



2019 Local Government Elections

VOTE 2019 LOCAL ELECTIONS

PŌTI 2019 NGA PŌTANGA KŌHĀ

# PRE-ELECTION REPORT 2019







## Message from the Chief Executive

A key part of my role as Chief Executive is facilitating and fostering representative and substantial elector participation in local body elections. One of the methods that I use to do this is preparing a pre-election report. This report provides both voters and candidates with information about the key issues facing the Invercargill City Council. Its purpose is to promote public discussion about these issues in the lead up to the 2019 local body election. The role of Chief Executive is a non-political position and this report is prepared on a politically neutral basis as is required by the Local Government Act 2002.

The majority of our key projects over the next three years relate to core infrastructure. Council continues its commitment to the maintenance and development of the lifelines of our City and as such is focusing on renewals of our ageing pipe network. There are also some exciting new projects planned for the next three years including the development of Arts and Creativity Invercargill.

The financial statements within this report show that Council is in a good position to undertake the major projects planned over the next three years.

Alongside the planned works included in this report, Council is currently engaging with the community on a proposal to invest up to \$30 million in the City Block development. Where appropriate, the outcome of this decision will be included in the Invercargill City Council's financial statements and planning documents in the future.

If you are reading this pre-election report, it may be that you are interested in standing for Council or the Bluff Community Board. This document provides you with an overview of the Invercargill City Council's performance over the past three years as well as the major projects,

and associated financial projections, for the next three years. I would encourage you to find out

more about the Council's plans and projections by reading our 2018-28 Long-term Plan, 2019/20 Annual Plan and other key Council documents. You can find these and more about Invercargill City Council through our website [www.icc.govt.nz](http://www.icc.govt.nz)

If you are considering standing, and would like further information on the challenges and opportunities facing Council, I invite you to talk with my staff or myself. You can contact me to arrange this by phoning 03 211 1777.

Remember the key dates for the 2019 local body elections are:

- 19 July - 16 August at 12 noon  
Candidate nominations are open.
- 20 September  
Voting packs mailed to electors. Voting opens.
- 12 October  
Voting closes at midday. Progress result as soon as possible thereafter.
- By 17 October  
Official result released.



*Clare Hadley*  
**CHIEF EXECUTIVE**

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# BASIS OF PREPARATION



**Timing and preparation of the 2019 Pre-Election Report is a mandatory requirement and its purpose is to provide information about the issues facing Invercargill City Council.**

The aim is to promote informed public discussion prior to the upcoming local body election. The Pre-Election Report focuses on the financial performance over the past three-years and forecasted for the next three years, based on current plans. Council's current financial position is included and the key spending issues over the coming years are highlighted.

The Pre-Election Report provides the following:

- historic information for the 2016/17 and 2017/18 years, sourced from the published 2017/2018 Annual Report.
- forecast information for the 2018/19 year ended 30 June 2019. The final information for the 2018/19 financial year was not available at time of publishing due to the year closing just prior to the release of this document.

The Annual Report for that year is due to be adopted in October 2019. The forecast is based on management's best estimate at the time of preparation for the expected results for the 2018/19 year. These estimates are based on the full year forecast presented in the quarterly financial report for the period ended 31 March 2019 and adjusted for with any expected forecast movements to June 2019.

- planned information for the 2019/20 to 2022/23 years. The 2019/20 year is sourced from the published 2019/2020 Annual Plan and 2020/21 to 2022/23 are sourced from the 2018-2028 Long-term Plan. This financial data and discussion of major projects are drawn from the information in the 2018-2028 Long-term Plan and they reflect the policy and service delivery decisions of the current council at the time.

# BASIS OF PREPARATION CONTINUED

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## **Audit of financials**

Council's Long-term Plans and Annual Reports are audited by Audit New Zealand. Therefore, while this report is not audited, the information used to prepare it has been, with the following exceptions:

The 2018/19 financial year closed on June 30, just prior to the release of this document. The Annual Report for that year is due to be adopted in October 2019. While the information contained in this report includes forecast data for the year, the year end and audit processes for the 2018/19 Annual Report have not have been completed by the time this report is released.

Figures for the 2019/20 financial year as represented in the recently published Annual Plan have been included. This Annual Plan is based on year two of the 2018-2028 Long-term Plan which was audited.

## **Further information**

If you would like to read more about Council's planned and past performance, visit our website - [www.icc.govt.nz](http://www.icc.govt.nz) or contact Customer Services on (03) 211 1777. Documents available are the Long-term Plan for 2018-2028, the 2019/2020 Annual Plan and past Annual Reports.

