



3.3 DRAFT COUNCIL PLAN 2021-2031 YEAR TWO - MUNICIPAL HEALTH & WELLBEING PLAN, FINANCIAL PLAN, REVENUE & RATING PLAN, AND BUDGET 2022-23: RELEASE FOR PUBLIC CONSULTATION

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1. PURPOSE

- 1.1 To consider release of the draft Council Plan 2021-31 updated for year two and the draft Budget 2022/23 for community consultation.

2. EXECUTIVE SUMMARY

- 2.1 Council adopted the Council Plan 2021-31, incorporating Community Vision, Municipal Health & Wellbeing Plan, Revenue & Rating Plan and Budget 2021/22 on 23 June 2021. The Plan sets out a 10-year vision and five strategic directions for the City, with a four-year focus on the specific actions Council will undertake to work towards achieving this vision.
- 2.2 The Local Government Act 2020 (the Act), requires Council each year to:
- 2.2.1 review the Council Plan to determine whether the strategies, actions and measures require adjustment;
- 2.2.2 develop an annual Budget, which includes detail on the capital and operating programs;
- 2.3 A new requirement for Council is to develop and adopt an Enterprise Asset Management Plan by 30 June 2022. A separate report has been prepared for Council to endorse the draft Enterprise Asset Management Plan for consultation.
- 2.4 This report outlines proposed amendments to the Council Plan 2021-31, including the draft Budget 2022/23.
- 2.5 Consistent with the Council Plan and Budget parameters that were considered by Council in 2021, the proposed amendments result from strategic work undertaken during the year that has revealed a need for refinement in the long-term outcomes, strategies or initiatives, better and updated information related to measures and targets or changes to our strategic risk profile.
- 2.6 This report authorises the CEO to continue to provide Council projects and services within the parameters of the adopted Council Plan and Budget 2021/22 and any decisions of Council that have updated this. It also authorises the CEO to incur planning, design and community consultation expenditure on new projects proposed in the draft Budget 2022/23.



- 2.7 Applying the principles and budget parameters set within the 10-Year Financial Outlook that were adopted by Council in December 2021, a balanced draft Budget 2022/23 is presented for Council's consideration that addresses the rate capping challenge, funds new Food Organics and Garden Organics (FOGO) waste services and improved electrical line clearance and drainage maintenance, addresses inflation well in excess of the rates cap, and responds to the financial risks resulting from the COVID-19 pandemic.
- 2.8 The draft Budget 2022/23 includes:
- 2.8.1 A rate increase of 1.75 per cent, which is equivalent to the rates cap set by the Victorian Government.
- 2.8.2 Rating structure changes as recommended in the *draft Rating Strategy 2022-25* considered earlier on the meeting agenda to ensure a fairer allocation of rates and charges, which includes:
- a) Shifting the rating system from Net Annual Value (NAV) to Capital Improved Value (CIV)
 - b) Introducing Differential Rating
 - c) Separating the cost of private benefits/direct waste services (Kerbside Bins Collection, Communal FOGO & Glass, Hard & Green Waste, and Resource Recovery Centre) from General Rates to a tiered Waste Charge.
- A summary of pricing structure is found in Volume 2 which includes a default waste charge for all rateable properties at \$176.20; a charge for Kerbside FOGO services fee of \$88.10 reflecting a more convenient service; pricing for bin sizes and rebates to ensure fairer outcomes.
- A fixed waste charge will also help address the increased rates distribution shift within the residential property class from the lower value properties to the higher value properties due to valuation movements over time, including most recently in 2021/22. While it is widely believed that those with higher value properties should contribute more, sustained shifts over the years do need rebalancing to ensure that everyone is contributing their fair share and no-one is required to carry an unfair burden.
- 2.8.3 A general increase in fees and charges of between 2 to 2.75 per cent based on forecast inflation unless it makes sense to vary and to provide targeted support to those who need it most.
- 2.8.4 Additional funding of \$0.91 million for the draft Waste Management Strategy which includes new Food Organic Garden Organic (FOGO) and communal glass recycling services commencing early 2023 to achieve environmental benefits for our community.
- 2.8.5 Extension of business support with an Economic Recovery Package of greater than \$1.0 million including outdoor activation and footpath trading permit relief.
- 2.8.6 Accommodating other additional expenditure pressures including:
- a) inflation projected at 2.75% (1% greater than rates cap of 1.75%, a \$1.1 million gap)
 - b) an increase in the Superannuation Guarantee Charge to 10.5% from 10%



- c) increased investment in electrical line clearance to respond to safety risks and legislative compliance (\$0.30 million)
 - d) increased drainage maintenance to reduce the incidence and impacts of flooding (\$0.70 million)
 - e) funding for Elwood Foreshore Facilities Stage 1
 - f) reinstatement of the St Kilda Film Festival to be held in person (\$0.18 million)
 - g) accelerating the heritage program (\$0.25 million).
- 2.8.7 Efficiency savings of \$2.9 million (\$1.5 million ongoing and \$1.4 million one-off) adding to the \$2.3 million of permanent savings delivered in Budget 2021/22 and \$12.6 million delivered over the four budgets of the previous Council. Cumulative savings since the introduction of rates capping in 2016/17 are more than \$70 million.
- 2.8.8 No debt - some finance lease liabilities will remain as part of our financing strategy.
- 2.8.9 Cash reserves for operational needs including staff leave and contingency of \$25.2 million.
- 2.8.10 Project investment of \$68.5 million to maintain, grow and improve services and assets.
- 2.8.11 A cash surplus of \$1.22 million providing additional contingency for likely enterprise financial risks, particularly as this is a budget post COVID-19 pandemic.
- 2.9 The draft 10-year Financial Plan includes a rates cap challenge of \$73 million which has been reduced by \$30 million from the \$103 million in the adopted 10-year Financial Outlook due to the inclusion of waste charges to be at cost recovery and realised efficiency savings.
- 2.10 It is expected that the rates cap challenge will be addressed through ongoing efficiency savings with a 1% efficiency target included in the Financial Plan. Over the long run it is likely other levers will be required to balance the budget with further investment required in Fishermans Bend, the South Melbourne Market, and further cost shifting.
- 2.11 In the Council Plan, significant investment continues to be projected over the 10-year period on important initiatives to deliver on the Council Plan outcomes and priorities:
- 2.11.1 Integrated Transport Strategy \$33 million
 - 2.11.2 Sustainable Environment Strategy \$42 million
 - 2.11.3 Public Space Strategy – \$120 million
 - 2.11.4 Draft Don't Waste It! Waste Management Strategy (2022-2025) - \$11.3 million
- 2.12 In considering whether to release the draft version of the amended Council Plan and draft Budget 2022/23 document, Council needs to assess the proposed amendments to the Council Plan and be satisfied that the draft Budget 2022/23 continues to be aligned to the vision for the municipality set out in the plan and continues to meet the financial sustainability principles.



