# Draft Operating Budget and Long Term Financial Plan Projections 2025/26 to 2034/35

AlburyCity

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<Day> <Month> <Year>

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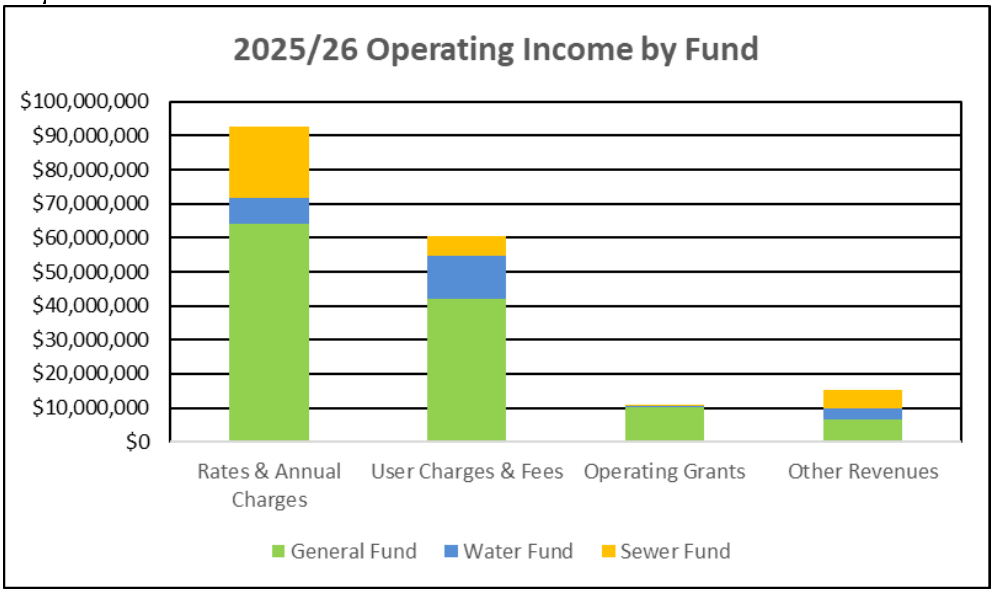
## Draft Operating Budget and Long Term Financial Plan projections 2025-2035

Analysis of the draft 2025/26 operating budget and Long Term Financial Plan projections for each Fund are provided below.

## Draft 2025/26 Operating Budget Analysis

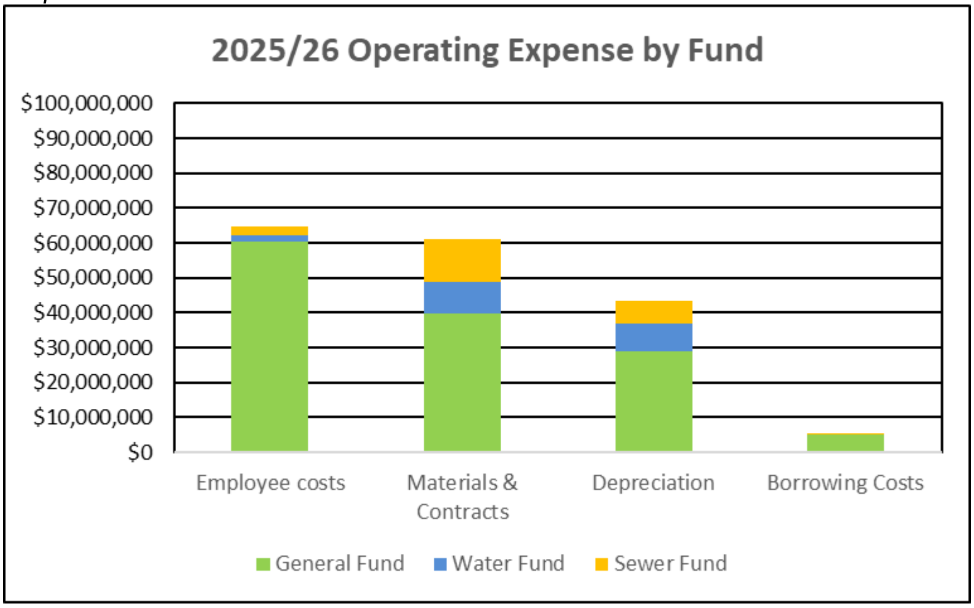
AlburyCity's total budgeted operating revenue for the 2025/26 financial year is in the order of $180 million. As summarised below by Graph 1, around 50% of AlburyCity's operating revenue is sourced from rates and charges. A further third of AlburyCity's revenue is from user fees, with the balance relating to operating grants and other revenue including interest income.

*Graph 1*



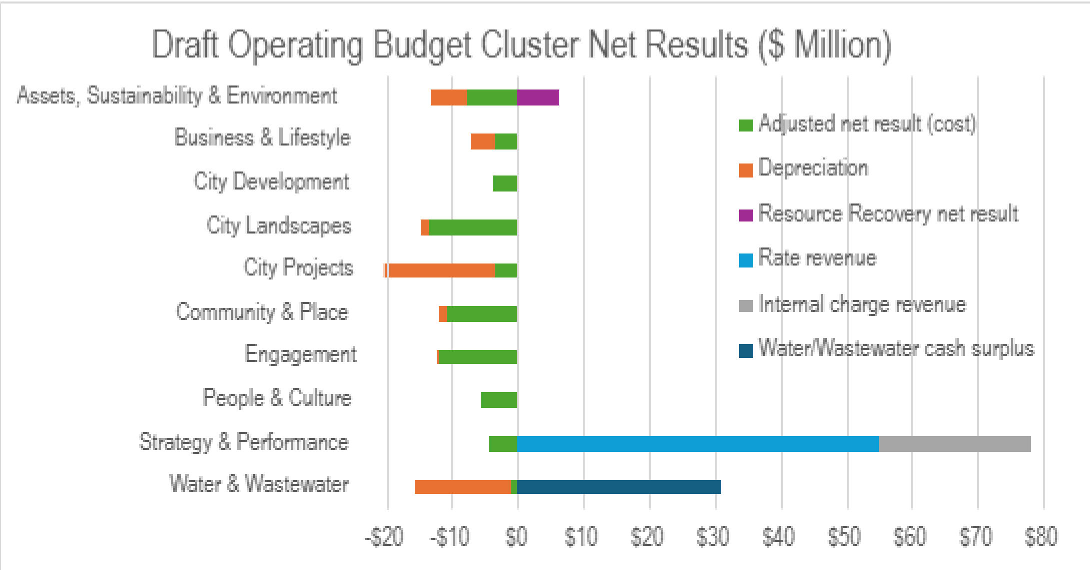
AlburyCity's total budgeted operating expenditure for the 2025/26 financial year is in the order of $175 million, including non-cash depreciation expense of $43 million. As demonstrated by Graph 2 below, employee operating costs make up 37% of AlburyCity's operating expenditure; materials and contracts 35% and non-cash depreciation expense represents 25% of operating expenditure.

*Graph 2*



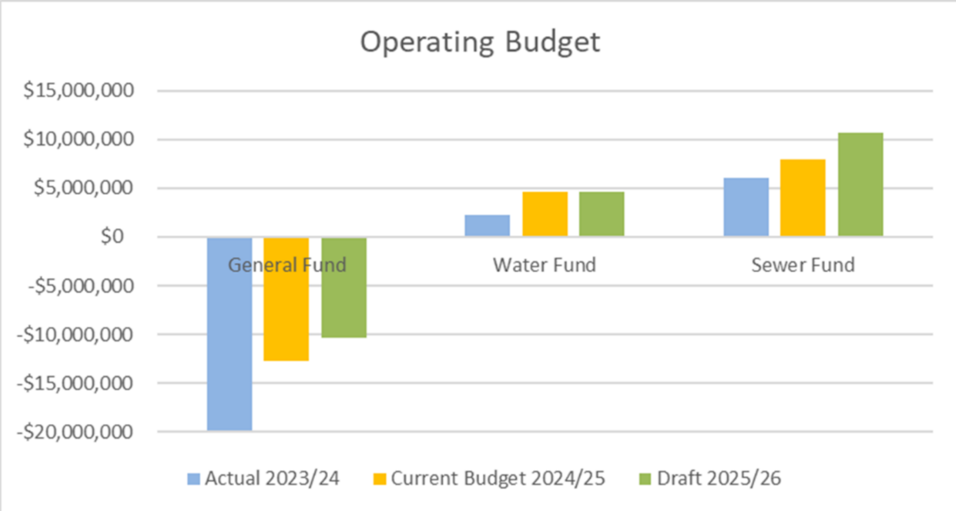

The following graph shows the net budget by Cluster across AlburyCity for the 2025/26 financial year.

*Graph 3*



Overall, the draft 2025/26 budget result is a surplus of $4.6 million, being a $4.8 million improvement on the December Quarter Budget Review, mainly due to (Wastewater) Sewer Fund and General Fund operating budget improvements.

Graph 4




The draft 2025/26 operating result for each Fund compared to the prior year adopted Budget is summarised by Table 1 below.

Table 1

| Surplus/(Deficit) by Fund | Prior Year Actual 2023/24 $'000 | Adopted Budget 2024/25 $'000 | December Quarter Budget Review Forecast $'000 | Draft 2025/26 Operating Budget $'000 | Variance to Forecast $'000 |
|---|---|---|---|---|---|
| General | (19,856) | (12,748) | (12,748) | (10,731) | 2,017 |
| Water | 2,263 | 4,820 | 4,671 | 4,675 | 4 |
| Sewer | 6,097 | 8,978 | 7,900 | 10,649 | 2,749 |
| Total | (11,496) | 1,051 | (177) | 4,593 | 4,770 |

Note: Favourable/(unfavourable) variance

The draft 2025/26 General Fund operating deficit is projected to decrease by $2 million, which is mainly due to the reduction in planned operating projects.

It is important to note that the draft 2025/26 budgeted operating result does not include a budgeted savings target, whereas the 2024/25 current budget includes a remaining budgeted savings target of $3.5 million.

The main net variances to the 2024/25 December Quarter Budget Review forecast include the following items:

Favourable variances:

- $2 million Operating initiatives projects budget reduction
- $1.3 million City Landscapes maintenance
- $1.3 million Governance and internal charge allocation to Water Wastewater
- $810,000 Professional development/conferences/travel budget reduction
- $580,000 Resource Recovery operating result
- $500,000 Consultancy budget reduction
- $320,000 Financial Assistance Grants income
- $280,000 Cultural Activation budget reduction
- $280,000 Contract labour hire budget reduction (excluding Resource Recovery)
- $270,000 Governance income
- $220,000 Albury Airport net income improvement
- $130,000 Events budget reduction
- $100,000 Financial Assistance Community Energy Rebate Program

Unfavourable variances:

- $3.5 million Remaining budgeted savings target to be achieved 2024/25 (removed from the draft 2025/26 budget)
- $1.8 million Interest expense on loans
- $460,000 Depreciation expense increase
- $200,000 Interest income decrease
- $106,000 Other net operating budget variances

General Fund Earnings Before Interest Tax Depreciation and Amortisation (EBITDA)

Table 2 below demonstrates the calculation of General Fund earnings before interest and expense and depreciation, available to fund capital works after making loan repayments.

