City of Yarra

Draft Financial Sustainability Strategy

2023 to 2033

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1. Executive summary

Yarra City Council puts our community's aspirations at the heart of everything we do. Yarra's long-term vision was developed in partnership with our community and is used as a formal planning tool to guide Council services, priorities and projects for the next 15-20 years. We are committed to achieving our community's goals for Yarra – a strong, safe and vibrant community, a thriving local economy with shared, accessible spaces, social equity and shared governance, a healthy environment and financial sustainability.

Financially, Council's primary obligations are to be financial sustainable and make effective use of the public funds entrusted to us, ensure the responsible management and planning of community assets, so that future ratepayers are not burdened unnecessarily.

It is crucial that today's decisions are forward-thinking and meet the evolving needs our present and future community. Long-term financial sustainability is essential for Council to continue providing the services and programs our community relies on.

Now more than ever with rising cost pressures, a tightening fiscal environment and a growing population, Council has recognised that it must establish a robust and forward-thinking financial strategy that extends beyond short-term budgeting cycles.

At Yarra, we acknowledge that addressing these challenges demands continuous effort.

This journey has already begun. Over the past twelve months, Council has taken a number of steps to improve our financial position. This has had significant benefits – including addressing known future financial risks, reducing borrowings and improving Councils overall cash position.

These outcomes have been made possible through a unified focus throughout the entire organisation and a fundamental shift in culture. We acknowledged that a holistic approach is essential, as there is no single solution to these complex issues. Embracing this holistic perspective has been pivotal in driving positive change and progress. However, there is still more to achieve.

For Yarra, having adequate cash reserves is essential if we are to be well positioned to respond to the unprecedented population growth that is projected for Yarra over the next twenty years. It is forecast that our city will grow by more than 50,000 people by 2041. As our population grows, the demand for more infrastructure and services also grows, for example parks, pathways, waste collection, libraries, playgrounds etc.

Overall, our core goal is to build and sustain Council's cash reserves so that we are able to invest in the new infrastructure needed to support a growing and changing community as well as respond to unexpected or urgent events.

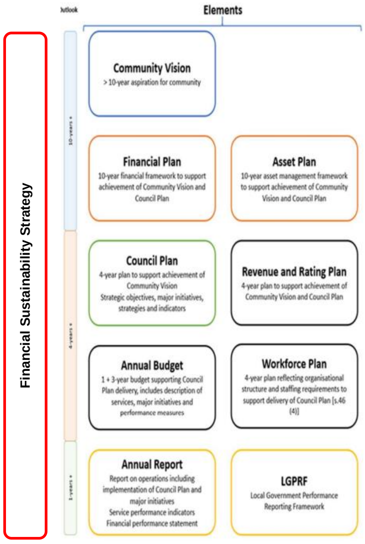
This document provides an assessment of macro-economic trends, outlines current financial challenges, sets long-term financial goals, and importantly, outlines a roadmap to achieve financial sustainability objectives. The Strategy identifies seven strategic levers for change to drive long term financial sustainability, categorised into two primary categories: strategic measures for evidence-based investment decisions and systemic changes for efficient cost controls and resource management. The strategic levers include plans to build reserve funds, responsible borrowing, optimisation of revenue, a focus on well planned assets, a review of the service landscape, investment in digital transformation, robust financial management and a strengthening of advocacy and strategic partnerships.

This Financial Sustainability Strategy (FSS) does not make decisions about the level or quality of service, rather identifies a roadmap for significant reform and to achieve financial sustainability within the decade.

This FSS will guide future decision-making so Council can transparently, proactively and prudently plan to be financially sustainable, to maximise our community impact, deliver efficient and effective services and infrastructure, and meet our financial obligations both today and in the future.

2. Strategic framework

Council has an integrated approach to planning, monitoring and performance reporting. The following diagram provides an overview of the core legislated elements of an integrated strategic planning and reporting framework and outcomes. The Financial Sustainability Strategy underpins all elements within the framework.



2.1. Local Government Act 2020

The overarching objectives of the *Local Government Act 2020* (the Act) is to ensure councils adhere to sound financial practices, put in place long-term planning and effective risk management frameworks to support the financial sustainability of the Council and achieve the best interests of the municipal community, including future generations.

This FSS outlines Council's strategic measures to improve its financial position in the short and long term. The measures will inform the priorities of subsidiary strategic plans and programs, such as the Long-Term Financial Plan, Asset Plan, Workforce Plan, digital transformation and advocacy programs, and the newly proposed service planning and review program.

The Long-Term Financial Plan (LTFP) articulates how Council will use its financial assets to achieve the goals set out in the FSS. Council's Budget always seeks to balance demand for services and infrastructure within revenue constraints. This is challenging as compromises and choices need to be made about 'what to do when', and to 'what standard'.

The FSS is not a legislative or statutory requirement of the Act or associated regulations. As best practice, the FSS has been developed to implement the mandated financial management principles in section 101 financial management principles of the Act:

- revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans.
- financial risks must be monitored and managed prudently having regard to economic circumstances.
- financial policies and strategic plans, including the Revenue and Rating Plan, must seek to provide stability and predictability in the financial impact on the municipal community.
- accounts and records that explain the financial operations and financial position of the Council must be kept.

For the purposes of the financial management principles, "financial risk" includes any risk relating to the financial viability of the Council, the management of current and future liabilities of the Council, and the beneficial enterprises of the Council.

2.2. Community Vision and Council Plan

Yarra 2036 Community Vision (Vision) is our first-ever community vision. It sets out the community's hopes, aspirations and priorities for the next 15 years. It is an important, long term strategic document that guides all planning and decision making for Council and the community.

Vision statement Yarra is a vibrant, safe and inclusive environment. We celebrate and embrace our diversity and connection to each other and the land. Our community is empowered to work together and support one another with respect and trust.

In all we do, Council works to meet the goals of the Council Plan 2021-2025, which was also developed in partnership with the community. The Council Plan 2021-25 includes six Strategic Objectives that describe Council's Strategic Direction for the next four years. They are:

1. Climate and environment
2. Social equity and health
3. Local economy
4. Place and nature
5. Transport and movement
6. Democracy and governance

The FSS delivers on the Council Plan (Objective 6) by being future-focused, managing our finances responsibly and innovatively responding to challenges.

2.3 Community engagement

The *Local Government Act 2020* requires all Victorian councils to develop and adopt a community vision. The Vision informs all planning and decision making for Council including the Council Plan (2021-2025), 10-year financial plan, asset management plans and this Financial Sustainability Strategy.

Council is deeply committed to serving the community's best interests and recognises that a targeted and coordinated effort is required to ensure we are financially sustainable.

A summary of broad community sentiment we have heard over the past 2 years can be found below:

> **Transparency and accountability:** for Council to be transparent and accountable for financial decisions, budget allocations, expenditure priorities, and long-term financial planning.
>
> **Priority services:** For parks, reserves and open spaces, cleaning and maintaining public spaces, environment and sustainability, recycling and waste, roads, traffic and parking to be Council priorities.
>
> **Balancing service delivery and affordability:** For Council to strike a balance between providing essential services and managing costs responsibly.
>
> **Involvement in decision-making**. For the community to participate in and contribute to the budget process, and other decisions that impact on the community and the liveability of Yarra.

It is expected that specific actions directed by the FSS will require more detailed and targeted community engagement. Any substantial or significant change to a community-facing service, policy, strategy or price point may require a decision of Council and will be subject to a project-specific community engagement program in accordance with Yarra's Community Engagement Policy.

Operational and technology transformation efficiencies is the responsibility of the Chief Executive Officer and while is not subject to community engagement, the outcomes will be reported in Council's Annual Report.

The community can also provide feedback on an annual basis to the draft Budget, draft Long-Term Financial Plan and draft Revenue and Rating Plan.

3. Context

3.1 Yarra's journey

In today's complex and rapidly changing economic landscape, local governments face unique challenges and responsibilities in effective financial management.

The financial sustainability of local governments across Australia continues to be a challenge, driven by population growth, increasing community demand for services, and rising costs associated with service delivery and the renewal of ageing infrastructure.

Local government income structures are different to other levels government. Nationally, local government derives nearly 90% of its revenue from its own sources (including rates) and only 10% from State and Federal government grants. In comparison, the State Government receives 47% of its revenue through transfers from the Federal Government (including all GST revenue) and 39% from uncapped taxation revenue (largest tax lines: payroll tax, land tax, land transfer duty and new COVID debt levy tax). Rates are the most significant revenue source for Yarra and make up approximately 60% of our annual income.

Since its inception in 2016, the 'Fair Go Rates System' has challenged all Victorian councils' financial sustainability. In recent years, the Essential Services Commission (ESC) has recommended that the rate cap be set equal to the CPI forecast. However, the CPI does not accurately reflect increases in costs faced by councils because they have a significantly different composition of expenditure compared to households. Key council expenditures (wages, construction, utilities, etc.) required to provide services and deliver infrastructure projects have been increasing faster than the CPI. For example, the 2023/24 rate cap is set at 0.5% below the CPI forecast. Over the past seven years the rate cap set below CPI has cost Council $8.4m.

The present Council is facing the implications of decisions made by its predecessors. In a very different economic climate, Council took out borrowings to finance infrastructure projects such as the North Fitzroy Library and Community Hub and the acquisition of the 345 Bridge Road premises, and to pay for an industry-wide defined-benefit superannuation call. These historic borrowings with 'interest only' payments have created a significant financial issue for this Council that requires response.

The situation was further impacted by the Covid-19 pandemic - an unforeseen shock which ultimately, had an estimated $50m impact to Council's financial position as a result of substantial revenue losses, fee waivers and the introduction of programs and services to support our struggling local businesses and community members.

More recently, Council's position has been threatened by escalating contract prices for infrastructure projects driven by factors such as inflation, supply pressures and competition from state government infrastructure initiatives, and the increasing cost-of-services above the rate of the Consumer Price Index (CPI). The changes to the current economic landscape have compounded these issues with high levels of inflation and significant increases to cost of services, labour, energy and construction materials.

The Municipal Monitor's *Report on the Governance of the City of Yarra* outlined the need for Council make significant changes to the service mix, restructuring of the organisation both in terms of accountability and culture, major investments in technology to improve the quality and efficiency of internal business processes, the implementation of a contemporary asset management system and improved processes for community interactions with Council. In short, significant reform is needed to create a modern service-orientated organisation. A particular emphasis was placed on Council's financial sustainability, a legacy of previous Council decisions over many years in a very different operating environment[1].

As a result, Yarra entered the 2022/23 budget period with significant challenges and in 2023, Council embarked on its journey to financial sustainability.

[1] Local Government Victoria (2022), *Municipal Monitor's Report on the Governance of the City of Yarra*. Municipal-Monitor-Report-Yarra-City-Council-September-2022-Final.pdf (localgovernment.vic.gov.au)

Council's current financial position has significantly improved from 2022/23 due to diligent financial management practice, and while the current indicators are lower than desired, Council returned to a $15.2m surplus (a 24% increase on last year) and marginally improved our VAGO risk rating.

Over the 12 months Council has implemented a number of measures to significantly improve our financial position (below). This is demonstrated in the adopted Budget 2023/24 and Long-Term Financial Plan (LTFP) 2023/24- 2032/33. Two key outcomes were achieved:

- Council did not require additional borrowings, despite a $20m borrowing capacity in the Budget 2022/23
- Creation of capacity to repay borrowings 6 years earlier (from 2030/2031 to 2024/25) than planned.

Reaching this achievement was made possible by an entire organisation refocus and embracing a cultural shift. We realised that there is no one-size-fits-all solution and a holistic approach is necessary. Several actions and decisions have played a crucial role in contributing to this substantial improvement, including:

<u>Budget 2022/23 monitoring</u>

In preparation for the 2023/24 budget, a whole of organisation, forensic mid-year review of the 2022/23 financials was conducted. The mid-year review examined all aspects of the budget including operating, capital and project budgets and the progress of projects against timeframes.

The mid-year review identified significant savings and a revised surplus of $14.4m, compared to a surplus of $12.3m in the adopted budget. A similar process was undertaken for the quarter 3 review, which identified further savings and a revised operating surplus of $16.1m, $3.9m favourable to the adopted budget. However, our preliminary 2022/23 year-end accounts indicate a lower than forecast rates collection, which although is a timing issue, had impact on our year-end final financial position.

<u>Improved capital works performance</u>

The VAGO *2021-22 Audits: Local Government* report notes "over the last five years, councils have consistently underspent and carried forward their capital budgets by $3.789 billion. While inflation and COVID-19 has compounded this problem, this consistent underspend also reflects issues with the project delivery, budget and forecasting process."

Unfortunately, Yarra is no exception with significant capital works (monies) historically carried forward year-on-year. In 2022/23 the carried forward from 2021/22 was $17.3m. Over the last 12 months Council worked hard to achieve our goal of reducing the impact and value of unplanned capital works carry over. As a result of careful oversight and a strengthened approach to project management, the recently adopted 2023/24 Budget includes a more achievable capital works program which meets asset renewal requirements and a significantly reduced carried forward ($7.2 million) from the 2022/23 financial year.

