



MINUTES

**Accountability, Performance &
Finance Committee meeting
Tuesday, 8 October 2024**

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**MINUTES OF TAURANGA CITY COUNCIL
ACCOUNTABILITY, PERFORMANCE & FINANCE COMMITTEE MEETING
HELD AT THE TAURANGA CITY COUNCIL, GROUND FLOOR
MEETING ROOMS 1 & 1B, 306 CAMERON ROAD, TAURANGA
ON TUESDAY, 8 OCTOBER 2024 AT 9.30AM**

MEMBERS PRESENT: Deputy Mayor Jen Scoular (Chairperson), Mayor Mahé Drysdale, Cr Glen Crowther, Cr Rick Curach, Cr Marten Rozeboom

ALSO PRESENT: Cr Kevin Schuler, Cr Rod Taylor, Cr Steve Morris.

APOLOGIES: None

LEAVE OF ABSENCE: Cr Mikaere Sydney

IN ATTENDANCE: Marty Grenfell (Chief Executive), Paul Davidson (Chief Financial Officer), Barbara Dempsey (General Manager: Community Services), Nic Johansson (General Manager: Infrastructure), Alastair McNeill (General Manager: Corporate Services), Gareth Wallis (General Manager: City Development & Partnerships), Kathryn Sharplin (Manager: Finance), Jeremy Boase (Manager: Strategy & Corporate Planning), Tracey Hughes (Financial Insights & Reporting Manager), Sheree Covell (Treasury & Financial Compliance Manager), Susan Braid (Financial Lead Projects Assurance), Caroline Lim (CCO Specialist), Lucy Reed (Team Leader: Strategic Community Relations), Coral Hair (Manager: Democracy & Governance Services), Anahera Dinsdale (Acting Team Leader: Governance Services), Caroline Irvin (Governance Advisor), Aimee Aranas (Governance Advisor) .

EXTERNAL: None

1 OPENING KARAKIA

Deputy Mayor Scoular opened the meeting with a karakia

2 APOLOGIES

Nil

3 PUBLIC FORUM

Nil

4 ACCEPTANCE OF LATE ITEMS

Nil

5 CONFIDENTIAL BUSINESS TO BE TRANSFERRED INTO THE OPEN

Nil

6 CHANGE TO ORDER OF BUSINESS

Nil

7 CONFIRMATION OF MINUTES

7.1 Minutes of the Accountability, Performance & Finance Committee meeting held on 2 September 2024

COMMITTEE RESOLUTION APF2/24/1

Moved: Deputy Mayor Jen Scoular

Seconded: Cr Glen Crowther

That the minutes of the Accountability, Performance & Finance Committee meeting held on 2 September 2024 be confirmed as a true and correct record subject to the following amendment:

- That the following question be added to item 8.6 'Election 2024' under 'discussion points raised' of the minutes:
 - Did the Tauranga City Council's Chief Executive fulfil his responsibility for "facilitating and fostering representative and substantial elector participation in elections and polls under the Local Electoral Act 2001" (section 42(2) (da) of the Local Government Act 2002 (LGA)).

CARRIED

Action – Committee Minutes Workshop

That a workshop to discuss how minutes are recorded be held with elected members and the governance services team.

8 DECLARATION OF CONFLICTS OF INTEREST

Nil

9 BUSINESS

9.1 Accounting and Funding Operational Expenditure and Implications for Balanced Budget

Staff Paul Davidson, Chief Financial Officer
Kathryn Sharplin, Manager: Finance
Tracey Hughes, Financial Insights & Reporting Manager

PowerPoint Presentation in agenda.

Tabled Item: Balanced Budget 8 October 2024

Key Points

The Chief Financial Officer provided the Committee with an introduction to the PowerPoint presentation that included:

- Operational performance for the 2023/2024 year and the Annual Report including performance measures and capital expenditure performance.

