



13.8 COUNCIL PLAN AND BUDGET 2023/24 – DIRECTION AND LONG-TERM FINANCIAL OUTLOOK

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1. PURPOSE

- 1.1 To provide an update on changes in Council's strategic and operating environment and to seek approval of the 10-Year Financial Outlook and the parameters for the review of the Council Plan and development of the Budget 2023/24.

2. EXECUTIVE SUMMARY

- 2.1 The integrated Council Plan 2021-31 Year Two, which includes the Municipal Health and Wellbeing Plan, Financial Plan, Revenue and Rating Plan and Budget 2022/23 was adopted on 29 June 2022. It sets a 10-year direction for the city, with a four-year focus on the specific actions Council will undertake to work towards achieving this direction.
- 2.2 The integrated plan ensures Council can effectively respond to the opportunities and challenges the municipality faces in a way that enhances Port Phillip as a place to live, work and visit. Progress on delivering the plan is monitored and regularly reported in the Chief Executive Officer Report and in the annual report.
- 2.3 This report considers changes in the external and internal environment that have occurred since the plan was adopted. This information will inform and set the parameters for the review of the Council Plan and the development of Budget 2023/24.
- 2.4 As part of this review of our operating environment, officers review and update the 10-Year Financial Outlook (the Outlook) each year. The objective of the Outlook is to:
 - 2.4.1 Set clear direction and parameters for the development of the annual budget
 - 2.4.2 Test the long-term financial implications of the current forecasts in revenue and expenditure and update the plan accordingly.
- 2.5 Council officers monitor changes in the external and internal operating environment to ensure priorities and resources will effectively deliver on the Council Plan outcomes and that the organisation is effectively managing strategic risks (Attachment 1).
- 2.6 High level budget parameters for the development of the Budget 2023/24 will include:
 - 2.6.1 Operating within the rates cap framework.
 - 2.6.2 Maintaining a cumulative cash surplus of \$0.5 million for contingencies.



- 2.6.3 Maintaining an overall low risk rating on the Victorian Auditor General Office's Financial Sustainability Indicators.
- 2.6.4 Achieving annual efficiency targets of 1% of recurrent operating expenditure net of depreciation.
- 2.6.5 Ensuring appropriate investment in maintaining and improving our assets: Capital Replacement ratio greater than 150% and Infrastructure Renewal Gap ratio greater than 100%.
- 2.7 The updated Outlook includes a rates cap challenge of \$109 million (base case) before efficiency savings, which is an increase of \$20 million on current 10-Year Financial Plan. This is mainly due to the cumulative impact of rising inflation and increased capital portfolio investment including Lagoon Reserve, Childcare Centre Program, and provisional investment for the South Melbourne Market Next project subject to endorsement as part of Budget 2023/24. The funding of the additional capital portfolio investment will require a re-prioritisation of Council's 10-year capital program.
- 2.8 It is expected that continued delivery of organisation efficiency and cost savings to play a key role in addressing the rates cap challenge along with other strategic levers such as setting fair and appropriate user charges, careful management and prioritisation of expenditure, and appropriate use of borrowing and reserves.
- 2.9 It is unlikely the rates cap challenge will be fully addressed with the above strategic levers. Service prioritisation and delivery will be considered in developing the annual budget.

3. RECOMMENDATION

That Council:

- 3.1 Considers and notes the outcomes from a preliminary review of the operating environment and strategic risks (Attachment 1).
- 3.2 Endorses the 10-Year Financial Outlook (Attachment 2) and parameters, noting the significant challenge of rates capping and the rates cap gap primarily driven by additional capital works expenditure, the impact of rising inflation the increase to the 'in-principle' Enterprise Agreement.
- 3.3 Notes the inclusion of additional portfolio allocation for Lagoon Reserve and Childcare Centre Program, and provisional investment for South Melbourne Market Next project subject to endorsement as part of Budget 2023/24.
- 3.4 Endorses not applying to the Essential Services Commission for a variation to the rate cap for 2023/24.
- 3.5 Notes the ongoing use of a separated waste charge to recover costs of all direct waste services.
- 3.6 Delegates authority to the CEO or delegate to reflect any changes made by Council at tonight's meeting, which are not reflected in Attachment 2, and to make minor typographical corrections before final publication.