3. RECOMMENDATION

PART 1

That Council:

- 3.1 Notes that the draft Budget 2022/23 has been informed by the draft revised *Don't Waste It! Waste Management Strategy 2022-25* and draft *Rating Strategy 2022-2025*.
- 3.2 Notes that the draft Budget 2022/23 includes:
 - 3.2.1 A rate increase of 1.75 per cent, which is equivalent to the rates cap set by the Victorian Government.
 - 3.2.2 Increased funding for the draft revised *Don't Waste It! Waste Management Strategy 2022-25* which includes new waste services.
 - 3.2.3 Fees and charges generally increasing between 2 to 2.75 per cent unless it makes sense to vary, and to provide support to those who need it most.
 - 3.2.4 Ongoing efficiency savings of \$1.5 million and one-off portfolio savings of \$1.4 million. Cumulative efficiency savings since 2016/17 are more than \$70 million and forecast additional efficiency savings over the 10-year Financial Plan are \$73m.
 - 3.2.5 No debt– some finance lease liabilities will remain as part of our financing strategy.
 - 3.2.6 Cash reserves for operational needs including staff leave and contingency of \$25.2 million.
 - 3.2.7 Project investment of \$68.5 million to maintain, grow and improve services and assets.
 - 3.2.8 One-off waivers of a maximum of \$750 on application up to 50% of general rates and charges to the Chief Financial Officer in cases of extreme financial hardship.
 - 3.2.9 Deferring the introduction of business parklet fees for 6 months to January 2023, and waiving footpath trading fees for the first 4 months to November 2022.
 - 3.2.10 A cash surplus of \$1.22 million providing additional contingency for likely enterprise financial risks (per section 4.33) particularly as this is the first budget post COVID-19 pandemic and projected impact of inflation.
 - 3.2.11 Intention to lease 10 properties as required by section 115 of the Act as per section 4.60.

PART 2

That Council:

- 3.3 Releases the draft amended Council Plan 2021-2031, inclusive of the Community Vision, Municipal Health and Wellbeing Plan, draft (10-year) Financial Plan, draft Revenue and Rating Plan, and the draft Budget 2022/23, amended to reflect any changes made through this resolution, for community consultation (Attachments 1, 2 and 3).

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- 3.4 Receives and hears feedback and submissions from the public at the Special Council meeting on 14 June 2022, commencing 6.30 pm at the St Kilda Town Hall, prior to considering adoption of the amended Council Plan 2021-31, including Budget 2022/23 at the Special Council Meeting on 29 June 2022 commencing 6.30 pm at the St Kilda Town Hall.
- 3.5 Authorises the CEO to make amendments to the draft amended Council Plan 2021-2031 including the draft Budget 2022/23 to reflect any changes through this resolution, and to make minor editorial adjustments to the document to prepare for publication and distribution.

4. KEY POINTS/ISSUES

- 4.1 Council adopted the Council Plan 2021-31, which sets out a 10-year vision and five strategic directions for the City, with a four-year focus on the specific actions Council will undertake to work towards achieving this vision. The Council Plan also incorporates the Municipal Health and Wellbeing Plan, 10-year Financial Plan, strategic Resource Plan and annual Budget.
- 4.2 Integration of Council's planning, budgeting and resource allocation ensures strong alignment between the Council's strategic priorities, and its services, programs and projects.

Parameters for review of Council Plan and Budget 2022/23

- 4.3 In December 2021, officers presented a report to Council 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.
- 4.4 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. Adjustments to the Council Plan have generally limited to updated assumptions, better information, changes in the operating environment, and Council decisions since the Plan was adopted.

Updates to City and Council Indicators

- 4.5 Council indicators provide a snapshot of our performance each year. They are reviewed annually to ensure targets are realistic, adjust any language that may be unclear, and add any new measures that support the picture of our performance as a Council.
- 4.6 Updates have been made to ensure the language and metric for each indicator is expressed correctly. For 2022/23 we have also included the frequency in which each indicator can be measured to provide clarity over when we will be reporting on them (Refer to Attachment 4).
- 4.7 Indicators are reported on in the monthly CEO report and Annual Report.
- 4.8 Council indicator targets for 2022/23 are under review while this document is in draft and indicators in this plan that are dependent on ABS Census 2021 data will be updated in the final version to be presented to Council in June 2022.



Our Financial Strategy

- 4.9 The review of the Council Plan 2021-2022 year 2 and draft Budget 2022/23 is supported by our Financial Strategy, which provides clear direction on the allocation, management and use of financial resources. It aims to ensure that Council remains financially sustainable while maintaining assets and services, responding to growth, and delivering on our priorities.
- 4.10 Over the next 10 years, we will face many challenges that require strong financial leadership. Key among these challenges will be cost increases above rates capping. Without action, the 10-year Financial Plan forecasts a cumulative \$73 million funding gap.
- 4.11 We closely monitor the affordability of services and recognise ongoing community concerns about the financial impost of rates and the cost of other essential services. As such, we are not planning to apply for a rate increase above the rates cap over the life of the 10-year Financial Plan.
- 4.12 We plan to balance future budgets and close the financial gap by adjusting the following strategic levers:

Strategic Lever 1: Delivering efficiency and cost savings

- 4.13 The community's expectations for better value service delivery are of primary concern to Council. We have identified \$2.9 million of savings including permanent operational savings of \$1.5 million and \$1.4 million of one-off portfolio savings in preparing the draft Budget 2022/23. This adds to the \$2.3 million of savings delivered in 2021/22 and \$12.6 million delivered over the four budgets of the previous Council (2017-2021). Cumulative savings since the introduction of rates capping in 2016/17 are more than \$70 million.
- 4.14 Over the period of the financial plan, we will target the delivery of efficiency savings equivalent to 1 per cent of operating expenditure (less depreciation) per annum. This is expected to reduce our cost base by a cumulative \$73 million over the 10-year period and will be key to addressing the rates cap challenge of the same amount.
- 4.15 Key initiatives to deliver these savings include a service review program, a commitment to better practice procurement and asset management, the sale of surplus properties, and investment in business process and system improvement and innovation through our Clever Port Phillip Program and day to day operations.

Strategic Lever 2: Appropriate use of borrowings and reserves

- 4.16 We retired \$7.5 million debt in 2021/22. We have no debt other than some finance lease liabilities as part of our financing strategy. There are no plans to borrow beyond this in the 10-year Financial Plan.
- 4.17 However, we will consider borrowings for property acquisitions, large capital works or operating projects that provide intergenerational community benefit, and initiatives that deliver sufficient revenue streams to service the debt. Borrowings will not be used to fund ongoing operations.
- 4.18 We will maintain general reserves at levels sufficient to ensure operational liquidity. Reserves may be built up over time to part-fund large capital works or appropriate operating projects where this is considered more efficient than the use of debt.



