

2018/19 BUDGET ANALYSIS

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Independent Pricing and Regulatory Tribunal (IPART) Rate Peg

The Rate Peg of 2.3% for the 2018/19 financial year is more than in prior years as shown by Table 1.

Table 1

IPART Rate Peg	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Rate Peg	3.6%	3.4%	2.3%	2.40%	1.8%	1.5%	2.3%

When calculating the Local Government Rate Peg, IPART weight 42% based upon the NSW Public Sector Wage Price Index and 58% to the increase in cost of other goods and services that are purchased by councils.

Rate Revenue

The proposed ordinary rate revenue for 2018/19 financial year includes a 2.3% increase in yield, which is in line with the rate peg set by the Independent Pricing and Regulatory Tribunal (IPART). The base amount for each rating category has been held at \$798 for business, \$436 for business village and \$304 for residential and farmland properties.

The average residential rate for the 2018/19 financial year will be \$1,290 being an increase of \$27 or 2.1% on last year's forecast average rate.

It is also proposed that special rates (Car Parking and CBD Promotional) increase by 2.3% in line with the IPART rate peg.

When all rates, water, sewer and domestic waste management increases are combined the total increase for the average residential property is an additional \$33.20 or 1.2% per year, or \$0.64 per week.

It is proposed that the early rates and charges payment discount remain at 1.5% for the 2018/19 financial year.

The Statement of Revenue Policy (*Attachment 14*) provides the complete overview of Council's income from continuing operations including rates, fees and charges, borrowings and proceeds from the sale of assets. Maps have also been prepared that show the location of the different rating categories.

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Domestic Waste Management Charges

The *Local Government Act 1993* provides that the Domestic Waste Management Charge must be self-funding, and that the Council must bring to account all known costs in determining the charge. The General Fund must not 'subsidise' the operations of the Domestic Waste Management Charge.

In calculating the Domestic Waste Management Charge, all costs are brought to account, including depreciation, provision for rehabilitation, interest charges, and the cost of pension rate concessions and discounts. A Domestic Waste Management Charge can only be applied to domestic premises (residential, business properties and vacant land), and must be segregated from other Council waste management activities.

The Domestic Waste Management Charge is proposed to remain at \$250 due to surplus funds held in the Domestic Waste Management Reserve.

Water and Sewer Pricing

According to the NSW Office of Water NSW Performance Monitoring Report, AlburyCity had the seventeenth lowest typical residential bill for water and sewer supply in NSW for the 2016/17 financial year. To maintain reliable and quality service provision, expenditure is required on infrastructure maintenance and expansion in order to service the existing and growing city.

The proposed 2018/19 Water and Sewer pricing structure as summarised below has been prepared in accordance with the NSW Government's Best Practice Water Supply, Sewerage and Trade Waste Pricing Guidelines, which require that AlburyCity collect 75% of its water income from water usage charges and 25% from fixed water access charges. This weighting towards consumption pricing, increases the variability of water income resulting from changes in consumption. Total water consumption is affected by weather conditions including; amount of rainfall (garden consumption) and temperature (air conditioning, swimming pool evaporation etc).

To promote water conservation and equitably distribute costs among customers if the annual residential water consumption is above 225 kilolitre (kL) a higher rate per kL is applied. Residential water consumption charges for the first 225kL per annum are proposed to increase by 1%, whereas the charge for consumption from 226kL to 19,999kL is not proposed to increase in 2018/19.

The non-residential water consumption charge is proposed to increase by 1% in 2018/19 to \$1.90 per kL.

AlburyCity supplies bulk potable water to Greater Hume Shire Council in accordance with the *Hume Villages Water Supply Agreement*. Council has previously resolved to reduce the usage tariff applied to Greater Hume Shire Council by 10% below the adopted non-residential water usage charge, the effect of this resolution is that the proposed charge to Greater Hume Shire Council will be \$1.71 per kL for 2018/19, rather than the standard non-residential usage charge of \$1.90 per kL.

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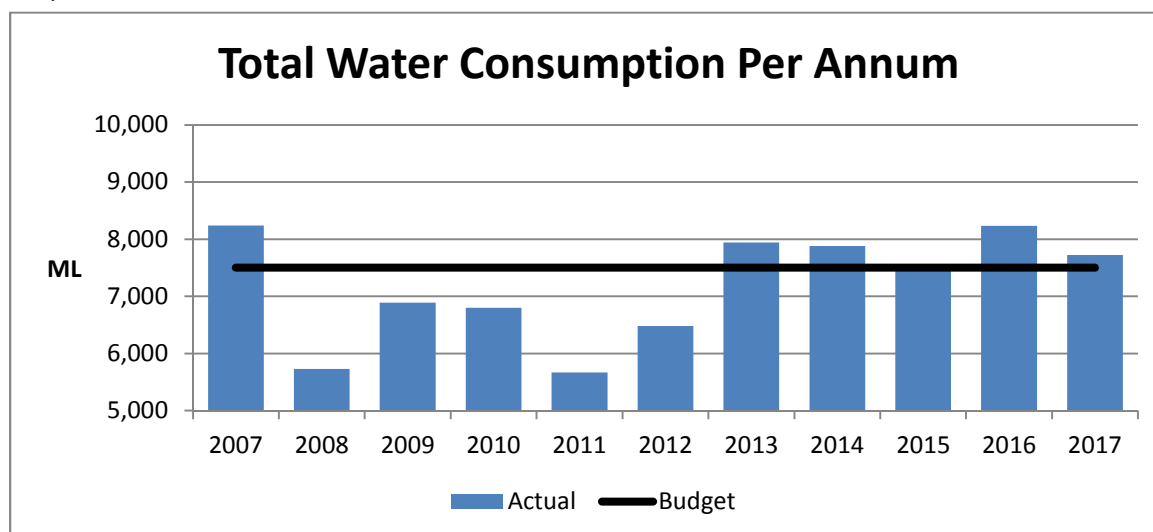
The water access charges are proposed to increase by 1%. The water access charge is payable by every property to fund the essential infrastructure that gives each resident access to water, but is not dependant on actual water use.

Sewer residential and non-residential connected charges are not proposed to increase in 2018/19. The non-residential sewer treatment charges are also not proposed to increase in 2018/19.

Trade Waste charges are proposed to rise by 3%.

The budgeted 2018/19 total water consumption is 7,500ML. In comparison the average total water consumption during the period 2007-2012 was 6,314ML. The total consumption of previous years is shown by Graph 1.

Graph 1



Projected Water and Sewer pricing is further detailed in *Attachment 20*.

Fees and Charges

The schedule of proposed fees and charges for the 2018/19 financial year, including Section 94 and Section 64 developer contributions, is detailed in *Attachment 21*.

Financial Assistance provided by AlburyCity

As considered earlier in this Council Meeting Agenda the financial assistance and sponsorship of \$1.5 million proposed to be provided by Council to community groups for the 2018/19 financial year is detailed in *Attachment 13*.

2018/19 BUDGET ANALYSIS

Productivity Improvement

Council remains committed to continuous improvement and achieving value for money with every dollar spent. Council will continue to investigate better ways of doing business by reviewing and implementing initiatives.

AlburyCity is continuing its Service and Efficiency Review Program, being a long-term plan to move the organisation back to a balanced budget. The primary focus of this review is to assess the services delivered by Council, the level to which they are delivered and find ways to make sure AlburyCity can be sustainable into the future. The aim is to ensure Council is financially sustainable in the long term. When assessing its services, Council will use six criteria:

- Is Council best placed to provide this service?
- Is it a legislative requirement that Council deliver this service?
- Can Council provide this service through an external provider?
- Is the service a non-core function of Council but is being delivered by Council on a discretionary basis?
- Are there other operators who could provide this service?
- If Council is best placed to deliver the services then how can this be done more efficiently?

The review is to future-proof the organisation while making sure it can deliver on *Albury 2030* within the resources available. It's also about ensuring we remain true to our Values; in particular Working Together, Integrity and Innovation and our Guiding Principles of red carpet not red tape; value for money guides our spending and short term gains will not be put before long-term financial and environmental sustainability.

