

INDEPENDENT PRICING AND REGULATORY TRIBUNAL
(IPART)

OBJECTION TO

WOLLONGONG CITY COUNCIL

application for a

SPECIAL RATE VARIATION

by

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Introduction

We the authors of this submission humbly and respectfully submit that we have over fifty years of participation in state and local government both as employees and community advocates.

Executive Summary

Premise of submission:

Wollongong City Council (WCC) has historically mismanaged long - term fiduciary considerations in favour of short term political expediency and exercises excessive non mandatory service levels.

The Financial Sustainability dilemma has been generated by past Councils, of which the ICAC investigation was but one symptom, and therefore the request for a Special Rate Variation (SRV) is misplaced. Financial sustainability should remain an internal responsibility and not a burden imposed on a struggling and uninformed public.

That is, when WCC is transparent and the public is fully informed, interactively engaged, and with agreed prioritisation, the obscene expenditure excesses will become substantially reduced and economic rationale will restore financial sustainability.

Objections to the Wollongong City Council's application for a Special Rate Variation [SRV] are made on the following grounds:

IPART Criterion 1 'Need for variation'

- 1.1 WCC has not quantified the community's need on service levels;
- 1.2 Projects incur little or no economic discipline
- 1.3 WCC dismissed the alternative of no rate rise without community consultation;

IPART Criterion 2 ‘Community awareness and engagement’

- 2.1 WCC community engagement methods were deliberately biased to gain a prescribed result;
- 2.2 WCC has sought community opinion without providing understandable information;

IPART Criterion 3 ‘Impact on ratepayer’

- 3.1 WCC did not address the community’s capacity and willingness to pay;
- 3.2 Responsibility for the financial crisis is WCC and not the ratepayer.
- 3.3 SRV Impacts on Ratepayers is Global & not Partial

IPART Criterion 4 ‘Delivery Program & Long Term Financial Plan Assumptions’.

- 4.1 Delivery Program is Insensitive to Community Input
- 4.2 State Government Interference should not Impose a Cost Burden on Ratepayers

IPART Criterion 1 ‘Need for Variation’

1.1 WCC has not quantified the community’s need on service levels.

a) WCC asked an uninformed public what was their top three wants / needs.

The response was extremely varied, inconclusive and a methodologically unsound sample size responded.

b) *Citizens Panel [CP]: A failure to quantify service levels*

[REDACTED]

ii)

The CP was demographically represented and ipso facto the CP members were totally ignorant / uninformed on WCC operations and in four brief sessions were expected to make meaningful and representative decisions.

iii)

The CP was given financial and statistical data previously undisclosed to the public and WCC were not intending to make it available to the wider community. Council was publicly shamed into disclosing such information through a public challenge by a State Member of Parliament in an adjoining electorate.

[REDACTED]

c) WCC Enforced a community response to ‘Three Options’: *A failure to quantify or identify service levels or items.*

i) WCC at its December 9 2013 meeting stated in the Recommendations that “... and increased revenue **MUST** be part of the solution ...” (Item 1. Page 1)

This statement then drove the structure of the three options that went to the community and then **WCC over rode community feedback** and maximised their revenue to:

Efficiencies gains:

Chose \$4.0 Million when community choice included \$7.0M. That is **\$3M in savings targeted away.**

A ratio of almost two to one 2/ 1 (N=152) requested WCC be more efficient over paying more rates (N= 82) (cf. Table 4 below)

Services reductions:

Chose \$1.5 Million when community choice included \$4.0M. **2.5M in savings targeted away.** There was a strong community group called Save Our Services that lobbied strongly and publicly against cutting services.

General Revenue increase:

Chose \$15Million when community choice included \$8.4M

Basically Council’s choice was Option 3 that went to the community. What the eight hundred (800) community responses said appears in the Community Engagement section (Table 4: Step 4 Submission key themes – Page 10)

Support Option 1	Support Option 2	Support Option 3	Don’t Support any option	Don’t specify an option
N= 178 22.5%	N= 184 23%	N= 260 32.5%	N=31 4%	N=141 18%

Sixty seven point five percent (67.5%) of respondents did not choose this Option 3.

