10-Year Financial Outlook

2022-2032

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1. Overview and Context

1.1 Background

Financial sustainability is a key objective of the City of Port Phillip (Council), as a sound financial base is required for Council to continue to deliver valued services to the community.

The 10-Year Financial Outlook (Outlook) supports Council to achieve financial sustainability, particularly in the face of the significant challenge posed by the introduction of rates capping and new waste services to increase diversion from landfill. The Outlook also provides the context within which the Council can formulate the Council Plan, Strategic Resource 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. The Outlook 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 2021-2031.

1.2 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. 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 $2.3 million for the Budget 2021/22, in addition to the $12.6 million of savings identified in the laste Council term.

Embedded in the Outlook are efficiency saving targets between $1.8 million to $2.3 million, 1% of operating expenditure (less depreciation) over the 2022-2032 period.

The Victorian Government has also responded to the affordability concerns of the community by capping rate increases from 2016/17, which links to the Consumer Price Index (CPI).

More recently, the Victorian Government announced requirements for Councils to introduce new waste recycling services to increase diversion from landfill. This is consistent with Council's environmental targets set in our Council Plan. However the cost of introducing new waste services and increases to the Environment Protection Authority landfill levy will put pressures on our financial sustainability.

Officers have prepared three 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 revised asumptions, mandatory changes and council decisions.
- Scenario two adds onto scenario one with $91 million of capital project uplifts inclusive of Elwood Foreshore Stage two and three, South Melbourne Market Next and additional Fishermans Bend projects.
- Scenario three takes into account the Rating Strategy Review including funding of the updated Don't Waste It! Waste Management Strategy. Officers are proposing amongst rating strategy changes, a separation from general rates the cost of waste services that are considered private benefits and or direct services into a Waste Charge. This is approximately $12 million based on Budget 2021/22. Future waste charge will be raised on cost recovery. This scenario builds onto the previous two scenarios.

The accumulated rates capping challenge under the base case $103.1 million, Scenario two with additional $91 million of gross capital expenditure is $134.8 million, and scenario three with the waste charge is expected to be $103.9 million.

The Outlook under the three scenarios are outlined in the table below:

Rates capping challenge	2022/23	2023/24	2024/25	2025/26	2031/32
Base Care - Rates cap links to CPI (Deloitte Access Economics)					
Rate increase	1.70%	2.20%	2.30%	2.30%	2.30%
Accumulated rates capping challenge	($5.6m)	($13.7m)	($21.1m)	($28.6m)	($103.1m)
Scenario two – project uplife including Elwood Stage two and three, South Melbourne Market Next, and Fishermans Bend Infrastructure uplift provisions					
Accumulated rates capping challenge	($6.4m)	($17.0m)	($24.1m)	($34.6m)	($134.8m)
Scenario three – Separate Waste Charge (proposed changes from rating strategy review)					
Accumulated rates capping challenge	($5.3m)	($13.4m)	($18.1m)	($25.9m)	($103.9m)

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).

The full impact of funding and financing Fisherman's Bend Urban Renewal Area (FBURA) has not been included due to the uncertainty around the quantum and timing of capital investments and consequential operational and infrastructure servicing expenditure (whole of life costing). Officers are working collaboratively with the FBURA taskforce towards a robust Funding and Financing Strategy to achieve the Vision of FBURA and operate within financially sustainable targets.

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. Key among these challenges will be rates capping and funding new waste services. Our Financial Plan 2021-31 adopted in June 2021 included a cumulative $92 million funding gap due to rate capping. This gap has increased to by $11 million to $103 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 $12.6 million of budget savings in the last council term. In addition, $2.3 million of savings in Budget 2021/22.

   Embedded in the Outlook are efficiency saving targets between $1.8 million to $2.3 million, 1% operating expenditure (less depreciation) over the 2022-2032 period. A $1.8 million target has been set for the Budget 2022/23.

   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 ratepyers 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 2020-2030 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 $5.2 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.

Council recently retired its $7.5 million loan due in 2021/22 and have zero debt.

Borrowing will be reviewed annually as part of the budget process and as needed for large signficant projects. We can borrow up to $80 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-ter, 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 ot maintain the foreshore precinct over the long term. This arrangement has been setup for the Palais Theatre Reserve.