Council will also continue regular reviews of the organisational structure to ensure efficiency and a sufficient workforce to deliver the essential services and operations of Council. The aims of this process include:

- Aligning council's priorities and enhancing customer service.
- Achieving long term productivity gains and cost efficiencies.
- Balancing performance management with career progression.
- Achieving continuous improvement and cultural change.
- Achieving long term financial sustainability.

Council's Service and Efficiency Review Program has been in operation since 2011/12 and is projected to achieve operating savings of \$3.1 million by 2018/19, including \$85,000 during 2018/19.

Any additional savings identified as part of AlburyCity's service and efficiency review program will be reflected in future budgets.

2018/19 BUDGET ANALYSIS

2018/19 Operating Results

The consolidated 2018/19 operating surplus of \$10.243 million is \$679,811 less than projected in the adopted Delivery Program as shown by Table 2 below.

Table 2

Fund	Adopted 2017/18 Original Budget	2018/19 Operating Budget '000	Year 2 Adopted Delivery Program '000	Variance '000
General	(\$234)	\$0	(\$964)	\$964
Water	(\$3,166)	(\$2,759)	(\$3,376)	\$616
Sewer	(\$6,403)	(\$7,484)	(\$6,583)	(\$901)
Total	(\$9,803)	(\$10,243)	(\$10,923)	\$679

(Surplus)/Deficit

The main reason for the variance to the General Fund budgeted operating result of \$963,925 for the 2018/19 financial year compared to Year 2 of the adopted Four Year Delivery Program is due to the proposed new initiative of \$1 million to commence the replacement of street lighting with LED, as summarised by Table 3 below.

Table 3

General Fund operating result variances	'000	Comment
Citywide LED Street lighting rollout	1,000	Operating new initiative as the street lights are not AlburyCity's asset. Will result in future operating budget savings.
Depreciation	554	Higher than previously projected including plant and equipment, buildings and roads.
Less unallocated savings to be achieved	(423)	Unallocated budget saving required for the General Fund to achieve a break even operating result.
Less other favourable budget variations	(167)	Variations to Year 2 of the adopted Four Year Delivery Program are further detailed below within this report
Total	964	

The overall 2018/19 operating budget surplus of \$10.2 million is not a cash saving as it is required to fund capital improvements.

The 2018/19 Operating Budget at Team level is provided as Attachment 6 to this report.

2018/19 BUDGET ANALYSIS

Draft 2018/19 Operating Results by Directorate compared to Year 2 of the adopted Four Year Delivery Program

GENERAL FUND

Excluding the target unallocated saving to be achieved of \$422,724 there has been a net deterioration in the General Fund operating results of \$1.4 million compared to Year 2 of the adopted Four Year Delivery Program; major variances within each Directorate are summarised below.

Community and Recreation

Net deterioration to operating results compared to Year 2 of the adopted Four Year Delivery Program of \$298,996 are made up of:

Improvements:

- \$228,133 Reduced Internal Water Charges due to a decrease in water consumption in parks based on prior year actuals;
- \$180,000 Reduction in 2018/19 of Lavington Sports Ground redevelopment maintenance costs that was previously allowed for;
- \$24,635 Net balance of other variations.

Deteriorations:

- \$172,000 Revoked Federal funding for Family Day Care Community Support Program; overall there has been a net deterioration in Children's Services of \$116,000;
- \$154,840 Increase in Salaries and Wages;
- \$140,000 New Initiatives increase;
- \$150,000 for the Regional Cricket Facility
- \$114,924 Increase in Financial Assistance.

Economic Development and Tourism

Net deterioration to operating results compared to Year 2 of the adopted Four Year Delivery Program of \$408,161 are made up of:

Improvements:

- \$63,474 Increase in net profit from Real Estate Sales due to budgeting timing of Nexus sales.

Deteriorations:

- \$188,021 Increase in Salaries and Wages;
- \$138,655 Removal of Communications service and efficiency savings;
- \$92,000 New Initiatives increase;
- \$52,959 Net balance of other variations.

2018/19 BUDGET ANALYSIS

Engineering

Net deterioration to operating results compared to Year 2 of the adopted Four Year Delivery Program of \$858,922 are made up of:

Improvements:

- \$399,691 Reduction in electricity expenses;
- \$331,377 Reduction in loan interest;
- \$31,932 Net balance of other variations.

Deteriorations:

- \$641,475 Increase in depreciation which is made up of Buildings \$184,000, Plant & Equipment \$178,000, Roads \$142,000, Drainage \$53,000, Land Improvements \$59,000 and Other Structures \$27,000;
- \$547,000 Net new Initiatives increase, mainly due to proposed \$1 million Citywide LED street lighting rollout for 2018/19;
- \$172,738 Reduction in Airport RPT income based on expected passenger numbers;
- \$99,322 Increase in Salaries and Wages;
- \$96,326 Deterioration in Domestic Waste net results; offset by cash reserve;
- \$65,061 Reduction in Landfill income (excluding Domestic Waste Management); and

Executive

Net improvement to operating results compared to Year 2 of the adopted Four Year Delivery Program of \$97,656 are made up of:

Improvements:

- \$224,662 Increase in rate income;
- \$193,876 Increase in the budgeted Financial Assistance Grant.

Deteriorations:

- \$128,892 Reduction in investment interest income;
- \$113,371 Increase in Salaries and Wages;
- \$78,617 Net balance of other variations.

Planning & Environment

Net deterioration to operating results compared to Year 2 of the adopted Four Year Delivery Program of \$68,226 are made up of:

Improvements:

- \$100,585 Reduction in depreciation expense for Office Equipment in line with Councils asset management database;
- \$97,495 Reduction in software contract licence fees in line with actuals;
- \$40,707 Reduction in computer lease expenditure;
- \$42,791 Net balance of other variations.

Deteriorations:

- \$265,000 New Initiatives increase;
- \$84,804 Increase in Salaries and Wages.

2018/19 BUDGET ANALYSIS

WATER FUND

Net deterioration to operating results compared to Year 2 of the adopted Four Year Delivery Program of \$616,417 are made up of:

Improvements:

- \$5,111 Net balance of other variations.

Deteriorations:

- \$254,318 Consultancy costs (Including New Initiatives of \$200,000);
- \$261,710 Reduction in Internal Water income due to a decrease in water consumption based on prior year actuals. This is mainly offset by a reduction in parks Internal Water charges within the General Fund.
- \$105,500 Increase in repairs and maintenance (New Initiative increase of \$75,000); and

SEWER FUND

Net improvement to operating results compared to Year 2 of the adopted Four Year Delivery Program of \$900,531 are made up of:

Improvements:

- \$664,795 Increase in investment interest income;
- \$301,492 Increase in sewer user charges income based on actuals;
- \$84,244 Net balance of other variations.

Deteriorations:

- \$150,000 Increase in consultancy New Initiatives.

2018/19 BUDGET ANALYSIS

Budgeted income and expenses compared to prior year adopted budget

1.1 General Fund Income

Table 4

ALBURY CITY COUNCIL BUDGETED INCOME STATEMENT - GENERAL FUND					
		Adopted Budget	Draft Budget	Variance	
	Ref	2017/18	2018/19		
		\$ 000's	\$ 000's	\$ 000's	%
Income from Continuing Operations					
Revenue:					
Rates & Annual Charges	1.1.1	44,430	45,919	1,489	3%
User Charges & Fees	1.1.2	24,008	26,534	2,526	11%
Interest & Investment Revenue	1.1.3	1,179	973	(206)	(17%)
Other Revenues	1.1.4	4,306	3,657	(649)	(15%)
Grants & Contributions provided for Operating Purposes		8,476	8,517	41	0%
Other Income	1.1.5	135	413	278	206%
Total Income from Continuing Operations		82,534	86,013	3,479	4%

1.1.1 Rates and Annual Charges

It is budgeted that rates and charges income will increase by \$1.5 million or 3.4%. Total rate income is budgeted to grow by \$1,378,705 or 3.5%, while Domestic Waste Management charges income is budgeted to increase by \$122,148 or 2.2%.

The budgeted increase in rate income includes the 2.3% rate peg percentage increase as set by IPART and also growth in the number of property assessments.

