



Administrator's **Final Report**



Background

I was appointed by the NSW Minister for Local Government, The Hon Shelley Hancock MP, as Interim Administrator of Central Coast Council [CCC] on 2 November 2020. This followed the Minister's decision to suspend the Council due to concerns about their financial mismanagement.

My initial appointment of three months was extended for a further three months to allow me to complete my investigation into what went wrong, who was responsible and to put measures in place to return the Council to a firm financial footing. My term will finish on the 29 April 2021.

This report should be read in conjunction with my two earlier reports; the 30 Day Interim Report dated 2 December 2020 and my 3 Month Progress Report dated 3 February 2021.

Both reports outline the key findings of my investigation of what has gone wrong, who was responsible, what needs to be done and an update on progress to return the Council to a firm financial footing, as well as measures to improve its operations and regain public confidence.

Finally, it provides a recommendation to the Minister about the best 'next steps' for CCC.

Introduction

Many residents feel there is a need for an independent inquiry into what happened at CCC. Usually such an inquiry is held by an independent person with extensive experience in the subject matter. Well with due respect to some members of the community, that is who and what I am. I have carried out an independent investigation into what has occurred at CCC. I have been supported by Mr Rik Hart, another independent person with extensive experience in the subject matter. Mr Hart and I have expressed our views openly, transparently and without fear or favour.

It is clear that many of the people calling for another investigation just don't like the answers outlined in my 30 Day Report and 3 month Progress Report, particularly in regard to the role of the 2016 Council Merger, or the recommendation of a 15% special rate increase.

This Final Report introduces new information in that regard and outlines my reasons for recommending the preferred way forward.

KEY FINDINGS

- There is absolutely no evidence that the financial collapse of the CCC was caused by the 2016 merger.
- Further information establishes that my earlier claim that IT expenditure was a significant merger related expense turns out to be incorrect. I have since found the 'Avocado Report' [commissioned by CCC] which shows former Gosford and Wyong Councils were both planning to spend between \$14 –\$34 million [each] on upgrading their IT systems. The \$60 million spent post-merger was likely \$10 million more than their total spend for implementing a similar ERP solution (Enterprise Resource Planning software) if left unmerged. It is also clear that the outcome of this massive investment is poor compared to what other Councils have secured at much lower costs.

I **RECOMMEND** the new CEO consider going to the market to procure cheaper and simplified systems.

- Merging two organisations should allow overheads to be reduced. This was not achieved, and all evidence indicates the newly elected Councillors had little or no interest in achieving merger related savings, nor was the former CEO hired 10 months after Councillors returned. On the contrary, the Council expanded all aspects of Council spending with little regard or understanding of the financial consequences.
- Many of the residents calling for a judicial inquiry feel there must have been corruption for things to have gone so wrong. I have found no evidence to support this claim. My conclusion is supported by the financial audit carried out by Clayton Utz and KPMG tabled at the Council Meeting of the 3 March 2021.
- The former Gosford Council made several financial and staffing decisions prior to merger that presented a distorted picture of their true financial position, which presented a 'rosier' picture than was actually the case.
- In regard to rate increases, the former Wyong Council had gained IPART approval for their application for a four-year rate increase of 6.9% per year [over 30% cumulatively]. They suspended the fourth year increase due to the impending merger. Former Gosford was well advanced with their own large increase [12% plus inflation]. Both Councils had accepted that substantial increases in rate income were needed.
- The only rate increase directly caused by the merger is due to rate harmonisation. Merged Councils are required by the NSW Government to 'harmonise' their rates but were prevented

from doing so for the first three years. That time was up last year when three of the 20 merged Councils did so. The remaining 17 merged Councils are required to do so this financial year. In the case of CCC this will result in average Wyong rates falling by approximately 20%, and average Gosford rates rising by approximately 27%.

If IPART approves the Special Rate Variation application for a 13% increase [plus the 2% CPI increase], this would be on top of the 20% drop for Wyong and the 27% increase for Gosford. In this scenario average Wyong rates will drop by less (approximately \$3pw) and average Gosford rates will increase by more (approximately \$8pw).