This Outlook has seen the funding gap increased by $11 million to $103 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. **Consideration of a Waste Charge**

The waste and recycling sector has been facing significant disruptions in recent years.

Over the last two financial years, the cost to Council has increased by over $5.3 million (25%), which are ongoing. Council has been absorbing these increases within the rates cap but this is not sustainable over the long term.

Council is currently reviewing our Don't Waste It! Waste Management Strategy. Officers are proposing to accelarate the Waste Transition Plan including new food, garden and glass recycling services. The estimated cost of providing these new services are approxiately $2.3 million ongoing.

The EPA landfill levy is expected to increase by another $20 per tonne to $125.9 per tonne in 2022/23, which is estimated to add to Council's cost base by $0.7 million per annum.

The future of the waste and recycling sector remains uncertain. We expect future waste service costs to continue raising above CPI (rates cap) due to:

- Council's contracted kerbside collection (recycling, waste bin, and hard waste) due for renewal in 2022/23 is expected to see increases above 15% based on available market data.
- There is a shortage of landfill tipping space. The need to divert waste from landfill will most likely require Advanced Waste Treatment technology either as direct investment or through a contracted service. The cost of these services are most likely to be greater than landfill tipping.

The total additional costs from new waste services and waste costs above CPI is estimated to contribute $85 million of the $103 million rates cap challenge.

In recent years, Council has been using efficiency savings gained ($2.3 million in 2022/23) to absorb waste service costs which has been escalating above the rates cap and inflation. This is not sustainable as our rates cap challenge continues to increase.

Due to rate capping, Council is not able to increase rates above the rates cap without seeking approval by the Minister, which has a low probability of success given historical decisions.

Most other Councils who have their waste services separated from general rates are able to recover these increasing costs in their waste charges which is not subject to rates cap.

Council is currently reviewing our Rating Strategy. Officers are proposing community engagement on a Fixed Waste Charge for the Private Benefits/Direct Services of Waste leading to approximately $12 million being separated from General Rates, noting this amount will increase for new waste services.

6. **Service prioritisation and delivery**

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

1.3 Growth in the Municipality

The Council faces a period of significant growth in the municipality due to planned development in FBURA. Current planning projections provide for a possible population increase of 80,000 people by 2050, over 80% of the current population in the municipality. Council is continuing to invest in planning for growth in the municipality, including FBURA, to ensure that service outcomes meet the expectations of current and future generations.

The Victorian Government is currently in the process of preparing a Development Contributions Plan (DCP) for FBURA which will outline future investment needs and funding sources.

The full impact of funding and financing in FBURA has not been included due to uncertainty around the quantum and timing of capital investments and consequential operational and infrastructure servicing expenditure (whole of life costing). Scenario two includes provisional $20 million of projects which is above the 5% of FBURA rates. It is a recognition that Council has a role in delivering the infrastructure at FBURA.

That said, the Development Contribution Plan (DCP) should be fully funded and State Government Infrastructure which are not normally included in a DCP such as Tram routes should be excluded.

Further, 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 establishment of a sustainable model for the governance and funding of FBURA is a priority. There is particular concern that Council must have a role in decision making for FBURA to influence outcomes and to ensure that the project is financially sustainable and does not become a financial burden on our ratepayers now and into the future.

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

1.4 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.

1.5 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 potential result in loss of rates up to $66 million over 10 years.

1.6 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 increased work from home arrangagement.

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.

1.7 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 FBURA 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 $80 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%, peaking at 331% and the lowest point at 298%.

Renewal Gap – This measures the spending on existing assets through renewal and upgrade compared to depreciation. A ratio100% 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, achieving renewal gap ratio between 123% (lowest) and 209% (highest). 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.

2. 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 make a contribution towards its funding
	6	Funding mechanisms will be transparent, practical to implement and not involve unreasonable transaction costs
	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.

Financial principles		Measures
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 efficient manner possible.	16	General reserves will be maintained at levels sufficient to ensure operational liquidity. Working Capital Liquidity Ratio (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	In order 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 a number of key strategies that guide its financial decision making. The principles behind these strategies are outlined below.

2.1 Use of Rate Revenue

Council's main revenue source is assessment rates on properties in the municipality. Currently Officers are reviewing our Rating Strategy and proposed a number of significant changes including moving to a Capital Improved Value structure, introducing Differential Rating and a separate Waste Charge. Some of the key priniciples may change subject to community engagement and consultation and final adoption of Rating Strategy.