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- 4.19 The 10-year Financial Plan includes the use of general reserves as an internal source of borrowing for projects that pay for themselves over the long-term such as energy efficient street lighting upgrades on major roads. We are increasing our use of Open Space Contributions to fund our recently adopted Public Space Strategy.
- 4.20 The 10-year Financial Plan also includes a progressive build-up of the St Kilda Marina Reserve funded from significantly increased rental returns following the successful leasing process to ensure funds are available to maintain the foreshore precinct over the long term. We expect negative balances in the short to medium term reflecting Council's contribution to addressing soil contamination when Council reclaimed the land.

Strategic Lever 3: Careful management and prioritisation of expenditure

- 4.21 We undertake a rigorous and robust budget setting process each year including a line-by-line review of operating budgets and proposed projects to ensure alignment with strategic priorities and best value. Performance is monitored closely throughout the year with forecasts updated monthly.
- 4.22 In addition to the disciplined budget setting and expenditure monitoring, the strategy in the 10-year Financial Plan makes provision for \$5.2 million per annum for operating projects (some years may be higher where the benefits justify increased investments).
- 4.23 Our focus on improved asset management sees investments prioritised on those assets most in need of intervention rather than assets in relatively good condition. This translates to an increase in spending on buildings and drainage over the 10-year period of the plan partially offset through a reduction in road and footpath renewal budgets.

Strategic Lever 4: Setting fair and appropriate user charges

- 4.24 The annual budget process includes a thorough review of user charges to ensure they remain affordable, fair, and appropriate. We believe that those who directly benefit from and/or cause expenditure should make an appropriate contribution to the service, balanced by the capacity of people to pay.
- 4.25 The draft Budget 2022/23 includes the introduction of Waste Charges separated from General Rates. This aligns with the user-pays principle for the private benefits/direct waste services such as kerbside collection, communal waste services, hard waste and Resource Recovery Centre operations. It is a tiered pricing structure that recognises the convenience of kerbside collection service compared to communal. Pricing for bin sizes and rebates will be set to ensure a fairer outcome.

Despite significant cost increases and introduction of new services, in year 1, the proposed total general rates and waste charges is within the total rates cap increase of 1.75 per cent.

We expect a waste charge would add 0.12 per cent to the annual average rates over the long-term after the full rollout of the FOGO and Glass recycling and Glass as a contaminant in year 2024/25. However, there is high uncertainty with this assumption.

The Waste Charge will be reviewed as part of the annual budget process including community consultation to ensure total rates and waste charges remain affordable for our community.

- 4.26 The 10-year Financial Plan assumes high-level planning for future increases linking Council user charges (other than waste) to the rates cap (based on forecast inflation)

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plus 0.25 percentage points. This reflects the nature of our cost base (higher than CPI) and reduces our reliance on rates income. The application and impact of this policy setting will be reviewed annually to ensure affordability and fairness. For draft Budget 2022/23 fees and charges have generally increased by between 2 to 2.75 per cent unless it made sense not to.

- 4.27 In determining whether default increases should apply we conducted benchmarking of fees and charges with surrounding municipalities and relevant industries. For draft Budget 2022/23 this resulted in no increase to gallery hire fees to encourage utilisation.
- 4.28 Where possible for private benefit services such as childcare, we aim for service cost recovery. As such childcare fees are proposed to increase by 2.6 per cent in 2022/23, to recover the direct cost of the service while ensuring compliance with National Competition Policy.
- 4.29 To support business recovery, it is proposed that footpath trading fees are waived for four-months until 1 November 2022. The Revitalisation rate is also proposed for three precincts with high vacancies. It is also proposed that fees for Business Parklets are deferred until 1 January 2023. Refer Attachment 5.

Revenue and Rating Plan

- 4.30 For draft Budget 2022/23, Council has performed a comprehensive review of our Rating Strategy (see separate report on the agenda for this meeting). As a result, our Revenue and Rating principles are proposed to be updated to the following:
 - 4.30.1 Rates are levied in accordance with a ratepayer's capacity to pay as measured by the Capital Improved Value (CIV) of property owned within the municipality. Rates levied are therefore directly proportional to the CIV of individual properties.
 - 4.30.2 Higher differential rates will be set for commercial and industrial properties than residential properties due to their greater capacity to pay based on taxation benefits and higher rental yields as well to maintain fairness and consistency in the distribution of rates over time.
 - 4.30.3 Consistent with our rating principle to manage the impacts of change, any major differential rating changes will be gradual taken into consideration the annual general property valuation and demographic changes as part of the budget development process.
 - 4.30.4 A Tiered Waste Service Charge structure set for all rateable assessments to recover the cost of waste services that are direct and or private benefits (such as kerbside collections, communal food garden and glass recycling, hard waste collection, and Resource Recovery Centre operations). The setting of waste charges will be a tiered pricing structure recognising the key service differences between kerbside collection and communal services. It will include a mix of concessions, bin sizes, and exemptions to influence community behaviour, and ensure equitable outcomes in the community.
 - 4.30.5 Special rates and charges will be used where a specific benefit or service can be identified for certain ratepayers and only following consultation with the affected ratepayers.

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- 4.30.6 Rates concessions are available for recreational land and pensioners. We are one of only a few councils that provide a pensioner rate rebate in addition to the Victorian Government pensioner rate rebate.
- 4.30.7 Self-funded retirees are entitled to request a deferral of their rates indefinitely at a discounted interest rate. Persons experiencing financial hardship may also, subject to application and financial assessment, access this benefit.
- 4.30.8 Universal services are funded from the broadest forms of income – rates and parking revenue.
- 4.30.9 User fees are reviewed annually as part of the budget process. A general increase of CPI + 0.25 per cent is proposed in line with our financial strategy.
- 4.30.10 Fees for subsidised services provided by Council in a market, such as childcare and aged care, will be based on a clearly articulated policy position. To achieve equitable outcomes, these services will be funded through a mix of user charges, government grants and rates.
- 4.30.11 Specific individual regulatory services such as, but not limited to, animal licences, parking permits and planning permits will be funded, where possible, through user charges (some may be set by statute) and otherwise through rates.
- 4.30.12 Council will pursue grants where possible. Being an inner metropolitan council and with a relatively sound financial position, we are unlikely to see a significant boost to grants revenue. Advocacy is a key focus in seeking to access grants where relevant.
- 4.30.13 Developer contributions (cash or land) are currently set at 8% of site value for Fishermans Bend Urban Renewal Area and 5% for the rest of the municipality. This is an important source of funding for investments in parks and foreshore open space assets.
- 4.30.14 In accordance with our Property Policy, rent will be charge at market value for commercial properties. Peppercorn (minimum) rent may be charged to community groups that use Council properties to deliver a) community services aligned with Council's goals and priorities; b) significant community benefit to the City; c) have no capacity to generate income.
- 4.30.15 We will invest the community's funds in accordance with the Act and our Investment Policy. Our investments with Authorised Deposit Institutions will balance the objectives of capital preservation, maintenance of liquidity, investment return targets and corporate social responsibility. We aim to achieve average yield at the Bank Bill Swap Rate plus 50 basis points.

