

2021/22 Draft Budget Analysis

2021/22 DRAFT BUDGET ANALYSIS

Draft 2021/22 Operating Budget

The draft 2021/22 operating result for each Fund compared to Year 2 of the adopted Long Term Financial Plan is summarised by Table 1 below.

Overall the draft 2021/22 budget result is a deficit of \$2.7 million, compared to a surplus of \$5.6 million provided for in year two of the adopted Long Term Financial Plan. This overall variance is mainly due the impacts of COVID and increasing non-cash depreciation expense.

Table 1

Fund	Draft 2021/22 Operating Budget '000	Year 2 Adopted Long Term Financial Plan '000	Variance '000
General	8,709	2,428	6,281
Water	(162)	(1,358)	1,195
Sewer	(5,808)	(6,707)	899
Total	2,737	(5,637)	8,375

(Surplus)/Deficit

Further details regarding the draft 2021/22 operating budget variances within each Fund are provided below.

General Fund

The draft General Fund operating budget variance of \$6.3 million is mainly driven by the following factors:

Unfavourable variances:

- \$2 million Depreciation increase non-cash increase, due to the revaluation of road and buildings, changes to accounting standards, and increasing AlburyCity asset portfolio; and
- 4.2 million COVID-19 budget impacts, including:
 - \$2.5 million Albury Airport operations;
 - \$793,000 interest income reduction;
 - \$500,000 AlburyCity COVID-19 Relief and Recovery measures;
 - \$287,000 Cemetery & Crematorium operations; and
 - \$98,000 Albury Entertainment Centre operations.

It is also important to note that to achieve the 2021/22 General Fund operating deficit, operating budget savings of \$4 million are budgeted to be achieved, which is \$657,000 more than the projected savings target included in AlburyCity's adopted Long-Term Financial Plan.

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Water Fund

The draft operating budget for the Water Fund is \$1.2 million less than year two of the Adopted Long Term Financial Plan. The major variances are summarised below:

Unfavourable variances:

- \$509,000 Interest income reduction due to COVID-19;
- \$395,000 Depreciation expense (non-cash) increase, due to the revaluation of infrastructure; and
- \$169,000 Utilities expense.

Sewer Fund

The draft operating budget for the Sewer Fund is \$909,000 less than year two of the adopted Long Term Financial Plan. This variance mainly relates to interest income reduction due to COVID.

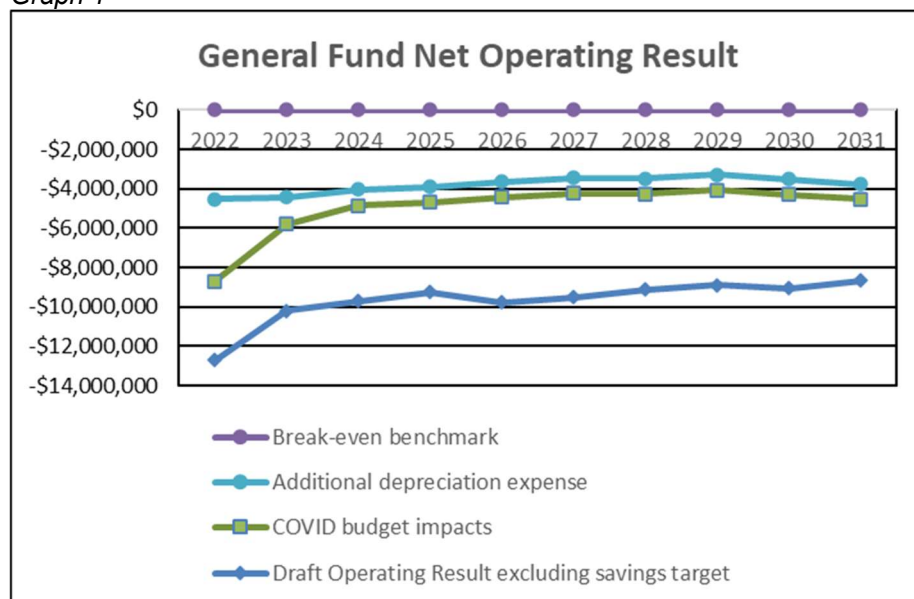
Long Term Financial Plan Projections

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

General Fund Projections

The financial impact of COVID on the General Fund operating deficit projected to reduce as indicated by Graph 1 below. Depreciation expense for road and building infrastructure will be further assessed as part of the preparation of Asset Management Plans for key asset categories. The projected budgeted savings target will be addressed through AlburyCity's continued focus on business improvement.

