CM13.8. March Quarter Budget Review

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CONFIDENTIAL	No		
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Purpose of Report

The report presents the revised estimate of Council's financial performance for the 2019/20 financial year as part of the quarterly review of Council's budget.

Background

Clause 203 of the *Local Government (General) Regulations 2005* requires that:

1. Not later than two months after the end of each quarter (except the June quarter), the responsible accounting officer of a council must prepare and submit to the council a budget review statement that shows, by reference to the estimate of income and expenditure set out in the statement of the council's revenue policy included in the operational plan for the relevant year, a revised estimate of the income and expenditure for that year.
2. A budget review statement must include or be accompanied by:

    a) a report as to whether or not the responsible accounting officer believes that the statement indicates that the financial position of the council is satisfactory, having regard to the original estimate of income and expenditure, and
    b) if that position is unsatisfactory, recommendations for remedial action.

This report summarises major forecast variations compared to the original budget for the 2019/20 financial year.

Issues

Operating Budget

The consolidated full year operating result is now forecast to be an operating surplus of $2 million, which is $962,532 more than the revised budget.

The improved overall forecast result including all three Funds is mainly due to the:

- $3.2 million forecast increase in water usage income;
- $1.3 million operating budgets to be carried forward to next financial year;
- ($3.3 million) COVID-19 forecast impact on AlburyCity's operations;

- ($200,000) other net variances

Table 1 below summarises the forecast change in net operating result by Fund.

Table 1

Net operating variations	Original Budget 2019/20 $'000	December Budget Review Forecast $'000	Expenditure Carried Forward to Next Year $'000	Other Variations March Review $'000	Revised year end forecast 2019/20 $'000
General	(4,200)	9,514	(1,305)	2,911	11,120
Water	(2,789)	(2,829)	0	(2,766)	(5,595)
Sewer	(8,298)	(7,731)	0	197	(7,533)
(Surplus)/Deficit	(15,287)	(1,045)	(1,305)	342	(2,008)

Note: () indicates an improvement to budget

General Fund Operating Budget

As previously reported as part of the December Quarter Budget Review, an operating deficit of $9.5 million was forecast for the General Fund, which was mainly due to:

- $3.3 million early receipt of 2019/20 Financial Assistance Grants from the Federal Government last financial year;
- $2.7 million unexpended project funding carried forward from the last financial year;
- $2.7 million Depreciation expense (non-cash) mainly due to the revaluation of infrastructure assets; and
- $800,000 Other net variations.

The General Fund full year operating result is now forecast to be a deficit of $11.1 million which is $1.6 million more than the previous forecast, as detailed below is due to:

- $3 million COVID-19 impact on General Fund operations
- ($1.3 million) Operating budgets to be carried forward
- ($120,000) Other net improvements

It is noted that the forecast General Fund operating result is reliant on the achievement of yet to be identified savings of $1.2 million and employee budget vacancy savings of $1 million as included in the adopted budget.

Improvements:

Operating Budget – Carry Forward Budgets $1.3 million

- $300,000 Economic Development Incentive Program allocation. Ongoing discussions underway with potential investors, will not be finalised by 30 June 2020;
- $100,000 Open Space Strategy. Due to resourcing this project will be postponed to next financial year;

- $150,000 Road condition survey. Due to vacancies within Team Leader Assets and Asset Engineer roles;
- $150,000 Transport Strategy Development. Project delayed awaiting completion of the CBD parking, CBD bike loop and award of the traffic model review in conjunction with City of Wodonga;
- $70,000 Implementation of Mungabareena Aboriginal Place Management Plan. Due to delays finalising the Terms of Reference for the Mungabareena Aboriginal Place Management Group;
- $50,000 Community & Cultural Facilities Report (Future Needs). This project has been put on hold due to the organisation restructure and interim positions being filled. This project also relates to the Thurgoona/Wirlinga Plan where further investigation is required to ensure there is no duplication;
- $476,627 Other variances less than $50,000 each (refer Attachment 5).

Other Improvements

- $100,000 reduction in Environmental Lands expenditure budget as assessment of environmental lands is currently in progress.
- $170,000 transfer of Murray River Experience project budget from operating to capital.