Based on analysis to date, it is evident that AlburyCity is not currently able to generate sufficient earnings from operations to fund the proposed 2025/26 capital works program (budgeted net cost of $32 million), accordingly as demonstrated by Table 2 below, as a minimum new loans of $20 million will be required to fund the balance.

Table 2

| **General Fund cash flow from operations** | **2023/24 Actual $'000** | **2024/25 December Quarter Forecast $'000** | **Draft 2025/26 Operating Budget $'000** | **Variance to Forecast $'000** |
|---|---|---|---|---|
| **Operating deficit** | **(19,856)** | **(12,748)** | **(10,731)** | **2,017** |
| Add back Interest expense | 2,964 | 2,608 | 5,143 | 2,535 |
| Add back Depreciation | 29,093 | 28,529 | 28,854 | 325 |
| **Surplus - Earnings before Interest and depreciation (EBITDA)** | **12,201** | **18,389** | **23,266** | **4,877** |
| Less Loan Repayments | (7,532) | (9,119) | (11,692) | (2,573) |
| **Cash available for capital works** | **4,669** | **9,270** | **11,574** | **2,304** |
| Net cost of Capital works program | 41,024 | 32,210 | 31,595 | 615 |
| Difference | (36,355) | (22,940) | (20,021) | 2,919 |

Note: Favourable/(unfavourable) variance

However, to meet liquidity benchmarks it is proposed that new loans of up to $25 million are budgeted for to part fund the 2025/26 capital works program, as further outlined in the base scenario below.

TCorp Debt Service Cover Ratio

A minimum benchmark the General Fund is required to achieve, per the TCorp loan agreement debt covenant, a debt service cover ratio of 1.5 or greater. This is measured by EBITDA being 1.5 times greater than loan repayments, as outlined by Table 3 below.

Due to improvements in the budgeted cash surplus from operations, the General Fund is projected to achieve a debt service cover ratio of 2.0 times loan payments in 2025/26, which is line with the OLG benchmark of 2.0 and above the TCorp loan agreement debt covenant of 1.5 or greater.

Table 3

| **General Fund Debt Service Cover Ratio** | **2023/24 Actual $'000** | **2024/25 December Quarter Forecast $'000** | **Draft 2025/26 Operating Budget $'000** | **Variance to Forecast $'000** |
|---|---|---|---|---|
| **Surplus - Earnings before Interest and depreciation** | **12,201** | **18,389** | **23,266** | **4,877** |
| Loan Repayments | 7,532 | 9,119 | 11,692 | 2,573 |
| **Debt Service Cover Ratio** | **1.6** | **2.0** | **2.0** | **0.0** |

Note: Favourable/(unfavourable) variance

## General Fund Long Term Financial Plan – Base Scenario Projections

This scenario uses the draft 2025/26 operating budget as the base for future projections and demonstrates what business as usual would look like in the longer term:

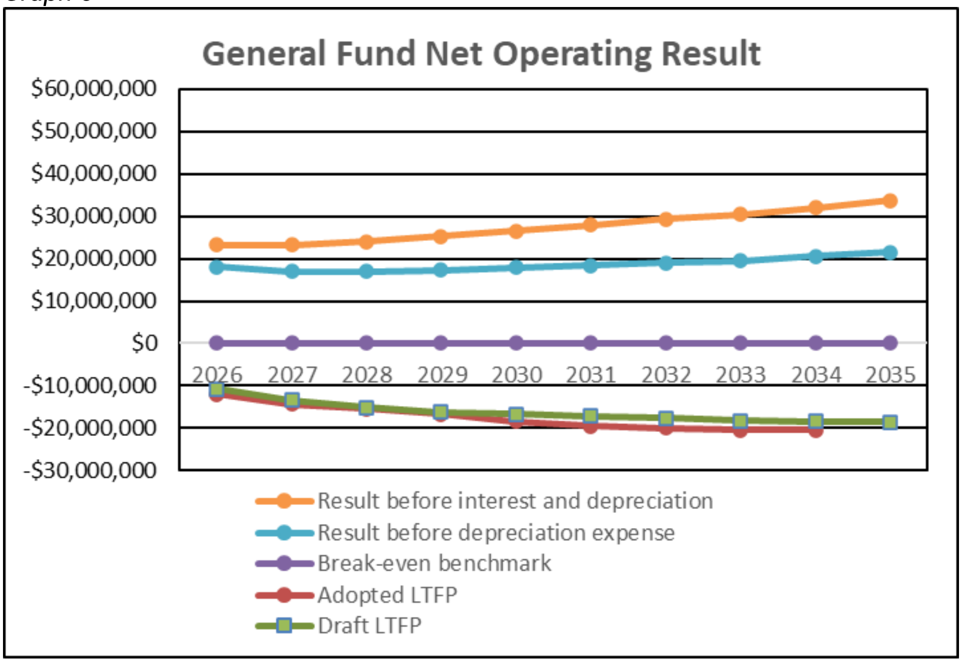
- Operating deficits continuing;
- Works program reliant on loan funding;
- Debt levels continuing to increase year on year.

The current draft financial projections per Graph 5 show the General Fund operating surplus, before interest expense and depreciation (orange), improving over the 10 year forecast period from $23 million to $34 million.

However, the operating surplus including interest expense is projected to increase from $18 million to $21 million, with interest expense projected to increase from $5 million in 2026 to $12 million in 2035, due to the projected increase in loans required to support infrastructure investment.

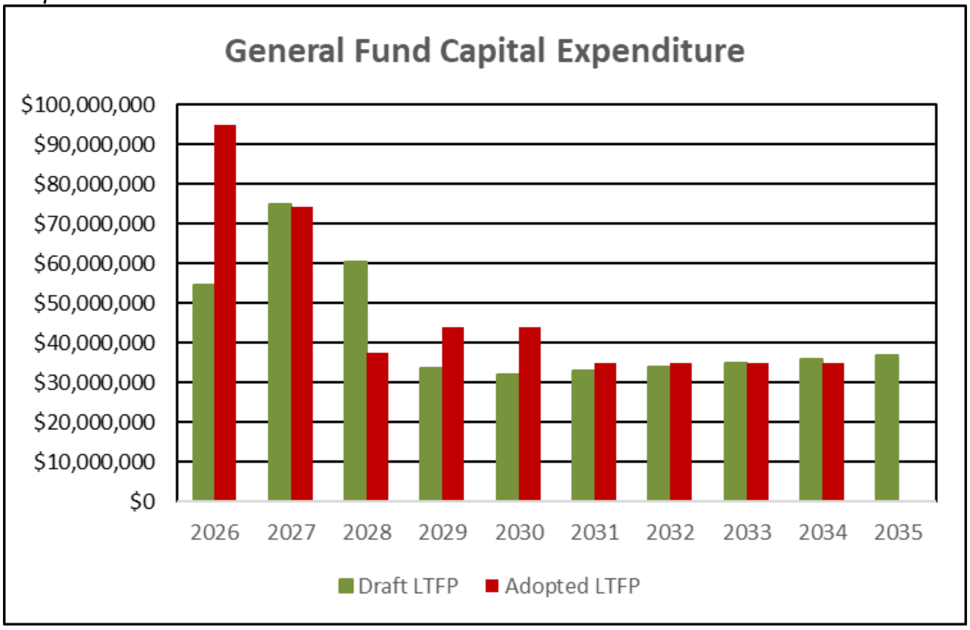
The financial projections show the net result, including interest expense and depreciation (green), moving from a deficit of $10.7 million in 2026 to $19 million by 2035, due to increases in depreciation expense which is projected to increase from $29 million in 2026 to $40 million in 2035. This projected increase is due to inflation and AlburyCity's growing asset base.

*Graph 5*



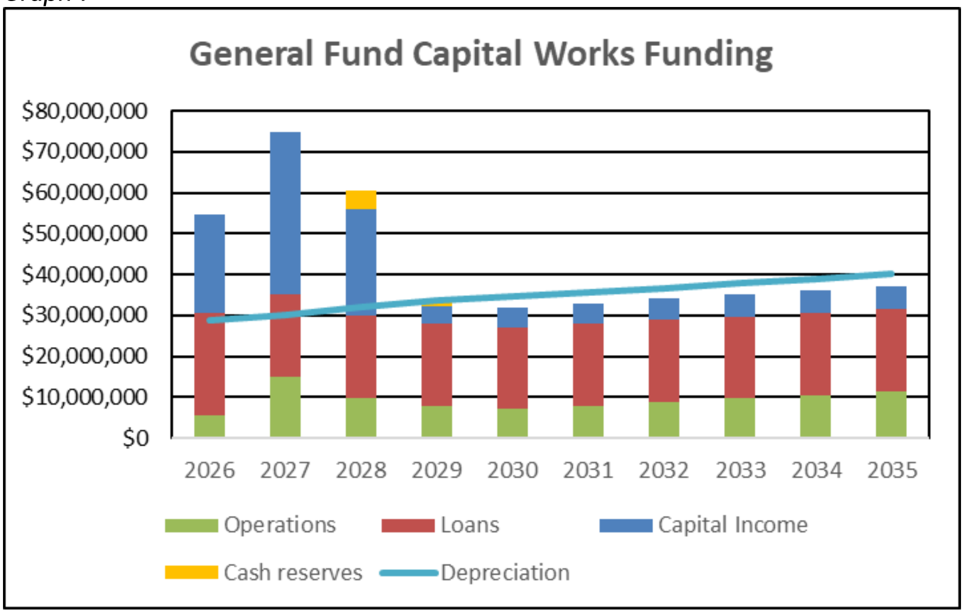
The sustainability of the General Fund is also the focus of AlburyCity's adopted Financial Sustainability Improvement Plan 2024-2028. The projected General Fund capital expenditure program is budgeted to be less in 2025/26 to reduce the amount of loan funding required in support.