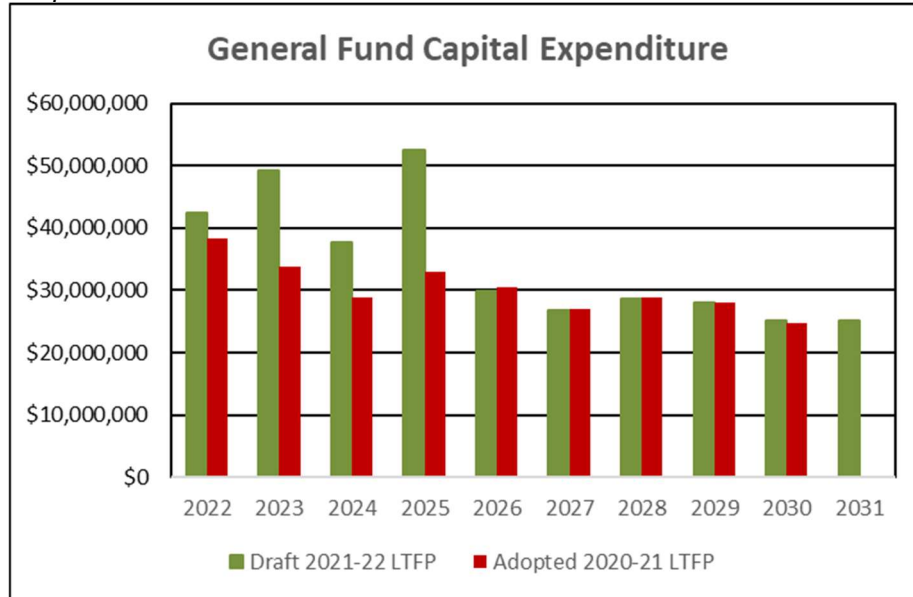
Graph 1



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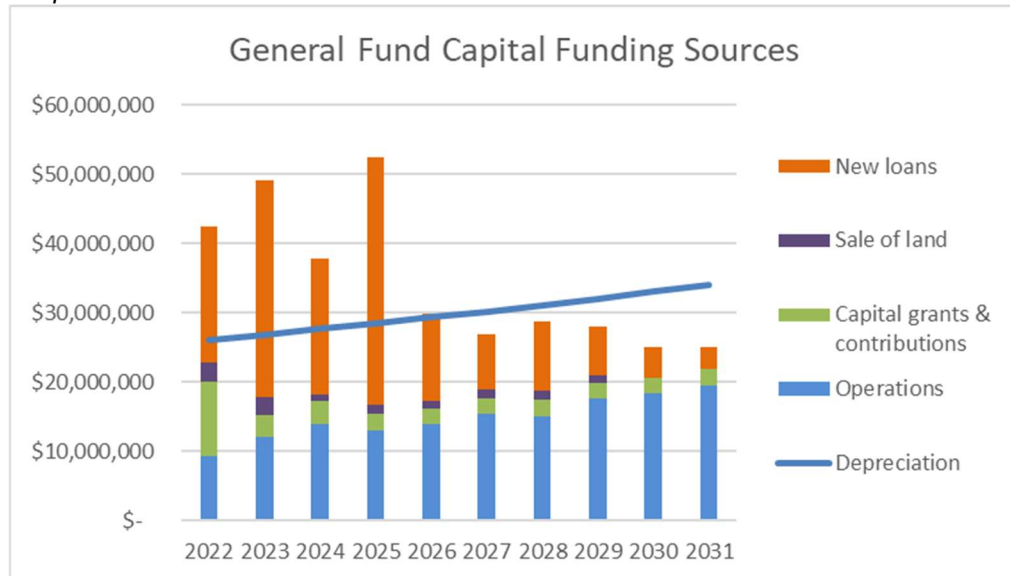
The projected General Fund capital expenditure compared to the adopted Long Term Financial Plan is shown by Graph 2 below.

