BUILDING FINANCIAL SUSTAINABILITY & CAPACITY

FINAL REPORT

JUNE 2022

[CONFIDENTIAL]

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CITATION

A suggested citation for this publication is: atticusnow 2022, *City of Yarra: Building Financial Sustainability & Capacity Final Report*, Melbourne.

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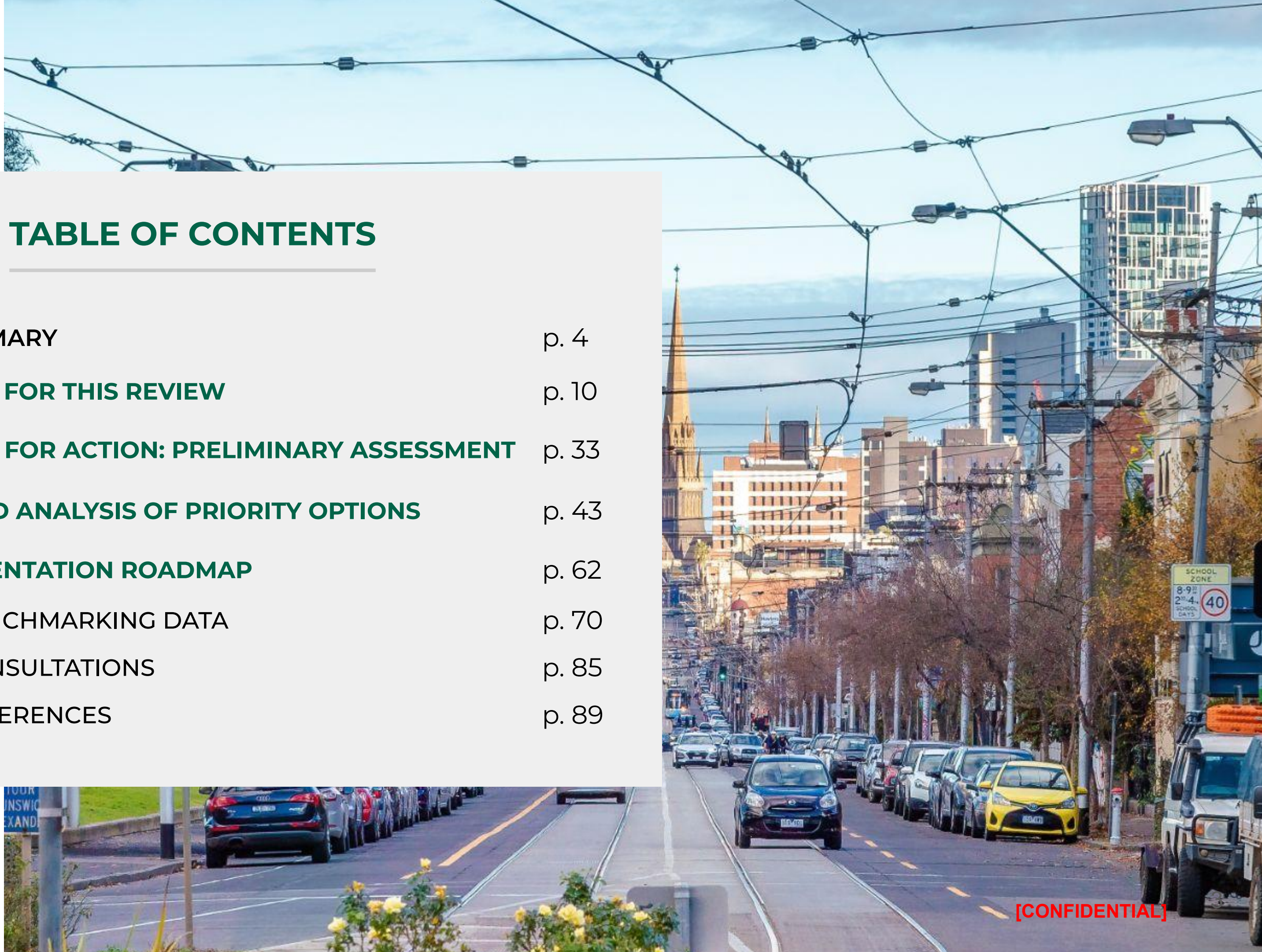

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EXECUTIVE SUMMARY

The challenge

Yarra City Council is emerging from a difficult two year pandemic period, and facing a number of significant financial challenges. Financial analysis of the position of the Council to 2031-32 finds the Council facing a difficult future cash position. The key drivers of this include:

COVID19 impacts on cash reserves – payments made to businesses coupled with reductions in revenue (parking, leisure, permits) have created a $50m dent in the Council's cash position.

Increasing costs of providing services – supply side inflationary pressures have increased costs for the Council to provide services. The 2022-23 Long Term Financial Plan (LTFP) does not factor in growth in costs over the rate cap growth of 1.75 per cent. There is strong evidence that costs in particular areas may growth at a higher rate, particularly in waste services (trend growth of 11.92 per cent) and in child care and aged care with staff supply constraints. Inflationary pressure across all areas (with current CPI higher than the 1.75 per cent cost assumptions) may also increase Council costs over that assumed in the LTFP.

Rate capping which constrains options for income growth – the Council is not able to recover increasing service costs through higher rates above the capped increase set by the State government

Cost shifting from State and Federal governments – cost shifting is broadening the scope of services which Council is responsible for, as well as increasing responsibility of Council in some areas (such as libraries and potentially some building governance matters).

High cost service delivery approach – Yarra is unusual amongst Victorian Councils in its approach to service delivery. The scope of services it provides is broader than many other Councils (for example child care, leisure and aged care) and the methods for service delivery are typically in-house (versus engaging external providers). This approach has locked the Council in to a model which is higher cost (particularly in relation to wages) and lower flexibility in responding to cost drivers. If the Council decides to change its service offering, it incurs costs of exiting service which include redundancy and staff transition payments which are more complex than would be case if the service were provided under contract.

Low levels of cost recovery – across the range of services Yarra provides only parking and compliance services achieves full cost recovery. Services with a high degree of privately captured benefits do not achieve full cost recovery (due to both lower than market level fees and higher costs).

These factors have combined to create a 'perfect storm' of financial pressures on the Council - with the very real prospect that it will fully run down its cash reserves. Avoiding this worst case scenario requires significant and early action across Council operations and services.

While COVID19 impacts have worsened this situation, the underlying cause is a failure of Council to act on a range of difficult decisions over an extended period. The current Council leadership must now act.

In this challenging environment, the Yarra City Council has engaged atticusnow to conduct a strategic review, focusing on identifying the key options to achieve financial sustainability in the shorter to medium term. This review report sets out the research, analysis, options assessment and recommendations to Yarra City Council.

EXECUTIVE SUMMARY

The financial sustainability gap

This review assessed the current financial gap facing the Council as well as future cost risks. A target of $15m per annum of gains over next 10 years was adopted as prudent to improve financial sustainability and also to allow for future capital initiatives and possible financial risks.

Options development

The key task of this review was to identify the most prospective set of options for the Yarra City Council to address its financial challenges. An extensive research, data analysis and benchmarking exercise was conducted, alongside council staff consultations. The initial outcomes from this research and consultation was a suite of 20 potential initiatives. These initiatives were further assessed during a process of workshops, research, and co-design. These initiatives were analysed against four criteria: Financial impact, timing, operational disruption, and community impact.

Three categories of options

The options were grouped into three separate categories:

- **Priority options** – those initiatives that were highly prospective financially, and could be implemented with a few years without major operational disruption were prioritised as 'priority initiatives'.
- **Systemic reform** – those options with longer implementation timelines, more complex operational challenges, and strategic interdependencies, were bundled as longer term 'systemic reforms'. These reforms are essential to help secure the City's position in the longer term, but are not immediately prospective for addressing the shorter term gap.
- **Smaller scale efficiencies** – those options with only moderate potential gain, but the potential to be implemented more easily or within the next 2-3 years were bundled as 'small scale efficiencies'. These initiatives will not individually be able to secure the City's financial position, but as a group they are potentially impactful and should be pursued.

Priority options

Given the limited capacity of the City to implement multiple initiatives simultaneously, eight key initiatives were identified for priority implementation, along with the small scale efficiencies, systemic reforms, and basic governance and project management.

The priority major initiatives are:

- **Waste charge** – the phased introduction over a number of years of a waste charge based on cost.
- **Parking** – fee increases based on Council and market benchmarks
- **Pricing Policy** - implement the pricing policy across all fees and charges of the Council, starting with the areas which will have the largest financial impact (leisure and child care)
- **Property** – optimisation of property utilisation (with either sale or changes to leasing of properties)
- **Organisation** – a hiring freeze combined with an organisation consolidation
- **Accommodation** – a move to team activity based working
- **Leisure** – test the feasibility of outsourcing Yarra Leisure following a full pricing review
- **Aged care** – exiting from home care services due to Commonwealth government funding changes
- **Child care** – reduce the scope of services offered by exiting provision of vacation and OOSHC.

This report outlines more detail on each of these options including the rationale for prioritising them, the financial gains that could be achieved, the major risks involved and how these risks might be mitigated.

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EXECUTIVE SUMMARY

Pathway to achieving the $15m target

The suite of actions recommended in this review provide a number of potential approaches to achieving the $15 million annual net savings target. Those which have been both identified and quantified (estimated, or set specific targets) are listed in the table on the next slide.

Decisions on how to best approach this target need to be taken in the context of the following factors.

- The structure of the waste charge which will provide a critical mechanism for recovering future costs in waste services, but is not a specific net revenue raising measure (unlike parking fees or other fee measures). It's value is therefore in covering a proportion of the 'risk margin' component of the $15m target, not the underlying $65m financial gap.
- Estimates for the potential benefits of implementing the pricing policy for leisure and child care are based on achieving direct cost recovery <u>only</u> and are indicative estimates based on the the 2018-19 cost recovery study. These should be considered a lower bound of the savings that can (and should) be achieved through this measure. An avoidable costs methodology is recommended for cost recovery of these services.
- Implementation costs have been included in these estimates, however there are opportunities for these costs to be absorbed within current budgets for staffing and consulting services, thereby reducing the costs of the implementation process.
- This review has sought to benchmarking both staff and overhead costs for Yarra with comparable studies (for overheads) and against other Councils. There is a need for a bottom-up overheads study to properly determine opportunities for reduced overheads fees. The review recommends that the Council seek to achieve two key benchmarks for both staff and overheads, the benefits of which (and Council accommodation) are highly correlated. Given these linkages an overall staff and overheads target has been set in the table which provides a reasonable level of achievable savings from these initiatives.

In summary the total potential of estimated revenue and efficiency measures (and quantified targets) listed exceeds the VAGO financial gap target of $65m. Cost recovery from the waste charge removes that cost risk for the Council, with an additional $20m in savings to cover other cost inflation which can be achieved through efficiency gains from systemic reform measures or asset sales.

Uncosted initiatives

A number of initiatives recommended in this review are not costed in the table 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 (for example Council accommodation savings will depend on both property reforms and staffing changes). There are also numerous reforms which should be including within the systemic reform program which have strong potential to achieve savings.

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POTENTIAL NET SAVINGS: MAJOR INITIATIVES

Table 3.1 Summary of options – short- to medium-term, estimated net savings 2022-23 – 2031-32

Option	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Revenue measures											
Increase parking fees	–	–	–	1,885	1,918	1,952	4,071	4,142	4,214	6,594	24,776
Increased leisure fees (minimum recoverable)	–	1100	1100	1100	1100	1100	1100	1100	1100	1100	9,900
Increased child care fees (minimum recoverable)	–	900	900	900	900	900	900	900	900	900	8,100
Efficiencies											
Aged care – exit delivery of in-home services	–	888	889	889	889	889	889	889	889	889	8,000
Child care – transition out of delivering vacation care & OOSHC	905	919	933	947	961	975	990	1,005	1,020	1,035	9,690
Outsource management of leisure centres	–	–	612	612	612	612	612	612	612	612	4,896
Efficiency gains in areas of staff, overheads (target)	–	1,500	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	41,500
Costs											
Implementation costs	(204)	(313)	(320)	(226)	–	–	–	–	–	–	(1,063)
Total potential net savings from options	**701**	**4,994**	**9,566**	**11,559**	**11,832**	**11,880**	**14,104**	**14,100**	**14,187**	**16,582**	**105,799**

Future cost recovery measures											
Waste charge Based on the assumption that Yarra's waste costs will increase at 5%.	–	–	552	1,145	1,777	2,452	3,171	3,936	4,750	5,616	**23,398**

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IMPLEMENTATION STRATEGY

Financial sustainability project

Subject to endorsement of the project approach by Council, it is recommended that a project team be created with a specific mandate for improving financial sustainability by implementing eight specific projects over a four year timeframe. The objective of these projects would be to deliver targeted financial gains. This approach should ensure that implementation of these reforms is not delayed by day to day business and shifting priorities within the Council by assigning responsibility and accountability for the progress of the reforms. An implementation strategy is recommended as follows.

Governance

One of the first actions is to establish an overall governance structure for the project. This would include a Steering Group of senior executives responsible for driving the project, The chair of the steering group should ideally be the CEO or Corporate Finance Director. The Steering Committee should report to the Executive Management Team and would be responsible for oversight, strategy, project management, reporting and communications. A dedicated team of 3-4 staff should be formed to service the Steering Committee. This should include a Project lead, a Communications lead, a Policy Officer and Administrative Officer.

Streams

We recommend that implementation of the projects be managed under three separate streams, each with a leader accountable to the Steering Committee. The logic of this approach is that there are some strong synergies between a number of projects that make it an advantage for them to be closely coordinated. The three streams should be as follows:

- ***Revenue*** – including the waste charge, parking fees and pricing policy. These are the highest priority for financial sustainability impact, with communications being the main challenge. Can be largely implemented within existing capabilities, but may require some initial consulting support to establish.
- ***Organisation and Assets*** – including the property, accommodation and organisation projects. These three projects are highly interrelated and the aim would be to build a slimmed down but more agile and fit for purpose organisational structure ready to implement the longer term vision, while also providing financial sustainability gains from property sales and headcount reductions. A combination of property and accommodation capability (consultants) and internal and HR capabilities will be critical.
- ***Services*** – including the Leisure, Aged Care and Early Childhood projects. This gives the Council the opportunity to build an ongoing internal capability and framework for service redesign, but will require require some initial consulting support.

Smaller scale efficiencies

There are numerous opportunities for Council to pursue small scale efficiency gains with a focus on incorporating good ideas from management and staff into the normal annual business planning and budgeting processes over the next few years.

Systemic reforms

A new CEO has just been appointed. It is assumed in first year (2022-23) that the main focus will be on settling into the role and ensuring the successful implementation of the financial sustainability project. In the second year it is assumed that there will be a strategy review process to plan for the future evolution of Council operation, including the consideration of the proposed systemic reform for improved financial sustainability, and that this strategy would be implemented over the next five years to achieve the 10 year vision.

Implementation roadmap

An implementation roadmap summarising this proposed strategy is provided on the next slide.

IMPLEMENTATION ROADMAP

Implementation Roadmap

		SHORT TO MEDIUM TERM				LONGER TERM
		2022-23	2023-24	2024-25	2025-26	2026-27 - 2031-32
	GOVERNANCE & PROJ MGMT.	ESTABLISH GOVERNANCE; OVERSIGHT, STRATEGY, COMMUNICATIONS, MONITORING & REPORTING				
REVENUE	WASTE CHARGE	WASTE CHARGE DEVELOPMENT/ CONSULTATION PROCESS	WASTE CHARGE IN RATES 1 JULY 2023			
REVENUE	PARKING		PARKING FEE INCREASE		PARKING FEE INCREASE	
REVENUE	PRICING POLICY	IMPLEMENT THE PRICING POLICY ACROSS ALL USER CHARGES AND FEES				
ORG. & ASSETS	PROPERTY	INDEPENDENT REVIEW OF COUNCIL PROPERTY	IMPLEMENTATION OF REVIEW FINDINGS TO ACHIEVE TARGETED REDUCTION			
ORG. & ASSETS	ORGANISATION	STAFF RECRUITMENT FREEZE TO ACHIEVE TARGET REVIEW OVERHEADS AGAINST TARGET		REORGANISATION OF COUNCIL TEAMS ALIGNED WITH SERVICES REVIEW OUTCOMES		
ORG. & ASSETS	ACCOMODATION	ACCOMMODATION PLANNING	ACCOMODATION IMPLEMENTATION			
SERVICES REFORM	LEISURE		BUSINESS CASE FOR YARRA LEISURE OUTSOURCING			
SERVICES REFORM	AGED CARE	IN HOME SERVICE REFORM FROM 1 JULY 2023				
SERVICES REFORM	CHILD CARE		CEASE OOSHC and VACATION CARE SERVICES (1 JULY 2023)			
	SMALLER SCALE EFFICIENCIES	ANNUAL BUSINESS PLANNING EFFICIENCIES IMPLEMENTED	ANNUAL BUSINESS PLANNING EFFICIENCIES IMPLEMENTED	ANNUAL BUSINESS PLANNING EFFICIENCIES IMPLEMENTED		
	SYSTEMIC REFORM		FULL COUNCIL GOVERNANCE AND SERVICES REVIEW (2023-24)	IMPLEMENTATION OF REVIEW FINDINGS		

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PART ONE

CONTEXT FOR THIS REVIEW

REVIEW APPROACH

The brief

Yarra City Council engaged atticusnow to conduct a strategy review to build financial sustainability and capacity. The project commenced on April 4, 2022 with a final report to be presented to the Council on June 7, 2022.

The objective of this project is to provide advice to Yarra City Council regarding current and projected financial performance in the context of existing service provision that has been identified as requiring action.

The outputs from this work will assist development of a targeted strategy and approach to address the situation. Upon receiving the Final Report, Yarra will be equipped to make informed decisions about future detailed investigation of financial and operational performance of services.

Our approach

This report provides our analysis, findings and recommendations for the review conducted for the Yarra City Council. The approach taken to complete our review is set out below – which is consistent with the structure of this report.

Firstly we assess the current state of play – community characteristics, how the Council provides services to the community, the Council's financial position and future financial commitments. We go on to compare the Council to similar Melbourne councils using a benchmarking exercise.

Based on the research findings and analysis a preliminary options analysis has been conducted to provide a set of over 20 options for reform, which are assessed against key criteria.

Detailed options analysis is conducted on those options which are considered to be most prospective (provide the greatest financial benefit for the Council in a 4-5 year timeframe).

A set of recommended options and an implementation roadmap sets out our recommended approach, with an assessment of the associated risks and mitigation options.

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01 CONTEXT FOR THIS REVIEW

02 BENCHMARKING

03 OPTIONS FOR REFORM

04 DETAILED ANALYSIS OF OPTIONS

05 RECOMMENDED OPTIONS & IMPLEMENTATION ROADMAP

06 RISK ASSESSMENT & MITIGATION APPROACH

THE YARRA CITY COUNCIL COMMUNITY

The Yarra City Council community

Understanding the characteristics of of the Yarra City Council (Yarra) community is essential in any assessment of Council operations and finances. The most critical characteristics to be mindful of in the context of this project are outlined below.

Small inner city Council area with high density
Yarra is geographically the second smallest Council in Victoria, with the second highest population density.

Small household size
Two person households are the most common household size in Yarra (39 per cent) followed up by single person households (32 per cent). Households with children (couples and single parents) comprise 21.3 per cent of households in Yarra, significantly lower than the Melbourne average of 43.5 per cent.

Young, professional, educated population
Small household size is not driven by growth in elderly households, instead it is driven by younger people aged 25-34 who comprise 30 per cent of the Yarra population (compared with 16 per cent for Melbourne on average). The Yarra community has higher than average educational attainment, with 48 per cent holding a bachelor degree or higher qualification compared with the Melbourne average of 27 per cent.

Diverse socio-economic population
Yarra is home to residents from across the socio-economic spectrum, with both high to very high income households and lower income households strongly represented in the community. Median household income at the last census was $1958 per week (2016).

Lower rates of car ownership and higher use of public transport
The location and density of the community makes public transport a more viable and practical option than in fringe metropolitan areas. In Yarra, 69.6 per cent of the households own at least one car, whilst 19.2 per cent did not. This is compared with 83.9 per cent and 8.5 per cent respectively in Greater Melbourne.

Ageing infrastructure
Due to its location near the historic centre of Melbourne, much of Yarra's infrastructure and buildings are older than those of most other Councils in the city. Ageing infrastructure and density present a range of service delivery challenges which will be discussed in more detail in this report. Stakeholders also report a community expectation that infrastructure, such as separate bicycle lanes, be on par and integrated with the City of Melbourne's, due to proximity.

Large renter population
Yarra's population includes a significant transient renting population, approximately 50 per cent of the overall population, with a 40 per cent turnover. Renters generally view the Council more favourably than owner-occupiers.

