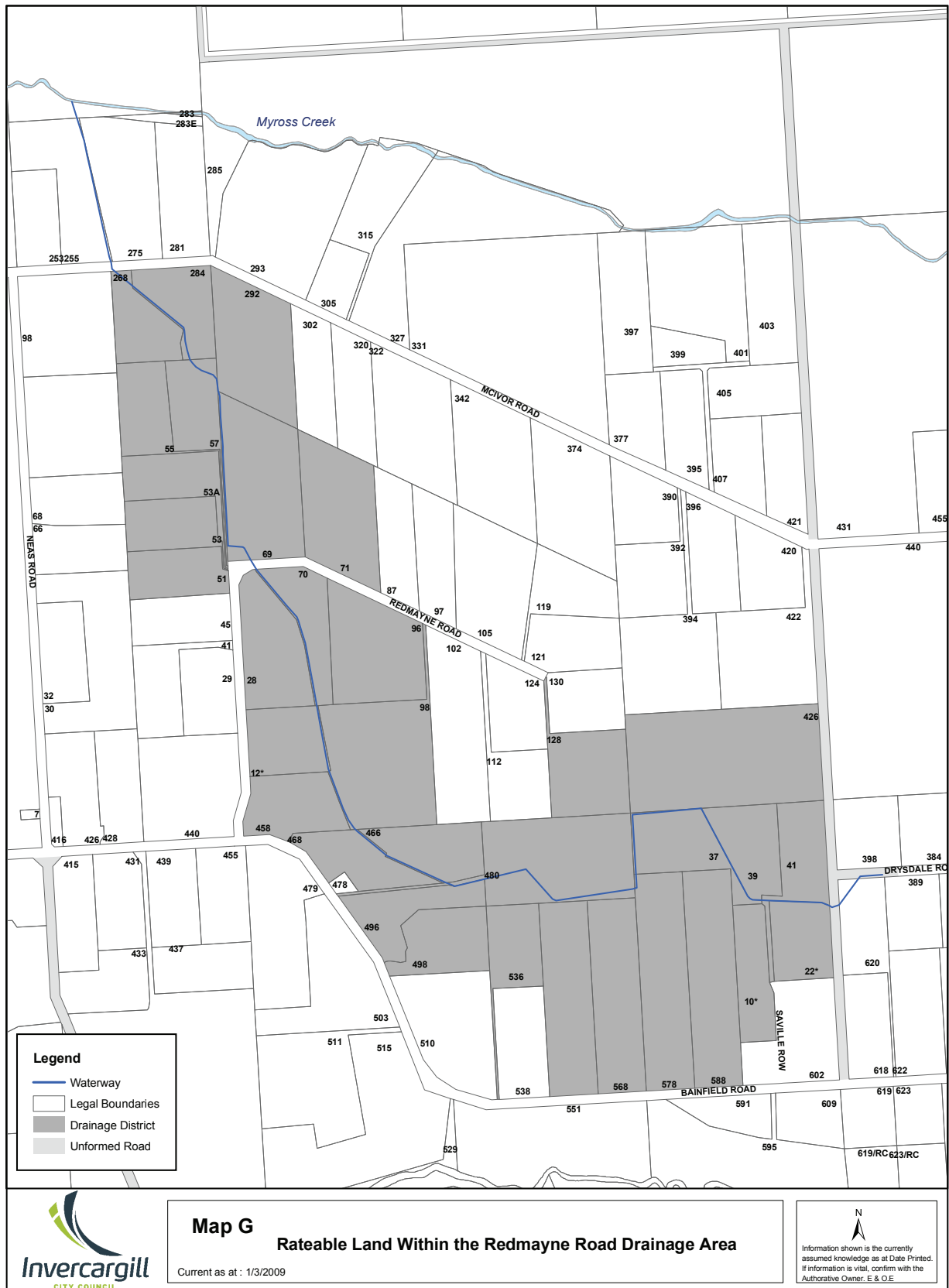




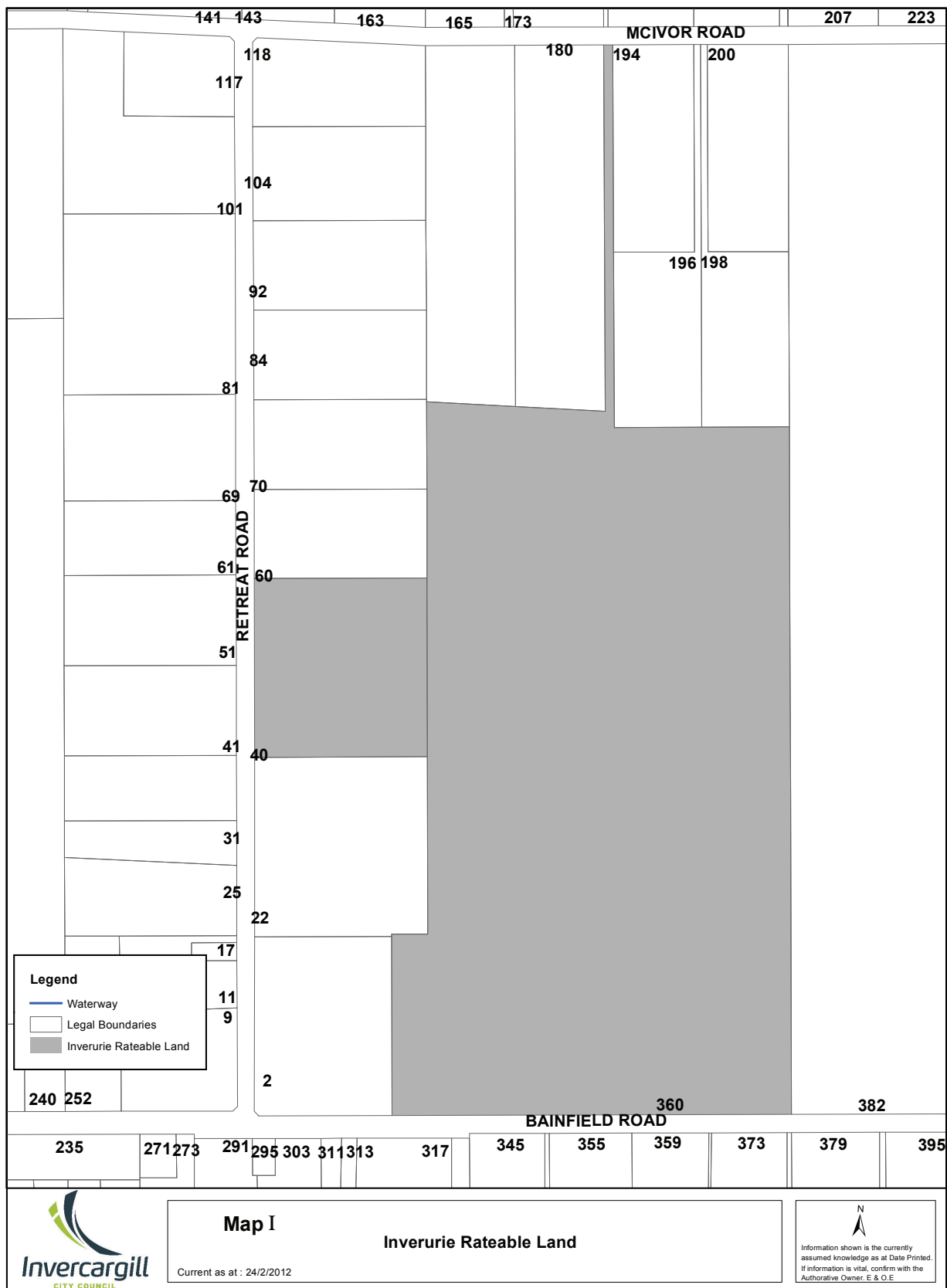












## Funding Impact Statement - Invercargill City Council

(GST exclusive)

		Long-Term Plan	Long-Term Plan	Annual Plan
		2018/19	2019/20	2019/20
		(\$'000)	(\$'000)	(\$'000)
<b>SOURCES OF OPERATIONAL FUNDING</b>				
General rates, uniform annual general charge, rates penalties		5,550	5,492	5,731
Targeted rates		47,606	49,325	49,641
Subsidies and grants for operating purposes	1	3,741	3,738	4,664
Fees and charges	2	15,249	15,955	17,360
Interest and dividends from investments	3	7,977	8,343	7,411
Local authorities fuel tax, fines, infringement fees, and other receipts		9,023	9,442	10,092
<b>Total operating funding (A)</b>		<b>89,146</b>	<b>92,295</b>	<b>94,899</b>
<b>APPLICATIONS OF OPERATIONAL FUNDING</b>				
Payments to staff and suppliers	4	65,511	66,490	68,277
Finance costs	5	4,293	4,764	3,260
Other operating funding applications		0	0	0
<b>Total applications of operating funding (B)</b>		<b>69,804</b>	<b>71,254</b>	<b>71,537</b>
<b>Surplus (deficit) of operating funding (A – B)</b>		<b>19,342</b>	<b>21,041</b>	<b>23,362</b>
<b>SOURCES OF CAPITAL FUNDING</b>				
Subsidies and grants for capital expenditure	1	4,118	6,131	4,462
Development and financial contributions		0	0	0
Increase (decrease) in debt	6	117	5,319	0
Gross proceeds from sale of assets		318	193	251
Lump sum contributions		0	0	0
Other dedicated capital funding		0	0	0
<b>Total sources of capital funding (C)</b>		<b>4,553</b>	<b>11,643</b>	<b>4,713</b>
<b>APPLICATION OF CAPITAL FUNDING</b>				
Capital expenditure				
- to meet additional demand	7	438	6,545	2,466
- to improve the level of service	7	5,514	1,194	5,174
- to replace existing assets	7	17,385	25,461	31,600
Increase (decrease) in reserves		558	(516)	(85)
Increase (decrease) of investments	6	0	0	(11,080)
<b>Total applications of capital funding (D)</b>		<b>23,895</b>	<b>32,684</b>	<b>28,075</b>
<b>Surplus (deficit) of capital funding (C - D)</b>		<b>(19,342)</b>	<b>(21,041)</b>	<b>(23,362)</b>
<b>FUNDING BALANCE ((A – B) + (C – D))</b>		<b>0</b>	<b>0</b>	<b>0</b>
Depreciation expense (not included in the above FIS)		27,098	27,864	28,053

## Explanation Of Major Variances Between 2019/20 Long-Term Plan Year 2 and 2019/20 Annual Plan



### NOTES

- 1** Subsidies and grant revenue is expected to be lower as \$2.5m of external funding is not expected until the Living Dinosaurs project commences. The project has been delayed to 2021/22. This has partially been offset by increased use of the NZTA subsidies available, including the introduction of NZTA subsidies for renewals of footpaths, which were not included in the Long-term Plan assumptions.
