

[REDACTED]

2nd February 2012.

The Chairman,
Independent Pricing and Regulatory Tribunal,
P.O. Box Q290,
QVB Post Office NSW 1230.

Attn: Ms Alison Milne / Ms Nicole Haddock

Dear Sir/Madam,



**Subject: Upcoming Submission by North Sydney Council
for Retention of Levies.**

It is my understanding, that North Sydney Council will soon be putting a submission to IPART, in support of incorporating two special levies into the council rates. These will be in addition to the special rate increase of 5.5%, already granted by IPART, for the next 7 years.

Ratepayers received a mail-out from Council in support of this proposal, which I believe was very deceptive and verging on dishonest. I subsequently sent the attached two letters to all Councillors. These letters provide information, which should have been provided to ratepayers, to fully inform them of the facts.

There is no independent forum for ratepayers to analyse, discuss or disseminate Council's activities and proposals, and objecting to Council by way of a letter, is akin to complaining to the police about police brutality.

I'm sure Council's submission to IPART will not contain such information, but IPART need to be aware of the deception promulgated by Council, in their effort to increase council rates.

Yours faithfully,

[REDACTED]
Michael C. O'Reilly [REDACTED]

Attachments:

- Council Mail-out dated 31st August 2011
- Letter to Councillors dated 12th October 2011
- Letter to Councillors dated 28th November 2011



address 200 Miller Street North Sydney NSW 2060

all correspondence General Manager North Sydney Council
PO Box 12 North Sydney NSW 2059
DX10587

telephone (02) 9936 8100

facsimile (02) 9936 8177

email council@northsydney.nsw.gov.au

internet www.northsydney.nsw.gov.au

ABN 32 353 260 317

31 August 2011

IMPORTANT INFORMATION – COUNCIL LEVIES

Dear Property Owner

In June 2011, the Independent Pricing and Regulatory Tribunal (IPART) gave North Sydney Council approval to increase its rates by 5.5% per annum for the next seven years. IPART did not approve our request to continue our special levies permanently, because it said we had not sufficiently explained our intention to ratepayers.

Council is now reapplying to continue our special levies as part of our general rate income. You currently pay two levies - an Infrastructure Levy and Environment Levy - and these are itemised separately on your rates notice. If our application is approved, these levies will no longer appear separately on your notice, but Council will reserve the money for infrastructure and environmental projects.

INFRASTRUCTURE LEVY

The Infrastructure Levy provides \$1.6 million for essential infrastructure projects. The average levy cost is \$44 per year. Levy projects include:

- Drainage – maintaining the 98km pipe network, including replacing 6km of pipe
- Marine – replacing and maintaining our 23 marine structures, including wharves, pontoons, boardwalks and boat ramps
- Retaining walls – rebuilding failing sections of our 260 retaining walls
- Roads – upgrading and repairing 139km of road network
- Seawalls – replacing and repairing our 5km of seawalls
- Street furniture – replacing and maintaining more than 3000 items of street furniture, including seats, bollards, bins, gazebos, planter boxes and public art works

If the permanent continuation of this levy is not supported by ratepayers and approved by IPART your rates will decrease by an average of $\$44$ a year from July 2012, however, Council's spending on infrastructure will be severely restricted.

7.4%

ENVIRONMENT LEVY

The Environment Levy provides \$1.8 million for important environmental projects and costs an average of \$49 per year. The Levy is spent on:

- Bushland – regenerating our bushland reserves including creating habitat for wildlife and removing weed infestations
- Bushland support - training and supporting our Bushcare volunteers, propagating native plants in our community nursery and upgrading our bushland walking tracks
- Water – monitoring water use and quality, maintaining gross pollutant traps and additional street sweeping in catchment areas
- Energy – purchasing GreenPower and reducing energy use through the installation of photovoltaics and energy-efficient lighting at our facilities



COUNCIL LEVIES – ADDITIONAL INFORMATION

The table below shows the impact on ratepayers with and without the continuation of the levies. Please note that the 5.5% increase (inclusive of the annual rate peg) that has already been approved by IPART will continue for the next six years, regardless of whether the levies are continued.


