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DUNGOG SHIRE COUNCIL
1958

Maitland and Dungog Councils

Fit for the Future - Shared Modelling

June 2015

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Document Status

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1. INTRODUCTION

1.1 Fit for the Future

Three years ago, local councils from throughout NSW gathered for a summit, Destination 2036, to plan how local government could meet the challenges of the future. As a result, councils agreed that change was needed and that they wanted to be strong and sustainable and to make a positive difference in their respective communities. However there were various views as to how this could be achieved, and in April 2012 the State Government appointed an independent expert panel to carry out a review of the sector. That Independent Local Government Review Panel consulted widely in developing its final recommendations which were presented to the Government in late 2013.

The panel concluded that for councils to become strong and sustainable, both the NSW Government and the local government sector would have to play a part. The State indicated its preparedness to change the way it works with councils and to support them through meaningful reform. Local councils must also be prepared to consider new ways of working and new structural arrangements. The Fit for the Future (FFTF) program brings these changes together to lay the foundations for a stronger system of local government and stronger local communities.

The Fit for the Future program requires councils to actively assess their scale and capacity in achieving long term sustainability and for councils to submit proposals to the Government indicating how they will achieve these objectives.

Maitland Council and Dungog Council have commissioned Morrison Low, through the Office of Local Government Merger Business Case Panel, to undertake a merger business case using a broad range of factors (financial, social, environmental) in order for each council to understand the implications of the merger of the two councils proposed by the Independent Local Government Review Panel.

1.2 Shared modelling

The modelling is prepared on the basis of the information publicly available and augmented by the councils. The modelling is provided identically to both councils in the project.

Where the data is inconsistent or unclear it has not been included and will be recorded as either ‘no data’ or ‘no result’.

1.2.1 Providing information to enable councils to individually make their decisions

The modelling is intended to allow the councils to individually and collectively understand what the benefits and dis-benefits of the merger of the councils. It has involved analysing historic, current and forecast performance as well as drawing in information from other jurisdictions in which we have been involved in local government reform (for example, transitional costs).

The project is not intended to advise either council of the best option for them (although it may naturally fall out of the modelling). The project simply provides the information that will enable each council to determine its individual course of action, undertake informed consultation with its community, and ultimately form the basis of the council’s submission.

1.3 Tight timeframes

The timeframes for this project have been challenging but we appreciate that the work has been required to allow plenty of time for each council to work through issues with the community or potential merger partners and prepare submissions for 30 June 2015.

Notwithstanding that we fully understand the need for those tight timeframes, that understanding is tempered with a recognition that the data available for modelling has some limitations as a result. The standardisation of the data across the two councils has been conducted on a best efforts basis under those particular timing constraints.

The data provided within the model is drawn from a variety of sources (including the councils directly) however it is acknowledged that the timeframe limits our capacity to refine both the available data and the model itself to a fine level of detail. For consistency across the councils, publicly available information has formed the basis of the analysis. This has been refined and modified through discussions and workshops with the councils.

Notwithstanding these constraints, we have had great support from the staff of each council, providing quick responses to our requests for information and active and knowledgeable participation in the workshops. We thank the executives and staff of the councils for their input and cooperation.

2. SCOPE

2.1 Multiple scenarios

The shared modelling project was undertaken on the basis of evaluating the following options.

1. **Status Quo**

   The baseline is measured against what each council has reported the current and future financial position to be. The analysis is based on the published Financial Statements and Long Term Financial Plans of the councils.

2. **Meeting the Benchmarks**

   This scenario answers the question as to what each council would need to do to meet the Fit for the Future benchmarks. It does not address the question of scale and capacity and concentrates on the seven government benchmarks.

   The scenario is built up by separately considering the operating result, asset renewal, asset maintenance, and the infrastructure backlog. It identifies what, if any, funding gap exists but it does not identify how the gap is to be resolved as that is a question for each individual council. In some cases this has required a standardised approach to be used to provide comparability.

   We acknowledge the work each council has done to understand its assets and community priorities and our analysis and assessment should be understood as applying to the context.

3. **Merged Council**

   This scenario models a merger of the two councils and assesses the advantages and disadvantages of this against a series of criteria. The agreed criteria include financial and non-financial indicators and go beyond the Government's Fit for the Future benchmarks to incorporate communities of interest and the alignment between the council organisations.

The scenarios assess the advantages and disadvantages of this approach including the financial costs and benefits.

2.2 Reporting

This report is intended to provide a collective body of information that each council will then use to determine what is in the best interests of the council and community. As such it does not seek to recommend any one option over another for a particular council.

The report compares options and highlights advantages and dis-advantages. The relative weighting that each council then applies will be a matter for each individual council.

3. EXECUTIVE SUMMARY

This executive summary provides the key outcomes from our analysis. However the full report needs to be read to provide the context to the analysis and assumptions that underpin the modelling.

3.1 Scale and capacity

The Government has made it clear that the starting point for every council is scale and capacity.

The ILGRP were of the view that “all Hunter councils appear financially sustainable, with the possible exception of Dungog” and “that Dungog Council itself has reservations about its capacity to meet its infrastructure obligations in the medium term, and an updated sustainability assessment needs to be undertaken as soon as possible. That assessment should consider the option of merging Dungog with Maitland.” It was the view of the ILGRP that a merger would meet these tests. It remains therefore for the councils to satisfy the capacity tests as identified by the panel if they choose not to merge.

In the case of Dungog it may be difficult, given the size of the council and the population it serves to meet the government’s test around scale and capacity on its own all the ILGRP indicate it potentially does. Maitland arguably can make a stronger case as the merger (which meets scale and capacity) creates less of an impact for Maitland than for Dungog when considered against the key aspects of scale and capacity.

3.2 Fit for the Future benchmarks comparison

The Government has established a set of Fit for the Future Benchmarks which all councils are being assessed against. We have undertaken a detailed analysis of the financials and asset management approaches on the following basis:

- Maitland Council: A base case
- Dungog Council: A base case
- A Merged Council: Analysed on the base case basis

The following table summarises the results of that analysis.

Table 1 Overall comparison of options against Fit for the Future benchmarks

Council	Maitland Council	Dungog Council	Merged Council	
			Day one	Modelling period
Operating Performance	Yes	No	No	No
Own Source Revenue	Yes	No	Yes	Yes
Debt Service Cover	Yes	Yes	Yes	Yes
Asset Maintenance	No	Yes (or within 1%)	No	No
Asset Renewal	Yes	No	Yes	Yes
Infrastructure Backlog	From 2021	No	No	From 2023
Real Operating Expenditure	Yes	Yes	Yes	Yes

3.3 What is required to meet the benchmarks

In order for Maitland to meet all of the Fit for the Future benchmarks from now until 2023, they will need to address an Asset Maintenance funding gap throughout the period, and an Infrastructure Backlog gap from 2021 onwards.

Dungog Shire has a more significant funding gap to make up, across the asset ratios: Asset Renewal and Infrastructure Backlog and the financial performance ratios Operating Performance and Own Source Revenue. This may be particularly difficult given the comparatively low rating base compared to the funding gap that the modelling has identified.

The table below identifies the extent of the funding gap for both councils required to address the infrastructure benchmarks.

Table 2 Summary of infrastructure funding gap

Council[1]	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Dungog Council	-4,509	-1,927
Maitland Council	-4,016	709

Table 3 identifies the average annual gap or surplus between operating revenue and operating expenditure (as per the Operating Performance Ratio guidelines) over the time period within each council's LTFP. While Maitland shows a surplus over the period, Dungog Shire is projecting a significant funding gap over the period, particularly when considering their comparatively smaller rating base to be able to fund any increase.

[1] Infrastructure funding gap does not take into account any potential SRV applications

Table 3 Operating performance funding gap

Council	Average gap ($000)
Dungog Council	-8,201
Maitland Council	832

3.4 Merged council

3.4.1 Scale and capacity

On the basis that the independent panel recommendation proposed that the two councils merge, it can be assumed that a merged council would achieve the scale and capacity requirements.

In the case of Dungog it may be difficult, given the size of the council and the population it serves to meet the government's test around scale and capacity on its own but that is something for the Council to assess. Maitland arguably can make a stronger case as the merger (which meets scale and capacity) makes less of an impact for Maitland than for Dungog when considered against the key aspects of scale and capacity.

The table below shows a comparison between the two councils, the merged council and Port Macquarie Hastings Council as a comparator council that has similar characteristics to that which the merged council would service.

	Maitland	Dungog	Merged	Port Macquarie Hastings Council
Full time equivalent staff	354	65	419	490
Geographic area	392km2	2250km2	2642km2	3686km2
Population	71,866	8,318	80,184	76,000
Annual expenditure	$74.5m	$14.2m	$88.7m	$145m (incl W&S $49m)

Port Macquarie Hastings Council is a coastal council and is likely to have some additional function. We have reviewed a number of councils for comparison and note that while populations are similar, other councils reviewed have considerably more staff and higher annual expenditure. This suggests that the scale of the merged council may need to grow to effectively deliver services rather than shrink to generate efficiencies.

3.4.2 Funding shortfall

The merged council is the sum of its parts. This means that the asset and financial position of each council directly contributes to the overall asset and financial position of the merged council. As with the individual councils, the merged council does not meet all of the asset related benchmarks. Therefore a funding gap in order to address the asset renewal and infrastructure backlog ratios exists which is set out in the table below.

Table 4 Merged council asset funding gap

Council	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Merged Council	-4,945	-270

3.4.3 Fit for the Future benchmarks

A merged council would meet four of the indicators from day one; Own Source Revenue, Debt Service Cover, Asset Renewal and Real Operating Expenditure Ratios.

Of the other three measures:

- the Operating Performance Ratio steadily declines from -3.8% on day one of the merger down to -10.5% in 2023, well below the required benchmark of being greater or equal to break-even, averaged over three years
- the Asset Maintenance Ratio remains steady at an average of 77% throughout the period modelled, well below the required benchmark of greater than 100%, averaged over three years
- the Infrastructure Backlog steadily declines from a high of 4.6% in 2015, going below the benchmark requirement of less than 2% in the final year modelled, 2023 when it reaches 1.8%.

3.4.4 Debt

Both councils carry low levels of debt which would be taken over by a merged council and both councils meet the Fit for the Future benchmarks' Debt Service Ratio, as does the merged council.

Table 5 Comparison of debt[2]

Council	Debt ($000)	Debt Service Ratio	Debt per Capita ($)
Dungog Council	$891	1.2%	$103
Maitland Council	$21,545	3.1%	$288
Combined	$22,436	2.9%	$269

3.4.5 Rates

Modelling the changes in rates in a merger is very difficult to do with any degree of accuracy as there are a number of significant differences in the rating systems of the two councils which impact on the rates charged to an individual property. Assuming a single rating system would be put in place across the two councils, modelling of the impact on rates was carried out. Changes to the average business, residential and farmland rates have been modelled using an entirely ad valorem and then a base rate scenario to represent a range of potential impacts that could be expected, with the results showing the percentage movement for each category shown in the following table.

2 Based on 2014 Actual

Table 6 Merged council modelled rating impacts

	Maitland (ad valorem)	Maitland (base rate)	Dungog (ad valorem)	Dungog (base rate)
Residential	-5%	-4%	58%	46%
Business	-4%	-9%	136%	294%
Farmland	-18%	-17%	17%	16%

3.4.6 Environment and community aspirations

Each council's Community Strategic Plan (CSP) presents the communities visions and aspirations. The councils have each taken a different approach to the presentation of their CSPs. Maitland's CSP provides detailed information on the community and the connection of council activities to this. Dungog covers similar themes, but does so at a higher level. In undertaking their engagement, it is clear both councils used a range of mechanisms to connect with residents to seek feedback. Maitland in particular, details a significant range of engagement techniques and activities to connect with their community when developing Maitland +10.

