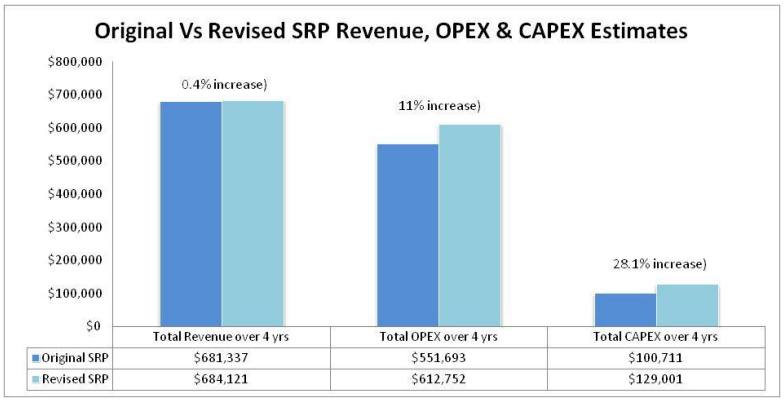
2014/15 Budget Review: Executive Summary

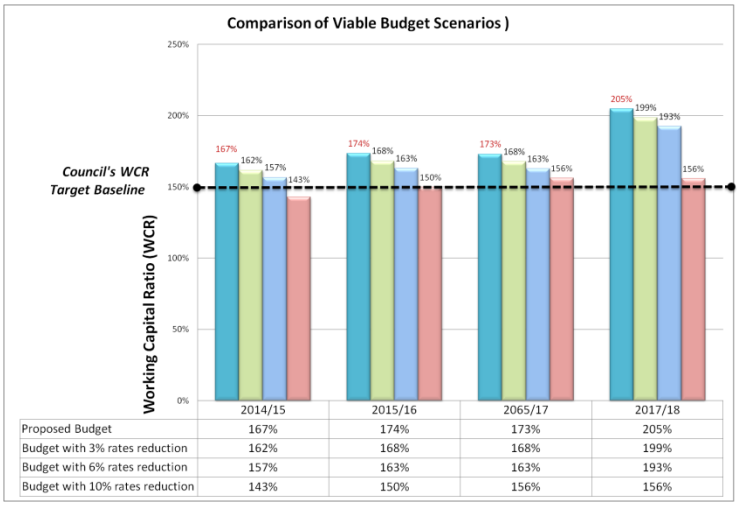
The current four years' Council Plan originally costs ratepayers in total

- $552m operating expense (OPEX), which has increased to $613m;
- $100m capital expenditure (CAPEX) which has increased to $129m.

These figures translate to an increase of 11% in OPEX, and 28.1% in CAPEX. The total revenue (which includes assets sale proceeds) only increased marginally by a very small increase of 0.4% to $684m. Consequently, this budget is not a convincing "back to basics" budget,



The capacity of Monash Council to provide rates reduction is determined by comparing its working capital ratio and unrestricted cash reserves. **Working capital ratio** is a liquidity risk measure, which indicates Council's capacity to pay bills when they fall due - 150% is the target aimed for by Council. **Unrestricted cash surplus** means free cash not tied to meet any internal and external[1] restrictions - next year the estimate is $28m and in 2017/18 it will increase to $45m. When compared with current liabilities, the ratio shows the percentage of excess cash against bills to be paid.



The financial analysis shows that there is ample capacity for Monash Council to accommodate beyond 3% rates reduction, without impacting its working capital ratio and unrestricted case reverse levels for the next 4 years. There is no reason why Monash Council cannot reduce rates and capped at CPI levels at least.

Other budget quality improvement commentaries include inclusion of clear statements of *best value* business case of new projects and major capital acquisition/upgrade initiatives; improvements to assets management with clear declaration of assets considered as strategic, service value adding or are candidates for future divestment review.

On behalf of the community, MRI would like to propose Council consider a rate reduction in the next budget, which we have proven is certainly within the capacity of this Council, at least for the next 4 years. We appreciate a formal response regarding this community request, with full explanation information.

[1] External restrictions include contingent provision for future Defined Superannuation Liability payouts

MRI's budget review is underpinned by 2 questions:

1. How much does it cost to deliver the current Council Plan?
2. Can Monash Council afford rates reduction?

Addressing Q: How much does it cost to deliver the current Council Plan?

