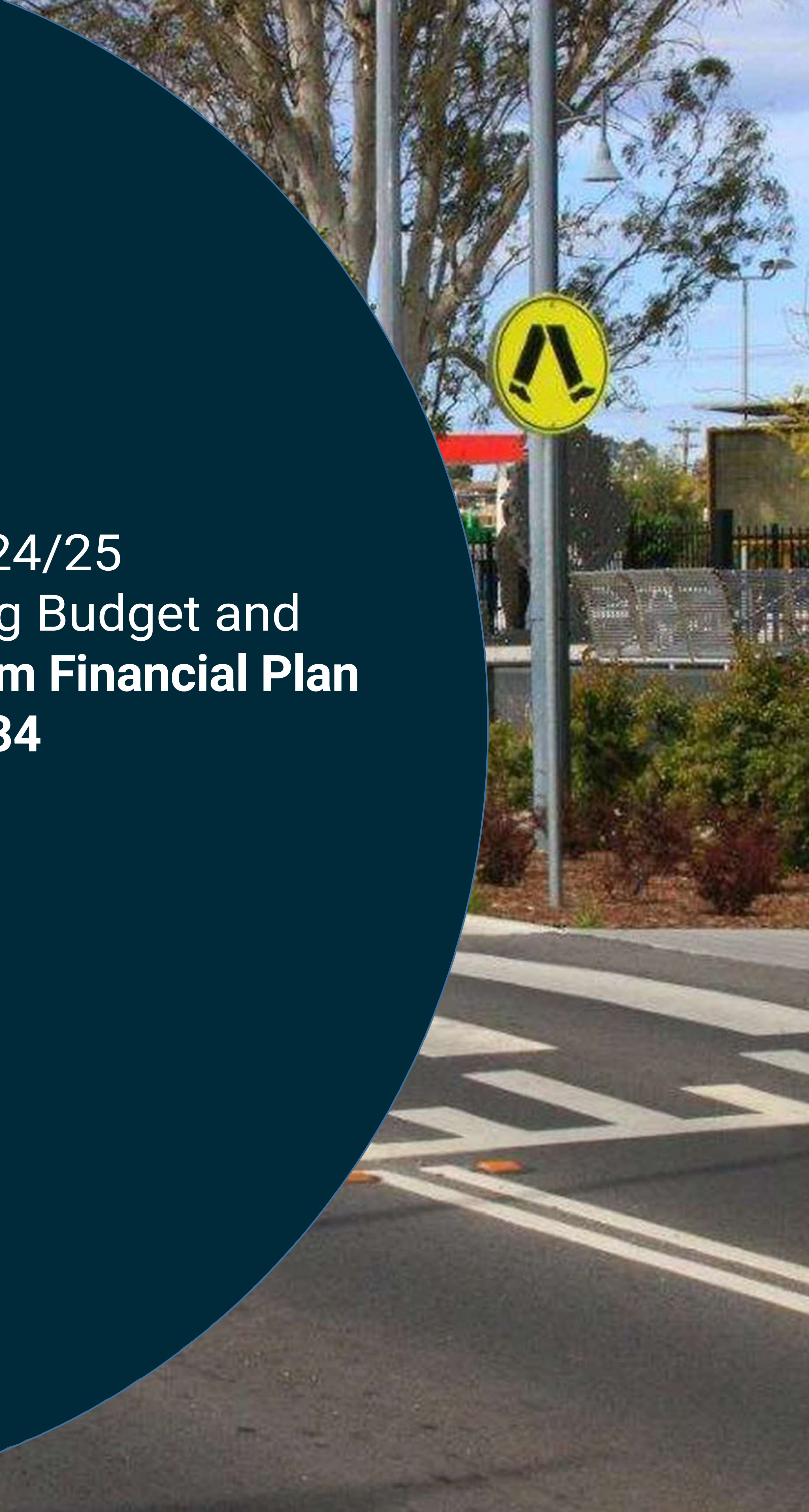

Draft 2024/25
Operating Budget and
Long Term Financial Plan 2024-2034

AlburyCity

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2024/25 Budget Analysis and LTFP Projections

Draft 2024/25 Operating Budget

AlburyCity's ability to finance new programs is determined by available cash generated from operations and borrowing capacity. Operating results in all funds generate positive cash returns and these funds can be applied to fund capital new initiatives.

Overall, the 2024/25 budget result is a surplus of $1.05 million, being a $9.9 million improvement on the prior year adopted budget, which is mainly due to the projected decrease in depreciation expense of $5.5 million and Water/Wastewater operating result improvement of $5 million and improved performance of AlburyCity commercial businesses.

Table 1

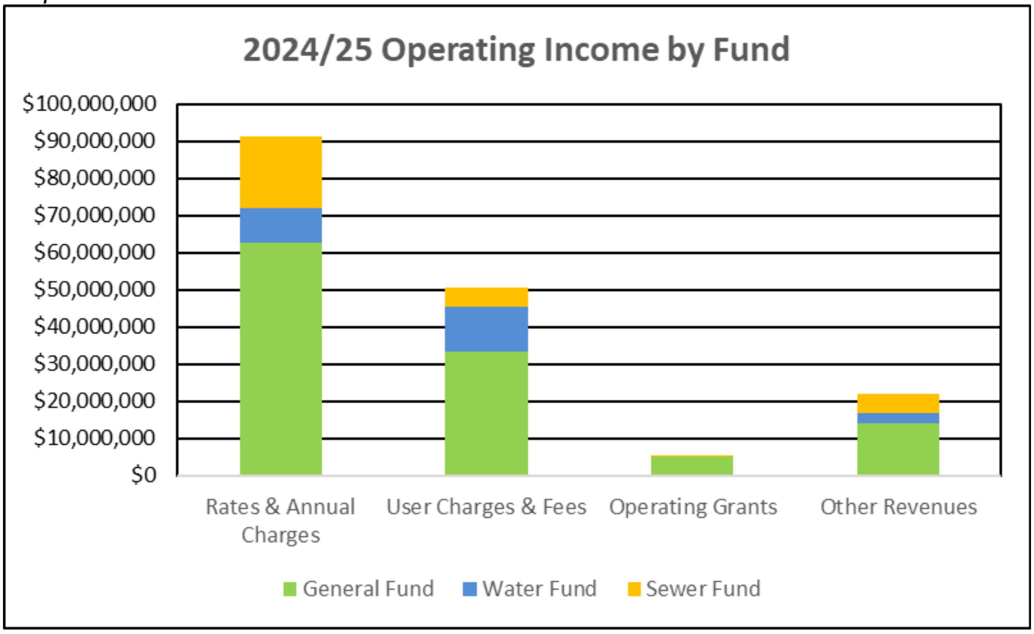
(Surplus)/Deficit by Fund	Adopted 2023/24 Operating Budget $'000	December Quarter Budget Review Forecast $'000	Draft 2024/25 Operating Budget $'000	Variance to Adopted Budget $'000
General	17,587	16,756	12,745	(4,842)
Water	(2,014)	(3,884)	(4,820)	(2,806)
Wastewater	(6,738)	(8,359)	(8,978)	(2,240)
Total	8,835	4,513	(1,053)	(9,888)

Note: (Favourable)/Unfavourable variance

Operating Budget income and expenses

AlburyCity's total budgeted operating revenue for the 2024/25 financial year is in the order of $173 million. As summarised below by Graph 1, around 55% of AlburyCity's operating revenue is sourced from rates and annual charges. A further third of AlburyCity's revenue from user fees, with the balance relating to operating grants and other revenue.

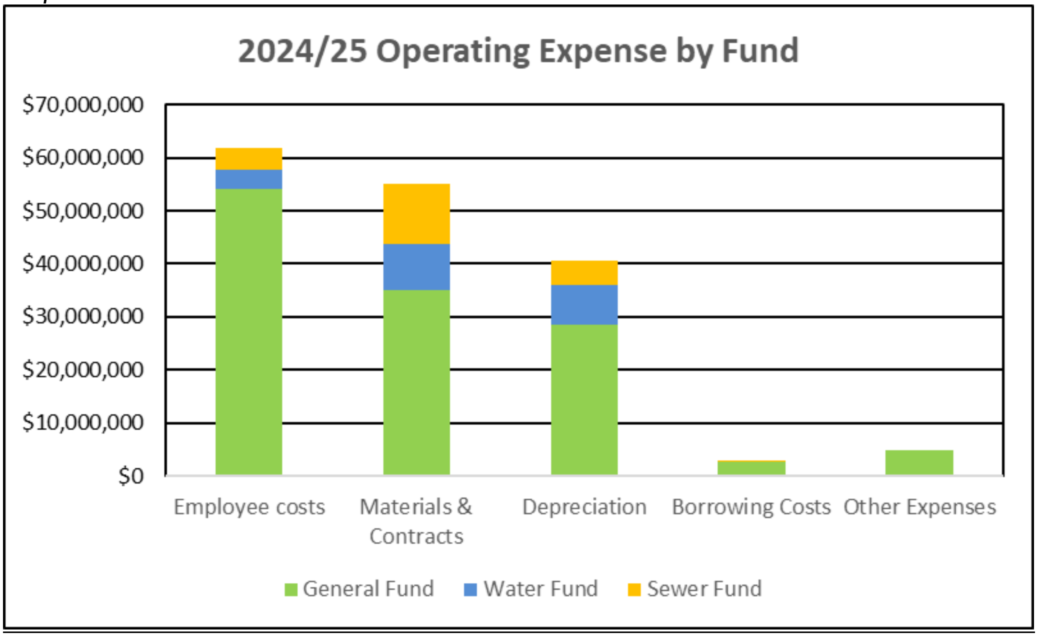
Graph 1



2024/25 Budget Analysis and LTFP Projections

AlburyCity's total budgeted operating expenditure for the 2024/25 financial year is in the order of $172 million, including non-cash depreciation expense of $40 million. As demonstrated by Graph 2 below, employee operating costs make up 37% of AlburyCity's operating expenditure; materials and contracts 33% and non-cash depreciation expense represents 25% of operating expenditure.

