Independent Pricing and Regulatory Tribunal
New South Wales

SPECIAL VARIATION APPLICATION
CENTRAL COAST COUNCIL
FROM 2021-22

Final Report

May 2021

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The Independent Pricing and Regulatory Tribunal (IPART)

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Tribunal Members

The Tribunal members for this review are:

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1 Executive Summary

Since its formation in 2016, Central Coast Council (the council) has consistently expended more funds than it has raised. This has recently resulted in the council having insufficient funds to meet ongoing costs, such as wages. The council's dire financial situation resulted in the Minister for Local Government suspending all councillors and appointing an interim administrator in their place.[i] To improve its financial sustainability, the council has applied to IPART for a permanent special variation (SV) of 15% (inclusive of the rate peg) to its general income in 2021-22.[ii]

We have assessed the council's application against Guidelines issued by the Office of Local Government (OLG) and have decided to approve a temporary SV of 15% in 2021-22, which is to be retained for 3 years and then removed. During this 3-year period, the council will 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.

Impact on council's income

Purpose

- Repay loans taken out to replenish withdrawn restricted reserves

$70.2m

Additional income above the rate peg over the next 3 years

Coinciding with the council's SV application is the rates harmonisation process, where a uniform rating structure for all rating categories will be adopted across the former Gosford City and Wyong Shire council areas from 1 July 2021. The SV will be applied across all rating categories using the harmonised rates, meaning the percentage increases experienced by ratepayers will not be uniform.

Impact on rates

	Residential	Business	Agriculture	Mining
Gosford City	+41.6%	+50.2%	+53.2%	0%
Wyong Shire	-9.5%	-17.5%	-25.2%	+15.0%

Many submissions we received vocalised ratepayers' concerns about the proposed higher rates in light of the council's current financial position. These concerns need to be balanced against the council's financial need and its requirement to deliver ongoing community services.

We assessed the council's application against the Guidelines issued by the Office of Local Government and whether it had met the criteria.

Largely demonstrated

Financial Need

Without the special variation, the council's financial position will continue to deteriorate and it may have difficulty repaying its loans. However, 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.

Largely demonstrated

Community awareness

The council used a wide range of consultation methods. However, it could have better distinguished between the special variation and rates harmonisation.

Largely demonstrated

Reasonable impact on ratepayers

The council's average rates are currently lower than most comparable and neighbouring councils. However, we note that due to the simultaneous harmonisation of rates, the impacts on ratepayers are varied and in some cases substantial.

Partly demonstrated

IP&R documentation

The council's revised Delivery Program and Operational Plan omitted a 'no rate rise' alternative scenario and did not consider the community's capacity to pay.

Partly demonstrated

Productivity Improvement and Cost Containment

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.

2 Central Coast Council's application

The council has applied for an SV to increase its general income by 15% for the 2021-22 year. The proposed increase is to remain permanently in the rate base and be applied across all rating categories.[iii]

Central Coast Council was formed by amalgamating the former Gosford City and Wyong Shire Councils. In 2015, both Gosford City Council and Wyong Shire Council were identified as 'not fit' for the future.[iv]

In 2016-17, the council's net operating result before grants and contributions provided for capital purposes was $65.4 million.[v] Following amalgamation, the council's financial circumstances deteriorated significantly, due to increased spending including the use of its restricted reserves.[vi] The council's application states these funds were unlawfully used or spent without the appropriate approvals.[vii]

The severity of the council's financial situation was reported to the council on 12 October 2020.[viii] The Minister for Local Government subsequently suspended the council and appointed an Interim Administrator on 30 October 2020.[ix] The Interim Administrator's 30 Day Interim Report identified that Water Fund and Sewer Fund Externally Restricted Reserves were understated by $129.5 million in 2018-19, giving an impression this amount was available as unrestricted cash and available for funding operating expenditure.[x]

To address its current financial position, the council intends to reduce expenditure and increase revenue. Expenditure reductions will contribute approximately 70% and increased revenue 30% towards the council's financial recovery.[xi] The decision to apply for an SV is consistent with the findings from the Interim Administrator's 30 Day Interim Report, which suggested a "substantial rate increase" as one of the measures needed to address the council's financial situation.[xii]

As the council discovered its severe financial position in October 2020, we recognise it did not have enough time to prepare its SV application and conduct community consultation before the standard application due date of 8 February 2021. IPART and the council agreed on an extended SV application timeline on 15 December 2020.[xiii] This agreement allowed the council to submit its SV application in 3 stages. The first phase was due on 8 February 2021, the second phase on 1 March 2021 and the third phase on 5 April 2021.[xiv]

Coinciding with the council's SV application is the rates harmonisation process. This year, 2021, is the first year that councils that were amalgamated in 2016 can apply for a special variation, due to a NSW Government policy to maintain rate paths for 4 years (subsequently extended for another year). All merged councils must also harmonise their former councils' rating structure by July 2021. Rate harmonisation is revenue neutral[1] for the council, although rates for different rating categories will change.

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1 This means there is no change in overall revenue generated from rates. The aim of rate harmonisation is to establish an equitable rate path so that rates for each rating category or sub category are calculated the same way for all ratepayers.

Central Coast Council has indicated it will harmonise its rates from 1 July 2021. As the changes to rates resulting from harmonisation will coincide with the application of the SV increase, the percentage increases to rates may vary by rating category and by former council areas. In addition, the council has proposed to increase its minimum ordinary rate to align with the statutory maximum minimum rate limit of $565.[xv]

2.1 Purpose

The purpose of the proposed SV as specified in the council's application is to enable the council to complete the following:

- repay restricted funds accessed unlawfully;
- improve financial sustainability and
- address special cost pressures.[xvi]

Specifically, the primary use of the SV income is to "repay loans and restricted funds".[xvii]

2.2 Need

The council's two pronged approach to improving its financial position is to reduce expenditure and increase revenue through an SV application. The council estimates 70% of its recovery will be through expenditure reductions and 30% will be from revenue increases.[xviii] Data provided by the council confirms that it is facing financial difficulty. Its projected financial position is -$115.1 million at 30 June 2021 and its accumulated debt will be $565 million.[xix]

In its SV application, the council identified reimbursement of restricted funds and financial sustainability as the key drivers. The council's application stated it had overspent on capital projects such as "a new pipeline between Mardi and Warnervale, resurfacing of 107km of roads, drainage infrastructure and upgrades to wharves, parks, playgrounds and sporting fields".[xx] The restricted funds were spent on community projects that would have provided benefit to ratepayers. The Interim Administrator's Report further noted there was no "theft or corruption".[xxi]

The council has also stated if the proposed SV is not obtained, it will impact its loans, as one bank has already tried to call in its loans to the council.[xxii] Furthermore, the council has advised it would have to further reduce staff numbers by 30%.[xxiii]

We note the majority of submissions to IPART (discussed in Section 3 and Section 4.3) did not support the rate rise, and express the view that ratepayers should not be responsible for paying for the council's mistakes.

2.3 Significance of proposal

The council's application would mean a cumulative increase in its permissible general income (PGI) of $255.5 million above what the assumed rate peg would deliver over 10 years. This represents 11.3% of the council's total cumulative PGI over the 10 year period (see Table 2.1).

Table 2.1 Permissible general income (PGI) of Central Coast Council from 2021-22 to 2030-31 under the proposed SV

Cumulative increase in PGI above rate peg ($m)	Total PGI over 10 years ($m)	SV revenue as a percentage of total PGI (%)
255.5	2,265.5	11.3

Note: The above information is correct at the time of the council's application (February 2021).

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

The council would fund the proposed SV by increasing rating income from all rating categories by the percentage SV increase.

The council has indicated after rates harmonisation, the proposed SV will have the following effect on average residential ratepayers under the former councils:

- Gosford average residential ratepayers will experience an increase of $416 a year
- Wyong average residential ratepayers will experience a reduction of $104 a year (as average rates pre-harmonisation were higher compared to Gosford residents).[xxiv]

2.4 Resolution by the council to apply for a special variation

The council, namely the Interim Administrator, resolved to apply for the proposed SV on 8 February 2021.[xxv]

3 IPART's approach to assessment and community engagement

IPART assesses special variation applications from councils under delegation from the Minister for Local Government, under s506, s508 and s508A of the *Local Government Act 1993*. As part of our process we accept written submissions from interested stakeholders from the time councils first notify us of their intention to apply for a special variation, until three weeks after applications have been received.

3.1 Criteria for assessing council applications

The criteria for assessing applications are set by the Office of Local Government (OLG) in special variation and minimum rate guidelines. The guidelines are intended to help councils in preparing 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 either 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 six 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.

More detail on the criteria is available in Appendix A and the OLG Guidelines. 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.

3.2 Stakeholder submissions to IPART

In the first instance, we expect councils to be responsible for engaging with their communities so that ratepayers are fully aware of any proposed special variations and the full impact on them. This is one of the criteria we use to assess council applications as outlined above.

However, as part of our process, we also accept written submissions directly from stakeholders. Our submission portal is accessible to stakeholders from the time councils first notify us of their intention to apply for a special variation, until three weeks after applications have been received.

We consider all stakeholder submissions as well as all information received from councils in making our final decision on each special variation application.

3.2.1 Summary of submissions received by IPART for Central Coast Council

IPART received 4,387 submissions, including a petition and letters from Members of Parliament, during the submission period from 1 December 2020 to 21 March 2021.

Key issues and views raised in these submissions were:

- claims of financial mismanagement and incompetence of the council
- the council should be more accountable for its actions which led to poor finances rather than the ratepayers bearing the cost
- the increase is not affordable, particularly for pensioners and due to the impact of COVID and natural disasters
- claims the State Government's amalgamation policy and lack of oversight contributed to the council's poor financial situation
- comments regarding inadequate council services
- claims the Audit Office should have identified financial mismanagement and restricted reserves being spent.