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 from operations, loans and awarded capital grants.

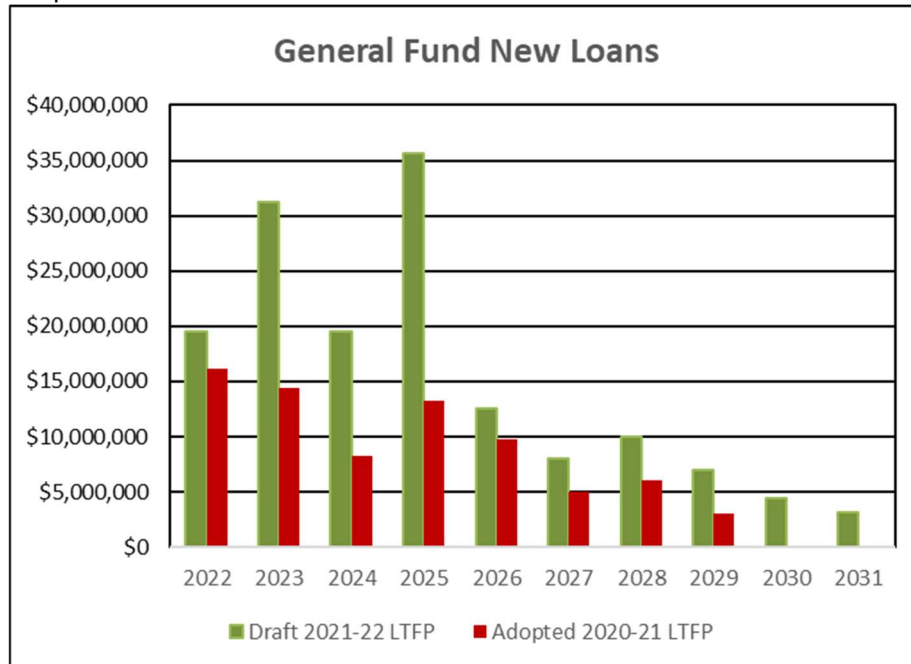
Graph 3



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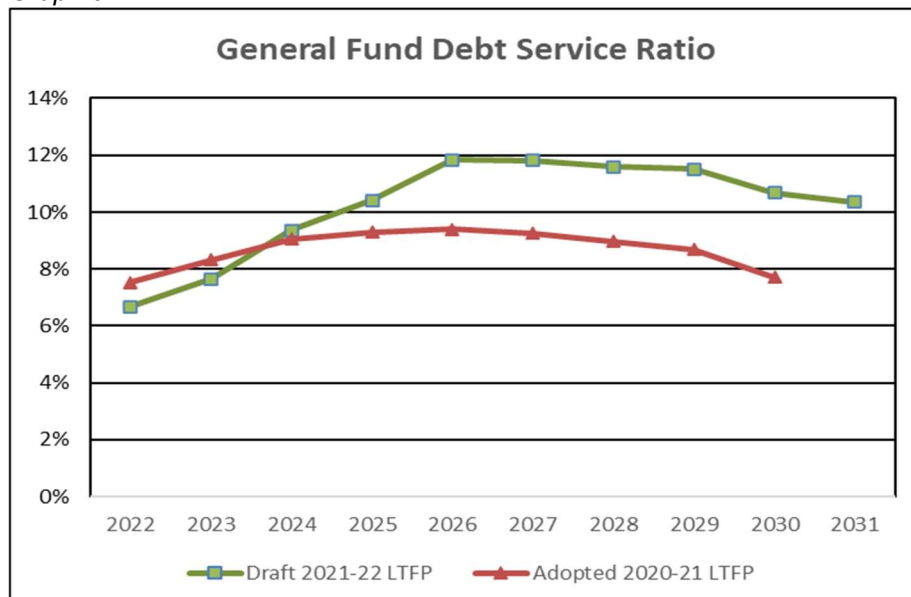
It is proposed that the practice of part funding capital New Initiatives with borrowings continue. The use of borrowings ensures that the future users of the asset contribute to the cost of the asset. Borrowings are long-term loans repayable by quarterly instalments, secured against Council revenue. Graph 4 below summarises the projected draw down of loan funding compared to the adopted Long Term Financial Plan, which reflects the proposed capital expenditure increase.

