IPART Independent Pricing and Regulatory Tribunal | NSW

Central Coast Council

Special Variation Application for 2022-23

Final Report

May 2022

Local Government

Tribunal Members

The Tribunal members for this review are:

Carmel Donnelly PSM, Chair
Deborah Cope
Sandra Gamble

Enquiries regarding this document should be directed to a staff member:

Sheridan Rapmund	(02) 9290 8430
Albert Jean	(02) 9290 8413

The Independent Pricing and Regulatory Tribunal (IPART)

Further information on IPART can be obtained from IPART's website.

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Contents

1 Executive summary

Central Coast Council (the council) has applied to IPART to increase its general income through a temporary special variation (SV) of 15.55% (inclusive of the rate peg) for a 7-year period from 2024-25 until 2030-31.[1]

Under the proposed special variation, the council would extend its current 3-year temporary 2021-22 SV determination for a further 7 years. The increase would continue to be applied across all rating categories.[2]

The council has sought the special variation for the following reasons:

- to repay the $150 million in emergency loans
- to secure the council's ongoing financial sustainability.[3]

In 2021-22, the council had applied for a permanent 15% SV. Following our assessment of that application, IPART granted a temporary 15% SV for 3 years.[4] In our report, we stated that during this 3-year period, the council would be able to implement its proposed business recovery plan, consult with its ratepayers regarding appropriate service levels, and if required, apply for a permanent SV.

1.1 IPART's decision

This is a difficult decision because of the competing pressures on the Central Coast community. The people of the Central Coast are understandably upset that the council has not effectively managed its finances in the past. IPART considered carefully feedback from residents who said they were not confident that the council can be trusted to deliver in future. But it is also clear that services are deteriorating on the Central Coast and going forward, the council will need to have sufficient revenue to fix its problems and take the community forward. As part of our consideration of this SV, we have looked at it from the perspective of what a newly elected council will need to do the job the community expects.

We have approved the proposed special variation in full. Our decision means the council will be able to extend its temporary 15% 2021-22 SV over the period 2024-25 to 2030-31. The council, in consultation with the community, will be able to decide whether it needs to increase rates by the full amount.

The approved special variation is temporary, which means the council can retain the increase above the rate peg in its rating base for an additional 7 years, but it will then be removed. This approval does not allow a further increase to rates; rather it allows the increase approved in 2021-22 to extend for a longer period.

Our decision means the council will receive up to an additional $183 million in income (above the rate peg) over the 7 years for the purposes of the SV. The SV limits the maximum income that the council can levy from ratepayers. This will give the council a more sustainable financial base to better determine and deliver the services and infrastructure at the level the community wants.

The council will still need to deliver on its proposed productivity improvements, even with the SV. Increasing rates, on its own, will not be sufficient to achieve long-term financial stability.

We found that the council's average rates (including the SV) are lower compared to similar and neighbouring councils. Keeping rates low risks further service reductions and infrastructure backlogs, which may become more expensive to fix in the future.

We have included the following conditions on our SV approval:

1. That the council use the additional funds for the purpose identified in its application
2. That the council report in its annual report any variance from its proposed SV expenditure.

The council will raise up to an additional $253 million over the 10-year period, from 2021-22 to 2030-31.

1.2 Impact of approved special variation on ratepayers

Our decision means that ratepayers will not benefit from the reduction in rates from the expiration of the SV in 2024-25 until 2031-32. We note that this may have a significant impact on some ratepayers, particularly when considered in combination with other factors such as the economic impacts of COVID-19 and IPART's draft decision to allow the council to increase the prices charged by its water business.

We have had to balance this impact on ratepayers with the impact of potentially higher costs and poor services in the future if the council's financial stability is not restored.

1.3 IPART's assessment of the council's application

To make our decision, we assessed the council's proposed special variation against the 6 criteria set by the Office of Local Government (OLG) in the *Guidelines for the preparation of an application for a special variation to general income* (OLG Special Variation Guidelines).[5] We found that its proposal meets these criteria. Our assessment against each criterion is summarised below.

Criteria	Grading	Assessment
01	Fully demonstrated	**Financial need** The council has demonstrated a financial need for the SV to meet its loan repayments and maintain service levels. The council's IP&R documentation details the SV proposal and considers funding alternatives.
02	Largely demonstrated	**Community awareness** The council has adequately informed its community about the need for, and the size of the special variation.

Criteria	Grading	Assessment
03	Fully demonstrated	**Reasonable impact on ratepayers** This SV means that ratepayers continue to pay the current special variation increase for a longer period. The council's rates with the SV are lower than neighbouring and similar councils' rates.
04	Fully demonstrated	**Integrated Planning and Reporting documentation** The council has updated all relevant IP&R documents and has exhibited core documents multiple times in 2021.
05	Largely demonstrated	**Productivity improvement and cost containment** The council has integrated its productivity improvements and cost savings into its Long-Term Financial Plan. The council has made adequate progress towards achieving its intended productivity improvements, given the limited timeframe.
06		**Other matters IPART considers relevant** IPART approved a 3-year temporary SV last year. We indicated that during this 3-year period, the council would be able to implement its proposed business recovery plan and consult with its ratepayers regarding appropriate service levels. We found that the council is continuing to implement its business recovery plan and ratepayers have provided feedback to the council regarding the desired levels of service.

1.4 Stakeholders' feedback

In making our assessment, we considered stakeholder feedback on the proposed special variation. Stakeholders raised the following concerns:

- mismanagement and accountability
- affordability
- issues of consultation and transparency
- lack of confidence in the council's ability to deliver
- poor general service levels and infrastructure.

We consider stakeholder feedback in more detail in Chapter 3 and throughout this report.

The rest of this report explains how and why we reached our decision on Central Coast Council's proposed special variation in more detail.

2 The council's special variation application

The council applied to extend its 15% temporary 2021-22 SV determination for a further 7 years from 2024-25 to 2030-31.

2.1 The council's rationale for the special variation

The council explained that it needs to maintain its SV to its general income beyond the current three-year period for an additional seven years to:[6]

- meet the contractual obligations with the two commercial banks to repay the outstanding portion of the $150 million in Emergency Loans
- maintain services to at least current service levels as supported by the community of the Central Coast.

2.2 Impact of the special variation on the council's general income

The council has estimated that the proposed SV would result in a cumulative increase in the council's permissible general income (PGI) of $183 million above what the assumed rate peg would deliver over 7 years.

Combined with the existing 2021-22 temporary SV, the council will recover a total of $253 million over the 10-year period, 2021-22 to 2030-31.

2.3 Impact of the special variation on the council's key financial indicators

The council explained how the proposed SV would impact its key financial indicators over the 10-year planning period. In particular, maintaining the income from the 15% SV (including rate peg) for a further seven years will result in an operating surplus (excluding capital grants and contributions) in the General Fund. This surplus will be used to meet the principal repayments of the $150 million Emergency Loans.

The operating surplus generated in each financial year from 2021-22 in the General Fund enables the council to achieve the OLG benchmark for the Operating Performance Ratio.

Table 2.1 shows the council's financial performance indicators with the additional income from the proposed SV.

Table 2.1 Council's key financial indicators with proposed special variation

Ratio	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Operating performance	2.2%	1.9%	2.7%	3.0%	3.2%	2.7%	3.6%
Own source revenue	80.3%	80.5%	80.7%	80.9%	81.1%	81.3%	81.5%
Building & asset renewal	102.7%	104.9%	105.0%	105.9%	106.7%	107.5%	108.3%
Infrastructure backlog	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.8%
Asset maintenance	66.1%	66.1%	66.1%	66.1%	66.1%	66.1%	66.1%
Debt service	3.2%	11.7%	3.1%	3.0%	9.0%	3.0%	6.7%
Rates and annual charges income	216,497,179	221,944,012	227,526,609	233,248,359	239,112,731	245,123,282	251,283,660

Source: Central Coast Council, Application Part A, Worksheets 8 and 9.

2.4 Impact of the special variation on ratepayers

The council proposed no changes in the rates currently paid by ratepayers as a result of this special variation approval in 2024-25, other than any increase attributable to the rate peg. If the SV was not approved, ratepayers would experience a 13% reduction in rates in 2024-25. The reduction in rates would not be by the full 15% of the SV as the council can retain the rate peg component which is 2%.

The council has also proposed that it will reduce its services and infrastructure provision if the SV is not approved, which would impact ratepayers in other ways such as slower response times from the council or less frequent road maintenance. If the SV is approved, then ratepayers will not benefit from the 13% reduction in rates from the expiration of the temporary SV until 2031-32, and the council will be better able to maintain its existing level of services and infrastructure.

2.5 Affordability and capacity to pay

The council assessed the affordability of the proposed SV. The council's analysis of the community's capacity to maintain paying an increase in rates beyond 2023-24 recognises that while the community will face financial challenges, the council must consider the consequences of not addressing the financial situation for future generations. In assessing these consequences the council has considered the public safety risks, social and economic impacts, and impact on essential or valued infrastructure.

The council relied on the Socio-Economic Review undertaken by I.D (Informed Decisions) to aid its analysis of the community's capacity to maintain paying an increase in rates beyond 2023-24[7]. The report provides quantitative information on residents and households on the Central Coast and highlights areas within the region that are more disadvantaged than others to assist the council to identify trends and inform community needs and levels of impact across different wards. It investigated socio-economic disadvantage, employment, income and expenditure, housing tenure and costs, and the impact of COVID-19 in the local government area.

2.5.1 The council has a hardship policy

The council has a hardship policy in place to assist ratepayers experiencing financial hardship. The council's policy allows residents to enter different types of payment plans. The council also offers all eligible pensioner ratepayers a discount of up to $250.[8]

2.6 The council's resolution to apply for a special variation

The council resolved to apply for the proposed special variation on 3 February 2022[9].

2.7 Request for further information from the council

Following our preliminary assessment of the council's application, we issued an information request seeking further evidence of the council's:

- compliance with previous SV conditions
- commercial loan conditions and contractual obligations
- productivity and efficiency improvements
- analysis of alternative revenue streams, including community preferences in relation to further asset sales.

In response to our request for information, the council provided:

- a copy of its draft annual report for 2022 which demonstrated its compliance with conditions of previous SVs (discussed in criterion 6)
- correspondence with its commercial banks which provided some contextual evidence to the council's current commercial relationship with its lenders (discussed in criterion 1)
- a costed list of implemented and planned productivity improvements. Analysis of the proposed projects showed that the proposed efficiency dividend is likely to be achievable in the medium term (discussed in criterion 5)
- some evidence of community preferences against further asset sales (discussed in criterion 1).

3 Stakeholders' submissions to IPART

We expect the council to be responsible for engaging with its community so that ratepayers are fully aware of any proposed special variation and the full impact on them. This is one of the criteria we use to assess the council's application (see section 3.2).

However, as part of our process we also accept written submissions directly from stakeholders on the council's proposed special variation.

3.1 Summary of submissions we received

We received 316 submissions during the submission period from 15 February 2022 to 7 March 2022.

Key issues and views raised in these submissions were:

- Mismanagement and accountability
- Affordability
- Issues of consultation and transparency
- Lack of confidence in the council's ability to deliver
- Concerns about poor general service levels and infrastructure

Issues raised in submissions to IPART were mostly different to those raised in the council's consultation. Concerns around mismanagement and accountability, affordability and a lack of confidence in the council's ability to deliver were strongly voiced in IPART submissions. Submissions received directly by the council during its consultation were largely about capital works.

3.2 Key concerns raised in submissions and our response

We considered all the concerns and issues raised in these submissions, and our response to the most common ones are outlined below.

- **Mismanagement and accountability of the council:**
  - The council publishes monthly financial reports that provide the community information on the financial performance across the organisation. IPART can impose conditions on councils that are allowed to increase rates revenue through approval of an SV. In approving this SV, IPART has imposed a condition that Central Coast Council must publicly report how the SV money is spent, so that it is held accountable for spending the extra revenue in accordance with the SV application.
  - Once council elections are held, decisions on the level of rates and how money is spent will be made by the new elected council. The councillors elected by the people of the Central Coast will be accountable to their constituents.

