Frequently Asked Questions – Budget 2021/22

1. What are the headlines for budget 2021/22?

The Budget 2021/22 includes:
- Total expenditure of $236 million comprising $199 million of cash operating expenditure and $37 million of capital expenditure.
- Total income of $244 million which is greater than the $236 million of total cash expenditure by $8 million.

The $8 million is to be used for retiring the $7.5 million bank loan ($5.75m from cash surplus and $1.75m from cash reserves) and repaying financial lease repayments of $0.9 million.

The budgeted cumulative cash surplus for 2021/22 is $4.44m, which is the result of carrying forward $4.8m of cumulative cash surplus 2020/21 and the budgeted $0.36m cash deficit for 2021/22.

The Budget also includes net reserve replenishment of $0.1 million ($27.4 million drawdown and $27.5 million replenishment).

Some of the larger reserve drawdowns include:
- $3.1 million of open space contributions for open space enhancement projects
- $1.2 million of tied grants received in prior year to be spent in 2021/22
- $1.8 million of Sustainable Transport Reserve
- $1.1 million of Palais reserve funded from Palais rental income
- $10.7 million of deferred projects
- $1.75 million of internal borrowing to retire loan
- $0.6 million of Child Care Infrastructure reserve
- $0.8 million of Asset Renewal Reserve

2. How would you describe council's financial position overall?

Council is in a relatively sound financial position due to our fiscally prudent approach to managing our finances and commitment to efficiency ($54m since rates capping was introduced).

Key highlights of our financial position:
- Our Financial Plan forecasts an overall low risk rating on VAGO's financial sustainability indicators – an indication of a sound financial plan.
- Budget 2021/22 includes a cumulative cash surplus of $4.4m which provides additional contingency for financial risks.
- We will retire our $7.5 million debt and invest over $43 million in our $3.2 billion of infrastructure assets, whilst maintaining sufficient cash reserves.

However, the cost of delivering core services (eg waste 9% increase) and infrastructure is generally growing by more than the rates cap. In addition, council must implement the four-service waste model at an estimated addition cost of $53m over the 10-year period including over $5m per annum once fully implemented. There is a risk these costs are understated.

To maintain a low financial sustainability rating while accommodating these cost pressures and new services, the Council is forecasting an $91m funding gap over the next 10 years. Council is proposing additional efficiency savings of $72m (on top of the $54m already delivered) to help bridge this gap.

The remaining $19m will need to be addressed through initiatives such as cost savings from service reductions and/or growth in non-rates revenue. While this number may appear small in the context of the council's overall budget, it must be considered alongside the savings already delivered and those committed to in the forward plan. In addition, it should be noted that as an organisation responsible for looking after $3.2 billion of community assets and with some substantial service contracts, a large portion of our expenditure is fixed or difficult to move in the without changes to service standards.

Furthermore, service reductions and new fees are contentious, and the Council has historically found it difficult to agree to even minor service reductions.

There are also other financial pressures and risks not included in the 10-year forecasts which are likely to grow this gap including funding Elwood Foreshore Redevelopment (circa $40m next 10 years), growing our investment in Fishermans Bend, ensuring we manage soil contamination in accordance with new legislation, and interest in bringing forward the four-service waste model from that outlined it the draft transition plan. These risks will be worked on further with council and community over the next 12 months.

It is key that Council considers the medium and longer-term in its short-term financial decisions such as how to utilise a cumulative cash surplus.

3. What is the difference operating surplus/deficit and the cumulative cash surplus/deficit?

The **Income Statement** is one of four main financial statements that readers should consider when reviewing the financial position and performance of the organisation. The other statements are the Balance Sheet, the Cash Flow and Capital Expenditure.

The **Operating result (surplus or deficit**), the difference between total income and total operating expenditure, only provides the operating performance of the organisation. For-profit entities place more emphasis on their operating result as it is often used to determine the profitability of the organisation and for paying out dividends to shareholders.

For the Local Government sector, "dividends" to ratepayers are measured by the level of services and facilities (assets/capital works) that we provide. The wholistic service perspective. Therefore, we combine all four statements into one statement – Income Statement Converted to Cash (or the Rate Determination Statement as it was historically referred to).

The Income Statement Converted to Cash takes into consideration all four financial statements and provides a summary of financial performance which is indicated by the Cumulative Cash Result (Surplus or Deficit).

This is not a methodology unique to the City of Port Phillip. This statement was legislatively required prior to Council Amalgamation (1994), is still used by many councils, promoted by the LG FinPro association, and in our view is a very good approach to provide a financial summary for a lay person to understand.