Rates assistance

- 4.31 We recognise the impact municipal rates and other charges have on financially disadvantaged sections of the community. In addition to our commitment to keeping rates affordable we offer a range of assistance:
 - 4.31.1 A Council-funded pensioner rebate (maximum) of \$200 in 2022/23 recognising that the rebate was increased by 14 per cent in 2021/22 (\$175 to \$200) – the City of Port Phillip is one of the few councils that offers this scheme in addition to the State Government rebate.

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- 4.31.2 An option for self-funded retirees to defer their rates indefinitely at 5 per cent interest for the 2022/23 (half the official penalty interest rate set by the Victorian Government).
- 4.31.3 One-off waiver of a maximum of \$750 on application up to 50% of general rates and waste charges to the Chief Financial Officer in cases of extreme financial hardship (noting this was temporarily set at \$1,500 for 2021/22 in response to COVID19).
- 4.31.4 Providing a 50 per cent waiver of the general rate for housing accommodation that provides reduced rentals for elderly persons of limited means.
- 4.31.5 Support for residents and ratepayers experiencing hardship through rate deferrals and payment arrangements.

Monitoring our financial sustainability

- 4.32 We use the Victorian Auditor General's financial sustainability indicators to monitor our financial sustainability. Our financial strategy is designed to ensure an overall low risk rating over the period of the plan unless we can demonstrate it is prudent not to (i.e., for one-off abnormal transactions that do not have an enduring impact). As demonstrated in the table below, we are forecasting that Council will achieve an overall risk rating of low throughout the 10-year period.

Indicator	Indicator Targets	Forecast Projections										
		2021/22	2022/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32
Net Result %	Greater than 0%	4.4%	2.0%	3.7%	5.4%	4.2%	4.6%	4.8%	4.9%	4.8%	4.8%	4.8%
Adjusted underlying result	Greater than 5%	(3.1%)	(3.3%)	(1.3%)	0.7%	1.3%	1.7%	2.0%	2.2%	2.2%	2.2%	2.3%
Working Capital	Working Capital Ratio >100%	353%	319%	275%	249%	242%	251%	260%	269%	278%	286%	293%
Internal Financing	Net cashflow from operations to net capital expenditure >100%	224%	73%	69%	84%	101%	123%	124%	124%	122%	121%	121%
Indebtedness	Indebtedness ratio <40%	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	2.0%	2.0%	2.1%	2.1%
Capital Replacement	Capital to depreciation >150%	142%	218%	276%	231%	179%	151%	151%	150%	151%	151%	151%
Infrastructure Renewal Gap	Renewal & upgrade to depreciation >100%	123%	174%	220%	197%	155%	128%	128%	128%	128%	128%	128%
Overall Financial Sustainable Risk Rating		Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low

Financial Risks

- 4.33 Some of the key financial risks we face include:

- 4.33.1 The funding and financing plan for Fishermans Bend remains uncertain and is a responsibility of the Victorian Government (as such this is an advocacy priority for Council).
- 4.33.2 There may be a large funding gap between the infrastructure desired at Fishermans Bend and what can be funded. A failure to appropriately budget for the costs of running and looking after new assets in Fishermans Bend is also a potential risk.
- 4.33.3 The risk of Covid-19 recovery taking longer than projected. Uncertainty remains on the degree and severity of its impact over the medium term. The



10-year plan assumes lower parking revenue and draft Budget 2022/23 includes support for business recovery.

- 4.33.4 The implementation and ongoing cost of the four-stream waste and recycling system required under Recycling Victoria policy are based on current information. High level provisions are included in the 10-year plan.
- 4.33.5 Rate capping. The 10-year Financial Plan assumes rate capping based on inflation. Since its introduction, the Minister for Local Government has prescribed rates based on forecast inflation, which have been lower than actual inflation. Every 0.1 per cent lower than the ESC methodology equates to a \$0.13 million reduction per annum in revenue.
- 4.33.6 Works are progressing to test key sites to quantify the likely financial impact of soil contamination. Projects included in the 10-year plan assume high level estimates of soil contamination.
- 4.33.7 Current Enterprise Agreement (EA) ends on 30 June 2022. EA outcomes greater than CPI will add to the rates cap challenge. Recent wage price index forecasts are 3% compared to the 2.5% allowance we have made in the draft Budget including the compulsory increase in the superannuation guarantee of 0.5%.
- 4.33.8 While the 10-year Financial Plan achieves financial sustainability over the next 10 years, beyond this period sustainability will be tested particularly if other financial risks materialise.
- 4.33.9 A more subdued property development market may result in rates revenue growing at a lower rate than projected; around 0.5 to 1.3 per cent per annum figure assumed in the 10-year Financial Plan. Every 0.1 per cent reduction in growth equates to a \$0.13 million reduction in revenue per annum.
- 4.33.10 A subdued property development market may also impact user fees and statutory fees including statutory planning, street occupation permits, road closures, skip bins etc. A 10 per cent fall in activity could result in a revenue reduction of \$0.46 million per annum.
- 4.33.11 Lower than expected parking revenue, which is the second largest revenue source, is historically volatile and can be impacted by the macro-economic environment. A 1 per cent reduction in revenue from parking fees and fines equates to a \$0.35 million per annum reduction in revenue.
- 4.33.12 Current MAV WorkCover Scheme wind-up and residual liability will have to be met over the short to medium term.
- 4.33.13 The possibility of a future unfunded defined benefits superannuation call (which if it eventuates will be funded from reserves in the first instance and then repaid over time).
- 4.33.14 Future reductions in funding from other levels of government or increases in cost shifting. Recent announced changes include:



- The Victorian Government increased the EPA landfill levy from \$65.90 per tonne to \$125.90 tonne over a three-year period to 2022/23, which is an increase of \$60 per tonne or 91 per cent. This decision alone will increase our cost base by \$23 million over the 10-year plan.
- Rates exemption on social housing which was quantified at \$80+ million to Council rates over 10 years. While this legislation was subsequently withdrawn, there are inherent risk of future policy changes set by other levels of government that have significant financial impact to Councils.

4.33.15 Not realising targeted efficiency savings.

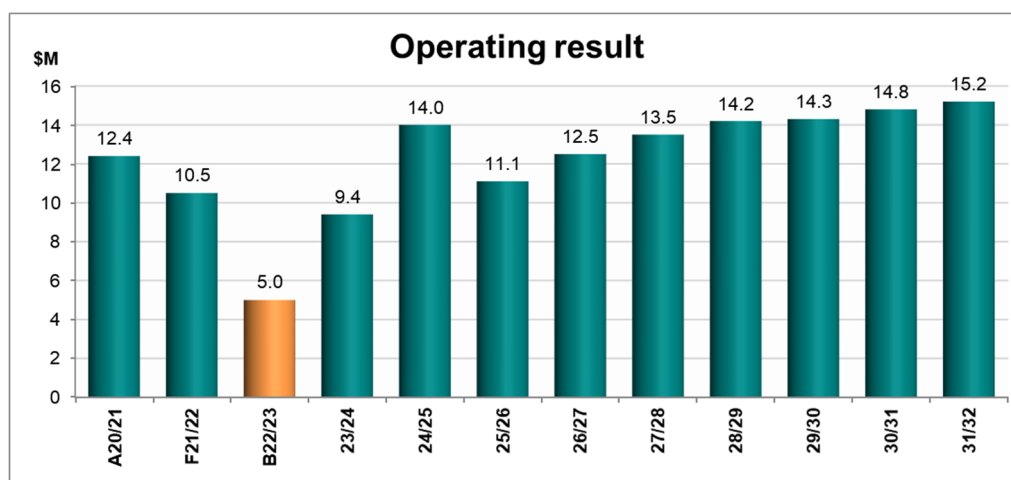
4.33.16 A major, unexpected, asset renewal/upgrade challenge (for which Council maintains an asset renewal reserve).

