5. Our Finances

This section is Council's Long Term Financial Plan, prepared in accordance with the provisions of the Local Government Amendment (Planning and Reporting) Act 2009 and the associated Guidelines and Manual.

5.1 Purpose of the Long Term Financial Plan

Since 2000 Penrith City Council has prepared and regularly reviewed a Long Term Financial Model. This Model has been a key source of information for management and Council in developing and considering the annual *Operational Plan*. The Model has been further developed into the Long Term Financial Plan enabling Council to better plan, understand the long term financial implications of Council decisions and Policies and assess the long term capacity of the organisation. With this information Council can better assess future sustainability, service levels and the revitalisation, upgrading and renewal of infrastructure.

The Long Term Financial Plan (LTFP) has been prepared as a component of the Council's *Resource Strategy* and its role is to ensure the Council has a financially sustainable long term vision.

Penrith City Council has for a long time considered the role of the City within the region as one of providing a vibrant City that delivers infrastructure and access to services for not only the Local Government Area but also for the surrounding region. This role was formally recognised in 2005 when the NSW State Government designated Penrith as a Regional City.

The LTFP, and particularly the initiatives contained within scenario three, aims to further prepare the City for its current and future role with the region.

A History of Financial Management at Penrith City

Council prides itself on providing a diverse range of services managed by responsible financial stewardship. In recent years a number of inquiries and media reports have considered the financial sustainability of Local Government in NSW. In 2005 the Local Government Shires Association (LGSA) commissioned the largest of the Inquiries into Local Government Sustainability, known as the Percy Allan Inquiry. A key finding of this Inquiry was the significant infrastructure renewal/maintenance backlog facing the industry of $6billion. At this time Penrith City Council had already recognised this issue and put measures in place to start addressing the City's backlog across a number of asset classes. These measures included enhanced funding for the Road network, commencing in 2000-01 with this funding reaching $10.4m in 2010-11, and in later years additional funding was allocated for Building and Parks Asset Renewal. The increased funding being allocated in scenario three of the Long Term Financial Plan for Buildings and Parks will build the annual allocations to the level required.

Penrith City's proactive approach to addressing the financial challenges it faces has been previously recognised by Standard & Poors. The rating agency had for a number of years provided a credit rating for Council. The most recent Standard & Poors assessment in 2008 confirmed Council's rating of AA+ and highlighted that a strength of the rating was Council's prudent financial management and willingness to address the infrastructure backlog.

In recent years Council's annual budget development has highlighted the financial capacity challenges that Council is facing and the LTFP has shown that these difficult budget years would continue if existing service levels were to be maintained.

The 2009-10 budget required a number of one off reductions of almost $1.2 to commence the year with a balanced budget. These budget reductions had been considered as one off reductions as they largely required that the asset programs that Council had spent years building up be reduced.

The 2010-11 budget was again developed on the basis of continuing existing service levels, adding new projects (most notably the inclusion of $350,000 for the redevelopment of Council's on-line presence with its web page), and adjusting for expected changes in costs. Again significant challenges were faced in producing a balanced budget for 2010-11. As a result of intensive scrutiny of Council's budget adjustments to a number of programs, items of expenditure and funding sources were required of almost $1m. These additional cuts were on top of $175,000 identified during service reviews conducted in September to November 2009 in preparation for the 2010-11 budget development.

Council's drive to identify efficiencies is ongoing and as part of the development of the 2011-12 *Operational Plan* a further $520,000 of ongoing savings has been identified.

Financial Sustainability

Financial sustainability is one of the key issues facing local government due to several contributing factors including cost shifting from other levels of government, ageing infrastructure and constraints on revenue growth.

Council, as an organisation, must responsibly manage its resources to ensure its long term sustainability. This management includes not only ensuring that assets can be maintained but also making decisions about how to manage conflicting demands on resources – staff and money. The Long Term Financial Plan assists in developing the framework, information and service priorities to help inform those decisions.

The LTFP is a guide for future action providing the opportunity for Council to identify financial issues and their potential longer term impact as early as possible. It represents the point where long-term community aspirations and goals are tested against financial realities. It is also where Council and the community may decide what resources Council needs to fulfil its responsibilities.

Council remains in a sound financial position, with an annual budget of around $180 million. Our LTFP continues to support our budgetary position and decision-making and indicates that there are challenges for the future as Council strives to deliver the same level of service and address infrastructure backlogs (scenario one) and proposes a number of scenarios including reducing services levels and outputs in line with resources (scenario two), and increasing revenue to facilitate the aspirations of the community (scenario three).

Preparation of the Plan

The LTFP is prepared by drawing on information contained within the Council's *Community Strategic Plan*, *Delivery Program* and *Operational Plan* in conjunction with a number of assumption, estimates and forecasts in relation to population, revenue growth, cost increases and future economic conditions. The LTFP is accompanied by the Workforce Strategy and Asset Management Plans to provide a view as to how the aspirations of our community can be delivered, maintained and the financial cost of doing so.

Forecasts regarding our workforce have been identified in the Workforce Strategy with the challenges and financial impacts of issues such as an ageing workforce addressed in the LTFP through the management of the Employee Leave Entitlements reserve.

The service levels, asset maintenance and renewal requirements outlined in the Asset Management Plan have determined the capital expenditure and maintenance expenditure components of the LTFP. The objectives of the Asset Management Plans correlate with the LTFP objectives and demonstrate how Council proposes to renew and maintain its assets into the future.

5.2 Alignment with Council's Delivery Program

The Long Term Financial Plan contributes to Strategic Objectives and Community Outcomes as outlined in Chapter Two.

The Long Term Financial Plan, including specific strategic actions, is implemented through the Corporate Finance program in Council's four year *Delivery Program*. The Corporate Finance program includes a number of relevant service activities, which all contribute to delivering sustainable and responsible financial plans each year, and over the longer term.

Additional Information

Readers of the LTFP should contact Council's Financial Services Team for additional information or discussion on the LTFP on (02) 4732 7646 or email fs@penrithcity.nsw.gov.au

Delivery Program 2009-2013	
Corporate Finance - service activities	
Financial Services Maintain long term financial sustainability by providing key financial information and advice to Council's decision makers	2011 – 2021 ongoing service activity
Oversee all of Council's financial obligations	2011 – 2021 ongoing service activity
Pursue and respond to grant funding opportunities	2011 – 2021 ongoing service activity
Manage Council's light vehicle fleet to optimise financial, environmental and workforce outcomes	2011 – 2021 ongoing service activity
Operational Planning Manage Council's annual Operational Plan and regularly review organisational performance	2011 – 2021 ongoing service activity
Regularly review and benchmark the capacity of Council's services and programs to deliver community needs and priorities	2011 – 2021 ongoing service activity
Investigate and review opportunities to incorporate emerging best practice into Council's services	2011 – 2021 ongoing service activity
Property Development & Management Manage Council's property portfolio, in accordance with statutory requirements, to contribute to the expansion of Council's revenue base	2011 – 2021 ongoing service activity
Support Council's long term goals for the City's future by managing Council's property portfolio through strategic disposal and acquisitions	2011 – 2021 ongoing service activity
Purchasing & Supply Oversee and manage Council's purchasing, supply, contract and tendering policies and procedures	2011 – 2021 ongoing service activity
Risk Management & Insurance Develop and sustain an enterprise risk management culture within the organisation	2011 – 2021 ongoing service activity
Manage insurance and claims to reduce risk and contain premium increases	2011 – 2021 ongoing service activity

5.3 Long Term Financial Plan objectives

The objectives of Council's LTFP are to provide our community with a document that clearly outlines Council's current capacity, identifies challenges for the future and provides opportunities for the community to tailor their aspirations and Council's financial capacity to deliver. Each of the three scenarios included in the LTFP assist in demonstrating these choices:

- **Scenario One**: Focuses on Council's current capacity and identifies the funding shortfall that will result from the continuation of current services levels.
- **Scenario Two**: Develops a balanced budget position for all future years contained within the LTFP. This is the result of permanent service levels adjustments, reductions and disengagements from Council's current services to ensure that Council is financially sustainable in the long term.
- **Scenario Three**: Prepares a balanced budget in line with the community aspirations and demonstrates the increase in rating revenue required to meet these expectations and ensure that Council is financially sustainable in the long term.

