

2023/24 Draft Budget Analysis

2023/24 DRAFT BUDGET ANALYSIS

Draft 2023/24 Operating Budget

Overall, the draft 2023/24 budget result is a deficit of \$8.8 million, which is \$1.7 million more than the prior year's adopted Budget, which is mainly due to projected increases in non-cash depreciation expense of \$5.8 million.

Table 1

(Surplus)/Deficit by Fund	Adopted 2022/23 Operating Budget \$'000	December Quarter Budget Review Forecast \$'000	Draft 2023/24 Operating Budget \$'000	Variance to Adopted Budget \$'000
General	14,228	23,009	17,587	3,359
Water	(1,151)	(733)	(2,014)	(863)
Sewer	(5,986)	(7,133)	(6,738)	(752)
Total	7,091	15,141	8,834	1,743

General Fund

The draft 2023/24 General Fund operating budget deficit of \$17.6 million is mainly due to the following items:

Unfavourable variances:

- \$5.8 million Depreciation expense increase based on inflation running at 6% per year for the past two years
- \$1.2 million software subscription expenses mostly related to increases in usage and per head numbers for MS Teams, Office 365 and the new Human Resources Information System
- \$847,000 sale of land net profits reduction, due to less lots than the prior year's budget
- \$780,000 maintenance budget increase, to enable a more proactive program for street and storm water drainage
- \$520,000 sports ground operations and maintenance budgets which were originally understated in the prior year's budget, combined with increased utilisation
- \$441,300 net increases to operational employee costs, in most part due to a provisional 4% increase to the Award, partially offset by an increase of \$1.5 million to the vacancy budget.

Favorable variances:

- \$3.5 million Rates income based on 3.7% rate peg
- \$1.4 million Albury Waste Management Centre net income
- \$1.1 million Interest income from term deposits.

It is also important to note that to achieve the 2023/24 General Fund budgeted result, 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 \$863,000 more than the prior year Original Budget. The major variances are summarised below:

Favourable variances:

- \$1.2 million income increase due to revised income budget calculations, increased investment income and additional access and user charges resulting from new connections.

Unfavourable variances:

- \$305,000 net increase in operational employee costs.

Sewer Fund

The draft operating budget surplus for the Sewer Fund is \$752,000 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).

Long Term Financial Plan Projections

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

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General Fund Projections

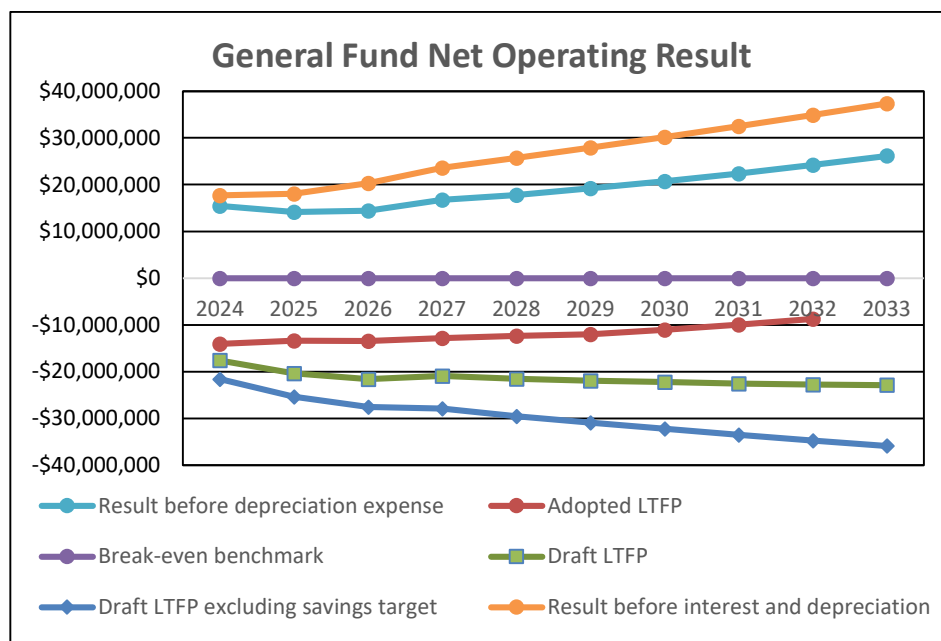
The draft financial projections show the General Fund operating result (green) moving from a deficit of \$17 million in 2024 to \$22 million by 2033.

