



13.2 **2022 COST REVIEW**

EXECUTIVE MEMBER: **CHRIS CARROLL, GENERAL MANAGER, CUSTOMER, OPERATIONS AND INFRASTRUCTURE**

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1. PURPOSE

1.1 For Council to endorse the proposed approach to and resourcing of the Cost Review 2022.

2. EXECUTIVE SUMMARY

- 2.1 Council has requested 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 This report details the proposed purpose, outputs, parameters, key considerations, and preliminary estimate of resources resourcing required to undertake this review for Council approval.
- 2.3 Officers will report back by February 2023 or earlier if possible to enable Council to determine which of the options identified through the process will be progressed for further consideration as part of the development of Budget 2023/24 including any staff and community engagement requirements.

3. RECOMMENDATION

That Council:

- 3.1 Endorses the proposed approach to the Cost Review program as outlined in this report.
- 3.2 Authorises the CEO (or delegate) to implement the proposed approach of the Cost Review program.
- 3.3 Allocates \$70,000 from Budget 2022/23 cash surplus for additional resources to assist with implementation of the review.
- 3.4 Notes that while officers will seek to prioritise resources to minimise the cost of the review, additional resources may be required depending on the number and nature of options identified by councillors and the depth of analysis required to appropriately inform decision making.
- 3.5 Notes that the agreed timeline previously resolved by Council at the Ordinary Meeting held on 29 June 2022, for the CEO to present a report back to Council on the results of the cost review was by the end of November 2022.
- 3.6 Approves extension of the timeline for the CEO to present a report back to Council on the results of the review to February 2023 to allow for the planning of any additional engagement that is required to inform the budget process. Noting that officers will seek to complete this earlier if possible.



4. KEY POINTS/ISSUES

Background

- 4.1 As part of adoption of Budget 2022/23, Council requested that a detailed financial review be 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.
- 4.2 This process will be referred to as the 'Cost Review 2022'. This report outlines the proposed approach to the review for Council's endorsement.

Purpose of the Cost Review 2022

- 4.3 The proposed purpose of the Cost Review 2022 is:
- 4.3.1 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.
 - 4.3.2 To identify the potential impacts (benefits and risks) associated with any proposed cost reduction.
 - 4.3.3 To identify any required change costs associated with Council implementing a proposed cost reduction.
 - 4.3.4 To identify any compliance, regulatory or contractual requirements that need to be considered prior to implementing a proposed cost reduction.
 - 4.3.5 To identify any stakeholder, partner and community engagement that is required prior to implementing a proposed cost reduction.
 - 4.3.6 To enable Council to provide greater clarity and transparency over Council's cost base to the community and stakeholders, including providing an evidence-based assessment of costs relative to outcomes and relevant benchmarks.

Outputs of the Cost Review 2022

- 4.4 The proposed outputs of the Cost Review 2022 include:
- 4.4.1 Establishment of a "total target level" of ongoing cost reductions; based on an assumed rate cap increase for 2023/24, to enable Council to consider a zero per cent rates increase or partial rates increase (Below the rates cap level) in 2023/24. Consistent with Council's recently adopted Rating Strategy, Waste Charges are set as part of the annual budget process to recover the full cost of direct waste services, therefore will not be included in the total target level.
 - 4.4.2 Identification of a package of ongoing cost reduction options that after implementation costs and change costs meet the total target level (As per 4.4.1 above). Note this output is dependent on Council identifying options during the process that it wishes to cost that in total will meet the total target level.
 - 4.4.3 A prioritised package of costed options for Council to consider progressing through to the Budget 2023/24 process.
 - 4.4.4 Provision of an assessment of the total net savings, benefits, service level impacts, risks, implications, required engagement and implementation risks, costs and timing for each option.



- 4.4.5 Provision of advice on the need for further engagement with the community, funded organisation, staff, contractors, and other parties who may be impacted by any proposed cost reduction.
- 4.4.6 An assessment of the benefits of a zero per cent rates increase for both ratepayers and residents of the City of Port Phillip.
- 4.4.7 An assessment of the impact of the total package of cost reduction options on service levels and customer satisfaction.
- 4.4.8 An assessment of the impact of the total package of cost reduction options on the deliverability of the Council Plan and the need to adjust the plan or core strategies.
- 4.4.9 An assessment of the impact of the total package of cost reduction options on the long-term financial plan and other key financial indicators.
- 4.4.10 An assessment of the impact of the total package of cost reduction options on the Council administration and organisation.

Parameters of the Cost Review 2022/23

- 4.5 The proposed parameters of the Cost Review 2022 include:
 - 4.5.1 All options identified and included for costing in the review process will be ongoing reductions to minimise the impact on the rates cap gap and the long-term financial plan.
 - 4.5.2 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.
 - 4.5.3 Re-distribution of expenditure (e.g., taking an ongoing cost reduction option and applying it to a new priority) will be considered through the normal budget process not through the cost review process.
 - 4.5.4 To assist with targeting the cost analysis of budget items nominated by Councillors for review, Councillors should be specific about the item they want to nominate for review (e.g., Review grants for X) rather than generalised (e.g., Reduce consultancy fees by 10% across all Departments).
 - 4.5.5 Cost analysis will be undertaken on budget items where four or more Councillors indicate agreement to the work being undertaken as part of the cost review.
 - 4.5.6 Given the time, cost of work, and resources available, “deep dive” cost analysis (e.g., Zero based budgeting down to a transaction cost level) will be prioritised by Council to the budget items or service areas which have the potential to yield significant cost reductions and where the “deep dive” is supported by the four or more Councillors.
 - 4.5.7 Budget items under cost review that have the potential to impact staff employment will be dealt with confidentially under the cost review, until such time as the CEO indicates that engagement with impacted staff is appropriate.
 - 4.5.8 Budget items under cost review that have the potential to impact contractual arrangements will be dealt with confidentially under the cost review; using the



provisions of the Local Government Act, until such time as the CEO indicates that engagement with impacted contractors and/or suppliers is appropriate.

