



13.2 COUNCIL PLAN AND BUDGET 2022/23 - DIRECTION SETTING

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1. PURPOSE

- 1.1 To provide an update on changes in our 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 2022/23.

2. EXECUTIVE SUMMARY

- 2.1 The integrated Council Plan 2021-31, which includes the Strategic Resource Plan, the Municipal Public Health and Wellbeing Plan, a financial strategy, 10-year financial plan and annual budget was adopted on 23 June 2021. 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 Integration of Council's planning, budgeting and resource allocating ensures strong alignment between Council's strategic priorities, and its services, programs and projects.
- 2.3 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.
- 2.4 Progress on delivering the plan is monitored and regularly reported in the CEO Report and in the annual report.
- 2.5 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.
- 2.6 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.
- 2.7 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).
- 2.8 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, including the Strategic Resource Plan and development of the Budget 2022/23.
- 2.9 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:
 - 2.9.1 Set clear direction and parameters for the development of the annual budget



- 2.9.2 Test the long-term financial implications of the current forecasts in revenue and expenditure.
- 2.10 High level budget parameters for the development of the Budget 2022/23 include:
- 2.10.1 Operating within the rates cap framework.
 - 2.10.2 Maintaining a cumulative cash surplus of \$0.5 million for contingencies.
 - 2.10.3 Maintaining an overall low risk rating on the Victorian Auditor General Office's Financial Sustainability Indicators.
 - 2.10.4 Achieving annual efficiency targets of 1% of Operating expenditure net of depreciation.
 - 2.10.5 Ensuring appropriate investment in maintaining and improving our assets: Capital Replacement ratio greater than 150% and Infrastructure Renewal Gap ratio greater than 100%.
- 2.11 Key changes to the Outlook include:
- 2.11.1 The rates cap in the Outlook is based on forecast Consumer Price Index (CPI) to reflect past Ministerial decisions.
 - 2.11.2 The updated rates cap challenge of \$103 million is an increase of \$11 million on the 10-Year Financial Plan. We have targeted efficiency savings at 1% of operating expenditure net non-cash expenditure which totals \$88 million to partly address the gap. There is a risk we do not meet this target. The residual \$15 million and any additional contingency will have to be found using the financial levers such as expenditure prioritisation, service reductions and/or funding from other revenue sources.
 - 2.11.3 Updated waste services expenditure based on the Accelerated Waste Transition Plan which includes a mix of direct kerbside collection and communal recycling services such as Food Organic and Glass, updated waste service contract renewals for landfill tipping and kerbside collections, and provision for Advanced Waste Treatment to divert waste from landfill. Waste costs contribute over \$85 million to the rates cap challenge.

Funding of ongoing new waste services is a significant concern. Officers propose early engagement on proposed changes to our Rating Strategy including a separate waste charge to help fund new waste services. This proposed engagement will also include the Accelerated Waste Transition Plan; the mix of service delivery between kerbside collection and communal services, frequency and locations will further inform budgetary needs.

The delicate balance between rates affordability and Council's financial sustainability would be considered when setting the Waste Charge as part of annual budget development alongside review of our financial hardship policy.
 - 2.11.4 Additional capital expenditure reflecting updated asset management data for South Melbourne Market renewal requirements, stormwater drainage clearing and Elwood Foreshore (Stage one). We will also need to include three bridges in our Asset Management Plan due to amendments to the Road Management Act shifting the responsibility to local government for maintenance and renewal. This is another unplanned cost shift with the bridges effectively transferred to council in varying condition with no handover or funding.



- 2.11.5 Council is also required to carry out Electrical Line Clearance measures as required by regulation.
- 2.11.6 Other factors include a forecast increase to the Rates Cap, CPI, and lower interest income.
- 2.12 Council does not control a large portion of our income and expenditure. Out of the \$2.8 billion of expected total income in the Outlook, \$1.8 billion or 66% is rate revenue and statutory fees which are capped or set by the Victorian Government. The rates capping challenge is equivalent to approximately 11% of controllable income.
- 2.13 Out of the \$2.8 billion of expected total cash expenditure in the Outlook, 20% or \$564 million is to be spent on maintaining and renewing our \$3.2 billion of assets. 14% or \$402 million are on service contracts with little scope to reduce costs (some degree of discretion on future service levels with community consultation). The rates capping challenge is equivalent to approximately 6% of controllable expenditure.
- 2.14 To maintain our current level of waste services and/or introduce new waste services will require the introduction of a waste charge and/or reduction in other services to maintain financial sustainability. Officers are proposing to engage the community during February 2022 on funding options for the increased waste costs and introducing new waste services, with findings to be presented to Council as part of the development of the draft Budget 2022/23.

