



**13.1** **COST REVIEW 2022**

**EXECUTIVE MEMBER:** **LACHLAN JOHNSON, GENERAL MANAGER, CUSTOMER, OPERATIONS AND INFRASTRUCTURE**

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**1. PPURPOSE**

- 1.1 To outline the outcomes of the Cost Review Program 2022 to be considered as part of the development and consultation of the Draft Budget 2023/24.

**2. EXECUTIVE SUMMARY**

- 2.1 Council requested at the Special Council meeting on 29 June 2022 that a detailed financial review is undertaken to identify options for ongoing cost reductions that would enable Council to consider adopting a rates increase at a level below the rates cap down to no rates increase in 2023/24. This process will be referred to as the 'Cost Review 2022'.
- 2.2 On the 17 August a Council report was endorsed to establish the purpose, outputs, parameters, key considerations, and preliminary estimate of resourcing required to undertake this review for Council.
- 2.3 Following the 17 of August Council meeting, a robust and comprehensive process was developed and implemented. This included a three-phase approach over eight workshops to reach general direction by councillors on the options to be considered at Council
- 2.4 Four initial workshops to determine which services would be considered as part of the Cost Review 2022, followed by four 'deep dive' workshops to determine specific service change options.
- 2.5 During these workshops Councillors examined the twenty-eight services outlined in the Council Plan and Budget. Councillors considered each service and conducted 'deep dive' workshops to examine opportunities for service reduction options. This resulted in a package of cost reduction options which will be considered as part of the development and consultation of the Draft Budget 2023/24.
- 2.6 An added benefit of this program was to provide Councillors a greater understanding of both costs and service levels associated with different Council services.
- 2.7 The purpose of the Cost Review 2022 was to identify and quantify ongoing cost reductions that may be implemented by Council from 2023/24 to enable Council to consider a below rates cap increase down to a zero per cent general rates increase in 2023/24. With the challenging operating environment facing Council, particularly the lower than inflation rates cap set by the Local Government Minister, this task has become more difficult to achieve. Noting:
- 2.7.1 The rates cap of 1.75 percent set for 2022/23 is 4.35 per cent lower than inflation of 6.1 percent. This is also lower than Council's in-principal Enterprise Agreement (subject to staff voting and Fair Work Australia ratification) offer of 3.1 percent.



- 2.7.2 On 29 December 2022, the Minister for Local Government announced the 2023/24 rate cap for all councils at 3.50 percent on the basis of the decision to prioritise the current cost of living pressures being experienced by many Victorian ratepayers.
- 2.7.3 The Essential Services Commission had recommended a 4.00 per cent increase based on the forecast in the State Budget Update. The announced rate cap is lower than the Deloitte Access Economic forecast for inflation at 4.50 percent for 2023/24 (1 percent lower than inflation).
- 2.7.4 The implication of setting the annual rates cap below inflation places councils in a fiscally challenging position to fund services. Council's 10-Year Financial Outlook endorsed by Council in December 2022 forecasts an accumulated rates cap challenge of \$109 million. A zero percent rates increase in 2023/24 without matching reduction in services will add \$54 million of funding deficit to \$163 million over the 10 years.
- 2.8 Council is constantly looking for opportunities to create efficiency savings. Budget 2022/23 included \$1.5 million of efficiency savings. Another \$0.6 million of ongoing efficiency savings have been achieved to December 2022 through successful tenders and change in service delivery. Additionally one-off efficiencies of \$0.58 million have been achieved in 2022/23 through successful tenders for capital projects.
- 2.9 This report includes cost review options reflecting the majority feedback provided by Councillors.

