

SUMMARY ANNUAL REPORT 2006/07

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Taupo
District Council 



THE SUMMARY ANNUAL REPORT

This document provides an overview of Taupo District Council's operational and financial performance for the 2006/07 financial year. It is prepared in accordance with section 98(4) of the Local Government Act 2002, and in line with section 98(5) of that same Act, it represents fairly and consistently the information regarding the major matters dealt with in the Annual Report.

The specific disclosures included in this summary report have been extracted from the full Annual Report, which was adopted by Council with an unqualified audit opinion dated 10 October 2007. The summary has been examined by the auditor for consistency with the full financial report, and audited by Audit New Zealand on behalf of the Auditor-General. This summary was authorised for issue by the Chief Executive Officer and the Group Manager Finance and Corporate Services on 26 October 2007.

The summary report cannot be expected to provide as complete an understanding of Council's financial and service performance, financial position and cashflows as the full Annual Report. The full Annual Report is our key accountability document, and is available on request from Council offices or on-line: www.taupo.govt.nz.

CONTENTS

| | |
|---------------------------------------------|-----------|
| THE SUMMARY ANNUAL REPORT | 2 |
| Contents | 2 |
| Mayor's Report | 3 |
| Chief Executive Officer's Report | 4 |
| Report of the Auditor-General | 6 |
| SERVICE PERFORMANCE | 7 |
| Overview | 7 |
| Managing Growth | 8 |
| Strong Communities | 9 |
| Sustainable Environment | 11 |
| Economic Development | 13 |
| Good Governance and Strategic Alliances | 14 |
| SUMMARY FINANCIAL STATEMENTS | 15 |
| Overview | 15 |
| Here's How Your Rates Were Spent | 15 |
| Consolidated Income Statement | 16 |
| Consolidated Statement of Changes in Equity | 16 |
| Consolidated Balance Sheet | 16 |
| Consolidated Cashflow Statement | 17 |
| Additional Disclosures | 18 |
| DIRECTORY | 20 |

MAYOR'S REPORT

TAUPO DISTRICT – ACTIVE AND PROGRESSIVE

As I go about my business in the District, I am always struck by the sheer amount of activity that seems to be a part of everyday life in the Taupo District. There is nearly always a pleasant 'hustle and bustle' in the Taupo CBD and, of course, the District really gets moving whenever we have one of our many events.

Council, of course, plays a large part in the support that needs to happen behind the scenes, to allow our townships and people to function.

Council organises our towns and designates different parts of them to create an orderly flow. We plan the roads and the footpaths, identify high traffic areas and ensure adequate parking is available. We create industrial zones, residential zones and rural zones to provide for all of the different types of people and lifestyles that need to fit together to make a community.

We provide the pipes and pumps needed to get the drinking water, the waste water and the storm water to where it needs to go. We also provide the proper treatment to make sure the health of our people and the health of our environment are protected.

We support our business communities and help to nurture and progress the ideas and initiatives that improve our economy, and provide employment opportunities.

The objective of all of this activity - the planning, the consulting and the building - is to create a great place to live, to work and to bring up our children - to build a sense of pride and community.

The Taupo District has so many things going for it. We have clean streets, great gardens and beautiful natural landscapes. Not only is our environment wonderful to look at: we can make the most of recreation by enjoying our natural environments, such as the lakes and rivers, mountains, and bush.

We have vibrant and active communities that embrace recreation and sports, arts, music and Maori culture. Our environmental efforts to preserve and improve the quality of our Lake and protect our rivers from threats, are nationally recognised.

Taupo is a District on the move and this Council is right there, at the forefront, helping to keep things moving. We are proud of our District and the part we play in it, and we are keen to keep moving forward.



Clayton Stent
Mayor

CHIEF EXECUTIVE OFFICER'S REPORT

This is my first Annual Report here in Taupo District after having spent nearly six months in the area.

The Annual Report aims to measure and report on progress in achieving what Council said it would do in the Long Term Council Community Plan. It is great to be able to tick off these actions.

Council is currently undertaking a lot of work aimed at making a difference in our community. Over the past year we have initiated many improvements that will make our communities a better place to live, work and play. These improvements have been justified with increased use and additional revenue being generated. To me a number of our stand out successes are directly related to our community facilities, such as the Tongariro South Domain achieving Regional Garden of Significance ranking, and an increase in use of the Taupo Events Centre with a total of 70 days hosted in 2006/07 up from 50 days in 2005/06. The Taupo Museum has been a star performer with a huge 70% increase in visitor numbers from 13,742 in 2005/06, to 23,427 during 2006/07.

There is a good level of ongoing consultation happening with groups and individuals. This is set to increase in the future, and I believe we will achieve much better outcomes by working more closely together, well in advance of making any firm decisions. The pre-consultation surrounding the Mapara Valley Structure Plan is a good example of a partnering process, with talks and information sharing happening well ahead of any formal process taking place. The Taupo Parking Study is also the subject of ongoing consultation.