The request to continue the levies will appear on our application as a 12.9% increase for the 12/13 financial year and 15.4% for the 13/14 financial year. This is because IPART considers rate variations in terms of Council's total rate income and does not take into account expiring levies.

For example, the \$1.6 million infrastructure levy is equivalent to 7.4% of Council's total rates income. If the levy lapses, and is then re-approved, we decrease then increase our total rates income by 7.4%. With the 5.5% already approved, our rates will be deemed to increase by 12.9%, although in practice we will only be maintaining the status quo.

The continuation of the levies will not increase your rates above the level you are already expecting to pay. If the levies do not continue your rates will go down by the levy amounts.

TABLE 1: IMPACT OF LEVIES FOR RESIDENTIAL RATEPAYERS

AVERAGE RESIDENTIAL RATES: 2011/12 - 2013/14						
	with levies			without levies		
	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
General Rate	\$494.00	\$567.59	\$653.35	\$494.00	\$521.17	\$549.83
Infrastructure Levy	\$44.00	\$0.00	\$0.00	\$44.00	\$0.00	\$0.00
Environmental Levy	\$49.00	\$51.70	\$0.00	\$49.00	\$51.70	\$0.00
Domestic Waste Charge	\$256.00	\$270.08	\$284.93	\$256.00	\$270.08	\$284.93
Total	\$843.00	\$889.37	\$938.28	\$843.00	\$842.95	\$834.77
% change		+5.50%	+5.50%		-0.01%	-0.97%



The Mayor,
North Sydney Council,
P.O. Box 12
North Sydney, 2059.
c.c. All Councillors.

Dear Madam,

Subject: Proposed Increase in Council Rates

The current smoke and mirrors exercise by Council to increase rates, strikes me as being deceitful and dishonest.

The Infrastructure and Environmental Levies were introduced for a fixed period for a specific finite expenditure, rather than an ongoing permanent expenditure, which continues forever.

Now the Council is trying a slight of hand by converting the temporary levies to a permanent part of the rates, in effect permanently increasing rates by 15.65% and hiding the levies as an integral part of the rates, where they can't be seen.

The Council, having become addicted to the levy income, now can't live without it. This implies that these costs are now constant (which they are not) and continuous forever (which they do not). This is a perfect example of the Peter Principle whereby 'the work always expands to equal the time and money available'

If Council foresees some specific projects in the next 7 years, (e.g. pool repair, sea wall repairs) then they should prepare a costed budget, and present it to ratepayers, and if approved, impose a levy until the specific projects are completed. Subsequent years should be addressed similarly. This is how Council should be managing ratepayers money, not simply saying "give us xx% permanent increase and we'll work out how to spend it and let you know after the event". That is not responsible financial management.

If the infrastructure and environmental projects for which the levies were introduced are now finished then the levies should be discontinued as originally agreed, and not hidden as a permanent part of the rates. If there are some new infrastructure and environmental projects then a new levy should be introduced to address those specific costs, until they are completed.

A municipality builds its roads once; builds its footpaths once; creates its parks and sports fields once; builds its library once. We have an old and well established, municipality where 99% of the infrastructure is already built. Once the infrastructure is built there is ongoing repair and maintenance costs which are relatively constant. These don't suddenly increase permanently by 45% unless there is something very unusual occurring. Similarly for environmental expenses. Presently, large sums are being expended on bushland weed eradication, because none was done in the past. Once the eradication is complete (which will occur in the next year or so) then thereafter, it is a low cost maintenance exercise to maintain the weed free bushland. (I'm familiar with this, because I'm a Bushcare volunteer). Yet Council wants to make the Environmental Levy permanent.