The Manager: Finance provided the Committee with the following points:

- Councillors requested an explanation of the level of operating deficit that was appearing in the Statement of Comprehensive Revenue and Expense.
- The report provided to Councillors was to explain some of the differences between revenues and how these should be looked at.
- Some of the key premises that sat behind this report were things that affected the interest line such as growth debt and items of expense that either in the past were treated as capitalised assets or delivered value over time. Council had decided to loan fund rather than collect rates for those expenditures.
- Council's Revenue and Financing Policy required that operational expenses were covered by operational revenue unless Council agreed it was prudent not to do so. In this case, the matter would be brought before Council to make that decision.
- Decisions for loan funding were normally where the expenditure had a long-term benefit, sometimes five to ten years, but could not be capitalised as an asset. Examples of this were grants paid to other organisations to build community facilities, effectively supporting an asset for the community.
- Key areas where these decisions had been made were capital development in the city centre, long term planning for growth areas in terms of city infrastructure and planning, and more recently, digital project development and wastewater pond desludging.
- A key component to Council agreeing to loan fund was also agreeing on a debt retirement charge that was rates funded and a life of the loan that was related to the benefit flow that came from it.
- The time frame for loan funding was not normally regarded as intergenerational but was however saying current ratepayers should not pay for it in its entirety as it would benefit ratepayers over a number of years.
- Debt retirement came into a lot of this and over time became quite large. This raised rates but there was not the associated expenditure which led to surpluses. Over the Long Term Plan (LTP), surpluses would start to show in the statement of comprehensive revenue expense, part of which was to do with debt retirement.
- Another large part was depreciation. Council's policy and approach had been to fully fund depreciation which was an expectation of prudent behaviour in local government. This was an expense but not a cash expense. It was important to fund depreciation because there were ongoing renewals to assets in the community. Depreciation effectively provided cash to fund renewals.
- Council had decided on how to retire debt from an activity. Depreciation reserves were run for each activity. The inflows were the money/depreciation collected and the outflows were the cost of renewals and debt retirement.
- The Tauriko West Enabling Works programme was a type of funding stack deal to deliver roading associated with the State Highway 29 area. All of the flows in from other parties contributing to this came through the revenue and flows out came through the expenditure. These does not match perfectly every year, and this enabling works programme had contributed to the deficit this year.
- A number of big expenditure items that had happened in the past such as the watertight settlements and the Harington Street car park building had incurred debt where there was no way of retiring. Through the LTP in later years, there would be rates revenue collected to start to contribute to that debt retirement to clear these unfunded liabilities.
- Council also had a flow of money as a risk reserve to help pay for unexpected events in the future.
- There were many components that sat in the Statement of Comprehensive Revenue and Expense that were not just day to day operations.

The Financial Insights & Reporting Manager provided the following points:

- Staff started by thinking about what the true operating deficit was. The report attachment broke down the \$85m back to the \$35m deficit by pulling out the items relating to capital expenditure.
- The tabled document provided a reconciliation back to zero.

In response to questions

- The debt retirement levy was first introduced in 2019 in the LTP. Council consulted with the community on whether to allow a level of service to continue or not and the decision was made to continue. From a balance sheet ratio perspective, debt retirement had the advantage of both increasing revenue and reducing debt. Council could use this to stay within its covenants in light of any potential change.
- Digital Software as a Service (SaaS) were more operational in nature as although the expenditure was related to development, this was for cloud-based services and the level of expenditure remained relatively consistent year by year. This treatment replaced what used to be accepted as intangible assets, before the advent of cloud-based services.
- There had always been a non-funded portion of depreciation in transport due to the New Zealand Transport Association (NZTA) paying 51% of the renewals.
- Recommendation (c) of the report noted 'stranded debt'. Rates collected in 2023/24 were insufficient to cover rates-funded expenditure (0.6%) and that expenditure has by default been covered by unbudgeted borrowing. If collected rates had not been enough to cover all the expenditure, it became part of Council's debt. This recommendation acknowledged that costs had been exceeded.
- There was unfunded depreciation of \$22m, and a further slightly more than \$6m which initially presented as an overspend in cash funded activities. Two water activities were cash funded and there were over budgeted depreciation costs that when put together with the \$22m, came to \$28m.

Discussion points raised

- It was very pleasing to see Council operating under best practice and raising the standards in terms of what was being reported to its constituents.
- Staff were thanked for their presentation and explanations. What was trying to be achieved was something that the Tauranga community could follow as it was felt this had been achieved.
- There was more work needed to return to surplus by 2028/29. Once we reduce the capital programme and using the reframed deficit we could return to surplus or breakeven within the next two years.
- Recommendation (b) was amended to include the words "and provide options within the annual plan process to bring Council to break even by 2025/26".