Roading projects have experienced a number of challenges, but are progressing. Council undertook a significant amount of planning and design work for key projects such as the East Taupo Arterial (ETA), Wakeman Road and Western Kinloch Arterial (WeKA) as well completing a number of smaller roading upgrades which allow us to deliver better and safer roads, cycle ways and pedestrian access throughout the District. Council has also spent significant time and energy ensuring we retain the level of funding necessary to complete these major projects.

Council has continued to improve internal systems, customer service and response to requests for service to ensure we are delivering great outcomes to our community. The move of the Environmental Services Division to Gillespie Plaza 'one stop development shop' for planning and regulatory issues, has resulted in efficiencies including significantly decreasing processing times for consents and approvals, better customer responsiveness by having all experts on hand for development matters, and establishing a better working environment for customers and staff. There were 390 resource consents granted during the year, with 98% granted within the statutory timeframe, a spectacular achievement given the complexity and size of the applications faced by Council.

As well as working to improve services in the present, Council continues to work towards attaining the future health and prosperity of the District. Our participation in the Environment Court hearings concerning resource consent conditions, will ensure the Wairakei-Tauhara geothermal system is sustainably managed, and the adverse effects of subsidence are addressed. The importance of the health of Lake Taupo has been promoted by Council meeting its ongoing responsibilities to the 2020 Taupo-nui-a-Tia Action Plan, and a major step forward has been achieved with the formal establishment of the Lake Taupo Protection Trust, which will fund initiatives to reduce nitrogen entering the Lake by 20 percent.

A significant part of our economy is driven by tourism and events. Destination Lake Taupo, Council's marketing arm, is dedicated to attracting visitors to the area and providing a great visitor experience. Our reputation for holding safe and successful events continues to grow: last year we facilitated and hosted 16 major events, expanding the events portfolio into the traditionally off-peak spring and autumn 'shoulder periods'.

I look forward to achieving even better results once those projects we have started come to completion. This includes the Taupo and Turangi Libraries, development of Riverside Park, Taupo Foreshore and Flood Strategy, development of the Broadlands Road Resource Recovery Transfer Station (recycling centre). I also look forward to being here as physical work begins on a number of major projects, including the ETA (East Taupo Arterial).

I would say my overall impression is that this Council seems to have rediscovered its sense of community, has ventured out from behind the walls and really started to connect with the most important aspect of our District - the people.



Rob Williams
Chief Executive Officer



REPORT OF THE AUDITOR-GENERAL

Please refer to the separate Report of the Auditor-General.



SERVICE PERFORMANCE

OVERVIEW

Council's service performance reporting is centred on the five groups of activities – we term them "Strategic Themes" – presented in the 2006-16 Long Term Council Community Plan (LTCCP). That document established for each theme a number of key actions and performance targets that Council intended to achieve. The Annual Report provides a report of our achievements against those targets and key actions.

This section presents for each strategic theme, a background to the theme and then highlights of our achievements, particularly in relation to the key actions set out in the LTCCP. The presentation is balanced showing both what we achieved, and also what we set out to achieve but could not accomplish this year.

In this Summary document we do not report on specific performance targets. The full Annual Report should be referred to if the reader wishes to see these results.



MANAGING GROWTH

Unmanaged growth has the potential to undermine the sustainability of the community. It can result in damage to sensitive environments, conflicts between competing land uses and inefficient or inadequate infrastructure. We need to provide for growth in a planned, structured way within the constraints of the natural environment, land availability, cost-effective infrastructure provision and socio-economic issues. Managing growth will help to ensure a sustainable quality of life for residents. An integrated approach will also ensure that our long term plans for service provision are consistent with growth options and solutions.

KEY ACTIVITIES

Development Planning, Urban Land Development

WHAT WE DID

Development Planning

- Implementation of Taupo District 2050, Council's overarching district-wide growth management strategy, continues as the key initiative in the Development Planning area.

Urban Land Development

- Obtained title and settlement on sales for the Rakaunui Road industrial subdivision, the Rima Place, Turangi residential subdivision, and for 34 lots in the Victoria residential subdivision development.
- Initiated an urban design competition for the Lot 60 medium density housing project; and commenced the urban design master plan for the balance of Council's Taupo Eastern Urban Lands.

WHAT WE PLANNED, BUT COULDN'T COMPLETE

Development Planning

- The Mapara Valley Structure Plan, as it became clear that Council would need to take a much stronger role in leading future growth; and the review of the Development Contributions Policy, apart from some preliminary consultative work, deferred to coincide with the next long-term council community plan.



