10-Year Financial Outlook

2023-2033

1. Contents

2. Overview and Context

2.1 Background

Financial sustainability is a key objective of the City of Port Phillip (Council), as a sound financial base to continue to deliver valued services to the community. The 10-Year Financial Outlook (Outlook) supports Council to achieve financial sustainability. The Outlook also provides the context within which the Council can formulate the Council Plan, Long Term Financial Plan, and Budget and enable the Council to plan for the financial impacts of growth.

The Outlook demonstrates the long-term financial implications of Council's revenue and expenditure projections and is prepared and revised annually to reflect the changing environment within which Council operates. This includes consideration of the information gathered internally as well as the significant external factors that impact on Council at any point in time. The financial resources outlined in the Outlook are used to deliver council services and strategic initiatives as outlined in the Council Plan 2022-2033.

2.2 Key Outcomes of the Outlook

Council recognises the rising community concern regarding the affordability of Council services, with rates and other essential services forming an increasing share of average household expenditure. The community's expectation for better value in Council service delivery has been reflected in Council's decision making. The Victorian Government has also responded to the affordability concerns of the community by capping rate increases from 2016/17, which set the maximum rates increase in line with forecast Consumer Price Index (CPI).

The updated Outlook includes a rates cap challenge of $109 million (base case) before efficiency savings, which is an increase of $20 million on current 10-Year Financial Plan. This is mainly due to the cumulative impact of rising inflation and increased capital portfolio investment including Lagoon Reserve, Childcare Centre Program, and provisional investment for the South Melbourne Market Next project subject to endorsement as part of Budget 2023/24. The funding of the additional capital portfolio investment will require a re-prioritisation of our 10-year capital program.

Council is continuing to put in place initiatives to ensure that its services are delivered in the most efficient and effective manner possible. These initiatives include a successful drive for efficiency savings, with Council identifying permanent operational savings of $1.5 million for the Budget 2022/23, $23.3 million of savings identified since 2014/15. Embedded in the

Outlook are efficiency saving targets between $1.9 million to $2.4 million, at 1% of recurrent operating expenditure (less depreciation) over the 2023-2033 period.

2.2.1 Outlook Scenarios:

Officers have prepared two Outlook scenarios which included key projects and strategies that Council are yet to endorse but have significant impacts on our financial position:

- Scenario one is the base case updated with updated assumptions, mandatory changes and council decisions.
- Scenario two adds onto scenario one with the impact of a zero per cent rates increase in year one (2023/24).

The accumulated rates capping challenge under the base case $109 million and Scenario two with additional $54 million is $163 million. Noting that the accumulated rates capping challenging is before the inclusions of efficiency saving which are embedded in the assumptions of the Outlook. The Outlook under the two scenarios is outlined in the table below:

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

Other aspects of the Outlook, such as expenditure and other revenue are currently based on Council's business as usual planning (refer to section 6 Financial Statement for more details).

Several other priorities will be considered for development during the budget process for 2023/24. They are not included in the financial outlook (or modelled as scenarios) as they require further development. These include Main Street Uplift Program, Elwood Foreshore Stage 2 & 3, Fishermans Bend Urban Renewal Area uplift, St Kilda Triangle works beyond feasibility studies, Library Facilities Management Plan and the timing of Strategic property Acquisitions.

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2.2.3 Addressing the rates capping challenge and Environmental Targets

Rates capping continues to be a major challenge to Council (and the whole sector) and has required fundamental changes to the way Council operates. Council's approach to meeting this challenge is outlined below.

Over the next 10 years, we will face many challenges that require strong financial leadership and creative solutions to overcome them. Our Financial Plan 2021-31 adopted in June 2021 included a cumulative $89 million funding gap due to rate capping. This gap has increased by $20 million to $109 million.

Our financial strategy is to 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 Outlook.

We plan to balance the budget and close the rates cap gap by adjusting the following strategic levers:

1. **Delivering efficiency and cost savings**
   The community's expectations for better value service delivery are of primary concern to Council. Council's recent history of productivity (doing more with the same resources) and efficiency (doing more or same with less resources) has achieved $23.3 million of budget savings since 2014/15. In addition, $1.5 million of savings in Budget 2022/23.

   Embedded in the Outlook are efficiency saving targets between $1.8 million to $2.1 million, 1% operating expenditure (less depreciation) over the 2023-2033 period. A $2.1 million target has been set for the Budget 2023/24.

   Key initiatives to deliver these savings include a service review program to better define service requirements and target support, a commitment to better practice procurement and asset management, the sale of surplus properties, and investment in business process and system improvement.

   We are investing in transforming our outdated technology to ensure our services remain relevant, convenient and responsive to our ratepayers as we move into the digital age whilst maintaining our face-to-face service delivery. We expect to see a more efficient organisation which addresses the issues associated with ageing legacy systems (limited integration, system inflexibility to cater for fast-changing business needs, data quality and duplication issues).

The efficiency and financial benefits will outweigh the initial investments, which have been embedded into the 10-year period.

2. **Setting fair and appropriate user charges**
   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.

   The Outlook links user fee increases to CPI plus 0.25% over 2023-2033 period. The application and impact of this policy setting will be viewed annually to ensure affordability and fairness.

3. **Careful management and prioritisation of expenditure**
   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 and quarterly financial reviews for Council endorsement.

   In addition to the disciplined budget setting and expenditure monitoring, the strategy in the Outlook provides a base average of $5.8 million per annum for operating projects.

   Our focus on improved asset management sees investment prioritised on assets most in need of intervention rather than those in relatively good condition. This translates to an increase in spending on buildings, drainage and technology over the Outlook period, partially offset by reducing road and footpath renewal budgets.

