[redacted]

23 March 2014

Local Government Team
Independent Pricing and Regulatory Tribunal
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Dear Madam/Sir,

I am a ratepayer of Armidale Dumaresq Council ('ADC') and wish to make a submission opposing ADC's recent application to IPART for a Special Rate Variation ('SRV') of 10 percent over seven years commencing in the 2014-15 financial year.

I will address each of the necessary criteria under their separate headings.

Criterion 1: Need for the variation

I do not believe that ADC has set out sufficient evidence to satisfy IPART nor ratepayers of the need for an SRV when other alternatives clearly exist.

Council refers in its 'Application Part B' to the *Review Today* Report which was published in 2009. That report gave many compelling reasons for various efficiency and productivity measures which council was encouraged to engage in in order to stave off unsustainability. It was also recommended that a smaller SRV be considered *at that time*.

ADC completely ignored the recommendations of that report until now. This is completely perplexing behaviour to ratepayers like myself.

ADC have had the opportunity to request an SRV previously but these have each been delayed for a variety of reasons which have been documented in the ADC submission. Clearly ADC has not been committed to an SRV and as a result the perceived need for a larger and larger injection of funds to the coffers has increased over time.

I believe that these constant delays and procrastinations in decision-making coupled with council's refusal to follow ordinary productivity measures, pursue state and Federal grants (as suggested by the *Review Today* Report) along with poor operational decisions generally is what has left it in this current predicament, seeking funds from ratepayers instead of looking back at its own operations to see where it could raise the funds through better operations.

I was most perplexed when at the Extraordinary Meeting, held on Thursday 20 February, Cr Jim Maher stated that if the proposed (amended) SRV of 10 percent over seven years was not passed by council then council may be forced to introduce productivity measures or ask the Federal Government for funding! I was stunned that this was not the normal practice of our council. Surely this should be the first port of call before going to rate-payers for an SRV?

Ratepayers should not be asked to make-up for council's failure to pursue normal productivity measures and operate in a sustainable fashion, especially when they have had professional advice which they have failed to follow.

I believe that ADC has failed to take heed of obvious opportunities to introduce productivity and efficiency measures which would go a long way to making the necessary savings to manage the shortfall in infrastructure maintenance without the need to seek a SRV. This could include a 10 percent reduction in staffing levels through natural attrition.

The *Armidale-Dumaresq Council: Financial Sustainability Assessment and Benchmarking Report* dated 21 March 2013 prepared by NSW Treasury Corporation, the Division of Local Government and the Independent Local Government Review Panel, indicates that ADC is in a reasonably good financial position with a moderate Financial Sustainability Rating and Neutral outlook. The Report found (at 5):

- Council appears to be in a Sustainable position indicated by their historical consolidated financial performance and existing LTFP
- Council has had sound liquidity (including investments) over the review period and this is forecast to continue over the next 10 years
- Council has a strong focus on the issue of Sustainability as indicated in their Community Strategic Plan and other IP&R documents
- Council's DSCR and Interest Cover Ratio are above benchmark for the entire forecast period which indicates Council should have the capacity to undertake the additional borrowings forecast for future capital works
- Council's future capital expenditure program needs to ensure that sufficient focus is placed on asset renewal and not just new assets
- Council's financial flexibility as indicated by the Operating Ratio and the Own Source Operating Revenue Ratio was sound and above the group average
- Council's debt servicing capacity was sound but below the group average
- Council's performance in terms of asset maintenance and asset renewal was generally on par with the peer group.

ADC's revenue, excluding capital grants and contributions, increased by 16.3% to $44.6m over the four year period to 2012. When compounded this equates to a 5.2% p.a. increase. Interest and investment revenue has grown from zero in 2009 to $2.2m in 2012. 'Council expects to recoup a total of $4.1m of $10.4m (face value) worth of existing and terminated CDO exposures, subject to ongoing UK and US litigation finding in favour of the Council' (p13).

