

# Monash City Council

Decision on application for a higher cap 2018–19

5 June 2018

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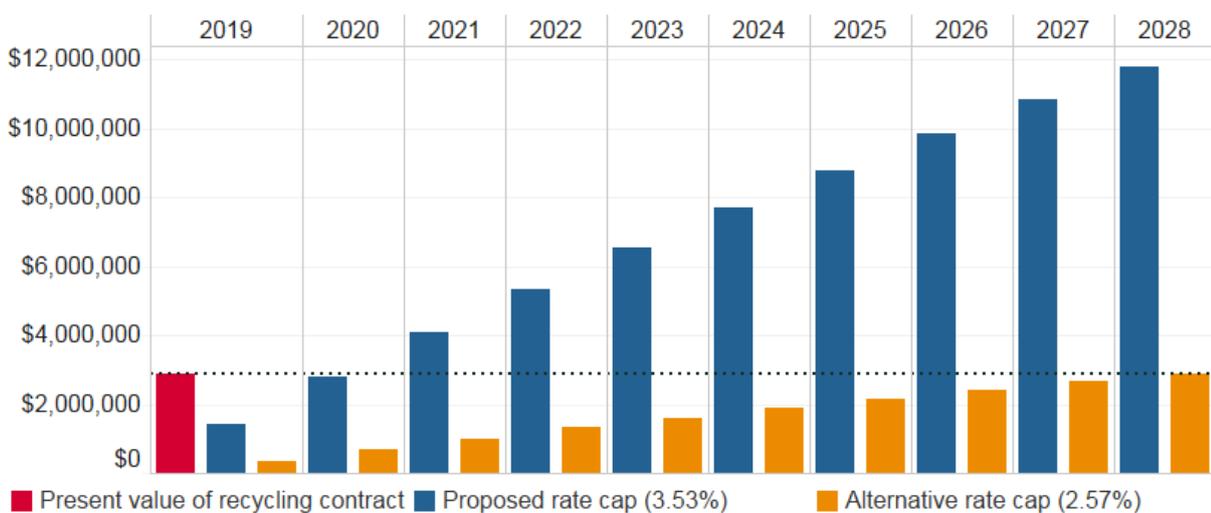
# 1. Summary

Monash City Council applied for a higher cap of 3.53 per cent for 2018–19 (inclusive of the minister’s rate cap of 2.25 per cent) to cover the increased cost of its recycling services. Monash estimated this would generate \$1,492,000 of additional revenue (above the Minister’s cap) in 2018–19.

The Essential Services Commission assessed Monash’s application and has decided to approve an alternative higher cap of 2.57 per cent for 2018–19 (0.32 percentage points above the minister’s cap). This will equate to an extra \$4.66 per rateable assessment in 2018–19 (opposed to \$18.91 per assessment as proposed in the higher cap application). The cumulative difference between the proposed higher cap and the alternative higher cap over the next 10 years is shown in figure 1.

We consider that the higher cap Monash applied for may result in over recovery of its recycling costs as it was based on an assumption that the current annual cost would be ongoing. However, the long-term costs of recycling are unknown at this stage. As such, the \$3 million cost of Monash’s current two year recycling contract is more appropriately treated as a short-term cost over 2018–19 and 2019–20. Having regard to all of the legislative matters and our statutory objectives, we are satisfied that the alternative higher cap is appropriate, while noting that council has not addressed some of the legislative matters as thoroughly as it could have given its own timing constraints. The alternative higher cap will enable Monash to recover the short-term costs over a 10 year period while it develops a better understanding of its long-term funding needs and consults further with its community on possible solutions.

**Figure 1 Cumulative impact of Monash’s proposed higher cap and the alternative higher cap – Net present value in 2018-19 terms**



The red bar shows the present value of the 2 year waste recycling costs (\$1.52M in 2018–19 and \$1.56M in 2019–20).

## 2. Background

Under the Fair Go Rates system, established under the Local Government Act 1989, councils must limit their average rate increase to a cap set by the Minister for Local Government. The Minister set a 2.25 per cent rate cap for the 2018–19 financial year.

Councils wishing to increase their average rate by more than the minister's cap must get approval from the Essential Services Commission. We assess each council's application and can either approve, approve in part or not approve the higher cap proposed by the council. We may also approve an alternative higher cap, as long as this is not higher than the higher cap proposed by the council. This is the third year of the Fair Go Rates system in which councils can apply for higher caps for up to four years.

In assessing applications, we must take into account the six legislative matters<sup>1</sup> and the statutory objectives<sup>2</sup> of the Fair Go Rates system (box 1). We must also consider a council's compliance with previous years' caps.

### Box 1 The Fair Go Rates system

The **legislative matters** are:

- the proposed higher cap for each specified financial year
- the reasons for which the council seeks the higher cap
- how the views of ratepayers and the community have been taken into account in proposing the higher cap
- how the higher cap is an efficient use of council resources and represents value for money
- whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate
- that the assumptions and proposals in the application are consistent with the council's long-term strategy and financial management policies set out in the council's planning documents and annual budget.