- 2** Fees and charges are higher than anticipated in the Long-term Plan due to the inclusion of \$1.8m for Invercargill City Council's share of Wastenet revenue. This was not included in the assumptions of the Long-term Plan.
- 3** Interest and dividends from investments is lower than anticipated in the Long-term Plan due to Invercargill City Holdings Limited indicating a lower dividend payout. This will reduce the cashflow pressure Invercargill City Holdings Limited are expecting in the short to medium term.
- 4** Payments to staff and suppliers are higher than anticipated in the Long-term Plan due to the inclusion of \$1.7m for Invercargill City Council's share of Wastenet expenses. This was not included in the assumptions of the Long-term Plan.
- 5** Finance costs are lower than anticipated in the Long-term Plan due to a revised borrowings interest rate assumption from 5.00% to 3.50%. This has been achieved through transferring existing borrowing to the Local Government Funding Agency in 2018/19.
- 6** During 2018/19, Invercargill City Council transferred \$55m of borrowings from bank loan debt to fixed debt bonds within the Local Government Funding Agency. Funds held on investment will be used to offset funding requirements in the 2019/20 year instead of increasing borrowings. This will reduce the amount held on investments. This cashflow distribution method is different from the method used in the Long-term Plan.
- 7** Purchase of property, plant and equipment (Capital Infrastructure) is higher than anticipated in the Long-term Plan due to the deferral of a number of capital projects from prior years to 2019/20.





# Financial Management

The Council must, under the Local Government Act, manage its revenues, expenses, assets, liabilities, investments and general financial dealings prudently, and in a manner that sustainably promotes the current and future interests of the Community.

This section includes:

- Prospective Statement of Comprehensive Revenue and Expense.
- Prospective Statement of Cashflows.
- Prospective Statement of Financial Position.
- Prospective Statement of Changes in Equity.
- Schedule of Reserves.
- Benchmarks.
- Prospective Statement of Accounting Policies.

