

## Introduction

This report provides analysis on the attached 2010 Financial Statements. It compares the reported financial results to Council's own financial objectives. Readers of the Statements are encouraged to contact Council's Financial Services Department on (02) 4732 7815 for any assistance required in understanding the reported results.

These statements are produced in accordance with the Australian Accounting Standards and the NSW Local Government Code of Accounting Practice. The Australian Accounting Standards Board (AASB) has adopted International Financial Reporting Standards (IFRS) and issued the Australian equivalents (AIFRS). The application of AIFRS is

reflected in these Financial Statements. These statements are independently audited, reported to Council, placed on public exhibition and lodged with the Division of Local Government (DLG) by early November each year.

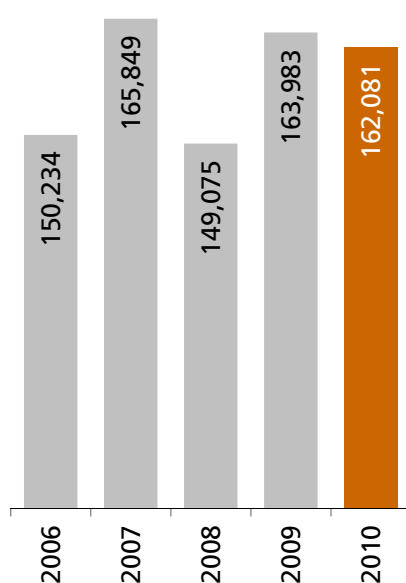
Under the 1993 NSW Local Government Act, Council is required to produce an audited set of Financial Statements. Key statements produced, and included in this document are:

- Income Statement,
- Balance Sheet,
- Cash Flow Statement, and
- Notes to the Financial Statements.

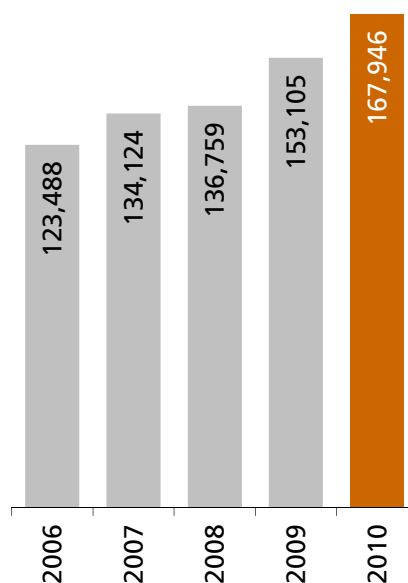
### Summary of 2010 Key Results and Events

- Total assets ▲ 24.4% to \$1,433m due to purchases and revaluations
- The revaluation of Council's Roads, Bridges, and Drainage added \$279m to Council's Infrastructure, Property, Plant & Equipment
- Assets held per head of population is \$8,219
- Borrowing costs ▼ 2.3% to \$4,049
- Total revenue ▼ 1.2% to \$162.1m
- Total expenditure ▲ 9.7% to \$167.9m
- Operating deficit of \$5.9m

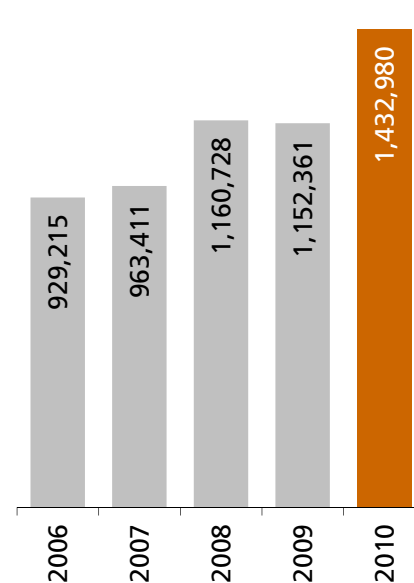
Total Income (\$'000)



Total Expenses (\$'000)



Total Assets (\$'000)



## Five-Year Financial Summary

for the Year Ended 30 June	Units	2010	2009	2008	2007	2006
Total Income from Continuing Operations	\$000	<b>162,081</b>	163,983	149,075	165,849	150,234
Total Expenses from Continuing Operations	\$000	<b>167,946</b>	153,105	136,759	134,124	123,488
Net Operating Result for Year	\$000	<b>(5,865)</b>	10,878	12,316	31,725	26,746
Grants and Contributions	\$000	<b>33,176</b>	42,603	35,951	54,262	46,046
Net Operating Result before Capital Grants and Contributions	\$000	<b>(10,340)</b>	(1,190)	(2,059)	(1,099)	1,251
Further breakdown of Income Statement items are shown in Appendix 1						
Current Assets	\$000	<b>55,571</b>	56,588	60,302	61,654	52,727
Non-Current Assets	\$000	<b>1,377,409</b>	1,095,773	1,100,426	902,940	876,488
Current Liabilities	\$000	<b>45,762</b>	43,352	39,763	40,037	38,018
Non-Current Liabilities	\$000	<b>64,092</b>	59,077	58,455	53,658	53,206
Total Equity	\$000	<b>1,323,126</b>	1,049,932	1,062,510	869,716	837,991
Further breakdown of Balance Sheet items are shown in Appendix 1						
Cash Flows from Operating Activities	\$000	<b>22,453</b>	30,500	24,119	36,060	35,515
Cash Flows from Investing Activities	\$000	<b>(28,066)</b>	(27,903)	(32,221)	(35,503)	(44,758)
Cash Assets at the end of Reporting Period	\$000	<b>4,049</b>	5,035	809	3,262	1,771
Rates Outstanding	%	<b>5.67</b>	4.94	5.04	4.72	4.44
Unrestricted Current Ratio	Ratio	<b>1.03:1</b>	1.17:1	1.15:1	1.33:1	1.19:1
Debt Service Ratio	%	<b>7.82</b>	7.45	7.13	7.32	7.18
Asset Renewal	Ratio	<b>51.6%</b>	56.9%	43.2%	51.0%	-



