

Waitomo District Council

Annual Report 2010-2011



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1.0 Introduction

The Waitomo District Council is made up of seven elected representatives – the Mayor and six Councillors. It's the Council's job to look after the well-being of the Waitomo District Community and its people, and to enable democratic local decision-making.

This Annual Report tells the story of our performance over the last financial year from 1 July 2010 to 30 June 2011. It is an important way of informing our communities about how we are progressing in achieving our goals.

It also highlights the areas we performed well in and the areas we need to improve on and how we plan on doing this.

Engaging well with the Waitomo District Community is very important to Council. We have structured this report, so it is easy to find information on an Activity of interest. The report is divided into the following sections:

Introduction (an overview of our performance). This section includes a Report from our Mayor and Chief Executive, Progress against our Strategic Priorities, a Financial Overview and our Community Outcomes.

Our Activities (highlights and achievements). This section tells you about our Activities, the major projects undertaken, a snapshot of our performance and how we went against budget.

Financial Statements. This section provides you with all the financial statements.

Groups of Activity Performance. This section provides you with our full Statement of Service Performance for all of Councils Activities.

Our planning and reporting cycles

The following is an overview of our planning and reporting framework and how it all fits together with the Annual Report.

LONG TERM PLAN

The Long Term Plan, (LTP) is a strategic planning document. It sets the framework for Council's activities, performance measuring and monitoring.

It shows the rates that need to be collected in order to deliver the services to the communities. It also shows how we intend to contribute to the community outcomes of the district.

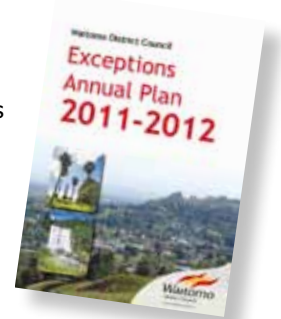


The LTP is projected across a ten year timeframe. However, the plan itself is reviewed on a three yearly cycle (this means that a new LTP is required to be adopted by Council every three years).

This regular review cycle enables Council to more accurately predict what is going to happen and how best to provide for any changes. The next review of the LTP will take place in 2012, for the 2012-22 Long Term Plan.

ANNUAL PLAN

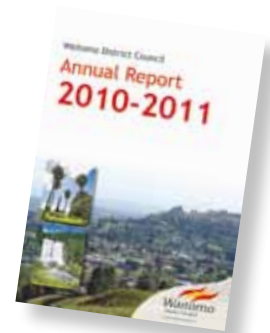
Each year Council is required to have an Annual Plan which sets out the budget for the year. This is based on what is proposed in the Ten Year Plan but also highlights any change or variance that is projected to occur which is not currently accounted for in the Ten Year Plan.



The first year of a Ten Year Plan does not require a separate Annual Plan as this is already provided for in the Ten Year Plan. However, the second and third years must have an Annual Plan.

ANNUAL REPORT

Every year we are required to produce an Annual Report. The Annual Report reports against our Annual Plans and the Ten Year Plan.



It is the key accountability document for our communities and it explains how we have performed for the year.

All of Councils' Plans and Reports can be found on our website: www.waitomo.govt.nz. Alternatively you can contact us on Freephone 0800 932 4357, or by email: waitomdc@waitomo.govt.nz.

1.1 Message from the Mayor and Chief Executive

We are pleased to present the Annual Report for the year ended 30 June 2011. This Report provides a record of the activities, achievements and financial performance of the Waitomo District Council for the 2010/11 year.

The Council elected in 2010 has continued to build on the good work carried out by the previous Council, in focusing on prudent financial managements and rates affordability.

WDC has aggressively pursued Central Government subsidy available for key infrastructures, and has been successful in key Wastewater and Water infrastructures that service Te Kuiti, Piopio, Benneydale, and Mokau. At long last, after a four year delay due to Environment Court process, Piopio Wastewater Scheme can now go ahead, thanks to the Environment Court rightly ruling in our favour. The cost of this delay is considerable, and unfortunately falls unfairly on the residents of Piopio. Council is investigating ways for this burden to be shared by the area serviced by Piopio Township.

The presentation of the 2010/11 Annual Report document has been structured differently with the aim to present both financial and non-financial performance information in a way that can be more easily understood and followed by our District Ratepayers and Residents. This revised presentation format includes a Community Outcomes section that defines the scope of Council's planning process, a Group of Activities section that records Council's key achievements and service performance together with separate sections for the financial and non-financial performance results for the year.

Turning to the financial year under report we would like to take this opportunity to highlight three matters in particular. All of those matters stem from Council's long term investment as the Shareholder in Inframax Construction Limited.

Inframax Construction Limited

The ongoing investment in Inframax Construction Limited (ICL) has been a matter of very careful consideration for each of the past three financial years. A considerable effort has gone into working with the newly appointed ICL Board, to ensure that ICL maintains its commercial presence, and remains as a large employer in the Waitomo District.

The financial performance of the investment over recent time, (when assessed in the context of the local trading conditions as exacerbated by the local effects of the Global Financial Crisis) brought the Council to the point where it was necessary to re-assess the value of the ICL investment. The historical carrying value of the investment was reset at \$0 as at 30 June 2010. The difficult economic and trading conditions facing the roading construction and roading maintenance industry have been the worst experienced over the last few decades, with intense competition for any available work. Many competing contractors are experiencing the same problems as ICL.

As the 2009/10 financial year came to a close, the Council recognised the potential status of the investment, in terms

of forecast investment income, when it contemplated the development of an Annual Plan for the 2011/12 financial year. Council has re-ordered its financial forecasts so that no allowance for, or reliance on investment income was factored into the Plan.

However an assumption for a conservative positive dividend income forecast was factored into the financial forecasts contained within the 2009-2019 Long Term Plan. That assumption for future investment income is unlikely to eventuate for some time.

The Council has worked very closely with the ICL Board to better understand the financial circumstance and to assess the likely future performance of the investment. Council acknowledges that the ICL Board is doing everything that it can to improve financial performance and that progress has been made in that regard. We have committed to a process with the ICL Board that potentially offers the opportunity, over time, for the value of the Investment to be restored.

A key challenge for the Council will be to both monitor and support that restorative process and to evaluate and communicate how the implications impact on Council's overall financial position and sustainability as we go forward. That work will continue but 2011/12 will be a critical time in all regards.

Rates Affordability

The 2011/12 Annual Plan (AP) summarises the work undertaken by Council to review existing Levels of Service (LoS) in the context of Rates Affordability.