In terms of the natural environment both councils have clearly stated policies around the environment with both looking to protect and enhance the attributes of the natural environment that are important in their local government areas, particularly those of national significance.

Both councils look to protect their built environments, with Maitland focussing on planning for and protecting human-made resources of Maitland while Dungog protecting their built heritage, particularly items and areas of heritage significance.

Maitland's LEP looks to achieve a variety of growth related outcomes around sustainable and orderly development, diversity of housing and minimisation of risks from natural hazards, while Dungog's seeks to promote sustainable development, protect agricultural lands by preventing land use conflict, provide for housing choice and strengthen important economic sectors. Both councils appear to have flexible residential land use policies indicating an accommodative approach overall.

3.4.7 Representation

Assuming a merged council has less councillors overall, compared to the present thirteen for Maitland and nine for Dungog Councils, the number of people represented by each councillor would increase for both areas, significantly in the case of Dungog.

Table 7 Comparison of representation

Council	Representation (population / Councillor)
Dungog Council	669
Maitland Council	5,529
Merged	6198[3]

[3] Based on 13 councillors

It may be possible to put in place measures to address the loss of representation for the Dungog Council residents through local or community boards, but at present the Government has not set out in detail any proposal that the community could consider.

3.4.8 Community profile and communities of interest

Differences between Maitland and Dungog reflect the different natures of the areas, with Dungog being a smaller rural shire, and Maitland a more urbanised area. Both areas have similar age profiles, similar household types and both areas have low multicultural diversity, and a lower education profile.

Maitland has experienced considerable growth of over 20% in the period 2001-2011. This however will double in the following twenty year period, to just nearly 44%. The Similarities and Differences Report notes that Maitland's growth rate puts it above that of a 'typical Sydney suburb'.

Dungog's growth rate increases slightly, up from 2% in the period 2001-2011, compared with 2.8% from 2011 – 2031.

3.4.9 Costs and savings of the merger

The costs and savings of the merger arising throughout the period have been modelled and should be considered in conjunction with the overall financial performance of the merged council when making a decision.

Transition costs in the context of the two councils are a significant cost in the early and mid-periods of the newly merged council and arise from costs associated with creating the single entity (structure, process, policies, systems and branding), redundancy costs and the implementation of a single IT system. In the case of Dungog and Maitland, Maitland has invested in a new purpose built IT system that can accommodate Dungog with little further investment. Longer term costs continue to rise as staff numbers increase, which is typical of merged councils, and are considered to arise as a result of increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and Councillors. These are minor. Our research has confirmed analysis by the councils themselves that current staff numbers are comparably low and therefore no reduction of staff below tier 1 and 2 is likely. Procurement and operational expenditure savings are also expected due to the size and increased capacity of the larger council but again these are small given the increase in size is modest. In the medium and longer term savings continue to arise.

Overall, the modelling projects a total net cost of $6.1M (over the ten years) to the two councils arising from the merger as set out in the table below. A dollar today is not worth the same as it is in the future and the Net Present Value financial formula takes a future stream of costs and benefits and expresses the total benefit, or in this case the total cost, into today's dollars for comparison purposes.

Table 8 Summary of costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
$7,660,360	$6,095,800	$4,881,240

3.4.10 Risks arising from merger

There are a number of significant potential financial and non-financial risks arising from any merger that will need to be considered, including the following which have been outlined in this report:

- Transitional costs may be more significant than set out in the business case
- The efficiencies projected in the business case may not be delivered
- The implementation costs maybe higher and the anticipated savings may not be achieved
- Decisions subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned
- The cultural integration of the two council organisations may not go well resulting in low morale, increased staff turnover rate etc, reducing business performance and prolonging the time it takes for the predicted efficiencies to be achieved
- Where two unequal sized councils merge there is a danger it is seen not as a merger but as a takeover by, in the case Maitland, the larger, more urban based council
- Service levels rise across the merged council, standardising on the highest level of those services that are being integrated. Our research has identified vastly different service levels between the two councils which pose a considerable risk to the financial success of the merger
- New services are introduced that are not currently delivered in one or more of the former council areas
- The financial performance of the merged council is less than that modelled, resulting in the need to either reduce services, find further efficiency gains and/or increase rates to address the operating deficit.

Suggested controls for some of these measures are included in Appendix E.

4. DETAILED ANALYSIS

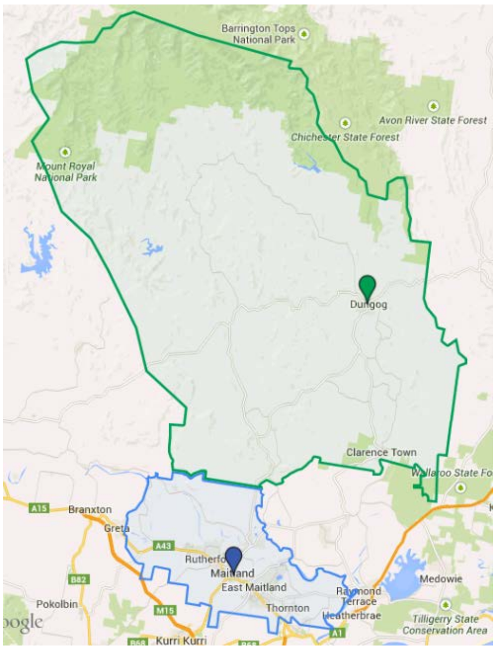
4.1 Status quo

Maitland City Council has an area of approximately 392 km^2 with a population of around 72,000. Located in the lower Hunter region, with retail and tourism as its main industries, it also has some agriculture.

Dungog Shire Council is located within the Hunter region and comprises an area of approximately 2251 km^2 with a population of around 8,400. The Shire is a major water resource for the residents of the lower Hunter and is renowned for its natural environment and pristine waterways. The upper reaches of the Shire are part of the Barrington Tops National Park World Heritage Area. Key industries include agriculture, forestry and tourism.

A map of the area is set out below and shows each council area and the current location of the main council offices.

Figure 1 Map of Maitland and Dungog Councils



As a starting point, the councils' current performance against the FFTF benchmarks[4] has been considered and set out in the table below. We believe it is important to understand the respective position of each council as it is today and the results are those reported in the 2014 Financial Statements of each council. Figures in red are those where the council does not meet the benchmark. We note that previously councils have not been required to report on the real operating expenditure ratio so these results were not published in the 2014 Financial Statements.

An explanation of each indicator and the basis of the calculation are set out in Appendix A. Each has been calculated in accordance with the requirements set down by the Office of Local Government. The ratios are a reduced set of benchmarks drawn from those used by TCorp in its 2013 analysis of the Financial Sustainability of the New South Wales Local Government Sector.

Table 9 Fit for the Future benchmarks 2014

Council	Operating Performance (%)	Own Source Revenue (%)	Debt Service (%)	Asset Maintenance (%)	Infrastructure Backlog (%)	Asset Renewal (%)
Dungog Council	-10.31%	55.72%	3.36	0.50	0.14	181.96%
Maitland Council	-0.02	0.50	4.81	0.74	0.12	1.77

Based on each council's reporting in their 2014 Financial Statements, both councils meet two of the measures.

[4] Reported in the 2013/14 Financial Statements for the respective councils

4.1.1 Fit for the Future indicators

While looking at the 2014 Financial Statements provides an historic view of performance, FFTF concentrates of forecast performance. We have undertaken an analysis of both council's current financial statements, projected financial performance and applied a standardised approach to the calculation of all infrastructure ratios to provide consistency and comparability for the purposes of this assessment.[5]

Based on that modelling, Maitland Council will meet all but two of the benchmarks for the period until 2023, meeting the Operating Performance Ratio, Own Source Revenue Ratio, Debt Service Ratio, Asset Renewal Ratios and Real Operating Expenditure Ratios. It also meets the Infrastructure Backlog Ratio of the majority of the period, only dipping below the requirement from 2021. The one measure not achieved is the Asset Maintenance Ratio.

Dungog Council is projected to meet two of the benchmarks over the period, meeting the Debt Service Ratio and Real Operating Expenditure Ratios. Dungog meets none of the asset related measures (Asset Maintenance, Asset Renewal of Infrastructure Backlog Ratios), nor the Operating Performance or Own Source Revenue Ratios for the period modelled.

The tables below provide a summary of each council's performance against the benchmarks while the figures that follow show the trends of the benchmarks over time for each council. The Government has made it clear that the trend of councils should be improving against the benchmarks.

Table 10 Maitland Council performance against Fit for the Future benchmarks

Indicator	Modelling Outcome
Operating Performance	*Meets the benchmark*
Own Source Revenue	*Meets the benchmark*
Debt Service Cover	*Meets the benchmark*
Asset Maintenance	*Does not meet the benchmark*
Asset Renewal	*Meets the benchmark*
Infrastructure Backlog[6]	*Meets the benchmark from 2021*
Real Operating Expenditure	*Meets the benchmark*

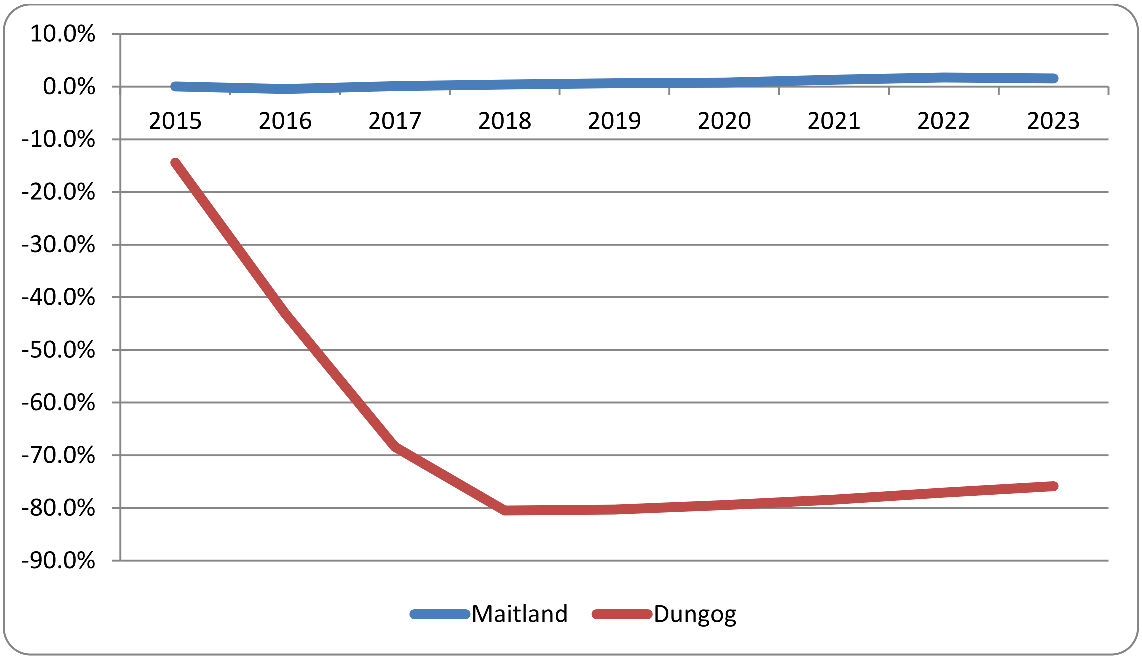
[5] The explanation for each is set out in section 4.2

[6] The forecast of a councils infrastructure backlog is based on using condition 3 as satisfactory