Graph 2



General Fund

The Draft 2024/25 General Fund operating budget is projected to improve by $4.8 million, when compared with the prior year adopted budget, mainly due to the following items:

Favourable variances:

- $5.5 million net depreciation expense decrease
  - including $7 million decrease from external benchmarking undertaken for roads and stormwater assets (to be confirmed as part of the revaluation of roads (2023/24) and stormwater assets (2024/25);
  - partially offset by $1.5 million increase in depreciation, based on the annual replacement cost indexation and growth in our asset base.
- $3 million rating income, based on the 4.7% rate peg, plus 1.3% increase from supplementary valuations.
- $1.6 million Resource Recovery income and operations.
- $1.2 million Albury Airport income and operations.
- $1.1 million Interest income from term deposits.
- $330,000 Children Services net result.
- $350,000 Sale of land profit.
- $310,000 Albury Entertainment Centre operations.

2024/25 Budget Analysis and LTFP Projections

Unfavourable variances:

- $4.1 million increase in employee costs.
- $2 million in additional operating projects
- $910,000 IT software, utility, and lease costs.
- $320,000 Albury Swim Centre season extension.
- $314,000 Emergency Service Levy.

Expenditure budgets for 2024/25 have been held at 2023/24 budgeted levels, where possible. This results in an estimated $1 million improvement to budgeted 2024/25 expenditure.

It is important to note that to achieve the draft 2024/25 budgeted operating result, the General Fund requires a savings target of $4 million which is equivalent to the prior year original budget.

Water Fund

The operating budget surplus for Water Fund is $2.8 million more than the prior year Original Budget. The major variances are summarised below:

Favourable variances:

- $5.2 million income increase due to revised income budget calculations, increased investment income and additional access and user charges resulting from new connections.

Unfavourable variances:

- $2.8 million increase in materials and services, and employee costs.

Sewer Fund

The operating budget surplus for the Sewer Fund is $2.2 million more than the prior year Original Budget. The major variances are summarised below:

Favourable variances:

- $4.5 million income increase due to increased investment income and additional access charges resulting from new connections.

Unfavourable variances:

- $2 million increase in materials and services, and employee costs.

2024/25 Budget Analysis and LTFP Projections

The following bar chart shows the net budget by Cluster across AlburyCity for the 2024/25 financial year. Further analysis of the operating budget by team is included as an attachment to this report.

Chart 1

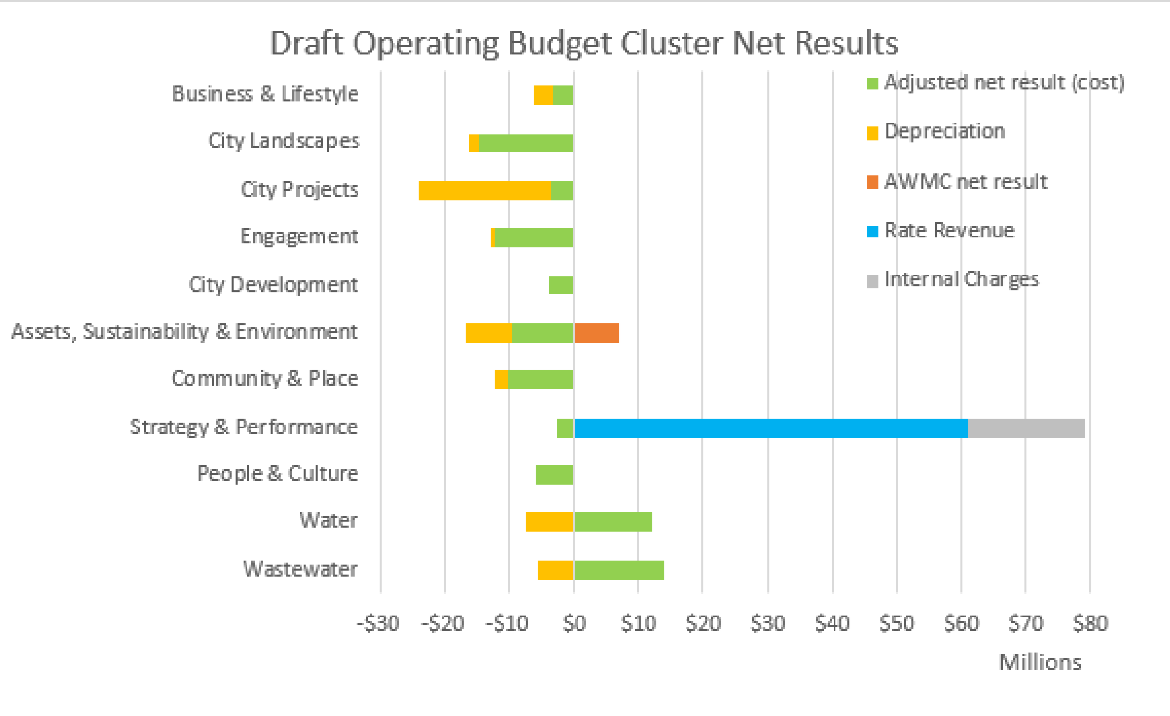


Figure 1 AlburyCity Service Model

2024/25 Budget Analysis and LTFP Projections

Draft Long Term Financial Plan Projections

Introduction

The Long Term Financial Plan (LTFP) sets out financial projections for the next 10 years, based on other key documents including AlburyCity's Four Year Delivery Program, Operational Plan and annual Budget.

The LTFP is to be read in conjunction with AlburyCity's Draft Financial Sustainability Improvement Plan, which together assist in understanding the available resources to deliver the aspirations of the Community Strategic Plan - Towards Albury 2050.

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. While AlburyCity is in a sound financial position, like many NSW councils, AlburyCity faces several challenges in achieving long-term financial sustainability.

The LTFP is a financial decision making and problem-solving tool. It is the point at which long-term community aspirations are tested against financial projections. It consists of modelling expenditure and revenue projections, based on a number of market based and internal assumptions.

The LTFP is prepared for a period of 10 years and includes the following:
- projected income and expenditure, cash-flow and balance sheet (financial position),
- the planning assumptions used to develop the plan,
- financial modelling of different scenarios,
- methods of monitoring financial performance and sustainability.

General Fund Projections

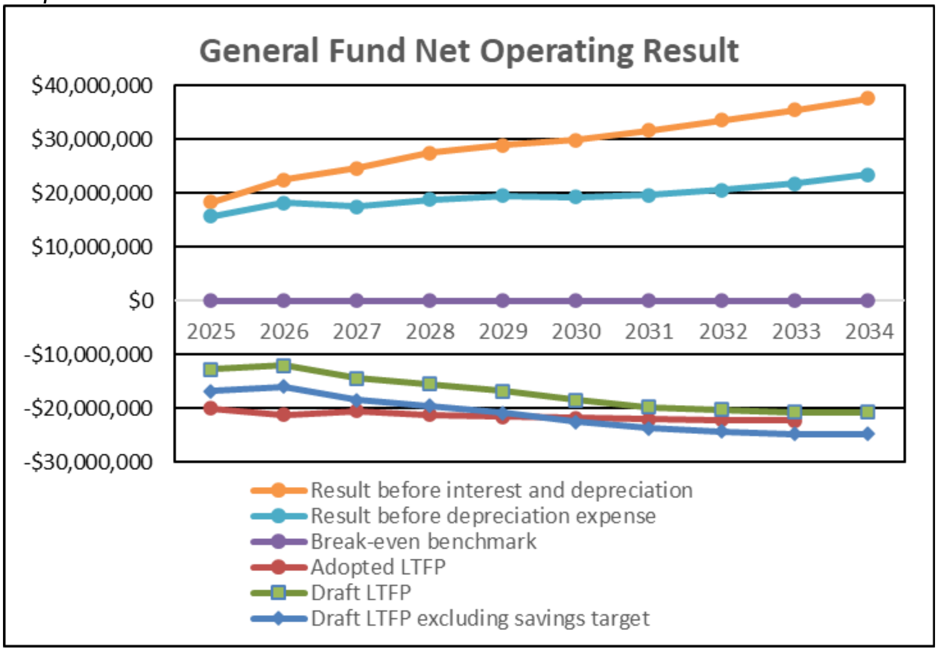
The current draft financial projections per Graph 3 show the General Fund operating surplus, before interest expense and depreciation (orange), improving over the 10 year forecast period from $20 million to $35 million.