The "affordability" goal was and is simple. WDC must reduce costs without compromising Financial Sustainability whilst at the same time supporting the drive to achieve Rates Affordability. The 2011/12 AP package resulted in affordable rates, together with fine tuning amendments to improve the fairness of Revenue and Financing and Remission of Rates Policies.

Overall the key changes to the 2009-2019 Long Term Plan for the 2011/12 financial year resulted in an overall increase in rate revenue of 7.18% compared with 10.37% forecast in the 2009-2019 LTP.

Resident Satisfaction Survey

Council annually seeks out community impressions of the standard of services provided by the Council. Immediately following the close of the 2010/11 year a Resident Satisfaction Survey (RSS) of 400 district residents was undertaken. Specifically the RSS was aimed at identifying and measuring Council's performance, gaining information in relation to LoS and providing an insight into community satisfaction with Council services and activities.

Overall the results for 2010/11 show a pleasing improvement in most service performance measures for Council and many of the benchmarked measures have met or exceeded the targets that are in place. Council Activities that have surpassed the benchmarks include: parks and sports grounds; cultural, art and recreation facilities; library services; public toilets; cemeteries; animal control services; community environment; swimming pool; and keeping residents informed through Council communications.

Council is pleased to see that the measures relating to the District's roads have increased since the 2010 survey and benchmarks for street lighting, traffic signage and the reliability of the District's Rooding Network have all been exceeded.

Significant Projects

Also during the 2010/11 year, significant progress was made with the Te Kuiti Wastewater Treatment Plant Upgrade project, the design for which is now complete. In June 2011 Council was advised that its Sanitary Waste Subsidy Scheme application for funding had been successful. Progress on this major project will continue in the 2011/12 financial year.

The sewerage system at Benneydale was substantially completed at 30 June 2011 and after some considerable delays resulting from a protracted resource consent process the Piopio Wastewater Scheme will also proceed during 2011/12.

Upgrading works are proposed for water supply systems at Te Kuiti, Piopio and Mokau during 2011/12. This work will eventually bring the water supplied by those systems up to the required drinking water standards.

In conclusion, the 2010/11 financial year will see Waitomo District Council move closer to its target of financial sustainability even though the last of the "roading rates catch-up" increase will fall into the 2012/2013 year. We thank the elected Council and staff who have worked hard and have achieved good outcomes for Waitomo District during the 2010/11 year.

Matters of Significance since end of financial year

A key consideration in finalising this Annual Report for the Waitomo District Council and Group has been the matter of the likely future financial position of the investment in ICL.

A new Board was established in May this year. The Board's first and most important task was to research and identify a business plan, known as a Restructure Plan, with the objective of restoring the value of the investment over time. This task has required the support of all those with a stake in ICL, including their financier, Westpac Bank, key management staff, and of course WDC as shareholder.

This challenge has been a big ask of a completely new Board, and as is often the way with such endeavors, it has taken a lot longer to complete than was first anticipated.

A complicating factor in that work was the consideration that in August 2011, ICL was unsuccessful in its bid to regain the WDC Roads Maintenance contract. That contract had been held by ICL since 2006.

After a long period of intense planning and negotiation of the various options, WDC approved the Restructure Plan in early November 2011.

It was the Council's view that it was essential to give this new, totally committed Board the best opportunity to successfully implement its Restructure Plan and make the required changes to re-establish ICL as sustainable effective provider of quality services.

The Board has informed the Shareholder that it has successfully completed the process of recruiting a new CEO has aggressively addressed the cost structures within the overhead of ICL and that a new positive workplace culture has been instilled across the Company. All of these measures are essential to the plan for a new successful and sustainable ICL. Those in turn will over time, restore the financial performance of the investment to a condition that will contribute significantly to our District once again.

The Council's role in all of that has been to undertake a very thorough process, to carefully consider the options and the likely impacts and to take a decision to financially support ICL's future.

To that end, early in the 2011/12 financial year Council committed to make a further equity investment in ICL.

On completion of the agreement for a Restructure Plan, Council took the decision to purchase the Parkside Subdivision in Te Kuiti from ICL, to relieve ICL of the ownership costs associated with a non-core activity, and along with Westpac Bank, has agreed to provide additional financial support over the medium term.

One of the obvious difficulties of such an important commercial process is the limitation placed on the Council's ability to communicate with and inform the District Community of all the considerations involved.

We can report here that there is a unanimous commitment for the part of the Council, and the very focused commitment of the ICL Board to make the financial future of ICL much more certain and sustainable than has been the case in the recent past.



BRIAN HANNA
MAYOR



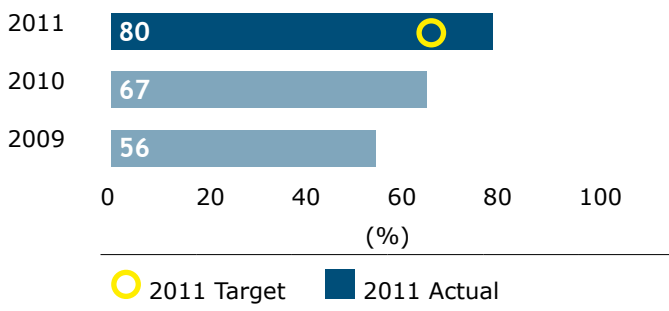
CHRIS RYAN
CHIEF EXECUTIVE

1.2 Snapshot of progress

Council adopted a range of performance targets to allow it to measure, over time, whether or not the performance in the delivery of services was properly focused on WDCs' priorities. Council has maintained a strong Service Performance focus over the three financial years up to and including the reporting period covered by this Annual Report. The following information provides a snapshot of progress made by WDC in achieving the performance targets. The full Statement of Service Performance can be found in Section 5.0 of this Annual Report.

The District has a reliable Rooding Network.

In the 2011 Residents Satisfaction Survey (RSS), 80% of residents surveyed, rated the District's Rooding Network as reliable. This rating exceeds Council's target of greater than 65%.



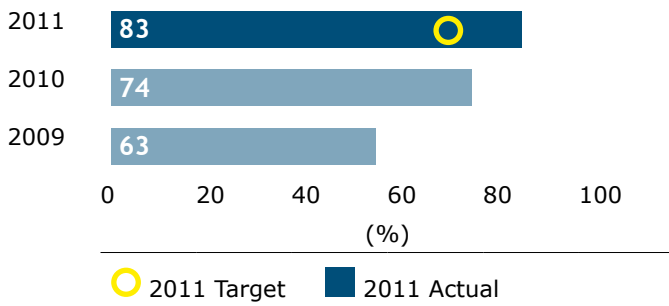
Residents are satisfied with the reliability of the Water Supply Service.

Waitomo District Residents rated the reliability of the Water Supply service as 93%. This rating exceeded Council's target of 80%.