Table 11 Dungog Council performance against Fit for the Future benchmarks

Indicator	Modelling Outcome
Operating Performance	*Does not meet the benchmark*
Own Source Revenue	*Does not meet the benchmark*
Debt Service Cover	*Meets the benchmark*
Asset Maintenance	*Does not meet the benchmark*
Asset Renewal	*Does not meet the benchmark*
Infrastructure Backlog[7]	*Does not meet the benchmark*
Real Operating Expenditure	*Meets the benchmark*

Figure 2 Operating performance ratio



[7] The forecast of a councils infrastructure backlog is based on using condition 3 as satisfactory

Figure 3 Own source revenue

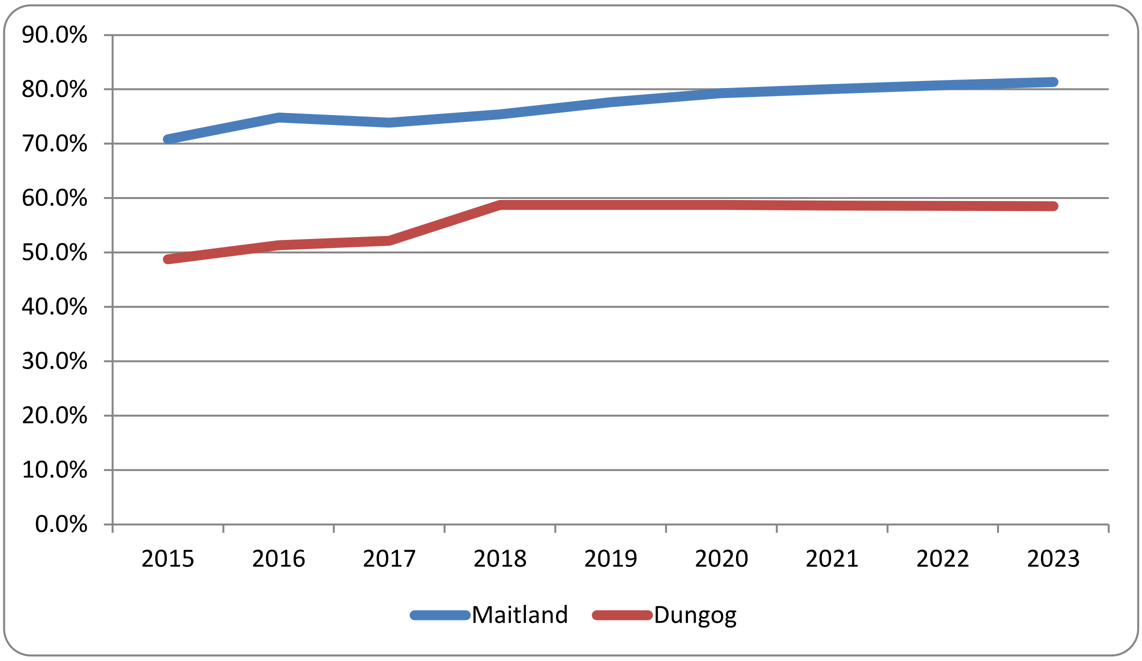


Figure 4 Debt service ratio

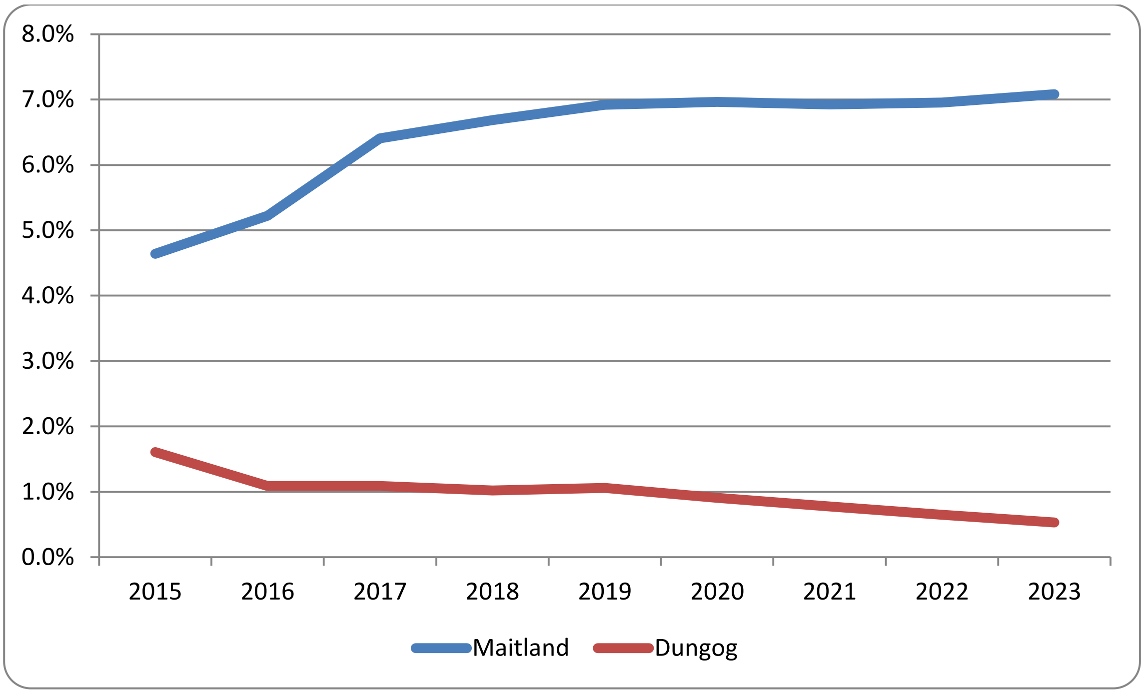


Figure 5 Asset renewal ratio

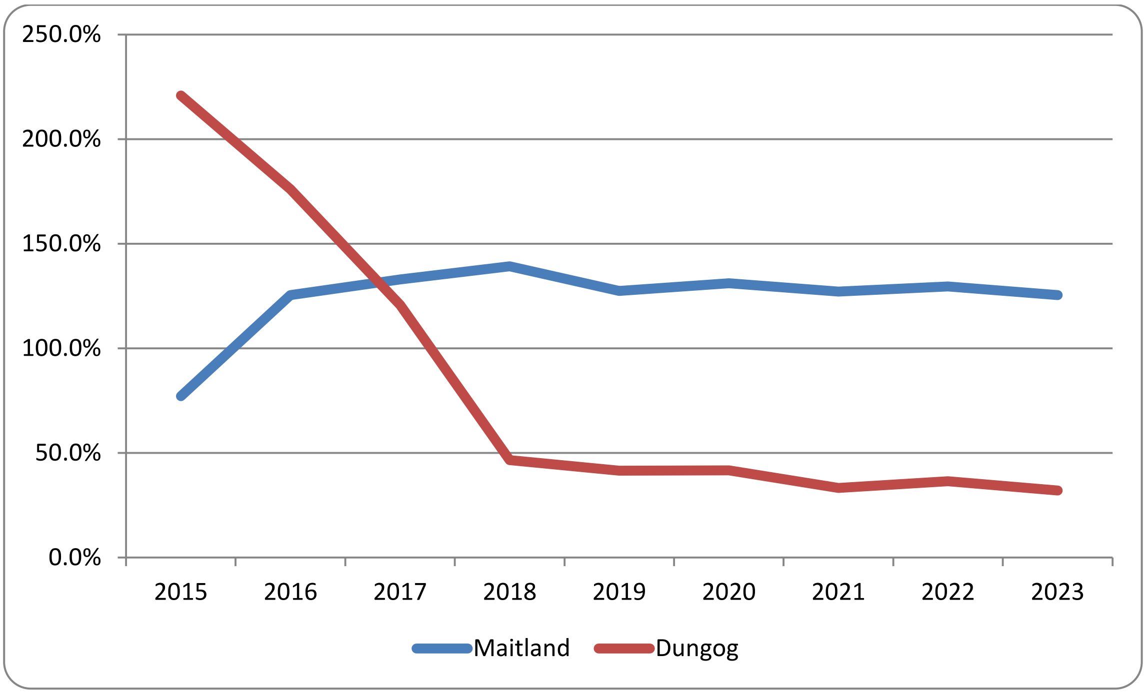


Figure 6 Infrastructure backlog ratio

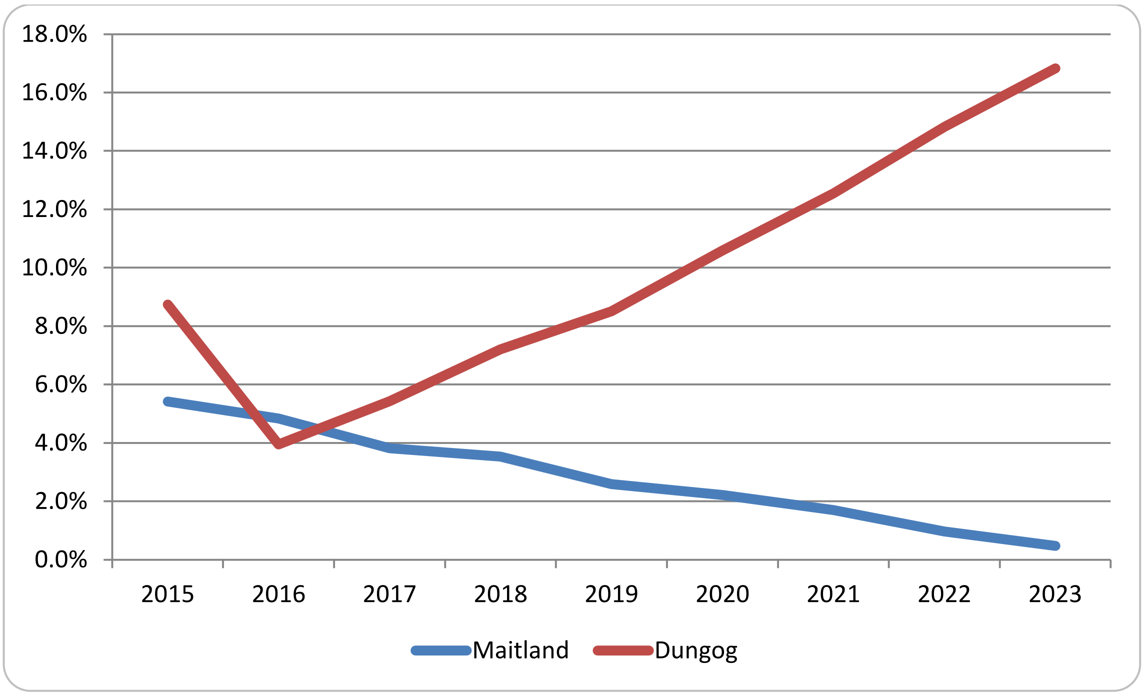


Figure 7 Asset maintenance ratio

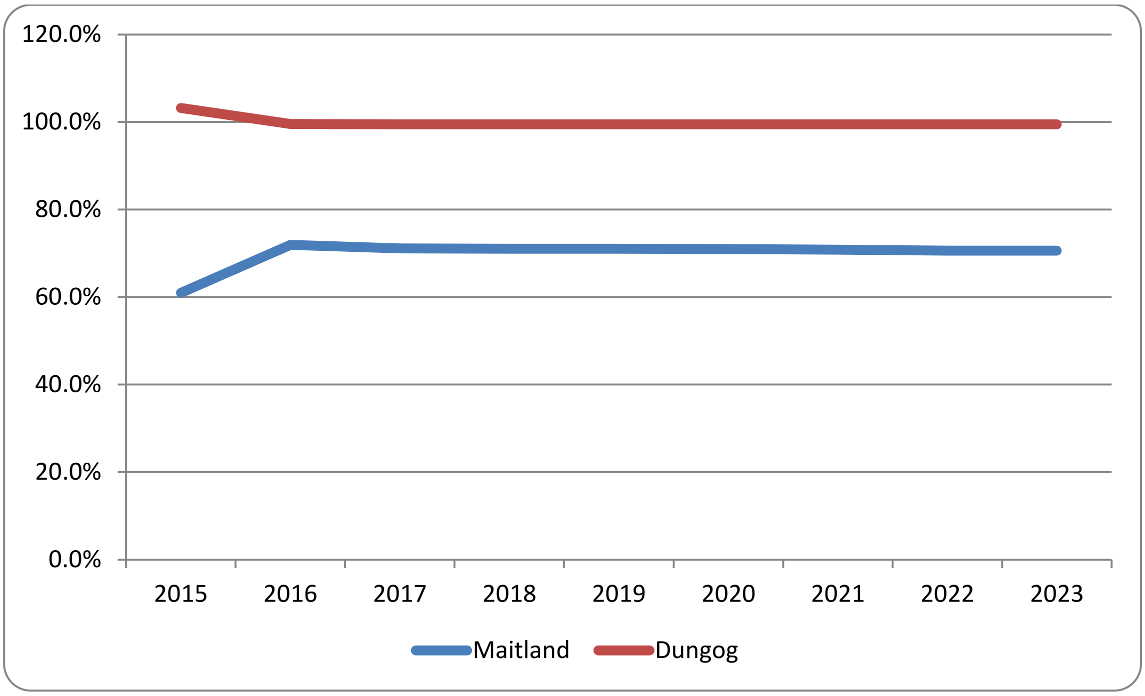
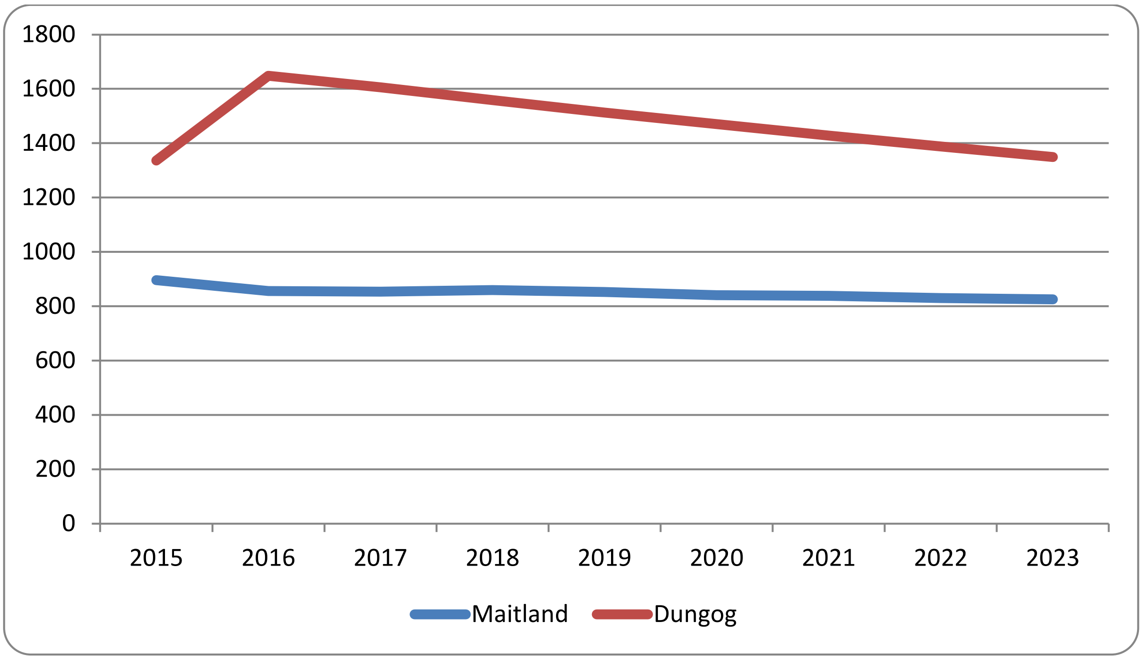


Figure 8 Real operating expenditure



4.2 Meeting the benchmarks

An analysis of what would need to be done in order for each council to satisfy the FFTF benchmarks has been undertaken. The analysis is against each council's base case scenario. The asset based ratios (Asset Maintenance, Asset Renewal and Infrastructure Backlog) have been considered, as has the Operating Performance Ratio. Each aspect has been separated out in the following sections before being combined into an overall figure which identifies what, if any, funding gap exists that if satisfied would enable the council to meet the FFTF benchmarks.

Where such a gap has been identified, and should a council choose to pursue a standalone response to FFTF, then the council will need to determine how they best address that gap. We would expect that this would be either through additional revenue, a reduction in operating expenses, or a combination of both.

4.2.1 Operating performance

The operating result of each council (calculated on the same basis as the Operating Performance Ratio and so excluding capital grants and contributions) has been reviewed and the gap, if any, between the operating revenue and operating expenses identified below. For simplicity, this is presented as an average of the years projected in each council's LTFP.

The table below identifies the average annual gap or surplus between operating revenue and operating expenditure (as per the Operating Performance Ratio guidelines) over the time period within each council's LTFP. While Maitland shows a surplus, Dungog Shire is projecting a significant funding gap over the period modelled.

Table 12 Operating performance funding gap

Council	Gap ($000)
Dungog Council	-8,201
Maitland Council	832

4.2.2 Asset maintenance

The maintenance ratio is based in part on the number each council reports as 'required maintenance'. However there are no guidelines on how required maintenance is to be calculated and when the required maintenance figures from across the councils were considered some significant variations were identified.

A standardised approach was adopted for the purposes of this project in order to provide a relative comparison of the two councils and for use when estimating the required annual maintenance for the merged council.

The approach uses a percentage of the current replacement cost as the basis for required maintenance. The rates for the different asset classes are based on our knowledge and expertise as well as consideration of ratios of similar councils as benchmark comparisons.

The table below sets out the results of the modelling for both councils. For simplicity, this is presented as an average of the years projected in each council's LTFP.

Table 13 Asset maintenance funding gap

Council	Actual Annual Maintenance ($000)	Estimated Required Maintenance ($000)	Gap ($000)
Dungog Council	2,852	2,867	-15
Maitland Council	8,089	11,410	-3,321

Based on the modelling, both councils are facing a funding gap between what is spent currently and what we estimate to be needed. The figures in red show the annual additional amount each council, based on our standardised approach, would need to spend annually on maintenance to satisfy the asset maintenance ratio. The gap for Dungog is very small and if addressed, would allow them to meet the benchmark requirements without too much difficulty.

4.2.3 Asset renewal

The Asset Renewal Ratio is based on each council's assessment of annual depreciation on buildings and infrastructure and their actual expenditure on building and infrastructure renewals. If asset depreciation is calculated appropriately then this represents the loss of value of an asset on an annual basis and a renewal ratio of 100% reflects (at an overall level) restoring that lost value.

The calculation of depreciation varies quite significantly across the two councils so it is not possible to simply standardise depreciation in the same way that the required maintenance number can be. The assessment of depreciation is integral to the financial management of each council and their LTFP. Any change requires a proper assessment of the assets, condition, lives and values. The assessment of required asset renewals is therefore based on each council's own assessment of depreciation and required renewals.