4. KEY POINTS/ISSUES

Our operating environment

- 4.1 The Council Plan 2021-31 Year 2 identifies eight challenges that our municipality faces (a city of economic and social contrasts; changing customer expectations and needs; government, legislative & technology changes; climate change and the environment; strength and diversity of our local economy; getting around our dense inner city; future-proofing our growing city; and waste management).
- 4.2 These will continue to influence financial planning and budgeting decisions over the coming year including: -
- 4.2.1 **A city of economic and social contrasts** – will require us to continue to work with our well-established network of community agencies to support those suffering with disadvantage. Rates affordability continues to be a major concern amongst our community, with rates and other essential services such as utilities forming an increasing share of average household income. Council has responded to this by keeping rate increases to within the rates cap since 2016/17. During this period Council has identified approximately \$18.9 million in efficiency savings and absorbing above rates increases in waste costs and continued cost shifting from other levels of government.
- 4.2.2 **Changing customer expectations and needs** – will require us to continue to focus on improving and innovating how we communicate and deliver our services. We have invested in systems through our Customer Experience Program, we now need continued focus on cultural change and simplification of business processes, rules, and policy with customers at the centre.
- 4.2.3 **Government, legislative and technology changes** – will require us to continue to respond and embed legislative changes and other significant legislative obligations. It is critical these actions are prioritised to provide a safer city for our community, a safer working environment for staff, volunteers, and contractors, and meet legislative obligations. The importance of government and community services has remained front and centre over the past 12 months, given the impact of the pandemic and the rapid increase in use of technology and increasing occurrence of cybercrime.
- 4.2.4 **Climate change and the environment** – will require us to continue to invest in initiatives that embed sustainability into Council operations and make Council assets more resilient to climate change; to enhance our urban environment through greening, water management and flood mitigation initiatives in addition to provision of education and support for our community to take their own action and leadership on sustainability and climate change.
- 4.2.5 **Strength and diversity of our local economy** – will require us to continue to work with our local businesses in addition to the arts, culture, and creative sectors to encourage locals and visitors to visit our



municipality be that to live, work or play. The economic shock associated with responding to the health challenge of COVID-19 continued to challenge the City of Port Phillip in 2021/22. In response, Council rolled out a range of initiatives to support its local businesses and creative organisations. A great challenge over the next decade will be continuing to help our community not only recover but rebuild. The opportunities are many, including fostering a new local shopping culture, leveraging our strength in creative industries while cultivating innovation businesses and start-ups, and embracing our public spaces for new uses beyond recreation.

- 4.2.6 **Getting around our dense inner city** – Before COVID-19, our resident population was projected to have significant growth. Although this rate may slow for a while, it is still a key consideration in longer-term transport, parking, and mobility planning. There is no doubt that transport, parking, and mobility are among the most critical issues for our community. Clear communication and engagement with our community are paramount in tackling the challenges and opportunities presented in this area.
- 4.2.7 **Future proofing our growing city** – will require us to continue to plan for the growth of our city including land and public space use. This will involve work around strategic use of land in our city, implementation of Council's Public Space strategy as well as continuing to work with the State Government and the City of Melbourne on future planning for Fisherman's Bend and the infrastructure requirements for this area in the short and longer term.
- 4.2.8 **Waste management** – Reforms to waste policies, driving circular economy outcomes, require Council to deliver new waste services. Additional waste and new waste services means extra costs to Council.
- 4.3 **Our Strategic Risk Register (Attachment 1) highlights the risks we are monitoring.**
 - 4.3.1 Consideration of our strategic risk profile, representing the key internal and external risks that may significantly impact operations and achievement of Council's objectives, was included in development of the Council Plan.
 - 4.3.2 The Risk Policy (adopted 7 June 2017) states, that at a minimum, the strategic risks must be presented to Council annually at the commencement of the planning process.
 - 4.3.3 Officers regularly monitor changes in our external and internal operating environment to ensure our priorities and resources will effectively deliver on the Council Plan outcomes and that we are effectively managing our strategic risks (Attachment 1).
- 4.4 Overall, Council has a relatively sound financial position in the short term, which means we have been able to accommodate priorities and manage emerging risks. However, due to the impacts of COVID-19 and the ongoing challenges in the construction sector it is unlikely that the current forecasted portfolio and