Contribution of non-Yarra residents
As an inner city council, Yarra draws in workers, shoppers and business operators to the Council region each day. A proportion of the economic development in the Council is driven by non-residents, who contribute to the community economically and in a range of other ways (adding diversity, contributing to the sense of community etc).

YARRA CITY COUNCIL'S FINANCIAL POSITION

The COVID-19 pandemic impacted Yarra's financial position significantly (see Figure 1.1). As noted in the LTFP, the estimated impact of COVID on the Council finances is estimated to be approximately $50m. This was was due to the combined impacts of significantly reduced parking and leisure fees, as well as increased costs associated with grants to business. In the case of leisure and parking the Council had limited capacity to reduce costs. These unforeseen events have had a large impact on the Council's future cash position.

While the LTFP does assume that demand for services will rebound to pre-COVID levels, there is some uncertainty around these trends. The long term shifts in behaviour arising from the pandemic, including telecommuting and e-commerce uptake, may have implications for future demand of Council services, particularly parking.

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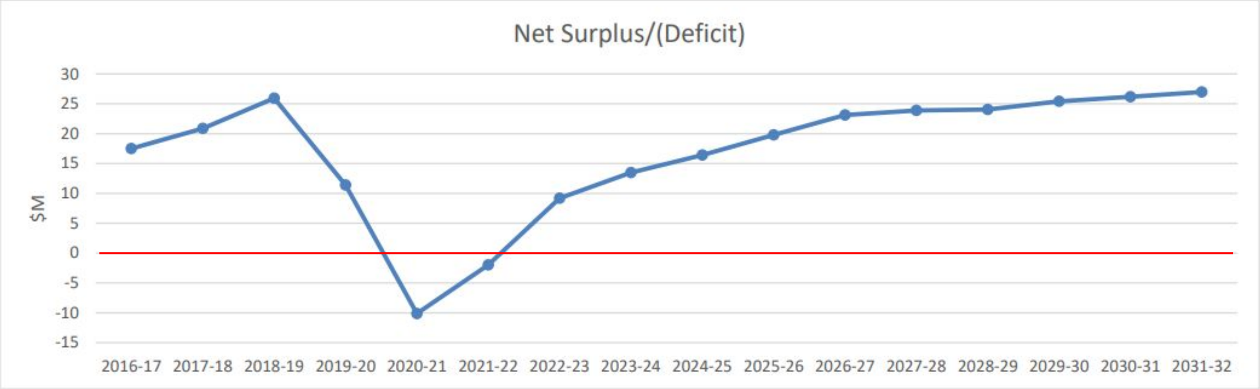
Figure 1.1 Operating net surplus/deficit[1]



[1] excludes account debt repayment and capital expenditure.
*Source: City of Yarra

FISCAL RISKS

There are a number of factors which may increase costs to the Council over the next 10 years, which are currently not reflected in the in the Council's Long Term Financial Plan (LTFP) due to uncertainty over their potential financial impact.

1. **Increasing costs from population growth.** While Yarra is not considered a 'growth' council, there is potential for increased population growth higher than the growth assumptions in the LTFP. Population growth can have both revenue and costs impacts on the Council. The net impact will depend on which demographics within the community grow to the greatest extent. Where there is growth in social housing (as just announced) it is expected that that there will be greater demand for services provided by Council.

2. **Cost shifting from State and Federal governments**. Cost shifting is already occurring in many areas such as libraries, aged care and waste costs. There is further potential for cost burden for Councils in managing cladding safety issues for buildings (which Councils will have partial responsibility to provide resources for). Recent movements by the Victorian government to reduce its own costs through a transfer of responsibility for orphaned building permits to local government are potential future risk for Yarra.

3. **Uncertain post-COVID period.** While the Council is anticipating demand for most services (and thereby revenues) will rebound in this post-COVID period, it is unclear at this stage to what extent this will occur. Changes in where and how people work could impact upon many of the Council's operations including parking revenue, provision of transport infrastructure, use of open space and the overall economic environment with the Council.

4. **Greater capital requirements.** While there are funds allocated for capital works in the LTFP ($441m) there is always potential for additional capital requirements to occur. These can range from adverse events requiring infrastructure remediation (such as weather events), changes to Council strategic direction, etc.

5. **Income risks, such as uncertainty surrounding government grants.** There is an assumed availability of of grants to the Council, however State and Federal governments may change their approach to providing grant funding to Councils. Where these governments themselves are grappling with budget deficits there is a risk that grant funding will reduce over the next 10 years.

6. **Expenses increase at a higher rate than assumed in the LTFP.** Supply side inflationary pressures have increased costs for the Council to provide services. The 2022-23 Long Term Financial Plan (LTFP) does not factor in growth in costs over the rate cap growth of 1.75 per cent. There is strong evidence that costs in particular areas may growth at a higher rate, particularly in waste services (trend growth of 11.92 per cent) and in child care and aged care with staff supply constraints. Inflationary pressure across all areas (with current CPI higher than the 1.75 per cent cost assumptions) may also increase Council costs over that assumed in the LTFP.

7. **Pressure to expand service delivery.** The current financial plan assumes current level of service scope across the community. Where there may be a need for the Council to expand a current service or provide a new service there will be a financial impact of these decisions (particularly if they are not cost recovered). Future service delivery decisions need to be made in the context of the current financial situation of the Council.

THE FINANCIAL SUSTAINABILITY GAP

While the Council is projected to return to operating surplus in 2022-23, there are critical future financial challenges and a threat to cash reserves. and the underlying financial position. This will have an impact on the ability of the Council to be able to fund future capital projects and respond to financial shocks.

The need to service debt over the next 10 years combined with future capital commitments (such as upgrades to IT infrastructure) will significantly impact on the cash position of the Council in the 10 years to 2031-32. There is a very real risk that the Council may run out of available cash and become insolvent without changes to its financial position in the next 2-3 years.

The financial 'gap' for Council has the following three components:

1. **Funds needed to achieve a minimum net zero cash position**
   The LTFP included a total efficiency target of $28.1 million over 10 years which would ensure that the Council could meet its cash obligations. This is the minimum level of net savings the Council must achieve to 2031-32 to ensure it remains solvent.

2. **Funds needed to achieve the VAGO standard of 5 per cent adjusted underlying revenue ratio (surplus/revenue)**.
   The VAGO target is a key indicator of financial sustainability. In order to meet the VAGO target of 5 per cent ratio of underlying revenue, the City of Yarra must find an additional $36.8 million in net savings to 2031-32 over and above the $28.1 million to achieve a net zero cash position. The total gap to achieve the VAGO target is $65 million to 2031-32.

3. **Additional funds needed to cover financial risks.** The risk discussion on slide 12 highlights the numerous areas where the Council are likely to face higher costs above what is estimated in the LTFP. The assumptions in the LTFP are relatively modest in comparison to recent trends, in particular in the key cost areas of waste, aged care and child care. It is therefore essential that any review of future financial sustainability for the Council include a 'risk margin' to allow for likely future cost growth.

What should the target be for this review?

In determining a reasonable target for Council to pursue in the short to medium term the following factors were taken into account:

1. Recent trends in expenditure in key cost areas, and how these trends compare with future assumptions in the LTFP.
2. Feedback from Council staff and executive with knowledge of the Council's financial position.
3. The extent to which a target is achievable in the timeframes (and can be achieved without significant disruption to Council operations).

In this context we consider an annual net savings target of $15m should be set which would provide Council with protection against a degree of future risks, and is achievable with the mechanisms available to the Council to make savings or increase revenue. The components of this target are set out in Figure 1.2 on the following slide. To provide context to the size of the risk margin – at budgeted levels of expenditure in 2022-23, the risk margin of $8.5m per year would be equivalent to an increase in materials and services expense of just under 4 per cent per year (to 2031-32). Therefore, while the quantum of the savings allocated to risks may seem large, it doesn't represent a significant growth in total expenditure in the period (i.e. the assumed risk level is not extremely high).

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THE FINANCIAL TARGET

Figure 1.2 Components of funding target (annual target $15m)

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FINANCIAL CONTEXT: CAPITAL EXPENDITURE

The total value of assets is calculated at $2 billion (as at 31 March 2022) according to the fixed assets register provided by council (see Table 1.1). Roughly half of that value is from property, with a majority of the rest from buildings, transport infrastructure, and stormwater infrastructure. There are also significant art and heritage assets, and a small amount of open space furniture.

The Council currently owns and maintains three Town Halls (Collingwood, Richmond and Fitzroy). Council staff take up some space in both Collingwood and Richmond Town Hall, but not at Fitzroy. Fitzroy is partially leased and has space to hire but is currently underutilised. Town Hall space available to hire was approximately 30 per cent utilised in 2018.

Yarra manages approximately 48,000 parking spaces, which represents a major revenue source for the City. This revenue source is threatened by competing priorities (more bike lanes, open space, etc) which would reduce the total number of parking spaces, especially in retail areas for instance, which are among the most remunerative.

Yarra's fleet consists of 309 items, including 124 cars, 53 utes, 22 trucks, 9 vans, 3 buses, and various pieces of equipment. The total value is calculated at $3.061 million depreciated from original value of $7.8 million. Yarra is committed to replacement of the passenger vehicle fleet with electric vehicles by 2030, as part of the council's Climate Emergency Plan. Some employees have fleet vehicles as agreed components of their remuneration packages.

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Table 1.1 Council assets summary by written down value

Asset type	No. of units	Current asset cost ($,000)	Current depreciation ($,000)	Written down value ($,000)
Land	127	1,015,498	–	1,015,498
Transport	16,617	836,612	170,206	666,406
Buildings	223	288,553	96,922	191,632
Stormwater	22,242	150,633	63,397	87,236
Art & Heritage	947	4,943	442	4,501
Fleet	309	7,785	4,724	3,061
Open Space Furniture & Equipment	47	3,403	375	3,027
Plant & Equipment	1	172	2	170

*Source: City of Yarra, Fixed Assets Register (as at 31 March 2022)

FINANCIAL CONTEXT: CAPITAL EXPENDITURE

Future commitments

Yarra has ongoing commitments of roughly $441m of capital works projects it must honour over the next 10 years (see Figure 1.3). The 2022-2023 budget allocated $38.9m to capital works, with the majority ($26m) going to renewal and maintenance, and the rest split between upgrades and new assets. Yarra also has a number of major commitments regarding sustainability, such as phasing out the use of gas in Council buildings, and non-electric vehicles.

Yarra has various plans and strategy documents that have not been fully funded. For example, as part of Yarra's Climate Emergency Plan, the Council has committed to a number of initiatives aimed at reducing its carbon footprint, including phasing out the use of gas in council-owned buildings and transitioning its vehicle fleet to all electric options. Although there has been some progress, further major investments are still required and many have not been factored into budget forward estimates.

There was broad agreement amongst stakeholders on the need for investment into modernising the Council's current outdated and inefficient IT systems and infrastructure. However, in order to fully realise the gains in efficiency, corresponding investment must also be directed towards education, cultural change, and optimising business processes associated with these IT systems.

Approximately 20 of the smaller council-owned buildings have been transitioned to renewable energy sources, usually involving modest interventions such as replacing gas heaters with electric split systems or gas ovens with electric options. However, transitioning larger facilities in historic buildings from gas to renewable energy sources will present a serious engineering and financial challenge for Council. For instance the Fitzroy Swimming Pool is scheduled for a proposed $30 million renovation, and a key part of this will be the overhaul of its ageing plant.

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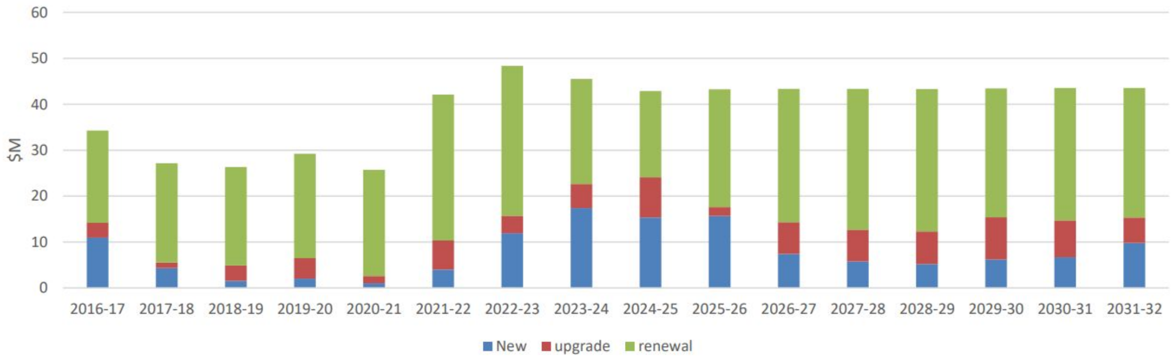
Figure 1.3 Capital works expenditure (commitments to 2031-32)



*Source: City of Yarra Long Term Financial Plan 2022-23

SERVICE DELIVERY

Local governments can provide a wide range of services. The exact scope and method of service delivery differs greatly across Councils in Victoria, though there are services provided for in legislation which Councils are legally required to provide, and numerous others which are considered core to Council obligations. The Victorian Auditor-General's Office (VAGO) developed a framework for considering the range of Council services, as set out in Table 1.2 (VAGO, 2018). Across Councils there is greatest variation in service delivery within the 'community expectation' and 'Council discretion' categories.

Table 1.2 Service categories

Rationale for service	Explanation	Example of service
Statutory obligation	Council is legally required to provide the service	Rates, roads, sanitation, animal management
Statutory discretion	Legislation gives council the option to deliver a service, but it is not mandatory for council to do so	Household recycling collection, economic development, community grants
Community expectation	Due to market failure or community demand, council is expected to provide the service and it would be extremely difficult for council to exit the service	Sport and recreation services, libraries, citizenship ceremonies
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 and saleyards, sister-city relationships

*Source: Victorian Auditor-General's Office 2018, *Delivering Local Government Services*

In its 2018 review of Council service delivery VAGO noted:

> *Since the introduction of rate capping in 2015, it is vital that councils have robust service planning and review processes to ensure the services they provide are both cost effective and meeting community needs.*

It went on to observe that many Councils in Victoria do not have robust service review processes to identify and understand the most appropriate scope and type of services they should be delivering to the community within given financial constraints.

In consultations for this review there was strong agreement that the Yarra City Council has a distinct approach to service delivery in the community which could be broadly described as 'full service'. This approach has the following characteristics:

- Services are typically provided directly by Council staff who are employed under Council Enterprise Bargaining Agreements (which often differ to comparable industry employment standards, in some cases with higher remuneration levels).
- Council-owned assets are used to provide the services for example buildings, facilities, open space recreational areas.
- Service levels and standards are often at a higher level than is experienced in other Councils.
- Few, if any, services are provided on a full cost recovery basis (fee levels are usually below cost recovery levels).

The outcome of this approach is a level of service, and a community expectation of service, which is very high, but provided at potentially higher cost than other Councils.

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Community expectations are just one of several future challenges in service delivery that Yarra must address.

Population density

The higher than average population density in the City of Yarra can be both a advantage as well as a challenge for service delivery. For some services population density makes it difficult to achieve efficiencies. Waste collection services are a good example; narrow streets and parked cars mean some collections are still done manually which is a higher cost delivery model. Density can have positive impacts on service delivery also, with shorter distances for people to access services, as long as service offerings are structured to take advantage of these factors.

Cost shifting

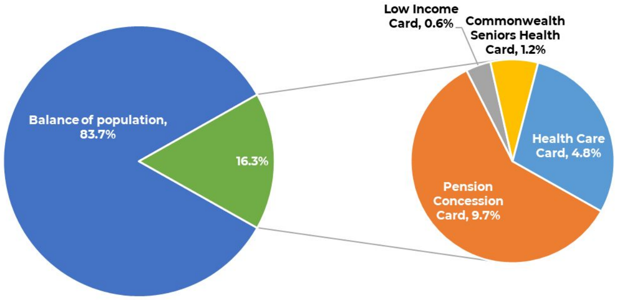
The State Government has shifted costs for a number of services in areas such as libraries, aged care and waste. There is further potential for cost shifting to Councils in managing cladding safety issues for buildings, as well continuation of trends in service such as libraries where Councils are funding a higher proportion of services. There may also be Commonwealth cost shifting.

Diversity of socio-economic status

The mixture of very wealthy with pockets of lower income areas within the Council makes setting the level of service delivery and cost recovery somewhat more complex (but not impossible).

Around 16 per cent of the Yarra City community are at a level of socio-economic status where they require support through Commonwealth government concessions of some form (Figure 1.4). This is a smaller proportion than the M9 Council average (18.2 per cent), the Victorian average (24 per cent).

Figure 1.4 Yarra residents entitled to Commonwealth Concession Card, 2021



*Source: Department of Social Services (2021). DSS Demographics December 2021. Canberra: Australian Government.

In these circumstances it is important that the Council is able to identify need versus ability to pay for a service. It is clear from the demographic data that a proportion of the community have higher ability to pay and lower need for Council financial support. Many services have high levels of private use value and many of these services may also be provided by the private sector. That said, there are groups in the community that do need additional support, therefore effective targeting of services to those in need is important to ensure that support is provided appropriately, and that Council has sufficient funds in the future to continue that support. There is a weaker rationale to provide services where privately captured benefits are subsidised by Council funding to groups which have the ability to pay.

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COUNCIL OPERATIONS: COST RECOVERY

Cost recovery and Pricing Policy

In 2019 an extensive analysis of cost recovery and fee setting was conducted by the Council (engaging external consultants). This analysis found that:

> *The absence of a comprehensive approach in the way fees and charges are set is evident in the sheer number of fees, the varying discounts applied to concessions and absence of cost recovery objectives in consideration of private and public value. The benefit accruing to the customer or client, and who that may be, must be weighed against any benefits generated to the broader community.*
>
> *More needs to be done to better understand and attribute full costs to community-facing services – in particular the indirect costs (corporate overheads) incurred in supporting service delivery – so as to allow Council to set fees and charges in a way that ensures Council is subsidising the members of the community that need it most.*

Current rates of cost recovery by service areas are provided in the following slide Figure 1.5). There is significant variation in cost recovery rates across service areas, noting that some areas have more scope to recover costs from fees and that other services (such as aged care) rely on block funding rather than user charges. It is notable that full cost recovery has not been achieved for many services where there is a high degree of privately captured benefits (leisure and child care in particular). In these cases the Council is providing a subsidy for these services for all users.

The approach to fee setting is critical for cost recovery, however the degree to which full cost recovery can be achieved is also heavily influenced by:

- The level of direct costs of delivering the service – especially where these costs are higher than those of private providers of the same services. For example, where the Council is paying wages at higher rates than those in the market achieving full cost recovery can be difficult.

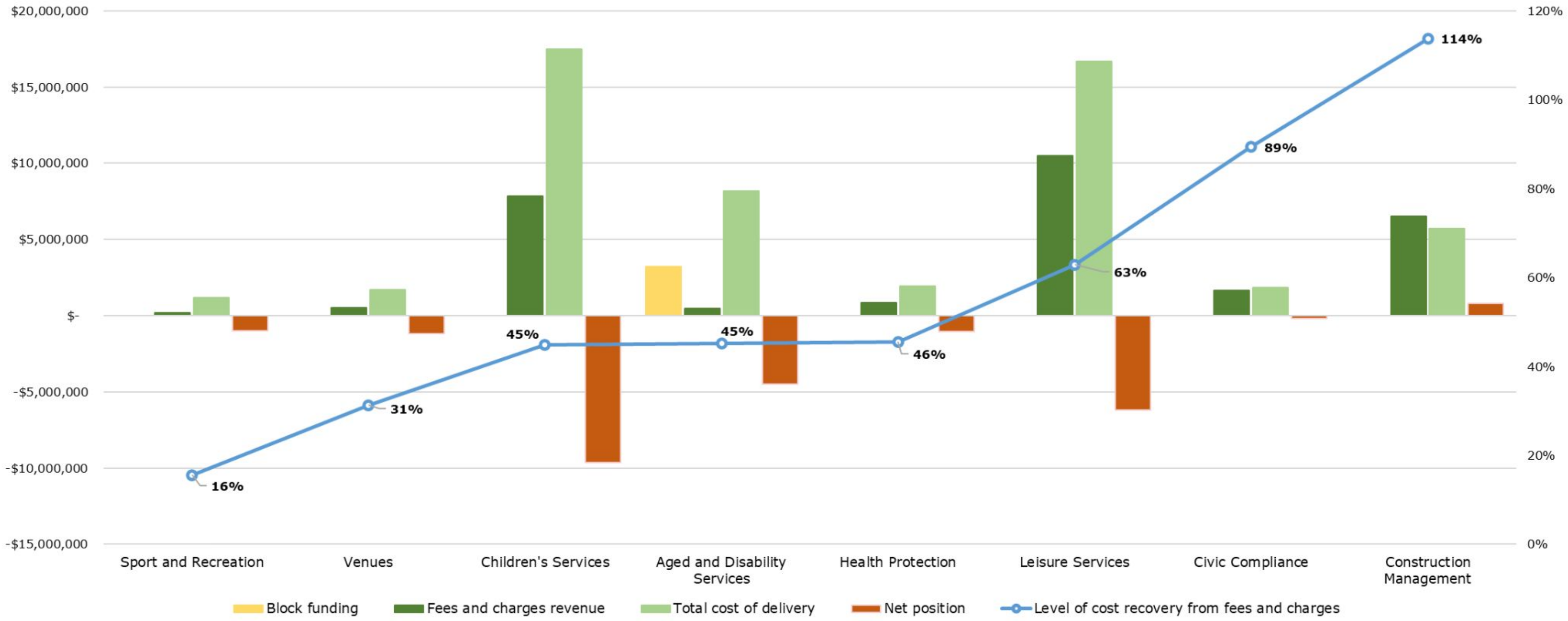
- The level of overheads which are attributable to the service within a cost recovery model (higher overheads means more costs to recover through service fees).