Graph 4



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 12% by 2026. The Fit for the Future Debt Service Ratio Benchmark is a ratio of less than 20%.

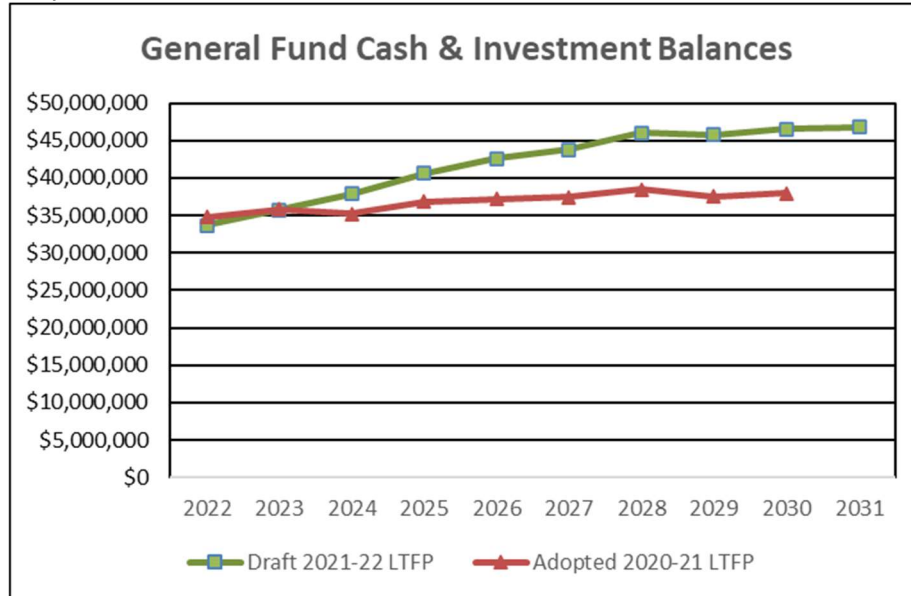
Graph 5



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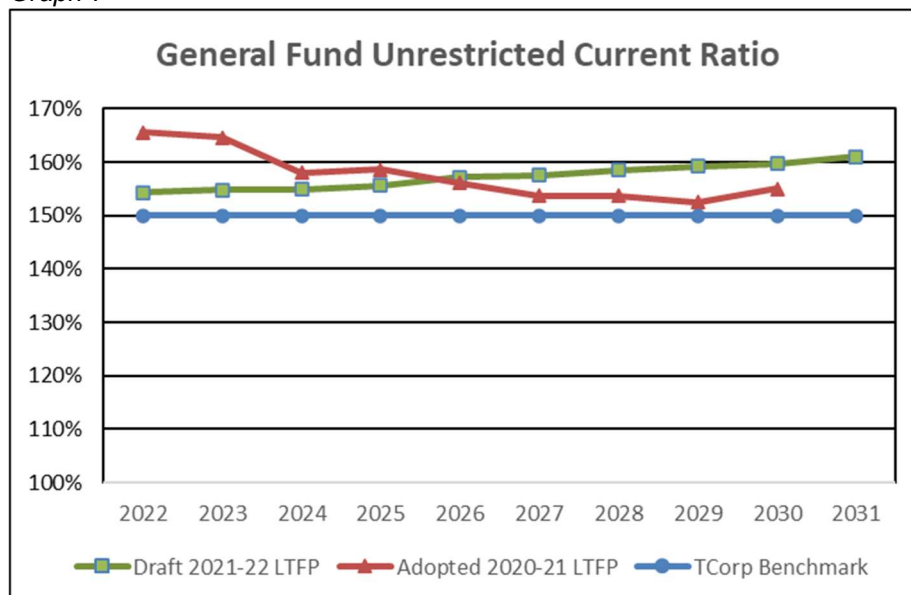
Graph 6 below shows that the projected General Fund cash and investment balances are to increase at a relatively constant rate which is required to offset liabilities and maintain an adequate unrestricted current ratio.

