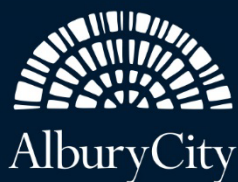


AlburyCity Draft Financial Sustainability Improvement Plan 2024-2028



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1. Introduction

1.1 Financial Sustainability

A council's long-term financial performance is sustainable where planned long-term service and infrastructure levels are met without unplanned increases in rates or disruptive cuts to services.

A financially sustainable council is one that, over the long term, will generate sufficient funds to provide the level and scope of services and infrastructure agreed with its community through the Integrated Planning and Reporting process, whilst demonstrating capacity to maintain financial capital and infrastructure capital.

A financially sustainable council can deliver robust services to its community, can invest in developing and growing the local economy, and can adapt to unplanned shocks.

AlburyCity can demonstrate its financial sustainability through the following **financial sustainability foundations**:

- **Improved Operating Result** – The ability to generate sufficient revenue from operations to fund required services, loan repayments and infrastructure.
- **Investment in Assets** – The ability to renew assets to maintain the desired level of service and the provision of new assets to meet demand for growth in services and service levels.
- **Liquidity and Sustainable Debt Levels** – The ability to maintain access to sufficient unrestricted cash to fund operations, capital works and loan repayments as and when they fall due.

This Financial Sustainability Improvement Plan outlines the criteria that AlburyCity needs to meet to achieve and maintain a financially sustainable position over the next four years and the actions necessary to achieving them.

The Financial Sustainability Improvement Plan is to be read in conjunction with AlburyCity's 10 year Long-Term Financial Plan (LTFP). The LTFP shows the long-term financial impacts of our decisions based on assumptions, provides financial projections, scenario modelling, sensitivity analysis and performance measures. The LTFP highlights issues and helps assess the long-term financial sustainability of AlburyCity to inform service level adjustments now and into the future.

1.2 Objectives

The objectives of the Financial Sustainability Improvement Plan are to:

- Provide direction and context for decision making in the allocation, management and use of AlburyCity's and the Community's finite financial resources.
- Set the parameters within which AlburyCity is to operate to provide financial sustainability, affordability, delivery and value for money, over the short, medium and longer term.

- Ensure AlburyCity generates enough revenue and controls services and infrastructure costs to produce sufficient cash from operations to fund required infrastructure and loan repayments.
- Ensure AlburyCity maintains sufficient access to unrestricted cash fund operations, capital works and loan repayments.
- Ensure AlburyCity can renew assets to maintain the desired level of service and provide new assets to meet demand for growth in services and service levels.
- Assist AlburyCity to use ratepayers' money, together with other funding available, to provide services and infrastructure that is sustainable over the long term.

1.3 Challenges

While AlburyCity is in a sound financial position, like many NSW councils, AlburyCity faces several challenges in achieving long term financial sustainability. These challenges outlined below present a significant threat to the successful achievement of this Financial Sustainability Improvement Plan.

Key challenges include:

- **Rate-pegging** limiting the increase in rate revenue as set by the Independent Pricing and Regulatory Tribunal (IPART). The rate peg takes into account inflation but does not fund service level increases in response to community demand.
- The **breadth of services and infrastructure** provided by rural councils and regional cities.
- Matching the **community's capacity and willingness to pay** for the provision of services to the community's needs, aspirations and priorities for services.
- **Growth and development** increases demand for council services and infrastructure. Whilst growth results in increased rates revenue, this increased revenue does not fully offset the increased costs for regional services and infrastructure such as regional roads, recreational facilities, community centres and libraries.
- **Inflation** prevailing in the economy has a direct impact on the costs faced by councils when procuring services and infrastructure. The recent high inflation and the impact of supply chain issues following on from the COVID-19 pandemic have significantly impacted infrastructure and services costs, which has not been fully reflected in the rate peg.
- **Employment market** conditions impacting on AlburyCity's ability to attract and retain skilled and experienced employees. Ongoing competition with the private and government sector for certain professions and trades, as well as the ability to work remotely, places significant pressure on employment costs faced by councils.
- **Cost shifting** from other levels of government continues to be a challenge for local government and continues to pose a risk on the ability for councils to deliver sustainable services and infrastructure.
- **Statutory Fees** limiting the ability of councils to fully recover the cost of some services that it must provide in line with legislation.
- **Capital grant opportunities** presented by the NSW and Federal governments for new infrastructure and services, **result in increased operational costs and depreciation**

expense.