# COMPLIANCE WITH THE LIMITS OF FINANCIAL STRATEGY

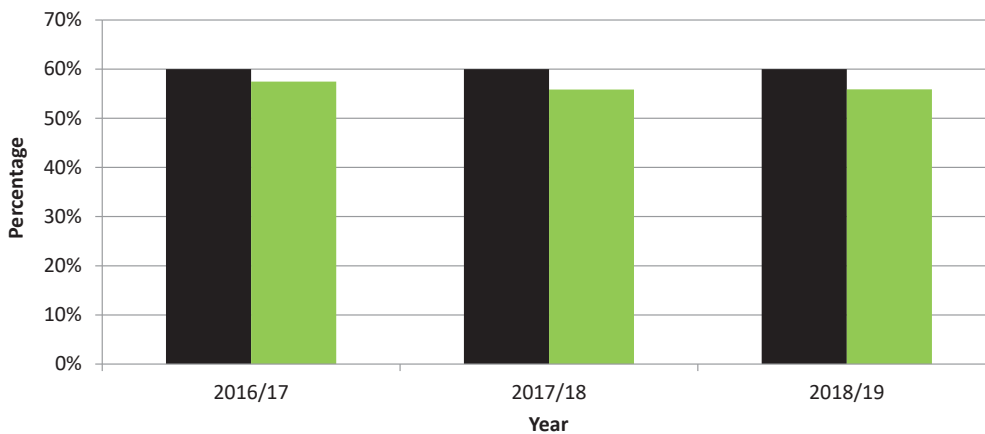
The Council's financial strategy contained within the Long-term Plan 2018-2028 sets out benchmark limits to assess whether the Council is prudently managing its revenue, expenses, assets, liabilities and general dealings.

The information below for the 2016/17 and 2017/18 years are based on actuals from the Annual Report 2017/2018. The 2018/19 year is based on predicted year end information.

**KEY**  Benchmark Met  Benchmark Not Met  Benchmark/Limit

## Rates Affordability (Income) Benchmark

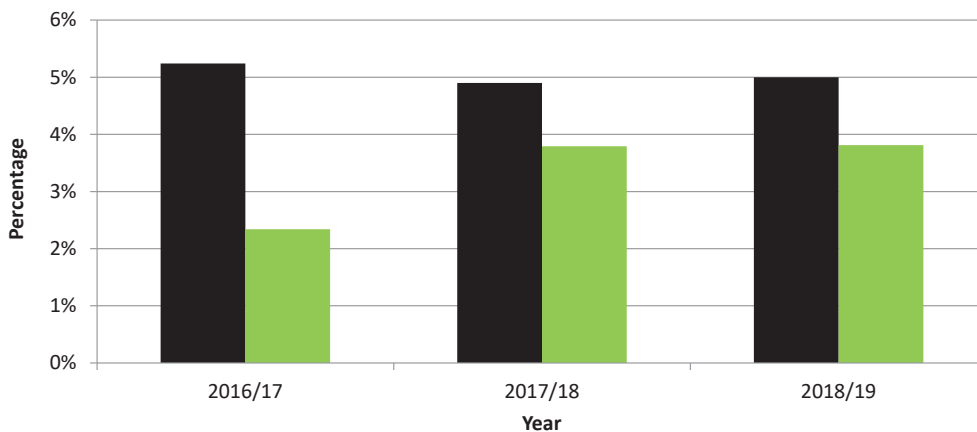
■ Quantified limit on rates income ■ Rates revenue / Total income



The Rates Affordability (Income) Benchmark was met over all three years.