The **statutory objectives** are:

- to promote the long-term interests of ratepayers and the community in relation to sustainable outcomes in the delivery of services and critical infrastructure
- to ensure that a council has the financial capacity to perform its duties and functions and exercise its powers.

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<sup>1</sup> Local Government Act 1989 Section 185E(3).

<sup>2</sup> Local Government Act 1989 Section 185A.

Each year, we publish guidance to help councils plan for and make higher cap applications.<sup>3</sup> This guidance also aims to help councils understand how we interpret the legislative provisions when assessing applications, including:

- the guiding principles we follow
- the nature of the material we expect to find in an application and the supporting documents that councils should provide.

While our guidance provides information in general terms about how applications will be assessed, it should not be considered a set of fixed rules. We will assess each application on its merits and determine the appropriateness of a higher cap having regard to all relevant factors and the unique circumstances of the applicant council.

### **Affordability**

Affordability is an important consideration for a council when setting its rates. We expect that councils take this into account when they make their decisions about whether to apply for a higher cap.

We do not assess affordability in councils' higher cap applications. The legislation does not require us to do so.<sup>4</sup> Councils are best placed to determine their community's capacity to pay rates after taking into account all major factors that may affect their communities. The decision on the appropriate trade-off between service impacts and the level of rates rightly sits within the council's jurisdiction.

Our role, as defined in legislation, focuses on ensuring that the higher cap application process undertaken by councils is robust and transparent.

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<sup>3</sup> Essential Services Commission, Fair Go Rates system Guidance for councils 2018–19, November 2017.

<sup>4</sup> Affordability is not one of the matters listed in the legislation that councils must address in their applications — Local Government Act 1989 Section 185E(3).

### 3. What did the council apply for and why?

Monash City Council applied for a higher rate cap of 3.53 per cent for one year (inclusive of the minister's rate cap of 2.25 per cent). Monash estimates this would result in additional revenue (above the Minister's cap) of \$1,492,000 in 2018–19. This would become a permanent addition to the rate base that will continue to apply in each subsequent year.

Monash applied for a higher cap for 2018–19 to recover the increased costs that resulted from China's decision to ban imports of contaminated recycling materials. In March 2018, Monash renewed its recycling contract for the next two years to ensure that council's kerbside waste and recycling services would continue at current levels in line with community preferences. This will cost council an additional \$1,521,450 a year for the next two years (including \$639,450 of forgone waste recycling rebates and \$882,000 in new contractual costs). The application notes that, given the uncertainty in the waste recycling market, council expects the higher costs to continue over the next 10 years.

The application states that Monash does not have the financial capacity to absorb the additional costs and that it is the community's desire not to introduce separate service charges. Monash is one of seven councils in Victoria that do not currently recover waste costs through a separate service charge.<sup>5</sup> Waste service charges are not capped under the Fair Go Rates system, and are being used by other councils to pass through to ratepayers the higher waste-recycling costs, as shown in councils' 2018-19 draft budgets.

Monash's application and its responses to our request for information (RFI) and our additional questions are available on our website ([www.esc.vic.gov.au](http://www.esc.vic.gov.au)). Appendix A shows the communications between Monash and ourselves during the assessment period. We thank council for providing information in response to our requests during the higher cap assessment period.

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<sup>5</sup> Councils intending to introduce waste service charges should do so on a revenue neutral basis, as set out in section 5.9 of the Fair Go Rates system, Guidance for Councils 2018–19.

## 4. How did we reach our decision?

As required under the Fair Go Rates system, we examined each of the six legislative matters addressed in Monash's application. Our observations on the extent to which the application addresses each of the legislative matters is summarised in Appendix B. Further, the Act requires us to have regard to a council's record of compliance with previous years' caps.<sup>6</sup>

Our assessment takes into account the statutory objectives and legislative matters that applications must address. This approach ensures that the assessment includes all relevant factors covered by the legislation that impact on whether the application demonstrates a long-term financial need that should be funded through a higher cap.

To assist in our assessment we sought external advice from Deloitte Access Economics (Deloitte) which is published on our website. The advice provides technical analysis on council's financial capacity.

Our assessment is set out below.

### 4.1. What is the underlying financial position?

The application explains that Monash has been working to maintain financial sustainability by reducing service costs, repaying debt and improving asset renewal. This is consistent with council's 2018–19 draft budget, which includes a focus on maintaining working capital at 150 per cent and remaining debt free over the four year course of the strategic resource plan.<sup>7</sup>

The application shows that council is expecting to finish 2017–18 with a working capital ratio of 225 per cent and an adjusted underlying result of 8.41 per cent (see appendix D for definitions of these financial indicators). Over the next 10 years, Monash is increasing its capital works expenditure and averaging an annual asset renewal ratio of 120 per cent (see appendix C).

The application notes that Monash has aimed to keep rates low and expenditure low over recent years.<sup>8</sup> Of all metropolitan councils in 2016–17, Monash had the lowest expenditure per household<sup>9</sup> and the fourth lowest average rates.<sup>10</sup> In total, Monash has a rate base of \$116 million which is expected to account for 64 per cent of council's revenue in 2017–18.

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<sup>6</sup> In 2016–17 and 2017–18, Monash complied with the rate caps set by the Minister for Local Government.