All of the three scenarios have been developed with consideration to past and future efficiency opportunities, maintaining Council's commitment to invest in our infrastructure assets, and providing services to our community in a financially prudent and sustainable way.

Estimates, Assumptions and Forecasts

The LTFP is a financial projection that quantifies the cost of Council's Services for the next 10 years, given certain assumptions and estimates. It is prepared to provide the community with the appropriate information about how Council's finances will operate over the next ten years in line with the difference choices that can be made.

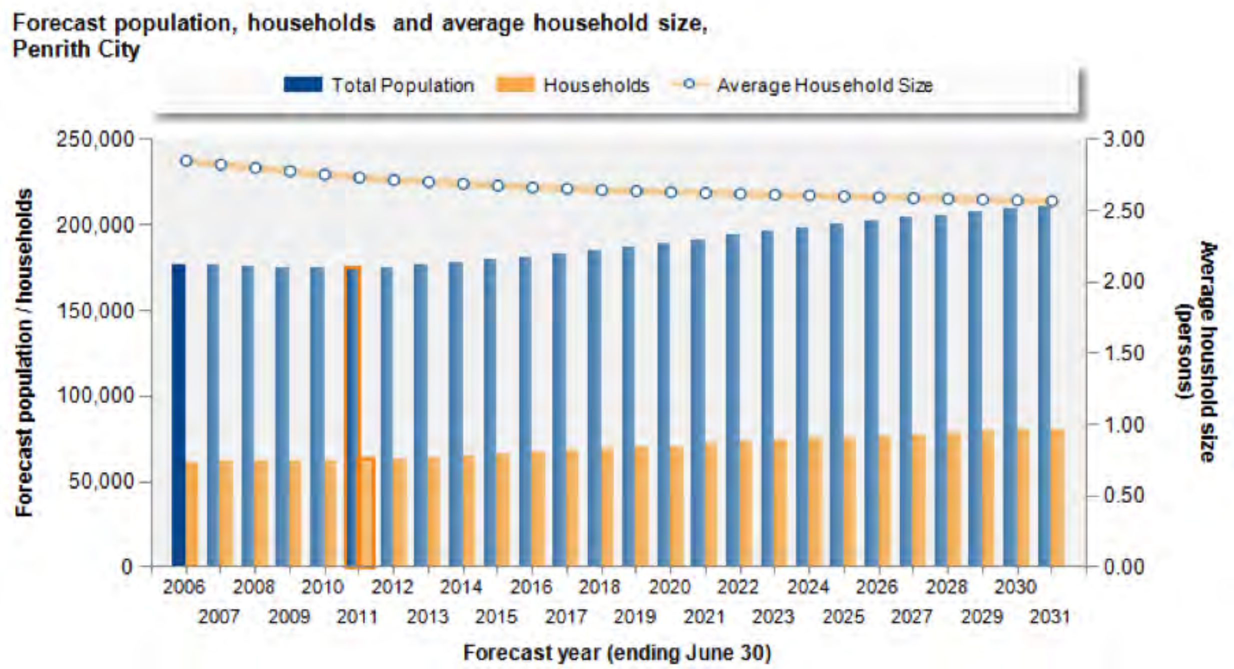
All LTFPs must be based on a set of assumptions, which generally relate to those things which are most likely to affect the overall outcome of the LTFP. The following assumptions have been considered, discussed and ultimately used as a basis to forecast Council's long term financial position over the 10 year plan.

General

The Penrith City Local Government Area (LGA) is situated in the outer Sydney metropolitan area at the base of the Blue Mountains. It covers an area of 407 square kilometres and is home to almost 185,000 people (2009 ABS estimated resident population).

Penrith will need to accommodate 25,000 new dwellings and 40,000 new jobs by 2036 to meet the needs of its growing communities. Council's priority is to ensure this growth is accompanied by investment in infrastructure to ensure all the attributes that attract people to Penrith are protected or enhanced, and future growth is supported by good public transport and community facilities.

The following graph shows the projected growth in the population over the next 20 years.



3. Inflation and Indexation

A number of indices are used throughout the LTFP to forecast the movement in both expenditures and revenues. An estimate of these indices over the life of the LTFP is provided below:

Year	Consumer Price Index	Local Government Cost Index
2011-12	2.8%	2.8%
2012-13	3.0%	3.0%
2013-14	3.0%	3.0%
2014-15 and thereafter	3.0%	3.0%

Revenue

1. Rating

Under the Local Government Act, Council can choose to structure its rates in a number of ways. Council has elected to use the ad valorem with a minimum rating structure and has applied three rate categories – Residential, Farmland and Business with two business sub categories – Penrith CBD Rate and St Marys Town Centre Rate. This means that rates are based on the land value of the property with the property valuations provided by the NSW Valuer General on a 3 year cycle with the 2010-11 Rating year being the first year of the current valuation cycle. Growth within the city from subdivisions and new land releases increases Council's rates base. Council's rating structure is reviewed annually and apart from the introduction of a Stormwater Management Program, discussed later, the rating structure is assumed to remain the same over the life of the LTFP.

The following table provides an overview of each rate category and sub category in the context of Council's overall Rates Revenue for 2010-11.

Rate Pegging

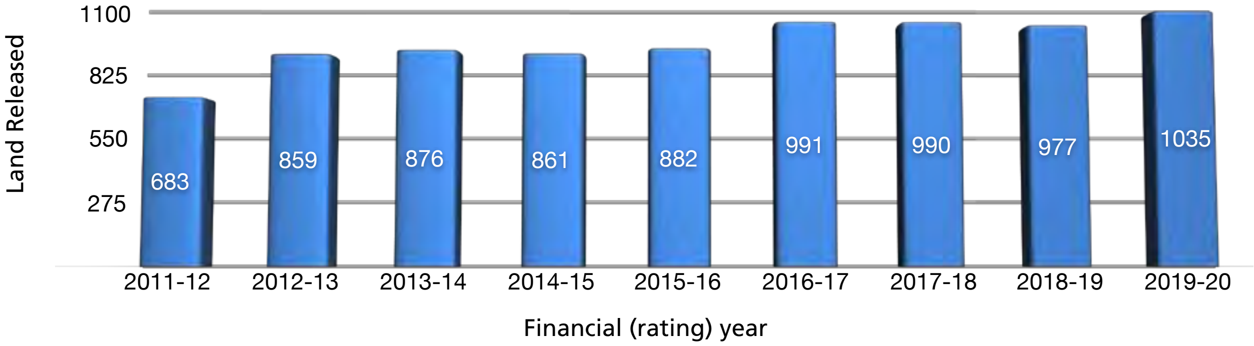
Since 1977, the regulation of council rates in NSW has been largely based on an approach known as 'rate pegging'. Under this approach, each year the NSW Government determines the maximum amount by which councils can increase their annual general income. Individual councils can then adjust their rates and annual charges so their general income increases up to this maximum amount, or seek a special variation to exceed the amount. Further growth in rating revenue is only achieved from an increase in the number of properties and the assumption in relation to expected growth over the life of the LTFP is discussed later. From 2011-12 the responsibility for determining the annual rate peg has been delegated to the Independent Pricing and Regulatory Tribunal (IPART). Under this changed framework a new Local Government Cost Index has been established by IPART and this index, less a productivity coefficient, will form the basis for the rate peg each year. This LTFP assumes that this process will continue for the life of the plan.