1.1.2 User Charges & Fees

User charges are fees charged to users of Council's services. These include tipping services, animal fees, use of leisure, entertainment and other community facilities. This type of income is budgeted to increase by \$2.5 million or 10.5%. Increase income from Albury Waste Management Centre gate charges total \$743,000 or 8% which is budgeted to reflect price increases and volumes received. Airport income has increase by \$313,775 or 5% based on expected passenger numbers which is partly offset by increases in expenditure. An increase of \$774,046 in Children's Services income has been fully offset with Other Revenues.

1.1.3 Interest Revenue

Interest income is budgeted to decrease by \$205,549, which is mainly due to updated budgeted cash holdings.

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1.1.4 Other Revenues

Other revenue includes a range of items including property rental/leases, fines and general sales. Other revenue is budgeted to decrease by \$648,947. A decrease of \$774,046 in Children's Services income has been fully offset with User Charges and Fees. There has been an increase in Albury Entertainment Centre catering income as a result of previous year budgets allowing for a 3 month closure for a building upgrade.

1.1.5 Other Income

Other income is net gains from the disposal of assets which has decreased by \$278,327 which is due to the budgeted timing of Nexus land sales.

1.2 General Fund Expenditure

Table 5

ALBURY CITY COUNCIL					
BUDGETED INCOME STATEMENT - GENERAL FUND					
		Adopted Budget	Draft Budget		
		2017/18	2018/19	Variance	
	Ref	\$ 000's	\$ 000's	\$ 000's	%
Expenses from Continuing Operations					
Employee Benefits & On-Costs	1.2.1	29,578	31,309	1,731	6%
Borrowing Costs	1.2.2	2,733	2,413	(320)	(12%)
Materials & Contracts	1.2.3	27,980	29,253	1,273	5%
Depreciation & Amortisation	1.2.4	17,350	18,425	1,075	6%
Other Expenses	1.2.5	4,658	4,613	(45)	(1%)
Total Expenses from Continuing Operations		82,299	86,013	3,714	4%

1.2.1 Employee Costs

Employee costs are budgeted to increase by 5.9% or \$1,731,351. These costs include salaries and wages, travel, superannuation, workers compensation, Fringe Benefit Tax and training costs. The award increase of 2.5% has been used for the 2018/19 financial year. New positions total \$713,940 or 2.4% and equate to 8.6 Full Time Equivalents due to operational requirements and community expectations. There are also increases in Workers Compensation and Casual budgets.

1.2.2 Borrowing Costs

Borrowing costs have reduced by \$319,856 or 11.7% due to the reduction in anticipated loans taken up in 2017/18.

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1.2.3 Materials & Contracts

The budgeted increase in expenditure is \$1.3 million is due to a number of items, including the following:

- Street Lighting \$1 million increase due to the citywide LED Street Lighting rollout;
- A savings to be achieved target of \$422,724 has contributed a reduction in Materials and Contracts.
- Contract payments have increased by \$320,355 in relation to Domestic Waste Management (\$168,475), Albury Waste Management Centre (\$79,450), Albury Entertainment Centre Catering (\$33,000) and Other (\$39,430); which are mainly offset by an increase in income.
- Aquatic Facility expenses increase of \$358,000 which is partly offset by a reduction in other Expenses of \$253,275.

1.2.4 Depreciation & Amortisation

Depreciation increase of 6% due to a number of factors and is in line with Council's Asset Management system.

1.2.5 Other Expenses

The budgeted decrease in other expenses is \$44,953 which is due to a variety of factors, including the following:

- Decrease in internal Landfill Gate Charges from Sewer of \$619,212 which is offset by a reduction in Sewer costs of \$335,932.
- Reduction in electricity of \$445,846 mainly due to the conservative prior year estimate.
- Aquatic Facility expenses reduction of \$253,275 offset by an increase in Materials and Contracts.
- Reduced internal water charges of \$242,695 due to decreased water consumption in parks based on prior year actuals, this is offset with a reduction in water income.
- Savings to be achieved targets from Service and Efficiency Reviews have reduced by \$89,655 in 2018/19.

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1.3 Water Fund Income

Table 6

ALBURY CITY COUNCIL					
BUDGETED INCOME STATEMENT - WATER FUND					
		Adopted Budget	Draft Budget	Variance	
		2017/18	2018/19		
	Ref	\$ 000's	\$ 000's	\$ 000's	%
Income from Continuing Operations					
Revenue:					
Rates & Annual Charges	1.3.1	3,615	3,698	83	2%
User Charges & Fees		11,020	11,141	121	1%
Interest & Investment Revenue	1.3.2	744	945	201	27%
Other Revenues	1.3.3	128	204	76	59%
Grants & Contributions provided for Operating Purposes		173	171	(2)	(1%)
Total Income from Continuing Operations		15,680	16,159	479	3%

1.3.1 Rates, Annual Charges, User Charges & Fees

Rates and Annual Charges and User Charges and Fees have increased to allow for a price increase of 1% and an allowance for growth in the number of connections.

1.3.2 Interest & Investment Revenue

Interest income is budgeted to increase by \$201,316 in line with updated cashflow projections.

1.3.3 Other Revenues

Other revenue has increased by \$75,288 mainly due to NSW Heritage Council grant funding of \$40,000 in 2018/19 for LGA wide Aboriginal Cultural Heritage Study.

1.4 Water Fund Expenditure

Table 7

ALBURY CITY COUNCIL					
BUDGETED INCOME STATEMENT - WATER FUND					
		Adopted Budget	Draft Budget	Variance	
		2017/18	2018/19		
	Ref	\$ 000's	\$ 000's	\$ 000's	%
Expenses from Continuing Operations					
Employee Benefits & On-Costs		1,235	1,269	34	3%
Borrowing Costs		0	0	0	0%
Materials & Contracts	1.4.1	2,089	2,512	423	20%
Depreciation & Amortisation		6,079	6,404	325	5%
Other Expenses	1.4.2	3,112	3,215	103	3%
Total Expenses from Continuing Operations		12,515	13,400	885	7%

2018/19 BUDGET ANALYSIS

1.4.1 Materials & Contracts

The budgeted increase is 20% or \$422,592. The increase includes \$100,000 for Integrated Water Cycle Management Plan and Strategic Plan and \$140,000 LGA wide Aboriginal Cultural Heritage Study. Overhead absorption income has also reduced by \$119,221 which is totally offset by a reduction in payroll costs.

1.4.2 Other Expenses

The budgeted increase in other expenses is \$102,847 or 3%. Internal water billing income has decreased by \$236,759 which is offset by internal customers in General Fund. Electricity budgets have reduced by \$97,563 mainly due to the conservative prior year estimate.

1.5 Sewer Fund Income

Table 8

ALBURY CITY COUNCIL					
BUDGETED INCOME STATEMENT - SEWER FUND					
		Adopted Budget	Draft Budget		
		2017/18	2018/19	Variance	
	Ref	\$ 000's	\$ 000's	\$ 000's	%
Income from Continuing Operations					
Revenue:					
Rates & Annual Charges	1.5.1	16,661	16,915	254	2%
User Charges & Fees	1.5.2	3,256	3,653	397	12%
Interest & Investment Revenue	1.5.3	754	1,283	529	70%
Other Revenues		149	146	(3)	(2%)
Grants & Contributions provided for Operating Purposes		171	169	(2)	(1%)
Total Income from Continuing Operations		20,991	22,166	1,175	5%

1.5.1 Rates & Annual Charges

The increase is \$254,421 or 2% which allows for a 1% price increase and an allowance for growth in the number of connections.

1.5.2 User Charges & Fees

This incorporates Non-Residential sewer treatment charges. There is no price increase for 2018/19 the improved income budget is in line with prior year actuals.

1.5.3 Interest Revenue

Interest income is budgeted to increase by \$529,044 in line with updated cashflow projections.

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1.6 Sewer Fund Expenditure

Table 9

ALBURY CITY COUNCIL					
BUDGETED INCOME STATEMENT - SEWER FUND					
		Adopted Budget	Draft Budget		
		2017/18	2018/19	Variance	
	Ref	\$ 000's	\$ 000's	\$ 000's	%
Expenses from Continuing Operations					
Employee Benefits & On-Costs		1,448	1,499	51	4%
Borrowing Costs	1.6.1	603	513	(90)	(15%)
Materials & Contracts	1.6.2	3,950	4,224	274	7%
Depreciation & Amortisation		4,434	4,533	99	2%
Other Expenses	1.6.3	4,152	3,918	(234)	(6%)
Total Expenses from Continuing Operations		14,587	14,687	100	1%

1.6.1 Borrowing Costs

Borrowing costs are budgeted to reduce due to a decrease in outstanding loans.