<sup>7</sup> Monash City Council, Draft budget 2018–19, April 2018, p.10.

<sup>8</sup> Monash City Council, Higher rate cap application 2018–19, March 2018, p. 8.

<sup>9</sup> Based on our calculations using the information councils sent to us yearly for the rate cap compliance assessment.

We have examined the application's financial forecast scenarios with a higher cap of 3.53 per cent and with no higher cap (equivalent to the Minister's cap of 2.25 per cent).<sup>11</sup> In both scenarios, council is expected to maintain underlying surpluses, liquidity ratios between 146 and 240 per cent and a high level of asset renewal expenditure. However, the adjusted underlying result and working capital indicators with the alternative higher cap of 2.57 per cent would be between the values of Monash's proposed 3.53 per cent higher cap and no higher cap scenarios.

**Table 1 Monash's forecast local government performance reporting framework indicators (full table in Appendix C)**

Indicator		2017-18	2018-19	2019-20	2020-21	2021-22
		Forecast actual	Budget	Strategic resource plan forecasts		
Adjusted underlying result	With 3.53% higher cap	8.41	9.41	5.13	4.79	5.19
	Without any higher cap	8.41	8.7	4.36	4.03	4.43
Working capital	With 3.53% higher cap	224.74	190.82	164.93	173.75	160.59
	Without any higher cap	224.74	187.69	158.21	163.13	146.8
Asset renewal	With 3.53% higher cap	115.38	123.66	92.49	95.67	117.72
	Without any higher cap	115.38	123.66	92.49	95.67	117.72

The application does not propose any changes to Monash's services or capital works program should its higher cap application not be approved. The only difference is how the cost of the new recycling contract will be funded (through higher rates revenue or through cash reserves).

At the 3.53 per cent higher cap, the application shows Monash would recover the additional waste costs through an increase in general rates income. Compared to the no higher cap scenario, the 3.53 per cent higher cap would increase council's adjusted underlying result by approximately 0.7 percentage points per year over the long-term and maintain a working capital ratio above Monash's target of 150 per cent.

In the no higher cap scenario, the application shows the impact of Monash absorbing the additional waste cost through council's reserves. While the budget would remain in surplus, funding the recycling costs from reserves would decrease Monash's working capital to 146.8 per cent by 2021–22<sup>12</sup>.

<sup>10</sup> Local Government Victoria, 'Know your council', Local Government Victoria, accessed 14 May 2018, <https://knowyourcouncil.vic.gov.au/>

<sup>11</sup> In both scenarios, council has assumed the \$1.5 million in waste recycling costs to be ongoing.

<sup>12</sup> Assuming the waste recycling costs are ongoing as noted in Monash's higher cap application.

We also note that Monash released its 2018–19 draft budget three weeks after submitting the higher cap application which shows stronger adjusted underlying results, liquidity and asset renewal than the forecasts in the higher cap application. In a response to a request for further information, Monash explains that the differences in their financial indicators are due to a significant shift in council's capital works program.

## **4.2. How were the community views taken into account?**

Council submitted its Engagement Framework in response to our request for information. The document indicates Monash has a good understanding of engagement principles and an ongoing commitment to communication and relationship-building activities.

However, the application states that, due to the immediacy of the recycling crisis, “there has not been sufficient time for the council to engage the community on waste management again” and Monash could only inform the community of the decision to apply for a higher cap<sup>13</sup> It did so through a letter mail-out to residents, a media release and an advertisement in the Monash Bulletin. The letter noted that waste recycling costs had increased and council was considering options to decrease services, apply for a higher cap or introduce waste service charges if the higher cap application was not successful.<sup>14</sup> While we note Monash had limited time to prepare a higher cap application, this engagement was a one-way announcement, and provided no opportunity for the community to contribute to decision making.

Monash did provide details of the following consultations which it said demonstrate community support for the application:

- Annual community satisfaction results, showing that 87 per cent of respondents note waste services as ‘extremely’ or ‘very’ important, and above-average community satisfaction scores with waste services in 5 out of the last 6 years.
- Budget consultations in October 2015, November 2016 and November 2017. Consultations in November 2016 for the 2017–18 budget and 2017–21 council plan involved discussions on council's financial management performance, key challenges and focuses.
- Consultation during the development of council's waste strategy in 2017, Monash conducted information sessions, surveys and took phone call and email feedback.<sup>15</sup> The mail-out survey conducted later in the year concerned hard waste service options and the introduction of waste service charges. The council received 30,918 responses to the survey (35.6 per cent of ratepayers and 11.3 per cent of tenants). Of these respondents, 76 per cent preferred an option

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<sup>13</sup> Monash City Council, Higher rate cap application 2018–19, March 2018, p.7.

<sup>14</sup> Monash City Council, Higher cap application, response to request for information (attachments), April, 2018.

<sup>15</sup> Monash City Council, Waste management strategy, December 2017, p. 56.

How did we reach our decision?

to maintain current service levels, rather than increasing service levels and introducing waste service charges.

However, we consider the relevance of this engagement to council's current higher cap application to be limited. They were not conducted in the context of rising waste recycling market costs or potential higher rates. There is also little evidence showing that the community has been consulted on funding alternatives in the context of council's long-term funding needs.