STRONG COMMUNITIES

A key component of Council's role in building strong communities is providing effective and efficient infrastructure and services such as roads, recreation facilities and water supplies. These services must respond to identified needs, and be provided at levels that are acceptable to the community (i.e. cost, quality, frequency etc.).

Strong communities are not just about bricks and mortar – they are about people and helping communities to help themselves. Council has a role in supporting community initiatives, encouraging creativity and honouring community heritage. All communities have agreements about how they will live together. Council has a role in monitoring and enforcing agreed rules and policies to ensure that community values and individual rights are respected.

KEY ACTIVITIES

Emergency Management, Roothing, Water Supply, Regulatory Services, Community Support, Community Facilities, Recreation and Leisure Services

WHAT WE DID

Emergency Management

- The Taupo Rural Fire operation was brought back in-house, with the development of a Fire Plan and procurement of two fire trucks.

Roothing

- Among other projects:
 - Continuation of planning and design work for the East Taupo Arterial (ETA), with lodgement for resource consent
 - Completion of the Wakeman Road extension land purchase, design, and letting of the tender for construction
 - Completion of Poihipi Road seal widening work with benefits for cyclists
 - Continuation of the planning process for the Acacia Bay to Mapara Road Collector (this progress pending stormwater design and approvals)
 - Lodging of the notice of requirement for the route designation for the Western Kinloch Arterial (WeKA), with the public notified and submissions to be heard in September 2007.

Water Supply

- Asset maintenance and renewals, with the installation of replacement water mains in parts of the Taupo Town central business district and some residential areas.



Regulatory Services

- The Town Centre Parking Study was carried out, with this document undergoing public consultation early in the 2007/08 year.
- There were 390 resource consents granted during the year, with 382 granted within the statutory timeframe, equating to a 98% achievement rate.

Community Support

- Produced the Taupo Urban Housing Strategy for public consultation; carried out a review of Community Halls; and completed and adopted a Public Art Policy.

Community Facilities

- Completed the installation of the Ora Garden of Wellbeing and the associated display development at the Taupo Museum and Art Gallery; rebranded the Museum and developed its theme; and assisted in the successful purchase of the land for the Turangi Community Health Centre project.

Recreation and Leisure Services

- Completed phase one of the north end redevelopment of the Tongariro Domain, known as Riverside Park; and the feasibility and planning work required for implementation of a new energy efficient geothermal heat transfer system at the Taupo Events Centre.

WHAT WE PLANNED, BUT COULDN'T COMPLETE

Roading

- Designation, design and consenting for the second Taupo Town river crossing and shared footpath – deferred while determining whether more cost effective options could be used to assist local traffic flows in and around the central business district.

Water

- The Tapuaeharuru Bay water treatment project – design, consent, and the commencement of construction had been intended in 2006/07, deferred to allow for further consultation and because of consenting issues and revised project priorities; the Kinloch reticulation, reservoir and pump station – project delayed by consenting issues and the identification of a suitable location for the new treatment plant.

Regulatory Services

- Accreditation and registration as a Building Control Authority – excellent progress made and accreditation is now expected before the end of the 2007 calendar year.

Community Facilities

- The Taupo and Turangi Library extensions. Planning and design were completed and construction got under way, with these projects now to be completed in 2007/08.

Recreation and Leisure Services

- The Turangi Turtle Pools heating and upgrade project. This has developed into a larger project following community consultation and will now continue into the 2007/08 year.



SUSTAINABLE ENVIRONMENT

A sustainable environment - natural and built - is essential for the economic, social and cultural wellbeing of the Taupo District. Currently we are faced with significant pressures that threaten the quality of the environment we and our visitors enjoy. Council has various roles to play in relation to the environment:

- Under different Acts, we make policies and rules for managing land and mitigating the effects of human activities on the environment
- We provide infrastructure and services to manage waste
- As a community leader we have a role as advocate.

However, Council is not alone in managing these issues. Environment Waikato, Government agencies such as the Department of Conservation and the Ministry for the Environment, Ngati Tuwharetoa and the community all have responsibility in caring for the Taupo District environment. We recognise that by working together we can develop better, integrated solutions.

KEY ACTIVITIES

Environmental Planning, 2020 Taupo-nui-ā-Tia, Protecting Lake Taupo, Lakes and River Systems, Stormwater and Land Drainage, Wastewater, Solid Waste

WHAT WE DID

Environmental Planning

- All appeals on the District Plan were resolved, allowing it to become operative in October 2007.
- A major series of variations (variations 19, 20 and 21) to the Proposed District Plan were undertaken in order to implement the TD2050 Growth Management Strategy. These variations will be heard in August 2007 and decisions notified in October 2007.

Protecting Lake Taupo

- Council collected its share of the funding for Protecting Lake Taupo via a targeted rate; the Lake Taupo Protection Trust was formally established on 9 February 2007, and Council paid over the funding that it had committed to.
- Council, in its community advocacy role, continued to participate in the processes relating to the Proposed Variation to the Waikato Regional Plan (Variation 5 – Lake Taupo Catchment).