While the NSW Parliament is currently debating legislation that would allow merged Councils to spread the harmonisation adjustment over a longer period, I can see no argument to do so given that former Wyong ratepayers had a major rate increase over the three years prior to the merger. In my view, any further delay of their rate reduction would be inequitable.

- In regard to Council mergers, a number of NSW Government decisions for merged Councils have not helped them succeed, both in a financial sense and in a governance sense. Having 15 Councillors in five wards was always going to work against the formation of a cohesive governing body. The decision to 'protect' non-contract employment for three years has had the effect of denying the types of savings that most merged organisations achieve.
- The number of Councillors and wards can only be changed through a constitutional referendum. I have approved of a referendum to be held to coincide with the September 2021 Local Government elections that will allow the voters to determine this matter. This referendum will be held whether CCC has a general election or not. The question that will be put to the voters is *"Do you favour a reduction in the number of Central Coast Councillors, from fifteen to nine, and the removal of wards? This will result in nine Councillors with all electors voting for all nine Councillors, and all nine Councillors representing the whole Central Coast"*.

Approving this change will not guarantee improved outcomes and performance however I am confident it would make a positive difference.

- My investigation has concluded that by far the greatest reason CCC became insolvent was due to mismanagement of their budget over the years following the merger and leading up to their suspension.

There were unusual circumstances [IPART water pricing decision, bushfires, floods and COVID] which exacerbated and accelerated the collapse of the operating budget. Nevertheless, nothing excuses the negligence of those in charge for their relative inaction, which was manifestly much too little and much too late.

The types of hard decisions/actions which Mr Hart and I have put in place needed to have been taken immediately after the IPART decision cut \$39 million pa from water rate income. Increased costs and revenue losses from floods, fires and COVID 19 made urgent action all the more necessary.

- The use of Restricted Reserves is not unimportant, but it is also not the reason why the budget 'blew out'. Even if those in charge thought those funds could be used for their expanded spending, they must have known they would eventually run out. To use them for capital spending is one thing, but to use them to prop up a rapidly deteriorating bottom line is inexcusable at best, and negligent at worse.

Having increased staff costs by so much since merger [around 250 extra people] and loss of \$39 million pa in revenue from the IPART decision on water rates, the end result was inevitable.

None of those involved have explained what they were going to do when the Restricted Reserves ran out.

In terms of who was mostly responsible:

- The former CEO "stands by" his actions, which seem mostly to have commissioned consultant reports. It was his inaction on the budget front that failed the organisation.
 - The first Mayor of the merged Council employed the former CEO and together they drove the organisation on an expansionist journey in terms of both capital works and Council operations [extra staff].
 - A number of Councillors [on 'both sides'] still refuse to accept responsibility for the situation, maintaining it was all the fault of others. This lack of reflection and learning remains a major concern in terms of the return of Council.
 - The newly merged Council fell quickly into a very adversarial mode where a few Councillors seemed to take every opportunity to score points as if they were in a parliamentary chamber rather than members of a governing board needing to solve complex problems. A quick viewing of past Council Meetings illustrates this point.
 - This counterproductive political dynamic was not helped by some State MP's from both the major parties using Council decisions/issues to score political points. They continue to do so today.
- There is a lack of reflection among some key players about the need to change behaviour. In a recent media interview one suspended Councillor indicated his determination to pursue a wide range of issues "as soon as I get back".

In a recent discussion, another suspended Councillor, informed me the only financial response required was a further cut to the capital program, clearly demonstrating a serious lack of understanding of the year on year savings now needed. I am not aware of any of the suspended Councillors publicly supporting the expenditure cuts or the proposed rate rise or acknowledging their failure to perform their role.

As mentioned above, viewing the 'tapes' of previous Council Meetings quickly reveals a caustic and adversarial culture that needs to change if the elected body is ever to effectively serve the people they are supposed to represent.

- In terms of restoring Council's budget to a positive result, many measures have already been put in place.

Following two years of massive operating losses it has been necessary to produce \$75 million savings/revenue increase year on year, as well as start the process of producing surpluses and selling assets to pay down some of Council's \$565 million debt [this includes Restricted Reserves]. I have adopted a Long-Term Financial Plan which achieves this result.

