

2021-2022

INVERCARGILL

Annual Plan

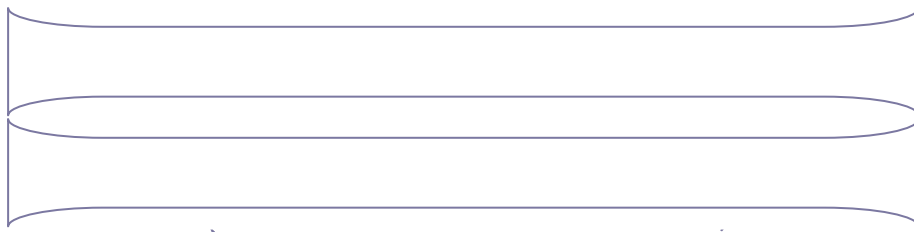
- 1 Mayor's Comment
- 2 Chief Executive's Comment
- 3 Readers' Guide
- 4 Response to Covid-19
- 5 Major projects for 2020/2021
- 6 Rates Overview
- 7 Financial Overview

Funding Impact Statement page 9

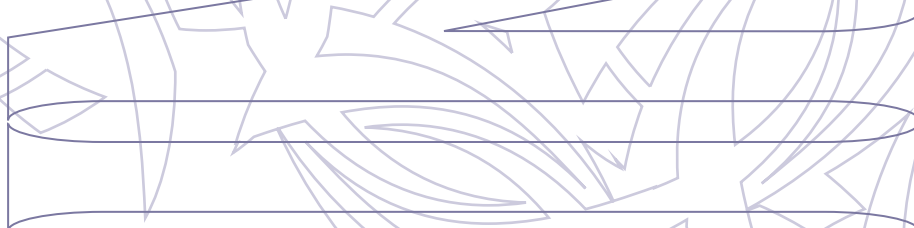
- 10 Rating Policy and information
- 16 Rating Tables
- 34 Funding Impact Statement

Financial Management page 37

- 38 Prospective Financial Statements
- 44 Schedule of Reserves
- 45 Benchmarks
- 48 Prospective Statement of Accounting Policies



INVERCARGILL



Mayor's Comment



As your Mayor I'm constantly asked questions about social distancing and when it will end. The answer of course is that we just don't know. The successful testing of a vaccine could end our anxiety in a couple of months, or the dreaded second wave, could extend our misery for a couple of years. The one thing we can all agree on is that Planet Earth will never be the same again.

To begin with, our language will change, "Global Pandemic", "Covid-19", "the might Bubble", "social distancing", "contact tracking" and "immune compromised" are just a few examples of words that will join Christchurch's "Liquefaction". Our heroes and heroines would also undergo a character change. Captain Tom who raised an incredible \$30 million for the cause, Dr Ashley Bloomfield who inspired the nation with his quiet professionalism, and Invercargill's Nurse Jenny, would emerge as leaders. So in this challenging world how do we survive?

When I arrived in Invercargill in the early 90s our city was on the ropes and getting hammered, so we launched economic development conferences with stimulating keynote speakers. Penny Simmonds with her Zero Fees Scheme finally provided a breakthrough.

Now, our City Council realises that innovation will be the key to our recovery. We offered ratepayers a wide range of postponement and rates remissions for our community, as well as keeping the rate increase down to around 2%.

We worked hard to ensure that our airport would be fully operational as soon as possible, and asked Great South, our economic development agency, to support this work.

We believe air traffic control towers are vital to ensure the safety of flights in and out of Invercargill.

We also cast a critical eye on our forestry investments. Forestry, irrigation, and dams play a vital role in harnessing hydro-electricity, and allow us to diversify land use. During the Great Depression of the 1930s, unemployed workers were engaged in numerous environmental projects. In temperate zones such as Canada and Scandinavia, extensive new planting is taking place. Another reason explaining why I support forestry and timber products is because this sector is part of our third largest industry and is shovel ready. In our modern industrial world, the environment is under threat. Plastic waste in the oceans is entering the human food chain via algae and fish. Carbon dioxide emissions add to this toxic mix. We are about to face a huge wave of unemployed workers and we should prepare them for the challenge of green "projects".

I was most impressed by the work undertaken by Walter Jehney, a microbiologist and climatologist from Australia. He spoke at Environment Southland with passion about the need to nurture our soils if we wished to fend off pandemics in the future.

It is never easy to balance core council business, health and safety issues, and economic demands, but we will certainly try our best.



Chief Executive's Comment



This Annual Plan provides the bridge between the Long-term Plan 2018-2028 and the Long-term Plan 2021-2031. It reflects the priorities the incoming Council have for the future of the City and the flexible approach they are taking in response to the unique challenges we are seeing as a result of Covid-19.

As Council considered the framework of the Annual Plan, the City Block development - or Invercargill Central Ltd - was making good progress with demolition of properties well underway. A real sense of change, of some excitement at seeing things happening in the city centre, could be felt. Commitment to that project continues in this Plan.

Discussions on priorities and the impact on rates were taking place just as COVID-19 overwhelmed the country. It is clear that many things will change as a result of the havoc the virus has caused, and Council will endeavour to be adaptive to support the community. Economic advice to the local government sector has been to invest in projects which will generate jobs and the Government has announced its intention to support projects that will provide economic stimulus. Invercargill hopes to be successful in attracting funding for one or more of these projects which may see

further reprioritisation of capital projects. A flexible management approach to the capital works programme has been developed for the 2020/2021 year to enable Council to respond quickly and effectively.

In its financial planning, Council has also made significant allowance for support for those who may need to postpone their rates due to financial hardship caused by the pandemic.

The focus for Council in 2020/2021 will be on continuing its role in providing essential services and supporting the community to restart.



Readers' Guide



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 2020/2021 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

The purpose of the Annual Plan is to contain the budget for the 2020/2021 year and to identify any significant differences between what was proposed in the 2018-2028 LTP and what is now planned for the 2020/2021 year. You can find a detailed breakdown of

these variances on page 51. The Annual Plan doesn't repeat any information that is included in the LTP so you will need to refer to the 2018-2028 LTP for further information.

Section 96 of the Local Government Act notes that the effect of an annual plan adopted by a local authority is to provide a formal and public statement of the local authority's intentions in relation to the matters covered by the plan and that a resolution to adopt an annual plan does not constitute a decision to act on any specific matter included within the plan. The 2020/2021 Annual Plan has been developed in a time of greater uncertainty than normal as a result of Covid-19. A flexible management response has been developed to allow the Council to respond to fast changing circumstances. For more information on the response to Covid-19 see page 8.

This Annual Plan covers the year from 1 July 2020 to 30 June 2021.

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 2018/2019 year. It can be found on Council's website www.icc.govt.nz, or for reference at the Invercargill Public Library or Bluff Service Centre and Library.

Response to Covid-19

Covid-19 has created unique challenges for our community. Council has undertaken a range of measures in putting together this Annual Plan to account for and respond to the financial impact of Covid-19.



Rates increase

The third year of the Long-term Plan forecast a 3.53% rates increase. Council understands the challenges facing the community and resolved to bring the rates increase down to 2.00%. This allows Council to continue its essential programme of renewals and other capital works, which will provide employment opportunities and support for business at this crucial time. The Council's approach focuses on delivering the outcomes the community wants to achieve, while limiting the additional financial burden on ratepayers.

Rates postponement

A new rates postponement scheme for people effected by financial hardship as a result of pandemics, epidemics and natural disasters, has been introduced. This enables people to postpone paying their rates for up to four years. While it has not been possible to forecast the number of people who will require this option, allowance has been made for up to \$10million in deferred rates. This does not affect the ability of Council to balance the budget, but has an impact on cashflow, which will be managed through the Council's debt facility. The 2.5% interest rate charged on postponed rates will cover the Council's cost of borrowing.

Inflation and interest rates

Forecast inflation and interest rates have been adjusted from the forecasts included in the Long-term Plan to take into account the impact of Covid-19. Inflation is expected to be lower, as are interest rates. The combined impact of these adjusted forecasts puts the Council in a stronger forecast financial position.

Flexible management of Capital works programme

Alongside Central Government, Council has an important role to play in supporting employment and business sustainability in the local community. Council has committed to continuing to deliver the level of capital spending outlined

in the third year of the Long-term Plan, which forecast a spend of \$38.9 million. A range of logistical challenges are expected as a result of Covid-19, including potential impacts on contractors ability to commence work and deliver to the same timeframes under revised health and safety requirements, supply chain challenges and potential impacts on contract costs. In addition, priorities may be required to change through the year to respond to as yet unforeseen impacts or Central Government policy directives. A flexible management approach has been developed in response, which includes maintaining readiness across a broad range of capital works projects. The total value of these projects is greater than the budget set in the Long-term Plan to reflect this required flexibility. The programme will be actively managed to deliver within the budget set in the Long-term Plan.

Debt

The lower cost of debt forecast gives greater flexibility to Council to manage spend, while staying within the perimeters set within the financial strategy. Council's debt facility will be utilized as necessary to enable support for those requiring rates postponement and to deliver the outcomes the community wants to see. The balance of equity between the current and future generations of the community will be maintained.

Revenue

As a result of the impact of Covid-19 on the economy, including forecast increased levels of rates postponement, reduced consents requirements and other areas of reduced revenue from fees for service, revenue is forecast to be approximately \$1 million lower.

Deficit budget

In the 2020/2021 year, as result of reduced revenue and a lower level of rates rise, Council will operate a deficit budget. Council is looking for efficiencies in order to reduce costs.

Major Projects for 2020/2021



Horizontal Infrastructure Renewels

| | |
|--|--------|
| Sewerage – Treatment plants, pump stations and pipe network | \$7.0m |
| Stormwater – Pump stations and pipe network | \$3.8m |
| Water Supply – Treatment plants, pump stations, pipe network and reservoir | \$7.1m |
| Roading – reconstruction and sealing renewals | \$6.8m |
| Roading – street lighting, footpaths, other | \$3.9m |
| Parks renewals | \$3.3m |
| Business as usual – Motor vehicles, plant, library books, IT strategy | \$2.8m |

Capital
Total
\$34.7m

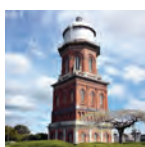
Vertical Infrastructure / Building Renewels



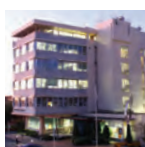
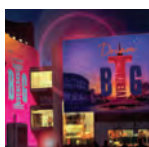
| | |
|-------------------------------------|--------|
| Hydro slide completion | \$1.4m |
| Completion of Don Street | \$0.9m |
| Various other ICC building renewals | \$1.5m |

Capital
Total
\$3.8m

Other Projects



| | |
|---|--------|
| Demolition of Esk Street West | \$2.5m |
| CBD (Street scaping/bus terminal) | \$2.2m |
| Museum Storage Facility | \$2.0m |
| Anderson House strengthening (ground floor public access only) | \$1.7m |
| Water Tower strengthening | \$1.4m |
| Administration building | \$1.0m |



In response to Covid-19 a flexible management approach is being taken to deliver the capital works programme (see p8 for more details). As a result the total value of the projects listed on this page is greater than the total budget with laid out in the Long-term Plan. The budget will not be exceeded and this may result in a delay to some projects commencing or being completed.

