

Submission to IPART on Central Coast Council (CCC) Special Rates Variation (SRV)

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Contents

- 1 Criterion #01 – A Demonstrated Need for Higher Increases to Charges**
 - 1.1 The Economic Principle of Moral Hazard
 - 1.2 Central Coast Council’s Failure to Properly Consider Alternatives
 - 1.3 There Is An Alternative
 - 1.4 State Government Funding

- 2 Criterion #02 – Community Awareness of Council Plans**
 - 2.1 Central Coast Council Admits Providing Incomplete and Inaccurate Information During the Public Consultation
 - 2.2 Central Coast Council Survey
 - 2.3 Bias and Inaccuracies in the Telephone Survey

- 3 Criterion #03 – A Reasonable Impact on Ratepayers**
 - 3.1 Financial Impact on Ratepayers
 - 3.2 Impact on Community Trust

- 4 Criterion #04 – A Sustainable Financing Strategy**
 - 4.1 IP&R Documents not Lodged Before IPART Submission
 - 4.2 The need for the SRV to be “permanent.”

- 5 Criterion #05 – Productivity Improvements and Cost Containment Strategies**
 - 5.1 Central Coast Council Does Not Measure Productivity
 - 5.2 Evidence Productivity Has Fallen and Will not Recover with the SRV

- 6 Other Matters**
 - 6.1 Judicial Inquiry

1 IPART Criterion #01 – A Demonstrated Need for Higher Increases to Charges

1.1 The Economic Principle of Moral Hazard

1.1.1 The Council's submission to IPART argues that it has no alternative to increasing rates because of a financial crisis that it freely admits was caused by its own financial mismanagement. It is my opinion that there are alternatives the Council has not explored. I wish to present these alternatives, but before doing so I would like the Tribunal to consider the economic principle of moral hazard. This is because even if there really were no alternatives, the principle of moral hazard should still lead to a rejection of the Council's application.

1.1.2 I note that IPART possesses significant economic expertise and will therefore be familiar with the principle of moral hazard. In short, that one party (the Council) engages in financial recklessness knowing that another party (the ratepayer) will always bear the cost. This principle is important for regulatory bodies such as IPART because if IPART allows the cost of financial recklessness is borne by Central Coast ratepayers, then it gives a green light to similar recklessness by other Councils in future.

1.1.3 A key question for IPART is therefore this: If IPART approves an SRV to pay for financial mismanagement by Central Coast Council, how does that disincentivize financial mismanagement by other Councils in future? IPART'S decision here impacts more than just Central Coast Council. It sets a precedent that puts at risk millions of other ratepayers around the State. In my opinion, the principle of moral hazard alone negates the Council's argument on "demonstrated need."

1.2 Central Coast Council's Failure to Properly Consider Alternatives

1.2.1 IPART's criterion is clear that Councils need to "canvass alternatives to a rate rise." Central Coast Council (CCC) has not done so in letter or spirit. CCC's submission to IPART concedes this point (page 13): "It is noted that Council has considered other options (as described in question 2) and implemented them." CCC is clearly referring here to measures it has *already implemented*, in which case they cannot be considered "alternatives to a rate rise."

1.2.2 In terms of genuine “alternatives” to a rate rise, CCC provides only vague lists of draconian but unquantified service cuts which appear to be little more than scaremongering (e.g., page 11 of CCC’s submission). There does not appear to be any detailed work, quantification, or costings behind these lists, nor any indication of a serious planning process to develop them. In short, CCC has made no attempt to develop well thought through alternatives. Instead, it has engaged in scaremongering and fear to try and influence ratepayers and IPART.

1.3 There Is An Alternative

1.3.1 Throughout the consultation and beyond, the State Government Administrator has sought to belittle ratepayers by claiming none of us have produced an alternative to his own proposals. This is incorrect and unfair. The State Government Administrator, and his Executive Team, are being paid high salaries to work full time on their proposals, with significant resources at their disposal including access to all the information in Council databases. Ratepayers do not have the same time and resources and cannot be expected to produce detailed alternative plans. We can, however, suggest alternative strategies and approaches that could and should have been explored.

1.3.2 CCC’s submission to IPART lacks strategic thinking. It is crude and blunt. Slug ratepayers, cuts services across the board, and sell assets. Any child of ten with a spreadsheet could balance the books that way. Where is the strategic thinking? Where is the innovative thinking including alternative methods of service delivery? Where is the cultural change to drive performance, efficiency, and productivity?

