



THE ENTRANCE PENINSULA COMMUNITY PRECINCT

ENCOMPASSING: THE ENTRANCE; THE ENTRANCE NORTH; LONG JETTY TOOWOON BAY; BLUE BAY; SHELLY BEACH & MAGENTA

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The Wyong Shire Councils' Director Corporate Services, David Jack's presentation, 17 May, 2011 at 8:00pm on "Wyong Council Finances"



David Jack

The Chairperson of TEPCP, Vivienne Scott gave David a warm welcome reminding those in attendance that David Jack comes all the way from New Zealand and that he brought a Corporate Entrepreneurial Style into Wyong Council that for many years had just been nosing along.¹

David began by saying in the 1980's organisations were "cash managed", just like the local footy club or the Precinct Committee, everything was done on a cash basis. The problem with that, and this was being replicated in Wyong Shire, when the pressure goes on to pay the wages and everything else what happens is the General Managers have to fight the forces of political demand, rising costs and their staff trying to do the work. Investment in infrastructure and capital stops or slows down and the service level tends to come to a bit of a halt as well because the money simply is not there..

Here David digressed from the finance topic to tell us of his New Zealand experience in Council amalgamations. As General manager of a small New Zealand council he went through an attempted amalgamation. He told us of two small populations, a place called Otorohanga, and a place called Te Kuiti, just about two hours south of Auckland. The problem we struck with that, was that these two populations were a parochial as; they did not like each other. They fought until there was blood and tears, skin and fur all over the place. One population thought they were better than the other and they therefore were the centre of the universe, and the other population thought much more freely. Now I see a direct parallel between the people of Gosford and Wyong. In the people that I run into I see that. It takes considerable bravery to chuck all that parochialism, and all that concern about whether my gutter will get done next week, or whether that pot hole will be fixed. It takes a lot of bravery to chuck that away and put your faith in the future. People ask questions about whether our services will be the same? Will we see a change? Will we see something better?

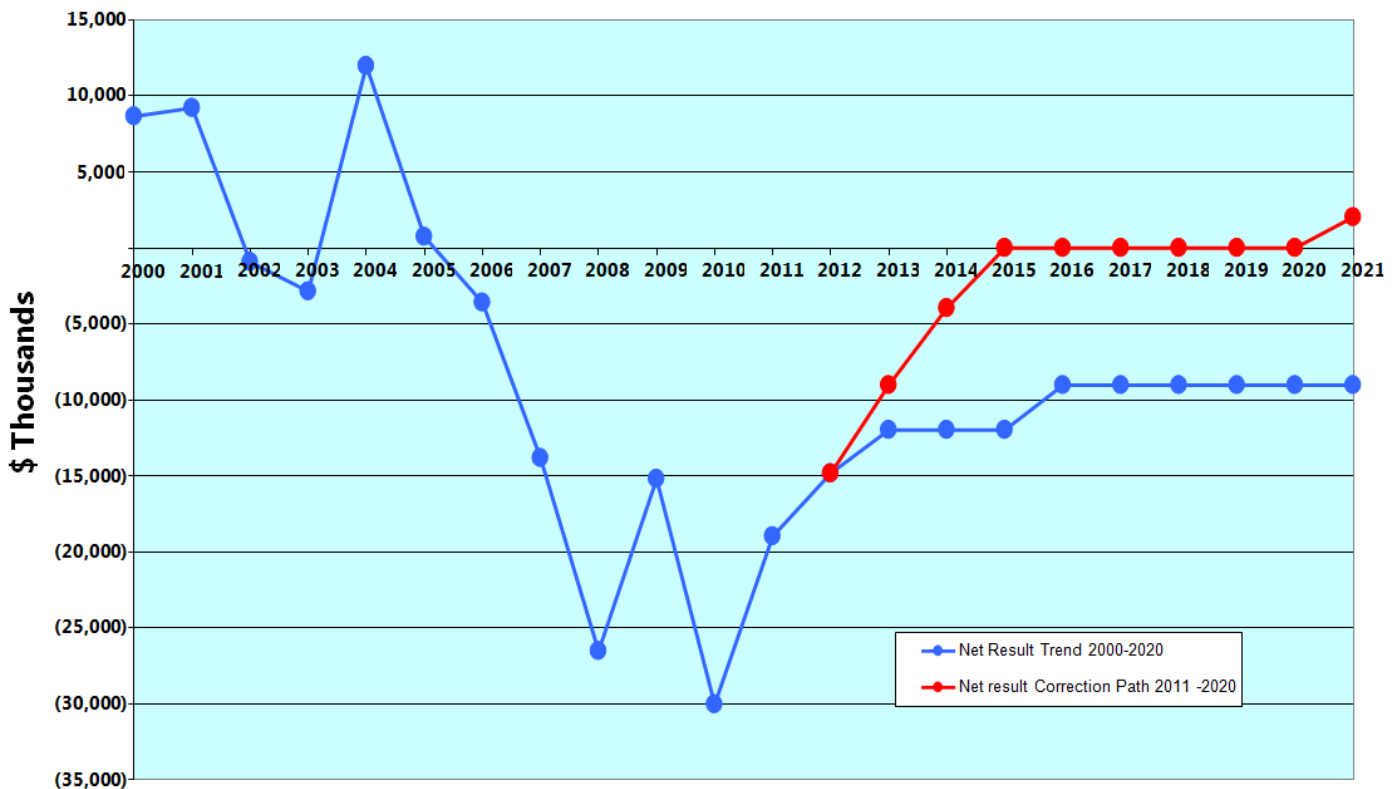
For the last 35 years or so, Wyong, along with every other Council has been under State Government control in terms of it's rate rises per annum. In the time I've been here I have seen rate rises of 2.5%, 2.7% and 2.8%. Now I ask you how much has petrol gone up in the last twelve months? It has gone up a lot more than 3.0%. Wyong Shires waste levy imposed by the State Government has risen over 100% in the last 3 years! This year they gave us a 2.8% rate increase but the waste levy is taking \$2.5million from a \$2.0million take. So Wyong Shire Council are looking for better ways of earning money and that is our theme from here on.