The Cumulative Cash Result is calculated as follows see diagram below:

- Starts with the Operating Result
- Removes non-cash items such as depreciation and written down value of assets disposed
- Includes capital expenditure (this replaces depreciation as this is the actual spend)
- Includes financial items such as retiring existing loans, finance lease repayments
- Includes net change of reserves (i.e. open space contributions received ringfenced in reserves and open space reserve used to fund capital works)
- We also carry forward the cash surplus from prior financial years.

Comprehensive Income Statement Converted to Cash - September 2020

	Year to date Actual ($'000)	Year to date Forecast ($'000)	YTD Variance Actual to Forecast ($'000)	YTD Variance %	Full Year Forecast ($'000)	Full Year Budget ($'000)	Variance Forecast to Budget ($'000)	Variance %	Notes
Income									
Rates and Charges	34,461	34,363	98	0%	133,385	132,585	800	1%	
Statutory Fees and Fines	2,154	2,408	(254)	(11%)	17,468	18,668	(1,200)	(6%)	
User Fees	5,591	5,686	(95)	(2%)	31,282	32,650	(1,368)	(4%)	
Grants - Operating	2,449	2,290	159	7%	10,396	9,386	1,010	11%	
Grants - Capital	1,353	1,549	(196)	(13%)	3,190	3,370	(180)	(5%)	
Contributions - Monetary	759	678	81	12%	2,532	2,532	0	0%	
Contributions - Non Monetary	0	0	0	0%	0	0	0	0%	
Other Income	1,196	971	225	23%	18,714	19,114	(400)	(2%)	
Total Income	**47,963**	**47,945**	**18**	**0%**	**216,967**	**218,304**	**(1,337)**	**(1%)**	1
Expenses									
Employee Costs	19,955	19,954	(1)	(0%)	90,863	91,046	183	0%	
Materials and Services	12,239	11,928	(311)	(3%)	72,640	72,788	148	0%	
Professional Services	3,320	3,210	(110)	(3%)	18,158	18,223	65	0%	
Bad and Doubtful Debts	45	185	140	76%	4,341	5,141	800	16%	
Depreciation	6,319	6,319	0	0%	25,276	25,276	0	0%	
Amortisation - right of use assets	238	238	0	0%	950	950	0	0%	
Borrowing Costs	0	0	0	0%	349	349	0	0%	
Finance Costs - leases	16	19	3	16%	75	75	0	0%	
Other Expenses	2,138	2,030	(108)	(5%)	18,123	17,873	(250)	(1%)	
Net (Profit) or Loss on Disposal of Assets	(1,540)	(1,499)	41	(3%)	3,896	3,896	0	0%	
JV Equity Accounting	0	0	0	0%	0	0	0	0%	
Total Expenses	**42,730**	**42,384**	**(346)**	**(1%)**	**234,671**	**235,617**	**946**	**0%**	1
Operating Surplus / (Deficit)	**5,233**	**5,561**	**(328)**	**(6%)**	**(17,704)**	**(17,313)**	**(391)**	**2%**	1
Adjustments for non-cash operating items:									
• Add back depreciation and amortisation	6,557	6,557	0	0%	26,227	26,227	0	0%	
• Add back written-down value of infrastructure assets disposals	2,210	2,271	(61)	(3%)	7,711	7,711	0	0%	
• Add back written-down value of fleet asset disposals	0	0	0	0%	240	240	0	0%	
• Add back balance sheet work in progress reallocated to operating	0	0	0	0%	1,200	1,200	0	0%	
• Add back Joint Venture Equity Accounting	0	0	0	0%	0	0	0	0%	
• Less Contributed Assets	0	0	0	0%	0	0	0	0%	
	8,767	**8,828**	**(61)**	**(1%)**	**35,378**	**35,378**	**0**	**0%**	2
Adjustments for investing items:									
• Less capital expenditure - Infrastructure	(2,966)	(3,581)	615	17%	(26,676)	(28,555)	1,879	7%	
• Less capital expenditure - IT, Plant and Equipment	(322)	(321)	(1)	(0%)	(2,617)	(2,617)	0	0%	
	(3,288)	**(3,902)**	**614**	**16%**	**(29,293)**	**(31,172)**	**1,879**	**6%**	3
Adjustments for financing items:									
• Add New Borrowings	0	0	0	0%	0	0	0	0%	
• Less Loan Repayments	(179)	(179)	0	0%	(648)	(648)	0	0%	
	(179)	**(179)**	**0**	**0%**	**(648)**	**(648)**	**0**	**0%**	4
Adjustments for reserve movements:									
• Discretionary Reserve Drawdown/ (Replenish)	0	0	0	0%	13,076	14,816	(1,740)	(12%)	
• Statutory Reserve Drawdown/ (Replenish)	0	0	0	0%	515	515	0	0%	
	0	**0**	**0**	**0%**	**13,591**	**15,331**	**(1,740)**	**(11%)**	5
Current Year Cash Surplus/(Deficit)	**10,533**	**10,308**	**225**	**2%**	**1,324**	**1,576**	**(252)**	**16%**	
Opening balance carry forward surplus	(276)	(276)	0	0%	(276)	(441)	165	(37%)	
Cumulated Cash Surplus	**10,257**	**10,032**	**225**	**2%**	**1,048**	**1,135**	**(87)**	**(8%)**	6

1) Operating Surplus or (deficit) taking into account total income and operating expenditure

2) Removes non-cash items (i.e depreciation)

3) Includes capital expenditure

4) Include Financing items (i.e. loans)

5) Funding from reserves (i.e open space)

6) Cumulative Cash Surplus is a summary of above items. Target is a $0.5m surplus for contingencies.