## Rates Affordability (Increase) Benchmark

■ Total rates increase limit ■ Actual total rates increase

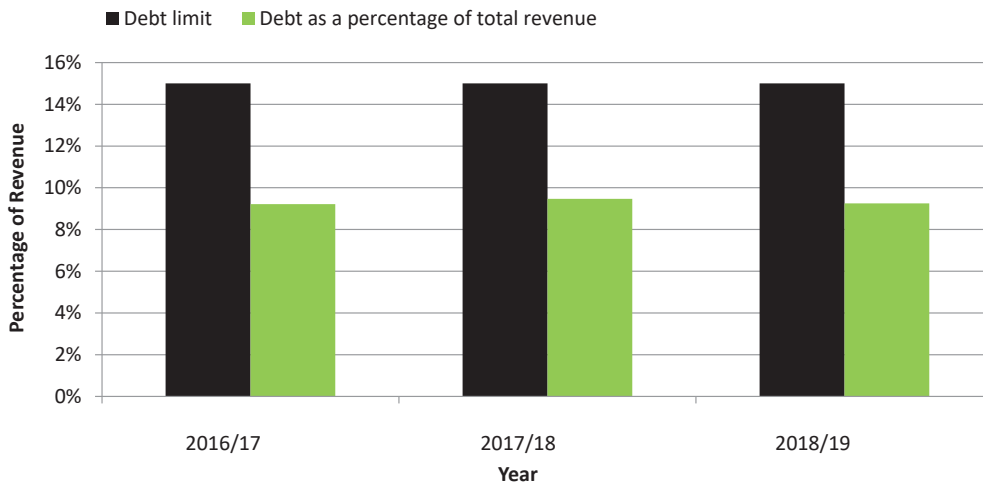


The Rates Affordability (Increase) Benchmark was met over all three years.

# COMPLIANCE WITH THE LIMITS OF FINANCIAL STRATEGY CONTINUED

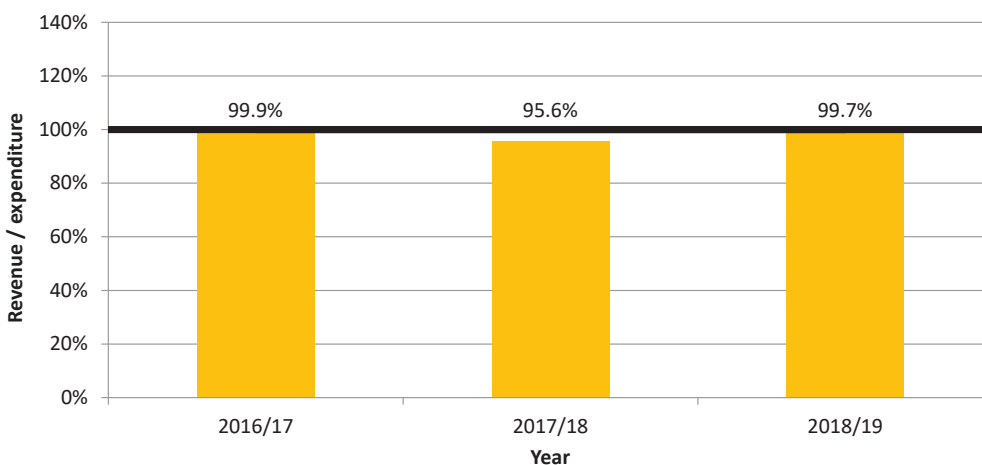
**KEY** ■ Benchmark Met ■ Benchmark Not Met ■ Benchmark/Limit

## Debt Affordability Benchmark



The Debt Affordability Benchmark was met over all three years.

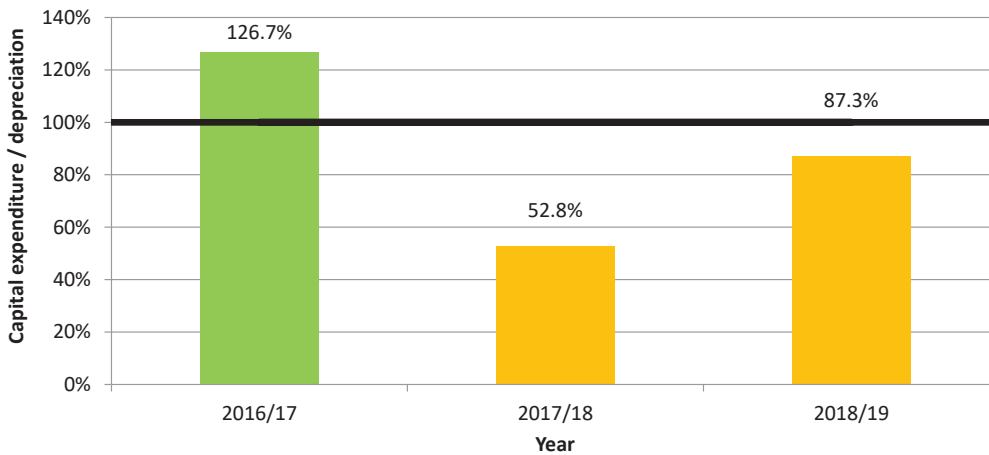
## Balanced Budget Benchmark



The Balanced Budget Benchmark was not met over all three years. Council is aware of the issue of affordability and financial sustainability. Council continues to investigate efficiencies to reduce expenditure and increase other revenue, and by doing so reduce the revenue needed from rates. In 2017/18, Council's depreciation expense increased significantly as a result of the June 2017 asset revaluation.