1.3.3 An alternative approach would be to focus on community and strategic priorities. These would be priorities for future funding – not cut the same percentage as everything else so everything deteriorates together. Strategic prioritization would, if accepted, also identify other discretionary services or activities that might have to be discontinued altogether. Some of these might be maintained for the community through alternative providers such as partnerships with the community or voluntary sector – who in turn might have access to funding not available to Councils. Other services might be provided more cost effectively through alternative or innovative means of delivery. Allocating resources in accordance with community and strategic priorities, and exploring innovation in service delivery, could create a smaller and leaner Council that is able to deliver a better service in priority areas at

lower overall cost. In contrast, CCC has pursued a blunt and lazy spreadsheet approach.

- 1.3.4 In addition, all services could benefit from a program of cultural change focusing on performance management, accountability, greater efficiency and productivity, better customer and community relations. These are areas in which CCC performs poorly. Yet done well they produce more bang for the buck meaning less need for revenue raising or service cuts. Yet, CCC does not give serious thought to this as will be discussed further on IPART's criterion #05 relating to productivity.

1.4 State Government Funding

- 1.4.1 There are many good reasons for considering State Government as having some responsibilities in relation to the CCC financial crisis. Not least, the Office of Local Government is the regulator of local Councils. Councils are monopoly providers of services in any given community, and the State Government as regulator has a duty to protect the customers of those Councils from unlawful activities and financial recklessness.
- 1.4.2 Yet, CCC has refused to even consider an approach to State Government for additional funding. Why? In my opinion, this is because of a lack of independence in the role of the State Government Administrator. He was appointed by the Minister for Local Government and reports to her. She is his boss. There has to be at least a perception here that he has been instructed by the Minister for political reasons to not even explore the idea of additional State Government funding. If so, this is unreasonable.
- 1.4.3 The option of additional State Government funding should at least be on the table and part of the community discussion. In the end, the State Government will take the final decision on whether or not to provide such additional funding, but they should at least have to publicly justify and be accountable to the community for that decision – not simply have it taken off the table for public discussion by their appointed administrator.
- 1.4.4 If additional State Government funding had been considered as part of the alternatives there are many options available including short term funding in conjunction with other options set out in 1.3 above – and indeed such short-term

funding would make those options even more viable. The State Government Administrator has, however, refused to even consider such options. Why?

- 1.4.5 IPART Tribunal Members are also appointed by State Government, but they are required to act independently, and the question of additional State Government funding must at least be an option for consideration.

2 IPART Criterion #02 – Community Awareness of Council Plans

2.1 Central Coast Council Admits Providing Incomplete and Inaccurate Information During the Public Consultation

- 2.1.1 Central Coast Council (CCC) has now admitted live on ABC radio that it did not provide complete and accurate information to the community during the public consultation. The community cannot therefore have been aware of CCC's plans. A link to the radio interview is shown below.

<https://www.abc.net.au/radio/centralcoast/programs/breakfast/rate-rise-revelations/13171706>

There is a longer version of the same interview on ABC's website (Scott Levi breakfast show edition for 19 February – about 3:01:35 in).

- 2.1.2 As you can hear, CCC has now publicly admitted the real rate increase in Gosfordshire will be 42%. Yet, the only percentages provided during the public consultation were 10% and 15%.
- 2.1.3 Somewhat bizarrely (as you can hear in the longer clip) CCC's spokesperson appears to be blaming IPART for the misinformation by claiming IPART did not permit "blending" of pre and post harmonization percentages during the consultation. This does not make sense given that they did attempt to "blend" the weekly increases during the consultation. If they were unable to blend pre and post harmonization numbers, how come they told Wyongshire residents their rates would go down \$3 a week even after the SRV? The Council spokesperson appears to have provided a dishonest excuse in claiming they were not allowed to blend the percentages – part of a continuing pattern of lack of transparency throughout the consultation.

- 2.1.4 As it happens, CCC got the weekly amounts wrong too. The weekly increase in Gosford as submitted to IPART is \$8.13 compared with \$7 stated in the public consultation; and the weekly decrease in Wyong will be \$2.18 not \$3 as stated during the public consultation.
- 2.1.5 It appears the Council had a deliberate communications strategy not to mention the post harmonisation 42% increase in Gosfordshire, presumably because they were worried about the community reaction. Instead, they hid behind weekly increase numbers that they felt would sound less alarming – but even got those wrong through miscalculation. The community was therefore not made aware of the Council’s plans during the consultation which means CCC cannot meet this criterion.