With the new landfill issue reaching a conclusion very soon, this project should not affect Council's financial standing. ADC report that they will use higher user and gate charges to fund the repayment of that loan (p16). The document reports that from 2014 on, borrowing costs should decline and the Operating Ratio should begin to improve (p18). The document also states that ADC were considering applying for a 9% SRV in 2014 (p23). This is a far cry from the 10% over 7 years that ADC is now applying for. Ratepayers find it hard to understand why there should be such a dramatic difference.

'Council have stated that they recognise that some of the Community Strategic Plan initiatives are unrealistic without an SRV and this is now under discussion within Council and through community consultation' (p25). It is unclear to ratepayers which of the stated initiatives are unrealistic without an SRV. Perhaps they may also be unnecessary?

The document concludes that 'Council's Operating Ratio outperformed the benchmark in three of the past four years and was consistently above the group average. Over the medium term, Council's ratio is forecast to remain above the benchmark and the peer group' (p27). T Corp's conclusions were that ADC was reasonably well managed over the review period (p.31) and among its recommendations, none included an SRV. In my opinion, council needs to pursue the recommendations set out by TCorp before coming to ratepayers for such a large SRV.

The Asset Maintenance Review was conducted across NSW so every Council has been affected by an increase in costs. Not all Councils have applied for an SRV and ADC has applied for a particularly high percentage overall. If other councils can manage their assets, ratepayers are wondering why ADC needs such a high SRV. Clearly it is unnecessary.

Criterion 2: Community awareness and engagement

The so-called 'community awareness and engagement' program relating to the SRV has been rushed and was totally inadequate.

Chief among complaints of ratepayers is the fact that ratepayers have only been informed of the impact of the proposed SRV in the very first year and not over the full seven years. I understand that councils are required to disclose the full cumulative impact on rates if the special variation is for two years or more. This has not been done by ADC. In the letters sent to ratepayers progressively from 24 January 2014 signed by then General Manager Shane Burns, the final paragraph of the first page of that letter stated:

The Special Rate Variation is for Council to increase its total permissible income by 20% from the collection of rates. The specific impact of the rate variation on your individual rates account is dependant upon a number of factors, the main one being your land valuation. New Land Valuations are being issued by the Valuer General for the 2014-2015 financial year however based on the current information available to Council the estimated change in your rates ***in the first year*** *is expected to be approximately $----.00 if the special rate variation increase is approved.*

There has been much misinformation in the community, not dispelled, sadly at any of the (very few) community forums which have been conducted, as to how the proposed SRV will pan out over the seven years. Is it cumulative? Does it compound? Will the effect be 70% in total or more? No one knows and no one can tell us. The communication between ADC and ratepayers has been appalling. One recent letter to the editor of the *Armidale Express* (Friday 7 March 2014, attached) tells readers that the effect of the rate increase will indeed be 95 percent cumulatively. This just goes to show how confused ratepayers are about the cumulative effect of the rate increase. I have attached a number of Letters to the Editor and Press Articles from the local Armidale and Tamworth press to show the confusion over this matter and hotch-potch manner in which consultations have been carried out, not to mention the community anger over the issue in general.

I have read ADC's Application Part A which is an Excel Spreadsheet – even this document fails to set out a full appraisal of the seven year impact of the proposed SRV on ratepayers. Does ADC know what the impact on ratepayers will be over the seven year life of the proposal? They most certainly have not communicated this to ratepayers.

ADC claims to have widely consulted, however, it has only consulted effectively with a very small sector of the community and each of the consultations have been specially selected, invitation only events which excluded the bulk of the rate-paying public, apart from the one 'Town Hall' meeting which was held on a Saturday on the same day as a major event ('Flix in the Stix') and the time was changed at the last minute, with little communication of the time change, in order to accommodate the event. An earlier public meeting had apparently been called but not advertised. I understand that only one person turned up to that event.