4. What is Council's Rates Cap Challenge? How are we addressing it?

Council is in a relatively sound financial position due to our fiscally prudent approach to managing our finances and commitment to efficiency ($54m since rates capping was introduced).

Key highlights of our financial position:

- Our Financial Plan forecasts an overall low risk rating on VAGO's financial sustainability indicators – an indication of a sound financial plan.
- Budget 2021/22 includes a cumulative cash surplus of $4.4m which provides additional contingency for financial risks.
- We will retire our $7.5 million debt and invests over $53.8 million in our $3.2 billion of infrastructure assets, whilst maintaining sufficient cash reserves.

However, annual increases in the cost of delivering core services (eg waste 9%) and infrastructure is generally growing by more than the rates cap each year. In addition, council must implement the four-service waste model at an estimated cost of $8.3m ($53m over the 10-year period).

Our draft 10-year Financial Plan includes a rates cap challenge of $102 million after the inclusion of the $2.3 million efficiency savings identified in budget 2021/22 and the proposed service reductions which totalled $0.56 million (total $7m). This has reduced by a further $12m to $91m following the change in Fines penalty rates by 10% as mandated by Victorian Government

The main contributing factor for the rates cap challenge is the significant above rates cap increases in waste management and recycling costs. These costs increased in Budget 2021/22 by $1.4 million (9%) excluding service improvement for main street cleaning ($400k). Over the 10-year period a $61 million increase is forecast based on above CPI growth in existing costs plus the introduction of the four-service model.

We plan to address the rates cap challenge with our financial strategy which provides clear direction on the allocation, management and use of financial resources. The financial levers include delivering efficiency and cost savings, appropriate use of borrowings and reserves, careful management and prioritisation of expenditure and setting fair and appropriate user charges.

We expect cumulative efficiency savings to achieve over $72 million over the 10-year period – this is in addition to the cumulative savings of $54 m achieved since rates capping was introduced. The residual $19 million will likely need to be addressed through service level reductions and/or a future waste charge.

Officers will work with Councillors further on this during Budget 2022/23 alongside review of our rating strategy, development of our Enterprise Asset Management Plan, review of our Waste Strategy and four service transition plan, and finalisation of the proposed scope, approach and funding for the Elwood Foreshore Redevelopment.

5. How is COVID impacting our financial position?

COVID has had an estimated $26.2m impact on our 2019/20 and 2020/21 results. This included $15.8m in lost revenue and $10.4m social and economic support offset by project deferrals of $16m and savings of $10.3m.

Looking ahead, we have taken a conservative approach to parking revenue in response to COVID-19 and other factors given there remains uncertainty on what the "new normal" will look like and how long it will take to get there.

Our 10-year Financial Plan includes a reduction on parking revenue of approximately 10% lower than 2018/19 (roughly $20 million over the period adjusted for the 10% Statutory fines increase).

We expect population growth and growth in the ratepayer base to be less than prior financial years.

We will continue to monitor and update our budget and financial plan to reflect on updated information as it comes to light.

We recommend the Council maintain a healthy cumulative cash surplus of at least $1.6m (if not more) given this uncertainty and to provide contingency for additional social and economic support if future lockdowns eventuate.

6. Why do we need a rate increase in 2021/22?

All other things being equal the cost of services grow each year in response to inflation. The rates cap essentially represents the allowance set by the State for councils to pay for this inflation, through our key revenue source – rates.

The 1.5% rates cap set by the Victorian Government applies to the total rates revenue that Council can raise in 2021/22. This excludes any additional properties added during the current financial year (2020/21).

The rates increase is needed to fund the cost of services that Council wishes to provide to the community and fund a $43 million capital portfolio program to ensure we look after our $3.2 billion portfolio of community assets while "balancing" the budget over not only today but also the long-term.

The cost of providing council services to our community are escalating at a higher rate than the rates cap, particularly in waste services due to landfill levy and associated costs.

