

PENRITH



2017-18

FINANCIAL STATEMENTS



This document provides audited information on Council's financial activities

PENRITH
CITY COUNCIL

penrithcity.nsw.gov.au

Penrith City Council

General Purpose Financial Statements for the year ended 30 June 2018

Contents	Page
1. Understanding Council's Financial Statements	2
2. Statement by Councillors and Management	3
3. Primary Financial Statements:	
– Income Statement	4
– Statement of Comprehensive Income	5
– Statement of Financial Position	6
– Statement of Changes in Equity	7
– Statement of Cash Flows	8
4. Notes to the Financial Statements	9
5. Independent Auditor's Reports:	
– On the Financial Statements (Sect 417 [2])	80
– On the Conduct of the Audit (Sect 417 [3])	83

Overview

Penrith City Council is constituted under the Local Government Act 1993 (NSW) and has its principal place of business at:

601 High St
Penrith NSW 2750

Council's guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b).

Through the use of the internet, we have ensured that our reporting is timely, complete and available at minimum cost. All press releases, financial statements and other information are publicly available on our website: www.penrithcity.nsw.gov.au.

Penrith City Council

General Purpose Financial Statements for the year ended 30 June 2018

Understanding Council's Financial Statements

Introduction

Each year, individual local governments across New South Wales are required to present a set of audited financial statements to their council and community.

What you will find in the statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2018.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting and reporting requirements of Australian Accounting Standards and requirements as set down by the Office of Local Government.

About the Councillor/Management Statement

The financial statements must be certified by senior staff as 'presenting fairly' the Council's financial results for the year and are required to be adopted by Council – ensuring both responsibility for and ownership of the financial statements.

About the primary financial statements

The financial statements incorporate five 'primary' financial statements:

1. The Income Statement

Summarises Council's financial performance for the year, listing all income and expenses.

This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

2. The Statement of Comprehensive Income

Primarily records changes in the fair value of Council's Infrastructure, Property, Plant and Equipment.

3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its assets, liabilities and "net wealth".

4. The Statement of Changes in Equity

The overall change for the year (in dollars) of Council's "net wealth".

5. The Statement of Cash Flows

Indicates where Council's cash came from and where it was spent. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

About the Notes to the Financial Statements

The Notes to the Financial Statements provide greater detail and additional information on the five primary financial statements.

About the Auditor's Reports

Council's annual financial statements are required to be audited by the NSW Audit Office. In NSW the auditor provides 2 audit reports:

1. an opinion on whether the financial statements present fairly the Council's financial performance and position, and
2. their observations on the conduct of the audit, including commentary on the Council's financial performance and financial position.

Who uses the financial statements?

The financial statements are publicly available documents and must be presented at a Council meeting between seven days and five weeks after the date of the Audit Report.

The public can make submissions to Council up to seven days subsequent to the public presentation of the financial statements.

Council is required to forward an audited set of financial statements to the Office of Local Government.

Penrith City Council

General Purpose Financial Statements

for the year ended 30 June 2018

Statement by Councillors and Management

made pursuant to Section 413(2)(c) of the *Local Government Act 1993 (NSW)* (as amended)

The attached General Purpose Financial Statements have been prepared in accordance with:

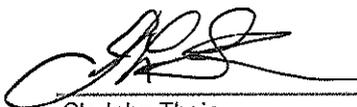
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the Local Government Code of Accounting Practice and Financial Reporting.

To the best of our knowledge and belief, these financial statements:

- present fairly the Council's operating result and financial position for the year,
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.

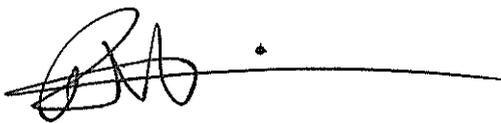
Signed in accordance with a resolution of Council made on 24 September 2018.



Clr John Thain
Mayor
24 September 2018



Clr Tricia Hitchen
Deputy Mayor
24 September 2018



Warwick Winn
General Manager
24 September 2018



Andrew Moore
Responsible Accounting Officer
24 September 2018

Penrith City Council

Income Statement

for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	CONSOLIDATED Actual 2018	Actual 2017
Income from continuing operations				
Revenue:				
141,670	Rates and annual charges	3a	143,674	134,188
41,017	User charges and fees	3b	42,061	40,834
2,994	Interest and investment revenue	3c	3,962	3,437
4,293	Other revenues	3d	7,004	6,196
39,449	Grants and contributions provided for operating purposes	3e,f	24,975	37,233
29,100	Grants and contributions provided for capital purposes	3e,f	43,724	35,032
Other income:				
–	Fair value increment on investment property	10	7,431	1,419
50	Net share of interests in joint ventures and associates using the equity method	15	716	837
258,573	Total income from continuing operations		273,547	259,176
Expenses from continuing operations				
98,037	Employee benefits and on-costs	4a	93,177	89,267
2,344	Borrowing costs	4b	2,145	2,744
84,833	Materials and contracts	4c	61,261	64,299
25,419	Depreciation and amortisation	4d	27,042	26,198
15,227	Other expenses	4e	22,239	23,059
486	Net losses from the disposal of assets	5	205	1,547
226,346	Total expenses from continuing operations		206,069	207,114
32,227	Operating result from continuing operations		67,478	52,062
32,227	Net operating result for the year		67,478	52,062
32,227	Net operating result attributable to Council		67,478	52,062
3,127	Net operating result for the year before grants and contributions provided for capital purposes		23,754	17,030

Penrith City Council

Statement of Comprehensive Income
for the year ended 30 June 2018

\$ '000	Notes	CONSOLIDATED	
		2018	2017
Net operating result for the year (as per Income Statement)		67,478	52,062
Other comprehensive income:			
Amounts that will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	9a	124,467	(6,676)
Total items which will not be reclassified subsequently to the operating result		124,467	(6,676)
Total other comprehensive income for the year		124,467	(6,676)
Total comprehensive income for the year		191,945	45,386
Total comprehensive income attributable to Council		191,945	45,386

Penrith City Council

Statement of Financial Position
as at 30 June 2018

\$ '000	Notes	CONSOLIDATED	
		2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	6a	5,764	18,643
Investments	6b	128,246	93,091
Receivables	7	13,374	10,427
Inventories	8	733	700
Other	8	2,037	2,382
Total current assets		150,154	125,243
Non-current assets			
Investments	6b	20,970	25,000
Receivables	7	881	867
Infrastructure, property, plant and equipment	9	1,889,147	1,737,684
Investments accounted for using the equity method	15	7,623	6,907
Investment property	10	34,455	19,874
Total non-current assets		1,953,076	1,790,332
TOTAL ASSETS		2,103,230	1,915,575
LIABILITIES			
Current liabilities			
Payables	11	19,819	19,936
Income received in advance	11	3,670	3,269
Borrowings	11	11,050	11,758
Provisions	12	28,354	28,843
Total current liabilities		62,893	63,806
Non-current liabilities			
Payables	11	3,896	3,896
Borrowings	11	39,265	42,630
Provisions	12	849	861
Total non-current liabilities		44,010	47,387
TOTAL LIABILITIES		106,903	111,193
Net assets		1,996,327	1,804,382
EQUITY			
Accumulated surplus	13	1,197,515	1,130,037
Revaluation reserves	13	798,812	674,345
Total equity		1,996,327	1,804,382

Penrith City Council

Statement of Changes in Equity

for the year ended 30 June 2018

CONSOLIDATED							
\$ '000	Notes	2018 Accumulated surplus	IPP&E revaluation reserve	Total equity	2017 Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		1,130,037	674,345	1,804,382	1,077,975	681,021	1,758,996
Net operating result for the year as reported in the 2017 financial statements		67,478	–	67,478	52,062	–	52,062
Net operating result for the year		67,478	–	67,478	52,062	–	52,062
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	9a	–	124,467	124,467	–	(6,676)	(6,676)
Other comprehensive income		–	124,467	124,467	–	(6,676)	(6,676)
Total comprehensive income (c&d)		67,478	124,467	191,945	52,062	(6,676)	45,386
Equity – balance at end of the reporting period		1,197,515	798,812	1,996,327	1,130,037	674,345	1,804,382

Penrith City Council

Statement of Cash Flows
for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	CONSOLIDATED Actual 2018	Actual 2017
Cash flows from operating activities				
Receipts:				
132,138	Rates and annual charges		143,479	134,400
42,770	User charges and fees		44,016	42,672
3,280	Investment and interest revenue received		3,736	3,078
45,797	Grants and contributions		45,993	42,974
4,376	Bonds, deposits and retention amounts received		1,711	3,896
14,752	Other		14,162	12,821
Payments:				
(91,258)	Employee benefits and on-costs		(93,767)	(89,398)
(70,118)	Materials and contracts		(75,035)	(68,317)
(2,710)	Borrowing costs		(2,145)	(2,744)
(2,398)	Bonds, deposits and retention amounts refunded		–	(1,967)
(25,321)	Other		(21,221)	(25,124)
51,308	Net cash provided (or used in) operating activities	14b	60,929	52,291
Cash flows from investing activities				
Receipts:				
226,468	Sale of investment securities		284,715	245,069
–	Sale of investment property		–	857
10,556	Sale of infrastructure, property, plant and equipment		1,386	4,491
–	Deferred debtors receipts		32	214
Payments:				
(288,796)	Purchase of investment securities		(315,839)	(273,936)
(31,683)	Purchase of infrastructure, property, plant and equipment		(40,028)	(19,240)
(83,455)	Net cash provided (or used in) investing activities		(69,734)	(42,545)
Cash flows from financing activities				
Receipts:				
3,212	Proceeds from borrowings and advances		7,100	1,625
10	Deferred debtors receipts		–	–
Payments:				
(8,299)	Repayment of borrowings and advances		(11,173)	(11,631)
(141)	Deferred debtors and advances made		–	–
(5,218)	Net cash flow provided (used in) financing activities		(4,073)	(10,006)
(37,365)	Net increase/(decrease) in cash and cash equivalents		(12,879)	(260)
18,643	Plus: cash and cash equivalents – beginning of year	14a	18,643	18,903
(18,722)	Cash and cash equivalents – end of the year	14a	5,764	18,643
Additional Information:				
	plus: Investments on hand – end of year	6b	149,215	118,091
	Total cash, cash equivalents and investments		154,979	136,734

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Basis of preparation	10
2(a)	Council functions/activities – financial information	14
2(b)	Council functions/activities – component descriptions	16
3	Income from continuing operations	21
4	Expenses from continuing operations	27
5	Gains or losses from the disposal of assets	31
6(a)	Cash and cash equivalent assets	32
6(b)	Investments	32
6(c)	Restricted cash, cash equivalents and investments – details	34
7	Receivables	36
8	Inventories and other assets	37
9(a)	Infrastructure, property, plant and equipment	39
10	Investment property	41
11	Payables and borrowings	43
12	Provisions	45
13	Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors	47
14	Statement of cash flows – additional information	48
15	Interests in other entities	49
16	Commitments for expenditure	55
17	Contingencies and other liabilities/assets not recognised	56
18	Financial risk management	60
19	Material budget variations	64
20	Fair value measurement	67
21	Related party transactions	71
22	Statement of developer contributions	73
23(a)	Statement of performance measures – consolidated results	79

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 24/09/2018.

Council has the power to amend and reissue these financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting. Council is a not for-profit entity for the purpose of preparing these financial statements.

The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

Full dollars have been used in Note 21 Related party disclosures in relation to the disclosure of specific related party transactions.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts.

Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes:

- Income statement
- Statement of cash flows
- Note 19 – Material budget variations

(a) New and amended standards adopted by Council

Council adopted the following Australian accounting standard amendments for these financial statements:

- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

This disclosure initiative helps users of financial statements to better understand changes in an entity's debt.

Additional disclosures relating to changes in liabilities arising from financing activities (including both changes arising from cash flows and non-cash changes) have been incorporated in these financial statements at Note 11 (c).

- AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities

This Standard means that Not-for-profit entities (and therefore Council) no longer need to consider AASB 136 Impairment of Assets for non-cash-generating specialised assets at fair value.

Instead it is expected that for Not-for-profit entities holding non-cash-generating the recoverable amount of these assets is expected to be materially the same as fair value, determined under AASB 13 Fair Value Measurement.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

(b) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities and certain classes of infrastructure, property, plant and equipment and investment property.

(c) Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Council's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Council and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- (i) estimated fair values of investment properties –refer Note 10
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 9
- (iii) estimated tip remediation provisions – refer Note 12
- (iv) employee benefit provisions – refer Note 12

Significant judgements in applying the Council's accounting policies

- (v) Impairment of receivables

Council has made a significant judgement about the impairment of a number of its receivables in Note 7.

Monies and other assets received by Council

(a) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the *Local Government Act 1993 (NSW)*, all money and other assets received by Council is held in the Council's Consolidated Fund unless it is required to be held in the Council's Trust Fund.

Cash and other assets of the following entities have been included as part of the Consolidated Fund:

- General purpose operations
- Penrith Performing and Visual Arts
- Penrith Whitewater Stadium
- Ripples Leisure Centre

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

(b) The Trust Fund

In accordance with the provisions of Section 411 of the Local Government Act 1993 (NSW) (as amended), a separate and distinct Trust Fund is maintained to account for all money and other assets received by the Council in trust which must be applied only for the purposes of, or in accordance with the trusts relating to those monies. Trust monies and other assets subject to Council's control have been included in these reports.

A separate statement of monies held in the Trust Fund is available for inspection at the Council office by any person free of charge.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which that are recoverable from, or payable to the taxation authority are presented as operating cash flows.

New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period and which have not been applied.

As at the date of authorisation of these financial statements, Council considers that the standards and interpretations listed below will have an impact upon future published financial statements ranging from additional and / or revised disclosures to actual changes as to how certain transactions and balances are accounted for.

Effective for annual reporting periods beginning on or after 1 July 2018

- *AASB 9 Financial Instruments*

This replaces AASB 139 Financial Instruments: Recognition and Measurement, and addresses the classification, measurement and disclosure of financial assets and liabilities.

The standard introduces a new impairment model that requires impairment provisions to be based on expected credit losses, rather than incurred credit losses.

Based on assessments to date, Council expects a small increase to impairment losses however the standard is not expected to have a material impact overall.

Effective for annual reporting periods beginning on or after 1 July 2019

- *AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities*

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

AASB 15 will replace AASB 118 Revenue, AASB 111 Construction Contracts and a number of Interpretations. AASB 2016-8 provides Australian requirements and guidance for not-for-profit entities in applying AASB 9 and AASB 15, and AASB 1058 will replace AASB 1004 Contributions.

Together they contain a comprehensive and robust framework for the recognition, measurement and disclosure of income including revenue from contracts with customers.

While Council is still reviewing the way that income is measured and recognised to identify whether there will be any material impact arising from these standards, these standards may affect the timing of the recognition of some grants and donations.

- *AASB 16 Leases*

Council is currently a party to leases that are not recognised in the Statement of Financial Position.

It is likely that some of these leases will need to be included in the Statement of Financial Position when this standard comes into effect.

A lease liability will initially be measured at the present value of the lease payments to be made over the lease term.

A corresponding right-of-use asset will also be recognised over the lease term.

Council has not elected to apply any pronouncements before their operative date in these financial statements.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 2(a). Council functions/activities – financial information

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).									
	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Advocacy	–	–	161	140	(161)	(140)	–	–	–	–
Asset Maintenance and Renewal	1,831	2,379	6,330	8,101	(4,499)	(5,722)	–	–	154,183	137,292
Business Performance	–	–	942	459	(942)	(459)	–	–	–	21
Cemeteries	817	1,090	777	849	40	241	–	–	–	–
Children's Services	24,559	23,852	25,214	23,098	(655)	754	3,081	3,532	510	530
City Partnerships	–	–	187	246	(187)	(246)	–	–	–	–
City Planning	16,180	15,064	2,684	2,691	13,496	12,373	–	–	–	–
Civil Maintenance and Renewal	26,353	24,565	37,080	36,169	(10,727)	(11,604)	1,508	3,473	1,033,920	1,013,326
Communications	–	–	811	976	(811)	(976)	–	–	–	–
Community & Cultural Development	315	453	2,328	2,418	(2,013)	(1,965)	256	406	–	3
Community Safety	131	204	543	483	(412)	(279)	131	149	–	–
Corporate Planning	–	–	478	452	(478)	(452)	–	–	16	15
Council and Corporate Governance	1	6	1,650	1,918	(1,649)	(1,912)	–	–	114	34
Council and Executive Support	–	–	4,020	3,828	(4,020)	(3,828)	–	–	–	2
Customer Experience	–	1	2,176	1,841	(2,176)	(1,840)	–	–	–	2
Design & Projects	1,703	2,493	3,189	4,201	(1,486)	(1,708)	337	188	–	5
Development Applications	2,646	2,744	4,940	4,966	(2,294)	(2,222)	12	19	–	1
Development Compliance	453	266	1,178	1,150	(725)	(884)	–	–	–	–
Development Engineering	601	672	1,277	1,358	(676)	(686)	–	–	–	–
Economic Initiatives	100	161	1,012	989	(912)	(828)	–	–	1	1
Environmental Health	724	647	3,037	3,347	(2,313)	(2,700)	40	110	74	2
Financial Services	(455)	(369)	4,757	5,205	(5,212)	(5,574)	1,574	1,617	362,639	357,925
Fire Safety and Certification	1,965	1,990	2,320	2,216	(355)	(226)	–	–	–	–
Fleet and Plant Management	782	940	243	688	539	252	–	–	14,827	14,955
Floodplain & Stormwater Management	210	270	962	1,322	(752)	(1,052)	164	216	–	–
GIS Mapping	2	3	585	594	(583)	(591)	–	–	73	73

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 2(a). Council functions/activities – financial information (continued)

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).									
	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	\$ '000									
Information and Communication Technology	23	50	1,652	2,509	(1,629)	(2,459)	–	–	6,564	6,277
Information Management	6	12	(11)	(233)	17	245	–	–	–	–
Legal Services	214	31	344	237	(130)	(206)	–	–	–	–
Libraries	840	821	6,944	6,938	(6,104)	(6,117)	593	583	1,401	1,806
Marketing and Events	115	127	2,561	2,064	(2,446)	(1,937)	20	–	18	42
Neighbourhood Facilities Management	902	973	1,527	1,528	(625)	(555)	–	–	235	291
Penrith Performing & Visual Arts	2,198	2,021	3,938	3,655	(1,740)	(1,634)	652	574	42	42
Penrith Whitewater Stadium	1,146	1,213	1,389	1,374	(243)	(161)	–	–	67	67
Place Management	812	785	1,827	1,937	(1,015)	(1,152)	87	95	–	–
Property Development & Management	3,476	3,637	4,260	4,679	(784)	(1,042)	–	–	488,634	360,434
Public Space Maintenance	960	1,065	22,644	21,573	(21,684)	(20,508)	769	770	–	–
Purchasing & Supply	–	–	867	731	(867)	(731)	–	–	615	610
Recreation Facilities Management	1,380	1,521	1,500	1,884	(120)	(363)	1,420	155	3,714	2,762
Regulatory Control	2,857	2,671	3,535	3,447	(678)	(776)	–	10	2	–
Ripples Leisure Centres	4,588	4,351	5,649	5,305	(1,061)	(954)	–	–	–	–
Risk management, Insurance and Internal Audit	1,634	551	2,150	1,295	(516)	(744)	–	–	16	15
Security and Emergency Services	1,109	2,534	2,921	5,139	(1,812)	(2,605)	1,078	2,465	–	–
Sustainability	68	139	602	524	(534)	(385)	16	85	2	–
Traffic Management, Parking & Road Safety	4,134	1,500	1,405	1,319	2,729	181	2,519	1,500	–	–
Waste & Resource Recovery	32,281	30,778	28,353	28,177	3,928	2,601	10	46	853	824
Workforce and Organisational Development	125	98	3,131	3,327	(3,006)	(3,229)	109	84	43	39
General Revenue	135,045	126,030	–	–	135,045	126,030	11,132	15,802	–	–
Other	716	837	–	–	716	837	–	–	34,667	18,179
Total functions and activities	273,547	259,176	206,069	207,114	67,478	52,062	25,508	31,879	2,103,230	1,915,575

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 2(b). Council functions/activities – component descriptions

Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

Advocacy

This function advocates and promotes Council's preferred positions and priorities relevant to Western Sydney's growth and development issues that affect Penrith City at sub-regional and metropolitan levels.