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 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 as yet unidentified major community capital assets 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 6 below. The impact of COVID-19 on AlburyCity's operations and financial position will continue to be monitored and assessed during quarterly budget reviews.

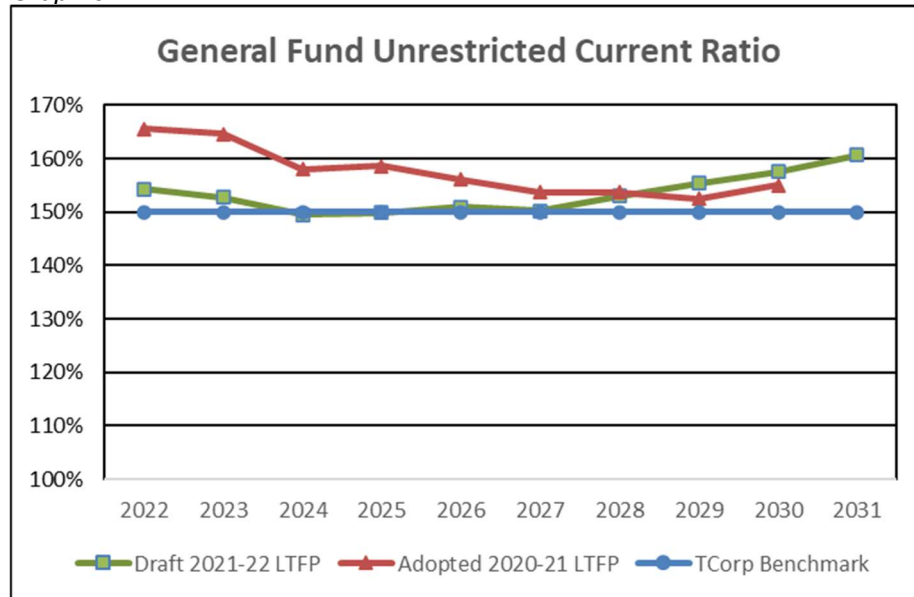
Graph 7



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If the impact of COVID-19 extends longer than two years and does not bounce back until the end of the Four Year Delivery Program, the General Fund unrestricted current ratio would decrease to be in line with the minimum prudential liquidity benchmark of 150% s indicated by Graph 8 below.

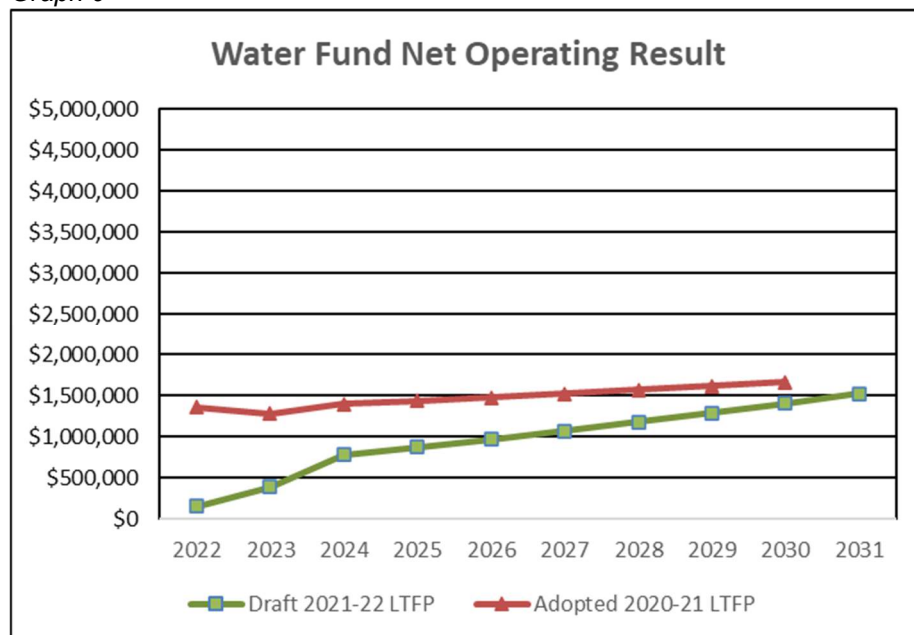
Graph 8



Water Fund Projections

As shown by Graph 9 below, the projected Water Fund operating results are projected to be less than the adopted Long Term Financial Plan, which is mainly due to the nature of 2021/22 budget variances.