- **Affordability of an increase in rates:** We note that after the proposed SV, the council's average rates are below those of similar and neighbouring councils. Council has a financial need to collect rates to provide the services and infrastructure desired by the community.

  We recognise that some ratepayers may experience affordability challenges, and note that the council has hardship policies in place for these circumstances.
- **Issues of consultation and transparency:** The council in its application has made comparisons with neighbouring and other councils. The council has presented its financial need and has followed a process of considering alternatives to the SV. The council has made the community aware of the SV application. This meets the required benchmark set out in the OLG Guidelines, that the community is aware of the size and reason for the SV. We agree, however, that the council could improve the way it communicates and presents information to the community. A priority for the council should be to improve its approach to community engagement.
- **Lack of confidence in the council's ability to deliver:** The council has provided information on past and future productivity and cost containment measures. We consider that future productivity and cost containment strategies proposed by council are adequate and that the council has made reasonable progress in actioning its plans in the timeframe available.

  As noted above, it is a condition of the SV that the council report each year to demonstrate that the money has been used for the intended purpose.
- **Concerns about poor general service levels and infrastructure:** We acknowledge that stakeholders are concerned with the conditions of council infrastructure and council service levels. The council has presented financial need for an SV to maintain existing service levels and address its declining asset base.

We considered all stakeholder submissions and all information received from the council to make our final decision on the special variation application.

3.3 Specific concerns raised in submissions

Mismanagement and accountability (187 submissions)

Stakeholders consider the council's previous and current performance poor and are angry at the perceived financial mismanagement of the council generally. This includes the uncertainty around the loss of significant council funds, as well as overall governance. Submissions consider that the council's proposed rate increases are a result of poor financial management and oversight.

Some ratepayers believe that elected officials have not been operating with the best interests of ratepayers in mind, and do not believe the council has kept them informed as to the need for greater expenditure, or that the community's input has informed the council's strategic priorities. Trust between some ratepayers and the council has deteriorated.

Stakeholders want the council held to account going forward.

Affordability (133 submissions)

Stakeholders raised concerns about the impacts of the council's proposed SV increase on affordability and financial hardship. Stakeholders have indicated worsening financial circumstances brought about by the COVID-19 pandemic and our previous SV determination.

Issues of consultation and transparency (63 submissions)

Some ratepayers expressed concern that the council has not conducted effective consultation and has not transparently communicated with the community. Stakeholders indicated that the council's consultation, in the form of a survey, did not allow the community to voice their concerns. Some stakeholders questioned the integrity of the consultation.

Submissions expressed that the lack of transparency has led to concerns about whether the council operates according to the best interests of ratepayers.

Lack of confidence in the council's ability to deliver (85 submissions)

Stakeholders expressed concerns about the council's proposed increases in expenditure and questioned whether the additional funds would lead to improved services for customers, given the council's financial issues.

Some stakeholders recognised the need for greater investment in infrastructure but do not trust the council to utilise the funds for its intended purpose.

Concerns about poor general service levels and infrastructure (84 submissions)

Stakeholders raised concerns over the council's poor general service levels and infrastructure, particularly the condition of council roads, gutters and footpaths. Some ratepayers believe that investment in infrastructure is required but fear the additional revenue from the SV will not be used for its intended purpose.

Some ratepayers also argued that, to improve the existing services and infrastructure, the council require a change in management or operating strategy to more effectively address service and infrastructure needs.

Delta Coal believes the council did not transparently consult on its mining rate

Delta Coal was consulted on a 15% increase in 2021, however the council's decision to raise the ad valorem rate resulted in a real increase of 214%. This did not appear in the council's consultation materials. Mining rates are applied to only 5 properties[10]. Delta Coal has asked us to review its rates, however it is the council's responsibility to distribute the rating burden between ratepayers. IPART only has the power to determine changes to the council's total general income.

A priority for the council should be to improve its approach to engagement with all ratepayers including the business and mining sectors.

4 IPART's assessment of the council's application

We assessed the council's application for a special variation against the 6 criteria set out in the OLG Guidelines (and outlined in Appendix A).

We found that the council demonstrated that it adequately meets the OLG criteria for its proposed special variation, because the council has:

- demonstrated a financial need for the special variation to pay back the emergency loans and to maintain the existing levels of service
- undertaken adequate community consultation to inform ratepayers of the need and purpose of the SV
- assessed the impact of the SV on ratepayers and shown it is reasonable
- exhibited its IP&R documentation appropriately
- implemented part of its Financial Recovery Plan and included further productivity and cost savings in its Long-term Financial Plan.

Our detailed assessment and the reasons for our decision are set out below.

4.1 Criterion 1: Financial need for the proposed special variation

This criterion examines the council's financial need for the proposed SV. The council is required to clearly articulate and identify the need for, and purpose of, the proposed SV in its Long-Term Financial Plan, Delivery Program and Asset Management Plan (where appropriate).

We use information provided by the council in its application to assess the impact of the proposed SV on the council's financial performance and financial position, namely the council's forecast operating performance and net cash (debt).

We also consider whether the council has canvassed alternative funding sources such as increasing own source revenue, reductions to services, and asset sales.

Appendix A provides more detail on the assessment criteria.

4.1.1 What stakeholders told us

In their submissions to us, stakeholders raised these concerns:

- investment in infrastructure is required but there are concerns the additional revenue from the SV will not be used for its intended purpose
- rate increases result from poor financial management and oversight
- whether the council needed the rate increase at all
- additional income could come from alternate funding sources
- how the council will be held to account going forward
- the council's efforts to kept ratepayers informed as to the need for greater expenditure.

We have considered these concerns as part of our assessment of this criterion.

4.1.2 IPART's assessment

We found that the council fully demonstrated that it met this criterion:

- The council's stated need is clearly articulated and identified in its IP&R planning documents.
- The council has demonstrated that under the current loans structure, its service levels will decline without additional revenues if its current temporary SV expires after 3 years
- The council provided some evidence that it explored and consulted on funding alternatives.

To reach this finding, we considered the council's forecasts of financial performance over the next 10 years. The council currently has a temporary SV of 15% which is set to expire in 2024-2025. Once this temporary SV expires, and without the SV it has now applied for, the council forecasts an average annual operating loss of $14.1 million over 2025 to 2032[11].

In making this assessment we considered all submissions. We understand that approving this special variation may have a significant impact on some ratepayers, particularly when considered in combination with other factors such as the economic impacts of COVID-19 and proposed increases in the council's water, wastewater and stormwater prices. However, the council requires a more sustainable financial base to deliver the services and infrastructure the community needs.

The council is responsible for ensuring that long-term financial stability is achieved and maintained. This SV will provide the council access to sufficient revenue to make this happen. In the future, elected councillors will decide what level of services will be required to meet the community's expectations.

In response to concerns raised in submissions, we will require the council, as a condition of this approval, to report on the program of expenditure that was funded by the additional income from the SV (see section 4.6.3.).

The council will be required to deliver on its proposed productivity improvements, even with the SV, to achieve its objective of achieving long term financial sustainability.

We assessed the council's Operating Performance Ratio (OPR) under the Baseline Scenario (i.e. with no special variation) and under the Proposed SV Scenario, based on these forecasts. We found that over the 7 years:[12]

- Under the Baseline Scenario, the council's average OPR would be -3.6%. It would reach -3% in 2030-31, which is below the OLG benchmark of greater than or equal to zero.
- Under the Proposed SV Scenario, the council's average OPR would be 2.8%. It would reach 3.6% in 2030-31, which is in line with the OLG benchmark of greater than or equal to zero.
- We also considered the council's net cash (debt) to income ratio. Under the Proposed SV Scenario, the council would improve its net cash (debt) to income ratio from 24.5% (2021-22) to 95.5% by 2031-32. Without the SV, the council's position would stagnate at just over 50%.

The council is proposing to use 41% of the additional income from the SV to service its existing loans, and the remainder on maintaining service levels. Without this income, the council has said it would have to reduce or cease some council services to maintain its loan repayments.

4.1.3 The council's rationale for the proposed special variation

The council explained its rationale for the proposed special variation in its application and IP&R documents.[13] It stated that it needs the additional income to:[14]

- generate the necessary annual surplus required to meet the annual principal repayments of the $150 million in Emergency Loans obtained to resolve the financial crisis
- secure the council's financial sustainability by maintaining the current level of services and to fund the ongoing maintenance of assets by addressing any deterioration of the council's existing asset base
- continue to embed productivity improvements across the organisation, which are necessary in order to continue meeting increased internal and external expectations within a heavily restructured organisation
- deliver key priorities as they get adopted in the future Community Strategic Plans and Delivery Programs.

The council indicated that it had considered other alternatives to the rate rise, which is recorded in the council's Application Part B, pages 50, 54-55.

The council has consulted on cuts to services and provided survey results that showed community support for council maintaining and/or increasing services. There were some respondents that preferred service level cuts while others preferred maintaining the SV. In response to feedback from the Community Reference Group and its survey, the council indicated it has cut $5 million from services identified by the community as suitable for reductions.

The council has provided some evidence that it has considered funding the additional income through further asset sales. This is addressed separately later in this chapter.

However, the council argued that the proposed special variation would provide the most feasible funding source to address its financial need. This is because:

- the council believes further asset sales are not in the best interests of the community[15], and
- its loans repayments are based on its 10-year Long-Term Financial Plan, which raises cumulative operating surpluses of $110 million to meet the principal repayments of the $150 million in Emergency Loans. [16]

4.1.4 Impact of the proposed SV on the council's financial performance

Generally, we consider a council with a consistent operating surplus to be financially sustainable. An operating surplus is where the income the council receives covers its operating expenses each year. We use the Operating Performance Ratio (OPR) as a measure of a council's ongoing financial performance or sustainability. Box 1 defines the OPR and how we interpret it.

Box 1 Operating Performance Ratio as a measure of financial performance

The OPR measures whether a council's income will fund its costs and is defined as:

$$OPR = \frac{Total\ operating\ revenue - operating\ expenses}{Total\ operating\ revenue}$$

where revenue and expenses exclude capital grants and contributions and are net of gains/losses on the sale of assets. The ratio also excludes capital expenditure.

The Office of Local Government has set a benchmark for the ratio of greater than or equal to 0%.

Generally, we consider that a council's average OPR over the next 10 years should be 0% or greater, as this represents the minimum level needed to demonstrate financial sustainability. A consistent OPR substantially above 0% would bring into question the financial need for an SV.

However, we recognise that other factors, such as the level of borrowings or investment in infrastructure, may affect the need for a council to have a higher or lower operating result than OLG's breakeven benchmark.

Generally, we consider that a council's average OPR over the next 10 years should be 0% or greater, as this represents the minimum level needed to demonstrate financial sustainability. An OPR consistently well above 0% would bring into question the financial need for an SV.

However, we recognise that other factors, such as the level of borrowings or investment in infrastructure, may affect the need for a council to have a higher or lower operating result than the OLG breakeven benchmark as set by OLG.