## Financial Overview

### Our financial performance

Council's financial performance for 2009-10 is characterised by:

- a net deficit result of \$5.9 million for the year
- a Budget deficit of \$1.4 million
- an increase in assets from \$1,152m in 2008-09 to \$1,433m in 2009-10, with assets per capita increasing from \$6,589 per person to \$8,219 per person during this period
- an increase in liabilities from \$102 million in 2008-09 to \$110 million in 2009-10 – with liabilities per capita being \$630 per person.
- an increase in Rates and Annual Charges outstanding to 5.67%.
- a slightly smaller capital works program of \$38.5m in 2009-10 compared to \$40.6m in 2008-09, due to changing focus to maintenance initiatives
- a total of 54% of Council's income being derived from Rates and Annual Charges. This is an increase of 3% over 2008-09 due to a decline in capital grants and contributions received in 2009-10
- other key ratios are outlined in Note 13.

### Ensuring financial sustainability

Council's financial performance is aligned with its continued focus on long-term financial sustainability. We regularly review our Operating Plan and financial performance throughout the year to adapt to changing conditions and requirements. Council regularly reviews its Long-Term Financial Plan (LTFP) to ensure short-term needs are considered against long-term sustainability.

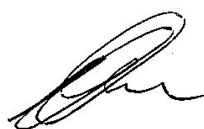
Council's investment policies and strategies have been effective in producing solid returns on ratepayers' funds. Council's average return on investments for 2009-10 is 4.90%, which has outperformed the average BBSW rate of 4.04% in 2009-10. Council's weighted interest rate on borrowings has also decreased 2% due to the lowering costs of capital. Council continues to use borrowings to fund accelerated infrastructure programs. While an increase in borrowings increases Council's liabilities, it has been necessary to use borrowings to continue to fund these infrastructure programs. Council's level of debt is continually monitored to ensure it is sustainable without risking service levels.

### Delivering infrastructure

Council is committed to renewing its assets. Local Government in NSW faces a large backlog of work to bring roads, drainage, and building assets to a satisfactory standard. Council is committed to addressing this backlog through initiatives such as the asset renewal and established areas strategy (AREAS) rate increase which continues to fund additional annual maintenance expenditure. Special Schedule 7 provides further information about the condition of these assets.

### Developer contribution reforms

The Premier of NSW has recently announced reforms to Developer Contributions that caps the s94 contribution to \$30,000 per lot / dwelling. The recent announcement will result in a shortfall for Council's current and future release areas of approximately \$137 million. The challenge for Council will now be how to deliver the essential infrastructure to accommodate the city's growth.



Andrew Moore  
Financial Services Manager

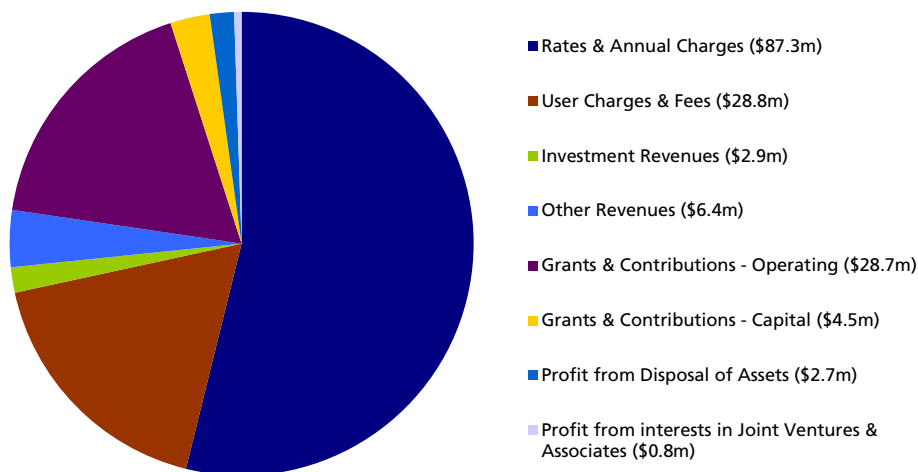


Vicki O'Kelly  
Group Manager Finance  
Responsible Accounting Officer

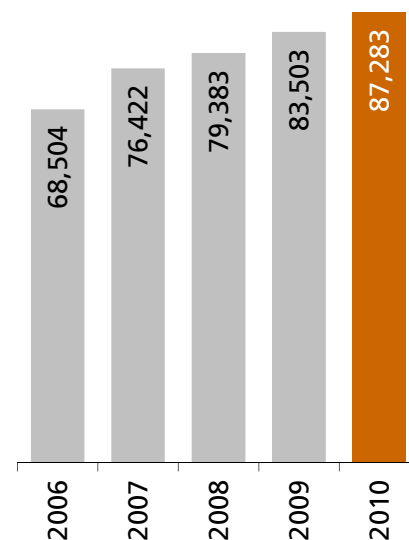
## Income

### Summary

- Overall income ▼ by 1.2% to \$162.1m



### Rates & Annual Charges (\$'000)

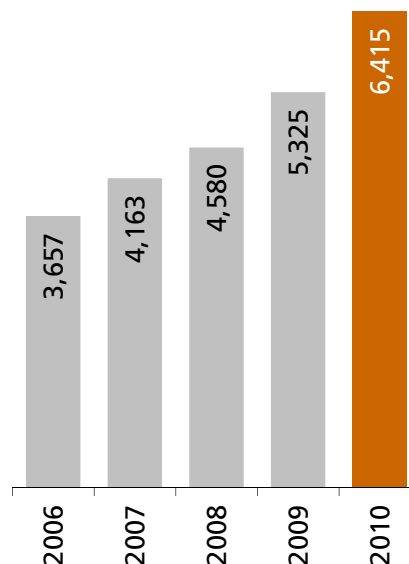


Increases in income for the 2010 Financial Year resulted from increases in revenue from Rates & Annual Charges, Profit from Disposal of Assets, and Other Revenue.

