



5.1 COUNCIL PLAN AND BUDGET - DIRECTION SETTING

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1. PURPOSE

- 1.1 To provide an update on changes in our strategic and operating environment and to seek approval of the 10-Year Financial Outlook and the parameters for the review of the Council Plan and development of the Budget 2019/20.

2. EXECUTIVE SUMMARY

- 2.1 The integrated Council Plan 2017-27, which includes the Strategic Resource Plan, the Municipal Public Health and Wellbeing Plan, a financial strategy, 10-year financial plan and annual budget was adopted on 21 June 2017 and updated on 20 June 2018. It sets a 10-year direction for the City, with a four-year focus on the specific actions Council will undertake to work towards achieving this direction.
- 2.2 Integration of Council's planning, budgeting and resource allocating ensures strong alignment between Council's strategic priorities, and its services, programs and projects.
- 2.3 The integrated plan ensures Council can effectively respond to the opportunities and challenges the municipality faces in a way that enhances Port Phillip as a place to live, work and visit.
- 2.4 Progress to deliver the plan is monitored and regularly reported in the CEO Report and in the annual report.
- 2.5 Consideration of our strategic risk profile, representing the key internal and external risks that may significantly impact operations and achievement of Council's objectives, was included in development of the Council Plan.
- 2.6 The Risk Policy (adopted 7 June 2017) states, that at a minimum, the strategic risks must be presented to Council annually at the commencement of the planning process.
- 2.7 Officers regularly monitor changes in our external and internal operating environment to ensure our priorities and resources will effectively deliver on the Council Plan outcomes and we are effectively managing our strategic risks.
- 2.8 This report considers a number of changes in the external and internal environment that have occurred since the plan was adopted. This information will inform and set the



parameters for the review of the Council Plan, including the Strategic Resource Plan and development of the Budget 2019/20.

- 2.9 As part of this review of our operating environment, officers review and update the 10-Year Financial Outlook (the Outlook) each year. The objective of the Outlook is to:
- 2.9.1 Set clear direction and parameters for the development of the annual budget
 - 2.9.2 Test the long term financial implications of the current forecasts in revenue and expenditure.
- 2.10 Key changes to the Outlook include:
- 2.10.1 The rates cap in the Outlook is based on forecast Consumer Price Index (CPI) to reflect past Ministerial decisions. Previously we used the Essential Services Commission rates cap formula.
 - 2.10.2 Baseline result is a net \$4.2 million drawdown on reserves in this Outlook.
 - 2.10.3 Five percent of rates from Fisherman's Bend Urban Renewal Area (FBURA) will be quarantined in the Municipal Growth Reserve to invest in growth related infrastructure requirements. A total of \$4.6 million is expected in the Outlook.
 - 2.10.4 Projected landfill costs to increase significantly by \$7 million in this Outlook due to expected landfill closures, decreasing approved landfills and increasing operating costs.
- 2.11 Council recently engaged with the community at multiple points between 20 October and 2 December 2018 on the importance and use of services. Data gathered will help inform Budget 2019/20 deliberations at a service level.



3. RECOMMENDATION

That Council:

- 3.1 Considers and notes the outcomes from a preliminary review of the operating environment and strategic risks (Attachment 1).
- 3.2 Endorses the 10-Year Financial Outlook (Attachment 2) and parameters, noting the significant challenge of rates capping and the rates cap gap.
- 3.3 Confirms not applying to the Essential Services Commission for a variation to the rate cap 2019/20.
- 3.4 Delegates authority to the CEO or their delegate to reflect any changes made by Council at tonight's meeting, which are not reflected in Attachment 2, and to make minor typographical corrections before final publication.