   We will consider service delivery options, including fundamental changes to the way services are targeted and delivered and consideration of service level reductions in areas of lower strategic priority.

4. **Appropriate use of borrowings and reserves**
   We will have a prudent and fiscally responsible approach towards the use of new debt for strategic property acquisitions, funding community capital works or operating projects that will provide inter-generational community benefit and work that deliver revenue streams to repay debt. Borrowing will not be used to fund ongoing operations.

   Borrowing will be reviewed annually as part of the budget process and as needed for large significant projects. We can borrow up to $90 million and remain achieve a low-risk indebtedness indicator.

   We use reserves where appropriate to invest in one-off new or improved assets where this is considered more efficient than the use of debt.

We maintain general reserves at levels sufficient to ensure operational liquidity. Reserves may be built up over time to part-fund large capital projects where this is considered more efficient than the use of debt.

General reserves are an internal source of borrowing for projects that will benefit future generations or projects that pay for themselves over the long-term, such as the Energy Efficient Street Lighting Upgrade on Major Roads.

Five per cent of Fishermans Bend derived rates are ring-fenced in the Municipal Growth Fund to be invested in Fishermans Bend.

We will continue to use open space contributions for investment in parks and foreshore open space assets.

Progressive build-up of the St Kilda Marina and Foreshore 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. This reserve will be used as internal borrowing in the short term to fund the works required at the St Kilda Marina precinct. This arrangement has been setup for the Palais Theatre Reserve.

This Outlook has seen the funding gap increased by $20 million to $109 million. Officers believe the increased challenge is unlikely to be addressed by the above strategic levers. Other options will need to be considered including:

5. **Service prioritisation and delivery**

   Difficult decisions on service prioritisation and delivery could be an option to maintain financial sustainability. A change of this nature will require a conversation with our community. This is considered annually as part of the budget process.

2.4 Climate Change and Renewing Community Assets

Council owns and controls a wide variety of assets ranging from land and buildings to roads, drains, footpaths and open space improvements. The total value of Council's fixed assets is $3.2 billion and is largely the product of investment by prior generations in the municipality. Consistent with the trend across the local government sector, Council is facing escalating costs to maintain and renew its ageing asset base.

Much of the City is only one to three metres above sea level and therefore vulnerable to the impacts of climate change. It is expected that flooding of coastal properties and public amenities, storm damage to infrastructure and beach erosion are examples of climate change impacts. In responding to climate change, upgrading and renewing our assets will need to be designed and built to suit. This means additional costs.

This Outlook considers the increasing renewals expenditure due to an expanding asset base, as well as cost escalation for delivering renewals and the impacts of climate change. A major focus of Council is to continue to improve its asset planning and management capability. The risk of insufficient asset renewal investment is that assets deteriorate much faster than necessary, costing Council more in the long run and potentially compromising service levels.

2.5 Impacts of State, Commonwealth and International Government Legislation and Policy

The transfer of responsibilities and costs from other levels of Government to councils has been well documented and continues to be a significant issue for the City of Port Phillip. Types of 'cost shifting' and additional taxes that currently impact Council are:

- The indirect impact of Government policies that formally or informally transfer service responsibility to Council, for example Council currently allocates resources to supporting social housing ($500,000) p.a., a public policy area that in many respects should be the responsibility of State and Commonwealth Governments
- The introduction of the congestion levy, which is being partly funded by a contribution of rates revenue to mitigate the significant negative impact on visitation and trade in the areas where the levy applies (in addition to an increase in parking fees).
- Additional capital expenditure budget will be required to ensure Council buildings are compliant in accordance with the Disability Discrimination Act and Building Code Compliance.

- Heightened awareness of acts of terrorism in public places require stricter Emergency Management resourcing. Greater proactive capital investments such as bollards and CCTV may be required to keep our community safe.
- The new Environment Protection Amendment Act 2018 includes the introduction of new compulsory duties to report contamination to the Victorian Environment Protection Authority and manage site contamination. Council officers are working to develop a Site Contamination risk Assessment Matrix and determine its financial impact.
- Legislation imposed on Council to perform Swimming Pool audits.
- Amendments to the Road Management Act 2004 shifts the responsibility of bridges to be maintained and renewed by Councils. The Outlook has an $7.8 million capital expenditure on Broadway Bridge renewal. Other bridges are to be renewed based on Asset Management Plan.
- Electrical Line Clearance Regulations 2020 requirements (tree pruning and other engineered solutions to stop occurrence of fire from electrical line). An additional $4.5 million of expenditure added in the Outlook.
- Recent Victorian Government announcement of exempting rates on social housing if passed by legislation could potentially result in loss of rates up to $66 million over 10 years.

2.6 Rapid Evolution of Technology

The world is becoming more connected. People, businesses and governments are increasingly moving online to connect, deliver and access services, obtain information and perform activities like shopping and working. Technology is also changing the way our residents work, particularly so with the recent COVID pandemic which has led to greater workplace flexibility into hybrid office and work from home approaches.

We can expect increasing demand for council services to be delivered online, and engagement through social media and other digital means. We will need to respond to this demand and think about how we operate and support people to connect with Council, particularly those who have limited online access and/or digital literacy. The digital shift will reshape how we deliver services and engage our community in decision making.

Technological advances also present opportunities for Council to consider new methods of service delivery, such as electronic parking management, that have the potential to offer efficiencies and improved community outcomes. New technologies will enable our workforce to be more mobile and deliver services that support community health and wellbeing where, when and how they want them.

Investment in the technology requires upfront investment with payback from ongoing efficiencies and savings. Rapid change not managed properly can lead many issues that impact on services to customers, staff morale and process inefficiencies. Over the life of the Outlook, we will continue to invest in technology to transform into the digital space and offer a greater and better customer experience.