When Council relented to residents' call for a public meeting it was set down for Saturday February 8 2014. Council completely underestimated the public interest in this meeting and attempted to run the 'meeting' as a 'workshop' where they planned for attendees to break off into ten groups each sitting around a table with a Councillor and member of council staff. They originally scheduled this event for 5pm then changed the time a few days beforehand to 2.00pm so as not to conflict with an event that evening (as mentioned above). The Town Hall was full to overflowing with 350+ people turning up and not enough chairs. Council staff attempted to turn people away at the doors but fortunately people agreed to stand and were eventually allowed in. Many people stood out in the foyer and in the aisles throughout the meeting. Council had been warned beforehand that there would be a huge crowd but they refused to listen. They had hired an external consultant to lecture to the meeting which made people even more agitated, especially since he admitted during his presentation that he had no knowledge of local issues. It became a very heated meeting. The crowd refused to split up into the groups which would have been logistically impossible anyway with the numbers in attendance (35 people around each table would have been totally unworkable!). Finally the mayor faced the crowd and managed questions. Residents went away feeling that the meeting was useless and of no impact as it had no effect on council's application since it was within the 28 day consultation period and council couldn't change the information that they had put in their notification letter to residents.

The survey which was distributed at the 8 February 2014 meeting was confusing and did not ask ratepayers the relevant question about which SRV option they would support, if any. Anecdotal discussions with attendees indicated that residents did not understand the questions: "Q7 Would you be prepared to continue the current rate variation to maintain current service levels?" or "Q8 Would you be prepared to have rates reduced by the amount of the current rate variation and have service levels reduced accordingly?" As there is no current SRV in place these questions were quite perplexing.   The comments submitted by residents at the end of the survey are very telling as to their disappointment with council services, efficiency and productivity levels and the manner in which this exercise was carried out.   This survey was not the same as the one which has previously appeared on the council website which residents had previously filled out over the Christmas period. In the December 2013 *Survey Monkey* study, residents were specifically asked:

> **"Q6** Which of the following statements MOST closely aligns with your views on the proposed special rate variation?
>
> I agree that the special rate variation is necessary and support the rate variation being proposed of 20% for 7 years …. **10.40%**
>
> I accept that a special rate variation is necessary but believe the proposed rate increase is too high and should be set at 10% for the first year and an additional 10% thereafter … **17.11%**
>
> I don't accept either of these proposed variations … **69.80%**
>
> Unsure …. **2.68%**

It is thus clear why council chose to delete this question from its subsequent survey at the 8 February 2014 meeting.

The personal comments attached to this particular survey are also very telling and cannot be ignored – ranging from demands for council to live within their means, reduce wastage and bureaucracy, to fears about the parlous state of retail businesses in the town, and concerns that rural ratepayers are subsidising the town at a time when they can least afford it.

Various Local Area Committee meetings have been conducted at times, as set out in the ADC application. However, each conveyed very mixed messages about the SRV and consisted of only tiny groups of rural residents. For instance, when the then General Manager addressed the Dumaresq Local Area Committee at the end of October, the meeting was given two options only and voted accordingly. Council has used these results in their evidence for community support but if there had been a third option (of no SRV), the result would obviously have been quite different. Similar reports have come in from other Local Area Committees. At these meetings the GM stressed that rural road rehabilitation was a priority which from the figures presented by council is clearly not the case.

The consultation period occurred largely over the Christmas period when many residents leave town for their annual holiday. The Jetty Research telephone survey was conducted during from 25 to 28 November 2013 and some ratepayers have reported not being allowed to participate because of age. The Jetty Research survey also illustrated significant confusion among respondents. Jetty Research's Final Report (11 December 2013) states that only 39% of respondents were aware that Council was applying for a rate variation, a mere 28% claimed to have read about the special rate variation in the media and a low 14%-19% were aware of priorities to be funded by the SRV. 41% didn't accept any of the SRV options and only 10% agreed with Council's preferred option of 20%.