There needs to be improvements at both the revenue and costs ends of the spectrum to improve overall cost recovery levels.

A Pricing Policy setting out the approach to fee setting was agreed by the previous Council. In some areas there have been some efforts to apply it to fee setting, however it has not been universally applied. In interviews for this review there was strong support for application of the policy as a tool to assist Council in addressing fee setting, where the response in the community may be hostile.

COUNCIL OPERATIONS: COST RECOVERY

Figure 1.5 Costs, revenue and level of cost recovery by service area ($m), 2018-19 budget data



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*Source: Chart provided to the review by City of Yarra Council. Data extracted from the study - City of Yarra (2019), Transactional services, customers and costs: investigating the pricing setting environment of Council

COUNCIL OPERATIONS: STAFF

Current FTE profile

As of 21 April 2022, the City employed 1471 people (933 FTE), working in seven divisions under the CEO:

- Planning & Placemaking
- City Works & Assets
- Community Wellbeing
- Corporate, Business & Finance
- People & Culture
- CEO's Office
- Advocacy & Engagement

Yarra staff estimate that there are currently 55 vacancies within the Council, with a proportion of these filled by temporary or agency staff.

Figure 1.6 on the following slide provides a breakdown of Yarra's FTE by division (as at 21 April 2022). Approximately 34 per cent of staff are employed in the Community Wellbeing division, 28 per cent are employed in City Works and Assets, and 19 per cent are employed under the Corporate, Business and Finance division.

As at 30 June 2021, Yarra has the second highest number of FTE staff of the nine M9 councils (876.05), with approximately 95 FTE more than the M9 average of 783.21. We note that As of 21 April 2022, the City employed 1471 people (933.43 FTE), however for comparison purposes we have used the number of staff taken from each M9 council's annual report.

As shown in Table 1.3, Yarra has a highest number of FTE staff per 10,000 residents of any M9 Council. This result reflects the large number of in house services that Yarra provides which are delivered directly by Yarra staff.

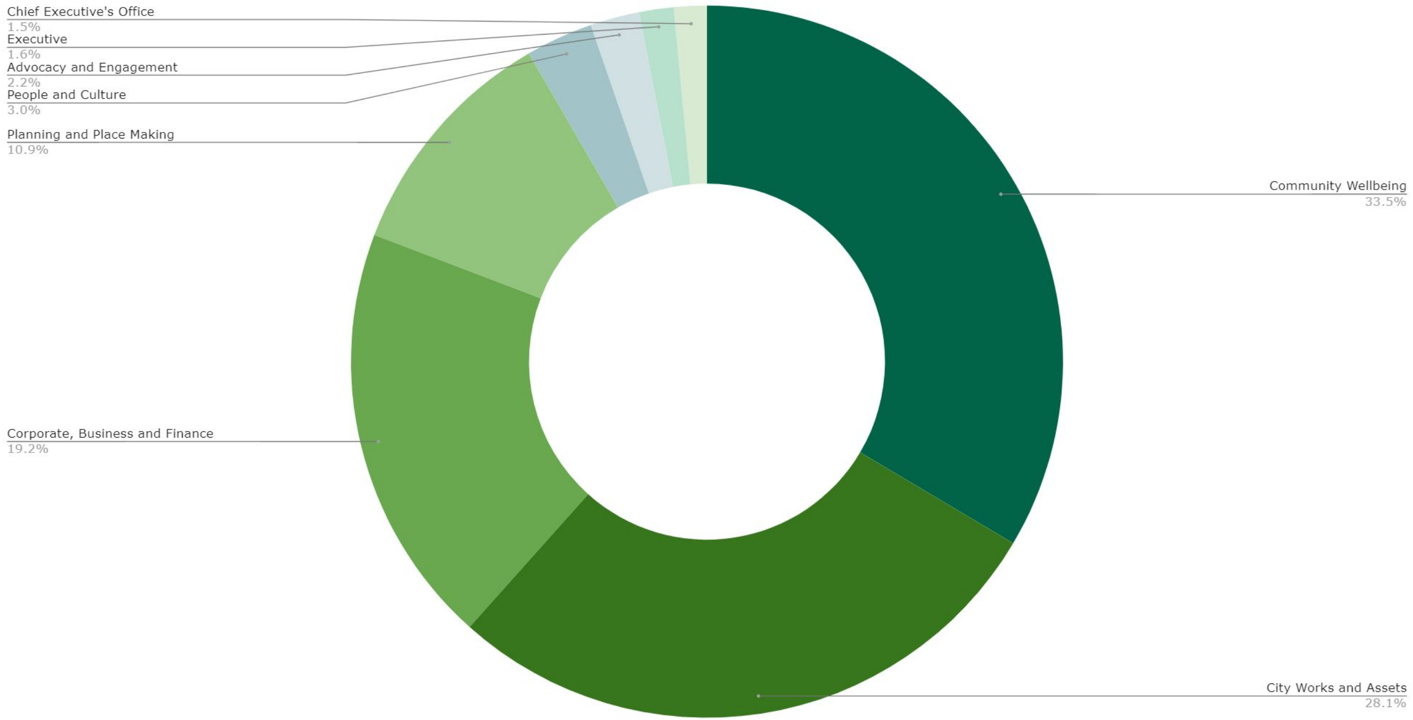
Table 1.3 M9 councils number of FTE staff (2020-21)

Council	Number of FTE staff	2021 Estimated Residential Population	FTE staff per 10,000 residents
Melbourne	1404.42	169,860	82.68
Yarra	**876.05**	**99,622**	**87.94**
Moreland	845.70	184,707	45.79
Darebin	815.49	162,501	50.18
Moonee Valley	791.73	129,379	61.19
Stonnington	715.66	114,340	62.59
Port Phillip	695.82	112,092	62.08
Maribyrnong	464.05	93,467	49.65
Hobsons Bay	440.00	96,317	45.68
M9 Average	*783.21*	*129,143*	*60.65*

*Source: Council Annual Reports. ERP numbers from home.id.com.au

COUNCIL OPERATIONS: STAFF

Figure 1.6 Breakdown of Yarra council FTE by division



*Source: Yarra City Council

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COUNCIL OPERATIONS: STAFF

Table 1.4 provides a summary of the change in FTE at Yarra from 2018-19 to 2021-22. Over this period, total Yarra staff have grown by 21 per cent (on an FTE basis). The total FTE in Planning and Place Making increased by the greatest amount (38 per cent) (excluding Advocacy and Engagement – FTE totals for this division were only introduced in 2020-21 suggesting a restructuring of divisions within Yarra). On an absolute FTE basis, City Works and Assets increased by the largest number of FTE over the four-year period (50.61 FTE).

Table 1.4 City of Yarra FTE by division (2018-19 to 2021-22)

Division	18-19 FTE	19-20 FTE	20-21 FTE	21-22 FTE	# 4-year change	% 4-year change
Advocacy and Engagement	0	0	16.29	20.79	*20.79*	∞
Chief Executive's Office	22.06	20.53	10.89	13.92	*-8.14*	*-36.90%*
City Works and Assets	211.07	224.14	243.98	261.68	*50.61*	*23.98%*
Community Wellbeing	266.47	273.02	301.39	311.94	*45.47*	*17.06%*
Corporate, Business and Finance	152.63	163.61	167.59	178.41	*25.78*	*16.89%*
Executive	13	13.6	14.6	14.6	*1.6*	*12.31%*
People and Culture	28.37	20.52	28.12	28.32	*-0.05*	*-0.18%*
Planning and Place Making	72.99	82.59	93.19	101.19	*28.2*	*38.64%*
Total	**766.59**	**798.01**	**876.05**	**930.85**	***164.26***	***21.43%***

*Source: Yarra City Council

The growth in Council staff appears to be driven by a range of factors rather than a specific trend within one area of Council operations or a key change in scope of service delivery. In consultations for this review we sought the views of Council staff, given their experience working in the organisation, on what they believed the key drivers were for the growth in staff within the Council. While these are individual observations, there were some distinct common themes from these discussions which provide some interesting insights, namely:

- The growth in strategies and action plans developed and implemented by the Council each of which require additional FTE. We heard that the breadth of policy and program areas that the Council was getting involved with has widened (often reflecting Councillor and/or community interests).
- Additional work pressures created by State government initiatives (often again in the strategic space) which the Council are required to implement.
- An overall lack of prioritisation or 'zero sum' thinking when considering where to apply Council resources – a tendency to seek additional resources when a new initiative it proposed rather than reducing in other areas.

It was further noted that the lack of allocating of resources against either a 'services map' (i.e. a plan of services the Council provides and to what level) or the Council Plan priorities, makes it more difficult to determine what the actual level of staff should be for the Council to meet its responsibilities and its strategic objectives.

In the following slides these factors are further considered in benchmarking of key indicators, including staffing and overheads, to other M9 Councils.

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HOW YARRA COMPARES: BENCHMARKING TO M9 COUNCILS

M9 councils

The City of Yarra is a member of the M9, an alliance of the nine inner Melbourne councils that work cooperatively and collectively advocate for issues and projects of mutual interest (M9, 2022). As part of the project brief, Yarra has requested that this review incorporate ‘benchmarking with other M9 councils (eight similar Inner Metropolitan councils) (giving regard to differences in accountability and function, geographical size and population) to compare performance and identify areas of improvement’.

In order to conduct a comparison of key performance metrics in relation to council finances and staffing levels, all measures are benchmarked against the other eight M9 councils. These councils have been selected due to their proximity and similarity to Yarra, and should serve as the most appropriate benchmark for Yarra to understand which areas of council should be improved upon. Table 1.5 lists the nine M9 councils which have been used for the following benchmarking analysis.

Table 1.5 M9 councils used for comparison

M9 council
Darebin
Hobsons Bay
Maribyrnong
Melbourne
Moonee Valley
Moreland
Port Phillip
Stonnington
Yarra

*Source: M9.org.au

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HOW YARRA COMPARES: BENCHMARKING TO M9 COUNCILS

Services delivered by Councils

Table 1.6 below provides a comparison of services delivered in the key areas of child care, leisure and aged care for M9 councils. These service areas were selected for comparison because they represent the areas were where is the greatest difference in approach across councils (many other services such as statutory or core services are typically provided by all Councils and therefore are less valuable for a comparative analysis).

The table demonstrates both the significant differences in service provision across the M9 group, as well as the position of Yarra as being at the higher end of the 'spectrum' for in house service delivery. Of the nine service areas considered, Yarra is the only council that provides all of the services, and is also the only council that does not outsource any of the services (noting that some services are delivered in partnership with external providers so are partially contracted). This is a high cost policy position in terms of the scope and delivery of services.

Table 1.6 M9 councils benchmarking of service delivery

	Service								
	Childcare				Leisure services		Aged care		
	Long day care	Vacation care	After School Care	Kindergarten	Leisure centres	Golf course	Home care	Transport	Home maintenance
City of Melbourne	Mixed outsourced & directly provided	Mixed outsourced & directly provided	Council provided	Mixed outsourced & directly provided	Outsourced with Council assets	No Council service provision	Council provided	Council provided	No Council service provision
City of Stonnington	Council provided	Council provided	Council provided	Council provided	Council provided	Outsourced with Council assets	Council provided	Council provided	No Council service provision
City of Port Phillip	Mixed outsourced & directly provided	No Council service provision	No Council service provision	Mixed outsourced & directly provided	No Council service provision	No Council service provision	Council provided	Council provided	Council provided
City of Moonee Valley	Council provided	Mixed outsourced & directly provided	No Council service provision	Council provided	Council provided	Council provided	Council provided	Council provided	No Council service provision
City of Maribyrnong	Outsourced with Council assets	No Council service provision	No Council service provision	Outsourced with Council assets	Council provided	No Council service provision	Outsourced with Council assets	Outsourced with Council assets	Council provided
City of Moreland	Council provided	Council provided	Council provided	Outsourced with Council assets	Outsourced with Council assets	No Council service provision	No Council service provision	Council provided	Council provided
City of Hobsons Bay	Outsourced with Council assets	Outsourced with Council assets	Outsourced with Council assets	Outsourced with Council assets	Outsourced with Council assets	Outsourced with Council assets	No Council service provision	Council provided	Council provided
City of Darebin	Outsourced with Council assets	No Council service provision	Outsourced with Council assets	Outsourced with Council assets	Mixed outsourced & directly provided	Outsourced with Council assets	No Council service provision	Council provided	Council provided
City of Yarra	Council provided	Council provided	Council provided	Council provided	Council provided	Council provided	Council provided	Council provided	Council provided

Legend

- Council provided
- Outsourced with Council assets
- Mixed outsourced & directly provided
- No Council service provision

*table based on information publicly available on Council websites

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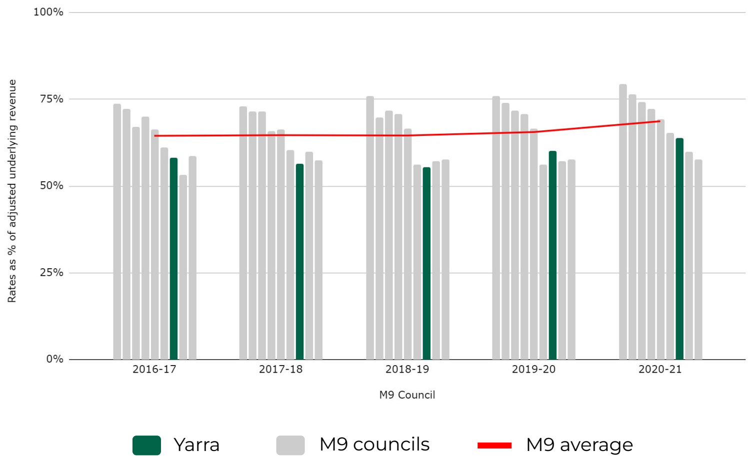
Revenue – higher reliance on user fees and charges than other M9 Councils

Yarra City Council's primary source of revenue is rates, which make up 64 per cent of adjusted underlying revenue in 2020-21 (revenue excluding non-recurrent government grants received for capital purposes, contributions for capital works and the value of assets received from developers). Compared with the M9 council average (Figure 1.7), Yarra has a lower reliance on revenues from rates and a comparatively higher reliance on revenue from user fees and charges (M9 average is 69 per cent).

Figure 1.7 M9 councils rates as a percentage of adjusted underlying revenue (2016-17 to 2020-21)

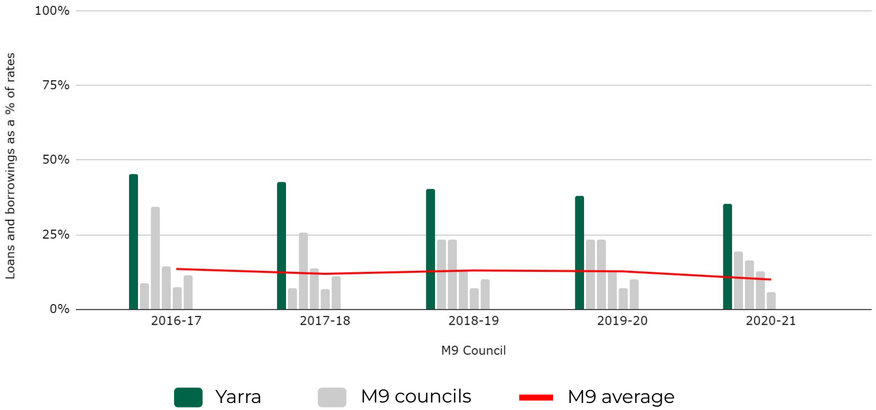


*Source: Know Your Council

Loans – highest debt in M9

Of the M9 councils, Yarra has the highest proportion of the value of loans and borrowings as a percentage of council rates (35 per cent). This is significantly higher than the M9 average of 10 per cent (see Figure 1.8).

Figure 1.8 M9 councils value of loans and borrowings as a percentage of rates (2016-17 to 2020-21)



*Source: Know Your Council

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HOW YARRA COMPARES: BENCHMARKING TO M9 COUNCILS

Expenses – higher than other Council, reflecting services scope and delivery

Yarra has the third-highest value of council expenses per capita in the municipality ($1,927.03 in 2020-21), behind Melbourne ($2,702.94) and Port Phillip ($1,989.31) (see Table 1.7). Whilst the council expenses per capita in Yarra is not significantly higher than the M9 average ($1,572.13 in 2020-21), it should be noted that Yarra's five year percentage change in expenses per capita (7.8 per cent) is higher in the M9 average of 3.2 per cent.

This figure may be a result of Yarra's provision of services (see slide 26, Table 1.5), but it is unclear as other councils with higher expenses per population do not provide the full scope of services that Yarra provides. Of the councils that have five or more services that are directly provided (Stonnington, Moonee Valley, Moreland and Yarra), Yarra's expenses per population are the highest.

Table 1.7 M9 councils expenses divided by population of municipality

Council	2016-17	2017-18	2018-19	2019-20	2020-21	5 year % change
Melbourne	$3,037.39	$2,727.75	$2,705.51	$2,705.51	$2,702.94	-11.0%
Port Phillip	$1,818.52	$1,960.69	$1,977.99	$1,977.99	$1,989.31	9.4%
Yarra	**$1,787.22**	**$1,770.11**	**$1,953.17**	**$1,857.25**	**$1,927.03**	**7.8%**
Maribyrnong	$1,478.01	$1,393.90	$1,505.87	$1,505.87	$1,495.79	1.2%
Stonnington	$1,287.44	$1,352.22	$1,399.63	$1,399.63	$1,401.00	8.8%
Hobsons Bay	$1,209.64	$1,300.43	$1,240.29	$1,240.29	$1,275.25	5.4%
Moonee Valley	$1,173.63	$1,214.38	$1,315.56	$1,315.56	$1,273.74	8.5%
Darebin	$967.39	$1,013.46	$1,035.49	$1,066.16	$1,060.47	9.6%
Moreland	$946.90	$1,000.12	$1,065.22	$1,065.22	$1,023.60	8.1%
M9 Average	*$1,522.90*	*$1,525.89*	*$1,577.64*	*$1,570.39*	*$1,572.13*	*3.2%*

*Source: Know Your Council

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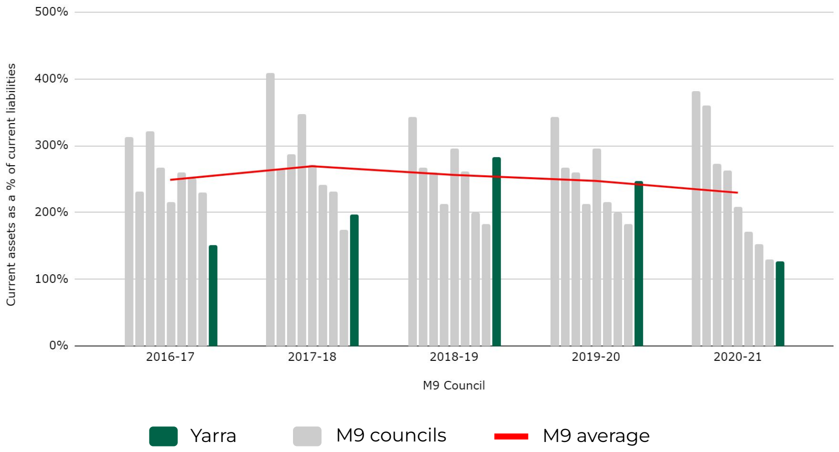
HOW YARRA COMPARES: BENCHMARKING TO M9 COUNCILS

Current assets and liabilities – worst short term liquidity in M9

Yarra has the lowest ratio of current assets to current liabilities of all nine of the M9 councils (see Figure 1.9). Yarra's percentage of current assets to current liabilities is 127 per cent, which is almost half of the M9 average of 230 per cent. This is measure of the liquidity or ability to pay off the short-term debts of a Council.