Deteriorations – due to COVID-19 $3 million:

- $1.3 million Albury Airport net deterioration due to less flights as the result of COVID-19: income is forecast to decrease by $1.54 million which has been partially offset by forecast expenditure reductions of $275,000;
- $1 million Resource Recovery Centre net deterioration: $650,000 income reduction due to reduction in commercial waste due to COVID-19; $150,000 reduction in internal waste disposal income; and $158,000 increase in operations expenditure.
- $442,000 Childcare services income due to COVID-19. This financial impact may be mitigated by additional NSW Government Children's Services funding assistance;
- $127,000 Reduction in Interest income due to decreased interest rates;
- $71,000 Environmental Health and Compliance income due to COVID-19 ($40,000 Parking, $19,000 Street Activities, $12,000 Health Inspections);
- $52,000 Lauren Jackson Sports Centre net result due to closure as the result of COVID-19 (partly offset by vacancy savings of $47,000 due to a position that is not being replaced);
- $38,000 Alexandra Park net deterioration due to COVID-19;
- $0 Albury Entertainment Centre; forecast income decreases of $456,000 due to closure as the result of COVID-19 have been fully offset by an equal forecast reduction in expenditure.

Other Deteriorations:

- $83,000 Cemeteries & Crematorium. Due to targeted improvements which in a number of the key areas of the business need to occur to maintain standards;
- $42,000 Urban and Public Art projects;
- $25,000 Crime prevention budget for CCTV Lavington CBD concept plan and cost estimate as per Council resolution;
- $1,074 Other net variances.

Water Fund Operating Budget

The forecast is a favourable change to budget of $2.8 million.

Improvements:
- $3.2 million Water consumption income;

Deteriorations:
- $129,151 Electricity increase due to higher amount of water pumped;
- $152,000 Interest income decrease due to lower interest rates;
- $127,000 Chemical expenses increase due to use of activated carbon;
- $19,119 Other variances.

Sewer Fund Operating Budget

The forecast is an unfavourable change to budget of $197,185, which is mainly due to a $180,000 reduction in investment income due to lower interest rates.

Capital Budget

The capital budget net of capital income is forecast to decrease by $13.4 million to $46.4 million, which is mainly due to project budgets to be carried forward to next financial year.

Table 2 below summarises the forecast change in net capital results by fund:

Table 2

Net capital variations	Original Budget 2019/20 $'000	December Budget Review Forecast $'000	Expenditure Carried Forward to Next Year $'000	Other Variations March Review $'000	Revised year end forecast 2019/20 $'000
General	29,166	43,834	(6,691)	160	37,303
Water	7,917	8,104	(700)	(3,012)	4,392
Sewer	5,878	7,859	(2,000)	(1,148)	4,711
Net cost	42,961	59,797	(9,391)	(4,000)	46,407

Note: () indicates a decrease to budget

Below summarises the forecast change in net capital result by Fund as a result of the March Quarter Budget Review.

General Fund Capital Budget

The forecast decrease in the net capital budget is $6.5 million, including carry forward items of $6.7 million (detailed below) and budget increases of $160,000, which is mainly due to a budget transferred from operating for the Murray River Experience project:

Carry Forward Projects

- $3 million Kerr Road Reconstruction. Project commencement delayed due to delay in Essential Energy approvals and utility services relocation;
- $2.7 million Thurgoona/Elizabeth Mitchell Drive intersection. Project commencement delayed due to delay in Essential Energy approvals and utility services relocation;
- $429,780 Australia Park Carpark. Construction budget to be carried forward with design to take place this financial year;
- $410,000 Lauren Jackson Sports Centre Upgrade. Funding is allocated to the contract with Centrum Architects for the detailed design works and preparation of tender documentation for construction, they are contracted until November 2020;
- $300,000 Mate Street Footpath Renewal. Project delayed due to extended design period and coordination with watermain replacement works;
- $227,000 Dean Street Lighting Improvements. Project delayed due to extended design and tender assessment periods;
- $200,000 Albury CBD Bike Loop. Project delayed due to extended intersection analysis and design period. Following presentation to Council, community consultation will be undertaken prior to finalisation of plans and implementation;
- $200,000 Thurgoona Drive/Shuter Avenue intersection. Project delayed due to extended intersection analysis and design period;
- $200,000 Greenfield Park Building Design. Nil spent to date due to other grant funded projects;
- $150,000 Day Street Drainage. Project delayed due to extended environmental approvals period;
- ($1,400,000) Material Recovery Facility project grant income now budgeted to be received next financial year;
- $303,731 Other projects

