



Thames-Coromandel District Council

Annual Report

2009 / 2010





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REPORT FROM THE MAYOR AND CHIEF EXECUTIVE

With the triennial elections looming in October, this 2009/2010 Annual Report is the last to be prepared by the current Council.

Over the last 12 months the economic recession has continued to have an effect on the local economy. While there are early signs of recovery, it is clear that the effects of the recession will continue to be felt for some time. The Council has recognised these effects and made the decision to reduce its expenditure levels, where prudent, so as to reduce rating pressures.

Economic Development

The effects of the economic recession also highlight the need for the District to take full advantage of economic development opportunities when they present. During the year, the Council has allocated additional resource to allow for the District to take full advantage of the Rugby World Cup in 2011 and to supporting development of the Aquaculture industry. The Council has also worked with the Hauraki District Council to progress a Feasibility Study looking at development of the proposed Hauraki Plains Cycleway from Kaiaua to Thames, Paeroa and Waihi. This project has the potential to deliver significant economic benefits to the local communities surrounding the cycleway.

Aquaculture is an industry with significant growth potential. Over the next few years the production of mussels is expected to increase from the current 22,000 tonnes per annum to approximately 60,000 tonnes. There are also opportunities for diversification into fin fish farming. If the industry is to realise its full potential, it is important that the infrastructure, industrial land and workforce etc that it needs to grow is available. Through the Hauraki Coromandel Economic Development Group the Council has employed a dedicated resource to work with the industry and facilitate the development of the infrastructure and other requirements.

As part of its commitment to the Aquaculture industry, the Council has completed a process during the last year to facilitate the transfer of the Coromandel wharf fuel facility from Chevron to the Council and CRT Fuels. This transfer ensures the continuation of a service that is vital to the Aquaculture industry and wider boating community.

Planning for the Future

In the 2009-2019 Ten Year Plan, we highlighted the importance of the Council continuing to plan for the future development of the Coromandel Peninsula. While growth has slowed in recent years, as a result of the economic recession it is important that we have a clear expression of the future that we desire.

During the 2009/2010 financial year, the Council adopted the District-wide Framework for our Future. This represents completion of the first phase of the Coromandel Blueprint project and provides a clear expression of how you the community would like to see the District grow over the next 50 years.





Considerable work has also been progressed on the Local Area Blueprints (LABs) during the last year. The LABs provide an expression of how each of our main communities would like to grow within the District-wide vision. The LABs are now being progressed as part of a single integrated process over the 2010 calendar year rather than over a three year period as originally envisaged in the 2009-2019 Ten Year Plan. The approach being followed means that they can be completed more quickly and efficiently.

During the year, the Council signed off on the strategy for completing a comprehensive review of the District Plan. The current Plan was originally notified in 1996 and so needs to be updated to ensure that it reflects current thinking and community views on how we would like to see the Peninsula develop. The review of the Plan will build on the outputs from the Coromandel Blueprint Project and the significant technical and monitoring analysis work on land use planning issues that the Council has completed in recent years.

By linking the Coromandel Blueprint and District Plan projects together, the Council has been able to speed up both processes and make real efficiency gains which reduce the costs involved in both processes.

Infrastructure

Over the last financial year, the Council has continued to progress the works associated with the Eastern Seaboard Wastewater Project (ES3) project. During the year, we spent some \$4.1 million on this project.

The new wastewater treatment plants at Tairua/Pauanui, Whitianga and Whangamata are all fully operational and have operated smoothly with some 'fine tuning' of the plants continuing to occur as part of the two year operational period provided for in the contract with Downer EDI, the head contractor.

During the year, the work was completed on upgrading of the disposal system at Pauanui and the Council has also applied for the resource consents needed to construct a new disposal system at Whitianga. It is expected that a hearing for the Whitianga application will be held in the near future.

During the year, the Council applied for and was granted, a variation to the resource consent for the Whangamata disposal system. The variation allows for deletion of the denitrification beds that were originally proposed and an increase to the area of spray irrigation rather than construction of an additional retention pond. The variation is made possible as the new treatment plant is consistently producing effluent with nitrate levels much lower than those allowed under the original resource consent. The new approach will produce significant capital expenditure savings for the Council. Construction of new spray irrigation disposal areas in what is called Zone 5 of the Tairua forest has also been progressed during the year as has the logging of the trees in Zone 1.

The new wastewater treatment plants and associated disposal facilities serving these communities are now producing treated wastewater that meets some of the highest disposal standards in New Zealand. The processes that are being put in place around them are also very much in keeping with sustainability principles. The quality of the work that has been completed in building the new wastewater treatment systems continues to receive recognition at a national level, having received a number of Awards. The Council is satisfied that the very high standard being delivered is consistent with the community's wishes, and is appropriate given the importance of protecting the stunning environment we all enjoy on the Coromandel.

During the year, the Council considered and approved a business case for the upgrading and progressive expansion of the Tairua and Pauanui water supplies. The approach that has been approved is based around a staged development of new sources of supply in a way that will allow for increased supply to be bought on stream as growth occurs in these communities. The preferred approach is also dependant upon the community being able to achieve a 5% reduction in the current demand levels for water. The Council will be looking to work with these communities to implement demand management strategies that will enable achievement of this objective.



Financial Overview

Total revenue received was \$76.3 million, which included rates of \$57.8 million. Capital expenditure for the year totalled \$17.2 million.

The level of capital expenditure completed during the year was reduced following a decision by the Council in November 2009 to delay a number of projects to reduce rating pressures in the 2010/2011 financial year. A number of savings were also made in operational expenditure budgets during the year. As a result, the Council ended the financial year with a surplus of \$3.3 million. This surplus has been reduced by storm damage works that were \$0.78 million higher than the original budget.

Capital works projects progressed during the year have included:

- Upgrading of the Whangamata spray irrigation system;
- Legalisation and construction of the Lee Street to Hannan Road, Whitianga Service Lane;
- Upgrading of the Tairua and Pauanui water supplies;
- Upgrading of the Rings Beach, Kuaotunu stormwater system; and
- Matarangi Boat Ramp upgrade.