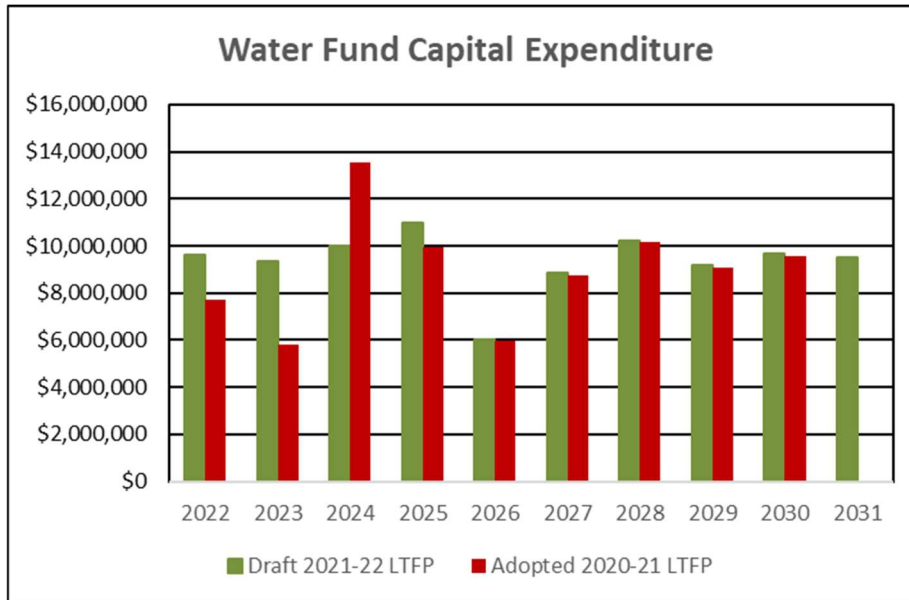
Graph 9



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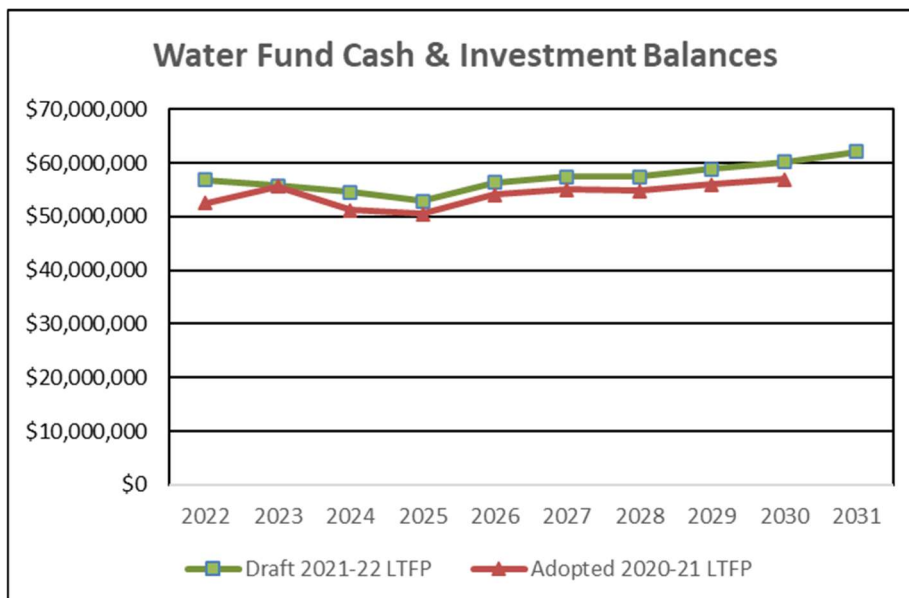
The projected Water Fund capital spend compared to the adopted Long Term Financial Plan is shown by Graph 10 below. Major variances mainly related to the timing of scheduled projects.