However, the operating surplus including interest expense is projected to remain in the order of $20 million, with interest expense projected to increase from $2.6 million in 2025 to $13.6 million in 2034, due to the projected increase in loans required to support infrastructure improvements.

The financial projections show the net result, including interest expense and depreciation (green), moving from a deficit of $10 million in 2025 to $22 million by 2034, due to increases in depreciation expense which is projected to increase from $30 million in 2025 to $45 million in 2034. This projected increase is due to inflation and AlburyCity's growing asset base.

2024/25 Budget Analysis and LTFP Projections

Graph 3

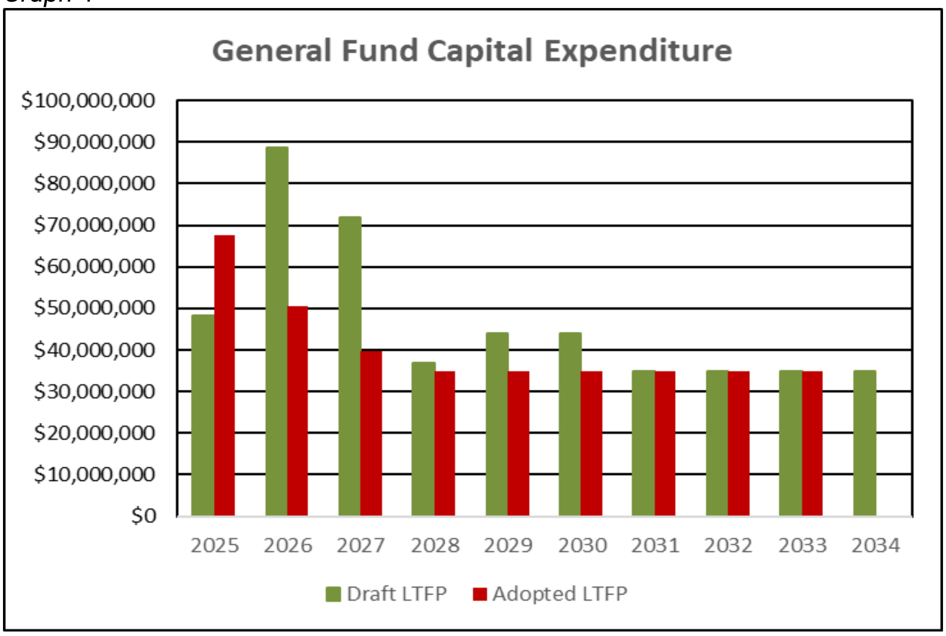


These projections include an annual $4 million General Fund operating budget savings target (blue). The projected budgeted savings target will be addressed through AlburyCity's continued focus on business improvement.

The sustainability of the General Fund is also the focus of AlburyCity's financial sustainability improvement plan.

The projected General Fund capital expenditure program is budgeted to be greater in 2025/26 and 2026/27 due to the inclusion and timing of projects, as well as the cost of construction.

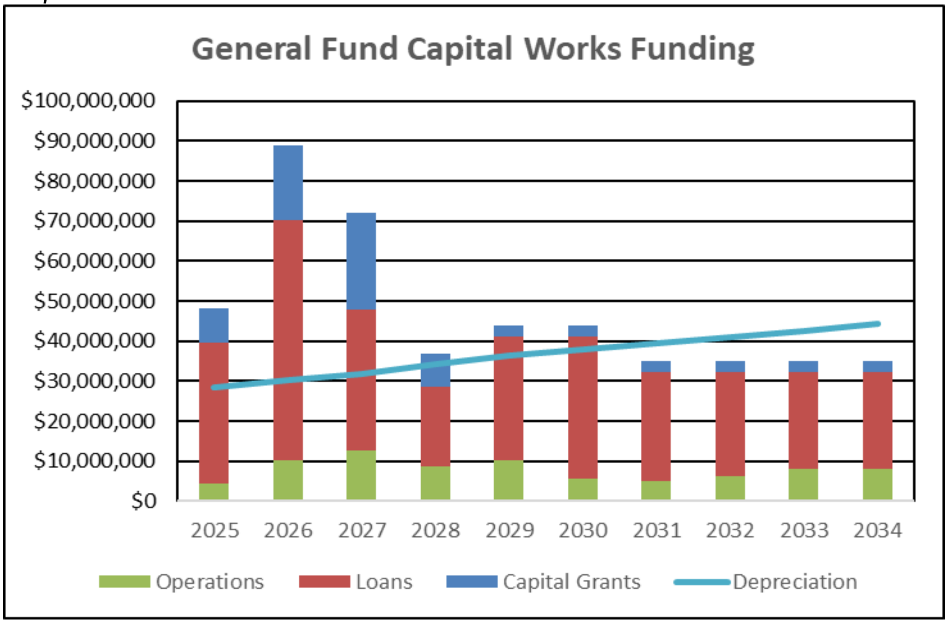
Graph 4



2024/25 Budget Analysis and LTFP Projections

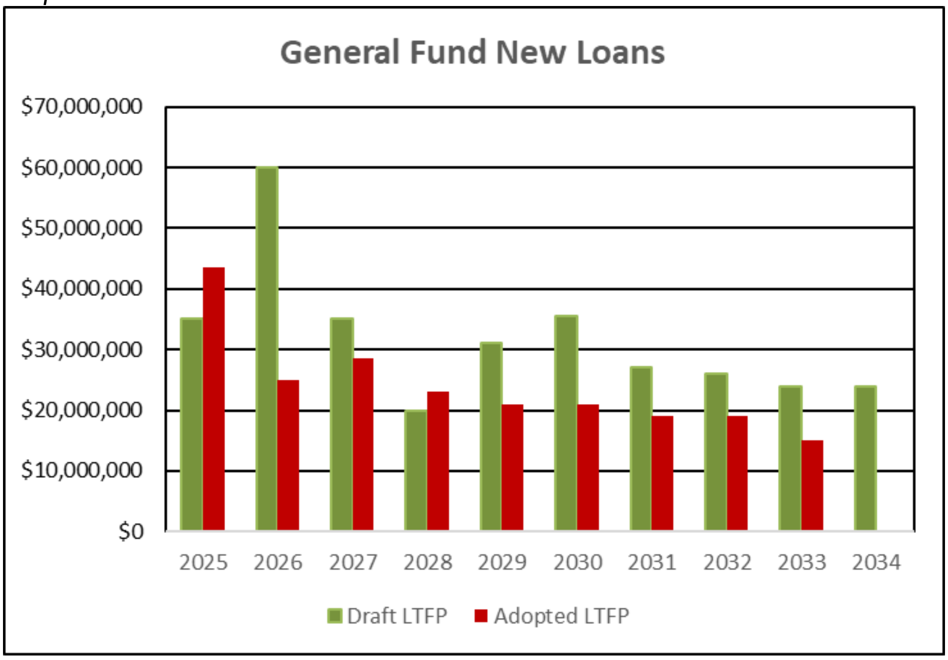
Graph 5 shows the proportion of the General Fund capital works program funded by operations and capital income, with the balance of funding from new loans.

Graph 5



Graph 6 below summarises the projected new loans required to support the proposed works program compared to the prior year adopted plan.

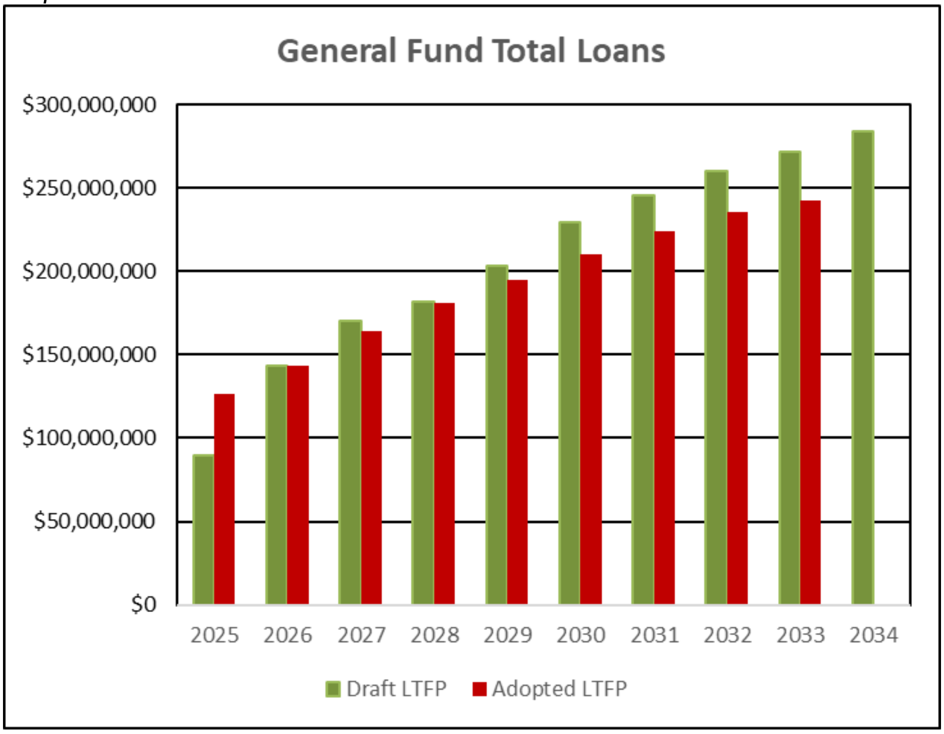
Graph 6



2024/25 Budget Analysis and LTFP Projections

Graph 7 below summarises the General Fund projected total loans which are required to support the proposed works program and maintain liquidity to meet commitments as and when they fall due. General Fund total loans are projected to increase from the current $55 million to $285 million by 2034, with loans being taken out for 20 year terms at a fixed interest rate.