Our aim is to deliver the capital works program so that there is no, or limited, planned carryover and no, or negligible, unplanned carryover.

<u>Prudent financial management</u>

Council adopted its 2023/24 Budget on 19 June 2023. The budget shows improved results driven by stringent cost control and prudent financial management (cost-saving measures such as holding staffing costs, cutting expenditure and greater oversight of capital works delivery). The budget delivers a projected surplus of $15.2m which is a 24% increase on 2022/23 budget. The surplus will fund our capital works program and avoid incurring more borrowings.

Whilst the unrestricted cash remains less than borrowings in 2023/24, our focus on financial sustainability will enable us to have an unrestricted cash levels that are adequate to repay all borrowings by the end of 2024/25, providing council the option to do so, should it wish to. This has been brought forward from 2030/31.

<u>Separating Waste Charges</u>

It is the responsibility of Council to take action to limit the impacts of known future financial risks wherever possible.

This is the case with waste services, as the rising cost of providing waste services is a known risk to council's future financial sustainability. The costs of waste and recycling is continually outpacing the rate cap. Separating the waste charge from general rates has been critical to addressing this risk to ensure Council's financial sustainability is not eroded further.

Whilst the State's efforts to address systemic issues with the waste and recycling system and encourage a transition to a circular economy are strongly supported, the reality is that the cost of these reforms will have a direct and significant impact on all Victorian local governments.

The State Government's support to deliver kerbside reform is welcomed, but the contribution provided to Yarra is far short of covering the costs associated with delivering the mandated 4-stream service. In addition, increases to the landfill levy have created significant cost pressures for Yarra.

The landfill levy has risen over 90% in the last 3 years, from $65.90 per tonne in 2020/21 to $125.90 per tonne in 2022/23. This was a total cost of $4,242,225 (2020/21 - $939,075, 2021/22 - $1,509,075, 2022/23 - $1,794,075). This increase is well above the amount councils can raise through rates alone, with the Victorian Government rate cap averaging 1.75% over the same period. Overall, for Yarra, waste costs increased from $17,843,044 in 2021/22 to $19,263,544 2022/23, an increase of $1,420,500. This reflects an increase of 8% in one year. Given the rate cap shortfall the gap between the amount recovered via rates under the rate cap and the actual increased cost to Council for these services was $1,108,245.

As part of the 2023/24 Budget, Council has separated waste and recycling costs from general rates and implemented a separate rate for public and kerbside waste services. This is achieved by reducing general rates by the equivalent value. Yarra was one of the last councils in Victoria to make this structural change.

3.2 Our changing community profile

The City of Yarra's population, household and age structure forecasts help us understand what is driving population change in the community and helps inform Council about future community infrastructure and service priorities.

This section provides a summary of key demographic drivers and change within the Yarra community between 2021-2041[2].

Key demographic profile

- Yarra's population is predicted to increase by 49,580 people between 2023 and 2041 (62.92% growth)
- Yarra has a population density of 4,717 persons per square km, the second highest in Victoria.
- 87.6 per cent of Yarra's population live in medium and high-density dwellings compared to 34.4 per cent in Greater Melbourne.
- The number of dwellings is also forecast to grow from 49,961 in 2021 to 77,416 in 2041.
- Yarra has a significant portion of private rentals that traditionally attract young people, particularly those aged 18-24 years.
- Between 2021 and 2041, the age structure forecasts indicate:
    - a 34.4% increase in population under working age
    - a 35.2% increase in population of retirement age
    - a 17.1% increase in population of working age
- Single person households are predicted to continue to be the dominant household in 2041 and increase by 11,952 households (38.9% of all households).
- Yarra will retain a higher proportion of share houses and fewer families compared to greater Melbourne.
- 10% of Yarra residents currently live in public housing.

[2] Home | City of Yarra | Population forecast (id.com.au)

- A significant proportion of Yarra households do not own a car at double the Victorian average.
- Approximately 20.4% of households in Yarra live at the lowest end of the socioeconomic scale, experiencing hardship and social disadvantage. In contrast, 25.8% of households earn an income of $2,000 or more per week.
- Yarra has 25.3m2 of open space per person, expected to reduce to 20m2 per person with population growth.
- 57,172 people are employed in Yarra across diverse sectors, including hospitality, professional services, the industrial sector and creative industries.
- Over one quarter of the community was born overseas. In 2021, there were 18,025 non-English speakers living in the City of Yarra. Approximately 20% of residents speak a language other than English at home. Vietnamese, Greek, Mandarin, Italian and Cantonese are the top languages spoken at home, other than English.

Strategic analysis

The City of Yarra has been affected by the impact of COVID-19 and over the past 2 years, Yarra experienced an unusual population decline due to a reduction in overseas tertiary student migration. Migration patterns and population growth are projected to revert to pre-pandemic levels. This migration will see a return to increased demand for high-density residential housing (and development). However, the distribution of dwelling type, household structure and wealth are not uniform across the city. The accessibility of Yarra, along with lifestyle and job opportunities and the availability of both government and private rental housing means that the city gains migrants and other diverse population groups.

Specific to the FSS, several strategic considerations emerge:

- Yarra's diverse community identity is a strength. It also means Council's decision-making remit becomes more challenging as Council responds to diverse, and at times, competing community interests.
- Affordability is a key influence on the City of Yarra's role and function, specifically service delivery, community infrastructure and amenity. The City of Yarra is an economically polarised community. Many residents have the capacity to pay market-based rates for services (82% are ineligible for Commonwealth Concession Card), while 18% of the community experience hardship and are eligible for Commonwealth Concession Cards.
- Demographic information such as age structures, household composition, and cultural and sociodemographic diversity will inform future community service profiles. Single households continue to be dominant and have very different service needs than households with dependents. Services will need regular reviews to make sure they are purpose-fit to meet the needs of a changing community, especially those most vulnerable.
- Community infrastructure demands associated with a growing population will increase, so too will the need to renew and upgrade existing assets during a period of escalating construction costs.
- Both renters and ratepayers benefit from, and have equal right, to services and amenities provided by Council. This distinction sometimes leads to community tension from the two groups' different financial obligations and contribution to Council operations.
- The planning scheme will need to balance respectful housing growth with well-designed community infrastructure policy. This means levying a fair and reasonable contribution from land developers to fund local infrastructure projects that benefit Yarra's changing suburbs.
- Many of the areas that are forecast to change the most are former industrial and manufacturing areas which historically did not have public open space. Enhanced public spaces, parks, and recreational facilities will be more important as inner-city land becomes scarce and the demand for high-quality amenity increases. Preserving the unique heritage and cultural assets of Yarra, such as historical sites and significant locations for the Aboriginal community is important. Most of Yarra's well-loved open spaces and natural and cultural assets do not generate revenue and the cost is fully borne by ratepayers.
- Council's approach to sustainable and climate-resilient practices becomes more important to minimise the negative impacts of increased housing and population on climate change.

- Council's customer experience needs to continually evolve to make it easier for customers to connect with us, access services and complete their business. A contemporary program will require a significant technology uplift and investment.

3.3 External influences

Macroeconomic conditions

Macroeconomic conditions have worsened since 2021 and the Australian Treasury forecasts for key domestic macroeconomic parameters have been revised downwards for 2023 onwards[3]. Global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine disrupting supply chains, and the lingering COVID-19 pandemic all weigh heavily on the outlook. There is some consensus that Australian economic growth is expected to recover after 2024, however, economic slowdowns are expected to last for at least another year and a half before they fully recover.

Sector-led *Research for Submission to Local Government Productivity Inquiry*[4] and *Sustainability Gap Report*[5] identify several financial challenges and impacts to local government, mostly due to poor State and Federal policy settings. Most relevant to Yarra are:

Grants not indexed to meet the true cost

Commonwealth Federal Assistance Grants are distributed to local governments based on a formula that considers population size, socio-economic indicators and relative expenditure needs and relative capacity to raise revenue. This funding is "untied", and councils can use the grants at their discretion. Yarra's Financial Assistance Grants (general purpose grants) are the second lowest in Victoria[6]. As a proportion of the Commonwealth's revenue, grants declined 1.2% (in 1992-1994) to 0.53% in 2021/2022. In 2014 to 2015, indexation of the grant was frozen. Although the freeze has been removed, the impact of the reduced proportion is still felt on the base level of grants.

Cost-shifting

Cost shifting has been a major financial issue for many years and poses a risk on the ability for Council to deliver services and our financial sustainability.

Cost-shifting occurs where local government provides a service to the community on behalf of the State and Federal Government. Over time the funds received by local government do not increase in line with real cost increases.

Cost shifting happens when other levels of government:

- reduce, in real terms, payments to local government but maintain a requirement for the same level of service delivery, or
- require councils to perform new functions without supplying adequate resources

Some sector estimates herald a cumulative burden of cost-shifting in the order of $6.2b in a 10-year period (preceding 2021). Council 'top-ups' funding for services that it provides on behalf of the State and Federal Government to the local community (such as school crossing supervision, aged care services and library services).

Legislative and policy changes imposed by the State Government have had a significant financial impact on Yarra, such as early years reform, pool fence compliance, psychological safety legislation,

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[3] Parliament of Australia (2022), *Budget Statement 2: Economic Outlook*. parlinfo.aph.gov.au
[4] Australian Local Government Association (2022), *Australian Local Government Association. Research for Submission to Local Government Productivity Inquiry.* alga.com.au
[5] Municipal Association of Victoria (2022), *Sustainability Gap Report.* finpro.org.au
[6] Victorian Local Government Grants Commission (2023), Financial Assistance Grants (localgovernment.vic.gov.au)

cladding, gender equality legislation, child safe legislation, revised childcare regulations, accreditation requirements for Family Day Care, new immunisation programs, fire services levy collection and waste reforms. In all these services, the level of payment Council receives (or the absence of payment) from government does not reflect the real cost of providing the service to the community – leaving a financial burden that is borne by ratepayers.

Local government's capacity to respond to cost shifting is limited and all options available have potential detrimental consequences for the local community. Options available may include:

- reduce investment in other services to provide cost-shifted services within the same overall budget envelope.
- increase operating budget to fund cost-shifted services 'on top' of the current overall budget envelope, and therefore reducing the overall operating surplus which would normally be allocated to fund capital works to develop and enhance community assets.
- increase operating budget and seek an exemption to the rate cap to increase rates at amount higher than the rate cap (which may ultimately not be supported by the State Government).
- exit the service.
- advocate for additional State and Federal Government funding to help offset the expense of cost shifted services.

Rate capping

Rates are the most significant revenue source for Council and make up approximately 60% of our annual income. Supplementary valuations (due to changes in land and building value) provide additional revenue (historically variable between $700k to $1.8m per annum). Importantly, supplementary rates recognises that new residents require services on the day they move into the municipality. Supplementary rates become part of the general rates in the following year.

The Victorian Government established the Fair Go Rates system (2015) to limit the amount Victorian councils can increase rates in a year without seeking additional approval. Each year the Minister for Local Government sets the average rate cap for the following rating year based on the forecast change in the consumer price index (CPI). The annual cap cannot be increased without the permission of the Essential Services Commission.

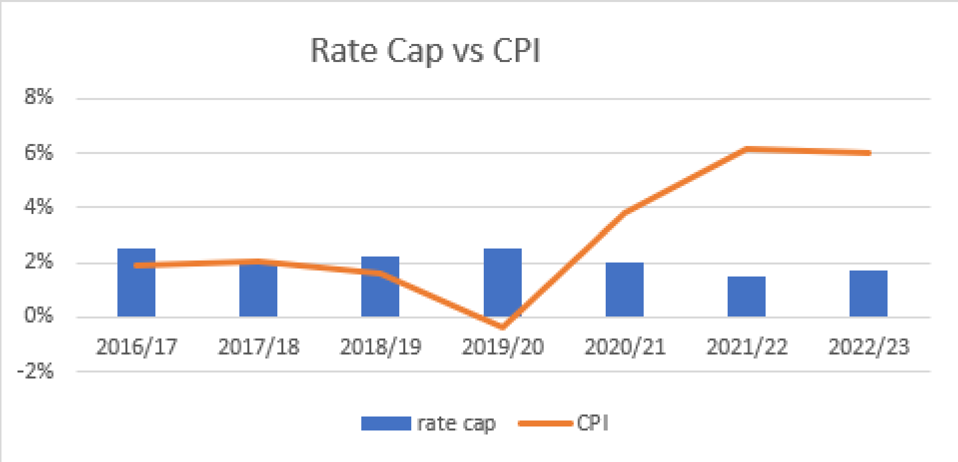
Since its inception, the 'Fair Go Rates System' has challenged Council's long-term financial sustainability, and it continues to restrict Council's ability to raise revenue to maintain service delivery levels and invest in community assets.