Council's current 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 Net Annual Value (NAV) of property owned within the municipality. Rates levied are therefore directly proportional to the NAV 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.
- 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.
- Furthermore, self-funded retirees are entitled to request Council to defer their rates indefinitely at a discounted interest rate. Persons experiencing financial hardship may also, subject to application and financial assessment, access this benefit.

2.2 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.

2.3 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 takes into account 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.

2.4 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 7 for the performance over the 10 year outlook.

3. Financial Resource Planning Assumptions and Risks

3.1 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 2020/21 (the base year) is based on Council's September 2019 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)	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2031/32**
	1.70%	2.20%	2.30%	2.%	2.20%
	Based on the September 2019 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% in the next four years for COVID.				
Parking revenue	Parking fees is linked to CPI plus 0.25% per annum and fines by 1.5% per annum due to uncertainty.				
User fees and charges	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2031/32**
	Increased by CPI 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. Some specific capital grants are in the next four years and outyears are provisional based on historical trends.				
Interest received	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2031/32**
	0.35%	0.90%	1.60%	2.40%	2.70%
	Based on the Deloitte Access Economic Business Outlook forecast for the 90 day bank bill rate plus 50 basis points (25 bps in 22/23).				

Assumption	Rationale
Employee costs	The Enterprise Agreement is in progress for the period 2022/23 to 2024/25. The Outlook assumes future annual increases linking to the annual rates cap.
Contract services, utility costs, professional services, materials and other expenditure	• Increased by CPI or contractual arrangements. • Our current landfill tipping contract expires in 2022. We forecast landfill costs to increase by 15% in the Outlook due to landfill closures, decreasing approved landfills and increasing operating costs. • New waste recycling services are provisional at $2.3 million per annum. • Provision for the introduction of Advanced Waste Treatment which will minimise waste to landfills has been factored in year 2027/28 at an additional 15% cost increase.
Service growth	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).
Depreciation	Depreciation has been increased as a product of new assets being created consistent with the planned capital program.
Operating projects	Total operating projects to be capped to $5.2 million from 2025/26 and adjusted for annual CPI.
Capital projects	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%.
Borrowings	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.
Reserves	The use of reserves remains consistent with past practice. This includes the following assumptions: • 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 aseet renewal reserve to fund future capital investments • five percent of FBURA rates to be set aside in the Municipal Growth Reserve for new/growth infrastructure (to be reviewed subject to the FBURA funding and financing plan.

3.2 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, a number of other financial risks exist, including:

Key Financial Risk	Probability	Consequence	Risk Rating	Mitigation	Residual Risk
Fishermans Bend Funding Gap	Almost Certain	Extreme	Catastrophic	Council officers are actively involved in the funding and financing 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 pandemic (immediate, medium and long term)	Almost Certain	Major	Castastrophic	Officers are actively and closely involved in managing our financial performance. The development of current and future budgets will be modelled and assumptions peer reviewed.	Medium
Waste sector disruptions and changes including EPA landfill levy	Almost Certain	Major	High	Officers are preparing the funding and financial of the Don't waste It! Waste Management Strategy. Financial Strategies to fund include borrowings, additional revenue, and separate waste charge are under consideration.	Medium
Site Contamination	Almost certain	Moderate	High	Officers are working to develop a Site Contamination Risk Assessment Matrix to assess over 260 sites to support a Site Contamination Management Plan for site management for the next four years including the financial impact to Council.	High
Rates cap lower than CPI. • A 0.1% lower than CPI = $134,000 p.a. A 1% reduction in the first year (2022/23) will reduce rates income by $15.7m over the life of the Outlook	Possible	Major	High	Our financial strategy will be reviewed and financial levers adjusted to ensure we are financially sustainable.	Medium
Rates Exemption on Social Housing (up to $5.5 million of rates revenue p.a.)	Likely	Major	High	Officers are work with Municipal Association Victoria for advocacy with the Victorian Government on this important policy to ensure the financial impact to Council is minimised. Losing approximately $5.5 million of rates revenue p.a. would require reduction to services and or other financial levers.	Medium