Asset Maintenance and Renewal

This function is responsible for the maintenance and renewal of Council's buildings, including neighbourhood halls and facilities, child care centres and community centres.

Business Performance

The Business and Innovative Performance function is responsible for working with managers across the organisation to improve key business process.

Cemeteries

The Cemeteries function is responsible for the management and maintenance of Council managed Cemeteries within Penrith City and the preservation and conservation of heritage elements in Penrith, St Marys, St Stephen – the Martyr and Emu Plains Cemeteries.

Children's Services

Children's Services provides children's centres, staff, resources and support for the benefit of families and children across the City. The service also plans for and supports others to provide child and family services that meet the needs of the community.

City Partnerships

The City Partnerships function maintains and develops existing international cultural and economic relationships and responds to emerging opportunities.

City Planning

City Planning establishes a City-wide policy framework of planning controls, strategies and actions based on analysis of the principles of sustainability, community needs, job creation, community values and the characteristics of the City.

Civil Maintenance and Renewal

The Civil Maintenance and Renewal function sits as part of the City Presentation Department.

This function is responsible for the maintenance and renewal of Council's road and pathway network, drains and drainage infrastructure (including Gross Pollutant Traps) and bus shelters.

Communications

The Communications function manages issues which impact on Council and communicates Council's policy and services by facilitating media relations and liaison. This service also incorporates graphic design.

Community & Cultural Development

Community and Cultural Development identifies the City's priority social issues and needs, and with its government and community partners develops strategies to contribute to community wellbeing.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 2(b). Council functions/activities – component descriptions (continued)

Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

Community Safety

Community Safety implements the Penrith Community Safety Plan to provide crime prevention strategies for a safer community.

Corporate Planning

The Corporate Planning function compiles reporting under the Integrated Planning and Reporting framework. Reports include the Community Strategic Plan, Delivery Program and Operational Plans.

Council and Corporate Governance

The Council and Corporate Governance function ensures the required governance standards are met. Service activities include management of governance codes, registers, policies and reports; ward boundary reviews and quadrennial elections. The function also provides administrative support to the Mayor, Councillors, General Manager, and the Corporate Leadership Team.

Council and Executive Support

Council and Executive Support function assists tasks that the Councils Executive undertake.

Customer Experience

The Customer Experience function provides a first point of enquiry for residents through the front counter and main switchboard.

Design & Projects

This function provides civil, architectural and landscape designs, advice, assessments and project management for the organisation.

Development Applications

The Development Applications function implements State, Regional and Local planning policies which guide development to achieve sustainable outcomes in social, economic and environmental areas, by providing pre-lodgement information, assessment and determination of Development Applications (DA), support to Council in appeals and advice to Council and stakeholders in all aspects of the DA process.

Development Compliance

This function provides regulation of companion animals and stock, on-street and Council parking areas and enforcement of regulatory compliance issues, through patrols, education and enforcement.

Development Engineering

This function delivers a certification, compliance and advice service for civil engineering works within our City.

Economic Initiatives

The Economic Initiatives service is responsible for implementation of the Penrith Progression and the 'Invest in New West' marketing program.

Environmental Health

The purpose of this function is to help protect and improve the health of the community and the environment in the City. This is achieved through assessment, inspections, monitoring, education and advocacy programs and projects.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 2(b). Council functions/activities – component descriptions (continued)

Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

Financial Services

Financial Services is responsible for the oversight of all Council's financial obligations, management and planning. It provides key financial information and advice to Council's decision makers to assist in maintaining long term financial sustainability.

Fire Safety and Certification

This function assesses and determines the issue of Construction, Complying Development and Building Certificates, registration of Annual Fire Safety Statements and upgrading fire safety in existing buildings.

Fleet and Plant Management

This function is responsible for the maintenance of Council's heavy vehicles and equipment, including mowers, tractors, trucks, rollers etc. This function does not manage the light vehicle fleet.

Floodplain & Stormwater Management

This function provides the framework for land use and floodplain management policy within Penrith City. This service manages flood studies across the city (undertaken in priority order) and provides advice on appropriate development of flood prone land.

GIS Mapping

The Mapping Information/GIS Service provides accurate and current mapping/geographical information to customers and includes the management and maintenance of Council's Geographic Information System (GIS) and user training support.

Information and Communication Technology

The Information and Communication Technology function provides advice and support to Council staff, entities and Councillors, and manages, protects and maintains hardware, software and data.

Information Management

The Information Management function provides the management, administration, maintenance, control and access for Council's recorded and documented information. All records management activities are carried out in accordance with the State Records Act 1998 and Council's Records Management Policy and Procedures.

Legal Services

Legal Services provide accurate quality legal advice, representation and support to Council in matters of dispute, litigation, mediation, drafting and interpreting of agreements, conveyancing and administration. This function also includes risk management (strategic and operational risk), insurance and internal audit.

Libraries

The Library Services function provides information, education and recreation facilities, resources and services for residents of Penrith and visitors to Penrith through multiple locations, a Home Library Service, a Community Toy Library and on-line services. This is achieved through a central and 2 branch libraries, a Mobile Library and on-line services).

Marketing and Events

The Marketing and Events function promotes Council's image through various mediums and events.

Neighbourhood Facilities Management

The Neighbourhood Facilities Management function is responsible for the overall management and operation of Council's 39 neighbourhood centres, community centres, youth centres, senior centres and community halls.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 2(b). Council functions/activities – component descriptions (continued)

Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

Penrith Performing & Visual Arts

The Penrith Performing & Visual Arts function provides Penrith the best in music, theatre and dance; with world class performances from artists acclaimed nationally and internationally on the same stages that host community festivals, shows and events.

Penrith Whitewater Stadium

This Function is the only man-made river of its kind in the southern hemisphere with Olympic sized rapids. This unique facility is a major sporting and recreation facility in Western Sydney.

Place Management

The Place Management function supports better outcomes in key identified places within Penrith City. Place Management coordinates existing service provision from Council while supporting enhanced coordination of partner organisations.

Property Development & Management

The Property Development Service provides a property management function for Council's property portfolio. This service is also currently managing the Surplus Lands project, which includes the Public Open Space Reinvestment Project, Opportunity Sites Project and a review of our Operational Land.

Public Space Maintenance

The Public Space Maintenance function sits as part of the City Presentation Department.

This function is responsible for the maintenance of public spaces across the City, including mowing parks and sports fields, graffiti removal, litter removal and tree management.

Purchasing & Supply

The Purchasing and Supply function ensures contemporary policies and practices are in place for contract implementation, management for provision of goods and services, purchasing and inventory management and the distribution of products that support the ongoing maintenance and management of Council's assets.

Recreation Facilities Management

This service manages council recreation and leisure facilities, including sportsgrounds and the St Clair Leisure Centre.

Regulatory Control

This function provides regulation of companion animals and stock, on-street and Council parking areas and enforcement of regulatory compliance issues, through patrols, education and enforcement.

Ripples Leisure Centres

This function offers the opportunity to participate in a wide range of Aquatic and Fitness activities at two locations. Facilities include; Hydrotherapy, Spa & Sauna, Gym & Pool and Crèche.

Risk management, Insurance and Internal Audit

Legal Services provide accurate quality legal advice, representation and support to Council in matters of dispute, litigation, mediation, drafting and interpreting of agreements, conveyancing and administration. This function also includes risk management (strategic and operational risk), insurance and internal audit.

Security and Emergency Services

The Security and Emergency Services function sits as part of the Asset Management Department.

This function is responsible for managing the security of Council's buildings and liaising with Emergency Services across the City.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 2(b). Council functions/activities – component descriptions (continued)

Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

Sustainability

The Sustainability function develops strategies and coordinates programs that integrate sustainability into the planning, decision making and operational activities of Council, to ensure the continual improvement of Council's operating environment and contribute to the long-term sustainability of the City.

Traffic Management, Parking & Road Safety

This service provides technical advice to other areas of council, assesses traffic impact assessments, develops road safety programs, manages traffic facility/footpath bicycle facility and bus shelter construction programs, and administers the functions of the Local Traffic Committee, on all public roads (except classified main roads) in Penrith City.

Waste & Resource Recovery

The Waste and Resource Recovery function contributes significantly to the community through the management of waste collection services, sustainable resource management and community education.

Workforce and Organisational Development

The Workforce and Organisational Development function provides Human Resources Management, Learning and Development, Payroll, Industrial Relations, WHS and Injury Management services to support the organisation's strategic objectives and the delivery of Council's strategic plan.

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 3. Income from continuing operations

\$ '000	2018	2017
(a) Rates and annual charges		
Ordinary rates		
Residential	87,049	81,674
Farmland	1,889	1,458
Business	21,608	20,071
Total ordinary rates	110,546	103,203
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	31,041	28,938
Stormwater management services	1,953	1,911
Waste management services (non-domestic)	35	40
Section 611 charges	99	96
Total annual charges	33,128	30,985
TOTAL RATES AND ANNUAL CHARGES	143,674	134,188

Council has used 2017 year valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy for rates and annual charges

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenue when the Council obtains control over the assets comprising these receipts. Developer contributions may only be expended for the purposes for which the contributions were required, but the Council may apply contributions according to the priorities established in work schedules.

Control over assets acquired from rates and annual charges is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates.

(b) User charges and fees

Specific user charges (per s.502 – specific 'actual use' charges)

Domestic waste management services	4	4
Total specific user charges	4	4

Other user charges and fees

(i) Fees and charges – statutory and regulatory functions (per s.608)

Building fees	1,544	1,613
Planning and building regulation	4,523	3,925
Other regulatory/statutory fees	865	716
Section 149 certificates (EPA Act)	530	518
Section 603 certificates	310	310
Total fees and charges – statutory/regulatory	7,772	7,082

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(b) User charges and fees (continued)		
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Cemeteries	800	1,088
Children's services	21,415	20,254
Companion animals	183	133
Halls and community centres	1,034	1,062
Penrith Whitewater Stadium	1,144	1,211
Performing Arts Centre/Gallery	1,532	1,430
Road reinstatements	1,781	1,894
Sport and recreation	356	398
Swimming centres	4,581	4,473
Vehicle costs recovered from employees	773	833
Other	686	972
Total fees and charges – other	34,285	33,748
TOTAL USER CHARGES AND FEES	42,061	40,834

Accounting policy for user charges and fees

User charges and fees are recognised as revenue when the service has been provided.

(c) Interest and investment revenue (including losses)

Interest		
– Overdue rates and annual charges (incl. special purpose rates)	230	250
– Cash and investments	3,732	3,324
Fair value adjustments		
– Fair valuation movements in investments (at fair value or held for trading)	–	(137)
TOTAL INTEREST AND INVESTMENT REVENUE	3,962	3,437

Accounting policy for interest and investment revenue

Interest income is recognised using the effective interest rate at the date that interest is earned.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018	2017
(d) Other revenues			
Rental income – investment property	10	943	842
Rental income – other council properties		1,626	1,811
Fines		2,006	1,893
Legal fees recovery – rates and charges (extra charges)		237	242
Legal fees recovery – other		214	17
Insurance claim recoveries		1,223	338
Purchasing / performance rebate		287	614
Other		468	439
<u>TOTAL OTHER REVENUE</u>		<u>7,004</u>	<u>6,196</u>

Accounting policy for other revenue

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Council and specific criteria have been met for each of the Council's activities as described below. Council bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Parking fees and fines are recognised as revenue when the service has been provided, or when the penalty has been applied, whichever occurs first.

Rental income is accounted for on a straight-line basis over the lease term.

Miscellaneous sales are recognised when physical possession has transferred to the customer which is deemed to be the point of transfer of risks and rewards.

Other income is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

Penrith City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance	11,133	14,646	–	–
Other				
Pensioners' rates subsidies – general component	965	1,009	–	–
Other grants	–	1,155	–	–
Total general purpose	12,098	16,810	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Domestic waste management	359	369	–	–
Arts NSW - ACDP Western Sydney Making Spaces	–	60	–	–
Bushfire and emergency services	532	2,294	546	171
Children's services	3,042	3,532	39	–
Civil construction (roads and drainage)	1,508	3,474	–	–
Community services	256	346	–	–
Cultural facilities	652	574	–	–
Design and major projects	–	138	337	50
Environmental and health management	40	110	–	–
Libraries	593	583	–	–
Local infrastructure renewal scheme (lirs)	250	239	–	–
Parks environmental management	–	20	162	170
Recreation and leisure facilities management	–	70	1,420	85
Street lighting	668	550	–	125
Traffic and transport	71	1,500	2,448	–
Other	417	523	70	85
Total specific purpose	8,388	14,382	5,022	686
Total grants	20,486	31,192	5,022	686
Grant revenue is attributable to:				
– Commonwealth funding	13,440	21,709	1,420	210
– State funding	7,046	9,483	3,602	431
– Other funding	–	–	–	45
	20,486	31,192	5,022	686

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(f) Contributions					
Developer contributions: (s7.4 & s7.11 – EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.11 – contributions towards amenities/services		–	–	14,110	13,542
Planning agreements		29	161	–	–
Total developer contributions – cash		29	161	14,110	13,542
Non-cash contributions					
Other developer contributions - subdivisions		–	–	22,751	19,338
Total developer contributions – non-cash		–	–	22,751	19,338
Total developer contributions	22	29	161	36,861	32,880
Other contributions:					
Cash contributions					
Design and major projects		1,365	2,065	–	238
Domestic waste		–	327	–	–
Recreation and culture		7	9	(477)	928
RID squad		752	788	–	–
Roads maintenance		545	427	169	–
RMS contributions (regional roads, block grant)		–	1,127	2,069	300
Other		1,790	1,137	80	–
Total other contributions – cash		4,459	5,880	1,841	1,466
Total other contributions		4,459	5,880	1,841	1,466
Total contributions		4,488	6,041	38,702	34,346
TOTAL GRANTS AND CONTRIBUTIONS		24,974	37,233	43,724	35,032

Accounting policy for contributions

Control over grants and contributions is normally obtained upon their receipt (or acquittal) and is valued at the fair value of the granted or contributed asset at the date of transfer.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were un-discharged at reporting date, the unused grant or contribution is disclosed below.

A liability is recognised in respect of revenue that is reciprocal in nature to the extent that the requisite service has not been provided at reporting date.

Penrith City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(g) Unspent grants and contributions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:		
Operating grants		
Unexpended at the close of the previous reporting period	717	1,905
Add: operating grants recognised in the current period but not yet spent	1,546	717
Less: operating grants recognised in a previous reporting period now spent	(717)	(1,905)
Unexpended and held as restricted assets (operating grants)	<u>1,546</u>	<u>717</u>
Capital grants		
Unexpended at the close of the previous reporting period	420	665
Add: capital grants recognised in the current period but not yet spent	(56)	420
Less: capital grants recognised in a previous reporting period now spent	(420)	(665)
Unexpended and held as restricted assets (capital grants)	<u>(56)</u>	<u>420</u>
Contributions		
Unexpended at the close of the previous reporting period	35,124	23,887
Add: contributions recognised in the current period but not yet spent	14,837	14,153
Less: contributions recognised in a previous reporting period now spent	(6,602)	(2,916)
Unexpended and held as restricted assets (contributions)	<u>43,359</u>	<u>35,124</u>

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 4. Expenses from continuing operations

\$ '000	2018	2017
(a) Employee benefits and on-costs		
Salaries and wages	72,375	68,212
Travel expenses	7	10
Employee leave entitlements (ELE)	12,204	12,592
Superannuation – guarantee levy	6,961	6,427
Superannuation – defined benefit plans	1,717	1,871
Workers' compensation insurance	817	1,176
Fringe benefit tax (FBT)	143	161
Payroll tax	–	1
Training costs (other than salaries and wages)	94	152
Other	380	125
Total employee costs	94,698	90,727
Less: capitalised costs	(1,521)	(1,460)
TOTAL EMPLOYEE COSTS EXPENSED	93,177	89,267
Number of 'full-time equivalent' employees (FTE) at year end	1,031	1,084

Accounting policy for employee benefits and on-costs

Employee benefit expenses are recorded when the service has been provided by the employee.