1.6.2 Materials & Contracts

Materials and contract expenditure is budgeted to increase by \$273,850 or 7%. The increase includes \$100,000 new initiatives for Integrated Water Cycle Management Plan & Strategic Business Plan and \$100,000 for a Sewer Infiltration Study. There is an increase of \$180K for sewer relining works to address water infiltration. Savings in freight sludge cartage amount to \$70K.

1.6.3 Other Expenses

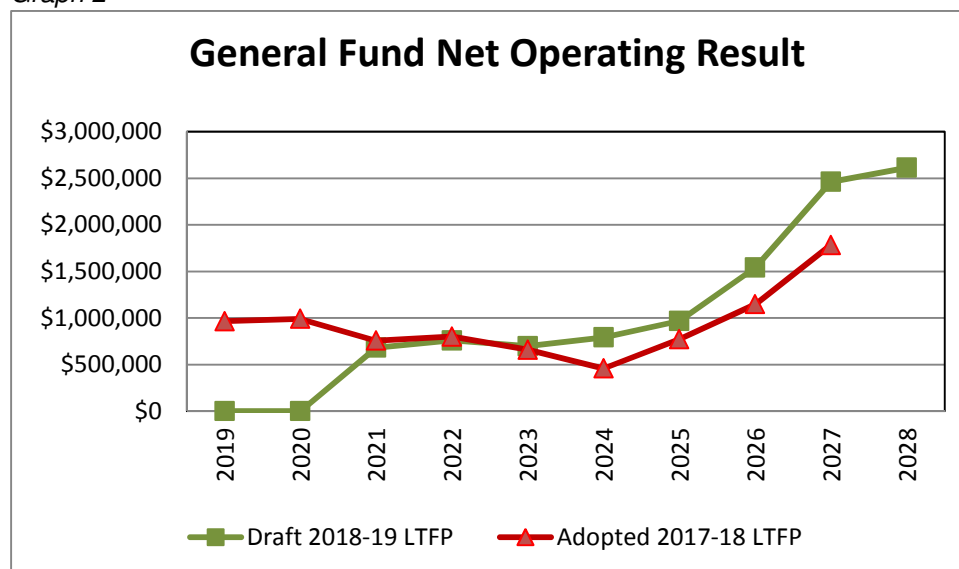
Decrease in other expenses is due to \$335,932 reduction in internal Landfill Gate Charges which is offset in General Fund.

2018/19 BUDGET ANALYSIS

Projected Operating Results

It is projected that the General Fund will achieve at least break even operating results as shown by Graph 2.

Graph 2

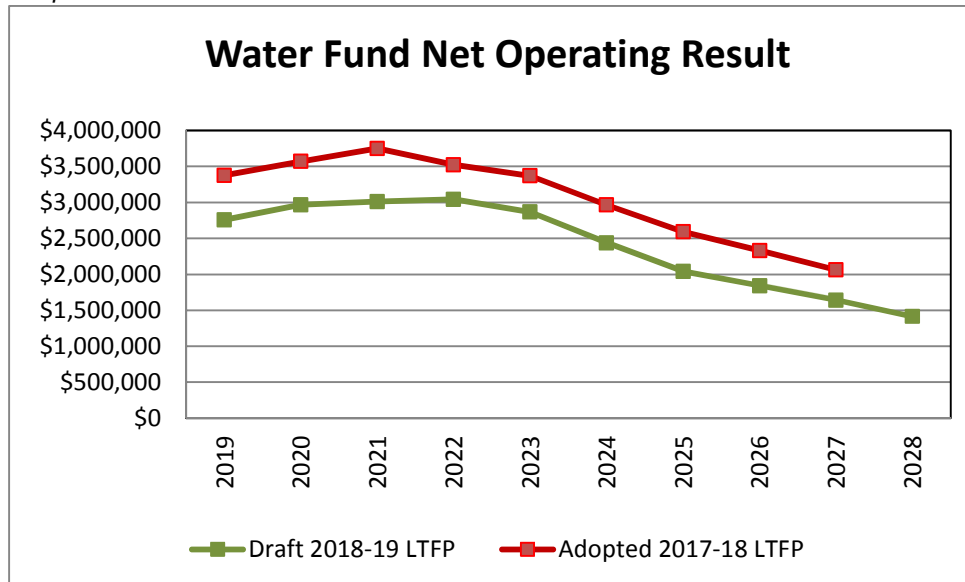


Funding from operations is utilised for loan principal repayments as well as capital works, for example beyond 2022/23, on average \$5.4 million of the funding from operations will be utilised to fund loan principal repayments.

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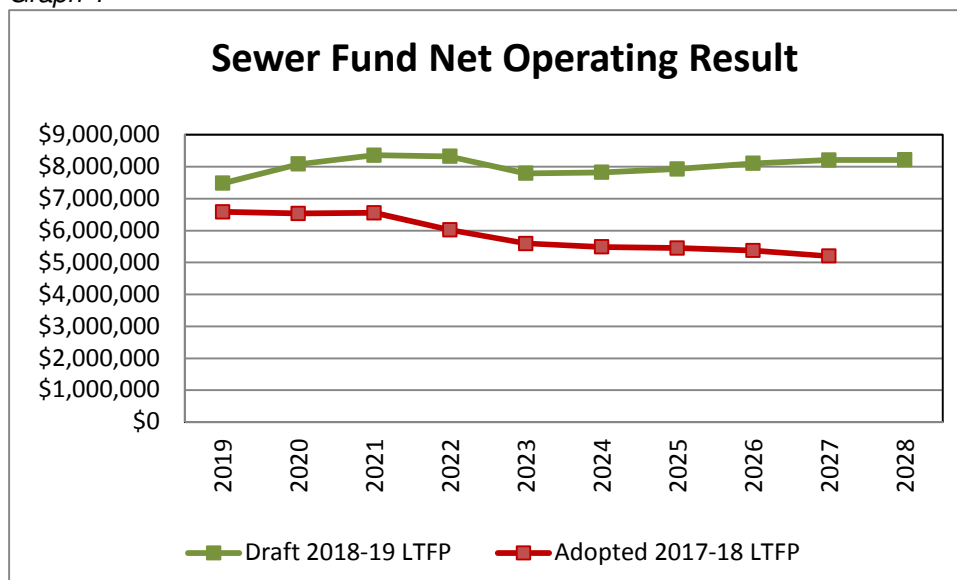
As shown by Graph 3 below, the projected surplus of the Water Fund is less than was projected in the adopted LTFP. This is due to the proposal that Water income increase at a slower rate than what was previously provided for in the adopted LTFP.

Graph 3



Graph 4 shows the projected surplus of the Sewer Fund is better than was projected in the adopted LTFP. This is primarily due to additional income and increased returns from funds invested.

Graph 4



AlburyCity will continue to work towards updating the documentation required by the NSW Department of Primary Industries – Water to enable the payment of dividends by the Water and Sewer Fund to the General Fund in future years. However no dividends from the Water or Sewer Fund have been provided for within the Long Term Financial Plan.

2018/19 BUDGET ANALYSIS

Capital Expenditure

AlburyCity is responsible for assets which have a replacement cost of \$1.9 billion. The proposed capital New Initiatives of \$47.8 million for the 2018/19 financial year will ensure the continuation of essential services and infrastructure for the community.

Council's Capital New Initiatives provides detail of each proposed item (*Attachment 29, 30 and 31*) with further detail provided in the Engineering Works Program (*Attachment 32*). The Engineering Works Program map (*Attachment 33*) shows that works are planned across AlburyCity.

