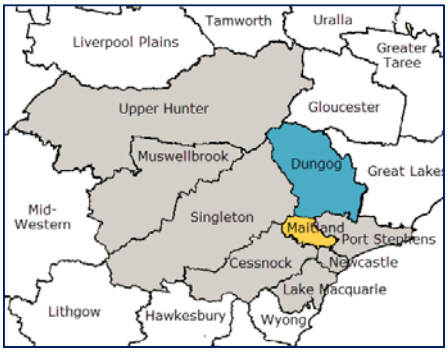
DUNGOG SHIRE COUNCIL – CIP



NOT FIT

Area (km^2)	2,252	Population 2011	8,550
OLG Group	10	(2031)	8,800
ILGRP Group	Hunter	Merger 2011	78,450
		(2031)	109,300
Operating revenue (2013-14)	$11.7 m	TCorp assessment	Weak FSR Negative Outlook

ILGRP options (preference in bold)

The ILGRP report includes a map which indicates that Maitland and Dungog are a preferred merger option. We have therefore approached the assessment of these councils as if the merger was the ILGRP's preferred (ie bolded) option.

Our approach to Hunter Councils is reflected in the table in our Methodology Paper and indicates the preferred option that Maitland and Dungog:

Merge or council in Hunter JO (all shaded).

Assessment summary

Scale and capacity	**Does not satisfy**
Financial criteria:	**Does not satisfy overall**
• Sustainability	Does not satisfy
• Infrastructure and service management	Satisfies
• Efficiency	Does not satisfy

Fit for the Future – NOT FIT

- The council does not meet the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF).
- The council does not satisfy the financial criteria overall. Although the council meets the criterion for infrastructure and service management, it does not satisfy the criteria for sustainability and efficiency.
- The council does not satisfy the sustainability criterion because its forecast to meet the operating performance ratio benchmark includes the assumed approval of a large proposed special variation which may be unreasonable.
- We consider the operating performance ratio benchmark is a key measure of financial sustainability that all FTFF councils should meet, therefore the council is not fit.

Scale and capacity – does not satisfy

- The council did not demonstrate that its proposal to stand alone would be as good as or better than the merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- The council's population is forecast to be 8,800 by 2031 compared with the forecast merger population of 109,300. Our analysis suggests that the council does not have sufficient scale to cost-effectively delivery services to its community and to partner effectively with governments compared to the merger.
- The council has a small revenue base with limited ability to increase revenue.
- The council has limited staff and capacity to provide additional or improved services.
- The council faces significant challenges in overcoming its infrastructure backlog.
- The council submitted a business case which showed a net cost of $6.1m over 8 years. Based on this model, our analysis of the business case suggests that the merger could produce benefits of $5.3m over 20 years, which includes the $5m Government grant.
- Our analysis is consistent with the ILGRP's preferred option for Dungog to merge.

Sustainability – does not satisfy

- The council does not meet the sustainability criterion. It is forecast to meet the benchmarks for the operating performance ratio by 2024-25, the own source revenue ratio (by including FAGs) and the building and infrastructure asset renewal ratio by 2019-20. However, these results are dependent on a successful application for and adoption of a large special variation which we consider is not a reasonable assumption.

- For councils within OLG groups 8-11 we have assessed the own source revenue ratio with the inclusion of FAGs.
- The operating performance ratio was -13.1% in 2014-15 and is forecast to reach 20.0% by 2024-25, which is above the benchmark. However, the forecasts are based on a successful application for and adoption of a special variation from 2016-17 of 108.2% cumulative over 6 years (92.2% above the rate peg). We do not consider this to be a reasonable assumption as the council has not yet commenced community consultation on the proposed rate increase.
- The council has forecast it will meet the benchmarks for the own source revenue ratio and the building and infrastructure asset renewal ratio by 2019-20, based on figures which include the proposed special variation.

Infrastructure and service management – satisfies

- The infrastructure backlog was 8.6% in 2014-15 and is forecast to reach 1.9% by 2019-20. The council states it has reviewed and amended the methodology for calculating the infrastructure backlog and this is the primary reason for the reduction.
- The asset maintenance ratio was 103% in 2014-15 and is forecast to be 100% by 2019-20.
- While the council reports that it meets the infrastructure and service management benchmarks, these are dependent on the council implementing the above mentioned strategies.

Efficiency – does not satisfy

- Real opex per capita was $830 in 2014-15 and is forecast to be $854 in 2019-20. The expenditure increases in 2015-16, but declines in the remaining years.
- The council states outsourcing and resource sharing in several areas where the organisation has skill gaps will be essential; however these are not currently budgeted in forward financial projections.

Other relevant factors	
Social and community context	Dungog Council states it is better off standing alone with a special variation and consulting with the community in regard to service levels. The recent flood events have strengthened the views of some councillors who oppose the merger option. The business case indicates that the corporate values of both councils are largely shared between the organisations and they have adopted very similar styles in expressing their respective vision and associated themes.
Community consultation	At the time of submitting its CIP, Dungog Council stated it had not undertaken community consultation due to the natural disasters which occurred in April 2015. The proposed financial modelling has not been discussed in detail with the council or the community. However, the council has since undertaken community consultation and has forwarded a letter outlining some of the comments made by residents at the community meetings. It did not outline any proposed actions from these meetings.
Water and/or sewer	The council does not have a water/sewer business. The council's water and sewer businesses were transferred to Hunter Water in 2008, which the council states has left it without any major external revenue generators to support the other activities of the council.
Submissions	Six submissions have been received relating to Dungog's proposal. Issues raised included lack of community consultation in relation to council's proposal, the possible special variation, poor management of council and lack of ability to adopt change. Two late submissions were received.