Refuse Transfer Stations and Landfill are safe to use.

The results for the RSS show a considerable increase in resident satisfaction across three of the four measures relating to recycling and refuse services this year.

83% of Residents rated the District's Transfer Stations and Landfill as safe to use. This rating exceeds Council's target of 70%.



The District has quality Parks and Reserves.

83% of Waitomo District Residents were satisfied or very satisfied with the quality of the Districts' Parks and Reserves. This rating exceeds Council's target of greater than 75%.

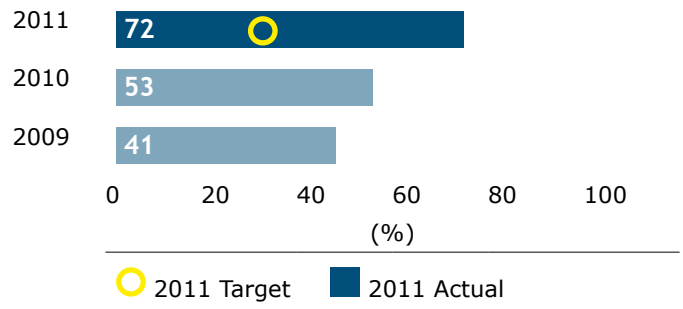
The Library offers comprehensive service to the Community.

The performance result of 86% resident satisfaction with this service, has exceeded Council's target of greater than 80%. There were 13,783 borrowers using the Library service this year compared with 15,576 users of this service in 2009/10 (a 11.5% reduction in usage).

Liquor and food retail premises are inspected and appropriately registered and licensed.

All food and liquor premises have been inspected and are appropriately registered or licensed.

72% of Residents feel the Council provides an effective building consent service.



77% of Residents were satisfied or very satisfied with Council Communications. This rating exceeds Council's target of greater than/or equal to 50%.

The District's street lighting ensures roads are safe to use.

Installation of new street lights to replace existing lights that were in an unsafe condition was completed during the year. New street lights on Park Street at Te Kuiti to increase the safety around the school and sports fields were also installed. Waitomo District Resident's rated the quality of the street lighting as 75%, exceeding Council's benchmark of 70% for this activity.

There are also areas where our performance is declining or has fallen short of the target, for example:

- The number of bookings for the Waitomo Cultural and Arts Centre was down from 57 (2009/10) to 47 this year. The unavailability of the Centre during its' upgrade was the major contributing factor to the drop in bookings;
- The number of road closures due to blockages or slips (resulting from unforeseen poor weather conditions);
- The number of sewage over-flow events per year at any one wastewater scheme (this result is directly related to the current strategic challenges facing WDC at this time concerning much needed maintenance and renewals of aging key infrastructural assets).

1.3 Role and Direction

Under the Local Government Act 2002, the Council's purposes are:

1. To enable democratic decision making and action by, and on behalf of the people of the Waitomo District.
2. To promote the social, economic, environmental and cultural well-being of the people of the Waitomo District, now and into the future.

The Act also imposes responsibilities relating to Water, Wastewater and other sanitary works (such as public toilets).

Under other legislation, we are responsible for:

- public health and safety,
- waste minimisation,
- civil defence,
- emergency management,
- regulating building and land development/ land use,
- food and liquor sales,
- gambling,
- animal control, and a range of other services provided to the community.

The Act gives the Council a general right to take actions that are wholly or principally for the benefit of Waitomo District, including gathering rates (property tax) and setting bylaws.

Our Reporting

We provide a financial report to Council on a monthly and quarterly basis. Our non-financial performance (Statement of Service Performance) is reported to Council on a quarterly basis along with detailed commentary explaining what we have not achieved, why we did not achieve target and what we plan on doing to improve our future performance results.

For each of Councils' 11 Significant Activities you will find:

- What we do
- How we contribute to Community Outcomes
- What projects were undertaken for the year
- How we performed and whether we achieved our targets
- How we went against our budget.

All of this information is presented together to provide you with the full picture about how WDC is performing.

Measuring Resident Satisfaction

Ensuring the districts' residents are satisfied with the services and facilities we provide is a priority for Council. We undertake an independent Resident Satisfaction Survey (RSS) every year to find out how well the community thinks we are doing. This report uses information from the RSS to report on our performance against our strategic goals.

The Long-Term Direction of the District

The 2009-19 Long Term Plan (LTP) highlighted the strategic challenge of rates affordability as a critical consideration when shaping projects and work programmes for the next 10 years. The local economic environment changed rapidly during 2008/09 reflecting the global financial crisis affecting most economies across the world.

Council was mindful that households in the Waitomo District were faced with difficult financial times that were forecast to continue some time into the future. That quest for rates affordability was exacerbated by:

- A significant loss of investment income from Council's subsidiary, Inframax Construction Limited. Traditionally this income was used to offset rates income and fund some of the operations undertaken by Council;
- The need to fund essential upgrades of water and sewerage services in the Districts' urban centres;
- The need to substitute borrowing for rate funding in the Land Transport Activity (subsidised roads); and
- An increase in the rate of Goods and Services Tax (GST) from 12.5% to 15%.

The focus for the 2010/11 year was to balance the competing goals of rates affordability with the sustainable management of infrastructural assets and the delivery of services in the most prudent manner.

The 2010/11 financial year saw Council continue to work on implementing a strategy that recognises the need to strike the right balance between the need for prudent and sustainable financial management, rates affordability and an overall contribution to community well-being through the delivery of services.

A key affordability project was undertaken during 2010/11 that saw a careful review of the Levels of Service provided through the roading network and funded by the Land Transport (Roading) Activity.

The aim of the project was to reduce the spend in the Land Transport (Roading) Activity without compromising Financial Sustainability, while at the same time supporting the drive to achieve rates affordability. The delivery of the roading programme against the approved budget was substantially achieved during the year. Weather conditions contributed to a reduced level of sealed pavement maintenance and an increase in unforeseen emergency works.

Progress Against Strategic Priorities

While the Community Outcomes used in the 2009-19 LTP have been drawn from the 2006-16 LTCCP, Council's strategic response to these outcomes shifted from an emphasis on economic well-being to a focus on the sustainability of the Waitomo District Council as an organisation, investment in essential services where there is a risk to public health and safety, affordability and improved financial management.

At an activity level, the shift to a focus on sustainability has presented in the following ways:

Land Transport (Roading)

As part of the development of the 2010/11 Exceptions Annual Plan a review was made of the various Levels of Service (LoS) provided through the Land Transport Activity.

The objective of the review was to identify opportunities to decrease costs, without materially affecting LoS. The review supported the objectives of Council's Financial Sustainability and forecast Rates Affordability project.