When the 2013/14 budget plan was approved last June, it also declared the Strategic Resource Plan (SRP)'s financial targets for achieving the current Council Plan within the next 4 years.

It would raise $681m from rates and other sources (including sale proceeds), incur an operating expense (OPEX) of $552m and capital expenditure (CAPEX) of $101m.

During the 2014/15 draft budget planning, Councillors have instructed Council Finance Officers of their spending list, which has increase the total SRP costs by:

- 0.4% increase in revenue forecast;
- 11% (~$61m) increase in OPEX;
- 28.1% (~$28m) in CAPEX, of which:
  - 33% (~$9m) was spent on capital upgrade/renewal and
  - 67% ($19m) spent on new capital acquisition.

While there is virtually no change in SRP revenue forecasts, the current Council Plan now costs ratepayers a total increase of 14% ($89m) of OPEX and CAPEX costs to deliver the current Council Plan by 2016/17.

Original SRP estimates to deliver the Council Plan (2013 approved)

	2013/14 Original Budget	2014/15 Original Budget	2015/16 Original Budget	2016/17 Original Budget	
Rates & Charges	$93,986	$100,425	$107,251	$114,534	
Gov Grants, Subsidies & Contributions	$27,048	$27,684	$28,457	$29,294	
Fees & Charges, Interest & Other	$34,224	$35,786	$37,437	$39,366	
Sales of Assets(see assumption 2 & 3)	$1,390	$1,432	$1,489	$1,534	Total
TOTAL INCOME	$156,648	$165,327	$174,634	$184,728	$681,337
Operating Expense	$130,208	$133,763	$141,152	$146,570	$551,693
Capital - base	$24,127	$24,655	$25,463	$26,266	$100,511
Capital - new	$200	$0	$0	$0	$200
TOTAL CAPITAL	$24,327	$24,655	$25,463	$26,266	$100,711

Amended (SRP) budget to deliver Council Plan (2014 revised)

	2013/14 Amended Budget	2014/15 Amended Budget	2015/16 Amended Budget	2015/17 Amended Budget	
Rates & Charges	$94,109	$100,796	$107,644	$114,950	
Gov Grants, Subsidies & Contributions	$25,531	$27,531	$22,828	$23,846	
Fees & Charges, Interest & Other	$47,758	$30,618	$32,145	$33,303	
Sales of Assets(see assumption 2 & 3)	$16,031	$1,090	$2,954	$2,987	Total
TOTAL INCOME	$183,429	$160,035	$165,571	$175,086	$684,121
% Change in Total Income	17%	-3%	-5%	-5%	0.4%
Operating Expense	$150,150	$150,291	$153,502	$158,809	$612,752
% Change in Operating Expense	15%	12%	9%	8%	11%
Capital - base	$23,784	$26,715	$26,437	$33,004	$109,940
Capital - new	$586	$6,080	$6,017	$6,378	$19,061
TOTAL CAPITAL	$24,370	$32,795	$32,454	$39,382	$129,001
% Change in Capital - Base	-1.4%	8.4%	3.8%	25.7%	9.4%
% Change in Capital - New	193.0%	100%	100%	100%	9430.5%
% Change Total Capital	0.2%	33.0%	27.5%	49.9%	28.1%

Addressing Q2: Can Monash Council afford rates reduction?

This Q is best answered by examining the Council's working capital and unrestricted cash levels:

- **Working capital ratio** is a liquidity risk measure, which indicates Council's capacity to pay bills when they fall due - 150% is the target aimed for by Council.
- **Unrestricted cash surplus** means free cash not tied to meet any internal and external[2] restrictions. When compared with current liabilities, the ratio shows the percentage of excess cash against bills to be paid.

The recent aged care assets sale proceeds have increased Council's financial health to unprecedented very high levels for at least the next four years, with working capital ratios rising above 150% working capital each year and annually increasing levels of unrestricted case surplus (from $23m to $45m).