Some submissions also suggested the current rates are the 'highest in the state'. We will address this in section 4.4.3 where we compare the average rates of the council against the average rates for other OLG Group 7 and neighbouring councils. Overall, we found the council's average rates are lower than many other councils. We acknowledge some ratepayers may pay significantly more than others, however, it is the council's responsibility to determine its own rating structure.

Furthermore, some submissions identified that there was no option to reject the proposed rate rise in the council's original survey as it only presented two options; a 10% SV and a 15% SV. We note that the council subsequently amended the survey to include a 'no rate rise' option.

See Chapter 4 for further discussion on submissions to IPART and how they have been considered as part of our assessment of the council's application.

4 IPART's special variation assessment

To make our decision, we assessed the council's application against the criteria in the OLG Guidelines as outlined in Chapter 3.

While the criteria for all types of SVs are the same, the OLG Guidelines state that the extent of evidence required for assessment of the criteria can alter with the scale and permanence of the SV proposed.

4.1 Our special variation assessment

We found that the council's application partly meets the requirements of the criteria set out in the OLG Guidelines. We have decided to approve a temporary 15% increase to the council's general income in 2021-22, which can be retained in the rate base until 2023-24 and then removed.

The council largely demonstrated it met the financial need criterion. The council's forecasts show there is a financial need to increase its general income to repay bank loans that were taken out to reimburse its restricted funds. Its Operating Performance Ratio (OPR) is projected to be below the OLG benchmark of greater than 0% without the SV revenue. Its net debt to income ratio is forecast to be positive from 2027-28 with the proposed SV and negative without the SV.

A shortcoming of the council's application is that the council's proposed SV scenario forecasts may not be accurate over the medium term. Its Long Term Financial Plan (LTFP) assumes all of the identified efficiencies and productivity improvements will be achieved. The council does not have a demonstrated track record of delivering cost savings or efficiencies which gives rise to a level of uncertainty with its forecast expenditure levels. Under the proposed SV scenario, the average OPR is 3% over 5 years, which is above the OLG benchmark of greater than 0%. As the council's primary intended use of its SV income is to repay bank loans it may not be necessary for the SV to be retained permanently in the rate base, as proposed by the council.

The council has largely demonstrated that the community is aware of the need for and the extent of the proposed SV. Whilst the council showed the impact of the proposed rate increase to ratepayers in dollar terms for residential and business ratepayers, it did not adequately distinguish the effect and interaction of rates harmonisation and the SV increase on ratepayers in each of the pre-amalgamated councils. Furthermore, it did not consider community feedback on the SV in its IP&R documentation. We acknowledge that the council may have had limited time to plan for the SV, given the council's financial position was not discovered by it until October 2020 and as such there was not sufficient time for it to undertake the complete IP&R process.

The ratepayer impact criterion was largely demonstrated. We found that the council's average rates are currently lower than comparable and neighbouring councils, and we consider that generally the community has the capacity to pay the proposed 15% increase. We note that there is a large range in the rate increases that will be experienced by ratepayers, with the majority of former Gosford City ratepayers experiencing a considerable increase in rates once the proposed SV is implemented and harmonised rates come into effect. Conversely former Wyong Shire Council ratepayers will experience a decline in rates across most ratepayer categories.

The 'Integrated Planning and Reporting documents' criterion was partly demonstrated. The council's revised Delivery Program and Operational Plan were not formally re-adopted prior to the council lodging its SV application, it omitted a 'no rate rise' alternative scenario and did not consider the community's capacity to pay rates. However, the revised LTFP was formally adopted and illustrated the 'no rate rise' alternate scenario. We recognise there may not have been sufficient time to re-adopt and publicly exhibit the Delivery Program and Operational Plan due to the limited time between appointment of the Interim Administrator and IPART's SV application deadlines.

The council partly met the productivity and cost containment strategies criterion. A substantial shortcoming is the inconsistency in the quantification of past cost savings and delayed implementation of cost saving strategies. Furthermore, the council has shown it has a poor history of realising cost savings, including failing to recognise synergies from amalgamation. It has explained its initiatives to improve productivity and contain costs going forward but has only partially quantified the cost savings resulting from these efficiency measures as these initiatives have only recently been planned.

4.2 Financial need for the proposed special variation

This criterion examines the council's financial need for the proposed SV. The OLG Guidelines require the council to clearly articulate and identify the need for, and purpose of, a different revenue path for its General Fund. This includes that:

- the council sets out the need for and purpose of the proposed SV in its IP&R documents, including its Delivery Program, LTFP and Asset Management Plan where appropriate
- relevant IP&R documents should canvas alternatives to the rate rise
- the council may include evidence of community need/desire for service levels or projects.

IPART uses 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).

Where relevant, IPART also uses information provided by the council to assess its need for the proposed SV to reduce its infrastructure backlog and/or increase its infrastructure renewals, by assessing the council's infrastructure backlog ratio and infrastructure renewals ratio.

Generally, we would consider a council with a consistent operating surplus to be financially sustainable. The council's forecast operating result shows whether the income it receives covers its operating expenses each year. We consider that the most appropriate indicator of operating performance is the Operating Performance Ratio (OPR).

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

$$OPR^{2} = \frac{Total\ operating\ revenue - operating\ expenses}{Total\ operating\ revenue}$$

Based on the council's application and LTFP (where appropriate), we calculate forecasts under 2 scenarios:

1. **The Proposed SV Scenario –** which includes the council's proposed SV revenue and expenditure.
2. **The Baseline Scenario** – which shows the impact on the council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.

We consider that a council's average OPR over the next 10 years should be 0% or greater, as this is typically the minimum level needed to demonstrate financial sustainability. An OPR consistently well above 0% would bring into question the financial need for an SV. We note that other factors, such as the level of borrowings and/or investment in infrastructure, may affect the need for a council to have a higher or lower operating result than the OLG breakeven benchmark.

While 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 its net cash (or net debt).[3] This may inform us as to whether the council has significant cash reserves that could be used to fund the purpose of the proposed SV. We examined the council's net cash position in 2020-21 and as a percentage of income to gauge its financial position.

We note the OPR is a measure of the council's financial performance, measuring how well a council contains its operating expenditure within its operating income. As the ratio measures net operating results against operating revenue, it does not include capital expenditure. That is, a positive ratio indicates operating surplus available for capital expenditure. However, we note in this SV application, the council's OPR projections have a degree of uncertainty as the council has recently embarked on a program of cost containment measures that will directly influence its forecast expenditure.

2 Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net of gain/loss on sales of assets.

3 Net debt is the book value of the council's gross debt less any cash and cash-like assets on the balance sheet. Net debt shows how much debt the council has on its balance sheet if it pays all its debt obligations within its existing cash balances. Over time, a change in net debt is an indicator of the council's financial performance and sustainability on a cash basis.

The primary purpose of the SV is to repay withdrawn restricted funds and improve financial sustainability, not to renew or maintain the council's infrastructure assets. Therefore, the infrastructure backlog and infrastructure renewals ratios are not relevant to the council's application and we have not included them in our analysis.

Instead, we will look at the council's restricted and unrestricted funds. Restricted funds cannot be used by council for general purposes. These funds can only be used for the purpose for which they were collected, such as the council's waste business. The use of external restricted funds for purposes not in accordance with the fund's prescribed purpose requires approval from the Minister for Local Government. [xxvi]

4.2.1 Assessment of the council's IP&R documents and alternatives to the rate rise

The council articulated in its revised Delivery Program and Operational Plan 2020-21 the need for and purpose of its proposed SV. Both the revised Delivery Program and Operational Plan, and LTFP presented another SV alternative; a 10% increase (inclusive of the rate peg) remaining in the rate base until 30 June 2028.[xxvii] We note the council's application did not present alternative funding sources. However, we recognise council's intention to sell assets has been estimated as generating approximately $49 million which will contribute to replenishing restricted reserves.[xxviii]

4.2.2 Assessment of the impact of the proposed SV on the council's financial performance and position

Repayment of restricted funds

To repay approximately $200 million in restricted funds[xxix], the council obtained 2 loans from an Australian bank/s. We do not know which bank/s agreed to provide the loans. One loan was for $50 million on a fixed 5-year term and the other was for $100 million on a fixed 3-year term, both "amortising over 15 years".[xxx]

The council's proposal to increase its rates permanently is inconsistent with its intention to use the SV funds to repay the loans. It may not be necessary for the council to permanently increase rates when its loans could be repaid within 7 years. Our analysis is consistent with the figures for the first 8 years in council's Application Part A. The council has not explained the use of the SV income in years 9 and 10.

Table 4.1 Central Coast Council's indicative time needed to pay $150 million in loans with interest ($'000)

Year	Debt ($'000)	Interest ($'000)	Repayment ($'000)
Year 0	150,000	4,650	22,810
Year 1	131,840	4,087	22,380
Year 2	112,547	3,489	23,965
Year 3	92,071	2,854	24,564
Year 4	70,361	2,181	25,178
Year 5	47,364	1,468	25,807
Year 6	23,025	714	26,453
Year 7	-2,714	-84	27,114

Note: We used the nominal local government discount rate of 3.1% to calculate the interest portion of the aggregate value of the loans. This can be found in the following link: https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Local-Infrastructure-Contributions-Plans/Local-Government-discount-rate.

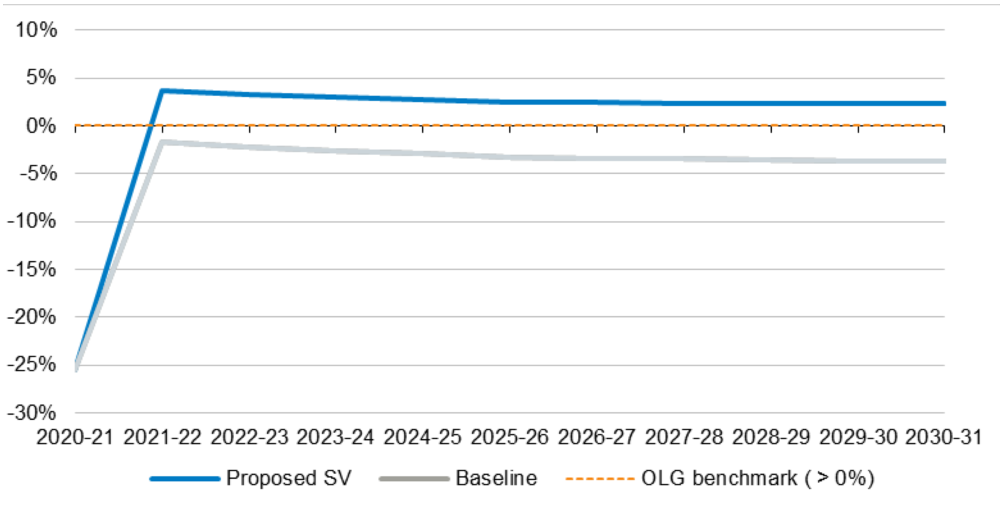
Source: IPART calculations.