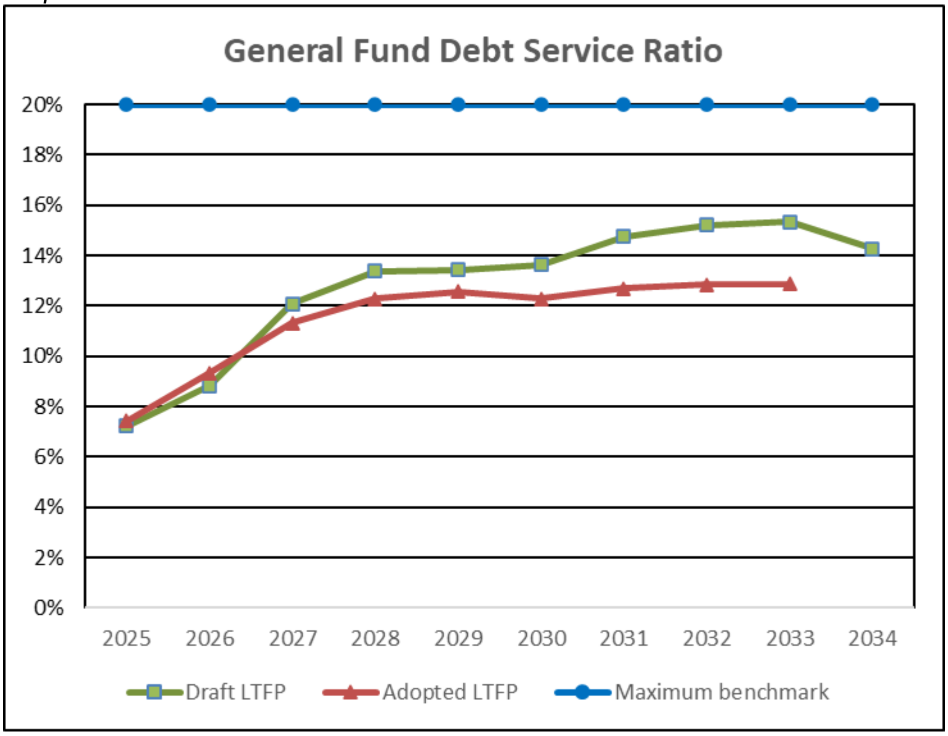
Graph 7



2024/25 Budget Analysis and LTFP Projections

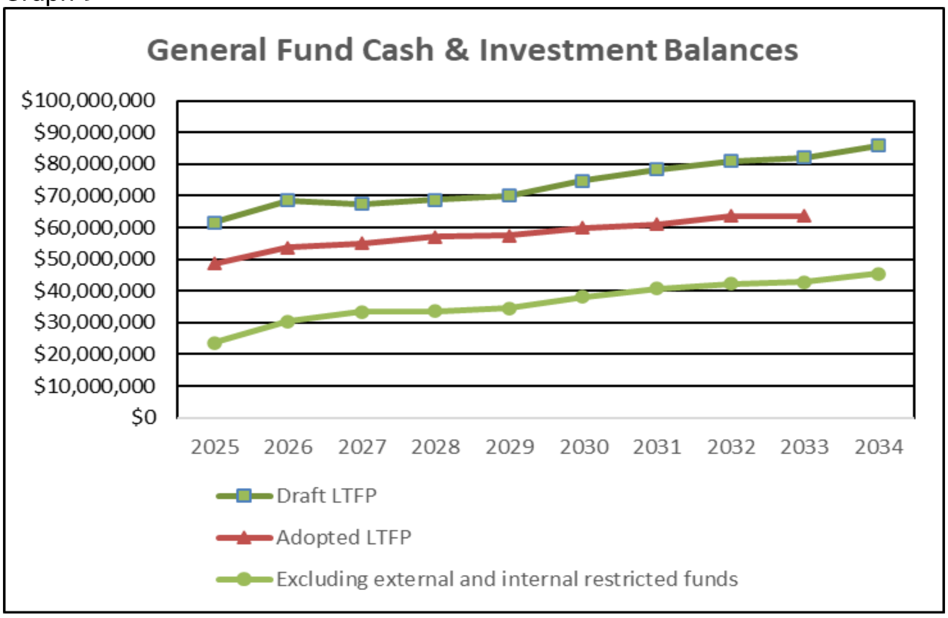
Relative debt levels are benchmarked by the Debt Service Ratio, being principal and interest loan repayments compared to total operating revenue. It is projected that the General Fund Debt Service Ratio will increase to 15% by 2033. The Fit for the Future Debt Service Ratio Benchmark is a ratio of less than 20%.

Graph 8



Graph 9 below shows that the projected General Fund cash and investment balances are to increase at a relatively constant rate which is required to offset current liabilities and maintain an adequate unrestricted current ratio.

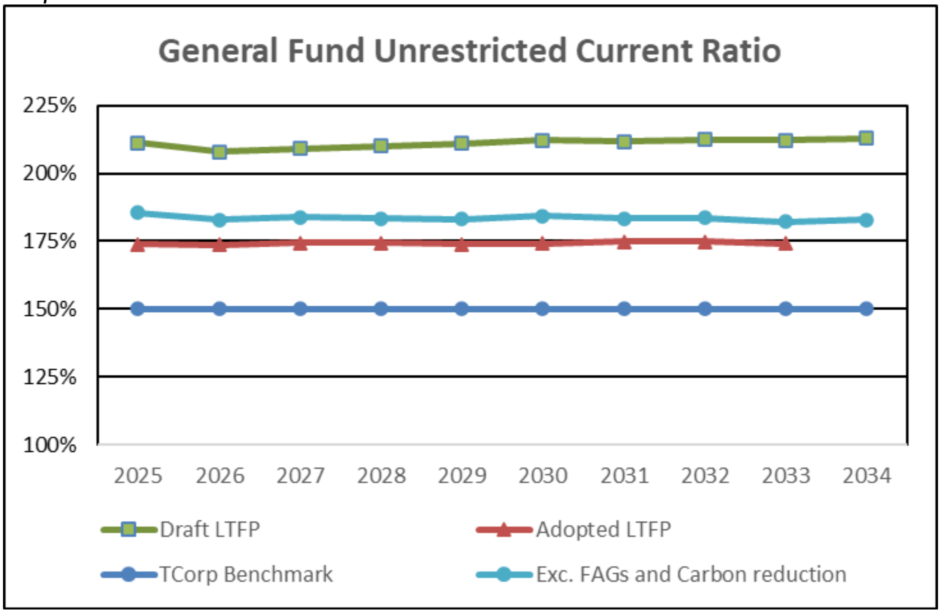
Graph 9



2024/25 Budget Analysis and LTFP Projections

Council's unrestricted working capital at each balance date is measured by comparing the value of assets that are expected to be realised as cash, to liabilities expected to be paid during the next year. The minimum unrestricted current ratio benchmark as advised by TCorp is 150%. AlburyCity aims to maintain a General Fund unrestricted current ratio of at least 175% to enable flexibility in funding and absorbing unexpected budget shocks as they arise. General Fund unrestricted current assets are not currently projected to fall below the TCorp minimum benchmark of 150% as shown by Graph 10 below.