*Graph 6*



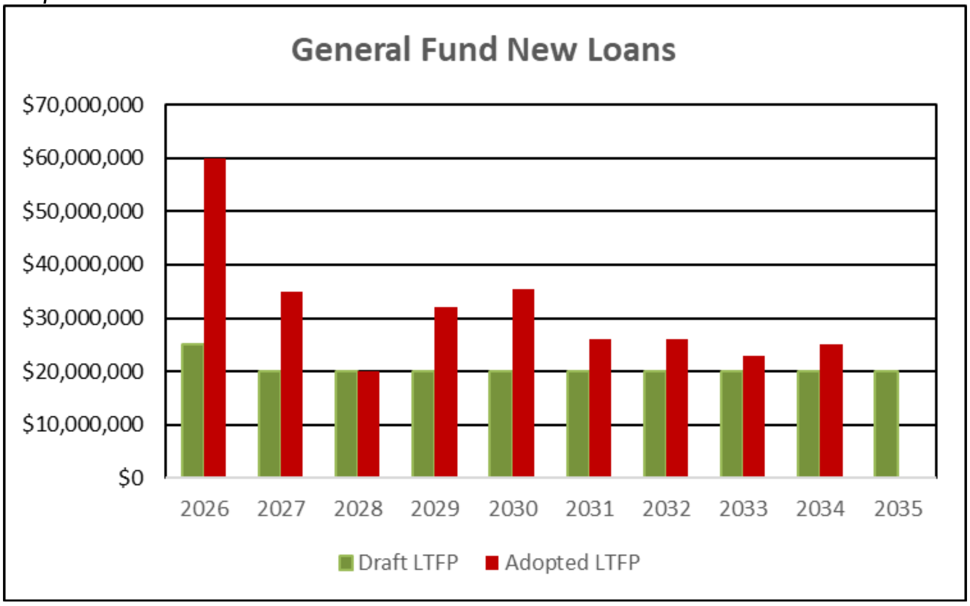

Graph 7 shows the proportion of the General Fund capital works program funded by operations (rates and other income) and capital income (grants and contributions), with the balance of funding from new loans.

*Graph 7*



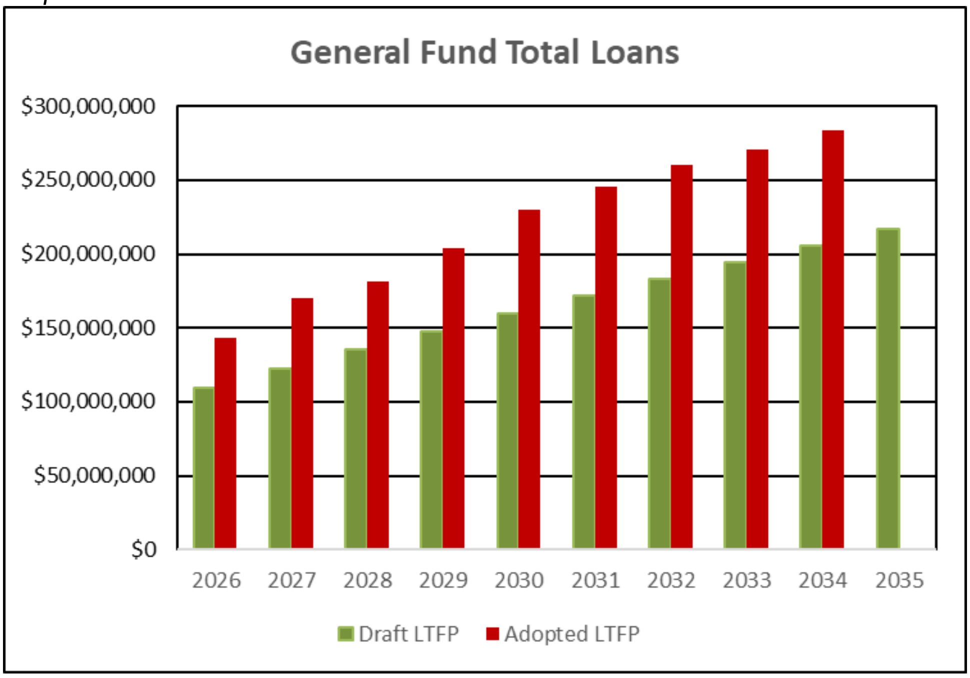
Graph 8 below summarises the projected new loans required to support the proposed works program, which has decreased compared to the prior year adopted plan.

*Graph 8*



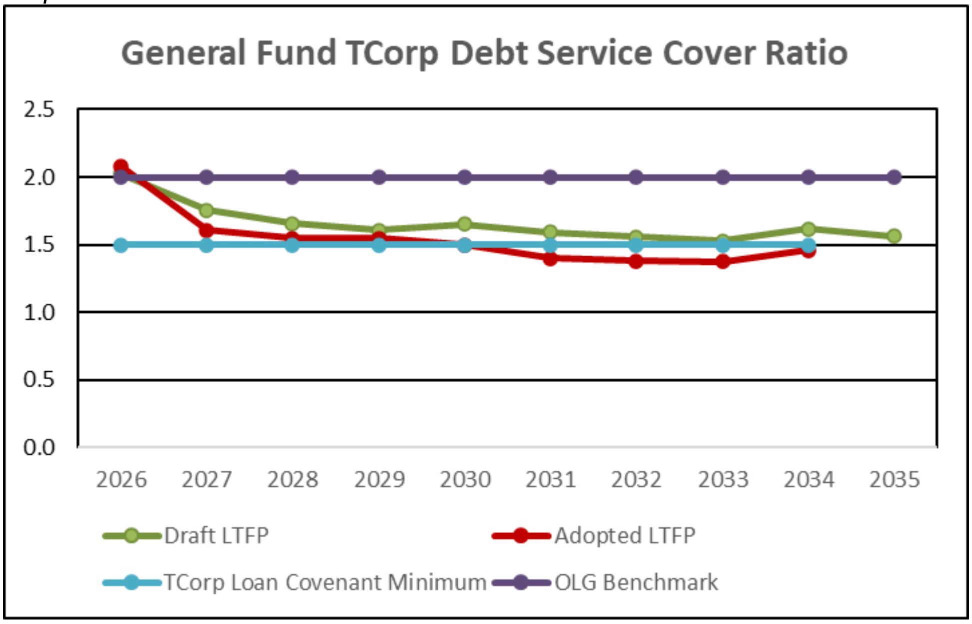

Graph 9 below summarises the General Fund projected total loans which are required to support the proposed works program and maintain liquidity to meet commitments as and when they fall due. General Fund total loans are projected to increase to $215 million by 2035, with loans being taken out for 20 year terms at a fixed interest rate.

*Graph 9*



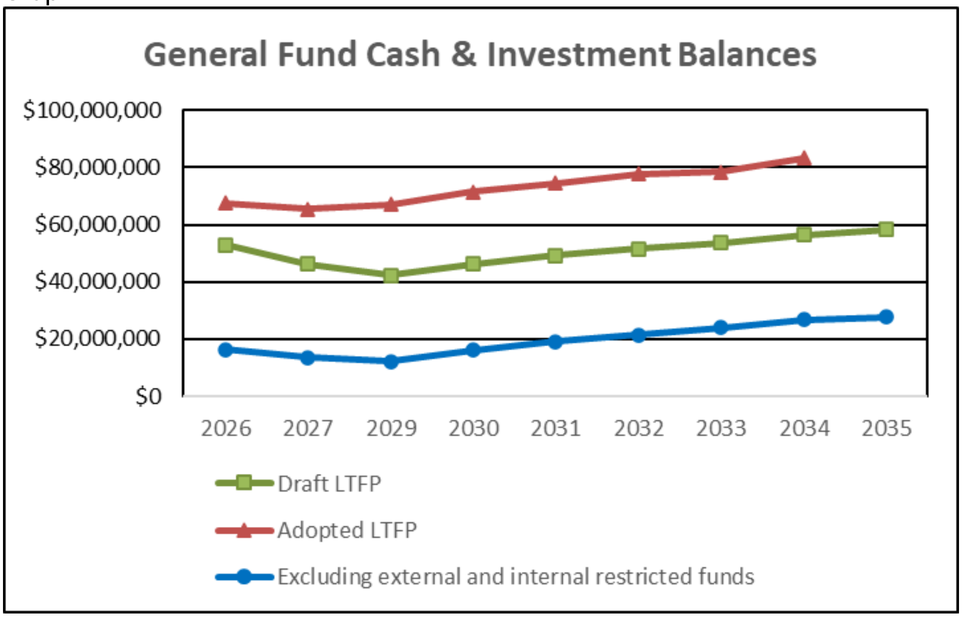
Relative debt levels are benchmarked by the Debt Service Cover Ratio, being earnings before interest and depreciation compared to principal and interest loan repayments. It is projected that the General Fund Debt Service Cover Ratio will decrease to 1.5 by 2033. The TCorp loan agreement minimum covenant is a ratio of at least 1.5. The Office of Local Government minimum benchmark is 2.0.

*Graph 10*



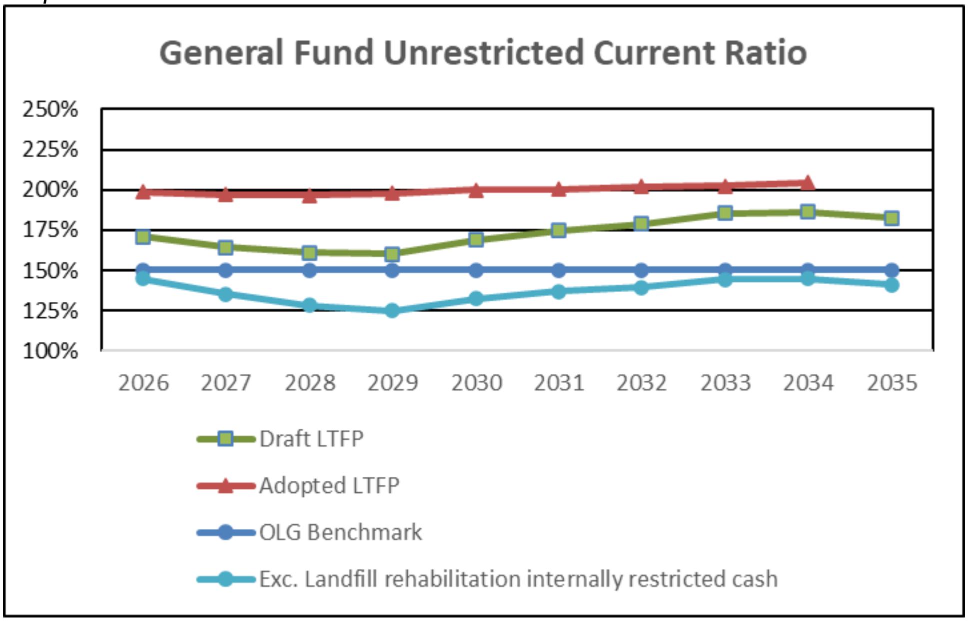

Graph 11 below shows that the projected General Fund cash and investment balances are to increase in future years to offset increases in current liabilities.

Graph 11



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 (liquidity) 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 12 below. However, it should be noted that these balances include internally restricted cash.