### **4.3. Plans, policies, processes and consideration of budget trade-offs**

Monash's application includes a number of financial and strategic planning documents relating to asset management, service planning, community engagement and waste management. It notes efficiency targeting programs at Monash and the other funding options that it considered as an alternative to a higher cap.

#### **Long-term planning and capital works**

The application states that capital works renewal targets are a key element of Monash's long-term planning and financial sustainability. In 2017–18, council committed to increasing capital works expenditure, and in particular asset renewal, above historical levels. Between 2011 and 2017, Monash averaged an annual renewal expenditure of \$17.2 million. This is targeted to increase to \$35 million on average per year over the next 10 years.

To support these targets, the application provides an asset management policy, asset management strategy and road asset management plan. Monash is currently developing and updating plans for other key asset classes. Deloitte notes that it is not clear if council's renewal targets are based on reasonable assumptions as the asset management plans are not fully developed.<sup>16</sup> In any case, the application shows that Monash's capital works program will not be affected by the decision to approve or reject a higher cap, at least in the short-term.

We also note that council does not have a publicly documented long-term financial plan. However, Monash did provide an internal confidential long-term plan to support its application.

#### **Policies and procedures to ensure efficiency**

The application highlights a number of cost saving initiatives and efficiency programs that Monash has implemented. In 2013–14, Monash introduced the best value program with the aim of finding \$500,000 of efficiencies per annum. To date, the program has resulted in a number of savings in relation to consultants, printing services, vacation care services and street lighting. The best value

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<sup>16</sup> Deloitte Access Economics, Assistance with review of 2018–19 rate cap application – City of Monash, April 2018, p.5.

program will be replaced by the continuous improvement framework to ensure Monash continues to achieve its efficiency targets.

The application outlines service reviews that have been undertaken to improve council's productivity and service delivery. Recent reviews have related to residential aged care, family day care and home and community care.

### Alternative funding options and offsets

The application lists a number of options that Monash considered as alternatives to a higher cap and outlines why these are not appropriate:<sup>17</sup>

- Introducing a waste service charge is not in line with the community's preferences. This option would also result in additional administrative costs.
- Alternative income sources are not appropriate as Monash has limited options to raise user fees, which may impact on the communities' use of services, and does not wish to enter into "entrepreneurial activities that come with risk".<sup>18</sup>
- Borrowing to fund ongoing operational costs is not financially prudent.
- One-off savings through cuts to council's capital works program or through the use of reserves would be unsustainable over the long-term.
- Service cuts are not an appropriate response to the immediate cost pressures and should instead be considered as a part of long-term planning only.

## 4.4. Our decision

We have approved an alternative higher cap of 2.57 per cent. While not as high as the 3.53 per cent Monash applied for, this is still 0.32 percentage points above the minister's cap of 2.25 per cent.

The higher cap of 3.53 per cent proposed by Monash was based on an assumption that the current \$1.5 million annual cost of recycling services will be ongoing. However, we consider the costs incurred by Monash in its current two year recycling contract to be only short-term costs at this stage. The market is still evolving in response to China's ban on contaminated recycling and councils' future recycling costs are uncertain. Approving a higher cap of 3.53 per cent may result in a long-term over recovery of recycling costs and we are not satisfied that it is in the long-term interests of ratepayers to lock in a rate increase of this magnitude at this time.

We have calculated that the annual payment required to recover the cost of the two year contract over a ten year period, applying the long term bond rate, would be \$367,144. Rates would need to

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<sup>17</sup> Monash City Council, Higher rate cap application 2018–19, March 2018, p.13.

<sup>18</sup> Monash City Council, Higher rate cap application 2018–19, March 2018, p.12.

How did we reach our decision?

increase by 2.57 per cent (to 0.32 percentage points above the minister's cap) in 2018–19 to fund these payments (see appendix E for our calculations). Approving a higher cap of 2.57 per cent means Monash will fund the recycling contract through reserves or other funding alternatives in the short-term but it will fully recover the cost over the long-term through additional rates. Alternatively stated, the net present value of a 2.57 per cent increase is revenue neutral for the council.

Although we have found some weaknesses in the council's application in addressing the legislative matters, we are satisfied that, on balance, an alternative higher cap of 2.57 per cent is appropriate. The alternative higher cap limits the rate increase to the known cost of the current two year contract and reduces the possibility of over recovering recycling costs from ratepayers over the longer term. Our decision will provide Monash with certainty that the current contract will be funded, while providing it with an opportunity to engage with its community and undertake the more detailed assessment of alternative options and trade-offs over the long-term. If the costs of recycling prove to be ongoing, council may consider applying for a higher cap in the future.

Allowing Monash to increase its rates above the minister's cap will enable it to deal with the current limitations in recycling in the short-term without it adversely affecting Monash's long-term planning. As other councils have the flexibility to pass on similar costs through waste service charges, our decision to approve the alternative higher cap will ensure Monash is not disadvantaged by its previous decision (in line with the community's preferences) not to introduce a separate waste service charge.