**Income received from Rates and Annual Charges accounts for 54% of Council's income**

Income Item	2010 (\$'000)	2009 (\$'000)	% Change
Rates & Annual Charges	87,283	83,503	4.5%
User Charges & Fees	28,770	28,554	0.8%
Investment Revenues	2,877	3,669	(21.6%)
Other Revenues	6,415	5,325	20.5%
Grants & Contributions - Operating	28,701	30,535	(6.0%)
Grants & Contributions - Capital	4,475	12,068	(62.9%)
Profit from Disposal of Assets	2,734	329	731.0%
Profit from interests in Joint Ventures & Associates	826	-	100.0%
<b>Total Income from Continuing Operations</b>	<b>162,081</b>	<b>163,983</b>	<b>(1.2%)</b>

### Other Revenues (\$'000)



### Rates & Annual Charges

The increase in property numbers from 64,405 in 2009 to 64,673 in 2010, together with a Ministerial rate increase of 2.8% added \$3.8m to Operating Revenue. Rates Outstanding, a key industry indicator, increased to 5.67% from 4.96% in 2009 and is now above the industry target of 5%. This can be attributed to the challenging economic climate. Council has and will remain active in debt recovery, with a view to returning this indicator to below 5% by 30 June 2011.

### Rates assessments:

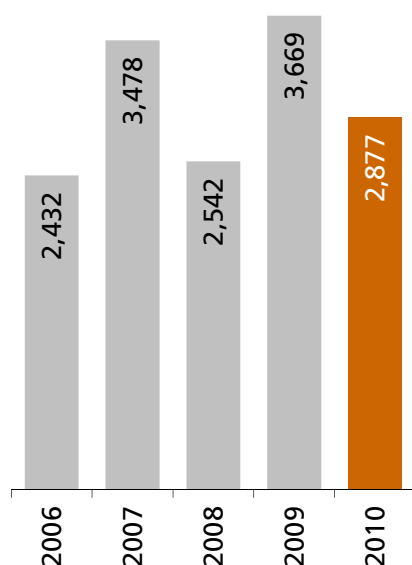
### User Charges & Fees

User Charges and Fees increased 0.8% over the 2010 Financial Year. Decreases in Children's Services, Penrith Performing and Visual Arts (PPVA), and Swimming Centres income have been

2006	63,043
2007	63,384
2008	64,000
2009	64,405
2010	64,673

## Income (continued)

Investment Revenue (\$'000)



**Income from the Environmental Performance Rebate was \$684,000**

party offset by increases in Road Reinstatement and Planning and Building fees.

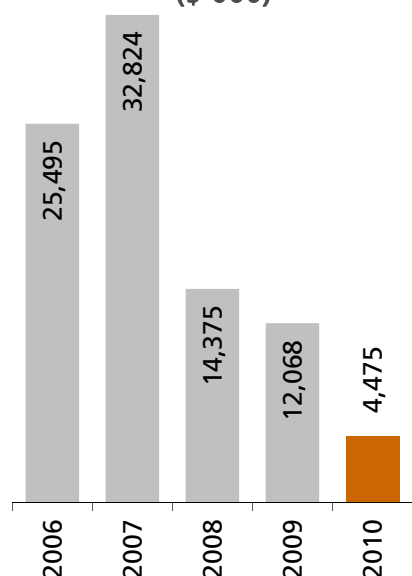
### Investment Revenues

Council's investment portfolio as at 30 June 2010 has decreased slightly to \$58.7m (2008-09, \$63.1m). The reduced portfolio has seen investment revenues reduce in 2009-10, however this reduction has been partly offset by an increased rate of return and saw interest revenues exceed budget by \$581,000 in 2009-10. This result, given the continued uncertainty of global financial markets, is a credit to Council's strong portfolio management.

### Other Revenues

Other Revenues increased \$1.0m (20.5%) during 2010. This increase was mainly due to increases in the valuation of Council's investment properties of \$1.0m, along with an additional \$259,000 being received in relation to the Environmental Performance Rebate. This is the third year that this initiative has been offered by the State Government, and it is expected that future year rebates will be of a similar magnitude.

Capital Grants & Contributions (\$'000)



**Additional grants of \$2.1m were received for the improvement of Roads and Bridges**

### Grants & Contributions

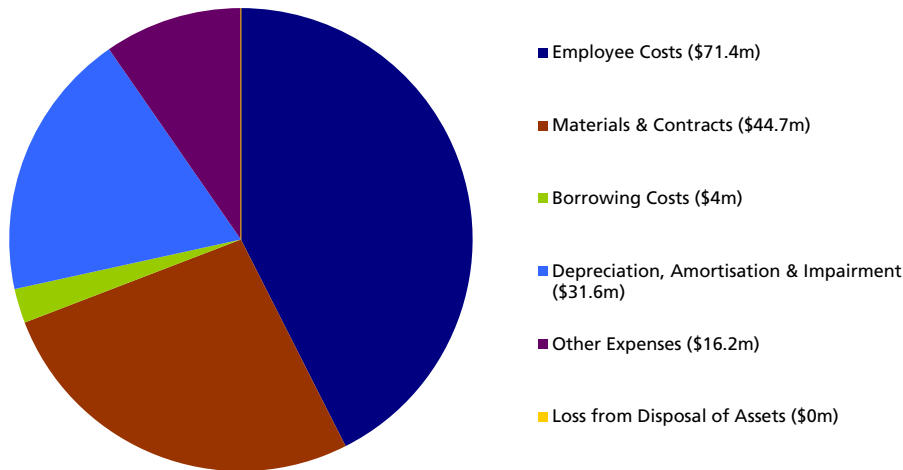
Grants & Contributions have decreased overall by \$9.4m. This is mainly attributed to the Regional and Local Community Infrastructure Program reducing from \$4.2m in 2008-09 to \$721,000 in 2009-10, and reduced \$94 contributions in 2009-10 (down by \$3.6m). Council also received the first instalment of the 2009-10 Financial Assistance Grant in late 2008-09 (\$2.7m), resulting in a lower level of Grants being shown in this year's statements (Note 3e) compared to 2008-09.