All figures are GST exclusive unless otherwise stated.

# Prospective Financial Statements

## Prospective Statement of Comprehensive Revenue & Expense

		Long-Term Plan 2018/19 (\$'000)	Long-Term Plan 2019/20 (\$'000)	Annual Plan 2019/20 (\$'000)
<b>REVENUE</b>				
Rates revenue excluding targeted water supply rates	1	44,892	46,306	47,412
Rates revenue - targeted water supply rates		7,634	7,867	7,960
Fines		486	497	497
Subsidies and grants	2	7,859	9,869	9,126
Direct charges revenue	3	19,093	19,962	22,171
Rental revenue		3,028	3,120	2,966
Other revenue	1	2,295	2,462	1,818
Finance revenue		2,127	2,343	2,561
Dividends	4	5,850	6,000	4,850
Total revenue		93,264	98,426	99,361
<b>EXPENSES</b>				
Employee expenses		24,774	25,277	25,429
Depreciation and amortisation		27,098	27,863	28,053
Other expenses	5	40,697	41,172	42,808
Finance expenses	6	4,293	4,764	3,260
Total expenses		96,862	99,076	99,550
Surplus / (deficit) before tax		(3,598)	(650)	(189)
Income tax expense		0	0	0
<b>Surplus / (deficit) after tax</b>		<b>(3,598)</b>	<b>(650)</b>	<b>(189)</b>
<b>OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>				
Property, plant and equipment revaluations gain / (loss)		46,112	0	0
Investment property revaluations - gain / (loss)		768	862	862
Forestry assets revaluations - gain / (loss)		73	81	81
Total other comprehensive revenue & expense		46,953	943	943
<b>Total comprehensive revenue &amp; expense</b>		<b>43,355</b>	<b>293</b>	<b>754</b>



## Prospective Statement of Cashflows

		Long-Term Plan 2018/19 (\$000)	Long-Term Plan 2019/20 (\$000)	Annual Plan 2019/20 (\$000)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from rates revenue	1	52,526	54,173	55,372
Receipts from other revenue	1-3	31,096	34,091	34,758
Interest received		2,127	2,343	2,561
Dividend received	4	5,850	6,000	4,850
Payments to suppliers and employees	5	(63,846)	(64,671)	(66,458)
Interest paid	6	(4,293)	(4,764)	(3,260)
<b>Net cash flows from operating activities</b>		<b>23,460</b>	<b>27,172</b>	<b>27,823</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Cash was provided from</b>				
Proceeds from sale of property, plant and equipment		318	193	251
Proceeds from sale of investments	7	5,378	5,028	16,800
Purchase of property, plant and equipment	8	(23,267)	(33,126)	(36,364)
Purchase of biological assets		0	0	0
Purchase of intangible assets	9	(70)	(74)	(1,075)
Purchase of investment property	10	0	0	(1,800)
Purchase of investments	7	(6,091)	(4,593)	(5,621)
<b>Net cash flows from investing activities</b>		<b>(23,732)</b>	<b>(32,572)</b>	<b>(27,809)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from borrowings	7	3,594	9,159	0
Repayments of borrowings	7	(3,477)	(3,840)	0
<b>Net cash flows from financing activities</b>		<b>117</b>	<b>5,319</b>	<b>0</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(155)</b>	<b>(81)</b>	<b>14</b>
Cash and cash equivalents at the beginning of the year	11	1,330	1,175	1,679
<b>Cash and cash equivalents at end of the year</b>		<b>1,175</b>	<b>1,094</b>	<b>1,693</b>

## Prospective Statement of Financial Position

		Long-Term Plan 2018/19 (\$000)	Long-Term Plan 2019/20 (\$000)	Annual Plan 2019/20 (\$000)
<b>ASSETS</b>				
Cash and cash equivalents	11	1,175	1,094	1,693
Trade and other receivables	12	7,045	7,197	9,612
Inventories		753	770	933
Property, plant and equipment	13	842,290	849,104	833,121
Intangible assets	9	910	910	1,982
Forestry assets	14	3,699	3,780	3,039
Investment property	10	39,165	40,027	41,143
Investment in CCOs and similar entities		36,069	36,069	36,069
Other financial assets - other investments	7	62,684	62,249	51,914
<b>TOTAL ASSETS</b>		<b>993,790</b>	<b>1,001,200</b>	<b>979,506</b>
<b>LIABILITIES</b>				
Trade and other payables	15	10,143	10,238	11,088
Provisions		848	807	847
Employee benefit liabilities		3,809	3,886	3,631
Borrowings	7	99,866	106,852	90,700
Derivative financial instruments		709	709	957
<b>TOTAL LIABILITIES</b>		<b>115,375</b>	<b>122,492</b>	<b>107,223</b>
Retained earnings		393,185	393,994	379,411
Restricted reserves		27,858	27,342	35,827
Hedging reserves		(501)	(501)	(957)
Carbon credit revaluation reserves		335	335	464
Asset revaluation reserves		457,538	457,538	457,538
<b>TOTAL EQUITY</b>		<b>878,415</b>	<b>878,708</b>	<b>872,283</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>993,790</b>	<b>1,001,200</b>	<b>979,506</b>



## Prospective Statement of Changes in Equity

	Long-Term Plan 2018/19 (\$000)	Long-Term Plan 2019/20 (\$000)	Annual Plan 2019/20 (\$000)
<b>Balance at 1 July</b>	835,060	878,415	871,529
Total comprehensive revenue & expense for the year	43,355	293	754
<b>Balance at 30 June</b>	<b>878,415</b>	<b>878,708</b>	<b>872,283</b>
<b>COMPONENTS OF EQUITY</b>			
<b>Retained earnings at 1 July</b>	396,500	393,185	378,572
Net surplus/(deficit) for the year	43,355	293	754
Transfers (to)/from restricted reserves	(558)	516	85
Transfers (to) /from hedging reserves	0	0	0
Transfers (to) /from carbon credit revaluation reserves	0	0	0
Transfers (to)/from asset revaluation reserves	(46,112)	0	0
<b>Retained earnings at 30 June</b>	<b>393,185</b>	<b>393,994</b>	<b>379,411</b>
<b>Restricted reserves at 1 July</b>	27,300	27,858	35,912
Transfers to/(from) reserves	558	(516)	(85)
<b>Restricted reserves at 30 June</b>	<b>27,858</b>	<b>27,342</b>	<b>35,827</b>
<b>Hedging reserves at 1 July</b>	(501)	(501)	(957)
Transfers to/(from) reserves	0	0	0
<b>Hedging reserves at 30 June</b>	<b>(501)</b>	<b>(501)</b>	<b>(957)</b>
<b>Carbon credit revaluation reserves at 1 July</b>	335	335	464
Transfers to/(from) reserves	0	0	0
<b>Carbon credit revaluation reserves at 30 June</b>	<b>335</b>	<b>335</b>	<b>464</b>
<b>Asset revaluation reserves at 1 July</b>	411,426	457,538	457,538
Transfers to/(from) reserves	46,112	0	0
<b>Asset revaluation reserves at 30 June</b>	<b>457,538</b>	<b>457,538</b>	<b>457,538</b>