At 30 June, the Council had total external debt of \$49.2 million. In addition the Council had internal borrowings of \$61.0 million to give a total debt of \$110.2 million. The internal borrowings are funded from the Power New Zealand Reserve and other surplus cash holdings.

Despite originally projecting that the Council would breach its borrowing levels during the year, the Council ended the year with a debt level that was consistent with the debt limits set through its Liability Management Policy.

Conclusion

The Coromandel is a special place. It is a place in which there will always be a diversity of opinions and ideas amongst the different communities and people who come here. While growth has slowed during the economic recession, it can be expected that the pressures that come from growth and change will emerge again in the future. Through the Coromandel Blueprint and projects such as the District Plan review, the Council is working hard to ensure that the District is well positioned to meet the challenges that will inevitably arise in the future.

We look forward to working with you in the year ahead.

Philippa Barriball

DISTRICT MAYOR

Steve Ruru

CHIEF EXECUTIVE



SECTION ONE INTRODUCTION



Te Kouma; Coromandel

- Our Purpose
- Our Work
- Our Council
- Overview of Performance
- Looking Forward
- Statement of Compliance and Responsibility
- Audit Report

The Annual Report was adopted by the Council on 29 September 2010.
No persons has the power to amend the financial statements after issue.



OUR PURPOSE

The Thames-Coromandel District Council is tasked with working with and on behalf of Thames-Coromandel communities to enhance social, economic, environmental and cultural wellbeing both now and for the future. This includes managing issues and services that affect local communities, having regard to local needs and priorities.

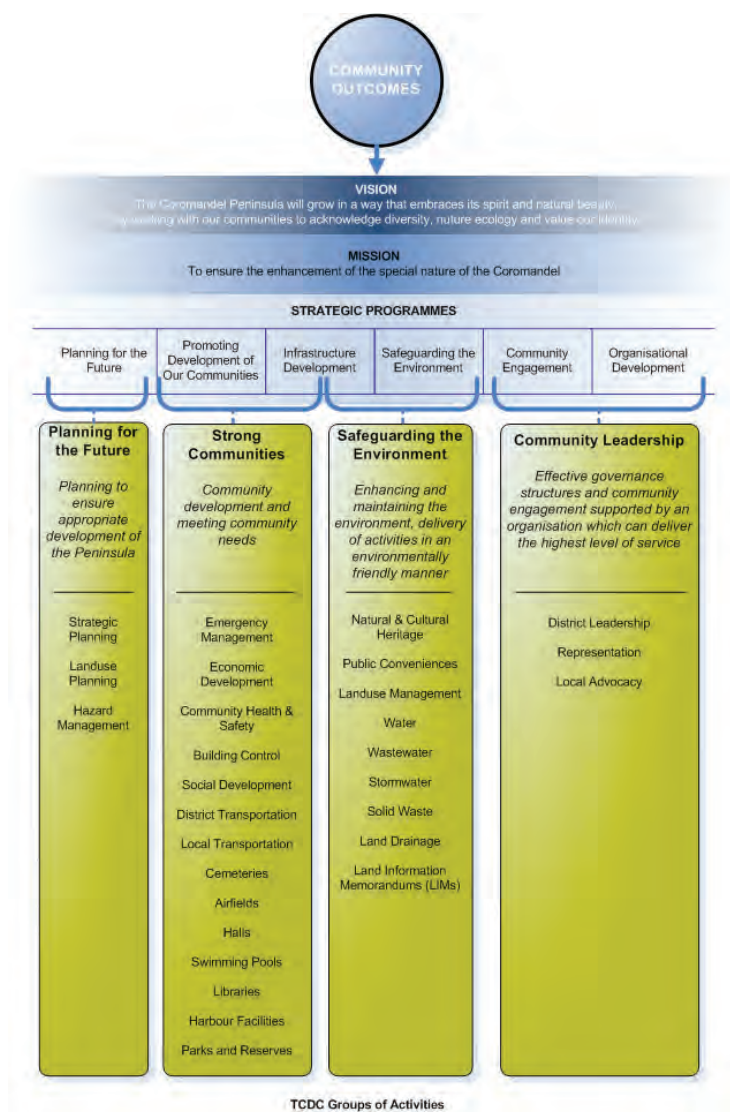
Choosing Futures: Thames-Coromandel identifies our communities' aspirations for our District (Community Outcomes). This Annual Report describes what these aspirations are and what progress has been made to date (Section Two).

The services that the Council delivers contribute to achieving the Choosing Futures: Thames-Coromandel aspirations. Our own contribution to and vision for the Thames-Coromandel District is that:

The Coromandel Peninsula will grow in a way that embraces its spirit and natural beauty, by working with our communities to acknowledge diversity, nurture ecology and value our identity.

Our work is organised into four activity groups to achieve this.

Council Vision at a Glance



The Council's performance in delivering these activities is also reported in this Annual Report (Sections Three and Four).



A Changing District

The District consists of some 50 communities spread over a land area of 258,000 hectares. None of these communities has a current population of more than 6 to 7,000 people. The District will experience continued growth in population, dwellings and visitors but even with that growth, none of these communities is expected to have a resident population of more than 10,000 in the foreseeable future.

This raises concerns about how sustainable our communities are in the longer term is likely to reshape the way many services are delivered. We will never know exactly what the future will bring, but we do know that the Thames-Coromandel District faces some potentially challenging issues ahead. The Council continues to consider what its role should be in this changing world and what it will, can and should take responsibility for.

Did you know...

- Our population is expected to increase to 30,203 people by 2029.
- Approximately half of our houses are holiday homes? By 2041, the proportion of non-resident homeowners is projected to reach 59%.