4.34 Notwithstanding these risks, our sound financial position with low levels of borrowing and healthy reserves balance enable us to respond to these financial risks in the 10-year period if they arise. If necessary, we can also apply to the ESC for an above rates cap increase.

The draft Budget 2022/23 at a glance

Operating result

- 4.35 Achieving an operating surplus is a key component of our financial strategy. It provides capacity to renew our \$3.2 billion worth of community assets, meet debt repayment obligations, and manage the impact of financial risks materialising.
- 4.36 The draft Budget 2022/23 expects a \$5.0 million operating surplus, which is \$5.5 million lower than the Forecast 2021/22 of \$10.5 million with expenditure projected to increase by \$13 million compared to a revenue increase of \$7.5 million.
- 4.37 Total revenue is proposed to increase by \$7.5 million or 3.1% on Forecast 2021/22 from \$239.6 million to \$247.0 million. This is primarily related to:
- An increase in parking revenue of \$4.9 million based on recovery from COVID-19 impacts, which resulted in reduced revenue in Forecast 2021/22.
 - An increase in rents, footpath trading, parklets and other fees of \$4.4 million largely based on the reduction in the COVID-19 related waivers in Forecast 2021/22.
 - An increase in rates revenue of \$3.8 million related to the 1.75% rates cap and property growth.
 - A one-off increase in capital grants of \$3.1 million mainly for the EcoCentre redevelopment and Elder Smith Netball Courts and Pavilion.
 - A reduction in Open Space Contributions by \$7.6 million based on lower development activity.
- 4.38 Total expenditure is proposed to increase by \$13 million or 5.7 per cent on forecast 2021/22 from \$229.1 million to \$242 million. See operating expenditure section below for details.



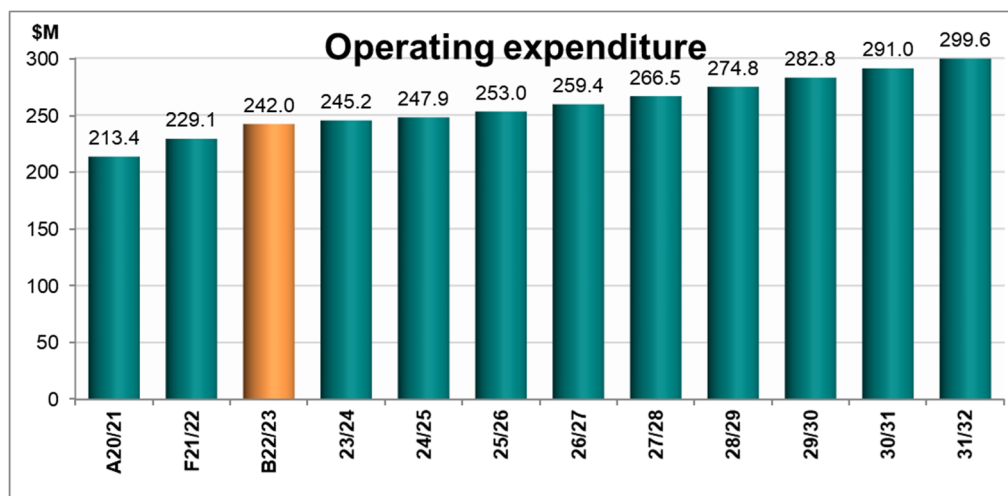
4.39 The increase in the quantum of operating surpluses in the outer years is partly due to waste charges recovering the cost of direct waste services. Operating surpluses will be needed to fund the growing project portfolio caused by population growth and inflation.

Operating expenditure

4.40 The draft Budget 2022/23 operating expenditure totals \$242 million which is a net increase on forecast 2021/22 by \$12.9 million (5.7%) from \$229.1 million. The primary drivers for this include:

- An increase in employee costs of \$5.7 million (\$4.7 million budget on budget) due to a projected 2% Enterprise Agreement increase, Superannuation Guarantee rate increase from 10% to 10.5%, and net 16.5 FTE increase mostly project managers to deliver a greater project portfolio and front-line service workers such as Child Care Educators (2020/21 had 65 FTE reductions).
- Inflation budgeted at 2.75% (1% above rates cap) or \$2.6 million.
- An increase to waste management costs of \$1.4 million including new waste services (FOGO and Glass recycling) and landfill levy increased from \$0.64 million.
- Reinstatement of expenditure previously reduced due to COVID-19, including the St Kilda Film Festival \$0.18m and temporary services closures and related savings \$0.84 million.
- An increase of \$3.9 million related to the significant \$68.5 million project portfolio to catch up on reduced portfolios during COVID-19 and ensure we look after our \$3.2 billion of community assets appropriately.
- Ongoing efficiency savings of \$1.5 million, which partially offsets the expenditure increase.

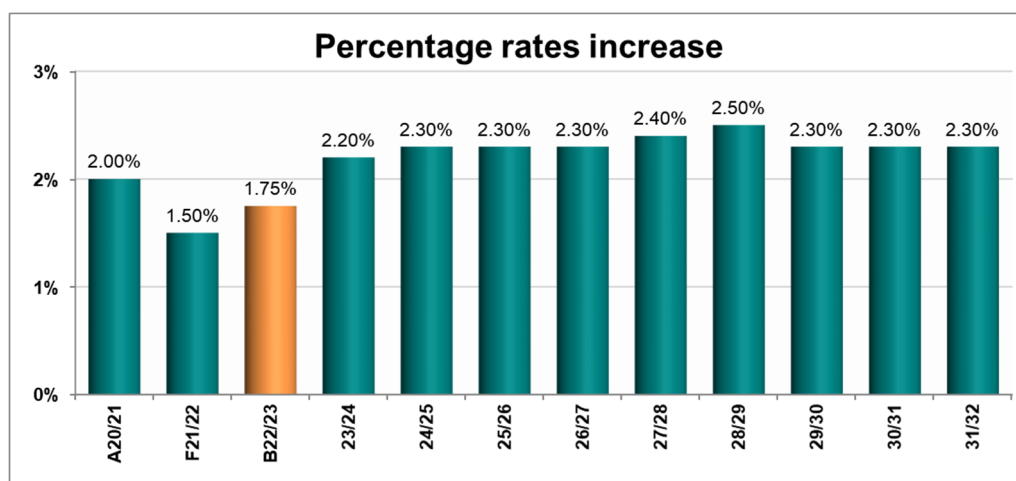
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- 4.41 The steady growth in operating expenditure in future years is largely driven by new waste services (FOGO and glass recycling), inflation (around 2.0 to 2.5 per cent per annum), service demand increases associated with population growth (around 0.5 to 1.3 per cent per annum), and the operating expenditure impact of new and improved assets (for example depreciation increase of 3.9 per cent per annum). This is partially offset by Council's commitment to efficiency and cost savings (1 per cent per annum).