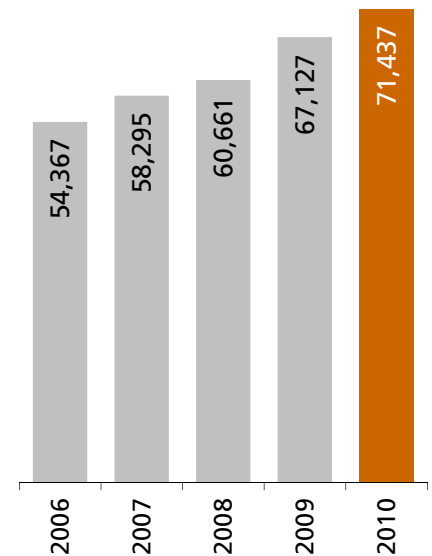
## Expenses

### Summary

- Total Expenses ▲ 9.7% to \$167.9m.
- Employee costs ▲ 6.4% to \$71.4m.

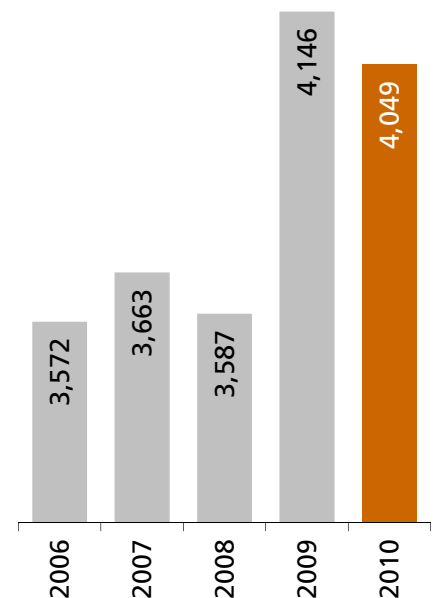


### Employee Costs



**Workers Compensation insurance increased 42% to \$2.3m in 2010**

### Borrowing Costs (\$'000)



**Borrowing Costs decreased 2.3% in 2009-10**

Expense Item	2010 (\$'000)	2009 (\$'000)	% Change
Employee Costs	71,437	67,127	6.4%
Materials & Contracts	44,715	45,477	(1.7%)
Borrowing Costs	4,049	4,146	(2.3%)
Depreciation, Amortisation & Impairment	31,550	20,436	54.4%
Other Expenses	16,195	15,919	1.7%
Loss from Disposal of Assets	-	-	-
<b>Total expenses from Continuing Operations</b>	<b>167,946</b>	<b>153,105</b>	<b>9.7%</b>

### Employee Costs

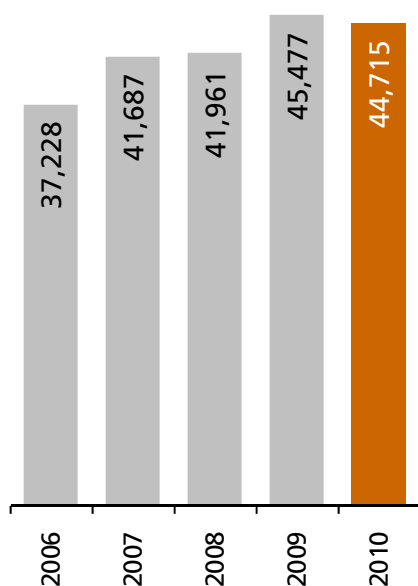
Total employee costs increased \$4.3m in 2010. This equates to a 6.4% increase and is attributable to the award increase of 3.5% in November 2009, and:

- Additional payments to the Defined Benefits Superannuation plan - \$1.5m
- Skills and knowledge progression - \$222,000
- Employee performance bonuses - \$461,000
- Increase in the provision for Employee Entitlements - \$1.0m

Council contributes 9% Superannuation for all employees except those who are members of the Local Government Superannuation Defined Benefits Scheme (DBS). In recent years, Council has benefited from a contributions holiday, which did not require Council to make its full contribution to the scheme. This holiday ceased for the 2008-09 year and Council's contribution to the scheme increased to \$1.7m. In March 2009, the Local Government Super Scheme (LGSS) advised that it had been impacted by the Global Financial

## Expenses (continued)

### Materials & Contracts



Crisis and contributions rates for 2009-10 would also increase. This increased Council's superannuation expense to \$3.2m in 2009-10. The LGSS have advised that the increased contributions are expected to continue for a number of years.

### Materials and Contracts

Council commenced new domestic waste services contracts in October 2007. These new arrangements have resulted in reduced tipping services costs of \$1.7m in 2010. Savings are expected to continue over the life of the new waste services contracts. Rehabilitation works on the Ropes Creek and South Creek Corridor completed in 2009-10 added \$798,000 to Materials and Contracts.