Requests from Councillors

- That Councillors be provided with a copy of Council's Revenue and Financing Policy.
- Elected Members questioned the software costs that had been classified as capital as opposed to operational and requested further clarity on this going forward.

COMMITTEE RESOLUTION APF2/24/2

Moved: Cr Marten Rozeboom

Seconded: Cr Glen Crowther

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Accounting and Funding Operational Expenditure and Implications for Balanced Budget".
- (b) Notes that the operating deficits recorded for 2023/24 and budgeted for 2024/25 include items for which operational funding is intended to be phased back in over the 2024-34 LTP and provide options within the annual plan process to bring Council to break even by 2025/26.
- (c) Notes that within the overall operating deficit there is a rates deficit of \$1.6m (0.6% of budget) which is funded by unbudgeted borrowing.

CARRIED

Action – Executive Summary

That staff provide a more detailed executive summary in their reports highlighting risks, what decisions Councillors were being asked to make, and providing direction on what the focus should be going forward.

9.2 Draft Annual Report

Staff Paul Davidson, Chief Financial Officer
Sheree Covell, Treasury & Financial Compliance Manager
Jeremy Boase, Manager: Strategy & Corporate Planning

PowerPoint Presentation

Key Points

- The Chief Financial Officer provided a summary of the report.

The Manager: Strategy & Corporate Planning provided the following points:

- The performance measures of 'achieved', 'not achieved' and 'not measured' were exactly the same as they were on 2 September 2024.
- The water loss measure had gone down from 16.6% to 14.1%. This would be reflected at the Council meeting on 29 October.

The Chief Financial Officer provided the following points regarding the Annual Report:

- Staff should have audit clearance for the Annual Report prior to 29 October 2024.
- Staff were working through one technical matter around the divestment of the marine precinct involving it being a staged transaction over a long period of time. Advice had been received which they were working through with Audit New Zealand.
- The Annual Report was required to be adopted by the end of October 2024.

In response to questions

- The Outcome Measures report came into the 2024/24 LTP and effectively set a baseline to start from. The intent was to use that baseline to measure what had progressed or not progressed in 12 months' time. There was no obligation to report on this in the Annual Report however the intent was to include it for completeness and information for the community.
- The table on page 72 of the document was the five-year financial trend and were 'actuals'. This did not contain budgeted numbers.
- The table on page 75 'supporting community groups and initiatives' provided the figure for Bay Venues Limited and included the operational grant, the debt retirement grant and interest and renewals grant. The Priority One figure included all grants paid to them this year and last year.
- Council aligned itself with the Local Government Funding Agency (LGFA) debt to revenue ratio which was reported on in section two of the annual report. The 'Prudence Ratio' allowed inclusion of certain revenue types but didn't allow LGFA borrower notes to net to debt down. The two were slightly different.
- The Totara Street capacity improvements project could be expanded on in the report. This had now been corrected to safety improvements.
- In terms of land purchases, sometimes land was purchased as part of a piece of work. There were not a lot of strategic land purchase. Staff could present strategic land purchases as a separate capital expenditure item going forward, but this would not include the land purchased for infrastructure projects, i.e. Tauriko West Roding project.
- Staff would provide Councillors with more detail around the employee mental health assistance programme as part of future health and safety reporting.
- The bus patronage data sources would be brought back to Councillors to provide more clarification. (Refer to information provided at the end of the meeting).

Requests from councillors

- That there be more consistency around capitalisation and use of words in the Annual Report.
- Make clear the year was governed by the Commissioners and that it was the Commissioners that made decisions.
- For clarity, when referring to staff numbers, use FTE's or the number of staff but not both.
- Put the number of staff, number of full-time equivalents, cost of staff and the cost of consultants on the same page.
- A breakdown of the maintenance staff brought in house, the cost of the work previously before this work was brought in-house and what it was costing now and the number of new employees this relates to. Note: staff were reporting to 9 December 2024 Council meeting regarding the previous outsourced maintenance contracts for City Operations being brought in-house.
- Amend the description of the Chief Executive's responsibilities to include being accountable for the delivery of the strategic objectives of the Council, managing risk and ensuring Council was within its statutory requirements in empowering the staff to deliver for the people of Tauranga.
- Include in the measure for the community's part in decision making that they could have a say on the governing and operations of Tauranga City Council.
- Consider including how the renovations for the Tauranga Art Gallery were funded.
- An explanation of the Outcome Measures report and its purpose would be useful to help the community understand its intent.
- Provide baseline measures for information reported on to get a feel for the scope of what was being achieved.
- Show a 12-month trend when providing information on median house prices.
- Provide a reason as to why three waters had been excluded from reduced emissions.
- Tease out the measure/have a net score in the report regarding whether residents were satisfied or neutral with the way the Council involved the public as this was a significant measure.
- Discuss land purchases in terms of capex and opex at a workshop.