As shown in the chart below, the Draft LTFP result (green) is trending lower than the Adopted LTFP (red), which is as a result of increases in projected depreciation and interest expense.

The General Fund non-cash depreciation expense is projected to increase from \$33 million in 2024 to \$49 million in 2033. Depreciation expense for buildings and road infrastructure will be further assessed as part of the preparation of Asset Management Plans for key asset categories.

Interest expense is projected to increase from \$2.3 million in 2024 to \$10.6 million in 2033, which is a reflection of the available fixed interest rate for 20-year loans of 5.3%.

Graph 1



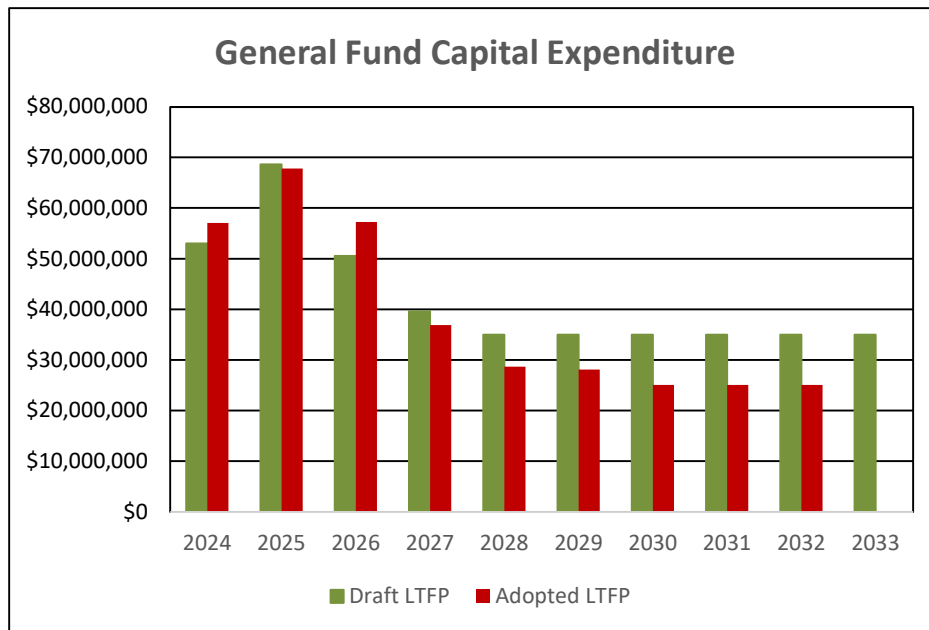
These projections include an annual \$4 million General Fund operating budget savings target (blue), increasing by a further \$1 million per year from 2024/25. The projected budgeted savings target will be addressed through AlburyCity's continued focus on business improvement.

The sustainability of the General Fund is being further assessed as part of the development of a financial sustainability improvement plan.

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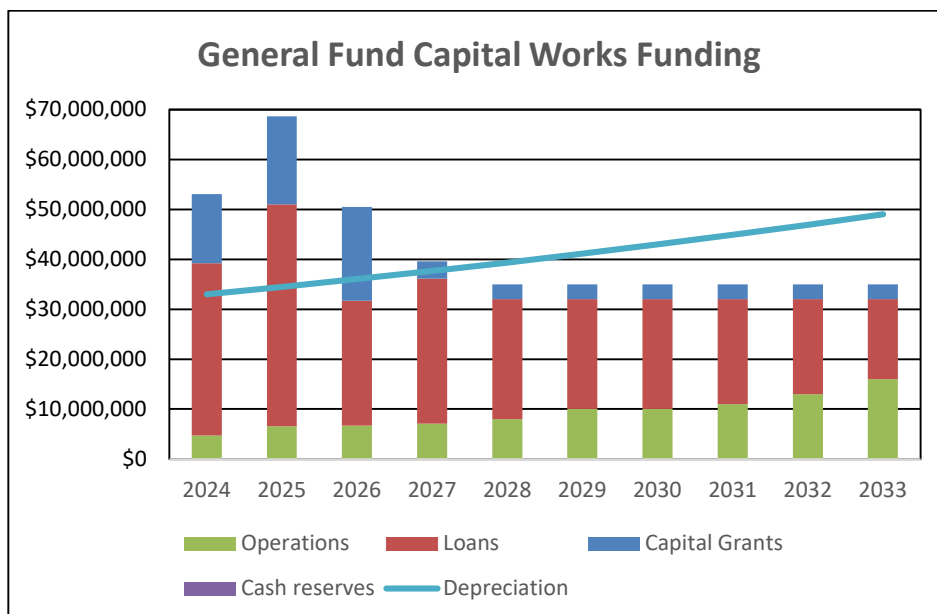
The projected General Fund capital expenditure differs to the adopted Long Term Financial Plan as shown by Graph 2 below, due to the timing and net cost of projects

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 from loans, awarded capital grants and operations.