Lakes and River Systems

- Completed stage 3 of the Lake Taupo Shoreline Erosion Study, with focused consultation with special interest groups regarding the causes and degree of erosion; and the draft Lake Taupo Flood Hazard Study – Stage 1 and 2a.



Wastewater

- Completed designing the Mangakino treatment plant; designed and constructed the Motutere treatment plant upgrade; designed and constructed the Whareroa pond rehabilitation.
- Completed the Taupo main trunk sewer investigation and capacity implementation programme; secured the Waitahanui / Five Mile Bay resource consent.

WHAT WE PLANNED, BUT COULDN'T COMPLETE

Environmental Planning

- The Cultural Values Variation, after it was determined that relying on non-statutory implementation measures would be likely to better achieve the protection of identified sites.

Lakes and River Systems

- Stage 4 of the Lake Taupo Shoreline Erosion Study; maps showing the extent of flood hazards; and the Lake Taupo Foreshore Risk Management Strategy – deferred due to delays in earlier stages of these projects and consultant capacity issues. These projects will be progressed further in 2007/08.

Wastewater

- Taupo Pollution Control Plant (PCP) and Land Disposal System (LDS) expansion. These projects are continuing into the 2007/08 year.
- Construction of the new Mangakino waste treatment plant. This will be complete in 2007/08.

Solid Waste

- Construction of a new resource recovery transfer station (recycling centre) at Broadlands Road. This project was significantly advanced by 30 June 2007, and will be completed by the end of the 2007 calendar year.



ECONOMIC DEVELOPMENT

Our vision is for Taupo District to be seen as a vibrant, exciting and fresh visitor destination, with our community enjoying diverse and sustainable economic and lifestyle benefits.

KEY ACTIVITIES

Destination Marketing and Management, Visitor Centres, Economic Development Strategy Implementation, Economic Development Projects

WHAT WE DID

Destination Marketing and Management

- Destination Lake Taupo marketed the region to domestic and international markets through several specific-focus initiatives. We worked closely with other regions in the Central North Island to develop the Great New Zealand Touring Route concept. International marketing was focused on trade training and promotional expos in offshore markets. We also:
 - Implemented a domestic campaign and refreshed our regional website
 - Facilitated and hosted 16 major events, and expanded the events portfolio into the traditionally off-peak spring and autumn 'shoulder periods'
 - Facilitated a Conventions Bureau and organised trade training events for this market.
- We initiated a sustainability project to protect the long term future of the tourism in our region.

Visitor Centres

- Operated the Taupo and Turangi Information Centres, providing regional information to locals and visitors.

Economic Development Strategy Implementation

- Contracts were developed and monitored for the New Zealand Clean Energy Centre, and the Gateway to World Heritage and National Parks.
- The Taupo District Economic Development Advisory Board was assisted to prepare a paper on a revised structure for the delivery of economic development services.

WHAT WE PLANNED, BUT COULDN'T COMPLETE

Economic Development Projects

- The Long-Term Council Community Plan indicated that Council (together with the Crown) would be making a \$950,000 contribution towards the cost of a major runway and taxiway reseal at Taupo Airport during the 2006/07 financial year. While Council and the Crown remain committed to this project, it has now been deferred until October 2007.

GOOD GOVERNANCE AND STRATEGIC ALLIANCES

The Local Government Act 2002 provides the framework within which all local authorities must operate. Central to the Act are a number of principles about good governance. These principles encourage councils to make decisions openly, in consultation with their communities. The Act also requires councils to work collaboratively with other agencies to achieve community outcomes and make better use of resources.

Good governance and strategic alliances are a key component of sustainable development. Councils and other agencies are challenged to think beyond their traditional boundaries, and to take an integrated approach to achieving what the community identifies as being important for its future.

KEY ACTIVITIES

Governance Advocacy and Leadership, Community Planning and Partnerships, Strategic Planning

WHAT WE DID

Governance, Advocacy and Leadership

- As an advocate on behalf of the community, participated as an appellant in an Environment Court hearing concerning resource consents for the continued, and increased use of the Wairakei-Tauhara geothermal system for electricity generation. Council's concern was to ensure that the adverse effects of differential subsidence, which can result from the extraction of geothermal fluid, were avoided. The Court stated that it had "little difficulty in finding that subsidence is likely to occur as a result of future extraction, but to what extent under different scenarios is uncertain. Accordingly there is an onus on us to ensure that the conditions of consent include adequate measures to address this issue".
- Continued the review of all existing bylaws.

Strategic Planning

- Prepared the 2007/08 Annual Plan and an LTCCP Amendment relating to changes to Council's Investment Policy.