The table below sets out the gap between the required annual renewals and projected renewals expenditure. Negative figures are highlighted in red and show the annual additional amount a council (based on our standardised approach) would need to spend on renewal to satisfy the asset renewal ratio.

Table 14 Asset renewal gap

Council	Average predicted annual renewals ($000)	Average required annual renewals ($000)	Average Annual Gap ($000)
Dungog Council	3,071	4,984	-1,913
Maitland Council	17,600	13,571	4,029

Based on the modelling, Maitland Council is funding more that is required while Dungog has a renewals funding gap. The figure in red shows the annual additional amount Dungog, based on our standardised approach, would need to spend on asset renewals to satisfy the asset renewals ratio.

4.2.4 Calculating the estimated cost to satisfactory

The estimated cost to satisfactory is the key driver of the Infrastructure Backlog Ratio. However, there are no clear guidelines as to how the cost to satisfactory has to be calculated and, as such, the approach varies significantly across NSW. Across the two councils there are different methodologies for determining the cost to satisfactory.

Given the variation in methodologies it was considered appropriate that, for comparative purposes and for the assessment of the infrastructure backlog of a merged council, a standardised approach should be adopted. The approach is one that has been adopted by a growing number of NSW councils as it provides a consistent, repeatable methodology based on asset condition.

Both councils have adopted a similar condition rating system based on a 1 - 5 condition rating where condition 1 is considered to be excellent and condition 5 being poor or very poor condition. The standardised approach adopts condition 3 as satisfactory. We do acknowledge that some councils have considered adopting a lower standard as satisfactory and have engaged with their communities on this. Our approach looks at the value of assets (Current Replacement Cost) in condition 4 and 5, and what could be done to ensure these assets are brought up to condition 3 (satisfactory). It should be noted the cost to satisfactory is an indicator of asset condition, and as such the reality of asset renewals is that those assets in condition 4 and 5 when renewed would be brought up to condition 1 or 2.

The table below sets out what each council would need to spend on additional renewals (i.e. over and above maintaining a 100% asset renewal ratio) to reduce the Infrastructure Backlog Ratio to the benchmark within five years.

Table 15 Cost to bring assets to satisfactory

Council	Total value of assets[8] ($000)	Cost to satisfactory ($000)	Target Backlog ($000)	Reduction Required ($000)	Per year (5 years) ($000)
Dungog Council	329,358	16,739	3,832	-12,907	-2,581
Maitland Council	961,820	37,463	13,842	-23,621	-4,724

4.2.5 Annual funding gap

The table below summarises the expenditure required by each council, based on our standardised approach, in order to meet all three asset based ratios within five years. Once the infrastructure backlog is brought to the benchmark then the required expenditure in both councils falls.

We have not included the funding gap related to the Operating Performance Ratio in this table as that would not present a realistic picture of the required expenditure. Noting that Maitland exceeds the Asset Renewal Ratio benchmark for the modelled period thereby reducing the infrastructure backlog. Any increase in expenditure on maintenance or renewals will flow through to affect the operating revenue and expenses of the council and therefore the Operating Performance Ratio. Additionally, a council may choose to address the funding gaps identified in this report by increasing revenue, shifting funding from another service or activity, reducing

8 Current replacement costs (2014)

overall costs or a combination of all the above. This will all affect the other ratio. It is not therefore considered possible to simply add the Operational Funding Gap and the Asset Funding Gap identified below together into a single figure.

Table 16 Combined asset funding gap

Council	Asset Maintenance	Renewals	Infrastructure Backlog	Average funding required per annum (5 years)	Average funding required per annum (5 years+)
Dungog Council	-15	-1,913	-2,581	-4,509	-1,927
Maitland Council	-3,321	4,029	-4,724	-4,016	709

4.3 Merged council

4.3.1 Description

The merging of the two councils into one council would create a council of roughly twice the geographic area serving a reasonably distributed population.

To give some scale to the proposed council organisation, set out below are some broad indicators of the attributes of a new merged council and a comparison Port Macquarie-Hastings Council[9].