Graph 10



As shown by Graph 11 below the Water Fund cash and investment balances are projected to be maintained at a relatively constant level, which will support future infrastructure projects.

Graph 11

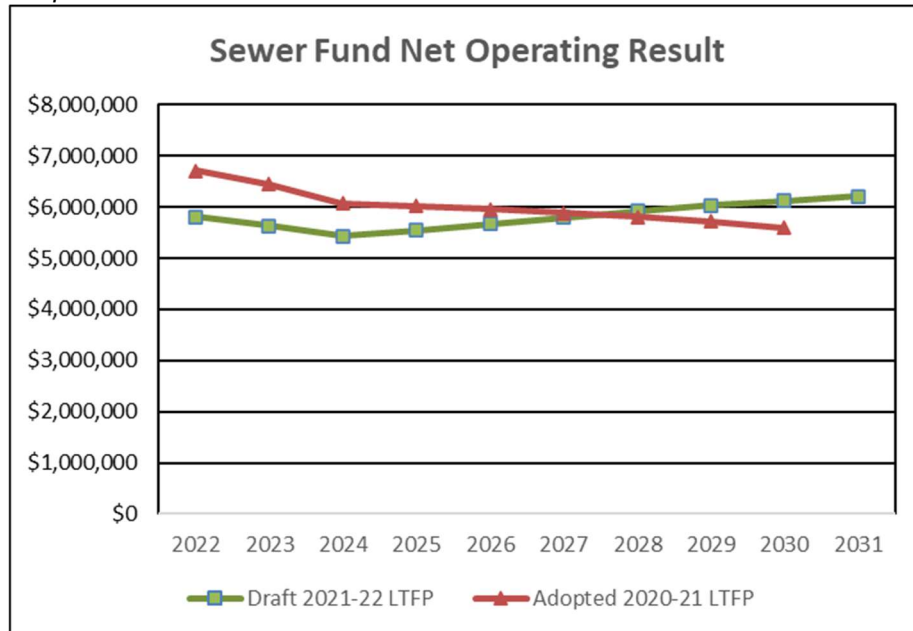


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Sewer Fund Projections

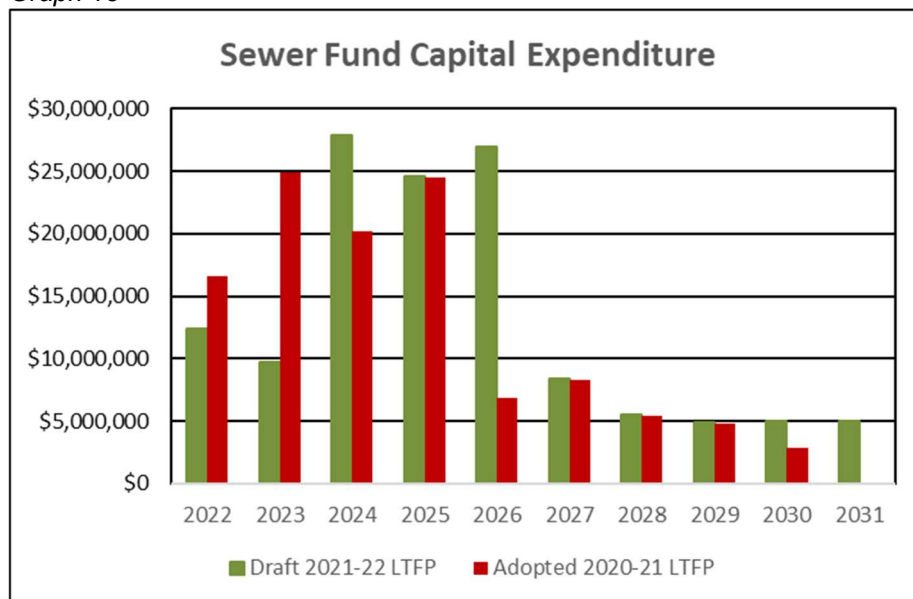
Graph 12 shows the projected Sewer Fund operating results are forecasted to be maintained at a relatively consistent level over the Long Term Financial Plan.

