

# 2022/23 Draft Budget Analysis



AlburyCity

# 2022/23 DRAFT BUDGET ANALYSIS

## Draft 2022/23 Operating Budget

Overall, the draft 2022/23 budget result is a deficit of \$7 million, which is \$4.3 million more than the prior year adopted Budget deficit as summarised by Table 1 below. This overall variance is mainly due to an increase in employee costs as a result of functional reviews, as well as additional New Initiatives for the 2022/23 financial year and increased depreciation expense.

Table 1

<b>Fund</b>	<b>Adopted 2021/22 Operating Budget \$'000</b>	<b>December Quarter Budget Review Forecast \$'000</b>	<b>Draft 2022/23 Operating Budget \$'000</b>	<b>Variance to Adopted Budget \$'000</b>
General	8,737	14,382	14,227	5,490
Water	(163)	(1,012)	(1,151)	(988)
Sewer	(5,808)	(5,789)	(5,986)	(178)
Total	2,766	7,581	7,090	4,324

(Surplus)/Deficit

The draft 2022/23 General Fund operating budget deficit of \$14.2 million is mainly due to the following items:

Ongoing variances:

- \$5.5 million depreciation expense, non-cash increase, due to the increasing cost to renew road and building infrastructure, changes to accounting standards and increasing asset portfolio.
- \$3 million additional net operating employee costs as a result of functional reviews. The expanded workforce will address resourcing gaps and enable AlburyCity to meet unfilled service demand and compliance activities.
- \$948,000 Employee costs; 2% award increase and 0.5% superannuation guarantee increase.

Short term variances:

- \$1.6 million additional operating New Initiatives for 2022/23
- \$1.2 million continuing COVID impacts, including Albury Airport and Albury Entertainment Centre operating income.

It is also important to note that to achieve the 2022/23 General Fund operating deficit, operating budget savings of \$4 million are budgeted to be achieved, which is in line with the prior year adopted budget.

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### **Water Fund**

The draft operating budget surplus for Water Fund is \$988,000 more than the prior year Original Budget. The major variances are summarised below:

#### *Favourable variances:*

- \$2.4 million income increase due to new connections, revised income budget calculations and increased investment income.

#### *Unfavourable variances:*

- \$1.4 million expenditure increase, due to increased materials and services (\$928,000) primarily due to anticipated increase in cost of inputs, increased depreciation non-cash expense (\$278,000) and increased employee costs as a result of functional reviews, 2% award increase and 0.5% Superannuation Guarantee increase (\$122,000).

### **Sewer Fund**

The draft operating budget surplus for the Sewer Fund is \$178,000 more than the prior year Original Budget. The major variances are summarised below:

#### *Favourable variances:*

- \$1.4 million income increase due to increased investment income and additional access charges resulting from new connections.

#### *Unfavourable variances:*

- \$1.3 million expenditure increase, due to increased employee costs as a result of functional reviews, 2% award increase and 0.5% Superannuation Guarantee increase (\$600,000), increased materials and services (\$342,000) primarily due to anticipated increase in cost of inputs and increased depreciation non-cash expense (\$202,000).

# 2022/23 DRAFT BUDGET ANALYSIS

## Long Term Financial Plan Projections

Analysis of the draft Long Term Financial Plan projections for each Fund are provided below.

### General Fund Projections

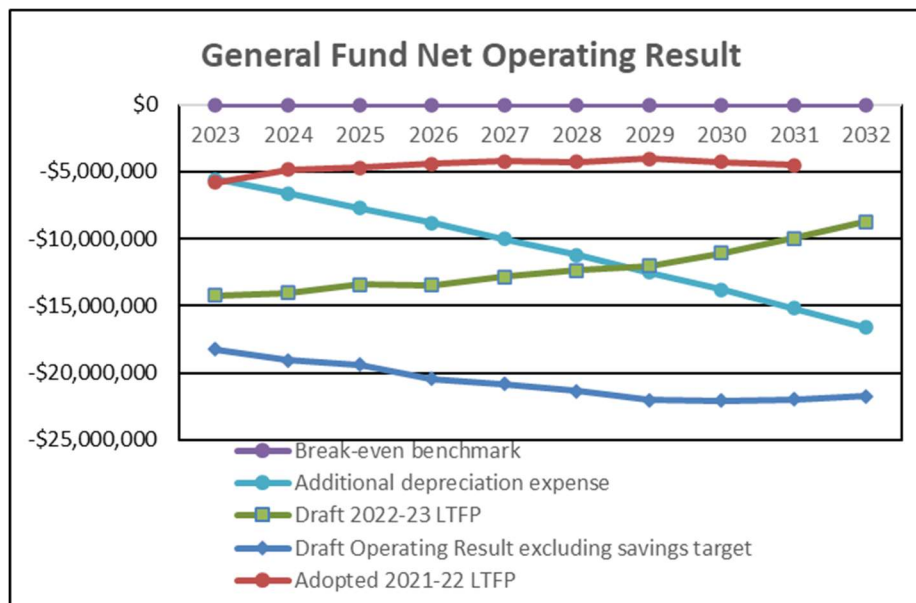
The draft financial projections show the General Fund operating result (green) moving from a deficit of \$14.2 million to \$8.7 million by 2032.