SUMMARY FINANCIAL STATEMENTS

OVERVIEW

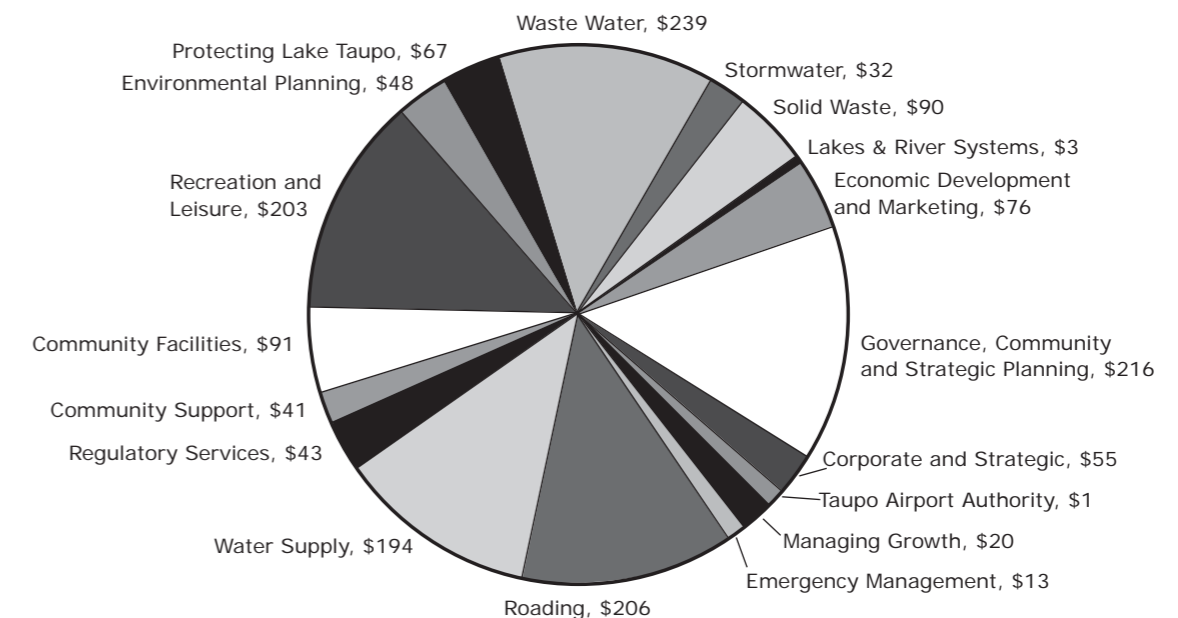
An operating surplus of \$14.4 million was achieved this year. This compares with a budgeted surplus of \$5.5 million, and last year's \$14.9 million surplus. It must be remembered that much of Council's surplus comes from non-cash revenue items such as the infrastructure vested by developers (\$5.2m); recognition of the share of the surplus / net assets of associate, the Lake Taupo Protection Trust (\$3.1m); and net fair value gains in the value of various assets taken through the income statement (\$0.7m). In addition, it should be noted that the surplus includes \$7.1m of profits earned from the subdivision and sale of surplus Council land. This figure is considerably in excess of the \$2m budgeted from this source for the 2006/07 year.

Council's Balance Sheet presents a very healthy picture, reflecting a growing District investing in its infrastructure. For the first time our Balance Sheet shows ratepayer equity in excess of \$1 billion, this result achieved principally by revaluation gains on land and building assets.

These financial statements are extracted from the full Annual Report. That report was prepared in accordance with generally accepted accounting practice in New Zealand and therefore also complies with International Financial Reporting Standards (NZ IFRS). The information in this summary financial report has been prepared in accordance with FRS-43: Summary Financial Statements. Taupo District Council is a public benefit entity as defined in NZ IFRS. The financial statements are presented in New Zealand dollars and values are rounded to the nearest thousand dollars. The functional currency of Taupo District Council is New Zealand dollars.

HERE'S HOW YOUR RATES WERE SPENT

ON AVERAGE IT COST EACH RATEPAYER \$1,638 TO OPERATE THESE SERVICES:



CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2007

| | Council Actual 2007 \$000 | Council Estimate 2007 \$000 | Council Actual 2006 \$000 | Group Actual 2007 \$000 | Group Actual 2006 \$000 |
|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|----------------------------------|----------------------------------|
| Income | 68,042 | 58,255 | 66,648 | 68,586 | 67,304 |
| Expenditure other than finance costs | 53,522 | 49,021 | 48,759 | 53,725 | 49,682 |
| Finance costs | 3,230 | 3,697 | 2,915 | 3,254 | 2,967 |
| Operating surplus | 11,290 | 5,537 | 14,974 | 11,607 | 14,655 |
| Share of associate surplus | 3,141 | 0 | 0 | 3,141 | 0 |
| Net surplus before tax | 14,431 | 5,537 | 14,974 | 14,748 | 14,655 |
| Tax (expense) credit | 0 | 0 | 0 | 36 | 49 |
| Net surplus after tax | 14,431 | 5,537 | 14,974 | 14,784 | 14,704 |
| <i>Attributable to:</i> | | | | | |
| Taupo District Council | 14,431 | 5,537 | 14,974 | 14,778 | 14,772 |
| Minority interest | 0 | 0 | 0 | 6 | (68) |
| Net surplus for the year | 14,431 | 5,537 | 14,974 | 14,784 | 14,704 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2007