Capital
Total
\$10.8m

City Block

Council, through Invercargill City Holdings, is a partner in the City Block development, which will result in a new retail, hospitality and office space in the centre of Invercargill. Initial investment was made in this project during the 2019/2020 year – further information can be found on page 49. At the time of publishing the Annual Plan, Council was consulting on further investment of up to \$21 million in City Block. If the decision is made to invest, it is not yet known when that investment will be made, but it is expected to be in the 2021/2022 financial year.

Rates Overview

All Invercargill City Council ratepayers can expect a 2.00% increase to their rates assessment in 2020/2021. This is lower than the 3.53% increase projected in the Long-term Plan 2018-2028.

On-going reviews of council operations has delivered savings above the savings targets set in the Financial Strategy of the Long-term Plan.

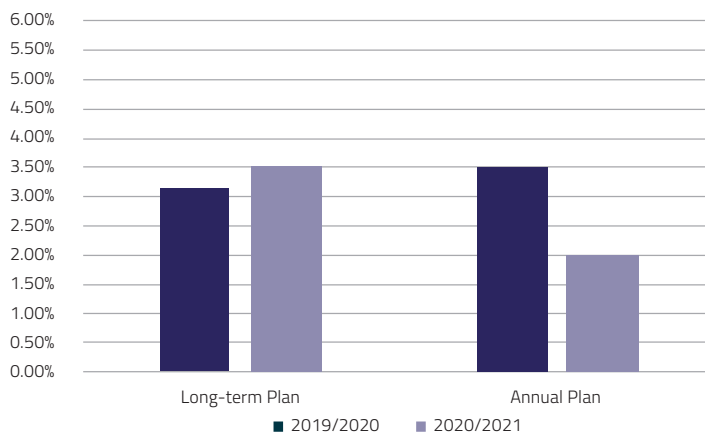
2.00%

increase every
rating unit can
expect to pay in
2020/2021

\$65.3m

projected rates
revenue collection
(including rates
penalties)

% change to rating units assessments

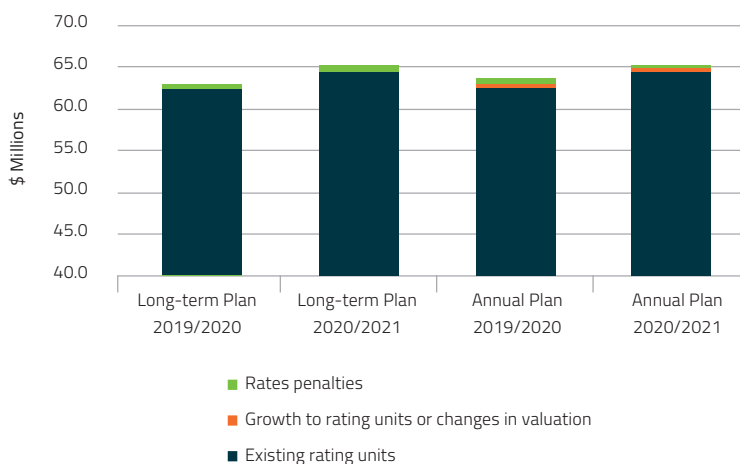


Total rates revenue will increase from \$63.7m to \$65.3m, an increase of 2.52%.

Existing rating units will generate \$64.4m rate revenue for the 2020/2021 year.

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

Total Rates Revenue (GST inclusive)



As a result of Covid-19 a higher level of rates postponement is expected. While it is not possible to forecast the level of postponement, provision has been made for \$10million in postponed rates (equivalent to 15% of the total rate take). This is not forecast to have an impact on revenue. The impact on cashflow will be managed through debt.

Penalties

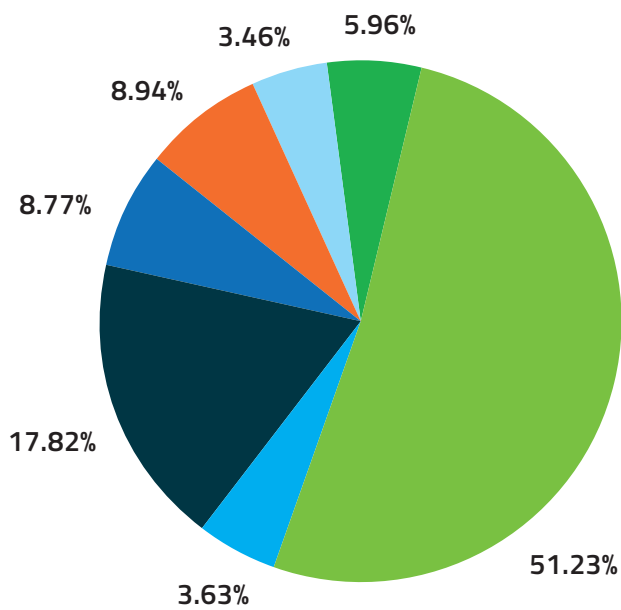
Ratepayers who do not pay by set payment dates will incur rate penalties, which is estimated to generate \$0.4m rates revenue.

Financial Overview



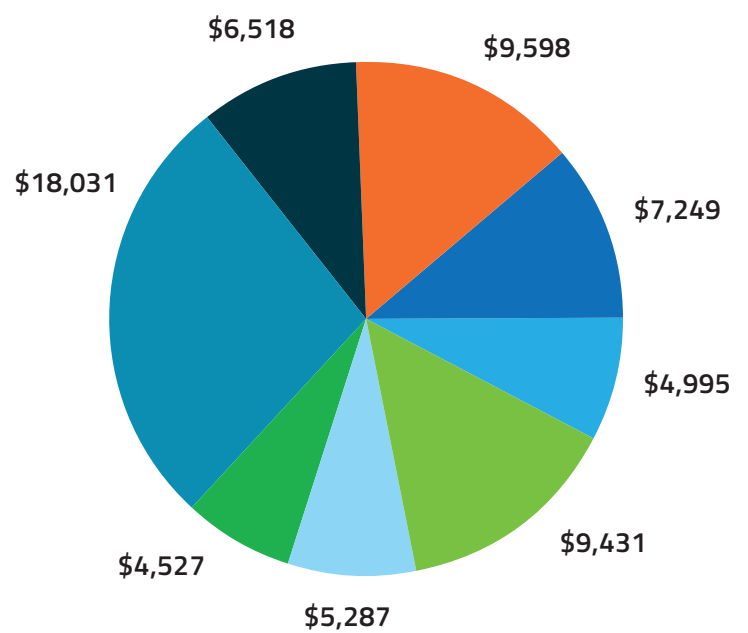
| | 2019/2020 Annual Plan \$,000 | 2020/2021 Long-term Plan \$,000 | 2020/2021 Annual Plan \$,000 |
|--|------------------------------------|---------------------------------------|------------------------------------|
| Rates revenue (GST inclusive) * | 63,678 | 64,499 | 65,282 |
| Rates revenue change | 4.28% | 3.53% | 2.52% |
| | | | |
| Rates revenue (GST exclusive) * | 55,372 | 56,086 | 56,767 |
| Total revenue | 99,361 | 99,283 | 98,435 |
| Operating expenditure | 99,550 | 103,131 | 100,145 |
| Operating surplus/(deficit) | (189) | (3,848) | (1,710) |
| Total comprehensive revenue & expense | 754 | (2,884) | (746) |
| | | | |
| Total assets | 979,506 | 1,012,940 | 1,052,294 |
| Total liabilities (excluding borrowings) | 16,523 | 15,773 | 18,596 |
| Borrowings | 90,700 | 121,343 | 115,205 |
| Total equity | 872,283 | 875,824 | 918,493 |

* Rates revenue for the 2019/2020 & 2020/2021 Annual Plans includes rates penalties.
The Long-term Plan 2020/2021 comparison figure excludes rates penalties



2020/2021 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



2020/2021 Rates Revenue distribution by group of activity (\$,000 including GST)

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

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

Funding Impact Statement

The Funding Impact Statement is made up of three parts:

- Rating policy information for 2020/2021
- Rating samples for 2020/2021
- Funding Impact Statement - Invercargill City Council for 2020/2021

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 2020/2021

The following rates will be set by Council for the financial year commencing 1 July 2020 and ending 30 June 2021.

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, Civic Theatre, Democratic Process, Destination Marketing, Enterprise, Community Development and 15% of both street lighting and footpaths.

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 as defined in the Rating Valuation Rules 2008 and lifestyle properties with an area 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 |
| 1530 Tiwai Road | Base Rate | -87.50 |
| 152 Kekenos Place | Base Rate | -16.67 |

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 Rates

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

- per the Rating Valuations Act 1998
- 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)
- 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 differential 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 number of SUIPs.

The Council will not be inviting lump sum contributions in respect to any targeted rates.

Base rates for water, sewerage and drainage:

- The base rate for water supply is set to recover 84% of the total costs for this activity from residential rating units with 16% coming from non-residential rating units
- The base rate for sewerage services is set to recover 75% of the total costs of this activity from residential rating units with 25% coming from non-residential rating units
- The base rate for drainage is set to recover 75% of the total costs of this activity from residential rating units with 25% coming from non-residential rating units.

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
- Roading 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.

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, Civic Theatre, Democratic Process, Destination Marketing, Enterprise, Community Development, Art & Creativity Centre 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 Roading 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 |

Additional Rating Policies continued

| 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 2019/2020 \$ | Rates 2020/2021 \$ | \$ Change Annual | \$ Change Weekly | % Change Rates |
|------------------|-----------------------------|------------------------------|--------------------|--------------------|------------------|------------------|----------------|
| Residential | 130,000 | 130,000 | 1,865 | 1,903 | 37 | 0.72 | 2.00% |
| Residential | 255,000 | 255,000 | 2,371 | 2,418 | 47 | 0.91 | 2.00% |
| Residential* | 455,000 | 505,000 | 2,379 | 2,607 | 228 | 4.38 | 9.57% |
| Commerical | 750,000 | 750,000 | 6,208 | 6,332 | 124 | 2.39 | 2.00% |
| Commerical | 1,090,000 | 1,090,000 | 9,064 | 9,245 | 181 | 3.49 | 2.00% |
| Commerical* | 3,560,000 | 3,720,000 | 19,427 | 20,366 | 939 | 18.06 | 4.83% |
| Farms | 620,000 | 620,000 | 1,476 | 1,506 | 30 | 0.57 | 2.00% |
| Farms* | 1,730,000 | 1,730,000 | 3,046 | 3,107 | 61 | 1.17 | 2.00% |
| Farms | 8,500,000 | 8,500,000 | 13,668 | 13,941 | 273 | 5.26 | 2.00% |
| Industrial* | 470,000 | 510,000 | 5,407 | 5,665 | 258 | 4.96 | 4.77% |
| Industrial | 2,200,000 | 2,200,000 | 12,673 | 12,927 | 253 | 4.87 | 2.00% |
| Industrial | 19,500,000 | 19,500,000 | 56,144 | 57,267 | 1,123 | 21.59 | 2.00% |