These projections include an annual \$4 million General Fund operating budget savings target in 2022/23, increasing by a further \$1 million per year from 2023/24. The projected budgeted savings target will be addressed through AlburyCity's continuous business improvement focus.

The projected General Fund operating result also includes projected increases in additional non-cash depreciation expense increasing from \$5.5 million to \$17 million from 2023 to 2032. Depreciation expense for buildings and road infrastructure will be further assessed in the future as part of the preparation of Asset Management Plans for key AlburyCity asset categories.

In summary, the longer term projected General Fund operating results reflect target budget savings and the challenge of funding increasing depreciation expense.

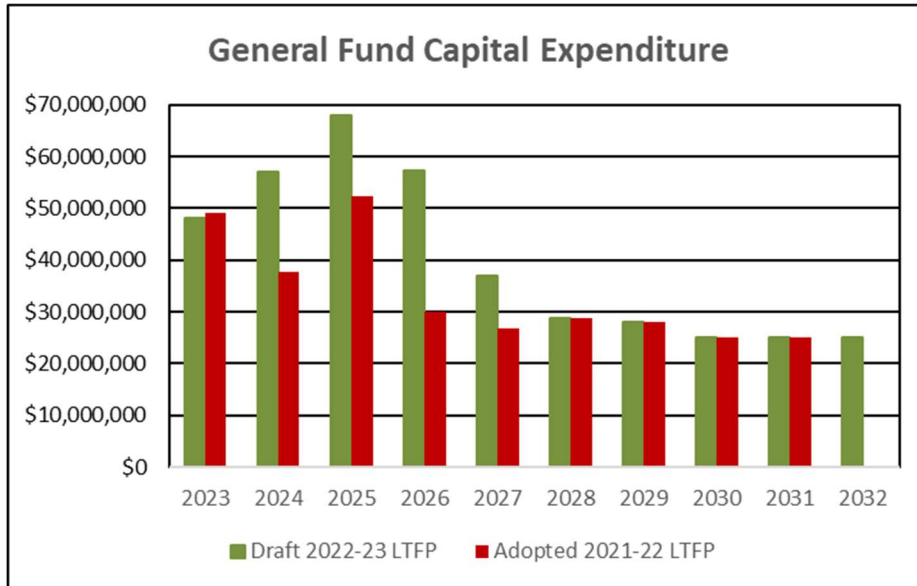
Graph 1



## 2022/23 DRAFT BUDGET ANALYSIS

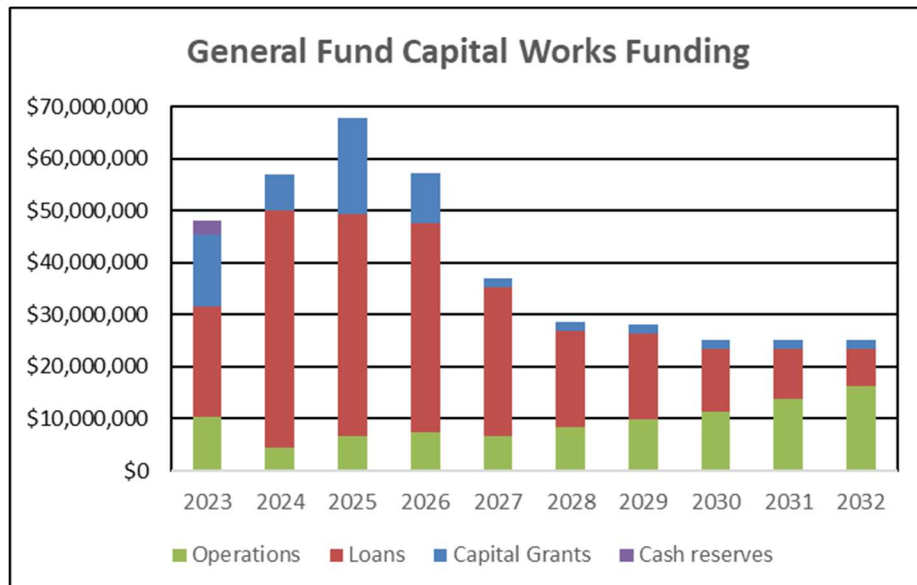
The projected General Fund capital expenditure differs to the adopted Long Term Financial Plan as shown by Graph 2 below, due to the timing and value of projects

Graph 2



The General Fund capital expenditure program is funded from a variety of sources. Graph 3 below details the capital funding sources by year. The majority of funding is sourced loans, awarded capital grants and operations.