4.5.9 Budget items under cost review that have the potential to impact funding agreements, grants, licences, or leases will be dealt with confidentially under the cost review; using the provisions of the Local Government Act, until such time as the Council formally determine by resolution that engagement with impacted stakeholders and partners is appropriate.

4.5.10 The budget items that are to progress through to the budget process will be formally determined by resolution of Council at the end of the Cost Review process (by February 2023)

Key considerations for Cost Review 2022

4.6 It is recommended that in identifying budget items for review, Council consider the following:

4.6.1 Compliance, statutory, and legal/ contractual obligations.

4.6.2 Short and long-term impact on the deliverability of the Council Plan and the need to adjust the plan or core strategies.

4.6.3 Short and long-term impact on service levels and customer satisfaction.

4.6.4 Short and long-term impact on the long-term financial plan and other key financial indicators.

4.6.5 Short and long-term impact on a funded partners ability to deliver services on Council's behalf.

4.6.6 The ability to implement the cost reduction and realise the saving from 1 July 2023. (For example, the possible need to renegotiate contracts or funding agreements)

4.6.7 The net saving after change costs and net benefit relative to the non-financial impacts of change.

4.6.8 Any negative impact on the level of external funding received as a result of implementing the cost reduction.

5. CONSULTATION AND STAKEHOLDERS

5.1 Depending on the specific cost reduction items identified through the 2022 Cost Review 2022, staff and stakeholder consultation may be required.

5.2 Any consultation with stakeholders will be addressed as per section 11.2 of this report and if required, identified in the subsequent council report by February 2023.

6. LEGAL AND RISK IMPLICATIONS

6.1 The proposed approach includes consideration of legal and risk implications in identifying and assessing cost reduction options.

7. FINANCIAL IMPACT

7.1 Officers will attempt to minimise the cost of the review.

7.2 However, this is an unbudgeted item of work requested by Council as part of Budget 2022/23 adoption. It brings forward and deepens work that would normally happen later



in the year and is happening at the same time as the year-end process and implementation of new rating framework.

- 7.3 To enable sufficient focus and capacity for this work a temporary 1.0 full time equivalent Finance Business Partner (under 6 months agency agreement) will be required. This equates to an estimated cost of \$70,000.
- 7.4 Other support resources such as communications and engagement, human resources, change management, service review, and other various internal support will be prioritised within existing budget allocation where possible.
- 7.5 Additional resources and budget may be required depending on the number and nature of services targeted for deeper dive (eg zero base budget reviews) or where savings have large potential change impacts for the organisation and community.
- 7.6 There is uncertainty on the 2023/24 rates cap to be announced by Minister of Local Government in December 2022. It is likely that the rates cap will be greater than the projected 2.2 percent in our 10-year Financial Plan based on recently announced inflation for financial year 2021/22 of 6.1%.
- 7.7 A one percent of general rates increase is approximately to \$1.26 million.

8. ENVIRONMENTAL IMPACT

- 8.1 The proposed approach will ensure consideration of environmental impacts in the assessment of options. These will be included in the report to Council.

9. COMMUNITY IMPACT

- 9.1 The proposed approach will ensure consideration of community impacts in the assessment of options. These will be included in the report to Council.

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 The proposed approach will ensure consideration of the impact on the Council Plan and Council Policy in the assessment of options. These will be included in the report to Council.

11. IMPLEMENTATION STRATEGY

11.1 TIMELINE

- 11.1.1 The Cost Review 2022 will occur between July 2022 and February 2023.
- 11.1.2 Officers will report back by February 2023 to enable Council to determine which of the options identified through the Cost Review 2022 will be progressed for further consideration and potential implementation through the development of Budget 2023/24. This will include the level of staff and community engagement required or recommended to inform Council's decision making.

11.2 COMMUNICATION

- 11.2.1 The proposed key messages for staff and stakeholders will be used during the Cost Review 2022:



- 11.2.2 Council has received mixed feedback from the community during engagement over the past two budgets with some feedback supporting the maximum rates increase and other feedback supporting a zero per cent rates increase.
- 11.2.3 The cost review will provide evidence-based options for Council to consider in next year's budget informed by community and stakeholder engagement. This will include staff engagement by the Chief Executive Officer where this is appropriate and required under the Enterprise Agreement.
- 11.2.4 Council have decided to consider cost reduction options only at this stage and any decision to implement an option will be subject to the final decision on the Budget 2023/24 in June 2023.
- 11.2.5 The review will enable Council to gain greater clarity and provide greater transparency to the community over Council's cost base to support evidence based, informed decision making and well-informed community input into the decision-making process.
- 11.2.6 Starting early on the process will provide time for Council to consider the benefits, impacts, implications, change costs, contractual and legal obligations of any change. It will also enable Council to undertake any additional engagement required prior to deciding to implement a cost reduction option.

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

Nil