* denotes where property value has changed

Rating Tables

| | Residential | | Residential Multi Unit | | | |
|---|-------------|------|------------------------|------|----------------------|------|
| | | | First Unit | | Each Additional Unit | |
| | Base Rate | % | Base Rate | % | Base Rate | % |
| General Rate | 0.00077002 | 100 | 0.00077002 | 100 | 0.00077002 | -100 |
| Targeted Rate | | | | | | |
| Parks and Reserves Uniform Annual Charge | 60.70 | 100 | 60.70 | 100 | 60.70 | -100 |
| Parks and Reserves Base Rate | 0.00098132 | 100 | 0.00098132 | 100 | 0.00098132 | -100 |
| Pools Uniform Annual Charge | 30.36 | 100 | 30.36 | 100 | 30.36 | -100 |
| Pools Base Rate | 0.00036973 | 100 | 0.00036973 | 100 | 0.00036973 | -100 |
| Regulatory Services Base Rate | 0.00052057 | 100 | 0.00052057 | 100 | 0.00052057 | -100 |
| Roading Base Rate | 0.00079822 | 100 | 0.00079822 | 100 | 0.00079822 | -100 |
| Cemeteries Base Rate | 0.00004496 | 100 | 0.00004496 | 100 | 0.00004496 | -100 |
| Libraries Base Rate | 204.16 | 100 | 204.16 | 100 | 204.16 | -25 |
| Regional Heritage Base Rate | 43.41 | 100 | 43.41 | 100 | 43.41 | -25 |
| Business Development Rate | 0.00049167 | -100 | 0.00049167 | -100 | 0.00049167 | -100 |
| Economic Development Base Rate | 0.00017506 | -100 | 0.00017506 | -100 | 0.00017506 | -100 |



| Commercial | | Industrial | | Rural-Farming | | Contiguous Property | |
|------------|------|------------|------|---------------|------|---------------------|-----|
| | | | | | | | |
| Base Rate | % | Base Rate | % | Base Rate | % | Base Rate | % |
| 0.00077002 | 100 | 0.00077002 | 100 | 0.00077002 | -25 | 0.00077002 | 100 |
| | | | | | | | |
| 60.70 | 100 | 60.70 | 100 | 60.70 | 100 | | |
| 0.00098132 | -100 | 0.00098132 | -100 | 0.00098132 | -100 | 0.00098132 | 100 |
| 30.36 | 100 | 30.36 | 100 | 30.36 | 100 | | |
| 0.00036973 | -100 | 0.00036973 | -100 | 0.00036973 | -100 | 0.00036973 | 100 |
| 0.00052057 | 100 | 0.00052057 | 100 | 0.00052057 | -25 | 0.00052057 | 100 |
| 0.00079822 | 100 | 0.00079822 | 100 | 0.00079822 | -25 | 0.00078257 | 100 |
| 0.00004496 | 100 | 0.00004496 | 100 | 0.00004496 | -25 | 0.00004496 | 100 |
| 204.16 | 100 | 204.16 | 100 | 204.16 | 100 | | |
| 43.41 | 100 | 43.41 | 100 | 43.41 | 100 | | |
| 0.00049167 | 100 | 0.00049167 | 100 | 0.00049167 | -100 | 0.00049167 | 100 |
| 0.00017506 | 100 | 0.00017506 | 100 | 0.00017506 | -100 | 0.00017506 | 100 |

Rating Tables continued

| | Residential | | Residential Multi Unit | | | |
|---|-------------|------|------------------------|------|----------------------|------|
| | | | First Unit | | Each Additional Unit | |
| | Base Rate | % | Base Rate | % | Base Rate | % |
| Targeted Rate | | | | | | |
| Water Base Rate | 393.45 | 100 | 393.45 | 100 | 393.45 | -25 |
| Sewerage Base Rate | 254.85 | 100 | 254.85 | 100 | 254.85 | -25 |
| Drainage Base Rate | 177.89 | 100 | 177.89 | 100 | 177.89 | -25 |
| Water Base Rate (non-residential) | 523.87 | -100 | 523.87 | -100 | 523.87 | -100 |
| Sewerage Base Rate (non-residential) | 619.28 | -100 | 619.28 | -100 | 619.28 | -100 |
| Drainage Base Rate (non-residential) | 462.79 | -100 | 462.79 | -100 | 462.79 | -100 |
| Refuse Collection Base Rate (per wheelie bin) | 201.58 | 100 | 201.58 | 100 | 201.58 | -25 |
| General Waste Management Rate | 0.0001189 | 100 | 0.0001189 | 100 | 0.0001189 | -100 |



| Commercial | | Industrial | | Rural-Farming | | Contiguous Property | |
|------------|------|------------|------|---------------|------|---------------------|-----|
| Base Rate | % | Base Rate | % | Base Rate | % | Base Rate | % |
| 393.45 | -100 | 393.45 | -100 | 393.45 | -100 | | |
| 254.85 | -100 | 254.85 | -100 | 254.85 | -100 | | |
| 177.89 | -100 | 177.89 | -100 | 177.89 | -100 | | |
| 523.87 | 100 | 523.87 | 100 | 523.87 | -100 | | |
| 619.28 | 100 | 619.28 | 100 | 619.28 | -100 | | |
| 462.79 | 100 | 462.79 | 100 | 462.79 | -100 | | |
| 201.58 | 100 | 201.58 | 100 | 201.58 | -100 | | |
| 0.0001189 | 100 | 0.0001189 | 100 | 0.0001189 | -100 | 0.0001189 | 100 |

Targeted Rates Payable by Location

| | Residential | | Residential Multi Unit | | | |
|---|-------------|-----|------------------------|-----|----------------------|------|
| | | | First Unit | | Each Additional Unit | |
| | Base Rate | % | Base Rate | % | Base Rate | % |
| Targeted Rate by location | | | | | | |
| Footpaths Base Rate – within Invercargill and Bluff Urban Areas (Map A) | 0.00032602 | 100 | 0.00032602 | 100 | 0.00032602 | -100 |
| Street Lighting Base Rate – within Invercargill and Bluff Urban Areas (Map A) | 0.00008518 | 100 | 0.00008518 | 100 | 0.00008518 | -100 |
| Transport Base Rate – within Invercargill City Area only (Map B) | 0.00010962 | 100 | 0.00010962 | 100 | 0.00010962 | -100 |
| Drainage Makarewa Base Rate – within the Makarewa Drainage Area (Map C) | 86.5 | 100 | 86.5 | 100 | 86.5 | -100 |
| Drainage Myross Bush Base Rate – within the Myross Bush Rate (Map D) | 85.31 | 100 | 85.31 | 100 | 85.31 | -100 |
| Community Centre – Awarua Rate – locations for Community Centres (Map E) | 32.73 | 100 | 32.73 | 100 | 32.73 | -100 |
| Community Centre – Myross Bush Rate – locations for Community Centres (Map E) | 31.14 | 100 | 31.14 | 100 | 31.14 | -100 |



| Commercial | | Industrial | | Rural-Farming | | Contiguous Property | |
|------------|-----|------------|-----|---------------|-----|---------------------|-----|
| Base Rate | % | Base Rate | % | Base Rate | % | Base Rate | % |
| 0.00032602 | 100 | 0.00032602 | 100 | 0.00032602 | 100 | 0.00032602 | 100 |
| 0.00008518 | 100 | 0.00008518 | 100 | 0.00008518 | 100 | 0.00008518 | 100 |
| 0.00010962 | 100 | 0.00010962 | 100 | 0.00010962 | 100 | 0.00010962 | 100 |
| 86.5 | 100 | 86.5 | 100 | 86.5 | 100 | | |
| 85.31 | 100 | 85.31 | 100 | 85.31 | 100 | | |
| 32.73 | 100 | 32.73 | 100 | 32.73 | 100 | | |
| 31.14 | 100 | 31.14 | 100 | 31.14 | 100 | | |

Targeted Rates Payable by Location continued

| | Residential | | Residential Multi Unit | | | |
|---|-------------|------|------------------------|------|----------------------|------|
| | | | First Unit | | Each Additional Unit | |
| | Base Rate | % | Base Rate | % | Base Rate | % |
| Targeted Rate by location | | | | | | |
| Community Centre – Otatara Rate – locations for Community Centres (Map E) | 15.84 | 100 | 15.84 | 100 | 15.84 | -100 |
| Town Hall – Bluff Rate – locations for Community Centres (Map E) | 17.42 | 100 | 17.42 | 100 | 17.42 | -100 |
| Bluff Community Board Base Rate – within the Bluff Ward (Map F) | 0.00033904 | 100 | 0.00033904 | 100 | 0.00033904 | -100 |
| Drainage Redmayne Road Base Rate – within the Redmayne Road Drainage District (Map G) | 83.25 | 100 | 83.25 | 100 | 83.25 | -100 |
| City Centre Co-ordinator Base Rate (Map H) | 0.00031071 | -100 | 0.00031071 | -100 | 0.00031071 | -100 |



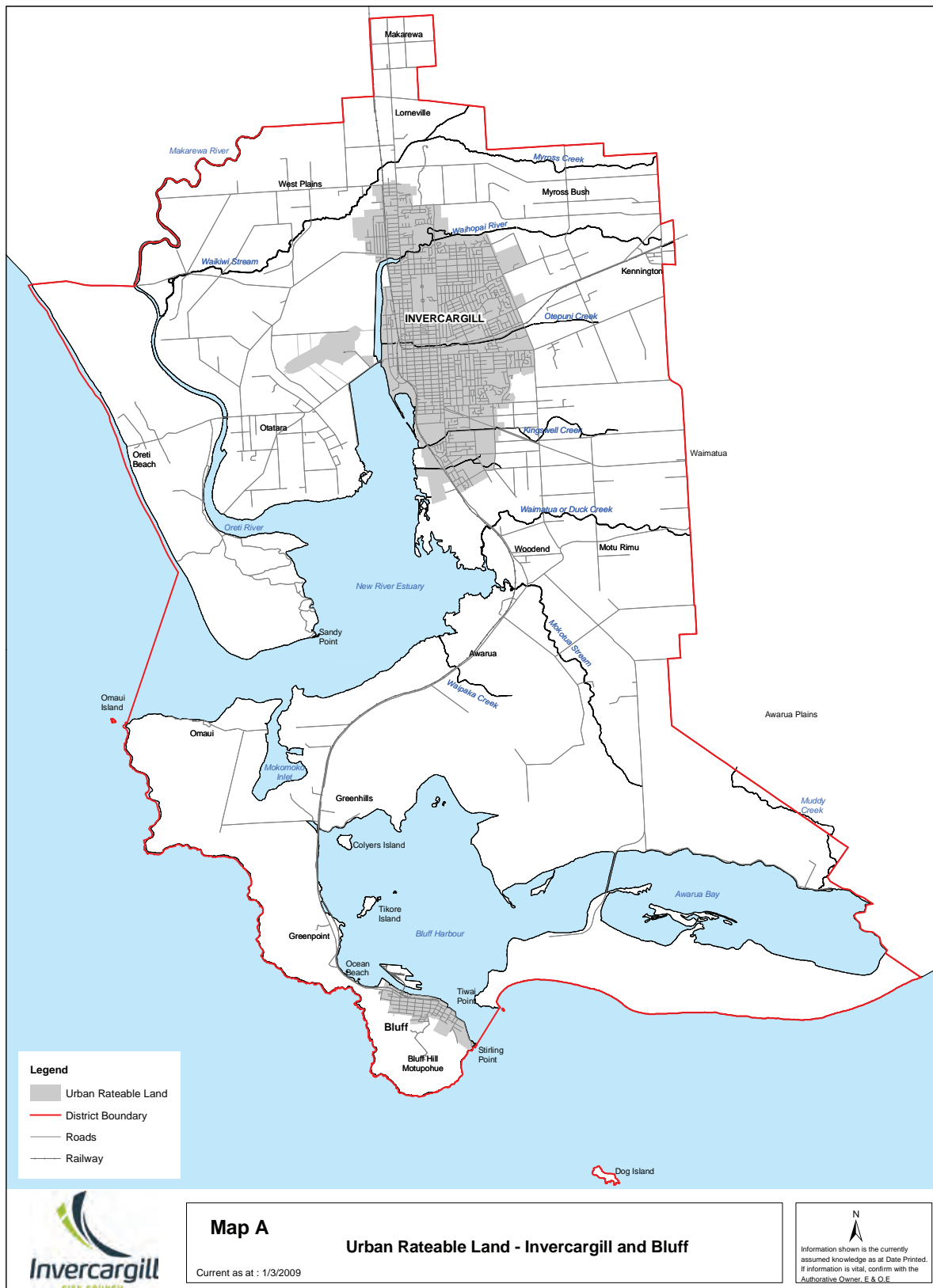
| Commercial | | Industrial | | Rural-Farming | | Contiguous Property | |
|------------|-----|------------|-----|---------------|-----|---------------------|-----|
| Base Rate | % | Base Rate | % | Base Rate | % | Base Rate | % |
| | | | | | | | |
| 15.84 | 100 | 15.84 | 100 | 15.84 | 100 | | |
| 17.42 | 100 | 17.42 | 100 | 17.42 | 100 | | |
| 0.00033904 | 100 | 0.00033904 | 100 | 0.00033904 | -25 | 0.00033904 | 100 |
| 83.25 | 100 | 83.25 | 100 | 83.25 | 100 | | |
| 0.00031071 | 100 | 0.00031071 | 100 | | | 0.00031071 | 100 |