### 3. RECOMMENDATION

That Council:

- 3.1 Notes the completion of the comprehensive and transparent cost review program where Councillors examined all 28 services outlined in the Council Plan and Budget over nine council workshops and briefings.
- 3.2 Notes that it conducted 'deep dive' workshops to examine specific opportunities for service reduction options which focused on the following specific Councillor identified service activities (activities within a Council service profile) including Affordable Housing; Arts Collection; Program and Management; Arts Funding; Community Service Policy, Planning and Reviews; Economic Development and Tourism; Family Services and Support; Library Operations; Public Space Maintenance; Street Services; and Sustainability.
- 3.3 Resolves to consider the reduction of the Cultural Development Fund – Projects stream (funding for individual artistic/creative projects) from \$187,000 to \$100,000 from the Draft Budget 2023/24 as part of the development of the draft budget.
- 3.4 Resolves to consider ceasing Open House Melbourne funding of \$10,000 from the Draft Budget 2023/24 as part of the development of the draft budget.
- 3.5 Resolves for the community consultation and engagement to be included as part of the Draft Budget 2023/24 process having considered the benefits, risks, change costs, compliance, regulatory, contractual and stakeholder impacts.
- 3.6 Notes that Council will continue to review services as part of the annual budget process to ensure that they remain relevant and align with Council Plan priorities.



- 3.7 Notes that Council will continue to ensure Council services are delivered efficiently and effectively. Council has annual efficiency targets set in the long-term financial plan that are to be achieved to address our rates cap financial challenge.
- 3.8 Notes the setting of 2023/24 general rates is informed by Council's financial strategy as part of the development of the Draft Budget 2023/24 which will consider factors such as the forecast 2022/23 cash surplus, the cost-of-living pressures, inflation impacting cost of services and project delivery while supporting the broader community.

#### 4. KEY POINTS/ISSUES

- 4.1 The central purpose of the Cost Review 2022 was to identify and quantify ongoing cost reductions that may be implemented by Council from 2023/24 to enable Council to consider a below rates cap increase down to a zero per cent general rates increase in 2023/24 and to enable Council to provide greater clarity and transparency over Council's cost base to the community and stakeholders.
- 4.2 Through this process, any cost reduction options would need to consider all benefits, risks, change costs, compliance, regulatory, contractual and stakeholder impacts.
- 4.3 The outcome of the process was a prioritised package of costed options for Council to consider progressing through to the Budget 2023/24 process.
- 4.4 Councillors were provided with an assessment of the total net savings, benefits, service level impacts, risks, implications, required engagement and implementation risks, costs and timing for each option including an impacts assessment on each option.
- 4.5 The cost review process aimed to identify ongoing reductions to minimise the impact on the rates cap gap and the long-term financial plan. One off savings, for example, from cancellation of projects (capital or operating), will be considered through the normal budget process not through the cost review process.
- 4.6 The Council endorsed approach to the cost review, including the complete, background, scope, parameters, and outputs, can be found in the Council report from 17 August 2022.

#### Summary of Key Phases of Cost Review

- 4.7 **Phase 1:** The first phase of the cost review provided Councillors with information on the 28 services profiles reported in the Council Plan and Budget. This provided Councillors with additional information on what is delivered within each of the services including both their revenue and expenses.
  - 4.7.1 During this phase of the cost review, a subset of the 28 Council services (with the support of four Councillors) to progress into phase two for further investigation, these included:
    - Affordable Housing and Homelessness
    - Amenity
    - Art, Culture and Heritage
    - Community Programs and Facilities
    - Economic Development
    - Families & Young People



- Health
  - Libraries
  - People, Culture and Capability
  - Public Space
  - Recreation
  - Sustainability
  - Technology
- 4.8 **Phase 2:** During the second phase of the cost review the identified services were examined in detail. Officers provided Councillors with a breakdown of the individual activities and attributable costs within each service as well as overarching costs.
- 4.8.1 The detailed information included breakdowns of what the activity involved including detailed breakdown of revenue and expenses.
- 4.8.2 Over several workshops, this information was presented to Councillors, with an opportunity to develop a deeper understanding of cost drivers and cost pressures in delivering the services.
- 4.8.3 During this phase of the cost review, specific service activities (activities within a council service profile) were identified for a final financial 'deep dive' (phase 3). These included:
- Affordable Housing
  - Arts Collection, Program and Management
  - Arts Funding
  - Community Service Policy, Planning and Reviews
  - Economic Development and Tourism
  - Family Services and Support
  - Library Operations
  - Public Space Maintenance
  - Street Services
  - Sustainability
- 4.9 **Phase 3:** The third and final phase of the cost review, involved a financial 'deep dive' into the ten identified service activities. This involved an in-depth analysis of the service activities, presented to Councillors over a series of workshops.
- 4.9.1 The outcome of phase 3 was to provide Councillors with detailed information on the services to determine whether cost savings service reductions could be implemented. For each service activity, where possible, service change options were identified and considered.
- 4.9.2 The following specific items were discussed and fall outside the parameters and timelines of the Cost Review 2022:



- Art Collection Divestment Options – to be considered further outside of the cost review process as separate piece of potential strategy.
- EcoCentre Funding Agreement amount – to be considered further as part of the development of the draft budget for 2024/25 as the existing funding agreement continues until June 2024.
- Melbourne Fringe Funding Agreement – to be considered after this year's Design Fringe as part of the annual budget process.
- Restricting access to commercial dog walkers on sports fields – to be considered as part of the development of the Dog Off-leash Guidelines.
- Middle Park Library Operations – to be considered as part of the implementation of the Library Action Plan 2021-2026.
- Re-imagine Grants Program – while not continuing with the program, the funding allocation will be re-purposed within the Economic Development Program to support business recovery.

**Identified Cost Review 2022 Options:**

4.10 The following options were supported by five or more Councillors (as per the Council endorsed process) to progress into the final stage of the cost review program.

4.11 For each cost review option, please refer to '**Attachment 1 – Cost Review Impacts Analysis**' for a summary of the key impacts.

**4.12 Reduce the Cultural Development Fund – Projects (funding for individual artistic/creative projects) from \$187,000 to \$100,000 from 2023/24.**

4.12.1 The Cultural Development Fund – Projects. This grants program provides funding for individuals wishing to carry out artistic or creative projects.

4.12.2 Grants of between \$10,000 and \$12,000 were issued in 2021/22, expending the total budget allocation for that year. A key focus of the grants in recent years has been to support local artists, groups or arts and related organisations to develop creative projects that engage our community during COVID-19 recovery.

4.12.3 The program has an annual allocation of \$187,000 and Councillors' feedback supported a reduction to \$100,000 from 2023/24.

**4.13 Cease Open House Melbourne Funding of \$10,000 from 2023/24.**

4.13.1 Open House Melbourne delivers promotion and visitation to a range of venues across the municipality for the \$10,000 contribution.

4.13.2 There are two funding options available for Open House Melbourne at \$10,000 or \$5,000. The lower contribution would still give the City of Port Phillip partnership status but at a lower tier of benefits.

**5. CONSULTATION AND STAKEHOLDERS**

5.1 The development of the Draft Budget 2023/24 and Council Plan Year 3 review includes a thorough engagement approach which will include consultation on two items that are included in the council report for decision. This will include identification of key stakeholders, negotiables / non-negotiables, questions to be asked and methods of



collecting feedback. If Councillors wish to include other items, further work would be required to include these in the engagement planning.

- 5.2 Proposed engagement activities include a dedicated Have Your Say page, online survey, targeted emails and eight pop-up conversations around the municipality as part of the Neighbourhood Engagement Program.

## 6. LEGAL AND RISK IMPLICATIONS

- 6.1 There is an overall reputational risk to the organisation in relation to how the review process and findings may be perceived by the community. There is the potential for negative and divisive debate on the outcomes which Officers will monitor closely.
- 6.2 The following table provides a summary of the key risks identified for each cost review option:

Cost Review Option	Summary of Key Risks
<b><i>Reduce Cultural Development Fund Projects (funding for individual artistic/creative projects) from \$187,000 to \$100,000 in 2023/24</i></b>	<ul style="list-style-type: none"> <li>The Cultural Development Fund – Projects is a discretionary funding program which forms part of the broader Cultural Development Fund.</li> <li>There is no contractual or legal requirement to continue this program into the future.</li> </ul>
<b><i>Cease Open House Melbourne Funding from 2023/24 of \$10,000 from 2023/24.</i></b>	<ul style="list-style-type: none"> <li>The annual funding agreement between City of Port Phillip and Open House Melbourne is a discretionary funding allocation.</li> <li>There are no contractual or legal requirement to continue this program into the future.</li> </ul>