The CPI does not accurately reflect increases in costs faced by councils because they have a significantly different composition of expenditure compared to households. Key council expenditures (wages, construction, utilities, etc.) required to provide council services and deliver infrastructure projects have been increasing faster than the CPI.

The Australia Institute (2021) estimates that rate caps have reduced employment in Victoria by up to 7,425 jobs in 2021-22, with an estimated GDP reduction of up to $890m in 2021-22[7]. The Municipal Association of Victoria (MAV) estimates rate capping has eroded council rate bases in the order of $100m since its introduction.

Furthermore, the rate cap issue presents a significant concern for Yarra in 2023 and the near future. In 2022/23 the rate cap was set at 1.75% and CPI for the same period was 7%. For 2023/24, the rate cap is set at 0.5% below the CPI forecast, -- a substantial disparity between policy and actuality. Since its inception, the rate cap set below the actual CPI has resulted in a $8.4m impact to Council.

[7] The Australia Institute (2021), *Putting a Cap on Community.* Public Service in Challenging Times (australiainstitute.org.au)



The Victorian Auditor General's Office (VAGO) reported in their *Results of 2021–22 Audits: Local Government* report that 'the growth in council expenses outpaced the increase in their own source revenue'[8]. Basically, rate revenue is not keeping pace with inflation or the true cost of service delivery. The report notes:

> *"The COVID-19 pandemic continued to affect the sector in 2021–22. The sector's financial performance only improved because government funding increased. It would have declined without this financial assistance. The growth in council expenses outpaced the increase in their own source revenue. Councils' balance sheets remain relatively strong. Councils face challenges ahead due to the:*
>
> *(a) council rate cap, which constrains their ability to increase rate revenue*
> *(b) variability in government funding*
> *(c) rising cost of materials and services, which they need to actively manage.*
>
> *The sector's financial performance would have declined had the Australian Government not advanced (early payment) 75 per cent of the 2022–23 financial assistance grant in 2021–22, up from 50 per cent in 2020–21".*

Yarra is closely following the 'rate pegging' impact in NSW local government. NSW introduced rate pegging in 2009. The Independent Pricing and Regulatory Tribunal (IPART) acknowledges the NSW rate peg methodology can be improved to better reflect changes in council costs to maintain services. IPARTs draft report (review of the rate peg methodology) found NSW councils' financial positions deteriorated from 2016-17 to 2020-21 and more than half of NSW councils do not meet the infrastructure backlog ratio with the current rate peg methodology compromising councils' financial sustainability[9]. In 2023, 17 NSW councils applied for a variation to the rate cap.

Under the current model, and like NSW, the effects of the Victorian rate cap will continue to diminish Council's ability to deliver services and infrastructure renewal needs into the future.

Waste services

The Circular Economy (Waste Reduction and Recycling) Act 2021 mandates that all Victorian Councils roll out new standard waste systems, most notably the introduction of a four-stream kerbside waste and recycling service, comprising rubbish, recycling, glass and food organics and green organics (FOGO). The new system also includes the standardisation of bin lid colours, bin material acceptance lists and education campaigns.

In addition to the mandated service changes, all Victorian Councils have been impacted by significant increases to state landfill levy costs. The levy is the charge to dispose waste to landfill and the pricing model set by the State is, at least in part, aimed at encouraging reduction in waste generation and volumes sent to landfill. For Yarra City Council, the landfill levy has increased 90% over the last 3

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[8] Victorian Auditor General's Office (2022), *Results of 2021–22 Audits: Local Government*. [Victorian Auditor-General's Office]

[9] Independent Pricing and Regulatory Tribunal (2023), *Draft Report - Review of the rate peg methodology - June 2023*. [IPART (nsw.gov.au)]

years to an annual cost in the order of $1.8 million in 2022/23 and further rises are expected in the future.

The rising costs to provide existing and mandated waste services to the community are also due to several factors, including:

- Market volatility due to limited providers in processing and remanufacturing as well as end markets for the recycle product
- yearly % increase of logistic contracts due to increase fuel and supply chain costs;
- increase landfill levy (90% over the last 3 years)
- any increase in service levels, additional services and/or innovation in embedding circular principles.

Council has a legislative obligation to continue to provide waste and recycling services. It is also required to take measures to ensure Council's budget is financially sustainable.

Whilst the State's efforts to address systemic issues with the waste and recycling system and lead the transition to a circular economy are strongly supported, the reality is that the cost of these reforms will have a direct and significant impact on all Victorian local governments. The State Government has, and will, financially support councils to deliver kerbside reform, however the contribution provided to Yarra is far short of covering the costs associated with delivering the 4-stream service mandated by the Government.

Every council in Victoria shares these challenges. All other councils in Victoria have taken this into consideration of their financial future and have either separated or made the decision to separate waste services charges.

Yarra is the last Council in Victoria to make the decision to separate waste charges from general rates. Failing to do so would have impacted Council's ability to implement State Government mandated legislative requirements as well as the ability to continue to provide other essential services that are highly valued by residents.

By implementing this separate charge, we can progress towards financial sustainability and ensure quality services and infrastructure for the community.

New infrastructure pressures

According to a recent survey conducted by the MAV on infrastructure delivery challenges, over 80% of Victorian councils reported a decline in the responsiveness of industry tenders compared to the preceding 12 months. This impact is particularly pronounced in the construction sector, where 42% of councils indicated encountering a minimum cost escalation of 25% for construction projects ranging from $5m to $15m. This can mean delays or reductions in scope of infrastructure programs, as well as needing to cut other services to fund the increased costs. Key findings included[10]:

- the cost of delivering infrastructure, particularly construction costs has increased rapidly over 2021-22
- services, materials, and skill shortages are leading challenges
- infrastructure pipelines in Victoria and Australia are exceeding the capacity of industry to deliver
- local government's asset to revenue ratio is substantially different to other levels of government.
- Councils have large assets to manage, yet significant constraints on revenue (including imposed limits on own-sourced revenue such as the rate-cap and statutory fees)
- flexibility around how grant funding can be used and increases to untied grants are seen by councils as the most promising response to these challenges.

Over the next five years, the demand on Yarra's capital works program is expected to rise due to increased population and community demand, while government grants are likely to diminish. Yarra

[10] Municipal Association of Victoria (2022), *Infrastructure pressures affecting Victorian councils*. [MAV infrastructure pressures survey - summary report - Oct 2022.docx]

has already witnessed escalated expenses in its capital works program due to challenges such as limited contractor availability, disruptions in material supply chains, and labor shortages.

Relying primarily on government grants to fund infrastructure projects presents a significant risk for Council. With uncertainties surrounding State and Federal budgets and changes in policies and political priorities, there is a potential for limited availability of funds. Despite this risk, the Council will continue to strategically source State and Federal Government grants to support new infrastructure projects.

Maintaining existing assets

Council manages $2b of essential municipal and community assets. According to the Institute of Public Works Engineering Australia (IPWEA), 1 in 10 of all local government assets across the nation needs significant attention, and 3 in every 100 assets may need to be replaced. IPWEA also estimates that replacing poor quality infrastructure will cost $51b and replacing infrastructure that is assessed as in fair condition will cost between $106b and $138b[11]. This evidence highlights if assets deteriorate it will cost our community more to repair them.

The major threat to Council's financial sustainability is the long-term ability to maintain assets to an adequate level. Yarra's current Asset Plan delivery program is restricted by financial affordability. This merely enables us to 'scrape by' and fails to account for the true financial obligations necessary to sustain current service levels of our infrastructure over the next decade and beyond.

Our asset management challenge becomes more pronounced when taking into account the surging costs of infrastructure delivery and construction.

Council as a 'last resort' provider

Councils, including Yarra, tend to 'step in' as a provider of 'last resort' when other levels of government or the market exits a service to the community. This occurs when the service is essential or perceived to be important to the community. Typically, councils do not receive sufficient funding to deliver these services and often struggle to maintain continuity. At Yarra, if Council didn't step in our community would miss out on vital services including school crossing supervisors, early years education, aged care services and maintenance of state government big-build assets. Going forward, Council alongside our community, will need to make difficult decisions about the role of local government in delivering some services.

Community expectations

As our community continues to evolve, the demands of our residents will naturally evolve as well.

Public awareness and understanding of local government varies. Some may argue councils should simply deliver basic services – often expressed as "roads, rates and rubbish". In recent times, there has been a noticeable upswing in community expectations, specifically on Council's involvement in promoting social equity and implementing climate reforms. These expectations extend beyond traditional services and infrastructure. Our community now looks to Yarra for innovative solutions that drive positive changes, advance social equity, ensure environmental sustainability, and address climate change challenges.

In response to these changing dynamics, it is important for our Council to proactively adapt and engage with stakeholders to meet these increasing expectations while fulfilling our core roles in service and infrastructure delivery.

Digital transformation

COVID-19 accelerated the need for digital services and remote working capabilities as Council and its community rapidly adapted to lockdowns and restrictions. Our community reasonably expects to be able to access council services online to pay rates or fines, apply for permits, book waste collection and access other council services.

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[11] Institute of Public Works Engineering Australia (2021). *2021 National State of the Assets Technical Report – Our Assets, Our Opportunity*. (alga.com.au)

Yarra has a series of legacy ICT systems that require upgrading to improve system integration, efficiency and service responsiveness, data analytics capabilities for evidence-based decision-making, and the protection of Council data. Yarra is committed to a significant investment program to uplift its digital capabilities over the next 5 years.

Cyber security risks pose a significant threat, compromising data security, disrupting services and public trust. The Australian Cyber Security Centre (ACSC) received over 76,000 reports of cyber security incidents in 2021-22, an increase of nearly 13 percent from the previous year[12]. Investing in robust cybersecurity and expert collaboration is crucial to safeguarding critical systems and personal data.

Local government holds significant amounts of sensitive and valuable data about their community and staff that must be held securely.

Responding to climate change

As the intensity and frequency of extreme weather events increase, the sense of urgency for significant strategic investment in climate change adaptation and mitigation is increasing within the sector.

The role of local government in helping the community adapt to climate change and reduce emissions is recognised in Victorian legislation. Changes to the *Local Government Act 2020* have strengthened the need to consider climate change risk in council decision-making processes.

Climate change affects all areas of Council operations – from planning to parks and recreation - to maintaining assets - to delivering community services. Yarra has committed to the transition to net zero and to strengthen community resilience, with investment to reduce and manage community climate risks exceeding $4.4m per annum. In its first year, Council ‘scaled up’ rapid emissions reductions to ensure savings for the decade ahead.

The bushfires of 2019, and the flooding of the Australian east coast in 2022 is a stark reminder of major disruptions to communities, key infrastructure and services from extreme events. According to the research of the Australian Insurance Council (AIC), direct costs from extreme weather events are estimated to grow by 5.13 per cent each year (before inflation) and reach $35.24 billion (in 2022 dollars) by 2050[13].

While Council may not be able to fully anticipate all financial contingencies for events of such magnitude, it is vital to have provisions in place for immediate responses to natural emergencies.

Attracting skilled workforce

According to analysis of the 2022-23 adopted budgets of Victorian councils by the Department of Jobs Precincts and Regions[14]:

> *“Employee costs remain the single largest operating expense for most councils and are budgeted to rise 4.46% in total. …. However staff turnover is occurring at heightened levels across the sector compared to historical trends. This reflects the relative strength of the current employment market and remains a challenge for councils seeking to attract and retain appropriately qualified and experienced staff.”*

The City of Yarra proximity to the CBD along with its liveability and accessible public transport positively contributes to Council’s employee value proposition. However, the MAV *Current and Future Skills Needs Report 2018* and Council’s own *Workforce Plan* identifies occupational shortages in engineers, urban and town planners, building surveyors, environmental health officers and IT/ICT technicians[15][16]. At Yarra, the 900+ workforce constitutes 55% of the operating expenses in terms of

[12] Australian Cyber Security Centre (2022), *ACSC Annual Cyber Threat Report, July 2021 to June 2022*. Cyber.gov.au
[13] Australian Insurance Council (2022), *Insurance Catastrophe Resilience Report*. (insurancecouncil.com.au)
[14] Local Government Victoria (2022), *Analysis of the 2022-23 adopted budgets of Victorian councils.* localgovernment.vic.gov.au
[15] Municipal Association of Victoria (2018), *Local Government Workforce and Future Skills Report*. (mav.asn.au)
[16] City of Yarra (2022), *Workforce Development Strategy 2022-2026*. www.yarracity.vic.gov.au

employee costs. From an employee cost perspective, Council is outpriced in a competitive renumeration market (compared to the State Government and private sector). Employee provisions within the Enterprise Bargaining Agreement are typically informed by external market pressures beyond the imposed rate cap.

Reducing the number of employees might lead to cost savings, but it will also have an effect on the services provided, requiring a delicate balance. Considering the addition of 50,000 new residents to our municipality, staff numbers will need to be responsive and agile to service demands as they are anticipated to rise. Therefore, Council's workforce planning needs to be an active, informed and continuous process that must be responsive to external and internal change.