Graph 3

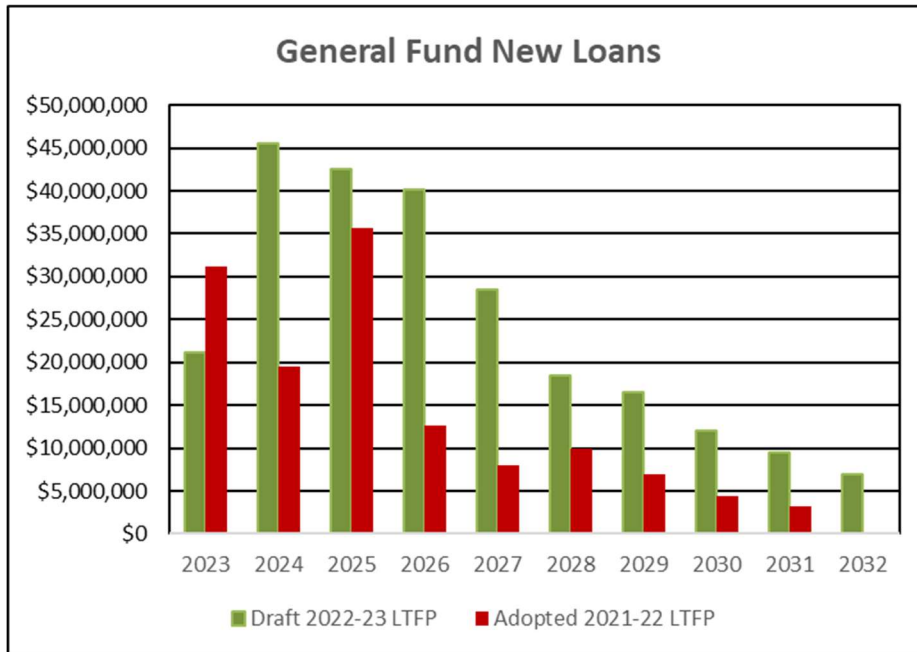


## 2022/23 DRAFT BUDGET ANALYSIS

Graph 4 below summarises the projected draw down of loan funding compared to the adopted Long Term Financial Plan, which largely reflects the proposed capital expenditure increase.

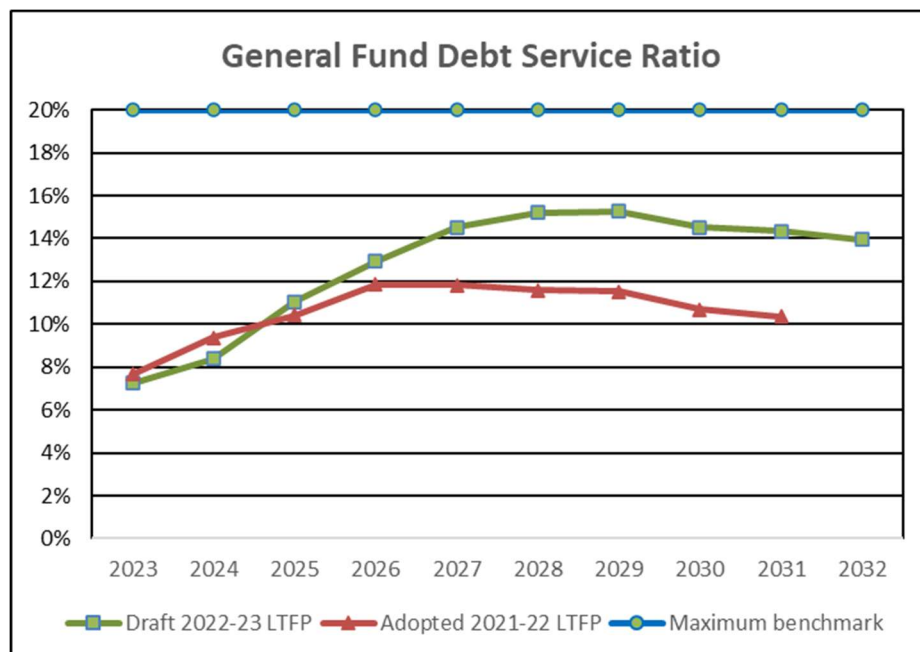
The use of borrowings ensures that the future users of the asset contribute to the cost of the asset. Borrowings are long-term loans repayable by quarterly instalments, secured against Council revenue.