## Explanation Of Major Variances Between 2019/20 Long-Term Plan Year 2 And 2019/20 Annual Plan

### Key

- (R&E) = Prospective Statement Of Comprehensive Revenue & Expense  
(CF) = Prospective Statement Of Cashflows  
(FPOS) = Prospective Statement Of Financial Position

### NOTES

- 1** Rates penalties are disclosed under Rates revenue excluding targeted water supply rates (R&E) and Receipts from rates revenue (CF) in the Annual Plan 2019/20. In the Long-term Plan 2018-2028, they were disclosed under Other revenue (R&E) and Receipts from other revenue (CF).
- 2** Subsidies and grant revenue is expected to be lower as \$2.5m of external funding is not expected until the Living Dinosaurs project commences. The project has been delayed to 2021/22. This has partially been offset by increased use of the NZTA subsidies available, including the introduction of NZTA subsidies for renewals of footpaths, which were not included in the Long-term Plan assumptions.
- 3** Direct charges revenue (R&E) and Receipts from other revenue (CF) are higher than anticipated in the Long-term Plan due to the inclusion of \$1.8m for Invercargill City Council's share of Wastenet revenue. This was not included in the assumptions of the Long-term Plan.
- 4** Dividend revenue is lower than anticipated in the Long-term Plan due to Invercargill City Holdings Limited indicating a lower dividend payout. This will reduce the cashflow pressure Invercargill City Holdings Limited are expecting in the short to medium term.
- 5** Other expenses (R&E) and Payments to suppliers and employees (CF) are higher than anticipated in the Long-term Plan due to the inclusion of \$1.7m for Invercargill City Council's share of Wastenet expenses. This was not included in the assumptions of the Long-term Plan.
- 6** Finance expenses (R&E) and Interest paid (CF) are lower than anticipated in the Long-term Plan due to a revised borrowings interest rate assumption from 5.00% to 3.50%. This has been achieved through transferring existing borrowing to the Local Government Funding Agency in 2018/19.
- 7** During 2018/19, Invercargill City Council transferred \$55m of borrowings from bank loan debt to fixed debt bonds within the Local Government Funding Agency. Funds held on investment will be used to offset funding requirements in the 2019/20 year instead of increasing borrowings. This will reduce the amount held on investments. This cashflow distribution method is different from the method used in the Long-term Plan.
- 8** Purchase of property, plant and equipment (capital infrastructure) is higher than anticipated in the Long-term Plan due to the deferral of a number of capital projects from prior years into 2019/20.
- 9** Purchase of Intangible (CF) and Intangible assets (FPOS) are higher than anticipated in the Long-term Plan due to the commencement of the IT strategy to upgrade internal computer and software systems.



- 10** Purchase of Investment property (CF) and Investment Property (FPOS) are higher than anticipated in the Long-term Plan due to additional capital expenditure required for the completion of 20 Don Street investment property. This work was approved by Council in 2018/19.
- 11** Cash and cash equivalents are higher than anticipated in the Long-term Plan due to 2017/18 actual closing balance being different to the balance assumption used in the Long-term Plan.
- 12** Trade and other receivables are higher than anticipated in the Long-term Plan due to 2017/18 actual closing balance being different to the balance assumption used in the Long-term Plan.
- 13** Property, plant and equipment is lower than anticipated in the Long-term Plan due to 2017/18 actual closing balance being different to the balance assumption used in the Long-term Plan.
- 14** Forestry assets are lower than anticipated in the Long-term Plan due to 2017/18 actual closing balance being different to the balance assumption used in the Long-term Plan.
- 15** Trade and other payables are higher than anticipated in the Long-term Plan due to 2017/18 actual closing balance being different to the balance assumption used in the Long-term Plan.

# Schedule of Reserves

## Reserve funds

Reserves are held to ensure that funds received for a particular purpose and any surplus created is managed in accordance with the reason for which the reserve was established. Surpluses held in reserves are credited with interest. As at 30 June 2018, the Council holds \$34.2 million reserves, with \$14.6 million being restricted reserves. Restricted reserves are reserves that have rules set by legal obligation that restrict the use that the Council may put the funds towards. The

remaining Council created reserves are discretionary reserves which the Council has established for the fair and transparent use of monies.

Below is a list of current reserves outlining the purpose for holding each reserve and the Council activity to which each reserve relates, together with summary financial information across the year of the Annual Plan.

	Opening Balance 2019/20 (\$,000)	Transfers In 2019/20 (\$,000)	Transfers Out 2019/20 (\$,000)	Closing Balance 2019/20 (\$,000)
<b>RESTRICTED RESERVES</b> The reserves can only be used for the purpose designated.				
<b>Category A (Legal Restriction)</b> The restriction is designated from a statute or legal document. These reserves restrictions include the capital and interest or income generated. This reserve is related to the Parks Activity and is to maintain the Feldwick gates at Queens Park.	125	4	-	129
<b>Category B (Capital only restriction)</b> These reserves are invested in property that provides a financial return to ratepayers (Investment Property, Library and Infrastructure activities)	3,817	115	-	3,932
<b>Category C (Specific purpose)</b> These reserves are to maintain and provide for improvements to separately identifiable areas. (Parks Crematorium and Cemetery, Community Centres, Waste and Infrastructure activities)	10,679	336	-	11,015
<b>NON RESTRICTED RESERVES</b> The reserves can be used for purposes other than the purpose specified.				
<b>Council Created Reserves</b> To provide funding for the ongoing operations and replacement of assets in the future. (All Activities)	21,290	1,840	(2,379)	20,751
	35,912	2,294	(2,379)	35,827



# Benchmarks



## What is the purpose of this statement?

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

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

Benchmark	Limits	Planned	Met
<b>Rates affordability benchmark:</b>			
Income	60%	55.1%	YES
Increases (LGCI + 3%)	5.3%	4.3%	YES
<b>Debt affordability benchmark:</b>	15%	9.3%	YES
<b>Balanced budget benchmark:</b>	100%	99.8%	NO
<b>Essential services benchmark:</b>	100%	109.1%	YES
<b>Debt servicing benchmark:</b>	10%	3.3%	YES

## NOTES

### 1 Rates affordability benchmark

(1) For this benchmark,—

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

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

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

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

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

### 2 Debt affordability benchmark

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

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

### 3 Balanced budget benchmark

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

(2) The Council meets the balanced budget benchmark if its revenue equals or is greater than its operating expenses.