Figure 1.9 M9 councils current assets as a percentage of current liabilities (2016-17 to 2020-21)

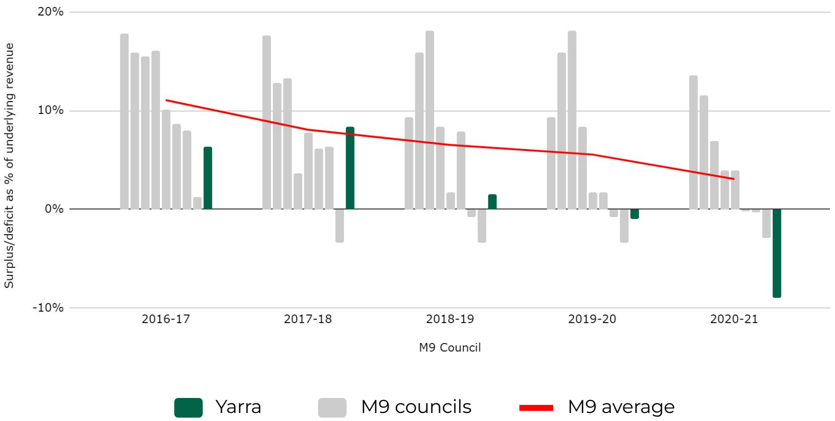


*Source: Know Your Council

Net operating position – worst deficit in M9

As a percentage of council underlying revenue, Yarra also has the lowest adjusted surplus (or deficit) of all M9 councils (-9 per cent compared to the M9 average of 3 per cent). This particular metric measures the council's surplus or deficit for the year excluding non-recurrent government grants received for capital purposes, contributions for capital works and the value of assets received from developers, divided by the council's total revenue excluding these factors (outlined in Figure 1.10).

Figure 1.10 M9 councils adjusted underlying surplus/deficit as a percentage of underlying revenue (2016-17 to 2020-21)



*Source: Know Your Council

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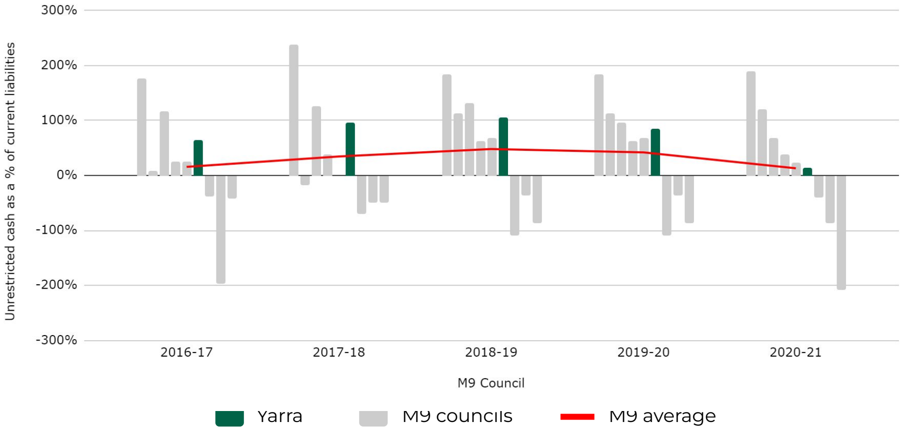
Unrestricted cash – weakening

Unrestricted cash as a percentage of current liabilities is a measure of the amount of cash at the end of the year which is free of restrictions divided by the value of current liabilities at the end of the year (i.e. obligations due or payable by cash within the next 12 months).

Yarra's unrestricted cash as a percentage of current liabilities is 13 per cent, in line with the M9 average. In the period since the start of the pandemic many councils have seen this indicator fall significantly as they have both used cash reserves to support businesses and have experienced reduced revenue (such as from parking fees). See Figure 1.11 for a summary of M9 councils' unrestricted cash as a percentage of current liabilities.

In cases when this indicator is close to zero or negative, Councils are at risk of not being able to fulfill their future financial obligations (this risk is discussed in more detail on page 15 this this report).

Figure 1.11 M9 councils unrestricted cash as a percentage of current liabilities (2016-17 to 2020-21)



*Source: Know Your Council

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Overheads

Overheads are those costs incurred by a Council (or any government agency) which not directly relate to service delivery - examples of overheads in include human resources, finance, IT, governance and strategy, facilities management and communications. These services are necessary to keep an organisation functioning, however can be difficult to measure from a performance or efficiency perspective as their direct outputs and outcomes are not always observable.

Overheads are a critical component of the overall expenditure of an organisation. In any review of future financial sustainability (and assessment of opportunities for savings) expenditure on overheads need to be considered amongst options for savings.

Unfortunately benchmarking of overheads is not included in the indicators on the Victorian government Know your Council tool. There are however a number of other studies which can be used to determine a level of overheads against which Yarra could be benchmarked.

VAGO corporate services study (2018)

This study collected data (through a survey) on the expenditure by Victorian Councils on corporate services activities (the full list of services included in the survey can be found in Appendix A).

The VAGO survey results estimate that Councils spend an average of 15 per cent of their total operating expenditure on corporate services, The average of the 6 M9 Councils who completed the survey was 14.2 per cent (this did not include Yarra).

PwC Corporate Services study (2015)

PwC has conducted two major studies on corporate overheads in government agencies, the first in 2013 which focused on Commonwealth agencies and the second which also included State government agencies. This analysis sought information from government agencies on their expenditure on corporate services. The agencies sampled included small, medium and large agencies (based on level of operating expenses).

In the 2015 study it was estimated that medium sized agencies (those with operating expenses of between $100m and $500m) spent on average 14 per cent of total operating expenditure on their corporate services. There was no difference in the level of expenditure for smaller agencies (less than $100m operating expenses) however large organisations (over $500m operating expenses) did report achieving some economies of scale with their expenditure on corporate services an average of 7 per cent.

How does Yarra compare?

While there are good benchmarks available on corporate overheads, current expenditure by Yarra in this area has not been estimated in any recent studies. This review did conduct an analysis of the corporate overheads estimates in the 2019 cost recovery study. Mapping that data against the same categories that are in the VAGO report against 2018-19 Budget data and expenditure, our analysis found corporate overheads for Yarra were approximately 16.5 per cent of total expenditure in that year. Feedback from the Yarra finance team on estimating overheads was that a full 'bottom up' analysis of overheads needs to be conducted before they would be comfortable with any comparison of Yarra overhead costs to benchmarks.

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PART TWO

OPTIONS FOR ACTION: PRELIMINARY ASSESSMENT

HIGH LEVEL OPTIONS: OPTIONS CATEGORIES

Part One of this review provided a detailed analysis of the challenges facing Yarra CIty Council, with a focus on the future risks to cash flow for the Council and the range of potential financial risks which have not been factored into the Long Term Financial Plan of the Council.

The analysis also highlighted the current approach to service delivery in the Council, the level of cost recovery, and how Yarra compares with other Councils on some key financial and operational benchmarks.

The urgent need to address the immediate financial shortfall is the primary finding from this analysis. It is also clear that the longer term financial sustainability of the Council relies on substantial changes to how the Council operates as an organisation, the scope and methods of delivering services and how it recovers costs of services from the community (both Yarra and non-Yarra residents who consume services). Further, there is an identified need to improve management of the Council's assets.

In this context, this review conducted a high level scoping of options for action which have the potential to address the problems currently faced by Yarra City Council.

In the first stage of the analysis all prospective options were considered, which may represent actions across a range of services and operations, may provide small or large potential financial benefit, and may have long or short term implementation phases.

In total 20 high level options for further consideration were identified in this process and presented to Council management in our Discovery workshop on April 21st 2022. These options are described in the following five slides of this report. These options were generated under four broad categories, as set out below.

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1. ASSETS – Options to generate income through sale of underperforming or surplus assets. A potential financial gain both through asset sale and reduction in future operating costs

2. REVENUE RAISING (FEES, CHARGES, RATES) – Options to raise revenue through the introduction of new charges, or adjustments to existing fees and charges structures.

3. SERVICE AND OPERATIONAL EFFICIENCY – Options to reduce costs through greater efficiency in service delivery, and in operational areas which are not directly service related (overhead areas such as finance, human resources, IT support etc).

4. SERVICE SCOPE – Options to reduce costs by the scope of services provided directly by the Council, reduce services and/or reduce service levels.

HIGH LEVEL OPTIONS: ASSETS

1.1 Fleet

Reduce fleet size and costs.

The current fleet of 309 vehicles, including 114 passenger vehicles is much larger than necessary; particularly given the size of the council, its excellent public transport infrastructure, and the shift towards remote working which will require less face to face meetings. We recommend the council update legacy commuter and management agreements in order to free up more vehicles for use by the general staffing group. Depending on use type, council should also consider leasing, rideshare or alternative transport options such as electric scooters to reduce the costs of servicing the fleet.

1.2 Underutilised Property

Appoint property advisers to run a process for reviewing and making recommendations on surplus and underutilised properties and to help fast track their sale.

While there are examples of unused and underutilised council-owned properties, there is a lack of solid information on the potential financial gains (noting that the net financial gain will be determined by factors such as land ownership, current condition of a property and heritage considerations). Decisions on the disposal of surplus or underutilised property have typically been stalled by the inability of Council to make decisions in the context of competing community views. We would recommend an independent review of all Council properties with a target with expert support to rapidly divest of surplus or underutilised properties.

1.3 Council accommodation review

Consolidate Council operations (post COVID), adopting a team activity based approach to the workplace to reduce Council office footprint.

Council staff use of accommodation fell significantly during COVID-19, and staff continue to work remotely for a proportion of their working week. There is now an opportunity adopt a team activity based approach to workplace planning which will reduce the total office space requirements, which will enhance productivity as well as free up further surplus properties to divest.

1.4 Lease and venue hire terms

Review lease terms for council properties across all service areas to ensure market rents are being applied for commercial operators.

Council leases a number of properties to commercial operators, both for short term and long term uses. These lease terms need to be reviewed to ensure that commercial rates are being charged to private tenants. Further, the rate of concession need to be consistent across lease and hire arrangements with the rationale and process for determining concessions reviewed.

1.5 Improved efficiency on major project management

Move to best practice in project management

Yarra budgeted $38.9m to deliver major capital projects in the 2022-23 draft budget. Yarra is clearly not operating at best practice and there are significant opportunities for improvement in management of major capital projects, which could reduce project timelines, expenses and staffing costs. This is ongoing core council business and needs to be addressed, however it will take some time to implement systemic changes.

HIGH LEVEL OPTIONS: REVENUE

2.1 Waste charge

Introduce a new waste charge separate to rates, set at zero net cost in Year 1 but rising over a number of years to full cost recovery.

Yarra is one of only 9 Councils in Victoria that does not have a separate waste charge. Waste management costs have increased almost 100 per cent in the last 5-6 years. In 2017 the Council estimated it could raise approximately $8.5m per year. The recommended approach would be a phased introduction which includes the fee in rates in year 1 at zero net increase and then to transition to full cost recovery over several years.

2.2 Increase parking fees

Increase parking fees over the next 2-3 years to bring fees in line with those in comparable metropolitan areas

Yarra City Council collects parking fees in a variety of ways, including meter parking, long stay parking and residential parking permits. Current (2021-22) fee levels are lower than neighbouring councils and the decision has already been made to increase fees in the 2022-23 budget. Even taking this increase into account, there is scope for further increase over the coming 5 year period, however it's important that these increases are applied strategically to ensure they do not negatively impact on businesses (particularly those who are seeking to recover after COVID).

2.3 Pricing policy

Implement the Pricing Policy adopted in 2019, identifying priority areas for action with the greatest potential for financial impact but ultimately covering the pricing of all services.

The 2019 Pricing Policy provides a good framework that Council should follow in reviewing fees and charges, and should be implemented with initial focus on those fees likely to contribute the most to financial sustainability. As the first step, the current Council should endorse the Pricing Policy and direct Council staff to commence applying it to a range of fee areas.

2.4 Leisure fees

Transition leisure fees to market price levels over 1-2 years

Benchmark Yarra Leisure fees and membership structures to simplify fee structure and reduce complexity of the concession arrangements. Fees for leisure activities should be set at market levels.

2.5 Child care fees

Transition long day care fees to market price levels over 1-2 years

The five long day care centres operated by the Council currently charge a daily rate ($126) approximately $20 below comparable centres in the Council area (and the Melbourne average). There is a risk that the Council may be subject to a Competitive Neutrality complaint when it is operating below cost and subsidising the service with Council funds. Long day care fees could be transitioned to market levels over say a two year period.

HIGH LEVEL OPTIONS: SERVICE AND OPERATIONAL EFFICIENCY

3.1 Hard waste

Improve service efficiency of hard waste services.

Current hard waste services can be provided at a lower cost through modifications to service standards and operations. Improvements should include better management of collection days (not operating on public holidays or Sundays), better planning of collection location and stricter application of current guidelines around collections by household (currently limited but not enforced).

3.2 Yarra Leisure structure

Establish Yarra Leisure as an ring-fenced business within Council with management at arms length from the Council and with responsibility for determining service offerings, budget and performance measures.

Under this model there should be a documented Community Service Obligation which sets parameters around access to facilities by use type, thereby avoiding ad hoc management of facility access which can be influenced by a small number of user groups or individuals. This model would allow Yarra Leisure to increase more profitable use of facilities such as Learn to Swim and School programs. Consolidating the three major leisure centres under one management structure and operated as a single enterprise would lead to increases in efficiency through economies of scale and reduction of duplication.

If this change does not result in improved financial sustainability, then the Council should consider outsourcing the service to an external NFP contractor, but may retain ownership of the assets.

3.3 Review, map and redesign Council services

Appoint advisers to conduct a process to systematically review and redesign Council services.

A number of opportunities for service redesign have been separately identified amongst the options, however, there are many more services provided by the council that warrant review over time. An initial review would include a forensic analysis of service delivery to staff allocation, identifying areas of duplication and overlap, and identifying services that could be consolidated or discontinued, and recommending bundles of services that could match the new fewer, larger, more flexible teams. Implementation and change management support would be provided for approved changes. This would be done in phases over 2-3 years starting with the areas that are most prospective for gains to financial sustainability.

3.4 Council Staff consolidation

Restructure the organisation into fewer larger and more flexible teams and at the same time reduce overall staff numbers by 5 to 10 per cent through a hiring freeze.

Staffing costs are the Council's single largest cost item. Based on consultations and benchmarking assessment there appears to be scope for the Council staff to be reduced. This process could be facilitated by a restructure to create fewer, larger more flexible teams that are aligned with key service and operational bundles. Headcount reduction could be also be achieved through a hiring freeze.

3.5 Consultation efficiency

Improve the efficiency of consultation processes undertaken by the Council

An issue raised by a number of staff during consultations was that the Council's current approach to stakeholder consultation is to consult extensively with stakeholders on almost all policy decisions. Most notably the number of iterations of consultations offered to the community was observed to be more numerous than other Councils (and often have low levels of community participation). Consultation is very time intensive and this approach consumes a large amount of staff time and delays the policy development process. Over consultation may also disadvantage time-poor stakeholders who may prefer to be consulted less often but more substantially.

While there is currently no specific benchmark measuring consultation efficiency, there may be scope to improve efficiency by applying a consistent framework to consultations which has a designated number of public rounds of consultation. This approach would provide transparency to the community of when and how they will be consulted, and remove the risk that for some processes a small number of stakeholders may be afforded additional input where the value added of that process reaches diminishing returns (ie the same information being presented at multiple stages). It's important to note that the suggestion is not to remove consultation in Council decision making, but to review and improve how it is conducted to lower the costs to Council.

3.6 IT system efficiency gains

Identify efficiency gains as a result of improved IT systems.

The current program for redesigning and consolidating Council IT systems should provide a range of efficiency gains to the Council, particularly in relation to staffing costs from more efficient operations. The project team should be tasked with identifying a range of efficiency savings that can be achieved through this project in the timeframe, with targets and tracking. The cost savings from these initiatives are probably more longer term.

3.7 In person service centres

Consolidate in person service centres.

Greater provision of information and processes (such as applications) online mean that there is an opportunity for the Council to consolidate its in-person services centres from 4 to 2 or potentially 1 in the longer term.

HIGH LEVEL OPTIONS: SERVICE SCOPE

4.1 Aged care

Transition out of the delivery of in home aged care services for which the Commonwealth will no longer provide block funding.

Changes to the Commonwealth service and funding model for aged care will have a significant impact on the viability of councils to continue to provide all or part of the current services. The changes will see service agreements (agreed targets and funding) replaced by an open competitive market approach and an individualised approach to funding services.

Many Victorian councils have already signaled their intent to no longer operate all or part of the services under this new model, with the expectation that an effective and quality market of private and community providers will be in place.

Exiting all or part of these services will not only save Yarra funds but it will avoid the potential for higher costs of service provision under the new model.

4.2 Redesign service standards

Review service standards, including benchmarking with comparable councils to identify overservicing.

This process should identify areas where the community would likely be able to adapt to a reduced service scope (such a recreation and open space management) that is in line with practice at comparable councils.

4.3 Child care

Transition out of the delivery of vacation care and OOSHC services.

Along with long day care (which is highly utilised) the Council also run vacation care and OOSHC services. These services have lower utilisation and lower cost recovery than long day care. There are existing providers in this space and Council could exit this service area without a concern that families would have no alternative care options. Just factoring direct costs and income (not overheads) the potential saving from this measure is estimated to be around $900,000 annually.

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HIGH LEVEL OPTIONS: ASSESSMENT

Criteria for assessment

A set of four criteria were developed to help assess and screen the potential options for action. The basis for these criteria is outlined below including a description of how the criteria were applied. The criteria were weighted equally in making an overall analysis.

Table 2.1 Criteria for assessment

Criteria	Description	Why is this important?	Ranking approach	Weighting
1. Financial	Likely scale of the net financial contribution of the option	The brief is to find around 5-6 options that collectively can address a financial gap estimated at $10-15m pa	<$1m pa impact 1-4m pa impact $5m+ impact	25%
2. Timing	Ability to deliver the option within 3-5 years	The brief is that it is likely that the financial gap needs to be addressed with 3-5 years	5+ years 3-4 years 1-2 years	25%
3. Operating	The operating barriers, enablers, capabilities & workforce issues and how these risks could be managed or mitigated	Best to prioritise options that face the least or most manageable issues or barriers to implement	Major operating challenges Moderate operating challenges Smaller operating challenges	25%
4. Community	The scale of the impact on residents & ratepayers including how this risk could be managed and mitigated	Best to prioritise options that are likely to have the least or most manageable impact on the fewest resident or ratepayers	Large impact / many affected Moderate impact / some affected Small impact / few affected	25%

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HIGH LEVEL OPTIONS: SUMMARY OF ASSESSMENT

Table 2.2 Preliminary assessment of high level options including legend

1. Financial

- 🔴 <$1m pa impact
- 🟡 1-4m pa impact
- 🟢 $5m+ impact

2. Timing

- 🔴 5+ years
- 🟡 3-4 years
- 🟢 1-2 years

3. Operational

- 🔴 Major operating challenges
- 🟡 Moderate operating challenges
- 🟢 Smaller operating challenges

4. Community

- 🔴 Large impact / many affected
- 🟡 Moderate impact / some affected
- 🟢 Small impact / few affected

CRITERIA	1. Financial	2. Timing	3. Operational	4. Community
1. Assets				
1.1 Fleet	🔴	🟢	🟡	🟢
1.2 Underutilised Property	🟢	🟡	🟡	🟡
1.3 Council accommodation review	🟡	🟡	🔴	🟢
1.4 Lease and venue hire terms	🔴	🟢	🟡	🟢
1.5 Improved efficiency on major project management	🔴	🟡	🟡	🟢
2. Revenue raising				
2.1 Waste charge	🟢	🟢	🟡	🔴
2.2 Increase parking fees	🟡	🟢	🟢	🔴
2.3 Pricing policy	🔴	🟡	🟢	🟡
2.4 Leisure fees	🟡	🟢	🟡	🟡
2.5 Child care fees	🟡	🟢	🟢	🟡

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HIGH LEVEL OPTIONS: SUMMARY OF ASSESSMENT

Table 2.3 Preliminary assessment of high level options including legend

1. Financial

- Red: <$1m pa impact
- Yellow: 1-4m pa impact
- Green: $5m+ impact

2. Timing

- Red: 5+ years
- Yellow: 3-4 years
- Green: 1-2 years

3. Operational

- Red: Major operational changes
- Yellow: Moderate operating changes
- Green: Smaller operating changes

4. Community

- Red: Large impact / many affected
- Yellow: Moderate impact / some affected
- Green: Small impact / few affected

CRITERIA	1. Financial	2. Timing	3. Operational	4. Community
3. Service and operational efficiency				
3.1 Hard waste	Red	Green	Yellow	Yellow
3.2 Yarra Leisure	Green	Yellow	Red	Yellow
3.3 Redesign Services	Green	Red	Red	Yellow
3.4 Consolidate In person service centres	Red	Green	Green	Green
3.5 Restructure Staff	Green	Yellow	Red	Green
3.6 Improve consultation efficiency	Red	Yellow	Green	Yellow
3.7 IT systems efficiency gains	Green	Red	Red	Green
4. Service scope				
4.1 Aged care	Yellow	Green	Red	Yellow
4.2 Child care	Yellow	Green	Yellow	Yellow
4.3 Redesign service standards	Red	Yellow	Yellow	Yellow

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PART THREE

DETAILED ANALYSIS OF PRIORITY OPTIONS

PRIORITISING OPTIONS FOR FURTHER ANALYSIS

The purpose of this review is to recommend a set of initiatives which the Council could immediately pursue to address the forecast cash shortfall in the period to 2031-32. The high level assessment of options in Part Two of this report, informed by discussions with Council management in the discovery workshop, provides a basis for a more focussed assessment of the most prospective options, these are identified below under 'priority initiatives'.