Table 17 Comparison of proposed merged council and Port Macquarie-Hastings

	Council	Port Macquarie-Hastings Council
Full time equivalent staff	419	490
Geographic area	2642km2	3686km2
Population	80,184	76,000
Annual expenditure	$88.7m	$145m (W&S $49m)

4.3.2 Services

The range of services and facilities provided by any council to its community varies significantly from place to place. Not only do the types of services vary, but the levels of service will often be quite different from council to council. Our initial analysis indicates that there are some significant service level differences including in the following areas:

- Communications
- Construction and maintenance
- Swimming pools
- Cemeteries
- Streetscape and street cleaning
- Museums and galleries

[9] OLG Comparative Performance Data 2012-13

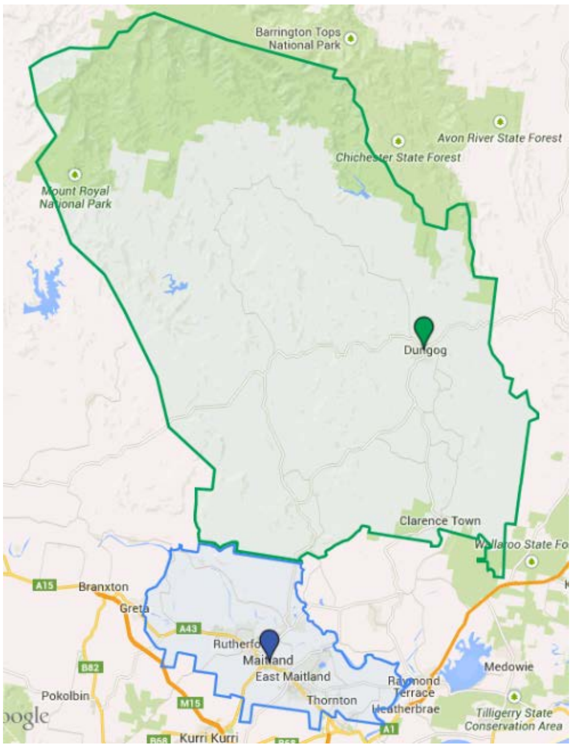
- Events
- Road construction and maintenance
- Footpath maintenance

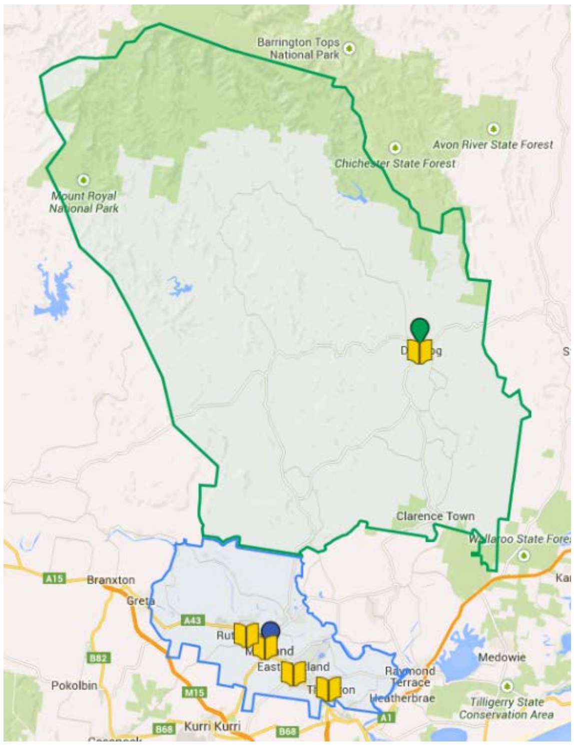
The full details of this analysis are at Appendix F.

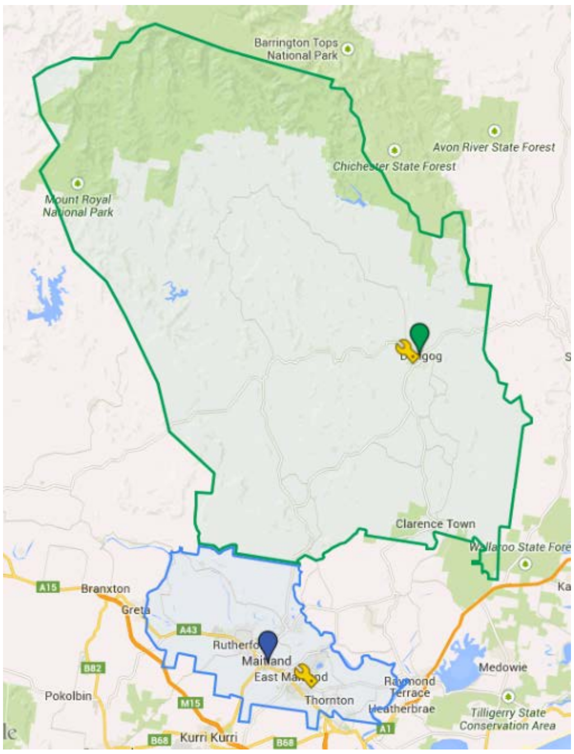
The reasons for these variations are numerous. For many councils the suite of services that they offer in the present day is a reflection of decisions made by councils past. Those decisions are generally based on community desires and needs, funding availability or strategic business choices. The figures below highlight the locations of some key council services including council offices, libraries and swimming pools.

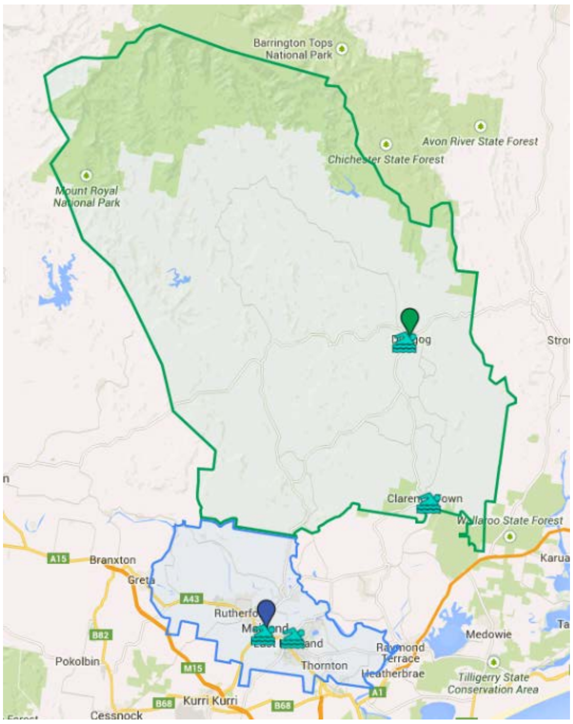
Figure 9 Key services and facilities of the councils

	Council Offices
	Public Libraries
	Swimming Pools
	Council Depots









Regardless of the original rationale for service types, levels and delivery decisions, councils need to continue to make regular and structured revisions to their service portfolios in order to meet emerging or changing community needs, capacity to pay issues or regulatory change.

The two councils are reflective of the broader local government industry and exhibit many variations on the types and levels of service that they offer to their communities despite their relative proximity. There are obviously cost implications for the councils providing different services and levels of service.

There are a range of examples where services vary across council borders and those variations can be in the form of:

- providing a particular service or not doing so
- differing methods of delivering services (in house, outsourced, collaborative)
- variety in the levels of service delivered (frequency, standard)
- pricing.

The purpose of the maps above is to highlight the different challenge that a merged council will be faced with in regards to the provision and the location of services and facilities. Having responsibility for a larger area without the existing internal boundaries will require a different approach and likely lead to changes in services and service delivery.

Establishing a uniform, or at least consistent, service offering through the mechanisms of service standard setting, pricing and delivery will be a challenging exercise for any merged council however it does provide opportunities for service review and re-evaluation. Often in a merged council the desire to ensure an equitable and fair service across the entire local government area can result in an immediate and sometimes dramatic increase in services, services levels and therefore costs.

In assessing the advantages and disadvantages of a merger of the two councils, the assumption has been made that current service levels will continue until such time as the merged council makes a decision otherwise. We do however acknowledge that resolving service and service level differences will be one of, if not the largest risk to realising any financial benefits from a merger.

4.3.3 Social, environmental and economic

The following is a summary of a detailed communities profile and communities of interest study that is set out in Appendix G.

This desktop review of the communities of the two councils has been undertaken in order to understand the current demographic composition of the area, the similarities and differences between the council areas, and the interrelationships and communities of interest that currently exist within the area. Communities of interest are more likely to have similar interests and needs from their council, whereas people who do not share a community of interest are more likely to have different needs from their council.

The key references for this review is ABS Census Data, NSW Department of Planning's Population Forecast (2014), the ABS Estimated Residential Population figures for 2011 and 2012, along with the analysis contained in the New South Wales Local Government Areas: Similarities and Differences, A report for the Independent Local Government Review Panel report.

The local government areas of Maitland and Dungog have some similar features and some differences, many of which reflect the different natures of the areas, Dungog being a more rural shire, with Maitland a more urbanised area. There are a number of similarities between the council areas. These include:

- full time employment makes up the majority of employment across the regions, but participation in the labour market is an issue across the two council areas
- the percentage of Indigenous Australians in each community sits just above the State average
- English proficiency is high, and there is a very low level of people born in countries other than Australia across the region
- household types are consistent across the two LGAs
- both areas have SEIFA scores above the New South Wales average.

However a number of differences can also be observed.

- The age profile shows some differences, with Dungog showing an older population than Maitland, particularly over 45 years
- Population growth, while positive in both regions it is very strong in Maitland at nearly 44%, as compared to Dungog at only 2.8% in the out years
- Political representation is different across the two regions, with Maitland represented by the Labour party at the State and Federal level, and Dungog the Nationals and Liberal party

The strategic priorities of each of the communities, as expressed in the Community Strategic Plans, display commonality, with a clear priority around the unique environments of the areas.

4.3.3.1 Current base information

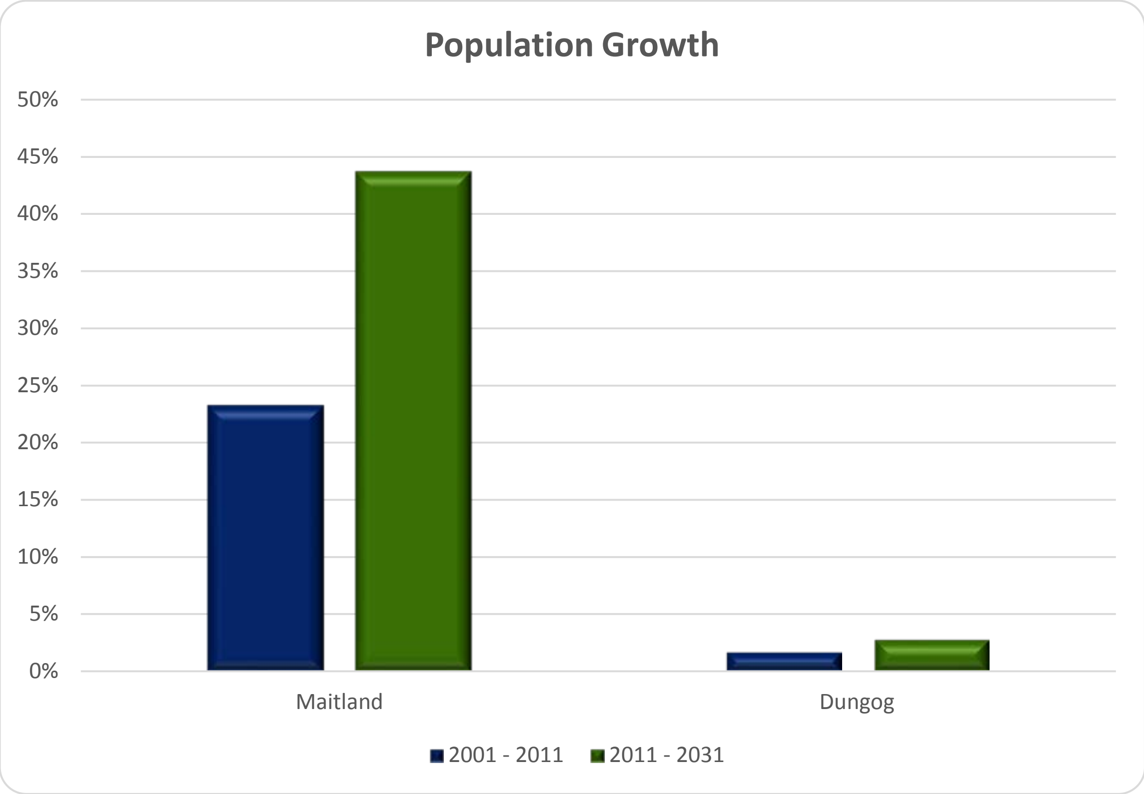
Table 18 Current Base Information

	Population (ERP 2012)	No. Households	Land Area (km^2)	Population Density (persons per km^{2})
Dungog	8696	3,832	2,251	3.86
Maitland	71886	26,490	392	183.62
Total	80582	30,322	2,643	30.5

4.3.3.2 Population growth and forecasts

Analysis of the census data and the NSW Department of Planning's Population forecasts has been undertaken to identify the patterns of past and future population growth within the region. Both regions have experience positive levels of growth in the previous ten year period. This is predicted to continue in the out years. Maitland in particular has experience considerable growth of over 20%. This however will double in the following twenty year period, to just nearly 44%. The Similarities and Differences Report notes that Maitland's growth rate puts it above that of a 'typical Sydney growth suburb'.