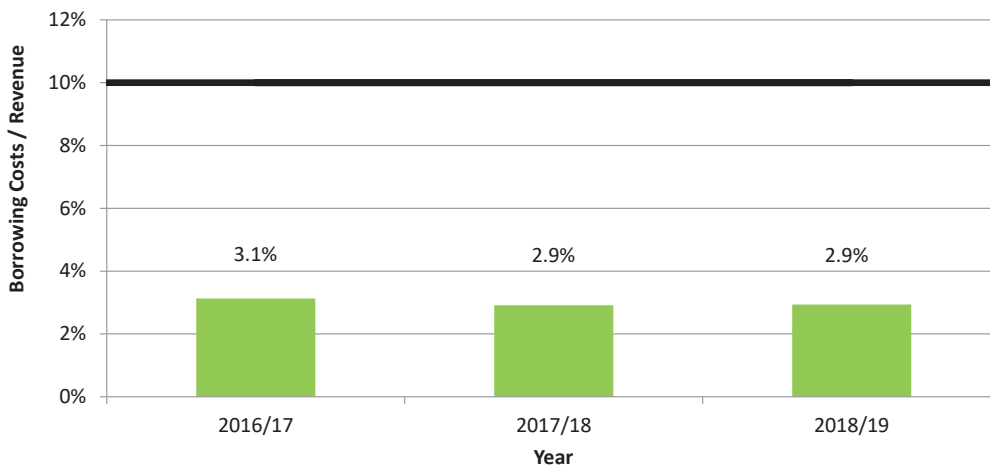


### Essential Services Benchmark



In 2017/18 and 2018/19, the Essential Services Benchmark was not met. Over time Council's infrastructure capital expenditure should equal its depreciation, which means Council is replacing its assets at the same rate as they deteriorate. Due to the nature of some of the capital expenditure being large and cannot be spread over a number of years, it is hard to assess this benchmark on a year by year basis. In 2017/18 and 2018/19, a number of large capital projects have been delayed or deferred to coming years.

### Debt Servicing Benchmark



The Debt Servicing Benchmark was met over all three years.

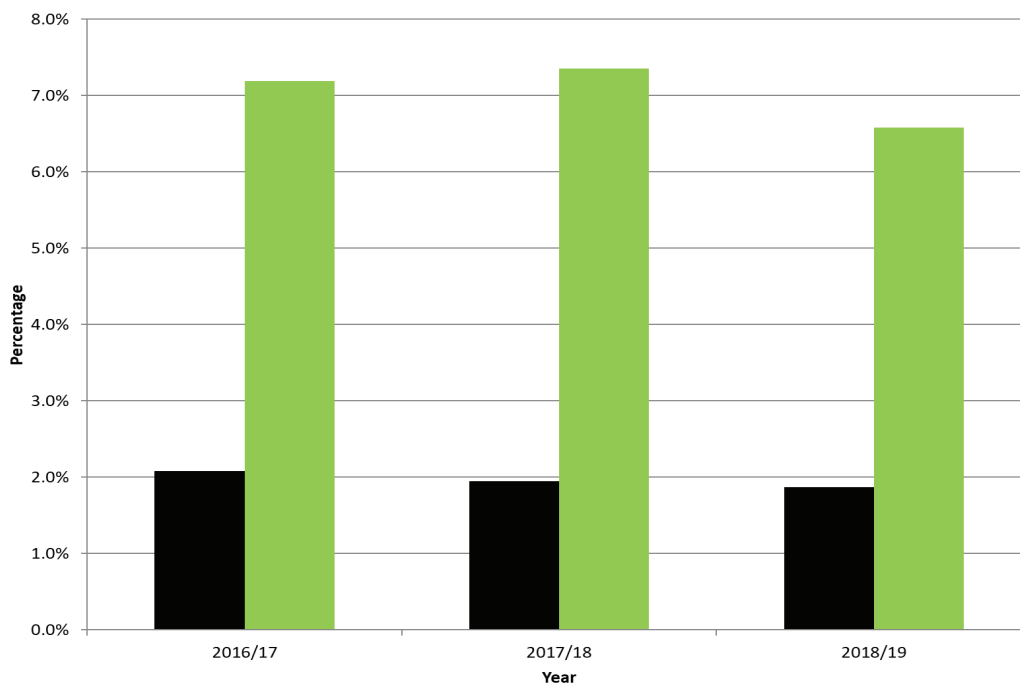
# PERFORMANCE OF FINANCIAL INVESTMENTS

Council holds a number of investments that provide service potential or future economic benefit. Investments include property, ownership in Council related trading entities and financial assets (cash or the contractual right to receive cash including financial investment instruments).