The draft Capital New Initiatives of \$47.8 million for the 2018/19 financial year include:

- Roads, Bridges and Footpath projects \$10.9 million:
 - Including road and drain rehabilitation \$4.1 million, Kerr Road \$2.6 million and Bungambrawatha Creek Outfall Restoration \$1 million.
- Water Fund projects \$8 million:
 - Including Annual Rehabilitation Program \$2 million, Thurgoona/Wirlinga Precinct upgrades \$1.95 million and Tabletop North Augmentation \$758,000.
- Sewer Fund projects \$4.1 million:
 - Including Annual Sewer Rehabilitation Program \$1 million, Sewer Pump Station No.1 upgrade \$750,000.
- Special Variation projects \$6.4 million:
 - Including Lavington Sports Ground Sports Precinct Redevelopment \$4.3 million and Thurgoona Oval change room and associated public facilities construction \$700,000.
- Murray River Experience projects \$3.5 million:
 - Including Wagirra Trail construction \$908,000, Oddies Creek Park \$600,000, Monument Hill landscaping \$500,000 and Noreuil Park Foreshore works \$486,000.
- Fleet purchases \$2.3 million;
- Albury Waste Management Centre \$1.9 million:
 - Including leachate disposal upgrade \$700,000 and wash bay \$400,000.
- Albury Airport terminal/taxi way upgrades \$1.8 million;
- Other General Fund projects \$8.9 million.

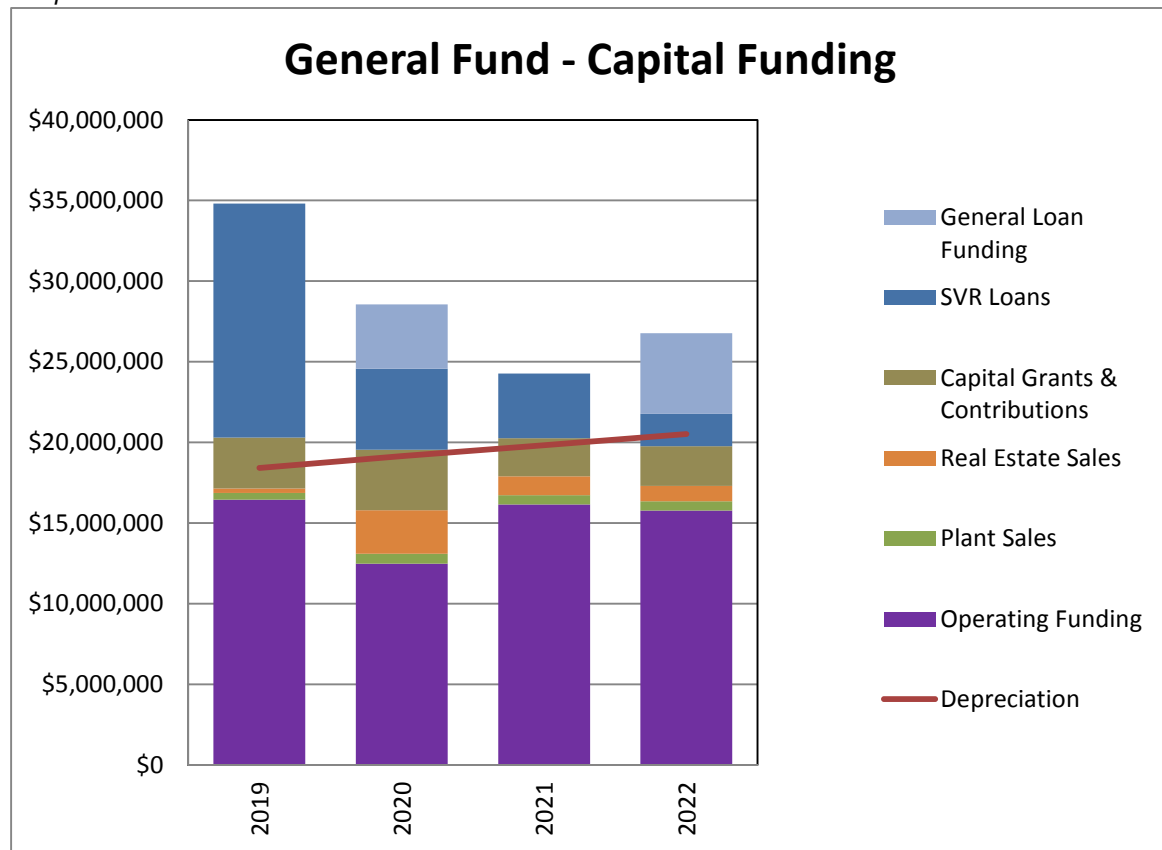
Council's ability to fund capital works is determined by available cash from operations, capital grants, capital contributions and borrowing capacity. Operating results, excluding depreciation expense, in all Funds generate positive cash returns which can be applied to fund capital projects and repay loans.

2018/19 BUDGET ANALYSIS

As shown by Graph 5 the projected General Fund four year capital spend of \$120 million will be funded by:

- * Council operations \$63 million
- * Borrowings \$38 million
- * Grants and contributions \$12 million
- * Asset sales \$7 million

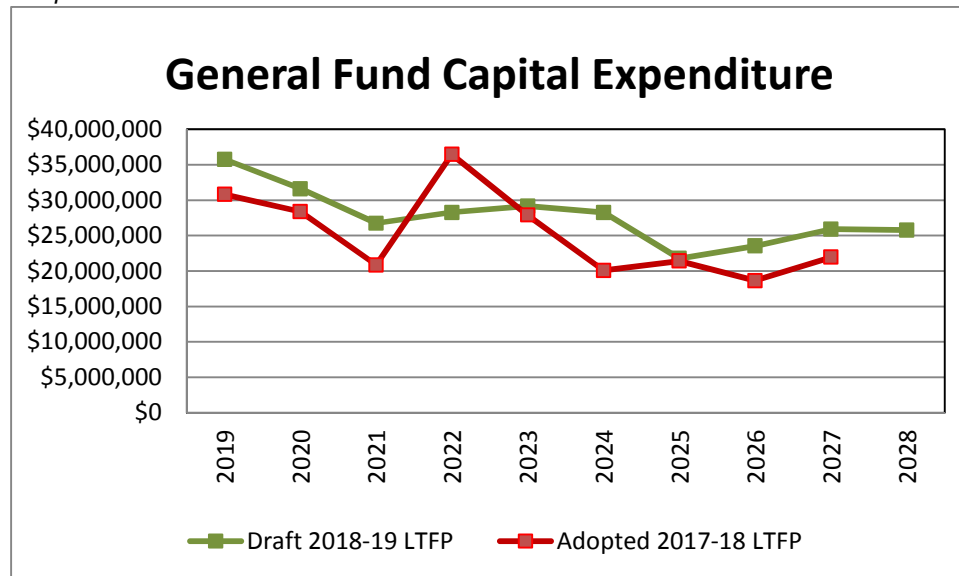
Graph 5



2018/19 BUDGET ANALYSIS

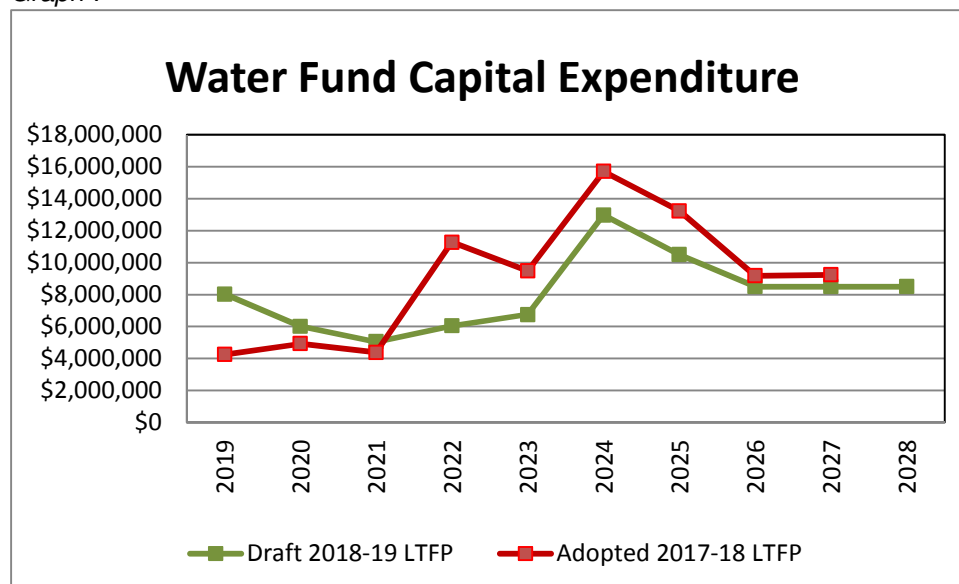
The projected General Fund net capital expenditure (excluding capital grants, contributions and asset sales) compared to the adopted LTFP is shown by Graph 6 below.