There is, however, a clear need to invest in longer term reform to improve the Council's future financial stability. As set out below, the review team has also identified a set of longer term systemic actions and, finally, suggests that the Council pursue smaller scale efficiency opportunities within team to achieve additional savings.

Figure 3.1 Options bundling

1. PRIORITY INITIATIVES

Options which have been assessed as:

- Highly prospective financially (large income or savings opportunities)
- Can be partly or fully implemented within 3-4 years
- Present moderate to low operational challenges.

Organisation & assets

- Property review
- Staff and overheads consolidation
- Council accommodation review

Revenue

- Waste charge
- Parking fees
- Implement Pricing Policy

Services

- Leisure restructure/outsourcing
- Child care services

2. SYSTEMIC REFORMS

Options which have been assessed as:

- Have longer time horizons to realise benefits
- Present complex operational challenges
- Are, to some degree, interdependent - they need to be completed with a strategic approach rather than as stand alone reforms.

Systemic reforms should focus on the following areas:

- Asset management
- Procurement and contracting
- Services mapping and redesign
- People management
- IT systems and processes

3. SMALLER SCALE EFFICIENCY OPPORTUNITIES

Options which:

- Have smaller potential financial gains than major initiatives, and/or
- Have lower barriers at the operational level, and/or
- Can be implemented within the next 2-3 years

There are several examples provided to this review of smaller scale efficiencies which could reduce costs to the Council through efficiency improvements.

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Property review

Appoint a property adviser to review and make recommendations on surplus and underutilised properties.

Overview

The Council currently owns and maintains an extensive property portfolio including three Town Halls and a range of commercial sites, reaching a written down valuation of just under $200m.

A proportion of these properties are either underutilised or unused, however the exact extent of underutilisation of the properties is difficult to ascertain from available information within the timing of this review (it is not currently documented by Council, though a property review is currently underway).

Yarra also leases some space at non-commercial rates to community organisations. While this may add value for the community, the portfolio of buildings isn't leveraged very well to raise funds or reduce costs.

The costs to owning and maintaining these properties are increasing, particularly as a result of Yarra's major commitments regarding sustainability (with commitments to upgrade buildings to new heating and cooling systems which are not gas systems).

Property sale or leasing options

There is a potential significant financial benefit to be gained through the sale of some properties or the refurbishment and leasing of properties to improve the Council's financial position. Over the period to 2031-32. The actual net financial gain will vary by property, determined by factors such as:

- land ownership (ie crown land or private holding),
- the current condition of a property; and
- heritage value and community expectations of the use of the property.

The decision on whether an asset is surplus or underutilised should be made with some view of likely future use in line with Council plans and strategies. There is no point selling an asset only to have to buy another similar asset back at a later stage.

Decisions on the disposal or repurposing of surplus or underutilised property have typically been stalled by the inability of Council to make decisions in the context of competing community views. For this reason, we would recommend an independent review of all Council properties by an expert adviser and to rapidly divest of surplus or underutilised properties to reach a sales target.

Target

We estimate that Yarra could reduce its overall approximately 15% of its current property portfolio by the financial year 2025-26 through targeted sales of its least used assets. This equates to a sales target of around $30m.

Reduction in overall staff and overheads costs

Reduce staff levels by 10 per cent and achieve the corporate overhead benchmark of 14 per cent of total expenditure through consolidation and efficiency measures

Staff and overheads costs are the Council's largest expenditure items, therefore it is difficult for the Council to achieve the net savings it needs without some reduction in costs in these areas. The LTFP, on which the financial gap analysis is based, does not factor in any growth in staff above 906 FTE (which is lower than current staffing levels). It is therefore, essential that measures are put in place to abate the recent high growth in staff numbers within the Council (over 20 per cent in the last 4 years).

Yarra's staff levels are higher than the M9 average both in metrics of staff by expenditure and population. While metrics around overheads remain uncertain, there is potential for reduction in overhead costs following a full analysis of Yarra's current overhead expenditure. We recommend that Yarra seek to meet the following targets:

- Reduction in total staffing levels to the M9 average (approximately 10 per cent reduction).
- Achieving corporate overhead costs at the benchmark level to 14 per cent of operating expenditure (following a bottom-up estimation of overheads).

In discussions with Council Staff for this review, concerns were raised about the potential reduction in staff without a proportionate reduction in service provision, or recognition of some of the key drivers of staff workload (such as growth in the breadth of strategy development work).

The potential for net savings from changes in service provision, staffing changes and reductions in overheads (including accommodation) are interrelated. Its important to note that some staff consolidation will occur as a result of other major initiatives proposed, such as:

- **Aged care reforms –** reduction in staff managing home care programs which will cease
- **Child care reforms –** reduction in staff managing vacation care and OOSHC services
- **Venue and property management –** if properties are sold or if management of properties is reduced through different leasing arrangements.

Expenditure on corporate overheads is highly correlated with the number of staff employed by the Council, as the more staff that are employed the more expenditure there will be on overhead costs to accommodate the staff (plus on costs). These cost are, ultimately related the scope of services and activities that the Council funds. It is therefore important that any efforts to reducing costs in these areas are linked to measures which will review and potentially reduce the scope of Council activities.

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Reduction in overall staff and overheads costs

Reduce staff levels by 10 per cent and achieve the corporate overhead benchmark of 14 per cent of total expenditure through consolidation and efficiency measures

We would recommend the following approach in the first 24 months following commencement of implementation.

1. Implement a hiring freeze at current levels while an assessment of services and resourcing requirements is conducted (to determine where staff resources are needed and where consolidation can occur). This assessment should include areas where other service changes are occurring (such as in aged care and child care).

2. During this transition period implement a moratorium on unbudgeted initiatives which would ordinarily require additional staff resources (new strategies, broadening scope of policy and program initiatives etc).

3. Review current vacant positions and remove positions which have been vacant for more than 6 months, to remove the costs of these positions in future budgets.

4. Conduct a review of corporate overheads and benchmark these against VAGO and PwC study levels. Following this review establish key areas where net savings can be achieved.

A restructure of the organisation into fewer larger teams based around logical service bundles would provide a framework to reduce staff numbers while maintaining service focus. This would reduce the number of divisions from 7 to say 5, with larger teams within each division based on logical service clusters. This would be considered in parallel with the planning for the accommodation review.

While a hiring freeze is a fairly blunt process, it may be preferable as a means to more quickly and easily achieving a financial outcome than using targeted or voluntary redundancies. However, care would need to be taken to ensure that minimum skills are maintained in critical areas, for example such as statutory responsibilities and revenue raising. This could be done through a limited exceptions process. There would also need to be a process for the readjustment of work priorities and resourcing between teams that would go hand in hand with the organisational consolidation process.

Target

Setting a dollar figure target for savings in staff and overheads is complicated by the fact that savings from other initiatives will include staffing cost savings, and some overhead costs are direct staffing costs also (therefore the risks of double counting are high). That said, for the purposes of this review, putting in context the potential savings from these initiatives against alternatives, a conservative estimate of $5.1m saving from 2024-25 is reasonable (reflecting 5 per cent of total staff costs). It is likely that if the Council reach both the staff and overheads benchmarks the savings achieved will be higher.

Council accommodation review

Consolidate Council operations (post COVID), adopting a team activity based approach to the workplace to reduce Council office footprint.

Overview

Council staff use of accommodation fell significantly during COVID-19, and staff continue to work remotely for a proportion of their working week. Recent surveys indicate that 50-60% of the workforce will be in the office at any one point in time, and one stakeholder commented that “it's clearly a waste for us to have that much office space with the flexible working arrangement”. This pattern of work seems likely to be sustained for the foreseeable future.

There is now an opportunity to adopt a team activity based approach to workplace planning which will reduce the total office space requirements as well as free up further properties to divest.

This could also present an opportunity to break down silos, promote greater cross-collaboration across the organisation, and develop a better understanding of more effective service clusters.

Potential gains

We don’t have any definitive numbers on staff accommodation (staff per metre squared) at Yarra from which to deduce a potential reduction target, however research suggests that introducing flexible working arrangements and consolidating office space can increase productivity, collaboration and employee satisfaction, and reduce overheads.

For example, BP reported these benefits after consolidating their property portfolio from 12 to 5 locations, with desk space ranging from a 1:1 desk-to-staff ratio for administrative staff, to 1:1.5 ratio in other areas. BP ultimately reported savings in property operating costs of £23 million per annum (a 35% reduction), savings in occupancy costs of up to £15k per person per year, and a halving in the average cost per workstation.

The British Ministry of Justice similarly consolidated its London property portfolio from 18 buildings to ultimately just one headquarters building, saving the department £30m per annum. A number of additional measures, including paper usage reductions and an informal meeting spaces, also achieved a 1.1:2 desk-to-staff ratio.

Additionally, Ernst & Young, HSBC, PwC, and many other firms, organisations, and government departments report similar savings and productivity benefits from introducing flexible working and consolidating staff accommodation space.

All of these organisations differ in scale and mission to Yarra, and cannot be wholly relied upon to predict outcomes for Yarra. However, the evidence remains compelling.

Waste charge

Introduce a waste charge to fully recover the future growth in costs of waste services

Overview

Yarra is one of only seven councils in Victoria that does not have a separate waste charge (see Table 3.3 for a list of councils who do not currently have a separate waste charge). Of these seven councils, five councils are proposing to introduce a waste charge from 2022-23 (with Whitehorse currently conducting community consultation for a waste charge to be introduced in the near future).

A waste charge provides a mechanism for councils to recover future costs of waste services outside of the rate cap. Given recent waste costs have been rising at rates substantially higher than the 1.75% rate cap, moving to a separate waste charge in rates is now critical for the Council to protect its future financial sustainability.

The decision by Yarra City Council in 2017 to not introduce a waste charge (when it was last proposed) has left the Council vulnerable to inflationary pressures in the waste management industry, as noted in the Council's 2022-23 Draft Budget:

> *The Environment Protection Agency (EPA) regulation has a sustained impact on Council with regards to compliance with existing and past landfills sites. Waste disposal costs are also impacted by industry changes such as increasing EPA landfill levies and negotiation of contracts e.g. recycling sorting and acceptance.*

The EPA waste levy (formerly the landfill levy) has increased from $65.90 in 2019-20 to $125.90 from 1 July 2022. Without a separate waste levy (and with rate capping in place) Yarra has no direct mechanism to recover these higher service costs.

Table 3.3 Councils who do not currently implement a waste charge

Council	Current status of waste charge	Timeline
Banyule	Introduction of Waste Charge proposed in Draft Budget 2022-23	2022-23
Darebin	Introduction of Waste Charge proposed in Proposed Budget 2022-26	2022-23
Hume	Considering introducing Waste Charge (unclear if for 2022-23 or beyond)	2022 onwards
Melbourne	Introduction of Waste Charge proposed in Draft Budget 2022-23	2022-23
Port Phillip	Introduction of Waste Charge proposed in Draft Budget 2022-23	2022-23
Whitehorse	Proposing to introduce Waste Charge (currently conducting community engagement)	2022 onwards
Yarra	**No plans for waste charge**	**–**

Councils highlight that introducing a waste charge:

- Is in line with the existing practice of many other Victorian councils
- Is a more transparent way of showing residents how much they are paying for their waste services
- Enables greater flexibility for council to ensure that any waste cost increases (above the rates cap) are covered for core services, in addition to funding any new waste services that need to be introduced
- Would save councils from unwanted cuts to essential community services or infrastructure.[1]

[1] Taken from council Draft Budget documents – see Bibliography for a complete list of references.

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Waste charge

Introduce a waste charge to fully recover the future growth in costs of waste services

The decision not to introduce a waste charge in 2017 has meant that Yarra has been unable to recover approximately $23.3m in waste costs in the period 2017-18 to 2022-23. See Table 3.4 for a summary of the estimated revenue forgone as a result of not having introduced a waste charge in 2017.

Table 3.4 Revenue forgone from not introducing a waste charge in 2017-18 ($000s)

Item	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Year on year cost increase								
Increase in waste costs[1]	–	1,283	1,283	1,283	1,283	1,283	1,283	7,698
Increase in waste costs able to be recovered under rate cap	–	160	184	209	171	131	155	1,010
Cumulative cost increase								
Estimated waste costs[1]	7,997	9,280	10,563	11,846	13,129	14,412	15,695	82,921
Waste costs able to be recovered under rate cap	7,997	8,157	8,340	8,549	8,720	8,850	9,005	59,617
Revenue forgone as a result of rate cap	**–**	**1,123**	**2,223**	**3,297**	**4,409**	**5,562**	**6,690**	**23,303**

[1] Annual waste cost data has been estimated using a straight line approach, using cost data provided by Yarra for 2017-18 (actual) and 2023-24 (estimated) waste costs.

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Waste charge

Introduce a waste charge to fully recover the future growth in costs of waste services

Yarra should introduce a waste charge from 2023-24. This charge would form part of a household's rates statement, separating rates from the waste charge. In the first year of the charge the amount would be set as to not increase the overall rates level above what would have been charged under the rate cap. From 2024-25 the charge should recover the increased cost of waste services. Each year Council should increase the charge in line with costs to ensure that all waste service costs are recovered. While future waste costs trends remain uncertain, we note that actual waste costs have increased by 11.92 per cent per year since 2017.

Table 3.5 Additional revenue from introducing a waste charge in 2023-24 ($000s)[1] – scenario analysis

Item	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Year on year cost recovery scenario analysis										
Base case – amount recoverable (no waste charge)	–	297	302	308	313	318	324	330	335	–
Scenario 1 – additional amount recoverable with waste charge (5% cost increase)	–	552	593	633	675	719	765	814	866	
Scenario 2 – additional amount recoverable waste charge (10% cost increase)	–	1,401	1,569	1,752	1,953	2,174	2,419	2,688	2,985	
Scenario 3 – additional amount recoverable waste charge (11.92% cost increase)	–	1,727	1,967	2,233	2,531	2,865	3,240	3,660	4,130	
Cumulative cost recovery scenario analysis										
Base case – costs recovered (no waste charge)	16,978	17,275	17,577	17,885	18,198	18,516	18,841	19,170	19,506	–
Scenario 1 – additional amount cost recovered with waste charge (5% cost increase)	–	552	1,145	1,777	2,452	3,171	3,936	4,750	5,616	**23,398**
Scenario 2 –additional amount cost recovered with waste charge (10% cost increase)	–	1,401	2,970	4,722	6,675	8,849	11,268	13,955	16,940	**66,779**
Scenario 3 – additional amount cost recovered with waste charge (11.92% cost increase)	–	1,727	3,694	5,927	8,458	11,323	14,652	18,222	22,353	**86,264**

[1] A total waste cost estimate of $17.0m in 2023-24 has been provided by the City of Yarra. See Appendices for a full summary of the estimated costs for each scenario outlined in Table 3.5

[CONFIDENTIAL]

Parking fees

Increase parking fees in order to grow total revenue from parking

Overview

Yarra City Council collects parking fees in a variety of ways, including meter parking, long stay parking and residential parking permits. Current (2021-22) fee levels are lower than neighbouring councils and the decision has already been made to increase fees in the 2022-23 budget. Even taking this increase into account, there is scope for further increase over the coming 10 year period.

It is recommended that parking revenue is increased by 5 per cent of the estimated parking revenue every three years up to 2031-32 (see Table 3.6). The method for achieving this target may be through a mixture of introducing parking fees where there are currently zero costs, higher permit fees and/or higher metered charges. The exact approach should be developed by Council, taking into account the potential impact on business (for example through metering parking) and the potential future land use pressures on current parking spaces (i.e. where parking space may be transitioned to other uses or to open space regeneration). Council should consider that the 5 per cent total revenue growth target will also need to reflect any potential reductions in number of parking bays, so some fee categories may need to be increased further to reach the 5 per cent target.

Advantages of this approach include the measure draws in revenue from non-residents, and that it is potentially aligned with sustainability goals about encouraging public transport and active transport.

Table 3.6 Revenue gains from increase in parking fee revenue ($000s)

Item	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Base case – current revenue estimate[1]	35,788	36,414	37,052	37,700	38,360	39,031	39,714	40,409	41,116	41,836	387,419
Scenario 1 – increase parking revenue by 5% every 3 years	35,788	36,414	37,052	39,585	40,278	40,983	43,785	44,551	45,331	48,430	412,195
Additional parking revenue	**–**	**–**	**–**	**1,885**	**1,918**	**1,952**	**4,071**	**4,142**	**4,214**	**6,594**	**24,776**

[1] Yarra's Long Term Financial Plan assumes a constant growth rate of 1.75% for Statutory fees, fines and User Fees. As such, we have based the estimated revenue gains on the same growth rate.

[CONFIDENTIAL]

Pricing Policy

Implement the Pricing Policy across all fees and charges of the Council, starting with the areas which will have the largest financial impact (leisure and child care)

Overview

The Pricing Policy should be implemented across all fees and charges areas of the Council. This process would involve an assessment for each services where fees apply which would following the process set out in the policy.

1. Determine the category value to the community of the service, along the spectrum of Public value, mixed value and private value (determined by how the benefits of the service are realised)
2. Identify if statutory or non-statutory pricing applies to the service (see Table 3.7)
3. Where non-statutory pricing applies, identify the most appropriate form of pricing method, based on the degree of private or public value, competitive neutrality requirements, market prices (benchmarking), service delivery objectives.

It is important to note that applying the pricing policy does not necessarily mean that all fees and charges of service will increase, or that new fees will be applied. The process should be a transparent method of determining the appropriate level of fees. The outcomes of this process may lead to service fees maintained at current levels (or set at zero), fees increasing to achieve higher cost recovery, marginal changes in fees to achieve partial cost recovery, or services delivery methods changing where the process finds Council delivery of a services is not longer appropriate.

We recommend that this process be applied to all service areas where fees may be charged, but with a priority on leisure and child care fees, which are discussed in more depth in the following slides.

Table 3.7 VAGO pricing methods

PRICING METHODS	DESCRIPTIONS
Statutory pricing	The prices for some services are set or controlled under statute or funding agreement. This means that Council's role is to administer or deliver the service and apply the fees that are prescribed by state or federal government. These prices are set by legislation and may be below the full cost to deliver the service (i.e. the fee may only provide partial cost recovery). Council sets the maximum available.
Non statutory pricing	The prices for some services are not regulated by statute. For services that are subject to non-statutory pricing, there are a range of considerations that Council will take into account to determine the appropriate pricing method. These include: · The degree of private or public value of the service (see Section 8) · Competitive Neutrality requirements (see Section 10) · Benchmarking with other providers · Service delivery objectives · Financial implications
Non-statutory pricing methods	**Full Council Subsidy –** A full Council subsidy occurs when all costs (direct and indirect) are funded entirely from the rate base and there is zero cost to the customer. *Application: where no charge to a customer will deliver community benefit and/or makes a service accessible to low income or disadvantages users (public value).* **Partial Council Subsidy –** A partial Council subsidy occurs when some costs are recovered. A portion of the cost is funded from the rate base or other revenue sources and a portion of the cost is funded by the customer. *Application: where Council recognises community benefit as well as individual benefit (i.e. there is shared benefit).* **Full Cost Recovery –** Full cost recovery occurs when all costs (direct and indirect) are intended to be recovered from the customer. There is no intent to subsidise the service. *Application: the service primarily benefits the individual user rather than the community as a whole.* **Market Pricing –** Market price occurs when the service competes with others and there is pressure to set a price that will attract adequate usage of the service. Competitive Neutrality applies and the price must be consistent with the Competitive Neutrality Policy guidelines. *Application: the service primarily benefits the individual user, competes in a competitive market environment and the price must create a level playing field.* **Incentive Pricing –** Incentive pricing occurs when full cost is recovered and in some cases the fee can generate a surplus (profit). *Application: The fee is issued to encourage compliant behaviour for the greater good and can act as a penalty for breaking rules and local laws. Council performs the role to regulate and restrict certain behaviour/activities*

Pricing Policy

Implement the pricing policy across all fees and charges of the Council, starting with the areas which will have the largest financial impact (leisure and child care)

Applying the Pricing Policy to leisure fees

A revised fee structure for Yarra Leisure has been proposed in the 2022-23 budget. Discussions on these proposed changes have run concurrently with this review (with the Council presented with the revised structure on May 17th after the Co-design workshop for this review).