4. KEY POINTS/ISSUES

4.1 Our operating environment

- 4.1.1 The Council Plan 2017-27 identifies seven challenges that our municipality faces (population growth, urbanisation, transport and parking, legislative and policy influences, climate change, economic conditions and the rapid evolution of technology).
- 4.1.2 These remain important challenges for our city and will continue to influence financial planning and budgeting decisions, particularly as Council implements new and emerging strategies (for example, asset management, sustainability and integrated transport).
- 4.1.3 In particular, expected growth in the municipality remains a significant challenge for Council, primarily due to development in the Fisherman's Bend Urban Renewal Area (FBURA). Council is expecting to have a role in funding and delivering infrastructure prior to the receipt of revenue streams associated with development. The quantum and timing of capital investments and consequential operational and infrastructure servicing (whole of life costing) expenditure are uncertain.
- 4.1.4 The recent adoption of three key strategies (Act and Adapt; Move, Connect, Live; Don't Waste It) include priority actions to deal with risks relating to Climate Change, Transport and Parking and Population Growth.
- 4.1.5 We continue to have awareness of risks related to security, including cyber security and a continued emergence of service disruption (for example, e-Scooters), and technology changes that provides both opportunities and challenges for service delivery.



- 4.1.6 Community expectations for an improved experience of Council services continue to rise, particularly regarding use of technology. This also provides opportunities to improve efficiency through streamlining bureaucracy, the provision of better information and self-service models. The Customer Experience Program commenced earlier in 2018 and has five discreet work streams to deliver productivity and efficiency benefits, capability and cultural change, ultimately resulting in better customer experiences.
- 4.1.7 Based on information to date, our performance to deliver the Council Plan is tracking well with around 90% of the Council Plan priorities on track to be achieved and 94% of projects performing to expectations. Despite this, procuring services to deliver projects continues to be challenging with significant infrastructure projects underway across the state.
- 4.1.8 As part of the review of the Council Plan, Council will consider where it needs to adjust targets, priorities or strategies to reflect new and better information about performance.
- 4.1.9 Overall, Council has a sound financial position which means we have been able to accommodate priorities and manage emerging risks. However, maintaining financial discipline remains a focus, as reflected in our financial strategy, particularly given the significant investment that will be required in response to growth and to provide contingency for risks such as unexpected superannuation calls and disruption in waste/recycling sector.
- 4.1.10 Recent internal reviews and audits have also identified a need to strengthen controls around strategic risks related to health and safety, procurement and contract management, fraud and corruption, and legislative compliance. These are reflected in our Strategic Risk Register (Attachment 1).
- 4.1.11 Rates affordability continues to be a major concern of the community, with rates and other essential services such as utilities forming an increasing share of average household income. Council has responded to this by identifying approximately \$9 million in efficiency savings in the last four financial years. 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 improvements.
- a) A Clean Streets service review is underway to investigate ways Port Phillip can improve the effectiveness and efficiency of its service to create a better experience of streets for residents, businesses and visitors.
 - b) For the upcoming budget, officers are continuing the analysis to look at improving efficiency and effectiveness for the Children Services and Customer Experience Program services.
 - c) The Finance Department is also working with remaining businesses over the next six months to develop efficient and effectiveness measures that



will enable us to better holistically implement bottom up budgeting for future years.

- 4.1.12 The State Government responded to rates affordability concerns by introducing rates capping from 1 July 2016.

4.2 The 10-Year Financial Outlook

- 4.2.1 The Outlook is provided in Attachment 2. A number of assumptions have been updated since the adoption of the 10-Year Financial Plan (10-YFP) in June 2018. The significant changes include a forecast increase in Consumer Price Index (CPI) and the level of Rates Cap.
- 4.2.2 Based on the latest CPI, the rates cap assumed for 2019/20 is 2.49%. The 2019/20 rates cap is expected to be formally announced by the Victorian Government in December 2018 and remains highly uncertain.
- 4.2.3 Given the uncertainty, analysis on two alternative scenarios has been completed using projected CPI increases (Base Case) and a rates cap assumption of 1.5%.
- 4.2.4 The accumulated rates capping challenge using CPI is quantified at \$15.7 million or \$38.8 million if 1.5% per annum is used.
- 4.2.5 The Outlook under the two scenarios are outlined in the table below.