Section 100(2) of Local Government Act 2002 (LGA) sets out the matters that Council must have regard to when determining that it is prudent to operate an unbalanced budget

These matters are:

(a) the estimated expenses of achieving and maintaining the predicted levels of service provision set out in the long-term plan, including estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and

(b) the projected revenue available to fund the estimated expense associated with maintaining the service capacity and integrity of assets throughout their useful life; and

(c) the equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life; and

(d) the funding and financial policies adopted under section 102.

#### **4 Essential services benchmark**

- (1) For this benchmark, the Council's planned capital expenditure on network services is presented as a proportion of expected depreciation on network services.
- (2) The Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.
- (3) Council meets the essential services benchmark in 2019/20. Over time Council's capital expenditure should equal its depreciation on network services. Council replaces its assets as they deteriorate therefore due to some projects being large, the benchmark will fluctuate above and below each year.

#### **5 Debt servicing benchmark**

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

# Prospective Statement of Accounting Policies

## Reporting Entity

Invercargill City Council ("the Council") is a territorial local authority governed by the Local Government Act 2002.

The Council has not presented group prospective financial statements because the Council believes that the parent prospective financial statements are more relevant to the users. The main purpose of the prospective financial statements in the Annual Plan is to provide users with information about core services that the Council intends to provide ratepayers, the expected cost of those services and, as a consequence, how much the Invercargill City Council requires by way of rates to fund the intended levels of service. The level of rates funding required is not affected by subsidiaries, except to the extent that Invercargill City Council obtains distributions from, or further invests in, those subsidiaries. Such effects are included in the prospective financial statements presented.

The primary objective of the Council is to provide goods or services for the community or social benefit rather than making a financial return. Accordingly, the Council is classified as a Tier 1 Public Sector Public Benefit Entity ("PBE").

## Basis of Preparation

The financial statements of the Council have been prepared in accordance with the Tier 1 PBE accounting standards.

These financial statements comply with the PBE standards.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared on the going concern basis.

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land

and buildings, certain infrastructure assets, investment property, biological assets and financial instruments (including derivative instruments).

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$' 000) unless otherwise stated. The functional currency of the Council is New Zealand dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Comprehensive Revenue and Expense.

## Subsidiaries

The Council consolidates as subsidiaries in the group financial statements all entities where the Council has the capacity to control their financing and operating policies as to obtain benefits from the activities of the entity. This power exists where the Council controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by the Council or where the determination of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the subsidiary.

The Council measures the cost of a business combination as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or presumed, in exchange for control of the subsidiary plus any costs directly attributable to the business combination.

Any excess of the cost of the business combination over the Council's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.



## Basis of consolidation

The purchase method is used to prepare the consolidated financial statements, which involves adding together like items of assets, liabilities, equity, revenue and expenses on a line-by-line basis. All significant intragroup balances, transactions, revenue and expenses are eliminated on consolidation.

The Council's investment in its subsidiaries are carried at deemed cost in the Council's own "parent entity" financial statements. Deemed cost is based on the net asset value of the subsidiary on conversion to NZ IFRS.

## Associates

The Council accounts for investments in associates in the group financial statements use the equity methods. An associate is an entity over which the Council has significant influence and that is neither a subsidiary nor an interest in a joint venture. The investments in associates is initially recognised at cost and the carrying amount is increased or decreased to recognise the Council's share of the surplus or deficit of the associates is recognised in the Council's Statement of Comprehensive Revenue and Expenses at the group level. Distributions received from associates reduce the carrying amount of the investment.

The Council's share in the associate's surplus or deficit resulting from unrealised gains on transactions between the Council and its associates eliminated.

The Council investments in associates are carried at cost in the Council's own financial statements.

## Joint ventures

### Joint entities

Joint ventures are those entities over which the Council has joint control, established by contractual agreement. The Council's share of the surplus or deficit of the joint venture is recognised in the Council's Statement of Comprehensive Revenue and Expenses, from the date joint control commences until the date control ceases.

### Joint operations

Joint operation (WasteNet) is an operation which Council has joint control. The Consolidated Financial Statements of the Council recognise in the Statement of Financial Position the Council's Share of Assets and Liabilities. Council recognises in the Statement of Comprehensive Revenue and Expenses its share of Revenue and Expenses that it earns from the sale or provision of goods or service by the joint venture.

## Revenue

Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to the Council and the revenue can be reliably measured, regardless of when the payment is being made.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment excluding taxes or duty.

The specific recognition criteria described below must also be met before revenue is recognised.

PBE IPSAS 23.106(a) requires, either in the statement of financial position or the notes, that entities disclose the amount of revenue from non-exchange transactions by major classes, showing separately; i) taxes, showing separately major classes of taxes; and ii) transfers, showing separately major classes of transfer revenue. Due to the difficulty in classifying revenue as either an exchange or non-exchange transaction and the separate labelling of revenue as exchange or non-exchange generally does not provide any additional useful information (and is therefore unlikely to be material), we have decided to not label revenue as exchange or non-exchange in the Prospective Statement of Comprehensive Revenue and Expenses.

## **Revenue from non-exchange transactions:**

### **General and targeted rates**

Rates are set annually by a resolution from Council and relate to a financial year. All ratepayers are invoiced within the financial year to which the rates have been set. Rates revenue is recognised when payable.

Water billing revenue is recognised on an accrual basis. Unbilled usage, as a result of unread meters at year end, is accrued on an average usage basis.

### **Government grants and funding**

The Council receives government grants from the New Zealand Transport Agency, which subsidises part of the Council's costs in maintaining the local roading infrastructure.