*Graph 12*



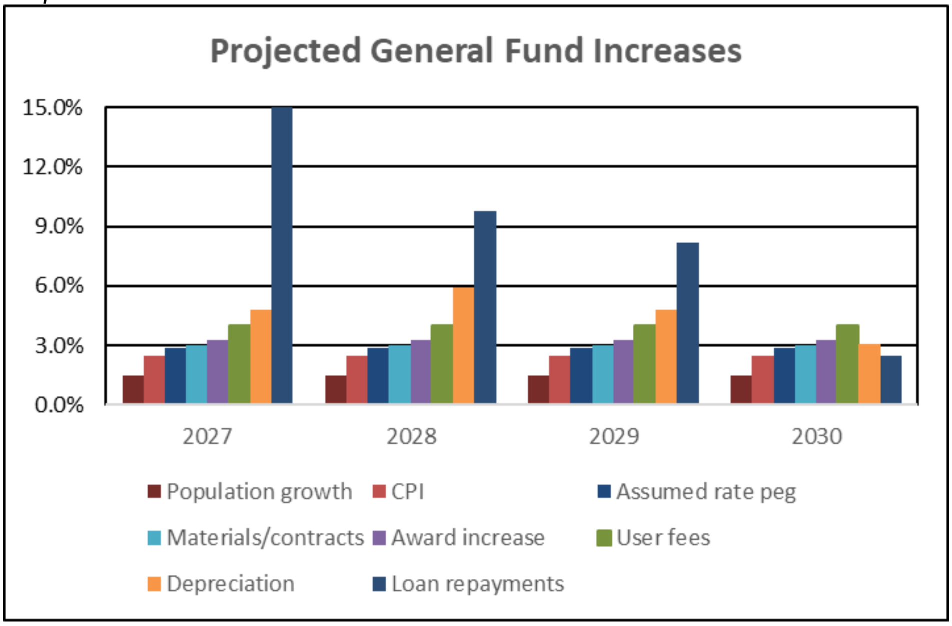
These General Fund Long Term projections are based upon the following key factors, utilising the draft 2025/26 operating budget as its base.

- 2.5% CPI per Federal Budget
- 2.9% Rate peg
- 3.0% Materials/contracts
- 3.25% Wage Price Index
- 4.0% User fees

Plus 1.5% Population growth

- Depreciation dependent on growth in asset base
- Loan repayments dependent on required new loans

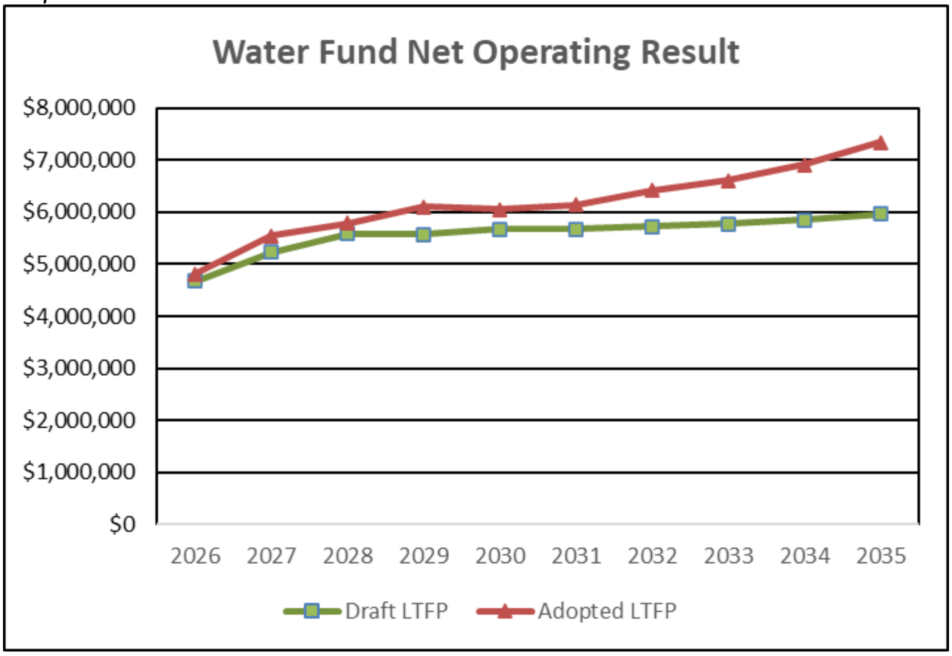
*Graph 13*



## Water Fund Long Term Financial Plan Projections

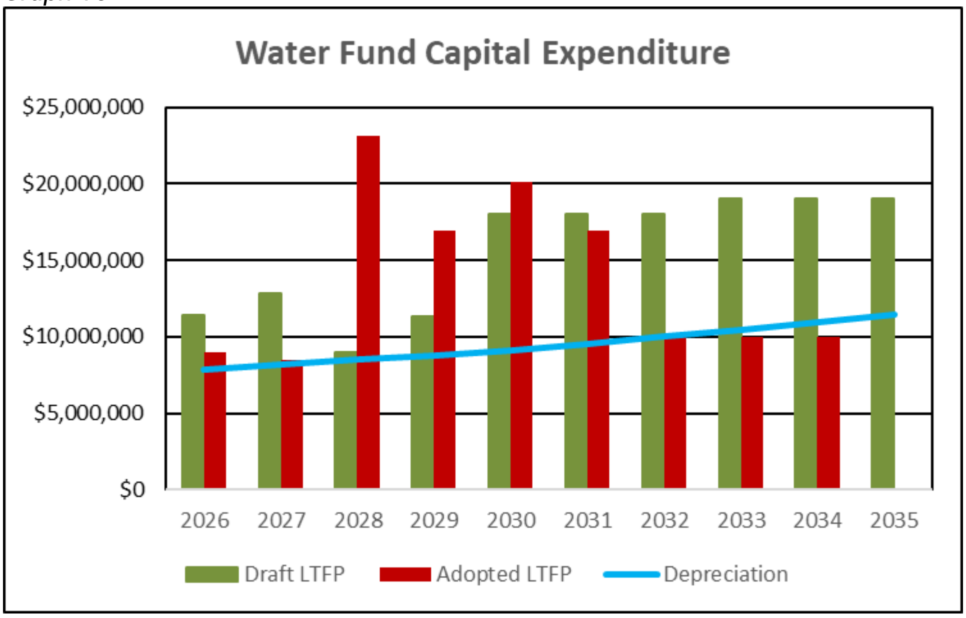
The projected Water Fund operating results are less than the adopted Long Term Financial Plan as shown in Graph 14, which is mainly due to revised income estimates.

*Graph 14*



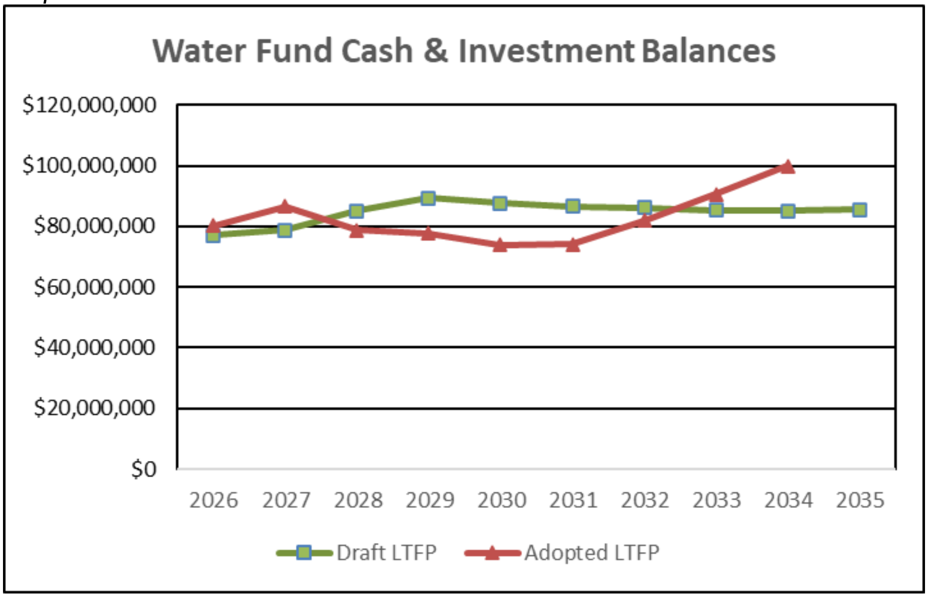

The projected Water Fund capital expenditure compared to the adopted Long Term Financial Plan, varies due to the timing and inclusion of projects, as shown by Graph 15 below.

*Graph 15*



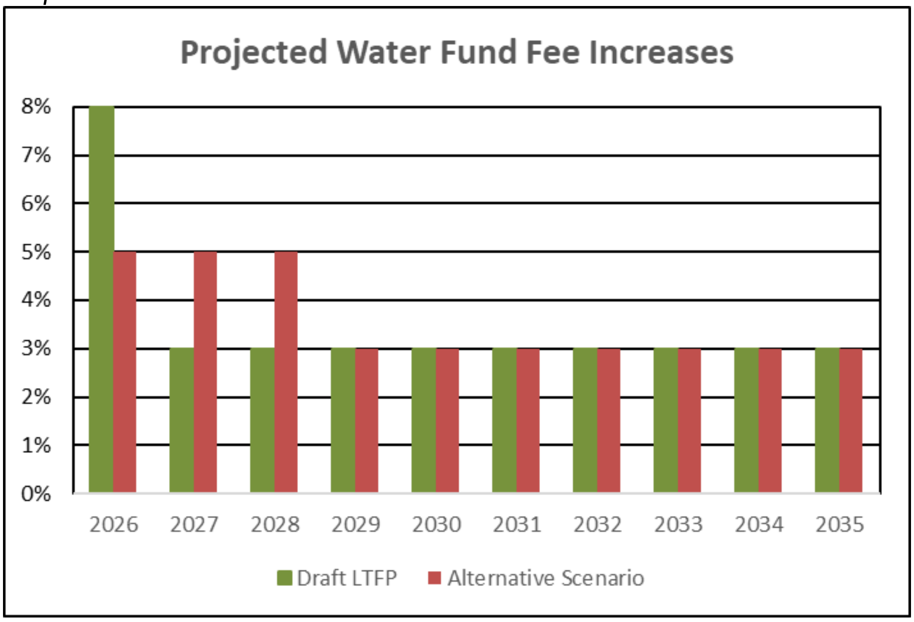
Graph 16 below shows that the projected Water Fund cash and investment balances will be maintained for future infrastructure requirements.