Growth Projections

The anticipated growth of Penrith City over the life of the LTFP is a significant assumption for the model and impacts on the potential rating income available to the City and any corresponding increase in the cost of providing expanded services to the community. As a growth centre the Penrith LGA is anticipated to grow by 8,969 rateable residential properties over the 10 year life of this LTFP with this growth anticipated to provide additional income of between $1.2m and $1.9m per annum. These additional properties will come predominantly from new release areas including Glenmore Park Stage 2, Claremont Meadows Stage 2, North Penrith Release Area, St Marys Release Area, WELL Precinct and Penrith Lakes combined with some infill development. The timing of development, both residential and commercial is difficult to predict and subtle variations in the delivery of

Category	Minimum Rate $	Total Revenue $'000s	Number of Properties	Value of Properties $m
Residential	714.20	55,365	61,407	14,092
Farmland	714.20	1,066	406	599
Business	913.80	14,510	2,587	2,149
Business – Penrith CBD Rate	913.80	2,436	413	320
Business – St Marys Town Centre Rate	913.80	682	236	65
		74,059	**65,049**	**17,225**

Estimated Future Lot Releases for Penrith LGA



lots does have an impact on the projections of the LTFP. The lot production estimates shown below, used to predict rates' growth from development, have been estimated following discussions with the City's major developers, an assessment of the current market and reference to forecasts provided by id.forecast (an independent tool that projects lot and population growth for LGAs).

The projected growth in business rates has also been considered in the development of the LTFP. The continued development of Erskine Business Park, the commencement of the Western Sydney Employment Area (WSEA), and the business/ industrial components of the residential release areas combined with current and projected economic conditions have been the major factored in the development of the estimates.

Stormwater Management Program

In 2002-03 a 10 year special rate was introduced and included funding for an Enhanced Environmental Program (EEP). This program was in response to the challenges facing the LGA in the areas of environmental planning and management including stormwater and waterways management. Following the success of the program at Penrith and a number of other similar programs in other LGAs the Local Government Act was amended to allow for the introduction of these programs without the need for a special rate variation. Following the expiry of the EEP at the end of 2011-12 this LTFP introduces a Stormwater Management Program. The fee is currently set by the Local Government Act and is payable by all Residential and Business ratepayers within the urban boundaries of the City.

Rates Affordability

Hardship Policy

Council has a hardship policy for Ratepayers experiencing difficulty paying their rates and actively works with ratepayers to ensure that mutually agreeable payment arrangements are established.

Rates Arrears
As at June 2010 outstanding rates and annual charges totalled $5.6m, resulting in an outstanding rate ratio of 5.67%. This result is an increase on previous years and exceeds Council's own benchmark of 5%. This increase has been attributed to a combination of economic conditions and the impact of more localised factors including the challenges following the introduction of the 3 bin domestic waste system in August 2009. It is anticipated that this ratio will return below 5% by June 2011.

Pensioner Subsidy
Council policy provides for all eligible pensioners to receive a 50% rebate of rates and domestic waste charges to a maximum of $250. 55% of this discount is funded by a state government grant with the remaining 45% being recovered across the balance of the rating base. Over recent years the LGA has experienced an increase in the number of pensioners within the City and given the ageing population and demographic projections for the City this trend is expected to continue.

Farmland Rate
In recognition of the rural nature of parts of the City and the important contribution the City's agricultural activities make to the City's economy Council sets the Farmland Rate at 50% of the residential rate. The LTFP assumes this will continue for the life of the plan.

Current Special Rate Variations
Council has two current, time limited, special rate variations in place. The funding for the programs delivered by these special rate variations is index each year by the Local Government Cost Index (formerly the Ministerial increase). The 2002-03 Special Rate Variation expiries in 2011-12 and from 2012-13 the LTFP proposes that a Stormwater Management Program is introduced to deliver the Stormwater element of the Enhanced Environmental Program as discussed above. A reduced Sustainable Penrith Program, that captures the remaining elements of the 2002-03 special rate variation intended to continue, has been included in all three scenarios of the LTFP and it is proposed to be funded by a Special Rate Variation. The 2006-07 Special Rate Variation, known as AREAS, has been assumed to be continued in its current form beyond its expiry.

Pensioner Subsidy	Number of Pensioners	Value Of Subsidy $'000
2006-07	8,236	2,092
2007-08	8,519	2,118
2008-09	8,745	2,178
2009-10	8,915	2,228
2010-11	9,150	2,240

Estimates in the LTFP for Rating Revenues

The Rate Revenues outlined in the LTFP have been estimated inline with the parameters and assumptions detailed above.

Scenarios One and Two are indexed in each year by the Local Government Cost Index and assume that Council's 2002-03 special rate will continue as proposed above and the 2005-06 special rate will continue in the current form.

Scenario Three proposes the same treatment for the 2002-03 and 2005-06 special rates as scenarios one and two however the annual indexation required to fund the proposed initiatives and programs including in this scenario are as below:

Year	Scenarios One and Two	Scenario Three	
		Additional rate revenue	Total
2011-12	2.8%	3.5%	6.3%
2012-13	3.0%	3.0%	6.0%
2013-14	3.0%	2.5%	5.5%
2014-15	3.0%	2.0%	5.0%
2015-16 and thereafter	3.0%	0.0%	3.0%

The estimates of the rating revenues based on these assumptions are illustrated in the following tables:

Scenario One	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$'m										
Rates	74.1	78.9	80.3	83.5	87.2	91.1	95.3	99.7	104.2	108.9	114.0
SMP*			1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Total	**74.1**	**78.9**	**81.9**	**85.1**	**88.8**	**92.7**	**96.9**	**101.3**	**105.8**	**110.5**	**115.6**

Scenario Two	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$'m										
Rates	74.1	78.9	80.3	83.5	87.2	91.1	95.3	99.7	104.2	108.9	114.0
SMP*			1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Total	**74.1**	**78.9**	**81.9**	**85.1**	**88.8**	**92.7**	**96.9**	**101.3**	**105.8**	**110.5**	**115.6**

Scenario Three	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$'m										
Rates	74.1	81.6	83.9	89.3	94.9	99.0	103.5	108.1	112.8	117.9	123.2
SMP*			1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Total	**74.1**	**81.6**	**85.5**	**90.9**	**96.5**	**100.6**	**105.1**	**109.7**	**114.4**	**119.5**	**124.8**

*SMP – Stormwater Management Program

Domestic Waste

Residential properties in the Penrith City Council area are required to be charged for domestic waste services under the provisions of the Local Government Act. All non-vacant single and dual occupancy properties in the urban area of the City are provided with an organics, recycling, and residual garbage service. All non-urban properties, including multi-unit dwelling properties, are provided with a garbage and recycling service. The Domestic Waste function is required to be self-funding and annual charges are calculated to cover operational costs and to provide a contribution towards the funding of future waste service technologies. Residents can select from a number of service combinations within their service type with each combination having its own fee.

In 2009, the State Government introduced a new waste levy structure targeting landfill disposal rates with the aim of reducing the amount of waste taken to landfill. The levy is currently $70.30 per tonne and will increase by $10 per tonne plus CPI for the next five years resulting in a levy in excess of $130 per tonne in 2017. This increase in cost has been factored into the Waste Model to project the Domestic Waste Charges included in the LTFP. Council's Domestic Waste Strategy and the recently introduced 3-bin system is aimed at minimising residents exposure to the increased waste levy and contributes to the overall affordability of Penrith City Council rates.

The current 2010-11 Domestic Waste Management Charges is maintained over the life of the LTFP, however it is important to note that any future years' increases have no impact on the LTFP's stated available funds as domestic waste surpluses and deficits are transferred to and from the Waste Management Reserve.