Graph 3

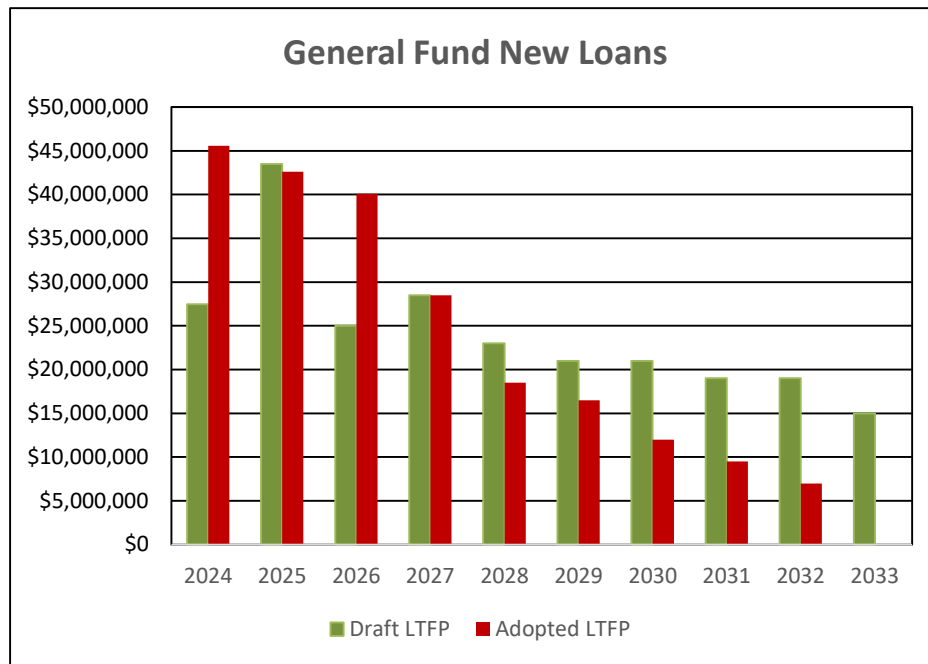


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Graph 4 below summarises the projected drawdown of loan funding compared to the adopted Long Term Financial Plan, which largely reflects the timing of proposed capital expenditure and capital funding requirements.

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.