¹ To read more on David's background please visit:

<http://www.theentranceprecinct.org/SPEAKERS/2009%2011%2021%20DAVID%20JACK%20-%20%20WYONG%20SHIRE%20COUNCIL'S%20CORPORATE%20SERVICES%20DIRECTOR.pdf>

David then circulated a graph showing Council's bottom line after capital contributions have been removed. In Council's Profit and Loss Accounts they record capital contributions as income. A capital contribution is when Council buys an asset, like you do in your household, if you buy a car that's a capital item. It has a life longer than a year. The contribution is Council's income and could come from grants, reserves and so on. That is required by accounting standards, So taking them away, because that's what we spend on the infrastructure, you are looking at the net bottom line, revenue less operating expenses, that's our daily expenses. When you look at the graph, starting with the year 2000. As you can see, Council was sailing above the line, and that life started to get bad around 2005 and from 2005 to 2010 Council spent a great deal more than it earned on a daily basis.

NET RESULT (before capital contributions) 2000-2020



You know from your own lives that that is unsustainable. You can not do that. Part of the reason for that, and I'm not looking back to blame anyone at all, is that for a long, long time Local Government has been cash managed. This is because you are building up liability, you are not spending money on renewing your car, or renewing you buildings, or renewing your roads, and sooner or later that bites. And that is what has happened in the last 6 or 7 years.

Add to that significant cost increases that I have alluded to before, Council can not avoid fuel and the like just as anyone else can't. So consequently Council has been faced with a ceiling put on us by State Government whilst everything else is climbing. Everyone's expectations have not changed, in fact most of the community wants more services. You only have to look at Council's service request system that records every time someone rings up, some one sends a letter in wanting this or that fixed. On top of that the State Government has been busy passing stuff to us to do. Instead if the State Government doing it and paying for it we end up with the problem. There is a huge pressure on Local Government, and it's much more evident in Wyong Shire, which started way back before the rating cap, which started from a worse position than neighbouring councils did. Because our base was lower and we just keep getting increases on that base.