capital works program will be achieved. Therefore, the project portfolio will be carefully reviewed as part of the development of the draft budget 2023/24 to provide for realistic delivery in the current environment.

- 4.5 Maintaining financial discipline remains a focus, as reflected in our financial strategy, particularly as new changes impacting our operating environment:
- Rising inflation, likely to be higher than annual rates cap (increasing pressure on rates gap challenge)
 - 'In-principle' Enterprise Agreement, with the potential to be higher than the rates cap.
 - Ongoing COVID-19 pandemic economic recovery

The 10-Year Financial Outlook

- 4.6 The Outlook is provided in Attachment 2, several assumptions have been updated since the adoption of the updated 10-Year Financial Plan in June 2022. The significant changes include:
- 4.6.1 A forecast increase in Consumer Price Index (CPI) to 4.5% with a provision of \$0.5 million in 2023/24
- 4.6.2 A forecast increase to the Rates Cap to 3.5%
- 4.6.3 Forecast increase in investment yield over the short to medium term, stabilising in the long term.
- 4.6.4 Employee costs based on 'in-principle' Enterprise Agreement.
- 4.6.5 Additional capital investments including \$8.4 million for Lagoon Reserve with a net funding gap of \$6.4 million after using reserves and \$20.5 million for the Childcare Centre Program with a net funding gap of \$9m after \$12.5 million of State Government Funding.
- 4.7 Based on the latest CPI projections published by the Department of Treasury and Finance, the rates cap assumed for 2023/24 is 3.5%. The 2023/24 rates cap is expected to be formally announced by the Victorian Government in December 2022 and remains highly uncertain.
- 4.8 The accumulated rates capping challenge under the base case \$109 million before efficiency savings, which is \$20 million more than the 10-year Financial Plan had a rates cap challenge. Noting that in 2022/23, ongoing efficiency savings of \$0.5 million have been identified with an additional one-off savings of \$0.6 million
- 4.9 A second scenario has been developed to consider the impact of a zero percent rates increase in 2023/24.
- 4.10 The accumulated rates capping challenge under the base case \$109 million and Scenario two with additional \$54 million is \$163 million. Noting that the accumulated rates capping challenging is before the inclusions of efficiency saving which are embedded in the assumptions of the Outlook. The Outlook under the two scenarios is outlined in the table below



- 4.11 There are several other priorities under development and remain unfunded. These projects include Elwood Foreshore Stage Two and Three, provisions for Fishermans Bend infrastructure uplift, St Kilda Triangle expenditure beyond feasibility works, main street uplift program, library facilities management plan and the timing of strategic property acquisitions.
- 4.12 The Outlook under the two scenarios are outlined in the table below.