Retirement benefit obligations

All employees of the Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

Superannuation plans

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Council participates in a Defined Benefit Plan under the Local Government Superannuation Scheme, however, when sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 19 for more information.

(b) Borrowing costs

(i) Interest bearing liability costs

Interest on loans	2,109	2,568
Total interest bearing liability costs expensed	2,109	2,568

(ii) Other borrowing costs

Amortisation of discounts and premiums: interest-free loan	36	176
Total other borrowing costs	36	176
TOTAL BORROWING COSTS EXPENSED	2,145	2,744

Accounting policy for borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(c) Materials and contracts		
Raw materials and consumables	3,903	10,094
Contractor and consultancy costs		
– Building and parks services	7,285	4,633
– Cleaning services	1,521	1,449
– Computer software maintenance	1,512	2,278
– Engineering services	9,250	10,044
– Garbage services	7,194	8,109
– Organic services	3,680	4,307
– Recycling services	2,792	2,409
– Security services	624	608
– Sullage services	142	119
– Tipping services	1,483	816
– Contractor and consultancy costs	19,997	18,011
Auditors remuneration ⁽²⁾	180	154
Legal expenses:		
– Legal expenses: planning and development	666	483
– Legal expenses: other	718	458
Operating leases:		
– Operating lease rentals: minimum lease payments ⁽¹⁾	314	327
TOTAL MATERIALS AND CONTRACTS	61,261	64,299
Operating leases		
Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.		
1. Operating lease payments are attributable to:		
Office Equipment	314	327
	314	327
2. Auditor remuneration		
During the year the following fees were paid or payable for services provided by the auditor of Council, related practices and non-related audit firms		
Auditors of the Council – NSW Auditor-General:		
(i) Audit and other assurance services		
Audit and review of financial statements	126	95
Total Auditor-General remuneration	126	95
Non NSW Auditor-General audit firms:		
(i) Audit and other assurance services		
Audit and review of financial statements	54	59
Total remuneration of non NSW Auditor-General audit firms	54	59
Total Auditor remuneration	180	154

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2018	2017
(d) Depreciation, amortisation and impairment			
Depreciation and amortisation			
Plant and equipment		2,313	2,386
Office equipment		1,389	1,390
Furniture and fittings		413	287
Land improvements (depreciable)		2,090	1,685
Infrastructure:			
– Buildings		5,184	6,373
– Roads		13,242	11,891
– Stormwater drainage		1,737	1,556
– Library books		639	594
– Other		35	36
Total depreciation and amortisation costs		<u><u>27,042</u></u>	<u><u>26,198</u></u>
<u>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT</u>		<u><u>27,042</u></u>	<u><u>26,198</u></u>

Accounting policy for depreciation, amortisation and impairment expenses

Depreciation and amortisation

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values where relevant, over their estimated useful lives. Useful lives are included in Note 9 for IPPE assets.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses for revalued assets are firstly offset against the amount in the revaluation surplus for the class of asset, with only the excess to be recognised in the Income Statement.

Impairment of financial assets

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(e) Other expenses		
Bad and doubtful debts	77	253
Contributions/levies to other levels of government		
– Department of Planning Levy	762	797
– Emergency Services Levy (includes FRNSW, SES, and RFS levies)	1,843	1,871
– Waste levy	4,844	4,817
– Other levies	488	479
Councillor expenses – mayoral fee	81	84
Councillor expenses – councillors' fees	424	415
Councillors' expenses (incl. mayor) – other (excluding fees above)		
– Telephone	42	40
– Training, conferences and seminars	53	51
– Other	35	45
District maintenance – Rural Fire Service	21	1,467
Donations, contributions and assistance to other organisations (Section 356)		
– Other donations and contributions	1,477	1,508
Electricity and heating	2,002	1,889
Infringement processing bureau	232	209
Insurance	3,140	2,655
Street lighting	3,449	3,374
Telephone and communications	954	1,256
Water rates and charges	1,064	821
Other	1,251	1,028
<u>TOTAL OTHER EXPENSES</u>	<u>22,239</u>	<u>23,059</u>

Accounting policy for other expenses

Other expenses are recorded on an accruals basis as the Council receives the goods or services.

Penrith City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	2018	2017
Property (excl. investment property)	9		
Proceeds from disposal – property		–	3,155
Less: carrying amount of property assets sold/written off		–	(3,832)
Net gain/(loss) on disposal		–	(677)
Plant and equipment	9		
Proceeds from disposal – plant and equipment		1,386	1,336
Less: carrying amount of plant and equipment assets sold/written off		(1,306)	(1,674)
Net gain/(loss) on disposal		80	(338)
Infrastructure	9		
Less: carrying amount of infrastructure assets sold/written off		(50)	(472)
Net gain/(loss) on disposal		(50)	(472)
Investment property	10		
Proceeds from disposal – investment property		–	855
Less: carrying amount of investment property sold/written off		–	(786)
Net gain/(loss) on disposal		–	69
Financial assets ⁽¹⁾	6		
Proceeds from disposal/redemptions/maturities – financial assets		284,715	245,069
Less: carrying amount of financial assets sold/redeemed/matured		(284,715)	(245,069)
Net gain/(loss) on disposal		–	–
Library books			
Less: carrying amount of Library books assets sold/written off		(235)	(129)
Net gain/(loss) on disposal		(235)	(129)
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(205)	(1,547)

Accounting policy for disposal of assets

The gain or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer and the asset is derecognised.

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 6(a). Cash and cash equivalent assets

\$ '000	2018	2017
Cash and cash equivalents		
Cash on hand and at bank	740	1,143
Cash-equivalent assets		
– Deposits at call	3,024	5,000
– Short-term deposits	2,000	12,500
Total cash and cash equivalents	5,764	18,643

Accounting policy for cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents includes cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

Note 6(b). Investments

\$ '000	2018 Current	2018 Non-current	2017 Current	2017 Non-current
Investments				
a. 'At fair value through the profit and loss'				
– 'Held for trading'	–	–	1,565	–
b. 'Held to maturity'	128,246	20,970	91,526	25,000
Total investments	128,246	20,970	93,091	25,000
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	134,010	20,970	111,734	25,000
Financial assets at fair value through the profit and loss				
Mortgage backed securities	–	–	1,565	–
Total	–	–	1,565	–
Held to maturity investments				
Long term deposits	122,746	–	89,026	–
NCD's, FRN's (with maturities > 3 months)	5,500	19,500	2,500	25,000
Mortgage backed securities	–	1,470	–	–
Total	128,246	20,970	91,526	25,000

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 6(b). Investments (continued)

Accounting policy for investments

Classification

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are held at fair value with changes in value taken through profit or loss at each reporting period.

(b) Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. Assets in this category are measured at amortised cost.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date: the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Impairment of available for sale investments

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 6(c). Restricted cash, cash equivalents and investments – details

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	134,010	20,970	111,734	25,000
attributable to:				
External restrictions (refer below)	52,689	20,970	38,872	25,000
Internal restrictions (refer below)	76,373	–	63,474	–
Unrestricted	4,948	–	9,388	–
	134,010	20,970	111,734	25,000

\$ '000	2018	2017
---------	------	------

Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended loans – general	4,492	7,518
---	-------	-------

External restrictions – included in liabilities	4,492	7,518
--	--------------	--------------

External restrictions – other

Developer contributions	43,359	35,381
RMS contributions	(53)	–
Specific purpose unexpended grants	1,490	1,237
Domestic waste management	15,853	11,986
Stormwater management	1,439	1,108
Sullage reserve	88	333
Childcare	3,230	2,164
Waste and sustainability	102	47
Other	3,659	4,098

External restrictions – other	69,167	56,354
--------------------------------------	---------------	---------------

Total external restrictions	73,659	63,872
------------------------------------	---------------	---------------

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 6(c). Restricted cash, cash equivalents and investments – details (continued)

\$ '000	2018	2017
Internal restrictions		
Plant and vehicle replacement	5,607	4,272
Infrastructure replacement	9,230	–
Employees leave entitlement	5,141	4,816
Deposits, retentions and bonds	8,356	6,463
Acquisition of land and buildings	16,949	16,845
Cemetery reserve	935	841
Children's services reserve	1,266	2,947
Election reserve	(203)	34
Financial management	14,864	12,109
Infrastructure construction	6,392	5,491
Insurance reserve	4,237	3,339
Legal reserve	102	274
Revote reserve	1,698	2,749
Salary administration	111	404
Sustainability revolving fund	1,169	759
Voted works	519	381
Other	–	1,750
Total internal restrictions	76,373	63,474
TOTAL RESTRICTIONS	150,032	127,346

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 7. Receivables

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Purpose				
Rates and annual charges	3,051	970	2,807	918
Interest and extra charges	877	487	925	483
User charges and fees	1,476	–	1,559	–
Accrued revenues				
– Interest on investments	832	–	573	–
– Other income accruals	5,888	–	3,091	–
Deferred debtors	53	58	29	114
Government grants and subsidies	1,815	–	1,860	–
Other debtors	6	–	2	–
Total	13,998	1,515	10,846	1,515
Less: provision for impairment				
Rates and annual charges	(362)	(329)	(262)	(328)
Interest and extra charges	(61)	(305)	(57)	(320)
User charges and fees	(201)	–	(100)	–
Total provision for impairment – receivables	(624)	(634)	(419)	(648)
<u>TOTAL NET RECEIVABLES</u>	<u>13,374</u>	<u>881</u>	<u>10,427</u>	<u>867</u>
Externally restricted receivables				
Domestic waste management	848	–	788	–
Stormwater management	41	–	5	–
Total external restrictions	889	–	793	–
Unrestricted receivables	12,485	881	9,634	867
TOTAL NET RECEIVABLES	13,374	881	10,427	867
Movement in provision for impairment of receivables			2018	2017
Balance at the beginning of the year			1,067	1,067
+ new provisions recognised during the year			191	–
Balance at the end of the year			1,258	1,067

Accounting policy for receivables

Recognition and measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in other receivables (Note 8) and receivables (Note 7) in the Statement of Financial Position. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 7. Receivables (continued)

Accounting policy for receivables (continued)

Impairment

For loans and receivables the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

Collectability of receivables is reviewed on an on-going basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income statement.

Note 8. Inventories and other assets

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
(a) Inventories				
(i) Inventories at cost				
Stores and materials	707	–	673	–
Other	26	–	27	–
Total inventories at cost	733	–	700	–
TOTAL INVENTORIES	733	–	700	–
(b) Other assets				
Prepayments	811	–	1,298	–
GST	850	–	854	–
Other	376	–	230	–
TOTAL OTHER ASSETS	2,037	–	2,382	–

Externally restricted assets

There are no restrictions applicable to the above assets.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 8. Inventories and other assets (continued)

Accounting policy

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventory held for distribution

Inventory held for distribution is held at cost, adjusted where applicable for any loss of service potential.

Land held for resale/capitalisation of borrowing costs

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 9(a). Infrastructure, property, plant and equipment

Asset class	as at 30/6/2017			Asset movements during the reporting period							as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Tfrs from/(to) investment property	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
\$ '000													
Capital work in progress	14,972	–	14,972	–	–	–	–	(11,449)	–	–	3,523	–	3,523
Plant and equipment	36,352	20,901	15,451	220	3,245	(1,306)	(2,313)	(402)	–	–	36,343	21,448	14,895
Office equipment	31,098	25,622	5,476	–	2,123	–	(1,389)	(204)	–	–	33,017	27,011	6,006
Furniture and fittings	8,433	5,428	3,005	510	303	–	(413)	6	–	–	9,252	5,841	3,411
Land:													
– Operational land	78,281	–	78,281	–	2,882	–	–	–	(7,150)	115,934	189,945	–	189,945
– Community land	195,179	–	195,179	–	1,487	–	–	–	–	7,510	204,176	–	204,176
– Land under roads (pre 1/7/08)	186,956	–	186,956	–	–	–	–	–	–	–	186,956	–	186,956
– Land under roads (post 30/6/08)	6,952	–	6,952	–	783	–	–	–	–	–	7,735	–	7,735
Land improvements – depreciable	23,757	4,021	19,736	8,340	1,659	–	(2,090)	3,744	–	–	37,500	6,111	31,389
Infrastructure:													
– Buildings	264,165	61,613	202,552	4,552	557	(50)	(5,184)	1,494	–	–	270,755	66,834	203,921
– Roads	1,084,572	343,230	741,342	5,205	18,945	–	(13,242)	1,606	–	–	1,110,329	356,473	753,856
– Bulk earthworks (non-depreciable)	3,318	–	3,318	–	10	–	–	–	–	–	3,328	–	3,328
– Stormwater drainage	353,553	94,883	258,670	–	11,416	–	(1,737)	5,205	–	–	370,174	96,620	273,554
Other assets:													
– Library books	12,861	11,158	1,703	–	530	(235)	(639)	–	–	–	12,075	10,716	1,359
– Other	5,016	925	4,091	14	–	–	(35)	–	–	1,023	6,053	960	5,093
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	2,305,465	567,781	1,737,684	18,841	43,940	(1,591)	(27,042)	–	(7,150)	124,467	2,481,161	592,014	1,889,147

Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 9(a). Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Independent valuations are performed at least every five years, however the carrying amount of assets is assessed at each reporting date to confirm that it is not materially different from current fair value.

Increases in the carrying amounts arising on revaluation are credited to the asset revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss. Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values where relevant, over their estimated useful lives as follows:

Plant and equipment	Years	Other equipment	Years
Office equipment	5 to 10	Playground equipment	5 to 15
Office furniture	15	Benches, seats etc.	15
Computer equipment	4		
Vehicles	5	Buildings	
Heavy plant/road making equipment	5 to 8	Buildings: masonry	50 to 100
Other plant and equipment	5 to 15	Buildings: other	20 to 40
Transportation assets		Stormwater assets	
Roads Structure	100	Drains	100
Bridges	100	Culverts	100
Stormwater Pipes	200	Flood control structures	100
		Other infrastructure assets	
		Bulk earthworks	20
		Swimming pools	50
		Unsealed roads	20
		Other open space/recreational assets	20
		Other infrastructure	20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income statement.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 9(a). Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment (continued)

Land under roads

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips.

Council has elected to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051.

Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 Property, Plant and Equipment.

Crown reserves

Crown Reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown Reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

Rural Fire Service assets

Under section 119 of the *Rural Fire Services Act 1997 (NSW)*, "all fire fighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the fire fighting equipment has been purchased or constructed".

Until such time as discussions on this matter have concluded and the legislation changed, Council will recognise rural fire service assets including land, buildings, plant and vehicles.

Note 10. Investment property

\$ '000	2018	2017
(a) Investment property at fair value		
<u>Investment property on hand</u>	<u>34,455</u>	<u>19,874</u>
Reconciliation of annual movement:		
Opening balance	19,874	19,243
– Disposals during year	–	(786)
– Net gain/(loss) from fair value adjustments	7,431	1,419
– Transfers from/(to) owner occupied (Note 10)	7,150	–
– Other movements	–	(2)
CLOSING BALANCE – INVESTMENT PROPERTY	<u>34,455</u>	<u>19,874</u>

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 10. Investment property (continued)

(b) Valuation basis

The basis of valuation of investment property is fair value, being the amounts for which the properties could be exchanged between willing parties in arms length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

The 2018 revaluations were based on independent assessments made by:
Independent Property Valuations, Registered Valuer No 34750

(c) Contractual obligations at reporting date

Refer to Note 16 for disclosures relating to any capital and service obligations that have been contracted.

(d) Leasing arrangements – Council as lessor

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly.

Future minimum lease payments receivable under non-cancellable investment property operating leases not recognised in the financial statements are receivable as follows:

Within 1 year	856	839
Later than 1 year but less than 5 years	45	45
Total minimum lease payments receivable	901	884

(e) Investment property income and expenditure – summary

Rental income from investment property:		
– Minimum lease payments	943	842
Direct operating expenses on investment property:		
– that generated rental income	(156)	(126)
– that did not generate rental income	(6)	(24)
Net revenue contribution from investment property	781	692
plus:		
Fair value movement for year	7,431	1,419
Total income attributable to investment property	8,212	2,111

Accounting policy for investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council. Changes in fair values are recorded in the income statement as part of other income.

Properties that are under construction for future use as investment property are regarded as investment property. These are also carried at fair value unless the fair value cannot yet be reliably determined. Where that is the case, the property will be accounted for at cost until either the fair value becomes reliably determinable or construction is complete.

Penrith City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 11. Payables and borrowings

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Payables				
Goods and services	2,817	–	5,229	–
Accrued expenses:				
– Salaries and wages	–	–	89	–
– Other expenditure accruals	11,186	–	10,513	–
Security bonds, deposits and retentions	5,816	3,896	4,105	3,896
Total payables	19,819	3,896	19,936	3,896
Income received in advance				
Payments received in advance	1,365	–	1,273	–
Payments in advance of due date	2,305	–	1,996	–
Total income received in advance	3,670	–	3,269	–
Borrowings				
Loans – secured	9,800	37,941	10,508	40,091
Interest-free government advances	1,250	1,324	1,250	2,539
Total borrowings	11,050	39,265	11,758	42,630
TOTAL PAYABLES AND BORROWINGS	34,539	43,161	34,963	46,526

(a) Payables and borrowings relating to restricted assets

There are no restricted assets (external or internal) applicable to the above payables and borrowings

(b) Current payables and borrowings not anticipated to be settled within the next twelve months

The following payables and borrowings, even though classified as current, are not expected to be settled in the next 12 months.