Interest on Investment

Council has an investment portfolio that varies in size from year to year however it is projected to average between $45m and $55m over the life of the LTFP. These funds are a mixture of unspent loans and grants, reserve funds and general revenue with the income generated frequently being tied to the source of funds. All investments are placed in accordance with the Minister's Order and Council's adopted Investment Policy.

Interest earnings form a significant part of Council's revenue each year and are subject to fluctuations in interest rates as they respond to economic conditions. The estimated return on invested funds has been set at 6.5% for 2011-12, 6.75% for 2012-13 and an average of 7% for 2013-14 and after.

Fees, Charges and other Income

Council is a multi-disciplinary organisation that provides extensive services to the community and this category of income provides approximately 22% of Council's total revenue. This category of income includes Statutory Charges and User Fees and Charges including those for commercial activities bur excludes Domestic Waste Charges.

Statutory Fees charged by Council are subject to direction through regulation and other state government controls. Council does not set these fees and does not have the power to vary the fee set. Examples of statutory fees include development assessment fees, planning certificates and building certificates. The majority of statutory charges do not provide for annual increases in line with CPI or the cost of providing the service and therefore, excluding development related income, no growth in these fees has been including in the LTFP.

Users Fees and Charges include a diverse range of services from traditional Local Government services including Development Related Activities, Swimming Pools, Sporting Facilities and Hall hiring to other more commercial activities including Childrens' Services and Property Development Activities. A number of these revenues are subject to fluctuations particularly as a response to economic conditions. All fees in this category are annually reviewed and some of the general considerations for settings these fees include:

- Cost of the service or operation
- Consumer Price Index
- Other revenue sources which may fund the service
- Laws and Regulations
- Ability of the persons/group using the service to pay
- Benefit to the community (possible subsidy)
- Benchmarking with others providing similar services.

Further details relating to a number of significant income areas are provided below:

Childrens' Services

Council operates a total of 41 Childcare Services providing long day care, before and after school, pre-school and vacations care services. The majority of these services are managed by the Penrith City Childrens' Services Co-operative. The Childrens' Services activities of Council are largely self funded by user fees however there are a small number of areas where Council has taken a policy decision to provide a valuable service to the community at a subsidised cost. Total revenues from Childrens' Services in 2010-11 are estimated to be $16.7m.

Ripples, Penrith Whitewater Stadium and Penrith Performing & Visual Arts

Council operates three separate companies limited by guarantee that are administered by independent Boards. The entities operate Ripples, Penrith Whitewater Stadium, Joan Sutherland Performing Arts Centre and Penrith Regional Gallery & Lewers Bequest. The setting of fees in relation to these facilities is the responsibility of the individual entities and any surpluses generated do not contribute to Council's general revenue and are retained by the companies. Accordingly revenue projections, along with any Council contribution to these facilities, have not been indexed in the LTFP.

Development Services

This area of Council's income is particularly subject to fluctuations in response to economic conditions and government actions (first home buyer grants and other stimulus packages/initiatives). Income projections have given consideration to the estimated growth as detailed by the lot projections including in the LTFP.

Increases in individual fees and charges vary and as discussed and a number of fees have not been indexed in the LTFP, however overall the average annual increase in user fees and charges is 2% over the life of the LTFP and is not proposed to vary between the scenarios.

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$'m										
Fees & Charges	34.8	35.2	35.9	36.6	37.2	37.9	38.6	38.5	39.3	40.1	40.9

Grants and Contributions (including s94)

Grants and contributions provide a significant source of funds for Council and account for 18.3% of expected revenues in 2010-11. These revenues are split into two categories; general or specific purpose.

General Purpose

Council receives two general purpose grants in the form of the Financial Assistance Grant and Pensioners Rates Subsidy.

The Financial Assistance Grant is an annual allocation from the Federal Government and represents Council's allocation of general taxation revenues. In 2010-11 the Financial Assistance Grant received was $11.3m and represents 35% of all budgeted grants and contributions. The Financial Assistance Grant has been assumed to increase by 3% each year from the 2010-11 base in the LTFP.

Specific Purpose
These Grants and Contributions can be of either Operating or Capital natures and are tied to specific works. With the exclusion of developer contributions this income as been assumed to maintain 2010-11 levels with the corresponding adjustments being made to capital programs. Developer Contributions have been indexed in line with individual Contributions Plans and Voluntary Planning Agreements and the timing of payments have been considered in line with estimated lot delivery with the LTFP. Further details on the potential impact and status of Council's Developer Contribution Plans following the recent changes capping contributions, announced by the State Government, can be found later in this document however for the purpose of the LTFP it has been assumed that all revenues will be inline with established plans and any reduction will be mirrored in the infrastructure provision or replaced by grant revenues.

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$'m										
Financial Assistance Grant	11.3	11.6	12.0	12.3	12.7	13.1	13.5	13.9	14.3	14.7	15.2
Total Grants & Contributions	31.7	34.8	42.3	33.0	29.7	31.3	33.6	34.0	38.2	39.9	28.5

Expenses

1. Employee Costs
Employee Costs are Council's single biggest area of expenditure each year with approximately 950 Full Time Equivalent (FTE) staff delivering 48 diverse services. The LTFP has factored in an estimated overall average annual increase of 4% to the employee costs budget. This forecast is primarily attributable to known and predicted award increases and continued increased superannuation contributions, the impact on Workers Compensation, Employee Leave Entitlements and staff progressing through the salary system. Any known variations resulting from the different scenarios of the LTFP have been identified in the discussion below and further details on the workforce requirements of each scenario can be found in the scenario model attached and the Workforce Strategy included in the *Resource Strategy*.

The overall employee costs budget calculation includes a number of assumptions in relation to the key underlying elements. A summary of these elements and assumptions is provided below.

Salaries & Wages
Budgeted staff numbers are based on the approved organisational structure and any changes proposed by the different scenarios of the LTFP. Projections for overtime, allowances and casual staff are included in estimates. Details of other considerations in determining the overall change in Salaries & Wages are included in this section.

A new Local Government (State) Award 2010, commencing 1 November 2010, is now in place and guarantees wage increases for local government employees over the next three years. The provisions of this award includes four wage increases during the life of the award and an estimate has been included for future wage increases from 1 July 2014 and included in the projections of the LTFP.

Award increases from	%
1 November 2010	2.60
1 July 2011	2.15
1 July 2012	3.25
1 July 2013	3.25
1 July 2014 and thereafter	3.00

Council's Salary System provides staff with the opportunity to advance through the salary system by a skills and knowledge assessment. Each year a provision (usually 1.8%) is incorporated in the Salary & Wages budget for staff progression through the salary system and 1% for bonus payments when staff achieve agreed performance targets.

The salaries and wages budget calculation includes an assumption that staff will take four weeks annual leave. If a staff member takes less annual leave the budget will be overspent, and if they take more than four weeks annual leave it will be underspent. As discussed later Council's employee leave entitlement liabilities are activity managed with a number of strategies employed to contain this liability and balance the pressures on the workforce.

Throughout any year salary saving resulting from staff vacancies and efficiencies will occur naturally. Each year of the LTFP has reduced Salaries & Wages costs by $500,000 to build these efficiencies into the budget.

Superannuation

The minimum level of superannuation for employees who are not members of the LGSS defined benefit scheme is currently 9% of wages. Recently the Federal Government announced that the Superannuation Guarantee Levy (SGL) would be progressively increased to 12% by 2019-20, these changes have been factored into the projections of the LTFP.

For those staff in the defined benefits scheme in 2000, the Local Government Superannuation Scheme (LGSS) announced that it had $800m in reserve funds, and that the required contribution from member councils in the defined benefits scheme would be waived from 1 November 2000 for an ongoing indefinite period. This contribution "holiday" ceased from 1 July 2005 and was re-introduced at half rates. The full contribution rate has been required for those members of the defined benefits scheme since 2008-09.

