

An aerial photograph of a coastal town and harbor. The foreground shows a residential area with many houses and a marina with numerous sailboats. The middle ground features a large body of water with a bridge and more houses. The background consists of rolling green hills under a bright blue sky with scattered white clouds.

Central
Coast
Council

Administrator's **3 Month Progress Report**

Introduction

I presented my 30-day report in early December 2020. I called it an "Interim report" because at that time new information was still being unearthed. As it turned out, not much changed after that, so I have decided it will stand as is, and I am presenting this new report to bring the community up-to-date with events as at the end of my initial 3-month appointment [Jan 29, 2021]. The Interim 30-day report is attached and I would urge those interested to read both.

Executive Summary

- The Minister for Local Government has accepted my recommendation that the former Councillors remain suspended for a further 3 months, and that my appointment as Interim Administrator be extended until April 29, 2021.
- As to whether the former Councillors return on April 30, and face an election in September this year, is unclear. This decision will be made by the Minister for Local Government. Statements that I have supported them 'coming back' are incorrect. I have not expressed a view on this matter.
- I formed the strong view that the performance of the former CEO, Mr Murphy, did not meet required standards, particularly regarding the core requirement of sound financial management. I terminated his contract on November 30, 2020.
- I have commenced recruitment for a new CEO and I am planning for him/her to commence in early April 2021. Our recruiter advises that we already have strong interest, including from several very experienced local government CEOs.
- I will be recommending that Mr Hart then be appointed by the Minister as Financial Controller once the new CEO takes office. A Financial Controller has powers that override the Councillors [should they return] regarding all financial matters.
Our financial position remains critical. We needed to secure a \$100m loan just prior to Christmas if we were to pay staff and creditors in January. This followed the \$50m loan secured in November 2020. The banks made it clear that they would only consider lending to the Central Coast Council (CCC) if we produced a plan that included asset sales, major cost reductions, and increased revenue through a rate increase. Mr Hart and I had to be at our persuasive best to stop another major bank calling in a \$104m loan. Mr Hart and I have explored all available options for securing a financial turn-around for the CCC. We strongly support an approach which focusses mainly on reducing costs [70%] but also includes a proportion of the necessary funds coming from increased revenue [30%].
- We are well advanced with these strategies. Our call for expressions of interest for voluntary redundancy has received strong interest. I expect the staff number to return to about where it was at the time of merger. The number of Executive Directors has been reduced from 9 to 5 and the number of senior and middle managers has been reduced from 39 to 26.

- This year's unaffordable capital works programme has been paired back, reducing this financial year's planned capital spend from \$225m to \$170m.
- Other operational cost reduction measures include \$31m in employee costs [reduced staff number back to near pre-merger level], and \$23m in materials and contracts.
- The cost savings achieved by the above measures will contribute around 70% percent of our target. They need to be annual savings – not just one-off. The remaining 30% will need to come from increased income. Of course, most of our income comes from rates.
- I have advised IPART that despite our focus on reducing costs, a significant rate increase is a key component of our recovery strategy. Community discussion and consultation is well underway. Anger about a rate increase is clear and understandable. IPART will advise on its position around May 2021.

Should IPART not agree to a rate rise then Council will need to find a further \$26m per annum in savings [including the rate peg]. This will necessarily involve the closing of a significant number of council services and facilities.

- As advised last year, we also need to sell assets to start reducing our unsustainable debt level of \$565m. Work has commenced and an Expert Property Advisory Committee has been established to help ensure we achieve the best value possible. There will be no 'fire sale'.
- Mr Hart, along with our new CFO, Ms Cowley and our new Chief Operating Officer, Mr Ryan, are well advanced with the development of new financial reporting systems which will play a major role in ensuring this does not occur again. They will provide the community with online access to Council's financial position at the end of each month. This information will show how well council is adhering to its budget and how the cash reserves are being used.
- Many experienced local government professionals doubted that the merged council model of 15 Councillors was a good idea. In several cases, including the CCC, it has resulted in a dynamic more like a parliament, where the opposing forces rarely collaborate.
- To be successful, councils need to operate more like a governing board of a large business enterprise [which councils are], where members collaborate and cooperate to get the best results for their residents and ratepayers. A quick viewing of previous council meetings confirms that this rarely occurred, with political point-scoring too often on show.
- There is little doubt that this dynamic contributed significantly to the financial disaster that now confronts the residents of the Central Coast. Mr Hart and Mr Ryan share this view.
- Reducing the size of council from 15 to 9 would greatly assist in changing the current culture. Nine people have a greater opportunity to change the working culture of council meetings.
- Accordingly, I am proposing that a referendum be held at the next local government election seeking voter approval to reduce the number of Councillors from 15 to 9. I believe the best option would be to abolish the wards altogether and have an 'undivided' council, where the nine representatives would all be expected to consider what was best for the area as a whole. The alternative would be to reduce the wards from 5 to 3. I will consult the community on this question before shaping the referendum question.