Graph 4



Relative debt levels are benchmarked by the Debt Service Ratio, being principal and interest loan repayments compared to total operating revenue. The Fit for the Future Debt Service Ratio Benchmark is a ratio of less than 20%. It is projected that the General Fund Debt Service Ratio will increase to 15% by 2028 as shown by Graph 5 below.

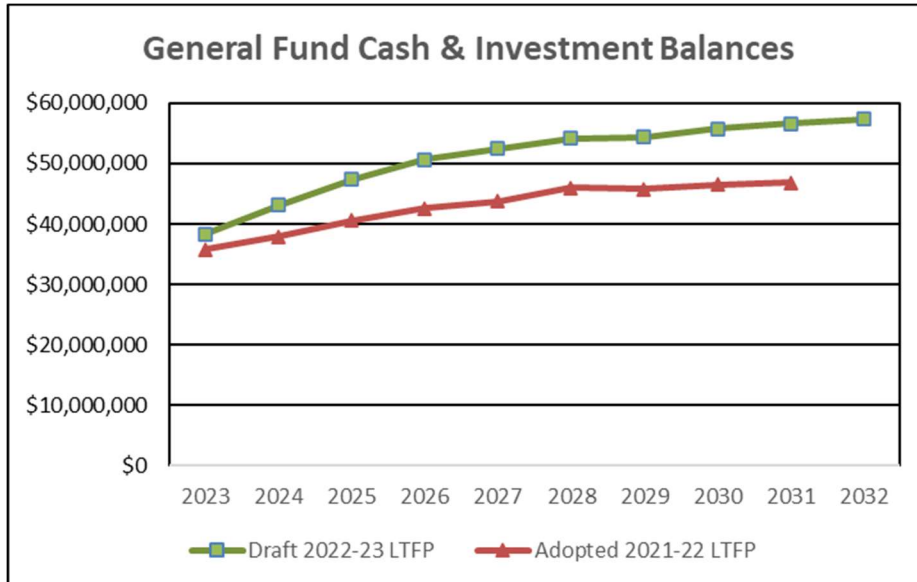
Graph 5



## 2022/23 DRAFT BUDGET ANALYSIS

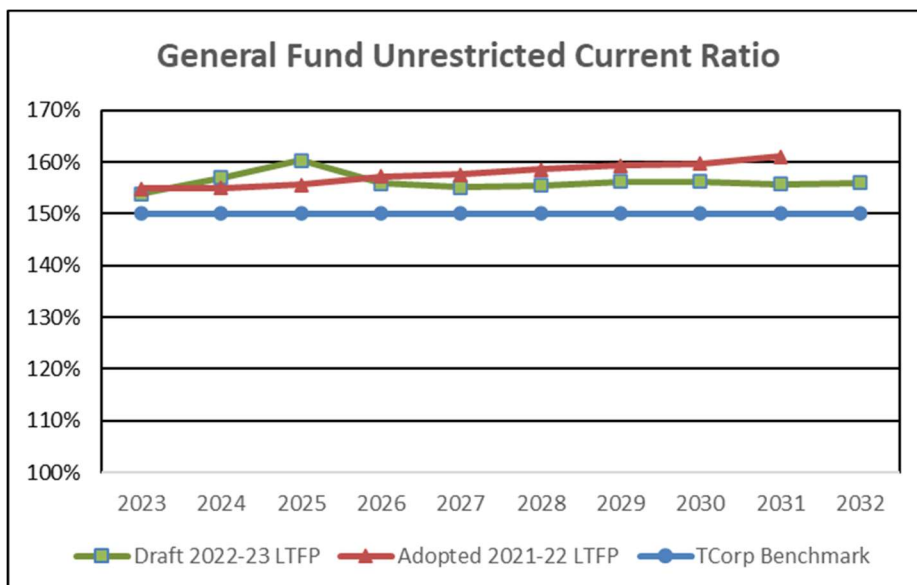
Graph 6 below shows that the projected General Fund cash and investment balances are to increase at a relatively constant rate which is required to offset liabilities and maintain an adequate unrestricted current ratio.

Graph 6



Council's liquidity 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 General Fund unrestricted current asset ratio is projected to be maintained above the TCorp minimum benchmark of 150% as shown by Graph 7 below. AlburyCity's financial position will continue to be monitored and assessed during quarterly budget reviews.