Rates capping challenge	2023/24	2024/25	2025/26	2026/27	2032/33
Base Case - Rates cap links to CPI (Deloitte Access Economics)					
Projected rate increase	3.50%	2.60%	2.50%	2.50%	2.40%
Accumulated rates capping challenge	(\$11.2m)	(\$12.6m)	(\$20.4m)	(\$35.5m)	(\$109.4m)
Scenario two – Base Case with 0% rates increase in year one (2023/24)					
Accumulated rates capping challenge	(\$14.8m)	(\$20.6m)	(\$33.3m)	(\$53.4m)	(\$163.1m)

- 4.13 The Outlook retains most of the assumptions and funding allocations included in the updated 10-Year Financial Plan in June 2022, which will form the starting point for the Budget 2023/24. The key assumptions include:
- Non-rate revenue to increase by the rates cap plus 0.25% to reduce reliance on rates funding whilst keeping fees affordable. This is a global assumption – individual fees and charges will be reviewed, benchmarked, and consulted on as part of the Budget 2023/24 – some may be more or less.
 - Expenditure increasing by the projected consumer price index.
 - A portfolio in 2023/24 with a capital program of \$83 million and an operating program of \$13 million. This includes an assumed minimum additional deferral of \$9 million. However, this will be analysed further as part of the development of the draft budget to ensure deliverability.
 - An operating surplus of \$2.3 million with \$257 million operating income and \$255 million operating expenditure.

- 4.14 The projected financial result for the 2022/23 financial year is based on current information. However, it should be noted that there are inherently several budget risks that will be managed throughout the 2022/23 year.

Responding to the Rates Capping Challenge and Environmental Targets

- 4.15 Depending on the situation (rate capping methodology and budgetary risk items), Council has required fundamental changes to the way Council operates, as a ‘business as usual’ approach will not be sufficient to meet the rates capping challenge. The adopted 10-Year Financial Plan includes a \$109 million rates cap challenge which we plan to close the rates cap gap by adjusting the following strategic levers:



- **Delivering efficiency and cost savings** – Opportunities to further reduce Council's cost base without impacting service levels (such as efficiencies identified through improvements in processes, procurement, sale of surplus properties, and project planning and delivery).
 - **Setting fair and appropriate user charges** - Opportunities to ensure that user fees and charges reflect the benefit that individual community members receive (that is, rates funding is not unreasonably subsidising services that provide private benefit). The application and impact of this policy setting will be viewed annually to ensure affordability and fairness.
 - **Careful management and prioritisation of expenditure** - Service delivery options, including fundamental changes to the way services are currently delivered and consideration of service level reductions in areas of lower strategic priority.
 - **Appropriate use of borrowings and reserves** - A prudent and fiscally responsible approach towards the use of new debt for strategic property acquisitions, funding community capital works that will provide inter-generational community benefit and work that deliver revenue streams to repay debt. Reserves will be used where appropriate to invest in one-off new or improved assets where this is considered more efficient than the use of debt
- 4.16 The updated Outlook Base Case has seen the rates cap challenge increased by \$20 million to \$109 million. Officers believe this challenge is unlikely to be addressed by the above strategic levers alone. Other options will need to be considered including:
- **Service prioritisation and delivery** – difficult decisions on service prioritisation and delivery could be an option in order to maintain financial sustainability. This will be considered in developing the annual budget.
- 4.17 Our strategy is not to apply to the Essential Services Commission for a variation to the rates cap over the life of the Outlook unless there are sound justifications (i.e. large funding gap for FBURA).

Parameters for Council Plan and Budget 2023/24

- 4.18 The 10-Year Financial Outlook provide context for setting high-level future expenditure and revenue flows based on Council's current policy settings and will be the baseline for the review of the Council Plan and the development of Budget 2023/24.
- 4.19 The Outlook aligns with the strategic directions set in the Council Plan. Refinements to the Council Plan will only include adjustments due to:
- Strategic works revealing a need for refinement in the long-term outcomes, strategies, or initiatives
 - Better and updated information to measures and targets
 - Our updated strategic risk profile.



- 4.20 The development of Budget 2023/24 will be within the key financial targets set in the Outlook including updated assumptions, better information, and Council decisions.