- **A growing and ageing asset base** means that regional cities face higher costs to maintain and renew assets used to deliver services.
- **Responding to climate change** requires leadership and strategic investment as the intensity and frequency of extreme weather events increase.
- **Capacity to deliver** the Community Strategic Plan and the delivery of adopted and new strategies is dependent on the financial capacity of councils to support the relevant costs when these are fully known.

The above challenges will mean that AlburyCity will continue to have a revenue shortfall resulting to sustain current levels of service into the future.

As well as contributing to the Rate Peg Methodology Review process undertaken by the Independent Pricing and Regulatory Tribunal (IPART), AlburyCity wrote to the Minister for Local Government on 19 July 2023 outlining our position on IPART's methodology review draft report recommendations.

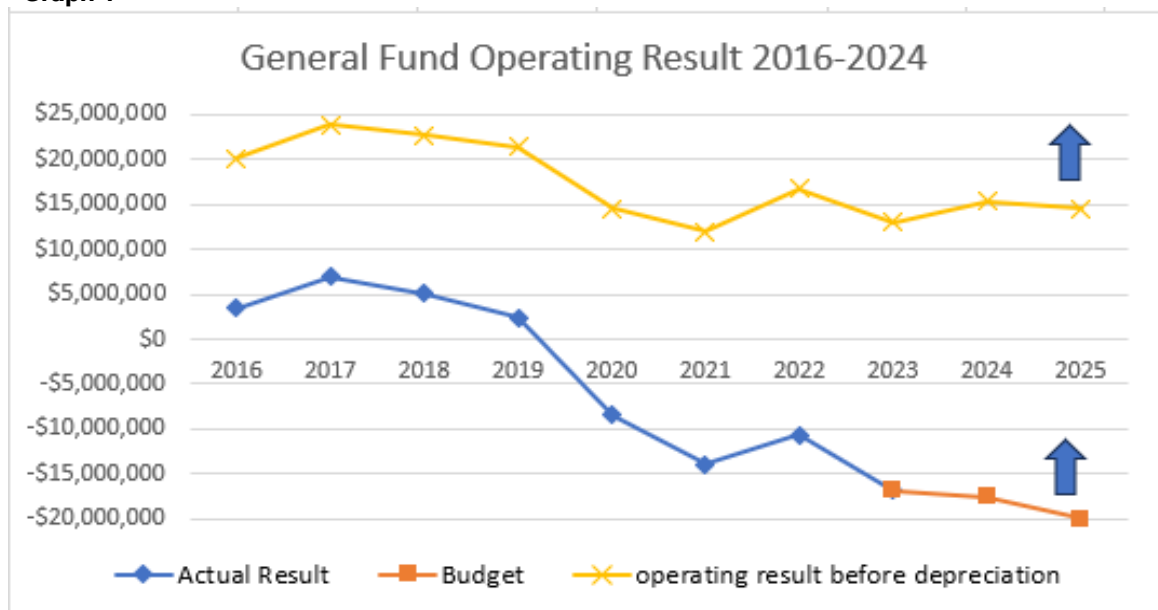
The response received from the Minister for Local Government in September 2023 advised that the final IPART rate peg methodology review findings will feed into the NSW Government's upcoming review of the financial model of councils, which will examine broader issues relating to the financial sustainability of the sector.

The Minister assured AlburyCity that the NSW Government and the Office of Local Government are committed to supporting the financial capabilities of all local councils across NSW, and have made a commitment to implement a review of financial modelling of councils to address concerns about resources, and the increasing cost burdens on councils and their residents.