Revenues from non-exchange transactions with the Government and government agencies are recognised when the Council obtains control of the transferred asset (cash, goods, services, or property), and:

- It is probable that the economic benefits or service potential related to the asset will flow to the Council and can be measured reliably; and
- The transfer is free from conditions that require the asset to be refunded or returned to the Government if the conditions are not fulfilled.

Revenue from government grants and funding is measured at the fair value of the assets (cash, goods, services, or property) transferred over to the Council at the time of transfer.

To the extent that there is a condition attached that would give rise to a liability to repay the grant amount or to return the granted asset, a deferred revenue liability is recognised instead of revenue. Revenue is then recognised only when the Council has satisfied these conditions.

New Zealand Units (NZU's) allocated by the Crown represent non-monetary government grants and are initially recognised at nil value. Gains and losses on disposals are determined by comparing proceeds with the carrying amounts. These are included in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses.

### **Fines**

Traffic and parking infringements are recognised when tickets are issued.

### **Direct charges - subsidised**

#### **(i) Rendering of services**

Rendering of services at a price that is not approximately equal to the value of the service provided by the Council is considered a non-exchange transaction. This includes rendering of services where the price does not allow the Council to fully recover the cost of providing the service (such as resource consents, building consents, water connections, dog licensing, etc.), and where the shortfall is subsidised by revenue from other activities, such as rates. Generally there are no conditions attached to such revenue.

Revenue from such subsidised services is recognised when the Council issues the invoice or bill for the service. Revenue is recognised at the amount of the invoice or bill, which is the fair value of the cash received or receivable for the service. Revenue is recognised by reference to the stage of completion of the service to the extent that the Council has an obligation to refund the cash received from the service (or to the extent that the customer has the right to withhold payment from the Council for the service) if the service is not completed.

Contributions from customers in relation to the construction of new lines for the network are accounted for as revenue in the year which they have been received.



#### (ii) Sale of goods – subsidised

The sale of goods at a price that is not approximately equal to the value of the goods provided by the Council is considered a non-exchange transaction. This includes the sale of goods where the price does not allow the Council to fully recover the cost of producing the goods, and where the shortfall is subsidised by revenue from other activities such as rates.

Revenue from the sale of such subsidised goods is recognised when the Council issues the invoice or bill for the goods. Revenue is recognised at the amount of the invoice or bill, which is the fair value of the cash received or receivable for the goods.

Where a physical asset is acquired for nil or nominal consideration the fair value of the asset received is recognised as revenue. Assets vested in the Council are recognised as revenue when control over the asset is obtained.

### **Revenue from exchange transactions:**

#### **Direct charges – full cost recovery**

(i) Rendering of other services – full cost recovery  
Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.

(ii) Sale of goods – full cost recovery  
Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be reliably estimated and there is no continuing management involved with the goods.

#### **Interest Revenue**

Interest revenue is recognised using the effective interest method.

#### **Dividends**

Dividends are recognised when the right to receive payment has been established.

### **Construction contracts**

Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract at balance date. The stage of completion is measured by reference to the contract costs incurred up to balance date as a percentage of total estimated costs for each contract.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses incurred in connection with the Council's construction activities in general.

An expected loss on construction contracts is recognised immediately as an expense in the Statement of Comprehensive Revenue and Expenses.

Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

Construction work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under other liabilities.

### **Borrowing costs**

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

## Grant expenditure

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where the Council has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of the Council's decision.

## Income tax

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

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

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

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in

a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date. Current tax and deferred tax is charged or credited to the surplus/deficit in the Statement of Comprehensive Revenue and Expenses, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

## Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date. The substance of the arrangement depends on whether fulfilment of the arrangement is dependent on the use of a specific asset, or assets, or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

### Finance leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, the Council recognises finance leases as assets and liabilities in





the Statement of Financial Position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the Council will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

### **Operating leases**

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

## **Inventories**

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost and current replacement cost.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the FIFO method.

The write down from cost to current replacement cost or net realisable value is recognised in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses.

## **Financial assets**

The Council classify their financial assets into the following four categories: loans and receivables, held-to-maturity investments, available for sale investments and financial assets at fair value through surplus or deficit. The classification depends on the purpose for

which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this delegation at every reporting date.

Financial assets and liabilities are initially measured at fair value plus transaction costs.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Council use a variety of methods and make assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for Annual debt instruments held. Other techniques, such as estimated discounted cash flows, net asset backing, are used to determine fair value for the remaining financial instruments.

The four categories of financial assets are:

- **Loans and receivables**

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses. Loans and receivables are classified as "other financial assets" in the Statement of Financial Position.

Investments in this category include fixed term deposits and loans to associates.

- **Hold-to-maturity investments**

Held-to-Maturity Investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Council's management has the positive intention and ability to hold to maturity.

- **Financial assets at fair value through surplus or deficit**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through surplus or deficit at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses.

- **Available for sale investments**

Available for sale investments are those that are designated as being held to maturity or are not classified in any of the other categories above. This category encompasses investments that the Council intends to hold Annual but which may be realised before maturity. After initial recognition these investments are measured at their fair value. Gains and losses are recognised directly in equity except for impairment losses, which are recognised in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses. In the event of impairment, any cumulative losses previously recognised in equity will be removed from equity and recognised in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses even though the asset has not been derecognised. Investments in this category include shares in Local Government Insurance Corporation.

### **Shareholdings that Invercargill City Council holds for strategic purposes**

Shareholdings that Invercargill City Council holds for strategic purposes: Invercargill City Council's investments in its subsidiaries and associate companies are not included in this category as they are held at cost (as allowed by PBE IPSAS 6 (PS) Consolidated and Separate Financial Statements (Public Sector) and PBE IPSAS 7 Investments in Associates) whereas this category is to be measured at fair value.

### **Non-current assets held for sale**

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

### **Impairment of financial assets**

At each balance sheet date the Council assesses whether there is any objective evidence that a financial asset of financial assets is impaired. Any impairment losses are recognised in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses

## **Financial instruments**

- **Trade and other receivables**

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Loans, including loans to community organisations made by the Council at nil, or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar asset/ investment. They are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of expected future cash flows of the loan is



recognised in the Statement of Comprehensive Revenue and Expenses as a grant.

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

- **Cash and cash equivalents**

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

Bank overdrafts are shown separately in current liabilities in the Statement of Financial Position.

- **Borrowings**

Borrowings are initially recognised at their fair value, net of any transaction costs incurred. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless Council has an unconditional right to defer settlement of the liability at least 12 months after the balance date.