### Depreciation

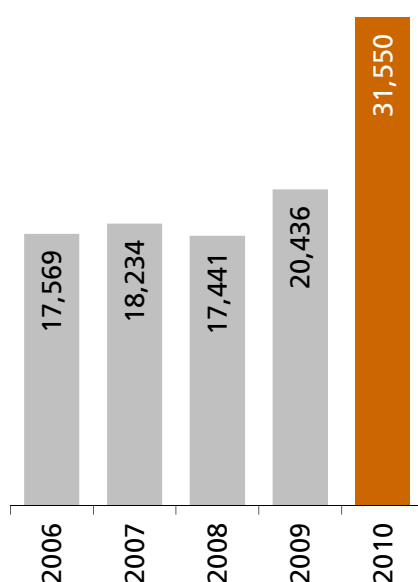
Depreciation is the allocation of the costs of an asset, based on the likely period of its useful life. The depreciation rates used by Council are set out in Note 1 of this document. In 2010, a review of the remaining useful life of road assets was once again undertaken to more accurately reflect the depreciation charge for these assets. The amended useful life is applied to the written-down value of the individual roads to determine a more appropriate depreciation charge. There has been an increase of \$1.9m in roads depreciation for 2010 due to the conditions of roads being lower than first indicated.

### Workers Compensation cost of claims:

2010	\$1.25m
2009	\$0.72m
2008	\$1.05m

Total depreciation for the year was \$31.5m. The transition of buildings to Fair Value in 2008, and componentisation and revaluation in 2009 resulted in an increase in the depreciation of Council's buildings of \$8.9m in 2010. The current written down value of Council's buildings is \$207m.

### Depreciation (\$'000)



### Other Expenses

The detailed Notes to the Financial Statements provide information on Other Expenses. General expenses, that due to their size and nature warrant special mention in this report, are detailed below.

### Risk Management and Insurance

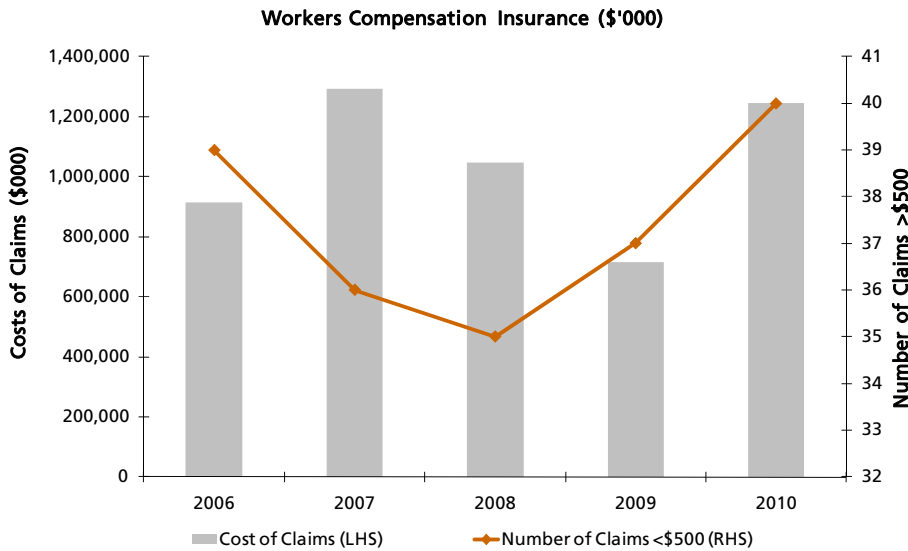
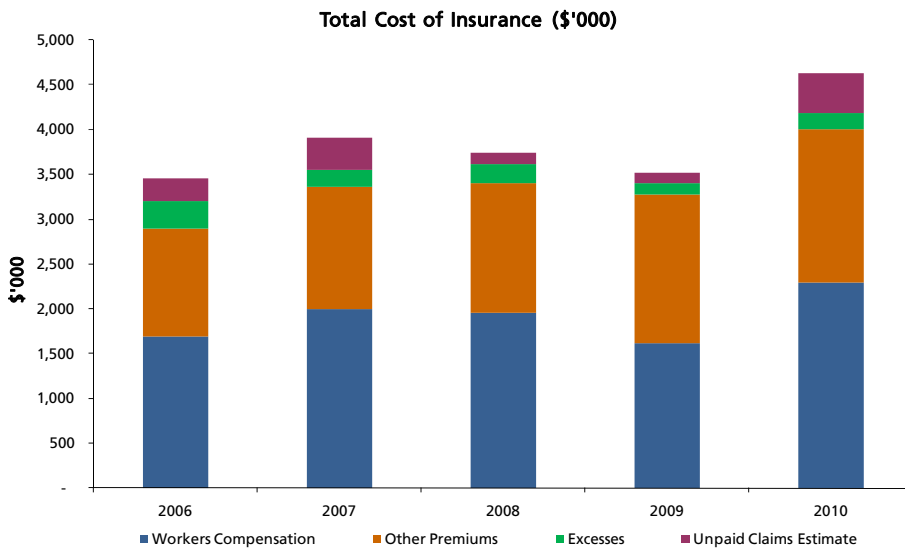
Council adopted a revised risk management policy in 2007 as part of its continually improving enterprise risk management framework. The risk management culture and prudent management of the insurance portfolio aims to protect Council from major premium fluctuations.

Depreciation increased 54% due to the revaluation of buildings in 2009 and a decline in road conditions

## Expenses (continued)

The outstanding liability for undetermined public liability claims recognised in the Financial Statements has increased in 2010 to \$449,000 from \$109,000 in 2009.

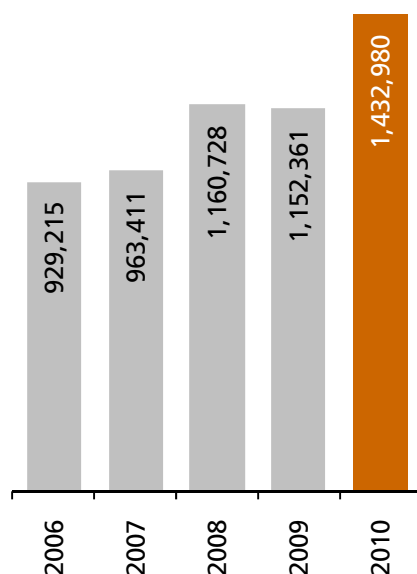
The graphs below shows the total cost of insurance including paid excesses and contingent liability (unpaid claims estimates). There has been a general increase in the cost of insurance for 2009-10, lead mainly by Workers Compensation and the unpaid claims estimate.