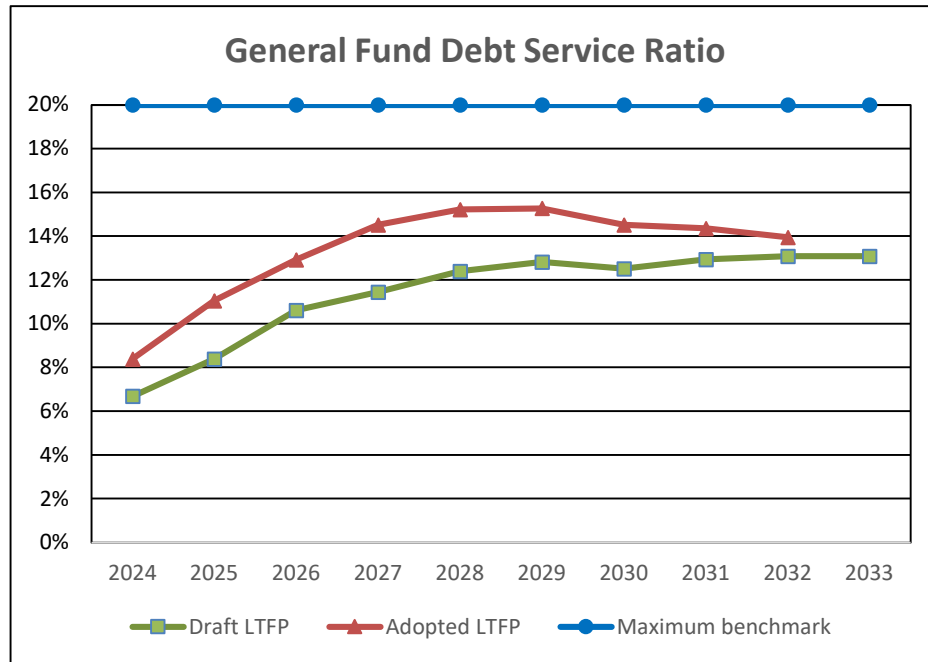
Graph 4



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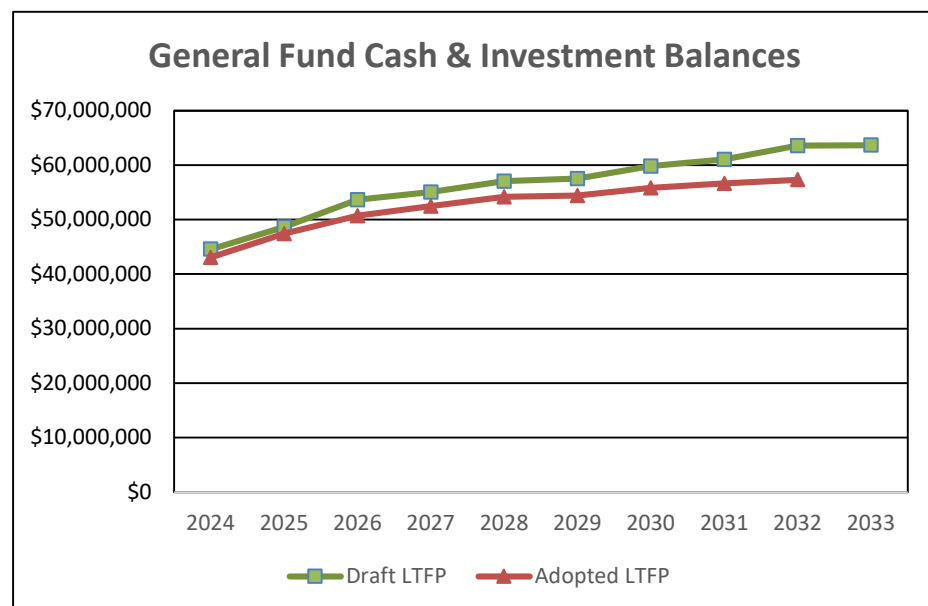
Relative debt levels are benchmarked by the Debt Service Ratio, being principal and interest loan repayments compared to total operating revenue. The Fit for the Future Debt Service Ratio Benchmark is a ratio of less than 20%. It is projected that the General Fund Debt Service Ratio will increase to 14% by 2033 as shown by Graph 5 below.

Graph 5



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.

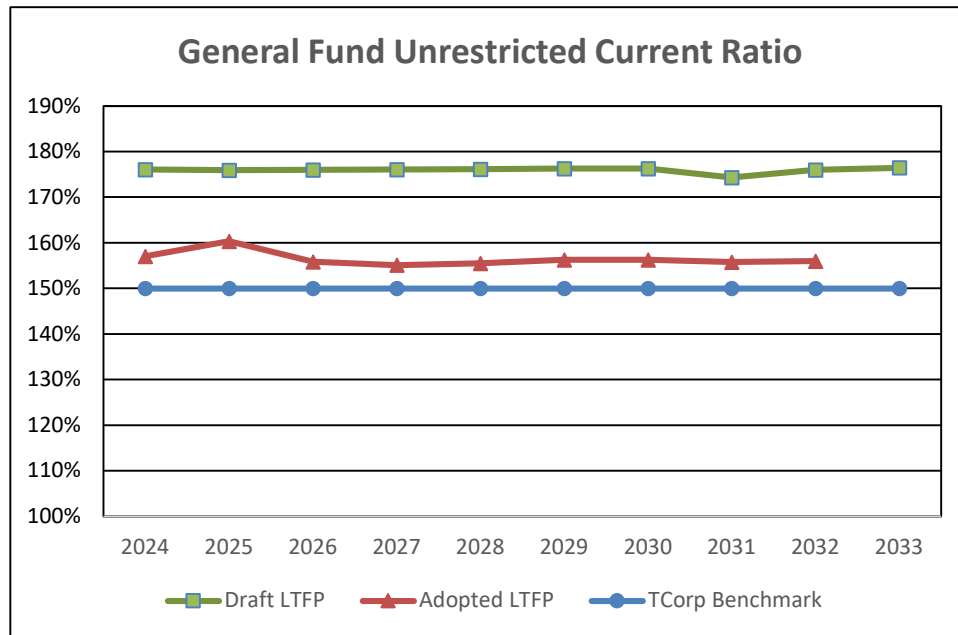
Graph 6



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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