Summary: the MAV and ALGA [11,22] reports identified the following risks to the financial sustainability of Victorian councils, including Yarra:

1. Cost-shifting, where responsibilities are passed on to local councils from other levels of government without adequate funding.
2. Declining grants from higher levels of government as these governments themselves are grappling with budget deficits.
3. The compounding effect of a rate cap that has been consistently set below the level of cost increases experienced by local government.
4. Managing an increasing number of depreciating assets, also known as an 'asset renewal gap'
5. Deteriorating underlying surplus.
6. A deteriorating unrestricted cash position across most councils.

This Financial Sustainability Strategy seeks to address these challenges through strategic and systemic financial reform over the next decade.

3.4 Current financial position

Yarra's detailed financial information and financial statements can be found at [Annual Report | Yarra City Council]. This section is intended to provide a contextual snapshot of the key structural components of Council's finances: income, adjusted underlying operating surplus, working capital, borrowing, expenses and capital works.

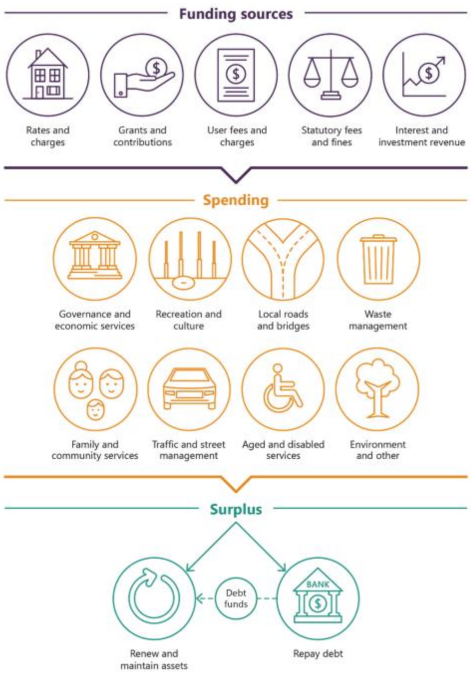
Key points:

Income is relatively stable, with a higher-than-average reliance on user fees, statutory fees and fines, and government grants.	Stability in rate income provides a predictable revenue stream. However, we have experienced lower rates collection rates since Covid-19. Variability in user fees, statutory fees, and fines may lead to fluctuations in revenue, requiring careful budgeting to manage cash flow effectively. Dependence on government grants can expose Council to potential funding uncertainties if government policies or priorities change. A stable income does not allow Council to expand services or infrastructure programs to accommodate population growth.
Low adjusted underlying result.	A low underlying result indicates a lack of surplus from Council's ordinary course of business (excluding capital receipts) to fund capital spending.
Low working capital.	Adequate working capital is essential to meet short-term obligations and fund day-to-day operations.
Indebtedness	Council's indebtedness ratio is a low-risk level for Council, which stands at 21.2% well below the 40% threshold set by VAGO. All of council's borrowing is based on principal and interest repayment, indicating that Council is now managing its borrowings more responsibly.
Operating expenditure predominantly related to direct service delivery.	Focusing operating expenditure on direct service delivery can be seen as a positive sign, as it indicates Council is prioritising the Council Plan and core business activities. Controlling and managing expenses are crucial for maintaining financial health.

	Understanding the composition of expenses and identifying areas where costs can be reduced or optimised is essential for improving financial performance.
Stable capital works program	A stable capital works program can provide predictability for budgeting and planning long-term projects, and to ensure the maintenance and renewal programs of existing assets are met. However, a static capital works program will not meet the needs of a growing population (for example new community infrastructure).

Source of income

Council operations are funded through rates and charges, government grants, developer contributions and user fees and charges. Most of the local government assets are property, infrastructure and the plant and equipment that councils need to deliver community services. Below illustrates the services that councils spend most of their funding on and what they apply their operating surpluses to.

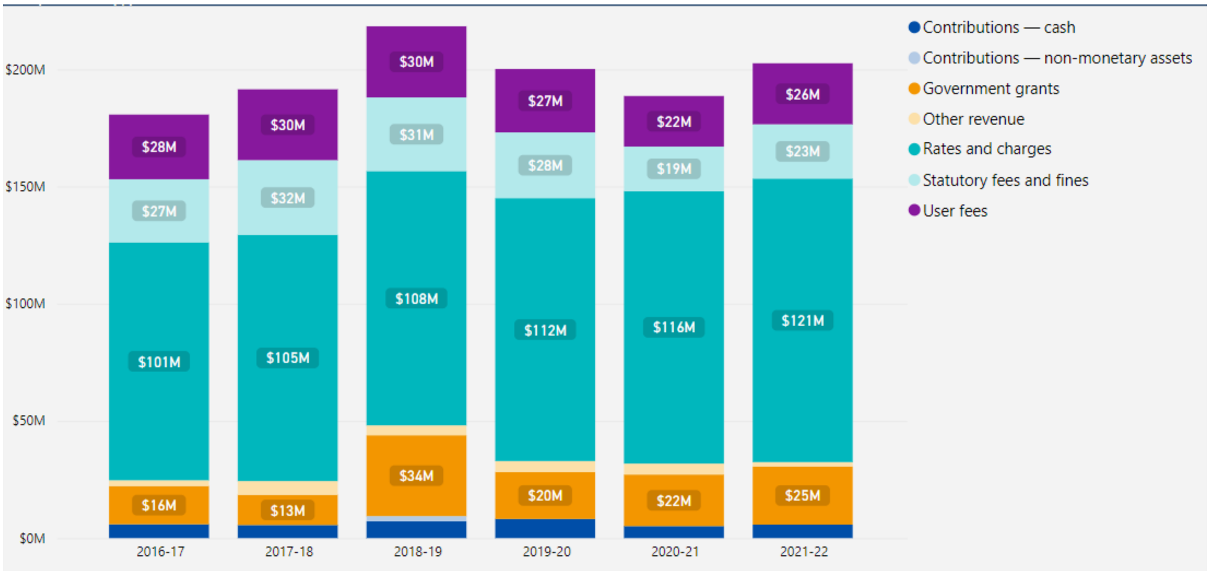


Source: VAGO.

Rates and charges, and user fees and statutory fees and fines are Council's largest revenue source, accounting for 83% of total revenue between 2018–19 and 2021–22[17]. Compared with the inner-city council average, Yarra has a lower reliance on revenues from rates and a comparatively higher reliance on revenue from statutory fees and fines and user fees and charges. Our preliminary 2022/23 year-end accounts indicate a lower than forecast rates collection, which although is a timing issue, has had impact on our year-end final financial position.

In order to reduce risk from unexpected shocks, it is important that Council creates a more sustainable and diversified revenue base to reduce its reliance on specific sources.

[17] VAGO https://www.audit.vic.gov.au/report/results-2021-22-audits-local-government

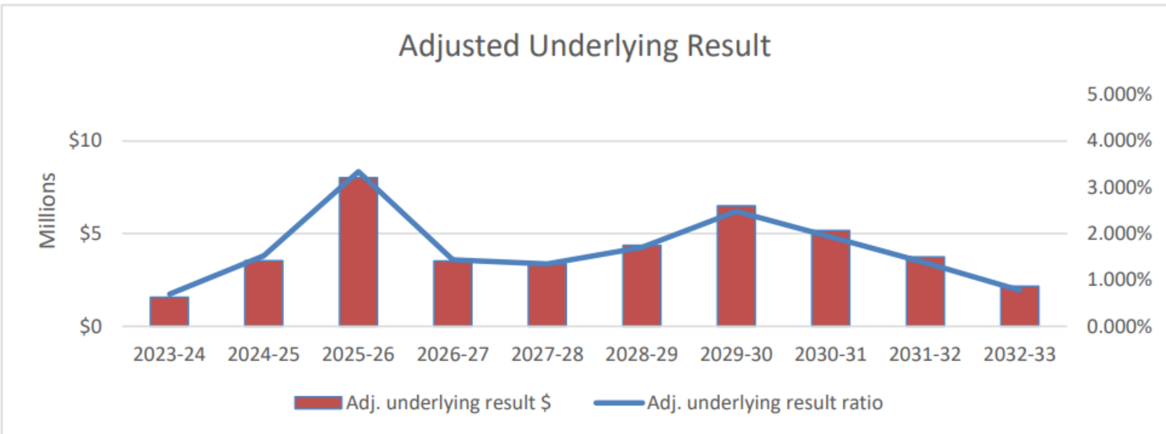


Adjusted Underlying Result

The adjusted underlying ratio is a key indicator of financial sustainability. The adjusted underlying result indicator measures a council's ability to generate a surplus from its ordinary course of business (excluding capital receipts) to fund its capital spending. A longer-term negative trend in this indicator could force Council to reduce the services they offer the community.

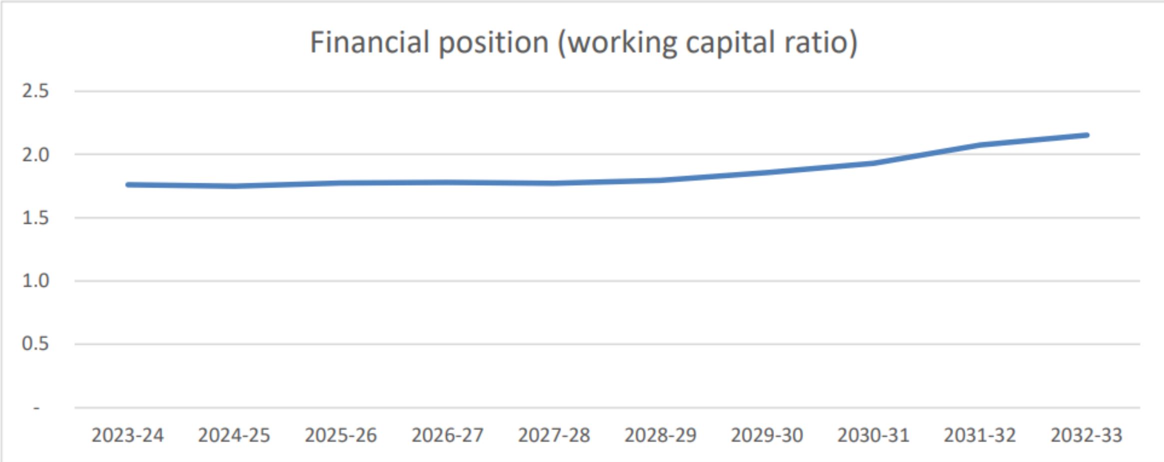
In local government, a surplus should not be equated with a "profit," as commonly understood in business terms. Unlike business profits, which reflect financial gains after deducting expenses, a surplus in local government are funds derived from income sources which are put to strategically deliver community services and infrastructure. However, Council needs to strike a balance between investment now and investment into the future. A "lazy" balance sheet is a metaphor, where an entity (such as a local government) holds excessive funds without actively utilizing or investing them. It is Council's plan to strategically invest in cash reserves and, at the right time, use this investment for specified purposes.

Based on current assumptions (in the LTFP), Council forecasts an adjusted underlying result that is below the Victorian Auditor General Office (VAGO) target ratio of 5%.



Working capital ratio

Sufficient working capital is required to meet Council's obligations as and when they fall due. A high or increasing level of working capital suggests an improvement in liquidity. Despite the increase to the working capital position in the Long Term Financial Plan (LTFP), Council is still at risk of not generating sufficient funds to maintain existing (and plan for future) levels of service, maintain and improve Council facilities and infrastructure and re-pay borrowings.



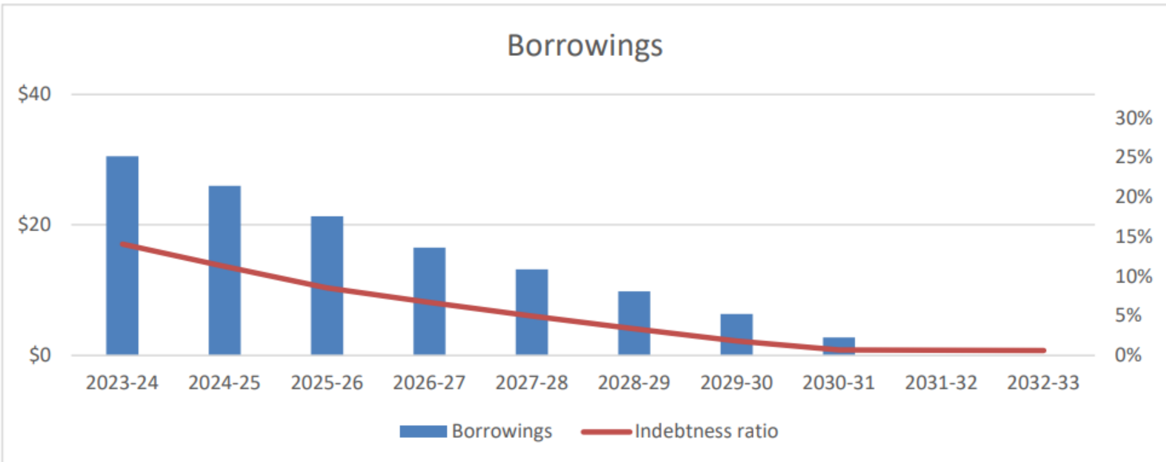
Borrowings

Council borrowed $32.5m in 2013/2014 to settle the Vision Super unfunded defined benefit liability and fund major capital projects, including the acquisition of 345 Bridge Road Richmond. This borrowing was an interest only loan and repaid in full in November 2021.