	2019/20	2020/21	2021/22	2022/23	2028/29
Base case - Rates cap links to CPI (Deloitte Access Economics)					
Rate increase	2.49%	2.26%	2.40%	2.45%	2.45%
Accumulated rates capping challenge	(\$1.0m)	(\$2.3m)	(\$3.8m)	(\$5.4m)	(\$15.7m)
Scenario 2 - Rates cap at 1.5% per annum					
Rate increase	1.50%	1.50%	1.50%	1.50%	1.50%
Accumulated rates capping challenge	(\$1.3m)	(\$3.3m)	(\$5.8m)	(\$8.8m)	(\$38.8m)

- 4.2.6 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). The Outlook includes financial outcomes from known proposals and works agreed with the Victorian Government.
- 4.2.7 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.

- 4.2.8 Council officers are working collaboratively with the FBURA Taskforce towards a robust Funding and Financing Strategy to achieve the vision for Fisherman's Bend and operate within financially sustainable targets.
- 4.2.9 The Outlook retains the majority of the assumptions and funding allocations included in the Strategic Resource Plan, which will form the starting point for the Budget 2019/20. The key assumptions include:
- a) Non-rate revenue to increase by CPI (2.49%) plus 0.25% to reduce reliance on rates funding whilst still keeping fees affordable. This is a global assumption – individual fees and charges will be reviewed and consulted on as part of the Budget 2019/20 – some may be more or less.
 - b) Expenditure increase by the consumer price index.
 - c) A portfolio in 2019/20 of \$42.9 million capital expenditure and \$12.3 million operating expenditure.
- 4.2.10 The projected financial result for the 2018/19 financial year is based on current information. However, it should be noted that there are inherently a number of budget risks that will be managed throughout the 2018/19 year.

4.3 Responding to the Rates Capping Challenge

- 4.3.1 Depending on the situation (rate capping methodology and budgetary risk items), Council may be required to fundamentally review the sustainability of its operations in the medium to long term, as a 'business as usual' approach will not be sufficient to meet the rates capping challenge. We plan to balance the budget and close the rates cap gap by adjusting the following strategic levers:
- a) **Delivering efficiency and cost savings** – Opportunities to further reduce Council's cost base without impacting service levels (such as efficiencies identified through improvements in processes, procurement, sale of surplus properties, and project planning and delivery).
 - b) **Setting fair and appropriate user charges** - Opportunities to ensure that user fees and charges reflect the benefit that individual community members receive (that is, rates funding is not unreasonably subsidising services that provide private benefit). The application and impact of this policy setting will be viewed annually to ensure affordability and fairness.
 - c) **Careful management and prioritisation of expenditure** - Service delivery options, including fundamental changes to the way services are currently delivered and consideration of service level reductions in areas of lower strategic priority.



- d) **Appropriate use of borrowings and reserves** - A prudent and fiscally responsible approach towards the use of new debt for strategic property acquisitions, funding community capital works that will provide inter-generational community benefit and work that deliver revenue streams to repay debt.

Reserves will be used where appropriate to invest in one-off new or improved assets where this is considered more efficient than the use of debt.

- 4.3.2 Our strategy is not to apply to the Essential Services Commission for a variation to the rates cap over the life of the Outlook unless there are sound justifications (i.e. large funding gap for FBURA).
- 4.3.3 Officers believe that Council can manage the expected rates capping challenge in 2019/20 and based on current projections over the 10-year Outlook period through the identification of further efficiency savings and its disciplined budget preparation process. This will require some difficult prioritisation decisions during the budget process.

4.4 Parameters for Council Plan and Budget 2019/20

- 4.4.1 The 10-Year Financial Outlook provide context for setting high-level future expenditure and revenue flows based on Council's current policy settings, and will be the baseline for the review of the Council Plan and the development of Budget 2019/20.
- 4.4.2 This is year 3 of the Council Plan which includes several core strategies in place. The key focus is to execute on these core strategies.
- 4.4.3 The Outlook aligns with the strategic directions set in the Council Plan. Refinements to the Council Plan will only include adjustments due to:
- a) Strategic works revealing a need for refinement in the long-term outcomes, strategies or initiatives
 - b) Better and updated information to measures and targets
 - c) Our updated strategic risk profile.
- 4.4.4 The development of Budget 2019/20 will be within the key financial targets set in the Outlook including updated assumptions, better information, and Council decisions.