Key Financial Risk	Probability	Consequence	Risk Rating	Mitigation	Residual Risk
EBA outcomes could be higher than CPI	Possible	Major	High	Ensuring Council is financially sustainable requires operating income to sufficiently cover operating expenditure and infrastructure investments. Service reviews will play a key role to ensure our services and service levels are appropriate and sustainable. Key focus on EBA negotiation.	Medium
Lower property development growth than projected (1.3%). • A 0.1% lower than CPI = $133,000 p.a.	Possible	Major	High	Our financial strategy will be reviewed and financial levers adjusted to ensure we are financially sustainable.	Medium
Higher construction costs than planned	Likely	Moderate	Medium	The Federal and Victorian Governments are heavily investing in local infrastructure in the short to medium terms. It is likely to lead to high construction prices. Officers are factoring the additional costs in developing budgets.	Medium
Future unfunded defined benefits superannuation call occurring	Unlikely	Moderate	Medium	The board monitors its Vested Benefits Index on a quarterly basis to avoid material shortfall calls. Council has some cash reserves that can be drawn down in the short-term for shortfall calls. However, Council will need to replenish the reserves over the longer 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 factored in a significa	Low
Not realising full benefits of Customer Experience & Transformation	Possible	Major	High	Delivery partner appointed, program governance being reviewed including benefits tracking framework with report to Council and Executive.	Low
Fines Victoria system issues impacting the collection of outstanding parking fines	Almost Certain	Moderate	High	Officers are in regular contact with Fines Victoria. This has been highlighted as a risk to the Strategic Risk Internal Audit Committee. Escalate with other impacted Councils to advocate for compension/ or fee waiver.	High

Key Financial Risk	Probability	Consequence	Risk Rating	Mitigation	Residual Risk
Lower than expected parking revenue • Volatility impacted by macro-economic environment. A 1% reduction = $365,000 per annum.	Possible	Moderate	Medium	Likely to be a one-off impact. Council can drawdown on reserves or reprioritise expenditure to address temporary shortfall.	Low

4. Planning for Growth

The Council faces a period of significant growth in the municipality due to planned development in FBURA. Current planning projections provide for a possible population increase of 80,000 people by 2050, over 80% of the current population in the municipality. Council is continuing to invest in planning for growth in the municipality, including FBURA, to ensure that service outcomes meet the expectations of current and future generations.

The proposed development in the FBURA 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 FBURA funding and financing plan, uncertainty remains regarding the timing and extent of FBURA infrastructure funding that Council will provide.

Council is actively involved in the delivery of catalyctic projects within FBURA. Recently completed projects in the Montague Precinct:

- Community facilities and netball courts in a joint development with a proposed primary school at Ferrars Street, South Melbourne completed in 2018.
- Strategic open space acquisition “Kirrip Park” and associated remediation and improvement works fit for open space use.
- Streetscape works needed to make the proposed school safe and accessible.

Council recently relinquished its depot land in the Wirraway precinct to the Victorian Government for the development of a Secondaray School.

This Outlook assumes the Development Contribution Plan (DCP) will commence in 2024/25. Council therefore will not be receiving Open Space Contributions over the period of the DCP.

5. Non-Financial Resources

5.1 Organistional Strategy

Council delivers a broad range of services. To strengthen the delivery of the Council Plan, we have developed a Delivering on Our Commitments organisational strategy.

Our Commitment to You is about delivering on a financially sustainable, high performing, well-governed organisation that puts the community first.

To build Council capability, the Our Commitment to You strategy has four key priority areas of enterprise-wide focus:

- Improving customer experience and technology and being more innovative
- Improving community engagement, advocacy, transparency and governance
- Inspiring leadership, a capable workforce and culture and high performance and safety
- Ensuring sustainable financial and asset management and effective project delivery.

5.2 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.