Finally, and most importantly, I note that residents do not trust council to adhere to the 10 percent SRV over seven years as this will not be sufficient to meet its projected needs. Residents expect council to come back and request either an increase in the SRV in year 2 or a continuation after the seven years.

I note that in the ADC document ***Asset Management Strategy and Asset Management Plan Summary*** Version 1.01 dated 23 February 2014 the following comments are made on page 6 (my emphasis added):

> **Funding scenario 2** (SRV 2)
>
> Council's first rate variation option is the introduction of a 10% Council's first rate variation increase maintained for 7 years before returning to the rate peg. This variation is not inclusive of the normal annual rate pegging variations.
>
> With this additional level funding **Council anticipates that it will not be able to maintain current levels of service over the next 10 years**. Future improvements to infrastructure will be **subject to separate Special Variations and additional community consultation**. The details of the renewal gap for assets is shown in each asset management plans for each asset category.
>
> Council has adopted this scenario.

On this basis it would appear that the community's fears are *well founded*. Thus the community has been duped into believing that that the 10 percent SRV over seven years is all that is being sought when clearly this is NOT the case and ADC WILL, by its own admission, be seeking further increases or extensions to the SRV which it currently has on the table. This is most unacceptable to a community which is already hurting so much.

Criterion 3: Impact on ratepayers

The impact on ratepayers is crushing, especially rural ratepayers. Armidale is in the grip of a drought. At the Town Hall meeting which was held on Saturday 8 February, and again at a Meeting of the Armidale Rate Payer's Association at the Armidale Showground on Monday 24 February 2014, story after story was told of rural ratepayers who had received notices from council of proposed increases which would be several thousand dollars each year for some land-holders. Some said they would have to take out loans or sell land or stock to pay their rates – all at a time where they already had to sell stock to survive the drought. This proposed rate increase has come at the worst possible time for our region and council has not adequately thought through the impact which it will have on those who are doing it tough … those who are perhaps asset rich but cash poor but are not in a position to easily liquefy those assets to pay their rates.

Rural ratepayers get very little for their rates other than their road network. Most are gravel roads which ADC inherited from the former Dumaresq Shire Council. Since amalgamation many of these roads have been allowed to fall into disrepair, becoming unsafe. This is because ADC has had a policy of spending a minimal amount on rural road maintenance. The Premier and Cabinet document 'Comparative Information on NSW Local

Government' (measuring Local Government Performance 2011/12) shows that ADC spent only 12% of its service expenditure on roads, bridges and footpaths. The Treasury document reinforces this by stating that Council's Building and Infrastructure Asset Renewals Ratio was below the benchmark of 1.0x in all years reported, which indicates Council is spending at levels below the required amount on asset renewal. In comparison they spent 22% on Governance and Administration. Compare this with other rural Councils which spent far more on roads, bridges and footpaths - Bathurst 17%, Gunnedah 21%, Guyra 23%, Inverell 25%.

The SRV application does not really address the problem. Only 14.5% of the SRV will be spent on rural road rehabilitation and resealing. With bridges the ratio climbs to 24.4%. Yet Council justified the SRV to residents by stating that much of it will be spent on rural roads. *None* of the SRV detail was provided to ratepayers until after ADC's application went to IPART.

IPART's guidelines state that 'the impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. Council's IP&R process should also establish that the proposed rate increases are affordable having regard to the local community's capacity to pay'.

Clearly Council has not taken into account the capacity of rural landowners to pay the SRV during this difficult period.

Criterion 4: Delivery Program and Long Term Financial Plan assumptions

I have read the grand visions in the *Community Strategic Delivery Program 2014-2018* and I just shake my head. I have lived in Armidale for over ten years now and have been reading similar documents each year all of which continually promise to expand Armidale, increase industry in order to bring in jobs which will grow the population of the town. However it has all come to nought. In the ten years that I have lived in Armidale the population has remained static and the same old promises continue to be made. I have seen nothing which convinces me that our council has neither the vision nor the skill to carry out the promises which it makes in these worthless documents which are costly to produce and then ultimately shelved.