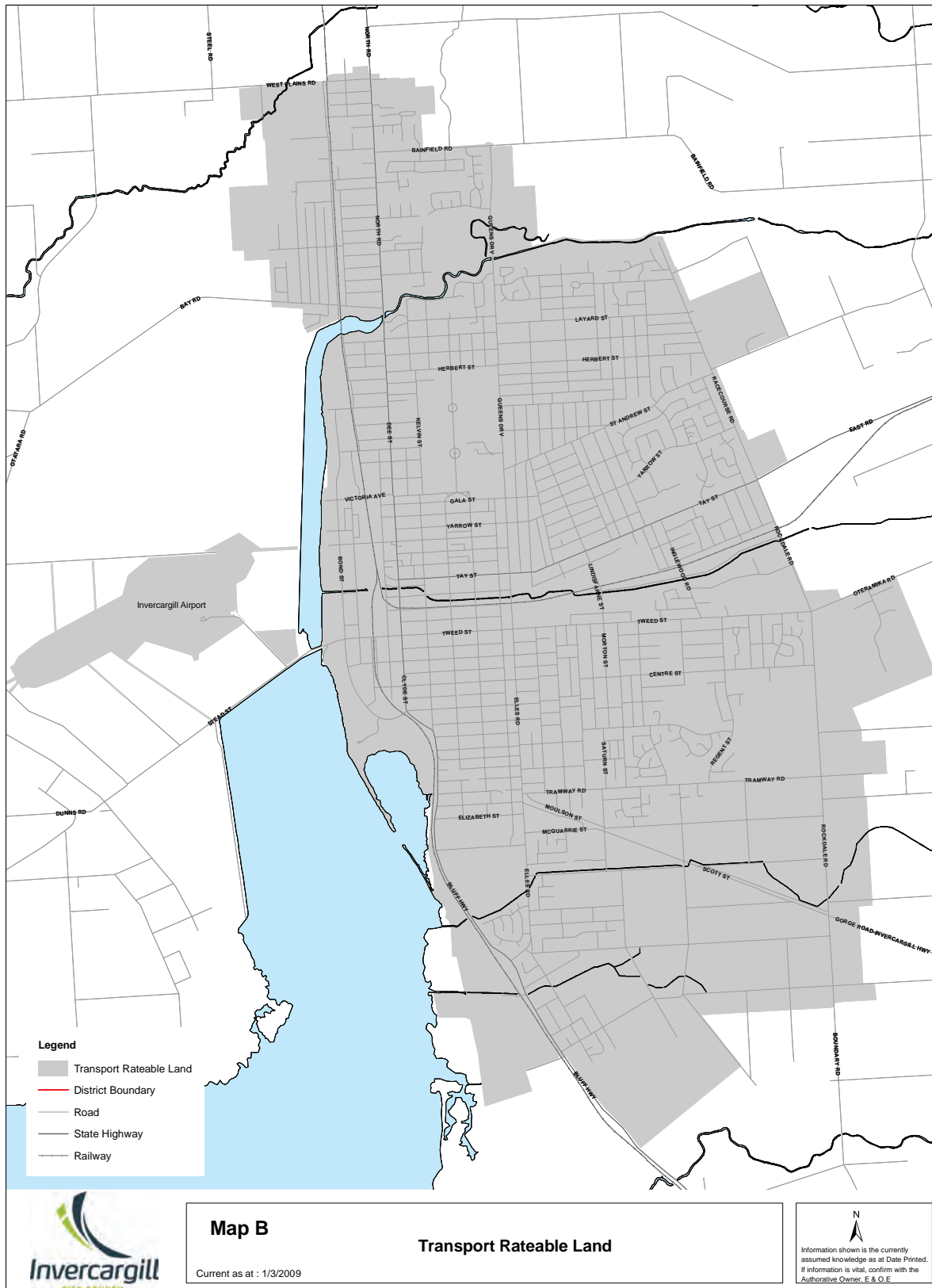


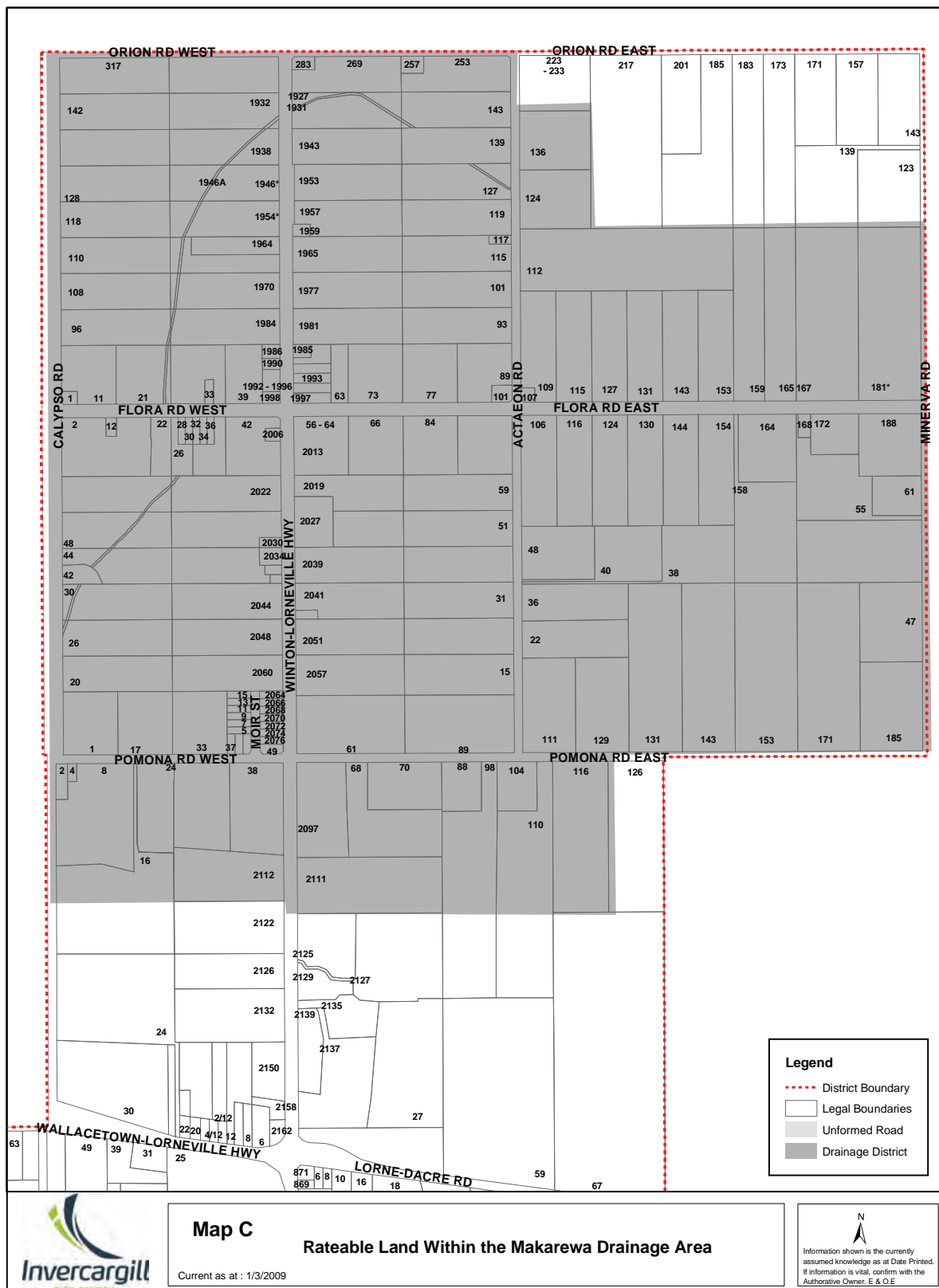
Total Rates to be Collected

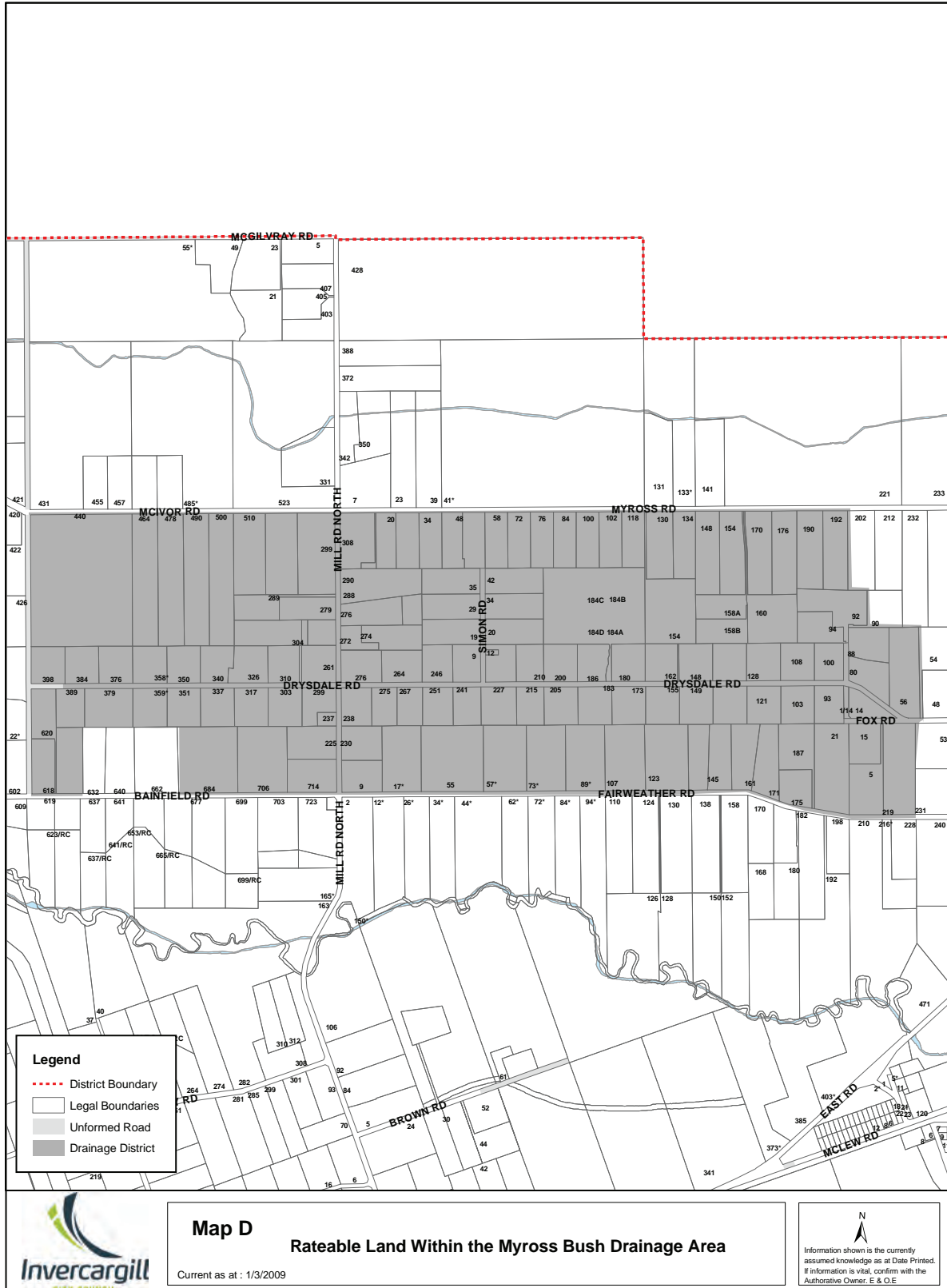
The table below shows the total rates to be collected for Council's activities for 2020/2021 compared to 2019/2020 (excluding rates penalties)