2.7 Financial Outcomes

Council decision making continues to have reference to principles of sound financial management to ensure Council's finances remain prudent and sustainable. This Outlook outlines the Council principles by which financial resources are managed to support financial sustainability.

This Outlook assesses Council financial performance using key financial indicators. Refer to Section 7 for the performance over the 10-year outlook.

Cash surplus/deficit – This is a measure of the cash inflows from all sources of revenue and the cash outflows for all expenditure (capital and operating expenditure both included). The Outlook presents a balanced budget over the 10-year planning horizon. However, it is important to note that Council will have to make significant financial savings to meet the rate capping challenge.

Borrowings – No further investment has been incorporated in this Outlook for Fishermans Bend beyond the investments in existing asset portfolio due to the uncertainty associated with the future investment profile. It is most likely that investment for growth in the municipality will require the prudent use of Council borrowing. Council has the capacity to borrow up to $90 million and achieve a low-risk rating in accordance with VAGO's financial sustainability risk assessment. The Outlook assumes no borrowings.

Working Capital – This is a measure of current assets to current liabilities in determining the Council's ability to pay existing liabilities that falls within the next 12 months. The outlook is expected to remain above 100%, however when depend highly on the delivery of Council's capital works program.

Renewal Gap – This measures the spending on existing assets through renewal and upgrade compared to depreciation. A ratio of 100% or higher indicates spending on existing assets is faster than the rate of asset deterioration. The Outlook presents a significant investment portfolio over the 10-year planning horizon on existing assets. This recognises the underspend in past financial years, where they have been below 100% and the need for upgrades driven by safety (BCA) and accessibility (DDA) legislation.

3. Financial Sustainability

Despite being in a relatively strong financial position, rates capping introduced in the 2016/17 financial year presents a significant threat to Council's financial sustainability. This Outlook outlines the extent of that challenge.

As outlined above, to maintain financial sustainability in the face of this challenge, Council is fundamentally reviewing its approach to service delivery. In doing so, Council will continue to consider the principles of sound financial management prescribed in the *Local Government Act 1989* in the process of meeting the rates capping challenge, being to:

- prudently manage financial risks related to debt, assets and liabilities
- provide reasonable stability in the level of the rates burden
- consider the financial impacts of Council decisions on future generations
- provide full, accurate and timely disclosure of financial information.

To support financial sustainability, Council has its own financial principles which aim to ensure continued operating viability, sustainable funding of assets and the ability to absorb the impact of unexpected budget shocks. These are outlined in the table below.

Financial principles		Measures
1. CoPP will have fair, affordable and stable revenue and financing mechanisms	1	Funding is prioritised towards achieving Council strategies and priorities and in accordance with key policies
	2	The distribution of costs and revenues be fair and reasonable with a level of consistency in treatment
	3	The capacity of people to pay will be considered in determining the appropriate mix of funding mechanisms
	4	Where benefits from an investment are to be enjoyed across future generations, those future generations should contribute to the cost
	5	Those who directly benefit from, or cause expenditure will contribute towards its funding
	6	Funding mechanisms will be transparent, practical to implement and not involve unreasonable transaction costs

Financial principles		Measures
	7	Growth in universal services will be funded through growth in the rates and broader revenue base associated with growth
	8	Rate revenue will remain at a stable percentage of total underlying revenue (target between 60% and 65% of total underlying revenue) and other revenue will be strengthened over the medium term to reduce reliance on rate revenue.
2. CoPP will have an ongoing sustainable and balanced budget and ideally a small cash surplus.	9	Expenditure on operating activities will be in line with or lower than income from operating activities, producing a surplus. Any surplus achieved will be used to repay debt or carried over to subsequent years.
	10	Net cash outflow from operational activities, capital activities and financing activities will be in line with or lower than cash inflow from operational activities, producing a cash surplus. A positive cash surplus balance any budgeted year is targeted.
	11	Net cash flow from operations is to generate sufficient cash to fund capital works over the long term. Internal financing ratio to be greater than 100%.
3. The CoPP asset base will be maintained, enhanced and expanded.	12	The total pool of assets will increase in value each year – excluding the effect of any revaluation adjustments and sale of assets of lower strategic value.
	13	Capital Expenditure compared to depreciation is to be greater or equal to 150% over a medium to long term planning horizon.
	14	Assets will be managed in accordance with community need, optimum utilisation and long-term efficiency.
	15	Capital expenditure on existing assets (asset renewals and upgrades) will be higher than depreciation over a medium to long term planning horizon.
4. Capital will be managed in the most	16	General reserves will be maintained at levels sufficient to ensure operational liquidity. Working Capital Liquidity Ratio

Financial principles		Measures
efficient manner possible.		(current assets compared to current liabilities) is to be at least 100%.
	17	Council will consider new loans for strategic property acquisitions, funding community capital works projects that will provide inter-generational community benefit and work that deliver revenue streams to repay debt.
	18	Prudent use of debt shall be subject to and achieving the following metrics. • Indebtedness ratio (non-current liabilities compared to Own Source revenue) is to maintain below 40%. • Loans & Borrowings compared to rates is to maintain below 70% • Loans & Borrowing repayments compared to rates is to maintain below 20%.
	19	Reserves may be built up over time to enable Council to part fund periodic large capital expenditure items where this is considered more efficient than the use of debt.
5. CoPP will proactively develop and lead an efficient and effective organisational culture.	20	To deliver better value to our growing community, Council will support the development of policy and practice in the workplace to increase organisational innovation, effectiveness and efficiency.
	21	The organisation will target delivery of productivity and efficiency savings of greater than 1% of operating expenditure less depreciation per annum.