One of the things Council is going to try to do in the next couple of years is to get a special rate increase. This is because quite frankly we can not keep going at the rate we are. The key drivers of that is not only the cost of services, but the demand for services. Wyong is in growth, far more than Gosford, it is growing all the time. When you take the Section 94 issues we are getting hit with that so that creates a problem.

Wyong Council spends \$1.4million every working day. I can assure you there has been considerable effort over the last 12 months to change the way in which we run the organisation. One of the things very typical of cash managed organisations was the way we used to budget in the past. Until mid last year someone, I'm not sure who or when decided what the priorities were. It went before Council, but over time it just became a rote thing. Then they just cut up the cake, the available money, and issued it out. The Managers were not asked to account every month for a precise delivery of work. If you are running a business you will know full well that you only have so much sales income, and from that sales income you are expected to provide "X" product. If you are a contractor you can't mow half the lawns can you? The person who is going to pay you \$50.00 for mowing their lawn is going to say "What's going on?" Council was in a position that we were mowing lawns, and when we ran out of money we stopped mowing lawns. Anyone who lives on the Peninsula will have noticed that Council has had to pull back on all those services and you will have noticed that the edge of the road is not being mowed as much as it was. And that is because as the pressure has gone on the system we have gradually had to refine the services. In the past Council never detailed this in the budget. People went out and did the work, and you can believe it, all Council people are earnest about what they do. It is just the way it was.

What we are doing now in the organisation is making all the Managers come up with specific work loads. This is what I want the money for, this is what you will get if my unit gets allocated "XYZ" money. We are now running Wyong Shire Council in a manner where we know on a weekly, monthly and daily basis (the financial situation) to manage our business and provide more efficient services than we have in the past because we will know where the problems are. There has been some huge changes in the organisation in the last twelve months. Council has had a service delivery review where we have gone back and looked at all the services and the way the organisation is structured. That resulted in a significant reorganisation. Did it cost any more to do that? No, it did not. Well it cost Council \$80,000.00 to save \$17million. We had a deficit last year of \$30million. This year the deficit will be \$17.5million, next year \$14.6 million, and you can see from the graph the intention is to follow the red line. Now that is not in the plan.

I will just go back and tell you what happened in the change. We did not have what I would call a robust planning system. Council has 1300 people in it. You simply can not do your planning on the back of a cigarette packet, it is a very complex exercise. (David then showed the printed version of the Strategic Plan.) This document is over 300 pages long. It is structured in a particular way because the State Government wants it structured that way. They want to make us accountable to you, and I can assure you that this is a very good first effort for Wyong Shire, because they have never been asked to do it this way before. At the same time we were doing this, and there is a huge amount of work behind this document, we were busy reorganising the staff. Not only who reported to whom, we were reorganising where everyone sat. There are 500 people in the Council Chambers. People have a thing about their work station, you like to have your phone there, your pictures here and you like to be near somebody else. Multiply that by 500 people and the reporting lines that go with it - it was a huge issue to manage in a short period of time. The whole issue of reorganising has to engage Council all the way through.

That in itself means we write a paper for Council. Council has a briefing first, then Council thinks about it, we go back and write another scenario and bring that back to Council, Council considers that and it goes up and down like that. It's called bureaucracy! But if you don't have it you don't have accountability. So the dichotomy², the tension between things, on the one hand everyone wants accountability and on the other accountability costs money.

It's like intergenerational funding. (and I'm really going to digress here) Intergenerational funding is the principle that you shouldn't have to pay for assets that we build today. If an asset has a life of fifty years, say we go and build a new swimming pool in The Entrance, then logically the people who use it should pay for some of it and the benefit that goes to the community over the life of it, say forty years should be spread over that. But how do you fund that? The only way you can fund it over intergeneration is to borrow or find a source of revenue that can continually fund the loan. Now if you do that, borrowing costs money. You put the price of the swimming pool up but you do get the intergenerational equity. Alternatively you get the community to pay for it and you do not have to pay the interest on the loan. Multiply that by some 7,000 items of asset that Council owns.

Council; has 3000 properties strung all over the Shire. Council needs more revenue so one of the strategies this year is to put some of these assets to work. Now that is easier said than done. Council may have acquired them from all sorts of places going back to when we were part of Erina Shire³. So there is a lot of work to do checking out the properties, and it is going to take a while to put that into full action. But it is part of the thinking that drove the concept of the " Iconic Sites ". It is putting that money to work that is not being used. So there is one strategy we have for revenue. There will be other strategies that involve potential developments with other Councils and involve potential developments with other organisations.