This very positive financial position gives Council high affordability and capacity to invest in future and large capital projects and acquisitions. What this means, this gives Council a high propensity to approve mega projects,

[2] External restrictions include contingent provision for future Defined Superannuation Liability payouts

such as the Glen Waverley Library and Community Hub. We also understand that *project supporting* activities have commenced as early as 2012, such as amendment of the Planning Scheme to include 400 future car parks in Glen Waverley; preserving the deficit cost running Euvena Car-park for future reallocation of the Bogong Ave car parks, etc.

We conduct a sensitivity analysis of rate reduction impacts on working capital ratio and unrestricted cash surplus to test the viability of Council's capacity to lower rates for its community.

PROPOSED BUDGET SCENARIO 1 - Current Assets inflated to 6%

	2013/14	2014/15	2015/16	2065/17	2017/18
Rates & charges	$94,109	$100,796	$107,644	$114,950	
3% less rates & charges	$91,286	$97,772	$104,415	$111,502	
Current Assets	$51,679	$54,827	$57,144	$57,037	$67,582
Current Liabilities	$32,547	$32,892	$32,921	$32,948	$32,997
Working Capital Ratio	159%	167%	174%	173%	205%
Unrestricted cash	$23,434	$27,629	$28,312	$27,676	$44,546
Unrestricted cash/current liabilities	72%	84%	86%	84%	135%

Reduce Current Assets by 3% SCENARIO 2 - Rates rise of 3%

3% less current assets	$53,182	$55,430	$55,326	$65,555
Adjusted Working Capital Ratio	162%	168%	168%	199%
Adjusted unrestricted cash	$26,800	$27,463	$26,846	$43,210
Adjusted unrestricted cash/current liabilities	81%	83%	81%	131%

Reduce Current Assets by 6% SCENARIO 3 - No rates rise

6% less current assets	$51,537	$53,715	$53,615	$63,527
Adjusted Working Capital Ratio	157%	163%	163%	193%
Adjusted unrestricted cash	$25,971	$26,613	$26,015	$41,873
Adjusted unrestricted cash/current liabilities	79%	81%	79%	127%

Reduce Current Rates by 10% SCENARIO 3 - Rates drop by 4%

10% less current assets	$46,511	$49,344	$51,430	$51,333
Adjusted Working Capital Ratio	143%	150%	156%	156%
Adjusted unrestricted cash	$21,091	$24,866	$25,481	$24,908
Adjusted unrestricted cash/current liabilities	65%	76%	77%	76%

As a result of this analysis, we can confirm that this budget is not a "back to basics" budget. It is an excessively financially healthy budget that can afford rates reduction in addition to the proposed spending, while still meeting above 150% working capital ratio and preserving generous unrestricted cash reserves. The FinPro's Best Practice Guide for Vic City Council Budget Modelling 2014/15 recommends appropriately 140% working capital and close to 60% for unrestricted cash.

The conclusion is that capping rates is certainly very well within the capacity of Monash City. It can also accommodate no rate rise and even possibly consider dropping rates by 4% without incurring ill financial health.

This very viable rates reduction capacity does not include future "back to basics" budget optimisation effort that can further increase SRP efficiency, working capital ratio and unrestricted cash reserves.

Other Budget Quality Gaps

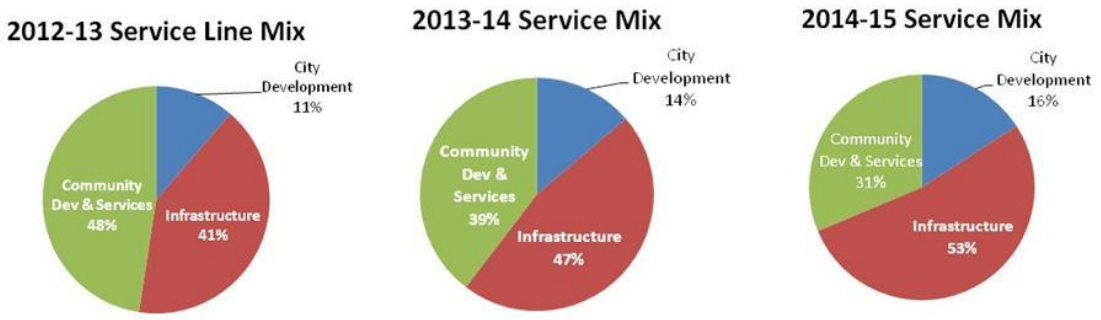
We noted that consolidating *best value* aka cost-benefit statements (supported with KPI measures) for new projects/initiatives are not clearly communicated. We also noted that there is no best value review for the Euvena carpark - this raises the question whether this asset is poorly managed or is deemed as a strategic asset for enabling some underlying major project not disclosed publically at this stage. When declaring clear best value statements for new projects/initiatives, not only will Council show compliance to the LG Act's Best Value requirements, but also show to the communicate the business case and benefit measures of new projects, as well as indicating projects' new capital or upgraded existing capital assets are strategic or just operating maintenance. This communication clarity needs address in the final budget version.