Dungog's growth rate increases slightly, up from 2% in the period 2001 - 2011, compared with 2.8% from 2011 - 2031.



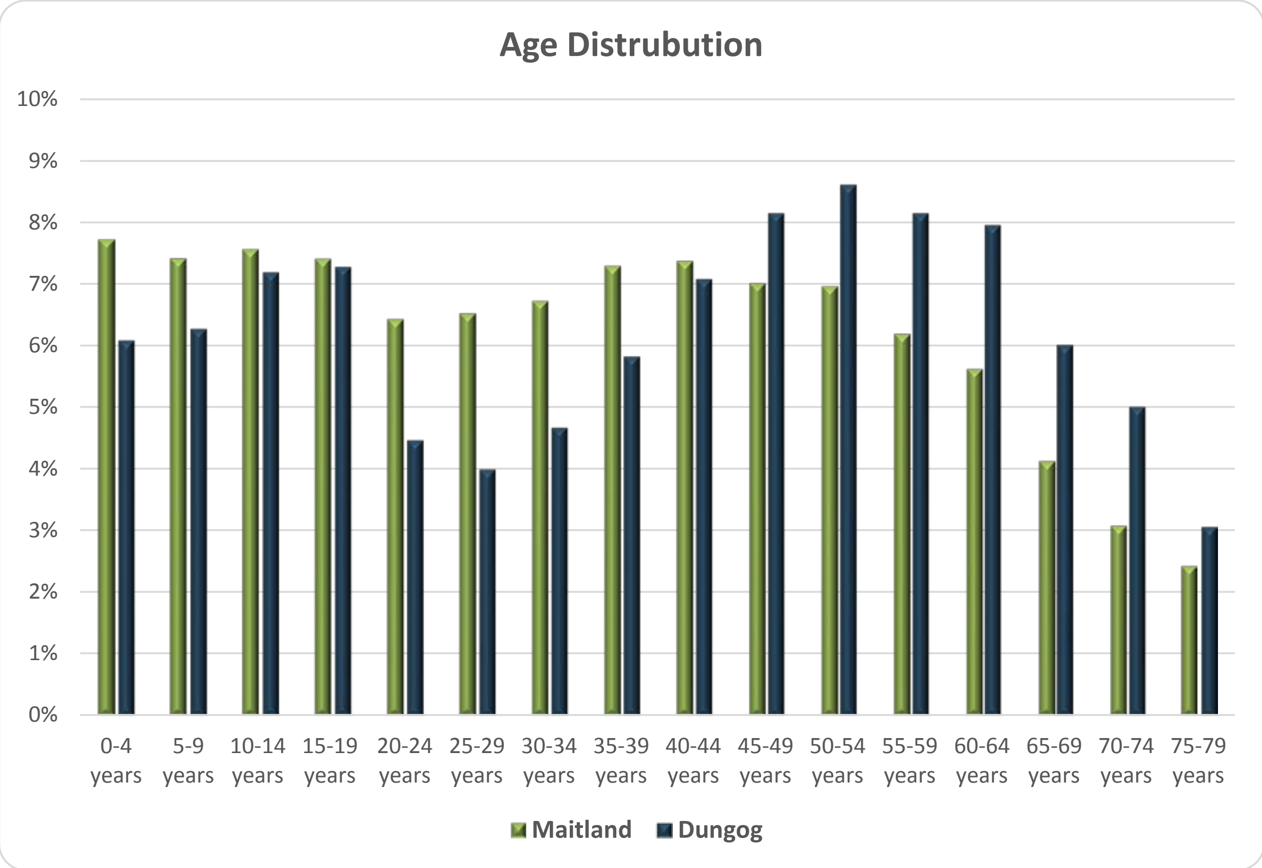
There will be some change to population density in both regions, reflective of the growth in population in the region. Maitland will see an increase from 183.6 to 256.7 people/km2, and Dungog a small change from 3.86 to 3.91 people per km2.

4.3.3.3 Age Structure

The age structure of the community provides an insight into the level of demand for age based services and facilities, as well as the key issues on which local government will need to engage with other levels of government in representation of their community.

The *Similarities and Differences* analysis groups both councils in a cluster with high ratios of children to adults of parenting age coupled with low retention of young adults. It has a lower proportion of elderly residents, including a relatively low ratio of the very old to the next youngest cohort.

Figure 10 Age structure



4.3.4 Industries of Employment

Both council areas share some similar industries. Retail trade, education and training and health care and social assistance are common industries of employment in Dungog and Maitland.

	1st	2nd	3rd
Dungog	Agriculture, forestry and fishing	Education and training / Retail trade	Accommodation and food services / Health care and social assistance
Maitland	Retail trade	Health care and social assistance	Education and training

4.3.5 Environment

4.3.5.1 Natural and built

A summary assessment of the councils' LEPs has been considered with the emphasis on:

- protection of the natural environment
- protection of the built environment/heritage and character of the existing urban area
- the overall (policy) approach to growth and development.

In terms of the natural environment both councils have clearly stated policies around the environment.

Maitland's LEP recognises the importance of the natural environment of the area and the Council's responsibility to manage the assets of national significance. The council wants to protect and maintain a variety of aspects of their natural environment, including those of national environmental significance in the long term. They also want to protect, enhance and conserve the natural resources of Maitland.

Similarly, Dungog's LEP aims to recognise the significant natural environmental assets of Dungog LGA, and it looks to protect rural lands, natural resources, and items and areas of heritage significance while protecting, enhancing and providing for the biological diversity of the Shire.

In terms of the built environment, Maitland has a specific aim in its LEP to properly plan and protect human-made resources of Maitland including buildings, structures and sites of recognised significance which are part of the heritage of Maitland. Dungog's approach is to consider the protection of the built heritage as part of an overall approach to amenity management, and seeks to protect items and area of heritage significance.

In terms of growth, Maitland's LEP has a range of outcomes being sought and promotes a policy of sustainable and orderly development, diversity of housing and minimisation of risks from natural hazards. Residential land is mainly zoned R1 (General) indicating Council has a flexible and accommodating policy towards growth.

Dungog's LEP seeks to promote sustainable development, protect agricultural lands by preventing land use conflict, provide for housing choice and strengthen important economic sectors. The LEP contains R1 (General) and RU5 (Village) residential zones allowing significant flexibility in dwelling types, indicating an accommodative approach in support of the economic development of the Dungog township and supporting the smaller settlements in the LGA.

A summary of the comparisons of the approach to growth and protection of the natural and built environment is set out in Appendix C.

4.3.6 Representation

Assuming a merged council has less councillors overall, compared to the present thirteen for Maitland and nine for Dungog Council, the number of people represented by each Councillor would increase for both areas, significantly in the case of those living in the Dungog Shire.

The table below shows the impact if there were thirteen councillors in the merged council.

Table 19 Comparison of representation

Council	Representation (population / Councillor)
Dungog Council	669
Maitland Council	5,529
Merged	6198[10]

[10] Based on 13 councillors

It may be possible to put in place measures to address the loss of representation for the Dungog Council residents through local or community boards, but at present the Government has not set out in detail any proposal that the community could consider.

4.3.7 Organisation alignment

4.3.7.1 Policy alignment

A high level analysis of the vision and key directions in the Community Strategic Plans (CSP) identifies the areas of relative emphasis for each council area (Appendix D).

Maitland and Dungog Councils have adopted very similar styles in expressing their respective vision and associated themes for their local areas.

Both have brief vision statements and elaborate on these with a series of focus areas around which their CSPs have been created. Whilst there are differences in the expression of their themes and the accentuation of specific thematic components, there is a strong consistency and commonality in the foundations of the two CSPs. Both councils have clearly stated visions around the environment, with any differences being reflective of their urban or rural basis.

Maitland's vision includes providing access to services and facilities that meet the needs of all of their citizens, combined with a focus on their environment, balancing conservation and development and enhancing where they can. They want to be a vibrant river city that has heritage at their heart, with a strong and proud community that celebrates together and embraces newcomers.

Dungog looks to ensure they have a vibrant and united community with a sustainable economy, while preserving the rural character, community safety and lifestyle and managing, enhancing, and protecting the resources of the Shire, in consultation with the community.

In general terms, the themes address priority areas including community strength and wellbeing, the natural environment, the local economy and employment, infrastructure and the built environment and strong and effective governance.

The comparison is presented visually below through Word Clouds in the figures below.

Figure 11 Summary of Maitland Community Strategic Plan

Figure 12 Summary of Dungog Community Strategic Plan

4.3.7.2 Cultural Alignment

While it is difficult to compare the internal cultures of the council organisations in this exercise, there are both subjective and objective indicators that give an insight into how aligned or misaligned the organisations cultures can be.

Communities

Often an organisations culture develops as a direct influence of the community it serves. There are a number of indicators of cultural alignment of local government areas including the social and cultural diversity of the community (discussed in this report under communities of interest), the community aspirations and values and how the community views its relationship with council.

Because council staff are also part of this community there is an indelible link between the inherent organisational culture, the community diversity and the council's perceived position in the community.

The ratio of population to elected representative is significantly different between the two councils which may influence service perception outcomes in the two shires.

Whilst there can be quite specific local needs and community aspirations, there are themes that emerge from a comparison of visions for their communities that are expressed by the councils in their CSPs.

Whilst the Dungog and Maitland communities are different in many fundamental areas they are not significantly demographically dissimilar.

The sharing of common boundaries allows for a high level of social and economic crossover between the communities with similarities in focus in a number of areas.

As would be expected, Dungog Council's CSP focusses more on traditional rural services and has the desire to manage protect and enhance the resources of the region in consultation with the community. The council lists such attributes as "vibrant; united; and sustainable" as being fundamental to the success of the region.

Maitland Council also sees "vibrant; sustainable; and a proud and involved community" as fundamental which makes the community expectations essentially the same. As you would also expect due to the urban nature of Maitland safety and health is a priority.

Maitland Council actively seeks community input continually through the 'Maitland your say' site which could be utilised as a litmus test on community perception. Maitland also undertook a broad engagement process in the development of its CSP providing residents with a wide variety of mechanisms to provide feedback. However neither council has recently published results that would indicate public perception of either organisation.