Graph 7



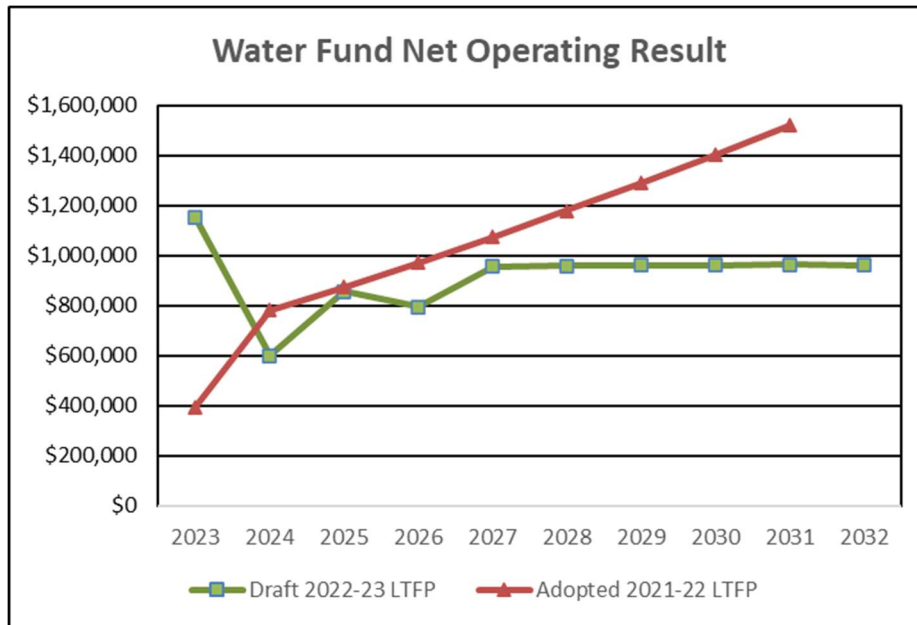


## 2022/23 DRAFT BUDGET ANALYSIS

### Water Fund Projections

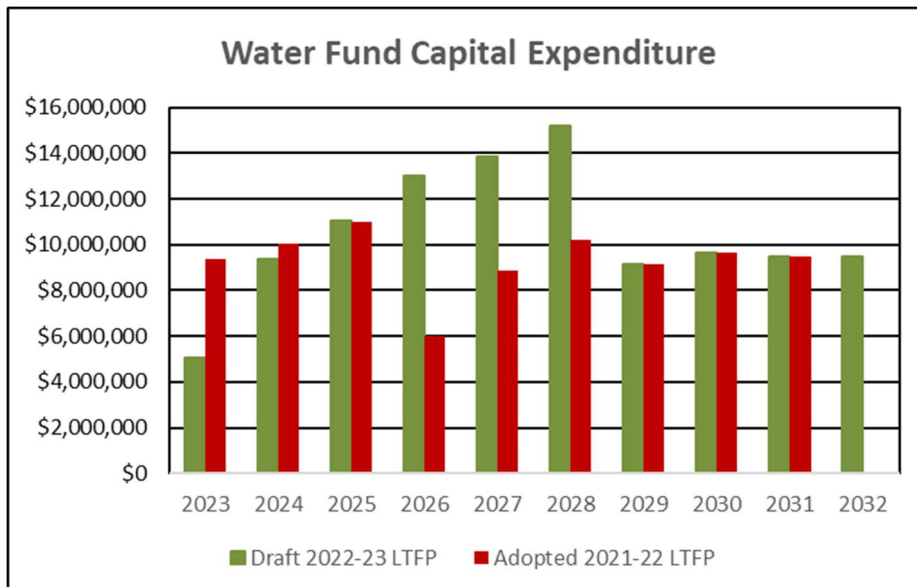
As shown by Graph 8 below, the Water Fund operating results are projected to be maintained at a relatively stable level.

Graph 8



The projected Water Fund capital spend compared to the adopted Long Term Financial Plan is shown by Graph 9 below. Variances mainly relate to the timing of major projects.