In addition to the principles of sound financial management outlined above, Council is guided by several key strategies that guide its financial decision making. The principles behind these strategies are outlined below.

3.1 Use of Rate Revenue

Council's main revenue source is assessment rates on properties in the municipality. The City of Port Phillip Rating Strategy 2022-25 was significantly updated last year with a new strategy adopted on the 29th of June 2022 coming into effect from the 1st of July 2022.

Council's new rating strategy is supported by the following principles:

- Local government 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.
    - Other measures such as concessions, deferral of rate payments and other discounts to fees and charges will be applied by Council to address equity and access issues.
- Differential rating has been adopted for three different types of properties (residential, commercial and industrial) with a higher rate set for commercial and industrial properties compared to residential properties.
- A waste charges will apply to all rateable assessments to recover the cost of waste services that are direct or provide private benefits (such as kerbside collections; communal food organics and garden organics and glass recycling; hard and green waste collection; and Resource Recovery Centre operations).
    - The setting of waste charges will be tiered recognising some 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 support equitable outcomes.
- Universal services are funded from the broadest forms of income, rates and parking revenue.
- 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.
- 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.
- Special rates are levied against retail tenants in various shopping precincts and this rate income is then distributed to centralised trader associations to spend on the improvement of the shopping strip for the benefit of all traders.

- Council provides for rate concessions for recreational land and pensioners. The City of Port Phillip is one of few councils that provide a pensioner rate rebate in addition to the State Government pensioner rate rebate.
- The Council is committed to providing targeted support for the financially disadvantaged in the community through the thoughtful use of:
  - Rates charged to the property
  - Deferred rates payments
  - Interest and rates waivers for extreme financial hardship circumstances
  - Pensioner rebates for rates (including a supplementary City of Port Phillip sponsored rate rebate)
  - A compassionate approach to debt management

3.2 Use of Borrowings

Council's borrowings strategy is supported by the following principles:

- Borrowings will not be used to fund ongoing operations.
- A prudent and fiscally responsible approach will be applied in considering any proposals for new debt to deliver Council objectives.
- Where debt is increased, the servicing costs ideally need to be funded from future revenue streams or cost savings that can be expected from the investment of the funds raised.
- Borrowings are also appropriate for the purpose of funding large non-recurrent capital works projects that can be expected to provide benefits to future generations.
- Debt will be managed as part of an efficient capital management policy and repaid when it is prudent to do so.

3.3 Infrastructure and Asset Management

Council's infrastructure and asset management strategy is supported by the following principles:

- Council is committed to spending what is required to renew and enhance its asset base to ensure its ongoing fitness for use. The capital budget considers expected asset deterioration, increased asset utilisation (capacity requirements) and technology development.
- Renewal of existing assets is generally funded from the depreciation expense that is provided each year. This needs to be applied to the different asset subsets (drainage, roads, buildings and land improvements) to ensure consistency across the entire network of assets that Council manages.
- Maintenance of capital expenditure at levels that will replenish existing assets is a higher priority than debt reduction and investment in new assets, as asset funding shortfalls will transfer the liability to future generations.

- Asset acquisitions and capital works projects are funded from rate revenue, reserves, sales of existing assets, government grants or external borrowings.
- Council's investment and asset management strategies, purchasing arrangements and other financial tools should encourage environmental responsibility.

Key infrastructure renewals planned within the 10-year Outlook include the Childcare Centre Improvement program. Council is providing more than $18 million and the Victorian Government is contributing up to $12.6 million. This great news for our community follows our recent decision to not sell three ageing community-run early years education and care centres (Eildon Road Childcare and Kindergarten, St Kilda, The Avenue Children's Centre and Kindergarten, Balaclava, and the Elwood Children's Centre), subject to this funding agreement being reached.

The provisional investment in the South Melbourne Market 'Next' Project will address how we can best secure the long-term success of South Melbourne Market for Council, continue to attract the best traders, enhance the local community asset, and create a financially sustainable, 'must visit' unique experience for regional, interstate and international visitors. Options currently being considered aim to not only provide a positive impact but are required to enhance public safety and accessibility and maintain and improve asset conditions.

There are many other priorities that will be considered for development during the budget process for 2023/24. They are not included in the financial outlook (or modelled as scenarios) as they require further development. These include the Main Street Uplift Program, Elwood Foreshore Stage 2 & 3, Fishermans Bend Urban Renewal Area uplift, St Kilda Triangle works beyond feasibility studies, Library Facilities Management Plan and the timing of Strategic property Acquisitions.

3.4 Measuring Financial Sustainability – VAGO Financial Sustainability Indicators

We use the Victorian Audit General Office (VAGO) financial indicators to measure our financial sustainability risk. Our strategy is to ensure we achieve an overall low risk rating. The Outlook shows we expect to be financially sustainable with an overall low risk rating. Refer to Section 8 for the performance over the 10-year outlook.

4. Financial Resource Planning Assumptions and Risks

4.1 Financial Assumptions

The Outlook is updated annually following a review of internal financial results and changes in the external environment. Following this, scenario analysis is performed to test key assumptions and to prepare a ten-year forecast that best represents Council's expected financial performance given those assumptions.

The financial information used for 2023/24 (the base year) is based on Council's September 2022 forecast. The revenue and expenditure associated with growth has been separated from all other Council activities for the purposes of this Outlook. The assumptions associated with growth are included in the 'Planning for growth' section below.

A detailed explanation of planning assumptions is provided below.