*Graph 16*



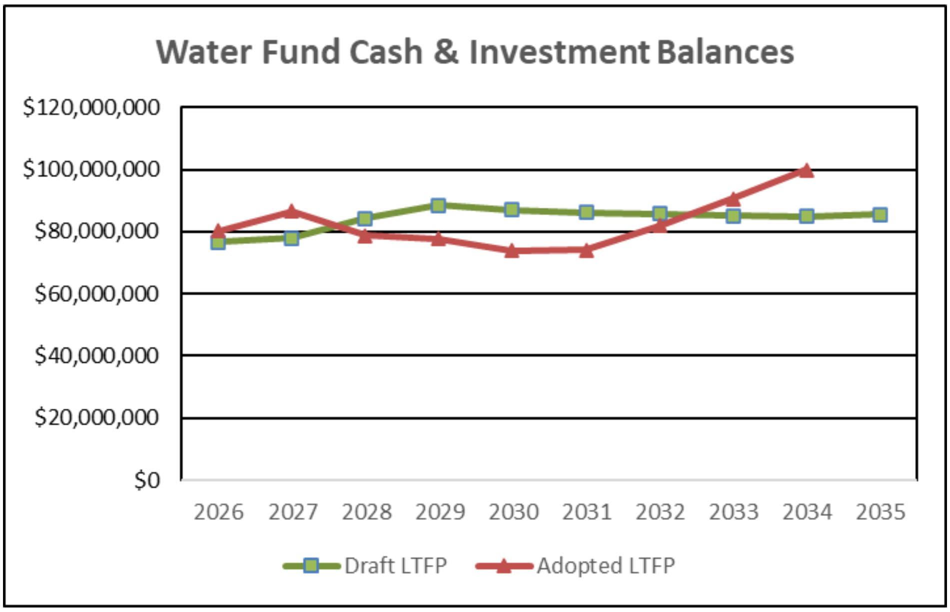

These Water Fund Long Term projections are based upon the proposed 8% fee increase in 2025/26 then 3% from 2026/27. An alternative scenario is also shown by Graph 17 below where fees increase by 5% for the first three years to achieve a similar financial outcome.

*Graph 17*



The alternative scenario included above results in similar financial outcomes over the longer term as noted by this alternative scenario Graph 18 below.

Graph 18



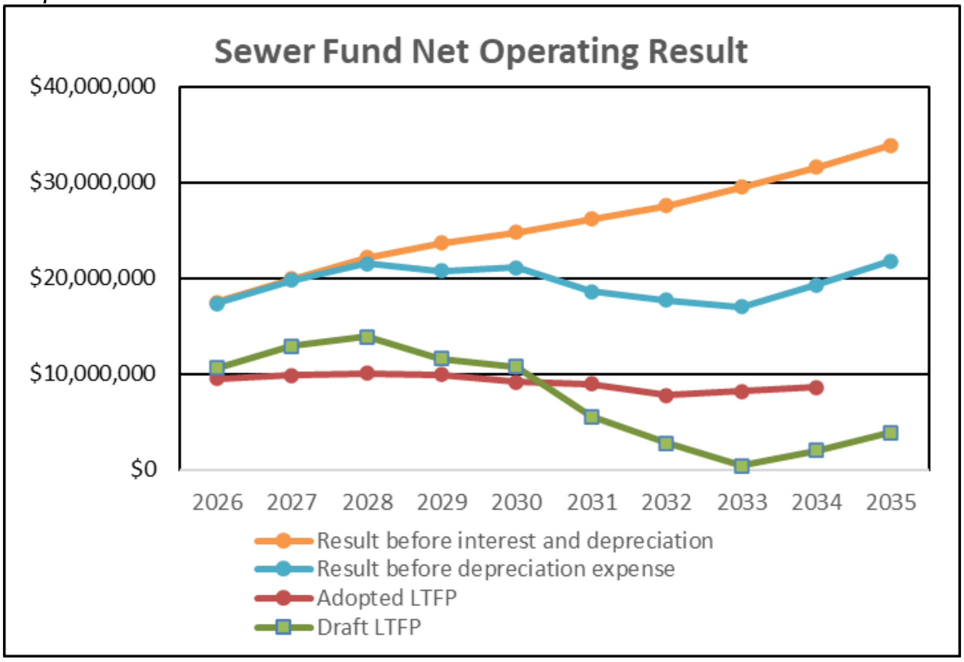
## Sewer Fund Long Term Financial Plan Projections

The current draft financial projections per Graph 19 show the Sewer Fund operating surplus, before interest expense and depreciation (orange), improving over the 10 year forecast period from $17 million to $34 million.

However, the operating surplus including interest expense is projected to increase from $17 million to $22 million, with interest expense projected to increase by $12 million by 2035, due to the projected increase in loans required to support infrastructure investment.

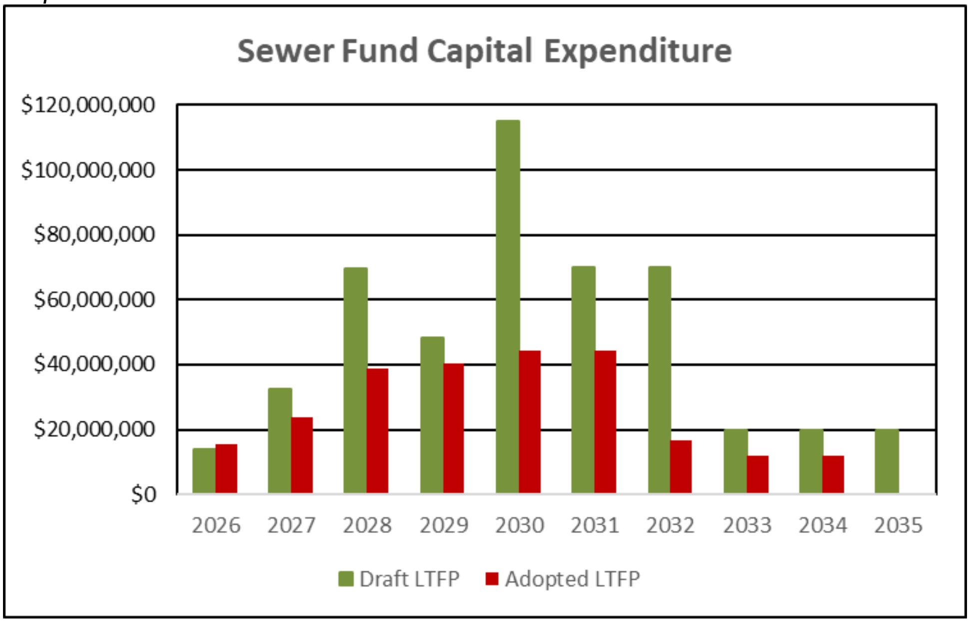
The financial projections show the net result, including interest expense and depreciation (green), moving from a surplus of $11 million in 2026 to break even by 2033, due to increases in depreciation expense which is projected to increase from $7 million in 2026 to $18 million in 2035. This projected increase is due to inflation and AlburyCity's growing asset base.

*Graph 19*



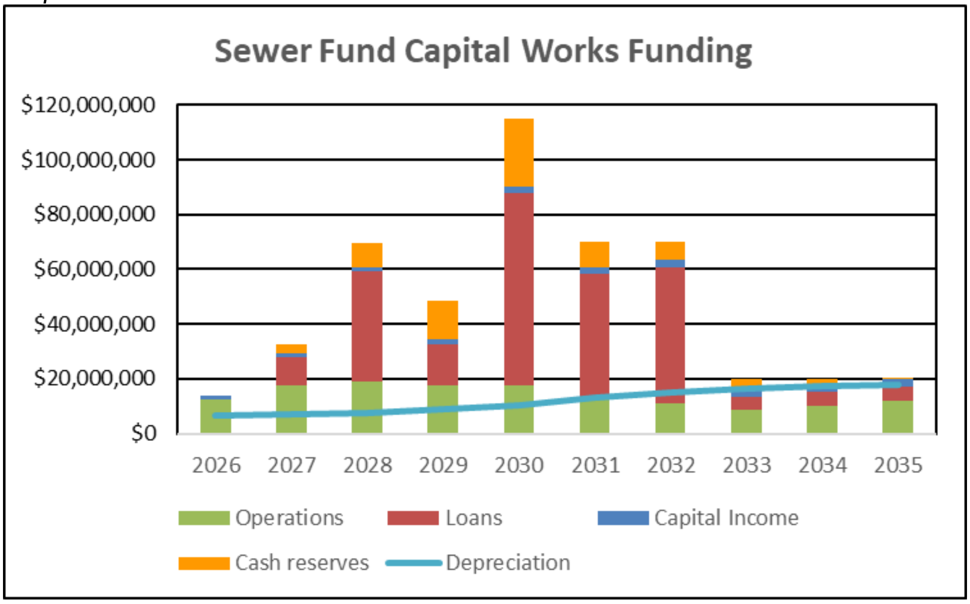
The projected Sewer Fund capital expenditure is greater than the adopted Long Term Financial Plan which is mainly due to the inclusion of projects as shown by Graph 20 below.

*Graph 20*



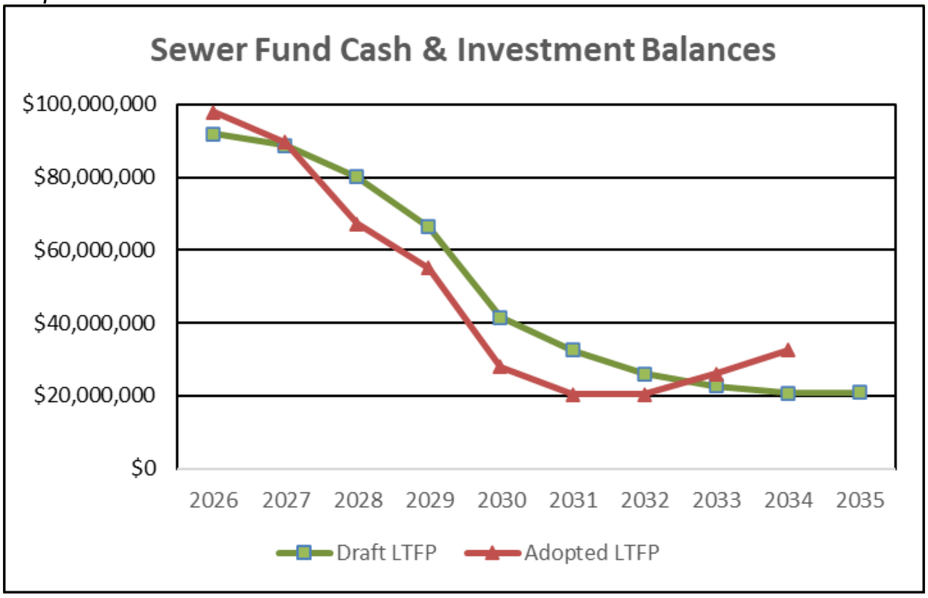

Graph 21 shows the proportion of the Sewer Fund capital works program funded by operations (annual charges and other income) and capital income, with the balance of funding from new loans.

