

IPART SUBMISSION by [REDACTED]

On

Central Coast Council request for a Special Rate Variation

Attention: The Minister for Local Government Shelley Hancock MP

The Member for Terrigal Adam Crouch MP

The Member for Gosford Ms Liesl Dorothy Tesch AM, BSc MP

The Member for the Entrance Mr David Raymond Mehan MP

The Member for Wyong Mr David Harris MP

Copy: The Administrator Central Coast Council

Without Prejudice

Reference(s). I refer to the letters from Central Coast Council (CCC) CEO Rik Hart dated 07 Jan 2021 and 13 Jan 2021 entitled 'Securing your future.' I also refer to other CCC documentation detailed where appropriate in this submission.

Purpose of Letters. The purpose of the letters to ratepayers was to outline the need for a substantial rate increase in order to 'maintain a level of service our community expect.' The two letters are essentially the same with an apparent mathematical error being corrected in the second one. They outline two solutions to the disastrous financial situation the council finds itself in – a 10% one-off rate increase for a period of seven years or a 15% one-off permanent increase in rates. Since those letters the council has received significant negative feedback from the ratepayers and has modified its survey of ratepayers to include an option to maintain the rate increases in line with IPART allowances – nominally 2% apparently increasing to 2.5%.

Hobson's (No) choice. The letter(s), the CCC website document 'Securing your future with a rate rise' and the linked 'Fact sheet: Impacts on rates and Council services' paint a dire picture of the impact on council services if the rate payers make any other choice than the permanent SRV 15% rate rise. The letters and the supporting documentation do not accurately portray the actual income generated over the four years detailed in the supporting tables. The 10% alarming \$17.3M jump in rates for 2021-22 is followed by a 'Total Extra Council Rate Income (from prior year)' of \$4.8M. Similarly the proposed 15% rate increase is tabulated as \$25.9M in the corrected letter of 13 Jan with the total extra rate Council income (from prior year) tabulated as \$5.0M. These figures mask an actual increase in rate income for the two choices of \$22.1M and \$30.9M respectively. The net result, which is not published, is that the total rate income increase over the four years outline is \$40.8M for the IPART approved standard increases or \$98.4M for the special rate variation (SRV) of 10% and \$134.0M for the 15% SRV. Clearly both SRV choices would result in an increase of many hundreds of millions of dollars in rates for the council in the medium

to long term. This is not made clear in the documentation which is simplistic and potentially misleading to the point of dissembling. Yet despite this the fact sheet contains a table that essentially states that the council can only *maintain* services with the 15% permanent increase – this is a Hobson’s choice picture with no viable alternatives offered.

Income versus Expenditure. The 10% seven year increase would still result in a reduction in council services. This is despite cost cutting, staff reductions, asset sales and further borrowing outlined in the Administrator’s 30 Day report. The difference between the two SRV proposals is only \$8.6M in the first year. The original budget for 2020-21 outlined in the 2020-2021 Business Report and Attachments show an income excluding capital income of \$551,037,000 and expenses as \$564,434,000. This was revised to \$542,890,000 and \$657,991,000 for a financial year loss of \$115.1M after the administrator was appointed. These figures are staggering and are indicative of previous incompetent financial management. Nevertheless the documented \$8.6M difference between the 10% and the 15% SRV will apparently keep the council’s services at the current level for 2021-22? It beggars belief how \$8.6M in a half a billion dollar plus budget can achieve that effect. Surely the Acting CEO means that the 15% SRV is necessary to maintain the current level of services in the long term? Given that the 10% rate increase would double the rate income in the just over 7 years (7.3 years) is there going to be such a massive increase in costs in the medium to long term that this doubling of rate income would still be insufficient to cover the projected shortfall? If that is the case then that should be clearly explained in the documentation canvassing a substantial permanent jump in rates of 15%. Indeed a basic business plan should be outlined which indicates when the massive \$565M debt will be paid down to an acceptable level and how the budget for the upcoming four to five years will look. The rate payers need assurance that the council will no longer spend more than it earns. The profligate budgeting needs to cease and cost control implemented. It is not sufficient for an administrator, who is only overseeing council activities for a few short months, to bring the budget back under control by necessary and swift cost controls, staff reductions and waste reduction; these actions must be demonstrated over the forward budgets by a new management team. It is unacceptable to have a council that spent \$50M on IT consolidation which is not yet complete and had to borrow money from the state government to pay staff wages. This is the second time that the council has been in administration in recent memory. If the council were an Australian company the administrator would have probably had to wind it up and sell assets to cover the substantial debt.

Councillor Oversight. The sorry financial state of the CCC has been a long time developing. The Administrator in his 30 day report outlines the “...failure to manage the Council’s budget from the time of amalgamation...” with capital programs exceeding the rate revenue, staff numbers increasing by 242 and staff costs increasing by 43% and the previously mentioned \$50M spend on IT with an ongoing \$8M commitment. This resulted in a turnaround from a \$65M surplus in 2017 to increasing losses each year culminating in a loss of \$115.1M this year. So rather than achieving synergies of scale and efficiencies in the merging of the two previous councils such as a reduction in duplicated services the management team oversaw a rapid financial decline which saw the council unable to pay staff wages without a short

