

CL24.175 Financial Sustainability Productivity and Efficiency Report

HPERM Ref: D24/238496

Department: Financial Sustainability

Approver: Robyn Stevens, Chief Executive Officer

Reason for Report

The purpose of this report is to inform the Councillors and the community of the productivity and efficiency actions that have been taken to improve Council's financial sustainability from March to May 2024.

Recommendation

That Council:

1. Receive the productivity and efficiency report for the period from March to May 2024.
2. Note the actions taken during the quarter that have supported Council's financial sustainability.
3. Note that the organisation's top priority is to address the current financial sustainability challenges, and there is significant work in progress to realise recurrent savings in the next financial year.
4. Note that future productivity and efficiency reports will align to the Quarterly Budget Review timeline to enable reporting on achievements realised in the quarter.

Options

1. The productivity and efficiency report for the period from March to May 2024 be received for information.

Implications: Nil

2. Further information regarding action taken during the quarter to improve Council's financial sustainability be requested.

Implications: Any changes or additional matters can be added to future reports.

Background

The financial sustainability productivity and efficiency report provides a summary of actions taken to address Council's financial sustainability challenge in the last quarter.

In January 2024, Council resolved under MIN24.44 to apply financial efficiencies and savings in the organisation commencing immediately and ongoing over the next four years. A report is to be provided to the Council every quarter to outline efficiencies and savings, with a savings target of \$5 million per year.

The report also addresses the AEC report recommendation (CL23.420) to report to Council on a quarterly basis the progress in achieving efficiency and implement process to track the achievement of the productivity and efficiencies target.

To review detailed project activity, please refer to the monthly financial sustainability reports that have been presented to Council during the quarter:

- March 2024 (CL24.68)
- April 2024 (CL24.95)
- May 2024 (CL24.117)

Improved financial management – FY2024/25 budget process

A bottom-up budget process was adopted in building the FY2024/25 operational and capital budgets. This approach provides a realistic budget that is reflective of the cost incurred to deliver our current services at the current agreed service level. It also ensures all costs required to meet legislative requirements are adequately budgeted for. This results in a draft 2024/25 operating deficit which is larger than Council's previous budget, however, is in line with the historical actual results achieved by Council.

Council has reduced its reliance on borrowing, with no unrestricted general fund borrowings proposed to be drawn down for works in FY2024/25.

In preparing for the FY2024/25 budget, Council's enterprise Project Management Office (ePMO) ran an improved capital budget process, where all candidate projects were assessed on their readiness and criticality. The proposed total capital works program for FY2024/25 is \$126.9m, which is a \$61.3m reduction from the FY2023/24 capital program (\$188.2m) adopted in June 2023. The capital works program is reflective of Council's delivery capacity, taking into account financial and staffing resources. It is reflective of previous years capital spend and provides the community with a realistic expectation as to what capital projects will be delivered in FY2024/25.

Reducing costs – pausing capital projects

13 significant projects were paused during the quarter. The estimated total project cost to deliver the 13 capital projects was \$105 million. The majority of the projects did not have a funding source identified for the full cost of the project (unfunded totalled \$65 million across the 13 projects).

Pausing projects resulted in previously accepted grant monies being returned to their respective funding bodies, as well as a reduction in Council's budget FY2023/24 loan borrowings of \$2.5m, and further reductions in anticipated future year borrowings.

Reducing costs – staffing

Council resolved under MIN24.44 to consider placing a staffing freeze on all recruitment positions except where the Executive Management Team (EMT) determines whether the position is required or to be filled by internal recruitment to provide a career path for existing staff.

A process was established under the financial sustainability project, where the EMT review each vacancy and any new positions to determine if and when they're required to fulfill operational, regulatory or required service level.

As a result of this process, there is a notable decrease in the number of roles being advertised (1 Feb to 28 May 2023: 105 vacancies advertised, 1 Feb to 28 May 2024: 69 vacancies advertised). This represents a 34% reduction in recruitment in 2024 compared with the same period last year. EMT have declined or placed on hold 46 recruitments during this period, resulting in reduced staff costs.

In consultation with Councillors, the CEO has commenced a review of staff costs to identify opportunities for efficiencies. The outcome of the review will be shared in a future quarterly report.

Reducing costs – increased cost controls

Under the financial sustainability project, increased cost control has been established to improve the financial position of Council. Since March 2024, all Managers were asked to do the following to contain costs within the FY2023/24 financial year, including:

- No new tenders
- No discretionary spending
- No consultants or contractors unless approved by Director
- No overtime or leave in lieu unless necessary (such as emergency response)
- Work with teams to reduce leave balances
- Manage budgets closely with no over-spends

Forecasting FY2024 year end results, the General Fund operating expenses are on track to be 0.46% below the adopted budget (\$232M actuals vs. \$233M budget, favourable). This is due to reduced spending on materials and services.