- **Trade and other payables**

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost using the effective interest method.

- **Accounting for derivative financial instruments and hedging activities**

The Council use derivative financial instruments to hedge exposure to interest rate risks arising from financing activities. In accordance with its treasury policy, the Council do not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date. However, where derivatives qualify for hedge accounting, recognition for any resultant gain or loss depends on the nature of the hedging relationship.

- **Cash flow hedge**

Changes in the fair value of the derivatives hedging instruments designated as a cashflow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in surplus or deficit.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity will be reclassified into surplus or deficit in the same period or periods during which the asset acquired or liability assumed affects surplus or deficit.

However, if Invercargill City Council expects that all or a portion of a loss recognised directly in equity will not be recovered in one or more future periods, it will reclassify into surplus or deficit the amount that is not expected to be recovered.

When a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the associated gains and losses that were recognised directly in equity will be included in the initial cost or carrying amount of the asset or liability.

For cash flow hedges other than those covered above, amounts that had been recognised directly in equity will be recognised in surplus or deficit in the same period or periods during which the hedged forecast transaction affects surplus or deficit (for example, when a forecast sale occurs).

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. The amount recognised in equity is transferred to surplus or deficit in the same period that the hedged item affects the surplus or deficit.

## Property, plant and equipment

Property, plant and equipment consists of:

Operational assets - These include land, buildings, library books, plant and equipment, and motor vehicles.

Restricted assets - Restricted assets are parks and reserves owned by the Council which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

Infrastructure assets - Infrastructure assets are the fixed utility systems owned by the Council. Each asset class includes all items that are required for the network to function, for example, sewer reticulation includes reticulation piping and sewer pump stations.

Property, plant and equipment are shown at cost or valuation, less accumulated depreciation and impairment losses.

## Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

The cost of day-to-day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

## Disposals

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

Gains and losses on disposals are included in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings

## Subsequent costs

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



## Depreciation

Depreciation is provided on a straight-line and diminishing value basis on all property, plant and equipment other than land, at rates that will write off the cost (or valuation) of the assets to their estimated

residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Buildings	
▪ Structures	2% - 3% SL
▪ Roof	2% - 3% SL
▪ Electrical	2% - 3% SL
▪ Plumbing	2% - 3% SL
▪ Internal Fitout	2% - 3% SL
▪ Plant	2% - 3% SL
Furniture and Fittings	
▪ Furniture and Fittings	6.7% - 50% DV
Office Equipment	
▪ Office Equipment	14.4% - 60% SL/DV
Infrastructural Assets	
Drainage	2.6% - 6.2% SL
Bridges	1% - 2.5% SL
Traffic Services	2.6% - 12.6% SL
Footpaths and Crossings	6.6% - 13% SL
Features and Structures	4.6% - 6% SL
Roads	
▪ Formation	0%
▪ Shoulder and Pavements	3.5% SL
▪ Top Surface	10.35% SL
Drainage and Stormwater	
▪ System	1.70% - 2.77%
▪ Plant	4.09% - 5.71%
▪ Buildings	2.91% - 4.34%
Water	
▪ System	1.03% - 12.55%
▪ Plant	3.38% - 9.14%

\*The depreciation rates above will be subject to change after the next revaluation is completed on the 30 June 2019.

Plant	
Plant	6% - 60% SL/DV
Tools	
Tools	10% SL where applicable
Motor Vehicles	
Motor Vehicles	6.7% - 31.2% SL/DV
Library Collections	
Library Collections	6.67% - 50% SL
<i>The non fiction collection is not depreciated.</i>	

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

## Revaluation

Those asset classes that are revalued are valued on a valuation cycle as described below on the basis described below. All other asset classes are carried at depreciated historical cost.

The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

## Valuation

All assets are valued at historic cost less accumulated depreciation and impairment costs, except the following:

- Operational land and buildings have been valued at fair value. Valuations are completed three yearly after the next valuation as at 30 June 2019.
- Restricted land (excluding forestry land) and buildings have been valued at deemed cost. This fair value is the net current value by Quotable Value New Zealand (Registered Valuers) as at 30 June 1992.

- Library collections are valued at depreciated replacement cost as at 30 June 2017. Valuations are completed three yearly after the next valuation as at 30 June 2019.
- Forest land is revalued to fair value and carried at valuation and is not depreciated. The fair value is determined by independent registered valuers based on the highest and best use of the land. In determining the highest and best use consideration is given as to whether the land has been registered under the New Zealand Emissions Trading Scheme and hence whether there are restrictions on the land use. Land is revalued with sufficient regularity to ensure carrying value does not differ materially from that which would be determined as fair value. It is anticipated that the Land revaluation will occur every three years, unless circumstances require otherwise. New Zealand units received from the government are recognised at cost in the financial statements, which is nil value.

### Infrastructural Assets

#### Land under Roads

Land under roads has been valued at deemed cost at transition to NZIFRS. Deemed cost is the fair value being the current valuation at 30 June 2005.



### **Roads and Bridges**

Roads and Bridges are valued at depreciated replacement cost, being gross replacement cost less accumulated depreciation to date, based on the Current Age Profile compared to Useful Life. Valuations are completed three yearly after the next valuation as at 30 June 2019.

### **Stormwater, Wastewater and Water Systems**

Assets are valued at depreciated replacement cost, being gross replacement cost less accumulated depreciation to date, based on the Current Age Profile compared to Useful Life. Valuations are completed three yearly after the next valuation as at 30 June 2019.

### **Vested assets**

Certain infrastructure assets and land have been vested in the Council as part of the subdivisional consent process.

The vested reserve land has been valued at deemed cost. Deemed cost is the fair value being the current valuation at 30 June 2005. This fair value is the 2005 Beca Rating Valuation.

Vested infrastructural assets have been valued based on the actual quantities of infrastructural components vested and current "in the ground" cost of providing identical services. Unless there is a use or return condition attached to the asset.

### **Forestry Land**

Forestry Land is revalued with sufficient regularity to ensure carrying value does not differ materially from that which would be determined as fair value. It is anticipated that the Forestry Land revaluation will occur with the revaluation of other Property Plant and Equipment assets that are revalued every three years, unless circumstances require otherwise. Land has been revalued based on its best use. In determining the highest and best use consideration is given as to whether the land has been registered under the New Zealand Emissions Trading Scheme and hence whether there are restrictions on the land use. New Zealand units received from the government are recognised at cost in the financial statements, which is nil value.