COMMITTEE RESOLUTION APF2/24/3

Moved: Deputy Mayor Jen Scoular

Seconded: Mayor Mahé Drysdale

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Draft Annual Report".
- (b) Requests that staff make the edits and adjustments discussed and tabled at this meeting.

CARRIED

9.3 Consolidated Performance Measures Framework

Staff Christine Jones, General Manager: Strategy, Growth & Strategy
Jeremy Boase, Manager: Strategy & Corporate Planning

Key Points

- A key point was that the Local Government Act 2002 set Council's accountability framework which required that performance measures and targets must be at a level to assess the level of service for major aspects of groups or activities.
- The Outcome Measures were part of a direction refresh looking at the city vision and Council's response to this which linked to its key strategies and a variety of action and investment plans.
- The Annual Residents Survey was reported back to the Community Transparency and Engagement Committee every quarter (four waves). Around 27 of these questions were integrated into the new LTP measures.

In response to questions

- Information on the impact on rates for every hectare of green space created by Council would be covered in a detailed report at the Council meeting on 9 December 2024 on City Operations, which would include maintenance and operational budgets.

Requests from Councillors

- How could residents be provided with information on how much their rates would be impacted for every hectare of green space created by Council.
- More detailed reporting on opex expenditure in the future.

COMMITTEE RESOLUTION APF2/24/4

Moved: Deputy Mayor Jen Scoular

Seconded: Cr Rick Curach

That the Accountability, Performance & Finance Committee:

- Receives the report "Consolidated Performance Measures Framework".
- Takes account of the feedback from elected members received at the meeting particularly in relation to reporting going forward.

CARRIED

11.19am The meeting adjourned

11.33am The meeting reconvened

9.4 Treasury Strategy Update

Staff Paul Davidson, Chief Financial Officer
Sheree Covell, Treasury & Financial Compliance Manager

Key Points

- The previous report reflected year end results for financial year ended 30 June 2024. This report was an update to 30 September 2024, the first quarter of this financial year.
- The recommendations in this report approved hedging, issuance and cash flow management in adherence with Council's Treasury Policy.
- Some figures in the report had been forecasted due to the timing of getting the report on the agenda and were now out of date. As an update, the average cost of borrowing figure for September was 4.75%, the retentions balance now \$1.8m, cash and deposit was now \$88m. Debt and swaps were now at \$100m, gross debt was now \$1.27b, and an LGFA maturity in 2025 of \$110m which was now pre-funded.
- Going forward the treasury strategy update report would be brought to the Committee on a six-monthly basis, however a summary of this information would be incorporated into the quarter end financial results report.

In response to questions

- To date there had been no requests from the organisation for overseas transactions.

COMMITTEE RESOLUTION APF2/24/5

Moved: Deputy Mayor Jen Scoular

Seconded: Mayor Mahé Drysdale

That the Accountability, Performance & Finance Committee:

- Receives the report "Treasury Strategy Update".

- (b) Approves the issuance of long and short term debt on a wholesale basis to manage cashflows.
- (c) Approves maintenance of a minimum of \$15m of cash and short term investments to manage cashflows.
- (d) Approves hedging activities required to maintain within policy limits.
- (e) Approves (b) to (d) in adherence to the Treasury Policy.

CARRIED

9.5 Local Government Funding Agency Final Audited Annual Report 2023/24

Staff Kathryn Sharplin, Manager: Finance
Caroline Lim, Council Controlled Organisation (CCO) Specialist

Key Points

- The CCO Specialist provided a summary of the report.
- A key reason why this organisation was successful was because it had strong and effective governance in place, and it was about putting communities first. Its core purpose was to provide optimal financing conditions for its shareholders and members to benefit councils and their communities.
- This financial year was a standout one for the Local Government Funding Agency (LGFA), providing 90% of councils' borrowing in the year to 30 June 2024, exceeding or meeting most of its targets.
- The addition of two new CCO's members provided a foundation for future lending to CCO's under the Local Water Done Well programme/reform.
- The LGFA was an award-winning organisation and scored 93% in its customer satisfaction survey, the core theme being 'what was the value added by the LGFA to the borrowing activities of the local government sector'.