In March 2009 Council received notification from the Local Government Superannuation Scheme (LGSS) regarding the methodology to be used to calculate Council's 2009-10 contribution for members of the defined benefits scheme. This has significantly increased contribution rates and has resulted in an additional annual contribution of $1.5m from 2009-10. In late 2010, following two years of contributions under the revised calculation method, the LGSS advised that from 2011-12 the contribution calculation will again change. The impact of the change has been calculated to reduce Council's additional contribution to $851,000 (a saving of almost $800,000) from 2011-12. This increased contribution, compared to the base rate, has been assumed to continue for the life of the LTFP.

Council's annual superannuation expense is impacted by a combination of general wage increases, salary system progression, position regrading/market forces reviews and the retirement of members of the defined benefits scheme with new staff members being transitioned to the less expensive SGL and have resulted in the below projections and are not expected to vary between scenarios.

Superannuation	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$'m										
	7.8	6.5	6.7	7.0	7.4	7.9	8.4	9.1	9.7	10.0	10.4

Termination Payments

Council's ELE reserve is used to fund unanticipated changes in termination payments each year. The number of staff who might leave is difficult to predict, and the LTFP's funding builds to $2m annually from 2012-13, representing the projected for levels of retirements, to accommodate the challenges of an ageing workforce.

Council policy is to maintain an amount of 20%, averaged over three years, of leave entitlements (excluding annual leave) in the Employee Leave Entitlements (ELE) Reserve. In recent years the Reserve has been used to assist in the funding of costs associated with the resignation/retirement of a number of long-serving employees. A strategy has been put in place to return the reserve to 20%, which has been achieved in 2010-11, and it is projected that the reserve will maintain a balance of at least 20% over the life of the LTFP.

Workers Compensation

Workers Compensation premiums increase and decrease significantly with claims history. Through a sustained proactive program of Occupational Health & Safety and Injury Management Council has, over recent years, steadily reduced the overall cost of claims, however recent history has also shows a significant growth in the premium, independent of claims patterns. This increase in premium led Council to investigate alternative models to the traditional workers compensation premium.

These investigations identified an opportunity for Council to move to the "Burning Cost" model for Workers Compensation insurance commencing 2010-11. Under the "Burning Cost" model only actual claims costs form part of the premium calculation. It is expected that participation in WorkCover's "Burning Cost Scheme" will provide additional improvements in safety and injury management and deliver significant monetary savings if the current claims history is maintained. The movement to this model has enabled the employment of an additional staff member to focus on further injury prevention. The ongoing Workers Compensation budget has been set from a base of $1.5m that after allowing for the new employment costs will provide an annual transfer to the Insurance Reserve of up to $700,000 following the payment of the annual deposit premium. It is projected that any future adjustments to the premium will be met by the reserve which will be maintained at a level between $2.5m to $3m. Once the desired reserve balance is achieved these additional annual savings of up to $700,000 could be made available to general revenue. The ongoing projected costs of Workers Compensation represent a significant saving when compared to the 2009-10 actual cost of $3.2m.

The impact of these variables has been included in the LTFP and the projections for Employee Costs are detailed below:

Employee Costs	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$'m										
Scenario One	72.1	74.2	76.1	79.5	83.3	87.1	91.6	96.0	100.3	104.5	109.0
Scenario Two	72.1	74.0	75.8	79.3	83.0	86.9	91.4	95.8	100.0	104.2	108.7
Scenario Three	72.1	74.0	75.8	79.3	83.0	86.9	91.4	95.8	100.0	104.2	108.7

Interest on Borrowings

Council has a loan portfolio of $59.9m and the LTFP includes annual infrastructure borrowings of $3.2m. The average interest rate of all loans in the LTFP is 7.5% and Council's debt service ratio (percentage of operating income excluding specific purpose grants and contributions) as at June 2010 was 7.82% and is considered both responsible and sustainable considering Council's growth status and responsibilities.

Scenario Three includes additional interest payments of $72,312 in 2012-13 and $145,423 annually from 2013-14 for the life of the LTFP as a result from $2m proposed to be borrowed in June 2012 and June 2013, both on ten year terms, to fund the initial works proposed under the Penrith and St Marys CBD Renewal and Improvements Program.

Debt Service Ratio	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Scenario One	7.59%	8.13%	8.10%	8.13%	7.75%	7.84%	7.45%	6.65%	6.69%	5.40%	4.72%
Scenario Two	7.59%	8.13%	8.11%	8.13%	7.75%	7.84%	7.45%	6.65%	6.69%	5.40%	4.73%
Scenario Three	7.59%	7.98%	8.10%	8.20%	7.74%	7.21%	7.43%	6.66%	6.69%	5.45%	4.68%

Materials and Contracts

Expenditure on all major expenditure items including materials and contract for parks and buildings, asset management and renewal and insurances have been increased from their 2010-11 base by the estimated CPI each year. All long term contracts including Council's Garbage, Recycling and Organics services have been indexed in line with the contract terms. Utilities including Street Lighting and Water/Sewerage Rates have increased by 3.5% annually and the LTFP has factored in an annual increase of 10% for electricity usage charges over the life of the plan.

In addition an allocation of 2.5% of the value of predicted new Parks, Building and Infrastructure Assets for asset maintenance and renewal and 2% for increased operating costs has been included.

Scenario Two alters from scenario one in that material and contracts have been reduced as part of the overall reduction in expenditure to ensure that a balanced financial position is achieved. Details of the specific reduction to all expenditure categories have been detailed in the Scenario Two of this LTFP. Expenditure on asset maintenance and renewal has been excluded from the proposed reductions.

Scenario Three includes additional expenditure for the proposed programs of works detailed under Scenario Three attached to the LTFP.

Materials & Contracts	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$'m										
Scenario One	50.0	50.1	51.7	51.0	51.7	52.1	52.8	52.8	53.4	54.2	55.0
Scenario Two	50.0	49.3	50.8	49.7	49.9	49.9	50.1	50.8	51.1	53.0	54.6
Scenario Three	50.0	50.9	52.5	52.2	52.8	53.2	53.9	53.8	54.4	55.1	55.9

Other Expenses

Depreciation has been included in the LTFP based on the estimated remaining life of existing assets. Council's assets, except for Land under Roads, have been re-valued in accordance with Australian Equivalents to International Financial Reporting Standards and the NSW Local Government Code of Accounting Practice and Reporting Guidelines. Depreciation is calculated on these revised values and takes into consideration Council's ongoing capital expenditure program. The revaluation of Council's assets has increased the annual depreciation expense by $14m to $31.5m over the last three years. This increase has had a significant impact on Council's operating result and the LTFP has projected that Council's income statement will continue to have operating deficits for the life of the LTFP. Once Council's asset renewal and capital programs are taken into consideration a net surplus is projected, in all three scenarios, over the term of the plan.

Where deemed appropriate other items of expenditure in this category including contributions to other levels of government have been increased by CPI.

Scenario Two alters from scenario one in that other expenses have been reduced as part of the overall reduction in expenditure to ensure that a balanced financial position is achieved. Details of the specific reduction to all expenditure categories have been detailed in the Scenario Two of this LTFP.

Scenario Three includes additional expenditure for the proposed programs of works detailed under Scenario Three attached to the LTFP.

Other Expenses	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Scenario One	14.5	14.3	14.3	14.6	15.0	15.7	16.1	16.6	17.1	17.6	18.2
Scenario Two	14.5	14.1	14.1	14.5	14.9	15.6	16.0	16.5	17.0	17.5	18.0
Scenario Three	14.5	14.1	14.5	14.9	15.3	15.9	16.4	16.8	17.3	17.9	18.4

Capital Expenditure Program

The LTFP's projections for Capital Expenditure assumes a continuation of Council's 2010-11 recurrent capital programs, EEP projects, and projects projected by separate models for section 94 projects, Property Development Projects and City Significant/Major Projects along with any known grant funding.