2.2 Central Coast Council Survey

2.2.1 Even before the admission of misinformation on live radio, CCC was embarrassing itself with its information campaign and surveys. Its first letter to all residents trying to sell the rate hike through scaremongering about service cuts had to be pulped and reprinted at ratepayer expense because the contact number on the letter was the local garbage contractor. The term “pulped fiction” appeared on social media. The survey was also boycotted by the main protest group because it forced ratepayers to choose between 10% or 15% with no other option. This forced CCC to issue a second survey with a rate peg option, but ratepayers still had to answer a question choosing between 10% or 15% just to get to the rate peg option. So, the main protest group continued to urge the community to boycott the survey.

2.2.2 The results of the amended survey were as follows:

No increase - 72.4%

15% hike - 17.4%

10% hike - 10.3%

2.2.3 CCC then completely ignored these results and applied to IPART for a 15% SRV! The State Government Administrator even had the chutzpah to argue the result showed 15% was more popular than 10%. This is a shocking misrepresentation of the full statistics. When people had to choose between 10% or 15%, they opted 70% to 30%

in survey one and 74% to 26% in survey two for 10% rather than 15%. So how was 15% the more popular of the two? And both surveys showed far higher opposition to 15% than 10%.

- 2.2.4 It is also worth pointing out that these results understated opposition to the SRV as the main protest group urged the community to boycott the survey due to bias, and Council employees were a significantly over-represented statistical cohort at 5%. The survey also included inaccurate information on the weekly increases and did not reveal the post harmonisation 42% increase in Gosfordshire (see 2.1 above).

2.3 Bias and Inaccuracies in the Telephone Survey

- 2.3.1 Perhaps disappointed with the results of the above survey, the Council then embarked on a separate telephone survey. Apparently, about 400 people were selected with no detail given on exactly how. They were read a script telling them why they should support a rate increase before being asked whether they did support a rate increase. This script was called a “concept statement, which sounds like something out of an Orwellian Dystopia, and indeed the whole exercise sounds like something out of Russia. This survey clearly has no credibility whatsoever.
- 2.3.2 Despite the fact fieldwork was conducted 12-17 February, one week after the Council’s submission to IPART, the information provided to respondents was inaccurate and contradicted information already provided to IPART (page 11 of CCC’s submission). In particular, the “concept statement” repeated inaccurate weekly increases to rates (\$7 increase in Gosford and \$3 decrease in Wyong) despite the fact the CCC had already corrected these errors in its submission to IPART a week earlier (\$8.13 in Gosford and \$2.13 in Wyong). The “concept statement” also provided inaccurate information on the comparison with average rates in Lake Macquarie, Newcastle and Cessnock. The submission to IPART (page 11) conceded these comparisons were before the SRV whereas the “concept statement” wrongly claimed they were post SRV.

Submission to IPART 8 February 2021

Typical residential ratepayer	Former Gosford LGA	Former Wyong LGA	Lake Macquarie	Newcastle	Cessnock
Ordinary Rates	\$1,029.00	\$1,202.00	\$1,494.64	\$1,582.47	\$1,261.79
% variation against Central Coast Average			34% higher	42% higher	13% higher

Based on the above, even with a rate variation of 15%, average residential rates for Central Coast Council would remain lower than those for Lake Macquarie and Newcastle.

After harmonising the rates between Wyong and Gosford, the projected impact of a 15% SV on the average residential payer from Gosford is approximately \$8.00 per week.

While, the projected impact of a 15% SV on the average residential payer from Wyong is \$2.00 per week decrease.

Telephone survey “concept statement” 12-17 February



Council proposes that in 2021-22 the rate increase would consist of the annual 2% rate peg and a further 13% Special Variation (SV) that would be applied once in 2021-22 and will remain permanently in the rate base. From 2022-23 the rate peg (as determined by IPART) will apply. Based on IPART information the assumed rate peg will be 2.5% from 2022-23 and onwards.

The exact amount you will pay will vary depending on the rating category for your parcel of land and the value of your land as determined by the NSW Valuer General. These calculations are impacted from changes to land values and will be applied as received from the NSW Valuer General.

Average ordinary rates for the Central Coast Council region will move by the following based on land values from early December 2020. The SV increase does not apply to waste and on-site sewer management (OSSM) and annual charges which also appear on rates notices:

- For residential – average increase of \$3.20 per week
 - former Gosford LGA average increase of \$7 per week
 - former Wyong LGA average decrease of \$3 per week



In considering a possible rate variation, Council looked at the rate levels of neighbouring Councils. Even with a 15% rate increase, Central Coast ratepayers will still be paying less than neighbouring Councils.