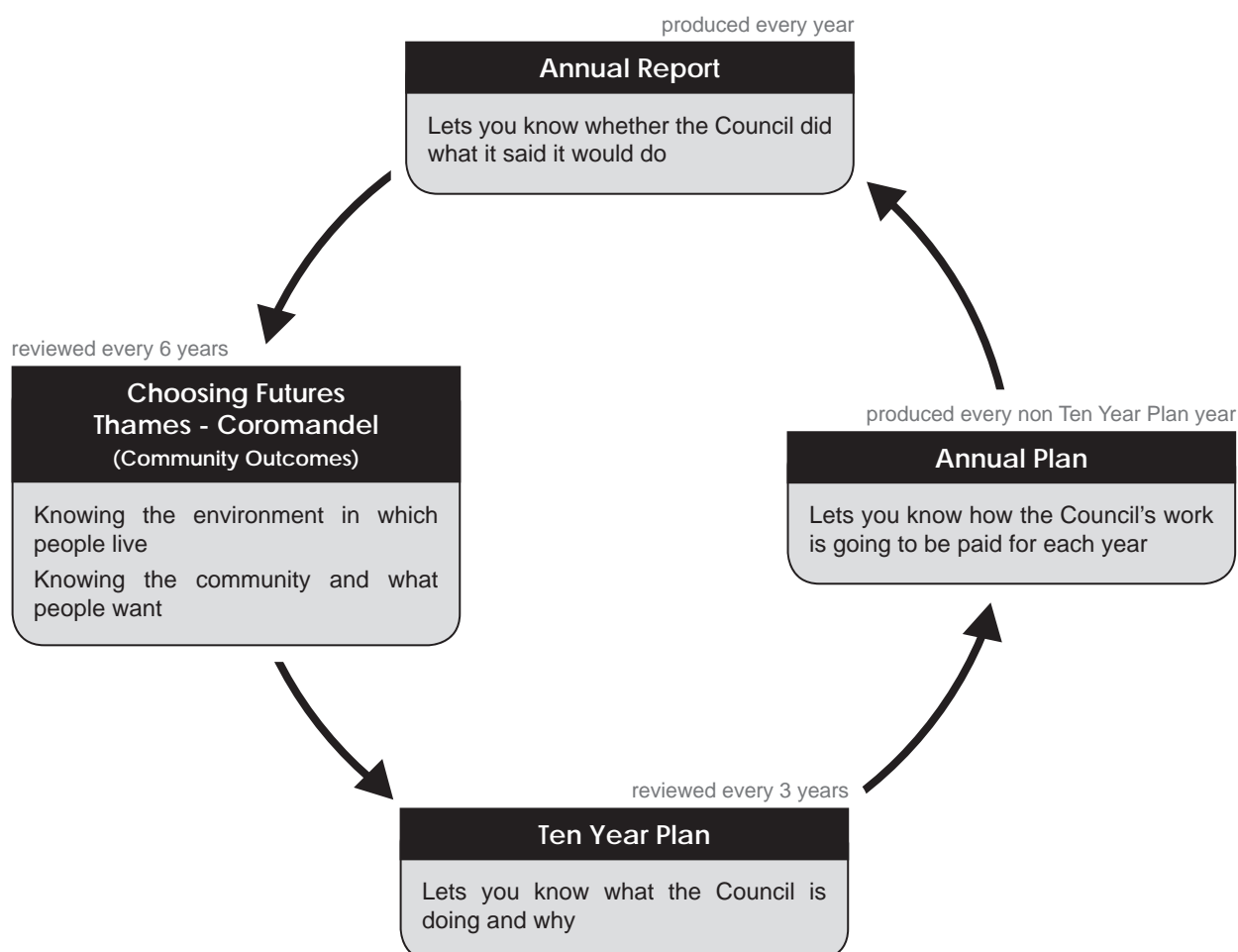




REPORTING ON OUR WORK

In June 2009, the Council adopted its Ten Year Plan for the period 1 July 2009 to 30 June 2019. The Ten Year Plan sets the Council's direction for the next ten years, including the services it plans to deliver.

This Annual Report explains how we've delivered on year one of that Plan. For every activity we explain exactly what we did compared to what we said we'd do, what it cost and how we performed against budget.





OUR COUNCIL

The Thames-Coromandel District Council is made up of nine elected members, including the Mayor and eight Councillors. The Councillors each represent a particular geographical area - referred to as 'wards'. Elected representatives set the Council's strategic direction and priorities, carry out decision-making on behalf of the Thames-Coromandel communities and monitor the organisation's performance.



*Back Row (from left to right): Strat Peters, Noel Hewlett, Deputy Mayor Adrian Catran, John Morrissey, and Dirk Sieling
Front Row (from left to right): Jan Bartley, Bill Barclay, Her Worship the Mayor Philippa Barriball, Steve Ruru (Chief Executive), and Dal Minogue*

They are supported in their governance role by five community boards who advocate for particular communities in the District.

The elected members are supported by the Council's Chief Executive and staff, who implement the decisions of the Council. They also provide decision and policy-making advice to the elected members.



OVERVIEW OF PERFORMANCE

Services Overview

The business of the Council is large - we are involved in 28 activities. As a Council, our mission is.....

to ensure the enhancement of the special nature of the Coromandel

This means delivering a number of services on the Coromandel Peninsula. This annual report presents the first results of our new performance monitoring framework. We gathered our performance information from a number of sources including our annual independent customer satisfaction survey and our own internal and customer contact records.

Over the past year, we've continued with a strong focus on **safeguarding our environment**, by continuing with major wastewater upgrades, planning for improved water supplies, supporting biodiversity and heritage efforts, removing rubbish and encouraging recycling and processing land-use consents to provide for appropriate development.

We've contributed to **building strong communities** by providing important community facilities - libraries, parks, sports fields, halls, swimming pools, cemeteries - and enabling people to get around via roads, footpaths and other transport initiatives. We've continued to invest in keeping our communities safe through inspecting food premises, processing building consents and regulating dog, noise and alcohol activities. We've also increased investment into economic development, especially aquaculture and tourism ahead of the Rugby World Cup, to ensure our communities are viable.