It is likely that the total actual capital expenditure will be higher than that stated and the LTFP will be updated as project estimates become available. The majority of the additional expenditure will have associated funding sources such as developer contributions, reserve transfers or special purpose grants, or will have a particular funding strategy to enable their admission into the budget.

The impact of all ongoing operational and maintenance costs for these projects has been included in the LTFP. As new projects are identified and included the allocation for these increased costs will be adjusted accordingly.

INTRODUCTION OUR COMMUNITY OUR ASSETS OUR PEOPLE OUR FINANCES APPENDICES

Future/Proposed Programs

The three scenarios of the LTFP propose a number of different service levels including reductions in service levels in Scenario Two and the introduction of a number of new or enhanced programs for funding in Scenario Three. The following table provides an overview of these variables with further details being available in the detailed scenario discussion later in the LTFP.

Special Rate Variation Priorities	Funding		
	Scenario One	Scenario Two	Scenario Three
Parks Asset Renewal	★	★	✓
Building Asset Renewal	★	★	✓
Public Amenity Replacement Program	★	★	✓
Enhanced Public Domain Maintenance	x	x	✓
Neighbourhood Renewal	x	x	✓
Enhanced Shared Pathways Program	★	★	✓
City's Centres Renewal & Improvement	x	x	✓
$1.35m cuts to balance budget	✓	x	✓

Key	✓	Full Funding included	★	Enhanced Funding not included	x Unfunded

Balance Sheet Activities

Receivables

The management of Council's debtors is an important factor in maintaining operational cash flows. As at June 2010 outstanding rates and annual charges totalled $5.6m (70% of all receivables), resulting in an outstanding rate ratio of 5.67%. This result is an increase on previous years and exceeds Council's own benchmark of 5%. Strategies have been put in place to see this ratio return below 5%. The LTFP has considered the economic conditions and factored in an increase in the value of outstanding rates of 1% above the Local Government Cost Index (Rate Peg).

Property Development Activities

Council's Property Development Operations currently have $19.1m under management. Property development has been an important part of Council's financial strategy for many years and funds received from property development activities are transferred to the property development reserve. Property Development activities include:

- the acquisition, development and disposal of properties to achieve a profitable return that ensures a consistent supply of funding for Council's use. Properties that are surplus to current requirements can be sold, contributing to Council's financial capacity.
- compulsory acquisition of private land to assist the implementation of planning schemes, in particular, purchases for road widening, open space, drainage, car parking, neighbourhood centres and children's centres.
- acquisition of private property, while discretionary, when necessary to facilitate or encourage development. Council property developments can influence the form of future city developments. Traditionally Council has relied on property development activity to contribute to the funding of major projects.

The reserve not only contributes funds to major projects, e.g. Penrith Valley Cultural Precinct and Civic Centre Extensions, it also provides funding for building asset renewal. The average contribution to general revenue over the last 5 years has been $1.5m and represents a rate of return of 7.85%.

Cash Reserves

An integral part of Council's financial capacity is the administration of funds held for specific purposes. Council holds these funds in reserves and differentiates them into External & Internal Restrictions.

External Restrictions

External Restrictions accounts have been established to control specific receipts and payments made by Council. These funds are tied in nature and carry specific conditions of use and include Develop Contributions, Grants and the Waste Reserve. The projections of the LTFP manage these reserves in accordance with specific conditions.

Internal Restrictions

Internal Restrictions are funds that are transferred to reserve and utilised for a specific purpose. Council has established a number of reserves to ensure that funding is made available to meet Council's short and long term liabilities, asset replacement programs and other agreed self funding strategies. The income and funding opportunities for these reserves have been included in the projects of the LTFP.

Borrowings

Council has an annual infrastructure borrowing program of $3.2m and the LTFP has continued this level of annual borrowing over the life of the plan. In addition to these infrastructure borrowings, specific purpose borrowings of $913,000 are included each year to fund the majority of the general revenue funding required for AREAS projects. This funding strategy was developed during the 2007-08 budget preparation and along with the continuation of the AREAS special rate variation these additional borrowings have been assumed to continue over the life of the LTFP.

Any other specific purpose borrowings over of these amounts must be in line with Council's borrowing policy and accordingly are required to be undertaken only if a funding source for the loan repayment is associated.

Council's borrowings are monitored by the Division of Local Government. Council advises the Division of its borrowing program on an annual basis and Council's proposed borrowing program is included in the *Operational Plan* each year. Loans are obtained from Financial Institutions and secured by a charge on Council's income.

Annual Borrowing Program	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$'m										
Scenario One	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Scenario Two	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Scenario Three	4.1	6.1	6.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1

Total Borrowings	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$'m										
Scenario One	65.1	62.4	63.0	65.6	67.8	63.8	60.0	57.0	52.5	49.7	47.6
Scenario Two	65.1	62.4	63.0	65.6	67.8	63.8	60.0	57.0	52.5	49.7	47.6
Scenario Three	65.1	64.4	66.8	69.1	71.1	66.8	62.6	59.2	54.3	51.0	48.6

Employee Leave Entitlements (ELE)

Employee entitlements represent a significant liability for Council and as at 30 June 2010 stood at $27.3m. Council policy is to maintain a balance of 20% of this liability, excluding annual leave, in the ELE reserve. Penrith City Council, like Local Government in general has an ageing workforce and the Workforce Strategy provides actions to address this challenge. Not withstanding the significant challenges an aging workforce imposes on ensuring an appropriately skilled and trained organisation it also presents significant financial challenges. The LTFP has given consideration to the annual funding required for termination pays, the projected total ELE liability and the projected required balance of the ELE reserve. In assessing the financial implications consideration has been given to the age profile of the organisation, current economic conditions and future wage increases. The outcomes of the LTFP are presented below and highlights, while the challenges are significant, the target of maintaining a prudent level of funding in reserve has been achieved.

ELE	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	$'m										
Total Liability	27.8	28.3	28.4	28.0	27.7	27.3	26.9	26.6	26.3	26.0	25.6
Terminations	1.0	1.3	1.3	1.3	1.5	1.5	2.0	2.0	2.0	2.0	2.0
ELE Reserve	23.4	23.9	23.9	23.4	22.9	22.5	22.0	21.6	21.1	20.7	20.3
ELE Reserve %	19.2	20.1	21.4	20.5	19.6	20.0	21.1	21.5	22.7	23.2	23.6

Funding Challenges for Asset Management/ Renewal and Enhancement Programs

Road Network

S1	✓	S2	✓	S3	✓

Council has in recent years provided significant increases to the funding of Roads Maintenance and Renewal. The aim of this funding has been to bring and maintain the network to an acceptable condition. Road Maintenance funding allocated in 2010-11 is $10.4m (including kerb and gutter and road widening programs) and contains an allocation from the AREAS strategy. As outlined in the Transport Asset Management Plan (Appendix C) the current level of funding is addressing the identified backlog, over 15-20 years, and no additional funding is being sought.

Parks Asset Renewal Program

S1	★	S2	★	S3	✓

The Parks Asset Renewal Program commenced in 2008-09 to address the renewal of a wide range of fixed parks assets. As with the development of the Roads and Buildings Asset Renewal Strategies all Parks fixed assets needed to undergo a condition assessment and have appropriate standards determined for each asset classification. Fixed parks assets include playground equipment, fencing, lighting, irrigation systems, signage, park furniture, seating and playing surfaces.

In 2008 the Parks Asset Renewal Program was costed at approximately $6.55m. This program was recognised as a priority and allocated $250,000 p.a. in 2008-09, 2009-10 and 2010-11, at the same time it was recognised that this level of funding was an interim measure only. The current estimated cost of the asset renewal required for fixed parks assets is $6.3m. Since 2008 the Sportsground Management Strategy has been completed and this was the final element in assessing total the parks asset renewal program, and added $2.2m, bringing the total remaining program to $8.5m. The program is proposed to be delivery over 10 years and would require annual funding of $850,000. Scenario Three of the LTFP is the only scenario that provides the additional funding of $600,000 pa to fully fund this program. The detailed annual programs proposed under each scenario of the LTFP are included in the Parks Asset Management Plan (appendix A).