Graph 9

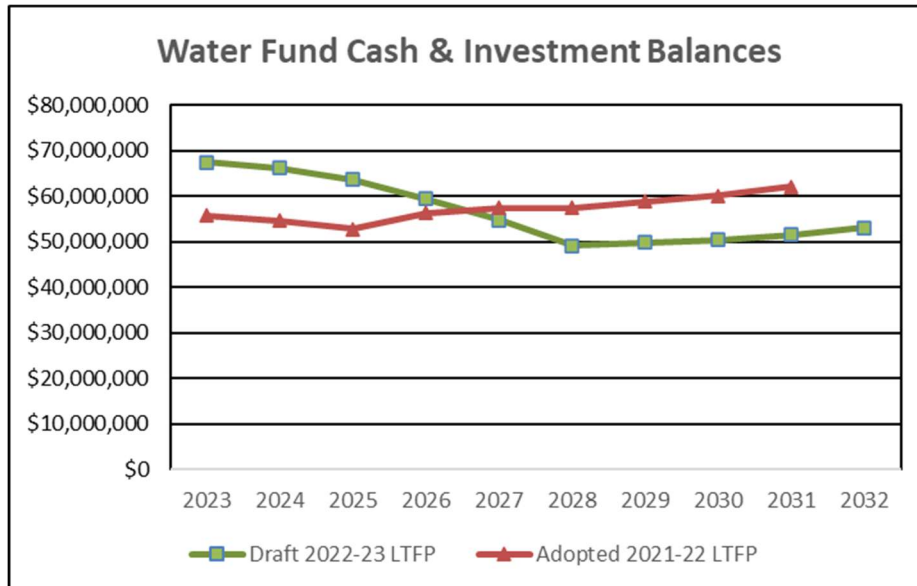




## 2022/23 DRAFT BUDGET ANALYSIS

As shown by Graph 10 below the Water Fund cash and investment balances are projected decrease from 2023 to 2028, and then be maintained at a relatively constant level to support future infrastructure projects.

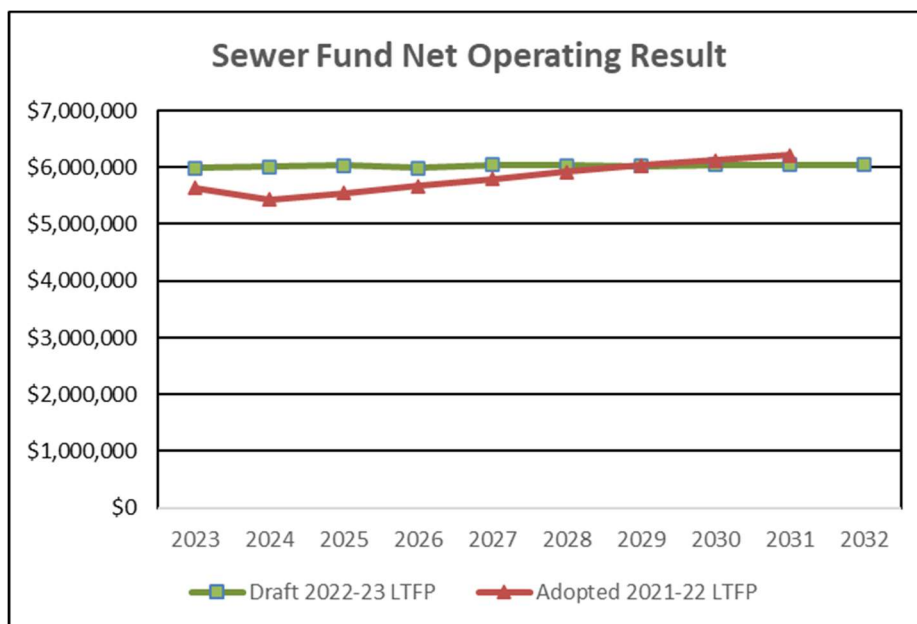
Graph 10



### Sewer Fund Projections

Graph 11 shows the projected Sewer Fund operating results are forecast to be maintained at a relatively consistent level.