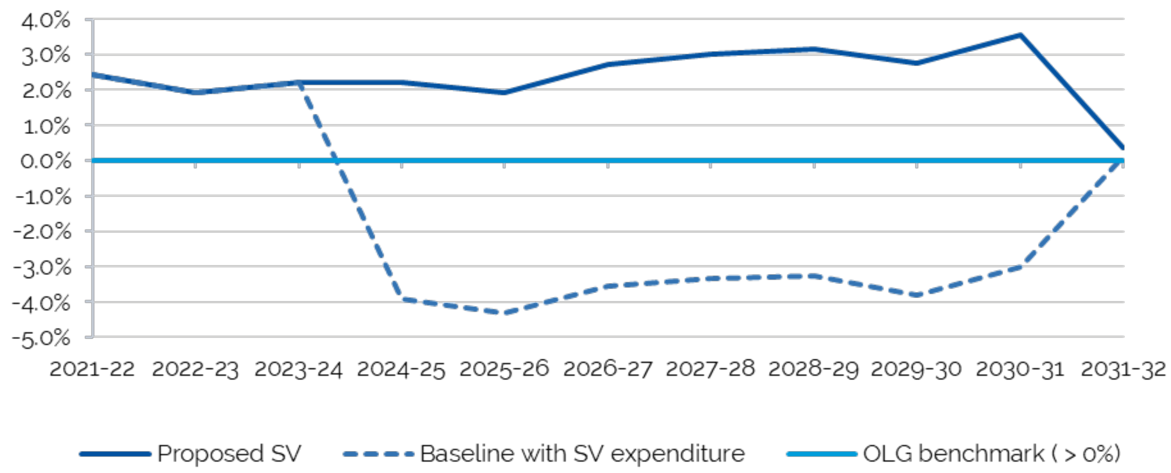
Impact on operating performance ratio

We considered the impact on the council's operating performance ratio (OPR) with and without the proposed special variation. Without additional income, the council is forecasting a sustained deficit in operating revenue. This supports the council's position that it would have to make cuts to services to repay its loans on time without the SV.

Under the Proposed SV Scenario, the council forecasts its average OPR would be 2.8%. [17]It would reach 3.6% in 2030-31, which is in line with the OLG benchmark of greater than or equal to zero. The council's operating surplus also has to cover loan repayments and capital expenditure, which are not included in the operating expenses used for calculating the OPR. We consider that an average OPR of 2.8% will enable it to meet its principal loan repayments.

Under the Baseline Scenario (which assumes the council would incur the same expenditure as under the Proposed SV Scenario, without the additional revenue from this SV), it forecasts that its average OPR would be -3.6%. It would reach -3% in 2030-31, which is below the OLG benchmark of greater than or equal to zero.

Figure 4.1 Operating Performance Ratio (%) excluding capital grants and contributions (2021-22 to 2031-32)



Source: Central Coast Council, *Application Part A*, Worksheet 8 and IPART calculations.

Table 4.1 Council's projected operating performance ratio with proposed special variation, 2022-23 to 2031-32 (%)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Proposed SV	1.9	2.2	2.2	1.9	2.7	3.0	3.2	2.7	3.6	0.4
Baseline with SV expenditure	1.9	2.2	-3.9	-4.3	-3.5	-3.3	-3.3	-3.8	-3.0	0.1

Source: Central Coast Council, *Application Part A*, Worksheet 9 and IPART calculations.

Impact on net cash (debt)

As discussed above, the OPR is a good guide to a council's ongoing financial performance or sustainability. We may also consider a council's financial position, and in particular the net cash (or net debt). This may indicate that a council has significant cash reserves that could be used to fund the purpose of the proposed SV.

On 30 June 2021 the council's consolidated (including Water and Sewer) funds held $249 million in cash and investments, with:

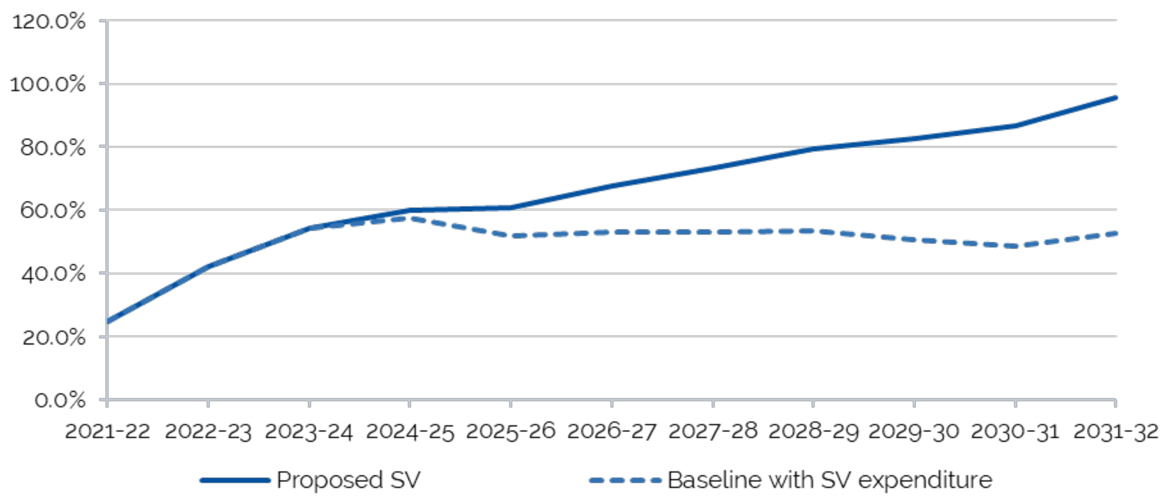
- $173.5 million externally restricted
- $92.2 million internally restricted
- -$16.9 million unrestricted

However, the council's General Fund alone held $166.1 million of debt.[18] As stated previously, the council plans cumulative operating surpluses of $110 million to meet the principal repayments of the $150 million in Emergency Loans.[19] In the long-term, the council will only be able to repay these loans using the unrestricted portion of its net cash. Otherwise, it will be required to use internally restricted funds that have been set aside for other purposes. Therefore, the council will need to generate significant surpluses going forward to repay its debts.

To assess the council's financial position, we examined the council's net cash position from 2021-22 and net cash as a percentage of income. As Figure 4.2 shows:

- Under the Proposed SV Scenario, the net cash would increase over the longer term. As at 30 June 2032 we estimate it would be $415 million, or 95.5% of its $435 million annual income.
- In comparison, under the Baseline Scenario, the net cash would increase at a lower rate. As at 30 June 2032, we estimate it would be $228 million, or 52.5% of its $434 million income.

Figure 4.2 Net cash (debt) to income ratio, 2021-22 to 2031-32 (%)



Note: Baseline Scenario includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV.
Data source: Central Coast Council, Application Part A, Worksheet 8 and IPART calculations.

Our analysis indicates that over the 7 years of the proposed SV, the council's average net cash (debt) to income ratio would be:

- 72.9% under the Proposed SV Scenario
- 52.7% under the Baseline with SV Expenditure Scenario.

4.1.5 Available income and alternative funding sources

The council's stated purpose of the funds being sought is to repay the outstanding balance of the $150 million in Emergency Loans and to secure the council's financial sustainability.

Table 2 shows that the forecast change in operating balance matches the council's emergency loans principal repayments. Over the 7-year period, the council plans to spend 41% of the additional income servicing its loans, and the rest on maintaining service levels.

Table 2 LTFP Emergency Loan Repayments ($'000, nominal)

Financial Year	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Sum
SV Income	24,252	24,858	25,479	26,116	26,769	27,438	28,124	183,037
Change in Operating Balance	8,712	8,866	9,014	9,155	9,647	9,835	10,074	65,303
Emergency Loans Principal	8,712	8,866	9,014	9,155	9,647	9,835	10,074	65,303
Emergency Loans Interest	1,831	1,780	1,637	1,414	1,294	1,022	799	9,777
Total Loan Repayments as % of SV	43%	43%	42%	40%	41%	40%	39%	41%

Data source: Central Coast Council, Application Part A, Worksheet 6 and IPART calculations.

Maintaining expenditure without additional income is not possible

If the council were to maintain current spending levels after its current SV expires in 2023-24, it is unlikely the council would be able to sustain regular operations using unrestricted funds from 2027-28 onwards.[a] This planned expenditure level already includes the majority of the cost savings and efficiency improvements identified in the council's financial recovery plan and in criterion 5.

Our assessment of the council's financial performance shows that without the additional income, the council would struggle to produce the surpluses necessary to repay its emergency loans (on the current schedule of payments).

In its application the council has considered alternative funding sources to the proposed special variation. It considered increasing revenue through the following options:

- increasing fees and charges (such as parking),
- seeking grant funding,
- asset sales, and
- cuts to services.

The council has modelled the service delivery & program impacts of budget cuts

The council consulted on and presented various service level impacts in its IP&R documents and application. The council's delivery program lists a wide range of services and infrastructure that would be reduced under the deteriorate scenario[20] (without the SV).

[a] The councils LTFP indicates its unrestricted current ratio would fall below 1, indicating it would not have enough unrestricted reserves to meet its liabilities.

We requested that the council provide further evidence to justify the stated impacts of the potential reductions to services. In response, the council provided us with information about its proposed budget reductions. This showed that without the SV the annual revenue shortfall is approximately $26 million and it had modelled service reductions amounting to $21 million annually.

The estimated impacts of the proposed service reductions are outlined under the "deteriorate" scenario to the Delivery Program.[21] Some of the major proposed reductions are:

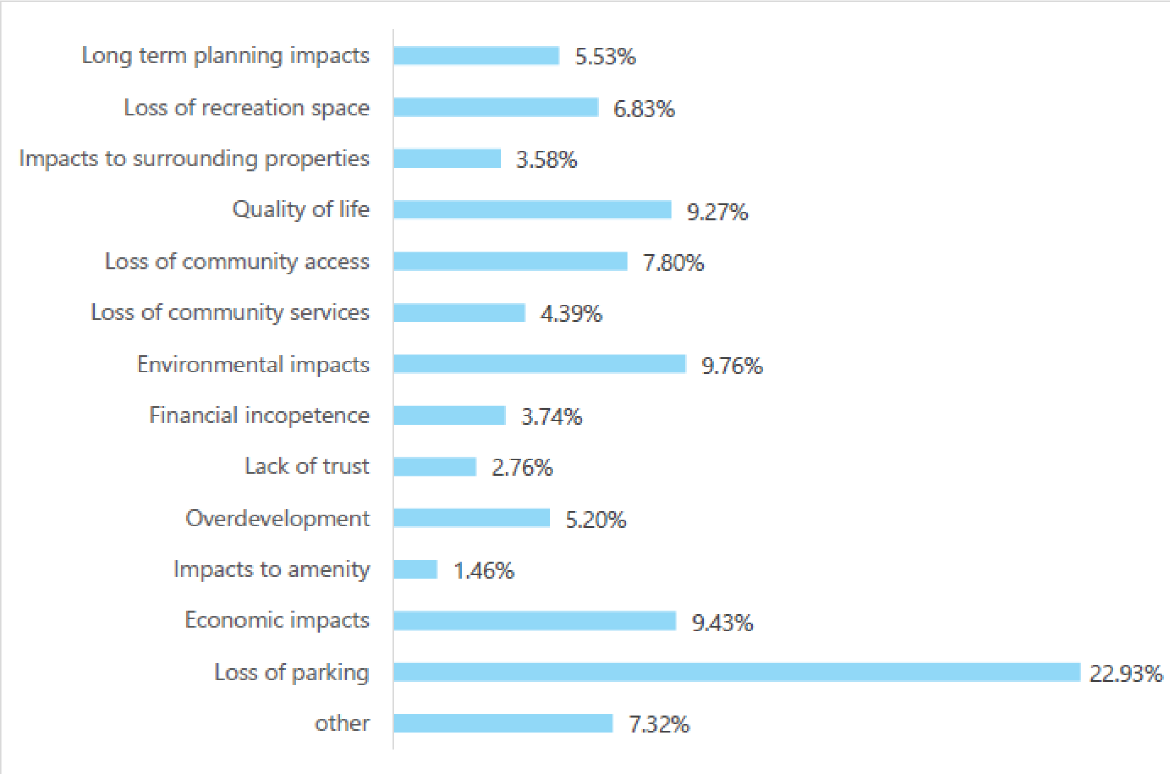
- street scape maintenance (e.g. footpaths)
- slower processing of urban planning and development applications
- road and drainage maintenance
- economic development and tourism projects (e.g. Gosford Waterfront)
- funding of community programs (e.g. the Environmental Volunteering Program).