Corporate Organisations

Both organisations are structured similarly in principle utilising a four and three Directorate model Dungog / Maitland with the differences being in the separation and elevation of reporting of three functions in the Maitland Council structure (two of which would typically reside in the fourth directorate). Maitland Council's approach is more contemporary and is reflective of more recent trends in structural hierarchy which is reflective of community and industry placement. Dungog Council has shown an emphasis on environment which is also reflective of their positioning.

Whilst the fundamental structures are fairly aligned, the organisational cultures may well be quite disparate due to the size of the relevant organisations and the resultant maturity of the service delivery models. It is anticipated that any possible merger will need to pay particular focus to this to ensure that the concept of merger rather than take over is proliferated.

Organisational size impacts culture in a range of ways, such as diversity of skills, empowerment and individual accountability. Maitland Council has a workforce of over five times that of Dungog Council so you would expect that the Maitland Council workforce would be more specialised in their roles thus affording a greater capacity to accommodate partnering with the community and other levels of government.

The following table shows some key differences and similarities between the workforces:

	Dungog	Maitland
FTE (including vacancies)	65	354
Percentage of employee costs allocated to training	1.74%	1.03%
Total annual employee cost ($000) per FTE	$57	$96
Total annual expense ($000) per FTE	$219	$211

By measuring training and development expenditure against both total expenditure and full time equivalent staff numbers we can assess each council's approach to staff development. There is some difference between the two councils in this area with both being below recommended industry average.

The annual employee costs are significantly different. Organisations whose costs vary substantially can prove more problematic to merge as parity and harmonisation issues impact on behaviour and relationships. Salaries and wages usually make up a significant portion of the difference so upward financial pressures need be considered in the context of achieving parity following a merger.

A crude but indicative measure of staff productivity can be the portion of operating costs spent per staff member. Both councils are relatively similar in this area. Whilst we identify this as an indicator we do not recommend taking these figures at face value as they can be influenced by factors such as maturity of the workforce, system and process maturity and the fluctuating nature of total expenditure year on year including capital expenditure. Ideally they should be compared over time not in a snap shot.

Dungog Council recognises some significant challenges with an ageing workforce in the medium term and a difficulty attracting appropriately skilled staff now and in the future. Local government's general inability to compete financially with other sectors is a perennial issue facing the whole sector. Whilst due consideration has been given to the issues the ability to follow through with the plan may well be hampered by circumstances other than that of council's control.

Maitland Council has given due consideration to workforce planning to ensure it meets the longer term planning of the organisation. Currently half its workforce sits in the 40-49 year age bracket with 61% being male. The current turnover at 6.8% is not an impediment as long as it is not reflective of the identified 'brain drain' issue that is being regionally experienced. All councils are suffering from similar issues in attraction of staff, a change in work expectations and a resultant shift in the workforce demographic. This shift sees the change from people filling roles due to the organisational requirement for the role to roles that have to be more flexible in their employment relationship thus changing the inherent focus of some roles.

Corporate Values

Councils will naturally take a different approach to developing their own corporate culture but generally each is underpinned by a set of organisational values.

Dungog Council embeds its values of vibrancy, unitedness and sustainability in its' statement- *"To manage, enhance and protect the resources of the Shire in consultation with the Community"* which is not that dissimilar to Maitland Council *"A safe and healthy city, a quality lifestyle, a vibrant and sustainable future, a proud and involved community".* Maitland Council however does list a lengthy set of ideals to reinforce its position.

There is enough commonality between the two sets of corporate values, as is often the case due to the public nature of their role and service focus, to indicate that the corporate values are largely shared between the organisations.

Corporate Policies

A review of the policy registers can identify some interesting philosophical differences and issues that have been given historical priority by the different councils. Policies change from time to time in line with legislative change and community expectations and can both influence and reflect the organisational culture which is tasked with implementing them.

A desk top review of the registers of both organisations shows that they are similar in their range of policies though in some instances Dungog Council being more "operational" in its approach to policy. This is simply an interpretation of legislative hierarchy and not unusual across the local government sector. Maitland has quite an exhaustive list of policies that are reflective of the needs of a City constituency.

Consideration to rationalisation and review of the policy suite in the context of policy intent versus procedural outcome would need to be considered in any merger planning.

In our experience from the amalgamations in Queensland in the late 2000s, the community and staff expectations from the smaller merging Councils can be unrealistic but highly vocalised. The merger is seen as a way of solving all perceived problems without due fiscal consideration. Corporate culture plays a significant role in how this evolves and it needs to be well and actively managed.

We consider that the differences in corporate culture would need to be addressed in the merger planning for a single organisation. Whilst they do not appear significant by nature by way of comparison they are in areas that can significantly affect the short to medium success of a merger particularly in the area of productivity. Individual parity, accountability and resultant empowerment and a perception of that changing can/will lead to human capital issues. Without significant planning and resultant actions over a number of years the potential merger is at risk from internal and external influences.

4.3.8 Financials

The estimated costs and savings of a merger of the two councils have been modelled with the results set out in the section below, with the detailed assumptions set out in Appendix B. The

NPV of the costs and savings is set out below and arise from the merger in comparison to the current operating costs of the combined councils.

The merged council is modelled on the basis of a combined base year where both council costs and revenues set out in the LTFP are brought together (2015), common assumptions are then modelled forward for increase in revenue and costs (2016). Overlaid are the costs and savings of the merger with Short (1 - 3 years), Medium (4 - 5 years) and Long Term (6 - 10 years) time horizons. For simplicity all transitional costs are modelled as taking place within the first three years.

Table 20 High level description of financial costs and savings arising from merger

Item	Short Term (1 – 3 years)		Medium term (4 – 5 years)		Long Term (6-10 years)	
	Cost	Benefit	Cost	Benefit	Cost	Benefit
Governance		Reduction in total cost of councillors				
Staff	Redundancy costs associated with senior staff Harmonisation	Reduction in total costs of senior staff	Increase in staff costs associated with typical increase in services and service levels from merger		Increase in staff costs associated with typical increase in services and service levels from merger	
Materials and Contracts		Savings from procurement and network level decisions over asset expenditure		Savings from procurement and network level decisions over asset expenditure		Savings from procurement and network level decisions over asset expenditure
IT	Significant costs to move to single IT system across entire council					Benefits arise from single IT system and decrease in staff
Assets		Rationalisation of plant and fleet		Rationalisation of plant and fleet		
Transitional Body	Establish council and structure, policies, procedures Branding and signage	Government grant				

Table 21 Summary of financial costs and savings [11][12]

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Governance		-94	-97	-100	-103	-106	-110	-113	-117
Staff									
-Redundancies		1,025	0	0	169	0	0	0	0
-Future growth		0	0	0	763	1,579	2,451	3,388	4,391
-Staff changes		217	224	231	-156	-161	-166	-172	-177
IT									
-Transition costs		1,500	500	0	0	0	0	0	0
-Long term benefits		0	0	0	0	0	249	257	266
Materials and Contracts		-109	-112	-116	-170	-175	-234	-242	-250
Assets									
-Plant and fleet		0	0	0	-532	0	0	0	0
-Buildings		0	0	0	0	0	0	0	0
Grants and Government Contributions		-5,000	0	0	0	0	0	0	0
Transitional Costs									
-Transitional body		1,500	0	0	0	0	0	0	0
- Rebranding		400	0	0	0	0	0	0	0
Total		-560	515	16	-29	1,136	2,190	3,118	4,113

The NPV of the costs and benefits over the period being modelled (2023[13]) has been calculated and set out below and indicate that there would be a net cost to the two councils and their communities from the merger.

[11] The table provides a simple representation of costs and benefits which in the modelling are subject to appropriate inflationary adjustments

[12] Costs are shown as negative positive numbers, benefits as negative numbers

Table 22 Summary of financial costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
$7,660.36	**$6,095.80**	**$4,881.24**

While the merged council has a number efficiencies modelled in over the short, medium and longer term the short term costs arising from the merger and the costs that arise in the medium term are not overcome by benefits in the medium and longer term and as a result the financial performance remains poor throughout the period being modelled. The trend over the period modelled is for the operating result (excluding grants and contributions for capital purposes) to steadily decrease and stay below the required benchmark for the Operating Performance Ratio.

Table 23 Summary of financial impacts of merger

Selected Councils Combined LTFP - 2014/15 Extrapolated	2013 (000s)	2014 (000s)	2015 (000s)	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)
Operating Results											
Income Statement **Source: Council Financial Statements and Long Term Financial Plan**	**2013 (000s)**	**2014 (000s)**	**2015 (000s)**	**2016 (000s)**	**2017 (000s)**	**2018 (000s)**	**2019 (000s)**	**2020 (000s)**	**2021 (000s)**	**2022 (000s)**	**2023 (000s)**
Rates & Annual Charges	53,715	60,506	65,382	67,343	69,364	71,445	73,588	75,796	78,070	80,412	82,824
User Fees & Charges	8,821	7,396	7,574	7,818	8,069	8,329	8,597	8,874	9,160	9,454	9,759
Grants & Contributions - Operations	14,756	12,924	11,998	16,804	12,075	12,353	12,637	12,927	13,225	13,529	13,840
Grants & Contributions for Capital	32,851	11,950	23,603	23,220	23,754	24,301	24,860	25,432	26,016	26,615	27,227
Interest and Investment Income	4,100	3,225	3,843	3,797	3,797	3,797	3,797	3,797	3,797	3,797	3,797
Gains from disposal assets	267	-	3,000	2,951	3,019	3,089	2,628	3,232	3,307	3,383	3,461
Other Income	4,320	3,001	2,492	2,452	2,508	2,566	2,625	2,685	2,747	2,810	2,875
Total Income	**118,830**	**99,002**	**117,892**	**124,385**	**122,586**	**125,878**	**128,731**	**132,743**	**136,321**	**139,999**	**143,782**
Income excl Gains\losses	118,563	99,002	114,892	121,433	119,567	122,790	126,103	129,510	133,014	136,616	140,321
Income excl Gains\losses & Capital Grants	85,712	87,052	91,289	98,213	95,813	98,489	101,243	104,079	106,997	110,002	113,094
Expenses											
Borrowing Costs	1,199	1,730	1,954	1,295	1,440	1,473	1,515	1,518	1,582	1,669	1,621
Employee Benefits	28,967	31,717	34,204	36,643	36,864	38,154	40,021	42,048	44,364	46,808	49,386
Gains & losses on disposal	504	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortisation	18,388	18,953	19,984	20,584	21,201	21,837	22,492	23,167	23,862	24,578	25,315
All other Expenses	35,938	36,527	39,492	43,874	42,188	42,938	44,176	45,501	47,061	48,472	49,926
Total Expenses	**84,996**	**88,927**	**95,634**	**102,397**	**101,693**	**104,403**	**108,204**	**112,233**	**116,868**	**121,527**	**126,249**
Operating Result	**33,834**	**10,075**	**22,258**	**21,988**	**20,893**	**21,476**	**20,527**	**20,510**	**19,452**	**18,472**	**17,533**
Operating Result before grants & contributions for capital purposes	**983**	**- 1,875**	**- 1,345**	**- 1,232**	**- 2,861**	**- 2,825**	**- 4,333**	**- 4,922**	**- 6,564**	**- 8,142**	**- 9,694**

[13] 2023 is the period being modelled to match the time covered by both council LTFPs

4.3.8.1 Rates

Given the differing rating structures among the councils it is difficult to model the impact of a merger on rate revenue and in particular the impacts on individual land owners. As a starting point the current rates for the two councils are set out below highlighting the existing differences as well as the different approaches.

Based on current rating undertaken by each council (2014/15 year), a merged council would have a rating revenue of $47.62m, with 89.2% being drawn from Maitland and the remaining 10.8% being drawn from Dungog.