*Graph 21*



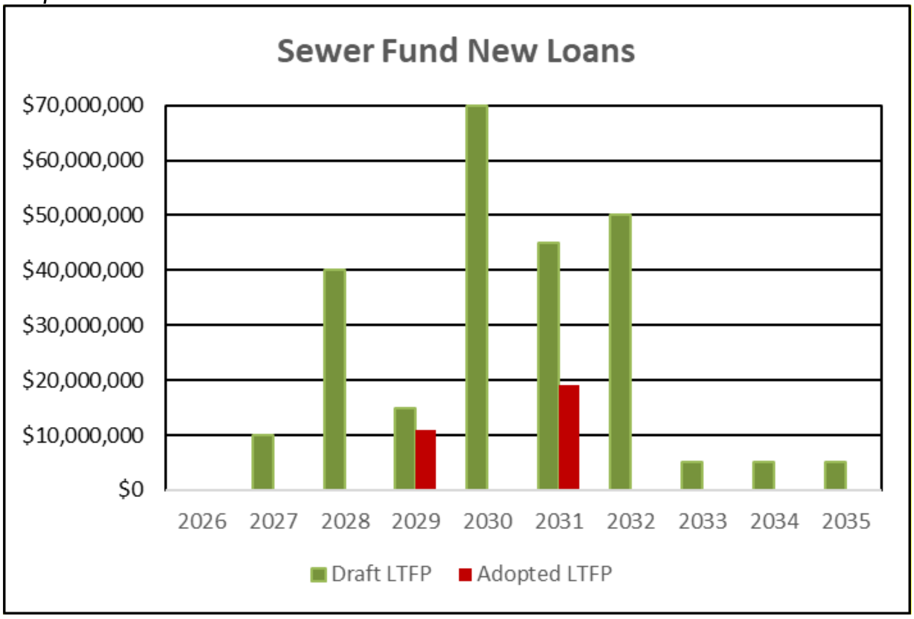
Graph 22 below shows that the Sewer Fund cash and investment balances are projected to decrease, due to the increased infrastructure capital expenditure.

*Graph 22*



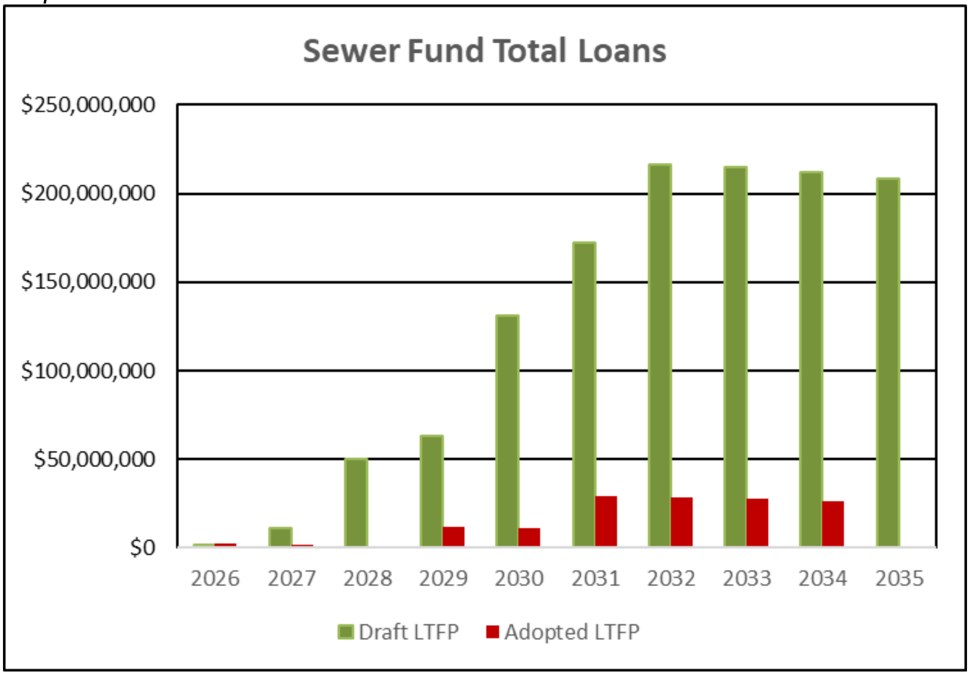

With the anticipated increase in capital expenditure, new loans are expected to be required over the forward estimates as demonstrated by Graph 23 below.

*Graph 23*



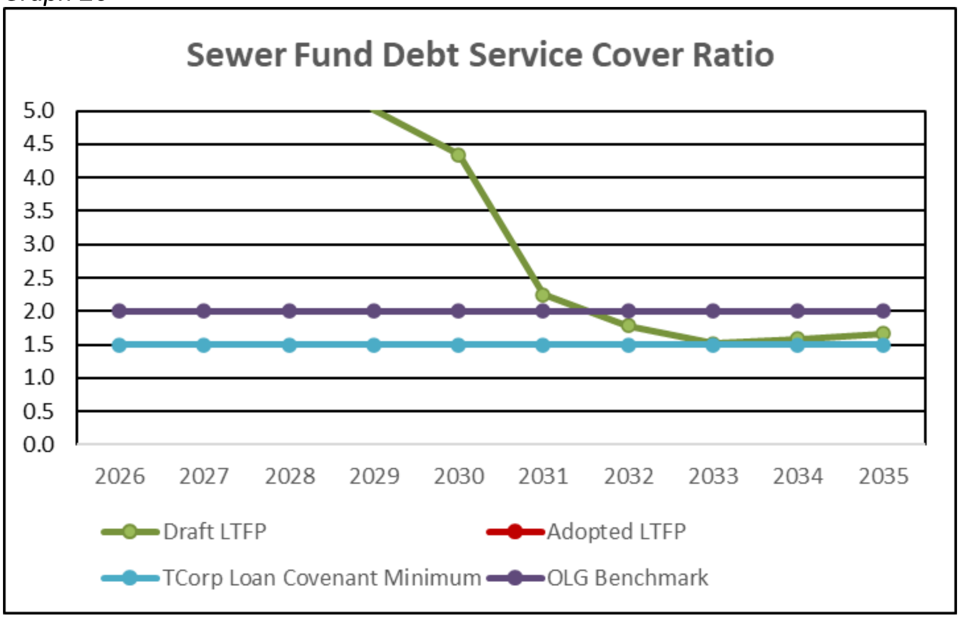
Graph 24 shows the total borrowings position for the Sewer Fund.

*Graph 24*



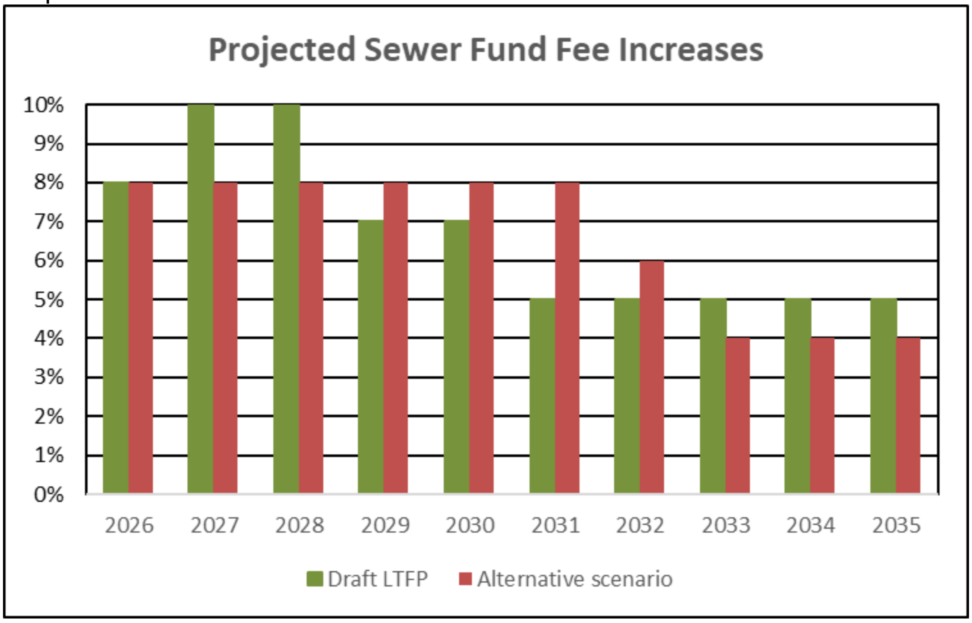

Relative debt levels are benchmarked by the Debt Service Cover Ratio, being earnings before interest and depreciation compared to principal and interest loan repayments. It is projected that the Sewer Fund Debt Service Cover Ratio will decrease to 1.5 by 2033. The TCorp loan agreement minimum covenant is a ratio of at least 1.5. The Office of Local Government minimum benchmark is 2.0.

*Graph 25*



For the Sewer Fund to invest in the infrastructure required to sustain AlburyCity's growth, sufficient income is required from users. These Long Term projections are based upon an 8% fee increase in 2025/26 followed by 10% increases in 2026/27 and 2027/28 before reducing to lower levels. As noted by Graph 25 below similar financial outcomes can be achieved if user fees are increased by 8%from 2025/26 to 2030/31.

Graph 26




The base scenario is recommended due to the risk of infrastructure construction cost escalations.

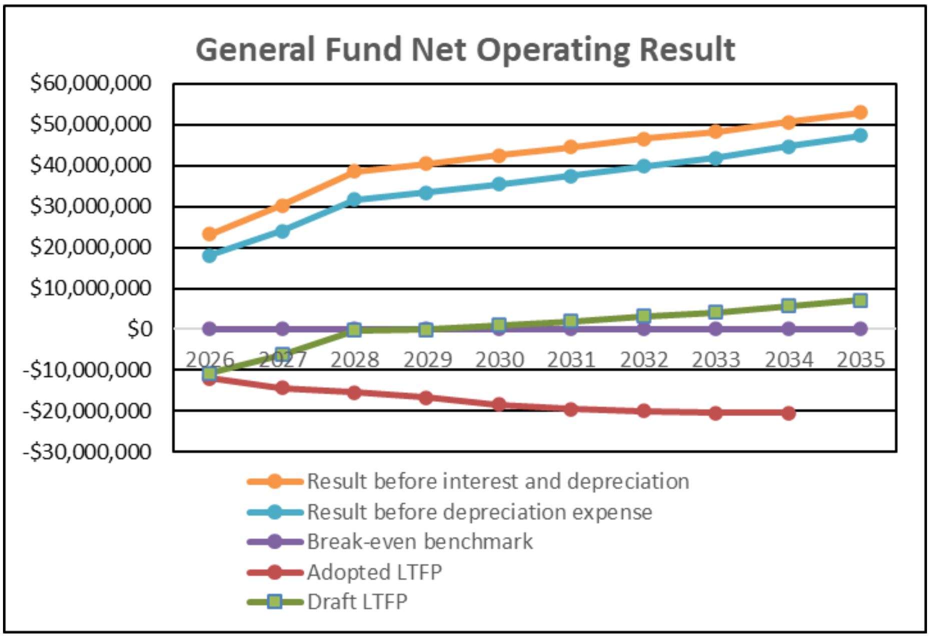
## Alternative Improvement Scenario #1 – Improved General Fund operating result

What does good look like? Significant further improvement in the General Fund operating revenue/expenditure by 2028 would enable sustainable service levels. This would also enable a reduced reliance on loan funding and associated interest bill to support the Four Delivery Program.