WCC has ignored the majority of respondents so that Council now has its “MUST” revenue increase.

The sample size of eight hundred (800) (1%) is methodologically unsound given a household population of approximately 80,000.

The petition of 580 signatories was for a local issue and not related to the overall FSR.

ii) ***Failure to quantify – identify service levels targeted***



It was this CP set of service cuts that caused a community furore and WCC and the CP came under extreme criticism and pressure. Out of this furore came intense lobbying for many single issues such as rock pools and a particular library.

*WCC response was to issue the three Option without identifying the service levels to be cut or where the efficiency gains would occur. The dollar estimates only was given to 80,00 households who were asked to choose one. **Of the 800 responses sixty seven percent (67.5%) said no to the adopted Option 3.***

This process is standard method for WCC and is contrary to economic efficiency and community equity and justice. Demonstrably the method encourages undisciplined expenditures, uncontrolled excesses and abusive pressure on ratepayers.

WCC has been aware of this asset renewal problem prior to any accounting changes to depreciation. That WCC rushed the community engagement over a short period during the Christmas holiday season is an abuse of regulatory power.

1.2 Projects Incur Little or no Economic Evaluation:

a) The City Mall has a long run history of being a financial burden on the ratepayer. The current financial disaster of \$20 Million to unnecessarily renew the Mall is a systemic problem with WCC managerial policy that is driven not by public economic demand but by incumbent business interests.

WCC has ignored rigorous consultant reports that stated having four major shopping centres within a ten minute drive from the CBD will always diminish the commercial value of the city mall. The substantial private sector funded Stockland in Shellharbour further advances this argument.

b) Towradgi Park toilet and shower block refurbishment was unnecessary as it was serviceable, structurally sound and there was no community demand for change. The cost at about \$700,000 was exorbitant when compared to a large private double storey dwelling across the road that cost approximately \$500,000.

c) Towradgi Park Playground: WCC imported a 'rocket tower with slippery dip' from Germany at a cost of \$90,000. Apparently that was what the children wanted?

The failure by WCC to discipline expenditure through economic demand is repeatedly creating waste and misallocation of resources.

Each major project and the Annual Delivery Programs should identify short and long term impacts on rates.

1.3 WCC dismissed the alternative of a no rate rise without community consultation

a) Independent Councillor Greg Petty, successful business owner and accountant did some financial modelling with limited access to WCC data. He demonstrated that WCC could establish a financial sustainability policy without a SRV.

This analysis correctly argues that WCC created the problem of financial sustainability and WCC has the capacity to resolve it the long term.

WCC would not publicly address his modelling, and did not present it as an Option to the residents.

b) *IPART investigators are expected to benefit from discussions with Cr. Petty*

IPART Criterion 2: Community awareness and engagement

2.1 WCC community engagement is deliberately biased to achieve prescribed results.

a) Clearly there was a widespread community awareness that WCC was in a long term financial difficulty. However there was -

- **no** community wide knowledge or understanding of the issues and causes

- **no** given opportunity for the community to exchange knowledge, understanding and preferences among themselves

- **no** given opportunity for the wider community to iteratively exchange knowledge, understanding, preferences and priorities with WCC.

*Biased results in favour of WCC occur when an uninformed **community is rushed** to make decisions on issues that they do not understand.*

b) The Citizens Panel (CP) was seen as a controlled, biased and prescribed instrument of WCC.

However if the direct exchange of communication between the WCC executive and the community sample was to be extrapolated to the wider public then the future may well bring about some economic rationale to WCC operations.

2.2 WCC has sought community opinion without providing understandable information

a) Council reporting is designed to service regulatory requirements rather than provide an intelligible set of data understood by the ratepayer / taxpayer.

b) As stated above (1.1 b. iii) WCC provided statistically friendly, and additional data to the CP that had never been provided to the wider public previously. The Lord Mayor, Councillor Gordon Bradbery OAM said “no” to making this information to the wider public. His stance was challenged by the State MP for Shellharbour Ms. Anna Watson, and he relented.

c) Convenors and Assistant Convenors of seven Neighbourhood Forums informed the Straight Talk Consultant and a Managerial staffer that the community were requiring three public meetings (one in each Ward) so as to better inform the public, and WCC to be informed of community preferences. This request was repeated at a Public Access Forum (PAF) to Councillors and Executive staff.

