

IPART FAILING TO PROTECT RATEPAYERS FROM MONOPOLY PRICING

As a pricing regulator, IPART exists to protect ratepayers from monopoly pricing. Unfortunately, it always seems to place more weight on the views of the monopolies than those of their customers.

Councils and their customers both have the same rights to make submissions to IPART setting out their views on Special Rates Variations. The process is stacked in favour of Councils because they have access to more resources – paid staff to make the submissions and all the information in their systems.

Despite the SRV process already being loaded in favour of Councils, IPART grants them further privileged access to Tribunal members. A recent GIPA request on the Central Coast Council Special Rates Variation shows Council Executives being granted face to face meetings with Tribunal Members – access never granted to their customers. Records of these meetings show the Council provided misleading information which is difficult to challenge when outside the public submission process.

When IPART allows Councils direct lobbying access to Tribunal Members by meeting, email or phone, records of these discussions should be published on its website so the community can challenge the opinions and information provided.

IPART should also provide the Community with more access to Tribunal Members apart from the formal submission process.

With all their resources, SRV processes will always be stacked in favour of Councils. IPART needs to do more than at least make the playing field a bit more level.

SEGREGATION NEEDED BETWEEN SRV APPLICATION AND ADJUDICATION PROCESSES

Councils know how to game IPART's interpretation of the OLG regulations. For example, at a Council meeting on 29 June 2021, Central Coast Council Director Water and Sewer, Jamie Loader, stated:

“The focus of the Water and Sewer Department certainly for the next few months and the coming year will be completing our pricing submission to IPART which is due in September and assisting IPART and their consultants through the remainder of that determination process leading up to a decision in May next year.”

So, Central Coast Council's “main focus” over the next twelve months will not be improving water quality, customer service, or productivity – but making a submission to IPART for more of our money! And Mr Loader's reference to “assisting IPART and its consultants” raises questions about due separation between application process and objective adjudication.

IPART should do more to ensure its adjudications on SRVs are objective and seen to be objective. It should not be providing assistance to Councils on their applications other than providing published guidance material.

COUNCILS MANIPULATING PUBLIC CONSULTATION

At present, Councils are responsible for their own public consultation and reporting the results to IPART. This enables Councils to manipulate the process and the presentation of results in favour of rate hikes.

I recently sat on a Central Coast Council consultative forum with respect to its upcoming water rates IPART submission. It was a total farce. The fora asked participants to rank expenditure items without providing any indication of the likely impact on rate increases. It was like giving consumers options on their next car without telling them the price tags.

A recent telephone survey by Central Coast Council for a 15% rate hike in general rates consisted of reading a “concept statement” to each respondent explaining why they should support a rate hike before asking them if they did so. It was something out of a George Orwell novel.

I believe there is a case for IPART undertaking public consultations directly with ratepayers because Council run consultations cannot be trusted.

IPART ASSESSMENT METHODOLOGY FOR SRVs is FLAWED

The following comments refer to the recent SRV application by Central Coast Council for general rates, but they are relevant to SRVs for water rates because the principles are the same – especially the failure to properly assess productivity.

IPART INCENTIVISING POOR FINANCIAL MANAGEMENT

IPART’s methodology in interpreting OLG regulations on SRVs is flawed because it places too much weight on the “financial need” of Councils. It should look more closely at what has created the “financial need” in the first place.

The SRV by Central Coast Council (CCC) is a good recent example. CCC freely admits its “financial need” was caused by its own financial mismanagement.

So, in approving a 15% rate hike for CCC, IPART was effectively telling Councils that financial mismanagement creates “financial need” which in turn unlocks IPART’s criteria for a rate hike. IPART’s methodology therefore incentivises financial mismanagement.

IPART uses the Operating Performance Ratio (OPR) to measure financial need. The OPR, however, is really a measure of how well a Council manages its finances. All a Council has to do is increase its expenditure to unsustainable levels and the OPR turns negative – thereby unlocking IPART’s criteria for a rate hike.

IPART FAILING TO PROPERLY ASSESS PRODUCTIVITY

Productivity is a quantifiable measure of output per employee. Yet, even though it is one of the five IPART criteria, Councils are not required to produce quantifiable measures of productivity (output per employee) in their applications for SRVs.

All Councils have to do is to provide isolated examples of cost reduction initiatives (which may well have been dwarfed by other cost increases not mentioned in their submissions), without providing any overall measure of output per employee.

Again, CCC is a good example. Even after their recent staff cuts, half of which were vacant or unfilled positions, they still employ more staff - approx. 2000 according to their latest Operational

Plan approved on 29 June 2021 - than before the merger (1875 according to the Administrator's 30 day report). And CCC is providing fewer services given all the recent service cuts.

So, CCC is providing fewer services with more staff than before the merger which means their productivity has fallen. How can providing less service with more staff justify a rate hike?

In approving a 15% rate hike for three years, IPART argued that CCC would have a breathing space to work on productivity and efficiency initiatives whilst being free to apply for a further SRV if these measures aren't effective.

But how on earth do you incentivise productivity improvements by telling Councils if they fail to deliver such improvements they will qualify for a further rate hike in three years based on "financial need?"

IPART is incentivising low productivity. No wonder CCC has totally ignored the three year limit on the SRV and produced a long term financial plan, approved on 29 June, that assumes the 15% SRV will be made permanent when the three year period expires.

CCC has effectively approved a long term deficit budget that only balances on the assumption that IPART approves further rate hikes. CCC will run out of cash sometime in 2024/25. It is intentionally creating financial need to game IPART's OPR assessment.

IPART APPROVED RATE HIKES FUNDING NOSE IN TROUGH CULTURE FOR EXECUTIVES

And it's not just employee numbers. IPART is also incentivising a nose in trough culture at senior management level.

Senior management salaries and other perks are going through the roof because Councils know such expenditure makes rate hike applications more likely because of the negative impact on their OPRs. Executives can game the system to subsidise their life styles.

The CCC Administrator's report shows that between 2017 and 2020, CCC's employee numbers increased by 242 or **12.9%** (1875 to 2117). Yet, over the same period, employee related costs rose by \$55M or 33.1% (166M to \$221M) = \$55M or **33.1%**

The fact that employee costs rose three times as much as employee numbers suggests increased salaries and perks at Executive and Senior Manager level. More and more higher graded and higher salaried staff. And none of this feeding through into any measurable improvement in services for the community. Yet IPART is incentivising this nose in the trough culture.

POSSIBLE REFORMS

1 Interpret OLG regulations so that the "financial need" criterion does not apply if a Council is deemed to have *intentionally* created financial need. For example, CCC has set a long term deficit budget with the aim of turning its Operational Performance Ratio (OPR) negative from 2024/25 thereby unlocking the "financial need" criteria for a rate rise.

2 Require Councils to produce quantifiable measures of productivity (output per employee) and annual targets for productivity improvements. SRVs should not be granted where Council's have failed to increase productivity (on the basis they don't need additional rate income if they can improve the OPR through productivity slack).

3 IPART should undertake public consultations directly with ratepayers because Council run consultations cannot be trusted.

4 When IPART allows Councils direct lobbying access to Tribunal Members by meeting, email or phone, records of these discussions should be published on its website so the community can challenge the opinions and information provided.

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