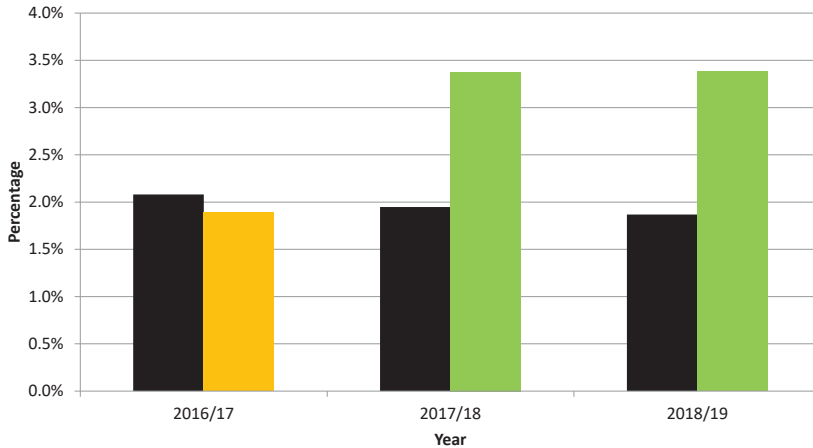
The Council recognises that as a responsible territorial authority, any investments that it holds should be of a relatively low risk. It further recognises that lower risk generally means lower returns. Council aims to maximise investment income within a prudent level of investment risks. In the financial strategy, Council aims for returns on investments equivalent to market rates (90 day bank bill rate).

**KEY** ■ Target Achieved ■ Target Not Achieved ■ Target (90 day bank bill rate, source: RBNZ.)

## Return On Investment - Overall

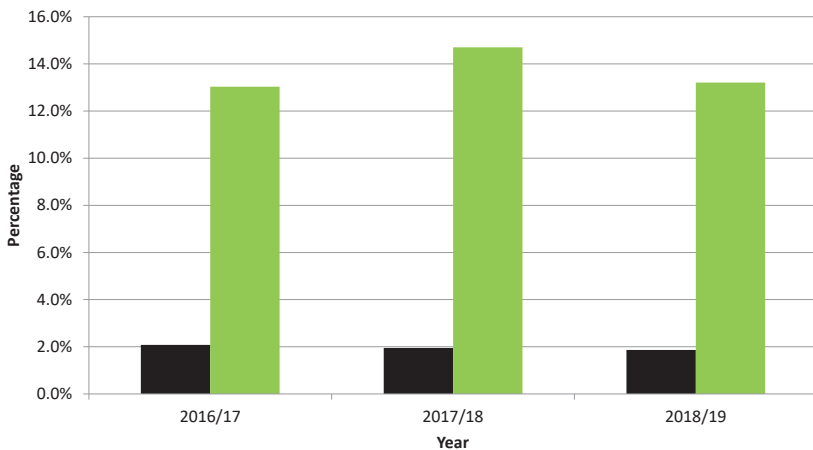


### Return On Investment - Investment Property



Investment property's rate of return in 2016/17 was lower due to the purchase of properties and consulting costs relating to the commercial building development on Don Street. Rental income from the Don Street development commenced from 2017/18, increasing the rate of return.

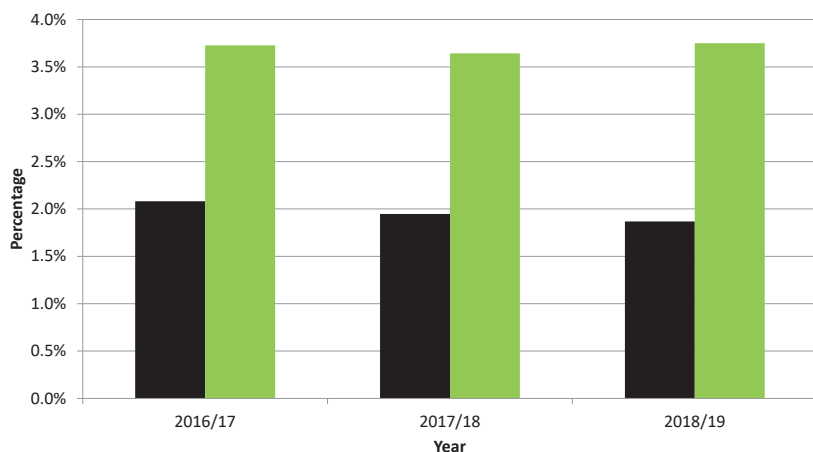
### Return On Investment - Council Related Trading Entities



Council related trading entities' rate of return relates to dividends received from Invercargill City Holdings Limited (HOLDCO) over investment assets held in council related trading entities.