Impact on the council's OPR

The council forecasts improving operating performance, reaching an operating performance ratio (OPR) of 2.4% by 2030-31 under the Proposed SV Scenario. This exceeds the OLG benchmark of greater than or equal to 0%. The substantial improvement from 2020-21 to 2021-22 is mostly attributable to expected changes in the council's operations, particularly reduced capital and operating expenditure. The council's capital works program costs decreased by $72 million from 2019-20 to 2020-21, with the council expecting to limit spending to $170 million for future infrastructure works.[xxxi] The council also estimated it will save $22 million in operating expenditure from 2021-22 onwards.[xxxii] The council's forecasts assume all its identified productivity improvements will be realised.

Without the proposed SV and assuming the council's expenditure is the same as under the Proposed SV Scenario (the Baseline Scenario), it forecasts poorer operating results, as shown in Figure 4.1 and Table 4.2. The OPR reaches -3.7% in 2030-31 which is below the OLG benchmark of greater than 0%.

Figure 4.1 Central Coast Council's Operating Performance Ratio (%) excluding capital grants and contributions (2020-21 to 2030-31)



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

Table 4.2 Projected operating performance ratio (%) for Central Coast Council's proposed SV application (2021-22 to 2030-31)

	Proposed SV	Baseline
2021-22	3.7	-1.7
2022-23	3.3	-2.2
2023-24	3.0	-2.6
2024-25	2.7	-2.9
2025-26	2.5	-3.3
2026-27	2.4	-3.4
2027-28	2.4	-3.5
2028-29	2.4	-3.6
2029-30	2.4	-3.6
2030-31	2.4	-3.7

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

Our analysis indicates that over the next 5 years, the council's financial performance under each scenario results in a simple average OPR of:

- 3.0% under the Proposed SV Scenario
- -2.5% under the Baseline Scenario.

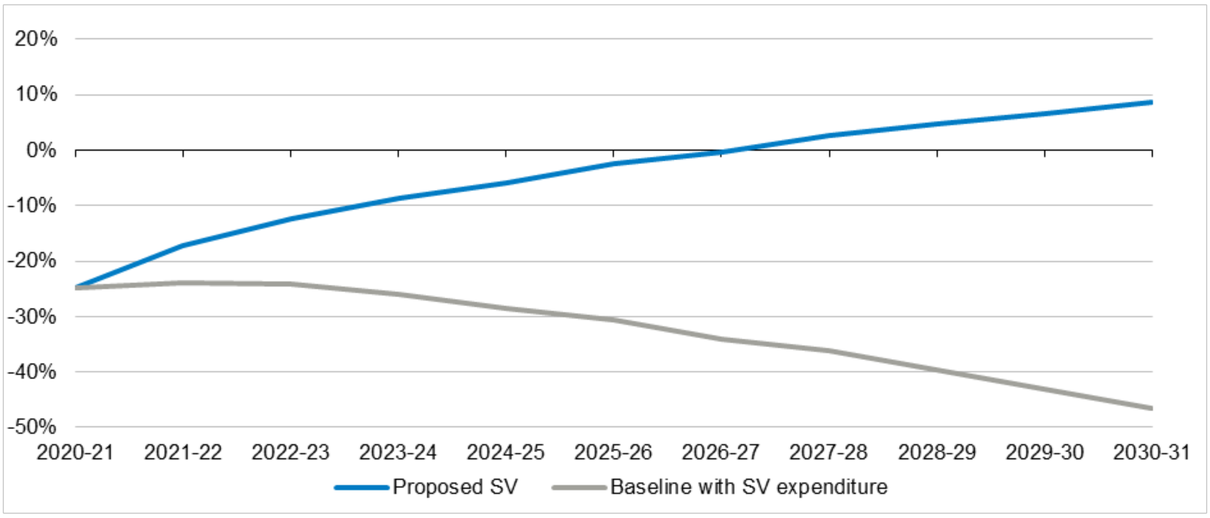
It is important to note that the numbers provided by the council may have a degree of uncertainty, as they rely on a number of assumptions around the implementation of cost savings strategies. The council's 2019-20 audited financial statements have not been published on the council's website at the time of writing this report. Our assessment is based on the data provided by the council.

Impact on the council's net cash (debt)

We calculate the council's net debt to be -$96.1 million[4] or -24.8% of income (under the proposed SV scenario) at 30 June 2021. Over the longer term, with the proposed SV revenue, net debt would decrease under the proposed SV Scenario.

Without the proposed SV and assuming the council's expenditure is the same under the proposed SV Scenario, we estimate that the net debt to income ratio would increase. As at 2030-31, the net cash to income ratio would be 8.6% under the proposed SV Scenario and net debt to income ratio would be -46.5% under the Baseline Scenario with SV expenditure (which includes the council's full expenses under its proposed SV, without the additional revenue from the proposed SV).

Figure 4.2 Central Coast Council's net cash (debt) to income ratio (%) (2020-21 to 2030-31)



Note: Baseline with SV expenditure 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 next 5 years, the council's net cash to income ratio averages:

- -9.3% under the Proposed SV Scenario
- -26.7% under the Baseline with SV Expenditure Scenario.

4 This is the net debt position as at 30 June 2021 which is calculated based on Worksheet 7 in the council's Application Part A. Net cash (debt) is calculated by aggregating the current assets (cash & cash equivalents, receivables and investments) including non-current receivables and subtracting total liabilities (current and non-current payables and liabilities).

Submissions from the community to IPART

The majority of submissions we received raised concerns around the financial mismanagement of funds and the "unlawful" use of restricted funds. The council recognised it inappropriately accessed these funds and has advised that its SV is intended to replenish the funds taken from restricted reserves.

Some submissions claimed the State Government's amalgamation policy contributed to the council's problematic financial situation. IPART's assessment of the council's fit for the future proposals noted former Gosford City and Wyong Shire councils satisfied the overall financial criteria of sustainability, infrastructure and service management, and efficiency pre-amalgamation. It was the council's failure to recognise it had "less than $5 million in unrestricted cash (excluding Water and Sewer Fund) at the beginning of amalgamation" that contributed to the current financial situation.[xxxiii]

Some submissions were critical of the Audit Office's role in identifying and reporting the council's financial problems specifically that this situation was not picked up by it earlier. The role of the external auditor is beyond the scope of our assessment, hence it is not included in our analysis.

There were also some submissions that noted there were inadequate council services such as poor asset quality, particularly roads, and a lack of curb and guttering on streets. The council's application has indicated that even with the special variation, there will be some service reductions. More time will be needed to repair roads and footpaths however urgent repairs will not experience changes to response times.[xxxiv]

4.2.3 Overall assessment of the council's financial need

We found that the council largely demonstrated that it met this criterion. Our calculations suggest it will take the council about 7 years to repay its 2 loans with the additional revenue from the proposed SV. The council entered into these loans to reimburse funds it inappropriately accessed. As the accessed funds were 'restricted' in nature, the council must replenish the funds.

The council's forecasts under the Baseline Scenario show its OPR would average –2.5% over the next five years, reaching -3.7% in 2030-31. This further illustrates there is a financial need for the council to increase its recurrent revenue above the rate peg to be financially sustainable. Under the Proposed SV Scenario, our analysis (based on the forecasts provided by the council) shows that the council's OPR over the next five years averages 3%, exceeding the OLG benchmark of greater than or equal to zero.

We forecast that the council will have a net debt position of -$96.1 million at 30 June 2021. The council's application indicates that it had a total of $94.4 million in cash, cash equivalents and investments held at 30 June 2020. We were unable to discern the amount of unrestricted cash as council has indicated the amount is 'under investigation'.[5] [xxxv] We understand out of the $200 million inappropriately spent, the council spent about $100 million in restricted cash. As this cash was committed to other purposes and not available for discretionary use, the council is required to pay back the amount in full.[xxxvi]

Taking all factors into account, we have assessed that the council is in financial need for the SV to reimburse its restricted reserve balances. However, given this purpose, the council's application for a permanent increase may not be appropriate. The SV income is to be used to pay off bank loans, which are estimated to be repaid within 7 years. Furthermore, the council's financial forecasts have a degree of uncertainty given the significant changes to structure and operation of the council that are proposed.

4.3 Community engagement and awareness

The OLG Guidelines outline consultation requirements for councils when proposing an SV application. Specifically:

- The council's Delivery Program and LTFP should clearly set out the extent of the General Fund rate rise under the proposed SV. 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 (see Section 4.4 for this assessment).
- The consultation should include a brief discussion of the council's ongoing efficiency measures in explaining the need for this SV.
- The council's community engagement strategy for the proposed SV must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occurred.

Ultimately, we consider evidence that the community is aware of the need for, and extent of, a rate rise. That is, whether the consultation conducted by the council with ratepayers has been effective.

In this section, we assess the consultation process, including the clarity of the consultation, the timeliness of the consultation, and whether an effective variety of engagement methods were used to reach as many ratepayers as possible across all relevant rating categories. We understand the council realised its severe financial situation in October 2020. Timing of this discovery and council's subsequent application to IPART did not allow for sufficient community consultation time within the normal deadline application, hence IPART granted the council an extension to submit their SV application.