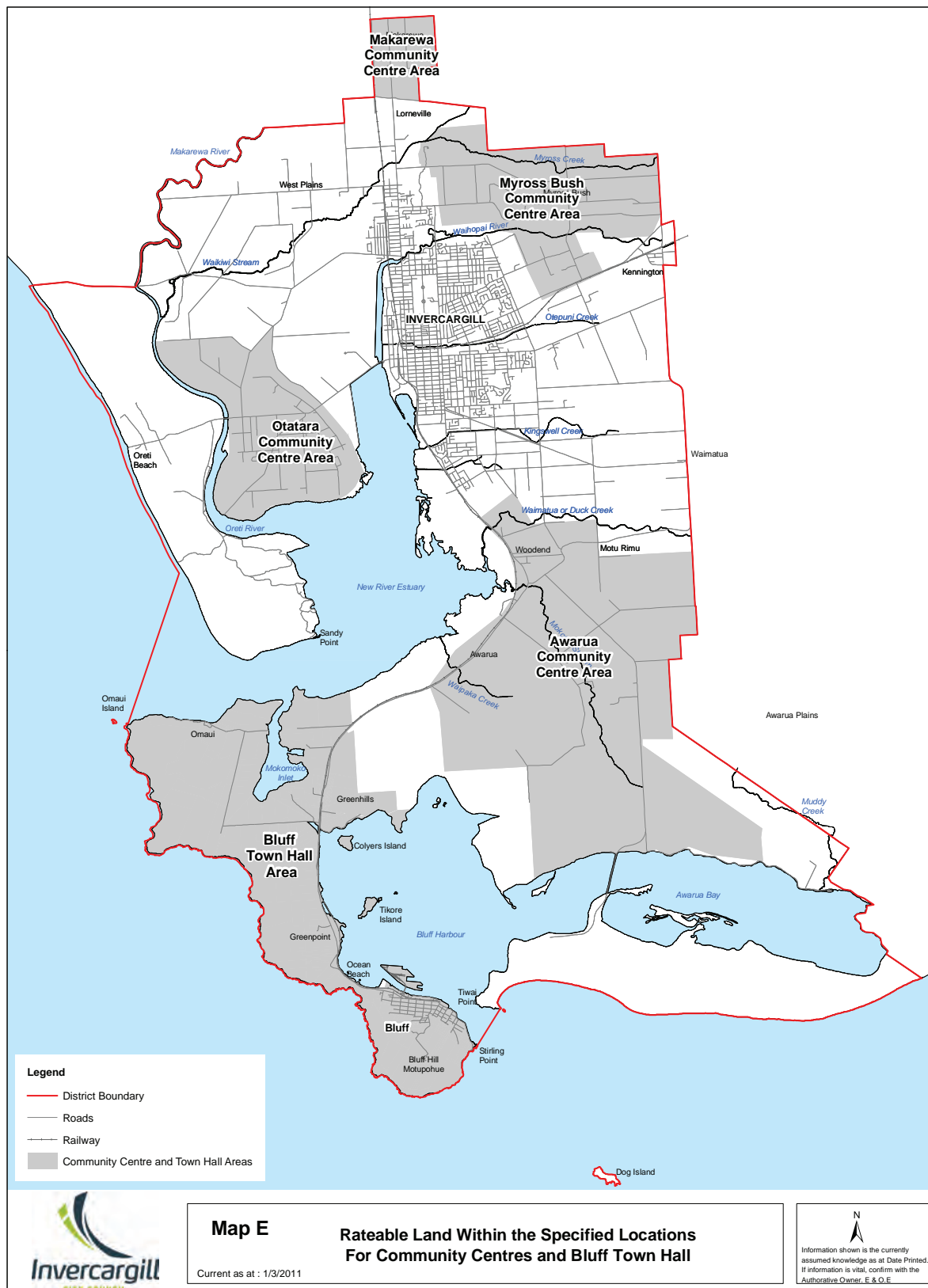
| Total increase in rates | 2019/2020 (\$ GST inclusive) | 2020/2021 (\$ GST inclusive) |
|--------------------------------|------------------------------|------------------------------|
| General Rate | 5,900,847 | 6,083,909 |
| Regulatory Services | 3,989,232 | 4,113,102 |
| Roading | 6,111,904 | 6,306,925 |
| Parks & Reserves | 7,270,260 | 7,485,611 |
| Cemeteries | 344,557 | 355,259 |
| Libraries | 4,990,799 | 5,128,721 |
| Pools | 2,917,223 | 3,002,136 |
| Regional Heritage | 1,061,094 | 1,090,604 |
| Footpaths | 1,860,278 | 1,910,878 |
| Street Lighting | 483,475 | 497,204 |
| Transport | 618,093 | 635,809 |
| Sewerage | 7,012,457 | 7,248,720 |
| Drainage | 4,816,888 | 4,967,146 |
| Drainage - Makarewa | 13,840 | 14,465 |
| Drainage - Myross Bush | 10,533 | 10,915 |
| Drainage - Redmayne Road | 2,878 | 2,852 |
| Refuse Collection | 4,275,209 | 4,376,751 |
| General Waste Management | 875,613 | 910,184 |
| Water | 9,153,934 | 9,430,684 |
| Economic Development | 239,842 | 245,163 |
| Business Development | 740,361 | 756,713 |
| City Centre Co-ordinator | 148,690 | 150,799 |
| Community Centre - Awarua | 3,718 | 3,743 |
| Community Centre - Myross Bush | 16,558 | 17,257 |
| Community Centre - Otatara | 20,143 | 21,115 |
| Bluff Town Hall | 22,182 | 22,696 |
| Bluff Community Board | 87,658 | 90,747 |
| Net Rates | 62,988,266 | 64,880,108 |