### **Accounting for revaluations**

The Council accounts for revaluations of property, plant and equipment on a class of asset basis.

The replacement costs where appropriate, reflect optimisation due to design or surplus capacity. The Council has estimated that the necessary infrastructural asset network capacity to service the Invercargill City area is on 100% of the existing capacity, i.e no surplus capacity. The valuation of these assets therefore assumes the existing assets will be replaced with assets of similar capacity.

The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses.

Any subsequent increase on revaluation that offsets a previous decrease in value recognised in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses will be recognised first in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

## **Intangible assets**

### **Carbon Credits Intangible Asset**

Carbon credits intangible assets that are acquired by Council have been measured at fair value upon acquisition and subsequently revalued to fair value annually. Any revaluation gain/losses are recognised in other Comprehensive Revenue and Expense.



### Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is charged to the surplus/deficit in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses on a straight-line basis over the estimated useful economic lives of the intangible assets. The amortisation rates for the current period are as follows: Software 12.5-48% Straight Line/Diminishing Value.

### Forestry assets

Forestry assets are independently revalued annually at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate.

Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses.

The costs to maintain the forestry assets are included in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses.

### Investment property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs.

After initial recognition, the Council measures all investment property at fair value as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses.

### Impairment of non-financial assets

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

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

The value in use for cash-generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses.

For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses.





The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve.

However, to the extent that an impairment loss for that class of asset was previously recognised in the Statement of Comprehensive Revenue and Expenses, a reversal of the impairment loss is also recognised in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the surplus/deficit in the Statement of Comprehensive Revenue and Expenses.

## Employee benefits

### Short-term benefits

Employee benefits that the Council expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

### Long-term benefits

The Council's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Council's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in the surplus/deficit in the

Statement of Comprehensive Revenue and Expenses in the period in which they arise.

### Superannuation schemes

Defined contribution schemes:

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the Statement of Comprehensive Revenue and Expenses as incurred.

Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme, the extent to which the surplus/deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme.

## Provisions

The Council recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

## Landfill post closure costs

The Council has a legal obligation under the Resource Consent to provide ongoing maintenance and monitoring services at the landfill site after closure. A provision for post closure costs is recognised as a liability when the obligation for post closure arises.

The provision is measured based on the present value of future cash flows expected to be incurred, taking into account future events including new legal requirements and known improvements in technology. The provision includes all costs associated with landfill post closure. The discount rate applied is 7% which represents the risk free discount rate.

## Equity

Equity is the community's interest in the Council and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves.

The components of equity are:

- Retained earnings
- Council reserves (includes sinking funds, special reserves and endowment reserves)
- Fair value and hedging reserves
- Asset revaluation reserves

## Goods and services tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

## Cost allocation

The Council has derived the cost of service for each significant activity of the Council using the cost allocation system outlined below.

Direct costs are those costs directly attributable to a significant activity. Indirect costs are those costs, which cannot be identified in an economically feasible manner, with a specific significant activity.

Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities using appropriate cost drivers such as actual usage, staff numbers and floor area.

## Critical accounting estimates and assumptions

In preparing these financial statements Invercargill City Council has made estimates and assumptions concerning the future.

These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have



a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### **Classification of non-financial assets as cash-generating assets or non-cash-generating assets**

For the purpose of assessing impairment indicators and impairment testing, Council classifies nonfinancial assets as either cash-generating or noncash- generating assets. Council classifies a nonfinancial asset if the primary objective of the asset is to generate a commercial return. All other assets are classified as non-cash-generating assets.

All property, plant and equipment and intangible assets (excluding goodwill) held by Council are classified as non-cash-generating assets, except for rental properties that are earning a market rental. This includes assets that generate fee revenue or other cash flows for Council as these cash flows are generally not sufficient to represent commercial return on the assets.

All property, plant and equipment held by Invercargill City Holdings Limited are classified as cash-generating assets as it is a for-profit entity and the primary objective of its assets is to generate commercial return.

#### **Properties**

Invercargill City Council owns a number of properties, which are maintained primarily to provide housing to pensioners. The receipt of market-based rental from these properties is incidental to holding these properties. These properties are held for service delivery objectives as part of Invercargill City Council's social housing policy. These properties are accounted for as property, plant and equipment.

#### **Infrastructural Assets**

There are a number of assumptions and estimates used when performing DRC valuations over infrastructural assets. These include:

- The physical deterioration and condition of an asset, for example the Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets, which are not visible, for example stormwater, wastewater and water supply pipes that are underground. This risk is minimised by Council performing a combination of physical inspections and condition modelling assessments of underground assets;
- Estimating any obsolescence or surplus capacity of an asset; and
- Estimates are made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be impacted by the local conditions, for example weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then Invercargill City Council could be over or under estimating the annual depreciation charge recognised as an expense in the Statement of Comprehensive Revenue and Expense. To minimise this risk Invercargill City Council's infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience. Asset inspections, deterioration and condition modelling are also carried out regularly as part of the Invercargill City Council's asset management planning activities, which gives Invercargill City Council further assurance over its useful life estimates. Experienced independent valuers review the Council's infrastructural asset revaluations.

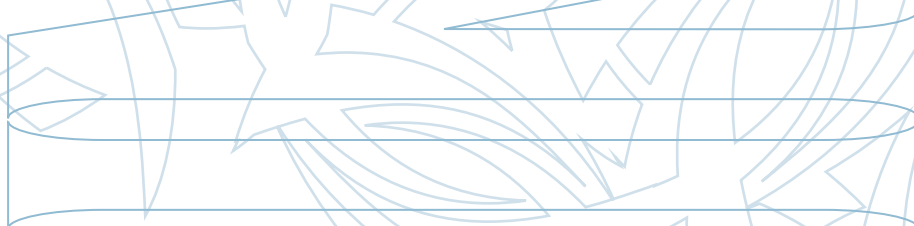
## Prospective financial information

The financial information contained within this document is prospective financial information in terms of accounting standard FRS42 and complies with the standard. The purpose for which it has been prepared is to enable ratepayers, residents and any other interest parties to obtain information about the expected future financial performance, position and cash flow of the Invercargill City Council. The actual result achieved for any particular financial year is also likely to vary from the information presented and may vary materially depending on the circumstances that arise during the period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

## Changes in accounting policies

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









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