The council partially considered further asset sales to fund the additional income

The council does not consider further asset sales to be in the community's interest,[22] however this statement is only partially supported in the council's application. The council has provided IPART with additional evidence of community preferences regarding asset sales, it includes:

- 1,366 responses to an open community survey about the impact of specific sales, however the survey did not appear to offer the responder an option to record a positive impact (see Figure 4.3). The most common impact is the loss of parking
- 2 petitions opposed to the sale of parking signed by 979 people collectively
- 1 petition against the sale of greenspace signed by 96 people
- 38 submissions in support of property sales.

Figure 4.3 How would the sale of this land impact you, your community or your business?



Source: *Central Coast Council Consultation Report – Asset Sales Tranche 3*, 18 March 2022, p 28.

The council's loan terms

The council has provided some information around potential loan conditions. The relevant excerpt from the council's application is:

> *Any SV approvals that are of temporary nature and end before 2030/31 place Council's financial sustainability at immediate risk because Council will not be able to generate the operating surpluses required to meet the $110 million in principal repayments without another significant organisational restructure.*[23]

The council has stated that the conditions of the emergency bank loans are commercial in confidence (at the direction of the bank). The council's application repeatedly notes:

> *Securing a 15% special variation for at least 10 years, commencing 2021/22 is a condition of repayment of the $150 million in Emergency Loans.*[24]

As we have not seen the loan agreements, we cannot confirm the accuracy of this statement. However, an SV may only be granted by the Minister or IPART (as the Minister's delegate). While the council may have indicated its intention to apply for an SV for 10 years, it could not guarantee to the bank that the SV would be granted.

We have assessed that the terms of the loan are a commercial matter for the council and that this does not impact the financial need for SV.

4.1.6 How council addressed concerns identified by IPART in the 2021-22 SV report

The 2021-22 SV report states: "there is some uncertainty around the council's long term financial modelling as the council has only recently started implementing a program of substantial cost containment measures."[25] As discussed in criterion 5, the council has integrated productivity and cost efficiencies within its LTFP.

4.2 Criterion 2: Community engagement and awareness

This criterion assesses the council's breadth of evidence that the community is appropriately aware of the need and extent of the proposed rate increase. OLG's criterion does not require the council to demonstrate that there is community support for the SV application. This criterion also requires the council to discuss its ongoing efficiency measures when explaining the need for the SV.

Appendix A provides more detail on the assessment criteria.

4.2.1 What stakeholders told us

Submissions from ratepayers to IPART raised concerns that the council:

- was not transparent in its consultation
- did not allow ratepayers to voice their objections in the survey
- did not consult in good faith by sending out directed letters requesting support
- did not respond to their concerns
- did not make the community aware of IP&R documentation
- did not inform them of the rate increase
- was not clear about the reason for the rate rise or the alternatives
- did not include community's input in informing the council's strategic priorities.

We have considered these concerns as part of our assessment of this criterion.

4.2.2 IPART's assessment

We found that the council largely demonstrated that it met the criteria of community awareness of the proposed SV.

We consider that the council took adequate steps to make sure ratepayers and the community were aware that it proposed a 7-year extension to its 2021-22 SV. However, we received 63 submissions that raised concerns that the council was not transparent in its consultation and did not allow ratepayers to voice their concerns.

In particular, we note that:

- The council's Delivery Program and Long-Term Financial Plan does clearly set out the extent of the General Fund rate rise under the proposed SV
- The consultation material included a detailed discussion of the council's ongoing efficiency measures in explaining the need for the SV.
- The council's engagement methods communicated the impact of the proposed special variation to the community and ratepayers were given sufficient opportunity to provide their feedback.
- The council sought advice from a Community Reference Group and a Business Leaders Roundtable to help ensure that its message was clear, concise and used a wide range of engagement methods to reach a large audience.
- The council consulted on the levels of service required by the community through phone and online surveys.
- The council has addressed community submissions in its IP&R documentation.

While the consultation generated the awareness necessary to meet the criterion, we note that the council could improve how it communicates and presents information to the community. A priority for the council should be to improve its approach to community engagement.

4.2.3 The council's community consultation

We assessed the council's community consultation for content, clarity, timeliness and engagement methods.

Content

The material the council prepared for ratepayers on its proposed SV included the content needed to ensure ratepayers were well informed and able to engage with the council during the consultation process. Specifically, the council communicated:

- The SV application was for a 7-year extension of the 2021-22 IPART Determination and that there were no additional rate rises.
- All communication materials directed community members to the council's dedicated website that contained fact sheets, FAQs, information videos, a timeline, submission forms, online community survey link and copies of the IP&R documentation.
- The council articulated why the SV application was needed.

The public exhibition of the strategy documents underpinning the SV process occurred during December 2021 and January 2022. The council consulted on three SV scenarios as part of its application and IP&R update. These scenarios were:

- **Baseline scenario** - This scenario maintains the current, baseline service levels and keeps the status quo of annual expenditure, while sustaining a $25.8M average annual loss in revenue. Note: The council states this scenario cannot be operationalised because it has an insufficient unrestricted cash buffer to sustain a protracted loss-making operation.
- **Maintain SV scenario** - This scenario projects the maintenance of the current rate base, which contains the one-off 15% SV (including 2% rate peg) that was implemented in 2021-22.
- **Deteriorate scenario** - This scenario projects a significant reduction and cessation of many of the council's services in order to compensate for the loss of SV revenue at the end of 2023-24.

All councils applying for an SV need to communicate complex information simply, and with enough depth to generate useful feedback.

The feedback IPART received from ratepayers during this SV assessment process suggests improving community consultation should be a priority for the council. The council reflected on its communications challenge in its application part B (see pages 51-52), stating "what was clear from the feedback is that different members of the community have different levels of understanding and preferences of how to receive information." This is a challenge faced in all public consultation and going forward the council needs to be able to adapt and improve the way it communicates information and engages with its community.

Clarity

The council's engagement material was generally clear in how it presented the proposed SV, and ratepayers understood what the council was applying for and why. The council established a Community Reference Group to provide feedback on the presentation of its consultation material. This in part helped the council to improve the clarity of its materials.

Timeliness

The council formally consulted with the community on the proposed special variation from December 2021 to January 2022. While consultation during this period may result in lower engagement, there has been a high level of community engagement on the council's 2021-22 special variation and subsequent determination. The administrator and the organisation have been informing the community about this SV proposal since July 2021. On balance, we have determined that the consultation period provided enough opportunity for ratepayers to be informed about the proposal, given the requirements around community awareness set out in the OLG Guidelines.

Engagement methods used

The council used a variety of engagement methods to promote awareness of and obtain community views on its proposed rate increase. This included:

- Dedicated yourvoiceourcoast.com website
- Council newsletter drop

- Targeted e-newsletters to community and sporting groups
- Advertisements in print news
- Social media posts
- Media Interviews
- Community Surveys (representative sample and open).

4.2.4 Council sought direct engagement with the community

The council engaged the community to both inform and interpret the feedback on the responses received. This included:

- **Community Reference Group (CRG)** that met three times between October 2021 and January 2022 with attendance ranging from 17 to 8 attendees. The CRG provided feedback on the wording of the community survey, interpreted results from the survey and other communications, and provided input into service cuts (should they be necessary).
- **Business Leaders Roundtable Meeting** where concerns were raised about further asset sales, and the impact of financial suitability on the future economic development within the region.
- **Administrator established an Open Office program** where he would meet with any ratepayer that opted in (54 people over 9 meetings) and he attended 8 face-to-face meetings with Community Associations and other groups.
- **The council has written directly to community organisation groups and volunteers** requesting letters of support for the SV. These letters stated that if the council was not to receive the SV, funding for community groups may be reduced. The council had identified reducing funding for community groups as an alternative to the SV in its IP&R documentation as required by criterion 1. However, some community groups and volunteers found this communication to be inappropriate and raised concerns in their submissions to us about this approach.
- **The council undertook a representative telephone and opt-in online surveys** to investigate ratepayer service level expectations and support for the SV. Some stakeholders that made submissions to IPART have raised concerns around the method of these surveys and the results, which we have addressed under criterion 6 of this report.

4.2.5 Outcomes of consultation with the community

Criterion 2 does not require the council to demonstrate community support for the proposed special variation. However, it does require the council to consider the results of community consultation in preparing its application.

The council's application indicated that it received 66 responses in the public exhibition of its IP&R documentation (Table 3).

Table 3 Submission on IP&R Documentation

Documentation	Downloads	Submissions Received
Resourcing Strategy	69	12
Community Strategic Plan	105	16
Delivery Program (including operational plan)	173	38
Maintaining Services and Rates Website	160	N/A
Total	**507**	**66**

Source: Central Coast Council. Application Part B, p 45.

4.2.6 The council considered community feedback on its IP&R and application

The council has also provided a summary of submissions to its consultation on its IP&R documents and its Maintaining Services and Rates Consultation Initiative.[26] These submissions were considered by the council during its regular meetings.[27] The council has also provided its response to the issues raised by stakeholders, see the example provided in Figure 4.4. The full response includes a reasonably detailed explanation of the decision for each issue raised. This type of consultation appears to be consistent throughout the council's engagement.

Figure 4.4 Example submission to Operational Plan

Draft Plan / Fees and Charges Page No.	Summary of Submissions / Matters Raised	Number of Mentions	Staff Recommendation
N/A	Questions and commentary on the Asset Sales Program, including: • Terrigal Drive, Terrigal • Umina Car Park • Anglers Lane and Austin Butler Oval, Woy Woy	6	**No change to the draft Plan.** • The sale of Council assets is crucial to deliver much needed capital to improve Council's financial position, provide assurance to our lenders and to support the ongoing sustainability of Council and the services we provide to the community. Property being considered for sale is assessed against Council's Community Strategic Plan, strategic planning issues as well as whether the property could be better utilised or its potential better realised by the private sector. For instance, some of the asset sales are also expected to provide additional benefits for our region and the community, such as local jobs and a boost to the economy, due to the planned land use and zoning. Due diligence and a sound strategic approach has been undertaken in the asset sale program to ensure the best short and longer term outcomes are achieved for Council, the region and the community.

Source: Central Coast Council – Attachment 27 – Summary of Submissions for the Draft Operational Plan 2021-22, February 2022, p 2.

4.2.7 How the council addressed what we said in last year's SV report

Our 2021-22 report stated the council "could have better distinguished between the special variation and rates harmonisation."[28] The council has since harmonised its rates, meaning no actions need to be addressed.

4.3 Criterion 3: Impact on affected ratepayers

This criterion assesses whether the impact on ratepayers is reasonable considering current rates, the community's capacity to pay and the proposed purpose of the special variation.

Appendix A provides more detail on the assessment criteria.

4.3.1 What stakeholders told us

Some submissions to IPART have raised concerns that extending the existing SV will have:

- a significant impact on ratepayers due to broader circumstances such as ongoing economic pressures of COVID-19 and potential increases to the council's water prices
- a large impact for ratepayers on fixed incomes
- an unfair impact for Wyong ratepayers who have historically paid for a previous SV prior to amalgamation.

Some submissions also raised the perception that the average rates were among the highest in the state.

We have considered these concerns as part of our assessment of this criterion.

4.3.2 IPART's assessment of the impact on ratepayers

We found that the council fully demonstrated that it met this criterion.

We consider the impact of the proposed SV on ratepayers will be reasonable given the council's proposed average residential, business and farmland rates with the SV will be below the estimated average rate levels for its OLG Group 7 and neighbouring/similar councils in 2024-25.

We recognise that the impact of the SV may be greater for some ratepayers.

In its application, the council indicated that it considers the impact on ratepayers is reasonable given the services and infrastructure desired by the community. Our analysis found that average rates on the central coast are typically below those of neighbouring and comparable councils. Keeping rates low would make it difficult for the council to provide services to a standard acceptable to ratepayers, impacting the quality of life on the Central Coast. Some submissions to IPART noted that the council's infrastructure was in a poor state of repair, for example roads with potholes and a lack of kerb and guttering; and service levels were inadequate, for example slow response times from council officers.