	2018	2017
Payables – security bonds, deposits and retentions	4,082	4,215
	4,082	4,215

(c) Changes in liabilities arising from financing activities

Class of borrowings	2017	Non-cash changes			2018	
	Opening balance as at 1/7/17	Cash flows	Acquisition	Fair value changes	Other non-cash movements	Closing balance as at 30/6/18
Loans – secured	50,599	(2,858)	–	–	–	47,741
Interest-free government advances	3,789	(1,250)	–	35	–	2,574
TOTAL	54,388	(4,108)	–	35	–	50,315

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 11. Payables and borrowings (continued)

\$ '000	2018	2017
(d) Financing arrangements		
(i) Unrestricted access was available at balance date to the following lines of credit:		
Bank overdraft facilities ⁽¹⁾	520	520
Credit cards/purchase cards	408	344
Total financing arrangements	928	864
Undrawn facilities as at balance date:		
– Bank overdraft facilities	520	520
– Credit cards/purchase cards	408	344
Total undrawn financing arrangements	928	864

1. The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.

Accounting policy for payables and borrowings

Payables

These amounts represent liabilities for goods and services provided to the Council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

Borrowings are classified as current liabilities unless Council has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Penrith City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 12. Provisions

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Provisions				
Employee benefits:				
Annual leave	6,986	–	6,869	–
Sick leave	4,484	–	5,185	–
Long service leave	16,767	849	16,189	861
Gratuities	117	–	600	–
Sub-total – aggregate employee benefits	28,354	849	28,843	861
<u>TOTAL PROVISIONS</u>	<u>28,354</u>	<u>849</u>	<u>28,843</u>	<u>861</u>

(a) Provisions relating to restricted assets

	2018		2017	
	Current	Non-current	Current	Non-current
Externally restricted assets				
Domestic waste management	1,876	–	2,215	–
Total provisions relating to restricted assets	1,876	–	2,215	–
Total provisions relating to unrestricted assets	26,478	849	26,628	861
TOTAL PROVISIONS	<u>28,354</u>	<u>849</u>	<u>28,843</u>	<u>861</u>

\$ '000	2018	2017
---------	------	------

(b) Current provisions not anticipated to be settled within the next twelve months

The following provisions, even though classified as current, are not expected to be settled in the next 12 months.

Provisions – employees benefits	24,841	22,565
	<u>24,841</u>	<u>22,565</u>

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Provisions (continued)

Nature and purpose of non-employee benefit provisions

Asset remediation

Council has a legal/public obligation to make, restore, rehabilitate and reinstate the council tip and quarry.

Self-insurance

To recognise liabilities for outstanding claims (uninsured losses) arising from Council's decision to undertake self-insurance for certain risks faced.

Accounting policy for provisions

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

The provision for sick leave also includes vesting benefits for staff under the pre 1993 Local Government Employment award.

Other long-term employee benefit obligations

The liability for long service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the Statement of Financial Position if the Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

Self-insurance

Council has decided to self-insure for various risks, including public liability and professional indemnity.

A provision for self-insurance has been made to recognise outstanding claims. Council also maintains cash and investments to meet expected future claims; refer to Note 6(c).

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 13. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

The infrastructure, property, plant and equipment revaluation reserve is used to record increments / decrements of non-current asset values due to their revaluation.

(b) Correction of errors relating to a previous reporting period

Council made no correction of errors during the current reporting period.

(c) Voluntary changes in accounting policies

Council made no voluntary changes in any accounting policies during the year.

(d) Changes in accounting estimates

Council made no changes in accounting estimates during the year.

Penrith City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 14. Statement of cash flows – additional information

\$ '000	Notes	2018	2017
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	5,764	18,643
Balance as per the Statement of Cash Flows		5,764	18,643
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		67,478	52,062
<i>Adjust for non-cash items:</i>			
Depreciation and amortisation		27,042	26,198
Net losses/(gains) on disposal of assets		205	1,547
Non-cash capital grants and contributions		(22,751)	(28,441)
<i>Losses/(gains) recognised on fair value re-measurements through the P&L:</i>			
– Investments classified as ‘at fair value’ or ‘held for trading’		–	137
– investment property		(7,431)	(1,419)
Amortisation of premiums, discounts and prior period fair valuations			
Share of net (profits) or losses of associates/joint ventures		(716)	(837)
<i>+/- Movement in operating assets and liabilities and other cash items:</i>			
Decrease/(increase) in receivables		(3,184)	(2,614)
Increase/(decrease) in provision for doubtful debts		191	(126)
Decrease/(increase) in inventories		(33)	174
Decrease/(increase) in other assets		345	(1,248)
Increase/(decrease) in payables		(2,412)	2,238
Increase/(decrease) in other accrued expenses payable		584	2,992
Increase/(decrease) in other liabilities		2,112	1,755
Increase/(decrease) in employee leave entitlements		(501)	(127)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		60,929	52,291

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 14. Statement of cash flows – additional information (continued)

\$ '000	Notes	2018	2017
(c) Non-cash investing and financing activities			
Developer contributions 'in kind'		22,751	28,441
Total non-cash investing and financing activities		22,751	28,441

(d) Bank guarantees

Under the Workers Compensation Act 1987, participants of the Retro Paid Model are required to provide financial security to ensure that other employers in the State will not be required to meet the cost of claims if these entities are not able to meet their Workers Compensation liabilities. Council has also provided bank guarantees to the value of \$7,600 to the Department of Education for Out of School Hours facilities in Public Schools.

- Department of Education \$3,801.70
- Department of Education \$3,801.70
- WorkCover NSW \$2,212,202
- WorkCover NSW \$2,212,202
- WorkCover NSW \$2,125,954
- WorkCover NSW \$2,198,533

Note 15. Interests in other entities

	Council's share of net income		Council's share of net assets	
	2018	2017	2018	2017
Joint ventures	716	837	7,623	6,907
Total	716	837	7,623	6,907

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 15. Interests in other entities (continued)

\$ '000

(a) Controlled entities (subsidiaries) – being entities and operations controlled by Council

Council's consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with AASB 10 and the accounting policy described in Note 1(c).

Name of operation/entity	Principal activity			
Penrith Aquatic and Leisure Ltd	Pools and Gym Penrith Pool in Penrith and Ripples in St Marys			
			Ownership	Voting rights
Interests in Subsidiary			2018	2017
Council's interest in Subsidiary			100%	100%

The nature of risks associated with Council's interests in the Subsidiary

Council provided Penrith Aquatic and Leisure Limited an amount of \$1.038m in subsidies during 2017-18. This subsidy is proposed to be \$1.04m in 2018-19.

Council will underwrite the operation of the Penrith Aquatic and Leisure Limited for a period of 30 months from 1 July 2016 until December 2018

Summarised financial information for the Subsidiary

Summarised statement of comprehensive income	2018	2017
Revenue	4,588	4,356
Expenses	(5,649)	(5,310)
Profit for the period	(1,061)	(954)
Summarised statement of financial position	2018	2017
Current assets	374	277
Non-current assets	205	199
Total assets	579	476
Current liabilities	1,015	876
Total liabilities	1,015	876
Net assets	(436)	(400)
Summarised statement of cash flows	2018	2017
Cash flows from operating activities	(6,328)	4,348
Cash flows from investing activities	(82,133)	8
Net increase (decrease) in cash and cash equivalents	(88,461)	4,356

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 15. Interests in other entities (continued)

\$ '000

(a) Controlled entities (subsidiaries) – being entities and operations controlled by Council (cont'd)

Name of operation/entity	Principal activity	Ownership		Voting rights	
		2018	2017	2018	2017
Penrith Performing and Visual Arts Ltd (PPVA)	Cultural Penrith				
Interests in Subsidiary					
Council's interest in Subsidiary		100%	100%	100%	100%

The nature of risks associated with Council's interests in the Subsidiary

Council provided PPVA an amount of \$1.637m in subsidies during 2017-18.

This subsidy is proposed to be \$1.639m in 2018-19.

Council will underwrite the operation of the PPVA for a period of 30 months from 1 July 2016 until December 2018.

Summarised financial information for the Subsidiary

Summarised statement of comprehensive income	2018	2017
Revenue	2,198	2,021
Expenses	(3,993)	(3,631)
Profit for the period	(1,795)	(1,610)
Summarised statement of financial position	2018	2017
Current assets	1,410	1,446
Non-current assets	1,747	1,560
Total assets	3,157	3,006
Current liabilities	1,060	1,033
Non-current liabilities	168	182
Total liabilities	1,228	1,215
Net assets	1,929	1,791
Summarised statement of cash flows	2018	2017
Cash flows from operating activities	118	2,004
Cash flows from investing activities	(195)	17
Net increase (decrease) in cash and cash equivalents	(77)	2,021

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 15. Interests in other entities (continued)

\$ '000

(a) Controlled entities (subsidiaries) – being entities and operations controlled by Council (cont'd)

Name of operation/entity	Principal activity	Ownership		Voting rights	
		2018	2017	2018	2017
Penrith Whitewater Stadium Ltd (PWS)	Management of Whitewater Stadium, Rafting & Leisure Cranebrook				
Interests in Subsidiary					
Council's interest in Subsidiary		100%	100%	100%	100%

The nature of risks associated with Council's interests in the Subsidiary

Council will underwrite the operation of PWS for a period of 30 months from 1 July 2016 until December 2018.

Summarised financial information for the Subsidiary

Summarised statement of comprehensive income	2018	2017
Revenue	2,288	1,213
Expenses	(1,389)	(1,396)
Profit for the period	899	(183)
Summarised statement of financial position	2018	2017
Current assets	266	372
Non-current assets	941	1,006
Total assets	1,207	1,378
Current liabilities	446	1,515
Total liabilities	446	1,515
Net assets	761	(137)
Summarised statement of cash flows	2018	2017
Cash flows from operating activities	(160)	1,211
Cash flows from investing activities	(12)	2
Net increase (decrease) in cash and cash equivalents	(172)	1,213

Accounting policy for subsidiaries

Subsidiaries are all entities (including structured entities) over which the Council has control. Control is established when the Council is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

These consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost. Intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements. Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a June financial year end.

Penrith City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 15. Interests in other entities (continued)

\$ '000

(b) Joint arrangements

(i) Joint ventures

Council has incorporated the following joint ventures into its consolidated financial statements.

(a) Net carrying amounts – Council's share

Name of entity	Nature of relationship	Measurement method	2018	2017
CivicRisk West	Joint venture	Equity	6,895	6,375
CivicRisk Mutual	Joint venture	Equity	728	532
Total carrying amounts – material joint ventures			7,623	6,907

(b) Details

Name of entity	Principal activity	Place of business
CivicRisk West	Insurance	Penrith
CivicRisk Mutual	Insurance	Penrith

(c) Relevant interests and fair values

Name of entity	Quoted fair value		Interest in outputs		Interest in ownership		Proportion of voting power	
	2018	2017	2018	2017	2018	2017	2018	2017
CivicRisk West	na	na	16%	17%	16%	17%	10%	10%
CivicRisk Mutual	na	na	9%	8%	9%	8%	6%	6%

(d) Summarised financial information for joint ventures

Statement of financial position	CivicRisk West		CivicRisk Mutual	
	2018	2017	2018	2017
Current assets				
Cash and cash equivalents	3,022	2,935	1,158	506
Other current assets	19,442	13,722	5,759	6,240
Non-current assets	41,740	47,434	5,989	5,889
Current liabilities				
Current financial liabilities (excluding trade and other payables and provisions)	6,111	5,008	2,690	2,890
Other current liabilities	720	677	299	423
Non-current liabilities				
Non-current financial liabilities (excluding trade and other payables and provisions)	15,612	20,429	1,448	2,830
Net assets	41,761	37,977	8,469	6,492

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 15. Interests in other entities (continued)

\$ '000

(b) Joint arrangements (continued)

(d) Summarised financial information for joint ventures (continued)

	CivicRisk West		CivicRisk Mutual	
	2018	2017	2018	2017
Reconciliation of the carrying amount				
Opening net assets (1 July)	37,977	32,195	6,492	7,288
Profit/(loss) for the period	5,912	7,455	1,977	(796)
Dividends paid	(2,128)	(1,673)	–	–
Closing net assets	41,761	37,977	8,469	6,492
Council's share of net assets (%)	16.5%	16.8%	8.6%	8.2%
Council's share of net assets (\$)	6,895	6,375	728	532
Statement of comprehensive income				
Income	6,076	7,066	9,425	8,302
Interest income	3,261	3,757	439	584
Interest expense	(17)	(17)	–	–
Other expenses	(3,408)	(3,351)	(7,886)	(9,682)
Profit/(loss) for period	5,912	7,455	1,978	(796)
Total comprehensive income	5,912	7,455	1,978	(796)
Share of income – Council (%)	14.6%	15.2%	9.8%	11.2%
Profit/(loss) – Council (\$)	522	926	194	(89)
Total comprehensive income – Council (\$)	522	926	194	(89)
Dividends received by Council	341	204	–	–
Summarised Statement of cash flows				
Cash flows from operating activities	113	3,219	903	(1,115)
Cash flows from investing activities	(1,537)	(847)	–	–
Cash flows from financing activities	1,510	(2,396)	(250)	(1)
Net increase (decrease) in cash and cash equivalents	86	(24)	653	(1,116)

Joint ventures

Interests in joint ventures are accounted for using the equity method in accordance with AASB128 Investments in *Associates and Joint Ventures*. Under this method, the investment is initially recognised as a cost and the carrying amount is increased or decreased to recognise the Council's share of the profit or loss and other comprehensive income of the joint venture after the date of acquisition.

If the Council's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Council discontinues recognising its share of further losses.

The Council's share in the joint venture's gains or losses arising from transactions between itself and its joint venture are eliminated.

Adjustments are made to the joint venture's accounting policies where they are different from those of the Council for the purpose of the consolidated financial statements.

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 16. Commitments for expenditure

\$ '000	2018	2017
(a) Capital commitments (exclusive of GST)		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Buildings	1,581	178
Plant and equipment	1,139	49
Roadworks	281	1,104
Land Improvements	12,790	3,397
Other	2	–
Total commitments	15,793	4,728
These expenditures are payable as follows:		
Within the next year	15,793	4,728
Total payable	15,793	4,728
Sources for funding of capital commitments:		
Unrestricted general funds	15,793	4,728
Total sources of funding	15,793	4,728
Details of capital commitments		
- Triangle Park construction		- CBD Drainage Upgrade
- River Road Upgrade		
(b) Operating lease commitments (non-cancellable)		
a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:		
Within the next year	153	108
Later than one year and not later than 5 years	101	231
Total non-cancellable operating lease commitments	254	339
b. Non-cancellable operating leases include the following assets:		
The above non-cancellable operating lease commitments relate to leases of office equipment - printers.		
Conditions relating to operating leases:		
– All operating lease agreements are secured only against the leased asset.		
– No lease agreements impose any financial restrictions on Council regarding future debt etc.		
(c) Investment property commitments		
Non-capital expenditure on investment property committed for at the reporting date but not recognised in the financial statements as liabilities:		
Contractual obligations – repairs and maintenance	86	75
Total commitments	86	75
These expenditures are payable as follows:		
Within the next year	86	75
Total payable	86	75

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 17. Contingencies and other liabilities/assets not recognised

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position, but their knowledge and disclosure is considered relevant to the users of Council's financial report.

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a 'multi-employer fund' for purposes of AASB119 Employee Benefits. Sufficient information is not available to account for the Scheme as a defined benefit plan in accordance with AASB119 because the assets to the Scheme are pooled together for all councils.

The amount of employer contributions to the defined benefit section of the Scheme and recognised as an expense for the year ending 30 June 2018 was \$1.7m. The last valuation of the Scheme was performed by Mercer Consulting on 30 June 2018, and covers the year ended 30 June 2018.

However, the position is monitored annually and the actuary has estimated that, as at 30 June 2018, a deficit still exists. Effective from 1 July 2009, employers are required to make additional contributions to assist in extinguishing this deficit. The amount of additional contributions included in the total employer contribution advised above is \$754,000. Council's expected contribution to the plan for the next annual reporting period is \$750,000.

Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

Pooled Employers are required to pay standard employer contributions and additional lump sum contributions to the Fund. The standard employer contributions were determined using the new entrant rate method under which a contribution rate sufficient to fund the total benefits over the working life-time of a typical new entrant is calculated. The current standard employer contribution rates are:

Division B	1.9 times employee
Division C	2.5% salaries
Division D	1.64 times employee

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40.0 million per annum from 1 July 2017 for 4 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2017. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2017.

The adequacy of contributions is assessed at each triennial actuarial investigation and monitored annually between triennials.

As stated above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 17. Contingencies and other liabilities/assets not recognised (continued)

However, there is no relief under the Fund's trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active members, on full payment of outstanding additional contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of the entity.

There are no specific provisions under the Fund's trust deed dealing with deficits or surplus on wind-up.

There is no provision for allocation of any surplus which may be present at the date of withdrawal of an employer.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2018 is:

Employer reserves only*	\$millions	Asset Coverage
Assets	1,817.8	
Past Service Liabilities	1,787.5	101.7%
Vested Benefits	1,778.0	102.2%

* excluding member accounts and reserves in both assets and liabilities

The key economic long term assumptions used to calculate the present value of accrued benefits are:

Investment Return	6.0% per annum
Salary Inflation*	3.5% per annum
Increase in CPI	2.5% per annum

* Plus promotional increase

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group. Please note that the estimated employer reserves financial position above is a preliminary calculation, and once all the relevant information has been received by the Fund Actuary, the 2018 triennial review will be completed around December 2018.

An employer's additional lump sum contribution per annum as a percentage of the total additional lump sum contributions for all Pooled Employers (of \$40m each year from 1 July 2017 to 30 June 2021) provides an indication of the level of participation of that employer compared with other employers in the Pooled Employer subgroup.

(ii) Statewide Limited

Council is a member of Statewide Mutual, a mutual pool scheme providing liability insurance to local government.

Membership includes the potential to share in either the net assets or liabilities of the fund depending on its past performance. Council's share of the net assets or liabilities reflects Council's contributions to the pool and the result of insurance claims within each of the fund years.

The future realisation and finalisation of claims incurred but not reported to 30/6/18 this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

(iii) StateCover Limited

Council is a member of StateCover Mutual Limited and holds a partly paid share in the entity.

StateCover is a company providing workers compensation insurance cover to the NSW local government industry and specifically Council.

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 17. Contingencies and other liabilities/assets not recognised (continued)

LIABILITIES NOT RECOGNISED (continued):

1. Guarantees (continued)

(iii) StateCover Limited (continued)

Council has a contingent liability to contribute further equity in the event of the erosion of the company's capital base as a result of the company's past performance and/or claims experience or as a result of any increased prudential requirements from APRA.

These future equity contributions would be required to maintain the company's minimum level of net assets in accordance with its licence requirements.

(iv) Other guarantees

Council has provided no other guarantees other than those listed above.