We have to find a way to widen our revenue base. Because Council has it's organisation running as efficiently as it possibly can given its nature and it's regulatory beast t he only other thing Council can do is reduce services in order to live within our income. I talked about an organisation that is in massive change. The culture of the organisation and the way people make connections between an event over there and an event here is something that Council is really trying to work hard on. We have the Planning Department that is working on something that people on the Open Space and Recreation have information about because they were in contact with the community. Getting those two things to meet is part of that massive change in culture.

It takes a different type of person to come in and lead that massive change in culture in the organisation. Michael Whittaker came on board and led this change, and I love working with Mike. Here David digressed to make an analogy about his Rugby playing days in New Zealand. I do not want to criticise my GM because I think he is great. I used to play with a six foot six inch, eighteen and a half stone No 8. This guy was not a typical NZ forward who just drives forward. This guy had played 15 time for England and was a terrific runner of the ball. But when Charlie ran he was really hard to keep up with to catch a pass or something. No one knew where he was going, let alone Charlie. Now the analogy I have made with Mike is that he is so quick that staying with him is putting a huge pace on Wyong Shire Council. The Community can be pretty grateful to Council that they found a man of this nature in a time of change when they needed him most.

² A division or contrast between two things that are or are represented as being opposed or entirely different

³ **Erina Shire** was a Local Government Area covering most of the Central Coast, New South Wales, Australia from 1906 to 1946

The time to break the mould is when you are at your lowest point. An example of that is the Chrysler Corporation. In the late 1970's the company nearly went under and they put in a guy called Lee Iacocca in charge and paid him a fortune. Everyone said you can't pay a guy that much money, what about the workers, etc, etc. So he agreed to work for one year for \$1.00. And after that they paid him what he was worth. It's the old story in Local Government, there seems to be an issue about people leaning on shovels. Every time my wife Margret, introduces me to someone, and they ask me what I do, I say I work for Council, I never say what I earn, because I think the title which I have is pretentious beyond belief, but I do say I carry a shovel.

David then indicated that he was happy to answer questions:

- Q. Council Meeting Minutes of 11th May, 2011 contained a Quarterly update of Section 94 contributions "In respect to credits owed to developers, the current liability is \$14,075,862." Can you please explain this report highlighting the meaning of such things as "Owed to developers for works undertaken" and why Council uses projected income which is so volatile that it can't be relied on? Would it be better not to speculate and just report on money received?
- A. Section 94 is contribution from developers for work that is part of community infrastructure and that is dependent on the Development Plan and the Development Approval. What happens is that once a developer gets their approval they have to pay Council for the money, they will spend in creating infrastructure that all of the community will use. So they bank some money with us. And over the time of the development as they complete those works, Council gives them the money back that they committed to put into infrastructure. It is Council's way of ensuring that they will do what they say they are going to do. So at any one time there is a big bucket of money sitting there that technically Council owes to the developers because it is money waiting for work to be done. When you see a \$14million owed to developers, that is the bucket. Now that bucket changes all the time, in a months time it might be \$18million then again it might be \$10million. It depends on what works getting done, when it's getting done, and how much more money is coming in from the developing chain. It's like a conveyor belt, money coming in and money falling off the other end.
- Q. Is it an unfunded liability?
- A. That's what I saying it is always a liability, but it is a funded liability with reserves there to pay for it.
- Q. But what about Section 94 contributions they have to make to roads, drainage, that sort of thing?
- A. That comes out of the other processes.
- Q. Are you able to provide any new information on the funds embezzled from The Entrance Town Centre Management?
- A. No we can't. Council had a letter back from the Police, two years after, saying they had no intention of taking the matter any further. Council lost \$80,000.00 in that process and I think it sticks in most peoples throat that they should be allowed to get off. It should not have happened, but it did. Corrective processes have been put in place and TCM is now working very well under Paul Barnes.
- Q. The Annual Plan is for 4 years but contains no mention of the Water Authority?
- A. The Water Corporation is in the early stages of it's birth. We do not know how the Board wishes to configure that organisation. We do not know what the level of contributions will be with sufficient accuracy to place it in the Annual 4 Year Plan. What we have in the Annual 4 Year Plan is a scenario that address the issues. We do not have enough certainty to go to the community and say this is the way it is going to be. That is the reason why the graph I handed out has a "red line" and a "blue line" on it. The blue line is what we do know. We have no knowledge of amalgamation.