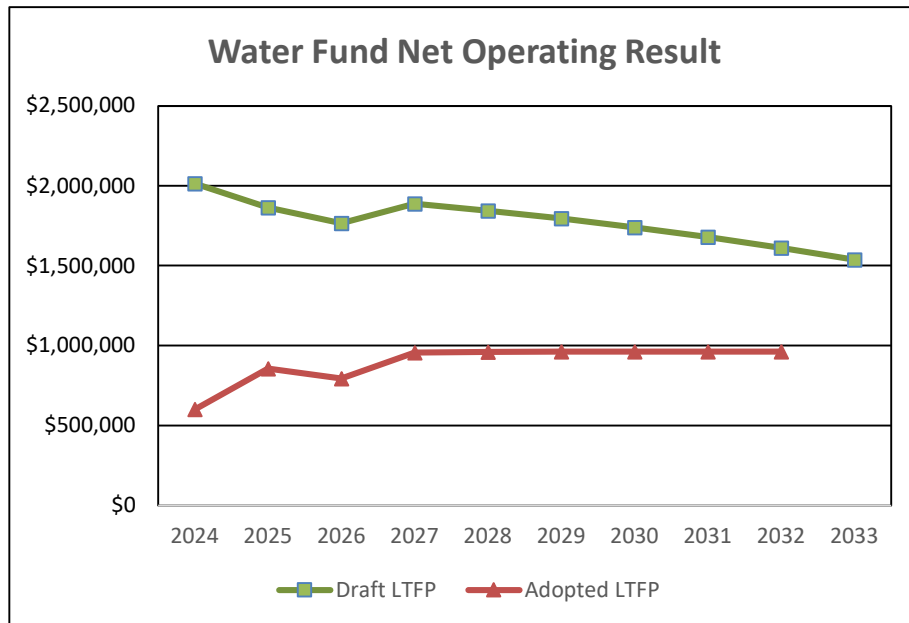


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Water Fund Projections

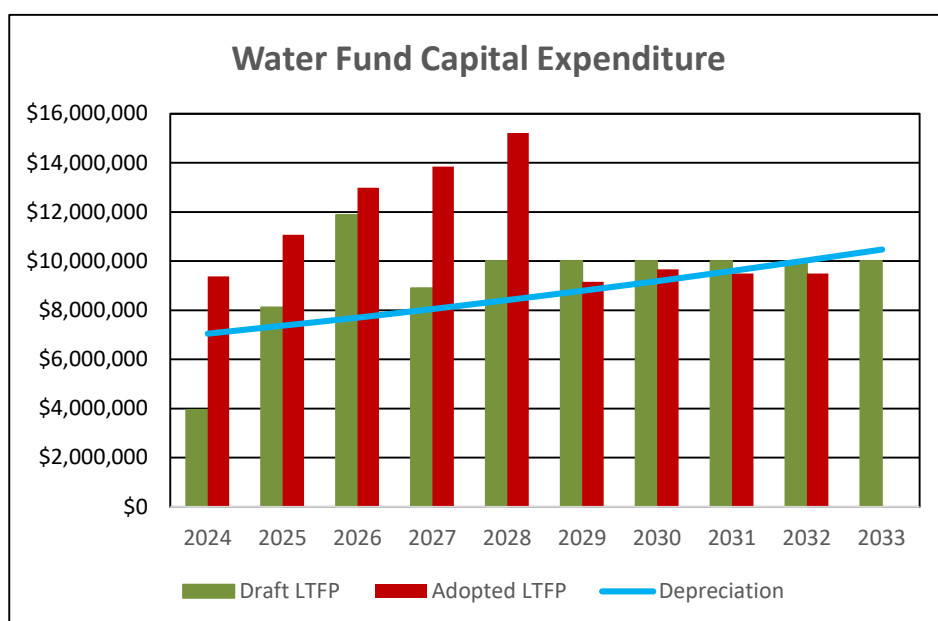
As shown by Graph 8 below, the Water Fund operating results are projected to be maintained at a relatively stable level.

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.