The fees proposal does including some elements of the pricing policy (it provides some unit cost estimates for core service provision and presents benchmarking data), however there are a number of aspects where further alignment with the pricing policy can, and should, be pursued.

- The analysis identifies leisure as a non-statutory service but does not specify the degree of cost recovery which should apply to leisure fees (linked to degree of public, mixed or private value).
- While benchmarking was conducted, the proposed fees are set below median market rates in most fee categories.
- There are no estimates of the net financial impact of the changes, including the extent to which they would achieve full or partial cost recovery.
- Only direct service costs are included in the cost estimates, and these are not linked back to the proposed fees (only benchmarking was conducted).

There is a need for a more comprehensive review to be conducted which:

1. Identifies the appropriate cost recovery methodology for leisure services
2. Fully estimates appropriate costs aligned to this method; and
3. Determines fee levels to achieve the appropriate cost recovery objective, also reflecting market pricing.

Given the mix of services provided in leisure, it may be the case the some services within the overall model fall within different cost recovery categories. In that case, fees may be set using different methodologies (for example where there is a recognised community benefit of service).

The most recent cost recovery assessment of services provided in the Council, conducted using 2018-19 data, estimated:

- Using a full cost recovery method the Council subsidy for leisure services was $4.1 million per year.
- On a direct cost only basis the Council subsidy was $1.1 million per year.

Based on these estimates there is, at a minimum, the potential for an additional $1.1 million of costs to be recovered through leisure fees, which would support the Council's future financial sustainability. We would recommend that at least a partial cost recovery of greater than direct costs be pursued (following full analysis of costs), which would recover an amount higher than this minimum level.

Pricing Policy

Implement the pricing policy across all fees and charges of the Council, starting with the areas which will have the largest financial impact (leisure and child care)

Applying the Pricing Policy to child care fees

The five long day care centres operated by the Council currently charge a daily rate ($126) approximately $20 below comparable centres in the Council area (and the Melbourne average).

On a cost recovery basis the service does not fully recover costs – its fees are below the level which would recover direct costs, and when taking into account overheads the cost recovery rate for long day care is around 60 per cent. There is a clear risk that the Council may be subject to a Competitive Neutrality complaint when it is operating below cost and subsidising the service with Council funds.

Given the recommendation in this review that the Council not continue to provide vacation and OOSHCS, the focus of the pricing policy review should be on long day care services and kindergarten.

In applying the pricing policy consideration should be given to how the Council run facilities can operate within the market, noting:

- Analysis conducted on long day care fees for this review found that if fees were set to achieve market prices from 2023-24, the Council would raise an additional $600,000 annually in revenue for the service in the period 2023-24 to 2031-32.
- If long day care services were to recovered up to direct service costs, the estimated gap (based on 2018-19 figures) is approximately $900,000 annually.
- At full cost recovery, the service would need to recover an additional $4m which would likely mean services could not meet market prices.

Market pricing vs cost recovery

In the instance where services are provided in the market (such as leisure and child care), there is the potential for the appropriate method of cost recovery to not align with market price (ie costs recovery will set fees higher than market levels). In these instances consideration should be given to the Council moving out of provision of the service (on the basis that it's delivery model is not financially sustainable).

Avoidable cost methodology

One method which should be considered for both leisure and child care in this assessment is avoidable costs methodology. This method includes with the cost recovery calculations only those costs, including overheads, which Council *would not incur* if the service were to not be provided. These costs specifically are included in cost recovery estimates, but not broader overheads associated with non-related Council functions (the rationale being that these are costs not incurred by private providers in the market). For example for leisure, overheads within the Council related to the management of leisure services (such as management costs, financial services, facilities management, payroll etc) would be included in cost methodology but not other overheads which are specific to Council governance (for example) which would incurred even if the Council did not fun leisure activities in-house.

[CONFIDENTIAL]

MAJOR INITIATIVES: REVENUE

Pricing Policy

Implement the pricing policy across all fees and charges of the Council, starting with the areas which will have the largest financial impact (leisure and child care)

Applying the Pricing Policy to other service areas

In the 2019 review of cost recovery in Council services, in scope services included the following areas (in additional to leisure and child care):

- Sports and Recreation (sports grounds etc)
- Aged and disability services
- Civic compliance (local laws, planning, animal control)
- Venues for hire
- Construction management (building services, construction management)
- Health protection (food safety and health regulation and inspection)

We recommend that work be conducted to update the cost recovery analysis for these service areas and identify appropriate fee setting methods. In some cases statutory pricing will apply. The value of this process is that it applies a consistent framework across all fee setting areas.

[CONFIDENTIAL]

Leisure reforms

Develop a business case for outsourcing of Yarra leisure facilities to an external management provider, following the outcomes of the pricing policy review for leisure

Overview

Implementation of the pricing policy for Yarra Leisure will, when done correctly, provide transparency around current levels of costs, fee levels necessary to achieve cost recovery (full or partial) and how these fee levels compare with market benchmarks.

This process should, therefore provide a clearer picture for Council on the sustainability of the current model in the medium term. At this stage we would recommend that the Council explore the option of outsourcing leisure services to an external management provider (such as the YMCA). The feasibility of this is option should be explored, noting that this can be done with the Council maintaining ownership of leisure facilities, and putting in place with the provider a community service agreement on facilities access and fees (ie setting fee caps for particular services and access to facilities).

In conducting this analysis consideration should be given to the potential net operating position for the Council in the model, as well as future capital needs for facilities. There are a range of factors which will determine whether this model is preferable to the current approach, however it is worth noting that many other Council have already adopted this approach (presumably decisions based on the overall financial sustainability of the service).

Leisure outsourcing Case study – Moreland City Council

Active Moreland runs six aquatic and leisure facilities located within Moreland City Council which are managed by YMCA Victoria:

- Brunswick Baths
- Coburg Leisure Centre
- Coburg Olympic Swimming Pool
- Fawkner Leisure Centre
- Oak Park Sports and Aquatic Centre
- Pascoe Vale Outdoor Pool

The recreation centres within Moreland fit a similar profile to Yarra's, with a mix of recently redeveloped leisure facilities as well as aged assets (such as outdoor pool facilities). YMCA Victoria has managed these facilities for a number of years, with the most recent contract being extended to 30 June 2022.

The total cost to Moreland for the YMCA to manage the council's aquatic and leisure centres for the 12-month extension period (2021-22) was estimated at $1.93 million, which includes $11.89 million of income and $13.68 million in expenses.[1]

Further analysis of Moreland's approach to outsourcing management and operations of leisure facilities to YMCA may assist in forming the business case of outsourcing Yarra leisure facilities to an external management provider.

[1] Moreland City Council 2021, *Council Agenda – Wednesday 10 November 2021*

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MAJOR INITIATIVES: SERVICES

Leisure reforms

Develop a business case for outsourcing of Yarra leisure facilities to an external management provider, following the outcomes of the pricing policy review for leisure

Estimating the potential gains from outsourcing leisure services

Many councils outsource the operation of the leisure centres to the YMCA or other providers. There are, however, various differences in the centres themselves and the fees that are charged which – combined with very limited public information about the costs charged by outsourced providers – make it difficult to robustly estimate the potential gains from Yarra similarly outsourcing (without conducting a full business case and tendering process).

Preliminary research conducted for this did find a few sources which provide indicative estimates on potential gains. One report from Knox undertook a benchmarking exercise of labour costs associated with running leisure centres, and compared the average to the proportion achieved by the YMCA in managing a centre in Knox.

In the absence of more comprehensive information, and to provide an initial 'order of magnitude' estimate of the potential savings that *could* accrue from achieving a similar result, we have taken the result achieved by the YMCA and applied it to the current costs incurred by Yarra relative to income received:

- In order to estimate the potential savings that could be achieved from outsourcing the management Yarra leisure facilities, a target of 45 per cent has been used in line with the percentage achieved by Knox.

- Labour cost data and leisure program income has been taken from the Yarra City Council overhead allocation model, which indicates that Yarra's labour costs as a percentage of income is approximately 51 per cent. If Yarra were to reduce labour costs (through outsourcing to an external provider such as YMCA) to meet the 45 per cent target, this would result in an estimated saving of $612k per year.

- It is assumed that these savings would be phased in over the next two years, taking into consideration that there would be a planning and decision-making process wherein savings would not be realised and grandfathering of entitlements.

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MAJOR INITIATIVES: SERVICES

Aged care reform

Given re-design of the service system by the Commonwealth Government Council should exit the delivery of in-home care and home maintenance services from 1 July 2023

Changes to the Commonwealth service and funding model for aged care will have a significant impact on the viability of councils to continue to provide all or part of the current services. The changes will see service agreements (agreed targets and funding) replaced by an open competitive market approach and an individualised approach to funding services.

Many Victorian councils have already signaled their intent to no longer operate all or part of the services under this new model, with the expectation that an effective and quality market of private and community providers will be in place.

We understand that Yarra City Council is already reviewing how it would operate current services under this new funding model, and service specific recommendations will be presented to Council. This will include recommendations on services Council may exit, may continue or re-invest in to best support the community. It is clear that exiting all or part of these services will not only save Yarra funds but it will avoid the potential for higher costs of service provision under the new model.

Exiting in-home care and home maintenance services could save Council approximately $8m in direct costs of service delivery in the period to 2021-32. This would also avoid the risk of operating in the new funding model where supply and demand will be uncertain. While the exact quantum of avoided costs is uncertain, even a conservative 10% increase in costs associated with the service would be in the range of $0.5m per annum, with uncertainty around how much of that additional cost would be covered by Commonwealth funding (given the new funding arrangements).

Child care

Transition out of the delivery of vacation care and OOSHC services

Along with long day care (which is highly utilised) the Council also run vacation care and OOSHC services. These services have lower utilisation and lower cost recovery than long day care.

There are also existing providers in this space and Council could exit this service area without a concern that families wound have no alternative care options.

Estimates for removal of vacation care and OOSHC just include direct costs and income estimates for the services are set out in the table below (these do not include overheads which are an additional potential saving). In the period to 2031-32 the potential saving of these options would be approximately $9.7m.

Table 3.9 Revenue gains from introduction of child care initiatives ($000s)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Removal of vacation care and OOSHC	905	919	933	947	961	975	990	1,005	1,020	1,035	**9,690**

SYSTEMIC REFORMS

Systemic reforms are those which have been assessed as:

- Having longer time horizons to realise benefits
- Presenting complex operational challenges
- Being to some degree interdependent – they need to be completed with an integrated strategic approach rather than as stand alone reforms.

These reforms will not impact on the short term effort to address the Council's financial gap, however they represent significant potential savings and are essential for the health of the organisation in the longer term.

On the next slide five areas of systemic reform have been identified that Yarra should consider for longer term financial sustainability, but that would also provide broader benefits:

- Asset management
- Procurement and contract management
- Services redesign
- People management
- IT systems and processes

While these systemic changes are outside of the principal focus of this review, we would recommend that Council undertake a major strategic planning process in 2023-24 to design a longer term pathway towards best practice for improved community outcomes and financial sustainability, which would be implemented in stages over the following years.

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Asset management
Aside from major initiatives such as an underutilised property review, there are a variety of systemic issues with asset management at Yarra that should be addressed in the longer term. Underlying these issues is a need for a best practice framework for asset management across the organisation.

Management of assets is a major and ongoing activity for the Council and best practice approaches would enhance long term financial sustainability as well as provide other benefits

The City should conduct more in-depth planning for major assets and capital projects at the outset, including early stakeholder engagement, detailed business cases, and whole-of-life cost analyses. One stakeholder suggested a review of the levels of service in asset lifecycle activities, with an eye towards reductions and cost-savings. Additionally, Yarra should consider reviewing its asset renewal regime, and the potential of changing the finance policy to allow for maintenance capitalisation.

Procurement and contract management
Stakeholders have raised the need for improvement for overall contract management, for both construction contracts and service contracts. A significant part of the Council resources are contracted and there is scope for ongoing improvement. The aim should be the development and implementation of best practice frameworks.

Services redesign
A major initiative will be a broad review and of the nearly 100 services offered by the Council. Complementing that review should be a more molecular investigation of any potential efficiencies at the level of actual service delivery, hand in hand with the IT systems review recommended below.

People management
While there are detailed processes in place for people management for Council Staff, this review heard that they are not sufficiently effective in managing performance and especially underperforming staff within the Council.

IT systems and processes
Underlying all potential systemic reforms is the urgent need for Yarra to upgrade and consolidate its IT systems and processes to be up-to-date with modern best practice, and aligned with other Councils and adjacent organisations.

Yarra currently operates over 100 different IT systems with limited interoperability. Many simple processes are performed manually, at significant cost to the City. While this problem does not offer many opportunities for immediate savings, it is essential for the long-term sustainability of the City that major systemic changes are affected in this area.

PART FOUR

IMPLEMENTATION ROADMAP

IMPLEMENTATION CHALLENGES

The analysis of major initiatives set out in Part Three of this report was presented to Council Staff in a co-design workshop on May 3, 2022. The purpose of the workshop session was to:

- seek views on the scope of the initiatives, and test whether there were any gaps in the areas selected
- test the analysis, including assumptions in quantitative assessments; and
- identify potential implementation risks associated with the major initiatives being considered.

In workshop discussions there was broad support for the initiatives proposed, with some important considerations raised to be factored in to the implementation plan.

- The need to reflect the progress of reform development already in train, primarily in relation to aged care and leisure fees. The analysis in this report reflect this progress, noting that in both cases further progress (and agreement from Council) is needed to achieve the potential financial outcomes

- The interrelationship of initiatives, particularly in organisation and assets category where there is an overlap in the property review and Council accommodation review initiatives. Many of the properties under consideration are also Council staff accommodation, therefore decisions on property will be influenced by decisions on Council's own need for office accommodation.

- The proposed initiatives will require Council staff resources to implement. In the workshop Council staff noted that the implementation plan needs to be structured in a way which sets realistic expectations around the capacity of staff to drive multiple reform projects concurrently. Prioritising the most prospective and time critical initiatives is important. There is a risk that if resources are spread thinly across too many initiatives at once there will be a lower likelihood of success overall.

- The implementation plan needs to include consideration of how best to communicate reforms to the community and to the workforce, and how to plan the implementation of reforms to achieve the greatest degree of 'buy-in' from the range of stakeholders potentially affected.

The following sections set out our understanding of the key implementation risks associated with these initiatives and an implementation roadmap which set out the recommended timing of reforms.

IMPLEMENTATION RISKS

For each of the Options considered in this review there are a number of factors which may be barriers to successful implementation. The table below sets out the most critical risk factors for each of the eight initiatives, along with our recommended mitigation strategies.

Table 4.1 Risks and mitigation strategies

OPTIONS	KEY RISKS	RECOMMENDED MITIGATION APPROACH
OVERARCHING	Lack of authority, coordination and resources to ensure the effective implementation of the project in the timeframe	Strategic communications and consultations with the community on the need for change, the logic of a waste charge, phased nature, alignment with sustainability goals and that most councils already have one
PROPERTY	Timing – sales take longer than expected to be completed (delaying financial benefits) Future needs – risk that property will be sold that is currently surplus but that may be needed for the future Complexities – in property valuation, ownership, planning and consultation may reduce value and/or dealy sale processes	Engage specialist property consultants to drive an independent assessment and sale process Process to include an assessment of future need to minimise this risk Focus will be only on the subset of properties that can potentially be sold within the timeframe
ORGANISATION	Capacity – reduction in staff may impact on capability and capacity in areas where Council has critical responsibilities Effectiveness – staff hiring freeze is not sufficient to reduce staff in the short term to achieve savings Staff – major staff concerns are raised	A limited exceptions process for the hiring freeze. Move staff resources to areas of need. Extend hiring freeze or move to voluntary or targeted redundancies Early communication and consultation
ACCOMMO-DATION	Coordination risks – accommodation decision may not be consistent with changes in staffing structures or reduction in staff numbers	Project plan to place organisation, accommodation and property projects under a single lead to ensure decision making is coordinated and properly ordered

[CONFIDENTIAL]

IMPLEMENTATION RISKS

Table 4.1 Risks and mitigation strategies (Continued)

OPTIONS	KEY RISKS	RECOMMENDED MITIGATION APPROACH
WASTE CHARGE	Communications – how the charge is communicated to the community may undermine its implementation (for example the transition of the fees within rates)	Establish a project governance structure to oversight strategy, project management, communications, monitoring and reporting
PARKING	Financial – external demand factors which may reduce parking revenues Capacity – pressure on land use which may reduce overall parking revenues even with higher fees	Parking fees increases be implemented through a parking strategy, with financial modelling potential future trends in demand and land use to ensure that external revenue impacts are minimised.
PRICING POLICY	Capacity - there is a risk that implementation of the pricing policy is not conducted in a way which meets principles of cost recovery Community - the community may perceive the process as a way to reduce services or justify fee increases which are not in line with costs or community values.	Council should seek advice from key government agencies in application of cost recovery approaches (for example Better Regulation Victoria) Communications on the process should communicate the objectives of the process and the focus on cost recovery rather than revenue generation
LEISURE	Community – concerns on leisure services availability and fees	Draw on recent experience of other Council who have implemented similar structures. Seek independent advice on implementation. Strategic communications and consultations with the community on the need for and benefits of change.
AGED CARE	Communications – how the changes made to service delivery are communicated to the aged care community may undermine its implementation (for example the risk of community members not being aware of alternative service providers)	Strategic communications and consultations with the community on the need for and benefits of change. Working with not for profit aged care providers to ensure that clients understand their service options.
CHILD CARE	Community – concerns on the longer term future of Council Child Care more broadly	Strategic communications and consultations with the community on the need for and benefits of change. Work with existing providers to ensure accessibility of services is maintained and communicated.

[CONFIDENTIAL]

Financial sustainability project

Subject to endorsement of the project approach by Council, it is recommended that a project team be created with a specific mandate for improving financial sustainability by implementing eight specific projects over a four year timeframe. The objective of these projects would be to deliver targeted financial gains. This approach should ensure that implementation of these reforms is not delayed by day to day business and shifting priorities within the Council by assigning responsibility and accountability for the progress of the reforms. An implementation strategy is recommended as follows.

Governance

One of the first actions is to establish an overall governance structure for the project. This would include a Steering Group of senior executives responsible for driving the project, The chair of the steering group should ideally be the CEO or Corporate Finance Director. The Steering Committee should report to the Executive Management Team and would be responsible for oversight, strategy, project management, reporting and communications. A dedicated team of 2 FTE staff should be formed to service the Steering Committee. This should include a Project lead, a Communications lead, a Policy Officer and Administrative Officer.

Streams

We recommend that implementation of the projects be managed under three separate streams, each with a leader accountable to the Steering Committee. The logic of this approach is that there are some strong synergies between a number of projects that make it an advantage for them to be closely coordinated. The three streams should be as follows:

- ***Revenue*** – including the waste charge, parking fees and pricing policy. These are the highest priority for financial sustainability impact, with communications being the main challenge. Can be largely implemented within existing capabilities, but may require some initial consulting support to establish.
- ***Organisation and Assets*** – including the property, accommodation and organisation projects. These three projects are highly interrelated and the aim would be to build a slimmed down but more agile and fit for purpose organisational structure ready to implement the longer term vision, while also providing financial sustainability gains from property sales and headcount reductions. A combination of property and accommodation capability (consultants) and internal and HR capabilities will be critical.
- ***Services*** – including the Leisure, Aged Care and Early Childhood projects. This gives the Council the opportunity to build an ongoing internal capability and framework for service redesign, but will require require some initial consulting support.

Smaller scale efficiencies

There are numerous opportunities for Council to pursue small scale efficiency gains with a focus on incorporating good ideas from management and staff into the normal annual business planning and budgeting processes over the next few years.

Systemic reforms

A new CEO has just been appointed. It is assumed in first year (2022-23) that the main focus will be on settling into the role and ensuring the successful implementation of the financial sustainability project. In the second year it is assumed that there will be a strategy review process to plan for the future evolution of Council operation, including the consideration of the proposed systemic reform for improved financial sustainability, and that this strategy would be implemented over the next five years to achieve the 10 year vision.

Implementation roadmap

An implementation roadmap summarising this proposed strategy is provided on the next slide.