Graph 6



The projected Water Fund capital spend compared to the adopted LTFP is shown by Graph 7 below.

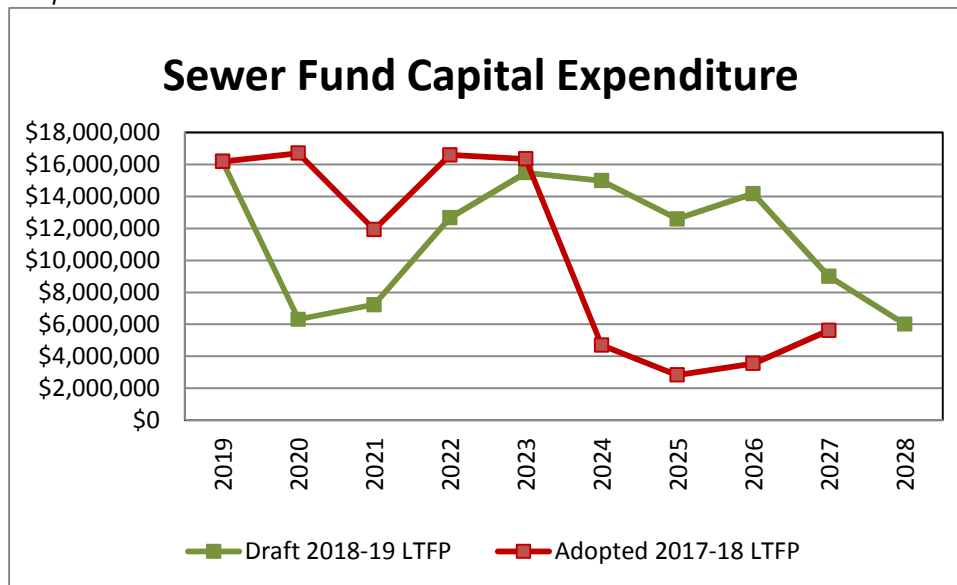
Graph 7



2018/19 BUDGET ANALYSIS

The projected Sewer Fund capital spend compared to the adopted LTFP is shown by Graph 8 below.

Graph 8



The increase in projected Sewer Fund capital expenditure during the years 2018/19 to 2022/23 mainly relates to the timing of the provisional allocation for the Waterview Wastewater Treatment Plant upgrade.

Community Fund Projects

In past years many organisations have benefited from AlburyCity's Community Fund to develop community facilities. The following allocation of available funds to the following projects is proposed for the 2018/19 financial year:

- \$30,000 Uiver Memorial Community Trust – Uiver Memorial Museum feasibility study
- \$12,500 West Albury Pre-School Centre – development of a master plan for refurbishment of facilities
- \$395,000 Yarrunga Early Learning Centre - Redevelopment of facilities
- \$150,000 Regional Cricket Facility

These projects are also noted in the New Initiatives for 2018/19 (*Attachment 35.*)

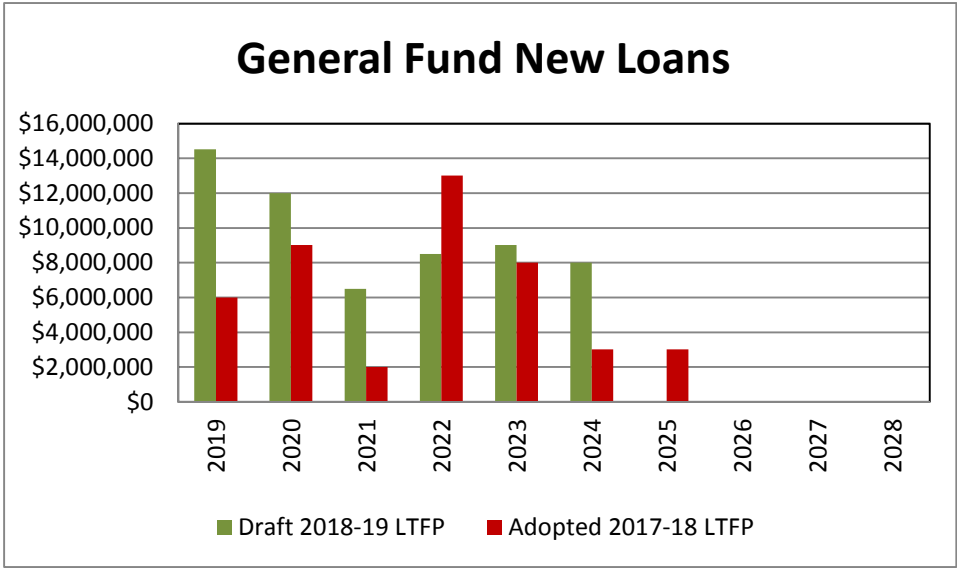
2018/19 BUDGET ANALYSIS

Borrowings

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.

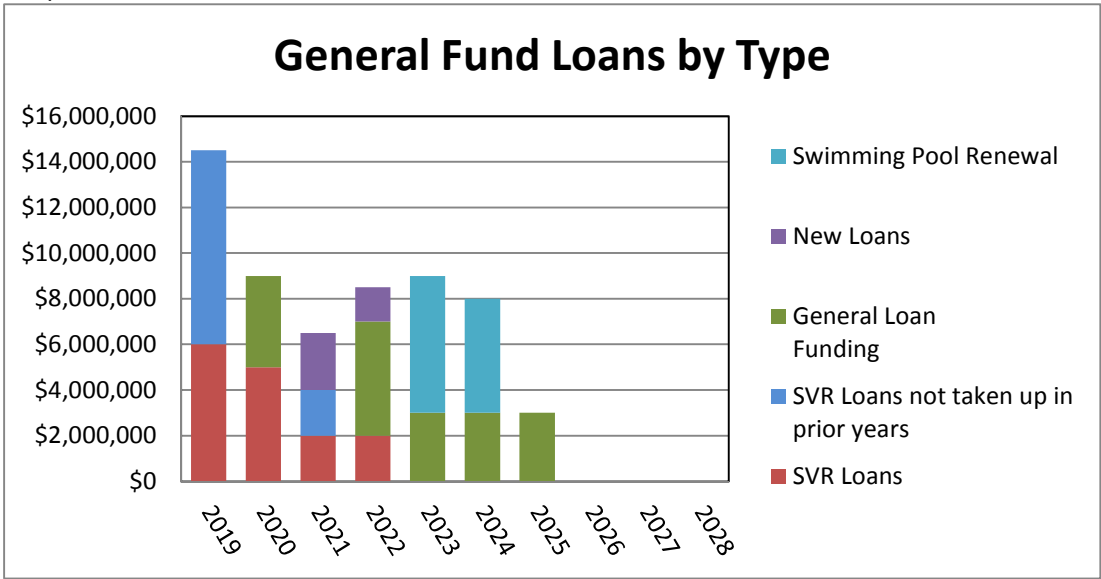
Borrowings are long-term loans repayable by quarterly instalments, secured against Council revenue. New loans budgeted to be drawn down during the 2018/19 financial year include loans that were not drawn down when budgeted in prior years due to the timing of cash flows.

Graph 9



Graph 10 demonstrates that of the \$59 million in new General Fund loans that are projected to be drawn down over the next ten years, \$25.5 million relates to the Special Variation to Rates projects and \$11 million relates to the Lavington Swim Centre Renewal Project.