Capital Budget Reallocations

Lavington Sports Ground grandstand upgrade

- In conjunction with the Lavington Sports Ground Project, significant upgrades of the existing grandstand structure have been undertaken to ensure full building and fire rating compliance as well as improvements for disability access.
- Further to Council's previous consideration of this project budget in March 2019, an additional allocation of $500,000 will be required to cover this increase in cost for the upgrade of the existing grandstand.

Emergency Management Centre design

- There is $500,000 in the 2019/20 building capital allocation for preliminary designs and approvals for the Emergency Management Centre. The recent bushfires and COVID-19 situation has meant that these works have not progressed with relevant agencies committed elsewhere.

- It is proposed that the $500,000 allocated to Emergency Management Centre project in 2019/20 be re-allocated to fund the upgrade to existing Lavington Sports Ground grandstand.

Albury Wodonga Equestrian Centre

- The Stronger Country Communities Fund covered yard project has had some unexpected costs associated with the approvals process (stormwater management and fire services). The additional works required are estimated at $120,000. The Albury Wodonga Equestrian Centre has agreed to share the unexpected costs. It is proposed that funding of $60,000 be reallocated from QEII Square. The Albury Wodonga Equestrian Centre is proposing to fund their increased contribution through an interest free loan from AlburyCity.

Water Fund Capital Budget

The forecast decrease in the net capital budget is $3.7 million including a carry forward item of $700,000 and other budget variations of $3 million as detailed below:

Improvements:
- $1.4 million Thurgoona/Wirlinga precinct water network not proceeding this financial year;
- $700,000 carry forward Augmenting Table Top water mains funding;
- $495,000 Ground Water Supply project not proceeding;
- $290,000 Telemetry Base project not proceeding this financial year;
- $200,000 Water mains construction cost lower than anticipated across a number of projects;
- $151,000 Annual water meter replacement program budget reduction;
- $160,000 Water reticulation project budget reduction;
- $142,000 Water Reservoir No.1 Project not proceeding this financial year;
- $50,000 Water Pump Station No.4 project not proceeding this financial year;
- $30,000 Water Reservoir No.2 project not proceeding this financial year;
- $42,000 Other net variations.

Sewer Fund Capital Budget

The forecast decrease in the net capital budget is $3.1 million, includes carry forward items of $2 million and other budget variances of $1 million as detailed below:

Improvements:
- $1.6 million carry forward project for Ettamogah sewer constructing a new sewer gravity main to service Nexus;
- $400,000 carry forward project for bio solids facility at Waterview Wastewater treatment plant;
- $120,000 Sewer Pump Station no 30. The design has been complete and construction has been budgeted for next financial year;
- $276,000 Other net variations.

Budgeted Loans

As resolved by Council as part of the September Quarter Budget Review, AlburyCity has applied to TCorp for budgeted loan funding of up to $16.7 million to be drawn down during the 2019/20 financial year to support capital projects. It is proposed that Council draw down budgeted loan funding of $11.2 million by 30 June 2020, with the balance to be drawn down in future years in line with the timing of specific capital projects.

Unrestricted Funds

Council's overall cash position is now projected to be $159 million at 30 June 2020, which is $8.5 million more than previously forecast. This increase is mainly due to externally restricted funds held by the Water and Sewer Funds.

As a result of changes proposed as part of the March Quarter Budget Review it is projected that General Fund unrestricted cash and investments will decrease by $3.9 million which is mainly due to the forecast impact of COVID-19.