5. CONSULTATION AND STAKEHOLDERS

- 5.1 This report represents one step in the annual process of engaging with the community by informing them of the impact of rates capping and other financial challenges facing Council, and possible Council responses.



- 5.2 Council recently engaged with the community at multiple points between 20 October and 2 December 2018 on the importance and use of services. Data gathered will help inform Budget 2019/20 deliberations at a service level.

6. LEGAL AND RISK IMPLICATIONS

- 6.1 Whilst Council has a strong focus on continually improving the efficiency and effectiveness of its service delivery, a rates capping framework that unreasonably restricts rate revenue may result in councils being forced to reduce the scope of services valued by the community, or to assume an inappropriate level of financial risk.

7. FINANCIAL IMPACT

- 7.1 Despite being in a sound financial position, rates capping presents a significant threat to Council's financial sustainability. This Outlook outlines the extent of the challenge and the approach to managing the impact of rates capping.

8. ENVIRONMENTAL IMPACT

- 8.1 Direction 2 of the Council Plan '*We are connected and it's easy to move around*' specifies outcomes that would see sustainable travel choices and a built environment that is not dominated by cars.
- 8.2 Direction 3 of the Council Plan '*We have smart solutions for a sustainable future*' envisages the creation of a city which will significantly reduce its environmental footprint over time, through a greener environment, lower carbon emissions, adaptation to climate change, reduced reliance on potable water and reducing waste to landfill.

9. COMMUNITY IMPACT

- 9.1 Direction 1 of the Council Plan '*We embrace difference, and people belong*' supports outcomes related to enhancing community wellbeing and social inclusion. Direction 4 of the Plan '*We are growing and keeping our character*' ensures the city remains liveable as it grows and that the identity of Port Phillip and its neighbourhoods is protected and reinforced. Direction 5 of the Plan '*We thrive by harnessing creativity*' envisages a City where arts, culture and creative expression is part of everyday life.

10. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 10.1 This report sets the direction for Council's annual review of the Council Plan, the Strategic Resource Plan and development of the 2019/20 budget.
- 10.2 Council's Risk Policy requires Council to consider a summary of strategic risks, controls and improvement actions at the commencement of the annual planning process.
- 10.3 The 10-Year Financial Outlook provide context for the development of the Strategic Resource Plan. It quantifies the impact of rates capping and identifies the financial levers for responding to the rates cap gap and other challenges.



11. IMPLEMENTATION STRATEGY

11.1 TIMELINE

11.1.1 Key dates in the annual planning process 2019/20 are:

- a) 20 October-2 December – community engagement period to help inform the development of the Budget for 2019/20.
- b) February/March 2019 – deeper community engagement, possibly including participatory budgeting.
- c) 17 April 2019 – release date for the draft updated Council Plan and Budget for 2019/20
- d) 19 April to 17 May 2019 – public exhibition period of the draft updated Council Plan and Budget 2019/20. Community members will be invited to review the document and make public submissions. This is consistent with the minimum statutory period of at least 28 days
- e) 4 June 2019 – Special Council meeting to formally receive submissions and hear oral submissions
- f) 19 June 2019 – Adoption of the updated Council Plan and Budget 2019/20. Adoption is statutorily required by 30 June 2019

11.2 COMMUNICATION

11.2.1 The 10-Year Financial Outlook provide context for setting high-level future expenditure and revenue flows based on Council's current policy settings, and will be the baseline for the review of the Council Plan and the development of Budget 2019/20.

11.2.2 Overall, Council is in a relatively sound financial position which means we have been able to accommodate priorities and manage emerging risks. However, maintaining financial discipline remains a focus, as reflected in our financial strategy, particularly given the significant investment that will be required in response to growth and to provide contingency for risks such as unexpected superannuation calls and disruption in the waste/recycling sector.

12. OFFICER DIRECT OR INDIRECT INTEREST

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

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ATTACHMENTS

1. Strategic risk register - October 2018
2. 10 Year Financial Outlook 2019-2029