1.4 Background

Each year General Fund operations generate cash surpluses in the order of \$15 million that is used to repay loans and fund infrastructure renewal and the construction of new assets to support service delivery. As demonstrated by Graph 1 below, increased depreciation expense has negatively impacted the reported operating result, resulting in operating deficits since 2019/20.

Graph 1



Depreciation is an accounting practice used to indicate the value of assets used in the delivery of services. Depreciation is often used as a proxy for the amount of funding required to be generated from operations to fund asset renewal. A break-even operating result enables the generation of available funding from operations to renew assets required to sustain current service levels.

Depreciation expense (non-cash) has increased by \$12 million or 11% per annum since 2017/18, which is a reflection of the increasing cost to renew and construct new infrastructure.

AlburyCity owns and manages more than \$2.4 billion of infrastructure and assets, including transport, drainage, buildings, sewer, water, and parks and recreation which are essential to our daily lives and the development of our community. The value of these assets will also continue to increase as we invest in existing and new facilities, including the assets we will inherit from new development.

The increasing cost of infrastructure requires additional revenue from our capital funding sources being from operations, capital grants, developer contributions and new loans to sustain service levels.

Improvement actions taken to date by AlburyCity to support our financial sustainability have included (but are not limited to):

- A Special Rate Variation (SRV) in the 2011/12, 2012/13 and 2013/14 financial years, which allowed AlburyCity to raise rates by an additional 6.3% over the three-year period, that being the difference in actual rates percentage increase above the IPART imposed rate peg.
- A Service and Efficiency Review program that realised operational budget savings in excess of \$3.8 million over an eight-year period from 2013 to 2020.
- Established revenue streams from our commercial operations, e.g. Albury Airport, Albury Waste Management Centre and commercial tenancy.
- Upgrading our street lighting at a cost of approximately \$3 million, proving an estimated \$645k per annum saving to AlburyCity.

- AlburyCity entered into a long-term electricity contract to address the increasing cost of energy.
- Participating in the Snowy Monaro Council's financial sustainability review benchmarking process.
- Participation in the review of alternate revenue streams by the Cardinia Shire Council.
- Advocating for improvements to the rate peg methodology.
- Refresh of AlburyCity's Asset Management Strategy in 2023.

2. Achieving Financial Sustainability

The Financial Sustainability Improvement Plan will support the desired financial outcomes as detailed in the LTFP, and in line with performance measures and benchmarks set out in this Improvement Plan.

The **goals** of the Financial Sustainability Improvement Plan are to:

- Achieve a positive Operating Result over the long-term in the General Fund.
- Ensure our investment in assets is responsible and sustainable.
- Maintain an adequate level of unrestricted cash and sustainable debt levels.

The achievement of these goals will support the desired state of financial sustainability and will be enabled through robust governance, prioritisation and decision-making frameworks, and strategic service and asset planning and management.

2.1 Improved Operating Result

Desired State

The desired operating result of AlburyCity is when sufficient revenue is generated to fund our efficient operating costs, producing sufficient cash to fund required infrastructure and repay loans.

AlburyCity aims to achieve a positive operating result that enables and supports:

- Funding of service levels in line with the community's expectations and their capacity to pay.
- Delivery of our principal activities as outlined in the Delivery Program and Operational Plan.
- Repayment of loan repayments as they fall due.
- Funding infrastructure renewal required to sustain service levels.
- Delivery of new and upgraded infrastructure for planned growth in services, which may also be supported by capital grants, developer contributions, and/or new loans.
- Ability to absorb and react to unplanned events without an impact on existing service levels.
- Adaptability and ability to invest in opportunities and improvements.

Current State

Currently the General Fund is reliant on loan funding to supplement funding from operations, capital grants and developer contributions to fund the creation of new assets to meet desired service level improvements.

Current financial settings are not sufficient to support service level increases.

The scope and level of services delivered by councils varies in response to their community's expectations and council discretion.