| | Council Actual 2007 \$000 | Council Estimate 2007 \$000 | Council Actual 2006 \$000 | Group Actual 2007 \$000 | Group Actual 2006 \$000 |
|------------------------------------------------------|------------------------------------|--------------------------------------|------------------------------------|----------------------------------|----------------------------------|
| Equity at start of the year | 887,067 | 938,948 | 871,935 | 890,756 | 875,894 |
| <i>Property, plant and equipment</i> | | | | | |
| Revaluation gains through equity | 134,470 | 27,350 | 0 | 135,223 | 0 |
| <i>Financial assets at fair value through equity</i> | | | | | |
| Revaluation gains (losses) through equity | 27 | 0 | 21 | 27 | 21 |
| Cash flow hedges taken to equity | 643 | 0 | 137 | 643 | 137 |
| Tax on equity items | 0 | 0 | 0 | (16) | 0 |
| Net surplus for the year | 14,431 | 5,537 | 14,974 | 14,784 | 14,704 |
| Total recognised income and expenses | 149,571 | 32,887 | 15,132 | 150,661 | 14,862 |
| <i>Attributable to:</i> | | | | | |
| Taupo District Council | 149,571 | 32,887 | 15,132 | 150,637 | 14,930 |
| Minority interest | 0 | 0 | 0 | 24 | (68) |
| Total recognised income and expenses | 149,571 | 32,887 | 15,132 | 150,661 | 14,862 |
| Equity at end of the year | 1,036,638 | 971,835 | 887,067 | 1,041,417 | 890,756 |

CONSOLIDATED BALANCE SHEET

as at 30 June 2007

| | Council Actual 2007 \$000 | Council Estimate 2007 \$000 | Council Actual 2006 \$000 | Group Actual 2007 \$000 | Group Actual 2006 \$000 |
|---------------------------------|------------------------------------|--------------------------------------|------------------------------------|----------------------------------|----------------------------------|
| Current Assets | 56,643 | 51,934 | 41,819 | 56,321 | 41,521 |
| Non-Current Assets | 1,032,281 | 1,000,016 | 899,443 | 1,038,694 | 905,010 |
| Total Assets | 1,088,924 | 1,051,950 | 941,262 | 1,095,015 | 946,531 |
| Current Liabilities | 10,040 | 13,790 | 9,640 | 10,108 | 9,956 |
| Non-Current Liabilities | 42,246 | 66,325 | 44,555 | 43,490 | 45,819 |
| Total Liabilities | 52,286 | 80,115 | 54,195 | 53,598 | 55,775 |
| Equity - Taupo District Council | 1,036,638 | 971,835 | 887,067 | 1,039,880 | 889,243 |
| Equity - Minority Interests | 0 | 0 | 0 | 1,537 | 1,513 |
| Total Equity | 1,036,638 | 971,835 | 887,067 | 1,041,417 | 890,756 |

CONSOLIDATED CASHFLOW STATEMENT

for the year ended 30 June 2007

| | Council Actual 2007 \$000 | Council Estimate 2007 \$000 | Council Actual 2006 \$000 | Group Actual 2007 \$000 | Group Actual 2006 \$000 |
|---------------------------------------------|------------------------------------|--------------------------------------|------------------------------------|----------------------------------|----------------------------------|
| Net cash from operating activities | 10,733 | 16,195 | 10,835 | 10,679 | 10,717 |
| Net cash from investing activities | (16,061) | (34,956) | (19,898) | (15,791) | (19,838) |
| Net cash from financing activities | (2,023) | 17,361 | 16,544 | (2,242) | 16,544 |
| Net increase (decrease) in cash held | (7,351) | (1,400) | 7,481 | (7,354) | 7,423 |

ADDITIONAL DISCLOSURES

EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Explanations for major variations from the Council estimate figures for year one of the 2006/16 LTCCP are as follows:

Income Statement

Council's actual surplus of \$14.4m is \$8.9m greater than the \$5.5m budgeted. The major variations are due to:

- The recognition of gains on sale from various subdivision projects carried out by Council (\$5.1m), changes in the timing of these projects have resulted in a mismatch between actual and budget
- Unbudgeted infrastructure vested in council of \$5.2m, and unbudgeted \$3.1m recognition of the surplus of associate, the Lake Taupo Protection Trust
- Partially offsetting these items of unbudgeted revenue is Council's expenditure being \$4m in excess of budget. Major factors in this are employee benefit expenses (\$1.3m over budget), depreciation (\$1.2m over budget), and losses on disposal of assets (\$1.8m).