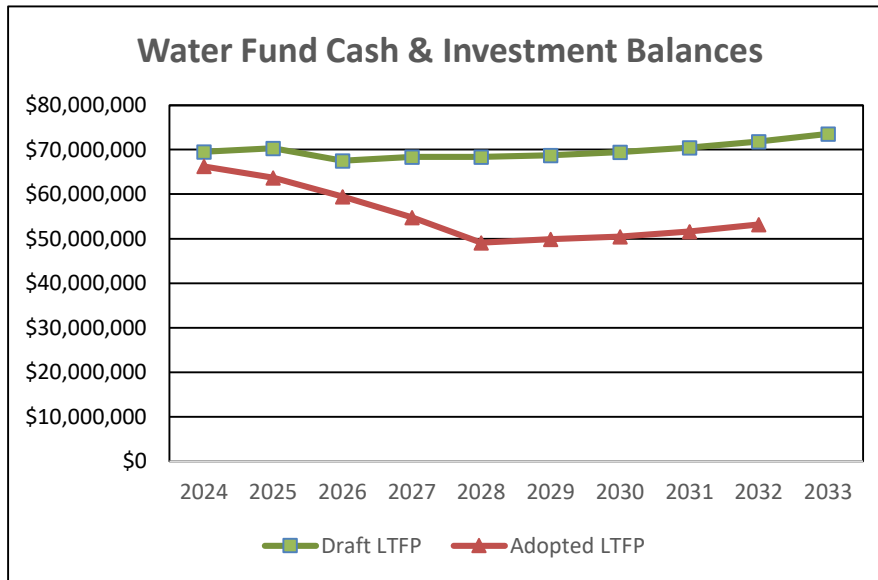
Graph 9



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

Graph 10

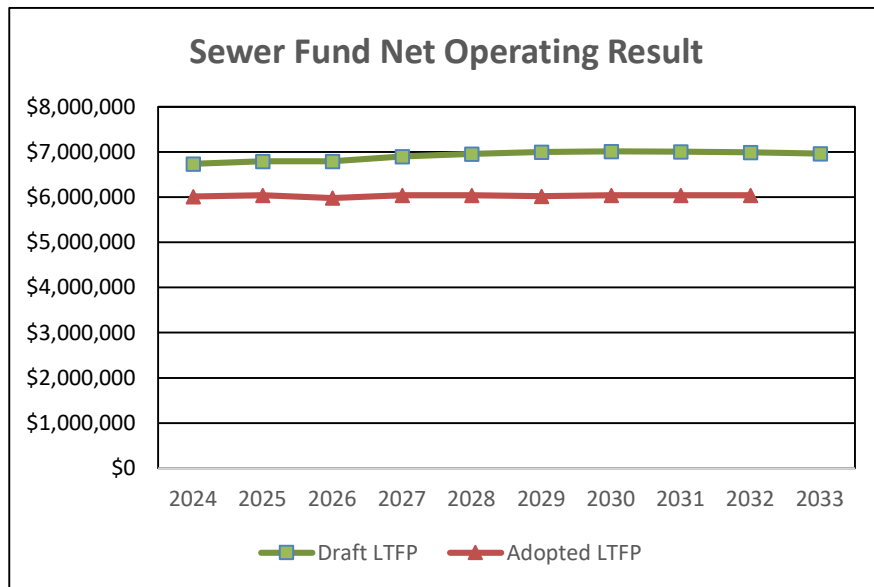


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Sewer Fund Projections

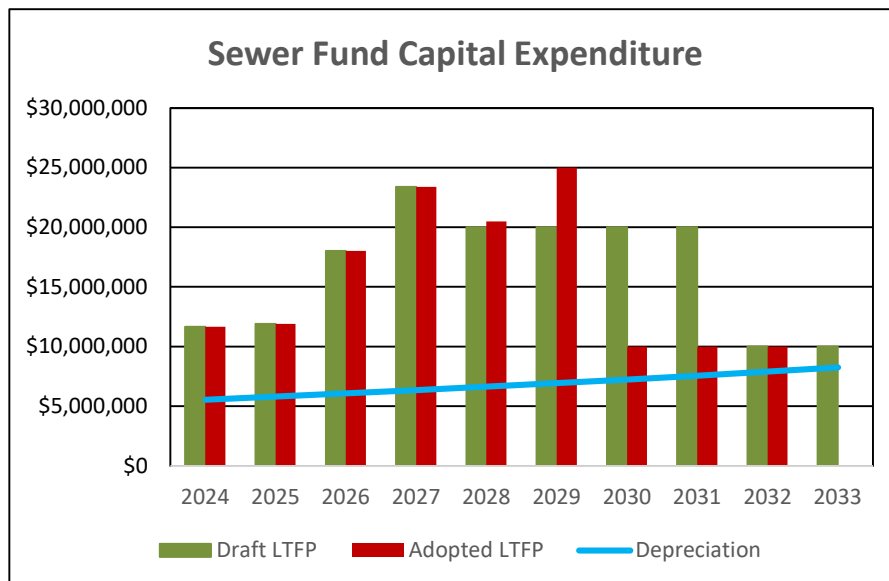
Graph 11 shows the projected Sewer Fund operating results are forecast to be maintained at a relatively consistent level.