Planning for the future has been a top priority. Our Coromandel Peninsula Blueprint project reached the end of its first stage, with our Framework for the Future now completed. This is a significant milestone in shaping land and water use in our District over the years ahead. We've also commenced a District Plan review to ensure appropriate regulations are in place to help us achieve the vision reflected in the Blueprint.

Not everything that impacts the Coromandel falls within the Council's jurisdiction, therefore advocating for our District through strong **community leadership** continues to be important. We made submissions to regional and central government on matters important to the Coromandel and began implementing the first year of our 2009-2019 Ten Year Plan.

The Council has also been very mindful of the impact of the economic recession and the need to ensure that rates remain affordable. As a result we decided to reduce expenditure in the short term. This meant reprioritising and delaying a number of capital works projects that were originally proposed for the 2009/2010 financial year (although these deferrals did not widely affect the forecasted levels of service). A number of these projects will be progressed in 2010/2011 and beyond. The Council also took steps to reduce operational expenditure in a number of areas. The savings generated will provide funding that can be used to manage financial risks and reduce rating pressures in the future. Consequently, a number of our performance and project targets were not met. The Council has also identified some areas for improvement so that we can continue to improve the services that we deliver to our community.

Major Achievements

- Reviewing and reconfirming 'Choosing Futures Thames-Coromandel' which sets out the Coromandel's aspirations for the future;
- The adoption of the Coromandel Peninsula Blueprint: Framework for our Future and the commencement of the Local Area Blueprints (LABs). The LABs provide an expression of how each of our main communities would like to grow within the District-wide vision. Development of the LABs will be completed by the end of the 2010 calendar year rather than being spread over the next three years as originally signalled in the 2009 Ten Year Plan. The approach being followed means that they can be completed more quickly and efficiently;
- The District's key land use regulation document - the District Plan - was made fully operative. The Council also signed off on a strategy for completing a comprehensive review of the District Plan. The current Plan was originally notified in 1996 and so needs to be updated to ensure that it reflects current thinking and community views on how we would like to see the Peninsula develop. The review of the Plan will build on the outputs from the Coromandel Blueprint Project and the significant technical and monitoring analysis work on land use planning issues that the Council has completed in recent years;



- Further work in the area of economic development, including looking at options for providing the infrastructure that will be needed by the aquaculture industry as it grows in the next few years. The annual production of mussels is expected to increase from 22,000 tonnes to 60,000 tonnes in the next few years as Zone B at Wilson's Bay is brought into production. There is also the potential for the industry to diversify into fin fish farming in the next few years.

During the year the Council also allocated funding to Tourism Coromandel to ensure that the District can take full advantage of the opportunities to promote the District and tourism generally with the Rugby World Cup.

- The Council made submissions to central Government on their review of Schedule 4 of the Crown Minerals Act to allow for mining in areas of the conservation estate. Mining on the Coromandel has always been an issue of intense interest in the local community. Through its submission the Council highlighted the significant conservation values associated with the areas that were proposed to be removed from Schedule 4 protection so that the Government could make an informed decision on any changes.
- At the time that the Schedule 4 review was taking place the Government also undertook consultation on the review of the Foreshore and Seabed Act 2004. The changes proposed to the Act are of considerable importance given the significance of the coastal environment to this community. The Government has recently announced the changes that are to be made to the Act. The Council will look to review the draft legislation once it becomes available and potentially lodge a submission detailing its views on the proposed changes.
- Investigation of further development of the Mercury Bay Cemetery and approval of a Business Case for development of the Mercury Bay multi-sports complex.
- Completion of a heritage assessment.
- Approval of the Business Case for development of the Tairua and Pauanui water supplies. The Council will be undertaking further investigations to confirm the long term viability of the staged local sources option that has been approved. Under this option the Council will look to progressively develop new sources of water as demand increases;
- Continued work on the Eastern Seaboard Wastewater Project. The three new treatment plants are fully operational and the focus over the last year has been on upgrading of the disposal systems in Whangamata and completion of the Pauanui disposal system. The Council has also lodged a resource consent application for development of a new disposal system in Whitianga.
- The Pauanui Wastewater Disposal project was accepted as a finalist in the Ingenium Excellence Awards (>\$2 million category).
- Continued increase in recyclables diverted from rubbish for the fifth year running
- During the year the Council has continued to work with the main stakeholders involved with the Waikawau Reserve to see whether it can get agreement on the proposed transfer of this reserve to the successors of the original owners. The reserve is situated on land that was originally part of two larger blocks of land and was incorrectly vested in the Crown in the 1870s instead of being vested in the then owners who were seeking title to these blocks. Since this time the land has developed into a popular coastal reserve that is used by a large number of people including boat owners that wish to use the ramp owned by the Waikawau Boat Ramp Society. It also provides access to the tramcars on the adjoining private land owned by Waikawau Properties Limited.
- In seeking to facilitate a successful outcome the Council is very much aware of the high level of public use of the reserve and the desire of a number of groups to ensure that there is ongoing public access. The Council sees it as important that there continues to be dialogue between all of the parties associated with the reserve. Through dialogue and the expression of goodwill from all parties, the Council believes that it should be possible to reach an agreement that recognises the aspirations of all of the main parties involved.



Postponed Projects

Projects postponed in order to reduce expenditure (but not services) in the short-term due to the impacts of the economic climate included:

- Cemetery land purchase in Mercury Bay
- Hall noise control in Whangamata and renovation works in Coromandel
- Part of the Matarangi boat ramp upgrade
- Tairua Cory Park Domain development
- Square Kauri Bridge replacement
- A number of water services works, upgrades and replacements
- Stormwater discharge consents for Tairua, Pauanui and Whangamata
- New rubbish moloks
- Council building, furniture and vehicle costs

This Annual Report provides you with a comprehensive overview of how we've gone in delivering our 28 activities. Section 3 sets out what we delivered, whether we met our performance targets and whether we met our budget.



The Audit Committee has a governance responsibility for the oversight and review of the Council's financial statements.

Financial Overview

Financial performance is an integral component of the continued financial sustainability of the Council and the affordability of rates within the District.