We note that the council has a hardship policy in place to assist ratepayers experiencing financial hardship. The council's policy allows residents to enter different types of payment plans. The council also offers all eligible pensioner ratepayers a discount of up to $250.[29]

4.3.3 The council's assessment of the impact on ratepayers

The council assessed the impact on ratepayers of the proposed SV and discussed how it has addressed affordability concerns.

The council compared its proposed average rates with other similar councils and examined socioeconomic data to assess the impact on ratepayers and their capacity to pay. On the basis of these indicators, it claims that its ratepayers have the capacity to pay the increased rates from the proposed SV. In particular, it noted that:

- Compared to OLG Group 7 councils, Central Coast Council has lower average residential, business and farmland rates.[30]
- Compared to neighbouring/similar councils, Central Coast Council has lower average residential rates.[31]

Under the council's proposed SV, its existing SV would continue and average rates in 2024-25 would increase by the rate peg. If this SV was not approved, then the rates will decrease by an average of 13%.

In 2024-25, under an assumed 2.5% rate peg the average:

- residential rate would increase by $33
- business rate would increase by $106
- farmland rate would increase by $54
- mining rate would increase by $11,788.

The council submitted that it also has a hardship policy for individuals that are experiencing financial hardship. The policy offers three types of payment plans and a pensioner discount. The council also offers different methods to receive rate notices, bill smoothing (weekly, fortnightly and monthly payment options) and Centrepay for pensioners.[32]

4.3.4 IPART's analysis of the impact on ratepayers

To assess the reasonableness of the proposed special variation impact on ratepayers, we examined the council's historic rates. The Central Coast Council was previously 2 councils, Gosford and Wyong Councils. In 2021-22, the former councils' rates were harmonised and the council applied a temporary 15% SV increase. Our 2021-22 report showed that on average, Gosford ratepayers experienced a more significant increase whereas Wyong ratepayers experienced a slight decrease in rates.

We also compared 2019-20 rates and socio-economic indicators in the local government area with those of OLG Group 7 and neighbouring/similar councils (see Table 4.4 and Table 4.5). Based on 2019-20 data, we found that the council's:

- average rates are lower than the average for Group 7 councils and the weighted average for neighbouring/similar councils, for residential, business and farmland rating categories
- average rates to income ratio is lower than the average ratios for neighbouring/similar councils
- outstanding rates ratio is higher than those for Group 7 councils and neighbouring/similar councils
- SEIFA ranking is 86, which is slightly lower than neighbouring/similar councils showing a slightly higher level of disadvantage.

Table 4.4 Comparison of the council's average rates and socio-economic indicators with those of neighbouring councils and Group 7 councils, 2019-20

Council	Central Coast	Lake Macquarie	Newcastle	Wollongong	OLG Group 7
Average residential rate[a] ($)	1,101	1,452	1,566	1,504	1,246
Average business rate ($)	3,074	4,800	11,607	11,874	4,258
Average farmland rate ($)	1,799	2,054	2,444	2,612	2,877
Average mining rate ($)	188,600	55,889	-	78,167	138,714
Median annual household income ($)[b]	65,596	68,464	71,331	69,819	92,174
Ratio of average rates to median income (%)	1.7	2.1	2.2	2.2	1.4
Outstanding rates ratio (%)	6.8	3.9	4.4	6.7	5.0
SEIFA Index NSW rank[c]	86	89	96	94	-

a. The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.

b. Median annual household income is based on 2016 ABS Census data.

c. The highest possible ranking is 128 which denotes a council that is least disadvantaged in NSW.

Source: OLG, Time Series Data 2019-20; ABS, Socio-economic Indexes for Areas (SEIFA) 2016, March 2020; ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

Table 4.5 Difference between the council's average rates and those in neighbouring councils and Group 7 councils, 2019-20 ($)

Rate category	Central Coast Council	Neighbouring councils	Group 7 councils	Difference between Central Coast Council and neighbouring councils (%)	Difference between Central Coast Council and Group 7 councils (%)
Residential	1,101	1,503	1,246	-26.8	-11.7
Business	3,074	9,621	4,258	-68.1	-27.8
Farmland	1,799	2,479	2,877	-27.4	-37.5
Mining	188,600	64,800	138,714	191.0	36.0

Note: All averages are weighted averages, weighted by the number of assessments.
Source: OLG, Time Series Data 2019-20; and IPART calculations

In addition, we compared the council's average rate levels under the final year of the proposed SV (2030-31) with the projected average rate levels for OLG Group 7 councils and the average rate levels for neighbouring councils in 2030-31 (see Table 4.6). We found that in 2030-31, the council's average residential, business and farmland rates with the proposed SV would be lower than the projected average rates for Group 7 and neighbouring/similar councils.

Table 4.6 Comparison of the council's, neighbouring councils' and Group 7 councils' average rates under the proposed SV in 2030-31 ($)

Rate category	Central Coast Council	Neighbouring councils	Group 7 councils	Difference between Central Coast Council and neighbouring councils (%)	Difference between Central Coast Council and Group 7 councils (%)
Residential	1,559	1,936	1,604	-19.5	-2.8
Business	5,059	12,390	5,483	-59.2	-7.7
Farmland	2,577	3,193	3,705	-19.3	-30.4
Mining	560,465	83,452	178,641	571.6	213.7

Note: All averages are weighted averages, weighted by the number of assessments.

Source: OLG, Time Series Data 2019-20; and IPART calculations.

4.4 Criterion 4: Integrated Planning and Reporting documents

The Integrated Planning and Reporting (IP&R) framework allows councils and the community to engage in important discussions about service levels and funding priorities and to plan for a sustainable future. This framework therefore underpins decisions on the revenue required by each council to meet the community's needs.

This criterion requires councils to exhibit, approve and adopt the relevant IP&R documents before applying for a proposed SV, to demonstrate adequate planning.

The relevant documents are the Community Strategic Plan, Delivery Program, Long-Term Financial Plan (LTFP) and, where applicable, Asset Management Plan. Of these, the Community Strategic Plan and Delivery Program require (if amended) public exhibition for 28 days (and re-exhibition if amended). The OLG Guidelines require that the LTFP be posted on the council's website.

4.4.1 What stakeholders told us

Some submissions indicated that the council did not:

- inform ratepayers about the purpose and alternatives to the SV
- consult in good faith as it consulted over the Christmas and New Year period
- address concerns raised by the community.

We have considered these concerns as part of our assessment of this criterion.

4.4.2 IPART's assessment of the IP&R documents

We found that the council fully demonstrated that it met this criterion.

We consider that council's IP&R documents contained enough information relating to the proposed special variation, and were appropriately exhibited, approved and adopted by the council.

4.4.3 Content of IP&R documents

Need and purpose of the SV

The council presented the need for, and purpose of, the proposed SV in its Revised Long-Term Financial Plan. The LTFP and Delivery program both detail alternate scenarios to the proposed continuation of the 15% SV, and the impact this would have on both the council and community. Scenarios include:

- Baseline scenario – catastrophic impact
- Maintain Special Variation (SV) scenario – sustainable impact
- Deteriorate scenario – distressed impact
- Enhance scenario – improved services impact
- Less than seven (7) years extension scenario - community destabilising impact.

Extent of the SV rate increase

The council's Long-Term Financial Plan includes the extent of the SV rate increase.

SV impact on the community

The council's Revised Long-Term Financial Plan and Delivery Program 2022-25 reference its engagement with the community, and their Attachment 11 - Community Feedback – Consultation Summary Report and Attachment 12 - Socio Economic Review of the council's SV application both assess the impact of the proposed SV on ratepayers.

4.4.4 Council exhibition, approval and adoption of IP&R documents

The council exhibited a draft Operational Plan and LTFP between 29 April 2021 to 26 May 2021. The council received 140 submissions that were incorporated into the final Operational Plan. We consider that the community has had sufficient opportunity to make submissions on the council's IP&R documentation.

Council's IP&R documents contained information relating to the proposed special variation, and we consider they have they been appropriately exhibited, approved and adopted by the council.

The council's final IP&R documentation was exhibited between 22 December 2021 to 21 January 2022, adopted on 3 February 2022, and published on 4 February 2022. These documents included:

- Revised Community Strategic Plan
- Delivery Program 2022-25 and Operational Plan
- Long-Term Financial Plan
- Asset Management Strategy and Plan
- Workforce Management Strategy.

The IP&R documentation was exhibited during the Christmas and New Year period which may have reduced community engagement.

However, Council exhibited a draft Operational Plan and LTFP between 29 April 2021 to 26 May 2021. Council received 140 submissions that were incorporated into the final Operational Plan. We consider that the community has had sufficient opportunity to make submissions on the council's IP&R documentation.

4.5 Criterion 5: Productivity improvements and cost containment strategies

This criterion requires councils to explain the productivity improvements and cost containment strategies that have been realised in past years and are expected to be realised over the proposed SV period. It also requires them to:

- Incorporate the financial impact of the ongoing efficiency gains in their Long-Term Financial Plan.
- Provide evidence of strategies and activities to improve the productivity of their operations and asset management, and robust data quantifying the efficiency gains from these initiatives, as well other cost-saving and revenue-raising initiatives.

4.5.1 What stakeholders told us

Some submissions to IPART raised concerns over whether the council could:

- improve its own efficiency to cover the revenue shortfall
- improve its labour productivity
- reduce the amount spent on consultants and contingent labour
- demonstrate its ability to deliver on productivity improvements and cost savings

We have considered these concerns as part of our assessment of this criteria.

4.5.2 IPART's assessment

We found that the council has taken a number of practical steps to identify and implement cost savings since we assessed its last application for an SV. We have concluded that it largely demonstrated that it has met this criterion.

In particular, we found that the council has:

- developed a strategic approach to identifying and delivering productivity improvements through implementing its:
  - Financial Recovery Plan (short term)
  - Productivity Improvement Plan (short to medium term)
  - Corporate Plan (long term)

- incorporated its efficiency targets into its long-term forecasts and IP&R documents
- provided updates to inform the community of its progress through the Financial Recovery Plan webpage.

4.5.3 The council's assessment of efficiency gains achieved

The council submitted it has achieved $46.7 million in annual, ongoing efficiency savings, including $5.4 million from consolidating services over the two former council areas[33] and $26.1 million from a staff restructure. We asked the council to provide further evidence of its productivity improvements, and the council provided a costed list of its past, ongoing, and future initiatives. Some specific examples of the initiatives it has already implemented:

- A restructure during 2020-21 which reduced the number of full-time equivalent staff (FTEs) from 2,719 to 2,183
  - Executive roles reduced from 9 to 5
  - Unit manager roles reduced from 39 to 26
  - Employee costs reduced by $26.1m per annum from the general fund
- Capital Works Committee that oversees the delivery of the entire capital program across all directorates adding additional governance to the delivery of the program
- Audit Risk and Improvement plan adopted by council's Audit, Risk and Improvement Committee, where identified opportunities are assessed for cost effectiveness and maturing council's approach to ensure ongoing improvement
- Automated Procurement for small expenses, 20% of purchase requisitions (Low Risk/Low Value) are automatically generated and distributed to relevant suppliers
- Consolidating various services and business systems under the Productivity Improvement Plan and Corporate Plan (e.g. the council estimates consolidation of IT will save >$1.5m annually)
- Reduction of overtime from $9.2 million in 2019-20 to a budgeted amount of $4.2 million in 2021-22
- Ongoing efficiency program "BetterWays," which is a platform to capture ideas and suggestions from staff members across the organisation.

4.5.4 The council's future strategies for productivity and cost containment

The council's LTFP includes an annual efficiency dividend of $2.5 million in 2022-23 for the General Fund. The council has also built efficiency targets into its long-term budget forecasts[34]:

- **Materials and services** (including contractors and consultants) are forecasted to increase by 0.35% annually. This increase is building in productivity and efficiency savings within the budget as the CPI is forecast at 2%.
  - Annual efficiency target of 1.65%
- **Other Expenses** are not forecasted to increase above the amount budgeted in 2021-22.