In response to questions

- There were originally nine councils that initiated the setting up of the LGFA. These councils still held the majority of shares.

COMMITTEE RESOLUTION APF2/24/6

Moved: Cr Rick Curach

Seconded: Cr Glen Crowther

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Local Government Funding Agency Final Audited Annual Report 2023/24".
- (b) Receives the Local Government Funding Agency's final audited Annual Report on its performance for the year to 30 June 2024 (Attachment 1) and Letter to Shareholders (Attachment 2).

CARRIED

9.6 Local Government Funding Agency Annual Meeting Shareholder Voting

Staff Paul Davidson, Chief Financial Officer
Kathryn Sharplin, Manager: Finance

Key Points

- The Manager: Finance provided a summary of the report.

- This was an important year for Council with the proposed changes to the foundation policy that were included in the recommendations, that would enable bespoke covenants to support growth councils.

In response to questions

- Members on the shareholder council were Auckland Council, Christchurch City Council, Wellington City Council, Tasman District Council, New Plymouth City Council, Tauranga City Council, Bay of Plenty Regional Council and Western Bay of Plenty District Council.

COMMITTEE RESOLUTION APF2/24/7

Moved: Deputy Mayor Jen Scoular

Seconded: Cr Rick Curach

That the Accountability, Performance & Finance Committee:

- (a) Receives the report "Local Government Funding Agency Annual Meeting Shareholder Voting".
- (b) Notes the recommendations of the Shareholders Council.
- (c) Approves the following resolutions to allow voting by proxy for the Local Government Funding Agency annual meeting:
 - (i) Approve the re-election of Alan Adcock as a non-Independent Director (Proxy Form Resolution 1(a));
 - (ii) Approve the re-election of Craig Stobo as an Independent Director (Proxy Form Resolution 1(b));
 - (iii) Approve the election of Elena Trout as an Independent Director (Proxy Form Resolution 1(d));
 - (iv) Approve the re-election of Auckland Council as a Nominating Local Authority to the Shareholders' Council (Proxy Form Resolution 2(a));
 - (v) Approve the re-election of Wellington City Council as a Nominating Local Authority to the Shareholder's Council (Proxy Form Resolution 2(b));
 - (vi) Approve the following increases in director fees payable with effect from 1 July 2024 (Proxy Form Resolution 3 (a) to (d)):
 - a) The Director acting as chair of the Board of Directors an increase of \$3,720 per annum, from \$124,000 to \$127,720 per annum;
 - b) The Director acting as chair of the audit and risk committee, an increase of \$2,340 per annum, from \$78,000 to \$80,340 per annum and
 - c) Each of the other Directors acting as members of the audit and risk committee, an increase of \$2,190 per annum, from \$73,000 to \$75,190 per annum;
 - d) Each of the other Directors an increase of \$2,100 per annum, from \$70,000 to \$72,100 per annum.
 - (vii) Approve the changes to the Foundation Policies (Proxy Form Resolution 4);
- (d) Authorise by way of proxy, the Chair of Local Government Funding Agency to vote on behalf of Tauranga City Council.

CARRIED

BUS PATRONAGE DATA – QUESTION ASKED IN DRAFT ANNUAL REPORT

Staff Jeremy Boase, Manager, Strategy & Corporate Planning

In response to an earlier question regarding the varying bus patronage figures:

- Bus patronage was one of the questions raised in the Annual Residence Survey, was qualitative and specifically around travel to work.
- Bay of Plenty Regional Council's data included more options such as travelling to school, travel to shops and other reasons for travel.

10 DISCUSSION OF LATE ITEMS

Nil

11 CLOSING KARAKIA

Anahera Dinsdale closed the meeting with a karakia.

The meeting closed at 11.57am.

The minutes of this meeting were confirmed as a true and correct record at the Accountability, Performance & Finance Committee meeting held on 5 November 2024.

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Deputy Mayor Jen Scoular
CHAIRPERSON