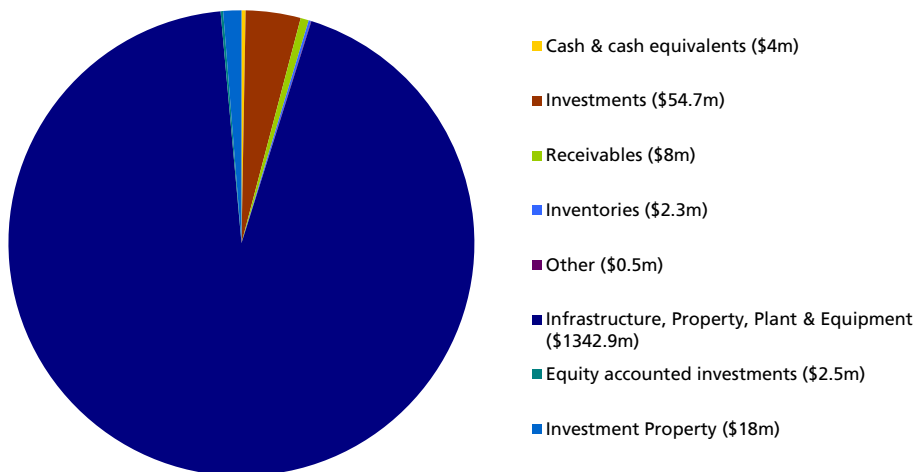
## Assets

Total Assets (\$'000)



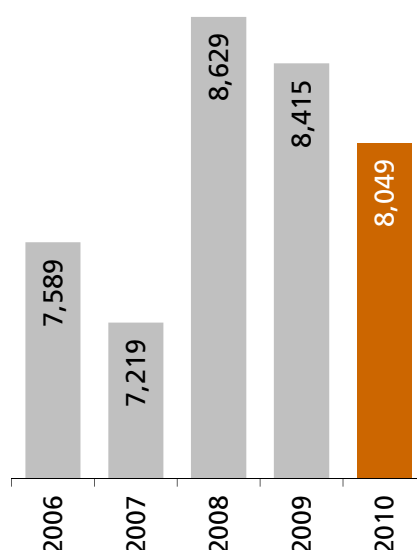
### Summary

- Total Assets ▲ 24.4% to \$1,433m
- Infrastructure, Property Plant & Equipment ▲ 26.2% to \$1,343m
- Net Assets ▲ 26% to \$1,323m
- Asset \$ per head of population is \$8,219



### Council holds \$18m of Investment Properties

Receivables (\$'000)



The revaluation of Council's infrastructure assets added \$279m to Council's equity

Asset Item	2010 (\$'000)	2009 (\$'000)	% Change
<b>CURRENT ASSETS</b>			
Cash & cash equivalents	4,049	5,035	(19.6%)
Investments	42,752	41,586	2.8%
Receivables	6,016	6,887	(12.6%)
Inventories	2,304	2,527	(8.8%)
Other	450	553	(18.6%)
<b>TOTAL CURRENT ASSETS</b>	<b>55,571</b>	<b>56,588</b>	<b>(1.8%)</b>
<b>NON-CURRENT ASSETS</b>			
Investments	11,945	16,445	(27.4%)
Receivables	2,033	1,528	33.0%
Infrastructure, Property, Plant & Equipment	1,342,912	1,064,141	26.2%
Equity accounted investments	2,470	1,644	50.2%
Investment Property	18,049	12,015	50.2%
<b>TOTAL NON-CURRENT ASSETS</b>	<b>1,377,409</b>	<b>1,095,773</b>	<b>25.7%</b>
<b>TOTAL ASSETS</b>	<b>1,432,980</b>	<b>1,152,361</b>	<b>24.4%</b>

### Cash Position

An assessment of Council's cash holdings at the end of the Financial Year provides a different view of the year's financial information. Council's Cash Flow Statement provides information relating to actual payments and receipts of cash. Investments have fallen over the 2010 year. The continuing impact of the global financial crisis has seen a significant change in the composition of Council's investment portfolio, which is mainly held in term-deposits. Council continues to hold funds on call to ensure funds are immediately available if required. This has resulted in the increase in cash and cash equivalents.

## Assets (continued)

### Reserves

Council operates a number of internally and externally restricted reserves. External reserves include unspent Section 94 funds received, special purpose grants or unexpended loans, along with domestic waste and sullage reserves. These reserves are maintained to ensure that the funds received are expended on the intended purpose, and this restriction is imposed on Council through either legislation or the funding body. A decrease in externally restricted funds held at 30 June 2010 of \$3.2m is the major contributing factor to the decrease in Council's investment portfolio.

Council continues to maintain a number of internal reserves as detailed in Note 6. These reserves have been established by Council resolution, and include provisions for Employee Leave Entitlements, Property Development activities, and Council's Children's Services operations. The maintenance of these reserves ensures that Council has sufficient capacity to respond to planned calls for funding in these areas and also provides some ability to fund unplanned expenditure for these purposes.

### Unrestricted Current Ratio

The unrestricted current ratio for 2010 was 1.03:1. Council's practice of borrowing from internal reserves to meet the demands of essential works required in advance of receipt of Section 94 contributions has again been a major impact on the ratio this year. At 30 June 2010, there were six Section 94 plans in deficit totaling \$6.2m. Two plans, the Cultural Facilities and the Civic Improvement Plan, accounted for \$5.1m of this deficit. If Council had elected to fund the works in advance from external borrowings, the ratio would be 1.30:1.