5 The amount is still being investigated as there is question of whether Water and Sewer cash can be treated as unrestricted cash. The council is treating the Water and Sewer cash as restricted.

We also examine the effectiveness of any direct community engagement and any council response to community feedback.

4.3.1 Assessment of consultation with the community

The council published a Delivery Program and its consultation was planned over 3 phases. The first phase was to explain the necessity of the SV and make the community aware this was being considered. The second and third phases involved consultation, through which the council sought community feedback via the public exhibition of the LTFP, and the Debt Recovery and Hardship Policy.[xxxvii] It used this to guide and inform the consultation it carried out in relation to the proposed SV.

Process and content

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

- the impact of the proposed rate increase to ratepayers in dollar terms for residential and business ratepayers (however the effect of harmonisation and the impacts on the former councils was not clearly explained)
- increases with and without the rate peg across various categories of ratepayers
- the cumulative dollar impact for affected ratepayers by ratepayer category and former LGA areas (Gosford and Wyong)
- the average annual rate and average rate increase in dollar terms, for each affected rating category
- what the proposed SV would fund.

Overall, we consider the council sufficiently communicated the impact of the proposed SV for its average residential and average business ratepayers.

Clarity

The council's consultation material was largely clear in its presentation of the proposed SV and not likely to confuse ratepayers about the need for the proposed rate increase. However, it was less clear on the impact on an average ratepayer in the former Gosford City and Wyong Shire local government areas. While the council expressed the total rate increase including the rate peg for each affected rating category, it did not clearly express the total increase of its proposed SV accounting for the impact of harmonisation.

This may have contributed to concern amongst the community regarding the magnitude of the council's proposed SV, with ratepayers from the former Gosford City facing rate increases of approximately 40%, rather than only the 15% of the proposed SV. This suggests the council's consultation material may not have clearly outlined the impact of the proposed SV rate increase to an average ratepayer as distinct from the effect of rates harmonisation.

Timeliness

The council carried out community consultation on its proposed SV in early January 2021 to February 2021.[xxxviii] This consultation period provided sufficient opportunity for ratepayers to be informed and engaged on the proposed SV.

Engagement methods used

The council provided a range of opportunities for the community to provide feedback, and used a variety of methods to engage with its community, including:

- a flyer with the rates notice – distributed from 25 January to 28 January 2021
- eNewsletters –specified the rate rise options 3 times during January 2021
- a dedicated SV website (Your Voice Our Coast website) – this site was launched on 8 February 2021 and included information such as a Frequently Asked Questions, links to a fact sheet on impact on rates and council contact information
- social media (Facebook) post – the post reached 27,406 people, had 593 comments and 50 people shared the post
- media releases and local community newspapers (Coast Community Chronicle and Coast Community News) – 4 media releases and 6 articles; 3 in each paper discussing the SV application options
- newspaper (print and online) – The Daily Telegraph, Central Coast Express Advocate, Central Coast Newspapers (Coast Community News, Coast Community Chronicle and Pelican Post)
- television – NBN Central Coast TV News and NBN News Central Coast
- radio from when the council decided to apply for the SV in late November to consultation in January – ABC Central Coast, MMM Central Coast, HIT 101.3, 2GB Sydney, STAR Radio News and ABC Central Coast with Scott Levi
- online survey – the first survey was open from 8 January 2021 to 22 January 2021 and the second survey was open from 22 January 2021 to 1 February 2021
- phoning the customer service team – ratepayers were encouraged to phone and ask for assistance when completing the survey
- in person visitation at customer service centre – to allow people with no internet access to fill in the survey
- letter to ratepayers via mail or email – letters were issued on 7 January and 13 January 2021
- telephone survey – conducted by Micromex Research from 12 February 2021 to 17 February 2021.[xxxix]

The range of engagement methods used by the council provided sufficient opportunity for ratepayers to be informed and engaged on the proposed SV. Using the various community engagement methods, the council communicated the full increase under the proposed SV in both percentage terms and average dollar impact per ratepayer category.

However, note that consultation materials did not show the average dollar and percentage impact separated into the Gosford and Wyong former councils.

Whilst the online surveys were not randomly selected, the council used a telephone survey conducted by Micromex Research which produced more statistically valid results.

The engagement materials did not clearly communicate the full increase of the proposed SV for the average ratepayer for all rating categories and include the harmonisation component. The council's 'Rates Harmonisation – Overview and FAQs' webpage did include a 'Proposed New Residential Rates Calculator', which ratepayers could use to calculate the effects of the SV and rates harmonisation.

On balance, we consider that overall the council's methods were reasonable for communicating the impact of the proposed SV to the community.

4.3.2 Assessment of outcomes of consultation with the community

Although this criterion does not require the council to demonstrate community support for the proposed SV, the council is required to consider the results of community consultation in preparing its application.

We understand the council did not get feedback regarding the special variation application through its IP&R processes.[xl] However the council received 3,944 responses to its first survey and 6,285 to its second survey.[xli] More than 500 people completed the survey by phoning the customer service team and up until 1 February 2021, council received 378 emails and letters that were determined to be "self-initiated written feedback".[xlii] The majority of respondents to both surveys were not supportive of the council's proposed SV (73.4% against in the first survey and 79.7% against in the second survey).[xliii] Of those who were against the SV, the main reasons were:

- concerns around affordability of rates after the proposed rate rise
- feeling that ratepayers should not "shoulder the burden of the council's mistakes"
- some responses felt maintenance of council assets is poor. [xliv]

Of those who selected supporting the SV, the main reasons were:[xlv]

- desire to see the problem resolved
- retain current service levels.

The council also conducted a telephone survey in February 2021, where 55% of 404 respondents preferred the rate peg increase.[xlvi] This survey was conducted by Micromex Research. We consider this survey to be more statistically valid and representative of the community's views than the council initiated surveys. The council also considered the community's willingness to pay via the telephone survey and found that 26% of residents did not support the SV, 23% were not very supportive and only 27% were at least somewhat supportive of an SV.[xlvii]

4.3.3 Overall assessment of community engagement and awareness

We found that the council largely demonstrated that it met this criterion. The council has used a variety of methods to engage its community, and in the telephone survey 58% of residents were aware of the council's SV application prior to the call.[xlviii] The shortfalls in the council's consultation include:

- inadequate information distinguishing the effect of harmonisation and the SV impact on ratepayers in the pre-amalgamated councils
- no consideration of community feedback of the SV in its IP&R documentation.

However, on balance, the council demonstrated that its community is sufficiently aware of the need for, and extent of, the proposed rate increase.

4.4 Impact on affected ratepayers

The OLG Guidelines require that the impact of the proposed SV on affected ratepayers must be reasonable, having regard to the current rate levels, the existing ratepayer base and the proposed purpose of the variation. Specifically, the Delivery Program and LTFP should:

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

Section 4.5 of this report considers the council's Delivery Program and LTFP.

The focus of this criterion is to examine the impact the proposed SV would have on ratepayers, and in particular consider the reasonableness of the rate increase in the context of the purpose of the proposed SV.

In this section, we:

- consider how the council has assessed the impact on ratepayers of the proposed SV and how it addressed affordability concerns
- undertake our own analysis of the reasonableness of the proposed rate increase by considering the average growth in the council's rates in recent years, how the council's average rates compare to similar and neighbouring councils, and other socio-economic indicators such as median household income and SEIFA ranking. We also consider the impact that rate harmonisation will have on the council's rates.

The council has calculated that in 2021-22, under its proposed SV:

- the average residential rate would increase by 41.6% or $423 for Gosford ratepayers and decrease by 9.5% or $114 for Wyong ratepayers
- the average business rate would increase by 50.2% or $1,557 for Gosford ratepayers and decrease by 17.5% or $752 for Wyong ratepayers
- the average farmland rate would increase by 53.2% or $719 for Gosford ratepayers and decrease by 25.2% or by $735 for Wyong ratepayers

- the average mining rate would increase by 15% or $61,914 for Wyong ratepayers.

Table 4.3 sets out the council's estimates of the expected increase in average rates in each main ratepayer category.

Table 4.3 Indicative annual increases in average rates under Central Coast Council's proposed SV (2020-21 to 2021-22)

Ratepayer Category	2020-21	2021-22
Gosford		
Residential	1,016	1,440
$ increase		423
% increase		41.6
Business	3,104	4,661
$ increase		1,557
% increase		50.2
Farmland	1,350	2,069
$ increase		719
% increase		53.2
Wyong		
Residential	1,199	1,085
$ increase		-114
% increase		-9.5
Business	4,295	3,543
$ increase		-752
% increase		-17.5
Farmland	2,909	2,175
$ increase		-735
% increase		-25.2
Mining	412,763	474,677
$ increase		61,914
% increase		15.0

Note: 2020-21 is included for comparison. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category and includes the ordinary rate and any special rates applying to the rating category.
Source: Central Coast Council, *Application Part A*, Worksheet 5a.

4.4.1 Assessment of the council's consideration of impact on ratepayers

The council compared its average rates with other regional councils and examined socioeconomic data such as its SEIFA index of relative socio-economic disadvantage, and outstanding rates ratio to assess the impact on ratepayers and their capacity to pay.[xlix] On the basis of these indicators, it concluded that its ratepayers have the capacity to pay the increased rates from the proposed SV due to the reasons outlined below.

- Its average residential, business and farmland rates are second lowest, third lowest and second lowest respectively amongst the selected councils within its OLG Group (7).[6] [l]
- Compared to NSW and Greater Sydney, the council has a greater proportion of households owning their own dwelling. In 2016, 33% of dwellings were fully owned, 33% were being purchased with a mortgage, 22% were rented privately and 3.6% were social housing.
- Its outstanding rates and annual charges ratio was 5.9% which is just above the benchmark of 5%.
- Ratepayer impact is not spread evenly across the council area due to rates harmonisation. The impact is greater on those in the former Gosford City Council and impact is reduced for ratepayers in the former Wyong Shire Council. The council notes that levels of disadvantage are greater in the former Wyong Shire Council area where the impact will be lower.[li]

The council submitted that it also has a hardship policy for individuals that are experiencing financial hardship.[lii] The policy states there are arrangements that can be offered, such as multiple payment methods or bill smoothing (weekly, fortnightly and monthly payment options).[liii]

4.4.2 IPART's consideration of impact on ratepayers

To assess the reasonableness of the impact of the proposed SV on ratepayers, we examined the council's SV history and the average annual growth of rates in various rating categories.