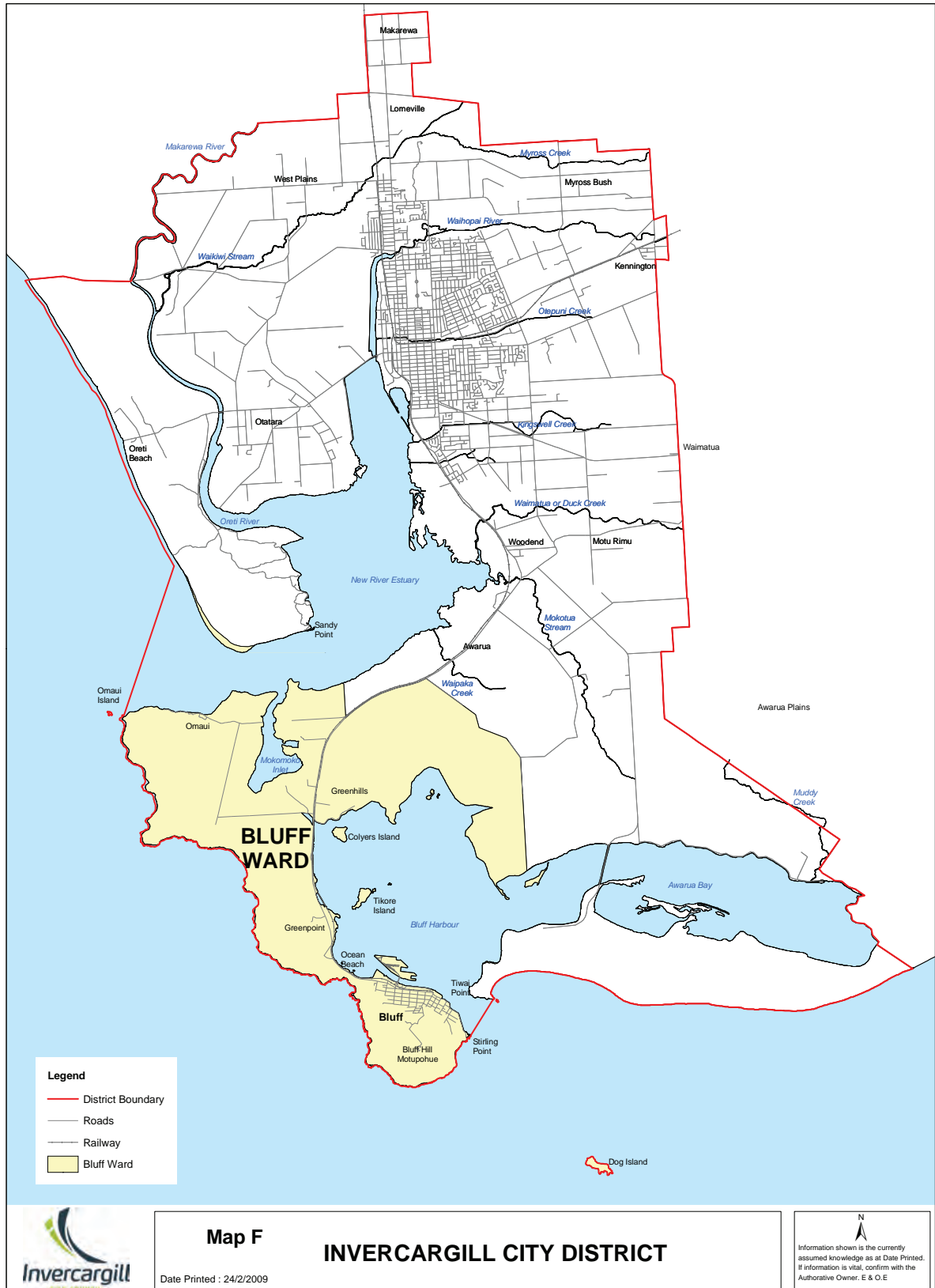


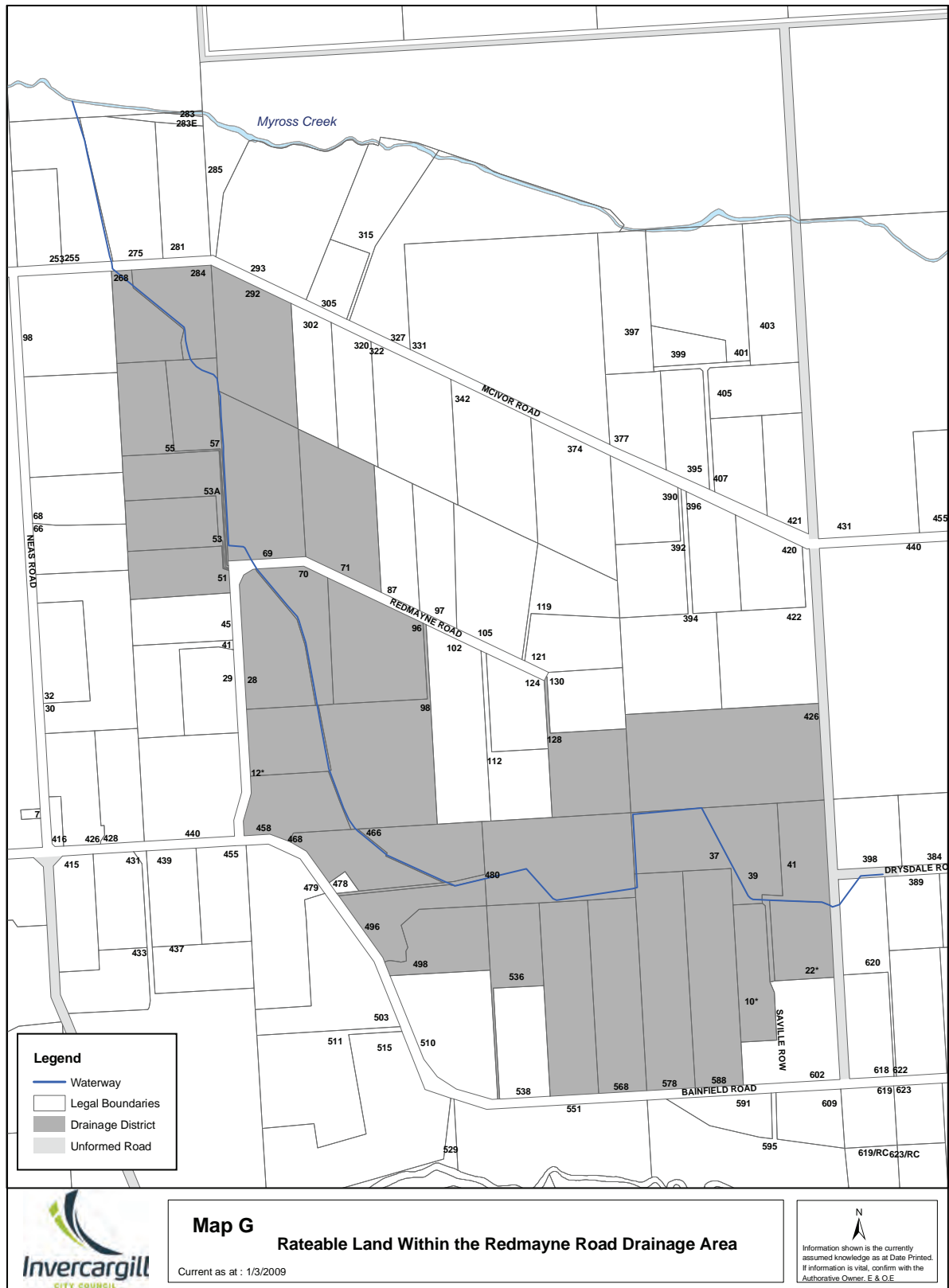




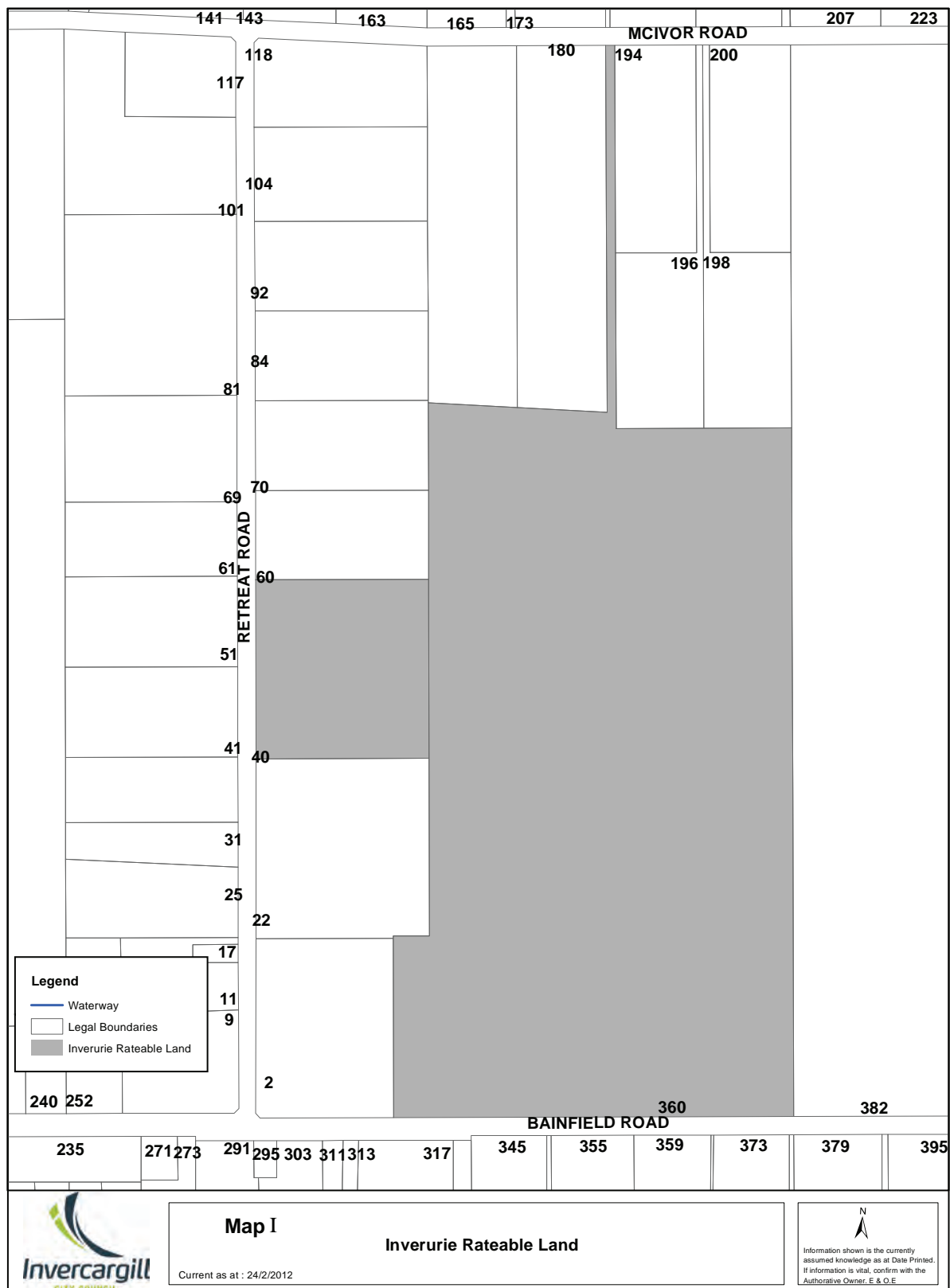












Funding Impact Statement Invercargill City Council

(GST exclusive)

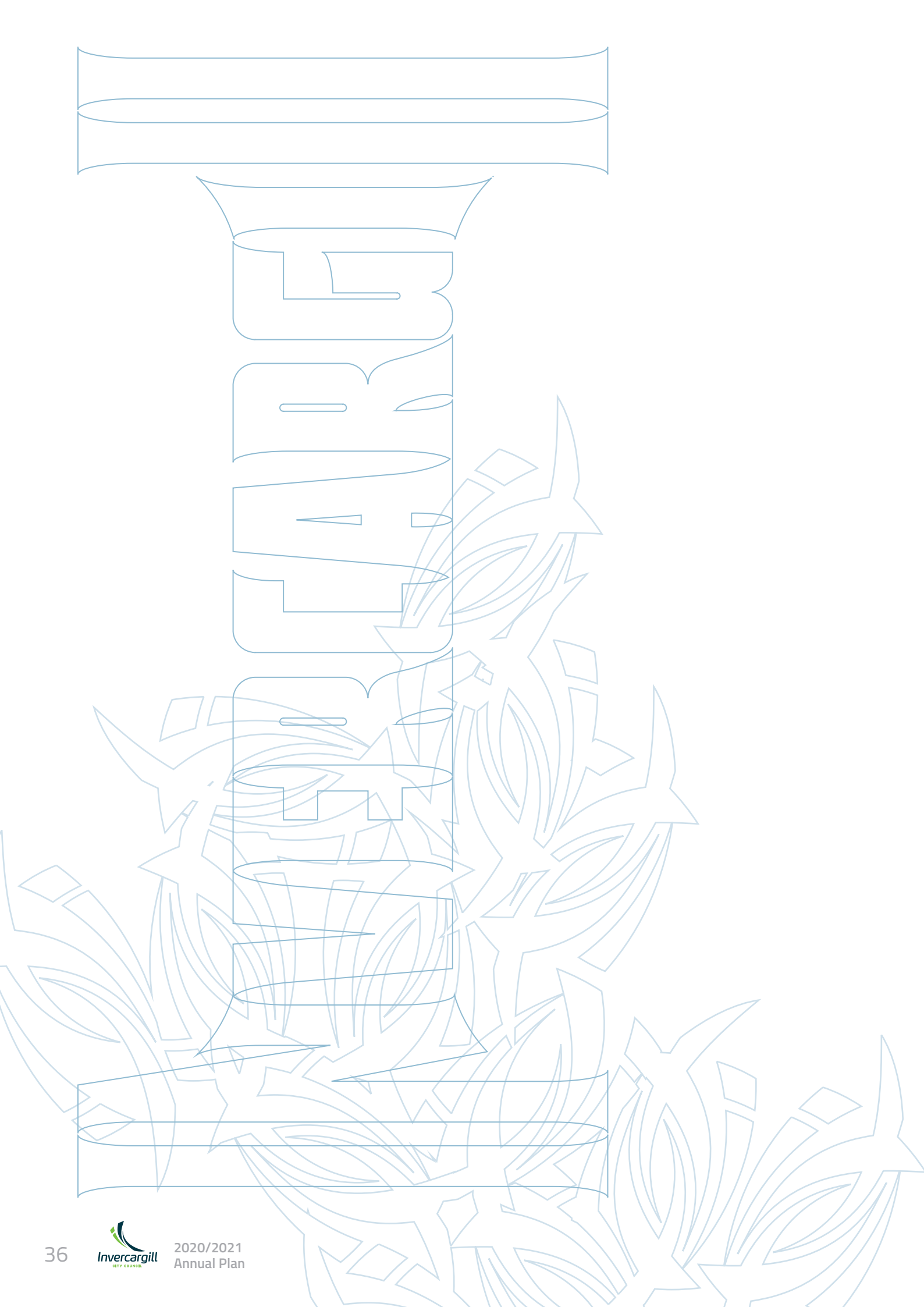
| | | Annual Plan 2019/2020 (\$'000) | Long-term Plan 2020/2021 (\$'000) | Annual Plan 2020/2021 (\$'000) |
|--|---|--------------------------------------|---|--------------------------------------|
| SOURCES OF OPERATIONAL FUNDING | | | | |
| General rates, uniform annual general charge, rates penalties | | 5,731 | 5,306 | 5,640 |
| Targeted rates | | 49,641 | 51,438 | 51,127 |
| Subsidies and grants for operating purposes | 1 | 4,664 | 3,622 | 4,711 |
| Fees and charges | | 17,360 | 17,782 | 17,782 |
| Interest and dividends from investments | 2 | 7,411 | 8,757 | 7,202 |
| Local authorities fuel tax, fines, infringement fees, and other receipts | | 10,092 | 8,923 | 7,467 |
| Total operating funding (A) | | 94,899 | 95,828 | 93,929 |
| APPLICATIONS OF OPERATIONAL FUNDING | | | | |
| Payments to staff and suppliers | | 68,277 | 68,374 | 68,881 |
| Finance costs | 3 | 3,260 | 5,804 | 3,140 |
| Other operating funding applications | | 0 | 0 | 0 |
| Total applications of operating funding (B) | | 71,537 | 74,178 | 72,021 |
| Surplus (deficit) of operating funding (A – B) | | 23,362 | 21,650 | 21,908 |
| SOURCES OF CAPITAL FUNDING | | | | |
| Subsidies and grants for capital expenditure | 1 | 4,462 | 3,455 | 4,506 |
| Development and financial contributions | | 0 | 0 | 0 |
| Increase (decrease) in debt | 4 | 0 | 14,491 | 0 |
| Gross proceeds from sale of assets | | 251 | 194 | 194 |
| Lump sum contributions | | 0 | 0 | 0 |
| Other dedicated capital funding | | 0 | 0 | 0 |
| Total sources of capital funding (C) | | 4,713 | 18,140 | 4,700 |
| APPLICATION OF CAPITAL FUNDING | | | | |
| Capital expenditure | | | | |
| - to meet additional demand | | 2,466 | 1,737 | 1,737 |
| - to improve the level of service | | 5,174 | 867 | 867 |
| - to replace existing assets | | 31,600 | 36,326 | 36,326 |
| Increase (decrease) in reserves | | (85) | 860 | 0 |
| Increase (decrease) of investments | 4 | (11,080) | 0 | (12,322) |
| Total applications of capital funding (D) | | 28,075 | 39,790 | 26,608 |
| Surplus (deficit) of capital funding (C - D) | | (23,362) | (21,650) | (21,908) |
| FUNDING BALANCE ((A – B) + (C – D)) | | 0 | 0 | 0 |
| Depreciation expense (not included in the above FIS) | | 28,053 | 28,995 | 28,124 |