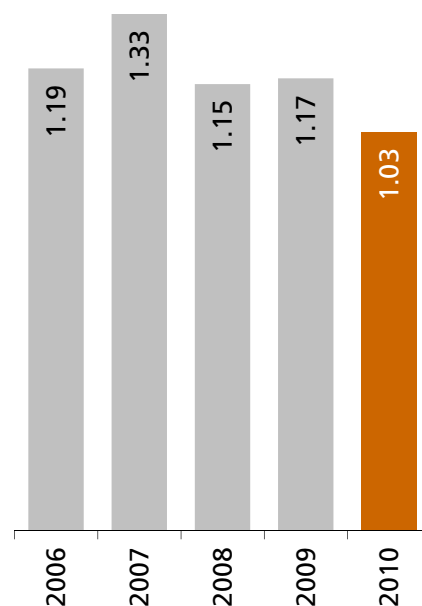
### Receivables

Receivables for 2010 totaled \$8.0m, a decrease of \$366,000 over the 2009 year. This was mainly attributable to a decrease in Government Grants and Subsidies of \$419,000. The Rates Outstanding percentage increased from 4.96% in 2009 to 5.67% in 2010, which is now above the industry benchmark of 5%. Council has a long established policy of not pursuing pensioners for outstanding Rates and Annual Charges. Excluding pensioners from this calculation decreases this indicator to 4.41%, below Council's target of 4.50%.

### Infrastructure, Property, Plant & Equipment

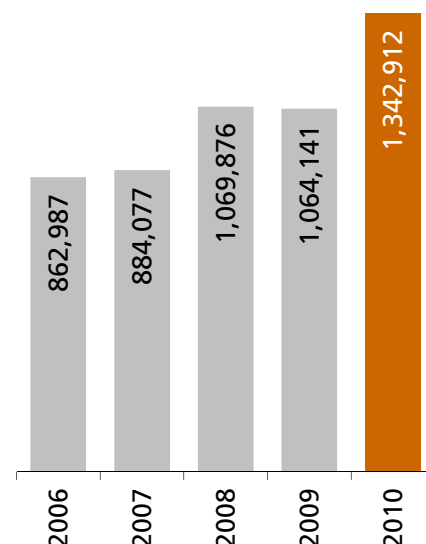
Infrastructure, Property, Plant & Equipment (IPPE) increased 26.2% over the 2010 year to \$1,343m. This increase was due to the revaluation of Council's Roads, Bridges, and Footpaths, which added \$279m to these assets. Total asset purchases of \$38.5m included \$14.0m for asset renewals, and \$24.5m for new asset purchases or construction. A summary of IPPE transactions for 2010 are shown on the following page, and in Note 9.

Unrestricted Current Ratio



The Unrestricted Current Ratio declined 12%

Infrastructure, Property, Plant & Equipment (\$'000)



The revaluation of Roads, Bridges, and Footpaths added \$279m to Council's total infrastructure

## Assets—Infrastructure, Property, Plant and Equipment

### Plant and Equipment

Vehicles Purchased .....	93
Vehicles Sold .....	104
Plant items purchased .....	22
Total value \$1.28m, and includes:	
- Street Sweeper.....	\$290,000
- Backhoe.....	\$143,000
- 2x Mowers.....	\$225,000
- Water Cart.....	\$145,000

### Office Equipment

New Computer Purchases .....	\$381,000
Other Hardware and Systems.....	\$356,000

### Buildings & Other Structures

Lemongrove Retirement Village .....	\$94,000
St Marys Memorial Hall.....	\$2.4m
Civic Centre Extensions .....	\$1.6m
Glenmore Park Child and Family Precinct .....	\$5.7m
Penrith Pool Clubhouse .....	\$281,000

### Roadworks and Drainage

Drainage Works (excluding dedications).....	\$639,000
Roadworks (excluding dedications).....	\$7.0m

### Includes:

Bus Shelters .....	\$108,000
Pathpaving .....	\$1.5m

### Infrastructure

Road Dedications.....	\$1.1m
Drainage Dedications.....	\$372,000

### Other Assets

Library Book Purchases .....	\$954,000
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### Major Capital Projects worth of note, either completed or underway during the year include:

Arthur Neave Hall Improvements	\$132,000
Berkshire Park Hall Improvements	\$60,000
Building Asset Renewal Program	\$869,000
CBD Traffic Calming Devices	\$833,000
Emu Plains Community Centre	\$131,000
Great River Walk	\$98,000
Howell Oval Improvements	\$221,000
Kids Place CCC Upgrade	\$59,000
Penrith Senior Citizens Centre	\$59,000
Regentville RFS	\$958,000
Residual Garbage Bins & Kitchen Tidy's	\$1.8m
Ridge Park Hall Improvements	\$120,000
Ripples Improvements	\$863,000
Seating at Cook Park Soccer	\$97,000
Stepping Stones CCC Upgrade	\$28,000
Victoria Park St Marys	\$239,000
Werrington Lakes Amenities	\$135,000