The review work identified opportunities to reduce the cost of maintaining and renewing the local roads network by approximately \$800,000. Those cost reductions are primarily in the area of renewal expenditure and are considered to be sustainable in the short to medium term without any significant impact on service levels.

The Council intends that the revised (reduced) financial expenditure forecasts for roading expenditure (2009-19 LTP) will realign with those LTP forecasts in the 2013/14 financial year.

The components of the Land Transport (Roading) Activity affected by this reduction in spend are traffic services, pavement rehabilitation, replacement of some structure components, footpath renewals and retaining walls.

The Roading component of the overall Affordability Review process was carried out using a 'bottom up' methodology. That meant that all the component parts of the then existing and historical levels of activity and service were reviewed. Then affordability solutions were identified such as finding a way to defer a structural repair and maintaining service levels by extending the life of a component part through applying a temporary repair.

The most significant finding of the Affordability Review was the cost saving potential in removing the Asset Management responsibility from the Contractor under the then existing Roads Maintenance Contract and undertaking that role as a professional service within the WDC Organisation.

The service performance of the Land Transport (Roading) Activity is measured through 11 Service Performance targets; the following two remain strategic priorities for Council:

Less than four service complaints in any one month regarding the condition of the roading surface.

This target was not achieved.

Less than 1 road closure per month due to bank slippages or blockages.

This target was not achieved.

Present and Future Action

It is important to note that Financial Sustainability and Rates Affordability continues to be a top priority for Council particularly in the area of Land Transport due to the historic funding issue of utilising loan proceeds to partially fund operating expenditure.

Council remains committed to a strategy of keeping the level of Roading spend under careful review. In doing so, it has acknowledged that there is a risk that limiting funding available for Roading might have long term implications for the District, beyond the temporary reduction, in some components of the Roading network.

The funding made available for roading maintenance has been reduced by about \$7.0 million in the period 2006 to the present with about \$2 million per year in the last two years. This represents a potential reduction in service levels and also has removed access to New Zealand Transport Agency (NZTA) funding subsidy of about \$1.160 million per year. Council acknowledges a risk that NZTA subsidy capacity will be re-allocated away from the Waitomo District to other national needs such as the Roads of National Significance (RONS) project and in that instance it is unlikely that NZTA funding capacity will be reinstated in the near future.

Council will continue to monitor and review the level of investment in the district roading network with a view to maintain an adequate balance between service levels and affordability.

Sewerage (Waste Water)

TE KUITI SEWERAGE

The Te Kuiti Waste Water Treatment Plant (TKWWTP) upgrade project poses a range of long standing complex challenges that have impacted on the achievement of the key performance priorities for the Sewerage Activity, notably meeting discharge consent requirements.

Confirmation of a Sanitary Waste Subsidy Scheme (SWSS) subsidy for \$3.65 million (plus GST) for the upgrade of the TKWWTP was received from the Ministry of Health (MoH) in June 2011. This is a significant milestone for the residents and ratepayers of the District. The subsidy will decrease the ratepayer funded share of the work by reducing the requirement for loan funding and the associated cost of servicing those loans and overall public debt in the short and medium term.

Looking to the future WDC will need to manage for both financial (affordability) and operational risks as it works through the upgrade project. WDC is aware of its obligation to comply with the existing consent conditions of discharge and of the significant capital and ongoing operational cost implications if that discharge consent is not met. WDC is working very closely with Waikato Regional Council (WRC) to demonstrate its commitment to identifying the best plant design, the best plant performance, obtaining the necessary resource consent as quickly as possible and completing the construction of the upgrade. A further consideration is the need to secure future funding through the MoH and working with local industry to encourage appropriate pre-treatment of Trade Waste and by doing so, reduce the capital requirements of the new plant.

Service performance for the Sewerage Activity is measured through 17 Service Performance Targets.

The following targets remain strategic priorities for Council. WDCs' performance of these targets, is directly related to the current strategic challenges facing WDC at this time.

Less than 5 sewage overflow events per year at any one wastewater scheme.

This target was not achieved. For the 2010/11 year, Council recorded a total of 28 overflow events for the Te Kuiti wastewater scheme.

100% compliance with resource consent conditions.

The service performance target requires that the test results (that measure treatment plant performance) must achieve 100% compliance with the conditions fixed by the discharge consents.

This target was not achieved because the existing TKWWTP is not able to process and treat the wastewater influent load to achieve the standards fixed by the discharge resource consent. That target cannot be met until such time as the upgrade of the TKWWTP can be completed. No monetary penalties have been imposed on WDC as a result of non-compliance with existing resource consent conditions.

The treatment performance of the TKWWTP is not adequate to meet the requirements fixed by the current resource consent conditions. The inadequate treatment performance largely reflects the impact of Trade Waste which has the potential to make the receiving water unfit for cultural and recreational purposes.

It is important to note that those enterprises producing Trade Waste are a key part of the Te Kuiti and Waitomo community as they are major providers of jobs and economic activity.

Some pre-treatment of this Trade Waste discharge is carried out prior to release into the Te Kuiti Waste Water system and WDC and the meat processing industries are working towards a solution to be implemented as part of the proposed upgrade which will also further reduce the capital cost of the upgrade and improve the overall treatment performance of the TKWWTP.

The performance of the TKWWTP must be improved to meet the requirements of the existing operative resource consent and to meet the forecast resource consent conditions that will be imposed as part of the discharge resource consent application that is in process. The final upgrade design is completed, however construction is on hold until SWSS funding from the MoH for \$3.6 million is received. Although already approved, funding is conditional on the final upgrade design being accepted by MoH.

The piped reticulation component of the Te Kuiti Waste Water system is subject to groundwater inflow and infiltration (the runoff of storm water and groundwater into the sewer system). This significantly affects the TKWWTP and adversely impacts on both plant performance and operational efficiency. The 10 year plan to reduce inflow and infiltration, with funding signalled in the LTP is being implemented and is on track.

Less than 5 odour complaints recorded per year at each scheme.

This target was not achieved. A number of complaints were received about the Waitete Road Pump Station. That particular pumping station carries a very high volume of wastewater as it is the primary pump station servicing the nearby industrial users of the Trade Waste service. Also the pump station is located in very close proximity to other business premises. This has been a long standing issue and has been addressed through changes in the Waitete Road Pump Station venting system.

Present and Future Action

Inflow

Surveys and CCTV pipe inspection work has been carried out on the nine catchment areas in Te Kuiti. The areas were ranked from worst to best in terms of inflow. After determining the worst affected area, inspections of homes were carried out and landowners were advised as to what is required to remove their stormwater from the sewer system. This will continue catchment by catchment until at least 2019.