While a short term cost would not generally be sufficient justification for a higher cap, we have taken into account Monash's unique circumstances, including the sudden increase in its costs of recycling services, and that it lacks the flexibility available to other councils to meet these costs given it does not currently have a separate waste charge in place. In calculating an alternative higher cap of 2.57 per cent, we are helping to ensure Monash does not collect more over the long term than it needs to meet the short term costs.

## Appendix A: Summary of communications with Monash City Council

Monash submitted its application for a higher cap on 29 March 2018. In response to its application, we sought additional information from Monash. Monash's application and its response to our requests for further information can be found on our website.

**Table A1** Communications between Monash and the Commission

Date (2018)	Nature of communication
29 March	Application submitted by email from Monash.
4 March	We acknowledged receipt of the application by email.
6 April	Phone call to Monash regarding edit on the proposed higher cap on the cover sheet of application.
6 April	Phone call to Monash regarding the budget baseline information template: certification page, assumptions and negative revenue values.
9 April	Monash emailed in updated cover sheet of application.
9 April	Monash emailed in revised budget baseline information template.
13 April	Monash emailed in another revised version of the budget baseline information template.
13 April	We sent a request for information to Monash.
16 April	Phone call to Monash to acknowledge their receipt of the request for information.
19 April	Email from Monash, clarifying a question in the request for information regarding the budget baseline information template. The commission answered the question through reply email.
20 April	Monash emailed through a response to the request for information.
23 April	Monash emailed through a response to the request for information – confidential long-term financial plan.
27 April	Phone call and email to Monash asking questions about council's response to the request for information.
27 April	Monash emailed through the asset management strategy.
1 May	Monash emailed through response to our follow up questions.
1 May	We emailed Monash regarding further questions on council's financial target.

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**Table A1 (continued)**

Date (2018)	Nature of communication
14 May	Monash emailed through replies to our questions regarding financial targets.
28 May	Phone call to Monash to discuss the waste recycling costs and billing.

## Appendix B: Summary of legislative matters

Table B1 summarises our observations on how Monash’s application addresses each of the legislative matters.

**Table B1** How the application addresses the legislative matters

Legislative matter	Summary
185E(3)(a) — proposed higher cap	<p>Monash applied for a higher cap of 3.53 per cent for 2018–19 (1.28 percentage points above the minister’s cap of 2.25 per cent) for a permanent increase in the rate base. This is estimated to raise additional revenue of \$1.492 million in 2018–19, and \$16.672 million over the next 10 years.<sup>a</sup> The application contains the assumption that the additional costs will be ongoing, and the higher cap is needed to recover these annual costs.</p>
185E(3)(b) — reason(s) for which the council seeks the higher cap	<p>Monash has applied for a higher cap in response to increased waste recycling costs due to a change in China’s waste-recycling import policy.<sup>b</sup> The council had to renegotiate the waste recycling contract in March 2018, costing an additional \$1.521 million per year to maintain current service levels, including \$639,450 of forgone waste-recycling rebate plus \$882,000 in new contractual costs.<sup>c</sup></p> <p>Other reasons provided for the higher cap include:<sup>d</sup></p> <ul style="list-style-type: none"> <li>• That Monash is a low cost, low rating council that has no further cost savings available to offset the higher waste recycling costs.</li> <li>• Long-term liquidity and asset-renewal needs may be compromised without a higher cap.</li> <li>• Community engagement showing a preference for council to maintain waste service levels and not to introduce waste service charges.</li> </ul> <p>Monash’s new waste-recycling contract is for two years. As the future of this market is uncertain, council expects the higher waste costs to continue into the future and intends the higher cap to remain revenue neutral.<sup>b</sup></p>

Continued next page

Table B1 (continued)