The 2018/19 return on investment is lower than the previous year due to HOLDCO declaring a lower dividend as they look to reduce the cashflow pressure HOLDCO are expecting to face in the short to medium term.

### Return On Investment - Financial Assets



Council's financial assets rate of return relates to interest received from cash held in bank term deposits and operating accounts.

# FUNDING IMPACT STATEMENT

	Actual * 2016/17 (\$000)	Actual * 2017/18 (\$000)	Forecast ** 2018/19 (\$000)	Annual Plan *** 2019/20 (\$000)
<b>SOURCES OF OPERATIONAL FUNDING</b>				
General rates, uniform annual general charge, rates penalties	6,893	6,477	5,824	5,731
Targeted rates	41,888	44,221	47,606	49,641
Subsidies and grants for operating purposes	3,488	3,514	4,721	4,664
Fees and charges	13,290	14,878	14,480	17,360
Interest and dividends from investments	7,390	7,920	7,229	7,411
Local authorities fuel tax, fines, infringement fees, and other receipts	8,280	9,100	9,680	10,092
<b>Total operating funding (A)</b>	<b>81,229</b>	<b>86,110</b>	<b>89,540</b>	<b>94,899</b>
<b>APPLICATIONS OF OPERATIONAL FUNDING</b>				
Payments to staff and suppliers	62,016	65,381	65,051	68,277
Finance costs	3,842	4,322	2,799	3,260
Other operating funding applications	-	-	-	-
<b>Total applications of operating funding (B)</b>	<b>65,858</b>	<b>69,703</b>	<b>67,850</b>	<b>71,537</b>
<b>Surplus (deficit) of operating funding (A – B)</b>	<b>15,371</b>	<b>16,407</b>	<b>21,690</b>	<b>23,362</b>
<b>SOURCES OF CAPITAL FUNDING</b>				
Subsidies and grants for capital expenditure	3,449	3,160	4,921	4,462
Development and financial contributions	-	-	-	-
Increase (decrease) in debt	1 8,220	414	2,416	-
Gross proceeds from sale of assets	139	156	273	251
Lump sum contributions	-	-	-	-
Other dedicated capital funding	-	-	-	-
<b>Total sources of capital funding (C)</b>	<b>11,808</b>	<b>3,730</b>	<b>7,610</b>	<b>4,713</b>
<b>APPLICATION OF CAPITAL FUNDING</b>				
Capital expenditure				
• to meet additional demand	8,425	377	2,544	2,466
• to improve the level of service	1,217	3,211	4,452	5,174
• to replace existing assets	18,110	18,457	19,105	31,600
Increase (decrease) in reserves	(1,559)	(2,399)	3,199	(85)
Increase (decrease) of investments	1 986	491	-	(11,080)
<b>Total applications of capital funding (D)</b>	<b>27,179</b>	<b>20,137</b>	<b>29,300</b>	<b>28,075</b>
<b>Surplus (deficit) of capital funding (C - D)</b>	<b>(15,371)</b>	<b>(16,407)</b>	<b>(21,690)</b>	<b>(23,362)</b>
<b>FUNDING BALANCE ((A – B) + (C – D))</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation expense (not included in the above FIS)	23,897	22,081	27,790	28,053



**Long-term Plan 2018 - 2028 \*\*\*\***

<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
<b>(\$000)</b>	<b>(\$000)</b>	<b>(\$000)</b>
5,306	5,622	6,188
51,438	53,068	55,501
3,622	3,593	3,583
17,782	18,320	18,538
8,757	9,038	9,432
8,923	9,110	9,398
<b>95,828</b>	<b>98,751</b>	<b>102,640</b>
68,374	72,244	78,462
5,804	6,536	7,158
-	-	-
<b>74,178</b>	<b>78,780</b>	<b>85,620</b>
<b>21,650</b>	<b>19,971</b>	<b>17,020</b>
3,455	13,558	3,628
-	-	-
14,491	7,590	7,872
194	271	160
-	-	-
-	-	-
<b>18,140</b>	<b>21,419</b>	<b>11,660</b>
1,737	13,470	132
867	916	938
36,326	25,750	25,581
860	1,254	2,029
-	-	-
<b>39,790</b>	<b>41,390</b>	<b>28,680</b>
<b>(21,650)</b>	<b>(19,971)</b>	<b>(17,020)</b>
-	-	-
28,995	29,989	30,649