We have been able to offset the escalating costs through a continued strong focus on prudent financial management, careful prioritisation and commitment to productivity and efficiency. We have achieved $2.3 million of efficiency savings in Budget 2021/22 in addition to the $12.6 million over the four budgets of the previous Council (totalling cumulative savings of $54 million)

7. What was the outcome of Property Valuations for 2021 regarding rates distribution across Property classes and why will most ratepayers will not get the 1.5% rates cap increase?

It is important to note that the rate increase or decrease for individual ratepayers will be directly linked to the value of their property as valued by the Victorian Valuer General as at 1st January 2021 as a proportion of the valuation of all properties in the Municipality. The valuation does not impact the overall quantum of rates collected by the Council – only the distribution of rates between individual ratepayers and classes of ratepayers.

The January 2021 valuation has seen an average decrease of -0.9% for the municipality. In contrast, between 2019 to 2020 this was an increase of 1.60%.

Generally, residential property valuation changes (increase 0.02% average) in 2021 were greater than non-residential properties (decrease 5.24% average). The major reasons for this change include a rebounding residential market post COVID, further weakening retail market, changing demands for office space and a lower volume of commercial redevelopment sales.

Due to the large difference in the valuation change between residential and non-residential properties, there will be a rates distribution shift to residential properties. This means residential properties on average will see a higher increase than the 1.5% rates cap.

If a ratepayer's property value:

- decreased by more than the average decrease of -0.9%, they will get a lower than the 1.5% rates cap increase – possibly a rates reduction.
- increased or decreased less than the average decrease of -0.9%, they will see a higher rate increase than the cap.

The table below outlines NAV percentage changes and the corresponding % change in rates expected as a result of a Net Annual Value (NAV) changes from 2020 to 2021.

NAV % Change from 2020 to 2021	Corresponding $ Rate Change Effective 1 July to 30 June 2022
-30%	-33.43% rate decrease
-25%	-28.31% rate decrease
-20%	-18.07% rate decrease
-15%	-12.95% rate decrease
-10%	-7.83% rate decrease
-5%	-2.71% rate decrease
0%	2.41% rate increase
5%	7.53% rate increase
10%	12.65% rate increase
15%	17.77% rate increase
20%	22.89% rate increase
25%	28.01% rate increase
30%	33.13% rate increase

Despite rate increases being capped at 1.5% this year, this cap is on total revenue, not on a per property basis. Only properties that have a change equalling the total NAV shift for the municipality (-0.90%) will experience a 1.5% increase in rates. The further a property falls from overall shift in

NAV across the municipality, the greater the difference in rates will be, irrespective of location or property type.

8. Why has Council's total rates income increased more than the 1.5% rates cap?

The Council Plan and Budget incorporates the 1.5% Rate Cap increase prescribed by the Minister for Local Government with oversight from the Essential Services Commission.

This essentially represents the maximum increase for existing ratepayers – importantly it excludes growth in the ratepayer base or put simply the number of new properties that must be serviced by Council.

The total amount of rates revenue is increasing by 2.9% this includes the 1.5% increase for existing ratepayers under the rates cap with the remainder related to growth in the ratepayer base.

Total rates revenue is generated from 3 classes of land residential, commercial and industrial. Total Rates Revenue from Residential properties is expected to increase by approximately 4.5%.

The 4.5% increase in rates revenue from Residential Properties includes:

- the rates cap increase of 1.5% for existing ratepayers
- the shift to residential from non-residential in response to the revaluation
- growth in the ratepayer base (ie the additional 1253 new residential properties registered in the current financial year, which will now receive Council services).

9. What amendment can Council make at budget adoption (23 June Meeting)? Material change guideline previously discussed.

It is a requirement for Council to engage the community when making decisions on the annual budget. Therefore, any new material changes should be raised and included in the draft budget prior to community consultation.

In terms of materiality, we provide the following guideline:

Legislatively defined:

- Increases to rate in the dollar
- New borrowing

Changes that are most likely to be material but need further consideration:

- Downward movement in financial sustainability rating (e.g. low to medium risk)
- Movement from cash surplus to deficit (a material change to Council's financial position)
- Material change in service levels (so not to seriously disadvantage those impacted without their say/submission).

10. What would be the impact of a zero % rate increase in 2021/22?

A zero % rate increase in 2021/22 would have an ongoing rates reduction of approximately $23 million over the 10-year financial plan period. This is due to its compounding impact. It reduces the base and cannot be increased unless we apply to ESC for an above rates cap increase in the future. This would add to our existing rates cap challenge of $91 million which already requires $72 million of yet to be identified efficiency savings to address.

The impact of a zero % increase is low to residential ratepayers. The benefits are broad but small:

- 90% of residential rates expected to increase by $50 or less
- Average increase $26
- Median increase $18

- Recognising 30% of residential rates is distributed to the top 10% residential properties ($1.8m to $30m properties). This can only be resolved (if desired) by a rating strategy review which is scheduled over the next 12 months.