Statement Of Changes In Equity

The major variations are due to:

- The opening equity position being \$51.9m lower than anticipated in the budget, primarily the result of errors in 30 June 2005 revaluations of land being discovered after estimates were prepared, but corrected for in the actual numbers reported
- The 30 June 2007 revaluations of land and buildings being \$107m higher than anticipated in the LTCCP
- Other unbudgeted revaluation gains of \$0.67m being taken directly to equity
- The net surplus for the year being \$8.9m higher than budgeted (see explanation under 'Income Statement' heading above).

Balance Sheet

The major variations are due to:

- Trade and other receivables being \$3.3m lower than budgeted
- Non-current assets held for sale being \$1.0m lower than budgeted, with changes in the timing of Council's subdivision programme impacting on this
- Derivative financial instruments being \$0.9m higher than budgeted, with changes in interest rates over the year increasing the value of the interest rate swaps that Council has entered into
- The recognition of an unbudgeted \$3.1 million interest in the net assets of Council associate, the Lake Taupo Protection Trust
- Property, plant and equipment being \$35.5m higher than budgeted, the result of 30 June 2007 revaluations, corrections to the 2005 valuations, and changes in Council's capital spending programmes

- Borrowings being \$24.5m less than budgeted, the result of changes in Council's capital expenditure programme, and the repayment of some borrowings earlier than expected
- The change in accounting policy on development contributions resulting in the estimated liability of \$2.7m for development contributions having no actual equivalent. Equity position varying as described under the heading of 'Statement of Changes in Equity' elsewhere in this note.

| | Council Actual 2007 \$000 | Council Actual 2006 \$000 | Group Actual 2007 \$000 | Group Actual 2006 \$000 |
|----------------------------------|-----------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------------|
| COMMITMENTS | | | | |
| Major contracts | 26,449 | 10,288 | 26,449 | 10,288 |
| Non-cancellable operating leases | 686 | 687 | 698 | 668 |
| Total Commitments | 27,135 | 10,975 | 27,147 | 10,956 |
| CONTINGENCIES | | | | |
| | Amount of original guarantee 2007 \$000 | Current level of guarantee outstanding 2007 \$000 | Amount of original guarantee 2006 \$000 | Current level of guarantee outstanding 2006 \$000 |
| Sporting Club Loan Guarantees | 193 | 87 | 159 | 116 |

OTHER CONTINGENCIES

Scientific advice has been received regarding the Hipaua Geothermal Landslide risk near Waihi at the southern end of Lake Taupo. In the event of a landslide any property damage and/or loss of life could potentially give rise to claim(s) against Council, currently unquantifiable (2006: same contingency disclosure made).

A land subsidence issue has been identified in the Taupo urban area, with the potential for property damage and therefore raising liability issues. Taupo District Council does not believe it has any direct potential liability, specifically related to the causes of the subsidence. The issue of contingent liability however, currently unquantifiable, is under review (2006: same contingency disclosure made).

Council controls and has brought to account certain reserve lands throughout the District which will return to Iwi ownership in the event that they are no longer required for reserve purposes. Council does not envisage that this situation will ever eventuate (2006 same contingency disclosure made).

Council may be subject to claims relating to weather tightness building defects. As at the date of this report the Weathertight Home Resolution Service (WHRS) is investigating five claims relating to properties in the Taupo District. These may or may not result in formal claims against Council. One further weather tightness claim has been lodged directly with Council. The quantum of these claims cannot be accurately calculated at present, although any liability under this claim will be met by our insurers, subject to our usual excess requirements (2006: 5 WHRS claims plus one lodged directly).

In addition to the weather tightness building defect claims, there are a further 16 unresolved potential legal claims against Council as at 30 June 2007 (2006 10 claims). All seek compensation related to resource consents, property damage, contractual disputes, or other aspects of Council's operations which the claimants believe have caused them loss. It is not possible for Council to quantify a maximum financial exposure for these claims. Council will vigorously defend all claims and expects its actual liability to be minimal, if indeed there is any liability at all.

CONTINGENT ASSET

Taupo District Council and the Airport Sub-Committee were advised by the Secretary of Transport in July 2005, of a change in policy direction in regard to Crown funding of joint venture airport operating losses. We understand that the policy change means that the Crown will meet its share of the operating losses of joint venture airports such as Taupo. We have been advised that the policy change is applicable to both past and future losses. The policy change should result in the Taupo Airport Authority obtaining an equity injection from

the Crown in recognition of any operating losses incurred over the past few years which fit the Crown's policy criteria. The quantum, form, and timing of this compensating payment is currently being determined hence its disclosure as a contingent asset.