This section provides an overview of our financial performance for the year to 30 June 2010.

Council's income and expenditure - three year trends (\$M)



We recorded a net surplus from operations of \$3.3 million for the year compared to a budgeted surplus from operations of \$5.86 million

The net surplus from operations is calculated as: [Total revenue minus total expenses]

This surplus is made up of revenue received for capital projects from development contributions and New Zealand Transport Agency subsidies (this revenue can not be used to fund operating expenditure) less unfunded depreciation expenditure, as Council, in adopting the 2009-2019 Long-term Council Community Plan, resolved that they would not seek to fund the depreciation expense in relation to:

- The subsidised portion of roading works, as the Council expects to continue receiving central government funding, from the NZ Transport Agency, at the time these assets are due to be replaced; and
- The additional capacity component of the Eastern Seaboard Wastewater Plants that have recently been constructed in Tairua-Pauanui, Whitianga, and Whangamata.

The difference in budgeted and actual surplus resulted from a number of factors.

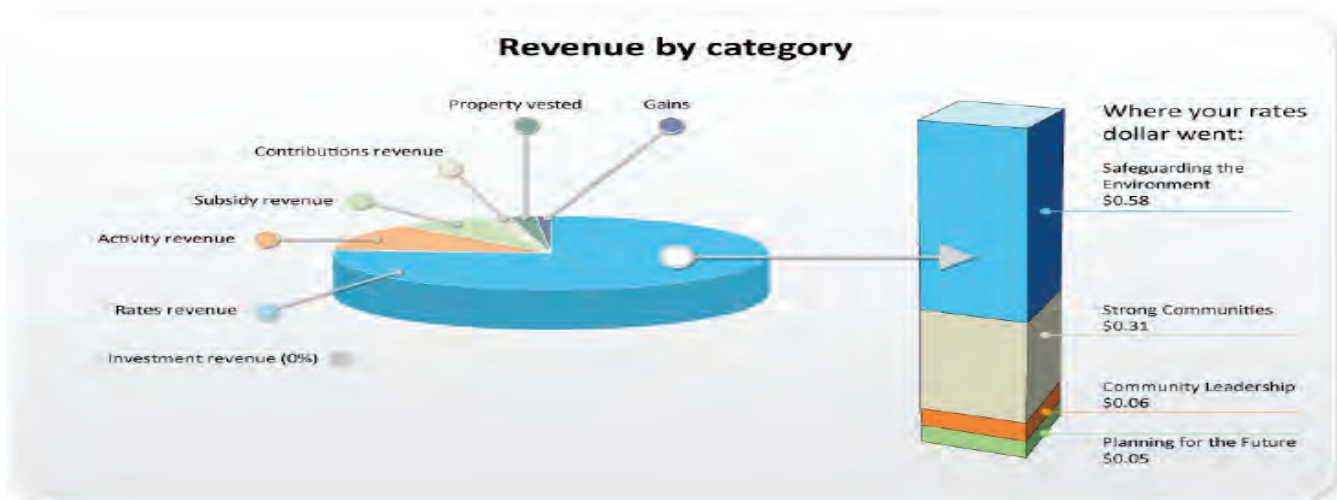
The primary reasons for the difference are:

- Vested Assets Revenue (\$4.1m): the Council received fewer assets than budgeted (such as roading, water and wastewater infrastructure constructed by developers; including the Matarangi water plant).
- Depreciation and Amortisation \$1.6m: In developing its 2010/2011 Annual Plan the Council sought to reduce the forecast rates increase due to rates affordability concerns. As part of that initiative the Council deferred a significant amount of the budgeted capital expenditure for the current year, reducing the level of depreciation to be applied. The Council asset revaluation movement for the year is also significantly down on that budgeted.
- Personnel Costs (\$1.5m): The budget for employee costs was incorrectly stated in the 2009-2019 Long term Council Community Plan at \$10.99 million and should have been shown as budget 2010 \$12.9 million with the compensating adjustment in the budget for "Other Direct Operating Expenses." Actual Personnel costs were \$12.5 million.
- Other Direct Operating Expenses \$4.7m: the Council has sought to reduce expenditure against budget wherever possible.
- Other Losses (\$4.1m): the Council's infrastructural assets are often disposed of for minimal or nil value when replaced. The impact of this in 2010 was (\$2.8m). The other significant figure in this category was the revaluation impact (\$1.3m) of the Council's derivative instruments. These are non cash items.



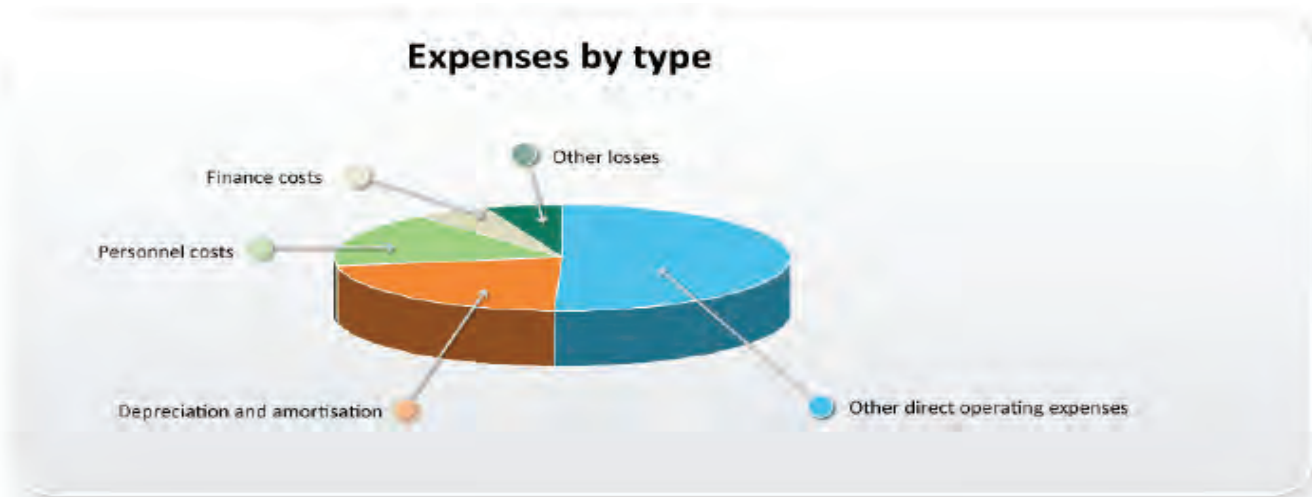
We source our revenue from a variety of places....