In February 2022, Council re-borrowed $32.5m through Treasury Corporation Victoria (a principal and interest facility) for a term of 10 years.

An additional loan of $13.5 million was drawn down in 2016/17 to fund the construction of Bargoonga Nganjin, North Fitzroy Library. This loan is funded on a principal and interest basis and will be repaid in 2027.

The 2022/23 budget allowed capacity for Council to borrow an additional $20m. However, prudent financial management has resulted in no additional borrowings. The current borrowing balance at 30 June 2023 is $34.9m. This FSS prioritises reducing borrowings to build capacity for future years.



Expenses

Most of Council's operating expenditure relates to direct service delivery. Major expenditure categories include employee costs, materials and services, doubtful debts, depreciation, amortisation right of use assets and borrowing costs. The following table details the allocation of Council's $201.4 million total operating expenditure for 2021/22.

Through a careful and considered process, Council adopted a range of cost-saving measures including adjusting our staffing allocation to hold staffing costs, cutting expenditure, and improving our planning processes for greater oversight of capital works delivery.

Expenditure by category 2021/22	$'000s	%
Employee costs	97,865	48.6%
Materials and services	73,017	36.2%
Depreciation	23,960	11.9%
Amortisation – right of use assets	1,263	0.6%
Bad and doubtful debts	2,271	1.1%
Borrowing costs	1,163	0.6%
Finance – costs leases	147	0.1%
Net loss on disposal of non-current assets	1,068	0.5%
Other expenses (e.g., auditors' fees, councilors' allowances)	695	0.3%
Total expenditure	**201,449**	**100.0%**

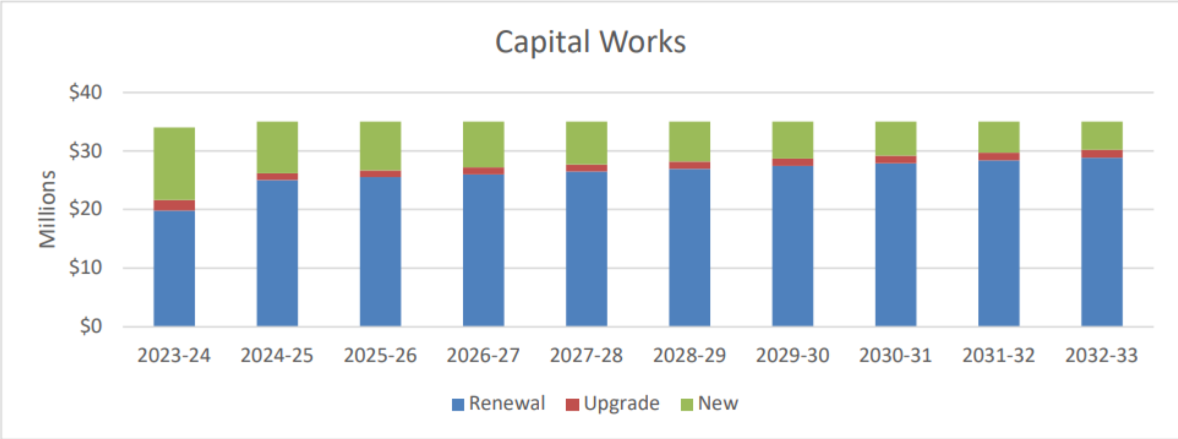
Capital works

Based on current condition data, Council has invested in its existing infrastructure at a rate higher than depreciation. In 2023/24, Council bought the ratio back to 1 in an effort to address sustainability. Yarra's spending on asset renewal trended upwards in real terms between 2018–19 and 2021–22. Asset renewal accounted for the highest share of capital expenditure over this period (81%). Council's spending on new assets increased in real terms between 2018–19 and 2021–22, while spending on asset upgrades declined.

The current capital works outlook is based on financial affordability and capacity to deliver. Council intends to spend $349m ($35m per annum) to renew, improve and create new community facilities and infrastructure over the next 10 years. This will be funded by a mix of rates, reserves and external funding sources including grants, contributions and other sources of income.

The need for additional capital works investment in the form of new community infrastructure to meet the needs of a rapidly growing community is expected to increase over the decade. To ensure evidence-based investment decisions are made, Council is currently preparing a new Community Infrastructure Plan and detailed Asset Plans for all classes of assets which will inform investment priorities.

The capital works outlook is expected to evolve in response to the development of new Community Infrastructure and Asset Plans.



3.5 Assumptions

Validated (Known) Assumptions

Current assumptions are based on Council's LTFP, which is updated annually as part of budget process. They are existing and conservative assumptions available at the time of its development[18]. Considering the dynamic nature of the policy and economic landscape, it is reasonable for Council to periodically assess and revise its strategic financial outlook as new material information evolves. Materiality is a fundamental concept in Australian accounting standards that refers to the significance or relevance of financial information (qualitative and quantitative) in influencing the economic decisions or could reasonably impact the assessment of Council’s financial performance.

Key baseline financial assumptions are:

Escalation Factors % movement	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Rates and charges	3.50%	2.00%	2.00%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%
Statutory fees, fines and User Fees	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%
User fees	4.00%	2.75%	2.50%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%
Operating Grants	2.75%	2.75%	2.50%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%
Employee costs	1.85%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Materials, services & Other	7.05%	6.35%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%
Depreciation & Amortisation	0.5m	0.5m	0.5m	0.5m	0.5m	0.5m	0.5m	0.5m	0.5m	0.5m

Other baseline assumptions are:

- maintaining an asset renewal ratio at 1.0
- Council prioritises the renewal and upgrade of existing infrastructure over the creation of new assets.
- capital works expenditure - baseline of $35m annually comprising:
    - renewal to average $25 - $28m
    - discretionary funding to average $6 - 10m for new, upgrade and expansion.
- Council will repay principal and interest on all borrowings on an annual basis with a long-term reduction in borrowings across the next ten years (or sooner if financially advantageous).
- Local Authorities Superannuation Fund (LASF) Defined Benefit Plan to remain above the shortfall threshold of 97% Vested Benefits Index (VBI).
- no new borrowings
- no growth in employee numbers (full time equivalent), unless it is directly linked to service enhancement in response to population growth.
- no new services (excluding growth in services respondent to population change).
- rising customer expectations for digital services.

[18] City of Yarra (2023), *Long Term Financial Plan*.

Unknown risks

Unknown risks are assumptions that cannot be validated. The following assumptions can be validated at some point in the future (by implementing the actions), but not now, and/or because we can't control them:

- further cost shifting from the other levels of government
- the extent and period of the cost-of-living crisis, and subsequent impact on State and Federal Government budgetary funding cuts impacting on local government
- rate of development within Yarra City Council given current financial climate and cost of living pressures, and the extent of financial impact on Council's Developer Contribution Plan and Open Space Reserves
- community infrastructure demands set out in the new Community Infrastructure Plan
- infrastructure renewal, upgrade and new infrastructure requirements based on improved condition assessment data and new Asset Plan
- future Enterprise Agreement provisions
- evolution of IT solutions and costs, however, we expect costs to rise as technology advances
- outcome of new property strategy
- outcome of new parking strategy
- user pay principles to be adopted
- the optimum service mix, service level, service delivery options and operation models, and any associated operational savings or expenditure
- the timing or extent of an emergency event
- the timing and amount of any Local Authorities Superannuation Fund (LASF) Defined Benefit Plan call.

The Long-Term Financial Plan outlook will evolve over time as actions within the strategy are completed and their impact quantified.

3.6 Strategic financial risk

Yarra City Council uses International Risk Management Standard (AS/NZS ISO 31000:2018) as the best practice framework for managing risks. These policies include identification and analysis of the risk exposure to Council and appropriate procedures, controls and risk minimisation.

The City of Yarra *Risk Management Framework* (internal document) outlines Council's risk appetite (the type and amount of risk which Council is prepared to accept or avoid). Council typically seeks to be risk averse and the financial risk appetite rating is low.

This section summarises Council's inherent strategic risk profile (for financial sustainability) without mitigation, controls and measures. Prevention and mitigation are the most effective and appropriate approach for control of risks which are within 'its' sphere of control' and where genuine mitigation efforts are feasible. The strategic levers in this FSS are important measures to mitigate and reduce Council's risk exposure.

It is noted Council has no to low exposure to:

- liquidity risk
- market risk (primarily through interest rate risk) with only insignificant exposure to other price risks
- foreign currency risk
- cash flow interest rate risk
- fair value interest rate risk
- credit risk.

Overarching strategic risk (Strategic Risk Review July 2023):

Strategic Risk	Likelihood	Consequence	Risk	Current controls

Inability to maintain financial sustainability leading to an adverse impact on the delivery of strategic objectives.	Possible	Major	High	• Financial Sustainability Strategy • Long Term Financial Plan • Procurement Policy and processes • Financial Policies • Grant funding/scheme • VAGO financial and performance audits • Internal audit program • Annual budget and LTFP process to facilitate critical discussions on key financial decisions • Capital works planning and monitoring • Quarterly financial reporting • Education/awareness processes on financial decision-making • Early identification of cost-shifting

Detailed risk mapping:

Risk cause	Likelihood	Consequence	Risk	Mitigation Strategy	Strategic Lever
Cyber security	Likely	Catastrophic	Very High	Digital transformation program, including cyber security plan	5
Funding call on the Local Authorities Superannuation Fund Defined Benefits Plan	Possible	Major	High	Review reserve funding strategies	1
Cost of service above CPI and rate cap	Almost Certain	Major	High	Diversify revenue sources, review cash reserves, review service delivery, explore cost-control measures, advocacy	1, 2, 4, 6, 7
Inadequate asset management to meet community infrastructure demand	Possible	Major	High	Develop community infrastructure plan, implement robust asset management program including condition, modelling and lifecycle assessments	3, 4, 5
Inadequate technology to meet customer or business needs	Almost Certain	Minor	High	Implement and invest in digital transformation program	5
Ongoing cost-shifting	Likely	Major	High	Build relationships with state/federal representatives, review services, monitor financial impact	4, 7
Natural disasters and climate change	Unlikely	Catastrophic	High	Develop emergency response plans, review insurance coverage, review contingency reserves	1, 6
Revenue fluctuation	Likely	Major	Medium	Diversify revenue sources, review cash reserves, explore cost-control measures	1, 2, 6
Economic downturn	Unlikely	Major	Medium	Establish contingency reserves, monitor economic indicators, implement financial control measures	1, 4, 6
Changing community demand for	Likely	Minor	Medium	Regular assessment and review of services	4, 3, 5

Risk cause	Likelihood	Consequence	Risk	Mitigation Strategy	Strategic Lever
services and service demand exceeds funding capacity					
Loss and/or reduction of State or Federal funding	Likely	Minor	Medium	Diversify funding sources, build relationships with State/Federal representatives, explore grants and partnerships	7, 2
Inefficient borrowing management	Possible	Moderate	Medium	Establish borrowing management policies, monitor borrowing-to-revenue ratios	1, 6
Inadequate budget planning	Rare	Minor	Low	Improve budget forecasting methods, implement long-term financial planning, regular budget reviews	6

4. Defining financial sustainability

4.1 Objective

Council is committed to ensuring its long-term financial sustainability while renewing and maintaining its assets appropriately and providing balanced community services without imposing a significant burden on our residents and community, today and tomorrow.

4.2 Defining financial sustainability

Financial sustainability is Council's ability to manage its financial resources in a responsible and efficient manner over the long term.

It involves achieving a significantly improved financial position, ensuring that revenue sources are sufficient to cover operating expenses, fund essential services and liabilities, and to have adequate surplus to effectively manage and invest in assets. Financial sustainability also includes planning and budgeting for future needs, such as new, upgrade and maintenance of infrastructure to respond to community need and growth, while considering the potential impacts of economic fluctuations and changing demographics. It encompasses prudent financial management practices, responsible borrowing management, revenue diversification, effective cost control measures, and transparency in financial reporting. By achieving financial sustainability, Council can meet the needs of current and future generations.

It is our aim for Council to:

1. 0-2 years: Maintain a net positive position by delivering a surplus, ensure our operating activities no longer rely on borrowings, hold costs and start to build cash reserves for specified purposes.

2. 3-5 years: Achieve a financial position where we have sufficient cash reserves to repay borrowings, generate new revenue, can cover all known operating expenses without borrowing, deliver a long-term financial plan that more reliably reflects future financial requirements ('unknown risks'), and have approximately $20m available in fund reserves for risk and strategic growth.

3. Within 10 years: Ensure that we have sufficient cash reserves (approximately $30m) to meet unforeseen or emergency expenses and support population growth without relying on borrowing or compromising essential services.