Assumption	Rationale				
Consumer Price Index (CPI)	**2023/24**	**2024/25**	**2025/26**	**2031/32**	**2032/33**
	4.50%	2.60%	2.50%	2.50%	2.40%
	Based on the September 2022 forecast from the Deloitte Access Economic Business Outlook for the Victorian Consumer Price Index.				
Growth in the rate base	1.3% per annum based on latest population growth data from Profile ID and Fisherman's Bend Taskforce discounted by 50% until 2025/26 to respond to the economic impact of COVD-19				
Parking revenue	Parking fees is linked to rates growth plus 0.25% (3.75%) per annum and fines by 2.0% per annum due to uncertainty.				
User fees and charges	**2023/24**	**2024/25**	**2025/26**	**2031/32**	**2032/33**
	Increased by rates growth plus 0.25%.				
Open space contributions	Based on long term average of $6.0 million per annum. Development Contributions Plan for Fisherman's Bend assumed to commence in 2024/25 which means Council will not receive Open Space Contributions.				
Government grants	Recurrent Operating Grants are expected to continue indexed with CPI.				

<table>
<tr><th>Assumption</th><th colspan="5">Rationale</th></tr>
<tr><td></td><td colspan="5">Some specific capital grants are in the next four years and outyears are provisional based on historical trends.</td></tr>
<tr><td rowspan="3">Interest received</td><td>2023/24</td><td>2024/25</td><td>2025/26</td><td>2031/32</td><td>2032/33</td></tr>
<tr><td>3.43%</td><td>3.17%</td><td>3.14%</td><td>2.99%</td><td>3.03%</td></tr>
<tr><td colspan="5">Based on the Deloitte Access Economic Business Outlook forecast for the 90-day bank bill rate plus 50 basis points.</td></tr>
<tr><td>Employee costs</td><td colspan="5">The Enterprise Agreement is in negotiation for the period 2022/23 to 2024/25. The Outlook assumes future annual increases linking to the annual rates cap.</td></tr>
<tr><td>Contract services, utilities, professional services, materials and other expenditure</td><td colspan="5">• Increased by CPI or contractual arrangements.
• Our current landfill tipping contract expires in 2023 and is subject to a competitive tendering process
• Provision for greater than CPI growth in waste landfill levy.</td></tr>
<tr><td>Service growth</td><td colspan="5">The cost-of-service growth is equivalent to the increase in rates revenue attributable to increase in the rates base (that is, it is assumed that the benefit of new assessments is wholly offset by the cost to service them).</td></tr>
<tr><td>Depreciation</td><td colspan="5">Depreciation has been increased as a product of new assets being created consistent with the planned capital program.</td></tr>
<tr><td>Operating projects</td><td colspan="5">Total operating projects to be capped to $5.8 million from 2025/26 and adjusted for annual CPI.</td></tr>
<tr><td>Capital projects</td><td colspan="5">Capital projects consistent with the detail planned over the Strategic Resource Plan. Annual capital project budgets will target renewal gap ratio greater than 100% and capital replacement ratio greater than 150%.</td></tr>
<tr><td>Borrowings</td><td colspan="5">Council review borrowing as part of developing the Council Plan and Budget. The prudent use of borrowing is to be consistent with Council principles for the purposes of smoothing out major financial shocks, inter-generational significant capital projects and for growth related capital projects.</td></tr>
<tr><td>Reserves</td><td colspan="5">The use of reserves remains consistent with past practice. This includes the following assumptions:</td></tr>
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Assumption	Rationale
	• open space receipts and out-goings are equivalent (each year) • sustainable transport reserve receipts and out-goings are equivalent (each year) • proceeds from sale of non-strategic properties are quarantined in reserves for future strategic property acquisitions. • Where appropriate, unspent capital budgets during the financial year will be quarantined to the asset renewal reserve to fund future capital investments • Five percent of Fishermans Bend rates to be set aside in the Municipal Growth Reserve for new/growth infrastructure (to be reviewed subject to the Fishermans Bend funding and financing plan.

4.2 Financial Risks

Council's most significant financial risk is the impact of rates capping. The approach to managing this risk is outlined above. In addition to rates capping, several other financial risks exist, including:

Key Financial Risk	Probability	Consequence	Risk Rating	Mitigation	Residual Risk
Fishermans Bend funding gap	Almost Certain	Extreme	Catastrophic	Officers actively involved in the funding plan. Council will only be the development authority at an individual project basis where the project funding risk to Council is considered immaterial.	Medium
Impacts of Coronavirus (immediate, medium and long term)	Almost Certain	Major	Catastrophic	Officers are actively involved in managing our financial performance. The development of current and future budgets has been modelled and assumptions peer reviewed.	Medium
Waste sector disruptions and changes to EPA landfill levies	Possible	Major	High	Council introduced a separate waste charge as part of the 2022 rating strategy review informed by the Don't Waste it! Waste Management Strategy. That said, council will continue to monitor our waste cost to ensure the waste charge remains affordability.	Low
Site contamination on Council land (owned and managed)	Almost Certain	Major	High	Council endorsed Site Contamination Management Policy. Proactive assessment of land over which Council has management or control will inform planning of works and assist in the prevention of major financial impacts.	Medium
Rates cap lower than CPI	Possible	Major	High	A 0.1% lower than the CPI = $130,000 p.a. A 1% reduction in the first year (2021/22) will reduce rates income by $15m over the life of the 10-Year Financial Plan.	Medium