Infiltration

Surveys and CCTV pipe inspection work has been carried out to determine where the infrastructure is failing and allowing groundwater infiltration into the sewer system. Remedial work has been started to reduce the infiltration.

This work will continue until at least 2019 depending on the condition of the sewer reticulation network and the cost of remediation.

Effects of reducing Inflow and Infiltration

Overflows as a result of inflow and infiltration combined with stop/ start operation of an aged main pump station were common. This environmental hazard has now been removed.

The main sewer pump station of Te Kuiti has been rebuilt with added buffer storage and flow control that assures continuous removal of wastewater from the reticulation reducing overflows. This also smoothed the feed pattern into the TKWWTP which improves treatment.

Trade Waste

The Trade Waste Bylaw has been implemented and the need for charges to reflect the loads delivered to the sewerage system has been explained to the major users. Consultation with major users to pre-treat their waste prior to discharging into the sewer system, in turn reducing their cost through discharging a weaker strength waste, is ongoing.

In acknowledgement of the important economic and social role of the meat processing industries in the Waitomo District community, a policy change was included in the 2010/11 Exceptions Annual Plan whereby the level of trade waste charges is capped at 80% of the actual calculated cost, on condition that the industries commit to making the necessary on-site investment in infrastructure to achieve a significant reduction in their discharge load.

Work to improve the operational performance of the existing TKWWTP is ongoing however the level of available funding means that work will be carried out over several years.

Council made the decision to inform Waikato Regional Council (WRC) that it would not be pursuing land based discharge as part of the future upgrades of the TKWWTP. On this basis WRC notified the discharge consent application and this will be followed by a Court Hearing.

PIOPIO SEWERAGE

This long standing project is required for both the health of the Piopio Community and for environmental wellbeing.

The necessary discharge consent was finally determined by the Environment Court in December 2010. This has paved the way for work to start on building the scheme.

Physical works that have been completed so far:

- The Treatment Plant is complete.
- Both the sewer reticulation pipeline work and the treated water outfall construction are now complete.

Physical works that remain to be completed:

- The next stage is to complete the site works. This will involve backfilling the surrounding bund against the Treatment Plant. This work will commence just as soon as the ground conditions are suitable to allow the high number of heavy transportation required to deliver sufficient fill to the site.
- Septic Tank installation will commence as soon as ground conditions allow reasonable opportunity to move heavy equipment around on residential properties.
- Fencing will be carried out once the fill is completed and finally the site will be planted out appropriately.

Operational costs for the scheme were less than budget due to Council's inability to commence the project until the outcome of resource consent appeals was determined by the Environment Court in late 2010. The completion of this project is targeted for June 2012.

BENNEYDALE SEWERAGE

Progress with major reticulation renewal and extension works in the Benneydale Village and the establishment of a wetlands soakage field were delayed during the year pending the successful outcome of an application for Ministry of Health subsidy. Construction was nearly completed at year end and a sewerage system that meets resource consent requirements will be fully operational in Benneydale for the summer of 2011/12.

TE WAITERE

The planned upgrade for Te Waitere included the following projects:

- Renewal and extension of the soakage field,
- Installation of a new pump pipeline,
- General reticulation renewals;

The upgrade has been delayed pending the outcome of a proposed geotechnical survey. This project will be carried out at some stage in the future.

Water Supply

The service performance of the Te Kuiti and Piopio Water Supplies does not meet the guideline parameters defined by the Drinking Water Standards (DWS) 2005. The existing treatment plants require significant capital upgrade (and the total replacement of some components) to meet the required performance standards.

To meet the requirements of the DWS, WDC must undertake an upgrade of the existing equipment to enable real time water quality treatment process monitoring to ensure that water quality standards are met consistently.

The Te Kuiti Water Supply is the highest upgrade priority for the Waitomo District.

An Asset Improvement Plan will be developed at some stage during the 2011/12 year. It comprises of two very significant parts:

1. Work that will need to be done immediately and;
2. Development of the water treatment plant to meet DWS requirements (not affordable in the short term) will be addressed in the 2012-22 Long Term Plan. A total upgrade will be staged over the 10 year period of the Plan and balanced against the Community's ability to pay.

The service performance of the Water Supply Activity is measured through 22 Service Performance Targets.

The following targets for the year relate to a range of complex issues that must be addressed in order to obtain resource consent so that proposed upgrade works can be carried out. For this reason, they remain key priorities for WDC at this time.

100% compliance with the mandatory requirements defined in the 2007 Health (Drinking Water) Amendment Act.

WDC must comply with the mandatory standards imposed by the 2007 Health (Drinking Water) Amendment Act. The requirements of the Act do not directly serve to improve water treatment quality or production. The compliance regime looks to impose additional accountability reporting and reduce potential risks by introducing the requirement for additional (barriers) treatment processes.

This target was not achieved because all four District Water Treatment Plants do not comply with those requirements of the Act. All will require capital upgrades to meet the mandatory standards set by the Act. Planned sustainable upgrades will eventually address the requirements of the Act but progress will be limited to each community's ability to pay for those upgrades.

Present and Future Action

Water rates are already very high and carry an affordability risk and further capital spend is not economically affordable. A further key service performance target is a requirement for 90% compliance with the requirements of the DWS. This service performance target was not achieved. To do so requires an upgrade of treatment plant processes and control equipment to allow for automated data capture and the continuous monitoring, in real time, of the water treatment performance of the Piopio and Te Kuiti Water Treatment Plant. The target will not be achieved until such time as significant upgrades of the Plants are made.

WDC is committed to an incremental improvement work programme to firstly achieve compliance with the DWS and then the 2007 Act.

In particular, improvements to the Te Kuiti and Piopio Water Treatment Plants were delayed until advice of funding assistance was received from the Ministry of Health.

The risk of water borne illness associated with the existing water treatment plants is considered to be very low. There is no historical record of water borne illness in the supply areas and that consideration is weighed against the rates affordability risk of increasing what is already a very high cost of supply, in order for compliance with statutory requirements.

Nil confirmed illnesses attributable to consumption of Council water supply.

There have been no confirmed illnesses attributable to consumption of the WDC Water Supply.

PIOPIO

The planned upgrades of the water treatment plant and filter and pipe work within the treatment plant were not commenced during the year pending the outcome of an application for a Ministry of Health subsidy. Advice that WDC had been successful with its application was not received until after 30 June 2011. Work will now be undertaken during the 2011/12 financial year.

MOKAU

Key projects planned for the Mokau Water Supply were also delayed until advice of funding assistance from the Ministry of Health was received. Work on these upgrades will now be undertaken during the 2011/12 financial year.