IMPLEMENTATION ROADMAP

Implementation Roadmap

		SHORT TO MEDIUM TERM				LONGER TERM
		2022-23	2023-24	2024-25	2025-26	2026-27 - 2031-32
	GOVERNANCE & PROJ MGMT.	ESTABLISH GOVERNANCE; OVERSIGHT, STRATEGY, COMMUNICATIONS, MONITORING & REPORTING				
REVENUE	WASTE CHARGE	WASTE CHARGE DEVELOPMENT/ CONSULTATION PROCESS	WASTE CHARGE IN RATES 1 JULY 2023			
REVENUE	PARKING		PARKING FEE INCREASE		PARKING FEE INCREASE	
REVENUE	PRICING POLICY	IMPLEMENT THE PRICING POLICY ACROSS ALL USER CHARGES AND FEES				
ORG. & ASSETS	PROPERTY	INDEPENDENT REVIEW OF COUNCIL PROPERTY	IMPLEMENTATION OF REVIEW FINDINGS TO ACHIEVE TARGETED REDUCTION			
ORG. & ASSETS	ORGANISATION	STAFF RECRUITMENT FREEZE TO ACHIEVE TARGET REVIEW OVERHEADS AGAINST TARGET		REORGANISATION OF COUNCIL TEAMS ALIGNED WITH SERVICES REVIEW OUTCOMES		
ORG. & ASSETS	ACCOMODATION	ACCOMMODATION PLANNING	ACCOMODATION IMPLEMENTATION			
SERVICES REFORM	LEISURE		BUSINESS CASE FOR YARRA LEISURE OUTSOURCING			
SERVICES REFORM	AGED CARE	IN HOME SERVICE REFORM FROM 1 JULY 2023				
SERVICES REFORM	CHILD CARE	CEASE OOSHC and VACATION CARE SERVICES (1 JULY 2023)				
	SMALLER SCALE EFFICIENCIES	ANNUAL BUSINESS PLANNING EFFICIENCIES IMPLEMENTED	ANNUAL BUSINESS PLANNING EFFICIENCIES IMPLEMENTED	ANNUAL BUSINESS PLANNING EFFICIENCIES IMPLEMENTED		
	SYSTEMIC REFORM		FULL COUNCIL GOVERNANCE AND SERVICES REVIEW (2023-24)	IMPLEMENTATION OF REVIEW FINDINGS		

[CONFIDENTIAL]

Transition & Implementation

In order to ensure effective implementation of reforms we have recommended that a governance structure be put in place within the Council with responsibility for implementation. We have provided an estimated cost of this transition process (including external costs), as set out below. Given the objective of this process is to improve the financial position of the Council we are recommending a relatively lean approach to resourcing in this instance, if possible drawing on existing resources and consulting budgets to keep costs to a minimum.

We estimate that two FTE will be required who are responsible for implementing the key initiatives, including consultation across Yarra, project management, policy development, and reporting:

- Transition Unit Manager, salary band 8D ($126,617.84 p/a)
- Transition Unit Associate, salary band 5C ($79,577.84 p/a)

Ideally these FTEs would be redeployed from within the Council up to 2024-2025.
Additionally, a number of external reviews such as the recommended property review will also require resourcing.

Figure 4.2 Transition Unit costing

	H2 2022	2023	2024	2025	Total
Additional Costs ('000s) [1, 2]					
Transition Unit Manager (1 FTE)	64	131	135	139	469
Transition Unit Associate (1 FTE)	40	82	85	87	294
External reviews/advice budget	100	100	100	-	300
Total	**204**	**313**	**320**	**226**	**1063**

[1] Dollar figures have been rounded up to the nearest '000
[2] Inflation rate of 3%

[CONFIDENTIAL]

APPENDICES

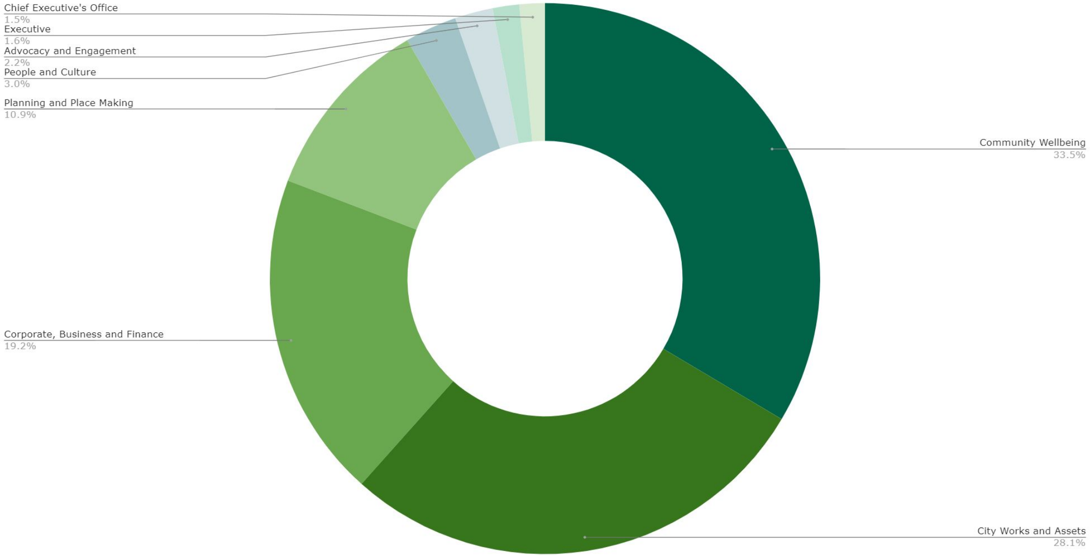
APPENDIX A
BENCHMARKING DATA & ESTIMATES

[CONFIDENTIAL]

APPENDIX A.1: BENCHMARKING TO M9 COUNCILS

Figure A.1.1 Number of FTE staff, Estimated Residential Population & breakdown of Yarra's 2021-22 FTE by division

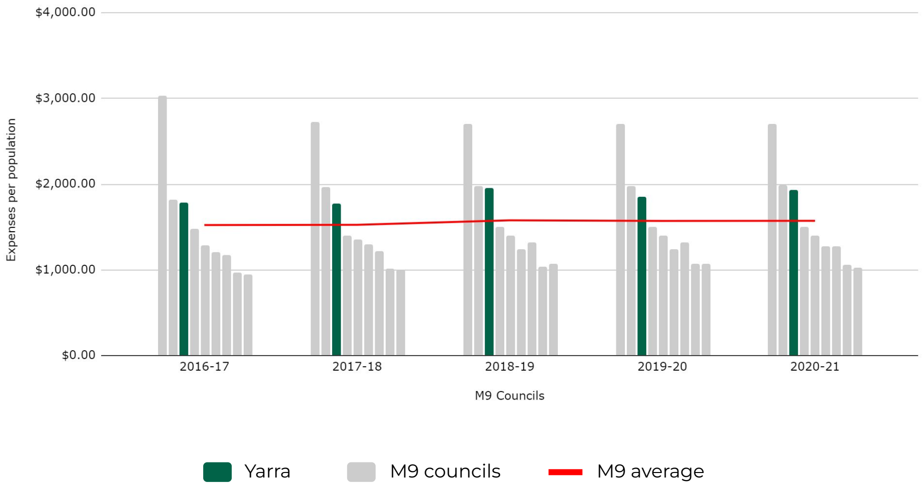
Council	Number of FTE staff	2021 Estimated Residential Population	FTE staff per 10,000 residents
Melbourne	1404.42	169,860	82.68
Yarra	**876.05**	**99,622**	**87.94**
Moreland	845.70	184,707	45.79
Darebin	815.49	162,501	50.18
Moonee Valley	791.73	129,379	61.19
Stonnington	715.66	114,340	62.59
Port Phillip	695.82	112,092	62.08
Maribyrnong	464.05	93,467	49.65
Hobsons Bay	440.00	96,317	45.68
M9 Average	*783.21*	*129,143*	*60.65*



[CONFIDENTIAL]

APPENDIX A.1: BENCHMARKING TO M9 COUNCILS

Figure A.1.3 M9 councils expenses divided by population of municipality (2016-17 to 2020-21)

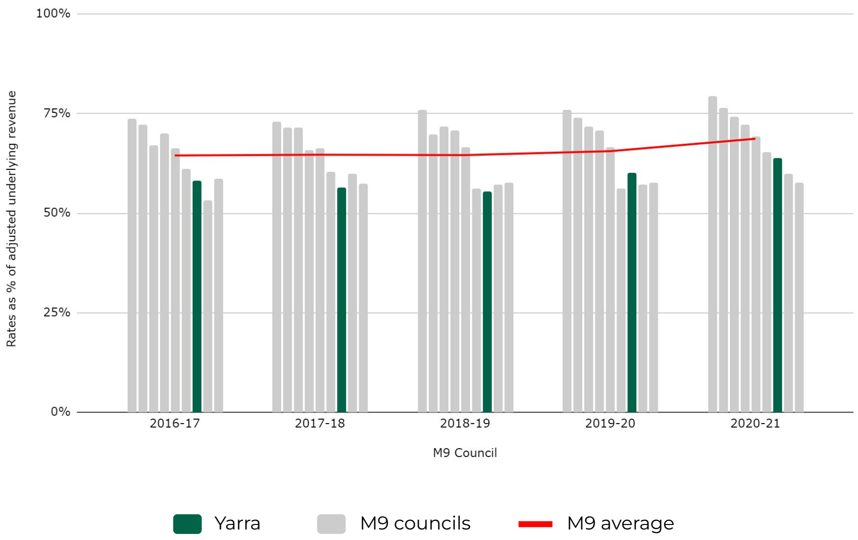


Council	2016-17	2017-18	2018-19	2019-20	2020-21	5 year % change
Melbourne	$3,037.39	$2,727.75	$2,705.51	$2,705.51	$2,702.94	-11.0%
Port Phillip	$1,818.52	$1,960.69	$1,977.99	$1,977.99	$1,989.31	9.4%
Yarra	**$1,787.22**	**$1,770.11**	**$1,953.17**	**$1,857.25**	**$1,927.03**	**7.8%**
Maribyrnong	$1,478.01	$1,393.90	$1,505.87	$1,505.87	$1,495.79	1.2%
Stonnington	$1,287.44	$1,352.22	$1,399.63	$1,399.63	$1,401.00	8.8%
Hobsons Bay	$1,209.64	$1,300.43	$1,240.29	$1,240.29	$1,275.25	5.4%
Moonee Valley	$1,173.63	$1,214.38	$1,315.56	$1,315.56	$1,273.74	8.5%
Darebin	$967.39	$1,013.46	$1,035.49	$1,066.16	$1,060.47	9.6%
Moreland	$946.90	$1,000.12	$1,065.22	$1,065.22	$1,023.60	8.1%
M9 Average	*$1,522.90*	*$1,525.89*	*$1,577.64*	*$1,570.39*	*$1,572.13*	*3.2%*

[CONFIDENTIAL]

APPENDIX A.1: BENCHMARKING TO M9 COUNCILS

Figure A.1.4 M9 councils rates as a percentage of adjusted underlying revenue (2016-17 to 2020-21)



Council	2016-17	2017-18	2018-19	2019-20	2020-21
Hobsons Bay	74%	73%	76%	76%	79%
Darebin	72%	72%	70%	74%	76%
Maribyrnong	67%	71%	72%	72%	74%
Moreland	70%	66%	71%	71%	72%
Moonee Valley	66%	66%	67%	67%	69%
Stonnington	61%	60%	56%	56%	65%
Yarra	**58%**	**56%**	**56%**	**60%**	**64%**
Melbourne	53%	60%	57%	57%	60%
Port Phillip	59%	58%	58%	58%	58%
M9 Average	*64%*	*65%*	*65%*	*66%*	*69%*

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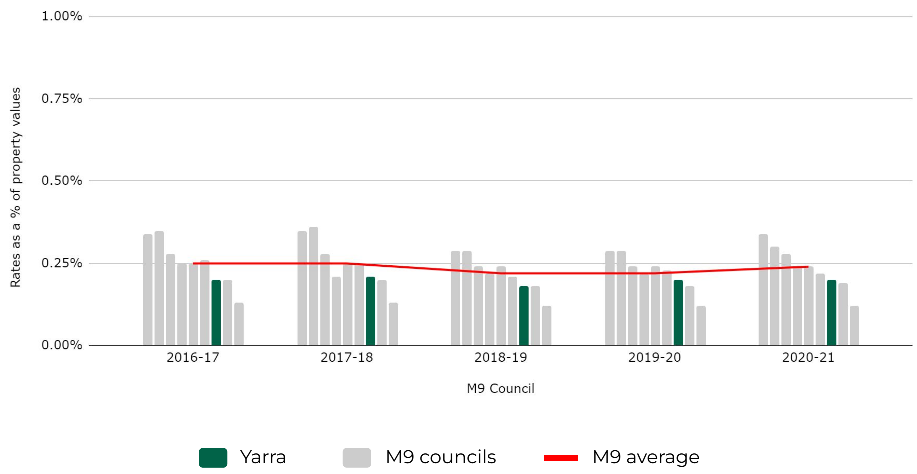
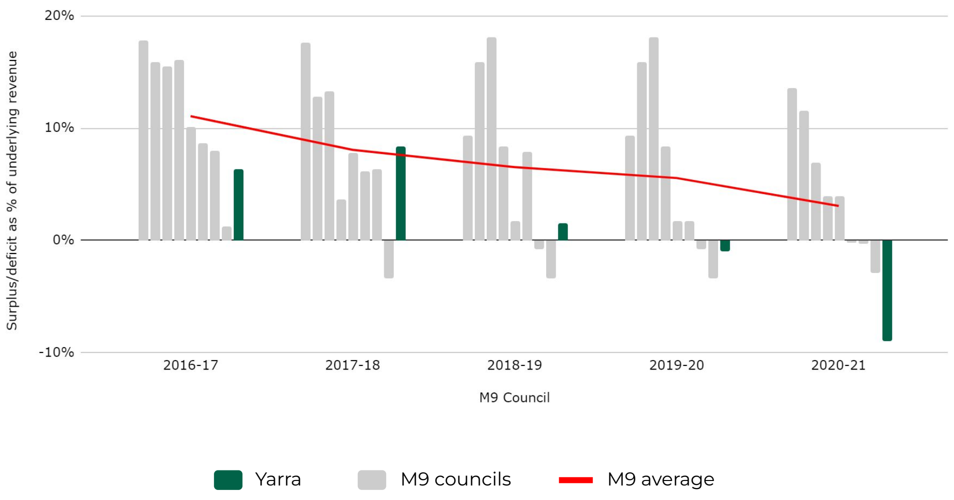
Figure A.1.5 M9 councils rates as a percentage of property values in municipality (2016-17 to 2020-21)



Council	2016-17	2017-18	2018-19	2019-20	2020-21
Maribyrnong	0.34%	0.35%	0.29%	0.29%	0.34%
Hobsons Bay	0.35%	0.36%	0.29%	0.29%	0.30%
Moreland	0.28%	0.28%	0.24%	0.24%	0.28%
Moonee Valley	0.25%	0.21%	0.22%	0.22%	0.24%
Melbourne	0.25%	0.25%	0.24%	0.24%	0.24%
Darebin	0.26%	0.25%	0.21%	0.23%	0.22%
Yarra	**0.20%**	**0.21%**	**0.18%**	**0.20%**	**0.20%**
Port Phillip	0.20%	0.20%	0.18%	0.18%	0.19%
Stonnington	0.13%	0.13%	0.12%	0.12%	0.12%
M9 Average	*0.25%*	*0.25%*	*0.22%*	*0.22%*	*0.24%*

[CONFIDENTIAL]

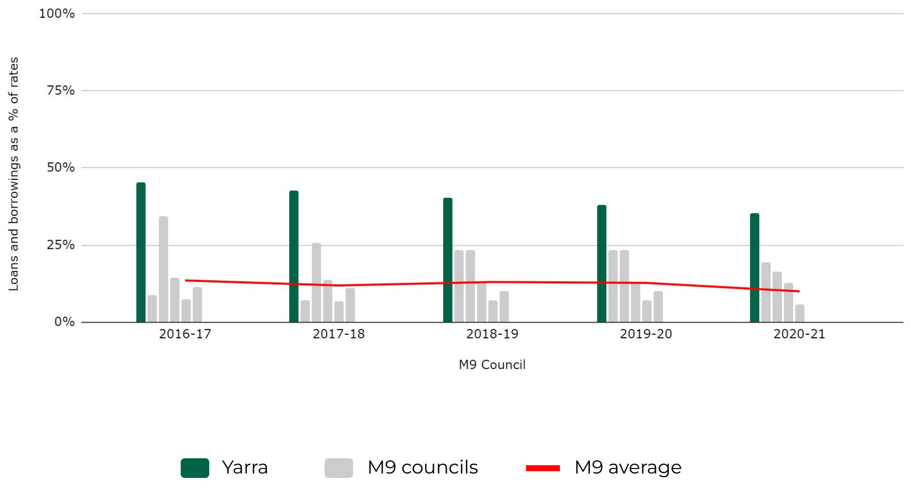
Figure A.1.6 M9 councils adjusted underlying surplus/deficit as a percentage of underlying revenue (2016-17 to 2020-21)



Council	2016-17	2017-18	2018-19	2019-20	2020-21
Moreland	18%	18%	9%	9%	14%
Hobsons Bay	16%	13%	16%	16%	12%
Stonnington	15%	13%	18%	18%	7%
Melbourne	16%	4%	8%	8%	4%
Moonee Valley	10%	8%	2%	2%	4%
Darebin	9%	6%	8%	2%	0%
Maribyrnong	8%	6%	-1%	-1%	0%
Port Phillip	1%	-3%	-3%	-3%	-3%
Yarra	**6%**	**8%**	**2%**	**-1%**	**-9%**
M9 Average	*11%*	*8%*	*7%*	*6%*	*3%*

[CONFIDENTIAL]

Figure A.1.7 M9 councils value of loans and borrowings as a percentage of rates (2016-17 to 2020-21)



Council	2016-17	2017-18	2018-19	2019-20	2020-21
Yarra	**45%**	**43%**	**40%**	**38%**	**35%**
Stonnington	9%	7%	23%	23%	19%
Moreland	34%	26%	23%	23%	17%
Hobsons Bay	14%	14%	13%	13%	13%
Port Phillip	7%	7%	7%	7%	6%
Melbourne	11%	11%	10%	10%	0%
Moonee Valley	0%	0%	0%	0%	0%
Darebin	0%	0%	0%	0%	0%
Maribyrnong	0%	0%	0%	0%	0%
M9 Average	*14%*	*12%*	*13%*	*13%*	*10%*

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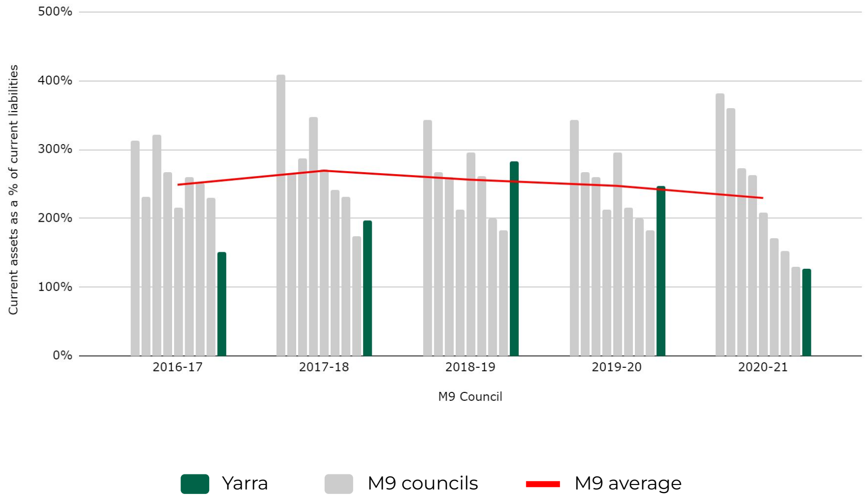
APPENDIX A.1: BENCHMARKING TO M9 COUNCILS

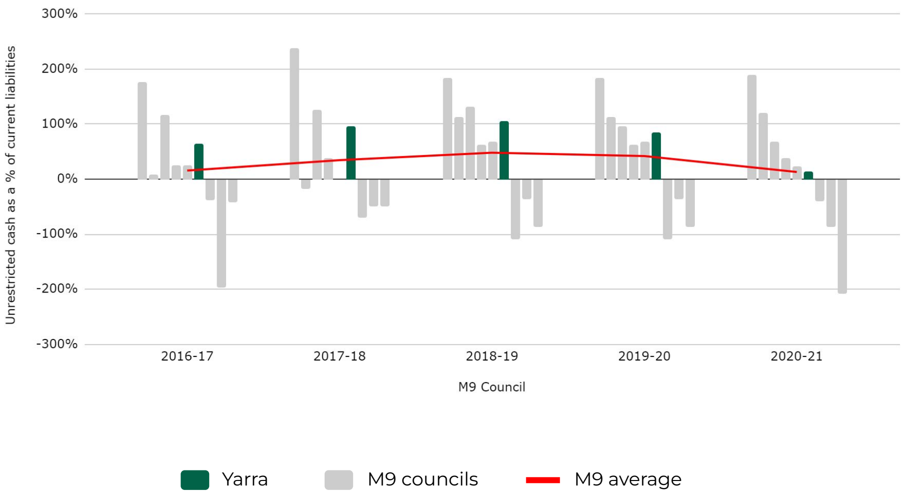
Figure A.1.8 M9 councils current assets as a percentage of current liabilities (2016-17 to 2020-21)