The gains are in economies of scale. Economies of scale fall into two categories: Cost savings of operations and to some extent cost savings of assets. There is not much, cost savings of assets because all the value in assets is either on the ground or under the ground. It is not sensible and it is not proper to put guess work in the Annual 4 Year to Plan.

Q. David Jack then asked a question of the meeting: "Have you ever thought about people interact with their Council?"

A. The first interaction you have is when you are driving down the road and you hit a pot hole; when you turn the tap on in the morning and brown water comes out or you pull the chain and the sewer does not go away. That's your first interaction which causes a mild negative emotional response. The second interaction is when you get your rates bill. That induces a slightly stronger negative response.

Comment What upsets me is that Coca Cola can extract water for practically nothing and I have an excess water bill and they haven't.

The third interaction is when you come to Council looking for an approval or a complaint resolution. And about that stage your temperature can get quite high. And if I could draw a graph of that on the scale of total emotion, the number 3 the highest on the scale of emotion. and this is coming from a study, I'm not just making this up, is only a very small part of the total scale. And if you were to draw the other side of the picture and consider the positive emotional responses you get a very small wedge on the other side of the picture and there is a big white space in the middle. And this is the problem we all face as an organisation, as a people and a precinct committee. That big white blob in the middle is called the zone of indifference. And that, unfortunately in taking all Council's issues to the community and trying to get the community to engage and be part of Council and assist in the delivery of services is very hard. Everyone is doing their own thing in life and just get by and that is quite understandable.

Q. I would be very interested to know how you operate in New Zealand without a State Government as compared to Australia and how do you try and plan in the budget what the State or Federal Government might do?

A. There is only two levels of constituted government in New Zealand. The Local Government in NZ operates under the 2002 Act. It is known as the "Power of General Competence" which was the theory and the principle that lay right through the 2002 Act. It fundamentally said if the population is able to elect democratic representatives then those people are qualified to make decisions for that community. In other words it gave the power of general competency to the Council and it does not try to direct Council. Council has to do its planning and carry out its work within it's framework, but it is a much, much freer framework than New South Wales.

The second part of the question: We are a branch office of Sydney. We are fairly micro managed. We are directed to do things down to quite a low level. It's crazy, in a word, that's the way I see it. But that's the way it is and it seems that the Power of General Competence is not something the NSW Government has taken under it's wing. How do you budget, when you do not know what they are doing? Well you do the best you can. It is very difficult to second guess the State or Federal Government. And that is the other difference, in New Zealand there is no restriction on Council setting it's rates other than it must follow certain processes. A Council can raise its rates 35% in one year if it wants to. Politically dangerous, but they can do that.. What Local Councils here are dealing with is someone setting the rules which makes it very difficult when the pressure is coming from overseas. Councils cost pressure do not come locally, most of them are imported into Australia.

Q. One problem we do have at the moment is the reason for rate pegging. A lot of people in Wyong Shire are on the pension and fixed income. Now the rebate on these rates from the State Government has been the same for fifteen years. Is there any chance that Council can pressure the State Government to increase this?

A. David relinquished answering this question in favour of an answer from Doug Eaton: Yes, at the end of the day we can raise the matter with the State Government. There is an impact on Council as well, Council does not get all of the pensioner money back. The more relief that is granted, the more it falls on the ordinary rate payer to subsidise the pensioner. I do not think most people would think that is fair. I think if more relief is given to the pensioner then it should come out of general State revenue not out of the pockets of the other rate payers in the area.

Q. Do all these public housing developments pay rates?

A. David advised they are rateable properties and that they paid rates.

Vivienne Scott thanked David for being so entertaining and informative, followed by enthusiastic applause for his efforts.