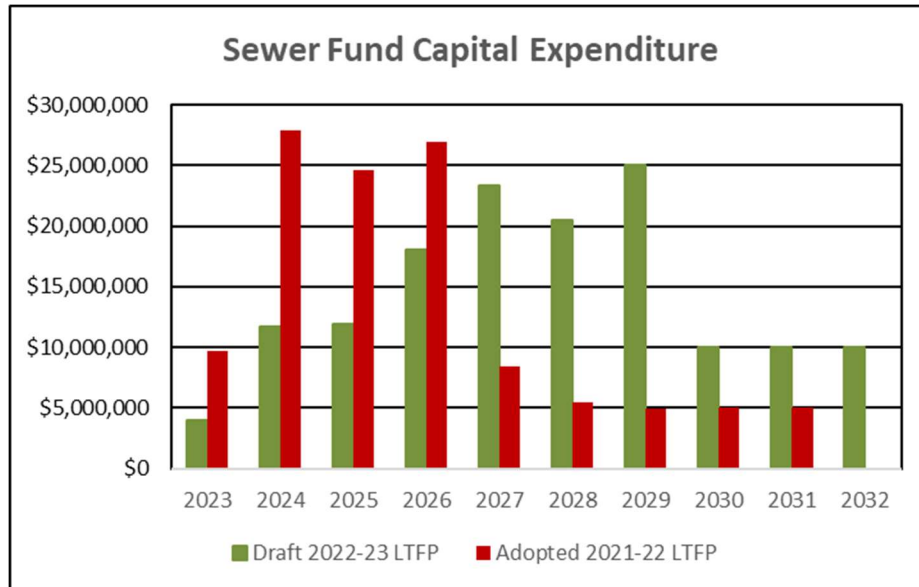
Graph 11



## 2022/23 DRAFT BUDGET ANALYSIS

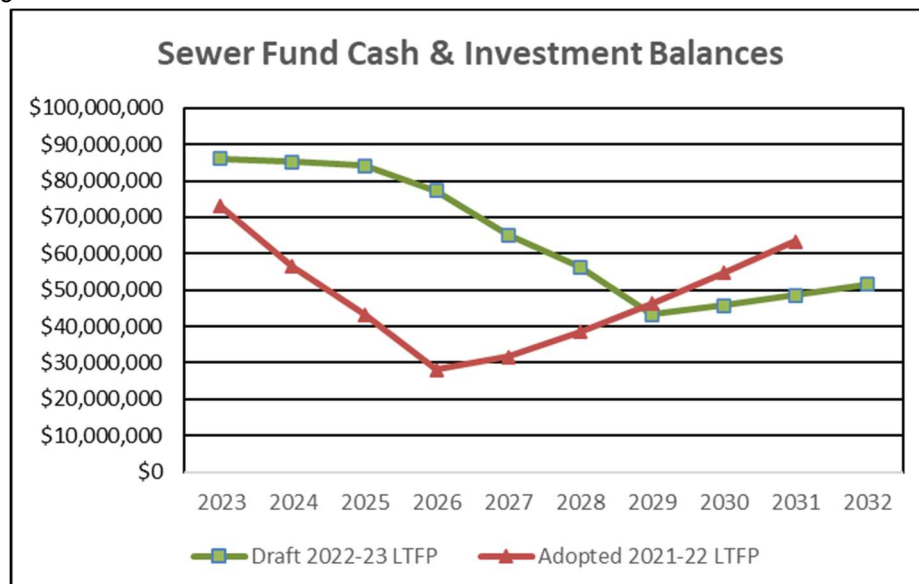
The projected Sewer Fund capital spend compared to the adopted Long Term Financial Plan is shown by Graph 12 below. The variance in projected Sewer Fund capital expenditure mainly relates to the timing of the Waterview Wastewater Treatment Plant future upgrade.

Graph 12



As shown by Graph 13 below the Sewer Fund cash and investment balances are projected to decrease in future years, which is mainly due to the timing of major projects.

Graph 13



The long term Water and Sewer financial projections will be further assessed in conjunction with the review and update of AlburyCity's Integrated Water Cycle Management Plan and Strategic Business Plan.

## 2022/23 DRAFT BUDGET ANALYSIS

### Projected inflation factors

The Federal Government 2022/23 Budget Strategy and Outlook Paper suggests that National CPI and the National Wage Price Index will increase in the future as shown by Table 2.

Table 2

<b>Federal Government Inflation Forecast</b>	<b>2020/21 Actual</b>	<b>2021/22 Forecast</b>	<b>2022/23 Forecast</b>	<b>2023/24 Forecast</b>	<b>2024/25 Forecast</b>
CPI	3.8%	4.25%	3.0%	2.75%	2.75%
Wages Price Index	1.7%	2.75%	3.25%	3.25%	3.5%

The projected AlburyCity Long Term Financial Plan inflation assumptions as summarised by Table 3 below, which also includes a factor for growth. AlburyCity's population has grown to 56,898 being an increase of 1.5% per year since 2016 and is projected to grow to 67,427 by 2036.

Table 3

<b>AlburyCity inflation and growth assumptions</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Growth</b>
<b>Income</b>					
Rates	4.5%	4.5%	4.5%	4.5%	Inc.1.5% growth
Waste Management Charges	4.0%	4.0%	4.0%	4.0%	Inc.1.5% growth
Water Income	1.5%	3.5%	3.5%	3.5%	Inc.1.5% growth
Sewer Income	1.5%	1.5%	1.5%	1.5%	Inc.1.5% growth
Fee Income	4.0%	4.0%	4.0%	4.0%	Inc.1.5% growth
Financial Assistance Grant	4.0%	4.0%	4.0%	4.0%	Inc.1.5% growth
<b>Expenditure</b>					
Employee Costs	4.5%	4.5%	4.5%	4.0%	Inc.1% growth
Materials & Contracts	3.5%	3.5%	3.5%	3.5%	Inc.1% growth
Depreciation	4.0%	4.0%	4.0%	4.0%	Inc.1% growth