Council	2016-17	2017-18	2018-19	2019-20	2020-21
Maribyrnong	314%	408%	343%	343%	382%
Port Phillip	232%	265%	268%	268%	360%
Stonnington	321%	287%	260%	260%	272%
Moreland	267%	348%	213%	213%	263%
Hobsons Bay	216%	272%	296%	296%	209%
Darebin	260%	242%	262%	216%	172%
Moonee Valley	251%	231%	200%	200%	153%
Melbourne	230%	174%	183%	183%	130%
Yarra	**151%**	**197%**	**282%**	**247%**	**127%**
M9 Average	*249%*	*269%*	*256%*	*247%*	*230%*

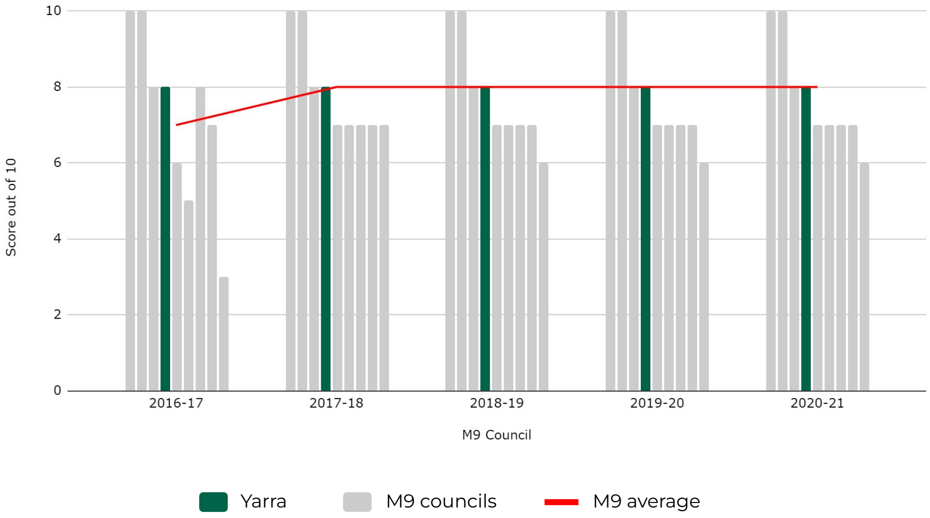
[CONFIDENTIAL]

Figure A.1.9 M9 councils unrestricted cash as a percentage of current liabilities (2016-17 to 2020-21)



Council	2016-17	2017-18	2018-19	2019-20	2020-21
Maribyrnong	176%	238%	184%	184%	190%
Moreland	9%	-17%	112%	112%	120%
Darebin	117%	126%	131%	97%	69%
Moonee Valley	26%	38%	63%	63%	38%
Melbourne	25%	-1%	68%	68%	23%
Yarra	**64%**	**97%**	**106%**	**84%**	**13%**
Hobsons Bay	-38%	-70%	-109%	-109%	-40%
Stonnington	-197%	-50%	-36%	-36%	-87%
Port Phillip	-41%	-50%	-86%	-86%	-208%
M9 Average	*16%*	*35%*	*48%*	*42%*	*13%*

Figure A.1.10 M9 councils score out of 10 measuring relative socioeconomic disadvantage of the area, with 1 being high socioeconomic disadvantage and 10 being low socioeconomic disadvantage (2016-17 to 2020-21)



Council	2016-17	2017-18	2018-19	2019-20	2020-21
Stonnington	10	10	10	10	10
Port Phillip	10	10	10	10	10
Moonee Valley	8	8	8	8	8
Yarra	**8**	**8**	**8**	**8**	**8**
Moreland	6	7	7	7	7
Darebin	5	7	7	7	7
Melbourne	8	7	7	7	7
Hobsons Bay	7	7	7	7	7
Maribyrnong	3	7	6	6	6
M9 Average	*7*	*8*	*8*	*8*	*8*

[CONFIDENTIAL]

APPENDIX A.2: WASTE CHARGE CALCULATIONS

[CONFIDENTIAL]

Base case

Estimated costs and amount recoverable year on year with no waste charge (1.75% increase in line with rate cap[1]) (all figures in dollars)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Item	*2023-24*[2]	*2024-25*	*2025-26*	*2026-27*	*2027-28*	*2028-29*	*2029-30*	*2030-31*	*2031-32*
Kerbside garbage collection	2,800,000	2,849,000	2,898,858	2,949,588	3,001,205	3,053,726	3,107,167	3,161,542	3,216,869
Landfill fees	2,665,000	2,711,638	2,759,091	2,807,375	2,856,504	2,906,493	2,957,357	3,009,111	3,061,770
Kerbside recycling collection	2,410,000	2,452,175	2,495,088	2,538,752	2,583,180	2,628,386	2,674,383	2,721,184	2,768,805
Recycling processing fees	927,000	943,223	959,729	976,524	993,613	1,011,002	1,028,694	1,046,696	1,065,013
Booked green waste	556,000	565,730	575,630	585,704	595,954	606,383	616,995	627,792	638,778
Booked hard waste (0.5% growth rate increase in Year 3)[3]	750,000	763,125	776,480	790,068	803,894	817,962	832,277	846,842	861,661
High rise (DHS) chute collections	446,000	453,805	461,747	469,827	478,049	486,415	494,927	503,588	512,401
Street litter bins	783,000	796,703	810,645	824,831	839,266	853,953	868,897	884,103	899,574
Community engagement	300,000	305,250	310,592	316,027	321,558	327,185	332,911	338,737	344,665
Street cleaning contract	3,241,000	3,297,718	3,355,428	3,414,148	3,473,895	3,534,688	3,596,545	3,659,485	3,723,526
Street cleaning in-house	800,000	814,000	828,245	842,739	857,487	872,493	887,762	903,298	919,105
Waste management administration (waste & street cleaning)	1,300,000	1,322,750	1,345,898	1,369,451	1,393,417	1,417,802	1,442,613	1,467,859	1,493,546
Total waste costs	**16,978,000**	**17,275,115**	**17,577,430**	**17,885,035**	**18,198,023**	**18,516,488**	**18,840,527**	**19,170,236**	**19,505,715**
Year on year increase in costs	–	**297,115**	**302,315**	**307,605**	**312,988**	**318,465**	**324,039**	**329,709**	**335,479**

[1] Base case estimates are based on the assumption that the rate cap will remain constant at 1.75%; however in reality the rate cap is subject to change year on year.
[2] Waste cost estimates for Year 1 provided by City of Yarra.
[3] Estimates provided by City of Yarra included a 0.5% growth rate increase in Year 3 for 'Booked hard waste' – for consistency, we have included this assumption in our estimates.

APPENDIX A.2: WASTE CHARGE CALCULATIONS

Scenario 1

Estimated costs and amount recoverable year on year with waste charge and 5% waste cost increase (all figures in dollars)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Item	*2023-24*[1]	*2024-25*	*2025-26*	*2026-27*	*2027-28*	*2028-29*	*2029-30*	*2030-31*	*2031-32*
Kerbside garbage collection	2,800,000	2,940,000	3,087,000	3,241,350	3,403,418	3,573,588	3,752,268	3,939,881	4,136,875
Landfill fees	2,665,000	2,798,250	2,938,163	3,085,071	3,239,324	3,401,290	3,571,355	3,749,923	3,937,419
Kerbside recycling collection	2,410,000	2,530,500	2,657,025	2,789,876	2,929,370	3,075,839	3,229,630	3,391,112	3,560,668
Recycling processing fees	927,000	973,350	1,022,018	1,073,118	1,126,774	1,183,113	1,242,269	1,304,382	1,369,601
Booked green waste	556,000	583,800	612,990	643,640	675,821	709,613	745,093	782,348	821,465
Booked hard waste (0.5% growth rate increase in Year 3)[2]	750,000	787,500	830,813	876,507	924,715	975,574	1,029,231	1,085,839	1,145,560
High rise (DHS) chute collections	446,000	468,300	491,715	516,301	542,116	569,222	597,683	627,567	658,945
Street litter bins	783,000	822,150	863,258	906,420	951,741	999,328	1,049,295	1,101,760	1,156,848
Community engagement	300,000	315,000	330,750	347,288	364,652	382,884	402,029	422,130	443,237
Street cleaning contract	3,241,000	3,403,050	3,573,203	3,751,863	3,939,456	4,136,429	4,343,250	4,560,412	4,788,433
Street cleaning in-house	800,000	840,000	882,000	926,100	972,405	1,021,025	1,072,077	1,125,680	1,181,964
Waste management administration (waste & street cleaning)	1,300,000	1,365,000	1,433,250	1,504,913	1,580,158	1,659,166	1,742,124	1,829,231	1,920,692
Total waste costs	**16,978,000**	**17,826,900**	**18,722,183**	**19,662,446**	**20,649,951**	**21,687,072**	**22,776,303**	**23,920,264**	**25,121,707**
Year on year increase in costs	–	**848,900**	**895,283**	**940,263**	**987,505**	**1,037,121**	**1,089,231**	**1,143,961**	**1,201,442**

[1] Waste cost estimates for Year 1 provided by City of Yarra.
[2] Estimates provided by City of Yarra included a 0.5% growth rate increase in Year 3 for 'Booked hard waste' – for consistency, we have included this assumption in our estimates.

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APPENDIX A.2: WASTE CHARGE CALCULATIONS

Scenario 2

Estimated costs and amount recoverable year on year with waste charge and 10% waste cost increase (all figures in dollars)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Item	*2023-24*[1]	*2024-25*	*2025-26*	*2026-27*	*2027-28*	*2028-29*	*2029-30*	*2030-31*	*2031-32*
Kerbside garbage collection	2,800,000	3,080,000	3,388,000	3,726,800	4,099,480	4,509,428	4,960,371	5,456,408	6,002,049
Landfill fees	2,665,000	2,931,500	3,224,650	3,547,115	3,901,827	4,292,009	4,721,210	5,193,331	5,712,664
Kerbside recycling collection	2,410,000	2,651,000	2,916,100	3,207,710	3,528,481	3,881,329	4,269,462	4,696,408	5,166,049
Recycling processing fees	927,000	1,019,700	1,121,670	1,233,837	1,357,221	1,492,943	1,642,237	1,806,461	1,987,107
Booked green waste	556,000	611,600	672,760	740,036	814,040	895,444	984,988	1,083,487	1,191,835
Booked hard waste (0.5% growth rate increase in Year 3)[2]	750,000	825,000	911,625	1,007,346	1,113,117	1,229,994	1,359,144	1,501,854	1,659,548
High rise (DHS) chute collections	446,000	490,600	539,660	593,626	652,989	718,287	790,116	869,128	956,041
Street litter bins	783,000	861,300	947,430	1,042,173	1,146,390	1,261,029	1,387,132	1,525,845	1,678,430
Community engagement	300,000	330,000	363,000	399,300	439,230	483,153	531,468	584,615	643,077
Street cleaning contract	3,241,000	3,565,100	3,921,610	4,313,771	4,745,148	5,219,663	5,741,629	6,315,792	6,947,371
Street cleaning in-house	800,000	880,000	968,000	1,064,800	1,171,280	1,288,408	1,417,249	1,558,974	1,714,871
Waste management administration (waste & street cleaning)	1,300,000	1,430,000	1,573,000	1,730,300	1,903,330	2,093,663	2,303,029	2,533,332	2,786,665
Total waste costs	**16,978,000**	**18,675,800**	**20,547,505**	**22,606,814**	**24,872,532**	**27,365,350**	**30,108,035**	**33,125,635**	**36,445,708**
Year on year increase in costs	–	**1,697,800**	**1,871,705**	**2,059,309**	**2,265,718**	**2,492,819**	**2,742,685**	**3,017,599**	**3,320,073**

[1] Waste cost estimates for Year 1 provided by City of Yarra.
[2] Estimates provided by City of Yarra included a 0.5% growth rate increase in Year 3 for 'Booked hard waste' – for consistency, we have included this assumption in our estimates.

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Scenario 3

Estimated costs and amount recoverable year on year with waste charge and 11.92% waste cost increase (all figures in dollars)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Item	*2023-24*[1]	*2024-25*	*2025-26*	*2026-27*	*2027-28*	*2028-29*	*2029-30*	*2030-31*	*2031-32*
Kerbside garbage collection	2,800,000	3,133,783	3,507,355	3,925,460	4,393,406	4,917,135	5,503,297	6,159,335	6,893,577
Landfill fees	2,665,000	2,982,689	3,338,250	3,736,196	4,181,581	4,680,059	5,237,960	5,862,367	6,561,208
Kerbside recycling collection	2,410,000	2,697,291	3,018,830	3,378,699	3,781,467	4,232,249	4,736,767	5,301,427	5,933,400
Recycling processing fees	927,000	1,037,506	1,161,185	1,299,608	1,454,531	1,627,923	1,821,985	2,039,180	2,282,266
Booked green waste	556,000	622,280	696,460	779,484	872,405	976,403	1,092,798	1,223,068	1,368,867
Booked hard waste (0.5% growth rate increase in Year 3)[2]	750,000	839,406	943,667	1,060,878	1,192,648	1,340,784	1,507,320	1,694,542	1,905,017
High rise (DHS) chute collections	446,000	499,167	558,671	625,270	699,807	783,229	876,597	981,094	1,098,048
Street litter bins	783,000	876,340	980,807	1,097,727	1,228,585	1,375,042	1,538,958	1,722,414	1,927,740
Community engagement	300,000	335,762	375,788	420,585	470,722	526,836	589,639	659,929	738,598
Street cleaning contract	3,241,000	3,627,353	4,059,763	4,543,719	5,085,367	5,691,584	6,370,067	7,129,430	7,979,315
Street cleaning in-house	800,000	895,366	1,002,101	1,121,560	1,255,259	1,404,896	1,572,371	1,759,810	1,969,593
Waste management administration (waste & street cleaning)	1,300,000	1,454,970	1,628,415	1,822,535	2,039,796	2,282,956	2,555,102	2,859,691	3,200,589
Total waste costs	**16,978,000**	**19,001,914**	**21,271,292**	**23,811,720**	**26,655,573**	**29,839,095**	**33,402,860**	**37,392,286**	**41,858,220**
Year on year increase in costs	–	**2,023,914**	**2,269,378**	**2,540,428**	**2,843,853**	**3,183,522**	**3,563,764**	**3,989,426**	**4,465,934**

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[1] Waste cost estimates for Year 1 provided by City of Yarra.
[2] Estimates provided by City of Yarra included a 0.5% growth rate increase in Year 3 for 'Booked hard waste' – for consistency, we have included this assumption in our estimates.

VAGO CORPORATE SERVICES CATEGORIES

CORPORATE SERVICES FUNCTION	DESCRIPTION
Executive	Directors, general managers and/or executive managers with oversight of corporate services
Managers & coordinators	Managers, coordinators and/or team leaders with oversight of corporate services
Finance & rates	Rates, insurance, audit management, audit committee management, time sheet processing, payroll processing, valuation services, rates notice printing, accounts payable and receivable, bank reconciliation, general and project accounting, asset accounting, budget management, financial controls, external and internal reporting, finance projects, case management, bank fees—excludes borrowing cost
Human resources	Recruiting, onboarding, learning and development, performance, position management, succession planning, workforce and resource planning, industrial relations, employee relations, rewards and recognition, consultation committee engagements, human resources projects
IT	Business systems, hardware, multifunction devices/photocopiers, IT equipment, telecommunications, data security, disaster recovery, geographical information services, other IT projects
Records management	Records management and mail management
Communications	Advertising community engagement support, digital media management, internal communications, media relations
Customer service, councillor support & executive support	Inbound communication management including call centres, cashier services, stationary management, VicRoads and other agency services, executive support, councillor support and administration
Governance, strategy & risk	Council plan and strategic resource plan management, annual report development, LGPRF reporting, business intelligence, workplace health and safety, risk management, claims management, insurance management, business continuity management
Corporate facilities	Maintenance of furniture and equipment, cleaning, rent, lighting and heating in council chambers, reception areas, council headquarters/office buildings, dedicated service centres
Corporate membership, permits & license	Membership fees—for example, MAV, LGPro, FinPro
Other non-corporate/ governance functions	Corporate or governance employees who cannot fit into the above categories—for example, costs associated with redundancies or elections

Source: VAGO, Delivering Local Government Services

APPENDIX B
REVIEW CONSULTATIONS

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APPENDIX B.1: CONSULTATIONS

LIST OF CONSULTATIONS

NAME	POSITION	DATE
[redacted]	Director Corporate, Business and Finance	08/04/2022
[redacted]	Mgr. Social Strategy & Community Development	08/04/2022
[redacted]	Coordinator Business Planning and performance	11/04/2022
[redacted]	Acting Director City Works and Assets	11/04/2022
[redacted]	Manager infrastructure, Traffic & Civil Engineering	11/04/2022
[redacted]	Mgr. Corporate Planning and Performance	11/04/2022
[redacted]	Municipal Monitor	11/04/2022
[redacted]	Manager City Works	12/04/2022
[redacted]	Manager Buildings and Asset	12/04/2022
[redacted]	CFO (Finance, Rates, Procurement)	12/04/2022
[redacted]	Manager Financial services	12/04/2022
[redacted]	Acting Director Community Wellbeing	12/04/2022
[redacted]	Group Manager CEO Office	12/04/2022
[redacted]	Senior Coordinator Property services	12/04/2022
[redacted]	Manager Recreation and Leisure services	13/04/2022
[redacted]	Group Manager People and Culture	13/04/2022
[redacted]	Director Planning and Place Making	14/04/2022
[redacted]	Interim CEO, Substantive role Director City Works and Assets	14/04/2022
[redacted]	Manager City Strategy	14/04/2022
[redacted]		14/04/2022

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APPENDIX B.1: CONSULTATIONS

LIST OF YARRA DISCOVERY WORKSHOP ATTENDEES

NAME	POSITION
[redacted]	Manager Aged and Disability Services
[redacted]	Manager City Strategy
[redacted]	Manager Organisational Culture, Capability & Diversity
[redacted]	Unit Manager Strategic Communications and Engagement
[redacted]	Group Manager, Advocacy, Engagement and Communications
[redacted]	Acting Chief Executive Officer
[redacted]	Manager Financial Services
[redacted]	Director Corporate, Business and Finance
[redacted]	Manager Library Services
[redacted]	Acting Director City Works and Assets
[redacted]	Group Manager People and Culture
[redacted]	Unit Manager, Digital Communications and Marketing
[redacted]	Manager Corporate Planning and Performance
[redacted]	Manager Human Resources Services
[redacted]	Acting Manager Family Youth and Children's Services

NAME	POSITION
[redacted]	Acting Director Community Wellbeing
[redacted]	Manager Social Strategy & Community Development
[redacted]	Manager Statutory Planning
[redacted]	Strategy and Transformation Lead - Yarra CityLab
[redacted]	Manager City Works
[redacted]	Senior Coordinator Asset Management & Capital Works
[redacted]	Manager Infrastructure Traffic Construction & Engineering
[redacted]	Municipal Building Surveyor
[redacted]	Manager Customer Service
[redacted]	Manager Recreation and Leisure Services
[redacted]	Unit Manager Strategic Transport
[redacted]	Unit Manager Arts, Culture and Venues
[redacted]	Manager Compliance and Parking
[redacted]	Chief Financial Officer

APPENDIX B.1: CONSULTATIONS

LIST OF YARRA CO-DESIGN WORKSHOP ATTENDEES

NAME	POSITION
[redacted]	Manager City Strategy
[redacted]	Group Manager, Advocacy, Engagement and Communications
[redacted]	Director City Development
[redacted]	Acting Chief Executive Officer
[redacted]	Manager Financial Services
[redacted]	Acting Director City Works and Assets
[redacted]	Group Manager People and Culture
[redacted]	Manager Building and Asset Management
[redacted]	Unit Manager, Digital Communications and Marketing
[redacted]	Manager Corporate Planning and Performance
[redacted]	Acting Manager Family Youth and Children's Services
[redacted]	Acting Director Community Wellbeing
[redacted]	Manager Information Services
[redacted]	Strategy and Transformation Lead - Yarra CityLab

NAME	POSITION
[redacted]	Senior Coordinator Asset Management & Capital Works
[redacted]	Manager Infrastructure Traffic Construction & Engineering
[redacted]	Manager Customer Service
[redacted]	Manager Recreation and Leisure Services
[redacted]	Unit Manager Strategic Transport
[redacted]	Unit Manager Arts, Culture and Venues
[redacted]	Manager Compliance and Parking
[redacted]	Chief Financial Officer

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APPENDIX C
REFERENCES

REFERENCES

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