Take the Percy Allen *Review Today* Report which was published in 2009 – a wonderful report full of recommendations to help ADC become sustainable and viable into the future. Shelved. Un-actioned.

Criterion 5: Productivity improvements and cost containment strategies

In light of ADC's inertia after receiving the 2009 'Review Today' Report: *Armidale Dumaresq Council: Achieving Sustainable Infrastructure, Services and Finances* (25 August 2009), I believe that there is no evidence of productivity improvements and cost savings made by the council. They have made no effort to implement improvements to operations such as re-prioritising various services and levels of service provision, re-organising/reducing labour and capital inputs, and reviewing organisational structures or services to be delivered. They make very little attempt to apply for grants. Despite many calls from the public, former

General Manager Shane Burns steadfastly refused to employ a specialist grants officer who could seek out and apply for grants from the Federal and State governments or from the corporate sector.

If council had followed the 'Responsible Scenario' suggested in the Review Today Report, ratepayers would have faced more acceptable increases of:

- Rates revenue to increase by 3.3% (or 2.0% per property) per annum above CPI inflation;
- Fees and charges to rise by 6.4% (or 5.2% per property) per annum above CPI inflation; and
- Service spending limited to an increase by 2.2% (or 1.0% per property) over CPI inflation each year.

The Responsible spending scenario aimed to achieve a compromise between fiscal, revenue, infrastructure and service responsibilities to the community. This scenario would produce the following results between 2008/00 and 2018/19;

- The net financial liabilities ratio would fall from 50% to 46% (well within the 40% to 80% range recommended by the Local Government Inquiry).
- The operating account would strengthen from a deficit of 1.6% to a surplus of 2.5% (the floor of the LGI desirable range)
- The infrastructure backlog ratio would shrink from 2.7% to 0.5%.

Sadly, the 'Review Today' Report recommendations have all been largely ignored by ADC.

ADC needs to look very loosely at its administration costs. The amount raised by rates and other charges is $20 million yet their payroll (including benefits) is approaching $18 million. This is unsustainable. Staffing numbers at ADC have significantly risen since before the failed Strategic Alliance. Current staffing numbers are too high in comparison to rates income and should be reduced via a natural attrition figure of around 10 percent which could see annual savings in the order of $1.69 million.

Council needs to follow some of the recommendations set out in the 'Review Today' report and introduce economies and efficiencies in services and non-core operations. Council has placed undue heavy reliance on consultants while it has highly qualified and highly paid planning and engineering staff who are capable of carrying out these tasks. There is too much outsourcing. There is too much waste.

Modest rate increases, such as those suggested in the 'Review Today' Report, during better than average years in the rural sector would be far more acceptable to ratepayers than sudden large rises such as in the current ADC application. These could then be used to cover the infrastructure backlog of $9.1m identified by council in its Fact Sheet on the SRV. With a sound financial policy Council will also find that staff morale will improve leading to a lift in productivity. Poor policies and lack of adequate consultation usually result in conflict with ratepayers and are counter-productive for everyone.

Armidale like many regional centres is suffering from a very slow rate of population growth. Council needs to focus more on industrial development in order to grow jobs and attract people in all sectors of the economy. For too long we have put all our eggs in the one 'education' basket to the detriment of our town. For many years the council has promised to develop the large tract of land which it owns near the Airport for industrial development, however, year after year this has been delayed. The *Evocities* project showed that jobs for both partners in a family are essential in attracting tree-changers unless they are retirees. Council must continue to pursue attracting businesses to the city via incentives and the same 'can-do' attitude which is shown by our competitors in neighbouring towns. This is an essential task and deserves the highest priority. With a solid business base the town and district can and will prosper.

Sincerely,

[redacted]