### Alternative Scenarios

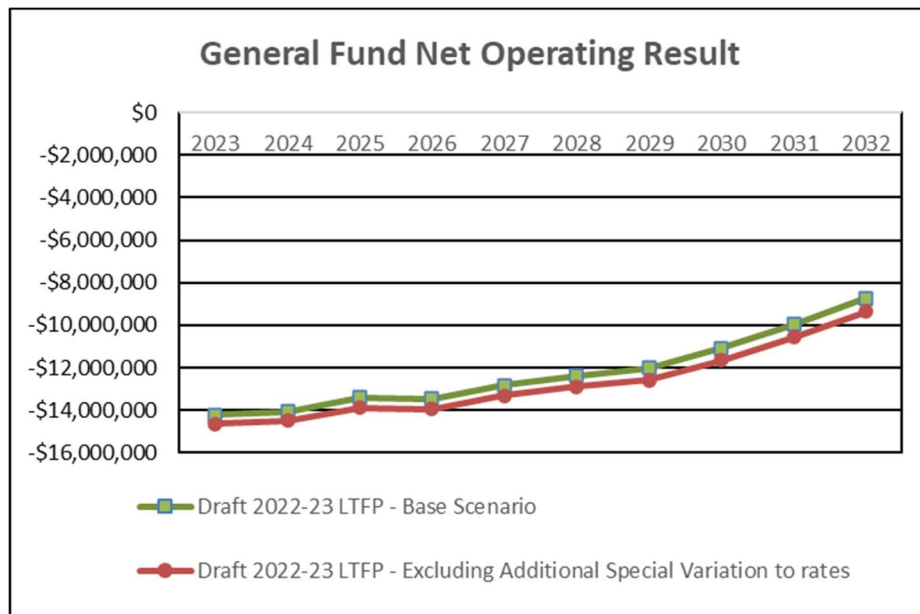
Two additional scenarios have been considered in the development of the AlburyCity Long Term Financial Plan.

## 2022/23 DRAFT BUDGET ANALYSIS

### Reduced Rate Revenue Scenario

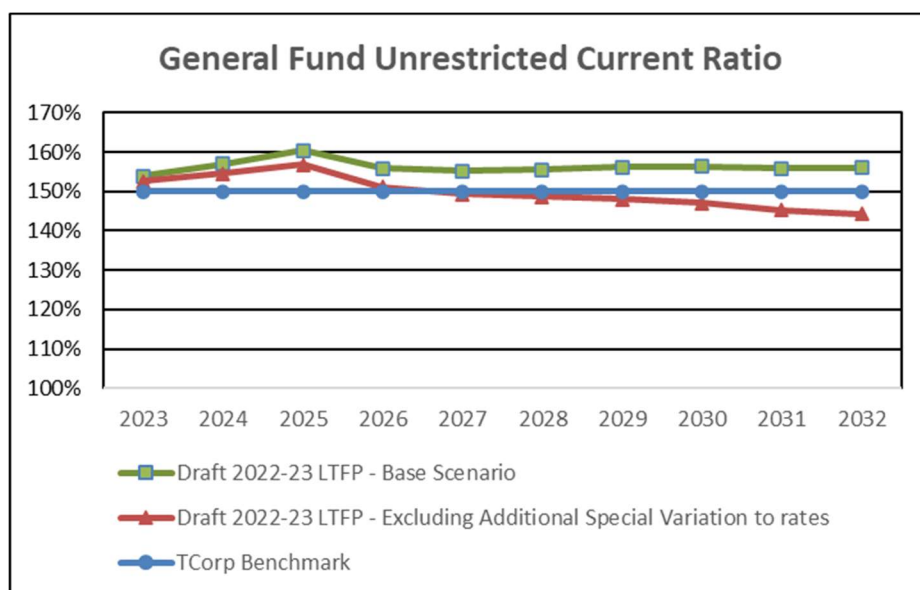
If AlburyCity chooses not apply an additional special variation to the rate peg of 0.9% or \$423,000 for the 2022/23 financial year and applies the AlburyCity rate peg of 1.1% only, the ongoing General Fund net operating result will adversely impacted, as demonstrated by Graph 14 below.

Graph 14



Graph 15 also demonstrates the cumulative impact of not applying the proposed additional special variation to the rate peg for the 2022/23 financial year on the General Fund unrestricted current ratio, being \$5.2m over 10 years.

Graph 15



## 2022/23 DRAFT BUDGET ANALYSIS

### Additional General Fund Savings Target Scenario

This additional scenario demonstrates that (all things being equal) in order for the AlburyCity General Fund to project a breakeven operating result by 2032 (and fully fund non-cash depreciation expense for the purpose of renewing infrastructure assets) an additional and increasing annual savings target of \$2 million per year has been applied to the Long Term Financial Plan projections from 2024, which is \$1 million greater per year than the base scenario.

Graph 16