	Rates Payable 2020/21		1.5% increase	
Decile	Min	Max	Min	Max
1st	$196	$634	$2.94	$9.51
2nd	$634	$764	$9.51	$11.46
3rd	$764	$895	$11.46	$13.42
4th	$895	$1,025	$13.42	$15.38
5th	$1,025	$1,174	$15.38	$17.62
6th	$1,174	$1,398	$17.62	$20.97
7th	$1,398	$1,864	$20.97	$27.96
8th	$1,864	$2,423	$27.96	$36.35
9th	$2,423	$3,355	$36.35	$50.33
10th	$3,355	$57,414	$50.33	$861.21
Mean	$1,712		$25.68	
Median	$1,174		$17.62	

*These are draft valuation numbers.

11. Can we have a one-off rate reduction or rebate?

Monash Council provided a 10% one-off rate rebate in 2020/21 to all ratepayers. We have subsequently received legal advice on the matter.

- a rebate under section 169 of the LG Act 1989 **cannot be made available to more than one-third of ratepayers** unless directly related to a building-or-development-related community benefit specified by Council, or to provide affordable housing - **general financial hardship or poor economic conditions are not sufficient.**

- Council can provide rebate or waiver on the following basis:
  - Under financial hardship upon application by the ratepayer
  - Can be given without application only to **classes of persons** based on financial hardship (not to all ratepayers generally); and require Council by resolution to identify the objectives to be achieved by waiver.

A partial rates waiver (discount) to residential properties to ameliorate the impact the rates distribution shift from non-residential to residential properties as a result of the 1st January 2021 valuation in addition to the impacts of COVID19 is likely to satisfy the requirements of the Act (S.171).

12. Rates Affordability

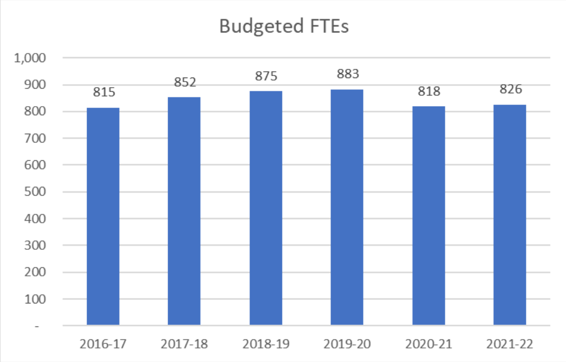
One measure of affordability is the average rates and charges as a % household median income - lower % is more affordable. CoPP is second, marginally lower than Stonnington.

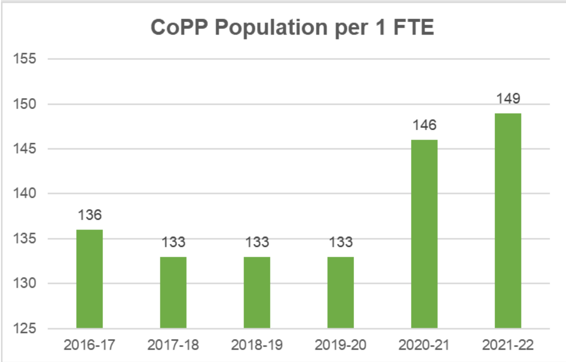
	Port Phillip	Glen Eira	Bayside	Stonnington	Yarra
Average rates and charges as % median income	1.92%	1.98%	2.00%	1.86%	2.07%

13. FTE movements

Council employees are essential resources, enabling the delivery of a broad range of services. For Budget 2021/22, we are proposing a net increase of 8 FTEs. The main reasons are additional Project Managers to deliver on a large capital works program and additional FTEs for increased pressure cleaning of main streets.

Over the last five years net FTE increased by 10 or 1% despite population increases.





When overlayed with population growth, the productivity gain is 10% per FTE. That is, there are 149 residents for every one FTE in budget 2021/22 compared to 136 residents per one FTE in 16/17.

14. Benchmarks with other Councils

Each council has a different operating context such as its asset base and condition, geography, demographic mix, service priorities, operating models (in-house vs contracted services), and population growth.

In City of Port Phillip's context, some examples of the differences include:

- CoPP has the highest reported number of homeless persons amongst our neighbouring Councils, therefore we provide funding to support affordable housing and provide homelessness support services.
- A large food and retail market (South Melbourne Market)
- We operate five children centres and support eight community run centres.
- Along with Yarra council, we are the only Council in Victoria that provide a community transport service.
- We have two staffed adventure playgrounds.
- We have in total 15 community centres – one of the highest in Victoria.
- Being a popular tourist destination, CoPP allocates a significant budget annually to manage the influx of visitors over summer.
- CoPP invests in festivals including the St Kilda Festival, St Kilda Film Festival and Live n' Local festival so that we can be a Creative and Prosperous City.
- We have an in-house street and beach cleaning services, which shows as employee expenditure instead of contract expenditure for most other councils. We also offer a higher level of beach cleaning.