For example, on average:

- Lake Macquarie rates will be 35% higher than Central Coast rates
- Newcastle rates will be 43% higher, and
- Cessnock rates will be 14% higher.

3 IPART Criterion #03 – A Reasonable Impact on Ratepayers

3.1 Financial Impact on Ratepayers

- 3.1.1 It is difficult to see how a 15% SRV, which amounts to a 42% post harmonization increase in Gosfordshire, could be reasonable in its socio-economic impact on an economy already hit by COVID 19. CCC has provided no real economic modelling, but a 42% rate hike can only reduce aggregate demand. This will impact businesses and therefore flow through to unemployment, incomes, and poverty. It is irresponsible for CCC not to have provided quantifiable economic modelling for demand, employment, prices, income, and poverty.
- 3.1.2 CCC's submission to IPART quotes the SEIFA index of disadvantage and claims Central Coast is "relatively average." I think the correct term here should be "above average" in disadvantage based on Central Coast's SEIFA score of 989 compared to 1001 in NSW and 1018 in Greater Sydney. The Central Coast is therefore a more disadvantaged area which means a 15% SRV, and 42% increase in Gosfordshire, will hit an already disadvantaged area even harder.
- 3.1.3 CCC argues in its submission that harmonization will provide a dampening effect to disadvantage because it redistributes the burden of rates from more deprived Wyongshire to less deprived Gosfordshire. This is an utterly superficial and opportunistic argument not backed up by any detailed modelling. In particular, it fails to address the fact that disadvantage is not even distributed within either Gosfordshire or Wyongshire. There are pockets of significantly higher and lower disadvantage in both areas. CCC provides no data on this spread of disadvantage and appears unconcerned about the impact of a 42% rates increase in the more disadvantaged pockets of Gosfordshire.

3.2 Other Impacts

- 3.2.1 It should also be noted there will be other non-financial impacts. The Central Coast scores poorly on other measures such as educational attainment and domestic violence. The impact of the rate hike will not help with such problems.
- 3.2.2 The impact on trust in public institutions, and civic engagement, should also not be under-estimated. If the community is forced by State Government to pay the costs of mismanagement by a local Council, with no accountability for those responsible,

and following public consultations that were less than transparent, and the results of which are ignored, the impact on community trust in public institutions could be severe and long lasting. This in turn may have many other undesirable knock-on effects.

4 IPART Criterion #04 – A Sustainable Financing Strategy

4.1 IP&R Documents not Lodged Before IPART Submission

- 4.1.1 IPART’s criterion states: “IP&R documents must be exhibited (where required), approved and adopted by the Council before the Council applies to IPART for a special variation to its general revenue.” It is clear this did not happen. No IP&R documents, updated for the SRV application, appear to have been approved before the deadline for submission. If IPART has granted an extension, then it needs to explain why?
- 4.1.2 The term “exhibition” also needs defining here as there does not appear to have been any public exhibition of documents updated for the SRV. The information in the Council’s IPART submission in relation to this criterion appears to relate to IP&R documents and public exhibitions *before* the financial crisis – so it is therefore difficult to see the relevance to this SRV application.
- 4.1.3 With respect to the general concept of “financial sustainability,” it is difficult to see how CCC will ever be financial sustainable unless the root cause of the previous crisis is fixed. Without accountability for past mismanagement, and without cultural change to improve performance, efficiency and productivity, ratepayers will simply be throwing good money after bad. It will only be a matter of time before more money is wasted. How can ratepayers trust with even more of our hard-earned money those who have so spectacularly mismanaged it in the past?

4.2 The Need for the SRV to be Permanent

- 4.2.1 CCC has applied for the SRV to remain permanently in the rate base. There is, however, no case for this. Part of the extra annual income raised by the SRV is to

pay off debt and repay restricted funds. Once the debt has been repaid and restricted funds replenished, CCC will be receiving an annual windfall from ratepayers. CCC will be receiving extra money from ratepayers that has nothing to do with its arguments on financial sustainability.

5 IPART Criterion #05 – Productivity Improvements and Cost Containment Strategies

5.1 CCC does not measure productivity

5.1.1 Under this criterion, CCC is expected to explain past productivity improvements and plans to improve productivity over the SRV period. Yet, CCC's submission does not provide any statistics relating to productivity, which begs the question whether it measures productivity at all?