In May 2016, Central Coast Council was formed by merging the former Gosford City Council and Wyong Shire Council. We found that between the years 2011-12 and 2015-16, the former Wyong Shire Council applied for and was granted one SV in 2013-14. The SV was a 4-year permanent increase of 6.9% per year which was used to improve financial sustainability and reduce the infrastructure backlog.

The average annual compounding growth in residential, business and farmland rates for the former Gosford City Council is comparable to the average annual compounding growth in the rate peg of 2.5% over the same period. The average annual compounding growth in residential, business and farmland rates for the former Wyong Shire Council is higher due to the previously mentioned SV, although we note mining rates increased considerably more as evident in Table 4.4.

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6 The council used Hills, Hornsby, Campbelltown, Camden, Penrith and Blue Mountains in its comparison of OLG Group 7 councils.

Table 4.4 Historic growth in rates for former Gosford City and Wyong Shire councils

Former council	Average rate ($) 2010-11	Average rate ($) 2020-21	Average growth in rates	Rate Peg Only
Gosford				
Residential	768	1,016	2.8%	2.5%
Business	2,255	3,104	3.2%	2.5%
Farmland	934	1,350	3.8%	2.5%
Wyong				
Residential	784	1,199	4.3%	2.5%
Business	2,767	4,295	4.5%	2.5%
Farmland	2,057	2,909	3.5%	2.5%
Mining	158,600	412,763	11.2%	2.5%

Note: Growth in rates is a compounding average annual growth rate.

Source: Central Coast Council, *Application Part A*, Worksheet 5a and IPART calculations.

We also compared 2018-19 rates and socio-economic indicators in the LGA with those of OLG Group 7 and neighbouring councils as shown in Table 4.5.

Table 4.5 Comparison of rates and socio-economic indicators with neighbouring councils and Group 7 councils' averages (2018-19)

Council (OLG Group)	Average residential rate[a] ($)	Average business rate ($)	Average farmland rate ($)	Average mining rate ($)	Median annual household income ($)[b]	Ratio of average rates to median income (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank[c]
Lake Macquarie (5)	1,381	4,799	1,947	54,778	68,464	2.0	3.7	89
Hawkesbury (6)	1,230	2,316	2,372	.	86,974	1.4	6.9	99
Cessnock (4)	1,179	3,217	2,797	206,400	61,372	1.9	2.0	12
Northern Beaches (3)	1,427	3,767	2,000	.	123,057	1.2	0.0	119
Central Coast (7)	**1,086**	**3,545**	**1,752**	**184,400**	**65,596**	**1.7**	**2.0**	**86**
Group 7 average	1,215	4,251	2,687	135,571	92,174	1.3	3.1	-

a The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category. The table does not capture the increases from any SVs granted to councils in 2017-18 nor 2018-19.

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 2018-19; 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 4.6 Difference between Central Coast Council's average rates and those in neighbouring councils and Group 7 councils (2018-19)

Rate category	Central Coast Council	Group 7 councils	Neighbouring councils	Difference between Central Coast Council and Group 7 councils (%)	Difference between Central Coast Council and neighbouring councils (%)
Residential	1,086	1,215	1,362	-10.6	-20.2
Business	3,545	4,251	3,832	-16.6	-7.5
Farmland	1,752	2,687	2,611	-34.8	-32.9
Mining	135,571	135,571	87,739	0.0	54.5

Note: All averages are weighted averages, weighted by the number of assessments.
Source: OLG, Time Series Data 2018-19; and IPART calculations

Based on 2018-19 data, we found that the council's:

- average residential rates were considerably lower than the average for Group 7 councils and significantly lower than the weighted average for neighbouring councils
- average business rates were considerably lower than the average for Group 7 councils and marginally lower than the weighted average for neighbouring councils
- average farmland rates were significantly lower than the average for both Group 7 councils and the weighted average for neighbouring councils
- average rates to income ratio was marginally higher than the average for Group 7 councils and moderately higher than some neighbouring councils
- outstanding rates ratio was considerably lower than the average for Group 7 councils and lower than most neighbouring councils
- SEIFA ranking indicates that the council is not disadvantaged compared to most councils.

We also compared the council's average rate levels with the proposed SV against the projected OLG Group 7 average[10] rate levels and average rate levels for neighbouring councils, as shown in the table below.

10 Based on the 2018-19 data obtained from OLG, IPART has performed calculations to increase the OLG Group 7 average rate levels by the rate peg each year from 2019-20 to 2021-22 to allow for the comparison of Central Coast Council's proposed average rate levels with the SV over the proposed SV period.

Table 4.7 Comparison of Central Coast Council, neighbouring councils and Group 7 councils' average rates under the proposed SV in 2021-22

Rate category	Central Coast Council	Group 7 councils	Neighbouring councils	Difference between Central Coast Council and Group 7 councils (%)	Difference between Central Coast Council and neighbouring councils (%)
Residential	1,269	1,305	1,464	-2.8	-13.3
Business	4,146	4,569	4,119	-9.2	0.7
Farmland	2,101	2,887	2,807	-27.2	-25.2
Mining	474,677	145,709	94,300	225.8	403.4

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

Source: OLG, Time Series Data 2018-19; and IPART calculations.

We found that the council's:

- average residential rate in 2021-22 with the proposed SV would be marginally lower than the estimated average residential rates for OLG Group 7 and considerably lower than the estimated average residential rates for neighbouring councils
- average business rate in 2021-22 with the proposed SV would be considerably lower than the estimated average business rates of for OLG Group 7 but marginally higher than the estimated average business rates for neighbouring councils
- average farmland rate in 2021-22 with the proposed SV would be significantly lower than the estimated average farmland rates for OLG Group 7 and neighbouring councils.

We also understand the council will harmonise its rates on 1 July 2021. Due to rates harmonisation rates will increase considerably for former Gosford City ratepayers and reduce for former Wyong Shire ratepayers. It is important to understand the overall increase in rates is not wholly attributed to the SV increase, rather a combination of both SV and harmonisation.

Submissions from the community to IPART

Many submissions raised concerns over the impact of the proposed SV, particularly the affordability of the rate rise. Ratepayers believe it is unreasonable for the council to propose a rate increase given the council's deficit position is due to its mismanagement. Furthermore, ratepayers expressed that affording higher rates might be challenging in light of the impact of the COVID-19 pandemic and other natural disasters. Ratepayers also commented that the council's rates were 'the highest in the state'. Our analysis is based on average rates information provided by the council and OLG and we do not have access to individual rates data. We determine the maximum percentage increase in rates, but the council sets its rating structure and it is the council's decision on how to distribute rates.

We considered the impacts, including of harmonisation, in the context of the purpose and need for the proposed SV as part of our assessment. The harmonisation process will see Gosford ratepayers paying more as the former Gosford City area has higher land valuations and historically lower cents in the dollar ad valorem rates as shown in Table 4.8. The council's rates harmonisation webpage states that residential ratepayers from the former Gosford LGA will pay on average around 41% more ($416 a year); there is a 26% increase attributed to harmonisation and simultaneously a 15% increase from the proposed SV. Residential ratepayers from the former Wyong LGA will experience a 20% decrease due to harmonisation, and after the proposed SV is applied their rates will reduce by 9% or $104 a year.[liv]

4.4.3 Overall assessment of the impact on affected ratepayers

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

We consider the impact of the proposed SV on ratepayers of the council would be reasonable given:

- the council's proposed average residential and farmland rates with the SV will be below the estimated average rate levels for OLG Group 7 and neighbouring councils in 2021-22
- the council's proposed average business rate is lower than average business rates for OLG Group 7 councils and only marginally higher than neighbouring councils in 2021-22
- the community's capacity to pay given its SEIFA ranking indicates the council is not more disadvantaged than most councils
- rates harmonisation redistributes the rating burden, based on unimproved land valuations, to the former Gosford City Council which has lower levels of disadvantage in the community than the former Wyong Shire Council.

We acknowledge the large change in rates is due to harmonisation and not the SV.

Therefore, on balance, and taking into account the implementation of rate harmonisation, we consider the impact of the proposed SV on ratepayers would be largely reasonable. We also note that the council has a hardship policy in place to assist ratepayers experiencing financial hardship.

4.5 Integrated Planning and Reporting documents

The IP&R framework provides a mechanism for councils and the community to engage in important discussions about service levels and funding priorities and to plan in partnership for a sustainable future. The IP&R framework therefore underpins decisions on the revenue required by each council to meet the community's needs.

The OLG Guidelines require the council to exhibit, approve and adopt the relevant IP&R documents before submitting an application for a proposed SV, to demonstrate adequate planning.

The relevant documents are the Community Strategic Plan, Delivery Program, 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 will be posted on the council's website.

In this section, we assess whether the council has included the proposed SV in its IP&R framework as outlined in Criterion 1 to 3 of the OLG Guidelines and exhibited, approved and adopted its IP&R documents.

According to the OLG Guidelines, the elements that should be included in the IP&R documentation are:

- the need for, and purpose of, the proposed SV
- the extent of the general fund rate rise under the proposed SV
- the impact of any rate rises upon the community.