Services	Income ($,000s)	Expenditure ($,000s)	FTEs
Social housing & indigenous support	-	1,294	5
Long day care	9,513	9,625	89
Summer Management	-	773	3
South Melbourne Market	7,877	7,876	12
Festivals	1,339	4,409	14
Adventure Playgrounds	8	841	7
Parking services	35,403	15,762	38
In-House Beach Cleaning	0	1,000	8
In-House Street Cleaning	230	4,590	46
Friends of Suai	-	126	0.6

Key financial benchmarking metrics – draft budget 2021/22

Selected LGPRF Financial Performance Indicators	Port Phillip	Glen Eira	Bayside	Stonnington	Yarra
Average rates per property assessment **Average rates and charges per property assessment***	$1,836 **$1,836**	$1,442 **$1,790**	$2,120 **$2,228**	$1,513 **$1,878**	$2,111 **$2,111**
Expenditure per property assessment	$3,047	$2,596	$2,698	$2,586	$3,608
Current assets compared to current liabilities	332%	95%	325%	143%	194%
Loans and Borrowings compared to rates	0.0%	30%	0%	29%	49%
Adjusted underlying surplus (or deficit)	-1.4%	0.6%	9.8%	6.9%	-0.3%
Rates compared to adjusted underlying revenue	59.3%	67%	75%	68%	59%
Rates compared to property values	0.19%	0.16%	0.14%	0.13%	0.20%

*waste charges have been included in the average rates and charges per property assessment to ensure a true comparison between councils. CoPP and Yarra are two councils without a separate waste charge in the above comparisons.

Rates income Comparisons:

	Port Phillip	Glen Eira	Bayside	Stonnington	Yarra
2016-17	$117.2m	$100.0m	$85.5m	$104.3m	$101.1m
2021-22	$135.4m	$123.9m	$104.3m	$126.7m	$120.0m
Rate increase (21/22 Vs 16/17)	**$18.2m**	**$24.0m**	**$18.8m**	**$22.3m**	**$18.9m**
% rates increase (21/22 Vs 16/17)	**16%**	**24%**	**22%**	**21%**	**19%**
Population increase	11%	6%	6%	10%	14%
Rates increase over the last 5 years adjusted for population	4.2%	16%	15%	11%	5%
Annual rates increase adjusted for population growth	**0.8%**	**3.1%**	**2.8%**	**2.0%**	**0.9%**
Annual average CPI (2016/17 to 20/21)	2.0%	2.0%	2.0%	2.0%	2.0%

- Over the last 5 years, rates income increased by 16%. However, when adjusted for the 11% population growth, the increase is only 4.2%.
- That means our rates increased by 0.8% annually by head of population. This is less than half of the 2% average annual CPI increase over the same period.
- In comparison to neighbouring councils, our rates increased the lowest by total income and percentage.

FTE Comparisons:

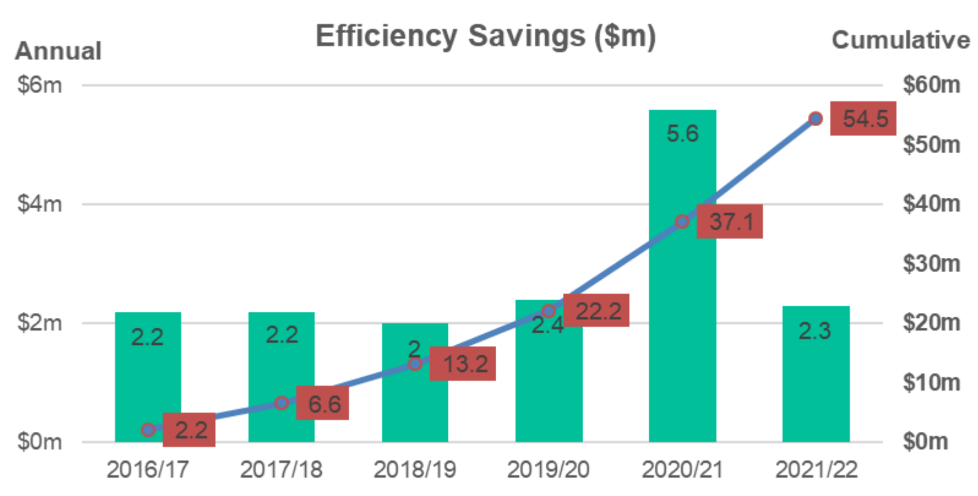
Year	Port Phillip	Glen Eira	Bayside	Stonnington	Yarra
2016-17 (FTE)	815	791	401	615	817
2021-22 (FTE)	826	866	453	733	894
FTE increase (21/22 Vs 16/17)	11	75	53	118	77
% FTE increase	1%	9%	13%	19%	9%
Population increase	11%	6%	6%	10%	14%
Productivity gain/loss adjusted for population	10%	-3%	-6%	-8%	3%

- Over the last 5 years, CoPP increased FTE by 11 or 1% despite population growth of 11%. This confirms our productivity gain of 10% (see efficient savings)

- Glen Eira, Bayside and Stonnington increased their FTE at a higher rate than their population growth.
- Yarra achieved a 3% productivity gain but is 7% lower than CoPP at 10%.