Graph 12



The projected Sewer Fund capital spend compared to the adopted Long Term Financial Plan is shown by Graph 13 below. The variance in projected Sewer Fund capital expenditure mainly relates to the timing of the provisional allocation for the Waterview Wastewater Treatment Plant upgrade.

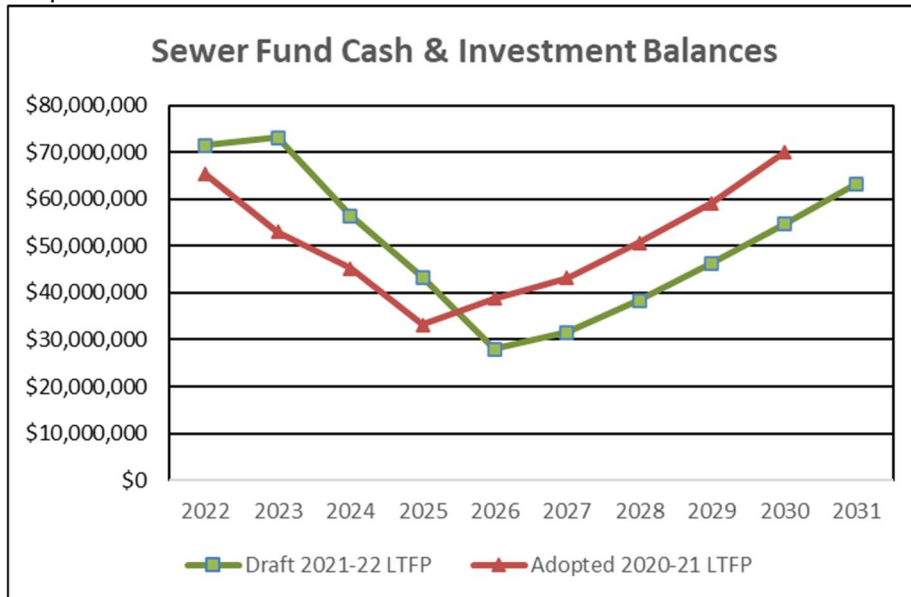
Graph 13



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As shown by Graph 14 below the Sewer Fund cash and investment balances are projected to decrease in 2025/26 compared to the adopted Long Term Financial Plan, which is due to the timing of major projects.

Graph 14



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.

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Projected inflation factors

The NSW Government Half Year Budget Review suggests that Sydney CPI and the NSW Wage Price Index will increase in the future as shown by Table 2.

Table 2

NSW Government Inflation Forecast	2018/19 Actual	2019/20 Actual	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast
NSW Wages Price Index	2.4%	2.0%	1.3%	1.3%	1.5%
Sydney CPI	1.7%	1.0%	1.0%	1.3%	1.5%

The projected AlburyCity inflation assumptions as summarised by Table 3 below includes an element of growth. AlburyCity's population is forecast to grow from 56,159 to 67,427 by 2036, which is an annual increase of 1.3%, compared to an average of 1.4% over the last ten years.

Table 3 summarises inflation assumptions applied from Year 2 of Council's projected operating results.

Table 3

	2022/23	2023/24	2024/25	2025/26	Growth
Income					
Rates	3.4%	3.4%	3.4%	3.4%	Inc.1.4% growth
Waste Management Charges	3.0%	3.0%	3.0%	3.0%	Inc.1% growth
Water Income	3.0%	3.0%	3.0%	3.0%	Inc.1% growth
Sewer Income	3.0%	3.0%	3.0%	3.0%	Inc.1% growth
Fee Income	3.0%	3.0%	3.0%	3.0%	Inc.1% growth
Financial Assistance Grant	3.0%	3.0%	3.0%	3.0%	Inc.1% growth
Expenditure					
Employee Costs	2.9%	2.9%	2.9%	2.9%	Inc.0.5% growth
Materials & Contracts	1.5%	1.5%	1.5%	1.5%	Inc.0.5% growth
Depreciation	3.0%	3.0%	3.0%	3.0%	Inc.1% growth