Graph 11



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.

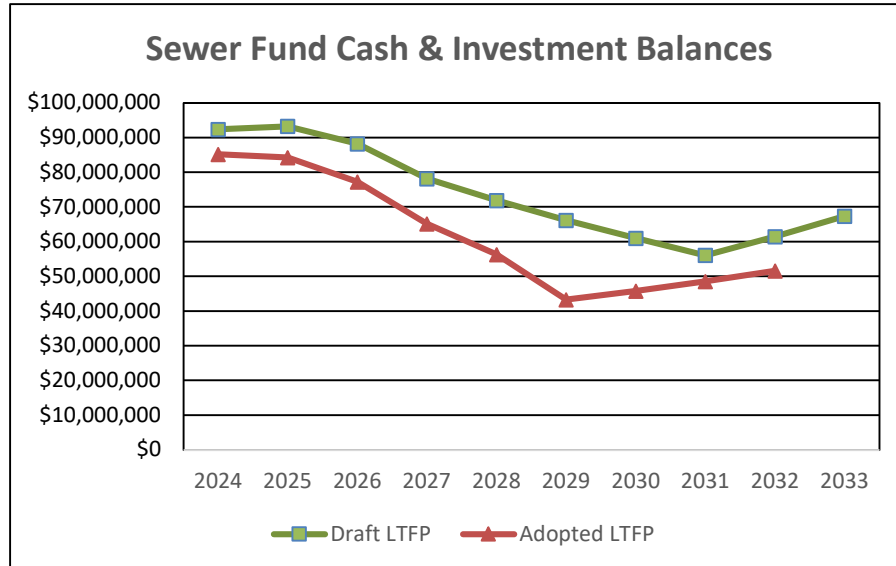
Graph 12



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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.

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Projected inflation factors

The Reserve Bank of Australia's forecast for inflation is to reduce to 3.6% for the 2023/24 financial year, and the wages price index is projected to increase to 4.1%, as depicted in the table below.

RBA Inflation Forecast – year on year

	2020/21	2021/22	2022/23	2023/24	2024/25
CPI	3.8%	6.1%	6.7%	3.6%	3.0%
WPI	1.7%	2.6%	4.1%	4.1%	3.8%

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 57,797 being an increase of 1.5% per year since 2016 and is projected to grow to 67,268 by 2036.

Table 2

AlburyCity inflation and growth assumptions	2024/25	2025/26	2026/27	Growth
Income				
Rates	6.5%	6.0%	5.0%	Inc.1.5% growth
Waste Management Charges	4.5%	4.5%	4.5%	Inc.1.5% growth
Water Income	3.3%	4.5%	4.5%	Inc.1.5% growth
Sewer Income	3.3%	3.3%	3.3%	Inc.1.5% growth
Fee Income	4.5%	4.5%	4.5%	Inc.1.5% growth
Financial Assistance Grant	4.5%	4.5%	4.5%	Inc.1.5% growth
Expenditure				
Employee Costs	5.5%	5.5%	5.0%	Inc.1% growth
Materials & Contracts	4.0%	4.0%	4.0%	Inc.1% growth
Depreciation	4.5%	4.5%	4.5%	Inc.1% growth