15. Efficiency savings since rate capping 2016/17

Budget 2021/22 includes efficiency savings of $2.3 million. This adds to the $12.6 million of savings delivered over the last four budgets of the previous council. Cumulative savings since the introduction of rates capping in 2016/17 are more than $54 million.



Our ongoing commitment to efficiency is demonstrated in our 10-year Financial Plan which includes a 1% efficiency target per annum. This is equivalent to $72 million of efficiency savings over the 10-year period.

16. Why can't the organisation find more efficiency savings to balance the budget?

We are committed to be an efficient, effective and customer focussed organisation. We have found $2.3m of efficiency savings in 2021/22, over $12.6m in the last Council term, and cumulative savings over $54m since the introduction of rates capping in 2016/17.

Our 10-year financial plan includes a commitment to find a further $72m of efficiency savings, which means we have already embedded annual targets (1% opex net of depreciation).

However, it is getting harder to go to the same well and expect additional savings. As an organisation that manages $3.2 billion of assets and has a committed range of services, a large portion of council's costs are fixed and not easily moved without changes to service levels. Fixed costs include:

- Depreciation $23m, Amortisation $1m and Maintenance $12m:
    - Maintaining and renewing our assets are necessary in order to provide community services and meet legislative requirements (eg safety, accessibility). Our ability to reduce this expenditure is limited if we are to meet VAGO sustainability targets.
    - Council may decide to sell non-discretionary assets & or reduce services (community consultation required). Improved asset management can ensure best value from spend.
- Contracted spend $45m:
    - Majority of contracts are tendered out through a public procurement process which includes negotiation with preferred supplier – Best and Final Offers.

- There is little scope to reduce costs for existing contracts.
- Council has some degree of discretion for expired contracts to set future service levels (community consultation required).

It is also important in driving operational efficiency that the organisation consider the impacts on agility (in a fast-changing environment), capacity for innovation and exceptional customer service, and sustainability of workload for staff.

The organisation will seek to outperform its efficiency targets but does not believe it is appropriate to budget for more than this given the above.

17. **Movement in reserves in the last Council Term**

In the last Council Term, our cash backed reserves increased by $45.5m ($40m excluding project deferrals) from $32.1m to $77.6m. Noticeably:

- the Asset Renewal increased by $10.3m
- the Municipal Growth & Rates Cap Challenge increased by $8.8m
- the Open Space Reserve increased by $14.9m – we plan to use this as the main funding source for the Public Open Space strategy implementation.

The larger drawdowns and replenishment are provided below: [Suggest we do the breakdown below based on net and explain any major net drawdowns]

Movement in Reserves	2016/17	2017/18	2018/19	2019/20
Drawdown or use of reserves	($19.5m)	($19.0m)	($20.1m)	($27.0m)
Replenish or top up of reserves	$32.4m	$31.6m	$25.3m	$41.8m
Net Movement - Increase/(Decrease)	$12.9m	$12.6m	$5.2m	$14.8m
Closing Balance	**$45.0m**	**$57.6m**	**$62.8m**	**$77.6m**

Net Replenishment/ (Drawdown)	2016/17	2017/18	2018/19	2019/20
Open Space contributions	$4.3m	$6.1m	$2.3m	$5.8m
Project deferrals	($5.3m)	$4.8m	($5.5m)	$11.3m
Tied Grants	$1.5m	$0.6m	$0.1m	$0.8m
Child Care Centres	$0.8m	$0.6m	$0.2m	($0.1m)
Strategic Property Fund	$4.3m	($2.7m)	-	$1.5m
Sustainable Transport	($0.3m)	$0.1m	$0.3m	$0.2m
In Our Backyard	$0.5m	$0.5m	$0.5m	$0.5m
Gasworks	($1.5m)	-	-	-
Palais Theatre	($0.8m)	$2.9m	$0.6m	($0.4m)
Pride Centre	$3.7m	($3.7m)	-	-
Internal Borrowing - Ferrars Precinct	-	($2.8m)	($1.1m)	($0.0m)
Asset Renewal	$5.8m	$5.0m	$2.1m	($2.6m)
Internal Borrowing - Customer Experience Program	-	-	-	($5.1m)
Municipal Growth & Rates Cap Challenge	-	$1.3m	$5.8m	$1.8m

Notes:

- Project deferrals – allocated project budget to be spent usually the following year.
- Tied grants – grants received usually closer to the end of the financial year which are expected to be spent in the following.
- Gasworks – drawdown in 2016/17. $3m balance to be allocated towards the Gasworks park redevelopment.
- Pride Centre - total contribution was $8.95m including $3.8m from drawdown on Strategic Property Fund.
- Ferrars St Precinct – to be replenished over the term of the lease (40 years).