We must have one of the best facilitated and maintained municipalities in the western world. Our parks, ovals and nature strips are beautifully manicured; the roads, footpaths and bus shelters are in near perfect condition; we have world class facilities such as Olympic pool and library; garbage collection and recycling are excellent etc etc.

Table 1 in Council's proposal is a blatant exercise in deception. Firstly, it only shows the effect for 2 years. If it showed the effect over 7 years, it would show the compounding effect of what appears to be a relatively small increase (5.5%). But for 7 years it results in a **permanent** increase of nearly 50%. The Table should show that 'with levies', the average rates would increase from \$843 to \$1226, a massive unjustified **45% increase!** For the 'discontinued levies', the average rates would go from \$843 to \$1091, a similarly unjustified **30% increase!** Council then states: "*The continuation of the levies will not increase your rates*"

above the level you are already expecting to pay". This is a blatant lie. What we expect to pay, is for the levies to be discontinued as originally agreed, and the rates to be increased at the rate of inflation. This would increase rates over 7 years, from \$843 to \$924, a 9.6% increase. Any increase over and above this 'expected case', should be the subject of a costed budget, put to the ratepayers for approval, and paid for by a levy, not a percentage increase. For a percentage increase, Council must demonstrate that there has been a permanent increase in the operational cost of the municipality. (e.g. inflation, an increase in staff numbers, a new tax, an additional service, impost or responsibility etc). Table 1 has been purposely devised to hide the true impact (a 45% increase) of introducing large unjustified and permanent increases in the rates.

By permanently incorporating the two Levies into the rates, the Council is claiming that the municipality has become permanently 15.65% (over and above inflation) more expensive to administer, compared to before the levies were introduced. Council must justify this with detailed costings.

There is another level of deceit in what Council is proposing, and that is the difference between a fixed levy and a percentage increase. When a levy is discontinued it is deducted from the rateable amount i.e. there is a discrete reduction. When a percentage increase is discontinued, there is no reduction. Only the rate of increase is reduced, and the increase that has occurred during the 7 years (in this case 45%) is locked-in forever. This is best illustrated by the attached graph.

The dishonesty of Council's proposal is as follows:

1. The temporary levies get absorbed into the rates as a permanent increase forever, which is in breach of the original agreement of the levy.
2. The compounding effect of 5.5% p.a. results in a much larger increase (45%) than is apparent and is not shown by Table 1.
3. The increase which occurs over the 7 years is locked-in forever unlike a levy.
4. Table 1 is purposely designed to camouflage the real effect and make the two substantial increases appear to be insignificant.
5. The effect of the increases, contrary to the dishonest statement by the Council, massively increases the rates above what we expect to pay. (Refer to attached graph)

This is blatantly dishonest.

Instead of the "*the continuation of the levies will not increase your rates*" rubbish, and a totally misleading Table 1, Council should be honest with ratepayers and state that they propose to increase rates permanently and by stealth, by 45%. This will be in addition to the 15.65% cost of levies which will be made permanent as well. i.e. an overall increase of 60.65%!

As employees of the ratepayers, the Council should be investigating ways to **reduce** rates, not increase them and certainly not by dishonest unjustified and uncostered proposals. The problem is, that there is absolutely no incentive for government bureaucrats to reduce costs. In fact, quite the opposite.

Council could start reducing costs by carrying out rigorous cost/benefit analyses for all capital expenditures. For example, the massive cost for the new footpath on the western side of Wonga Road. There are no houses on the west side; only inaccessible bushland. There is a perfectly good footpath on the east side. The total benefit of this exorbitant expense, is to save a very small number of people from crossing the road.