Addressing the gap between the desired state and the current state

AlburyCity needs to implement financial planning and management strategies to close the gap between the desired state and the current state of the General Fund operating result. The gap will be closed through a combination of increased revenue and decreased costs.

AlburyCity will need to align the services it provides to the community and with its financial capacity and the community's capacity to pay. It will also be critical to ensure that the use of AlburyCity's assets are optimised for the benefit of the overall community.

Council will **improve operating revenue** through:

1. Optimising sustainable increases in own source revenue from services and investments.
2. Generation of additional ongoing commercial revenue streams.
3. Reviewing user fees for services against full cost recovery, providing it does not impact community utilisation.
4. Development of an Integrated Water Cycle Management Strategy that will enable a dividend from the Water and Sewer Fund of up to \$1.5 million per year.
5. Supporting advocacy by the local government sector for improved financial assistance grant funding from the Federal Government, which has declined over the past three decades from around 1 percent of Commonwealth taxation revenue to around 0.55%.
6. Contributing to the NSW Government's independent review of the financial model of councils as recommended by IPART, to address concerns about resources, and the increasing cost burdens on councils and their residents.
7. Community engagement on Special Variation to rates, if required to fund desired service levels.

Council will **decrease operating costs** through:

1. Ongoing enhancement of the Integrated, Planning & Reporting (IP&R) Four Year Delivery Program development process to balance demand for service levels with income and expenses.
2. Continued focus on long-term planning and activity-based budget development.
3. Holding expenditure to current levels.
4. Ensuring our budget reflects our capacity to deliver.
5. Achieving value by implementing AlburyCity's Social and Sustainable Procurement Policy.

6. Considering the funding of services levels including depreciation expense, when engaging with the Council and the community in strategy development.
7. Further development of our approach to service planning including:
 - a. Implementation of AlburyCity's IP&R Service Excellence Design Program.
 - b. Publishing levels of service for AlburyCity services.
 - c. Undertaking an accelerated service level planning program for both internal and external service delivery functions.
 - d. Engaging with the community regarding the cost of service delivery models and their willingness to pay.
8. Exploring alternative service delivery model opportunities as they arise.
9. Operational efficiencies and improvements identified through strategy development, team business planning, innovation and technological advancement.
10. Reviewing subsidies or contributions provided to third parties to ensure value for money and the intended outcome is achieved for the benefit of the wider community.
11. Supporting advocacy by the local government sector to the NSW Government regarding cost-shifting i.e. Emergency Services Levy increases.
12. Reviewing the calculation of depreciation expense for key categories of assets, including asset useful lives and the cost to renew assets, to ensure the calculation is representative.
13. Implementation of project management and decision-making frameworks to support whole of life costing analysis for major projects, including depreciation and interest expense.

2.2 Responsible Investment in Assets

Desired State

The desired position of AlburyCity is to be able to provide infrastructure that supports services in line with community needs and aspirations as described in the Community Strategic Plan. To do this AlburyCity needs to strategically manage assets to operate the asset base at the lowest lifecycle cost, while planning for the changing and future community needs and supporting growth in the region in a financially sustainable manner.

Current State

AlburyCity will further assess our current state through the update of Asset Management Plans for key categories of assets, as outlined in AlburyCity's Adopted Asset Management Strategy.

Addressing the gap between the desired state and the current state

To enable responsible investment in assets, AlburyCity needs to establish a sound operating result to generate sufficient cash from operations to support the renewal and construction of new assets.

In addition, AlburyCity will **optimise investment in assets** through:

1. Implementation of AlburyCity's Asset Management Strategy supported by the update of Asset Management Plans for key categories of assets.
2. Engagement with the community regarding levels of service to be provided or supported through a financially sustainable asset base.
3. Developing an overarching infrastructure strategy.
4. Reviewing AlburyCity's Infrastructure Contributions Plan.
5. Attracting grant funding from other levels of government.
6. Developing a Property Strategy to optimise value and commercial revenues.