Over the next 10 years, cash reserves will be required to allow Council to respond conservatively and flexibly to the financial risks and assumptions without borrowing, including potential unknown events that are outside the control of Council.

Reserve	Purpose	$ value (goal)
Loan reserve	To repay $32.5m principal and interest loan and a $13.5m principal and interest	$34.9 (current balance as at 30 June 2023) down to $0 by 2031/32
Risk reserve	Reserve available to fund emergency or unplanned events that have significant financial impacts that if not addressed appropriately could have significant and long lasting financial sustainability issues. For example: future defined benefit superannuation shortfall calls, or significant projects related to climate change impacts or any emergency event(s) deemed as unavoidable (such as flooding, pandemic, cyber security breaches) or as working capital, which are one-off and material in nature	$20m
Strategic growth reserve	To fund future new major community infrastructure projects that provide direct benefit to the Yarra community as a result of population growth	$10m

All Councils use the Victorian Auditor General's (VAGO) financial sustainability indicators to monitor their financial sustainability.

After Council has grown cash reserve balances to the desired levels, the FSS is designed to progress towards the industry benchmark and VAGO 'low-risk' rating; unless we can demonstrate it is more responsible not to (for example, one-off abnormal transactions that do not have an enduring impact).

Measure	General Description	As at June 2023	Target	Comment
*Adjusted underlying result ratio (%)	Ability to generate surplus in the ordinary course of business, excluding non-recurrent capital grants, non-monetary asset contributions and other contributions, to fund capital expenditure from its net result.	0.7%	>5%	A positive result indicates a surplus. The larger the percentage, the stronger the result.
Working capital ratio	Ability to pay existing liabilities in the next 12 months.	1.27	>1.4	A ratio higher than 1:1 means there is more cash and liquid assets than short-term liabilities.
Indebtedness ratio	Ability to pay the principal and interest on its borrowings when they are due from the funds it generates.	7.93%	<40%	The higher the percentage, the less able to cover non-current liabilities from the revenues the entity generates itself.
Renewal gap (ratio)	The rate of spending on renewing, restoring and replacing existing assets with depreciation.	1.07	1	Ratios higher than 1:1 indicate that spending on existing assets is greater than the depreciation rate.

**The VAGO target 'ratio of underlying revenue' is the key indicator of financial sustainability. It is an accepted measure of financial sustainability as it is not impacted by non-recurring or one-off items of revenue and expenses that can often mask the operating result.*

4.3 Outcomes

In summary, the FSS seeks to:

1. reduce borrowings
2. improve cash reserves for specified purposes (to enable future investment in community infrastructure or unforeseen events)
3. maintain Yarra's asset base at a standard that can service the needs of our community now and into the future
4. develop a financially responsible community infrastructure plan with the right blend of renewals and new infrastructure
5. ensure the right level of services are provided to the community and effectively plan for future and changing community needs
6. optimise revenue generating assets (including property) and services
7. ensure user fees and charges reflect the true cost of service (that is, rates funding is not unreasonably subsidising services that provide private benefit)
8. improve operational efficiencies through technology, process, procurement, and project planning and delivery improvements
9. take a careful and fiscally responsible approach towards the use of reserves for strategic property acquisitions and major projects that will provide intergenerational community benefit
10. strengthen Yarra's advocacy and partnerships to achieve a better share of, and weather the storm of declining, government grants and subsidies
11. achieve an overall 'low-risk' rating on all Victorian Auditor General's (VAGO) financial sustainability indicators.

5 Strategic Levers

The purpose of this FSS is to recommend a set of initiatives which Council could immediately pursue to uplift Council's financial position to 2031-32 and beyond. The initiatives consider:

- ability to address risks and challenges
- likely scale of the net financial contribution to address the financial gap
- ability to be delivered within 3-5 years
- low to moderate operational challenge
- rectifying legacy policy, systems and processes
- least impact on community.

There are two primary types of levers for change to drive long term financial sustainability:

> **Strategic lever** to ensure that future investment decisions are based on need, underpinned by evidence and guided by informed strategies including detailed asset management plans, contemporary property management and community infrastructure planning and an ongoing program of service reviews.
>
> **Systemic lever** to invest in new way-of-working to manage expenditure/cost controls, responsible borrowing management, operational efficiencies and capital works delivery management, among others.

Most initiatives are interdependent and related. Specifically, most will need to be completed in parallel with the strategic review of the service landscape and the community infrastructure planning and digital transformation program, rather than as stand-alone reforms. Any new strategy, program or systems will require an implementation cost, however funding has been foreshadowed in current and future operational budgets to initiate many of the actions identified in this FSS. Cost savings have not been specifically identified due to the degree of uncertainty over their potential impact or the degree to which their impact will be determined by progress on other measures.

The actions clearly articulate where a Council decision, including successive Council's, will be required.

The road map serves as a guide for the organisation to follow, ensuring that the strategy is translated into practical actions and outcomes.

5.1 Strategic Lever 1: Sustainable cash reserves & responsible borrowing

Council can hold funds in:

- trust, restricted reserves (tied to a specific purpose) and intended allocations, such as developer contributions, statutory reserves, capital works projects or grant allocations which are set aside for specific purposes or obligations
- discretionary cash reserves segregated from general revenue, based on Council direction, to finance future expenditures or to provide for a specific purpose or projects.

Restricted cash reserves

Restricted Reserve	Purpose	Reserve balance as at 30 June 2022
Public Open Space Reserve	For contributions received as public open space levies pursuant to s18 of the Subdivisions Act 1988. The reserve is used to fund eligible open space capital works projects.	$14.766m
Parking Reserve	For contributions received in lieu of the provision of parking spaces required for property development. The reserve is used for the provision of car parking spaces as required.	$79,000
Developer Contribution Plan (DCP) Reserve	The DCP became part of the Yarra Planning Scheme via Amendment C238 on 1 February 2021. This levy applies to all residential, retail, commercial and industrial developments and helps to fund community infrastructure projects.	This reserve is generally acquitted each year

Discretionary (unrestricted) cash reserves

One of the key indicators of assessing Council's financial sustainability is the ability to generate sufficient cash flows and the level of unrestricted cash held.

Council must maintain a reasonable amount of cash to meet the requirements of Council business and ensure timely payment of all liabilities. Maintaining a healthy cash balance is important for financial sustainability. It can provide Council 'a financial cushion' to meet unforeseen or emergency expenses or to strategically fund priority projects and/or invest in infrastructure improvements without the need to borrow or disrupt essential services.

For example, Council has an ongoing obligation to fund any investment shortfalls in the Defined Benefits Scheme (superannuation scheme), which has been closed to new members since 1993. The last call on Local Government was in the 2012-2013 financial year where Council was required to pay $11.3m to top up its share of the Defined Benefits Scheme. At that time Council borrowed to pay this top up and this borrowing is now directly impacting councils' financial sustainability.

The amount and timing of any liability is dependent on the global investment market. At present the actuarial ratios are at a level that additional calls from local government are not expected in the next 12 months. It is therefore responsible to commence a risk reserve to fund any potential future calls and to minimise borrowings.

At the present time, Council has very limited cash reserves as a result of the COVID pandemic, inherited commitments on superannuation and interest repayments on borrowings. Council's limited cash levels have been subsidised by borrowings.

For Yarra, having adequate reserves is essential for managing and accommodating 57,594 new residents or a 63% population growth to 2041.

The FFS recommends establishing two (2) new cash reserves (for specified purposes) to allow Council to respond conservatively and flexibly to financial risks, potential unknown events that are outside the control of Council, to support population growth and contribute to our financial sustainability goals without borrowing (reference Section 3.6 and 4.2, respectively).

Risk Reserve

Risk: Funding call on the Local Authorities Superannuation Fund Defined Benefits Plan (high)
Cyber security and Inadequate technology to meet customer or business needs (very high)
Natural disasters and climate change (high)

Value: $20m

Purpose: To fund future defined benefit superannuation shortfall calls or significant projects related to climate change impacts or emergency events deemed as unavoidable or working capital which are one-off and material in nature.

Strategic Growth Reserve

Risk: Inadequate asset management to meet community infrastructure demand (high)

Value: $10m

Purpose: To fund future land acquisition and new major community infrastructure projects that provide direct benefit to the Yarra community.

Council responsibly manages its limited cash resources through an Investment Policy. The objectives of the policy are to:

- invest Council funds not immediately required for financial commitments.
- maximise earnings from authorised investments of surplus cash after assessing counterparty, market, and liquidity risks.
- ensure that appropriate records are kept and that adequate internal controls are in place to safeguard public monies.

Borrowings

Council typically views loan funding as a last resort. The use of borrowings must ensure intergenerational equity by aligning asset consumption with the future generations benefiting from those assets.

Yarra's current borrowings consists of a $32.5m principal and interest loan scheduled for repayment by 2031/32, as well as a $13.5m principal and interest loan due by 2027. The Council's indebtedness ratio is a low-risk level for Council, which stands at 21.2% well below the 40% threshold set by VAGO.

Considering the significant investment required in infrastructure and assets beyond the current strategy's lifespan, it becomes critical for the Council to maintain sufficient borrowing capacity. It is important to note that the comparison of borrowing levels does not fully assess Council's ability to generate sufficient cash flow for current and future service delivery. The introduction of rate capping, coupled with the need to repay borrowings within a limited timeframe and rising interest rates has significantly impacted Council's financial position and borrowing capacity. However, due to Council's current financial vulnerability (limited cash reserves) to withstand future financial shocks and low working capital, no new borrowings are projected in this FSS.

Council's approach is now to make annual principal and interest repayments on all borrowed funds, resulting in the reduced borrowings over the next ten years. This robust borrowing reduction plan creates room for future borrowings if required to meet the infrastructure demands of a growing city beyond the current strategy's lifespan. Ideally, rather than borrow Council would invest in infrastructure reserves and self-fund projects wherever possible. Should Council deem borrowings absolutely necessary, Council will comply with the Local Government Prudential Guidelines, adopt a cautious and judicial approach to borrowing and only pursue new borrowings for capital works if they demonstrate clear long-term benefits for future generations, hold no other borrowings and demonstrate a clear ability to repay borrowing levels without compromising infrastructure or services.

Ref	Action	Timeframe	Enabler	Authorising Environment	Lever Type	Interdependency

1.1	Develop a new Reserves Policy and establish new cash reserves to optimise cash availability for specified purposes, including. • Risk Reserve • Strategic Growth Reserve	Year 1	Finance	Council decision	Systemic	Nil
1.2	Invest in identified cash reserves	Per Annum	Executive	Council decision	Strategic	All
1.3	Prioritise the ‘paying down’ of existing borrowing and adopt a judicious approach to new borrowings.	Per Annum	Executive	Council decision	Systemic	1.1, 3.2, 3.6

5.2 Strategic Lever 2: Optimise revenue

As populations grow, local governments face increasing pressure from community and business to improve service delivery performance. Yarra revenue is highly constrained threatening service delivery and quality to meet a growing community.

Rates and charges, and user fees and statutory fees and fines are Council’s largest revenue source, accounting for 83% of total revenue between 2018–19 and 2021–22. Compared with the inner-city council average, Yarra has a lower reliance on revenues from rates and a comparatively higher reliance on revenue from user fees and charges.

As our population grows, more properties mean more infrastructure and services are needed (parks, pathways, waste collection, libraries, playgrounds etc). Inflation and the cost of living continues to rise, so too will the challenge to minimise rate increases over the coming years. As a part of our overall financial strategy, Council will need to consider other opportunities to generate income and to reduce the reliance on these traditional revenue sources.

Generating new revenue or increasing current fees and charges to properly reflect the cost of service beyond statutory limits and the affordability of our community is extremely challenging.

The user pay principle, in the context of local government, is a guiding concept that advocates for individuals or entities benefiting directly from specific services or facilities to bear the associated costs. Under this principle, users are charged fees corresponding to the level of services they use or the extent of benefits they receive. The user pay principle promotes fairness by ensuring that those who directly benefit from particular amenities, such as recreational facilities or waste collection services, contribute proportionately to the cost of maintaining and providing these services, relieving the financial burden on the broader community. Those who directly benefit from, or cause expenditure, should make an appropriate contribution to the service, balanced by the capacity of people to pay while ensuring compliance with National Competition Policy.

Realistic options to uplift revenue include leveraging strategic partnerships to attract more funding, reviewing our pricing policy, ensuring developers fairly share the burden to contribute to new infrastructure and open space, and reviewing Council’s strategic property portfolio and leasing arrangements.

For example, Council in 2023 increased metered parking and permit fees for the first time in 6 years. The cost of Yarra’s resident parking permits will remain among the lowest in inner-city Melbourne, and we are also maintaining our significant concession discounts (including retaining a free first permit for concession holders). Parking restrictions have a primary goal of sharing a resource rather than generating revenue, however a pricing model is effective in supporting more efficient, fairer use. We are moving towards a more demand driven parking model that considers demand for parking spaces in price setting. This increase in parking revenue will help Council’s financial position without major community impost.