## 7. FINANCIAL IMPACT

### 7.1 Financial Results achieved through the Cost Review 2022

- 7.1.1 The following table provides the target financial savings of each cost review option identified:

Cost Review Option	Ongoing Savings (\$'000)	Change Costs (\$'000)
<b><i>Reduce Cultural Development Fund Projects (funding for individual artistic/creative projects) from \$187,000 to \$100,000 in 2023/24</i></b>	87	-
<b><i>Cease Open House Melbourne Funding from 2023/24</i></b>	10	-
<b><i>Total</i></b>	<b>97</b>	<b>-</b>



## 7.2 Additional Cost for Cost Review Process

- 7.2.1 The Cost Review 2022 was completed outside of the normal budget development process. To enable sufficient focus and capacity for this work a temporary agency staff was engaged at approximately \$70,000.
- 7.2.2 Other support resources such as communications and engagement, human resources, change management, service review, and other various internal support were prioritised within existing budget allocations for the development of the Council Plan and Budget where possible.

## 8. ENVIRONMENTAL IMPACT

- 8.1 The cost review options identified do not have any directly environmental impact.
- 8.2 The cost review options, if endorsed may result in an indirect negative economic impact to the City of Port Phillip.

## 9. COMMUNITY IMPACT

- 9.1 View the attachment for a full list of stakeholders impacted by the potential changes. Key community sectors include:
  - 9.1.1 **Arts community** due to the proposed reduction in the Cultural Development Fund and ceasing of funding to the Open House Melbourne program. Proposed cuts to the CDF program will directly impact funding opportunities for six to ten individual artists annually. Up to approximately 20,000 community members may be indirectly impacted annually, based on attendance at those funded events in previous years. Council's participation in Open House Melbourne resulted in 19 venues being available to the community in Port Phillip in 2022.
  - 9.1.2 **Community organisations:** 18 community organisations are currently supported by the Open House Melbourne funding to have their venue promoted and participate in the program. Discontinuing the \$10,000 investment will result in the 18 organisations not participating in the program and the loss of a positive opportunity to promote Port Phillip's built environment. See attachment for a full list of organisations impacted, some highly influential.
- 9.2 Council recently presented the second iteration of the Creative and Prosperous City Strategy. This Strategy contains a range of commitments and actions including continued support of economic development and tourism, festivals, events, live music, our screen industry (including film and gaming) and arts, culture, and heritage. At the core of the strategy is to enhance the prosperity of retail precincts and places by focusing on what makes each of them special and how this can be leveraged through innovative initiatives, including public space activations.
- 9.3 The outcomes this policy seeks to achieve are:
  - 9.3.1 A City of dynamic and distinctive precincts and places
  - 9.3.2 A prosperous City that attracts and grows businesses
  - 9.3.3 A City where arts, culture and creative expression are part of everyday life
  - 9.3.4 A City where community, creativity and business are connected and engaged.
- 9.4 The following cost review items have a close connection to delivering the outcomes of the strategy:



9.4.1 Reduce Cultural Development Fund Projects (funding for individual artistic/creative projects) from \$187,000 to \$100,000 in 2023/24

9.4.2 Cease Open House Melbourne Funding from 2023/24

**10. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY**

10.1 The Cost Review primarily aligns with the Well Governed Port Phillip strategic objective in the Council Plan; however, it ultimately impacts all strategic objectives.

10.2 Any impacts to the Council Plan have been examined for each of the cost review items (see Attachment 1 – Cost Review Impacts Analysis)

**11. IMPLEMENTATION STRATEGY**

**11.1 TIMELINE**

11.1.1 Community engagement on the select cost review items will occur during the consultation period after the release of the Draft Budget 2023/24 on the 19 April 2023.

**11.2 COMMUNICATION**

11.2.1 Council and the community will continue to receive updates on the development of Council Plan and Budget 2023/24 through the annual budget process.

11.2.2 Internal communication will be provided to the directly impacted service areas.

**12. OFFICER DIRECT OR INDIRECT INTEREST**

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

**ATTACHMENTS**    1. [Attachment 1 - Impact Analysis](#)