Explanation of major variances between 2020/2021 Long-term Plan (Year 3) and 2020/2021 Annual Plan



NOTES

- 1** Subsidies and grant revenue is expected to be higher with increased use of NZTA subsidies available, including the introduction of NZTA subsidies for renewals of footpaths, which were not included in the Long-term Plan assumptions.
- 2** 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. This has partially been offset by subvention revenue received from company's within the Invercargill City Council group, which were not included in the Long-term Plan assumptions.
- 3** Finance costs are lower than anticipated in the Long-term Plan due to a revised borrowings interest rate assumption from 5.50% to 2.50%. This has been achieved through transferring existing borrowings to the Local Government Funding Agency in 2018/2019.
- 4** Funds held on investment will be used to offset funding requirements in the 2020/2021 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.



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

| | | Annual Plan 2019/2020 (\$'000) | Long-term Plan 2020/2021 (\$'000) | Annual Plan 2020/2021 (\$'000) |
|--|----------|--------------------------------------|---|--------------------------------------|
| REVENUE | | | | |
| Rates revenue excluding targeted water supply rates | 1 | 47,412 | 47,831 | 48,566 |
| Rates revenue - targeted water supply rates | | 7,960 | 8,255 | 8,201 |
| Fines | | 497 | 508 | 502 |
| Subsidies and grants | 2 | 9,126 | 7,077 | 9,217 |
| Direct charges revenue | | 22,171 | 21,802 | 21,734 |
| Rental revenue | | 2,966 | 3,191 | 3,013 |
| Other revenue | 1 | 1,818 | 1,862 | 0 |
| Finance revenue | 3 | 2,561 | 2,557 | 1,902 |
| Dividends | 4 | 4,850 | 6,200 | 5,300 |
| Total revenue | | 99,361 | 99,283 | 98,435 |
| EXPENSES | | | | |
| Employee expenses | 5 | 25,429 | 26,340 | 25,433 |
| Depreciation and amortisation | | 28,053 | 28,995 | 28,124 |
| Other expenses | 6 | 42,808 | 41,992 | 43,448 |
| Finance expenses | 7 | 3,260 | 5,804 | 3,140 |
| Total expenses | | 99,550 | 103,131 | 100,145 |
| Surplus / (deficit) before tax | | (189) | (3,848) | (1,710) |
| Income tax expense | | 0 | 0 | 0 |
| Surplus / (deficit) after tax | | (189) | (3,848) | (1,710) |
| OTHER COMPREHENSIVE REVENUE AND EXPENSE | | | | |
| Property, plant and equipment revaluations gain / (loss) | | 0 | 0 | 0 |
| Investment property revaluations - gain / (loss) | | 862 | 881 | 881 |
| Forestry assets revaluations - gain / (loss) | | 81 | 83 | 83 |
| Total other comprehensive revenue & expense | | 943 | 964 | 964 |
| Total comprehensive revenue & expense | | 754 | (2,884) | (746) |



Prospective Statement of Cashflows

| | | Annual Plan 2019/2020 (\$000) | Long-term Plan 2020/2021 (\$000) | Annual Plan 2020/2021 (\$000) |
|---|---|-------------------------------------|--|-------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from rates revenue | 1 | 55,372 | 56,086 | 56,767 |
| Receipts from other revenue | 2 | 34,758 | 33,236 | 34,466 |
| Interest received | 3 | 2,561 | 2,557 | 1,902 |
| Dividend received | 4 | 4,850 | 6,200 | 5,300 |
| Payments to suppliers and employees | 6 | (66,458) | (67,169) | (68,881) |
| Interest paid | 7 | (3,260) | (5,804) | (3,140) |
| Net cash flows from operating activities | | 27,823 | 25,106 | 26,414 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Cash was provided from | | | | |
| Proceeds from sale of property, plant and equipment | | 251 | 194 | 194 |
| Proceeds from sale of investments | 8 | 16,800 | 3,865 | 12,322 |
| Purchase of property, plant and equipment | | (36,364) | (38,748) | (38,748) |
| Purchase of biological assets | | 0 | 0 | 0 |
| Purchase of intangible assets | | (1,075) | (78) | (78) |
| Purchase of investment property | | (1,800) | (104) | (104) |
| Purchase of investments | 8 | (5,621) | (4,737) | 0 |
| Net cash flows from investing activities | | (27,809) | (39,608) | (26,414) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from borrowings | 8 | 0 | 18,740 | 0 |
| Repayments of borrowings | 8 | 0 | (4,249) | 0 |
| Net cash flows from financing activities | | 0 | 14,491 | 0 |
| Net (decrease) increase in cash and cash equivalents | | 14 | (11) | 0 |
| Cash and cash equivalents at the beginning of the year | 9 | 1,679 | 1,094 | 14,738 |
| Cash and cash equivalents at end of the year | | 1,693 | 1,083 | 14,738 |

Prospective Statement of Financial Position

| | | Annual Plan | Long-term Plan | Annual Plan |
|--|-----------|-----------------------|-----------------------|-----------------------|
| | | 2019/2020 (\$'000) | 2020/2021 (\$'000) | 2020/2021 (\$'000) |
| ASSETS | | | | |
| Cash and cash equivalents | 9 | 1,693 | 1,083 | 14,738 |
| Trade and other receivables | 10 | 9,612 | 7,356 | 9,372 |
| Inventories | 11 | 933 | 786 | 1,681 |
| Property, plant and equipment | 12 | 833,121 | 858,740 | 862,222 |
| Intangible assets | 12 | 1,982 | 910 | 1,669 |
| Forestry assets | 13 | 3,039 | 3,863 | 3,320 |
| Investment property | 13 | 41,143 | 41,012 | 39,332 |
| Investment in CCOs and similar entities | | 36,069 | 36,069 | 36,069 |
| Other financial assets - other investments | 14 | 51,914 | 63,121 | 83,891 |
| TOTAL ASSETS | | 979,506 | 1,012,940 | 1,052,294 |
| LIABILITIES | | | | |
| Trade and other payables | 15 | 11,088 | 10,335 | 11,956 |
| Provisions | | 847 | 766 | 928 |
| Employee benefit liabilities | | 3,631 | 3,963 | 3,252 |
| Borrowings | 14 | 90,700 | 121,343 | 115,205 |
| Derivative financial instruments | | 957 | 709 | 2,460 |
| TOTAL LIABILITIES | | 107,223 | 137,116 | 133,801 |
| Retained earnings | | 379,411 | 390,249 | 379,773 |
| Restricted reserves | | 35,827 | 28,203 | 40,517 |
| Hedging reserves | | (957) | (501) | (2,460) |
| Carbon credit revaluation reserves | | 464 | 335 | 527 |
| Asset revaluation reserves | | 457,538 | 457,538 | 500,136 |
| TOTAL EQUITY | | 872,283 | 875,824 | 918,493 |
| TOTAL LIABILITIES AND EQUITY | | 979,506 | 1,012,940 | 1,052,294 |



Prospective Statement of Changes in Equity

| | Annual Plan 2019/2020 (\$000) | Long-term Plan 2020/2021 (\$000) | Annual Plan 2020/2021 (\$000) |
|---|--|---|--|
| Balance at 1 July | 871,529 | 878,708 | 919,239 |
| Total comprehensive revenue & expense for the year | 754 | (2,884) | (746) |
| Balance at 30 June | 872,283 | 875,824 | 918,493 |
| COMPONENTS OF EQUITY | | | |
| Retained earnings at 1 July | 378,572 | 393,994 | 368,197 |
| Net surplus/(deficit) for the year | 754 | (2,884) | (746) |
| Transfers (to)/from restricted reserves | 85 | (861) | 12,322 |
| Transfers (to) /from hedging reserves | 0 | 0 | 0 |
| Transfers (to) /from carbon credit revaluation reserves | 0 | 0 | 0 |
| Transfers (to)/from asset revaluation reserves | 0 | 0 | 0 |
| Retained earnings at 30 June | 379,411 | 390,249 | 379,773 |
| Restricted reserves at 1 July | 35,912 | 27,342 | 52,839 |
| Transfers to/(from) reserves | (85) | 861 | (12,322) |
| Restricted reserves at 30 June | 35,827 | 28,203 | 40,517 |
| Hedging reserves at 1 July | (957) | (501) | (2,460) |
| Transfers to/(from) reserves | 0 | 0 | 0 |
| Hedging reserves at 30 June | (957) | (501) | (2,460) |
| Carbon credit revaluation reserves at 1 July | 464 | 335 | 527 |
| Transfers to/(from) reserves | 0 | 0 | 0 |
| Carbon credit revaluation reserves at 30 June | 464 | 335 | 527 |
| Asset revaluation reserves at 1 July | 457,538 | 457,538 | 500,136 |
| Transfers to/(from) reserves | 0 | 0 | 0 |
| Asset revaluation reserves at 30 June | 457,538 | 457,538 | 500,136 |

The 2020/2021 Annual Plan has been developed in a time of greater uncertainty than normal as a result of Covid-19. In line with Section 96 of the Local Government Act, this plan sets out Council's intentions but does not constitute a decision to act on any specific matter.