Graph 10

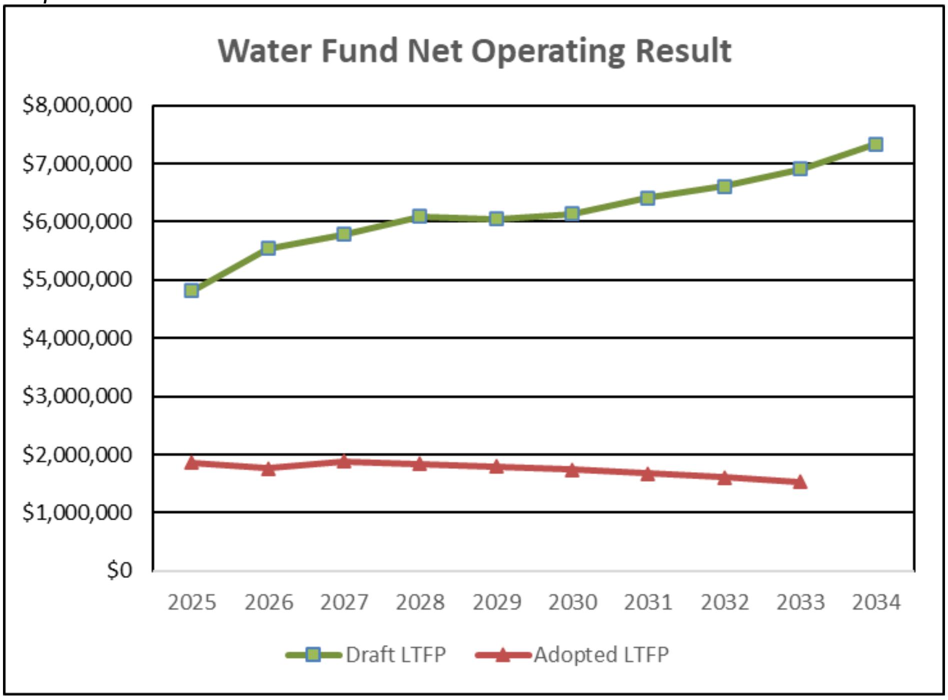


2024/25 Budget Analysis and LTFP Projections

Water Fund Projections

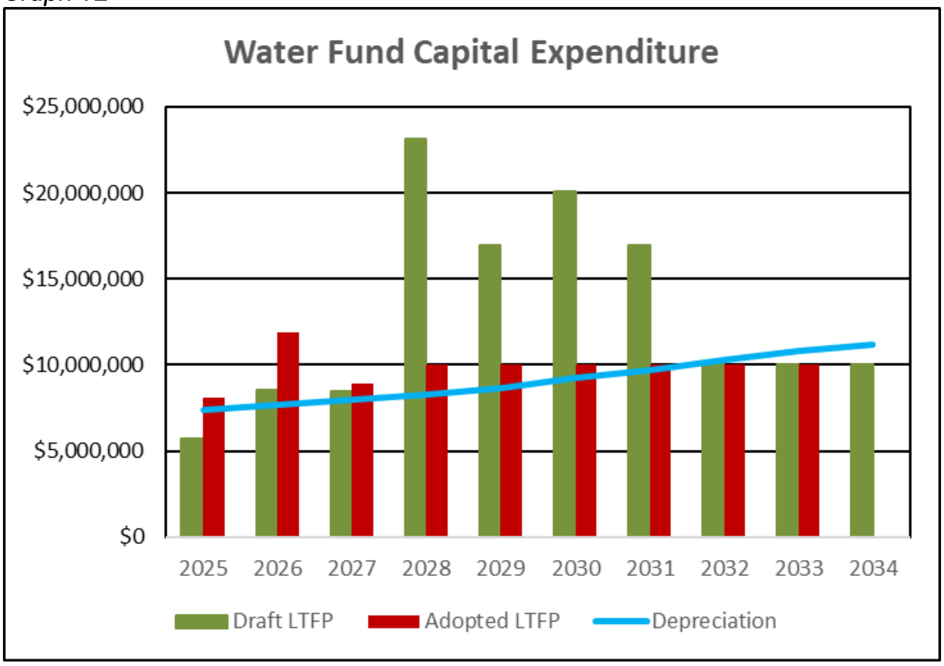
The projected Water Fund operating results are better than the adopted Long Term Financial Plan as shown in Graph 11, which is mainly due to revised income estimates.

Graph 11



The projected Water Fund capital expenditure compared to the adopted Long Term Financial Plan, varies due to the inclusion of projects, as shown by Graph 12 below.

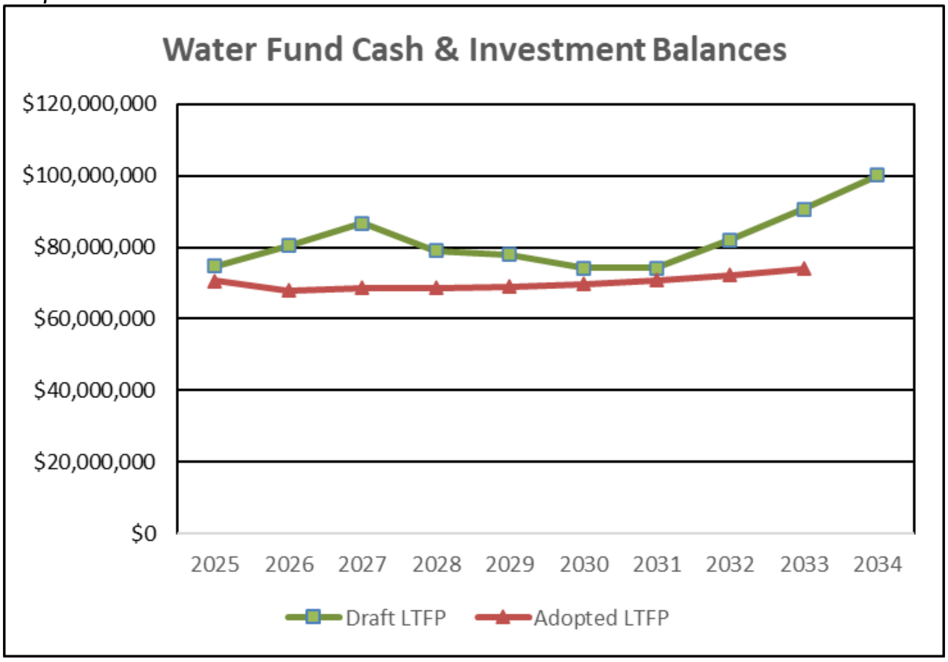
Graph 12



2024/25 Budget Analysis and LTFP Projections

Graph 13 below shows that the projected Water Fund cash and investment balances will be maintained for future infrastructure requirements.