4.5.1 Assessment of content of IP&R documents

The need for, and purpose of, the proposed SV

The council presented the need for, and purpose of, the proposed SV in the Revised Delivery Program and Operational Plan 2020-21. The Delivery Program was not formally re-adopted. The Delivery Program only canvassed one alternative to the rate rise; which was a 10% SV to be retained in the rate base for 7 years but it did not consider other alternatives such as reviewing its user fees and charges or borrowings. [lv]

The LTFP did not discuss the need for, and purpose of, the proposed SV. However, it does show the financial impact of the SV by presenting two SV scenarios; the council's proposal of 15% and a 10% SV.[lvi]

The extent of the general fund rate rise under the proposed SV

The revised Delivery Program and Operational Plan 2020-21 includes average residential, business, farming and mining rates in 2021-22 to 2024-25 under two scenarios; a 10% increase applied from 2021-22 to 30 June 2028 and the proposed SV.[lvii] However, it does not quantify the annual impact for average ratepayers by rating category distinguished by the former councils. Furthermore, the revised Delivery Program and Operational Plan 2020-21 do not specify the impact on rates across all rating categories under the former councils under a 'no rate rise' scenario.

The impact of any rate rises upon the community

The revised Delivery Program and Operational Plan 2020-21 did not include the council's consideration of the community's capacity to pay rates under the proposed SV. Nor did the council compare its average rates to other regional councils.[lviii] The LTFP did not discuss the community's capacity to pay rates under the proposed SV.

4.5.2 Assessment of the exhibition, approval and adoption of IP&R documents

The council publicly exhibited its Community Strategic Plan from 30 April 2018 to 28 May 2018.[lix] It publicly exhibited its Delivery Program from 18 May 2018 to 14 June 2018 and adopted this on 25 June 2018.[lx] The Operational Plan were revised to include the SV, which was noted by the council on 8 February 2021 and exhibited on the council website on 9 February 2021.[lxi]

The LTFP was revised to include the scenario of rate peg only (no rate rise). It was publicly exhibited from 9 February 2021 to 9 March 2021.[lxii] The council received 24 submissions on the revised LTFP.[lxiii]

4.5.3 Overall assessment of the IP&R documents

We found that the council partly demonstrated that it met this criterion. We also acknowledge there may not have been time to fully plan for an SV application given the Interim Administrator was appointed in late October 2020. Only the revised LTFP was publicly exhibited and adopted by the council on 23 March 2021.

The main deficiencies contributing to the council partly meeting this criterion are:

- omission of ratepayer impacts under a 'no rate rise' scenario in its revised Delivery Program and Operational Plan 2020-21
- omission in the revised Delivery Program and Operational Plan 2020-21 of the council's consideration of the community's capacity to pay rates under the proposed SV
- omission of a comparison of the council's average rates with other regional councils
- omission of consideration of other alternatives such as reviewing its user fees and charges and borrowings
- omission of a clear and thorough explanation of the effect of rates harmonisation; distinguishing its impact from the SV impact on rates.

We consider that most of the council's IP&R documents did not contain sufficient information relating to the proposed SV, nor have they been appropriately exhibited, approved and adopted by the council; however, we recognise that the council may not have had sufficient time to achieve this given its circumstances.

4.6 Productivity improvements and cost containment strategies

The OLG Guidelines require 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.

Councils are required to 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 LTFP.

Achieving cost savings through improved productivity can reduce the need for, or extent of, the increase to general income needed through a proposed SV.

Drawing on our experience in past years, IPART has placed a stronger emphasis on this criterion and how councils demonstrate that they have met it. Councils are required to provide evidence of strategies and activities and robust data quantifying the efficiency gains from productivity improvements in their operations and asset management, as well as cost-saving and revenue-raising initiatives.

In this section we consider the council's strategic approach to improving its productivity and efficiency, its achievements and proposals, and their impact on the council's operational results.

4.6.1 Assessment of efficiency gains achieved

The council's application sets out the productivity improvements and cost containment initiatives it has undertaken in recent years. In particular, it submitted that it had:

- developed, procured and implemented a 10-year domestic waste collection service which led to approximately $1.5 million in savings over a 10-year period
- saved $4 million by performing onsite excavation, with resources extracted to use for roads and as cover material at waste facilities
- undertaken a service review on the Town Centre Cleaning contracts that has delivered savings of $500,000 per year
- closed the Kincumber Waste Management Facility which saves $600,000 per year
- saved $4.678 million as a result of terminating 51 contractors or temporary employees
- implemented energy management practices since 2012 which brought about savings of $970,000 per year.[lxiv]

Of these identified savings, significant savings relating to waste management were not directly included in our assessment of past efficiency gains. This is because waste management expenses relate to the council's waste fund, rather than the general fund which is the focus of our assessment.

Our assessment also excludes consideration of whether the termination of contractors or temporary employees was effective. We do not know which business areas the contractors or temporary employees were working in, and we require more information to accurately assess whether this is an efficiency gain.

We also note that there were inconsistencies in the data provided by the council quantifying the extent of the efficiency gains achieved.

4.6.2 Assessment of strategies in place for future productivity improvements

The council's plan to address its financial situation involves a combination of cost reductions (70%) and revenue increases (30%). The council indicated that it is planning future efficiency measures over the proposed SV period which will contribute to its expected cost reductions. Specifically, it proposes to save over $10 million per year. Some proposed initiatives are included below:

- Savings of approximately $1 million per annum by replacing almost 9,000 older streetlights with energy efficiency LED luminaries.
- Projects relating to Strategic Procurement (including training), however, the financial impacts of these efficiency initiatives have not been explained or estimated.
- A 'Plant and Fleet' program to fit 620 vehicles with GPS which commenced in July 2020 to increase efficiency in investigating safety incidents and complaints against the mobile workforce. GPS capabilities will also enable the council to "send corporate, road safety team, and defect acknowledgement messages directly to drivers". The council has indicated this could lead to savings of $3 million for the remaining deployment of GPS across the fleet.[lxv]
- Suspension of recruitment where possible.[lxvi] There have been 385 vacant positions which the council has not filled. Furthermore, the council resolved to implement a revised staff structure on 30 November 2020. The new structure has not been finalised and initial estimates are that the structural change will lead to a saving of $30 million. This structural change will reduce staff from over 2,500 to under 2,000.[lxvii]

4.6.3 Assessment of performance indicators for the council

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

Compared to neighbouring and other OLG Group 7 councils, the council has high levels of FTE staff. It also has more staff for each council resident.[lxviii]

Table 4.8 Central Coast Council's assessment of population to FTE levels in neighbouring councils and OLG Group 7

Council[a]	Full time equivalent staff	Population/equivalent full time staff
Hills	518	333
Hornsby	499	302
Campbelltown	625	269
Hawkesbury	314	214
Wollondilly	247	211
Camden	453	208
Lake Macquarie	1,104	186
Penrith	1,067	196
Cessnock	310	191
Blue Mountains	537	148
Central Coast	**2,549**	**134**

a The councils listed are those that continued operations and reported for the financial year 1 July 2018 to 30 June 2019.
Source: Central Coast Council, Application Part B, p 125-126.

To reduce existing staff levels, the council adopted a new organisational structure on 30 November 2020. The Executive Leadership Team was reduced from 9 to 5 positions and the number of Unit Manager positions was reduced from 39 to 26.[lxix] In the period from December 2020 to January 2021, staff were offered voluntary redundancies. It is the council's goal to return FTE staff levels to where they were pre-amalgamation of the former councils.[lxx] The aim of reducing the number of FTE staff is to bring staffing numbers to an appropriate level which will assist with ensuring the council's future sustainability. This process is planned to result in savings of $30 million per annum.[lxxi]

Our assessment also included whether there is any scope for the council to achieve further productivity savings. We examined selected performance indicators in Table 4.9 below.

Table 4.9 Select comparative indicators for Central Coast Council, 2018-19

	Central Coast Council	OLG Group 7 Average	NSW Average
General profile			
Area (km^2)	1,681	696	5,530
Population	342,047	173,720	62,400
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 ($)[a]	65,596	92,174	77,484
Average residential rates to median income, 2016 (%)	1.7	1.3	1.5
SEIFA, 2016 (NSW rank: 128 is the least disadvantaged)[b]	86		
Outstanding rates and annual charges ratio	2.0	3.1	4.4
Productivity (labour input) indicators[c]			
FTE staff	2,549	893	376
Ratio of population to FTE	134.2	194.6	166.0
Average cost per FTE ($)	77,985	90,299	94,358
Employee costs as % of operating expenditure (General Fund only) (%)	41	41	39
General Fund operating expenditure per capita ($)	1,185	958	1,315

[a] Median annual household income is based on 2016 ABS Census data.

[b] The Socio-Economic Indexes for Areas (SEIFA) is a measure that ranks areas based on their socio-economic conditions. The Australian Bureau of Statistics (ABS) ranks the NSW Local Government Areas in order of their score, from lowest to highest, with rank 1 representing the most disadvantaged area and 128 being the least disadvantaged area. IPART has referred to the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD) for our assessment, one of the component indexes making up the SEIFA.

[c] Data includes General Fund, Water & Sewer and other funds, if applicable (unless noted otherwise). 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.

Note: Except as noted, data is based upon total council operations for General Fund only.

Source: OLG, Time Series Data 2018-2019, OLG, unpublished data; 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.

We looked at the council's operating expenditure per capita and found that it is higher than the Group 7 average. This indicates there may be scope for efficiency gains in other cost items. However, we do not have enough data to undertake a comprehensive analysis of the council's expenditure by category.

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.

4.6.4 Overall assessment of productivity improvements and cost containment strategies

We found that the council partly demonstrated that it met this criterion. Whilst the council has explained its initiatives to improve productivity and contain costs, it has only partially quantified the cost savings resulting from these efficiency measures. We note that some of the historic efficiencies identified by the council relate to waste management expenses, which will not result in reduced expenditure for the council's general fund. We also consider that many of the 'best practice' efficiency strategies the council has now identified should have been recognised and implemented previously.

The council has attempted to demonstrate its focus on implementing a range of strategies to achieve productivity improvements and cost savings going forward. We expect council to provide detailed information about the future cost savings and achieved cost savings if it applies for a further SV.