The following graph shows the various sources of the Council's \$76 million revenue during 2009/2010. The largest contribution continues to be provided from rates. The breakdown is as follows:



...and we spend it on a variety of services

The following graph shows the allocation of our \$73 million of expenditure by type:



The Council's expenditure is guided by the priorities identified in our Ten Year Plan. The following graph depicts where, by activity group, the Council operating expenditure was channelled:





Expenses by Activity

The charts below provide a breakdown of the cost of 'services' for each of our activities. Each chart shows the budgeted cost; the actual cost; the actual cost by ratepayer - the cost per ratepayer per day.

We group our activities around four activity groups, they guide the delivery of our services. The other-side of the equation being work toward service levels in 'Section 3 our activities' that drives this expenditure.

Leadership

| | Budgeted Cost (GST Excl) | Actual Cost (GST Excl) | Cost per Rateable property (GST Incl) | Cost per rateable property (GST Incl) |
|------------------------------|--------------------------|------------------------|---------------------------------------|---------------------------------------|
| | \$000's | \$000's | \$per Annum | \$per Day |
| District Leadership | 3,147 | 2,766 | 117.98 | 0.32 |
| Local Advocacy | 1,394 | 1,265 | 53.96 | 0.15 |
| Total Cost of Service | 4,541 | 4,031 | 171.94 | 0.47 |

Planning

| | Budgeted Cost (GST Excl) | Actual Cost (GST Excl) | Cost per Rateable property (GST Incl) | Cost per rateable property (GST Incl) |
|------------------------------|--------------------------|------------------------|---------------------------------------|---------------------------------------|
| | \$000's | \$000's | \$per Annum | \$per Day |
| Strategic Planning | 1,714 | 1,333 | 56.86 | 0.16 |
| Landuse Planning | 1,197 | 1,036 | 44.19 | 0.12 |
| Hazard Management | 286 | 271 | 11.56 | 0.03 |
| Total Cost of Service | 3,197 | 2,640 | 112.61 | 0.31 |

Strong Communities

| | Budgeted Cost (GST Excl) | Actual Cost (GST Excl) | Cost per Rateable property (GST Incl) | Cost per rateable property (GST Incl) |
|------------------------------|--------------------------|------------------------|---------------------------------------|---------------------------------------|
| | \$000's | \$000's | \$per Annum | \$per Day |
| Emergency Management | 472 | 457 | 19.49 | 0.05 |
| Economic Development | 1,196 | 1,138 | 48.54 | 0.13 |
| Community Health and Safety | 1,665 | 1,678 | 71.57 | 0.20 |
| Building Control | 3,421 | 3,665 | 156.33 | 0.43 |
| Social Development | 1,113 | 1,048 | 44.70 | 0.12 |
| District Transportation | 11,264 | 11,181 | 476.91 | 1.31 |
| Local Transportation | 1,621 | 1,336 | 56.99 | 0.16 |
| Cemeteries | 437 | 424 | 18.09 | 0.05 |
| Airfields | 168 | 144 | 6.14 | 0.02 |
| Halls | 672 | 717 | 30.58 | 0.08 |
| Swimming Pools | 317 | 427 | 18.21 | 0.05 |
| Libraries | 1,265 | 1,297 | 55.32 | 0.15 |
| Harbour Facilities | 775 | 713 | 30.41 | 0.08 |
| Parks and Reserves | 3,938 | 4,026 | 171.73 | 0.47 |
| Total Cost of Service | 28,324 | 28,251 | 1,205.02 | 3.30 |



| Safeguarding the Environment | Budgeted Cost (GST Excl) | Actual Cost (GST Excl) | Cost per Rateable property (GST Incl) | Cost per rateable property (GST Incl) |
|-------------------------------|--------------------------|------------------------|---------------------------------------|---------------------------------------|
| | \$000's | \$000's | \$per Annum | \$per Day |
| Natural and Cultural Heritage | 120 | 142 | 6.06 | 0.02 |
| Public Conveniences | 881 | 842 | 35.91 | 0.10 |
| Landuse Management | 3,488 | 3,380 | 144.17 | 0.39 |
| Water | 6,702 | 6,832 | 291.41 | 0.80 |
| Wastewater | 17,366 | 14,574 | 621.64 | 1.70 |
| Stormwater | 3,296 | 2,581 | 110.09 | 0.30 |
| Solid Waste | 5,887 | 5,270 | 224.79 | 0.62 |
| Land Drainage | 49 | 55 | 2.35 | 0.01 |
| Land Information Memoranda | 215 | 131 | 5.59 | 0.02 |
| Total Cost of Service | 38,004 | 33,807 | 1,442.00 | 3.95 |

Note the above tables are a guide only. Actual individual rateable property impact will depend upon the funding structure of each activity as determined by the Council's Revenue and Financing Policy. For example wastewater is assessed only on those properties connected, or able to connect, to the Council provided wastewater systems.