Graph 13

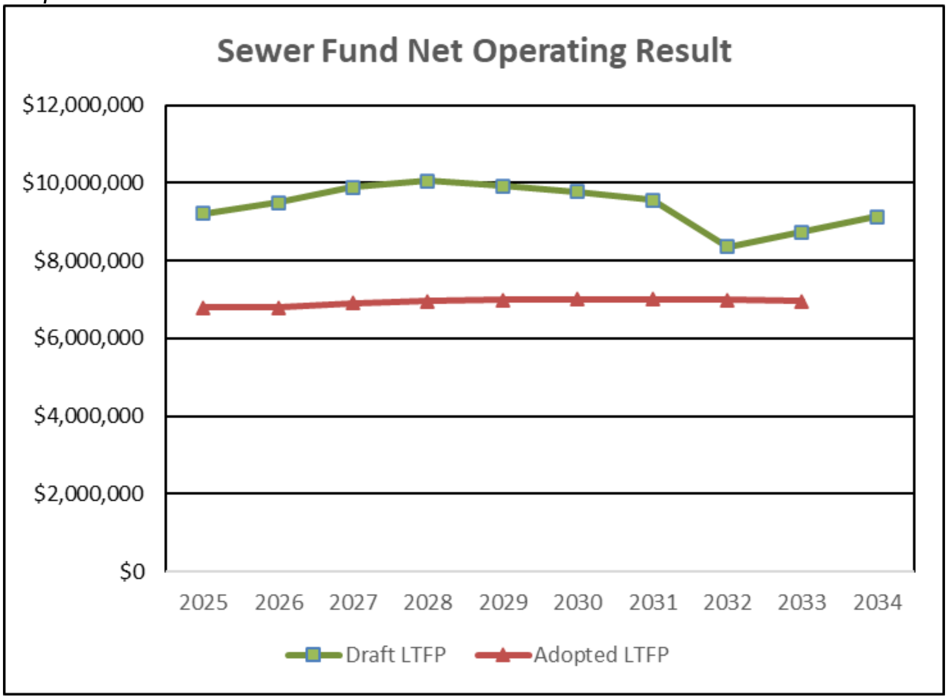


2024/25 Budget Analysis and LTFP Projections

Sewer Fund Projections

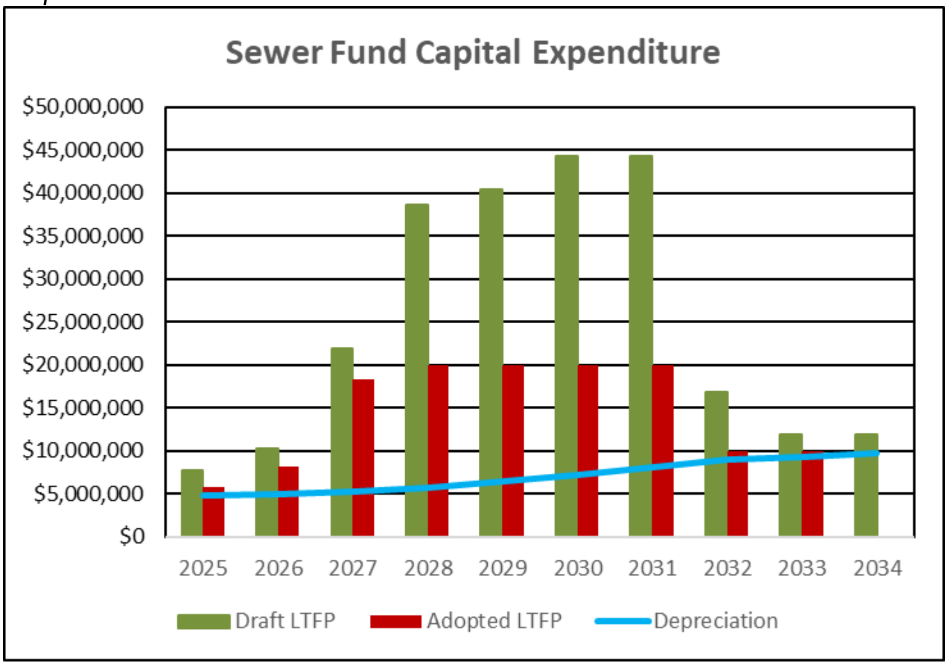
The projected Sewer Fund operating results in the short term have increased due to revised income estimates but are projected to decrease in future with increased depreciation expense from growth in assets as shown in Graph 14.

Graph 14



The projected Sewer Fund capital expenditure is greater than the adopted Long Term Financial Plan which is mainly due to the inclusion of works as shown by Graph 15 below.

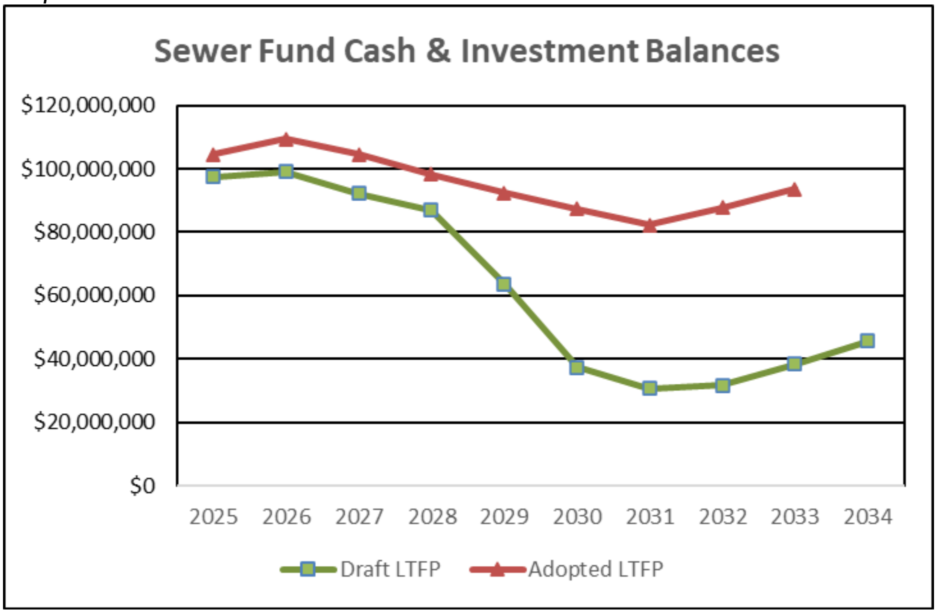
Graph 15



2024/25 Budget Analysis and LTFP Projections

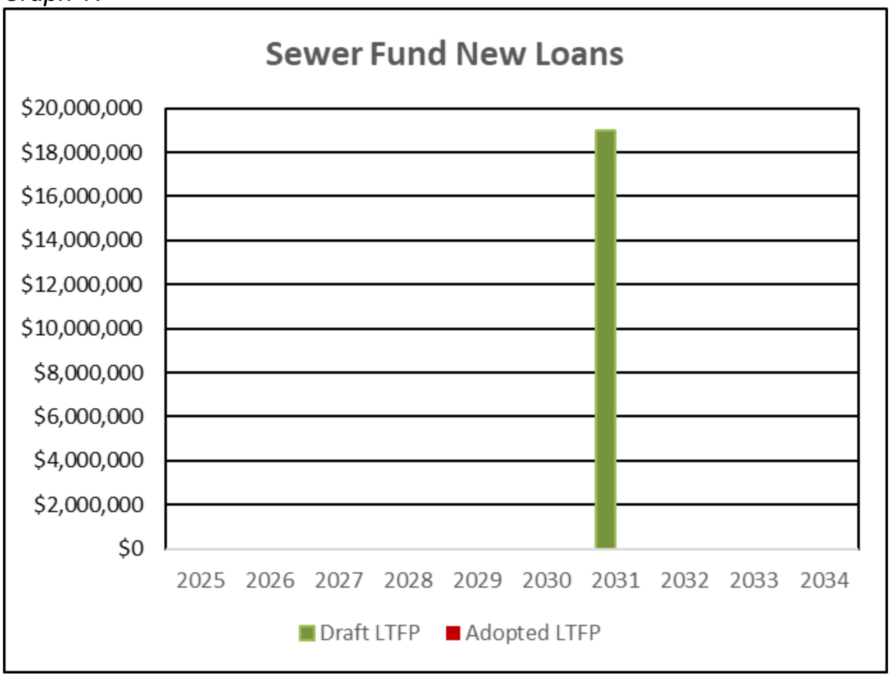
Graph 16 below shows that the Sewer Fund cash and investment balances are projected to decrease, due to the increased infrastructure capital expenditure.

Graph 16



With the anticipated increase in capital expenditure, new loans are expected to be required over the forward estimates as demonstrated by Graph 17 below.