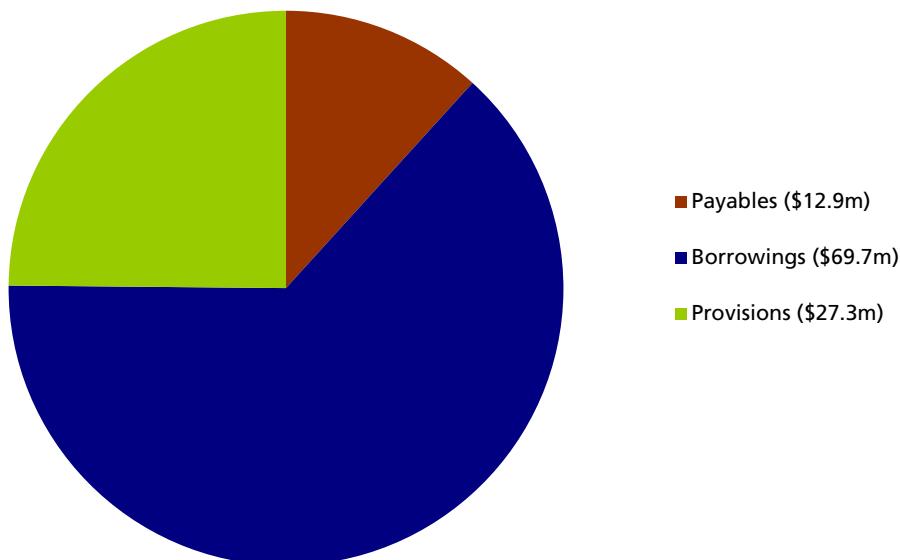


Glenmore Park Child & Family Precinct

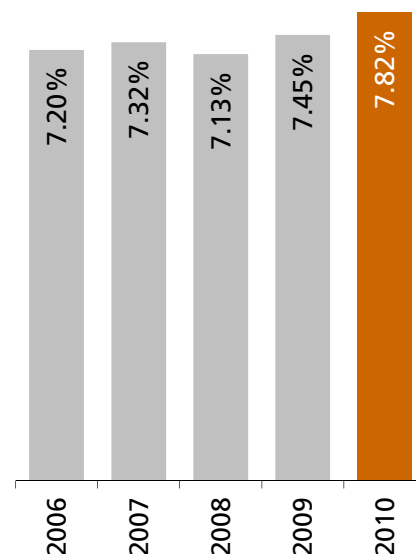
## Liabilities

### Summary

- Liabilities ▲ 7.2% to \$110m
- Borrowings ▲ 7.1% to \$69.7m
- Payables ▲ 16.2% to \$12.9m
- Provisions ▲ 3.8% to \$27.3m



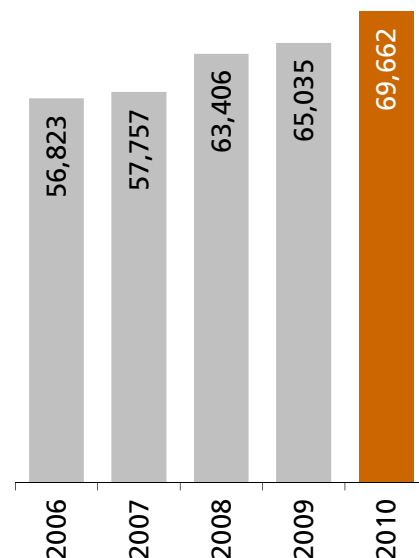
### Debt Service Ratio



An additional \$4.1m was borrowed in June 2010 to fund a property purchase

Liability Item	2010 (\$'000)	2009 (\$'000)	% Change
<b>CURRENT LIABILITIES</b>			
Payables	12,894	11,098	16.2%
Borrowings	6,877	7,109	(3.3%)
Provisions	25,991	25,145	3.4%
<b>TOTAL CURRENT LIABILITIES</b>	<b>45,762</b>	<b>43,352</b>	<b>5.6%</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	62,785	57,926	8.4%
Provisions	1,307	1,151	13.6%
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>64,092</b>	<b>59,077</b>	<b>8.5%</b>
<b>TOTAL LIABILITIES</b>	<b>109,854</b>	<b>102,429</b>	<b>7.2%</b>

### Total Borrowings (\$'000)



Provisions increased 3.8% in 2010 to \$27m due to increases in Long Service and Annual Leave

The 2010 Debt Service Ratio was 7.82% (7.45% in 2009). This means that 7.82% of Council's revenue (excluding capital grants and contributions and specific purpose operating grants and contributions) is used to meet Council's annual loan repayments. The Debt Service Ratio indicator can be misleading if comparisons are made without understanding the underlying situation. Much of Council's recent additions to the loan portfolio have income streams to fund the loan repayments. Knowledge of the principal and interest components of loan payments, along with any revenue streams used to fund these repayments is therefore required if any comparison to other Councils is to be meaningful.

Total borrowings now stand at \$69.7m, an increase of \$4.6m (7.11%) over 2009.



## Controlled Entities

Council operates a number of controlled entities – Ripples Leisure Centre, Penrith Whitewater Stadium (PWS), and Penrith Performing & Visual Arts (PPVA). The financial results for these entities are consolidated with Council's operations to give the overall result for the year.

Each entity reports their results to Council on an annual basis. At this time, it is resolved that the operations of each entity are underwritten by Council until the next year's results are reported.

	\$'000		
	PPVA	Ripples	PWS
Operating Expenses	3,272	3,834	2,587
Operating Revenues (Excluding Council's Subsidy)	1,930	3,040	2,343
<b>Surplus / (Deficit) before Subsidy</b>	<b>(1,343)</b>	<b>(794)</b>	<b>(244)</b>
Subsidy	1,462	660	399
<b>Surplus / (Deficit) from Ordinary Operations</b>	<b>119</b>	<b>(134)</b>	<b>155</b>
Capital Grants	-	-	-
<b>Surplus/(Deficit)</b>	<b>119</b>	<b>(134)</b>	<b>155</b>
Current Assets	1,085	130	505
Non-Current Assets	651	125	1,460
<b>Total Assets</b>	<b>1,736</b>	<b>254</b>	<b>1,965</b>
Current Liabilities	1,012	592	508
Non-Current Liabilities	117	-	1,230
<b>Total Liabilities</b>	<b>1,129</b>	<b>592</b>	<b>1,738</b>
<b>Net Assets</b>	<b>607</b>	<b>(337)</b>	<b>227</b>