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 new waste services, other waste costs escalating above CPI, legislative electrical line clearance requirements, and looking after our assets.
- 3.3 Endorses not applying to the Essential Services Commission for a variation to the rate cap for 2022/23.
- 3.4 Notes that to maintain our current level of waste services and or introducing new waste services will require the introduction of a Waste charge or reduction in other services to maintain financial sustainability on top of the substantial efficiency savings target of \$88m over 10 years (which is not guaranteed to be achieved).
- 3.5 Notes the progress of the reviews on the Rating Strategy and the Don't Waste It! Waste Management Strategy presented on this night and proposed next steps, including the proposed introduction of a waste charge and review of strategic options relating to our rating strategy which will be consulted on with our community as part of the Council Plan and Budget consultation process.
- 3.6 Notes Officers are progressing with grant funding application from the Federal Government's Preparing Australia Program to assist with the Elwood Foreshore Facilities renewal and enhancement project funding.



- 3.7 Delegates authority to the CEO or their 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 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 for example: -
- 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 our community to recover from the impacts of COVID will be critical. 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 identifying approximately \$13 million in efficiency savings in the last council term, \$2.3 million in 2021/22 and kept rate increases to within the rates cap since 2016/17 while 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 embedding the roll out of the CX program to meet community expectations for an improved experience of Council services and efficiencies. We will also need to undertake further work to embed our customer charter and promises through all aspects of our services.
- 4.2.3 Government, legislative and technology changes – will require us to continue to respond and embed legislative changes including those associated with the Local Government Act 2020, Environmental Protection Act, Industrial Manslaughter Act and the Child Safety & Wellbeing Act. This work will continue to need to be prioritised over other more discretionary activities, to provide a safer city for our community and a safer working environment for staff, volunteers and contractors as well as meeting legislative obligations.
- 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. This includes investment in our activity centres, arts and cultural institutions, events and festivals in addition to key assets such as the South Melbourne Market. It will also involve exploring partnerships and advocacy to



other levels of government on initiatives and policies that will help strengthen our economy for our local community.

- 4.2.6 Getting around our dense inner city – will require us to continue to implement Council core strategies such as Move, Connect, Live and working in partnership with the State and Federal Government to advocate for and deliver key projects that make it easier to move around our city.
- 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 – will require us to explore with our community approaches to providing this service. This matter is discussed in detail in other parts of this report.
- 4.3 Our Strategic Risk Register (Attachment 1) highlights the risks we are monitoring.
- 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, over the medium and long term, fundamental changes to the way Council operates will be required to meet the rates cap challenge.
- 4.5 Maintaining financial discipline remains a focus, as reflected in our financial strategy, particularly as new changes impacting our operating environment:
 - a) COVID pandemic economic recovery
 - b) Electrical Line Clearance Safety Measures to comply with legislative requirements.
 - c) Updated Asset Management Plan require additional fund for ongoing renewal works for South Melbourne Market and Stormwater Drain cleaning.
 - d) Bringing forward waste services as part of the Don't Waste It! Strategy review.
 - e) 2020 Amendments to the Road Management Act 2004 shifted the responsibility of bridges to Councils – a cost shift.

The 10-Year Financial Outlook

- 4.6 The Outlook is provided in Attachment 2. A number of assumptions have been updated since the adoption of the 10-Year Financial Plan (10-YFP) in June 2021. The significant changes include:
 - a) Updated waste services expenditure and bringing forward waste services. Recycling services for Glass and Food Organic Garden Organic consisting a mix of kerbside collection and communal services.
 - b) A forecast increase in Consumer Price Index (CPI)
 - c) A forecast increase to the Rates Cap
 - d) Forecast increase in investment yield over the medium to long term and lower in the short-term