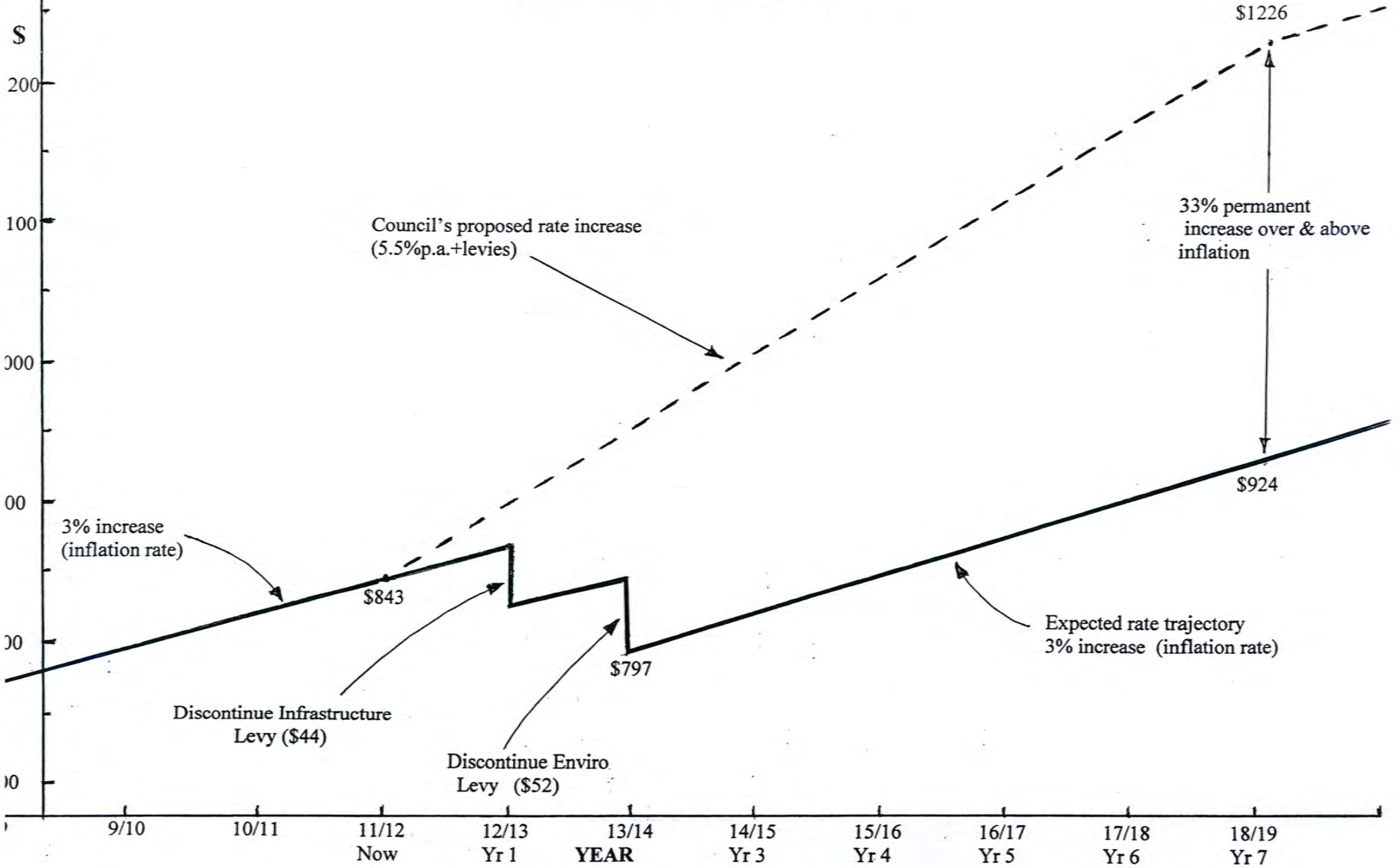
Next the Council should institute a methodology whereby each year the Council produces a costed budget consisting of proposed costs for Administration, Repairs, Maintenance and Capital Improvements. Rates should then be levied on the basis of these specific budgets. This would force Council to justify the rates and the expenditures each year, before they occur.

The Council proposed increases and justifications are totally unacceptable.