Key Financial Risk	Probability	Consequence	Risk Rating	Mitigation	Residual Risk
				Our financial strategy will be reviewed, and financial levers adjusted to ensure financially sustainable.	
Lower property development growth than projected	Possible	Major	High	Our financial strategy will be reviewed, and financial levers adjusted to ensure we are financially sustainable.	Medium
Construction Costs due to high levels of construction works	Likely	Moderate	Medium	The Federal and Victorian Governments are heavily investing in local infrastructure in the short to medium terms likely to impact on construction costs. Officers are factoring the additional costs in developing budgets.	Medium
Future unfunded defined benefits superannuation call occurring	Unlikely	Moderate	Medium	Superannuation Board monitors the Vested Benefits index on a quarterly basis to avoid material shortfall calls. Some cash reserves can be drawn down in the short-term and replenished over the long-term.	Medium
Workcover Scheme wind up and residual liabilities	Likely	Moderate	Medium	Officers are in contact with MAV on the status of the Workcover Scheme. Council has some reserve that can be used to cover short-term calls.	Low
Building Act changes and Municipal Building Surveyor transfer of responsibility	Possible	Moderate	Medium	Officers alongside with M9 are advocating against this.	Low
Enterprise Agreement Negotiations	Possible	Major	Medium	Current Enterprise Agreement not yet finalised. Working collaboratively to find outcome. Risk that future Enterprise Agreements are above rate cap.	Medium
Resource Centre Upgrade or Relocation	Likely	Major	High	Officers are developing ideas and options which will be considered as part of the draft budget process.	High

5. Planning for Growth

The municipality has forecast population growth over the outlook period of 1.3% per annum or approximately 20,000 residents. Council is continuing to invest in planning for growth across the municipality, to ensure that service outcomes meet the expectations of current and future generations. Fishermans Bend is expected to provide over 65% of the outlook period forecast growth in the municipality or 14,000 residents. By 2055, Fishermans Bend will have delivered over 60,000 more residents than currently reside in the precinct within our municipality.

The Victorian Government is currently in the process of preparing for developer contributions to fund part of the infrastructure needs for Fishermans Bend. In addition to developer contributions, State Government and Council will be required to contribute to deliver the residual infrastructure needs of the precinct. Council's contribution to residual infrastructure will be constrained by the rates revenue expected to be generated in Fishermans Bend. Large infrastructure such as trams, trains, schools and regional or precinct scale projects should be fully funded by State Government with potential contributions from the Federal Government, cognisant that other levels of government are expected to generate taxation receipts (PAYG, GST, land tax, stamp duties) at least 11 times (conservative estimates) the amount of Council rates.

The full impact of residual funding and financing required from Council in Fishermans Bend has not been included due to the significant uncertainty around the responsibility, quantum and timing of capital investments and any future operational and servicing expenditure if and when infrastructure is delivered to Council to manage.

The establishment of a sustainable model for the governance and funding of Fishermans Bend is a therefore a priority. There is particular concern that Council must have a role in decision making for Fishermans Bend to influence outcomes and to ensure that projects are financially sustainable and do not become a financial burden on our current ratepayers and into the future. These aspects are likely to be addressed throughout 2023-2024.

In this Outlook, Council has allocated five percent of Fishermans Bend rates to the Municipal Growth reserve to fund growth related Fishermans Bend infrastructure requirements. This is subject to review as part of Council's assessment of the Fishermans Bend funding & financing planning being undertaken by the Fishermans Bend Taskforce. Council will continue to update its financial planning for Fishermans Bend as new information becomes available.

The proposed development in the Fishermans Bend will create unprecedented financial challenges for Council as it copes with making significant investment ahead of future revenue streams. While work is underway to finalise the Fishermans Bend funding and financing plan, uncertainty remains regarding the timing and extent of Fishermans Bend infrastructure funding that Council will provide.

Council is actively involved in the delivery of projects within Fishermans Bend. Recently completed projects in the area:

- Community facilities and netball courts in a joint development with the construction of the South Melbourne Primary School.
- Streetscape works needed to make the school safe and accessible.
- Strategic open space acquisition and the associated remediation and improvement works for Kirrip Park.
- Construction of a new playground, half basketball court and driveway access at JL Murphy Reserve.

6. Non-Financial Resources

6.1 Organisational Strategy

To strengthen the delivery of the Council Plan, we have developed a Delivering on Our Commitments organisational strategy. All activities are viewed through the community's eyes, ensuring delivery of the best possible services, projects and outcomes for our community.

6.2 Council Staff

The Council's employees are a key resource. Council has a diverse workforce of committed individuals with an extensive range of skills and experience. Council aspires to be an employer of choice and to operate collectively as one organisation focused on the achievement of the Council Plan initiatives. To enable this, Council is committed to professional development, mentoring, open communication and maintaining a safe and respectful working environment.

In response the financial challenges that Council is facing, a significant investment has been made in building the capability of Council staff. This includes improving the ability of Council staff to:

- manage and prioritise projects with the support of new processes and systems.
- focus on identify and realise efficiency savings
- achieve better service and financial outcomes through continuous process improvement initiatives
- perform detailed service reviews with an objective of improving the overall value of Council's services
- make more informed asset management decisions
- leverage technology to improve customer service
- undertake long-term planning and performance measurement.

7. Financial Statement

The Financial Statement includes a projection of Council revenue and expenditure, cash surplus/deficit and borrowings.