- e) EBA at the greater of 2% or rates cap for 2022/23
 - f) Updated asset management plan increasing capital renewal at South Melbourne Market by \$5 million over 10-year and \$3.5 million for stormwater drain cleaning (40 years of backlog and updated data resulted in significant drains from 4,000 to 13,700).
 - g) COVID pandemic recovery provisions \$1 million in 2022/23, \$0.75 million in 2023/24, \$0.50 million in 2024/25, and \$0.25 million ongoing factoring uncertainty for wage growth, waste costs, cleaning, OHS requirements and economic conditions.
 - h) Additional capital investments including Stage One Elwood Foreshore \$15.4 million gross assuming \$3.8 million of external funding based on high priority building asset renewals.
 - i) Updated Public Space Strategy quantified at \$88 million fully funded in the 10-year plan including \$39 million drawdown on reserves (mainly statutory open space reserves and Strategy Property Reserve to fund land purchase), and \$8 million of capital grants.
 - j) Affordable Housing contributions funded from a \$4 million drawdown on our In Our BackYard reserve.
 - k) Fishermans Bend Development Contribution Plan work is in progress, we assume its commencement will be in 2024/25 which means Council will not collect Open Space Contributions from developers.
 - l) Remediation cost for soil contamination remain an issue. Recently identified additional remediation works at the St Kilda Marina required as a result of previous council works – costing to be determined.
- 4.7 Based on the latest CPI, the rates cap assumed for 2022/23 is 1.7%. The 2022/23 rates cap is expected to be formally announced by the Victorian Government in December 2021 and remains highly uncertain.
- 4.8 There are a number of key projects and business cases under development and remain unfunded. These projects include Elwood Foreshore Stage Two and Three, South Melbourne Market Next, provisions for Fishermans Bend infrastructure uplift. Total expenditure is expected to be approximately \$91 million which has been modelled in addition to base line in scenario two.
- 4.9 A third scenario takes into account the Rating Strategy Review including funding of the updated Don't Waste It! Strategy. Officers are proposing amongst rating strategy changes, a separation from general rates the cost of waste services that are considered private benefits and or direct waste service into a waste charge. This is approximately \$12 million based on Budget 2021/22. Future total waste charge raised will be on cost recovery. This scenario builds onto the previous two scenarios.
- 4.10 The accumulated rates capping challenge under the base case \$103.1 million, Scenario two with additional \$91 million of gross capital expenditure is \$134.8 million, and scenario three with the waste charge is expected to be \$103.9 million.
- 4.11 The Outlook under the three scenarios are outlined in the table below.



	2022/23	2023/24	2024/25	2025/26	2031/32
Base Case - Rates cap links to CPI (Deloitte Access Economics)					
Rate increase	1.70%	2.20%	2.30%	2.30%	2.30%
Accumulated rates capping challenge	(\$5.6m)	(\$13.7m)	(\$21.1m)	(\$28.6m)	(\$103.1m)
Scenario 2 – Project Uplift including Elwood Stage 2 and 3, South Melbourne Market Next, and Fishermans Bend infrastructure uplift provisions					
Accumulated rates capping challenge	(\$6.4m)	(\$17.0m)	(\$24.1m)	(\$34.6m)	(\$134.8m)
Scenario 3 – Separate Waste Charge (Proposed changes from Rating Strategy Review)					
Accumulated rates capping challenge	(\$5.3m)	(\$13.4m)	(\$18.1m)	(\$25.9m)	(\$103.9m)

- 4.12 A zero rates increase in year one (2022/23) would add approximately \$28 million to the rates cap challenge.
- 4.13 The full impact of funding and financing in FBURA has not been included due to uncertainty around the quantum and timing of capital investments and consequential operational and infrastructure servicing expenditure (whole of life costing). Scenario two includes provisional \$20 million of projects which is above the 5% of FBURA rates currently accumulated in reserves and the funding already included in baseline budgets (eg J L Murphy upgrades). It is a recognition that Council has a role in delivering the infrastructure at FBURA and could be used as a catalyst to accelerate and improve planned investment by the State who is responsible for funding and financing Fishermans Bend and collects Development Contribution Plan (DCP) revenue.
- 4.14 The establishment of a sustainable model for the governance and funding of FBURA is a priority. There is concern that Council must have a role in decision making for FBURA to influence outcomes and to ensure development is financially sustainable for council.
- 4.15 The Outlook retains the majority of the assumptions and funding allocations included in the Strategic Resource Plan, which will form the starting point for the Budget 2022/23. The key assumptions include:
- Non-rate revenue to increase by the greater of CPI (1.7%) or the Enterprise Agreement (to be finalised) plus 0.25% to reduce reliance on rates funding whilst still keeping fees affordable. This is a global assumption – individual fees and charges will be reviewed and consulted on as part of the Budget 2022/23 – some may be more or less.
 - Expenditure increase by the consumer price index.
 - A portfolio in 2022/23 of \$58 million capital expenditure and \$242 million operating expenditure.