Council did not even have the courtesy to reply let alone hold the public meetings.

d) WCC has a traditional methodology that has a structure as follows:

- i) WCC has a problem or a need – no meaningful knowledge provided;
- ii) What do you individual citizens think? – Please tell us;
- iii) WCC absorb individual submissions based on wants and lack of informed opinion;
- iv) WCC may make changes at the margin;
- v) The community do not know why their submissions were not addressed in what is now known as a **‘prescribed outcome’**

WCC will not provide iterative information flow opportunities from community to community and community to WCC, so as to interact with preferences, priorities and ideas;

Community engagement is commonly called the policy of “divide and conquer the residents”

IPART Criterion 3 ‘Impact on ratepayer’

3.1 WCC did not address the community’s capacity & willingness to pay

a) WCC boasts that on the SEIFA scale they score 979.6. That is a rank of 63rd and is similar to Blayney, Port Stephens, Albury, Dubbo and Orange, all rural towns. WCC is lower down the scale by about fourteen points with sister city Newcastle.

The SEIFA structure of weights may contain bias and an examination of micro data will identify pertinent points of financial disadvantage.

According to the ABS 2011 Census, Weekly Household Income for Wollongong LGA (City):

i)	25,086	34.5%	earn average weekly wage or less;
	<u>22,889</u>	<u>31.6%</u>	\$800 - \$1999 - ‘Mortgage Stress’ zone.
	47,975	66.1%	

That is sixty six percent of households are in a financial stress zone. This information infers that a large proportion of residents do not appear to have the capacity to pay.

ii) Another way of inferring the capacity to pay is taken from the Straight Talk Consultant demographics used for the Citizens Panel (CP) (Page 1 & 2)

Seniors	28.2%	High school education only	43.9%
Pre Retirees	16.3%	Vocational / Certificate	28.7%
Homebuilders	26.0%	Batchelor +	16.8%
Young Workforce	16.2%		

The large proportion of the population completing only high school (44%) is relatively consistent with average weekly earnings figure above. The age distribution figures infer that 44.5% may be struggling with protecting their income and 26% (relatively close to the income percentage above) are in the mortgage stress bracket.

iii) Unemployment at 7% is 0.9% higher than the regional for the 2011 Census figures and local estimates place youth unemployment in the order of 25%.

Capacity to pay is not accurately or meaningfully reflected in the SEIFA ranking.

b) Sixty seven percent (67%) of respondents **did not** support Option 3 adopted by WCC. 80,000 households were said to have received the Step 4 brochure, Information on the brochure showed the three options and a **rate increase** differential of forty nine point eight percent (49.8%) between the lowest Option 1 and the highest at Option 3.

The lack of community support for Option 3 indicates that the “willingness to pay the higher price” was rejected by two thirds of the community.

This is further evidence that WCC is not honestly engaging with the community and is driving its “MUST” have a SRV.

c) Business Sector capacity to pay: Irony it is that this sector that has the greatest flexibility in capacity to pay and to redistribute cost increases is spared the SRV and its **capacity to pay is not tested.**

3.2 Responsibility for the financial crisis is WCC and not the ratepayer

a) According to one former Councillor, WCC was aware of the growing renewal backlog in 2002. Another opportunity to address the renewal backlog arose in 2007 when the Percy Allan Consultancy report quantified the backlog. The change in depreciation methodology has accentuated the ‘problem’ more recently.