Rates – percentage increase

- 4.42 The draft Budget 2022/23, which funds a \$55 million Capital portfolio program and maintains or improves existing service levels, includes a 1.75 per cent rates increase, consistent with the Victorian Government rates cap.
- 4.43 This has been achieved through a continued strong focus on prudent financial management, careful prioritisation and commitment to productivity and efficiency (\$2.9 million in savings identified in Budget 2022/23 include \$1.4 million one-off portfolio savings) builds to the \$2.3 million savings achieved in Budget 2021/22. Future rate increases are based on forward projections of inflation consistent with past decisions made by the Minister of Local Government for setting the rates cap.



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Proposed fees and charges

- 4.44 In most cases, our fees and charges for 2022/23 are proposed to increase by 2 to 2.75 per cent. This approach is consistent with our financial strategy, and community feedback, which supported increasing user charges for some services. There will be variances where minor rounding equates to larger or smaller percentages.
- 4.45 Footpath trading fees will be set to assist traders to recover from COVID-19 with part year waiver and including revitalisation rates for in area with high vacancy.
- 4.46 Statutory fees set by the Victorian Government will be set during the financial year.
- 4.47 In draft Budget 2022/23, Council will no longer recover the cost of direct waste services from General Rates. Waste Charges will be introduced and will be separated from General Rates within the rates cap of 1.75% (revenue neutral). The waste charges will be shown as separate items in the Rates Notices where applicable:

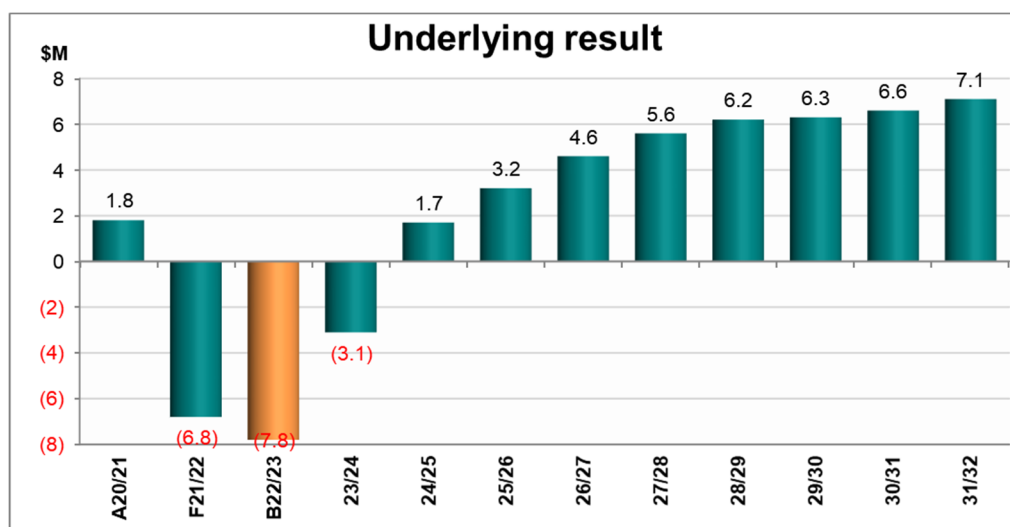
Waste Charge Type	2021/22 \$	2022/23 \$
Default Waste Charge for rateable properties – Annual Charge	NA	176.20
Kerbside FOGO Collection - Annual Charge	NA	88.10
Annual Garbage Charge for non-rateable tenements	362.00	402.00
240 Litre Bin - Annual Service Charge	201.00	221.00
80 Litre Waste Bin - Annual Rebate	(60.00)	(70.00)
Private Waste Collection - Annual Rebate	NA	(60.00)
Residential One Occupancy (residential car park space and Storage Area) - Annual Waste Rebate	NA	(176.20)
Commercial One Occupancy (car park space) - Annual Waste Rebate	NA	(158.50)

- 4.48 The complete schedule of proposed fees and charges is contained within the draft Council Plan 2021-31 Year 2 document.

Underlying result

- 4.49 The adjusted underlying result excludes capital related revenue is used to assess our ability to generate surplus in the ordinary course of business excluding non-recurrent capital grants and contributions to fund capital expenditure from net result.
- 4.50 An underlying deficit in forecast 2021/22 and draft Budget 2022/23 due to our reliance on external funding/contributions to fund our infrastructure asset works. For instance, Opens Space Contributions are collected, held in reserve to fund our Public Space Strategy.
- 4.51 New waste services and related waste costs escalating above the rates cap are key cost pressure impacting Council. The Waste Charge will be set to recover these costs which will contribute to the improvements to the underlying results.

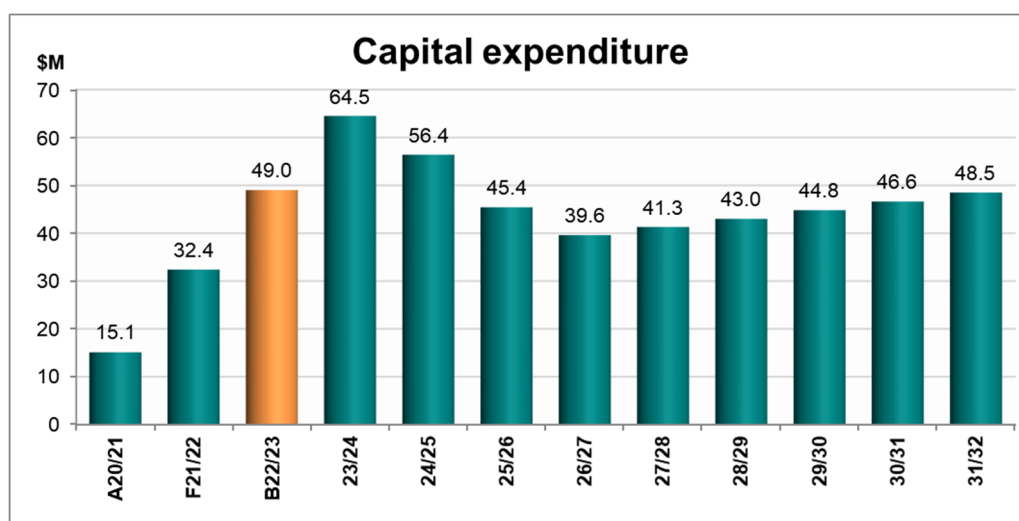
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Capital expenditure

4.52 The draft Budget 2022/23 proposes capital works expenditure of \$49 million, which is an increase in order to address the reduction in 2020/21 (\$15.1 million) and 2021/22 (\$32.4 million) caused by COVID-19.