- 4.16 The projected financial result for the 2021/22 financial year is based on current information. However, it should be noted that there are inherently a number of budget risks that will be managed throughout the 2021/22 year.

Responding to the Rates Capping Challenge and Environmental Targets

- 4.17 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 \$92 million rates cap challenge which we plan to close the rates cap gap by adjusting the following strategic levers:

- a) **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).
- b) **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.
- c) **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.
- d) **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

- 4.18 The updated Outlook Base Case has seen the rates cap challenge increased by \$11 million to \$103 million. Officers believe this challenge is unlikely to be addressed by the above strategic levers. Other options will need to be considered including:

- a) **Consideration of a Waste Charge** – Approximately \$85 million of the \$103 million rates cap challenge relates to new waste services and above rates cap waste increases. The integrated reviews of the Rating Strategy and the Don't Waste It! recommend the separation of private benefit/direct waste services out of general rates to a waste charge. This will be a funding source for the introduction of new waste services including Food Organic Garden Organics and Glass recycling to achieve environmental objectives/targets and increase diversion from landfill.

Community engagement on this option is scheduled in February 2022. Outcomes of the engagement will inform the draft rating strategy and draft Budget 2022/23 for community consultation.

- b) **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.



- 4.19 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 2022/23

- 4.20 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 2022/23.
- 4.21 This is year two of the Council Plan which includes several core strategies in place. The key focus is to execute on these core strategies.
- 4.22 The Outlook aligns with the strategic directions set in the Council Plan. Refinements to the Council Plan will only include adjustments due to:
- a) Strategic works revealing a need for refinement in the long-term outcomes, strategies or initiatives
 - b) Better and updated information to measures and targets
 - c) Our updated strategic risk profile.
- 4.23 The development of Budget 2022/23 will be within the key financial targets set in the Outlook including updated assumptions, better information, and Council decisions.

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 Officers are proposing to engage the community during February 2022 on a range of topics including bringing forward of Food Organic and Garden Organic service (delivery, location and frequency) and the funding options for waste services.

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.

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.

9. COMMUNITY IMPACT

- 9.1 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.
- 9.2 Direction 2 of the 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.
- 9.3 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.
- 9.4 Rates affordability remains a key concern for our community. The proposed changes from the rating strategy review including moving to Capital Improved Value system, introduce Differential Rating and a Fixed Partial Waste Charge are designed to provide Council the instruments available for a fair and equity distribution of rates and addresses the issues with rates shift.
- 9.5 The delicate balance between rates affordability and Council's financial sustainability would be taken into account when setting the proposed Waste Charge as part of annual budget development including public consultation. Our Financial Hardship policy retains an emphasis on targeted support for financially disadvantaged members of our community.

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 2022/23.
- 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 2022/23 are:

- a) February 2022 –community engagement including funding options for the increased waste costs and introducing new waste services to find solutions for increasing recycling and waste diversion from landfill to achieve Don't Waste It! Waste Management Strategy targets.
- b) 20 April 2022 – release date for the draft updated Council Plan and Budget for 2022/23.
- c) 22 April to 20 May 2022 – public exhibition period of the draft updated Council Plan and Budget 2022/23. Community members will be invited to



review the document and make public submissions over a four-week period (28 days).

- d) 7 June 2022 – Special Council meeting to formally receive submissions and hear oral submissions
- e) 22 June 2022 – Adoption of the updated Council Plan and Budget 2020/21. Adoption is statutorily required by 30 June 2020.

11.2 COMMUNICATION


11.2.1 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 2022/23.

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.

12. OFFICER DIRECT OR INDIRECT INTEREST

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

ATTACHMENTS

1. Strategic Risk summary November 2021 
2. 10-year Financial Outlook 