Key changes to the Outlook include:

- 4.21 The rates cap in the Outlook is based on forecast Consumer Price Index (CPI) set by the Victorian Government and reflect past Ministerial decisions on the rates cap.
- 4.22 The updated rates cap challenge of \$109 million is an increase of \$20 million on the 10-Year Financial Plan. We have targeted efficiency savings at 1% of operating expenditure net non-cash expenditure which totals \$94 million to partly address the gap. There is a risk we do not meet this target. The residual \$15 million deficit can be addressed by reducing general reserves to maintain modest cash surpluses over the 10 years.
- 4.23 A portfolio in 2023/24 with a capital program of \$92 million and an operating program of \$13 million. This will be analysed further as part of the development of the draft budget to ensure deliverability.
- 4.24 The increasing (above CPI) cost of waste services expenditure based on the Accelerated Waste Transition Plan which includes a mix of direct kerbside collection and communal recycling services such as organics glass recycling and updated waste service contract renewals for landfill tipping and kerbside collections.
- 4.25 The delicate balance between rates affordability and Council's financial sustainability would be considered when determining the Waste Charge from 2023/24 as part of annual budget development alongside review of our financial hardship policy.
- 4.26 Council does not control a large portion of our income and expenditure. Out of the \$2.9 billion of expected total income in the Outlook, \$1.9 billion or 66% is rate revenue and statutory fees which are capped or set by the Victorian Government.

Other priorities for development:

- 4.27 Several other items will also be considered for development during the budget process for 2023/24. They are not included in the financial outlook as require further development and definition.
- 4.28 Other priorities include Main Street Uplift Program, Elwood Foreshore Stage 2 & 3, Fishermans Bend Urban Renewal Area uplift, St Kilda Triangle works beyond feasibility studies, Library Facilities Management Plan and the timing of Strategic property Acquisitions.
- 4.29 While predominately unfunded, these other priorities may be funded using reserves, external funding (where advocacy is possible) and using capacity from within the future years of the capital portfolio.
- 4.30 To ensure that Council maintains an overall low risk rating on the Victorian Auditor General Office's Financial Sustainability Indicators, capital spend must



be maintained at a minimum of 150% of annual depreciation. From 2026/27 the capital portfolio includes a notional amount of capacity to achieve the required capital replacement ratios. This capacity may be allocated towards the above identified other priorities as they are developed.

5. CONSULTATION AND STAKEHOLDERS

- 5.1 This report represents one step in the annual process of engaging with the community by informing them of the impact of rates capping and other financial challenges facing Council, and possible Council responses.
- 5.2 In early 2023, the outcomes of the Cost Review program will be published and, depending upon the outcome, an early community engagement program will commence in early 2023. Findings from the engagement program will help to inform the development of the draft budget 2023/24.
- 5.3 The community will be provided with opportunity to provide feedback on the draft Council Plan between April and May 2023. and budget. Feedback received during this period will help to inform the development of the final Council Plan and Budget 2023/24.

6. LEGAL AND RISK IMPLICATIONS

- 6.1 Whilst Council has a strong focus on continually improving the efficiency and effectiveness of its service delivery, a rates capping framework that unreasonably restricts rate revenue may result in councils being forced to reduce the scope of services valued by the community, or to assume an inappropriate level of financial risk.

7. FINANCIAL IMPACT

- 7.1 Despite being in a relatively sound financial position, rates capping presents a significant threat to Council's financial sustainability. This Outlook outlines the extent of the challenge and the approach to managing the impact of rates capping.
- 7.2 Attachment 2 sets out in comprehensive terms the financial impact of the Outlook including a breakdown of all identified financial risks.

8. ENVIRONMENTAL IMPACT

- 8.1 The Council Plan has a focus on sustainability. Sustainability attention is given in the Community Vision, within the strategic directions, is captured in many initiatives and performance indicators. This focus aims to underpin Council's resolution of calling a climate emergency.
- 8.2 There are several investments designed to improve environmental outcomes including accelerated introduction of four service waste management model, Elwood Foreshore Stage 1 (which includes greater climate resilience of infrastructure), enhanced drainage cleaning to mitigate impacts of flooding, and fully funded Public Space Strategy, and investment in high-cost engineering solutions to improve electrical line clearance compliance while reducing the impact on tree canopy coverage.