Buildings Asset Renewal

S1	★	S2	★	S3	✓

As discussed previously, recognition of the need to increase the commitment for Buildings Asset Renewal was endorsed by Council when building asset renewal formed part of the AREAS Special Rate Variation in 2006-07.

The on-going development of Council's asset management systems has included detailed condition audits of building assets and the development of service standards that will ensure all buildings are fit for purpose and consider future needs. These service standards will ensure a greater emphasis on sustainability, compliance, risk management and meeting community expectations, such as accessibility.

In addition to the 2006-07 program some urgent major upgrades to Ripples and Penrith Indoor Sports Stadium have emerged and the recent Neighbourhood Facilities Management Services Review has recommended significant additional upgrades and enhanced maintenance requirements to ensure these facilities are performing satisfactorily and meeting customer demands.

The 2010-11 budget has an allocation for Building Asset Renewal of $1.55m. To address the revised building asset backlog and implement the program identified in the Buildings Asset Management Plan (appendix E) additional annual funding of $500,000 over 10 years would be required. Scenario Three of the LTFP is the only scenario that fully funds this program.

Public Amenity/ Toilet Replacement Program

S1	★	S2	★	S3	✓

The condition of public toilets continues to rate high importance and low satisfaction in recent Community Surveys. It has been rated with the lowest satisfaction rating in the last three surveys. In response the Public Amenity Replacement Program was adopted by Council in 2008-09 at an estimated cost of $2.7m. The Program identified the need to replace 21 stand-alone public toilets, of various sizes, throughout the Council's area and by June 2011 it is projected that 17 toilets will still require replacement.

Despite the financial challenges facing Council, given the priority the community had placed on this program, annual funding of $150,000 was commenced in 2008-09. This level of funding would see the program completed in further 16 years. Scenario three of the LTFP proposes additional annual funding building up to $150,000 from 2014-15 to accelerate the program.

Enhanced Public Domain Maintenance

S1		S2		S3	
	x		x		✓

Enhanced Public Domain Maintenance has for a number of years been identified as a high priority unfunded program. The enhanced service levels are proposed in locations such as CBD car parks and commuter car parks, high activity city locations and precincts, industrial areas (including the new Erskine Park industrial precinct) and to address the emerging issue of litter throughout the Council's area.

The initiative would provide two additional 2-person public domain maintenance units to assist in addressing the issues referred to above at an estimated cost of $485,000 in the first year, due to the need to purchase plant and equipment, and $343,000 p.a. thereafter. Scenario three of the LTFP is the only scenario that provides funding for the enhanced service levels proposed and provides this funding phased in over two years.

Neighbourhood renewal

S1		S2		S3	
	x		x		✓

The Neighbourhood Renewal Program has actively engaged with residents in a range of established areas across the City to identify community strengths and issues and develop appropriate responses to the matters raised. The delivery of these responses have been framed within Neighbourhood Action Plans (NAPs) that outline actions for Council, service providers, other levels of government and the community to enhance and improve the physical amenity and social outcomes for residents within these communities.

The Neighbourhood Renewal Program has been highly successful in building positive relationships, developing community capacity, opening opportunities for creative expression in communities and positive engagement with Council. These relationships have developed through collaborative planning and will be further enhanced by the timely delivery of recommendations, including physical infrastructure, within the NAPs for each community. An amount of $300,000 per annum has been identified to meet the requirements of the NAPs for neighbourhood renewal areas. Scenario three of the LTFP is the only scenario that provides funding for the enhanced service levels proposed and provides this funding phased in over two years.

Enhancement to shared pathways program

S1		S2		S3	
	★		★		✓

The current footpath program is primarily focused on missing links in the existing network available to pedestrians. Annual funding for this program is $150,000 and follows a significant investment in recent years that saw $4m provided over two years to accelerate the program.

It is apparent that there is now a growing demand from the community for a broader network of shared pathways that will provide a dual service for both pedestrians and cyclists. Such a network would encourage active movement around the City and help connect communities. This network would achieve many of Council's health and sustainability goals as well as responding to recommendations of the PLANS (People's Lifestyle Aspirations and Needs Study) and the Integrated Transport & Land Use Strategy (PITLUS).

The recently released NSW Bikepaths Plan provides significant funding opportunities for the City based on a 25% matching contribution from Council. Scenario three of the LTFP is the only scenario that provides additional funding beyond the current base of $150,000. To maximise the opportunities under NSW Bikepaths Plan and allow a footpath program to continue additional annual funding building up to $800,000 for new pathways, in 2012-13 and $400,000 for enhanced maintenance in 2013-14 is proposed by scenario three.

City's Centres Renewal and Improvements

S1		S2		S3	
	x		x		✓

The Civic Improvement Plan has identified significant works that will contribute to the recognition of Penrith as a Regional City. Whilst a number of the key improvements will be covered by developer contributions, there is a real opportunity to fast track the delivery of some of the key infrastructure and stimulate the further development of both CBDs.

A program of civic infrastructure improvements for the Penrith and St Marys City Centres has been prepared to support their growth and development. These improvements aim to upgrade the public domain throughout the Centres over time and create high quality public spaces that provide the centres with their own unique identities. The improvements identified aim to strengthen the regional position of Penrith City Centre as a multi- functional and innovative Centre that encourages employment and economic growth.

Scenario three of the LTFP provides significant funding for the CBD improvements commencing with $4m over two years funded by borrowings to kick start the program and building up to an annual allocation of almost $3m by 2014-15.

Monitoring our Financial Performance

KPIs

Indicator	2008-09	2009-10	2010-11	Target
Unrestricted Current Ratio	1.17:1	1.03:1	1.15:1	>1.25:1
Adjusted Unrestricted Current Ratio	1.41:1	1.30:1	1.45:1	>1.25:1
Unrestricted available cash	$3.6m	$6m	$5m	>$0
Working Funds	$3.6m	$3.6m	$3.3m	>$2m
Debt Service Ratio	7.45%	7.82%	7.80%	<10%
Rates Outstanding Ratio	4.94%	5.67%	5.2%	<5%
Rates Outstanding (excluding Pensioners)	3.76%	4.41%	4.0%	<4.5%
Asset Renewal Ratio	56.9%	51.58%	55%	
% of ELE Reserve	18%	19%	19%	20%

Definition of KPIs

Unrestricted Current Ratio

This ratio aims to measure Council's liquidity, and more importantly, Council's solvency and is calculated as the ratio of Council's Current Assets less external restrictions against Current Liabilities less specific purpose liabilities. Council's practice of forward funding section 94 expenditure ahead of contributions, by a loan over internal reserves, has impacted this ratio in recent years. Given that these advances could be funded by an external loan or other section 94 Plan (once the current Department of Planning Developer Contributions review is completed) Council measures the performance of this ratio after adjusting of these internal loans.

Unrestricted Available Cash

This measures cash held by Council, which is free of any restricted use and is a measure of Council's ability to pay its liabilities as they fall due.

Working Funds

Is an internal measure of liquidity and assesses the underlying liquidity or capacity of Council's budget to respond to unexpected expenditure should it arise. This measure is also reported by Council's external auditor each year.

Debt Service Ratio

This ratio measures debt servicing costs against operating revenues excluding grants and contributions received for specific purposes. Council's Debt Policy is to ensure that this indicator continues to reduce over the long term.

Rates Outstanding Ratio

This indicator measures Council's collectible outstanding rates. A second ratio has been included to excluding the outstanding rates of pensioners.