– Annual efficiency target of 2%

The annual efficiency dividend reported under the maintain SV scenario commences at 0.6% or $2.5 million of the General Fund's total operating expenditure in 2022-23 and increases to 6.3% in 2031-32. Adjusted for employee costs and depreciation, the annual efficiency dividend is 1.6% of the General Fund's total operating expenditure in 2022-23 and increases to 18.3% in 2031-32.

Table 4.7 Efficiency dividend built into the LTFP under the maintain SV scenario

Absorbed savings in Materials & Services and Other Expenses

Calculation of absorbed savings in Materials and Other Expenses as less than CPI of 2%

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Maintain Scenario										
General Fund Materials and Services	2,049	4,144	6,278	8,452	10,665	12,919	15,213	17,556	19,950	22,394
General Fund Other Expenses	452	913	1,384	1,864	2,353	2,852	3,361	3,881	4,410	4,951
GF absorbed efficiency savings	**2,501**	**5,057**	**7,662**	**10,315**	**13,018**	**15,771**	**18,574**	**21,437**	**24,360**	**27,345**
Operating Expenditure	393,065	397,485	404,062	411,918	415,206	420,895	427,250	436,268	439,911	433,422
Inbuilt annual efficiency target as a percentage of Operating Expenditure	0.6%	1.3%	1.9%	2.5%	3.1%	3.7%	4.3%	4.9%	5.5%	6.3%
Total General Fund Operating Expenditure excluding employee costs and depreciation	159,106	156,572	156,502	157,614	154,868	154,459	154,649	157,436	154,779	149,719
Inbuilt annual efficiency target as a percentage of Operating Expenditure	1.6%	3.2%	4.9%	6.5%	8.4%	10.2%	12.0%	13.6%	15.7%	18.3%

Source: Central Coast Council, Application Part B, p 98.

4.5.5 The council has generated new revenue

The council has generated several new streams of revenue within the organisation and as a result of successful grant applications.[35] Additional revenue sources have been identified a result of benchmarking against comparable councils.

Fees and Charges 2022-23 have undergone a benchmarking and harmonisation process, generating additional revenues of $1.4 million annually.

Operating Grants and Contributions for 2021-22 are forecast at $42.1 million in the General Fund, actuals as at 31 December 2021 show an increase of $0.3 million over that budgeted.

New operational revenue streams – The council has identified 24 new revenue streams which it believes total at least $2.8 million from 2021-22 to 2023-24. This includes:

- $0.8 million forecasted for new ongoing revenue streams in 2021-22 with a further $1.5 million in 2022-23. These include temporary leasing of road reserves and council land, advertising on illuminated street signs, and new contracts for advertising on bus shelters.[36]
- One off additional revenue of $0.6 million in 2021-22 from the Energy Savings Certificate Program from the LED Street Light Replacement Program.

New capital revenue streams – an additional $10 million for new ongoing capital grants to fund capital works.

4.5.6 The council is pursuing property sales

The council is currently in the process of disposing surplus or underperforming property assets valued at $60 million. As of December 2021, the council has raised $34.7 million from property disposals.

4.5.7 IPART's assessment of the council's performance

We examined a range of indicators on the efficiency of the council's operations and asset management. We also considered how its efficiency has changed over time, and how its performance compares with that of similar councils.

The council appears to have comparable staff levels relative to NSW averages and comparable councils

Community submissions indicated concerns with the level of labour productivity of Central Coast Council. Our analysis of the council's productivity suggests it has comparable staff levels relative to comparable councils. Although Central Coast Council has less population per staff than OLG Group 7, it is the only council in that group that provides water and wastewater services (the FTE numbers presented in Table 4.8 are based on total council operations). As a large council we expect the council to be able to achieve further efficiencies but its staffing levels do not appear to be excessively high.

The council is not planning to increase head counts, as employee costs in its LTFP are forecast not to increase by more than 2.0% each year which reflects the expected award increases and an annual 0.5% superannuation increase.

The council also has lower average cost per employee than both its group average and the state average. Its general fund operating expenditure per capita is not materially higher than the NSW average when adjusting for inflation. Expenditure also appears reasonable when considering the council's topography and the number of assets it owns.

Table 4.8 Central Coast Council productivity indicators

Productivity indicators[a]	Central Coast Pre-Crisis	Central Coast Operational Plan	OLG Group 7 Average	NSW average
Year	**2019-20**	**2021-22**	**2019-20**	**2019-20**
FTE staff	2,585	1,893	923.9	381
Ratio of population to FTE	133.1	187.5	191.5	165.7
Average cost per FTE ($2021-22)	88,801	91,158	98,107	100,051
General Fund operating expenditure per capita ($2021-22)	1,312	1,591	1,014	1,419
General Fund employee costs as a % of operating expenditure (%)	43%	30.6%	42%	38%

a. Except as noted, data is based upon total council operations, including General Fund, Water & Sewer and other funds, if applicable. There are difficulties in comparing councils using this data because councils' activities differ widely in scope and they may be defined and measured differently between councils.

We compared the council's operating expenditure per capita and found that it is higher than the Group 7 average. This indicates there may be some scope for efficiency gains in other cost items.

We note that these performance indicators only provide a high-level overview of the council's productivity at a point in time and additional information would be required to accurately assess whether there is scope for the council to achieve future productivity/cost savings.

Some submissions also questioned the council's ability to deliver on its productivity and cost containment measures. We asked the council to further evidence their efficiency and productivity claims, their response was detailed section 2.

4.5.8 How the council addressed what we said in last year's SV report

In the 2021-22 report we said "the council has proposed significant cost reduction strategies that need to be proven over time as it does not have a good track record of delivering savings."

Less than a year has passed since the previous determination, so we believe assessing Central Coast Council as having fully satisfied the criterion is not yet possible.

The council has shown improvement on its last application. We assess that its existing initiatives, plans, and realised efficiencies demonstrate the council is completing what could reasonably be expected of them over the timeframe. Compared to last year's application, the council has increased the specificity of its planned productivity initiatives leading to significant savings. The council's application shows that its long-term financial sustainability relies on the implementation of productivity improvements in conjunction with this SV.

4.6 Criterion 6: Any other matter that IPART considers relevant

Last year, IPART approved a 3-year temporary SV instead of the 15% permanent SV the council applied for. This was to allow the council to:

- implement its proposed business recovery plan,
- consult with its ratepayers regarding appropriate service levels,
- and if required, apply for a permanent SV[37].

The following section considers these matters that we raised in our 2021-22 report and other issues that are not assessed in the first 5 criteria. We have not found anything in considering these matters that would alter our decision to approve the proposed special variation.

4.6.1 The council has been implementing its financial recovery plan

The council has kept its community and stakeholders informed of its progress towards financial recovery on its regularly updated Financial Recovery Plan webpage, this includes ongoing efficiency and productivity initiatives undertaken by the council.

The main purpose of the webpage is to allow stakeholders to hold the council accountable to the commitments it made during its 2021-22 SV application. The Financial Recovery Plan was put in place in October 2020 and the council claims to have executed and met all major milestones and targets.

Figure 4.5 Key deliverable of the Financial Recovery Plan

Source: Central Coast Council Financial Recovery Plan

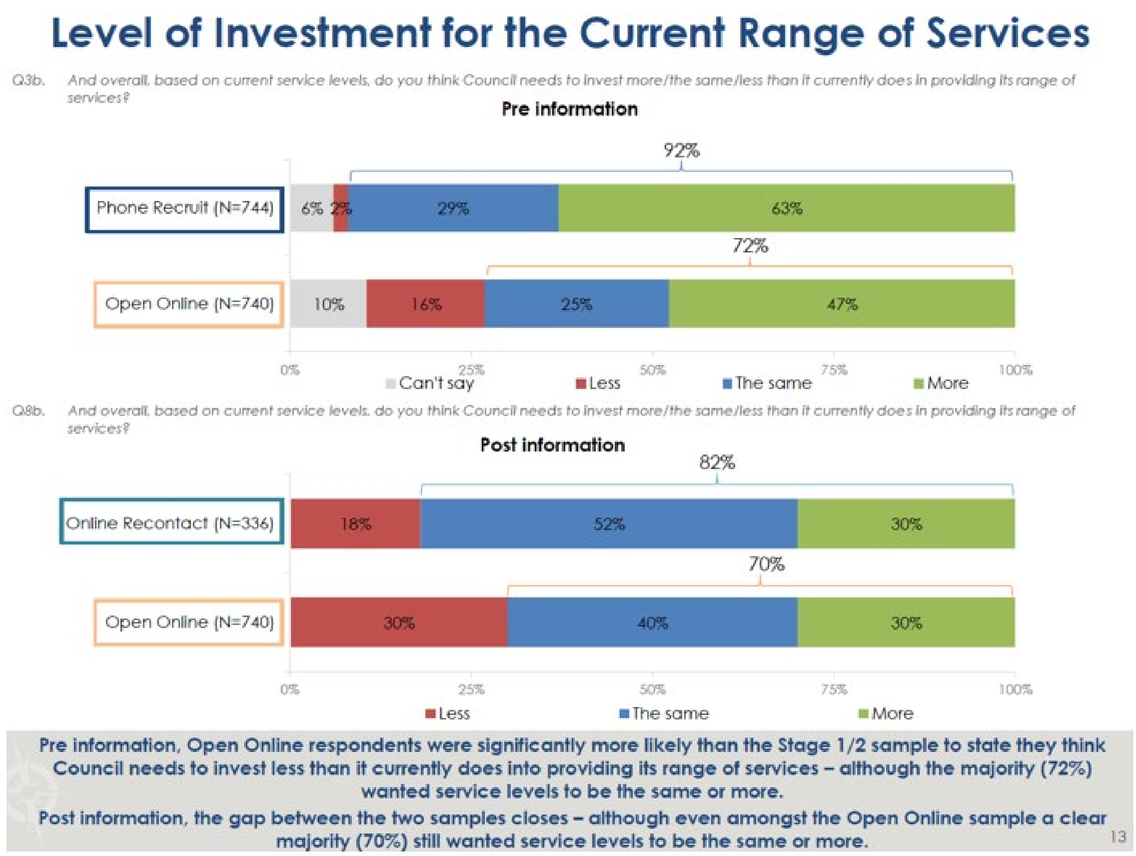
4.6.2 Ratepayers desire the same or more services but willingness to pay is unclear

The council engaged Micromex to conduct a representative survey of the community via telephone with 744 respondents and an online recontact survey with 336 of the original respondents in November 2021.

The council also provided an opt-in online survey for anyone interested in providing feedback on the council's Maintaining Service and Rates proposal. This survey had 722 respondents and was conducted from 22 November to 13 December 2021.

The council demonstrated evidence of community appetite for further investment.[38] Figure 4.6 shows more ratepayers would prefer the same or increased investment than decreased investment in services.

Figure 4.6 The majority of ratepayers do not want reduced investment in services



Source: Central Coast Council – *Consultation Summary Report – Maintaining Rates and Services*, 7 February 2022, p 143.