While capital grants and developer contributions are an important source of funding for the construction of new infrastructure, AlburyCity will be mindful of the flow on impact of increased operating costs, depreciation expense and the need to fund asset renewal for these assets originally constructed with significant external funding. In general terms for every \$10 million in new assets this would add \$200,000 in annual depreciation expense to be funded from operations.

AlburyCity is able to secure loan funding for infrastructure projects at 5.5% fixed for 20 years. For a \$10 million loan, this equates to annual repayments of \$800,000, including interest expense in the first year of \$550,000, to be funded from operations.

2.3 Availability of Unrestricted Cash and Sustainable Debt Levels

Desired State

The desired position of Council is where sufficient liquidity is maintained to support the delivery of services and infrastructure and meet sustainable loan repayment obligations. This requires the availability of sufficient cash generated from operations and unrestricted cash balance to make payments as they fall due.

Current State

Currently, AlburyCity has significant investment balances, however a large proportion relates to externally and internally restricted funds. Unrestricted funds are monitored closely through the budgeting process to ensure an adequate level is maintained to meet operational requirements as and when they fall due.

AlburyCity utilises loan funding to supplement other sources of capital infrastructure funding to ensure adequate unrestricted cash is maintained to meet operational requirements. Loan funding also supports intergenerational benefit. Loans help by ensuring that the full cost of infrastructure is not borne entirely by present-day ratepayers, but are also contributed to by future ratepayers who will also benefit from their use. Whilst recognising the importance of loan funding, it is important that there is not an undue reliance upon loans as a source of funding.

Addressing the gap between the desired state and the current state

AlburyCity will maintain a strong cash position, where there is sufficient unrestricted cash to

meet operational and infrastructure cash flow requirements and cater for any unforeseen events. In recent years AlburyCity has been faced with natural disasters and the COVID-19 pandemic and it is important that unrestricted cash is available to withstand events like these in the future.

It is prudent for AlburyCity to establish financially sustainable service levels, so that there is not an overreliance on loans to construct new assets and renew existing assets.

AlburyCity will **maintain a healthy unrestricted cash position and sustainable debt levels** by:

1. Monitoring projected unrestricted funds as part of the budgeting process to ensure an adequate level is maintained.
2. Utilising loan funding to supplement other sources of capital infrastructure funding to ensure adequate unrestricted cash is maintained.
3. Management of investments to optimise return on surplus funds whilst retaining sufficient liquidity for operations, in accordance with AlburyCity's Investment Policy.
4. Maintaining credit management processes to ensure timely, fair and consistent collection of funds due to AlburyCity.
5. Monitoring internal restrictions to release funds where the intended use of the restriction is no longer required.
6. Assessing projected loan funding requirements as part of the annual update of the LTFP.

3. Measuring Financial Sustainability

Council will be considered financially sustainable if it meets the industry benchmarks set for the Operating Result, Investment in Assets and Liquidity respectively, whilst delivering the annual Operational Plan each year and achieving the objectives set in the Community Strategic Plan.

AlburyCity's annual financial statements outlines our performance against these industry benchmarks.

Financial Sustainability Foundations	Financial Sustainability Indicator	Industry Benchmark
Operating Result	Operating Performance Ratio	> 0%
Liquidity	Unrestricted Current Ratio	> 1.5 times
	Debt Service Current Ratio	> 2%
	Rates and Annual Charges Outstanding percentage	< 5%
	Cash Expense Cover Ratio	> 3 months
Investment in Assets	Buildings and Infrastructure Renewals Ratio	> = 100%
	Infrastructure Backlog Ratio	> 2%
	Asset Maintenance Ratio	> 100%
	Cost to bring assets to agreed service level	

4. Implementation, Monitoring and Review

The key actions contained within the Financial Sustainability Improvement Plan will be implemented over a four-year period.

Good governance, effective decision-making frameworks and robust financial planning and management practices will support the implementation of the Financial Sustainability Improvement Plan.