6. Financial Statement

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

	Forecast	Budget	Projections								
	2021/22 $'000	2022/23 $'000	2023/24 $'000	2024/25 $'000	2025/26 $'000	2026/27 $'000	2027/28 $'000	2028/29 $'000	2029/30 $'000	2030/31 $'000	2031/32 $'000
Income											
Rates and charges	135,704	139,764	143,258	146,876	150,724	155,357	160,646	166,218	171,623	177,293	183,143
Statutory fees and fines:											
• Parking fines	16,199	18,866	19,149	19,436	19,728	20,024	20,324	20,629	20,938	21,252	21,571
• Other statutory fees and fines	3,908	3,967	3,957	4,016	4,076	4,137	4,199	4,262	4,326	4,391	4,457
User fees:											
• Parking fees	15,207	17,683	18,116	18,578	19,146	19,634	20,154	20,708	21,236	21,778	22,333
• Other user fees	19,430	20,797	21,304	21,845	22,400	22,969	23,575	24,221	24,836	25,467	26,113
Grants - operating	10,944	11,208	11,455	11,228	11,486	11,750	12,032	12,333	12,617	12,907	13,204
Grants - capital	5,130	8,290	7,030	3,730	2,160	2,190	2,220	2,280	2,330	2,380	2,430
Contributions - monetary	11,504	6,000	7,540	9,028	6,060	6,060	6,060	6,060	6,060	6,060	6,060
Contributions - non-monetary	-	-	-	-	-	-	-	-	-	-	-
Share of net profits/(losses) of associates and joint ventures accounted for by the equity	-	-	-	-	-	-	-	-	-	-	-
Other income	19,668	22,617	23,895	25,462	26,801	28,237	29,025	30,207	30,678	31,291	32,085
Total Income	**237,694**	**249,192**	**255,704**	**260,200**	**262,581**	**270,359**	**278,235**	**286,919**	**294,645**	**302,819**	**311,396**
Expenses											
Employee costs	94,540	96,471	99,217	101,448	104,673	107,968	111,484	115,321	118,980	122,761	126,670
Materials and services	88,207	88,493	89,258	90,992	91,504	96,443	96,888	100,247	100,857	103,938	106,505
Bad and doubtful debts	4,654	4,430	4,288	4,096	3,940	4,031	4,128	4,231	4,329	4,429	4,531
Depreciation	22,849	23,644	24,587	25,567	26,560	27,592	28,720	29,955	31,177	32,420	33,746
Amortisation - right of use assets	740	740	768	797	828	860	894	930	966	1,003	1,041
Borrowing costs	178	-	-	-	-	-	-	-	-	-	-
Finance Costs - leases	53	48	45	59	68	69	69	69	68	68	68
Other expenses	16,418	17,509	18,872	18,260	17,657	18,063	18,497	18,960	19,396	19,842	20,298
Net (gain)/loss on disposal of property, infrastructure, plant and equipment	1,129	4,673	3,264	4,066	5,047	4,250	5,322	5,473	5,617	5,764	5,915
Total Expenses	**228,768**	**236,008**	**240,300**	**245,285**	**250,276**	**259,277**	**266,002**	**275,186**	**281,390**	**290,225**	**298,774**
Operating Surplus/(Deficit) for the year	**8,926**	**13,184**	**15,404**	**14,915**	**12,305**	**11,082**	**12,233**	**11,733**	**13,255**	**12,594**	**12,622**

Income Statement Converted to Cash

	Forecast	Budget	Projections								
	2021/22 $'000	2022/23 $'000	2023/24 $'000	2024/25 $'000	2025/26 $'000	2026/27 $'000	2027/28 $'000	2028/29 $'000	2029/30 $'000	2030/31 $'000	2031/32 $'000
Operating Surplus/ (Deficit) for the year	**8,926**	**13,184**	**15,404**	**14,915**	**12,305**	**11,082**	**12,233**	**11,733**	**13,255**	**12,594**	**12,622**
Adjustments for non-cash operating items:											
• Add back depreciation & amortisation	23,589	24,384	25,355	26,364	27,388	28,452	29,614	30,885	32,143	33,423	34,787
• Add back written-down value of asset disposals	10,125	11,123	10,264	7,516	5,497	7,300	5,772	5,923	6,067	6,214	6,365
• Add back balance sheet work in progress reallocated to operating	1,200	1,200	1,226	1,254	1,283	1,313	1,345	1,379	1,411	1,443	1,476
Adjustments for investing items:											
• Less capital expenditure	(37,855)	(58,089)	(50,351)	(50,855)	(44,362)	(40,013)	(43,705)	(45,554)	(47,391)	(49,255)	(51,200)
• Less capital expenditure deferrals to next financial year	-	-	-	-	-	-	-	-	-	-	-
Adjustments for financing items:											
• Less Loan Repayments	(7,500)	-	-	-	-	-	-	-	-	-	-
• Less Lease Repayments	(759)	(511)	(423)	(435)	(547)	(560)	(574)	(587)	(601)	(615)	(629)
• Add New Borrowings	-	-	-	-	-	-	-	-	-	-	-
Adjustments for reserve movements:											
• Statutory Reserve Drawdown/ (Replenish)	(6,802)	1,668	2,594	(1,250)	-	-	-	-	-	-	-
• Discretionary Reserve Drawdown/ (Replenish)	2,991	6,966	(4,071)	2,499	(1,552)	(7,557)	(4,671)	(3,795)	(4,870)	(3,790)	(3,405)
Cash Surplus/(Deficit) for the Year	**(6,085)**	**(76)**	**(1)**	**8**	**12**	**17**	**13**	**(18)**	**14**	**14**	**16**
Opening Balance - Cash Surplus	6,661	576	500	500	508	520	537	551	533	547	561
Closing Cash Surplus Balance	**576**	**500**	**500**	**508**	**520**	**537**	**551**	**533**	**547**	**561**	**577**