4.53 Draft Capital works expenditure in 2022/23 is expected to be \$49.0 million, out of a total \$55.0 million capital program. The \$6.0 million gap represents the component of the capital program budget expected to be treated as operating expenditure, such as community engagement, feasibility studies and landscaping works.

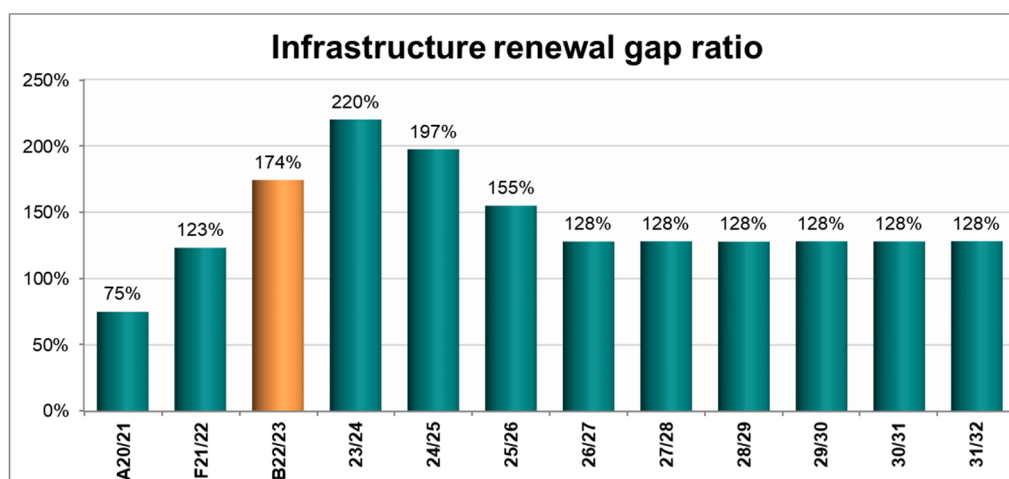


4.54 Over the period of the financial plan, Council provides for appropriate levels of capital expenditure to ensure existing assets are maintained and improved whilst also investing in growth driven assets. The target of at least 150 per cent of depreciation is expected to be achieved.



Infrastructure renewal gap

4.55 The infrastructure renewal gap ratio shows the asset renewal and upgrade budget over the 10-year Financial Plan compared to depreciation. It assesses if Council's spend on its asset base is keeping up with the rate of asset depletion.

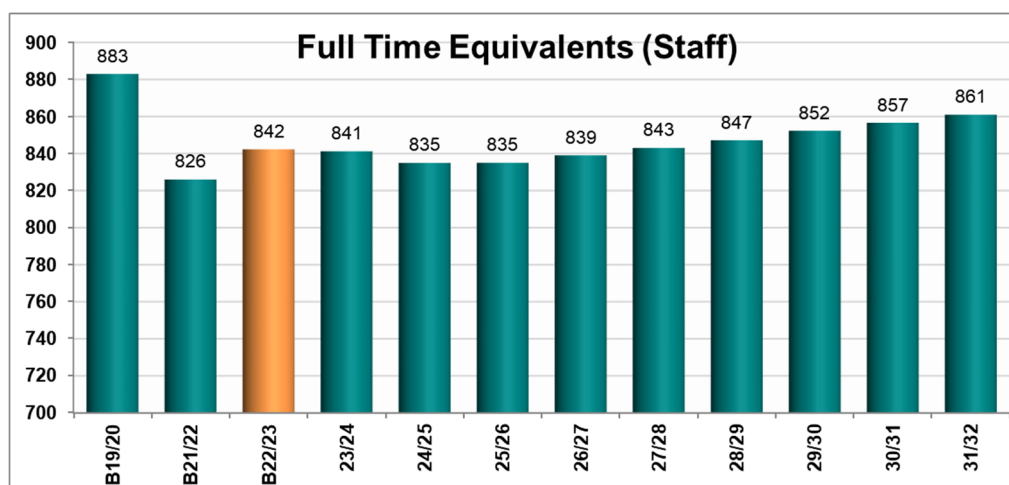


4.56 Draft Budget 2022/23 renewal and upgrade expenditure in the capital portfolio have increased in order to address the reduction in 2019/20 and 2021/22 caused by COVID.

4.57 Over the period of the financial plan, Council intends to stay above 100 per cent, which shows commitment to not only maintaining but upgrading existing assets.

Council staff

4.58 Council employees are our most essential resource, enabling the delivery of a broad range of services. For draft Budget 2022/23, we are proposing a net increase of 16.5 FTEs due to a larger capital portfolio (4.4 FTEs), increased staff due to accommodate utilisation increase in Childcare services (6.7 FTEs), and other increases for compliance such as electrical line clearance and municipal pool and spa administration, and new waste services (FOGO and Glass recycling).



4.59 Over the period of the financial plan, officers expect the growth in FTEs to increase marginally up to 1.3 per cent to service projected population growth. This is offset by

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investment in technology which is expected to achieve productivity and efficiencies which will see the shift of back-office roles re-directed to service delivery/ community facing roles.

Property Leases

4.60 In accordance with section 115 of the Act, Council intends to lease the following properties on the terms listed as follows:

Property Address	Permitted Use	Commencing Rent (Excl. GST)	Lease Term
85 Liardet St, Port Melbourne	Children Services	\$104.00	Up to 5 years
5 Carter Street, Albert Park	Children Services	\$104.00	Up to 5 years
18 Poets Grove, Elwood	Children Services	\$104.00	Up to 5 years
404-412 Clarendon St, South Melbourne	Children Services	\$104.00	Up to 5 years
18 Dundas Place, Albert Park	Children Services	\$104.00	Up to 5 years
2 Batman Avenue, Port Melbourne	Children Services	\$104.00	Up to 5 years
254-256 Richardson Street, Middle Park	Children Services	\$104.00	Up to 5 years
97 Eastern Road, South Melbourne	Children Services	\$104.00	Up to 5 years
Spring Street West 130, Port Melbourne	Bowling Club	\$104.00	Up to 5 years
83 Swallow Street Port Melbourne	Tennis Club	\$104.00	Up to 5 years

5. CONSULTATION AND STAKEHOLDERS

- 5.1 The Council Plan 2021-31 continues to reflect the aspirations of our community.
- 5.2 In line with the Act, we developed our council plan through deliberative engagement practices (as outlined in the community engagement policy). Our Community Engagement Policy defines deliberative engagement as a process that enables us to draw on collective wisdom and expert advice to work through issues and explore potential solutions together. A representative group of our community came together to identify and refine key themes and messages to support a Community Vision.
- 5.3 Year two of the Council Plan focused on a review of our rating and waste management strategies, to inform development of Budget 2022/23. In February 2022 we undertook deliberative and consultative engagement with our community.
- 5.4 The deliberative program occurred from 1 February to 1 March 2022. Following an expression of interest to participate in this program, we randomly selected panellists who broadly represented our City's demographic including people from different types of housing and households (both owners and tenants), business owners and members of different community, advocacy and sporting groups.
- 5.5 The Panel met over five sessions to consider and develop a response to Council's proposal for potential changes to the way we calculate our rates and the possibility of a

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separate flat waste charge to fund existing and new waste services. All sessions were held online due to government health advice at the time in response to the high number of COVID-19 cases.