Table 3

Cash and Investments	Actual 2019 $'000	Original Budget 2020 $'000	Dec Review forecast 2020 $'000	Mar Review Changes 2020 $'000	Revised year end forecast 2020 $'000
Externally restricted	110,562	110,292	116,259	8,029	124,288
Internally restricted	31,363	17,210	20,063	4,435	24,498
Unrestricted	17,860	15,337	14,411	(3,926)	10,485
Total cash and investments	159,875	142,839	150,733	8,538	159,271

Note: () indicates a decrease to budget

Externally restricted cash and investments include Water and Sewer Fund balances, unexpended developer contributions and domestic waste management funds. The increase in externally restricted cash and investments of $8 million is mainly due to cash and investments held by the Water and Sewer Funds.

Internally restricted cash and investments include employee leave entitlements, deposits retentions and bonds, prepaid burial contributions, Albury Waste Management Centre rehabilitation, community fund and expenditure to be carried forward to the next financial year. The forecast increase of $4.4 million mainly related to budgets to be carried forward and expended next financial year.

On an accruals basis it is important that an appropriate level of unrestricted cash and investments are maintained to meet liabilities as and when they fall due. The General Fund financial position is still forecast to be satisfactory when compared to industry benchmarks.

Risk

- **Business Risk** – Although Council is forecast to achieve an overall operating surplus during the 2019/20 financial year, an increased deficit is now forecast for the General Fund.
- **Corporate Risk** – Council continues to be proactive in managing its budget as part of its Service and Efficiency Review Program while working to maintain and improve infrastructure within AlburyCity.
- **WHS and Public Risk** – No risks identified.
- **Environmental Risk** – There are a number of budgeted initiatives aimed at improving environmental outcomes.
- **Delivery Program Risk** – Some capital project funding originally budgeted in the 2019/20 financial year will now be carry forward and expended during the 2020/21 financial year.

Community Engagement

The *Local Government (General) Regulations 2005* require that not later than 2 months after the end of each quarter (except the June quarter), a budget review statement must be submitted to the Council that shows a revised estimate of the income and expenditure for that year.

Options

The December Quarter Budget Review is presented for consideration. Options available include:

1. Adopt the revised budget estimates for the 2019/20 financial year as presented; or
2. Vary the proposed quarterly budget review estimates; or
3. Adopt no changes to the 2019/20 Budget.

Conclusion

The consolidated full year operating result is now forecast to be an operating surplus of $2 million which is $962,532 more than the previous forecast budget. Although Council is forecast to achieve an overall operating surplus during the 2019/20 financial year, financial challenges remain.

An operating deficit of $11.1 million is forecast for the General Fund which is due to a number of factors including the impact of COVID-19, increased depreciation expense, and the timing of Financial Assistance Grants. Council continues to be proactive in managing its budget as part of its Service and Efficiency Review Program while working to maintain and improve infrastructure within AlburyCity.

Positive operating cash flows are required to fund planned capital improvements and meet principal loan repayments which also supplement capital works program funding. The forecast net cost of the 2019/20 capital works program has decreased by $13.4 million to $46.4 million.

A number of supplementary reports are provided as part of the quarterly budget review report including the consultancy and legal expenditure report and contract expenditure listing and details of projects greater than $250,000.

The projected estimates of income and expenditure included in the March Quarter Budget Review indicates that the General Fund projected financial position is still forecast to be satisfactory when compared to industry benchmarks.

Recommendation

That Council:

a. Receives and adopts the revised budget estimates for the 2019/20 financial year;

b. Approves the provision of a ten year interest free loan of $60,000 to the Albury Wodonga Equestrian Centre; and

c. Authorises the drawdown of $11.2 million in budgeted loans during the 2019/20 financial year.

Attachments

1. Operating Results Report by Service Cluster.
2. Operating Results Report Statutory Format.
3. Capital Results Report.
4. Projects greater than $250,000.
5. Carry Forward Listing.
6. Cash Flow.
7. Cash and Investment Report.
8. Consultancy and Legal Expenditure Report.
9. Contract Expenditure Listing.
10. Report by Responsible Accounting Officer.
11. Operating Results Changes – All Details.
12. Capital Results Changes – All Details.