The implementation of the Financial Sustainability Improvement Plan will be championed by the elected Council and implemented by Council's management. The Improvement Plan will be driven through the annual Operational Plan process and integrated with all short and long-term decision making of Council.

The high-level actions identified within this improvement plan to achieve our desired state include:

Road Map

Year 1 (2023/24)	<ul style="list-style-type: none"> • Holding expenditure to current levels. • Ensuring our budget reflects our capacity to deliver. • Implementation of enhanced project management and decision-making frameworks to support whole of life costing analysis for major projects, including depreciation and interest expense. • Asset Management Plan updates (roads and drainage). • Depreciation review (road infrastructure). • Publishing AlburyCity service catalogue. • Annual review of fees and charges. • Local government sector advocacy to NSW Government to stop cost shifting. • Supporting sector advocacy to Federal Government for improved financial assistance grant funding.
Year 2 (2024/25)	<ul style="list-style-type: none"> • Community Strategic Plan engagement and update. • Resourcing Strategy update. • NSW Government's independent review of the financial model of councils. • Integrated Water Cycle Management Strategy and payment of dividends. • Infrastructure Contributions Plan update. • Asset Management Plan updates (buildings, parks and recreation). • Depreciation review (buildings and storm water). • Property Strategy development.

Year 3 (2025/26)	<ul style="list-style-type: none"> • Developing an overarching infrastructure strategy. • Accelerated service planning project for AlburyCity internal and external service delivery functions. • Community engagement on the cost of service delivery models and their willingness to pay.
Year 4 (2026/27)	<ul style="list-style-type: none"> • Community engagement on Special Variation to rates, if required to fund desired service levels.
Ongoing	<ul style="list-style-type: none"> • Integrated Planning & Reporting including annual review of LTFP. • Balancing demand for service levels with income and expenses. • Understanding whole of life costs for major projects. • Attracting grant funding from other levels of government. • Operational efficiencies and improvements identified through strategy development, team business planning, innovation and technological advancement. • Advocacy on behalf of our community. • Social and Sustainable Procurement Policy. • Optimising revenue from services and infrastructure. • IP&R Service Excellence Design Program. • Exploring alternative service delivery model opportunities as they arise. • Reviewing subsidies or contributions provided to third parties to ensure value for money and the intended outcome is achieved for the benefit of the wider community.

The implementation and outcome of the high-level actions set out in this improvement plan will be monitored by management on an ongoing basis and will be reported to Council as part of the Operational Plan.

AlburyCity's financial projections and performance will continue to be reported to Council and community in accordance with the NSW Local Government Integrated Planning & Reporting Framework.

The Financial Sustainability Improvement Plan will be reviewed annually and updated as required.

5. Conclusion

The Long Term Financial Plan scenarios identify the projected results under different financial settings. To achieve financial sustainability and meet all the relevant industry benchmarks, AlburyCity will need to implement the high-level actions identified in this Financial Sustainability Improvement Plan.

It is critical that AlburyCity actively and progressively implements the identified high-level actions identified in this improvement plan over the next four years. This will support AlburyCity in providing sustainable services and infrastructure to the Albury community.

There is the opportunity to further develop our approach to service planning with some of the high-level actions identified in this improvement plan in accordance with the Integrated Planning and Reporting framework. Through this Program, integrated with resource planning, and the engagement of Council and the community in strategic service planning, AlburyCity's sustainability is likely to be improved through the continued review, and prioritisation of the range and levels of services and infrastructure provided to meet community demands and community affordability.

AlburyCity will pro-actively manage the identified risks to the success of the Financial Sustainability Improvement Plan and will take advantage of the identified opportunities to further enhance AlburyCity's ongoing financial performance.

AlburyCity's projected financial outcomes and consequently future reviews of this improvement plan will be further informed and influenced through engagement with the community planned as part of the upcoming review and update of the Community Strategic Plan.

AlburyCity looks forward to working with the community to achieve and maintain a financially sustainable future.