Explanation of major variances between 2020/2021 Long-term Plan (Year 3) and 2020/2021 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 2020/2021. In the Long-term Plan 2018-2028, they were disclosed under Other revenue (R&E) & Receipts from other revenue (CF)
- 2** Subsidies and grant revenue is expected to be higher with increased use of NZTA subsidies available, including the introduction of NZTA subsidies for renewals of footpaths, which were not included in the Long-term Plan assumptions.
- 3** Finance revenue (R&E) and Interest received (CF) is lower than anticipated in the Long-term Plan due to a revised investment interest rate assumption from 3.50% to 2.50%
- 4** Dividends (R&E) and Dividends received (CF) 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. This has partially been offset by subvention revenue received from company's within the Invercargill City Council group, which were not included in the Long-term Plan assumptions.
- 5** Employee expenses is lower than anticipated in the Long-term Plan due to a revised wage increase assumption from 2.00% to 0.00%. This reflects the impact that Covid-19 is expected to have on the employment market. A factor for unfilled vacancies from staff turnover has also been included, which were not included in the Long-term Plan assumptions.
- 6** 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 Invercargill City Council's share of Wastenet expenses. This was not included in the assumptions of the Long-term Plan. Other increases above the Long-term Plan include additional grants expenses for Southland Indoor Leisure Centre Charitable Trust and Invercargill City Charitable Trust plus electricity expenses from renegotiated contract with suppliers.
- 7** 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 5.50% to 2.50%. This has been achieved through transferring existing borrowings to the Local Government Funding Agency in 2018/2019.



- 8** Funds held on investment will be used to offset funding requirements in the 2020/2021 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.
- 9** Cash and cash equivalents are higher than anticipated in the Long-term Plan due to Council redistributing investment funds across our banking partners in line with the Council's Finance Strategy at the end of the 2018/2019 financial year. Some of these funds invested have been reclassified as cash due to the investments maturing within 90 days after balance date.
- 10** Trade and other receivables are higher than anticipated in the Long-term Plan due to 2018/2019 actual closing balance being different to the balance assumption used in the Long-term Plan.
- 11** Inventories are higher than anticipated in the Long-term Plan due to 2018/2019 actual closing balance being different to the balance assumption used in the Long-term Plan.
- 12** Property, plant and equipment and Intangible assets are higher than anticipated in the Long-term Plan due to 2018/2019 actual closing balance being different to the balance assumption used in the Long-term Plan.
- 13** Forestry assets and Investment property are lower than anticipated in the Long-term Plan due to 2018/2019 actual closing balance being different to the balance assumption used in the Long-term Plan.
- 14** During 2019/2020, Invercargill City Council capitalised a share investment of \$25m into the redevelopment of Invercargill's City Centre. The investment was funded from a borrowings drawdown of \$25m. Funds held on investment will be used to offset funding requirements in the 2020/2021 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.
- 15** Trade and other payables are higher than anticipated in the Long-term Plan due to 2018/2019 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 2019, the Council holds \$40.1 million reserves, with \$16.0 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 2020/2021 (\$,000) | Transfers In 2020/2021 (\$,000) | Transfers Out 2020/2021 (\$,000) | Closing Balance 2020/2021 (\$,000) |
|--|---|--|---|---|
| RESTRICTED RESERVES The reserves can only be used for the purpose designated. | | | | |
| Category A (Legal Restriction) 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. | 132 | 3 | - | 135 |
| Category B (Capital only restriction) These reserves are invested in property that provides a financial return to ratepayers (Investment Property, Library and Infrastructure activities) | 4,426 | 98 | - | 4,524 |
| Category C (Specific purpose) These reserves are to maintain and provide for improvements to separately identifiable areas. (Parks Crematorium and Cemetery, Community Centres, Waste and Infrastructure activities) | 12,207 | 245 | - | 12,452 |
| NON RESTRICTED RESERVES The reserves can be used for purposes other than the purpose specified. | | | | |
| Council Created Reserves To provide funding for the ongoing operations and replacement of assets in the future. (All Activities) | 36,074 | - | (12,668) | 23,406 |
| | 52,839 | 346 | (12,668) | 40,517 |

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 |
|---------------------------------------|--------|---------|-----|
| Rates affordability benchmark: | | | |
| Income | 60% | 57.3% | YES |
| Increases (LGCI + 3%) | 5.2% | 2.5% | YES |
| Debt affordability benchmark: | 15% | 10.9% | YES |
| Balanced budget benchmark: | 100% | 98.3% | NO |
| Essential services benchmark: | 100% | 157.4% | YES |
| Debt servicing benchmark: | 10% | 3.2% | 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 2020/2021. 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 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.

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.

Rental Revenue

Rental revenue from investment property is recognised on a straight-line basis over the term of the lease

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 categories: amortised cost, fair value through other comprehensive income, and fair value through profit or loss. The classification is determined by

the Council's business model for managing the financial asset and the contractual cash flow characteristics of the financial assets.

Financial assets at amortised cost

These are non-derivative financial assets which are not quoted in an active market. Council classifies its financial assets as at amortised cost only if both of the following criteria are met:

1. The asset is held within a business model whose objective is to collect the contractual cash flows; and
2. The contractual terms give rise to cash flows that are solely payments of principal and interest.

The assets are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Any impairment losses are presented as a separate line item in the Statement of Comprehensive Revenue and Expense.

Fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVOCI) comprise Equity shares investments which are not held for trading, and which the Council have irrevocably elected at initial recognition to recognise in this category. These are strategic investments which the Council consider this classification to be more relevant. These assets are initially recognised at fair value and subsequently measured at quoted market prices (unadjusted) from the NZX Market as at 30 June each year, and changes in the value are recognised in other comprehensive income.

Amortised cost

Financial assets at amortised cost comprise short term investments, term deposits and loans to related parties. These other financial assets are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

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.

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.

Cash and short term deposits are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate.

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.

Derivative financial instruments 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 subsequent reporting dates. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Cash flow hedge

The Council designate hedges of highly probable forecast transactions as cash flow hedges. The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised directly in other comprehensive revenue and expenditure.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and the hedging instrument.

The Council enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Council does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps.

Hedge ineffectiveness for interest rate swaps may occur due to, the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and differences in critical terms between the interest rate swaps and loans.

When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Comprehensive revenue and Expense. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of Comprehensive Revenue and Expense. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Statement of comprehensive Revenue and Expense.

Borrower notes

Borrower notes are subordinated convertible debt instruments that the Council subscribes for an amount equal to 0.005% of the total borrowing from LGFA. LGFA will redeem borrower notes when the Council's related borrowings are repaid or no longer owed to LGFA.

The fair value of borrower notes is calculated using the discounted cash flow method. The significant input used in the fair value measurement of borrower notes is the forward interest rate yield curve.

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:

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

| Council Operational Assets | |
|--------------------------------|-------------------|
| Buildings | Depreciation Rate |
| Structure | 1.50-20% SL |
| Roof | 2.86-20% SL |
| Electrical | 2.50-20% SL |
| Plumbing | 2.50-20% SL |
| Internal Fitout | 2.44-20% SL |
| Plant | 3.57-20% SL |
| Library Books | Depreciation Rate |
| Library Books | 6.67-50% SL |
| Plant and Equipment | Depreciation Rate |
| Plant | 8.80-60% SL/DV |
| Motor Vehicles | Depreciation Rate |
| Motor Vehicles | 12.0-33%DV |
| Furniture & Fittings | Depreciation Rate |
| Furniture & Fittings | 14.40-39.6% SL/DV |
| Council Infrastructural Assets | |
| Roads, Bridges and Footpaths | Depreciation Rate |
| Total Pavement Layers | 3.21-3.59% SL |
| Total Roadway Assets | 9.93-18.95% SL |
| Traffic Signs | 10.78-14.30% SL |
| Street Lights | 3.28-12.96% SL |
| Other Asset | 1.33-63.34% SL/DV |
| Formation | 0% |

Depreciation continued

| Council Infrastructural Assets continued | |
|--|--------------------|
| Stormwater Systems | Depreciation Rate |
| Stormwater | 1.72-4.08% SL |
| Wastewater Systems | Depreciation Rate |
| Wastewater | 2.42-5.71% SL |
| Water | Depreciation Rate |
| Water | 1.22-12.55% |
| Council Restricted Assets | |
| Buildings | Depreciation Rate |
| Buildings | 2.0-3.03% SL |
| Monuments and Statues | 1.67-2.00% SL/NOND |
| Hard Surfaces and Appurtenance | 2.0-2.16% SL/DV |

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 by QV.co.nz (Registered Valuers) as at 30 June 2019. Valuations are completed three yearly.
- Restricted land (excluding forestry land) and buildings have been valued at deemed cost. Deemed cost is the fair value being the current valuation at 30 June 2005. 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 2019. Valuation was completed by staff of the Invercargill City Council
- 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, Bridges and Footpaths

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. Valuation has been completed by staff of the Invercargill City Council and reviewed by AECOM NZ Ltd. The current valuation is as at 30 June 2019. Valuations are completed three yearly.

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. Valuation has been completed by Council staff and reviewed by AECOM NZ Ltd. The current valuation is as at 30 June 2019. Valuations are completed three yearly.

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.

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.

Investment land and buildings have been valued at net realisable value by Registered Valuer, Robert Todd of Telfer Young. This valuation was as at 30 June 2019 and will be carried out on an annual basis. Any adjustment to the values has been accounted for as an increase (decrease) 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 assets 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 non-cash-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:

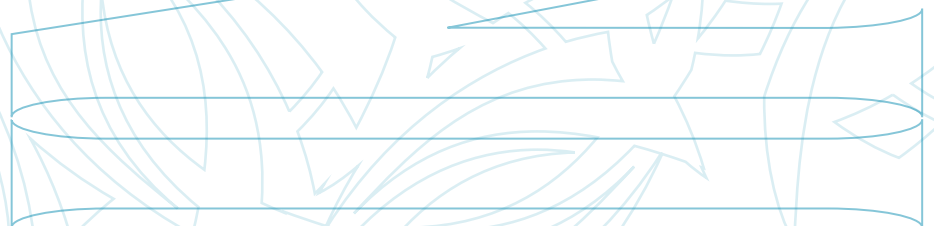
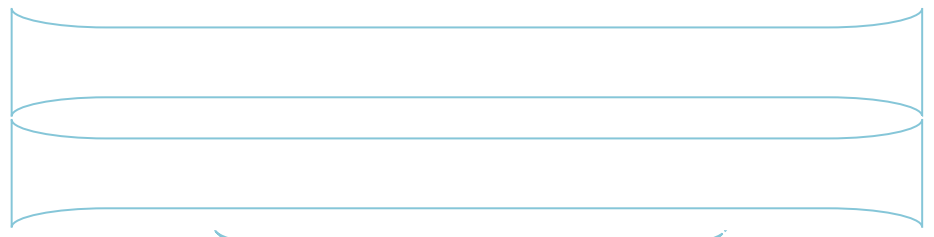
- The physical deterioration and condition of an asset, for example the Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets, which are not visible, for example stormwater, wastewater and water supply pipes that are underground. 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 changes in accounting policies during the period. All accounting policies have been consistently applied throughout the period covered by these financial statements.





Private Bag 90104, Invercargill 9840, New Zealand - Phone 03 211 1777 - www.icc.govt.nz