Yours faithfully,



AVERAGE RESIDENTIAL RATES



[REDACTED]

The Mayor,
North Sydney Council,
200 Miller St.,
North Sydney.
c.c. All Councillors

Dear Madam,

Subject: Proposed Increase in Council Rates

Further to my correspondence dated 12th October, on the above subject. I attended the two public meetings held for discussion of this matter. The meetings were attended by only a handful of ratepayers, which Council will no doubt claim as a ratepayer de facto acceptance of what Council is proposing. I would contend quite the opposite. The poor response was due to the deception and dishonesty in the Council mail-out, which makes the three proposed increases appear to be innocuous, because it fails to provide the effect over 7 years. (These meetings were an ineffective forum because 'he who controls the microphone, controls the proceedings and who gets to ask questions and no opportunity for back and forth discussion or questioning unsubstantiated answers. Hence this letter.)

When the General Manager was asked why the effect over 7 years was not shown in the mail-out, it was claimed '*that because the 5.5% was already approved, it was not relevant!*' Yet it is the combined effect of the three increases that ratepayers are: (a) going to pay over the 7 years, and (b) the magnitude of the rates after 7 years.

When the General Manager was asked why budget information was not included in the mail-out, it was claimed that '*the cost of paper would be too expensive*'. We are considering a rate increase of approximately \$4.5 million per year (\$31.5 million over 7 years) and Council is making the pathetic excuse that several extra sheets of paper would cost too much!! The real reason is, that these details would expose the deception of their proposal.

When the Mayor was asked what was the justification for such a large cost increase in the future operation of the municipality, it was claimed '*that Nth Sydney was one of the cheapest municipalities in Sydney and that if we lived in Mosman we would be paying twice as much*'. This is a totally illegitimate, spurious and irrelevant argument. Every municipality is different in size, in stage of development, in resident density, in commercial areas etc etc. For example, Mosman does not have the equivalent of the North Sydney, Neutral Bay and Crows Nest CBD's; North Sydney is 2.5 times larger; the lot sizes are much larger in Mosman and it is not as densely populated etc etc.

The Mayor claimed that economists/accountants had done a report and concluded that Council was justified in an increase '*of over 2% over and above the IPART permitted increase*'. Everyone knows that economists/accountants can produce a report to support almost any argument and they are certainly not going to produce a report that is contrary to the wants of the client who is paying them! It is a blatant case of conflict of interest. It is also well known that you never commission a report unless you know what the answer will be.

The tables of proposed expenditures posted on the net, look very much like they have been reverse engineered. That is, you know what amount of money you

want to justify, so you produce tables which, surprise, surprise happen to add up to the amount of money you want. I have no doubt that if the amount of money was doubled, that Council could produce an equally convincing set of tables to show how they would spend it.

The Mayor specifically and emphatically stated *'that levies were no longer permitted as a part of the rates and that is why the levies were to be incorporated as an integral part of the rates'*. I was so concerned by such an inappropriate and illogical policy, I took the liberty to write to IPART for an explanation. IPART's reply stated: *"that IPART does not determine the rating structure of councils and we have not made any policy in relation to council levies"*. Further, *".....a council may choose to impose a levy in its rate structure for a specific funding purpose so long as it complies with its maximum allowable general income and the Local Govt Act 1993"*. The Mayor's statement was a blatant untruth to mislead ratepayers.

The Mayor also claimed that many councils found themselves *'under severe financial stress'* because the IPART permitted increases were insufficient. The implication is that this justifies a rate increase. This is nonsense. A council receives a fixed amount of money each year. After paying recurrent and essential expenditures, the expenditures thereafter are totally elastic. Every council always arranges to spend **all** its available money each year, because otherwise it can't justify claiming an increase next year. When the money runs out, projects not completed simply don't get done or they get postponed until next year. The council doesn't go bankrupt or into receivership. Their income is guaranteed and their expenditure is elastic. The ratepayers get whatever the rates can buy and nothing more.