This change, along with the measures outlined above [and in the 30-Day Interim Report] will see the CCC return to a strong financial situation over the next five or so years.

The systems and reforms being developed will provide much greater transparency for both councillors and the community, allowing them to develop a clear picture of Council finances.

A new and experienced CEO will provide strong reassurance to the community that the tough decisions taken now will not be wasted and will deliver the positive outcome everyone wants to see.

Your Questions Answered

Why did the former CEO receive such a large payout?

I formed the view this was the best of the bad options presented by the contract. I provided a full answer to this and I would point you to that post on my Facebook page or my Administrator column which you can view by searching Administrator on Council's website at www.centralcoast.nsw.gov.au.

Why have the Councillors not been sacked?

The Minister for Local Government has limited options for dealing with non-performing councils. The only way a council can be dismissed requires the formation of a formal inquiry. These typically take many months, and then the council must be given an opportunity to respond.

In the CCC case, the Minister formed the view that there was a need to move quickly given the advice from the council that they could not pay their staff.

The Minister has used her powers to suspend the council for 3 months and appoint an Interim Administrator. This measure can be put into effect quickly. Under this power the Minister can extend the suspension for a further 3 months. The Minister extended the suspension on my recommendation last week.

Why are the members of the Executive still in their jobs?

The authority of the CEO of a Council is near absolute. Individual Directors are really not able to challenge the way the CEO runs the organisation.

I am satisfied that the former CEO did not create a culture or structure whereby the Executive Team were able to discuss the overall Council finances. The Budget process was poorly controlled and there was little leadership from the CEO and the CFO.

Directors often received financial information about their own areas of responsibility when it was too late to act.

I am also satisfied that concerns were raised during their individual meetings with the CEO.

Mr Hart and I agree the Directors are currently performing well. It will be up to the new CEO to evaluate their individual performance over the coming months.

If the use of restricted reserves was "unlawful", why has it not been referred to ICAC?

There is a difference between unlawful and illegal. A breach of the Local Government Act is not a criminal or corrupt act.

ICAC deals with matters of fraud, corruption or malpractice.

The "unlawful" use of funds would be of great concern to the Minister for Local Government and would be something the NSW Government considers when deciding the future of the council.

Conclusion

My first 3 months as CCC Interim Administrator involved working out what had happened, who was responsible, and what we needed to do to return the CCC to a positive financial situation.

This work is largely completed, and significant progress has been made towards implementing the necessary reforms and changes.

New commercial loans of \$150m have been secured. The banks involved only agreed to lend when satisfied our turnaround strategy involved selling assets, cutting costs and increasing revenue. If we didn't meet their expectations the loan applications would have been rejected.

If the loans had been denied, the Council would have been unable to pay staff and creditors in January.

If the Council fails to meet the targets outlined above regarding cutting costs, increasing revenue and asset sales, then the loans can be called in.

The cost savings will be largely met by cutting staff numbers back to around the number at the time of merger. This initiative is well underway. The cooperation of the Unions involved has been appreciated and hopefully most job losses will be through voluntary redundancy.

Our planned asset sales are also well advanced, with an independent Expert Property Advisory Committee already established and has had its first meeting.

Plans for cost cutting and asset sales have been generally supported, although there remains concern about disposing of the former Gosford Council building and the surrounding properties owned by the Council. This is one of the most valuable assets and regrettably it must be sold to help pay down some of our \$565m debt.

The measure that continues to draw strong community opposition is the proposed 15% rate rise. As I have said before, "no one wants a rate increase, especially one caused by councils' financial mismanagement".

Mr Hart and I have over 70 years of collective experience running large organisations, including 6 councils. We are strongly of the view that the huge deficits of the last 2 years need to be turned around in this next budget.

We think it is impossible to find this huge amount through costs savings alone without causing irreparable damage to the organisation and that is why we are regrettably proposing a rate rise. While some will find this financially hard and/or politically repugnant, it must be pointed out that when combined with rate harmonisation between the former Wyong and former Gosford Councils, average residential rates in former Wyong will go down by \$3 per week, and average residential rates in former Gosford will increase by \$7 per week. I acknowledge that those in high value properties may pay more than this. Of course, those in lower value properties will pay less.

It is also a fact that even with a 15% rate increase, CCC rates would still be below the neighbouring councils of Newcastle, Maitland and Lake Macquarie.

I have been supporting a rate rise because I can't see any other way out of the mess we find ourselves in. I accept I will cop criticism from many, but in the end, I need to do what I feel is necessary. I challenge those critics to come up with realistic alternate proposals and invite them to deal with their anger at the appropriate place - the ballot box.

Dick Persson AM
Interim Administrator Central Coast Council

3/2/2021



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January 2021