	Forecast	Budget	Projections								
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Income											
Rates and charges	139,668	145,404	150,146	154,981	160,159	166,090	172,158	178,274	184,673	191,479	198,584
Statutory fees and fines:											
• Parking fines	17,484	18,184	18,898	19,276	19,662	20,055	20,456	20,865	21,282	21,708	22,142
• Other statutory fees and fines	4,133	4,146	4,159	4,242	4,327	4,414	4,502	4,592	4,684	4,778	4,874
User fees:											
• Parking fees	17,549	18,413	18,986	19,261	19,743	20,237	20,723	21,200	21,688	22,209	22,742
• Other user fees	21,061	22,038	22,663	23,284	23,922	24,577	25,226	25,866	26,523	27,223	27,941
Grants - operating	8,991	11,706	11,498	11,785	12,079	12,381	12,678	12,969	13,267	13,586	13,912
Grants - capital	4,885	2,300	5,930	3,800	6,160	5,920	4,080	3,200	2,700	2,760	2,830
Contributions - monetary	6,208	7,680	7,740	7,740	5,740	5,740	5,740	5,740	5,740	5,740	5,740
Other income	24,563	27,491	27,547	27,331	27,801	28,579	29,180	30,096	30,531	31,370	32,311
Total Income	**244,543**	**257,362**	**267,567**	**271,700**	**279,593**	**287,993**	**294,743**	**302,803**	**311,088**	**320,853**	**331,076**
Expenses											
Employee costs	99,317	102,657	106,152	109,749	113,274	116,922	120,672	124,256	128,050	132,100	136,290
Materials and services	96,468	100,173	93,338	95,851	96,602	98,365	100,679	104,164	105,618	108,288	110,647
Bad and doubtful debts	4,691	4,702	4,534	4,397	4,506	4,619	4,729	4,837	4,948	5,067	5,189
Depreciation	22,501	23,866	24,915	26,022	27,086	28,195	29,348	30,550	31,797	33,097	34,484
Amortisation - right of use assets	857	909	947	985	1,025	1,066	1,108	1,150	1,194	1,241	1,290
Borrowing costs	-	-	-	-	-	-	-	-	-	-	-
Finance Costs - leases	28	64	69	75	80	85	89	95	102	102	102
Other expenses	19,223	17,792	17,357	17,785	18,226	18,682	19,139	19,589	20,037	20,508	20,997
Net (gain)/loss on disposal of property, infrastructure, plant and equipment	4,983	4,867	3,963	4,114	5,633	5,793	5,951	6,107	6,267	6,437	6,612
Total Expenses	**248,068**	**255,029**	**251,275**	**258,978**	**266,432**	**273,726**	**281,714**	**290,747**	**298,014**	**306,840**	**315,611**
Operating Surplus/(Deficit) for the year	**(3,525)**	**2,333**	**16,292**	**12,723**	**13,161**	**14,266**	**13,029**	**12,056**	**13,074**	**14,013**	**15,465**

Income Statement Converted to Cash

	Forecast	Budget	Projections								
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Operating Surplus/ (Deficit) for the year	**(3,525)**	**2,333**	**16,292**	**12,723**	**13,161**	**14,266**	**13,029**	**12,056**	**13,074**	**14,013**	**15,465**
Adjustments for non-cash operating items:											
• Add back depreciation & amortisation	23,358	24,775	25,862	27,007	28,111	29,261	30,456	31,700	32,991	34,338	35,774
• Add back written-down value of asset disposals	6,500	6,567	9,713	9,864	6,083	6,243	6,401	6,557	6,717	6,887	7,062
• Add back balance sheet work in progress reallocated to operating	1,200	1,200	1,231	1,262	1,294	1,326	1,358	1,389	1,421	1,455	1,490
Adjustments for investing items:											
• Less capital expenditure	(45,305)	(73,224)	(62,333)	(47,282)	(48,207)	(49,624)	(46,359)	(45,954)	(47,796)	(49,643)	(51,722)
Adjustments for financing items:											
• Less Loan Repayments	-	-	-	-	-	-	-	-	-	-	-
• Less Lease Repayments	(738)	(829)	(920)	(997)	(1,073)	(1,149)	(1,225)	(1,304)	(1,385)	(1,385)	(1,385)
• Add New Borrowings	-	-	-	-	-	-	-	-	-	-	-
Adjustments for reserve movements:											
• Statutory Reserve Drawdown/ (Replenish)	(450)	9,524	(430)	(1,991)	(2,532)	(998)	524	(906)	4,201	531	531
• Discretionary Reserve Drawdown/ (Replenish)	16,400	27,481	10,603	(564)	3,131	687	(4,172)	(3,558)	(9,203)	(6,215)	(7,211)
Cash Surplus/(Deficit) for the Year	**(2,561)**	**(2,172)**	**17**	**21**	**(31)**	**12**	**10**	**(21)**	**20**	**(18)**	**5**
Opening Balance - Cash Surplus	5,236	2,675	503	521	542	511	523	533	512	532	514
Closing Cash Surplus Balance	**2,675**	**503**	**521**	**542**	**511**	**523**	**533**	**512**	**532**	**514**	**519**

8. Key Financial Indicators

8.1 VAGO Financial Sustainability Risk Indicators

The Victorian Audit General Office (VAGO) audits Council's finances and assesses against several financial indicators to arrive at an overall assessment of financial sustainability. CoPP is to achieve a low risk overall assessment score from VAGO.

Indicator	Indicator Targets	Forecast 2022/23	Projections 2023/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33
Net Result %	Greater than 0%	(1.4%)	0.9%	6.1%	4.7%	4.7%	5.0%	4.4%	4.0%	4.2%	4.4%	4.7%
Adjusted underlying result	Greater than 5%	(6.3%)	(3.1%)	1.0%	0.5%	0.5%	0.9%	1.1%	1.1%	1.5%	1.8%	2.1%
Working Capital	Working Capital Ratio >100%	322%	232%	205%	207%	202%	200%	204%	209%	214%	221%	228%
Internal Financing	Net cashflow from operations to net capital expenditure >100%	86%	49%	86%	112%	104%	106%	114%	116%	117%	118%	119%
Indebtedness	Indebtedness ratio <40%	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%
Capital Replacement	Capital to depreciation >150%	201%	307%	250%	182%	178%	176%	158%	150%	150%	150%	150%
Infrastructure Renewal Gap	Renewal & upgrade to depreciation >100%	163%	213%	218%	155%	144%	143%	128%	122%	122%	121%	121%
Overall Financial Sustainable Risk Rating		Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low

8.2 Local Government Performance Reporting Framework Indicators

The Local Government Performance Reporting Framework requires Council to report our performance in the '*know your council*' website accessible to the community using a set of indicators.