Asset Renewal Ratio

This ratio provides a measure of the rate at which Council is renewing its infrastructure assets compared to the annual depreciation expense.

% of ELE Reserve

This indicator is a measure of the percentage of employee leave entitlements, excluding annual leave, held in reserve. The target of this indicator is to 20% average over 3 years to allow for any unexpected payments.

Management Reporting

In accordance with the Local Government Act and relevant Regulations -Local Government (General) Regulation 2005- Council is required to establish and maintain a system of budgetary control that will enable Council's income and expenditure to be monitored each month and to be compared to the estimates.

The mechanism by which this requirement is achieved by Council is the Monthly Health Report which is reported to the Corporate Management Team. This report includes a comparison of year-to-date budget to actual with comments provided for all variances over $200K, and any variance less than 10% and greater than 15% (if greater than $10K).

This report also provides included information and commentary relevant to assessing financial performance including investments, receivables, payables, reserve balances, inventories, balance sheet and an income statement.

Quarterly Reviews

A the end of each quarter a Quarterly Budget Review is undertaken which represents the mechanism whereby councillors and the community are informed of council's progress against the operational plan original budget and the last revised budget. Variations to budget are identified and proposals made as part of the Review, including revotes where projects are not able to be completed in the current year. Council is presented with these proposals for budget variations and once approved Council's budget is adjusted to reflect these changes.

This Review process is carried out in accordance with Clause 203 of the Local Government (General) Regulation 2005 which specifies the following requirements:

- Not later than 2 months after the end of each quarter (except the June quarter), the responsible accounting officer of a council must prepare and submit to the council a budget review statement that shows, by reference to the estimate of income and expenditure set out in the statement of the council's revenue policy included in the operational plan for the relevant year, a revised estimate of the income and expenditure for that year.
- A budget review statement must include or be accompanied by:
    - a report as to whether or not the responsible accounting officer believes that the statement indicates that the financial position of the council is satisfactory, having regard to the original estimate of income and expenditure, and
    - if that position is unsatisfactory, recommendations for remedial action.
- A budget review statement must also include any information required by the Code to be included in such a statement.

In relation to the June Quarterly review, the regulations refer to the timeframe for the preparation of the annual financial statements with section 416 of the Local Government Act 1993 stating that "a council's financial reports for a year must be prepared and audited within the period of 4 months after the end of that year."

Sensitivity Analysis and Risk Assessment

The LTFP contains a number of assumptions based on various sources such as legislation, inflation, current service provisions and wage markets. Variations in these assumptions during the life of the plan may have a significant impact on the Council's future financial plans. The LTFP is updated four times each year to ensure the assumptions are continually updated with the latest information available. A detailed sensitivity and risk assessment is included in each of the scenarios of the LTFP included in Appendix A. The key assumption considered in the sensitivity analysis and risk assessment of the scenarios includes:

- Interest rates for investments and borrowings
- Local Government Cost Index
- Inflation
- Employee Costs
- Population Growth
- Grants

Consideration of these assumptions has developed the Planned, Optimistic and Conservative outcomes for each of the scenarios.

Appendices as required

Current Special Rate Variations

Council has two current, time limited, special rate variations in place. The funding for the programs delivered by these special rate variations is index each year by the Local Government Cost Index (formerly the Ministerial increase). The 2002-03 Special Rate Variation expiries in 2011-12 and from 2012-13 the LTFP proposes that a Stormwater Management Program is introduced to deliver the Stormwater element of the Enhanced Environmental Program. A reduced Sustainable Penrith Program has been including all three scenarios of the LTFP and it is proposed to be funded by a Special Rate Variation. The 2005-06 Special Rate Variation, known as AREAS, has been assumed to be continued beyond its expiry in its current form.

Details of both special rate variations are as follows

2002-03 Enhanced Environmental Program, Community Safety and Economic Development

Commencing with the 2002-03 Management Plan, Council identified a need to accelerate these three special programs which are critical to achieving agreed strategic outcomes for the City.

Enhanced Environmental Program (EEP)

EEP provides funding toward special projects that are designed to restore the health of the river and surrounding catchments. EEP is a ten year program that commenced in 2002 invests in improvements to our local environment.

Through EEP Council is able to undertake research and implement actions to improve our parks and bushland, manage pollution and develop more environmentally friendly urban areas. Council has been able to provide programs to assess and monitor water health, to build and maintain stormwater treatment devices, revegetate and stabilise river and creek banks and support Bushcare volunteers. The installation of water saving equipment in public buildings and the auditing of business and industry to reduce pollution has also been made possible through the program. EEP has also supported some very effective environmental education and awareness programs such as the Penrith EnviroAdventure and other Waste and Sustainability initiatives.

Funding from the special rate variation for this program in 2010-11 totals $2.3m.

Community Safety and Neighbourhood Renewal

Council is determined to achieve equity among the City's many neighbourhoods and in 2002 recognised that additional attention was required for the established areas of the City. To deliver these changes a program to re-invigorate these neighbourhoods was developed to ensure that they had the facilities and amenities that were provided to the newer areas.

As the City has grown, like all contemporary major centres, it has developed the reality and perception of increased crime and threat. There was widespread concern that the City's neighbourhoods are not as safe as they can or should be.

The Community Safety & Neighbourhood Renewal Program was developed to address the above broad issues. The program consists of three very closely inter-related projects:

- Community Safety Program
- Neighbourhood Coordination project
- Shopping Strip Improvements

Funding from the special rate variation for this program in 2010-11 totals $325,707.

Economic Development

Council recognised the need to actively attract investment and employment to the City and has put in place a range of programs to promote Penrith as a great place to do business. Funds from this special rate variation were used to create the Penrith Valley Economic Development Corporation (PVEDC) which has been focused on enterprise development. In recent years, Council's in-house economic development activities have been restructured and merged with the functions of the PVEDC to create a new entity, the Penrith Business Alliance (PBA). The Board of the PBA has 14 members that are drawn from industry, business, the community and Council and focus on attracting the investment and employment opportunities necessary to promote the growth of Penrith as a Regional City.

Funding from the special rate variation for this program in 2010-11 totals $297,049.

2006-07 Asset Renewal and Established Areas Strategy (AREAS)

Council resolved to accelerate a range of initiatives in its 2006-07 Management Plan which are critical to achieving agreed strategic outcomes for the City and focus on areas where residents have been demanding special attention.

That focus is on increased investment in infrastructure renewal and public domain maintenance (including roads, buildings, graffiti removal and street cleaning as well as maintenance of the Penrith and St Marys CBDs) and programs addressing the needs of the City's older areas.

As Council was unable to fund these special initiatives within current programs (without cutting other important services), application was made to the Minister for Local Government for a 5.2% special rate increase above the State Government allowed 3.6% rate-peg to fund investment in;

Roads Asset Renewal- Council is responsible for over 1,024kn of local and regional roads. Despite significant increases in funding in the years leading up to this special rate variation for roads asset renewal modelling by Council's pavement management system had identified that a funding shortfall still existed. Funds provided through this initiative will address the identified backlog over the next 15-20 years.

Building Asset Renewal – Council owns and operates a property portfolio of with a replacement value of over $320m. This special rate variation provided a significant boost to Council's Building Asset Renewal Program lifting annual expenditure from $650,000 to $1.5m annually and has facilitated Council in reducing the identified backlog for buildings. To eliminate the backlog on buildings additional funding will be required in future budgets.

Established Areas Strategy – This strategy comprises a range of programs for addressing current inequities and enhancing service delivery to and the amenity of the Established Areas of Penrith City. This is being achieved through Public Domain Maintenance, Graffiti Management and Removal, Neighbourhood Renewal Coordination, Local Employment and Enterprise Programs, Urban Design Enhancements, Cultural Development and Community Engagement.

Funding from the special rate variation for these programs in 2010-11 totals $3.4m.