7. Key Financial Indicators

7.1 VAGO Financial Sustainability Risk Indicators

The Victorian Audit General Office (VAGO) audits Council's finances and assesses against a number of 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	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%	3.8%	5.3%	6.0%	5.7%	4.7%	4.1%	4.4%	4.1%	4.5%	4.2%	4.1%
Adjusted underlying result	Greater than 5%	(3.5%)	(0.5%)	0.3%	0.9%	1.6%	1.1%	1.5%	1.2%	1.7%	1.4%	1.4%
Working Capital	Working Capital Ratio >100%	331%	310%	308%	300%	298%	307%	311%	312%	315%	317%	317%
Internal Financing	Net cashflow from operations to net capital expenditure >100%	152%	86%	107%	101%	108%	126%	116%	113%	115%	112%	111%
Indebtedness	Indebtedness ratio <40%	2.0%	1.9%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.9%	1.9%	1.9%
Capital Replacement	Capital to depreciation >150%	166%	246%	205%	199%	167%	145%	152%	152%	152%	152%	152%
Infrastructure Renewal Gap	Renewal & upgrade to depreciation >100%	150%	209%	174%	169%	142%	123%	129%	129%	129%	129%	129%
Overall Financial Sustainable Risk Rating		Med	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low

7.2 Local Government Performance Reporting Framework Indicators

The Local Government Performance Reporting Framework requires Council to report our performance in the knowyourcouncil website accessible to the community using a set of indicators.

Indicator	Target Range	Forecast	Projections									
		2021/22	2022/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32
Average rate per property assessment	$700 to $2,000	1,823	1,847	1,881	1,917	1,954	1,991	2,031	2,074	2,114	2,155	2,196
Expenditure per property assessment	$2,000 to $4,000	3,029	3,058	3,113	3,146	3,177	3,261	3,289	3,358	3,388	3,448	3,503
Current assets compared to current liabilities	120% to 200%	331.0%	309.7%	307.9%	299.9%	298.1%	307.3%	310.7%	312.1%	315.4%	316.6%	317.1%
Unrestricted cash compared to current liabilities	50% to 100%	123.4%	125.2%	132.1%	125.6%	127.3%	139.9%	146.6%	151.4%	157.8%	162.1%	165.6%
Asset renewal compared to depreciation	40% to 110%	77.9%	135.1%	112.6%	109.4%	91.9%	79.8%	83.7%	83.6%	83.6%	83.6%	83.4%
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%	5.7%	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%	2.0%	1.9%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.9%	1.9%	1.9%
Adjusted underlying surplus (or deficit)	-20% to 20%	(3.5%)	(0.5%)	0.3%	0.9%	1.6%	1.1%	1.5%	1.2%	1.7%	1.4%	1.4%
Rates compared to adjusted underlying revenue	50% to 80%	61.4%	59.5%	59.4%	59.4%	59.3%	59.3%	59.5%	59.7%	60.0%	60.2%	60.5%
Rates compared to property values	0.15% to 0.75%	0.20%	0.20%	0.19%	0.19%	0.19%	0.19%	0.19%	0.19%	0.19%	0.18%	0.18%

8. 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 as a result of total rate revenue over total number of assessable properties.

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

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
Is 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 is the 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.

For more information, please contact us via:
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- TTY users dial 133677, then ask for 03 9209 6777
- Speak & Listen users can phone 1300 555 727 then ask for 03 9209 6777

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Language assistance

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Polska	9679 9812	Other	9679 9814