A member of the audience stated that he supported the retention of both levies because it *'only amounted to a few dollars a week'*. This is an illogical argument. Irrespective of whether it is \$2 or \$20 a week is irrelevant. Whether it is justified; whether it is value for money; whether it is essential or an optional extra etc is the yardstick for acceptance. Everything can be broken down to component parts which *'only cost a few dollars a week'* and each on their own appears insignificant. What that ratepayer did not realise was the accumulative effect of all the *'few dollars a week'*. In 7 years without the 5.5% p.a. and the two levies, the average rate will increase from \$797 to \$924. With both levies and the 5.5% increase (as proposed by Council), the average rate will increase from \$843 to \$1226. (Refer to the graph with correspondence of 12th Oct).

I challenge the Council to make a submission to ratepayers that:

- (a) Shows that the 5.5% p.a. increase over 7 years, results in a **permanent** increase of over 45%. (Refer to previous correspondence dated 12th Oct)
- (b) Shows that the inclusion of both levies into the rates, results in a **permanent** increase of 15.7% and when combined with the 5.5% increase results in a **permanent** increase of over 60%.
- (c) Shows a detailed budget summary (refer to Note 1 below), showing what the money would be spent on year by year, and by category. (i.e. essential or non-essential)
- (d) A *'No Case'* and other alternatives.

I guarantee the ratepayer response to such a submission would be totally different.

Most ratepayers do not have the analytical abilities (or the inclination) to analyse the details and long term effects of compounding percentage increases and the different effects of levies vs percentage increases. (5.5% p.a. seems innocuous until you analyse the effect over 7 years)

Councils have a shocking history and reputation of bribery, corruption, mis-management and mal-administration. The latest ICAC finding of bribery and corruption in **88 councils**, is just the tip of the iceberg, because detecting such activities is very difficult. The perpetrators don't exactly advertise their activities, and the opportunities for corruption are many.

With such a poor record of mal-administration, no council should be given one cent more than is justified by detailed and approved budgets.

In looking around the municipality, I see absolutely no signs of decay, deterioration or insufficient funds under the existing rates. In fact I see quite the opposite. I see a municipality which is in near perfect condition. I see expenditures by Council which are not essential or are unjustified and would be classified as luxury. (Examples: Sandstone edging around nature strips in Miller St.; replacement in lieu of repair of hand rail in Gerard Lane; replacement in lieu repair of footpath on east and west side of Cremorne Point; new footpath in Wonga Road; replacement of kerbing in Gerard Lane; bush regeneration and rehabilitation taken to extremes to mention just a few).

It is all very well to produce unsubstantiated tables for expenditures for road repairs, footpath repairs, bush rehab, sea wall repair, tree planting etc etc. These expenses have always been required and are not new. What Council must provide is an explanation as to why the cost of maintaining the municipality has supposedly increased permanently by more than 60%.

Yours faithfully,

Michael C.O'Reilly

Notes

1. Budgets

Budgets should show the following categories:

1. Non-discretionary (essential) recurrent costs, including such items as wages, utilities, insurance, day to day running costs etc.
2. Non-discretionary repairs, maintenance and capital expenses.
3. Non-discretionary capital improvements.
4. Discretionary repairs, maintenance and other capital expenditures
5. Discretionary capital improvements

(Items 1,2 and 3 are 'must pay' items. Items 4 and 5 are optional & should be decided by ratepayers)

2. Implications of a Rate Increase

The natural progression after obtaining an increase in rates will be an increase in staff to administer the increased monies. Then management will demand an increase in remuneration because they are managing extra staff and a larger budget. This will justify an increase in office space, administration costs etc etc. All of this will of course justify another increase in rates. And so it goes.

3. Analysis of some of the proposed Expenditures

Street Trees. Council's tables propose to spend \$60,000 p.a. for the next 7 years (i.e. \$420,000 in total). Assuming a purchase price of \$20 per tree and 2 men for 1 hour at \$50 per hour the \$420,000 will buy 3500 trees. I drive around the