- 8.3 Council is also currently reviewing our Act and Adapt Strategy and developing a Climate Emergency Plan that will help to guide future investment.

9. COMMUNITY IMPACT

- 9.1 The community impact of the Outlook has been considered in alignment with the strategic directions of Council:
- 9.1.1 Direction 1 of the Council Plan 'Inclusive Port Phillip' supports outcomes related to making our community supported and comfortable being themselves and expressing their identities. Additional investments for Lagoon Reserve and Childcare centre Program are included in the Outlook.
 - 9.1.2 Direction 2 of the Council Plan 'Liveable Port Phillip' ensures the city is a great place to live, where our community has access to high quality public spaces, development and growth are well-managed, and it is safe and easy to connect and travel within. Provisional investment for South Melbourne Market Next project subject to endorsement as part of Budget 2023/24
 - 9.1.3 Direction 3 of the Council Plan 'Sustainable Port Phillip' ensures the city has a sustainable future, where our environmentally aware and active community benefits from living in a bay-side city that is greener, cooler, cleaner and climate resilient.
 - 9.1.4 Direction 4 of the Plan 'Vibrant Port Phillip' envisage a city that has a flourishing economy, where our community and local businesses thrive, and we maintain and enhance our reputation as one of Melbourne's cultural and creative hubs.
- 9.2 The delicate balance between rates affordability and Council's financial sustainability would be considered when increasing both rates, the waste charge and user and statutory fees and charges. Our Financial Hardship policy retains an emphasis on targeted support for financially disadvantaged members of our community.
- 9.3 The development of the draft 2023/24 budget will include extensive opportunities for community engagement and comment. This will likely include online and in-person channels, the ability to make written budget submissions, engagement with advisory groups, and feedback through Council meetings where the draft and final budgets will be considered.

10. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 10.1 This report sets the direction for Council's annual review of the Council Plan, the Strategic Resource Plan and development of the Budget 2023/24.
- 10.2 Council's Risk Policy requires Council to consider a summary of strategic risks, controls, and improvement actions at the commencement of the annual planning process.



10.3 The 10-Year Financial Outlook provide context for the development of the Strategic Resource Plan. It quantifies the impact of rates capping and identifies the financial levers for responding to the rates cap gap and other challenges.

11. IMPLEMENTATION STRATEGY

11.1 TIMELINE

11.1.1 Key dates in the annual planning process 2023/24 are:

- February 2023 – early stakeholder engagement on items identified as part of the Cost Review process.
- April 2023 – release date for the draft updated Council Plan and Budget for 2023/24.
- April to May 2023 – public exhibition period of the draft updated Council Plan and Budget 2023/24. Community members will be invited to review the document and make public submissions over a four-week period (28 days).
- June 2023 – Adoption of the updated Council Plan and Budget 2023/24. Adoption is statutorily required by 30 June 2023.

11.2 COMMUNICATION

11.2.1 The 10-Year Financial Outlook provides context for setting high-level future expenditure and revenue flows based on Council's current policy settings and will be the baseline for the review of the Council Plan and the development of Budget 2023/24.

11.2.2 Overall, Council has a relatively sound financial position in the short term, which means we have been able to accommodate priorities and manage emerging risks. However, over the medium and long term, fundamental changes to the way Council operates will be required to meet the rates cap challenge.

11.2.3 OFFICER DIRECT OR INDIRECT INTEREST

11.3 No officers involved in the preparation of this report have any material or general interest in the matter.

ATTACHMENTS

- 1. Strategic Risk Summary November 2022**
- 2. 10-Year Financial Outlook**