A Draft Operational Plan which locks in this result will be on public exhibition from 27 April 2021. In the event the Minister decides to allow the Councillors to return before the next election due in early September, I **RECOMMEND** Performance Improvement Orders be put in place to prevent any departure from the bottom line established in the Draft Operational Plan and that these be accompanied by the appointment of a Financial Controller to ensure council compliance. Under this scenario I **RECOMMEND** Mr Rik Hart be appointed to that role.

- The list of key savings/revenue measures are extensive and includes:
 - Slashing senior and middle management positions by 28% [326 to 236];
 - Reducing staff costs from \$220 million at the end of FY 2019-2020 to \$176 million for the budgeted 2021-22 FY by returning employee numbers back to pre-merger level;
 - Reducing capital works spending from the unsustainable level of \$225 million to \$172 million;
 - Reducing each Directorate's budget by approximately 15%;
 - Increasing rating income by 15% [subject to IPART approval].

Around 70% of the 'savings' target is being met by taking very hard decisions to reduce the cost of doing business, with only 30% to be found from increased revenue. Mr Hart and I agree it would be irresponsible to try and make further savings [instead of increasing revenue] by reducing costs further than what is now proposed or in place. In our opinion, to do so would risk irreparable damage to the organisation.

- The most important action I have taken is the appointment of a very experienced CEO. If Mr David Farmer had been here three years ago, I believe CCC would not have found themselves in such a dire financial position. Mr Farmer has started in his new position and his experience and leadership will be vital in leading a demoralised organisation to better times.

A major concern is that the return of elected Councillors will deflect Mr Farmer from the very substantial management challenges involved in implementing the new Long Term Financial Plan, finding more efficient delivery mechanisms, along with an improved organisational culture.

- While this investigation has found no evidence to support the quite widely held view that the financial crisis was caused by the merger, there is considerable evidence that the merger was incomplete when the elected body returned in September 2017, and that there was little interest or effort in gaining further efficiencies/savings by the newly elected body.

That the merger was not successfully completed is not necessarily surprising. The NSW Government gave all 20 merged Councils the same length of time under Administration to progress their mergers. Nobody expected that would be the end of the hard work needed to achieve the full potential benefits in both reducing overheads and improving service delivery. Unfortunately, as mentioned above, the new CCC political leadership showed little interest in such activity, instead, they embarked upon an agenda to increase staff and service levels without identifying new sources of recurrent revenue or savings to pay for them.

- With hindsight it should have been understood that not all pre-merged councils were as 'Fit-For-The Future' as others. As the Administrator who merged Manly, Warringah and Pittwater Councils, it is clear they were much 'Fitter' than Wyong and Gosford Councils. This was particularly the case in terms of overall financial strength and IT system compatibility. It was also the case that there was quite strong community and staff support for the merger.
- The reason the Government placed the merged Councils under Administration for 16 months was to allow a focus on the largely administrative work needed to successfully implement the mergers. Removing the elected representatives during this period was a deliberate and necessary strategy to ensure maximum focus on the complex administrative measures involved in merging large organisations.
- The merger of Gosford and Wyong Councils did not have strong community support at the outset. Regrettably, the performance of the CCC Councillors did little to build community support. In fact, I feel there is quite widespread community antagonism towards the new entity.

Under these circumstances I believe the best outcome for CCC and the community of the Central Coast would be a further extended period under Administration. This would allow

Mr Farmer and a new Administrator adequate time to complete the merger and re-build community confidence, without the distraction of elected representatives intent on playing out broader political agendas.

From my contact with community and business leaders over the past six months I have no doubt such a move would be welcomed by an overwhelming majority of the Central Coast community.

Conclusion

Given the above, I **RECOMMEND** the Minister for Local Government take whatever action necessary to prevent the return of the currently suspended councillors, and to delay the September 2021 election to allow a formal Inquiry to determine what is needed to achieve the successful merger of the two previous Councils.

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Interim Administrator Central Coast Council

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