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

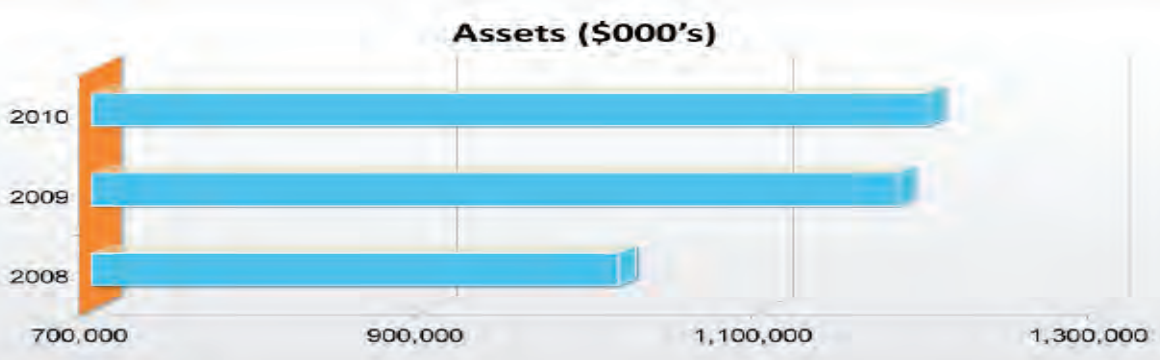
We calculate our net worth to be \$1.128 billion.

The statement of Financial Position (See page 104) shows what we own (our assets), what we owe (our liabilities) and our net worth (represented by net assets or equity).

| (\$000's) | Actual 2008 | Actual 2009 | Actual 2010 |
|--|----------------|------------------|------------------|
| Total Assets | 1,013,914 | 1,179,831 | 1,197,523 |
| less Total Liabilities | 61,106 | 75,999 | 69,751 |
| Net Assets/ equity at end of year | 952,808 | 1,103,832 | 1,127,772 |

The major components within our assets include:

Property, Plant and Equipment (including land, buildings, roading and other infrastructural assets such as wastewater and water etc see page 134 for further details.)



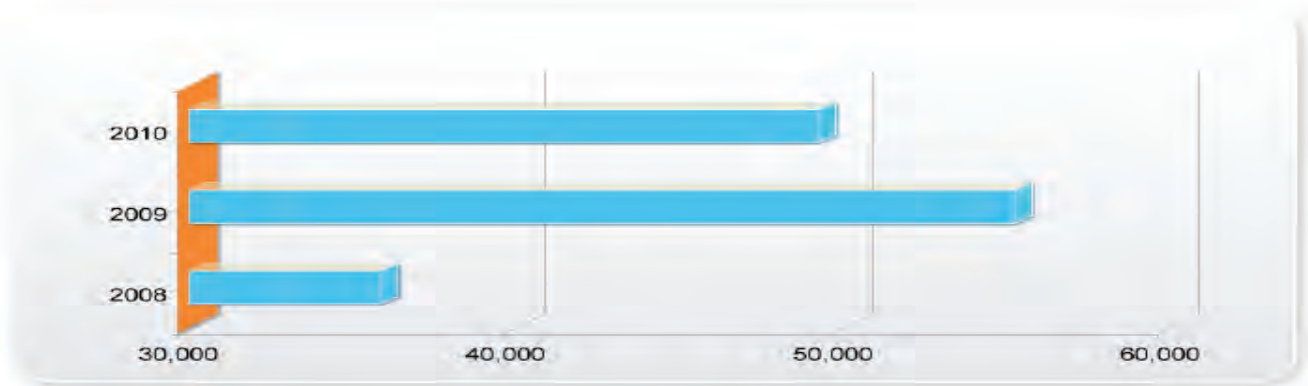


REVIEWING OUR LIABILITIES - WHAT WE OWE

The Council's external borrowings have fallen by \$6 million (or 11%) to \$49.2 million as at 30 June 2010.

The Council borrows to fund the purchase of new assets that Councillors have approved through the Annual Plan and Long-term Council Community Plan process.

EXTERNAL BORROWING POSITION - THREE YEAR TREND (\$000'S)



Borrowing is not a source of revenue in itself. Rather it is a 'bridging' mechanism to assist with the financing required for the construction of long-term assets. The debt still needs to be repaid from other sources of revenue (e.g. rates).

The use of debt allows us to enjoy the asset now while paying the debt back over time. In this sense it is much the same as a home mortgage. If the Council had to fund these capital projects through rates it would cause large fluctuations in rating demands.

By financing long-term assets through its debt funding facilities the Council seeks to strike an equitable balance between funding these assets from its current and future beneficiaries.

The funding options permissible to the Council for each type of capital project are specified in the Revenue and Financing Policy. This is summarised as follows.

| Type/Funding Source | Depreciation Reserves | Debt | Development Contributions |
|--------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Renewals | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | |
| Increased Level of Service | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | |
| Additional Capacity for Growth | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |

To fund the Renewal and Increased Levels of Service classes of capital expenditure the Council may either increase rates or use borrowing facilities in much the same way as a homeowner takes out a mortgage.

As such it is prudent for the Council to ensure that it maintains a suitable level of available debt facilities so that its capital expenditure programmes and operational activities are not placed at risk.

After the consultation phase of the 2009-2019 Long-term Council Community Plan the Council reassessed the potential impact of the then developing economic recession on forecast development contributions revenue throughout 2009/2010 and beyond. This resulted in a substantial reduction in development contributions revenue. In order to deliver the capital projects signalled in the plan the Council made a conscious decision to breach its internally set borrowing limits for 2009/2010.

Subsequent to this in November 2009, a decision was made by the Council to defer a number of capital projects to reduce rates in 2010/2011. This decision has had a favourable impact on the Council's external borrowing requirements. As at 30 June 2010 the Council has not breached its internally set borrowing limit of 150% of revenue as previously envisaged.

Council's Liability Management Policy (section 7.7) requires the Council to minimise the risk of large concentrations of debt maturing, or, being reissued in illiquid periods where credit margins are high for reasons within or beyond the Council's control, the Council ensures:



Total committed funding in respect to all loans and committed facilities is controlled by the following system:

| Period | Minimum | Maximum | Position 30 June 2010 |
|--------------|---------|---------|-----------------------|
| 0 to 3 years | 20% | 60% | 89% |
| 3 to 5 years | 20% | 60% | 11% |
| 5 years plus | 10% | 60% | 0% |

Any exception from these policy parameters have been reported to the Council each month as part of the financial report. Due to cost implications and the previous absence of investors willing to invest in the five year plus bracket, the Council has prudently managed its upcoming funding requirements through the use of bank borrowing facilities.