4.7 Request for further information from the council

Correspondence between IPART and the Central Coast Council

Following our preliminary assessment of the council's application, we issued a letter to the council on 14 April 2021 seeking further comment about the permanent nature and the period of the SV.[lxxii] The council's reply stated that it:

- had considered alternatives to the proposed SV
- preferred a 10-year or longer temporary SV if a permanent SV was not approved
- has insufficient cash levels nor capacity to borrow additional funds.[lxxiii]

4.7.1 Assessment of council's response on the period of the SV

We considered the council's response but decided to approve a 15% increase to be retained in the rate base temporarily for three years. The council may continue to be financially unsustainable beyond the 3 year period of the temporary increase. However, this allows it to meet financial obligations for this period while providing it time to fully examine other funding options or the need for an additional SV in the future. It will also allow it to take into account the findings of the recently announced public inquiry into Central Coast Council.

The impact of our partial approval is explained in Section 5.

5 Our decision

We have partially approved the proposed SV, for a temporary increase of 15% in 2021-22. The increase above the rate peg is to be retained in the rate base for 3 years, after which it will be removed from the rate base on 1 July 2024.

We have attached conditions to this decision, including that the council uses the income raised from the SV for purposes consistent with those set out in its application, as outlined in Box 5.1.

Box 5.1 IPART Decision – Central Coast Council

Approved Special Variation: percentage increases to general income

	2021-22
Increase above the rate peg – temporary	13%
Rate peg	2%
Total increase	**15%**

The approved increase is retained in the council's general income base temporarily for a period of 3 years.

We have attached conditions with respect to this special variation increase as set out below.

Conditions attached

IPART's approval of the council's application for a special variation over the period 2021-22 to 2023-24 is subject to the following conditions:

- The council uses the additional income from the Special Variation for the purposes of repaying loans and restricted funds as outlined in the council's application and listed in Appendix B.
- The council reports in its annual report for each year between 2021-22 and 2023-24 on:
  - the program of expenditure that was actually funded by the additional income
  - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix C
  - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and the reasons for such variation
  - expenditure consistent with the council's application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure
  - the outcomes achieved as a result of the actual program of expenditure.

The approved variation to general income is the maximum amount the council may increase its income by in 2021-22.

5.1 Impact on the council

Our decision means that the council may increase its general income by 15% in the first year, 2021-22. This increase can remain in the rate base for 3 years and must then be removed. Over the 3-year SV period, general income will increase from $175.5 million in 2021-22 to $212.5 million in 2023-24. On 1 July 2024, the council must reduce its general income to what it would have been without the 15% temporary increase (less the rate peg). The council's PGI can then only increase up to the annual rate peg unless we approve a further SV.[11]

Table 5.1 shows the percentage increases we have approved, and estimates the annual increases in the council's general income incorporating adjustments that will occur as a result of various catch-up and valuation adjustments.

Table 5.1 Permissible general income (PGI) of Central Coast Council from 2021-22 to 2023-24 arising from the approved SV

	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate ($)	Cumulative increase in PGI ($)	PGI ($)
Adjusted notional income 1 July 2021					175,462
2021-22	15.00	15.00	22,810	26,755	202,216
2022-23	2.50	17.88	23,380	31,810	207,272
2023-24	2.50	20.82	23,965	36,992	212,454
Total cumulative increase approved				95,556	
Total above rate peg			**70,155**		

Note: The information in Table 5.1 is correct at the time of the council's application (February 2021).

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

We estimate that over the 3 years from 2021-22 to 2023-24, the council will collect an additional $70.2 million in rates revenue compared with an increase limited to the assumed rate peg.

This extra income will enable the council to repay its first 3 years of loan repayments. It will also allow the council sufficient time to adequately implement, execute and quantify its efficiency and productivity goals whilst responding to recent structural changes. We note there will be a public inquiry into the council and councillors have been suspended for the duration of the public inquiry.[12]

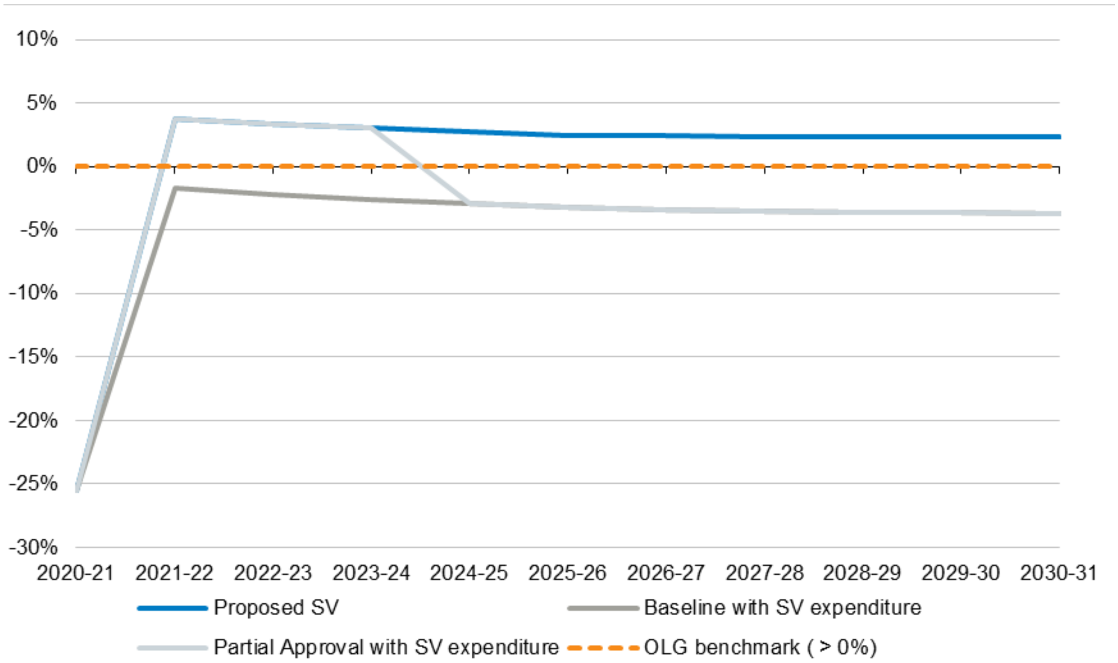
11 General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance with the SV conditions.

12 For more information please see the following link. https://gazette.legislation.nsw.gov.au/so/download.w3p?id=Gazette_2021_2021-170.pdf.

While in the past the council has not adequately demonstrated sufficient effort in identifying and realising cost savings, this 3-year temporary SV approval gives it sufficient time to show progress, address findings from the public inquiry if any and prepare and apply to IPART for an SV in the future if required.

Figure 5.1 depicts the projected operating performance ratio under our partial approval 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 Central Coast Council's Projected Operating Performance Ratio (%) under 3 different scenarios (2021-22 to 2030-31)



Note: Baseline with SV expenditure includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV.

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

5.2 Impact on ratepayers

IPART sets the maximum allowable increase in general income, but it is a matter for each council to determine how it allocates any increase across different categories of ratepayer, consistent with our determination and legislative requirements. We note that the council has indicated it intends to harmonise rates from 1 July 2021, which means movements in rates due to the harmonisation will coincide with the increase due to the SV.

The impacts on ratepayers based on our partial approval are shown in Table 5.2 below. From 2020-21 to 2021-22:

- the average residential rate will increase by $423 (41.6%) for former Gosford City ratepayers and reduce by $114 (9.5%) for former Wyong Shire ratepayers
- the average business rate will increase by $1,557 (50.2%) for former Gosford City ratepayers and reduce by $752 (17.5%) for former Wyong Shire ratepayers
- the average farmland rate will increase by $719 (53.2%) for former Gosford City ratepayers and reduce by $735 (25.2%) for former Wyong Shire ratepayers
- the average mining rate will increase by $61,914 (15%) for former Wyong Shire ratepayers by the end of the 3-year partially approved SV period.

For the second and third years in the SV period, increases in rates will be limited to the rate peg on average. As our approval is temporary, at the end of the SV period the rates will return to the harmonised rates adjusted by the rate peg.

The council's rates will be comparable to the Group 7 average and the average rates of neighbouring councils during the SV period, as shown in Table 4.7.

Table 5.2 Indicative annual increases in average rates under Central Coast Council's approved SV (2021-22 to 2023-24)

Ratepayer Category	2020-21	2021-22	2022-23	2023-24	Cumulative Increase
Gosford					
Residential rate $	1,016	1,440	1,476	1,513	
$ increase		423	36	37	496
% increase		41.6	2.5	2.5	48.8
Business rate $	3,104	4,661	4,777	4,897	
$ increase		1,557	117	119	1,793
% increase		50.2	2.5	2.5	57.8
Farmland rate $	1,350	2,069	2,120	2,173	
$ increase		719	52	53	823
% increase		53.2	2.5	2.5	61.0
Wyong					
Residential rate $	1,199	1,085	1,113	1,140	
$ increase		-114	27	28	-59
% increase		-9.5	2.5	2.5	-4.9
Business rate $	4,295	3,543	3,632	3,722	
$ increase		-752	89	91	-572
% increase		-17.5	2.5	2.5	-13.3
Farmland rate $	2,909	2,175	2,229	2,285	

Ratepayer Category	2020-21	2021-22	2022-23	2023-24	Cumulative Increase
$ increase		-735	54	56	-624
% increase		-25.2	2.5	2.5	-21.5
Mining rate $	412,763	474,677	486,544	498,708	
$ increase		61,914	11,867	12,164	85,945
% increase		15.0	2.5	2.5	20.8

Note: 2020-21 is included for comparison. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category and includes the ordinary rate and any special rates applying to the rating category.

Source: Central Coast Council, *Application Part A,* Worksheet 5a and IPART calculations.

Appendices

A Assessment criteria

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[13]:

- 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 this criterion. This could include evidence of 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 criteria, IPART will also take into account 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.

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

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.[14]

Criterion 3 – Impact on ratepayers is reasonable

The impact on affected ratepayers must be reasonable, having regard to both 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:

14 https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/For-Councils/Apply-for-a-specialvariation-or-minimum-rate-increase

- 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[15] 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. It is expected 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.