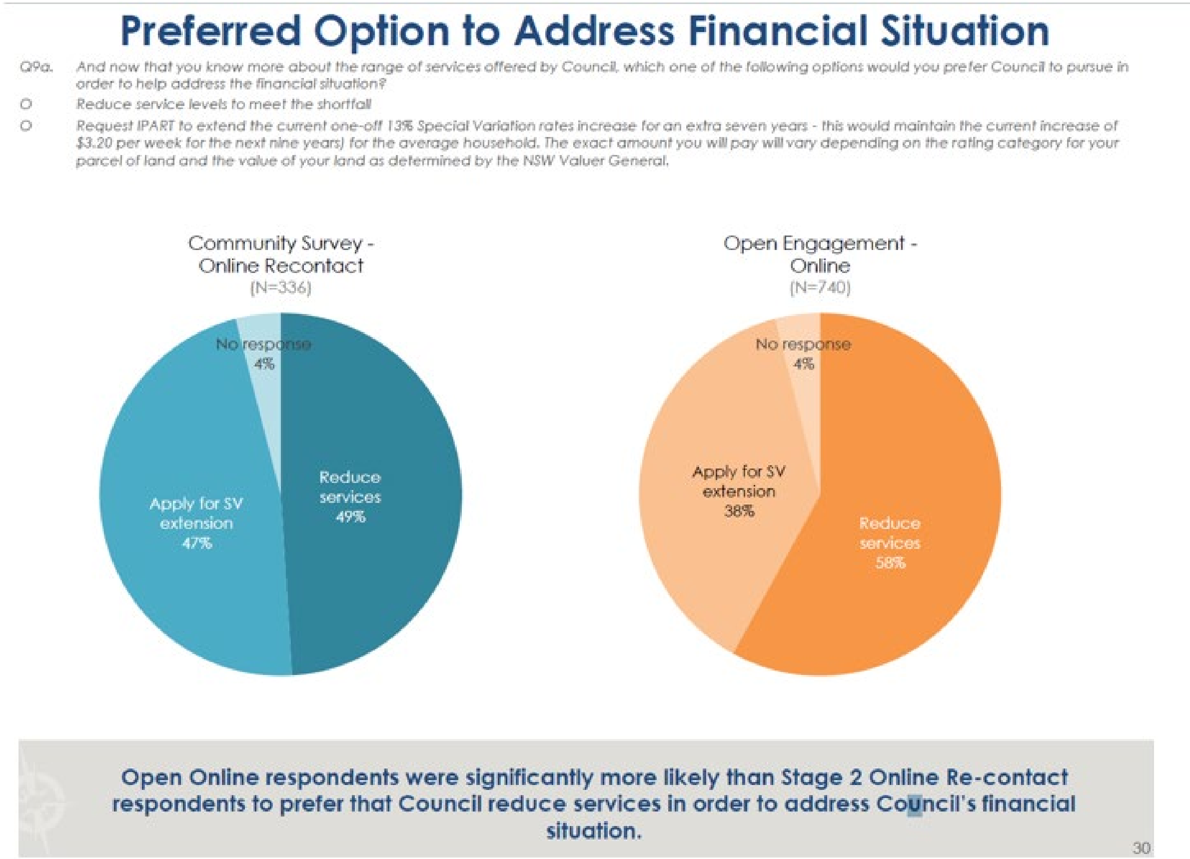
However, the community's willingness to pay remains difficult to gauge. Figure 4.7 suggests that the community is split on the council's proposed solutions – to pursue service reductions or maintain the SV. Submissions received by IPART reflected this sentiment, suggesting the council should not be allowed to increase rates until it has addressed the shortcomings in its services and infrastructure.

The council's application and submissions received by IPART suggests that some respondents were unhappy with the forced preference method used in the survey. For example, Two-thirds of the participants in the open-online survey who chose "reduce services" cited reasons relating to council mismanagement or lack of trust.[39] This makes it difficult to separate between:

- the level of support for service reductions as a solution to council's financial crises, and
- the opposition to rate rises based on past council mismanagement.

A common ratepayer position from submissions is that the council can make up the difference without cuts to services. Those who hold this position are unlikely to be satisfied by the options presented by the council, even if they oppose service reductions. Members of the community may be willing to pay more for their services, but they may not trust the council to deliver performance improvements.

Figure 4.7 The community is split on whether to reduce services or extend the SV



Source: Central Coast Council – *Consultation Summary Report – Maintaining Rates and Services*, 7 February 2022, p 346.

4.6.3 The council is on track to satisfy 2021-22 SV instrument conditions for 2021-22

As part of IPART's conditions of approval for the 2021-22 SV[40], the council is required to report in its Annual Report for each year between 2021-22 and 2023-24 on the following for those years:

1. The program of expenditure that was actually funded by the Additional Income
2. Any significant differences between the Proposed Program* and the program of expenditure that was actually funded by the Additional Income and the reasons for those differences
3. The outcomes achieved as a result of the Additional Income
4. The Council's actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance as outlined in the Long-Term Financial Plan, and
5. Any significant differences between the Council's actual revenues, expenses and operating balance and projected revenues, expenses and operating balance as outlined in the Long-Term Financial Plan and the reasons for those differences.

The council has provided the relevant excerpt of its draft annual report, including outcomes of the additional income in response to our request for this information. Table 4.9 shows the council spent 49%[b] of the additional income on servicing its loans. The council proposes to pay off the loan evenly across the 10-year period of the proposed SV. Since the actuals have not been finalised, any difference reporting is not yet possible.

Table 4.9 Draft Outcome of Additional Income for SV 2021-22

Outcome of additional income	Actual $000
SV Income	22,810
Emergency loan repayments	
Capital – annual principal repayment for emergency loans	9,645
Interest – interest repayment for emergency loans	1,575
Repayment of restricted funds	2,289
Provide financial sustainability	
0.5% legislated increase in superannuation – rate peg 2% for 2021-22 and employee cost increases are 2.5% being the increase in the award and legislated superannuation	701
Special cost pressures	
COVID impacts	2,900
Increase in waste contract costs exceeding CPI in LTFP	5,700
Total	22,810

Source: CCC RFI – Attachment 1 – Draft Annual Report 2021-22 – Excerpt for IPART

4.6.4 Councillors have been dismissed and a council election will be held

One reason for granting the 2021-22 SV for 3 years was to allow the council to take into consideration the findings of the public inquiry. The public inquiry report has recently been released. Minister Tuckerman has agreed to the recommendation that all councillors be dismissed and has appointed the administrator until a new council is elected. Once an election is held, it will be the responsibility of the new councillors to continue to address the mismanagement and accountability issues raised by the community.

4.6.5 The council did not incur $120m of unreimbursed Water and Sewer expenditure

The Central Coast Council has taken $150m in emergency loans to repay $206m of inappropriately spent restricted funds. In its application, the council stated it spent approximately $120m of the restricted deficit on Water and Sewer services which went unreimbursed by the community.

The council's application states[41]:

[b] When including both principal and interest repayments

$120 million of the $200 million restricted deficit was spent maintaining Water and Sewer service levels, that were not reimbursed by the community as a result of IPART's determination in 2019 and $69 million was spent on additional capital projects that the community benefited from earlier than should have occurred.

This SV seeks to only recover 30% of these community benefits from the community, the remaining 70% has been achieved by Council through restructuring, sale of assets and cost containment actions as outlined in the Financial Recovery Plan.

However, using the information the council provides to IPART during its Water Supply Authority pricing reviews, we estimate:

- Over 2019-20 to 2021-22 the council overspent its allowed water expenditure by $39m.
- The majority ($37.4m) of overspending occurred in 2019-20.
- Since 2013-14 the council has a cumulative underspend of its allowed water expenditure of $143m.

The council's rates are recovering a General Fund deficit, not Water and Sewer

When IPART makes decisions on the efficient costs of water and wastewater services, we are protecting customers from inefficient expenditure that council incurs in delivering its services.

We asked the council to clarify whether it intended to recover any "unreimbursed" water expenditure through general income, the council responded:

Any Water and Sewer operational deficit that remained unpaid in those relevant, shortfall years was subsidised by the General Fund – so the final unrestricted deficit of $200m was all related to the General Fund. As IPART will be well aware, the only legal mechanism to allow Council to transfer / repay any funds from the Water and Sewer Fund to the General Fund is via Ministerial approval – and Council has been declined this approval. So, the General Fund cannot recover anything related to that unrestricted deficit from Water and Sewer. So that unrestricted deficit sits within the General Fund and can only be repaid through the General Fund.

As well as allowed operating expenditure, the council receives cost of capital and tax allowances. So, any overspend will affect the Central Coast Water Supply Authority's financial performance but should not affect the delivery of the general fund's activities.

We also note that prior to 2019-20, the council had consistently spent less than our allowance for water operating expenditure. We note that is has not asked that ratepayers be reimbursed for those outturn costs.

Our assessment of council's LTFP show no planned transfers from the general fund to either the water or sewer fund. We conclude that the additional income from the SV will not be used to reimburse any historical expenditure from the water or sewer fund.

5 IPART's decision on the special variation

Based on our assessment of the council's application against the 6 criteria and feedback we received from stakeholder submissions, we have approved in full the council's application. The council can extend the 15% 2021-22 temporary special variation to general income from 2024-25 to 2030-31.

The following conditions are attached to this decision:

- That the council uses the income raised from the SV for purposes of repaying loans and restricted funds (**Proposed Program**) in Appendix B
- That the council reports in its annual report for each year between 2021-22 and 2030-31 on:
  - the program of expenditure that was actually funded by the additional income
  - any significant differences between the Proposed Program and the program of expenditure that was actually funded by the additional income and the reasons for those differences
  - the outcomes achieved as a result of the additional income
  - the council's actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in its Long-Term Financial Plan (provided in the council's application)
  - any significant differences between the council's actual revenues, expenses and operating balance and the projected revenues, expenses and operating balance outlined in its Long-Term Financial Plan and the reasons for those differences.

The Tribunal is replacing the SV instrument it issued in May 2021, so the reporting conditions on this decision begin from 2021-22, rather than 2024-25.

5.1 Impact on the council

Our decision means that the council may retain the 15% increase to general income originally granted in May 2021 for a further 7 years, starting from 2024-25. This increase can remain in the rate base until 2030-31 and must then be removed.

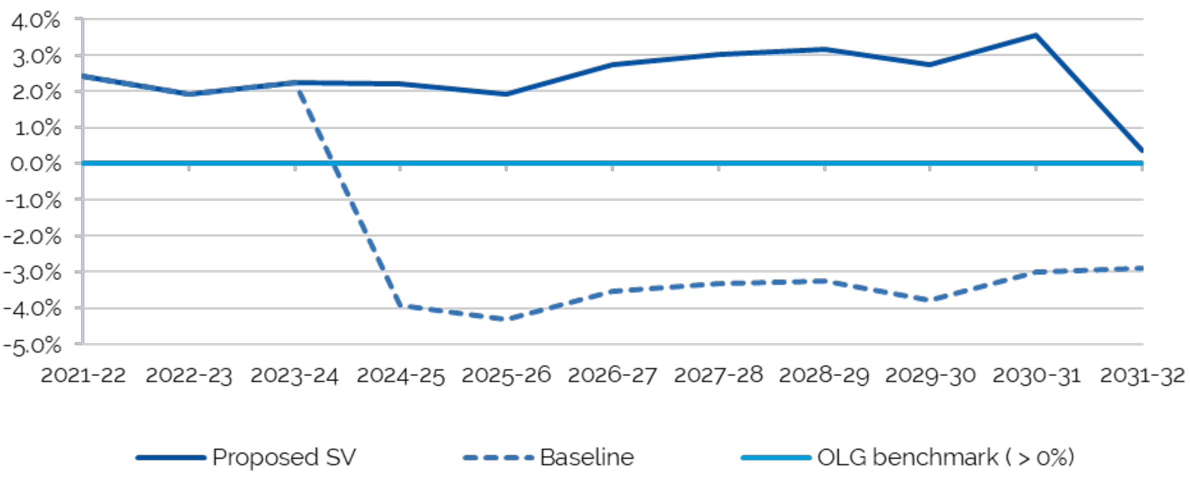
We estimate that over the 7 years from 2024-25 to 2030-31, the council will collect an additional $183 million in rates revenue compared with an increase limited to the assumed rate peg.

This extra income will enable the council to:

- repay the $150 million in emergency loans
- improve the council's ongoing financial sustainability so it can maintain service levels.

Under our decision, the projected operating performance ratio will continue to be above the OLG benchmark of greater than 0% over the SV period as shown below.

Figure 5.1 Council's Projected Operating Performance Ratio (%) (2022-23 to 2031-32) from the approved SV



Source: Central Coast Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

5.2 Impact on ratepayers

IPART sets the maximum allowable increase in general income. The council determines how it allocates any increase across different categories of ratepayer, consistent with our determination and legislative requirements.