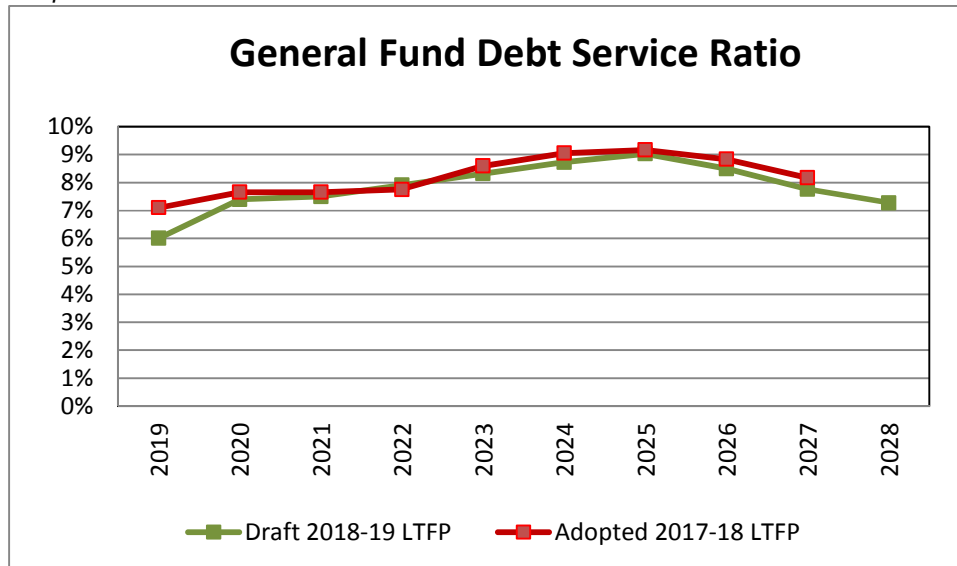
Graph 10



2018/19 BUDGET ANALYSIS

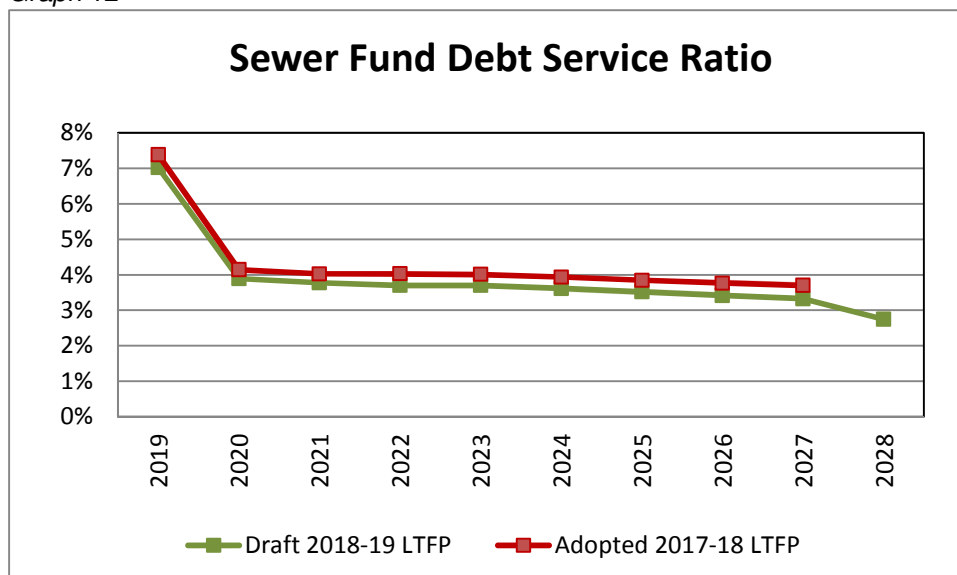
Relative debt levels are benchmarked by the Debt Service Ratio, being principal and interest loan repayments compared to total operating revenue. As shown by Graph 11 below it is projected that the General Fund Debt Service Ratio will remain below 10%. The Fit for the Future Debt Service Ratio Benchmark is a ratio of less than 20%.

Graph 11



No new loans are proposed for the Water Fund or Sewer Fund. The Water Fund does not have any loans and the Sewer Fund's loan balances are projected to steadily decrease as shown by Graph 12.

Graph 12



Council's debt management strategy will continue to be reviewed annually.

Council's projected borrowings are detailed in *Attachment 11*.

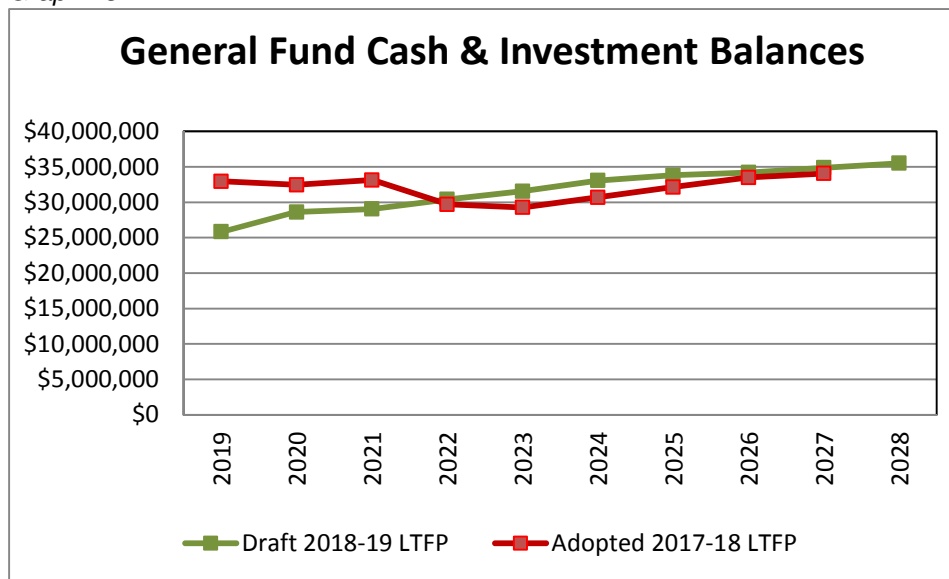
2018/19 BUDGET ANALYSIS

Cash Flow

Cash balances are projected to decrease in the medium term due to planned capital works, with the exception of the Water Fund. Maintaining sufficient unrestricted cash enables flexibility in funding as yet unidentified major community capital projects and absorbing unexpected budget shocks as they arise.

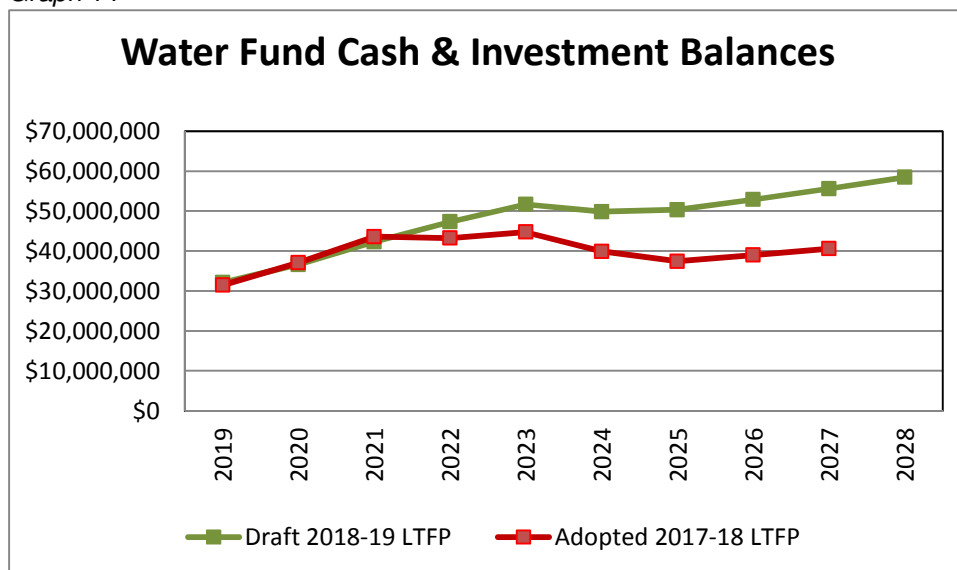
Graph 13 shows that the initial General Fund cash balance is lower than projected in the adopted 2017-18 Long Term Financial Plan. This is mainly due to delayed draw down of loans.