18. **Forecast reserve movements in the current Council term (Proposed 10-year plan)**

Over the 10-year period, reserves projected to increase by $40.2m from $77.6m to $117.8m.

Movement in Reserves	F2020/21	B2021/22	P2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Opening Balance	$77.6m	$85.0m	$85.1m	$77.9m	$73.2m	$78.0m	$87.1m	$96.5m	$103.2m	$109.2m	$114.2m
Drawdown or use of reserves	($23.0m)	($27.4m)	($20.8m)	($18.8m)	($13.1m)	($8.3m)	($9.0m)	($10.0m)	($9.0m)	($9.3m)	($9.9m)
Replenish or top up of reserves	$30.4m	$27.5m	$13.6m	$14.1m	$17.9m	$17.4m	$18.5m	$16.6m	$15.0m	$14.3m	$13.5m
Net Movement - Increase/(Decrease)	$7.4m	$0.1m	($7.3m)	($4.7m)	$4.8m	$9.1m	$9.5m	$6.6m	$6.0m	$5.0m	$3.6m
Closing Balance	**$85.0m**	**$85.1m**	**$77.9m**	**$73.2m**	**$78.0m**	**$87.1m**	**$96.5m**	**$103.2m**	**$109.2m**	**$114.2m**	**$117.8m**

Net Replenishment/ (Drawdown)	2019/21	2019/22	2019/23	2019/24	2019/25	2019/26	2019/27	2019/28	2019/29	2019/30	2019/31
Open Space contributions	$2.4m	$4.3m	($1.6m)	$1.0m	$1.2m	$2.9m	$3.0m	$3.0m	$1.2m	$1.2m	$1.2m
Project deferrals	$1.4m	($10.7m)	($1.0m)	($2.0m)	($0.9m)	-	-	-	-	-	-
Tied Grants	$0.2m	($1.0m)	($1.3m)	-	-	-	-	-	-	-	-
Child Care Centres	$0.5m	$2.9m	$0.3m	($1.2m)	($1.1m)	($0.4m)	$1.6m	($0.4m)	($0.4m)	($0.3m)	($0.3m)
Strategic Property Fund	$4.1m	$2.6m	$0.4m	$0.4m	$0.4m	$0.4m	$0.4m	$0.4m	$0.4m	$0.4m	$0.4m
Sustainable Transport	$0.8m	($0.6m)	($0.7m)	($1.9m)	($0.8m)	$0.7m	$0.8m	$0.8m	$0.8m	$0.5m	($0.0m)
In Our Backyard	$0.5m	$0.5m	$0.5m	$0.5m	$0.5m	-	-	-	-	-	-
Palais Theatre	$0.1m	($0.4m)	($0.5m)	$0.9m	$1.0m	$1.0m	$1.0m	$0.0m	$1.0m	$1.1m	$1.1m
Internal Borrowing - Ferrars Precinct	$1.8m	$0.8m	($0.9m)	($1.4m)	$3.9m	$2.6m	$0.2m	$0.2m	$0.2m	$0.2m	$0.2m
Loan	-	($1.8m)	$0.2m	$0.2m	$0.2m	$0.2m	$0.2m	$0.2m	$0.2m	$0.2m	$0.2m
Asset Renewal	$1.7m	$2.8m	($2.5m)	-	($1.1m)	($0.4m)	-	-	-	-	-
CXP	($6.2m)	$1.4m	$1.4m	$1.4m	$1.4m	$1.4m	$1.4m	$1.4m	$1.4m	$0.7m	-
Municipal Growth & Rates Cap Challenge	$0.4m	$0.4m	$0.4m	$0.4m	$0.5m	$0.5m	$0.5m	$0.5m	$0.6m	$0.6m	$0.6m

Notes:

- Net open space to increase by $19.8m – noting detailed planning on open space projects in future years will likely to see greater drawdown. This is a potential partial funding source for Elwood foreshore and FBURA Open Space works.
- Forecast increase in the Strategic Property reserve by $10m mainly due to sale of discontinuances.
- Palais theatre forecast to increase by $6m (future projects unknown at this stage).
- Asset Renewal – Projected balance of $11.7m.
- CXP to be fully repaid from benefits by 29/30.
- Projected $14m in Municipal growth/rates cap reserve available