5.1.2 In economics, productivity is defined as output per person. Does CCC even measure this? There are no productivity statistics provided in the submission. Instead, the submission talks about input activities such as restructures, "renegotiating better outcomes," investment in IT, asset management, audits, and service reviews. Yet there is no information and no statistics to show how any of these input activities flow through to productivity improvements. Frankly, this part of the submission is little more than waffle. Indeed, in the case of IT investment CCC has admitted that poor project management has led to tens of millions being wasted on new systems post amalgamation which have failed to realise the benefits promised. If CCC produces no hard numbers to measure productivity, then how can it possibly meet this criterion? And how can ratepayers have any confidence our money will not continue to be wasted?

5.2 Evidence that Productivity has Fallen and will not Recover with the SRV

5.2.1 Whilst CCC does not appear to provide any measures of productivity, there is some convincing evidence that productivity has been falling and will not recover with this SRV. The State Government Administrator's 30 Day Report shows the following numbers on staffing between June 2017 and June 2020:

- Staff numbers increased by 242 (13%); and
- Staff costs increased by \$54.6M (33%).

As staff costs have risen 33% in 3 years there would have to be a greater than 33% increase in output for productivity to have improved. The Council does not provide a broad measure of output, but it is clear to anybody living on the Central Coast that output has not increased by 33% in that same period. Indeed, many residents would say they have seen little if any change. It is therefore obvious, that although the Council does not statistically measure productivity, it must have fallen significantly over the past three years.

- 5.2.2 It is also interesting to note that staff costs (+33%) have risen significantly faster than staff numbers (+13%). This provides evidence that these higher staff costs have gone into inflated salaries, cars, executive assistants, and other perks rather than extra services for the community. This further negates any suggestion of productivity improvements.
- 5.2.3 CCC Interim CEO's report of November 2020 claimed a reduction in Executive numbers from 8 to 5 (CCC's IPART submission incorrectly states this as 9 to 5 – page 109). A closer inspection of the detail, however, shows CCC was including in the reductions two long term vacant positions (hardly reductions) and the Executive Director HR who appears to still be employed in that position and on the same salary – simply re designated non-Executive. Indeed, given new executive positions created such as the Chief Operating Officer and the Director Corporate Affairs, the State Government Administrator has been forced to concede there are currently more people on over \$300,000 per annum (\$25,000 per month) than before he was appointed. So much for reductions in fat cat salaries.
- 5.2.4 There appears to have been a “nose in the trough” culture at CCC with increases in fat cat salaries and numbers, increases in middle management and associated costs, and no evidence this is being brought sufficiently under control. Yet there has been no corresponding improvement in outputs or service delivery meaning productivity has fallen and will continue to do so based on the Council's submission.
- 5.2.5 The Council's submission states an intention to return staff numbers to pre amalgamation levels. Page 109 of the Council's submission states: “there will be a further restructure the aim of which is to return CCC FTE to a number similar to the pre-amalgamation levels of the combined Gosford and Wyong Councils.” Yet the Council's submission also states: “a (rate) variation of 15% will see some service

reductions from the levels currently provided....Even with a 15% increase there remain further staff cuts to be made and this will result in some services being affected. There are likely to be slower response times to our customers and to requests for service.”

- 5.2.6 If staff numbers are only going back to pre-amalgamation levels, then why should services be reduced compared with service levels at that time? If staff numbers are to be the same as at amalgamation but services worse, then by definition CCC is planning for a further *reduction* in productivity. CCC is therefore clearly failing to meet this criterion.
- 5.2.7 CCC also provides no concrete proposals to change internal culture – to introduce a performance culture based on results, accountability, efficiency, productivity, customer relations. These would be inputs that might drive productivity, but there are no concrete proposals. The legitimate fear in the community is that we are being asked to provide 42% more of our hard-earned money to those who have mismanaged it in the past – and with no concrete reforms to suggest it will be any better managed in future.

6 Other Matters

6.1 Judicial Inquiry

- 6.1.1 The Tribunal will be aware that 21,422 residents have signed (in just three weeks) an e-petition calling for a wide-ranging judicial inquiry into the financial mismanagement at CCC to identify the real causes and propose solutions. This clearly demonstrates the strength of feeling in the community on this issue and their concerns at being sluggish with massive rate increases to pay for mismanagement by others. It also demonstrates that the community is dissatisfied with inquiries that lack independence including any from the State Government apparatus including its appointed administrator.
- 6.1.2 The e-petition is due to be debated in Parliament on 6 May. The e-petition includes a request that any decision on the SRV be deferred pending the outcome of the debate. I trust IPART will take due account of this.