**Notes:**

- \* 2016/17 and 2017/18 Funding Impact Statement data is from Council's audited Annual Report 2017/2018.
  - \*\* 2018/19 Funding Impact Statement data has been prepared from forecasted year end numbers and before year end adjustments procedures.
  - \*\*\* 2019/20 Funding Impact Statement data is from Council's 2019/20 Annual Plan.
  - \*\*\*\* 2020/21, 2021/22 and 2022/23 Funding Impact Statement data is from the Long-term Plan 2018-2028 and has not been updated.
- 1 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 and does not reflect future impacts in the 2020/21, 2021/22 and 2022/23 years.

# STATEMENT OF FINANCIAL POSITION

	Actual *	Actual *	Forecast **	Annual Plan ***
	2016/17 (\$000)	2017/18 (\$000)	2018/19 (\$000)	2019/20 (\$000)
<b>ASSETS</b>				
Cash and cash equivalents	7,796	1,347	2,980	1,693
Trade and other receivables	7,023	9,767	9,612	9,612
Inventories	753	933	933	933
Property, plant and equipment assets	796,918	776,846	820,098	833,121
Intangible assets	870	906	980	1,982
Forestry assets	3,426	2,885	2,958	3,039
Investment property	25,194	36,893	38,482	41,143
Investment in CCOs and similar entities	36,069	36,069	36,069	36,069
Other financial assets - other investments	1	54,711	66,533	51,914
<b>TOTAL ASSETS</b>	<b>932,760</b>	<b>930,456</b>	<b>978,645</b>	<b>979,506</b>
<b>LIABILITIES</b>				
Trade and other payables	10,143	11,088	11,088	11,088
Provisions	928	928	888	847
Employee benefit liabilities	3,809	3,631	3,631	3,631
Borrowings	1	85,986	88,136	90,700
Derivative financial instruments		709	957	957
<b>TOTAL LIABILITIES</b>	<b>101,575</b>	<b>104,740</b>	<b>107,116</b>	<b>107,223</b>
<b>EQUITY</b>				
Retained earnings	388,675	380,594	378,572	379,411
Restricted reserves	31,250	34,189	35,912	35,827
Hedging reserves	(501)	(957)	(957)	(957)
Carbon credit revaluation reserves	335	464	464	464
Asset revaluation reserves	411,426	411,426	457,538	457,538
<b>TOTAL EQUITY</b>	<b>831,185</b>	<b>825,716</b>	<b>871,529</b>	<b>872,283</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>932,760</b>	<b>930,456</b>	<b>978,645</b>	<b>979,506</b>

**Long-term Plan 2018 - 2028 \*\*\*\***

<b>2020/21 (\$000)</b>	<b>2021/22 (\$000)</b>	<b>2022/23 (\$000)</b>
1,083	1,083	1,083
7,356	7,518	7,691
786	804	822
858,740	917,235	913,076
910	910	910
3,863	3,948	4,039
41,012	41,914	42,878
36,069	36,069	36,069
63,121	64,375	66,406
<b>1,012,940</b>	<b>1,073,856</b>	<b>1,072,974</b>
10,335	10,435	10,546
766	723	679
3,963	4,042	4,123
121,343	132,847	140,719
709	709	709
<b>137,116</b>	<b>148,756</b>	<b>156,776</b>
390,249	393,565	382,631
28,203	29,457	31,489
(501)	(501)	(501)
335	335	335
457,538	502,244	502,244
<b>875,824</b>	<b>925,100</b>	<b>916,198</b>
<b>1,012,940</b>	<b>1,073,856</b>	<b>1,072,974</b>

**Notes:**

- \* 2016/17 and 2017/18 Statement of Financial Position data is from Council's audited Annual Report 2017/2018.
  - \*\* 2018/19 Statement of Financial Position data has been prepared from forecasted year end numbers and are before year end adjustments procedures.
  - \*\*\* 2019/20 Statement of Financial Position data is from Council's 2019/20 Annual Plan.
  - \*\*\*\* 2020/21, 2021/22 and 2022/23 Statement of Financial Position data is from the Long-term Plan 2018-2028 and has not been updated.
- 1** 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 and does not reflect future impacts in the 2020/21 , 2021/22 and 2022/23 years.