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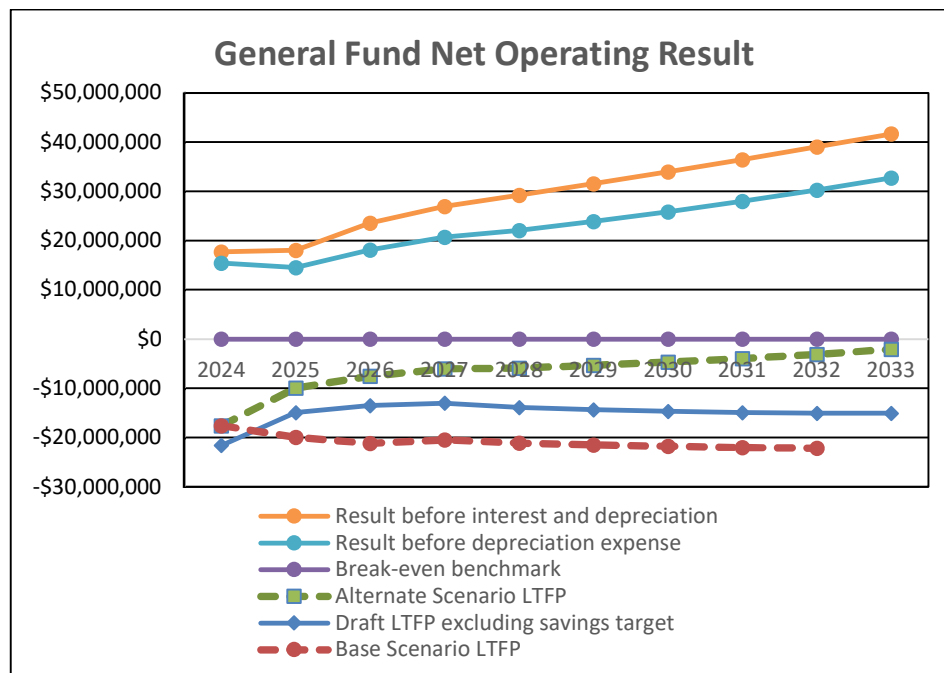
Alternative Scenario

An alternative scenario as depicted by Graph 14 below has been developed, which includes the additional General Fund Operating Budget savings measures compared to the base scenario, including:

- Application of a consumption-based depreciation methodology (rather than straight line) which would realise a depreciation expense reduction of \$8 million per annum from 2024/25
- A dividend of \$1.5 million received by the General Fund from the Water and Sewer Funds from 2025/26 following finalisation of an integrated water cycle management strategy
- Albury Airport result improvement of \$1.7 million in 2025/26 to return to pre-COVID surplus of \$1 million per annum.

These additional saving measures would enable a break even operating result to be achieved by the General Fund in the future.

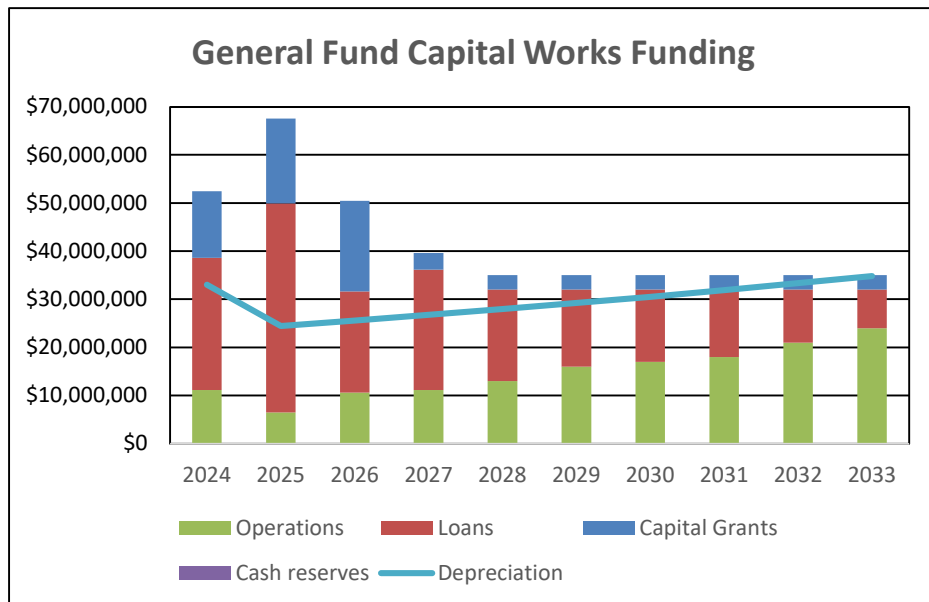
Graph 14



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Graph 15 also demonstrates the resulting improved capital funding available from operations and decreased need for capital loan funding as a result of the additional budget saving measures.

Graph 15



These measures and the sustainability of the General Fund is being further assessed as part of the development of a financial sustainability improvement plan.