Reducing costs – other efficiency ideas

Throughout May, all department managers were tasked with identifying cost savings and revenue generating initiatives that will contribute to the savings target. As part of this ideas generation, staff submitted 284 ideas for consideration:

- 156 budget reduction ideas
- 85 revenue generation ideas
- 43 general business improvement ideas (may lead to efficiencies but no direct financial benefit identified)

These ideas have been triaged, and classified as:

- 119 progress immediately
- 114 business case or workplace change impact assessment needed
- 51 future considerations

As efficiency ideas are implemented, they will be reported in this report and adjustment made to Council's budget through the quarterly budget review process.

Reducing debt – land sales

Under Council's financial sustainability project, a review was undertaken of Council-owned property that could be sold to assist with the financial situation. As a result, investigations have been done across Council's land portfolio to identify land for immediate sale and those to be further investigated for potential sale or maintained for future strategic land use. Multiple sites that are operational and community land require further investigation, rezoning and reclassification.

The properties subject to the investigation are included on Council website under "Property Sales Program".

On 8 April 2024 Council resolved to sell nine properties of land immediately and proceed with the investigation of another 15 properties that could include rezoning or reclassification to enable their sale to assist with the current financial situation. All properties identified for

potential sale are to be investigated for underuse or being surplus to the needs of the Council and community.

Land valuations will be done by professional Property Valuers and property sales will be managed by independent real estate agents who will engage in a competitive sales campaign to ensure the best sale price. Council has conservatively estimated the land sales proceeds to be \$15M, and this has been accounted for in the draft FY2024/25 budget. Council has budgeted to use these proceeds as follows:

- \$5.375M to fund capital works
- \$9.625M to repay existing debt

This strategy is discussed in CL24.118 Draft Delivery Program Operational Plan and Budget 2024-25 - Public Exhibition which was presented to, and endorsed by, Council on 6 May 2024.

\$7.2 million in revenue from land sales is expected to be received in June 2024, and this will be formally reported in the next quarterly productivity and efficiency report.

Financial Implications

Overview of reporting process

This report will track progress against the \$5 million per annum savings target, by recording the financial sustainability initiatives that have resulted in a reduction in Council’s operational expenditure or an increase in Council’s revenue. Savings realised will be tracked separately for recurring savings/income and one-off savings, as the one-off savings do not count towards the savings target.

Recurrent savings

Recurring savings will permanently reduce Council’s operating budget by the amount of savings found and will reduce Council’s structural deficit. New or increased income streams will increase Council’s total revenue expectation in the budget.

As operational savings are identified through the Financial Sustainability Review project, and these savings are resolved by Council and ready for implementation, the operating budget will be revised at each Quarterly Budget Review (QBR) process with the savings being quarantined with the expectation they are used to rebuild Council’s unrestricted cash position, assist in funding future capital works, or assist with the repayment of Council borrowings.

The recurrent savings performance will be reported as per the following example:

Initiative	Saving/Income	Reported	Amount
e.g.1 Reduced opening hours at a facility	Saving	FY25 QBR1	-\$40,000
e.g.2 A new fee for a service previously not charged	Income	FY25 QBR1	+\$25,000
Recurrent productivity and efficiency TOTAL			\$65,000

The recurrent savings report will be cumulative, with the newly realised efficiencies added each quarter.

One-off savings

One-off savings are identified efficiencies that can only be saved in the current year but will need funding for future years. One-off savings help to improve Council's cash position by not

spending the budget in the current year, however it doesn't help to fix Council's structural deficit.

The one-off savings will be reported as per the following example:

Initiative	Saving/Income	Realised	Amount
e.g.1 Land sales realised (MIN24.179)	Income	June FY24	+\$15,000,000
e.g.2 Reduced community donations FY25 only (MIN24.150)	Saving	FY25 QBR1	-\$20,000
One-off productivity and efficiency TOTAL			\$15,020,000

March 2024 – May 2024 report

Recurrent saving realised:

Many initiatives are underway that will realise recurrent savings in the next 12 months, however no recurring savings have been found in the current quarter March – May 2024. It is expected that the next quarterly report will report on savings that will be realised in the first quarterly budget review for financial year 2024-25. This report will be for the period June – August 2024, and will be reported to Council in November 2024 (after election caretaker period and in line with QBR1 reporting).

One-off savings:

Initiative	Saving/Income	Realised	Amount
Pause capital projects	Saving	FY24 QBR3	-\$90,000,000 (total project cost excluding grant funding)
Reduced department spending (no discretionary spending, holding vacancies)	Saving	FY24 QBR3	-\$1,700,000
One-off productivity and efficiency TOTAL			\$91,700,000