Graph 13



As shown by Graph 14 below the Water Fund cash and investment balances are projected to increase, which will support future infrastructure projects.

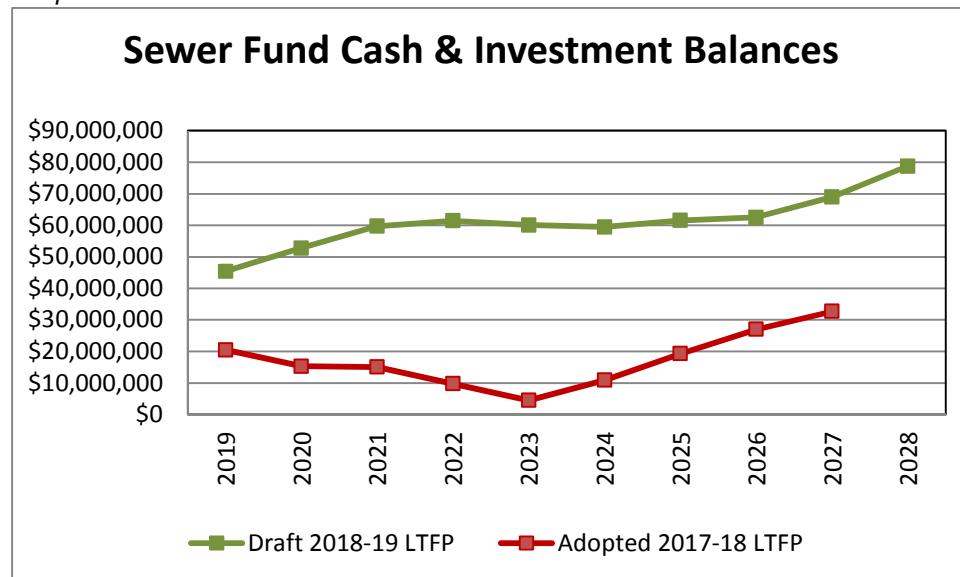
Graph 14



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As shown by Graph 15 below the Sewer Fund cash and investment balances are projected to remain higher than the adopted LTFP. Major upgrade works to the Waterview Treatment Plant are now projected to start in 2022; this will enable cash balances to remain higher than anticipated in the 2017-18 Plan.

Graph 15



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 during the 2018/19 financial year.

Unrestricted Working Capital

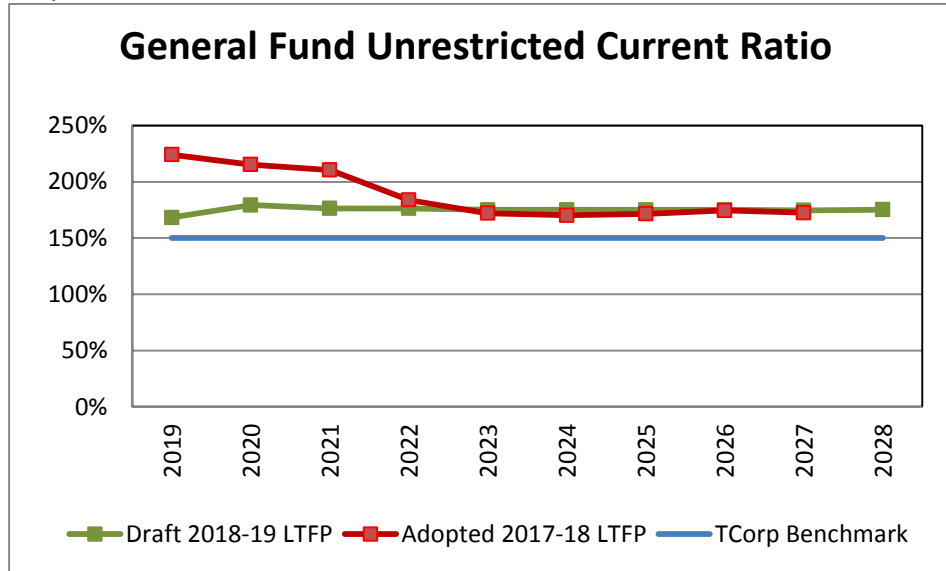
Council's General Fund unrestricted working capital at each balance date is measured by comparing the value of assets that are expected to be realised as cash, to liabilities expected to be paid during the next year.

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 as yet unidentified major community capital assets and absorbing unexpected budget shocks as they arise.

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General Fund unrestricted current assets are not projected to fall below the TCorp minimum benchmark of 150% as shown by Graph 16.

Graph 16



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Projected inflation factors

The NSW Government 2017/18 Half Yearly Review suggests that Sydney CPI and the NSW Wage Price Index will increase in the future as shown by Table 10.

Table 10

NSW Government Inflation Forecasts	14/15 Actual	15/16 Actual	16/17 Actual	17/18 Forecast	18/19 Forecast	19/20 Forecast	20/21 Forecast
Sydney CPI	2.0%	1.5%	2.0%	2.3%	2.3%	2.3%	2.5%
Wage Price Index	2.3%	2.1%	2.3%	2.0%	2.5%	2.8%	3.0%

The projected inflation assumptions as summarised by Table 6 below includes an element of growth. AlburyCity's population is forecast to grow from 52,832 to 66,838 by 2036, which is an annual increase of 1.4%, compared to an average of 1% over the last ten years.

Table 11 summarises inflation assumptions applied from Year 2 of Council's projected operating results.

Table 11

	2019-20	2020-21	2021-22	2022-23 to 2027-28
Income				
Rates	3.3%	3.4%	3.5%	4.1%
Landfill Charges	2.5%	2.5%	2.5%	2.5%
Water Income	2.0%	2.0%	2.0%	1.5%
Domestic Waste Management	2.5%	2.5%	2.5%	2.5%
Sewer Income	2.0%	2.0%	2.0%	1.5%
Fees & Charges	3.5%	3.5%	3.5%	3.5%
Financial Assistance Grant	3.0%	3.0%	3.0%	3.0%
Interest income rate	2.8%	2.8%	2.9%	3.1%
Developer Contributions	2.5%	2.5%	2.5%	2.5%
Expenditure				
Employee Benefits & On-costs	3.0%	3.5%	3.5%	3.9%
Materials & Contracts	3.0%	3.0%	3.0%	3.0%
Electricity - Street lighting	3.0%	3.0%	3.0%	3.0%
Electricity/Gas	3.0%	3.0%	3.0%	3.0%
Insurance	3.0%	3.0%	3.0%	3.0%
Depreciation	3.8%	3.5%	3.5%	3.5%

Rates income includes a growth factor of 1% in the number of properties.

Water and Sewer income growth includes an annual increase in the number of connections of 1%.

Fees and charges increases 3.5% includes a growth factor of 1%.

The materials and contract inflation factor of 3% includes a growth factor of 0.5% for the General Fund compared to 1% as a growth factor for the Water and Sewer Funds.

The depreciation expense inflation factor of 3.5% includes a growth factor of 1%.

2018/19 BUDGET ANALYSIS

Long Term Financial Plan Scenarios

The Long Term Financial Plan 2018-2028 is available in *Attachments 37 to 51*. Three scenarios are provided. Each scenario contains the Income Statement, Balance Sheet and Cash Flow Statement for each fund and the consolidated position.

A range of measures are used to assess the sustainability of local governments. AlburyCity compares well with these ratios as evidenced in *Attachments 40, 45 and 50*.

Scenario 1 – Base Scenario

Scenario 1 is the base position. The assumptions underpinning this scenario are provided in *Attachment 41*.

Scenario 2 – Higher Inflation

Scenario 2 provides inflation for both income and expenditure to be 0.5% higher than Scenario 1, which would decrease the General Fund's projected operating surplus as shown by Table 12.

Table 12

General Fund	2018/19 '000	2019/20 '000	2020/21 '000	2021/22 '000
Net cost	\$0	(\$247)	(\$515)	(\$801)

Scenario 3 – Lower inflation

Scenario 3 is based upon inflation being 0.5% lower higher than Scenario 1, which would improve the General Fund's projected operating surplus as shown by as shown by Table 13.

Table 13

General Fund	2017/18 '000	2018/19 '000	2019/20 '000	2020/21 '000
Annual saving	\$0	\$248	\$512	\$793