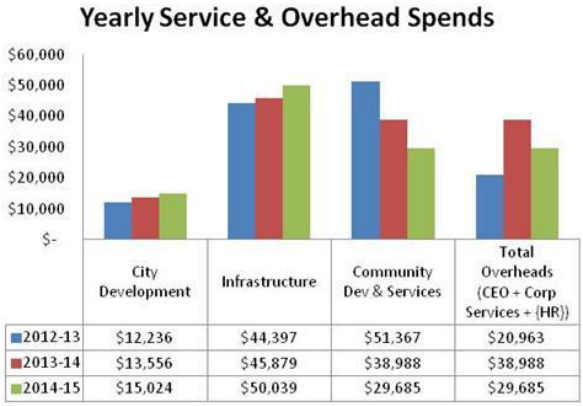
The draft Budget does not provide clarity of which assets are strategic, required for core service delivery or just have remain because of legacy practices. As Council has set the selling of aged care assets as a precedent for improving assets management, the Budget does not show this commitment extended to other deficit running assets, such as aquatic centres and car-park amenities. There is scope for assets management optimisation, which not only show commitment to a "back to basics" budget planning culture, but also further free up unnecessarily non core business expenditures for core and value adding services delivery.

Councillors' Collective Influence on Budget Performance for the Last 3 Years

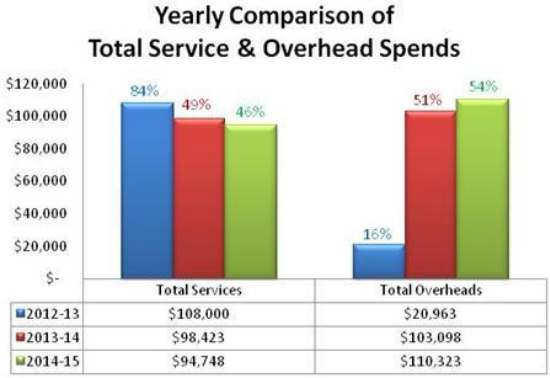
Since 2012, Councillors' collective decision influence on budget planning reveals that expenditure in community development services is incrementally reducing over the last 3 years, to allow for increases to:

- More infrastructure capital and city development spending;
- More overheads (CEO and corporate services) spending





	City Development	Infrastructure	Community Dev & Services	Total Overheads (CEO + Corp Services + (HR))
2012-13	$12,236	$44,397	$51,367	$20,963
2013-14	$13,556	$45,879	$38,988	$38,988
2014-15	$15,024	$50,039	$29,685	$29,685



	Total Services	Total Overheads
2012-13	$108,000	$20,963
2013-14	$98,423	$103,098
2014-15	$94,748	$110,323

This longitudinal trend reveals that Council is gearing up its cost shifting to incrementally allow for more future infrastructure and city planning spending, made more possible by the sale proceeds of its 2 aged care assets.

The Mayor's message - "By working smarter across all areas of Council activity, we have achieved $2.8 million of annual savings which we will now use to reinvest in Monash's physical infrastructure. I am very pleased that this extra spending has been achieved through driving internal efficiencies rather by simply hiking rates ..... as a result of these comprehensive service review, I am confident that there is no other council in Victoria which is more efficiently run than this one" - is simply not true.

Over the last 3 years, Councillors' collective influence on budget planning is fostering cost shifting. Cost shifting has objectives and is about cooking the books in budget gaming, and it does NOT represent operating efficiency.

Next Step: On behalf of the Monash community, MRI asks that Council to consider reducing rates from 6% to at least 3% or more for the 2014/15 year. From the financial evidence given, we know this meeting this request is very viable and it will have little impact on Council's unprecedented windfall and healthy financial position. We also ask that Council provide an official response (with supporting explanation details) to this community request.