1.4 Financial Overview

During the year we continued to manage the District's finances prudently on behalf of the Waitomo District Community.

The following information provides an overview of our financial performance for the year to 30 June 2011. Included in this overview is an explanation of our financial statements and notes.

Overall results at a glance

WDC reported a net surplus after tax of \$2.05 million compared to a LTP budget surplus of \$3.9 million. This result is attributable to a reduction in revenue from rates, central government subsidies and investment income.

Summary Cost of Service Statement

	2011 BUDGET	2011 ACTUAL	2010 ACTUAL
((\$000's)			
Revenue			
Rates Revenue (including penalties)	14,662	14,430	13,840
Leadership	15	140	26
Community Facilities	321	373	2
Community Development	305	239	225
Regulation and Safety	380	303	351
Solid Waste	1,221	913	1,025
Stormwater	3	9	0
Resource Management	83	72	50
Sewerage	3,190	1,937	674
Water	1,451	501	540
Roads	5,262	5,991	5,103
Investment Properties	80	13	(8,326)
Total Revenue	26,973	24,921	13,510
Expenditure			
Leadership	1,715	1,793	1,518
Community Facilities	2,999	2,945	2,747
Community Development	982	886	847
Regulation and Safety	894	868	988
Solid Waste	2,234	1,751	1,720
Stormwater	362	286	271
Resource Management	189	189	126
Sewerage	2,020	2,150	1,812
Water	1,920	1,942	1,831
Roads	8,831	9,365	7,734
Investment Properties	666	695	321
Total Expenditure	22,812	22,870	19,915
Net Operating Surplus/ (Deficit)	4,161	2,051	(6,405)

INFRAMAX CONSTRUCTION LIMITED

Economic conditions facing the roading construction and roading maintenance industry have been the worst experienced over the past few decades, with intense competition for any available work leading to extremely low tender prices and subsequent profit margins. Many competing contractors are experiencing the same problems. For those reasons Council's subsidiary Inframax Construction Limited has been experiencing financial difficulties for some time now and has been unable to provide a return on Council's investment again this year.

Investment income from Inframax had previously been used to reduce the General Rate impact on the District community. In effect, investment income had been used to meet the day to day delivery cost for a wide range of services. Given the seemingly volatile source of WDCs' anticipated investment income it is accepted that this strategy is not without financial risk with the community ultimately having to fund any shortfall in investment income through an increase in rates to maintain existing levels of service.

During the financial year Inframax Construction Ltd prepared a recovery plan which required further funding injections over the next year as follows:

- Introduction of \$800,000 by WDC of additional equity in the form of an increase in the shareholding investment.
- WDC to purchase the Parkside subdivision for book value. It is anticipated this transaction will occur in November 2011.
- Further shareholder advances or further lending from Westpac NZ Ltd up to \$2 million. Subsequent to balance date, WDC decided to and injected \$800,000 of additional equity and has made the decision to purchase the Parkside Subdivision and to advance a loan of \$750,000 to the Company on terms that are not more favourable than if WDC were to borrow the funds externally.

Despite the loss of investment income from Inframax, results from WDCs' own operations were generally in line with the results projected in the second year of the 2009-2019 LTP.

The major variances in overall performance are explained below:

Revenue and other gains and losses were \$2.5 million less than the LTP forecast due to the following factors;

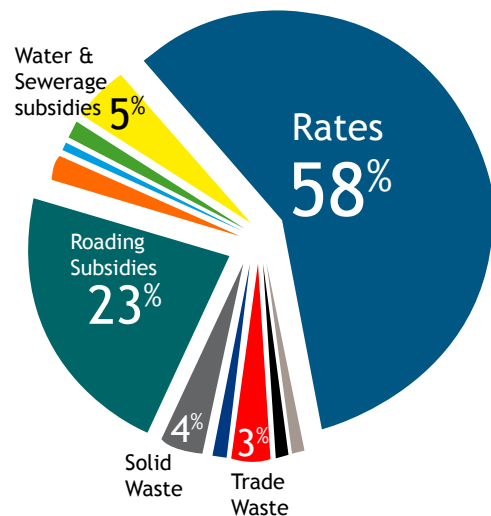
- The subsidiary (Inframax Construction Ltd) did not trade profitably during 2010/11 and consequently no dividend or subvention revenue was received by the WDC. This was partially offset by additional interest income received by Council on surplus funds.
- Rates revenue was \$1.9 million less than the LTP forecast. This was primarily due to:
 - Planned capital projects not proceeding in 2010/11. As loans required to fund those projects were not raised during the year it was not necessary to rate for the associated loan charges.
 - The final step of the planned transition to fund the entire local share of subsidised roading maintenance from rates (as opposed to partially funding from loans) being extended for one further financial year.

- Sewerage subsidies were less than the LTP budget. The LTP provided for more capital expenditure at Piopio than was actually undertaken during the year. Resource consent delays and subsequent delays in obtaining Ministry of Health subsidy approval means that the majority of capital works planned for 2010/11 will now be carried out in 2011/12.
- Other revenue was \$0.3 million less than the LTP forecast due to a reduction in building consents applied for during the year, a reduction in sale volumes at the Visitor Information Centre and a reduction in the level of purchases of official WDC rubbish bags as residents take advantage of the recycling services offered.

Revenue

Where the Money comes from

Total Revenue \$24.891 Million



Key:

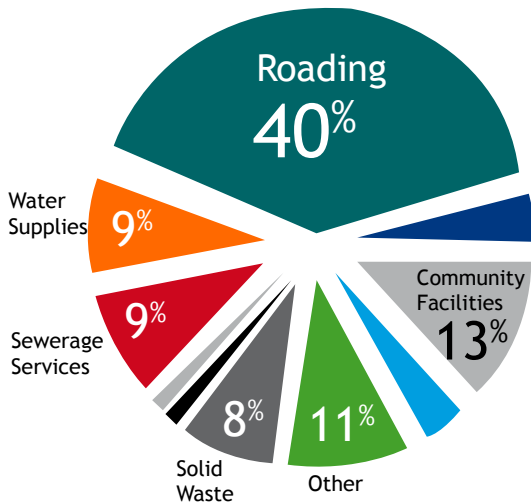
- Other Revenue 1%
- i-SITE 1%
- Water Charges 2%
- Regulatory Revenue 1%
- Investment Income 1%
- Property Leases 1%

Expenditure

Expenditure was \$0.6 million less than the 2009-2019 LTP forecasts and is due to the following factors:

- Finance costs were \$1.0 million less than budget due to the reduced level of borrowing than what was forecasted in the LTP.
- Other expenditure was \$0.3 million more than the LTP forecast due to additional operating costs for all water and wastewater schemes for costs that fell outside the main operations contract. This was partially offset by budgets that were not fully utilised in relation to asset management and repairs of Councils' Parks and Property, no requirement to purchase additional capping material at the Waitomo District Landfill, and reduced Landfill operational costs resulting from the establishment of a new management contract.