- 5.6 To support them with their task, the Panel was provided with:
- an induction session to meet each other and Council officers, and learn about the Panel process
 - an information pack compiled by Council officers outlining the proposal and some key impacts for their deliberations
 - short videos from the facilitator to help them prepare for each session
 - facilitated Q and As with Subject Matter Experts at sessions
 - two dedicated Q and A webinars hosted by Council after sessions 3 and 4.
- 5.7 An online hub was established on Council's *Have Your Say* engagement portal for Panel members to ask questions and discuss aspects of the Proposal, as well as to review additional information from Council and their outputs from each session.
- 5.8 Alongside the deliberative engagement process, broader community feedback was sought on proposed changes to how Council manages waste, to inform the review of Council's *Don't Waste It! Waste Management Strategy*.
- 5.9 Consultation ran from 10 February to 5 March 2022 and included information about changes to the waste sector and related legislation, and Council's proposal for accelerated transition to a four-service waste collection model. Our community was asked to provide feedback on:
- criteria and locations for proposed communal hubs for food organics and garden organics (FOGO) and glass recycling
 - collection cycles for those who would receive kerbside collection service
 - level of support for a proposed flat waste charge to pay for increasing service costs
 - level of support for potential considerations for inclusion as part of a waste charge.
- 5.10 Feedback and outcomes from the engagement programs have been shared with Councillors to inform their own deliberations as part of the annual budget development and Council Plan review process, with further opportunity for community feedback on the draft Council Plan (Year two revision) and draft Budget 2022/23, draft *Rating Strategy 2022-2025* and draft *Don't Waste It! Waste Management Strategy 2022-2025*, as well as Council's draft *Enterprise Asset Management Plan* in April 2022 prior to adoption of these key strategic documents in June 2022.

6. LEGAL AND RISK IMPLICATIONS

- 6.1 The Local Government Act 2020 requires Council to undertake an annual review of the Council Plan and to develop an annual Budget, for adoption by 30 June. The Act also requires Council to engage with our community on these proposed changes and the draft budget in accordance with Council's Community Engagement Policy.
- 6.2 Preparation and release of the draft Council Plan 2021-31 (and Budget 2022/23) for public comment as recommended is consistent with these legislative requirements.



- 6.3 The financial and non-financial tables supporting the draft Budget 2022/23 and draft Financial Plan have been prepared in accordance with regulations laid down by the Local Government (Planning and Reporting) Regulations 2020.
- 6.4 Officers will be reviewing the project portfolio between the draft and final versions of the Council Plan for deliverability. Any proposed changes to the timing of projects within the draft Council Plan will be reported as part of the adopted version of the Plan.

7. FINANCIAL IMPACT

- 7.1 Direction 5 of the Plan "Well Governed" highlights the importance 'a *financial sustainable, high performing and community focused organisation*' to underpin delivery of the direction and outcomes defined in the Plan.
- 7.2 As outlined under Financial Strategy in this report, this Plan operates within the rates cap and maintains financials sustainability while investing in assets.
- 7.3 Any resource implications of proposed adjustments to the draft Council Plan have been represented in the Financial Plan (10-year) and draft Budget 2022/23.

8. ENVIRONMENTAL IMPACT

- 8.1 The strategic direction, Sustainable Port Phillip is a key outcome for our City with a sustainable future, where our community benefits from living in a bayside city that is cleaner, greener, cooler and more beautiful.
- 8.2 In our long-term challenge, Climate change and the environment, we aim to reduce our own emissions and prepare our City and community for a changing environment. This requires investment in our assets, changing how we deliver our services and working with our community and partners to mitigate and adapt to climate change.
- 8.3 This focus aims to underpin Council's resolution of calling a climate emergency.
- 8.4 There are several additional investments designed to improve environmental outcomes including:
- the draft Waste Management Strategy which includes new waste services such as FOGO and Glass recycling
 - Elwood Foreshore Stage 1 (which includes greater climate resilience of infrastructure)
 - enhanced drainage cleaning to mitigate impacts of flooding
 - fully funded Public Space Strategy
 - investment in high cost engineering solutions to improve electrical line clearance compliance while reducing the impact on tree canopy coverage
 - Greater focus on climate resilience and environmental sustainability in asset management as outlined in the draft *Enterprise Asset Management Plan*

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.

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- 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*' envisages 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. The importance of action in this area is emphasised by Council declaring an Economic Emergency in 2020.
- 9.4 There are several initiatives designed to improve gender equity including improved participation in sports and recreation by women and girls. Council is also conducting a gender impact assessment in relation childcare and kindergarten facilities planning and will also consider this as part of upcoming Enterprise Bargaining Agreement negotiations. Further analysis will be conducted for release of the final *Council Plan 2021-31* and final *Budget 2022/23*.

10. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 10.1 The proposed amended Council Plan 2021-31 for year two, when adopted, will replace the current version of the plan.

11. IMPLEMENTATION STRATEGY

11.1 TIMELINE

- 11.1.1 Assuming Council resolves to release the draft Council Plan 2021-31 for public consultation at this meeting, the following will occur:

27 April 2022	Draft Council Plan 2021-31 (Year Two) and Budget 2022/23 presented for Council to consider releasing for community consultation (Phase 2 engagement)
29 April to 27 May 2022	Consultation period on the Draft Council Plan 2021-31 (Year Two) and Budget 2022/23 and engagement findings presented to Council.
14 June 2022	Hearing of public submissions on the Draft Council Plan 2021-31 (Year Two) and Budget 2022/23
29 June 2022	The updated Council Plan 2021-31 (Year Two) and Budget 2022/23 presented for Council's consideration for adoption.

11.2 COMMUNICATION

- 11.2.1 Release of the draft Council Plan 2021-31 for community consultation will be promoted on Council's website via Council's communication channels, including Divercity, Have Your Say and social media. Documents will also be available at St Kilda and Port Melbourne town halls and our libraries.

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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. Draft Council Plan and Budget Volume 1**
- 2. Draft Council Plan and Budget Volume 2**
- 3. Draft Council Plan and Budget Volume 3**
- 4. Updates to Council Plan 2021_2031 Year 2**
- 5. Summary of proposed outdoor dining fees**