Over the last two and a half years, some councils have issued loan stock with funding margins significantly higher than those experienced prior to September 2007. This Council's strategy has been to fund through the less costly and more flexible bank three year funding facilities. However, to take advantage of these advantageous rates Council has had to allow these facilities to mature naturally and they are now due to mature in January 2011. This is reflected in the borrowings recorded under current liabilities on page 104

The funding and interest rate strategy paper presented to the Audit Committee in June 2010 identified the opportunity to address the debt maturity profile issue over the next six months as work progresses in replacing the current three year rolling bank facilities providing it is economic to do so.

This financing will still be at margins significantly higher than that enjoyed by the Council over the past three years through the current bank borrowing facilities.

Financial Risk

The Council has a number of financial risks to manage. The nature of these risks has been reinforced by the world financial crisis and economic recession.

The financial sustainability of local government remains critical due to the importance of the services it delivers to its communities. Local government must be financially sustainable to serve its purpose for communities.

The Council has developed and adopted a financial sustainability strategy. The strategy will help the Council manage conflicting demands of increased services, cost of rates and financial risks. The Council has a risk management framework to assist it in identifying key areas of financial risk.



LOOKING FORWARD

In the year ahead, the Council looks to continue working towards the directions signalled in its 2009-2019 Ten Year Plan. This Plan includes information on where the Council will focus its efforts over the next ten years.

Planning for the Future

The Council will be looking to make significant progress with the completion of Local Area Blueprints that will define how each community will grow within the district-wide vision set in the Coromandel Peninsula Blueprint. By linking this work and the District Plan review, the Council will make real efficiency gains by speeding up the work involved and reduce the costs of both projects.

Major Projects Ahead

The Council will be progressing a number of capital works, many in the water, wastewater and stormwater activities. Total capital expenditure for the year ahead is forecast at \$32.9 million and includes:

- Upgrading of the Tairua and Pauanui water supplies;
- Mercury Bay cemetery land purchase;
- Development of the Mercury Bay multi-sports complex;
- Thames, Matarangi and Whangamata stormwater improvements;
- Matarangi wastewater improvements;
- Thames water supply improvements.

Governance

Council elections will take place in October 2010. At the same time, local government legislation reviews are being undertaken by central government. Despite the potential changes underway, the Council will be continuing to deliver the large number of services to the District.

Economic Development

The Council will be progressing development of an Economic Development Strategy to define the role that it sees itself playing in the economic development area. It will also continue its work with the Aquaculture industry to explore how it can best provide an environment within which the industry can flourish. This includes looking at the provision of the infrastructure needed.



STATEMENT OF COMPLIANCE AND RESPONSIBILITY

Compliance

The Council and Management of the Thames-Coromandel District Council confirm that all of the statutory requirements of Schedule 10, Part 3 of the Local Government Act 2002 regarding financial management and borrowing have been complied with.

Responsibility

The Council and Management are responsible for the preparation of the Thames-Coromandel District Council's financial statements and statement of service performance, and the judgements made in them.

The Council and Management of the Thames-Coromandel District Council have the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the Council and Management's opinion, these financial statements and statement of service performance fairly reflect the financial position, performance and operations of the Thames-Coromandel District Council for the year ended 30 June 2010.

Philippa Barriball JP

DISTRICT MAYOR

Steve Ruru

CHIEF EXECUTIVE

Date: 29 September 2010

Date: 29 September 2010





AUDIT REPORT

To the readers of Thames Coromandel District Council's financial statements and statement of service performance for the year ended 30 June 2010

The Auditor General is the auditor of Thames Coromandel District Council (the District Council). The Auditor General has appointed me, David Walker, using the staff and resources of Audit New Zealand, to carry out the audit on her behalf. The audit covers the financial statements, the statement of service performance and the District Council's compliance with the other requirements of Schedule 10 of the Local Government Act 2002 that are included in the annual report of the District Council for the year ended 30 June 2010.

Unqualified opinion

In our opinion:

- The financial statements of the District Council on pages 103 to 167:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the District Council's financial position as at 30 June 2010; and
 - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of the District Council on pages 33 to 97:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the District Council's levels of service performance for the year ended 30 June 2010, including:
 - the levels of service performance as measured against the intended levels of service performance adopted in the long-term council community plan; and
 - the reasons for any significant variances between the actual service performance and the expected service performance.
- The District Council has complied with the other requirements of Schedule 10 of the Local Government Act 2002 that are applicable to the annual report, and that are included in the District Council's financial statements and statement of service performance.

The audit was completed on 29 September 2010, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Council and the Auditor, and explain our independence.



Basis of opinion

We carried out the audit in accordance with the Auditor General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements, the statement of service performance and the other requirements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements, the statement of service performance and the other requirements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements, the statement of service provision information and the other requirements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether the significant management and system controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported financial and service performance data;
- reviewing significant estimates and judgements made by the Council;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied;
- determining the appropriateness of the reported service performance information within the Council's framework for reporting performance; and
- determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, the statement of service performance and the other requirements.

We evaluated the overall adequacy of the presentation of information in the financial statements, the statement of service performance and the other requirements. We obtained all the information and explanations we required to support our opinion above.



Responsibilities of the Council and the Auditor

The Council is responsible for preparing financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the District Council as at 30 June 2010. They must also fairly reflect the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect the District Council's levels of service performance for the year ended 30 June 2010.

The Council is also responsible for meeting the other requirements of Schedule 10 of the Local Government Act 2002 and including that information in the annual report. The Council's responsibilities arise from section 98 and Schedule 10 of the Local Government Act 2002.

We are responsible for expressing an independent opinion on the financial statements, the statement of service performance and the other requirements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 99 of the Local Government Act 2002.

Independence

When carrying out the audit we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit and in carrying out the audit of long-term plan, we have no relationship with or interests in the District Council.

David Walker

Audit New Zealand

On behalf of the Auditor General

Auckland, New Zealand