SRP Analysis - Comparison of SRP Revenue, OPEX & CAPEX : Original (2013/14) Vs Revised (2014/15)

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Capital - new	$586	$6,080	$6,017	$6,378	$19,061
TOTAL CAPITAL	$24,370	$32,795	$32,454	$39,382	$129,001

ASSUMPTION 1: Sale of Assets Original budget estimates

STRATEGIC RESOURCE PLAN 2013/14 - 2016/17
Financial Plan

	2013/14	2014/15	2015/16	2016/17
		Forward Plan $'000		
Income				
Rates and Charges	93,986	100,425	107,251	114,534
Government Grants and Subsidies and Contributions	27,048	27,684	28,457	29,294
Fees and Charges, Interest and Other	34,224	35,786	37,437	39,366
Net Loan proceeds	0	0	0	0
Sale of Assets	1,390	1,432	1,489	1,534
Total Income	**156,648**	**165,327**	**174,633**	**184,728**
Expenditure				
Operating Expenses	130,208	133,763	141,152	146,570
Capital Expenditure - Base	24,127	24,655	25,463	26,266
- New	200	0	0	0
- Special	0	0	0	0
Asset Rationalisation	25	25	25	25
Transfers to/ (from) accumulated surplus*	2,088	6,884	7,993	11,867
Total Expenditure	**156,648**	**165,327**	**174,633**	**184,728**
Note: EOP Debt Level	15,000	15,000	15,000	15,000

Note: Depreciation not included in expenditure figures

* These figures include the operating outcome adjusted for transfers to and from reserves

ASSUMPTION 2: Sale of Assets Revised budget estimates

Budgeted Statement of Cash Flows
For the four years ending 30 June 2018

	Forecast Actual	Budget	Strategic Resource Plan Projections		
	2013/14 $ '000	2014/15 $ '000	2015/16 $ '000	2016/17 $ '000	2017/18 $ '000
Cash Flow from Operating Activities					
Receipts					
Rates & Charges	94,109	100,796	107,644	114,950	122,746
Statutory Fees & Fines	5,601	5,746	5,976	6,215	6,463
User Fees	26,236	23,370	24,296	25,259	26,260
Contributions - cash	2,185	2,401	2,696	2,806	2,421
Grants - Operating	20,519	17,996	18,446	19,326	19,799
Grants - Capital	2,827	7,134	1,686	1,714	1,744
Interest Revenue	1,242	1,510	1,904	1,884	2,028
Other Revenue	2,535	1,571	1,609	1,648	1,813
GST Reimbursement	7,343	8,368	8,544	8,937	8,711
	162,597	168,893	172,801	182,740	191,985
Payments					
Employee Costs	(69,532)	(64,699)	(67,112)	(69,655)	(72,294)
Materials, Services & Contracts	(60,243)	(65,603)	(66,105)	(68,747)	(70,477)
GST Paid to Government	(2,135)	(1,529)	(1,589)	(1,652)	(1,718)
Interest	(927)	(1,014)	(1,014)	(1,014)	(1,014)
	(132,837)	(132,844)	(135,821)	(141,068)	(145,503)
Net Cash provided by Operating Activities	29,761	36,048	36,980	41,671	46,482
Cash from Investing Activities					
Payment for Property, Plant & Equipment	(25,217)	(35,747)	(37,371)	(39,495)	(35,028)
Proceeds from Sale of Property, Plant & Equipment	16,031	1,090	2,954	2,987	1,191
Net Cash used in Investing Activities	(9,186)	(34,657)	(34,417)	(36,508)	(33,837)
Cash Flows from Financing Activities					
Repayment of Current Borrowings/Leases	(3,200)	(2,063)	(2,082)	(7,102)	(2,124)
Receipt from Redraw/New Borrowings	0	3,500	0	0	0
Net Cash used in Financing Activities	(3,200)	1,437	(2,082)	(7,102)	(2,124)
Change in Cash Held	17,375	2,828	481	(1,939)	10,521
Cash at the beginning of Period	31,128	48,503	51,332	51,813	49,874
Cash at the end of Period	48,503	51,332	51,813	49,874	60,395