term loan from the state government. The magnitude of this disaster not only reflects on the staggering ineptitude of the CEO and the management team it reflects on the councillors whose roles are clearly defined in Section 223 of the NSW Local Government Act 1993 No 30. They were, amongst other things, responsible for ensuring as far as possible the financial sustainability of the council, determining and adopt a rating and revenue policy and operational plans that support the optimal allocation of the council's resources to implement the strategic plans (including the community strategic plan) of the council and for the benefit of the local area, determining the process for appointment of the general manager by the council and to monitor the general manager's performance, determining the senior staff positions within the organisation structure of the council and, were responsible for ensuring that the council acts honestly, efficiently and appropriately. These are clear obligations under the Act and empowered the councillors to seek the necessary information to achieve those requirements. Councillors are essentially a board of governance and effectively have the same fiduciary responsibilities as any other board. Their combined failure to do so is acknowledged by the Administrator in his 30 day report where it was reported that some councillors were not aware of the extent of the financial problem until it surfaced in a council report on 12 October 2020. Some councillors felt misled by the CEO and CFO and that they were denied the information they needed to fulfil their responsibilities. These comments and the outcomes indicate a complete lack of understanding by the councillors of their obligations and powers under the Act through either naivety, ignorance, ineptitude or possibly even negligence. It beggars belief that none of the councillors were aware of the magnitude of such a rapid decline in the council's fortunes. Councillors are often elected on party lines as a training ground for politicians or with vested interests such as developers and bring a diverse representation to the council table. However, this group of councillors have let a disaster develop under their noses over many years. Indeed previous iterations of the council have seen councillors referred to ICAC for possible corruption and the council has been in administration before in 2016. Indeed the auditors of the Gosford City Council Financial report for 2016 were unable to provide an opinion to the then Administrator of the CCC on the financial reports of the Former Gosford City Council because of *"...control issues identified during their preparation of the financial report management have been unable to provide us with required written representation that all transactions have been recorded and are reflected in the financial statements..."* This apparently continual employment of inept managers and poor oversight by the councillors of the CCC since its inception as a council does not engender community confidence in the probity of councillors per se. Councillors who do not have the appropriate skills must be brought to a minimum common standard before or after election by undertaking financial/budgeting training and the equivalent of a director's course tailored for local government. Council's Governance and Business Project *G.08 2020-21* which provides a professional development program for the Mayor and Councillors goes part of the way to achieving this aim but it is a "slamming the stable door after the horse has bolted" measure. These type of council governance fiascos occurring around the state must cease and training must be mandatory for aspiring councillors. CCC is as good a place to start as any.

Council Service Delivery. The author of this submission canvassed friends and acquaintances on the perceived degree of service delivery by the CCC. The comments were nearly all negative and ranged from the profusion of weeds and lack of grass maintenance to poorly maintained roads with large potholes and little or no kerbing and guttering work being conducted in the local area. Comment was also made about a number of council branded vehicles simultaneously driving apparently aimlessly around the Terrigal Haven on numerous occasions. Council enforcement officers were also observed issuing parking fines and dog leash enforcement fines on weekend days where overtime or penalty rates may have had to be paid to the council staff member. This was viewed as unnecessary by the people canvassed as the council had reduced the available parking spots in Terrigal and also limited parking times to one hour for a large portion of the available spots. The view was that it would be difficult for a family to park and go to the beach for a swim or have meal inside the one hour period. If council's intention was to make more spots available by forcing people to move their cars it had the actual effect of engendering a negative view of the area as a family friendly place. The author also observed a worker trimming the scrubby weeds, palm fronds and lantana protruding through the railing and over the sidewalk on Terrigal Drive as it goes downhill into Terrigal. This worker threw the cuttings over the fence back on top of the scrub and lantana. A day or two later a different worker was observed removing some of this debris from part of the area. This may have occurred as a result of a complaint to council. This was at a time when the Terrigal area was fully occupied by NSW tourists. The fence over which the debris was thrown is in itself in poor condition with the last heavily corroded post at the bottom of the hill wrapped in duct tape to hold it together. The lack of maintenance may have resulted from the Administrator's cost cutting measures or it may be for other reasons but whatever the reason the local area which is a prime tourist destination for Sydney has a scruffy and unmaintained appearance. The Q1 progress report published by council identifies 108 current actions, measures and projects under the Community Strategic Action Plan (CSP) for the coast. Some of these projects have been adversely affected by COVID and other natural events beyond council's control. Nevertheless while it is admirable to group projects under key banners and defined targets it is patently silly to identify the number of ash internments and burials as business targets. Overall, and despite the CSP themes of "Belonging, Smart, Green, Responsible and Liveable" the perception amongst the ratepayers canvassed was that the council was remiss in its basic service obligations of roads, rubbish and maintenance.

Conclusions

- 1.** The proposed SRV rate increase options have not been adequately explained and there is insufficient supporting information to make an informed decision – the 15% SRV is presented as a *Hobson's choice*.
- 2.** A strategic business plan should be developed for the long term durability of the council and its services. This should identify key targets and when the council debt is going to be paid down to an acceptable level.
- 3.** The new comprehensive business plan should identify a realistic and sustainable SRV which is then put to the rate payers for approval.

4. The Administrator should remain in place until the business plan and fully justified SRV is put to the rate payers and is approved.
5. The Local Government Act should be amended to require mandatory fiscal and governance training for aspiring or elected councillors. Councillors must be made aware of their legal obligations.
6. As a direct result of a new strategic business plan CCC must budget so that its expenses do not exceed its income and ability to pay debts.
7. CCC must undertake an efficiency drive and a staff FTE reduction based on sound workforce principles.
8. CCC must focus on core council business such as service provisions to rate payers.
9. Consideration should be given to pursuing legal action against the previous CEO, CFO, the Mayor and councillors of CCC for breaches of the Local Government Act and possible negligence which resulted in material harm to council funds and thus the rate payers of CCC.

[REDACTED]

Rate Payer CCC

29 Jan 2021

[REDACTED]