Legislative matter	Summary
185E(3)(b) (continued)	<p>Other reasons council cites for the need to maintain waste services at current levels and commit to the new higher-cost contract include:</p> <ul style="list-style-type: none"> <li>• Targets for diverting waste from landfill to recycling, as set out in the waste strategy that council is committed to achieving. Monash aims to divert 60 per cent of landfill waste to recycling by 2022, and 75 per cent by 2027.<sup>e</sup> Council notes that maintaining waste service levels will be important to achieving this target.</li> <li>• Maintaining the community’s satisfaction with current waste services, as shown in the community satisfaction survey results. In 2017, the survey found waste services to be the highest priority, and satisfaction levels were above the metropolitan average.<sup>f</sup></li> </ul>
185E(3)(c) — how the views of ratepayers and the community have been taken into account in proposing the higher cap	<p><b>The council’s community engagement plans</b></p> <p>In response to the request for further information, Monash provided us with the ‘Engagement Framework’, a public document detailing the council’s engagement approach and the ‘Monash Engagement Guidelines’, an internal resource detailing engagement processes and plans for council officers.<sup>g</sup> These documents outline the processes, objectives, principles, triggers, techniques, and evaluations associated with council’s engagements.</p> <p><b>Informing the community of the higher cap application</b></p> <p>Monash did not have time to conduct a complete community engagement process between when its recycling costs increased and the closing date for higher cap applications, so could only inform the community of the decision to apply for a higher cap. It did so through a letter mailed out to residents<sup>g</sup>, a media release<sup>h</sup> and a bulletin.<sup>g</sup></p> <p><b>Engagement through the development of the waste strategy</b></p> <p>From February 2017, council conducted information sessions on the development of the waste strategy. These sessions discussed: public service, food organics recycling, possible introduction of waste service charges, and options for hard rubbish. A survey found that 53 per cent of respondents wanted further information on waste service charges before voting on it.<sup>i</sup></p> <p>Following the release of the draft strategy, the council notified the community of the engagement activities, undertook additional information sessions and another survey.<sup>j</sup></p> <p>The information sessions were conducted in November and were attended by 103 community members, who responded to information advertising the session on council’s website, social media and the council bulletin.<sup>k</sup></p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(c) (continued)	<p>The survey was mailed to all ratepayers and tenants, accompanied by information on council waste services and options available. The respondents were asked whether they would like to:</p> <ol style="list-style-type: none"><li>1. Continue the existing waste services, with one fixed hard waste collection and an additional, upon request, hard waste collection (at user cost), or</li><li>2. An enhanced hard waste collection service, with two hard waste collections, two bundled green waste and two cardboard at-call collections per year, partly funded through waste service charges.</li></ol> <p>Council received 30,918 responses to the survey (35.6 per cent of ratepayers and 11.3 per cent of tenants).<sup>l</sup> More than three quarters of respondents chose the first option.<sup>m</sup> Feedback on the results was given to the community through council reports, website news, social media and the council bulletin.<sup>k</sup></p> <p>There was no formal evaluation of the consultation conducted. But council notes the 'high response rate shows that the large effort was appropriate'.<sup>k</sup></p> <h3>Community's satisfaction survey</h3> <p>The application notes that waste services were considered the most important service provided in the 2017 community satisfaction survey. The application also showed that satisfaction with waste services at Monash scored above the metropolitan council average in 5 out of the last 6 years.<sup>f</sup></p> <h3>The council's budget engagement activities</h3> <p>The application notes the engagement council conducted through the budget preparation process over recent years. The council provided further information of the annual planning process Monash did for the 2017–18 budget and council plan 2017–21.<sup>n</sup> Participants were involved in face to face consultations, an online survey, and online forum and through email and phone call correspondence. Over 170 people participated in the consultations. Key findings were:<sup>o</sup></p> <ul style="list-style-type: none"><li>• Development and parking are major challenges facing Monash over the next 4 to 5 years.</li><li>• Council should focus on maintaining/improving activity centers and providing/improving parking over the next 4 to 5 years, and improving car parking and footpaths in the coming year.</li><li>• The community was generally positive of council's financial management.</li><li>• There was little interest in introducing a waste service charge, but only half of respondents commented on this.</li><li>• Some feedback noting rates should be kept low.</li></ul>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(d) — how the higher cap is an efficient use of Council resources and represents value for money	<p data-bbox="520 344 1449 376"><b>Monash is a low rating and low expenditure council</b></p> <p data-bbox="520 394 1449 591">The application states that Monash is a historically low rating and expenditure council that has been driving efficiencies to service its growing community.<sup>p</sup> The application cites the local government performance reporting framework indicators for 2015–16, noting that Monash has the lowest average property rates in metropolitan Melbourne and the second lowest expenditure per capita in Victoria.<sup>p</sup></p> <p data-bbox="520 609 1449 806">The application also notes that Monash has the fifth lowest value of infrastructure in Victoria. However, as many assets are entering the end of their useful life, Monash is now required to increase renewal expenditure. The current level of population growth and development is also triggering the need to upgrade and expand Monash’s infrastructure.<sup>q</sup></p> <p data-bbox="520 837 1449 869"><b>Examples of cost saving initiatives and efficiency programs</b></p> <p data-bbox="520 887 1449 958">The application highlights examples of cost saving initiatives and efficiency programs it has implemented or is currently developing.</p> <p data-bbox="520 976 1449 1008"><b>Best value program</b></p> <p data-bbox="520 1025 1449 1124">Monash implemented the best value program in 2013–14 with the aim of achieving at least \$500,000 of efficiencies per annum. Some examples of savings identified through the program include:<sup>r</sup></p> <ul data-bbox="520 1137 1449 1308" style="list-style-type: none"><li>• a reduction in expenditure on consultants of \$379,000</li><li>• a reduction in printing services of \$173,000</li><li>• savings from vacation care services of \$152,000</li><li>• improved street lighting that reduced utility costs by \$1.3 million over two years.</li></ul> <p data-bbox="520 1330 1449 1361"><b>Continuous improvement framework</b></p> <p data-bbox="520 1379 1449 1541">Monash is developing a continuous improvement framework to replace the best value program and ensure that council continues to find at least \$500,000 in savings each year. The application notes that it is a priority project in the council plan and an initiative of the 2017–18 budget.<sup>r</sup></p> <p data-bbox="520 1563 1449 1594"><b>Service reviews</b></p> <p data-bbox="520 1612 1449 1711">The application highlights three recent examples of service reviews that have been undertaken in consultation with the community, council staff and councillors:<sup>s</sup></p> <ul data-bbox="520 1724 1449 1895" style="list-style-type: none"><li>• The sale of residential aged car facilities.</li><li>• Changes to Monash’s family day care fee structure to ensure it accurately reflected the costs of providing the services.</li><li>• The move to cease providing a home and community care program for younger people.</li></ul>