EVENTS AFTER BALANCE SHEET DATE

There were no significant events after balance date that require reporting (2006 Group - reported wind down of Data Capture Systems Limited).

EXPLANATION OF TRANSITION TO NEW ZEALAND INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

The financial report that this summary is based on is the first Taupo District Council financial report to comply with NZ IFRS, and NZ IFRS 1 has been applied. The transition date is 1 July 2005.

The following table and the associated notes show the changes in equity resulting from the transition from previous NZ GAAP to NZ IFRS as at 30 June 2006.

Reconciliation To Previously Reported Financial Statements - Group

| | Notes | Previous GAAP 30 June 2006 \$000 | Correction \$000 | Effect of Transition \$000 | NZ IFRS 30 June 2006 \$000 |
|-------------------------------|----------------------------|----------------------------------------|---------------------|----------------------------------|----------------------------------|
| Income Statement | | | | | |
| Income | v,viii | 69,268 | - | (1,964) | 67,304 |
| Expenditure | x | 52,936 | (98) | (189) | 52,649 |
| Net surplus before tax | | 16,332 | 98 | (1,775) | 14,655 |
| Tax (expense) credit | vi | - | - | 49 | 49 |
| Net surplus after tax | | 16,332 | 98 | (1,726) | 14,704 |
| Balance Sheet | | | | | |
| Current assets | i | 42,701 | - | (1,180) | 41,521 |
| Non current assets | i,ii,iii,iv,viii,ix | 963,106 | (62,402) | 4,306 | 905,010 |
| Current liabilities | vii,x | 20,068 | (10,112) | - | 9,956 |
| Non current liabilities | v,vi,x | 37,177 | 10,112 | (1,470) | 45,819 |
| Equity | ii,iii,iv,v,vi,vii,viii,ix | 948,562 | (62,402) | 4,596 | 890,756 |

Explanatory Notes - Reconciliation Of Equity

NZ IFRS Adjustments

- Interest accrued on term investments is taken into account in the market value calculation, and is included as part of the investment value. In the past, this has been accounted for as interest accrued in the accounts receivable balance.
- The Taupo Airport Authority has not previously accounted for investment properties. A number of buildings have now been identified that are classified as investment properties under NZ IFRS, the majority of which had not been previously accounted for. The increase in fair value of these properties has been credited to the Income Statement. These assets are not depreciated.
- Under NZ IFRS, forestry is now classified as a biological asset and revalued annually. All changes in valuation are accounted for through the Income Statement. A valuation was carried out at transition date, resulting in an increased value of \$1,075,000.
- Reserve land and operational buildings at the Airport were revalued to fair value at 1 July 2005, becoming deemed cost at IFRS transition date. The increase in value is reflected in the IFRS figures.
- During the 2005/06 year, the accounting treatment for Development Contributions changed from accounting for revenue when invoiced, to the liability method where revenue is not recognised until it is applied to an allowable capital project. Under IFRS, Development Contributions are to be recognised as income when invoiced. The effect of the change in accounting policy in the 2005/06 year has been reversed.
- Under previous NZ GAAP, the Taupo Airport used the partial method of calculating deferred tax, and no liability was recorded. Under NZ IAS 12, deferred tax is calculated based on the difference between the carrying value of an asset, and the amount attributed to it for tax purposes. This method generally results in a significantly larger deferred tax liability, especially in relation to revalued assets.

- (vii) In the past, unused sick leave has not been treated as a liability. There is now a requirement to provide for the portion of unused sick leave that is estimated that it will be used in future years.
- (viii) Assets introduced in 2005/06 income statement - now adjusted for in 1 July 2005 transitional balance sheet.

Corrections of Prior Years Treatment

- (ix) There were a number of errors identified in the 2005 valuation of land and reserves, overstating the value of the asset and the revaluation reserve by close to \$63 million. In addition, historically depreciation on library books has been incorrectly calculated. Accumulated depreciation has been amended to reflect the correct book value.
- (x) In preparing the current financial report, an error was noted in the current / non-current classification of public debt maturities in the 2004/05 and 2005/06 GAAP financial reports. This error has been corrected for.



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TURANGI
Ph: 07 386 7017
Fax: 07 386 8449

Mangakino Town Centre
P O Box 9
MANGAKINO
Ph: 07 882 8700
Fax: 07 882 8330

BANKER

Bank of New Zealand
- Taupo (transactional)
ANZ Bank
- Hamilton (funding)

SOLICITORS

Le Pine & Co - Taupo

AUDITOR

Audit New Zealand on behalf of
The Auditor-General

INSURANCE BROKER

Jardine Lloyd Thompson Ltd
Auckland