2. Other liabilities

(i) Third party claims

The Council is involved from time to time in various claims incidental to the ordinary course of business including claims for damages relating to its services.

Council believes that it is appropriately covered for all claims through its insurance coverage and does not expect any material liabilities to eventuate.

(ii) Potential land acquisitions due to planning restrictions imposed by Council

Council has classified a number of privately owned land parcels as local open space or bushland.

As a result, where notified in writing by the various owners, Council will be required to purchase these land parcels.

At reporting date, reliable estimates as to the value of any potential liability (and subsequent land asset) from such potential acquisitions has not been possible.

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 17. Contingencies and other liabilities/assets not recognised (continued)

ASSETS NOT RECOGNISED:

(i) Infringement notices/fines

Fines and penalty income, the result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau.

Council's revenue recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid infringement notices.

Due to the limited information available on the status, value and duration of outstanding notices, Council is unable to determine the value of outstanding income.

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 18. Financial risk management

\$ '000

Risk management

Council's activities expose it to a variety of financial risks including **(1)** price risk, **(2)** credit risk, **(3)** liquidity risk and **(4)** interest rate risk.

The Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by Council's finance section under policies approved by the Council.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

	Carrying value		Fair value	
	2018	2017	2018	2017
Financial assets				
Cash and cash equivalents	5,764	18,643	5,763	18,643
Investments				
– 'Held for trading'	–	1,565	–	1,564
– 'Held to maturity'	149,215	116,526	149,216	116,527
Receivables	14,255	11,294	14,255	11,294
Total financial assets	169,234	148,028	169,234	148,028
Financial liabilities				
Payables	23,715	23,832	23,714	23,832
Loans/advances	50,315	54,388	52,898	57,469
Total financial liabilities	74,030	78,220	76,612	81,301

Fair value is determined as follows:

- **Cash** and **cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings** and **held-to-maturity** investments – are based upon estimated future cash flows discounted by the current market interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) '**at fair value through profit and loss**' or (ii) '**available-for-sale**' – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. Financial risk management (continued)

\$ '000

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital.

Council's finance area manages the cash and Investments portfolio with the assistance of independent advisors.

Council has an investment policy which complies with the *Local Government Act 1993* and Ministerial Investment Order 625. This policy is regularly reviewed by Council and its staff and a monthly Investment report is provided to Council setting out the make-up and performance of the portfolio as required by Local Government regulations.

The risks associated with the investments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

Council also seeks advice from independent advisers before placing any funds in cash equivalents and investments.

(a) Market risk – price risk and interest rate risk

The following represents a summary of the sensitivity of Council's Income Statement and accumulated surplus (for the reporting period) due to a change in either the price of a financial asset or the interest rates applicable.

It is assumed that the change in interest rates would have been constant throughout the reporting period.

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2018				
Possible impact of a 10% movement in market values	147	147	(147)	(147)
Possible impact of a 1% movement in interest rates	1,535	1,535	(1,535)	(1,535)
2017				
Possible impact of a 10% movement in market values	156	156	(156)	(156)
Possible impact of a 1% movement in interest rates	1,351	1,351	(1,351)	(1,351)

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 18. Financial risk management (continued)

\$ '000

(b) Credit risk

Council's major receivables comprise (i) rates and annual charges and (ii) user charges and fees.

The major risk associated with these receivables is credit risk – the risk that debts due and payable to Council may not be repaid in full.

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures. It also encourages ratepayers to pay their rates by the due date through incentives.

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts – that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue rates and annual charges at higher than market rates which further encourages the payment of debt.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

There are no material receivables that have been subjected to a re-negotiation of repayment terms.

A profile of Council's receivables credit risk at balance date follows:

	2018 Rates and annual charges	2018 Other receivables	2017 Rates and annual charges	2017 Other receivables
(i) Ageing of receivables – %				
Current (not yet overdue)	26%	75%	20%	67%
Overdue	74%	25%	80%	33%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(ii) Ageing of receivables – value

Rates and annual charges

	2018	2017
Current	1,064	747
< 1 year overdue	1,067	1,089
1 – 2 years overdue	612	549
2 – 5 years overdue	708	749
> 5 years overdue	570	591
	<u>4,021</u>	<u>3,725</u>

Other receivables

	2018	2017
Current	8,642	5,862
0 – 30 days overdue	2,062	1,855
31 – 60 days overdue	114	76
61 – 90 days overdue	55	302
> 91 days overdue	619	541
	<u>11,492</u>	<u>8,636</u>

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 18. Financial risk management (continued)

\$ '000

(c) Liquidity risk

Payables and borrowings are both subject to liquidity risk – the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

Payment terms can (in extenuating circumstances) also be extended and overdraft facilities utilised as required.

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk by borrowing with a mix of both long term fixed rate basis and by fixing the interest rate on a shorter term (usually 3-5 years) to allow renewal of the loan in order to take advantage of the possibility of lower interest rates. Part of Council's borrowing strategy is to consider the viability of new borrowings and use projected operating surpluses to minimise new borrowings.

The contractual undiscounted cash outflows (ie. principal and interest) of Council's payables and borrowings are set out in the maturity table below:

\$ '000	Weighted average interest rate	Subject to no maturity	payable in:			Total cash outflows	Actual carrying values
			≤ 1 Year	1 – 5 Years	> 5 Years		
2018							
Trade/other payables		9,712	-	-	-	9,712	23,715
Loans and advances	3.82%	-	16,707	35,714	17,049	69,470	50,315
Total financial liabilities		9,712	16,707	35,714	17,049	79,182	74,030
2017							
Trade/other payables		19,936	-	3,896	-	23,832	23,832
Loans and advances	4.14%	-	14,077	41,078	17,959	73,114	54,388
Total financial liabilities		19,936	14,077	44,974	17,959	96,946	78,220

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 19. Material budget variations

\$ '000

Council's original financial budget for 17/18 was adopted by the Council on 26 June 2017 and is not required to be audited.

While the Income Statement included in this General Purpose Financial Report must disclose the original budget adopted by Council, the *Local Government Act 1993* requires Council to review its financial budget on a quarterly basis, so that it is able to manage the various variations between actuals versus budget that invariably occur throughout the year.

This note sets out the details of **material variations** between Council's original budget and its actual results for the year as per the Income Statement – even though such variations may have been adjusted for during each quarterly budget review.

Note that for variations* of budget to actual :

Material variations represent those variances that amount to **10%** or more of the original budgeted figure.

F = Favourable budget variation, **U** = Unfavourable budget variation

\$ '000	2018 Budget	2018 Actual	2018 Variance*		
REVENUES					
Interest and investment revenue	2,994	3,962	968	32%	F
<p>The favourable variance relates to two areas, the performance of Council's portfolio and an increase in cash held. Council invested in a mix of term deposits and Floating Rate Notes, with the portfolio returning an average rate of 2.53% which is above the averaged 1.82% benchmark 90-day Bank Bill Swap Rate (BBSW). The official cash rate remained at the record low of 1.5% during the financial year and there was little variation of interest rates. There was also a significant increase in cash and investments held during the year, an increase of \$18m from 2016-17. This includes an \$8.5m increase in s7.11 developer contributions which contributed an additional \$207,000 interest revenue and \$11m of internal reserves and security deposits being held which contributed \$672,000 over the year.</p>					
Other revenues	4,293	7,004	2,711	63%	F

Material Budget Variations were attributed to several areas performing greater than the anticipated budgets for the year, they include: insurance claims recovered that were not reported in the original budget (\$1,2m), fines - including parking and compliance/regulatory generating greater revenue than budgeted (\$729,000), building rental revenue greater than the original budget (\$420,000), performance rebates that were not in the original budget (\$210,000) and solicitors costs recoverable which were greater than the original budget (\$157,000).

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Material budget variations (continued)

\$ '000	2018 Budget	2018 Actual	2018 ----- Variance* -----	
REVENUES (cont'd)				
Operating grants and contributions	39,449	24,975	(14,474)	(37%) U
Material Budget Variations for Operating Grants and Contributions were recognised in nine areas, they include: The Active Transport Program - new grant (\$1.9m), Children's Services - Early Childhood Education Program and Start Strong - extension of grants (\$880,000), FARG grant received in advance (\$556,000), Black Spot and road Safety program not in the original budget (\$526,000), additional funding for the Roads to Recovery Program (\$456,000), Community Safety grants not in original budget (\$131,000), Revotes of Local Roads Package and Better Boating Program (-\$13.3m) and Flood Study Program grant not in the original budget (-\$486,000).				
Capital grants and contributions	29,100	43,724	14,624	50% F
Material Budget Variations for Capital Grants and Contributions were recognised in four areas, they include: subdivider contributions that were not included in the original budget (\$1.1m), higher than anticipated s.711 contributions (\$5.1m), capital contribution to works not in the original budget (\$933,000) and subdivider				
Joint ventures and associates - net profits	50	716	666	1332% F
The original budget for the share of profit in Westpool and UIP (see note 19) is set assuming the joint venture will return a small surplus. These results vary each year depending on the expenses incurred in managing insurance activities.				

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Material budget variations (continued)

\$ '000	2018 Budget	2018 Actual	2018 Variance*		
EXPENSES					
Borrowing costs	2,344	2,145	199	8%	F
Materials and contracts	84,833	61,261	23,572	28%	F
Material budget variations for Materials and Contracts include, Expenses over the original budget; stationary (\$93,000), agency charges (\$93,000) cost recovery (\$161,000), advertising (\$202,000), equipment rental (\$203,000), subscriptions (\$231,000), cleaning (\$268,000), marketing (\$314,000), catering (\$412,000) asbestos disposal (\$453,000), legal costs (\$774,000), waste removal (\$783,000), consultancy (\$910,000) and computer/software contractors (\$1m). As well as expenses under the original budget; fuel (-\$808,000), cost recoverable (-\$878,000), garbage and recycling (-\$1.7m), internal service recovery – movement of project costs (-\$6.6m), miscellaneous materials and contracts – actuals allocated to specific accounts (-\$16.4m).					
Other expenses	15,227	22,239	(7,012)	(46%)	U
Material Budget Variations for Other Expenses were recognised in eleven areas, they include, Expenses over the original budget; insurance claims (\$863,000), telephone (\$513,000), water (\$457,000), memberships (\$243,000), council fees (\$162,000), community safety (\$105,000), planning fees (\$96,000) and infringement processing expenses (\$80,000). As well as expense items under the original budget, including; street lighting (-\$138,000), vehicle and plant registrations (-\$135,000) and electricity/heating expenses (-\$371,000).					
Net losses from disposal of assets	486	205	281	58%	F
The major variation relates Council taking a conservative approach with losses on disposal being considerably lower than budgeted. The loss on disposal is primarily due to the write off of a Council library books (\$235,000), the disposal of buildings which were impaired during the year (\$50,000), and disposal of plant & equipment making a profit of (\$80,000).					
Budget variations relating to Council's Cash Flow Statement include:					
Cash flows from operating activities	51,308	60,929	9,621	18.8%	F
The budget for the Cash Flow Statement is based on a number of assumptions that are difficult to accurately predict. Payments for materials and contracts were less than budgeted for and other payments were higher than budgeted.					
Cash flows from investing activities	(83,455)	(69,734)	13,721	(16.4%)	F
The purchase of investment securities was significantly higher than budgeted for, as was the purchase of Infrastructure, Property, Plant & Equipment. The budget for these items is based on forecasted figures before 2015-16 actuals are finalised and are difficult to predict in advance.					
Cash flows from financing activities	(5,218)	(4,073)	1,145	(21.9%)	F
The budget is an estimate set before prior year figures are finalised.					

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 20. Fair value measurement

\$ '000

The Council measures the following asset and liability classes at fair value on a recurring basis:

- Infrastructure, property, plant and equipment
- Investment property
- Financial assets and liabilities

The fair value of assets and liabilities must be estimated in accordance with various accounting standards for either recognition and measurement requirements or for disclosure purposes.

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a 'level' in the fair value hierarchy as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(1) The following table presents all assets and liabilities that have been measured and recognised at fair values:

2018	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Investment property					
Land and buildings	30/06/18	–	34,455	–	34,455
Total investment property		–	34,455	–	34,455
Infrastructure, property, plant and equipment					
Plant and equipment		–	–	14,895	14,895
Office equipment		–	–	6,006	6,006
Furniture and fittings		–	–	3,411	3,411
Community land	30/06/16	–	–	196,666	196,666
Operating land	30/06/18	–	–	189,945	189,945
Land under roads	30/06/16	–	–	194,692	194,692
Land improvements		–	–	31,389	31,389
Buildings	30/06/17	–	–	203,291	203,291
Roads, bridges, footpaths	30/06/15	–	–	753,856	753,856
Stormwater drainage	30/06/15	–	–	273,554	273,554
Library books		–	–	1,359	1,359
Other	30/06/18	–	–	5,093	5,093
Total infrastructure, property, plant and equipment		–	–	1,874,157	1,874,157

Penrith City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 20. Fair value measurement (continued)

\$ '000

(1) The following table presents all assets and liabilities that have been measured and recognised at fair values: (continued)

2017	Fair value measurement hierarchy			Total
	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements				
Financial assets				
Investments – 'Available for sale'	–	–	1,564	1,564
Total financial assets	–	–	1,564	1,564
Investment property				
Land and buildings	–	19,874	–	19,874
Total investment property	–	19,874	–	19,874
Infrastructure, property, plant and equipment				
Plant and equipment	–	–	15,451	15,451
Office equipment	–	–	5,476	5,476
Furniture and fittings	–	–	3,005	3,005
Community land	–	–	195,179	195,179
Operating land	–	–	78,281	78,281
Land under roads	–	–	193,908	193,908
Land improvements	–	–	19,736	19,736
Buildings	–	–	202,552	202,552
Roads, bridges, footpaths	–	–	741,342	741,342
Stormwater drainage	–	–	258,670	258,670
Library books	–	–	1,703	1,703
Other	–	–	4,091	4,091
Total infrastructure, property, plant and equipment	–	–	1,719,394	1,719,394

(2) Transfers between level 1 and level 2 fair value hierarchies

During the year, there were no transfers between level 1 and level 2 fair value hierarchies for recurring fair value measurements.

Penrith City Council

Notes to the Financial Statements for the financial year ended 30 June 2018

Note 20. Fair Value Measurement

Valuation techniques used to derive Level 2 and Level 3 Fair Values

Where Council is unable to derive Fair Valuations using quoted market prices of identical assets (i.e. Level 1 inputs), Council instead utilises a spread of both observable inputs (Level 2 inputs) and unobservable inputs (Level 3 inputs).

The Fair Valuation techniques Council has employed while utilising Level 2 and Level 3 inputs are as follows:

Investment Properties

Class	Fair value (30/06/18) \$'000	Valuation technique(s)	Unobservable Inputs
Investment Properties	34,455	Valuation obtained by registered valuer	Land value, land area

Infrastructure, Property, Plant & Equipment (IPPE)

Class	Fair value (30/06/18) \$'000	Valuation technique(s)	Unobservable Inputs
Plant & Equipment, Office Equipment, Furniture & Fittings	24,312	Cost approach	Current replacement cost of modern equivalent asset, asset condition, useful life and residual value
Operational Land	189,945	Market-based direct comparison	Land value, land area
Community Land	196,666	Land values obtained from the NSW Valuer-General	Land value, land area
Land Under Roads	194,691	Unit rate based on Valuer-General average m ² price less Englobo discounting methodology	Extent and impact of use, market cost of land per square metre. The market value of land varies significantly depending on the location of the land and current market conditions.
Land Improvements – Depreciable	31,389	Cost approach	Current replacement cost of modern equivalent asset, asset condition, remaining lives, residual value
Buildings	203,921	Market-based direct comparison	Asset condition, remaining lives
Roads	753,856	Unit rates per m ² or length	Asset condition, remaining lives
Stormwater Drainage	273,554	Unit rates per m ² or length	Asset condition, remaining lives
Library Books	1,359	Cost approach	Current replacement cost of modern equivalent asset, asset condition, remaining lives, residual value

Penrith City Council

Notes to the Financial Statements for the financial year ended 30 June 2018

Note 20. Fair Value Measurement

Transfer between level of the hierarchy

The following assets/liabilities that are measured at fair value on a recurring basis have been subject to a transfer between level of the hierarchy.

Council's policy determining when transfers into different levels of the hierarchy have occurred at 30 June 2018.

Transfers from Level 3 to Level 2

Asset/ liability	\$'000
Investment Property was revalued for the year ending 30 June 2018 by a registered valuer	34,455

Highest and best use

All of Council's non financial assets are considered to being utilised for their highest and best use.

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Related party transactions

\$ '000

a. Key management personnel

Key management personnel (KMP) of the Council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.

The aggregate amount of KMP compensation included in the Income Statement is:

Compensation:	2018	2017
Short-term benefits (including annual leave)	3,856	3,630
Other long-term benefits	155	169
Total	4,011	3,799

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Related party transactions (continued)

b. Other transactions with KMP and their related parties

Council has determined that transactions at arm's length between KMP and Council as part of Council delivering a public service objective (e.g. access to library or Council swimming pool by KMP) will not be disclosed.

Nature of the transaction	Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for doubtful debts outstanding	Doubtful debts expense recognised
	Actual \$	Actual \$		Actual \$	Actual \$
2018					
Contribution to Civic Risk Mutual	715,891	–	30-day terms on invoices	–	–
Contribution to Civic Risk Mutual	684,000	–		–	–
2017					
Contribution to Civic Risk Mutual	1,344,000	–	30-day terms on invoices	–	–

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Statement of developer contributions

\$ '000

Under the *Environmental Planning and Assessment Act 1979*, Council has significant obligations to provide Section 7.11 (contributions towards provision or improvement of amenities or services) infrastructure in new release areas.

It is possible that the funds contributed may be less than the cost of this infrastructure, requiring Council to borrow or use general revenue to fund the difference.

SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	2,375	164	–	(19)	(1,377)	(80)	1,063	–
Roads	(1,054)	192	–	(26)	(287)	53	(1,122)	–
Open space	32,468	11,616	–	736	(3,441)	–	41,379	–
Community facilities	1,177	422	–	17	(646)	–	970	–
Other	415	1,715	–	20	(1,109)	27	1,068	–
S7.11 contributions – under a plan	35,381	14,109	–	728	(6,860)	–	43,359	–
Total S7.11 and S7.12 revenue under plans	35,381	14,109	–	728	(6,860)	–	43,359	–
Total contributions	35,381	14,109	–	728	(6,860)	–	43,359	–

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

Civic Improvement Plan

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	–	3	–	–	(3)	–	–	
Open space	–	2	–	–	(2)	–	–	
Community facilities	–	1	–	–	(1)	–	–	
Total	–	6	–	–	(6)	–	–	–

Claremont Meadows

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	–	164	–	(53)	(111)	–	–	
Roads	–	101	–	10	(64)	–	47	
Open space	–	635	–	18	(653)	–	–	
Community facilities	–	55	–	19	(74)	–	–	
Other	–	697	–	24	–	–	721	
Total	–	1,652	–	18	(902)	–	768	–

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

Cultural Facilities

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Other	114	870	–	–	(984)	–	–	
Total	114	870	–	–	(984)	–	–	–

Erskine Business Park

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	2,297	–	–	34	(1,266)	(80)	985	
Roads	–	–	–	(6)	(47)	53	–	
Other	–	–	–	(4)	(23)	27	–	
Total	2,297	–	–	24	(1,336)	–	985	–

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

Erskine Park Residential

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	78	–	–	–	–	–	78	
Roads	(1,227)	–	–	–	–	–	(1,227)	
Open space	1,213	–	–	–	–	–	1,213	
Community facilities	26	–	–	–	–	–	26	
Other	(90)	–	–	–	(1)	–	(91)	
Total	0	–	–	–	(1)	–	(1)	–

Glenmore Park Stage 2

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	19	11	–	1	–	–	31	
Open space	(342)	366	–	21	(45)	–	–	
Community facilities	835	235	–	(11)	(570)	–	489	
Other	37	32	–	1	(52)	–	18	
Total	549	644	–	12	(667)	–	538	–

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

Kingswood Neighbourhood Centre

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Other	103	5	–	2	–	–	110	
Total	103	5	–	2	–	–	110	–

Penrith City District Open Space

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Open space	26,553	7,561	–	548	(790)	–	33,872	
Other	179	76	–	1	(27)	–	229	
Total	26,732	7,637	–	549	(817)	–	34,101	–

Penrith City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

Penrith City Local Open Space

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Open space	2,385	1,311	–	50	(618)	–	3,128	
Other	29	12	–	1	(4)	–	38	
Total	2,414	1,323	–	51	(622)	–	3,166	–

Waterside

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	27	–	–	–	–	–	27	
Open space	164	–	–	3	–	–	167	
Other	44	–	–	1	(2)	–	43	
Total	235	–	–	4	(2)	–	237	–

Werrington Enterprise Living and Learning (WELL)

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Roads	127	77	–	(31)	(173)	–	–	
Open space	2,495	1,741	–	96	(1,333)	–	2,999	
Community facilities	316	131	–	9	(1)	–	455	
Other	(1)	23	–	(6)	(16)	–	–	
Total	2,937	1,972	–	68	(1,523)	–	3,454	–

Penrith City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 23(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2018	Indicator 2018	Prior periods		Benchmark
			2017	2016	
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	<u>15,812</u>	7.13%	7.41%	1.40%	> 0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	221,676				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	<u>196,701</u>	74.12%	71.89%	67.60%	> 60.00%
Total continuing operating revenue ⁽¹⁾	265,400				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	<u>96,576</u>	3.01x	2.46x	1.80x	> 1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	32,094				
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	<u>44,999</u>	3.38x	3.16x	2.08x	> 2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	13,318				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	<u>4,328</u>	2.92%	3.01%	3.00%	< 5% metro
Rates, annual and extra charges collectible	148,307				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	<u>128,510</u>	7.58 mths	6.5 mths	5.3 mths	> 3 mths
Payments from cash flow of operating and financing activities	16,945				

Notes

(1) Excludes fair value adjustments and reversal of revaluation decrements, net gain/(loss) on sale of assets and the net share of interests in joint ventures and associates.

(2) Refer Notes 6-8 inclusive.

Also excludes any real estate and land for resale not expected to be sold in the next 12 months.

(3) Refer to Notes 11 and 12.

(4) Refer to Note 11(b) and 12(b) – excludes all payables and provisions not expected to be paid in the next 12



INDEPENDENT AUDITOR'S REPORT
Report on the general purpose financial report
Penrith City Council

To the Councillors of the Penrith City Council

Opinion

I have audited the accompanying financial report of Penrith City Council (the Council), which comprise the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management. The financial report includes the consolidated financial report of the Council and the entities it controlled at the year's end or from time to time during the year.

In my opinion,

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial report:
 - has been presented, in all material respects, in accordance with the requirements of this Division
 - is consistent with the Council's accounting records
 - presents fairly, in all material respects, the financial position of the Council as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial report have come to light during the audit.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Report' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the special purpose financial statements and Special Schedule 2 - Permissible income for general rates.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

The Councillors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Local Government Act 1993*, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting except where the Council will be dissolved or amalgamated by an Act of Parliament, or otherwise cease operations.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements.

Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial report.

A description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar3.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 19 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule 2 - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.



Karen Taylor
Director

26 September 2018
SYDNEY

Mayor
Penrith City Council
PO Box 60
PENRITH NSW 2751

26 September 2018

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2018
Penrith City Council**

I have audited the general purpose financial statements of the Penrith City Council (the Council) for the year ended 30 June 2018 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's general purpose financial statements.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2018 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result	2018 \$m	2017 \$m	Variance %
Rates and annual charges revenue	143.7	134.2	↑ 7.1
Grants and contributions revenue	68.7	72.3	↓ (5.0)
Operating result for the year	67.5	52.1	↑ 29.6
Net operating result before capital amounts	23.8	17.0	↑ 40.0

Rates and annual charges revenue (\$143.7 million) increased by \$9.5 million (7.1 per cent) in 2017–2018. Council had an approved 5.2 per cent special rate variation leading to an increase in general rates revenue in 2017–18.

Grants and contributions revenue (\$68.7 million) decreased by \$3.6 million (5.0 per cent) in 2017–2018 due to timing of financial assistance grants received in the past two years.

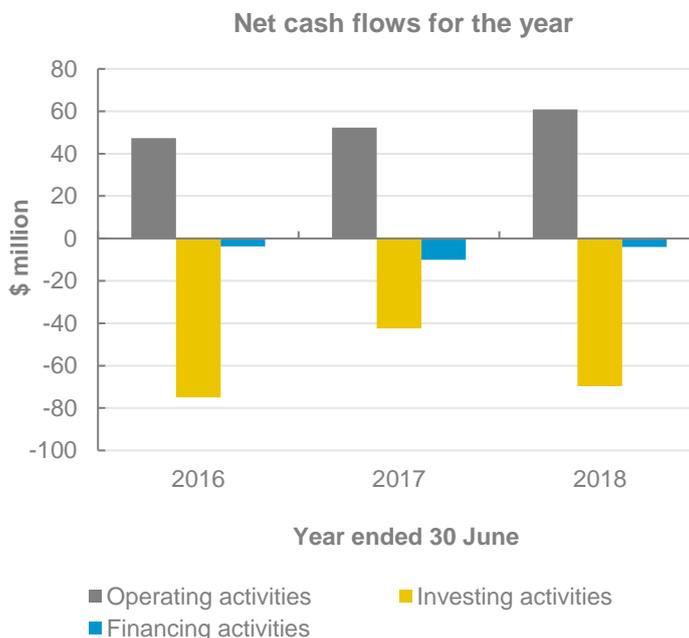
Council’s operating result (\$67.5 million including the effect of depreciation and amortisation expense of \$27.0 million) was \$15.4 million higher than the 2016–17 result. The increase was mainly due to a growth in rates and charges and an increase in the fair value of investment property.

The net operating result before capital grants and contributions (\$23.8 million) was \$6.8 million higher than the 2016–17 result.

STATEMENT OF CASH FLOWS

After remaining steady in 2016–17 cash balances decreased from \$18.6 million to \$5.8 million at 30 June 2018. This is offset by a growth in investments from \$89.4 million at 30 June 2016 to \$149.2 million at 30 June 2018.

Higher cash outflows are due to investing in new assets. Net cash used in 2018 was \$12.9 million, whilst borrowings are being repaid at a steady rate. Cash inflows from operating activities continue to grow in line with increased rates revenue.



FINANCIAL POSITION

Cash and Investments

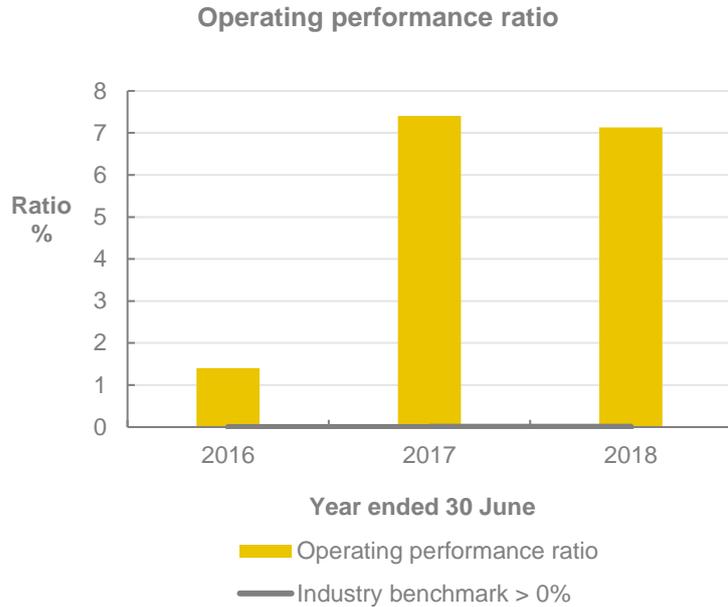
Cash and Investments	2018	2017	Commentary
	\$m	\$m	
External restrictions	73.7	63.9	Externally restricted balances include unexpended specific loans, developer contributions and domestic waste management charges.
Internal restrictions	76.4	63.5	
Unrestricted	4.9	9.4	Balances are internally restricted due to Council policy or decisions for forward plans including works program. Unrestricted balances provide liquidity for day-to-day operations.
Cash and investments	155.0	136.8	

PERFORMANCE RATIOS

The definition of each ratio analysed below (except for the ‘building and infrastructure renewals ratio’) is included in Note 23 (a) of the Council’s audited general purpose financial statements. The ‘building and infrastructure renewals ratio’ is defined in Council’s Special Schedule 7 which has not been audited.

Operating performance ratio

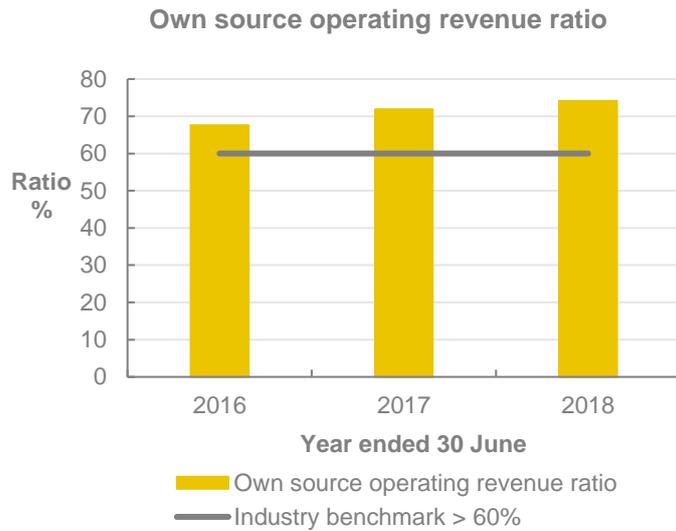
Council continues to exceed the benchmark. The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than zero per cent.



Own source operating revenue ratio

Council continues to exceed the benchmark and grow its own source revenue. The ratio fluctuates with movements in grants and contributions. Special rate variations have a positive impact on this ratio.

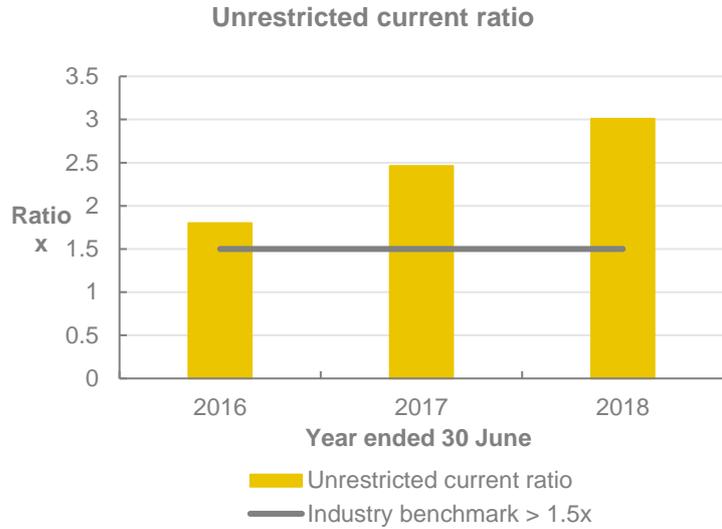
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

Council continues to exceed the benchmark. Improved unrestricted current ratio mainly due to increase in investments.

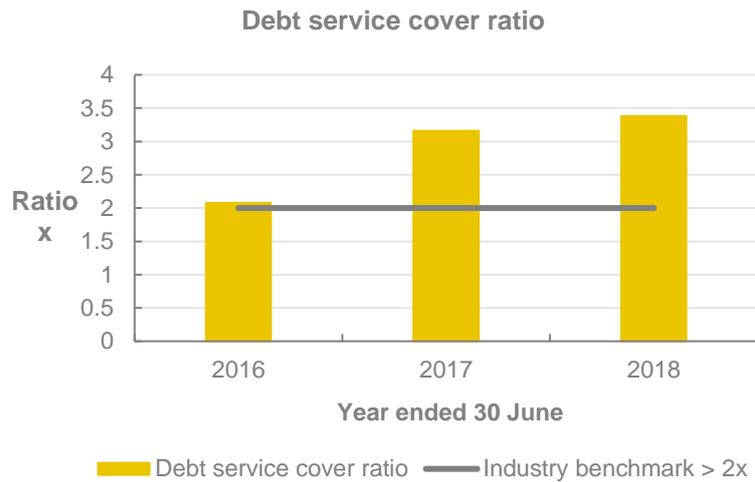
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

Council continues to exceed the benchmark due to repaying borrowings, \$50.3 million during 2017-18 (\$54.4 million during 2016-17). Repayments and borrowing costs remained steady.

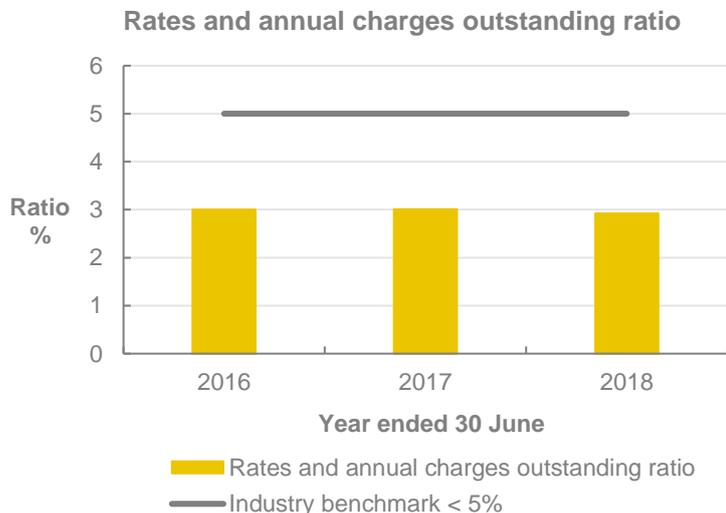
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding ratio

Performance better than benchmark and remains relatively consistent.

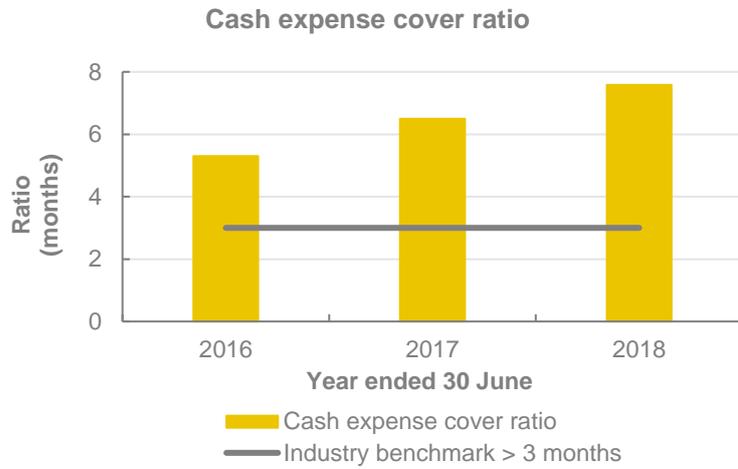
The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 5 per cent for metro councils.



Cash expense cover ratio

Council continues to exceed the benchmark. Improved cover due to a \$33.7 million increase in longer term deposits to \$122.7 million at 30 June 2018.

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by OLG is greater than three months.

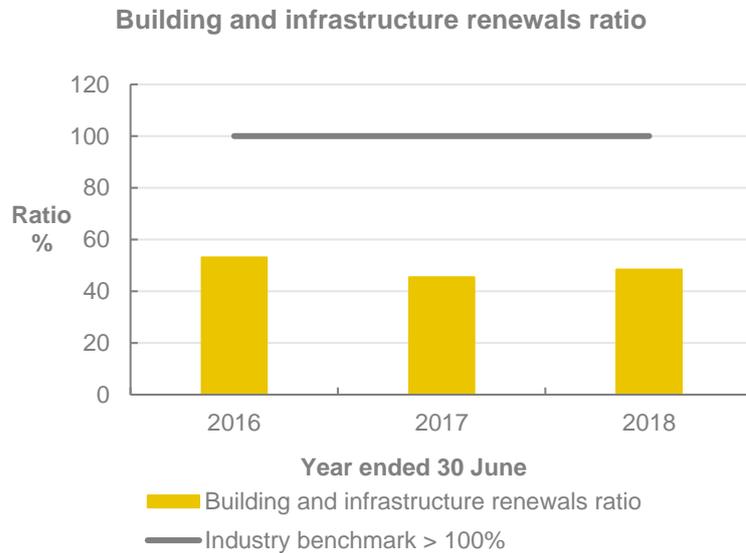


Building and infrastructure renewals ratio (unaudited)

Council remains below this benchmark. This ratio does not consider asset additions of \$43.9 million.