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Table B1 (continued)

Legislative matter	Summary
<p>185E(3)(e) — whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate</p>	<p>The application outlines the options and trade-offs council has considered rather than a higher cap and why those options are not adequate. These include:<sup>t</sup></p> <ul style="list-style-type: none"> <li>• Waste service charges – the application notes that consultations through the development of the waste strategy found a preference not to introduce the charges. Council has noted that it will consider this option if the higher cap application is not successful.<sup>g</sup></li> <li>• Debt funding – the application notes that it would be inappropriate for council to use debt financing for ongoing operating activities. Monash also has a no debt policy.</li> <li>• Increased user fees and charges – the application notes there is limited options to raise income through fees and charges without impacting on the communities' use of the service.</li> <li>• Reduced service expenditure – Monash has conducted some service cuts in recent years, including the sale of its residential aged care service, and plans to review home and community care services in June 2020. Council notes that service cuts are only appropriate when considered in the long-term as part of long-term planning.</li> <li>• Reprioritising capital works – the application notes that it has a 'lean capital works program and discretionary spending',<sup>u</sup> and that 'any cuts to capital works would lead to lower service levels to the community'.<sup>u</sup></li> <li>• Drawing on reserves – the application notes this is not 'sustainable nor responsible where the issue is long-term'.<sup>v</sup></li> </ul>
<p>185E(3)(f) — that the assumptions and proposals in the application are consistent with the council's long-term strategy and financial management policies set out in the council's planning documents and annual budget</p>	<p>The application and response to request for information include the following financial and strategic planning documents:</p> <ul style="list-style-type: none"> <li>• 2016–17 annual report<sup>d</sup></li> <li>• 2017–18 budget<sup>d</sup></li> <li>• council plan / strategic resource plan<sup>d</sup></li> <li>• waste management strategy<sup>ii</sup></li> <li>• engagement framework<sup>w</sup></li> <li>• engagement guideline<sup>g</sup></li> <li>• procurement policy<sup>d</sup></li> <li>• proposed 2018–19 budget<sup>w</sup></li> <li>• asset management policy<sup>w</sup></li> <li>• road asset management plan. The application notes that Monash is currently updating council's other asset management plans.<sup>w</sup></li> <li>• a confidential copy of the long-term financial plan.<sup>w</sup></li> </ul>

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**Table B1 (continued)**

Legislative matter	Summary
185E(3)(f) (continued)	The information provided in the application is consistent with Monash’s financial planning documents. However, Monash has not explained whether its key financial targets have been revised in light of the additional waste costs. We have assumed, for the purposes of this decision only, that council’s long run financial targets remain unchanged due to the suddenness of the waste recycling costs.

<sup>a</sup> Monash City Council, Budget baseline information template, March 2018. <sup>b</sup> Monash City Council, Higher rate cap application 2018–19, March 2018, p.3. <sup>c</sup> Monash City Council, Response to request for information (1), April 2018, p.2. <sup>d</sup> Monash City Council, Higher rate cap application 2018–19, March 2018. <sup>e</sup> Monash City Council, Higher rate cap application 2018–19, March 2018, p.5. <sup>f</sup> Monash City Council, Higher rate cap application 2018–19, March 2018, p.4. <sup>g</sup> Monash City Council, Response to request for information (attachments), April 2018. <sup>h</sup> Monash City Council, Council locks in recycling service, media release, 7 March 2018. <sup>i</sup> Monash City Council, Waste management strategy, December 2017, p.56. <sup>j</sup> Monash City Council, Waste management strategy, December 2017, pp.56–57. <sup>k</sup> Monash City Council, Higher cap application, Response to request for information (1), April 2018, p.5. <sup>l</sup> Monash City Council, Waste management strategy, December 2017, p.57. <sup>m</sup> Monash City Council, Waste management strategy, December 2017, p.58. <sup>n</sup> Monash City Council, Higher cap application, Response to request for information (attachments), Overview of community and consultation 2017–18 annual planning process, April 2018, p.5. <sup>o</sup> Monash City Council Higher cap application, Response to request for information (attachments), Overview of community and consultation 2017–18 annual planning process, April 2018, pp.6–10. <sup>p</sup> Monash City Council, Higher rate cap application 2018–19, March 2018, p.8. <sup>q</sup> Monash City Council, Higher rate cap application 2018–19, March 2018, pp.9–10. <sup>r</sup> Monash City Council, Higher rate cap application 2018–19, March 2018, p.10. <sup>s</sup> Monash City Council, Higher cap application, Response to request for information (1), April 2018, p.6. <sup>t</sup> Monash City Council, Higher rate cap application 2018–19, March 2018, pp.12–14. <sup>u</sup> Monash City Council, 2018, Response to request for information (1), April 2018, p.8. <sup>v</sup> Monash City Council, Higher rate cap application 2018–19, March 2018, p.13. <sup>w</sup> Monash City Council, Higher cap application, Response to request for information (1), April 2018.