Council may also consider revisiting subsidies to businesses using public spaces for profit-based activities like outdoor dining. By striking the right user-pay balance, public spaces can support local businesses, while also safeguarding the interests of the community and Council.

A Development Contributions Plan (DCP) is also another means of enabling the fair funding and delivery of infrastructure for a growing population. It is a planning and legal instrument that ensures developers contribute towards infrastructure that is required to service a growing population. Each contribution is spent within the area that the new development is built, to benefit existing and future local residents. A review of the Council's Community Infrastructure Plan is underway, which in turn may necessitate a review of the DCP planning provisions.

In 2022, Amendment C286yara to the Yarra Planning Scheme sought to increase the public open space contribution rate from 4.5% to 10.1%. The independent Planning Panel acknowledged that the current rate of 4.5% in the Yarra Planning Scheme is inadequate and recommended an open space contribution rate of 7.4%. Council is currently pursuing all available options to secure a higher than recommended rate to meet the needs of a growing community from the State Government. Delays in planning amendment approvals are costing millions.

A strategic review of properties, leases and licenses will likely identify opportunities to optimise potential revenue, and/or identify surplus property and assets for Council-owned assets (taking into consideration private, commercial and community benefit).

Ref	Action	Timeframe	Enabler	Authorising Environment	Lever Type	Interdependency
2.1	Implement the Pricing Policy for fees and charges, including applying user pays principles where it is appropriate to do so.	Year 3	Finance	Council decision	Strategic	4.2
2.2	Develop a new Strategic Property Plan, including review existing revenue generated by each property, current financial performance and potential for growth for each property, and underperforming properties.	Year 1	Property & Leisure Services	Council decision	Strategic	3.2, 3.6, 4.2
2.3	Review Council's parking strategy, including financial modelling.	Year 2	Sustainable Transport	Council decision	Strategic	Nil
2.4	Review Council's Developer Contribution Plan and Open Space contributions.	Year 3	City Strategy	Council decision	Strategic	3.6
2.5	Investigate new and/or alternative revenue streams.	Annual	Executive	Council decision	Strategic	Nil
2.6	Assess the risk of variability for current income sources and its impact to Council.	Every three years	Finance	Audit & Risk Committee	Strategic	Nil
2.7	Benchmark high volume fees with other councils and establish comparable rates.	Year 1	Finance	Council	Strategic	Nil

5.3 Strategic Lever 3: Well planned assets

Council manages $2b in assets from land and buildings to roads, drains, footpaths, parks and open space and our asset base is largely the product of investment by prior generations of residents. As custodians, Council has the responsibility to ensure these assets are available to future generations.

Integration with the Asset Plan is a key principle of Council's strategic financial planning principles. The Asset Plan is designed to inform the 10-year Long-Term Financial Plan by identifying the amount of capital renewal, backlog and maintenance funding that is required over the life of each asset category. The level of funding incorporates knowledge of asset condition, risk assessment, as well as setting intervention and service levels for each asset class.

Consistent with the trend across the local government sector, Yarra faces escalating costs to operate, maintain and renew our ageing asset base. Climate change is putting additional pressure on asset capacity, utilisation and condition. Insufficient investment in asset renewal will result in assets deteriorating much faster than necessary, adding cost in the long run and potentially compromising levels of service.

Yarra must continue to reinvest in renewing and upgrading existing assets to an acceptable condition and to be sustainable we must also review the assets we already have to ensure we are maximising public value. It should be noted that Yarra's current Asset Plan (and investment in assets) is limited by financial affordability and does not reflect the actual financial requirements to develop new and maintain current service levels over the next ten years and beyond.

It is also important for Council to understand the current condition of our assets. Asset data helps Council better manage all aspects of the asset lifecycle and better allocate funding to ensure that assets are available to the community at an appropriate level of service. This becomes more important when new assets are created (for example new community infrastructure and open space delivered under the Open Space Reserve and Developer Contributions Plan). A resilient future may require an upfront investment in new innovative technology, automation and remote monitoring to help with evidence-base predictive analysis, modelling, and investment planning.

The availability of assets and the related service level can change over time as population demographics change. Asset management is also interdependent with service planning; the current and future demand for services, the service delivery approach, the service level to be provided and/or major changes to services.

While we are working on a new Community Infrastructure Plan and 10-year capital works program (including the investment required), previous plans foreshadow the need for new integrated community hubs, sporting facility upgrades, upgrades to outdated existing community spaces and quality connected open spaces. The foundational actions in this FSS, including establishing a new cash reserve for future community infrastructure demands which will place Council in a better position to respond to the investment requirements set out in the next iteration of the Community Infrastructure Plan and Asset Plan.

A major focus is continued improvements and resourcing to Yarra's asset planning and management capability to plan and manage investment (in response to growth) and risks associated with our assets.

Ref	Action	Timeframe	Enabler	Authorising Environment	Lever Type	Interdependency
3.1	Detailed asset plans (condition, quantity) across Council's asset portfolio (buildings, roads/ footpaths/ cycleways, stormwater and open space).	Year 1 and ongoing	Asset Management	Operational	Systemic	Nil
3.2	Use strategic asset management data and modelling to inform appropriate renewal funding and to prioritise renewal projects.	Year 1 and ongoing	Asset Management	Operational	Systemic	3.1
3.3	Independently assess Council's unit rates and 'useful lives' for all asset classes to ensure appropriate asset value and depreciation calculations.	Year 1 and ongoing	Asset Management	Operational	Systemic	3.2
3.4	Implement a new asset management framework to ensure whole of lifecycle asset management.	Year 2 and ongoing	Asset Management & Transformation	Operational	Systemic	5.1, 5.2, 5.4
3.5	Develop a new Asset Plan to inform the Long-Term Financial Plan.	Year 3	Asset Management	Council decision	Strategic	3.2, 3.4, 3.6, 4.2
3.6	Finalise a new Community Infrastructure Plan aligned with service planning and Developer Contribution Plans.	Year 2	City Strategy	Council decision	Strategic	3.2, 3.5, 2.5, 4.2

3.7	Build new integrated ten-year capital works plan including: • review and re-prioritise the program • scale the program to organisational capacity to deliver • make projects more stageable • increase budget contingencies	Year 1 and ongoing	Assets Management	Council decision	Systemic	3.5, 3.6, 3.2

5.4 Strategic Lever 4: Review the service landscape

For every dollar Council receives in rates, Council spends $1.70 on providing services. VAGO developed a framework to categorise the range of Council services. The exact scope and method of service delivery differs greatly across Victorian councils, with the greatest variation in service delivery within the 'community expectation' and 'Council discretion' categories.

Rational for service	Explanation	Examples
Statutory obligation	Council is legally required to provide the service	Rates, roads, animal management, food safety, maternal and child health, noise, building and planning, waste collection.
Statutory discretion	Legislation that gives Council the option to deliver the service, but it is not mandatory for Council.	Economic development, community grants.
Community expectation	Due to market failure and community demand, Council is expected to provide the service and it would be extremely difficult for Council to exit the service.	Library services, sportsgrounds and pavilions.
Council discretion	Although it is not legally required to do so, Council provides the service to meet an identified community need that other organisations may be able to provide.	Markets, arts and cultural activities, events, sister-city relations, childcare, aged services, environmental education, youth programs.

Over time, the needs and expectations of the Yarra community will change, meaning Council's service mix, service levels and operating models will also need to respond and change.

Currently, Council lacks the financial capacity to undertake ('take-on') any new services and may even need to reduce services. Redefining the service mix, service level and service delivery options through a comprehensive service planning and review program will be central to Council's financial sustainability over the next 10 years. Council will need to establish a (new) robust service planning and review framework to ensure all services are relevant, financially sustainable and can meet future community needs.

Planning for services will help Council identify and understand:

- the value of the service to the community
- new services and when to reduce or remove services
- the cost of services
- what level of service to the community we can afford
- the revenue needed to generate to make the service(s) financially sustainable (if appropriate)
- adjusting service levels to manage costs
- managing and maintaining key infrastructure assets
- the right level of resources to deliver services
- the role of alternative service providers
- compliance with National Competition Policy.

The process will ensure Council makes service-delivery decisions based on community need with a full understanding of the role of Council and the full cost of each service.

Due to the program's crucial role in ensuring financial sustainability, it is anticipated that the Council will adopt a deliberative engagement approach to define the principles governing the service planning and review framework. Through targeted engagement, Council aims to examine the changing community demographics, service landscape, key Council services (both essential and non-essential, legislated and non-legislated), financial limitations, community awareness and attitudes towards service delivery, potential alternative options available in the market, and the alignment of service provision with other obligations such as asset maintenance and capital works.

To support this initiative, Council has established a new business transformation department to lead the service review processes and identify service and operational efficiencies and improvements, and to contribute to service cost control and prudent financial management of internal operations.

Four (4) strategic service reviews are proposed per annum. The types of reviews will be:

> **Strategic Reviews**: To evaluate service efficiency, effectiveness, and value, considering internal and external factors to decide on continuity, enhancement, or changes. Council endorsement will be required when decisions exceed the Chief Executive Officer's delegation or when significant changes impact community-facing services. These reviews will follow project-specific community engagement in accordance with policy.
>
> **Management Reviews**: Reviews conducted within the Chief Executive Officer's delegation, with minimal impact on community services. These reviews assess efficiency, effectiveness, and value, informing decisions on continuity, enhancements, or changes.

Council is committed to creating a culture of continuous improvement in all its operations. This involves two main components: workforce planning and continuous improvement programs.

Regular and proactive workforce planning allows Council to develop operating models that respond strategically to service needs, changes and market challenges.

Continuous improvement goes beyond periodic service reviews; it involves consistently assessing and streamlining operating models and internal processes to boost efficiency and save resources. By embracing this commitment, the Council can make regular and gradual improvements without solely relying on formal service reviews, remaining responsive to the community's needs.

The service review program is expected to unlock financial capacity within 3 years.

Ref	Action	Timeframe	Enabler	Authorising Environment	Lever Type	Interdependency
4.1	Deliberative engagement to establish the principles of the service planning and review framework	Year 1	Business Transformation	Council decision	Strategic	Nil
4.2	Implement a new service planning and review program	Year 1 and ongoing	Business Transformation	Council decision	Strategic	3.6, 4.1
4.3	Develop a new Workforce Plan	Year 2	People & Culture	Operational	Strategic	Nil

5.5 Strategic Lever 5: Invest in transformation

Yarra has embarked on a comprehensive digital transformation program to modernise its operations and enhance service delivery to the community. This program encompasses initiatives and strategies designed to leverage technology and digital solutions to integrate systems, streamline processes, improve efficiency and service innovation, and provide better accessibility and convenience for residents and staff.

The digital transformation program will also focus on leveraging data and enhancing analytics capabilities to ensure evidence-based service and asset planning and decision-making. Over the next 3 years, Council will develop an advanced data management and analytics program, enabling data-driven insights into community needs and preferences. This data-driven approach will help Council use resources more effectively, identify areas for improvement, and tailor services to meet the evolving demands of the community.

An uplift in our cybersecurity is important as we rely on digital systems and technology to provide essential services and manage sensitive data. Protecting the integrity, confidentiality, and availability of information is crucial to safeguarding customer privacy, maintaining public trust, protecting critical infrastructure and ensuring uninterrupted service delivery.

Embracing technological advancements and fostering innovation can significantly improve financial sustainability in the long term. However, for Yarra, the realistic outlook is a high upfront investment to uplift digital technology capabilities alongside a comprehensive program to streamline processes. Efficiencies gains will normally be evidenced in Council's financial position after 5+ years.

Council's adopted risk appetite for corporate systems is *high* and is willing to pursue a greater level of risk with innovation, new technology and systems which can enhance efficiency, service delivery results, customer experience or safety enhancements.

It is expected the digital transformation program will operate within following financial sustainability parameters:

- evaluate the risks associated with the program and develop contingency plans to address potential challenges or unexpected costs. Conduct regular risk assessments throughout the project's lifecycle and adjust financial planning accordingly.
- be certain about lifecycle costs (ie ongoing operational costs, maintenance expenses, and any future upgrades or enhancements)
- build internal capabilities to lead to cost savings and improved efficiencies over time
- deliver a well-managed digital transformation program that prioritises responsible resource allocation, transparent financial reporting to ensure long-term viability and public trust.

Ref	Action	Timeframe	Enabler	Authorising Environment	Lever Type	Interdependency
5.1	Implement Council's digital transformation program.	Ongoing	Transformation	Operational	Strategic	Nil
5.2	Procure and implement an Enterprise Resource Planning (ERP) suite.	Year 3-5	Transformation	Operational	Systemic	5.1
5.3	Develop and implement a new cyber security strategy.	Year 1	Information Systems	Operational	Strategic	5.1
5.4	Develop and launch a new Data Hub to enhance and support effective data driven decision-making.	Year 3	Transformation	Operational	Strategic	5.1
5.5	Consolidate and or upgrade/replace systems that sit outside of the Enterprise Resource Planning suite.	Year 3-5	Transformation	Operational	Systemic	5.2
5.6	Implement a new Digital Blueprint Strategy.	Year 5	Transformation	Operational	Strategic	5.1

5.6 Strategic Lever 6: Robust financial management

Over the past 3 years, Council's operations and its financial results were significantly impacted by the prolonged impacts of COVID-19. At the time, Council made a deliberate and considered decision to step up and assist our community and businesses during the pandemic, at the expense of our bottom-line. Our financial position was impacted by $50m in lost revenue and increased expenditure.