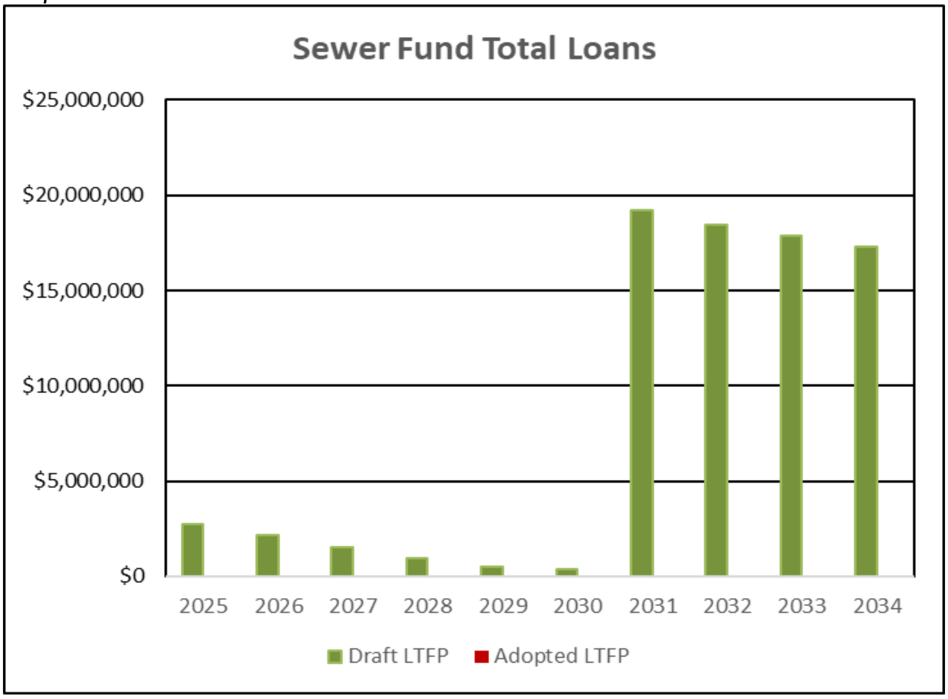
Graph 17



2024/25 Budget Analysis and LTFP Projections

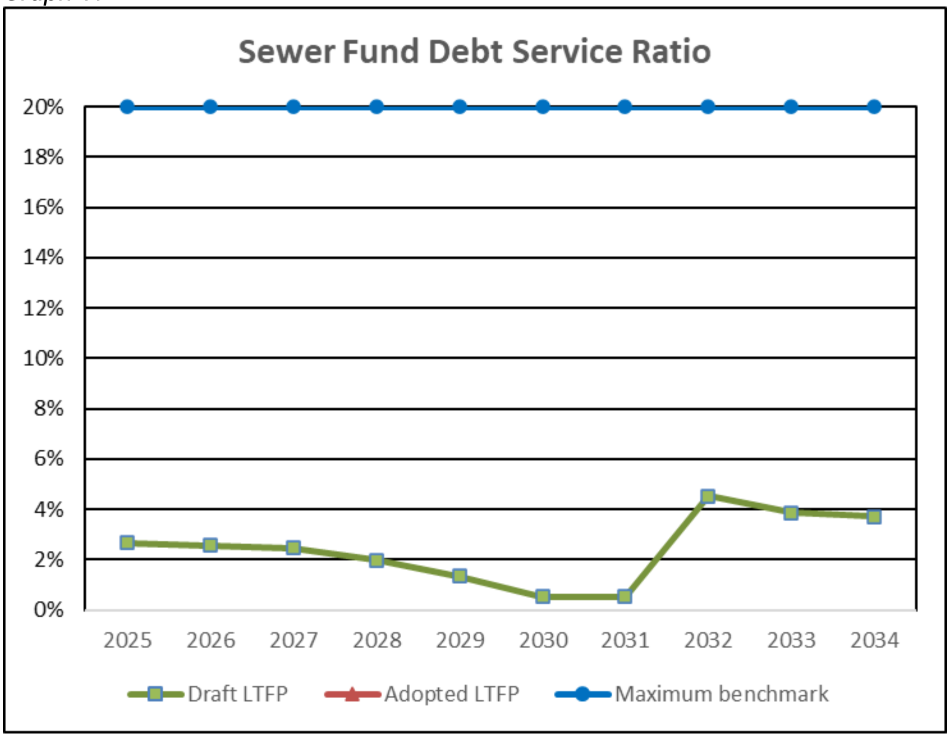
Graph 18 shows the total borrowings position for the Sewer Fund.

Graph 18



Relative debt levels are benchmarked by the Debt Service Ratio, being principal and interest loan repayments compared to total operating revenue. It is projected that the Sewer Fund Debt Service Ratio will increase to 4% by 2032. The Fit for the Future Debt Service Ratio Benchmark is less than 20%.

Graph 19



2024/25 Budget Analysis and LTFP Projections

The projected Water and Sewer Fund pricing and infrastructure requirements will be further assessed as part of the development of the Integrated Water Cycle Management Plan and Strategic Business Plan.

Projected Borrowings

The use of long term loans with fixed interest rates from the NSW Government Treasury Corporation provides intergenerational equity, in that the users of facilities and infrastructure contribute to their cost. As a growth Council, it is important to understand the capacity to service debt into the future. Loan repayments are secured against rate income as required under the Local Government Act 1993. AlburyCity has modelled the projected loan program which is within local government sector prudential benchmarks set by the State Government.

The following tables indicates the amounts and timing of borrowings that AlburyCity has included in the Long Term Financial Planning Plan projections, by Fund.

General Fund

Year	Loan Amount	Term (yrs)	Budgeted Interest Rate
2023/24	10,000,000	20	5.50%
2024/25	35,000,000	20	5.50%
2025/26	60,000,000	20	5.50%
2026/27	35,000,000	20	5.50%
2027/28	20,000,000	20	5.50%
2028/29	32,000,000	20	5.50%
2029/30	35,500,000	20	5.50%
2030/31	26,000,000	20	5.50%
2031/32	26,000,000	20	5.50%
2032/33	23,000,000	20	5.50%
2033/34	25,000,000	20	5.50%

Sewer Fund

Year	Loan Amount	Term (yrs)	Budgeted Interest Rate
2030/31	19,000,000	20	5.50%

Water fund

There are no borrowings projected for the Water Fund

2024/25 Budget Analysis and LTFP Projections

Projected inflation factors

The Reserve Bank of Australia's forecast for inflation is to reduce to 3.3% for the 2024/25 financial year, and the wages price index is projected to decrease to 3.7%, as depicted in the table below.

RBA Inflation Forecast – year on year

	2021/22	2022/23	2023/24	2024/25
CPI	6.1%	6.0%	3.9%	3.3%
WPI	2.6%	3.6%	4.0%	3.7%

The projected AlburyCity Long Term Financial Plan inflation assumptions are summarised by Table 2 below, which also includes a factor for growth. AlburyCity's population has grown to 58,451 being an increase of 1.5% per year since 2016 and is projected to grow to 78,250 by 2046.

Table 2

AlburyCity inflation and growth assumptions	2025/26	2026/27 ongoing	Growth
Income			
Rates	6.5%	5.5%	Inc.1.5% growth
Waste Management Charges	5.5%	4.5%	Inc.1.5% growth
Water Income	6.5%	5.5%	Inc.1.5% growth
Sewer Income	4.5%	4.5%	Inc.1.5% growth
Fee Income	5.5%	4.5%	Inc.1.5% growth
Financial Assistance Grant	4.5%	4.5%	Inc.1.5% growth
Expenditure			
Employee Costs	6.0%	5.0%	Inc.1% growth
Materials & Contracts	4.0%	4.0%	Inc.1% growth
Depreciation	6.0%	5.5%	Inc.1% growth

2024/25 Budget Analysis and LTFP Projections

Alternative Scenario – Improved Operating Result

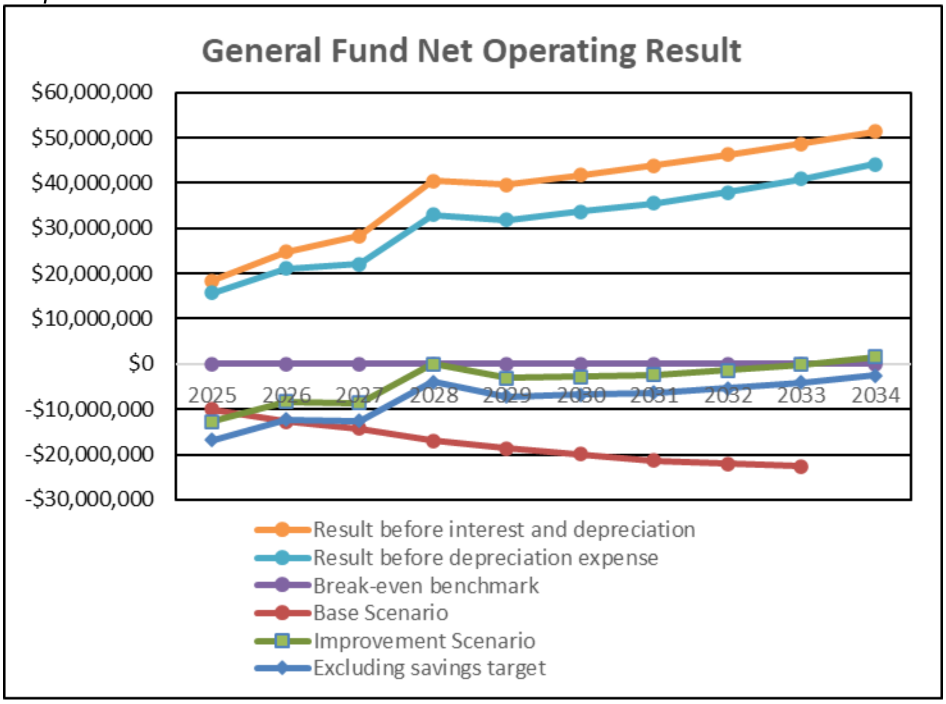
Significant improvement in General Fund operating revenue/expenditure within the next four years would enable sustainable service levels. This would also enable a reduced reliance on loan funding and interest bill to support the Four Delivery Program, as we work towards building a nationally significant regional city; Towards Albury 2050.

This alternative improvement scenario includes potential operating budget improvements of $6 million over 2026 and 2027, including:

- Additional operating budget savings
- Resource Recovery income
- Albury Airport income
- Depreciation reduction from revaluation of asset categories of $2 million.

Year 4 (2027) provides for a remaining cashflow improvement from operations of $10 million to achieve a break even operating result.