15 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 Expenditure to be funded from the special variation above the rate peg

Table B.1 show the council's proposed expenditure of the SV funds over the next 10 years under its application.

The council intended to use the additional SV revenue above the rate peg of $255.5 million over 10 years to fund the loan repayments on restricted funds.

Under our approved SV, the council will receive additional revenue above the rate peg of $70.2 million over 3 years (see Table 5.1).

As a condition of IPART's approval, the council will indicate in its Annual Reports how its actual expenditure compares with its program of expenditure under the approved SV.

Table B.1 Central Coast Council – Revenue and proposed expenditure over 10 years related to the proposed SV (2021-22 to 2030-31) ($000)

	SV revenue above assumed rate peg	Proposed expenditure - repay loans and restricted funds
2021-22	22,810	22,810
2022-23	23,380	23,380
2023-24	23,965	23,965
2024-25	24,564	24,564
2025-26	25,178	25,178
2026-27	25,807	25,807
2027-28	26,453	26,453
2028-29	27,114	27,114
2029-30	27,792	27,792
2030-31	28,487	28,487
Total	**255,549**	**255,549**

Note: Numbers may not add due to rounding.

Source: Central Coast Council, *Application Part A,* Worksheet 6.

C Central Coast Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, the council is to report in 2021-22, 2022-23 and 2023-24 against its projected revenue, expenses and operating balance as set out in its LTFP (shown in Table C.1).

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 C.1 Summary of projected operating statement for Central Coast Council under its proposed SV application (2021-22 to 2030-31) ($000)

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Total revenue	454,312	460,765	467,340	474,054	480,399	486,885	493,514	500,292	507,220	514,303
Total expenses	411,495	419,401	427,111	434,929	442,209	448,783	455,427	462,135	468,917	475,770
Operating result from continuing operations	42,816	41,364	40,229	39,125	38,190	38,102	38,087	38,157	38,303	38,533
Net operating result before capital grants and contributions	15,847	14,395	13,259	12,156	11,220	11,132	11,118	11,187	11,334	11,564
Cumulative net operating result before capital grants and contributions	15,847	30,242	43,501	55,657	66,877	78,009	89,127	100,314	111,648	123,212

Note: Numbers may not add due to rounding.

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

D Comparative indicators

Performance indicators

Indicators of council performance may be considered across time, either for one council or for a group of similar councils, or by comparing similar councils at a point in time.

Table D.1 shows how selected performance indicators for the council have changed over the 3 years to 2018-19. Table D.2 compares selected published and unpublished data about the council with the averages for councils in its OLG Group, and for NSW councils as a whole.

Table D.1 Trends in selected performance indicators for Central Coast Council (2016-17 to 2018-19)

Performance indicator	2016-17	2017-18	2018-19	Compound annual growth (%)
FTE staff (number)	1,862	1,861	2,549	17.0
Ratio of population to FTE	180	182	134	-13.7
Average cost per FTE ($)	100,469	99,914	77,985	-11.9
Employee costs as % of operating expenditure (General Fund only) (%)	39	42	41	

Note: Except as noted, data is based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data and IPART calculations.

Table D.2 Select comparative indicators for Central Coast Council (2018-19)

	Central Coast Council	OLG Group 7 average	NSW average
General profile			
Area (km^2)	1,681	696	5,530
Population (2016)	342,047	173,720	62,400
General Fund operating expenditure ($m)	405.4	194.1	83.4
General Fund operating revenue per capita ($)	1,297	1,501	
Rates revenue as % General Fund income (%)	57.6	48.2	45.5
Own-source revenue ratio (%)	75.9	65.8	69.7
Average rate indicators[a]			
Average rate – residential ($)	1,086	1,215	1,139
Average rate –business ($)	3,545	4,251	5,709
Average rate – farmland ($)	1,752	2,687	2,627
Average rate – mining ($)	184,400	135,571	
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 ($)[b]	65,596	92,174	77,484
Average residential rates to median income, 2016 (%)	1.7	1.3	1.5
SEIFA, 2016 (NSW rank: 128 is least disadvantaged)	86		
Outstanding rates and annual charges ratio (General Fund only) (%)	2.0	3.1	4.4
Productivity (labour input) indicators[c]			
FTE staff (number)	2,549	892.6	376
Ratio of population to FTE	134.2	194.6	166.0
Average cost per FTE ($)	77,985	90,299	94,358
Employee costs as % operating expenditure (General Fund only) (%)	41	41	39
General Fund operating expenditure per capita ($)	1,185	958	1,315

a Average rates equal total ordinary rates revenue divided by the number of assessments in each category.

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

c 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.

Source: OLG, Time Series Data 2018-19, unpublished data; ABS, Socio-Economic Indexes for Areas (SEIFA) 2016, March 2020, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

E Rates harmonisation

Harmonisation is the implementation of one rating system within all rating categories.

The following tables compare the aggregate difference in ad valorem rates in cents under the proposed SV scenario and the difference in weighted average ad valorem rates. These tables show the effect of harmonisation on the proposed SV.

Table E.1 Central Coast Council's average ad valorem rates in cents

Ratepayer Category	Rates in 2020-21	Rates in 2021-22 under proposed SV increase	Increase under proposed SV (%)
Gosford			
Residential	0.235	0.343	45.6
Business	0.417	0.661	58.3
Farmland	0.119	0.184	53.8
Mining	0.000	0.000	0.0
Wyong			
Residential	0.386	0.343	-11.3
Business	0.846	0.664	-21.5
Farmland	0.245	0.184	-25.1
Mining	14.874	17.105	15.0
Central Coast Council			
Residential	0.308	0.343	11.3
Business	0.615	0.662	7.7
Farmland	0.157	0.184	16.9
Mining	14.874	17.105	15.0

Note: All ad valorem rates in this table are weighted averages, weighted by number of assessments.
Source: Central Coast Council, *Application Part A*, Worksheets 2 and 3 and IPART calculations.

Table E.2 Difference in weighted average ad valorem rates

	Rates in 2020-21 (%)	Rates under proposed SV increase in 2021-22 (%)
Difference between Gosford & Wyong		
Residential	-39.1	0.0
Business	-50.7	-0.5
Farmland	-51.3	0.0

Note: All ad valorem rates in this table are weighted averages, weighted by number of assessments.
Source: Central Coast Council, *Application Part A*, Worksheets 2 and 3 and IPART calculations.

Tables E.1 and E.2 show the gap between the former Gosford City and Wyong Shire councils will narrow substantially for residential, business and farmland categories. This is the result of considerable percentage decreases across residential, business and farmland categories in the former Wyong Shire and significant increases across residential, business and farmland categories in the former Gosford Shire council due to harmonisation.

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.

[i] Central Coast Council, Administrator, accessed 2 April 2021.
[ii] Central Coast Council, *Application Part A*, Worksheet 1.
[iii] Central Coast Council, *Application Part B*, p 3.
[iv] IPART, Assessment of Council Fit for the Future Proposals: Appendix C, October 2015, p 207, 399.
[v] Central Coast Council, 2016-2017 Annual Report, p.5, accessed 29 March 2021.
[vi] Central Coast Council Your Voice Our Coast, Securing your future with a rate rise, accessed 31 March 2021
[vii] Central Coast Council, *Application Part B*, p 32.
[viii] Central Coast Council, *Application Part B*, p 10.
[ix] Central Coast Council, *Application Part B,* p 10.
[x] Central Coast Council, Administrator's 30 Day Interim Report, p 5, accessed 1 April 2021.
[xi] Central Coast Council, *Application Part B*, p 14.
[xii] Central Coast Council, Administrator's 30 Day Interim Report, p 10, accessed 1 April 2021.
[xiii] Central Coast Council, Proposed timing of Central Coast Council's special variation application, accessed 5 May 2021.
[xiv] Central Coast Council, Proposed timing of Central Coast Council's special variation application, accessed 5 May 2021.
[xv] Central Coast Council Your Voice Our Coast, Rates Harmonisation – Overview and FAQs, accessed 7 April 2021.
[xvi] Central Coast Council, *Application Part B*, p 3.
[xvii] Central Coast Council, *Application Part A*, Worksheet 6.
[xviii] Central Coast Council, *Application Part B*, p 14.
[xix] Central Coast Council, *Application Part B*, p 4.
[xx] Central Coast Council, *Application Part B*, p 4.
[xxi] Central Coast Council, Administrator's 30 Day Interim Report, p 6, accessed 19 April 2021.
[xxii]Central Coast Council, *Application Part B*, p 5.
[xxiii]Central Coast Council, *Application Part B*, p 10.
[xxiv] Central Coast Council, *Application Part B*, p 11.
[xxv] Central Coast Council, *Attachment J - Resolution to apply for the special variation*, p 1. Extracted from https://cdn.centralcoast.nsw.gov.au/sites/default/files/Council/Meetings_and_minutes/minutes-8february2021.pdf.
[xxvi] Central Coast Council, Council's Financial Situation, accessed 20 April 2021.
[xxvii] Central Coast Council, *Revised Delivery Program and Operational Plan 2020-21*, p 4.
[xxviii] Central Coast Council, *Application Part B*, p 14.
[xxix] Central Coast Council, *Application Part B*, p 4.
[xxx] Central Coast Council, *Application Part B*, p 14.
[xxxi] Central Coast Council, *Application Part B*, p 15.
[xxxii] Central Coast Council, *Application Part B*, p 15.
[xxxiii] Central Coast Council, Administrator's 30 Day Interim Report, p 4, accessed 7 April 2021.
[xxxiv] Central Coast Council, *Application Part B*, p 12.
[xxxv] Central Coast Council, *Application Part B*, p 32.
[xxxvi] Central Coast Council, *Application Part B*, p 5, Central Coast Council, Council's Financial Situation, accessed 5 May 2021.
[xxxvii] Central Coast Council, *Attachment G - Community Engagement Materials*, p 8.
[xxxviii] Central Coast Council, *Attachment G - Community Engagement Materials*, p 2.
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