The COVID-19 pandemic taught essential financial lessons, emphasising the importance of regularly reviewing cost control measures, fostering a resilient workforce during uncertainty, and staying flexible to adapt to changing conditions.

Mitigating financial risks, effective financial planning and responsible budgeting are essential for long-term sustainability. Management undertakes 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 value. Performance is monitored closely throughout the year with forecasts updated monthly and reported to Council quarterly. Through this process, Council delivered:

- Budget 2022/23: A revised operating surplus of $16.1m, $3.9m favourable to the adopted Budget
- Budget 2023/24: An improved $15.2m operating surplus, up $3.85m or an equivalent 24% improvement from 2022/23).

Increases to the landfill levy have created significant cost pressures for Yarra. The levy has risen over 90% in the last 3 years, from $65.90 per tonne in 2020/21 to $125.90 per tonne in 2022/23. for Yarra, waste costs increased from $17,843,044 in 2021/22 to $19,263,544 2022/23, an increase of $1,420,500. This reflects an increase of 8% in one year. This increase is well above the amount councils can raise through rates alone. As a structural change to our annual budget, Council recently resolved to separate waste and recycling costs from general rates and to implement separate rates for public and kerbside waste services. This is achieved by reducing general rates by the equivalent value.

Other important levers are:

Capital works management

Yarra historically has had significant unplanned capital works/monies carried forward year on year. In 2022/23 the carry forward from 2021/22 was $17.3m. Over the last 12 months, Council limited the impact and value of unplanned carry over by strengthening project management and building a more achievable capital works program within the capacity of the organisation. Ongoing, our aim is to deliver the capital works program so that there is no/limited planned carryover and no/negligible unplanned carryover.

Procurement & contract management

Improved and innovative procurement practises will also be important for long term financial sustainability. By implementing prudent procurement practices, Council can achieve cost efficiencies and optimal allocation of resources. Through competitive bidding, strategic sourcing, and supplier evaluation, procurement aims to secure goods and services at the best value, while maintaining quality and compliance. Sustainable procurement practices involve considering environmental and social factors, fostering responsible supplier relationships, and promoting long-term cost savings. Overall, a well-managed procurement process contributes significantly to financial performance.

Effective contract management is instrumental in ensuring financial sustainability. Overseeing contracts throughout their lifecycle, Council can control costs, risks and operational efficiencies. Proactive contract monitoring and adherence to terms and conditions helps prevent costly variations and ensure that both parties meet their obligations. Contract planning helps deliver the best value for money and can drive financial value by:

- leading continuous improvement
- value preservation and additional value creation
- performance management
- risk mitigation, role clarity, and the value of supplier relationship
- quality assurance.

Ref	Action	Timeframe	Enabler	Authorising Environment	Lever Type	Interdependency
6.1	Adopt a year-on-year operational savings program across the business to grow cash balances.	Year 1 for 5 years	Finance and Executive	Operational	Systemic	Nil
6.3	Review Council's procurement and contract management processes to	Year 2	Strategic Procurement & Project	Operational	Systemic	5.2

	ensure better value and hold costs.		Management Office			
6.4	Continue rigorous internal monthly and quarterly financial monitoring processes.	Ongoing	Finance and Executive	Operational	Systemic	Nil
6.5	Articulate the implementation cost(s) of all new and updated strategies and plans in the Council decision making process.	Ongoing	Executive	Operational	Systemic	Nil
6.6	Develop a new Enterprise Project Management Office (EPMO) to manage capital and transformation project delivery (and costs).	2 years	Project Management Office	Operational	Systemic	5.2

5.7 Strategic Lever 7: Prioritise advocacy & partnerships

Communities face uncertainty and financial pressures due to their reliance on other levels of government for funding support. This dependence leads to various challenges for Council, including:

> **Cost-shifting**: The Victorian and Federal Governments often transfer responsibilities to local governments, such as libraries and kindergartens, without providing sufficient funding. This results in councils having to cover the costs associated with these services.
>
> **Declining government grants**: Funding from other levels of government may be reduced, stopped altogether, or fail to keep up with the increasing costs incurred by councils in delivering community services.

Cost-shifting has traditionally affected services like libraries and school crossing supervision programs. However, it has expanded to non-traditional sectors like social housing, maternal and child health, building enforcement, early years infrastructure, urban planning, landfill levy and waste services, state infrastructure projects, urban stormwater, electrical line clearance, environment protections, climate change response and mitigations, road network projects, state road amenity maintenance, disaster response and recovery, pool fencing and cladding compliance, and other indirect costs.

Policy changes made by government are often important steps towards reform, but they come at a cost to Council. In 2022, the State Government proposed a rates exemption on social housing which was quantified at $30+m in reduced council rates over 10 years.

Since 2009, planning fees have not kept pace with the cost of delivering the service and importantly representing the community at VCAT. Council, or more accurately ratepayers, subsidise the administration of 1,091 planning applications.

Most recently, the cost to implement waste reforms is modelled at an additional $3m year-on-year. Council was required to make structural changes in our rates and charges policy to allow cost recovery and an equitable 'user-pays' approach to waste services charges.

Yarra has taken on all these additional responsibilities, operated within the prescribed fees and revenue envelope, the rate cap and fixed staffing resources – all to the detriment of our financial position. We have relied on rate revenue to bridge funding gaps, meet growing service demands, comply with new government policies, tackle rising costs, and fulfill community expectations.

As the Victorian and Australian Government are grappling with budget deficits there is a real risk grant funding will also reduce over the next 10 years. In a declining funding environment, Yarra needs to establish stronger strategic partnerships, leverage regional networks, and proactively advocate for policy changes and investment in Yarra. To enhance the effectiveness of grants Council should adopt a more strategic approach. Instead of pursuing grants opportunistically, Council should proactively identify and target high-value funding opportunities that directly support the Council Plan.

By strategically aligning grant applications, Council can allocate resources more efficiently and ensure that the grants received have a meaningful impact on the community.

Ref	Action	Timeframe	Enabler	Authoring environment	Lever Type	Interdependency
7.1	Refresh Council's strategic advocacy approach to specifically address cost-shifting policy and identify community projects to leverage partnership funding with government and strategic partners.	Year 1 and ongoing	Advocacy	Council decision	Strategic	Nil
7.2	Quantify the financial impact of cost-shifting to Council.	Year 1	Advocacy & Finance	Operational	Strategic	6.2
7.3	Seek funding (including provision for administration overhead) for a greater Government contribution towards the upgrade, renewal and maintenance of community assets and programs.	Ongoing	Advocacy (and grant seekers)	Operational	Strategic	3.6, 4.2
7.4	Investigate opportunities to "hand back" responsibilities to the State and Federal Government (ie land management)	Ongoing	Advocacy	Operational	Strategic	7.1

6 Implementation

The implementation of a financial strategy carries inherent risks:

- Council changes strategic direction and commitment to financial sustainability (2024 elections)
- resistance to change will hinder the successful execution of the strategy
- a lack of clear accountability and governance mechanisms might hinder the effective monitoring and evaluation of the strategy's progress.
- potential for misalignment between the strategy and changing economic conditions or unforeseen shifts in local priorities. This could lead to a mismatch between revenue projections and actual funding needs, causing budgetary constraints, overspending or misallocation.

6.1 Governance

The Executive Leadership Team is responsible for overseeing the strategic direction, driving a change culture, and prioritisation of actions and resources.

- A Project Control Group is formed under the Executive Leadership Team and is responsible for practical implementation of the strategy. The General Manager of Corporate Services and Transformation serves as the chair of the Project Control Group. The Project Control Group reports to the Executive Leadership Team and is accountable for oversight, strategy, project management, reporting, and communications related to the project.
- Cross-functional teams are formed to support the Project Control Group. These teams work collaboratively and contribute their expertise to deliver actions.

6.2 Monitoring & review

Quality assurances over Council's financial performance include a rigorous internal review process by management, endorsement by the Audit and Risk Committee and approval by Council.

Yarra's Annual Report will report on Council's financial and service performance, including progress towards financial sustainability.

It is reasonable for this strategy to be viewed in response to material change or in 2026.

6.3 Road Map

Year 1

- Cash reserve structures
- Pricing Policy
- Asset Data improvements
- Service Planning & Review Program
- Cyber Security Strategy
- Uplift financial budgeting and financial monitoring
- Strategic Advoacy Plan

Year 2

- Strategic Property Plan
- Parking Strategy
- Community Infrastrutcure Plan
- Enterprise Project Manageemnt Office

Year 3

- Developer Contribution Plan & Open Space Plans
- Asset Plan
- Data Hub
- Enterprise Resource Planning (business management software)

Ongoing

- Asset Management
- Digital and Business Transformation
- Advocacy
- Financial monitoring

6.4 Service Planning Principles: Deliberative Engagement

The FSS commits Council to undertake a comprehensive engagement approach to define the principles governing the service planning and review framework through a deliberative engagement process. The overall outcome is to develop community-supported service planning principles that will inform and guide Council's future service planning and review program.

Through the engagement process, Council aims to examine the changing community demographics, service landscape, key Council services (both essential and non-essential), financial limitations, community awareness and attitudes toward service delivery, potential alternative options available in the market, and the alignment of service provision with other obligations such as asset maintenance and capital works.

The *Local Government Act 2020* sets out the following service performance principles will be incorporated into Council's deliberative engagement process and outcomes:

- services should be provided in an equitable manner and be responsive to the diverse needs of the municipal community
- services should be accessible to the members of the municipal community for whom the services are intended
- quality and costs standards for services set by the Council should provide good value to the municipal community
- a Council should seek to continuously improve service delivery to the municipal community in response to performance monitoring
- service delivery must include a fair and effective process for considering and responding to complaints about service provision.

The engagement approach to develop Council's service planning and review principles will be undertaken in two parts.

Stage 1: Market Research and general community engagement

Stage 2: Deliberative engagement

The adoption of the Service Planning and Review Principles will be subject to a Council decision.

7 Conclusion

This FSS provides a sound, strategic yet ambitious, program to move towards financial sustainability for the Council. It will optimise our continued support of Yarra's growing community and further the community's vision.

8 Key financial terms

Term	Calculation	Explanation
Adjusted underlying result		Surplus/deficit for the year adjusted for capital grants and contributions.
Adjusted underlying result (ratio)	Adjusted underlying surplus (or deficit)/adjusted underlying revenue	This measures Councils' ability to generate surplus in the ordinary course of business, excluding non-recurrent capital grants, non-monetary asset contributions and other contributions, to fund capital expenditure from its net result. A surplus or increasing surplus suggests an improvement in the operating position.
Annual Report		Details Council's financial and operational performance for each year including audited financial and performance statements, progress updates for Council Plan strategies, indicators and major initiatives, and performance indicator results.
Asset		Council assets include roads, bridges, footpaths, drains, libraries, town halls, parks, recreational centres, and other community facilities.
Annual Budget		A rolling 4-year budget is prepared annually to outline how resources will be allocated across services, initiatives and capital works projects and the income that will be generated.
Capital replacement (ratio)		Cash outflows for the addition of new property, infrastructure, plant and equipment/depreciation This compares the rate of spending on new infrastructure, property, plant and equipment with its depreciation. Ratios higher than 1 indicate that spending is faster than the depreciating rate. This is a long-term indicator because capital expenditure can be deferred in the short term if there are insufficient funds available from operations and borrowing is not an option.
Indebtedness (ratio)	Non-current liabilities/own-sourced revenue	This assesses an entity's ability to pay the principal and interest on its borrowings when they are due from the funds it generates. The lower the ratio, the less revenue the entity is required to use to repay its total borrowings. Own-sourced revenue is used, rather than total revenue, because it does not include grants or contributions.
Liquidity (ratio)	Current assets/current liabilities	This measures Council's ability to pay existing liabilities in the next 12 months. A ratio of 1 or more means that an entity has more cash and liquid assets than short-term liabilities.
Restricted Cash Reserve, including developer contributions plan and open space reserve		Cash levies paid to Council and is to be used to cover the cost of any open space and infrastructure assets that are to be purchased or constructed by Council. These funds are restricted to prescribed projects.
Surplus		Net surplus is Council's revenue and income from transactions minus expenses from transactions. Council surplus is be used to fund the capital works program each year, as well as the information technology program. Put simply, without a budget surplus – there would be a significantly reduced capital works programs at all Councils.
Unrestricted Cash		Cash that is free of restrictions and is available to pay bills for any purpose as and when they fall due.