# MAJOR PROJECTS PLANNED

The majority of rates revenue is used to deliver infrastructure facilities and services. A continued focus is placed on looking after the community's core assets. Some of the major capital projects planned over the next three years following the 2019 election year are as follows:

		Capital Expenditure (\$000)		
		2020/21	2021/22	2022/23
<b>Roading</b>	Road surface renewals and rehabilitation	3,551	4,003	4,095
	Footpath renewals and rehabilitation	1,347	1,377	1,409
	Kerb and channel and culvert replacement	1,320	1,349	1,380
<b>Water Supply</b>	Water pipe network replacement	5,791	5,049	2,306
	Water pumping stations renewals	-	1,483	1,517
<b>Sewerage</b>	Sewerage pipe asset renewal/upgrade	2,193	2,563	2,622
	Sewerage pumping stations renewals	2,851	-	-
	Clifton treatment facility renewal	9,837	974	3,932
<b>Stormwater</b>	Stormwater pipe asset renewal/upgrade	3,269	3,796	3,883
	Stormwater pumping stations renewals	1,204	-	-
<b>Other</b>	Arts and Creativity Invercargill	1,200	13,300	-

		Other Expenditure (\$000)		
		2020/21	2021/22	2022/23
<b>Grants</b>	Museum Redevelopment	-	2,500	7,000



### **Road surface renewals and rehabilitation**

Continuous work undertaken to resurface or renew roads to maintain current roading standards. NZTA is decreasing its subsidy to the Council from 60% in 2015/16 to 51% by 2023/24. Council has planned to increase rates funding to meet the shortfall.

### **Footpath renewals and rehabilitation**

Continuous work undertaken to resurface or renew footpaths to provide safe, comfortable and efficient networks for pedestrians, including those with disabilities, and cyclists. These networks are built and maintained to standards for smoothness, width and protection from traffic.

### **Kerb and channel and culvert replacement**

Continuous renewal work is undertaken to extend the lives of the structures, ensuring suitable drainage is maintained, as well as public safety, and minimising repair costs.

### **Water pipe network replacement**

Asbestos cement pipes form approximately 50% of the water pipe network and were installed from the late 1950s to the late 1980s, with an expected life span of 65 years.

In 2014 there were 28 failures of asbestos cement pipes. Samples of pipe were taken to assess their condition and life expectancy. The results indicate that there is approximately \$22 million worth of pipe that may be close to failure.

Council has planned to bring forward the replacement of the asbestos cement pipes and increase the amount replaced each year. It is anticipated that by 2023/24 the pipes that have reached the end of their life will have been replaced.

### **Pumping stations renewals (Water, Sewerage and Stormwater)**

Ongoing maintenance work will be undertaken as required on pump stations throughout the City. This is done to extend the life of the asset or to maintain the level of service provided. Doing so also helps to minimise future repair costs.

### **Sewerage pipe asset renewal/upgrade**

The Council is increasing expenditure to enable the replacement of sewer pipes and assets at the end of their life. The renewed sewer pipes will also reduce infiltration of stormwater. The sewerage pipe network in the Invercargill city area is ageing, with the oldest parts of the network now over 100 years of age, which is the assumed economic life of the pipe. A significant proportion of the network is due for replacement within the next thirty years.

### **Clifton treatment facility renewal**

Ongoing maintenance work will be undertaken on the Clifton Treatment Plant. This is done to extend the life of the Plant and to maintain the level of service provided. Doing so also helps to minimise future repair costs.

### **Stormwater pipe asset renewal/upgrade**

The Council is increasing expenditure to enable the replacement of the stormwater pipes at the end of their life. A significant proportion of the network is due for replacement within the next thirty years with some already over 100 years old, which is the assumed economic life of the pipes. The renewed stormwater network will maintain a high quality of stormwater discharged to comply with our resource consent conditions from Environment Southland.

## MAJOR PROJECTS PLANNED CONTINUED

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### **Arts and Creativity Invercargill**

Completion of the Arts and Creativity Invercargill project. See page 262 of Long-term Plan 2018-2028 for more details.

### **Museum Redevelopment**

Council has planned to provide a grant to the Southland Museum and Art Gallery Trust Board (SMAG) to carry out the redevelopment of the Museum. This is subject to SMAG presenting their finalised design and cost plans to Council.

## CURRENT CONSULTATION

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### **City Block**

Although not included in Council's 2018-2028 Long-term Plan, Council is currently engaging with the community on a proposal to invest up to \$30 million in the City Block Development. A decision on the investment is anticipated prior to the 2019 local authority election. Where appropriate, the outcome of this decision will be included in the Invercargill City Council's financial statements and planning documents in the future.





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