The 'building and infrastructure renewals ratio' assesses the rate at which these assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG is greater than 100 per cent.

This ratio is sourced from council's Special Schedule 7 which has not been audited.



OTHER MATTERS

New accounting standards implemented

AASB 2016-2 'Disclosure Initiative – Amendments to AASB 107'

Effective for annual reporting periods beginning on or after 1 January 2017

This Standard requires entities to provide disclosures that enable users of financial statements to evaluate changes (both cash flows and non-cash changes) in liabilities arising from financing activities.

Council's disclosure of the changes in their liabilities arising from financing activities is disclosed in Note 11 (c).

AASB 2016-4 'Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities – Amendments to AASB 136'

Effective for annual reporting periods beginning on or after 1 January 2017

This Standard no longer requires not-for-profit entities to consider AASB 136 Impairment of Assets for non-cash-generating specialised assets at fair value.

It is expected for not-for-profit entities holding non-cash-generating, the recoverable amount of these assets is expected to be materially the same as fair value, determined under AASB 113 Fair Value Measurement.

Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial reports. The Council's:

- accounting records were maintained in a manner and form to allow the general purpose financial statements to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.



Karen Taylor
Director, Financial Audit Services

Penrith City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS for the
year ended 30 June 2018

Penrith City Council

Special Purpose Financial Statements

for the year ended 30 June 2018

Contents	Page
1. Statement by Councillors and Management	91
2. Special Purpose Financial Statements:	
Income Statement – Water Supply Business Activity	n/a
Income Statement – Sewerage Business Activity	n/a
Income Statement – Other Business Activities	92
Statement of Financial Position – Water Supply Business Activity	n/a
Statement of Financial Position – Sewerage Business Activity	n/a
Statement of Financial Position – Other Business Activities	97
3. Notes to the Special Purpose Financial Statements	103
4. Auditor's Report	107

Background

- (i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
 - (ii) The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.
 - (iii) For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).
 - (iv) In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).
-

Penrith City Council

Special Purpose Financial Statements

for the year ended 30 June 2018

Statement by Councillors and Management

made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Statements have been prepared in accordance with:

- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,
- the NSW Office of Water Best-Practice Management of Water and Sewerage Guidelines.

To the best of our knowledge and belief, these financial statements:

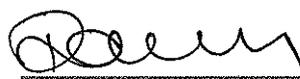
- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.

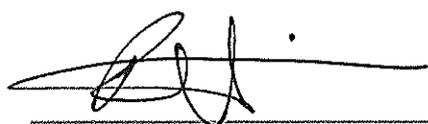
Signed in accordance with a resolution of Council made on 24 September 2018.



Clr John Thain
Mayor
24 September 2018



Clr Tricia Hitchen
Deputy Mayor
24 September 2018



Warwick Winn
General Manager
24 September 2018



Andrew Moore
Responsible Accounting Officer
24 September 2018

Penrith City Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2018

	Childcare		Council pools	
	Category 1		Category 1	
\$ '000	2018	2017	2018	2017
Income from continuing operations				
User charges	9,693	9,716	4,581	4,343
Interest	–	–	7	8
Grants and contributions provided for non-capital purposes	12,949	10,363	–	–
Profit from the sale of assets	–	–	–	5
Other income	105	85	–	–
Total income from continuing operations	22,747	20,164	4,588	4,356
Expenses from continuing operations				
Employee benefits and on-costs	18,662	17,340	4,264	4,006
Materials and contracts	1,058	740	770	1,968
Depreciation, amortisation and impairment	–	–	82	81
Calculated taxation equivalents	1,018	975	326	522
Debt guarantee fee (if applicable)	555	697	550	1,099
Other expenses	1,219	1,087	670	579
Total expenses from continuing operations	22,512	20,839	6,662	8,255
Surplus (deficit) from continuing operations before capital amounts	235	(675)	(2,074)	(3,899)
Surplus (deficit) from continuing operations after capital amounts	235	(675)	(2,074)	(3,899)
Surplus (deficit) from all operations before tax	235	(675)	(2,074)	(3,899)
Less: corporate taxation equivalent (30%) [based on result before capital]	(70)	–	–	–
SURPLUS (DEFICIT) AFTER TAX	165	(675)	(2,074)	(3,899)
Plus opening retained profits	3,663	2,546	(16,700)	(15,377)
Plus adjustments for amounts unpaid:				
– Taxation equivalent payments	1,018	975	326	522
– Debt guarantee fees	555	697	550	1,099
– Corporate taxation equivalent	70	–	–	–
Add:				
– Subsidy paid/contribution to operations	90	120	1,024	955
Closing retained profits	5,561	3,663	(16,874)	(16,700)
Return on capital %	n/a	n/a	-1011.7%	-1959.3%
Subsidy from Council	–	675	2,079	3,904

Penrith City Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2018

\$ '000	Property Development Category 1		Whitewater Category 1	
	2018	2017	2018	2017
Income from continuing operations				
User charges	3,060	3,110	1,144	1,211
Interest	416	527	1	2
Profit from the sale of assets	–	(607)	–	–
Total income from continuing operations	3,476	3,030	1,145	1,213
Expenses from continuing operations				
Employee benefits and on-costs	1,109	884	759	799
Borrowing costs	202	–	–	22
Materials and contracts	2,080	1,765	81	81
Depreciation, amortisation and impairment	428	734	113	113
Calculated taxation equivalents	1,559	2,680	–	3
Debt guarantee fee (if applicable)	20	–	–	30
Other expenses	442	519	437	381
Total expenses from continuing operations	5,840	6,582	1,389	1,429
Surplus (deficit) from continuing operations before capital amounts	(2,363)	(3,552)	(244)	(216)
Surplus (deficit) from continuing operations after capital amounts	(2,363)	(3,552)	(244)	(216)
Surplus (deficit) from all operations before tax	(2,363)	(3,552)	(244)	(216)
Less: corporate taxation equivalent (30%) [based on result before capital]	–	–	–	–
SURPLUS (DEFICIT) AFTER TAX	(2,363)	(3,552)	(244)	(216)
Plus opening retained profits	30,225	33,315	(62)	121
Plus adjustments for amounts unpaid:				
– Taxation equivalent payments	1,559	2,680	–	3
– Debt guarantee fees	20	–	–	30
Add:				
– Subsidy paid/contribution to operations	–	–	1,142	–
Less:				
– Dividend paid	(385)	(2,218)	–	–
Closing retained profits	29,056	30,225	835	(62)
Return on capital %	-2.4%	-2.3%	-26.0%	-19.3%
Subsidy from Council	4,533	7,213	269	218

Penrith City Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2018

	Penrith Performing and Visual Arts Ltd		Cemeteries	
	Category 1		Category 2	
\$ '000	2018	2017	2018	2017
Income from continuing operations				
User charges	1,532	1,430	797	1,090
Interest	14	17	20	–
Grants and contributions provided for non-capital purposes	2,451	2,188	–	–
Total income from continuing operations	3,997	3,635	817	1,090
Expenses from continuing operations				
Employee benefits and on-costs	2,300	2,247	341	326
Materials and contracts	1,117	934	360	451
Depreciation, amortisation and impairment	57	38	12	8
Calculated taxation equivalents	84	82	–	–
Imputed rental	1,166	1,099	–	–
Other expenses	431	413	75	71
Total expenses from continuing operations	5,155	4,813	788	856
Surplus (deficit) from continuing operations before capital amounts	(1,161)	(1,178)	29	234
Surplus (deficit) from continuing operations after capital amounts	(1,161)	(1,178)	29	234
Surplus (deficit) from all operations before tax	(1,161)	(1,178)	29	234
Less: corporate taxation equivalent (30%) [based on result before capital]	–	–	(9)	(70)
SURPLUS (DEFICIT) AFTER TAX	(1,161)	(1,178)	20	164
Plus opening retained profits	(1,712)	(3,329)	(389)	(623)
Plus adjustments for amounts unpaid:				
– Taxation equivalent payments	84	82	–	–
– Corporate taxation equivalent	–	–	9	70
– Imputed rental	1,166	1,099	–	–
Add:				
– Subsidy paid/contribution to operations	1,795	1,614	–	–
Closing retained profits	172	(1,712)	(360)	(389)
Return on capital %	-66.4%	-75.5%	24.5%	296.2%
Subsidy from Council	1,207	1,215	–	–

Penrith City Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2018

	Tennis courts		St Clair Recreation Centre	
	Category 2		Category 2	
\$ '000	2018	2017	2018	2017
Income from continuing operations				
User charges	66	16	141	177
Interest	–	–	–	–
Other income	1	6	–	–
Total income from continuing operations	67	22	141	177
Expenses from continuing operations				
Employee benefits and on-costs	39	69	209	208
Materials and contracts	23	13	37	58
Depreciation, amortisation and impairment	88	92	11	3
Imputed rental	–	–	68	40
Other expenses	52	45	41	20
Total expenses from continuing operations	202	219	366	329
Surplus (deficit) from continuing operations before capital amounts	(135)	(197)	(225)	(152)
Surplus (deficit) from continuing operations after capital amounts	(135)	(197)	(225)	(152)
Surplus (deficit) from all operations before tax	(135)	(197)	(225)	(152)
Less: corporate taxation equivalent (30%) [based on result before capital]	–	–	–	–
SURPLUS (DEFICIT) AFTER TAX	(135)	(197)	(225)	(152)
Plus opening retained profits	(476)	(279)	(5,040)	(4,928)
Plus adjustments for amounts unpaid:				
– Imputed rental	–	–	68	40
Closing retained profits	(611)	(476)	(5,197)	(5,040)
Return on capital %	-4.6%	-2.0%	-479.2%	-370.7%
Subsidy from Council	211	436	226	153

Penrith City Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2018

	Halls		Contestable Services	
	Category 2		Category 2	
\$ '000	2018	2017	2018	2017
Income from continuing operations				
User charges	130	191	594	646
Interest	1	1	–	–
Grants and contributions provided for non-capital purposes	22	–	–	–
Other income	749	781	–	–
Total income from continuing operations	902	973	594	646
Expenses from continuing operations				
Employee benefits and on-costs	673	695	305	246
Borrowing costs	1	4	–	–
Materials and contracts	485	470	2	–
Depreciation, amortisation and impairment	925	1,135	–	–
Other expenses	368	359	86	80
Total expenses from continuing operations	2,452	2,663	393	326
Surplus (deficit) from continuing operations before capital amounts	(1,550)	(1,690)	201	320
Surplus (deficit) from continuing operations after capital amounts	(1,550)	(1,690)	201	320
Surplus (deficit) from all operations before tax	(1,550)	(1,690)	201	320
Less: corporate taxation equivalent (30%) [based on result before capital]	–	–	(60)	(96)
SURPLUS (DEFICIT) AFTER TAX	(1,550)	(1,690)	141	224
Plus opening retained profits	(5,468)	(3,778)	1,007	687
Plus adjustments for amounts unpaid:				
– Corporate taxation equivalent	–	–	60	96
Closing retained profits	(7,018)	(5,468)	1,208	1,007
Return on capital %	-5.9%	-4.9%	n/a	n/a
Subsidy from Council	2,243	2,503	–	–

Penrith City Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2018

\$ '000	Childcare		Council pools	
	Category 1		Category 1	
	2018	2017	2018	2017
ASSETS				
Current assets				
Cash and cash equivalents	–	–	223	202
Investments	884	715	–	–
Receivables	521	557	117	87
Inventories	–	–	18	21
Other	–	–	17	(32)
Total Current Assets	1,405	1,272	375	278
Non-current assets				
Infrastructure, property, plant and equipment	–	–	205	199
Other	4,771	2,940	–	–
Total non-current assets	4,771	2,940	205	199
TOTAL ASSETS	6,176	4,212	580	477
LIABILITIES				
Current liabilities				
Payables	616	549	494	432
Provisions	–	–	477	400
Total current liabilities	616	549	971	832
Non-current liabilities				
Other Liabilities	–	–	16,483	16,345
Total non-current liabilities	–	–	16,483	16,345
TOTAL LIABILITIES	616	549	17,454	17,177
NET ASSETS	5,560	3,663	(16,874)	(16,700)
EQUITY				
Accumulated surplus	5,560	3,663	(16,874)	(16,700)
TOTAL EQUITY	5,560	3,663	(16,874)	(16,700)

Penrith City Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2018

\$ '000	Property Development		Whitewater	
	Category 1		Category 1	
	2018	2017	2018	2017
ASSETS				
Current assets				
Cash and cash equivalents	–	–	22	19
Investments	19,725	20,627	142	317
Receivables	–	–	81	12
Inventories	–	–	22	28
Other	–	–	–	(3)
Total Current Assets	19,725	20,627	267	373
Non-current assets				
Infrastructure, property, plant and equipment	90,177	153,824	941	1,006
Other	–	–	75	74
Total non-current assets	90,177	153,824	1,016	1,080
TOTAL ASSETS	109,902	174,451	1,283	1,453
LIABILITIES				
Current liabilities				
Payables	56	34	136	111
Borrowings	778	–	–	1,142
Provisions	–	–	311	262
Total current liabilities	834	34	447	1,515
Non-current liabilities				
Borrowings	2,229	–	–	–
Other Liabilities	12,429	13,164	–	–
Total non-current liabilities	14,658	13,164	–	–
TOTAL LIABILITIES	15,492	13,198	447	1,515
NET ASSETS	94,410	161,253	836	(62)
EQUITY				
Accumulated surplus	29,055	30,225	836	(62)
Revaluation reserves	65,355	131,028	–	–
TOTAL EQUITY	94,410	161,253	836	(62)

Penrith City Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2018

\$ '000	Penrith Performing and Visual Arts Ltd Category 1		Cemeteries Category 2	
	2018	2017	2018	2017
ASSETS				
Current assets				
Cash and cash equivalents	228	209	–	–
Investments	996	1,093	1,029	988
Receivables	108	63	–	–
Inventories	10	12	–	–
Other	68	70	–	–
Total Current Assets	1,410	1,447	1,029	988
Non-current assets				
Infrastructure, property, plant and equipment	1,747	1,560	119	79
Total non-current assets	1,747	1,560	119	79
TOTAL ASSETS	3,157	3,007	1,148	1,067
LIABILITIES				
Current liabilities				
Payables	945	906	–	–
Provisions	115	126	4	4
Total current liabilities	1,060	1,032	4	4
Non-current liabilities				
Provisions	169	182	–	–
Other Liabilities	1,755	3,505	1,504	1,452
Total non-current liabilities	1,924	3,687	1,504	1,452
TOTAL LIABILITIES	2,984	4,719	1,508	1,456
NET ASSETS	173	(1,712)	(360)	(389)
EQUITY				
Accumulated surplus	173	(1,712)	(360)	(389)
TOTAL EQUITY	173	(1,712)	(360)	(389)

Penrith City Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2018

\$ '000	Tennis courts		St Clair Recreation Centre	
	Category 2		Category 2	
	2018	2017	2018	2017
ASSETS				
Current assets				
Cash and cash equivalents	10	16	–	–
Receivables	9	7	–	–
Total Current Assets	19	23	–	–
Non-current assets				
Infrastructure, property, plant and equipment	2,909	10,048	47	41
Total non-current assets	2,909	10,048	47	41
TOTAL ASSETS	2,928	10,071	47	41
LIABILITIES				
Current liabilities				
Payables	(0)	(1)	56	54
Provisions	1	1	(2)	–
Total current liabilities	1	–	54	54
Non-current liabilities				
Other Liabilities	3,538	3,577	5,190	5,027
Total non-current liabilities	3,538	3,577	5,190	5,027
TOTAL LIABILITIES	3,539	3,577	5,244	5,081
NET ASSETS	(611)	6,494	(5,197)	(5,040)
EQUITY				
Accumulated surplus	(611)	(476)	(5,197)	(5,040)
Revaluation reserves	–	6,970	–	–
TOTAL EQUITY	(611)	6,494	(5,197)	(5,040)

Penrith City Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2018

\$ '000	Halls		Contestable Services	
	Category 2		Category 2	
	2018	2017	2018	2017
ASSETS				
Current assets				
Cash and cash equivalents	181	227	–	–
Investments	43	52	–	–
Receivables	10	10	–	–
Other	–	3	–	–
Total Current Assets	234	292	–	–
Non-current assets				
Infrastructure, property, plant and equipment	26,418	34,332	–	–
Other	–	–	1,210	1,009
Total non-current assets	26,418	34,332	1,210	1,009
TOTAL ASSETS	26,652	34,624	1,210	1,009
LIABILITIES				
Current liabilities				
Payables	67	35	1	1
Provisions	6	4	0	1
Total current liabilities	73	39	1	2
Non-current liabilities				
Other Liabilities	33,597	40,053	–	–
Total non-current liabilities	33,597	40,053	–	–
TOTAL LIABILITIES	33,670	40,092	1	2
NET ASSETS	(7,018)	(5,468)	1,209	1,007
EQUITY				
Accumulated surplus	(7,018)	(5,468)	1,209	1,007
TOTAL EQUITY	(7,018)	(5,468)	1,209	1,007

Penrith City Council

Special Purpose Financial Statements

for the year ended 30 June 2018

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	103
2	Water Supply Business Best-Practice Management disclosure requirements	n/a
3	Sewerage Business Best-Practice Management disclosure requirements	n/a

Penrith City Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2018

Note 1. Significant accounting policies

A statement summarising the supplemental accounting policies adopted in the preparation of the Special Purpose Financial Statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these Special Purpose Financial Statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 1993 (NSW), the Local Government (General) Regulation, and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

The Statement of Financial Position includes notional assets/liabilities receivable from/payable to Council's general fund. These balances reflect a notional intra-entity funding arrangement with the declared business activities.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 NSW government policy statement titled 'Application of National Competition Policy to Local Government'.

The Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality issued by the Office of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements.

These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

Declared business activities

In accordance with *Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

Category 1

(where gross operating turnover is over \$2 million)

Childcare

Council operates a number of children's centres and includes the transactions associated with these centres in its consolidated fund. The centres include 18 providing long day care services, 11 providing before and after school care services, 1 occasional care service and 5 preschool services. The Penrith City Children's Services

Penrith City Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

Co-operative, established in January 2003, manages the Children's Centres (excluding the Glenmore Park Child & Family Centre) through a delegation under S377 of the Local Government Act 1993.

Council Pools

Includes all activities conducted at Ripples Aquatic Centre (such as gymnasium and aerobics). Penrith Pool is also included. The business activity is considered to be a tenant.

Property Development

The purchase, development, rental, and management of real estate. Almost all assets would have dual purposes of revenue generation and community service. Community service purposes include preventing inappropriate development, attracting business into the region and providing shopping facilities to new estates (when the population does not yet support profitable trading).

Whitewater Stadium

Penrith Whitewater Stadium provides whitewater canoe slalom facilities for competition, training and recreation purposes.

Penrith Performing and Visual Arts Limited

During 2006-07 the Penrith Regional Gallery and Lewers Bequest was joined with the Joan Sutherland Performing Arts Centre to be managed by a revised company structure named Penrith Performing and Visual Arts Limited. This new entity provides gallery, theatre, function and educational facilities. The centres organise activities and also provide for hire of venues. Many items, and in particular, the educational programs are community services. The venues are provided to community groups at a discounted rental. The business is a tenant and a market rental has been estimated.

Category 2

(where gross operating turnover is less than \$2 million)

Cemeteries

Provides for burials and for internment of ashes. The land on which these operations are conducted are owned by trusts and Council is the manager of the trusts. The management function is considered a business activity. No rental charge of the land has been imputed.

Tennis Courts

43 Tennis Courts are managed under various structures.

St Clair Recreation Centre

Indoor sporting and gymnastics facilities.

Halls

39 Halls may be hired and are managed under various structures. Catering services is not available from Council.

Contestable Services

Services that can be provided by either Council or other businesses.

Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars.

Penrith City Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

(i) Taxation-equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs.

However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in Special Purpose Financial Statements.

For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

Notional rate applied (%)

Corporate income tax rate – 30%

Land tax – the first \$629,000 of combined land values attracts **0%**. For the combined land values in excess of \$629,001 up to \$3,846,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$3,846,000 a premium marginal rate of **2.0%** applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$750,000.

In accordance with Crown Lands and Water (CLAW), a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

The payment of taxation equivalent charges, referred to in the NSW Office of Water Guidelines to as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance to the NSW Office of Water Guidelines is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

Income tax

An income tax equivalent has been applied on the profits of the business activities.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

Income tax is only applied where a gain/ (loss) from ordinary activities before capital amounts has been achieved.

Since the taxation equivalent is notional – that is, it is payable to Council as the 'owner' of business operations - it represents an internal payment and has no effect on the operations of the Council. Accordingly, there is no need for disclosure of internal charges in the SPFS.

The rate applied of 30% is the equivalent company tax rate prevalent at reporting date. No adjustments have been made for variations that have occurred during the year.

Penrith City Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

Local government rates and charges

A calculation of the equivalent rates and charges payable on all category 1 businesses has been applied to all land assets owned or exclusively used by the business activity.

Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that council business activities face 'true' commercial borrowing costs in line with private sector competitors.

In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

(ii) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed.

Subsidies occur when Council provides services on a less-than-cost-recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations.

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

(iii) Return on investments (rate of return)

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

The rate of return is calculated as follows:

$$\frac{\text{Operating result before capital income + interest expense}}{\text{Written down value of I,PP\&E as at 30 June}}$$

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 2.63% at 30/6/18.

(iv) Dividends

Council is not required to pay dividends to either itself (as owner of a range of businesses) or to any external entities.



INDEPENDENT AUDITOR'S REPORT
Report on the special purpose financial report
Penrith City Council

To the Councillors of the Penrith City Council

Opinion

I have audited the accompanying special purpose financial report (the financial report) of Penrith City Council's (the Council) Declared Business Activities, which comprise the Income Statement of each Declared Business Activity for the year ended 30 June 2018, the Statement of Financial Position of each Declared Business Activity as at 30 June 2018, notes comprising Significant accounting policies and other explanatory information for the Business Activities declared by Council, and the Statement by Councillors and Management.

The Declared Business Activities of the Council are:

- Childcare
- Council Pools
- Property Development
- Whitewater
- Penrith Performing and Visual Arts Ltd
- Cemeteries
- Tennis Courts
- St Clair Recreation Centre
- Halls
- Contestable Services.

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2018, and its financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting (LG Code).

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Report' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as the auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and Special Schedule 2 - Permissible income for general rates.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

The Councillors are responsible for the preparation and fair presentation of the financial report and for determining that the accounting policies, described in Note 1 to the financial report, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial report.

A description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.



Karen Taylor
Director

26 September 2018
SYDNEY

Penrith City Council

SPECIAL SCHEDULES for the
year ended 30 June 2018

Penrith City Council

Special Schedules

for the year ended 30 June 2018

Contents

Page

Special Schedules ¹

Special Schedule 1	Net Cost of Services	112
Special Schedule 2	Permissible income for general rates	114
Special Schedule 2	Independent Auditors Report	115
Special Schedule 3	Water Supply Operations – incl. Income Statement	n/a
Special Schedule 4	Water Supply – Statement of Financial Position	n/a
Special Schedule 5	Sewerage Service Operations – incl. Income Statement	n/a
Special Schedule 6	Sewerage Service – Statement of Financial Position	n/a
Notes to Special Schedules 3 and 5		n/a
Special Schedule 7	Report on Infrastructure Assets	118

¹ Special Schedules are not audited (with the exception of Special Schedule 2).

Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
- the NSW Grants Commission
 - the Australian Bureau of Statistics (ABS),
 - the NSW Office of Water (NOW), and
 - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
- the allocation of Financial Assistance Grants,
 - the incorporation of Local Government financial figures in national statistics,
 - the monitoring of loan approvals,
 - the allocation of borrowing rights, and
 - the monitoring of the financial activities of specific services.

Penrith City Council

Special Schedule 1 – Net Cost of Services
for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	6,681	4	–	(6,677)
Administration	33,395	16,839	296	(16,260)
Public order and safety				
Fire service levy, fire protection, emergency services	2,921	563	546	(1,812)
Beach control	–	–	–	–
Enforcement of local government regulations	2,729	2,565	–	(164)
Animal control	806	293	–	(513)
Other	543	131	–	(412)
Total public order and safety	6,999	3,552	546	(2,901)
Health	1	519	–	518
Environment				
Noxious plants and insect/vermin control	172	–	–	(172)
Other environmental protection	2,726	306	162	(2,258)
Solid waste management	28,485	32,282	–	3,797
Street cleaning	–	–	–	–
Drainage	4,196	–	–	(4,196)
Stormwater management	–	–	–	–
Total environment	35,579	32,588	162	(2,829)
Community services and education				
Administration and education	1,782	235	42	(1,505)
Social protection (welfare)	873	59	1,297	483
Aged persons and disabled	372	84	–	(288)
Children's services	25,214	24,519	39	(656)
Total community services and education	28,241	24,897	1,378	(1,966)
Housing and community amenities				
Public cemeteries	777	817	–	40
Public conveniences	844	–	–	(844)
Street lighting	3,444	537	–	(2,907)
Town planning	2,526	1,028	159	(1,339)
Other community amenities	–	–	–	–
Total housing and community amenities	7,591	2,382	159	(5,050)
Water supplies	–	–	–	–
Sewerage services	–	–	–	–

Penrith City Council

Special Schedule 1 – Net Cost of Services (continued)
for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	6,944	840	–	(6,104)
Museums	–	–	–	–
Art galleries	33	–	–	(33)
Community centres and halls	1,527	902	–	(625)
Performing arts venues	–	–	–	–
Other performing arts	–	–	–	–
Other cultural services	4,408	2,211	–	(2,197)
Sporting grounds and venues	3,192	2	150	(3,040)
Swimming pools	5,779	4,608	(750)	(1,921)
Parks and gardens (lakes)	12,847	769	14,108	2,030
Other sport and recreation	2,680	1,549	1,693	562
Total recreation and culture	37,410	10,881	15,201	(11,328)
Fuel and energy	–	–	–	–
Agriculture	–	–	–	–
Mining, manufacturing and construction				
Building control	9,259	5,248	–	(4,011)
Other mining, manufacturing and construction	–	–	–	–
Total mining, manufacturing and const.	9,259	5,248	–	(4,011)
Transport and communication				
Urban roads (UR) – local	30,983	4,278	4,793	(21,912)
Urban roads – regional	667	519	–	(148)
Sealed rural roads (SRR) – local	814	–	–	(814)
Sealed rural roads (SRR) – regional	639	–	–	(639)
Unsealed rural roads (URR) – local	–	–	–	–
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	–	–	–	–
Bridges on SRR – local	–	–	–	–
Bridges on URR – local	–	–	–	–
Bridges on regional roads	–	–	–	–
Parking areas	129	–	–	(129)
Footpaths	132	–	–	(132)
Aerodromes	–	–	–	–
Other transport and communication	1,467	72	21,189	19,794
Total transport and communication	34,831	4,869	25,982	(3,980)
Economic affairs				
Camping areas and caravan parks	–	–	–	–
Other economic affairs	6,083	1,450	–	(4,633)
Total economic affairs	6,083	1,450	–	(4,633)
Totals – functions	206,070	103,229	43,724	(59,117)
General purpose revenues ⁽¹⁾		125,878		125,878
Share of interests – joint ventures and associates using the equity method	–	716		716
NET OPERATING RESULT ⁽²⁾	206,070	229,823	43,724	67,477

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges (2) As reported in the Income Statement

Penrith City Council

Special Schedule 2 – Permissible income for general rates

for the year ended 30 June 2019

\$'000		Calculation 2018/19	Calculation 2017/18
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	110,663	103,952
Plus or minus adjustments ⁽²⁾	b	2,573	1,404
Notional general income	c = (a + b)	113,236	105,356
Permissible income calculation			
Special variation percentage ⁽³⁾	d	5.20%	5.00%
Or rate peg percentage	e	2.30%	1.50%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	–	–
Plus special variation amount	h = d x (c – g)	5,888	5,268
Or plus rate peg amount	i = c x e	–	–
Or plus Crown land adjustment and rate peg amount	j = c x f	–	–
Sub-total	k = (c + g + h + i + j)	119,124	110,624
Plus (or minus) last year's carry forward total	l	1	1
Less valuation objections claimed in the previous year	m	(89)	(50)
Sub-total	n = (l + m)	(88)	(49)
Total permissible income	o = k + n	119,036	110,575
Less notional general income yield	p	119,090	110,663
Catch-up or (excess) result	q = o – p	(54)	(88)
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	55	89
Less unused catch-up ⁽⁵⁾	s	–	–
Carry forward to next year	t = q + r – s	1	1

Notes

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the *Valuation of Land Act 1916*.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the *NSW Government Gazette* in accordance with section 512 of the *Local Government Act 1993*. The OLG will extract these amounts from Council's Special Schedule 2 in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule 2 - Permissible Income for general rates

Penrith City Council

To the Councillors of Penrith City Council

Opinion

I have audited the accompanying Special Schedule 2 – Permissible Income for general rates (the Schedule) of Penrith City Council (the Council) for the year ending 30 June 2019.

In my opinion, the Schedule of the Council for the year ending 30 June 2019 is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting (LG Code) issued by the Office of Local Government (OLG), and is in accordance with the books and records of the Council.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Schedule' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements, special purpose financial statements and the Special Schedules excluding Special Schedule 2 (the other Schedules).

My opinion on the Schedule does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and the special purpose financial statements.

In connection with my audit of the Schedule, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Schedule or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

The Councillors are responsible for the preparation of the Schedule in accordance with the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of the Schedule that is free from material misstatement, whether due to fraud or error.

In preparing the Schedule, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

- obtain reasonable assurance whether the Schedule as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the Schedule.

A description of my responsibilities for the audit of the Schedule is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar8.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited Schedule on any website where it may be presented
- about any other information which may have been hyperlinked to/from the Schedule.

A handwritten signature in blue ink that reads "Karen Taylor". The signature is written in a cursive style with a large initial 'K' and a long, sweeping tail.

Karen Taylor
Director

26 September 2018

SYDNEY

Penrith City Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2017/18 Required maintenance ^a	2017/18 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings	3	4,381	2,571	2,923	203,733	454,060	10%	57%	32%	1%	0%
	Other					188						
	Sub-total	3	4,381	2,571	2,923	203,921	454,060	9.7%	57.4%	31.9%	1.0%	0.0%
Roads	Sealed roads	13,752	13,752	13,057	11,356	536,547	665,537	38%	21%	34%	4%	3%
	Unsealed roads			–	71	2,527	3,906	2%	20%	60%	10%	8%
	Bridges			487	473	18,820	32,095	46%	16%	15%	23%	0%
	Footpaths	608	608	486	1,692	52,581	101,517	18%	35%	45%	1%	1%
	Other road assets			1,035	1,237	148,315	281,436	12%	33%	41%	10%	4%
	Other					(1,606)						
	Sub-total	14,360	14,360	15,065	14,829	757,184	1,084,491	29.5%	25.3%	36.4%	5.9%	3.0%
Stormwater drainage	Stormwater drainage	–	–	2,027	1,766	273,553						
	Other					1						
	Sub-total	–	–	2,027	1,766	273,554	–	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL – ALL ASSETS		14,363	18,741	19,663	19,518	1,234,659	1,538,551	23.6%	34.8%	35.1%	4.4%	2.1%

Notes:

a Required maintenance is the amount identified in Council's asset management plans.

Infrastructure asset condition assessment 'key'

1	Excellent/very good	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Satisfactory	Maintenance work required

4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

Penrith City Council

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2018

	Amounts 2018	Indicator 2018	Prior periods		Benchmark
			2017	2016	
Infrastructure asset performance indicators * consolidated					
1. Buildings and infrastructure renewals ratio ⁽¹⁾					
Asset renewals ⁽²⁾	<u>9,757</u>	48.39%	45.47%	53.04%	>= 100%
Depreciation, amortisation and impairment	<u>20,164</u>				
2. Infrastructure backlog ratio ⁽¹⁾					
Estimated cost to bring assets to a satisfactory standard	<u>14,363</u>	1.13%	1.08%	1.32%	< 2.00%
Net carrying amount of infrastructure assets	<u>1,266,047</u>				
3. Asset maintenance ratio					
Actual asset maintenance	<u>19,518</u>	99.26%	100.72%	106.80%	> 100%
Required asset maintenance	<u>19,663</u>				
4. Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	<u>18,741</u>	1.22%	0.73%		
Gross replacement cost	<u>1,538,551</u>				

Notes

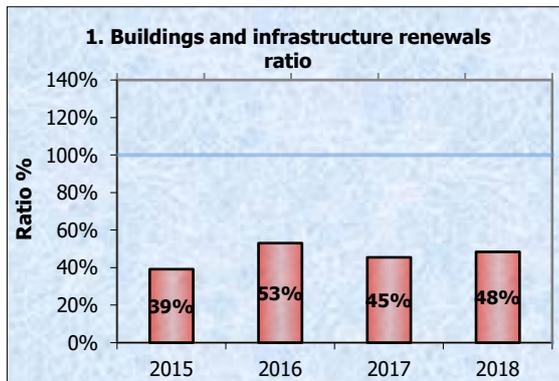
* All asset performance indicators are calculated using the asset classes identified in the previous table.

(1) Excludes Work In Progress (WIP)

(2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Penrith City Council

Special Schedule 7 – Report on Infrastructure Assets (continued) for the year ended 30 June 2018



Benchmark: —— Minimum $\geq 100.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Purpose of asset renewals ratio

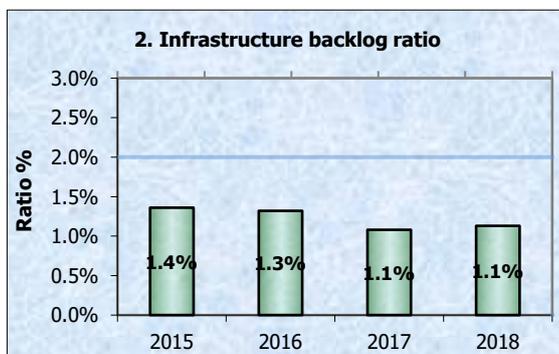
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on 2017/18 result

2017/18 Ratio 48.39%

A number of key strategies have been identified to improve performance in this area and includes an annual allocation of \$4m from the Special Rate Variation towards the renewal of assets over the delivery program period starting 2018-19. Council committed through its FFTF submission was that this indicator would trend upward by 2020-21.

■ Ratio achieves benchmark
■ Ratio is outside benchmark



Benchmark: —— Maximum $< 2.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Purpose of infrastructure backlog ratio

This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

Commentary on 2017/18 result

2017/18 Ratio 1.13%

This ratio shows the asset renewal backlog as a proportion of the total value of Council's infrastructure assets. Council's ratio for 2017-18 was 1.13% and has fallen favourably below the level of several years ago.

■ Ratio achieves benchmark
■ Ratio is outside benchmark



Benchmark: —— Minimum $> 100.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Purpose of asset maintenance ratio

Compares actual vs. required annual asset maintenance. A ratio above 100% indicates Council is investing enough funds to stop the infrastructure backlog growing.

Commentary on 2017/18 result

2017/18 Ratio 99.26%

This ratio compares required asset maintenance to actual asset maintenance expenditure. A ratio above benchmark indicates that Council is investing enough funds to stop the infrastructure backlog. As at 30 June 2018 Council is slightly below the benchmark but has achieved a three year average to be greater than (or equal to) 100%.

■ Ratio achieves benchmark
■ Ratio is outside benchmark



Purpose of agreed service level ratio

This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.

Commentary on 2017/18 result

2017/18 Ratio 1.22%

The cost to bring to level of service is an estimate of the cost to renew or rehabilitate existing assets that have reached the condition-based intervention level adopted by Council.