An alternative improvement scenario has been prepared which demonstrates the benefit of achieving break even operating results from 2027/28, which is easier said than done. Benefits include decreasing debt levels as the planned capital works program would not be reliant on loan funding, however additional project spending not budgeted for would require additional funding before proceeding, otherwise the General Fund operating result would begin to deteriorate below break-even.

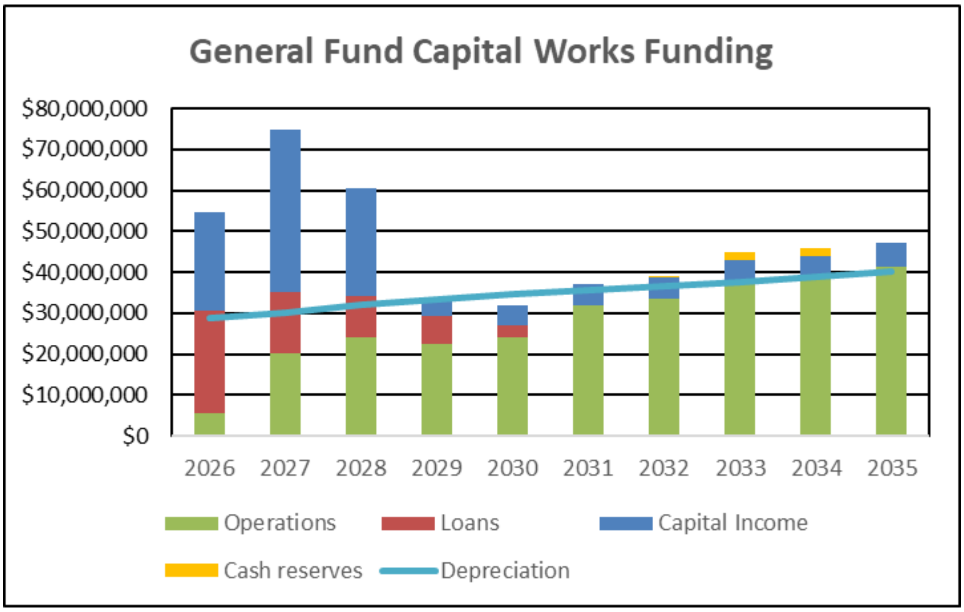
This alternative improvement scenario demonstrates the benefit of improved cashflow from operations of $7 million in 2026/27 and $7 million in 2027/28 to achieve an ongoing break even operating result.

*Graph 27*



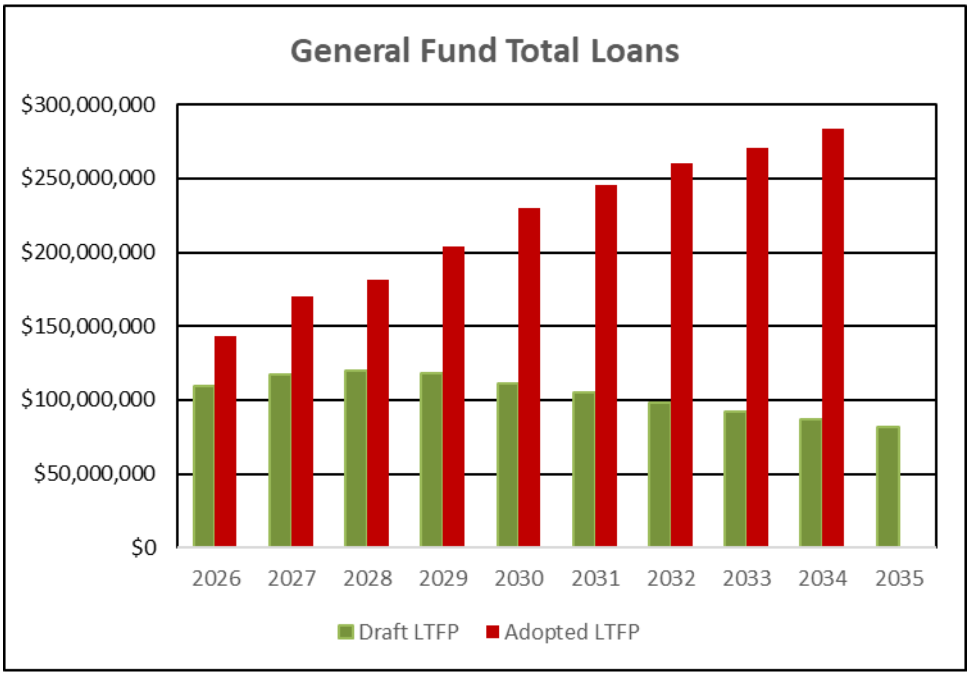
This improved funding from operations would significantly reduce loans required for base level funding of infrastructure works over the long term as demonstrated below.

*Graph 28*



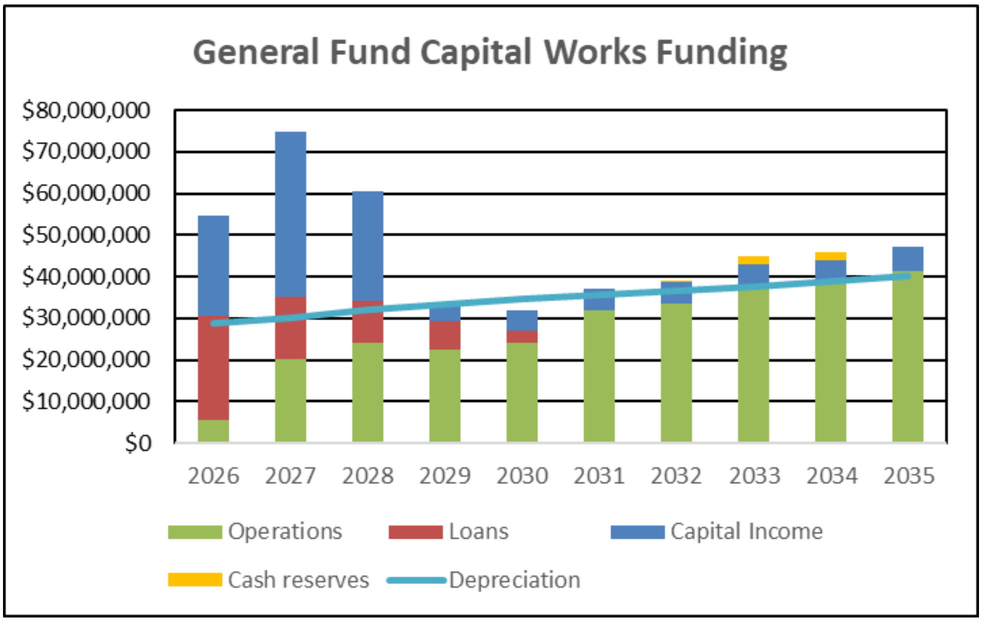

This improvement scenario would result in total General Fund total loans reducing rather than increasing as demonstrated by Graph 29 below.

*Graph 29*



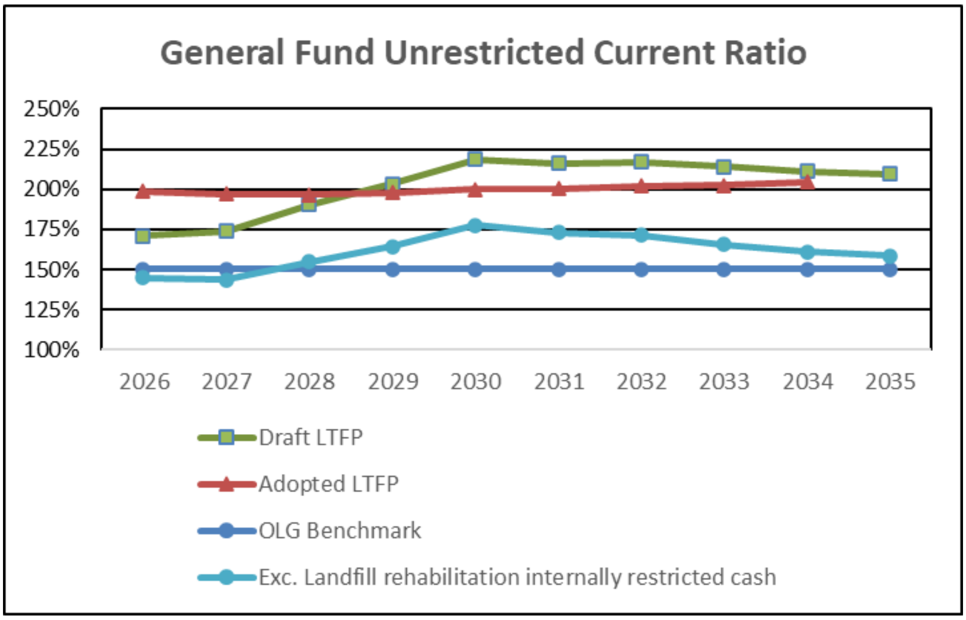
There would also be a significant improvement in the projected General Fund debt service cover ratio as highlighted by Graph 30 below.

*Graph 30*




There would also be an improvement in the projected General Fund liquidity as highlighted by Graph 31 below.