Where the Money went to Total Expenditure \$22.840 Million



Key:

- Resource Management 1%
- Stormwater 1%
- Community Development 4%
- Regulation and Safety 4%

Balance Sheet

- Equity was \$9.4 million less than LTP budget mainly due to the write-down of Inframax investment to nil in the 2009/10 year as a result of continuing poor performance and given that it was not probable that the Company would be in a position to provide a return on WDCs' investment in the immediate future.
- Current assets were \$2.9 million more than LTP budget. Loans were raised in anticipation of the capital works program which was subsequently delayed. The additional funds were invested in short term deposits to earn interest revenue that would offset the interest paid on the external loans. The surplus funds were not anticipated at the time the budgets were prepared. A higher than expected rates receivables balance at 30 June 2011 also contributed to the variance.
- Current liabilities were \$6.7 million higher than the LTP budget due mainly to the current portion of borrowings being incorrectly classified as non-current borrowings.
- Non current assets were \$20.1 million less than the LTP budget. This is due to the delay or deferral of significant water and wastewater projects that were planned for in the 2009-19 LTP and the write-down of Inframax investment to nil in the 2009/10 year.
- Non current liabilities were \$14.4 million less than LTP budget. The external borrowings were less than forecast in the LTP due to the delay or deferral of capital expenditure projects.

Specific Borrowing Limits

Targets	Result
Total interest expense will not exceed 40% of total revenue	Achieved – 10%
Total borrowing does not exceed 30% of total equity	Achieved – 19%
Total borrowing will not exceed 25% of total assets	Achieved – 15%
No more than 35% total debt refinanced during the year	Achieved – 30%
Access to committed lines of credit no less than \$2 million	Achieved - \$3.097 million available at 30 June 2011
Floating rate profile must not exceed 60% of total borrowings	Achieved – 96% fixed at 30 June 2011

Capital Projects

Planned capital projects were under spent by \$5.146 million during the year, the majority of which relates to the upgrades of water and wastewater services in the urban centres. Progress of those projects was delayed pending the outcome of applications to the Ministry of Health for funding assistance.

Funding assistance approvals have since been received from the Ministry of Health and completion of those water and sewerage services upgrades will now take place during the 2011/12 financial year.

Water Supply

Capital expenditure on water supplies was limited to minor renewals and some preliminary project expenditure for Te Kuiti and Mokau. Key upgrade projects planned for Piopio and Mokau were delayed pending outcome of applications for funding assistance from the Ministry of Health. Those projects will now proceed during the 2011/12 financial year.

(\$000's)	Actual	Budget	Underspent
Te Kuiti	124	319	195
Piopio	2	444	442
Benneydale	12	21	9
Mokau	98	750	652
	236	1,534	1,298

Sewerage Systems

With the exception of Te Waitere, planned upgrades of sewerage systems commenced during the year. Delays pending the outcome of subsidy applications to Ministry of Health meant that the Te Kuiti and Piopio projects will not be completed until the 2011/12 financial year. The upgrade of the Benneydale system was substantially completed at year end. Work at Te Waitere has been held up until the results of a geotechnical survey are known.

(\$000's)	Actual	Budget	Underspent
Te Kuiti	949	2,641	1,692
Piopio	436	1,860	1,424
Benneydale	993	1,076	83
Te Waitere	5	388	383
	2,383	5,965	3,582

Roads, Streets and Bridges

- Pavement Rehabilitation was overspent due to increased work required in both Rora Street (due to unsuitable sub-grade strengths) and Kopaki Road (due to additional dig-outs required).
- Sealed Road Surfacing - under spent due to the contractor not finishing the reseal programme by year end and CPI adjustments not being as high as expected.
- Traffic Services Renewals, Unsealed Road Metalling and Minor Renewals expenditure were all reduced to cover the additional Emergency Reinstatement spend.
- Non subsidised work was reduced to a minimum in order to concentrate expenditure on subsidised works.

(\$000's)	Actual	Budget	Variance
Subsidised Works			
Drainage Renewals	404	376	28
Pavement Rehabilitation	979	874	105
Sealed Road Surfacing	1,230	1,503	(273)
Traffic Services Renewals	201	257	(56)
Unsealed Road Metalling	512	564	(52)
Emergency Reinstatement Works	447	252	195
Minor Renewals	249	334	(85)
Other Renewals	246	347	(101)
Total Subsidised Works	4,268	4,507	(239)
Non-Subsidised Works	49	489	(440)
Total All Roding Works	4,317	4,996	(679)

Other Capital Works

Other minor capital projects completed during the year included:

(\$000's)

» Te Waitere wharf renewal	152
» Swimming pool upgrade (filter/heating)	169
» Landfill improvements (incl recycling station)	376
» Elderly Persons Housing renewals	29
» Purchase Library books	69
» Cultural and Arts Centre upgrade	160
» Aerodrome (resurfacing/camera system)	22
» Te Kuiti Stormwater renewals	36
» Vehicle replacements	73
» Computer renewals	55

2010/2011 Group Performance

The Group reporting entity consists of Waitomo District Council and is 100% owned subsidiary Inframax Construction Limited and Inframax Construction Limited's 100% owned subsidiary Independent Roadmarkers Taranaki Limited.

Overall Performance

The Group's overall performance for the year was an after-tax loss of \$3.5 million.

The Waitomo District Council would have reported a relatively good final outcome had it not been for the less than satisfactory performance of its subsidiary Inframax Construction Ltd.

The subsidiary experienced another difficult trading year sustaining an after tax loss of \$5.7 million, highlighting the difficult ongoing economic and trading conditions that have faced the roading construction and roading maintenance industry for some time now.

Balance Sheet

Total equity for the Group was \$245.6 million. There was a \$3.7 million decrease in equity reflecting the Group's after tax loss of \$3.5 million and a \$0.1 million loss on the fair value of interest rate swaps at 30 June 2011.

Current assets increased by \$5.8 million due mainly to a \$4.6 million increase in cash and cash equivalents, a \$0.6 million decrease in the value of inventories and a \$1.8 increase in the level of trade and other receivables.

Overall current liabilities increased by \$3.4 million mainly as a result of a \$1.4 million increase in trade and other payables, a \$0.9 million increase in term borrowings recognised as current liabilities and a \$1.0 million increase in bank overdraft facilities.