The extension of the temporary SV until 2031-32 means that there will be no changes in the rates currently paid by ratepayers. That is, ratepayers will not benefit from the reduction in rates from the expiration of the temporary SV in 2024-25 as determined by the 2021-22 SV.

Appendices

A Assessment criteria

The Office of Local Government (OLG) sets the criteria for assessing special variation applications in its special variation guidelines. The guidelines help councils prepare an application to increase general income by means of a special variation.

A special variation allows a council to increase its general income above the rate peg. Special variations can be for a single year or over multiple years and can be temporary or permanent.

IPART applies the criteria in the guidelines to assess councils' applications. In brief, the 6 criteria for a special variation include:

- the need for, and purpose of a different revenue path for the council's General Fund must be clearly set out and explained in the council's IP&R documents
- there must be evidence that the community is aware of the need for and extent of a proposed rate rise
- the impact on affected ratepayers must be reasonable
- the relevant IP&R documents must be exhibited (where required) approved and adopted by the council
- the IP&R documents or the council's application must explain and quantify the productivity improvements and cost containment strategies of the council
- any other matter that IPART considers relevant.

We also provide comprehensive guidance on our approach to assessing special variation applications in fact sheets and information papers available on our website. Additionally, we publish information for councils on our expectations of how to engage with their community on any proposed rate increases above the rate peg.

Criterion 1: Financial need

The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long-Term Financial Plan and Asset Management Plan where appropriate.

In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long-Term Financial Plan applying the following two scenarios[3]:

- Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business as usual model, and exclude the special variation, and
- Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation.

The IP&R documents and the council's application should provide evidence to establish the community need/desire for service levels/project and limited council resourcing alternatives. Evidence could also include analysis of council's financial sustainability conducted by Government agencies.

In assessing this criterion, IPART will also consider whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act. If a council has a large amount of revenue yet to be caught up over the next several years, it should explain in its application how that impacts on its need for the special variation.

Criterion 2: Community awareness

Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long-Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. In particular, councils need to communicate the **full cumulative increase** of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category. Council should include an overview of its ongoing efficiency measures and briefly discuss its progress against these measures, in its explanation of the need for the proposed SV. Council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. The IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.

[3] Page 71, IP&R Manual for Local Government "Planning a Sustainable Future", March 2013

Criterion 3: Impact on ratepayers is reasonable

The impact on affected ratepayers must be reasonable, having regard to the current rate levels, existing ratepayer base and the proposed purpose of the variation. The council's Delivery Program and Long-Term Financial Plan should:

- clearly show the impact of any rate rises upon the community,
- include the council's consideration of the community's capacity and willingness to pay rates, and
- establish that the proposed rate increases are affordable having regard to the community's capacity to pay.

In assessing the impact, IPART may also consider:

- Socio-Economic Indexes for Areas (SEIFA) data for the council area; and
- Whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act.

Criterion 4: IP&R documents are exhibited

The relevant IP&R documents[4] must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income. We expect that councils will hold an extraordinary meeting if required to adopt the relevant IP&R documents before the deadline for special variation applications.

Criterion 5: Productivity improvements and cost containment strategies

The IP&R documents or the council's application must explain and quantify the productivity improvements and cost containment strategies the council has realised in past years and plans to realise over the proposed special variation period.

Councils should present their productivity improvements and cost containment strategies in the context of ongoing efficiency measures and indicate if the estimated financial impact of the ongoing efficiency measures have been incorporated in the council's Long-Term Financial Plan.

Any other matter that IPART considers relevant

The criteria for all types of special variation are the same. However, the magnitude or extent of evidence required for assessment of the criteria is a matter for IPART.

---

[4] The relevant documents are the Community Strategic Plan, Delivery Program, and Long-Term Financial Plan and where applicable, Asset Management Plan. Of these, the Community Strategic Plan and Delivery Program require (if amended), public exhibition for 28 days. It would also be expected that the Long-Term Financial Plan (General Fund) be posted on the council's web site.

B Expenditures to be funded from the SV

Tables B.1 and B.2 show the council's proposed expenditure of the SV funds over the next 10 years. As a condition of IPART's approval, the council is to report in 2022-23 to 2026-27 against its projected revenue, expenses and operating balance as set out in its LTFP.

Revenues and operating results in the annual accounts are reported both inclusive and exclusive of capital grants and contributions. To isolate ongoing trends in operating revenues and expenses, our analysis of the council's operating account in the body of this report excludes capital grants and contributions.

Table B.1 Summary of projected operating statement for Central Coast Council under its proposed SV application (2022-23 to 2031-32) ($000)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Total revenue	453,954	455,840	461,334	469,554	474,746	481,822	489,054	496,445	504,002	482,867
Total expenses	393,065	397,485	404,062	411,918	415,206	420,895	427,250	436,268	439,911	433,422
Operating result from continuing operations	60,889	58,355	57,272	57,636	59,540	60,927	61,805	60,176	64,091	49,445
Net operating result before capital grants and contributions	13,000	10,466	9,382	9,747	11,651	13,037	13,915	12,287	16,201	1,555
Cumulative net operating result before capital grants and contributions	13,000	23,466	32,848	42,595	54,245	67,282	81,197	93,484	109,686	111,241

Note: Numbers may not add due to rounding.

Source: Central Coast Council, *Application Part A*, Worksheet 8 and IPART calculations.

Table B.2 Central Coast Council – Proposed Emergency Loan Repayments ($'000, nominal)

Financial Year	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Sum
SV Income	24,252	24,858	25,479	26,116	26,769	27,438	28,124	183,037
Change in Operating Balance	8,712	8,866	9,014	9,155	9,647	9,835	10,074	65,303
Emergency Loans Principal	8,712	8,866	9,014	9,155	9,647	9,835	10,074	65,303
Emergency Loans Interest	1,831	1,780	1,637	1,414	1,294	1,022	799	9,777
Total Loan Repayments as % of SV	43%	43%	42%	40%	41%	40%	39%	41%

Source: IPART Modelling

Glossary

ABS	Australian Bureau of Statistics
Ad valorem rate	A rate based on the value of real estate.
Baseline Scenario	Shows the impact on the council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
Baseline with SV expenditure Scenario	Includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.
General income	Income from ordinary rates, special rates and annual charges, other than income from other sources such as special rates and charges for water supply services, sewerage services, waste management services, annual charges for stormwater management services, and annual charges for coastal protection services.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
Local Government Act	*Local Government Act 1993* (NSW)
Minimum rate	A minimum amount of the rate specified under section 548 of the *Local Government Act*, 1993.
OLG	Office of Local Government
OLG SV Guidelines	Guidelines for the preparation of an application for a special variation to general income.
OLG MR Guidelines	Guidelines for the preparation of an application to increase minimum rates above the statutory limit.
PGI	Permissible General Income is the notional general income of a council for the previous year as varied by the percentage (if any) applicable to the council. A council must

	make rates and charges for a year so as to produce general income of an amount that is lower that the PGI.
Proposed SV Scenario	Includes the council's proposed SV revenue and expenditure.
Rate peg	The term 'rate peg' refers to the annual order published by IPART (under delegation from the Minister) in the gazette under s 506 of the *Local Government Act 1993*.
SEIFA	Socio-Economic Indexes for Areas (SEIFA) is a product developed by the ABS that ranks areas in Australia according to relative socio-economic advantage and disadvantage. The indexes are based on information from the five-yearly Census. It consists of four indexes, the Index of Relative Socio-economic Disadvantage (IRSD), the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD), the Index of Economic Resources (IER), and the Index of Education and Occupation (IEO).
SV or SRV	Special Variation is the percentage by which a council's general income for a specified year may be varied as determined by IPART under delegation from the Minister.

1 Central Coast Council, *Application Part B,* February 2022, p 6.
2 Central Coast Council, *Application Part B,* February 2022, p 60.
3 Ibid.
4 IPART, *Special Variation Application Central Coast Council,* May 2021, p 1..
5 Office of Local Government (OLG), Guidelines for the preparation of an application for a special variation to general income 2020-21.
6 Central Coast Council, *Application Part B,* February 2022, p 6.
7 informed decisions, *Central Coast Socioeconomic Review,* January 2022.
8 Central Coast Council, *Application Part B*, February 2022, p 76.
9 Central Coast Council, Minutes of Council Meeting, 3 February 2022, p3.
10 Central Coast Council, *Application Part B,* 7 February 2022, p 60.
11 Central Coast Council, Long Term Financial Plan 2023-32, Income Statement for Baseline Scenario.
12 Central Coast Council, *Application Part A*, Worksheet 8 and IPART calculations.
13 Central Coast Council, *Application Part B,* February 2022, pp 85-86.
14 Central Coast Council, *Application Part B,* February 2022, p 6.
15 Central Coast Council, *Application Part B,* February 2022, p 44.
16 Central Coast Council, *Application Part B,* February 2022, p 18.
17 Central Coast Council, *Application Part A*, Worksheet 8 and IPART calculations.
18 Central Coast Council, *Application Part A*, Worksheet 7 and IPART calculations.
19 Central Coast Council, *Application Part B,* February 2022, p 18.
20 Central Coast Council, *Delivery Program 2022-23 to 2024-25,* February 2022, pp 31-34.
21 Ibid.
22 Central Coast Council, *Application Part B,* February 2022, pp 21-23.
23 Central Coast Council, *Application Part B,* February 2022, p 18.
24 Central Coast Council, *Application Part B,* February 2022, pp. 17, 31.
25 IPART, *LG Determination - Central Coast Council's special variation application for 2021-22*, p 2.
26 Central Coast Council, *Community Feedback – Consultation Summary Report,* January 2022, Appendices 4 and 5, pp 1-22.

[27] Central Coast Council, *Consideration of Submissions and Adoption of Revised CSP, Operational Plan, Resourcing Strategy, and consideration of an SV application*, February 2022.
[28] IPART, *LG Determination - Central Coast Council's special variation application for 2021-22*, p 2.
[29] Central Coast Council, *Application Part B*, February 2022, p 76.
[30] Central Coast Council, *Application Part B*, February 2022, p 67.
[31] Central Coast Council, *Application Part B*, February 2022, p 67.
[32] Central Coast Council, *Application Part B*, February 2022, p 76.
[33] Central Coast Council, *Application Part B*, February 2022, p 93.
[34] Central Coast Council, *Adopted Resourcing Strategy*, December 2021, p 24.
[35] Central Coast Council, *Application Part B*, February 2022, p 91.
[36] Central Coast Council, *Application Part B*, February 2022, p 97.
[37] IPART, *LG Determination - Central Coast Council's special variation application for 2021-22*, p 1.
[38] Central Coast Council, *Application Part B,* February 2022, pp 48-50.
[39] Central Coast Council, *Application Part B*, February 2022, p 50.
[40] IPART, Special Variation for the Central Coast Council 2021-22.
[41] Central Coast Council, *Application Part B,* February 2022, p 19.

© Independent Pricing and Regulatory Tribunal (2022).

With the exception of any:

a. coat of arms, logo, trade mark or other branding;
b. photographs, icons or other images;
c. third party intellectual property; and
d. personal information such as photos of people,

this publication is licensed under the Creative Commons Attribution-NonCommercial-NoDerivs 3.0 Australia Licence.

The licence terms are available at the Creative Commons website

IPART requires that it be attributed as creator of the licensed material in the following manner: © Independent Pricing and Regulatory Tribunal (2022).

The use of any material from this publication in a way not permitted by the above licence or otherwise allowed under the Copyright Act 1968 (Cth) may be an infringement of copyright. Where you wish to use the material in a way that is not permitted, you must lodge a request for further authorisation with IPART.

Disclaimer

Nothing in this document should be taken to indicate IPART's or the NSW Government's commitment to a particular course of action.

This document is published for the purpose of IPART fulfilling its statutory or delegated functions as set out in this document. Use of the information in this document for any other purpose is at the user's own risk, and is not endorsed by IPART.

ISBN 978-1-76049-577-0