Indicator	Target Range	Forecast 2022/23	Projections 2023/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33
Average rate per property assessment	$700 to $2,000	1,664	1,726	1,764	1,802	1,839	1,877	1,915	1,952	1,989	2,029	2,070
Expenditure per property assessment	$2,000 to $4,000	3,239	3,291	3,212	3,267	3,300	3,347	3,401	3,465	3,506	3,564	3,619
Current assets compared to current liabilities	120% to 200%	322%	232%	205%	207%	202%	200%	204%	209%	214%	221%	228%
Unrestricted cash compared to current liabilities	50% to 100%	104.0%	70.2%	50.0%	51.7%	46.2%	45.6%	53.8%	60.5%	76.6%	86.8%	98.1%
Asset renewal compared to depreciation	40% to 110%	81.0%	106.8%	130.6%	88.4%	74.8%	73.9%	66.3%	63.2%	63.1%	63.0%	63.0%
Loans and Borrowings compared to rates	0% to 70%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and Borrowings repayments compared to rates	0% to 20%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-current liabilities compared to own source revenue	10% to 40%	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%
Adjusted underlying surplus (or deficit)	-20% to 20%	(6.3%)	(3.1%)	1.0%	0.5%	0.5%	0.9%	1.1%	1.1%	1.5%	1.8%	2.1%
Rates compared to adjusted underlying revenue	50% to 80%	59.8%	58.8%	59.1%	59.6%	59.8%	60.1%	60.4%	60.7%	61.0%	61.3%	61.6%
Rates compared to property values	0.15% to 0.75%	0.19%	0.19%	0.19%	0.19%	0.19%	0.19%	0.19%	0.19%	0.19%	0.19%	0.20%

9. Glossary

Adjusted Underlying Surplus
Adjusted Underlying Surplus is the surplus result after adjusted underlying revenue (removing capital grants & contributions) less total expenditure.

Average Rate
Is the nominal ratepayer because of total rate revenue over total number of assessable properties.

Balanced Budget
Cash inflow at the minimum equals cash outflow (including capital expenditure).

Capital Improved Value
Capital Improved Value is the current valuation methodology for Council's rating purposes (from 1 July 2022). Capital Improved Value or 'CIV' is the market value of the land, plus buildings and other improvements. The CIV is the approximate amount you could expect to sell your property for on the open market. We use this value to calculate your rates.

Cash Surplus
Is the net cash flow of the organisation for the financial year after accounting for net operational cash flows, net cash flows from investing activities, net cash flows from financing activities and net cash flows from reserves.

Cumulative Cash Surplus Balance
The carried forward balance of cash surplus Council holds.

Depreciation
The systematic allocation of the value of an asset over its expected useful life. CoPP uses the straight-line depreciation method.

Developer Contribution
Cash payments or assets made by developers towards the supply of infrastructure to support land developments in accordance with the requirements of the Development Contribution Plan.

Development Contribution Plan

A mechanism used to levy new developments for contributions to planned infrastructure needed by the future community.

Indebtedness ratio

The ratio comparison of non-current liabilities to own-sourced revenue. The higher the percentage, the less able to cover non-liabilities from the revenues the entity generates itself.

Infrastructure Contribution Plan

A mechanism used to levy new developments for contributions to planned infrastructure needed by the future community.

Infrastructure Renewal Gap Ratio

Comparison of spending on existing assets through renewal and upgrade with depreciation. A ratio100% or higher indicates spending on existing assets is faster than the rate of asset deterioration.

Internal financing ratio

Is Council's ability to generate cash from operations to finance capital expenditure. The higher the percentage, the greater the ability for Council to finance capital works from own funds.

Net Annual Value

Net Annual Value was the previous (prior to 1 July 2022) valuation methodology for Council's rating purposes. The NAV treats commercial and industrial properties differently to residential.

- Commercial or industrial properties: it is the current value of a property's net annual rent (gross annual rental less all outgoings including land tax, building insurance and maintenance costs, except Council rates).
- Residential Dwellings: 5 per cent of the Capital Improved Value (land, building and other improvements) and is not a reflection of rental achievable for the property.

Own-Sourced Revenue

Is total income/revenue excluding all grants and contributions.

Rates Income/ Revenue

Is revenue from general rates, municipal charges service rates and services charges.

Rate Cap
The maximum annual rate of increase that councils can apply to their rate revenue as gazetted by the Minister of Local Government.

Renewal expenditure
Capital expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability.

Special Rates
A rate or charge declared by Council for a specific purpose and is cost neutral to Council.

Underlying Revenue
Is total income/revenue excluding:

- Non-recurrent capital grants used to fund capital expenditure
- Non-monetary asset contributions
- Contributions to fund capital expenditure from sources other than those referred to above.

Upgrade expenditure
Capital expenditure on an existing asset to provide higher level of service or increase the life of the asset beyond its original life.

Victorian Audit General Office (VAGO)
An independent office of the Victorian Parliament that examines the management of resources within the public sector by conducting and reporting on financial and performance audits.

Working Capital Ratio
Is the ratio comparison of current assets to current liabilities to measure the ability of the organisation to pay existing liabilities in the next 12 months. A ratio greater than one means there are more cash and liquid assets than short-term liabilities.