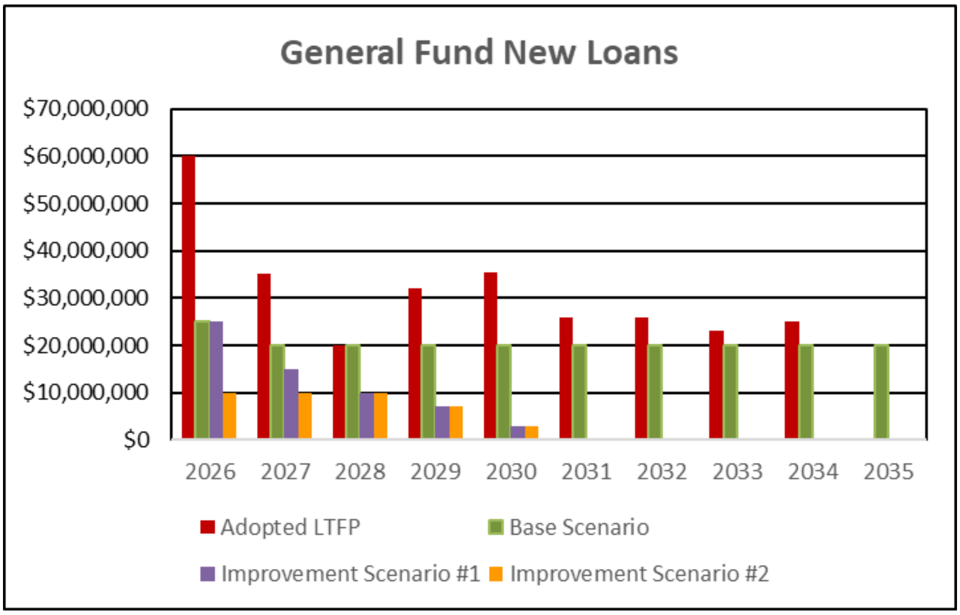
*Graph 31*



### Alternative Improvement Scenario #2 – Further Reduce Capital Budget to Limit New Loans

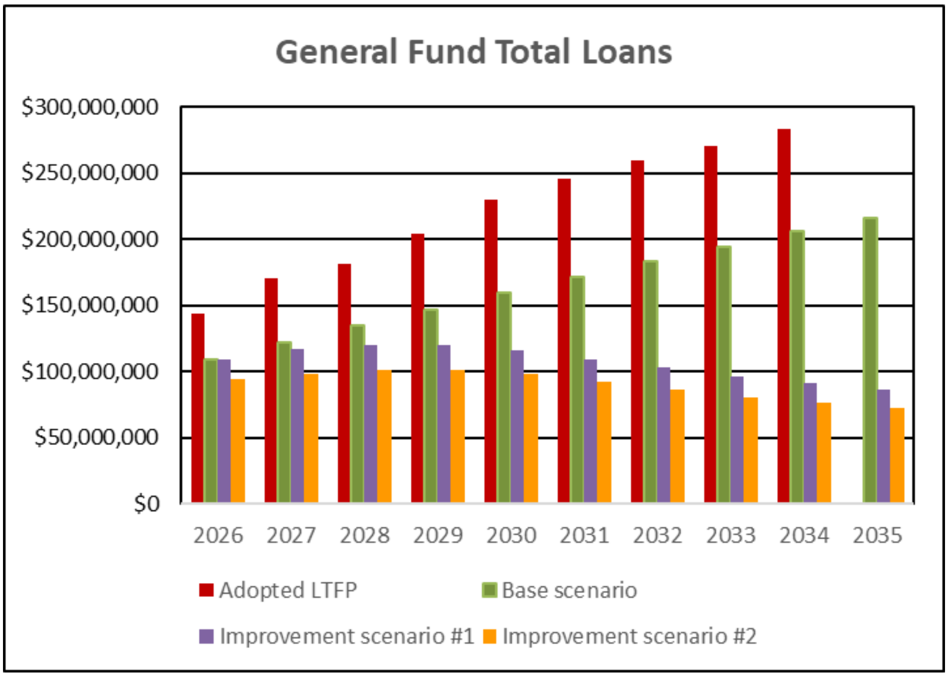
An alternate improvement scenario #2 has also been modelled to demonstrate the financial benefit of limiting new borrowings in 2025/26 and 2026/27 to $10 million each year compared to the loan funding provided for under the break-even by 2027/28 improvement scenario #1.

*Graph 32*



As outlined by Graph 33 below, this would speed up debt reduction, and further reduce the additional cashflow required to be found from operations by $1.3 million per annum from 2026/27 and a further $850,000 from 2027/28, enabling the General Fund to get back to break even quicker.

*Graph 33*




However, on balance this alternative scenario #2 is not recommended due to the operational and community impacts of deferring projects remaining within the draft General Fund Four Year Delivery Program, with examples provided below:

- Albury Animal Care Centre and Education Hub - $5.4 million plus Grant $880,000
- Australia Park Car Park, Pedestrian Bridge and Levee Bank Works - $4 million (SVR $1.2 million)
- Address Administration Building Water Infiltration Issues - $3.5 million
- Fleet Replacement Program - $2.5 million per annum
- Oddies Creek Park Play Space Stage 3 Splash Park - $1.1 million plus Grant $2.5 million
- Nexus Industrial Precinct Utilities Augmentation - $2 million plus Grant $2 million
- Footpath/Bikepath Construction Program - $2.1 million
- Botanic Gardens Elm Avenue - $950,000
- Drainage - Retarding Basin Rehabilitation (Rear 24 Lexington Place) - $500,000
- Road - Retaining Wall (Schubach St, Rear of 26 Pilbara Place) - $475,000

Risks associated with not proceeding with these projects are outlined below.

Table 2

| Project | Risk with not undertaking this project |
|---|---|
| Albury Animal Care Centre | **Corporate Risk:** Anticipated high risk of closure of Albury Animal Care Centre as existing facility is not fit for purpose and does not meet Victoria Code of Practice or NSW Animal Welfare Code of Practice. Subsequently, may be in breach of legislated requirement for an impounding service under Companions Animals Act. |

| Project | Risk with not undertaking this project |
|---|---|
| | Damage to reputation and corporate image through a failure to resource and provide the regional service. This would have regional impact to six councils in NSW and Vic.<br><br>**Animal Welfare – Conditions and capacity –** The extreme hot and cold conditions experienced in the current iron sheds are not conducive to best practice animal care. The limited capacity and number of the pens has potential to lead to crowding and inability to house and re-home companion animals.<br><br>**Business Risk:**<br>Corporate reputation from tender withdrawn while in detailed design stage.<br>Commitment of funds of over $300k expensed to date to reach final stage of detailed design. Inefficient use of funding and resources for the project to date.<br>Community feedback on work program mismanagement<br><br>Loss of revenue:<br>• Service level agreements and associated increase in income from education hub and new centre ceased<br>• Revenue from OLG<br>• Fees and charges ceased.<br>• Loss of sponsorship money from Mars.<br>• Opportunity as future boarding kennel to raise revenue gone.<br><br>**WHS Risk:** Significant impact on employee morale, psychosocial and physical wellbeing and potentially result in loss of staff, increased injuries of employees, workers compensation claims, carry a risk of increase in lost time hours. Insufficient resourcing and operations due to team turn over. |
| Education Hub and Emergency Pens (Animal Care Centre) | The project extends the planned Animal Care Centre redevelopment to construct a purpose-built Learning Hub providing education and awareness training on animal handling and welfare. Audiences impacted by this decision will include schools, individuals and the broader community with programming to be delivered by AlburyCity and through formal training partnerships and business start-ups.<br>The extension will also see the addition of emergency pet accommodation to address a regional need for pet care for those *impacted by domestic and family violence*.<br><br>High negative media impact to corporate reputation. |

| Project | Risk with not undertaking this project |
|---|---|
| | Loss of $880K funding will impact the learning hub and main animal care facility in delivering an innovative sustainable design and landscaping enhancements reducing the Centres environmental footprint.<br><br>**Financial Risk:**<br>Due to being in breach of executed funding deed, grant already spent to date (over $300k) would need to be returned to the NSW Government and funding gap sought internally as funds already expended.<br><br>**Business Risk:**<br>Corporate reputation from RFT for construction of education hub from being withdrawn.<br>Temporary sheds contractor has placed orders for the construction materials.<br><br>**Loss of revenue:**<br>Opportunity from education facility hire, animal management certificates /training.<br>Loss of sponsorship from Mars. |
| Australia Park Car Park, Pedestrian Bridge and Levee Bank Reconstruction Works | The Australia Park car park and accompanying pedestrian bridge form part of AlburyCity commitment to the larger $10M RGETF grant program, which could present a corporate reputational risk if this project does not proceed. The levee bank that will be undertaken as part of this project is also grant funded, and therefore grant funds would need to be returned, hence presenting a further corporate risk. |
| Administration Building Address Water Infiltration Issues in Basement | Asset Renewal. Structural engineering advice has been received that these works are required urgently and not completing will impact on the structural integrity of the building and life of the asset. |
| Fleet Replacement Program | Reduced return when disposing of light fleet.<br>Increased maintenance costs. Risk of failure. |
| Oddies Creek Park Play Space Stage 3 - Splash Park | This project has attracted $2.5M as part of the Albury Wodonga Regional Partnerships Project. We have also recently completed community Have Your Say which attracted enormous positive support for the project. Not proceeding with this project would present significant risks in terms of corporate reputation, public trust, community outrage. |
| NEXUS Industrial Precinct Utilities Augmentation | The removal of the NEXUS Augmentation project prevents AlburyCity from having adequate electricity to its industrial development.<br>Grant funding of $2.5M would be compromised.<br>This will impact our ability to realise the $10M worth of land sales available to us, as well as facilitate the |

| Project | Risk with not undertaking this project |
|---|---|
| | accompanying jobs and rate return income that come with the sale of this land. |
| Footpath/Bikepath - Construction Program | The continued expansion of the footpath/bikepath network has been identified as a priority of the MOVE Strategy. Removal of this budget will mean we are not meeting one of the primary objectives of this Strategy. |
| Botanic Gardens - Elm Avenue Redevelopment | This project has already commenced, following removal of the elms. Plants have been ordered and civil tender currently out to market to complete the works. Not proceeding with this project would present significant risks in terms of corporate reputation, public trust, community outrage. |
| Drainage - Retarding Basin Rehabilitation (Rear 24 Lexington Place) | Potential impact on our Community. Residential properties have been impacted by flash flooding in this area. These works will upgrade the existing basin to reduce the risk of future inundation. |
| Road - Retaining Wall Design (Schubach St, Rear of 26 Pilbara Place) | Existing retaining wall is failing impacting on a residential property. Further delays to this project will mean erosion will continue to occur. |

**Conclusion**

The General Fund draft operating result projections, before interest expense and depreciation, demonstrate an improving surplus result over the 10 year forecast period. However, the operating deficit including interest expense and depreciation expense is not projected to decrease, due to inflation, AlburyCity's growing asset base and required loan funding to support the forward capital works program.

The alternative improvement scenario #1 demonstrates the benefit of improved cashflow from operations to achieve an ongoing break even operating result. This improved funding from operations would also significantly reduce loans required for base level funding of infrastructure works over the long term.

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 sustainably funding current service levels.

AlburyCity's Long Term Financial Plan is to be read in conjunction with AlburyCity's adopted Financial Sustainability Improvement Plan 2024-2028, 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 and the actions necessary to achieving them.

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