WCC has failed to responsibly manage the business efficiently and effectively. Hence nominating a number of prevailing community views on why:

- i) Political expediency and interference
- ii) ICAC enquiry
- iii) Under Administration for three years
- iv) Failed to differentiate among wants, needs and demand
- v) Failed to quantify returns to new infrastructure expenditure

- vi) Failed to provide choices and interactively engage community preferences
- vii) Failed to effectively and meaningfully engage the community
- viii) Over sixty percent (60%) of services are non – mandatory
- ix) The business and commercial sector are driving and are the significant beneficiaries of WCC expenditure, particularly in the CBD
- x) ***The community was effectively absent from WCC decision making in the past and therefore is not responsible for accepting any of the financial burden for any rate rise.***

The WCC application for a SRV is an easy and undisciplined way of escaping serious managerial inefficiencies.

3.3 SRV Impact on Ratepayers is Global and not Partial

IPART is well aware that the Utility sector providers have had a relatively successful run of price hikes all of which add significantly to the financial burden of the household. Here WCC is stated as being a Utility.

IPART may or may not appreciate the large differential between the resources that utilities bring to bear on their claims on resident finances and the scarce resources that volunteer residents have in order to protect their incomes from unjustifiable cost increases by such utilities.

IPART will note that WCC has not asked for a SRV increase for the Business Subcategory Rates for ‘3C Regional’ and ‘Heavy 1 Activity 1’ . Sector.

This is iniquitous and unjust as this sector is the absolute financial beneficiary of all public sector (ratepayer / taxpayer) investment in the CBD.

The argument proposed by WCC is that this sector already pays relatively high rates / levies.

That claim by WCC is irrelevant and deceptive. With respect to the business sector:

- their capacity to pay to is substantially greater than the resident.
- this sector can generally recover cost increase from putting up their prices
- they can go to their Landlord for cost relief rather the ratepayer
- they can relocate to lower priced rental in the suburbs or down the street
- as stated above, this sector is the absolute beneficiary of public investment.

IPART Criterion 4

‘Delivery Program & Long Term Financial Plan Assumptions’

4.1 Delivery Program Insensitive to Community Input

a) Historically it can be shown that resident input into the Annual Delivery program will achieve less that a two percent (2%) rate of acceptance by WCC.

The traditional model is:

- i) WCC pour hundreds of thousands of dollars and resources into preparing the Delivery Program without input from community;
- ii) A draft is placed on exhibition and in twenty eight days the uninformed and unskilled community have to attempt to digest, evaluate and respond;
- iii) There is no opportunity to know what other community members or even the commercial sector are thinking;
- iv) Then the recommendations go to Council with a background paper of responses to the submissions stating why the submission was totally or partially rejected – no opportunity to canvass the inadequacy of the WCC response.

b) ***IPART could address this community insensitivity by requesting WCC to actively and publicly interactively and iteratively exchange ideas, preferences and priorities BEFORE a SRV is granted and to include it as a basic assumption for the long term.***

4.2 State Government interference should not impose a cost burden on ratepayers

- a) IPART appears to have the authority to elicit information from WCC and discern and differentiate between cost generated locally and those imposed by State Government instrumentalities.

IPART could then ensure that only locally demand generated costs are considered in any SRV applications as being passed onto ratepayers.

Conclusion

1. Historically Government has taken a long - term view on investment infrastructure and borrowed at a discount. There is no logical rationale that Local Government cannot take a long - term view on historical infrastructure renewal investment, costs, borrowings or deficits.

Therefore, Wollongong City Council has the opportunity to trade out of its short term demands for revenue to service long term assets by:

- a) Conducting an independent forensic efficiency audit over all operations
- b) Placing a moratorium on all new capital expenditure
- c) Placing a moratorium on asset renewal where safety and serviceability exist
- d) Conducting a realistic audit and rationalization of the need to service parts of the asset renewal backlog by involving a precinct community assessment - asset age per se is not a valid criterion;

- e) Implement Precinct Committees (Neighbourhood Forum) that are fully resourced and empowered to interact with Council at all levels.

- 2. IPART protect ratepayers from financial and managerial ‘bullying’ and reject the Wollongong City Council’s application for a Special Rate Variation in 2014 -2015; 2015 – 2016 and 2016 – 2017.

Submission ends.

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