

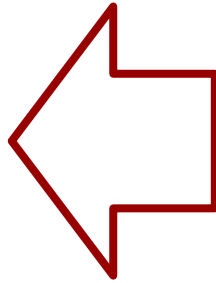
The Relationship Between Council & Ratepayers

The Council is trusted by ratepayers to manage resources & is equipped with teams of inhouse professionals

Ratepayers put their trust the Council
& leave these sorts of discussions for “experts”...

Analysis of Invercargill City's Financial Reports 2023/2024

**At the first
Glance of Invercargill's
Financial Position
all seems well
(page 108):**



1. Cash coming in (\$17 million) is close to cash going out (\$20 million)
2. Most of the money due in our current financial climate has a good chance of being paid
3. The difference is coverable by cash on hand (\$14 million)

What are the main concerns?

$$\text{The working capital ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Council owe more than 3× what they have available in the short term.

- Working capital ratio is a lot lower than would be ideal: 0.3 vs 1
(Current Asset divided by Current Liabilities)

A ratio of around 1 or higher is considered healthy.

→ This means you have enough short-term assets to cover short-term liabilities.

⚠ If the ratio falls well below 1, it signals potential liquidity pressure — i.e. you may struggle to pay bills as they come due without borrowing more.

- If it became harder to borrow the council couldn't sell enough assets to cover the immediate debts - leading to public asset losses
- Borrowing limit goes up as “market value” of assets does - but if forced to sell we would only receive reduced market value
- Much of the increase in new short term borrowing is supported by an increase in value of assets something that certainly isn't guaranteed

Current Assets = things a council can turn into cash within 12 months
(e.g. cash on hand, accounts receivable, short-term investments).

Current Liabilities = debts or obligations due within 12 months
(e.g. short-term loans, overdrafts, bills payable, interest due, suppliers to pay).

Positive cash flow but still in deficit?

- Cash flow is a healthy Net cash flow from Operating activity (positive \$30.4 million)
- However, there is a \$69 million outflow for investing activities (increased in 2025)
- Cash flow relies on Borrowings (\$33.6 million), an increase of \$11.44 million, compared to previous year
- Also can be compared to the statement of Financial Positions:
 - Long-term borrowing increased by \$5 million
 - Short-term borrowing increased by \$ 28 million

Why is there a deficit?

- Deficits (loss) reported is likely due to non-cash expenditure.
For example, the depreciation of assets & amortisation (non-cash expenses)
- Depreciation & amortisation (\$50.2 m) is 29% of total expenditure
- This leads to decreases in equity, specifically Revaluation Reserve has been gradually transferred to Retained Earnings due to disposal (\$91 thousand)
- Retained Earnings have reduced from \$416.6 m (year 2023) to \$403.5 million (year 2024)
- In a liquidation situation, 90% of the Retained Earnings could be gone.
(10% is Restricted Retained Earnings)

THE GOLDEN RULE IS:

‘Long Finance Long, Short Finance Short’

Use long-term finance for long-term assets \ Use short-term finance for short-term needs

- The council is “Fire Fighting” to pay back short-term borrowing for long term projects.
- The dependence on short-term borrowing is increasing.
- A Robbing ‘Peter to Pay Paul’ style situation.
- Invercargill isn't magically going to solve this with population growth [one of the only ways of increasing revenue].

The impact often lands on **ratepayers** through sudden rates hikes, debt blowouts, or loss of local control.

Why 'Long Finance Long, Short Finance Short' rule matters

When governments, businesses, or households **get this rule wrong**, they run into problems:

- Using **short-term finance for long-term projects** = refinancing risk, sudden cash crunches if credit dries up.
- Using **long-term finance for short-term needs** = paying interest for years on something that no longer brings value.

👉 **This mismatch was a major cause of financial crises** (like 2008), where institutions borrowed short-term to fund long-term mortgage assets — & when short-term markets froze, they couldn't roll over their debt.

Long Finance Long → Use long-term finance for long-term assets.

If you're investing in something that will last a long time [say **a house, a bridge, a factory, or infrastructure**], you should use **long-term funding** (like a long-term loan, bond, or equity). Why?

- Long-term projects usually **take time to pay off**.
- Long-term finance spreads the cost over the life of the asset.
- It avoids short-term cash flow crisis caused by repayments coming due too early.

Example:

A council builds a water treatment plant that will last 50 years. It's smarter to issue a 30-year bond to pay for it than to use a 3-year loan. That way, **future users help pay for the asset they benefit from**, not just today's ratepayers.

Short Finance Short → Use short-term finance for short-term needs.

If you're covering **short-term expenses** [like stock for a shop, cash flow gaps, or a temporary project], use **short-term finance** such as overdrafts, revolving credit, or short-term loans. Why?

- You don't want to be stuck paying interest for decades on something that only lasted a few months.
- Short-term borrowing is usually cheaper in the short run and can be paid back quickly.

Example:

A business imports goods to sell in 3 months. They use a 3-month trade credit or overdraft, not a 20-year mortgage, because the goods will be sold & cash recovered quickly.

Imagine a household that:

- Uses credit cards to pay the mortgage
- Counts their house value increase as income
- Spends their savings while borrowing more
- Has monthly bills three times their monthly income

This is essentially the council's current position.

SHORT TERM FINANCE LONG EXAMPLE: Kaipara District Council – Mangawhai Wastewater Scheme (early 2000s–2012)



Classic example of short finance for a long-term asset

- **What happened:**

Kaipara District Council borrowed heavily to build a new wastewater treatment scheme in Mangawhai. It was a long-lived asset (intended to serve the community for decades).

Instead of locking in long-term, low-interest financing at the beginning, the council relied on **shorter-term loans and interest rate swaps**, rolling them over as they went.

- **Where it went wrong:**

- Interest costs ballooned over time.
- Refinancing risks increased.
- Cost blowouts took total project costs from ~\$17 million to **over \$60 million**.
- The council couldn't service the debt properly, leading to a massive **rates shock** for residents.
- Ultimately, central government stepped in and **appointed commissioners in 2012** to take over the council.



Lesson: They funded a long-term infrastructure project with poorly structured short/variable finance → unsustainable.

References

Invercargill City Council Annual Report 2023/2024

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