## Appendix C: Local government performance indicators

**Table C1** Monash City Council's local government performance indicators

Indicators	Average rate cap	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Working capital	3.53	224.74	190.82	164.93	173.75	160.59	158.34	154.86	152.39	151.84	153.93	156.62
	2.25	224.74	187.69	158.21	163.13	146.80	140.92	134.00	128.06	124.02	122.55	121.78
Asset renewal	3.53	115.38	123.66	92.49	95.67	117.72	125.66	131.15	130.34	130.43	127.70	129.02
	2.25	115.38	123.66	92.49	95.67	117.72	125.66	131.15	130.34	130.43	127.70	129.02
Adjusted underlying result	3.53	8.41	9.41	5.13	4.79	5.19	5.18	5.25	5.25	5.11	5.37	5.54
	2.25	8.41	8.70	4.36	4.03	4.43	4.43	4.50	4.50	4.37	4.64	4.82

Note: These forecasts are based on the assumption that the higher waste recycling costs will be ongoing after 2019-20 as noted in the higher cap application.

## Appendix D: Local government performance indicator definitions

- a) **Adjusted underlying result** is adjusted underlying surplus (deficit) as a percentage of adjusted underlying revenue. A surplus or increasing surplus suggests an improvement in the operating position.

Adjusted underlying revenue is total income less non recurrent capital grants used to fund capital expenditure, non-monetary asset contributions and other contributions to fund capital expenditure.

Adjusted underlying surplus is adjusted underlying revenue less total expenditure.

- b) **Working capital ratio** is current assets as a percentage of current liabilities. It indicates whether a council has sufficient working capital to pay bills as and when they fall due. High or increasing level of working capital suggests an improvement in liquidity.

- c) **Asset renewal** is asset renewal expenditure as a percentage of depreciation. This indicates whether assets are being renewed as planned. High or increasing level of planned asset renewal being met suggests an improvement in the capacity to meet long-term service obligations.

Asset renewal expenditure is expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability.

# Appendix E: Modelling to recover council's short-term costs over the long-term

**Table E1** Summary table of the additional revenue needed to recover Monash's current waste recycling costs over a 10 year period<sup>a</sup>

Description	Figures
The higher waste recycling costs	\$1,521,450 in 2018–19 and \$1,559,486 in 2019–20
Present value of costs ( <i>PV</i> )	\$2,903,682.24
Discount rate ( <i>i</i> )	4.51% (10 year bond rate) <sup>b</sup>
Time period ( <i>t</i> )	10 yearly time periods
Additional rate revenue 2018–19 ( <i>R</i> )	$\frac{PV \times (i)}{(1 - (1 + i)^{-t})} = \$ 367,144.39$
Alternative cap	2.57%

<sup>a</sup> The numbers shown in this section have been rounded to 2 decimal places. <sup>b</sup> Reserve Bank of Australia, F3 Aggregate measures of Australian corporate bond spreads and yields: non-financial corporate (nfc) bonds, Microsoft excel spreadsheet, <https://www.rba.gov.au/statistics/tables/#interest-rates>, accessed on 18 May 2018.

## Calculating the rate revenue increase for 2018–19

The commission has decided that the appropriate higher cap for 2018–19 is one that can recover the net cost of the new 2-year recycling contract over the next 10 years. The first step is to find the present value of the waste costs:

$$PV = \frac{cost_{2018-19}}{1 + i} + \frac{cost_{2019-20}}{(1 + i)^2} = \frac{\$1,521,450}{1.0451} + \frac{\$1,559,486}{1.0451^2} = \$2,903,682.24$$

The second step is to spread this cost out over the next 10 years:

$$\frac{(PV \times i)}{(1 - (1 + i)^{-t})} = \frac{(\$2,903,682.24 \times 0.0451)}{(1 - (1 + 0.0451)^{-10})} = \$367,144.39$$

## Calculating the alternative cap

We can use the figures from Monash's Budget Baseline Information to calculate the higher rate cap required to raise an additional \$367,144.39 in 2018–19.

The rate base is equal to:

$$Rb = \frac{\text{General rates}_{as \text{ at } 1 \text{ July } 2017} + \text{Annualised supplementary rates}_{2017-18}}{\text{Number of rateable properties}_{as \text{ at } 30 \text{ June } 2018}}$$
$$= \frac{\$115,613,814 + \$872,195}{78843} = \$1477.44$$

At the minister's rate cap, the maximum allowable capped average rate would be:

$$Rc_{mc} = Rb \times mc = \$1477.44 \times 1.0225 = \$1510.68$$

Total revenue at the Minister's cap would be:

$$Rc_{mc} \times \text{Number of rateable properties}_{as \text{ at } 1 \text{ July } 2018} = \$1,510.68 \times 78843 = \$119,106,944.20$$

Adding the additional \$367,144.39 will calculate the maximum allowable capped average rate at the alternative rate cap:

$$Rc_{hc} = \frac{\$119,106,944.20 + \$367,144.39}{78843} = \$1515.34$$

Putting these together provides the alternative rate cap:

$$\text{Alternative rate cap} = \frac{\$1515.34}{\$1477.44} - 1 = 2.57\%$$

### **Rationale of parameters**

The 10 year period – to align with council's long term financial plan

10 year bond rate – to reflect the time value of money.