Non-current liabilities increased by \$6.1 million due mainly to a \$6.0 million increase in borrowings during the year.

Non-current assets increased marginally.

Revenue and Financing Policy

Background

The Revenue and Financing Policy, as outlined in the 2009-19 LTP, is designed to ensure that wherever possible the people or groups benefiting from the function meet the allocation of costs by function, either wholly or in part.

Overall Performance

WDC reviews its' funding mix on an annual basis. Whilst WDC has yet to achieve the exact planned mix of funding, there have been no significant variations between the actual funding mix achieved for 2010/11 and those prescribed in the Policy.

Policy on Investments

Background

The Policy on Investments provides the policy framework for all of WDC's treasury functions and the volume of investments that the WDC will be involved with. The mix of investments between current and non-current is determined according to the WDC's working capital needs.

Overall Performance

There have been no significant variations or material departures from the WDC's Policy on Investments.

Policy on Liability Management

Background

The main function of the Policy on Liability Management is to ensure that the WDC's borrowing and its associated risks are maintained at prudent levels.

Overall Performance

There were no significant variations or material departures from the WDC's Policy on Liability Management.

Copies of these Policies can be viewed on Council's website www.waitomo.govt.nz.

Iwi Consultation

WDC consulted with Iwi:

- About resource consents for wastewater schemes.
- As an identified stakeholder group for consultation.

Summary of Equal Employment Opportunities Programme

WDC prides itself on being an Equal Opportunity Employer. We have set ourselves several objectives and targets as performance measurement criteria. WDC believes that it has to provide leadership and also be a model to the District in this regard.

Objectives	Targets	Result
To foster a positive climate in the workplace aimed at encouraging employees to develop their potential and to remove discriminatory barriers to employment.	No complaints upheld	100% successful
All employment policies and practices will have regard to the principles of the Treaty of Waitangi and will comply with the provisions of the Human Rights Act 1993, the Equal Pay Act 1972 and the Employment Relations Act 2000 and other relevant statutes.	No complaints upheld	100% successful
Employment decisions will continue to be made solely upon merit, qualifications and work history relating to the position to be filled.	No complaints upheld	100% successful
Opportunities for training, transfer and promotion will be made available to all employees.	No complaints upheld	100% successful
To promote a workplace free of discrimination and harassment.	No complaints upheld	100% successful

1.5 Waitomo's Community Outcomes

Community outcomes inform and guide the priority setting for WDC's activities and those of other relevant organisations, and form the reference point for measuring the effectiveness of these activities in achieving the community's outcomes.

The following table shows 21 Community Outcomes for the Waitomo District Community. Each of Councils 11 significant activities contributes to achieving these Community Outcomes.

<p>Cultural Heritage and Social Harmony: A District that is enriched by the values of all its people and in particular Maori heritage, culture, beliefs and way of life are an inherent and valued part of community life.  1</p>	<p>Communications and Information: The District has a communication network equivalent to that of main urban centres and a community that is conversant in the use of modern communication technology.  2</p>	<p>Visitors and Tourism: The image and attraction value of tourism is maximised to aid in bringing new business and new residents to Waitomo.  3</p>
<p>Water Supplies: High quality water supply provisions in all urban centres greater than 200 population.  4</p>	<p>Wastewater and Sewerage: Availability of reliable and functional sewage systems for urban communities greater than 200 population.  5</p>	<p>Land use, Farming, Forestry and Mining: Planned 'intensification' and diversity of use to achieve the best economic benefit of land in productive use.  6</p>
<p>Manufacturing Process and Service Industries: A District that has primary sector value-added businesses and an infrastructure of commerce that competes in the global market and provides local jobs and local wealth.  7</p>	<p>Retail: To be seen as a destination for shopping offering choice and convenience.  8</p>	<p>Urban Development: To create vibrant communities that attract people and investment and offer a quality of life and society expected by New Zealanders in the 21st century.  9</p>
<p>Housing and Accommodation: Availability of choice in housing and visitor accommodation to meet the needs of all people who wish to reside or visit the District, in a way that contributes to the District appeal and image.  10</p>	<p>Transport: Movement of goods and people is efficient, safe, competitive and convenient so that commercial and community social needs are able to support the quality of life expected or chosen by the community.  11</p>	<p>Preserving the Environment: Preserve the natural environment for future generations, ensuring that natural resources are used in a sustainable manner.  12</p>
<p>Energy: Minimise energy consumption through efficient use and investment in energy development/capacity is carried out in a manner consistent with a sustainable environment.  13</p>	<p>Coastline, Parks and Reserves: To preserve the natural character of the District's coastline and reserves. Ensuring public access to the coastline and reserves.  14</p>	<p>Waste: A District that works towards minimising the impact of waste on the environment.  15</p>
<p>Image: Work towards creating a readily prosperous, identifiable and attractive image to the world outside Waitomo based on a strong internal sense of pride, self-image and self-esteem.  16</p>	<p>Employment: Collaboratively work towards creating a wide range and number of employment opportunities in the region.  17</p>	<p>Health To pursue personal, social and cultural well-being supported by locally available health services.  18</p>
<p>Education: To be a community where the level of education of all residents is high enough to take advantage of opportunities that improve the quality of life for the community.  19</p>	<p>Recreational and Social Amenities: A District where the community is able to enjoy social, cultural and spiritual well-being, through community amenities, facilities, recreation, sports, and arts activities that provide for a full quality of life and choice of enjoyment for all residents.  20</p>	<p>Government Services To ensure the community has appropriate and timely access to services provided by Central Government.  21</p>

COMMUNITY AND CULTURAL SUSTAINABILITY

The activities comprised in this Group are Leadership, Community Facilities, Community Development and Regulation and Safety.

This Group contributes to all community outcomes. There have been no significant negative effects identified on the social, economic, environmental or cultural well-being of the community.

ENVIRONMENTAL SUSTAINABILITY

The activities comprised in this Group are Solid Waste Management, Stormwater, Resource Management and Sewerage.

This Group contributes to the following community outcomes: cultural heritage and social harmony, visitors and tourism, wastewater and sewage, land use, farming, forestry and mining, manufacturing process and service

industries, retail, urban development, housing and accommodation, transport, preserving the environment, coastline, parks and reserves and waste.

There have been no significant negative effects identified on the social, economic, environmental or cultural well-being of the community.

ECONOMIC SUSTAINABILITY

The activities comprised in this Group are Water Supply, Land Transport and Investments.

This Group contributes to the following community outcomes: water supplies, manufacturing process and service industries, retail, urban development, transport, preserving the environment, coastline, parks and reserves, and image.

There have been no significant negative effects identified on the social, economic, environmental or cultural well-being of the community.