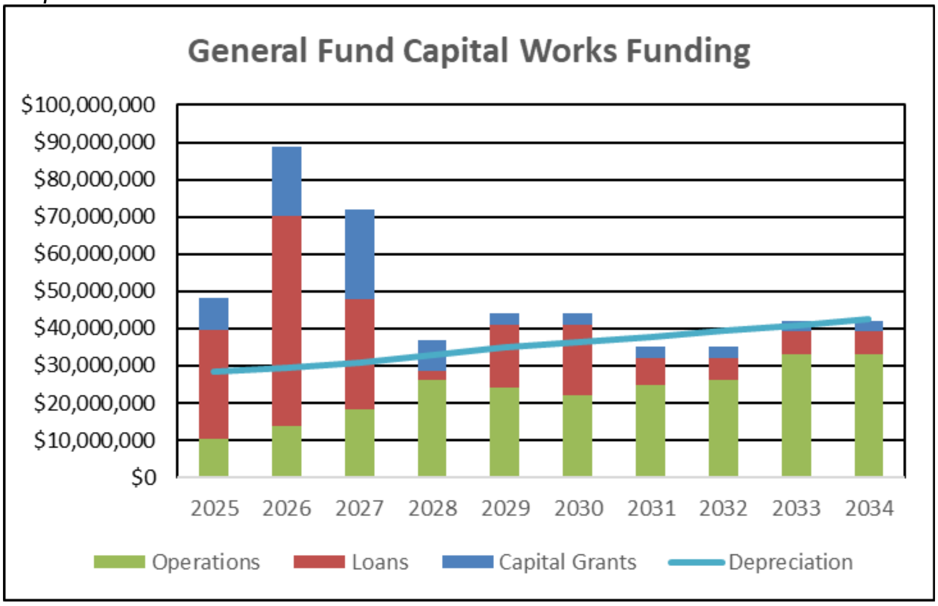
Graph 20



2024/25 Budget Analysis and LTFP Projections

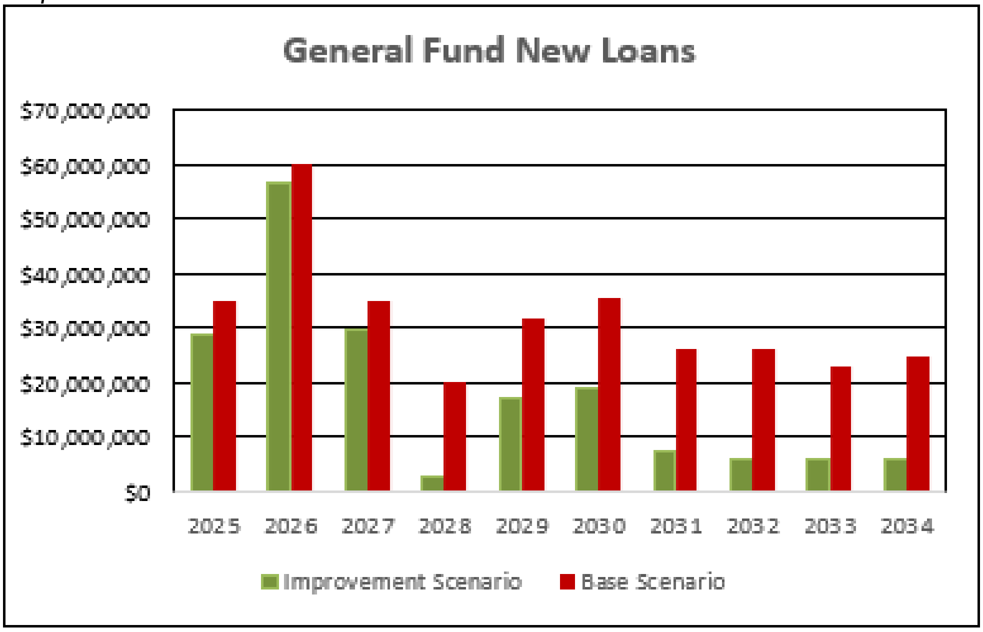
This improved funding from operations would significantly reduce loans required for base level funding of infrastructure works over the long term as demonstrated below.

Graph 21



This scenario enables a reduced reliance on loan funding and cash required from operations to repay loans and reduced interest expense.

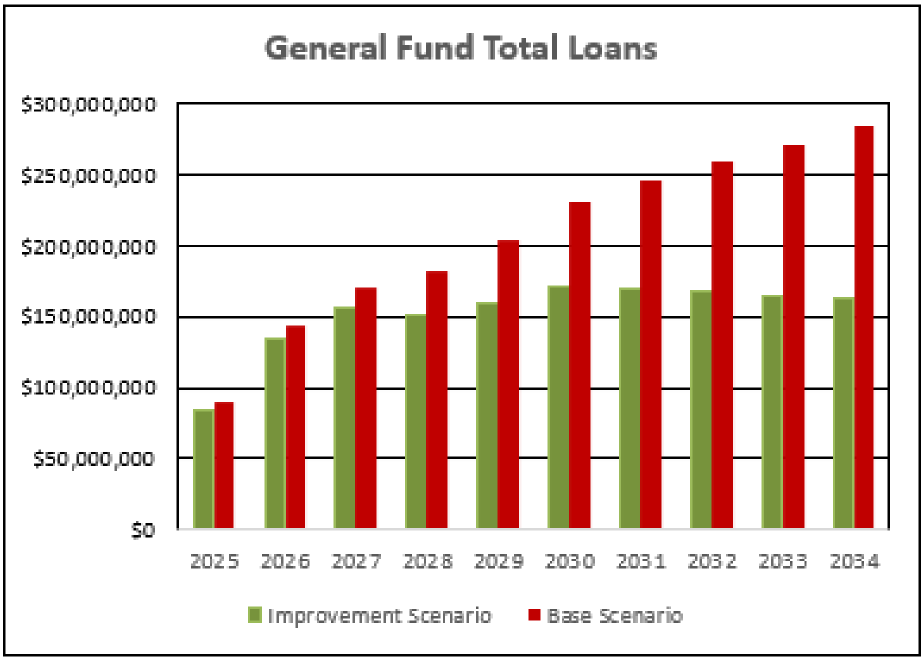
Graph 22



2024/25 Budget Analysis and LTFP Projections

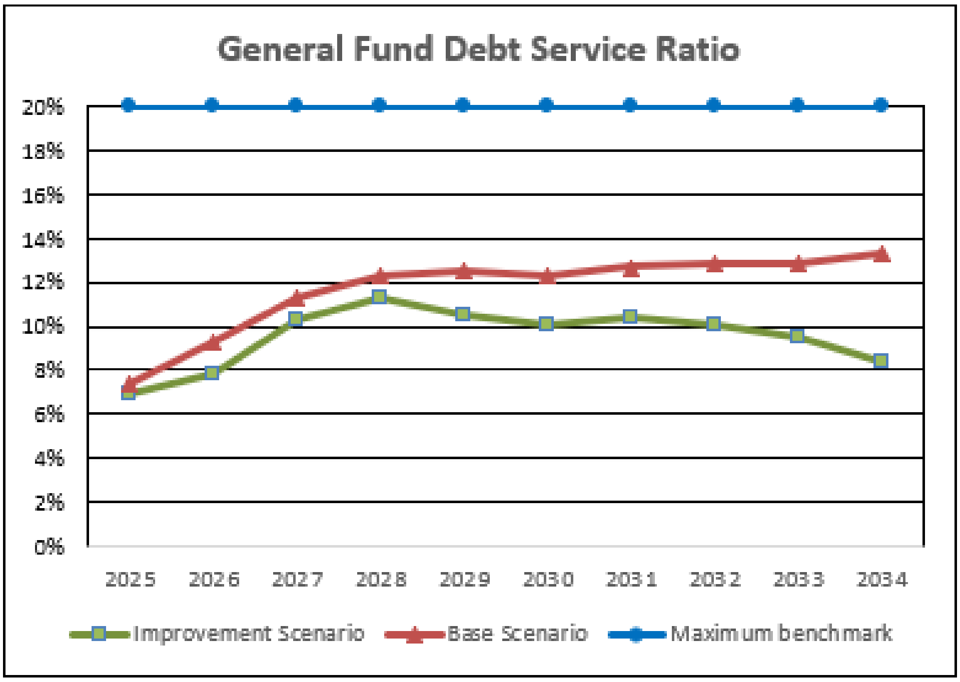
This improvement scenario would result in total General Fund loans peaking at around $150 million rather than increasing towards $285 million as demonstrated by Graph 23 below.

Graph 23



There would also be a significant improvement in the projected General Fund debt service ratio as highlighted by Graph 24 below.

Graph 24



2024/25 Budget Analysis and LTFP Projections

Conclusion

The current General Fund draft operating result projections, before interest expense and depreciation, demonstrate an improving surplus result over the 10 year forecast period from $20 million to $35 million.

However, the operating result including interest expense is projected to remain in the order of a $20 million surplus, with interest expense projected to increase from $2.6 million in 2025 to $13.6 million in 2034, due to the projected increase in loans required to support infrastructure improvements. The General Fund total loans which are required to support the proposed works program are projected to increase from $55 million to $285 million by 2034.

The financial projections show the net result, including depreciation expense moving from a deficit of $10 million in 2025 to $22 million by 2034, due to increases in non-cash depreciation expense which is projected to increase from $30 million in 2025 to $45 million in 2034. The projected increase is due to inflation and AlburyCity's growing asset base.

The alternative improvement scenario demonstrates how a significant improvement in General Fund operating revenue/expenditure within the next four years would enable sustainable service levels. This would also enable a reduced reliance on loan funding and interest bill to support the Four Delivery Program, as we work towards building a nationally significant regional city; Towards Albury 2050.

This alternative improvement scenario includes potential operating budget improvements of $6 million over 2026 and 2027, including an additional depreciation reduction of $2 million. Year 4 (2027) provides for a remaining cashflow improvement from operations of $10 million to achieve a break even operating result. This improvement scenario would also result in total General Fund loans peaking at around $150 million rather than increasing towards $285 million by 2034.

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.

While AlburyCity is in a sound financial position, like many NSW councils, AlburyCity faces several challenges in achieving long-term financial sustainability.

AlburyCity's Long Term Financial Plan is to be read in conjunction with AlburyCity's Financial Sustainability Improvement Plan, which will be reviewed and updated annually as required.

AlburyCity's Financial Sustainability Improvement Plan 2024-2028 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.

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