Table 24 Comparison of total and average rating revenue

Rating Revenue	Maitland Council	Dungog Council
Total	$42.47 m	$5.15 m
Average residential rate	$1,417.12	$1,085.30
Average business rate	$5,605.82	$871.08
Average farmland rate	$2,902.09	$2,120.39
Average rates	1,417.12	1,085.30

When looking at the average rates paid under the different classifications in each council area, it appears that there are some significant differences, particularly with the business rates and to a lesser extent, the residential rates. However, in the case of the business rates, this is reflective of the differing natures of the two councils with the more urban, built up Maitland Council having more and larger businesses which would naturally attract a higher proportion of rates.

Figure 13 Current average rate (2014 - 15)

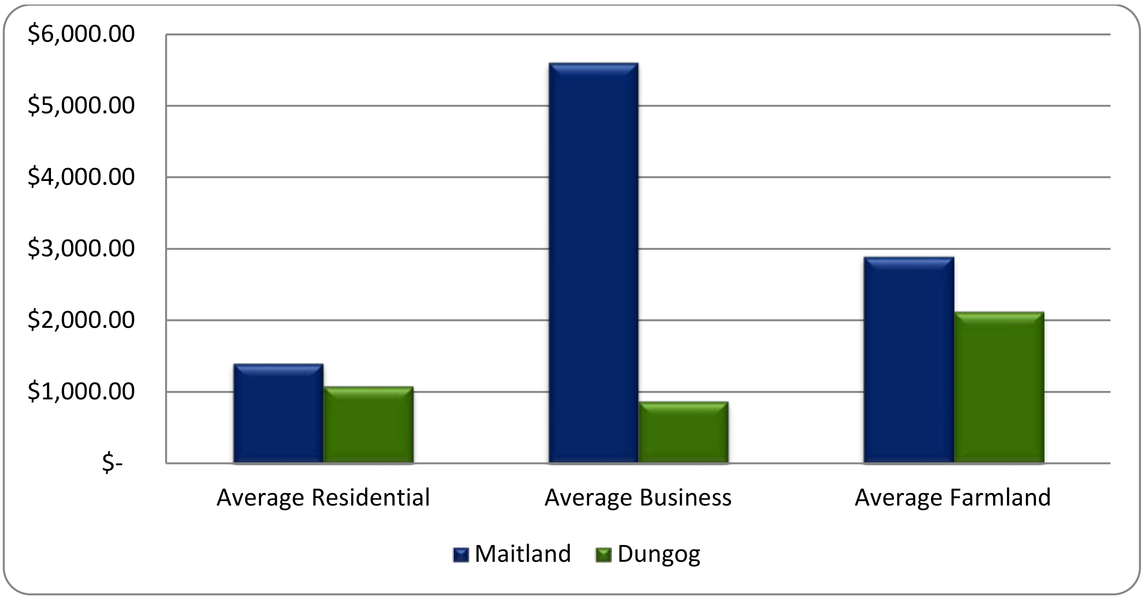


Table 25 Comparison of proportion of rates

Proportion of rates	Maitland Council	Dungog Council
Residential	71.6%	53.2%
Business	23.8%	6.2%
Farmland	4.6%	40.7%

The two councils draw the majority of their rates in different proportions of residential, business and farmland, which is reflective of the differing natures of their communities and economies. Proportionally, Dungog has a very limited contribution from business rates while almost equally sharing the remainder between residential and farmland rates. Whereas Maitland draws proportionally the majority of its rates from the residential sector rates and a proportionally higher business rate than Dungog with the remainder coming from farmland.

Figure 14 Maitland rates proportion

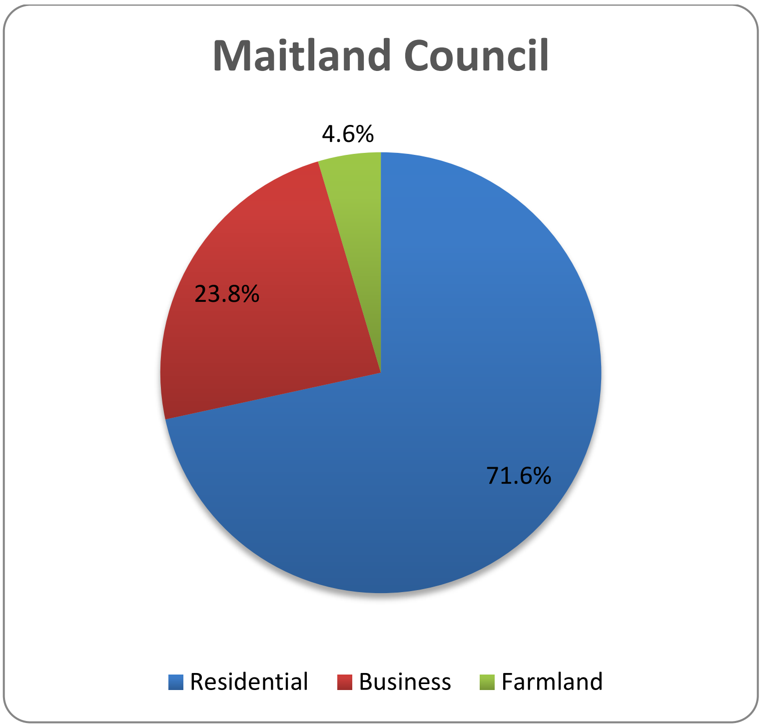
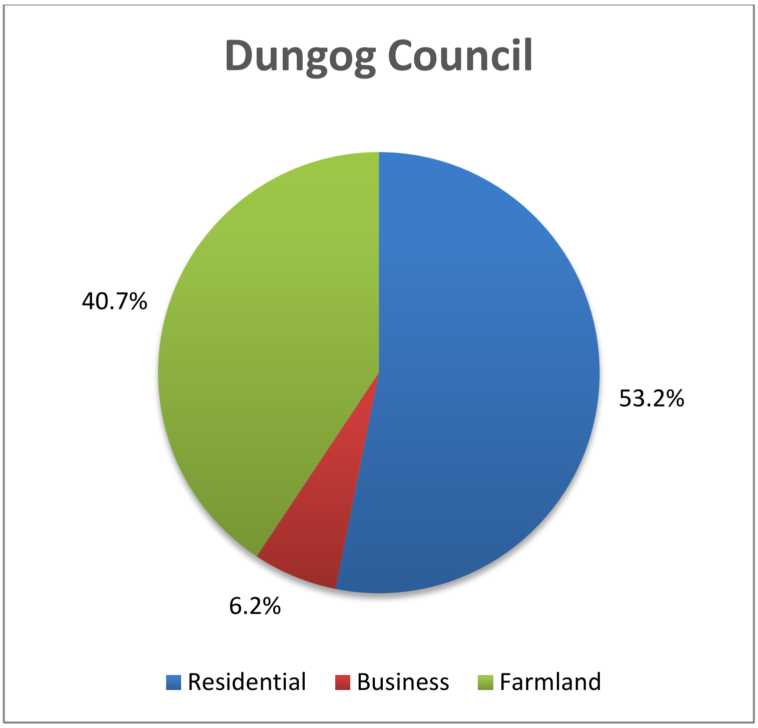


Figure 15 Dungog rates proportion



In order to provide information on what the potential impact of a merger on rates would be, representative examples have been modelled by redistributing the 2014/15 rates without adjusting the rating structures. Two scenarios have been used based on the total rate revenue (residential and business) of the two councils. In each scenario the total rates (residential, business or farmland) are apportioned across the two councils consistently. Scenario 1 is entirely ad valorem and Scenario 2 provides for a base charge to be set at the maximum level with the remainder ad valorem.

The key drivers are therefore land values and the differences in the way in which councils currently allocate rates between categories. The actual impact on any property or properties will be the result of the actual rating structure chosen by any new council and how quickly a merged council decided to adopt and then implement a single rating structure. Within each council area there will be individual properties that are affected in different ways by the changes due to categorisation and land valuation issues.

Analysis of potential changes in average rates indicate that in comparison the standard rate peg r (2.3% for 2014) there would be significant changes in rates across the two councils arising from a merger. The changes are described in the figures below by reference to a change from the 2014-15 rate and expressed as a percentage change.

Figure 16 Impact on average residential rates

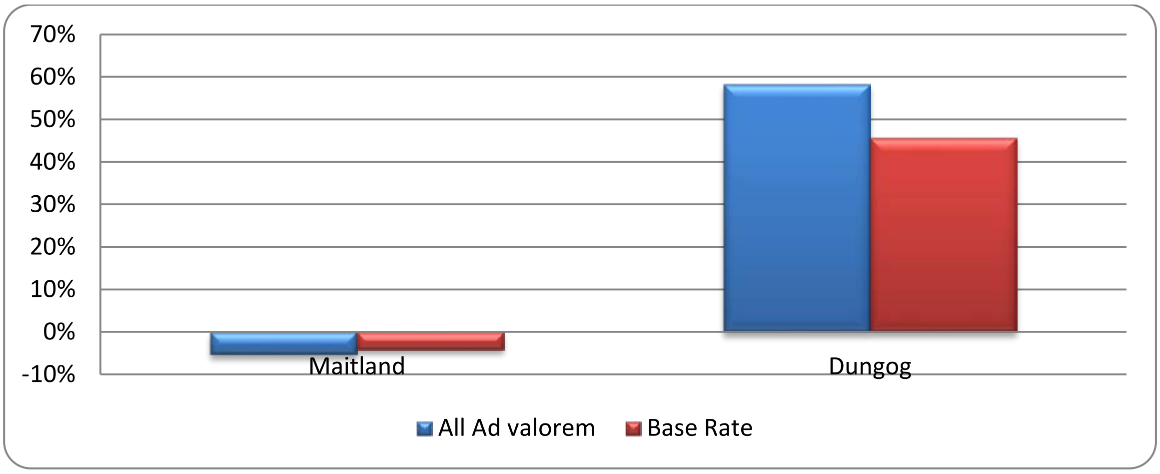


Figure 17 Impact on average business rates

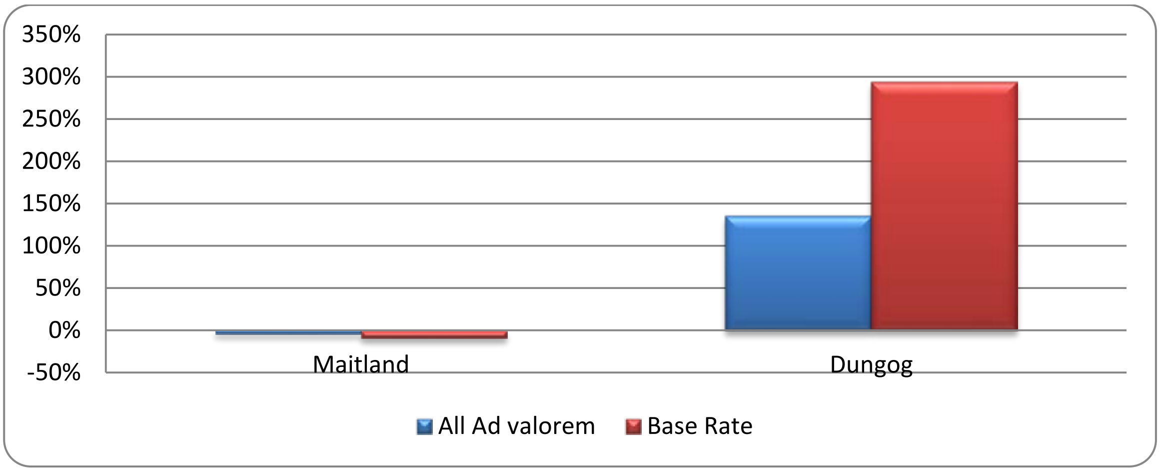
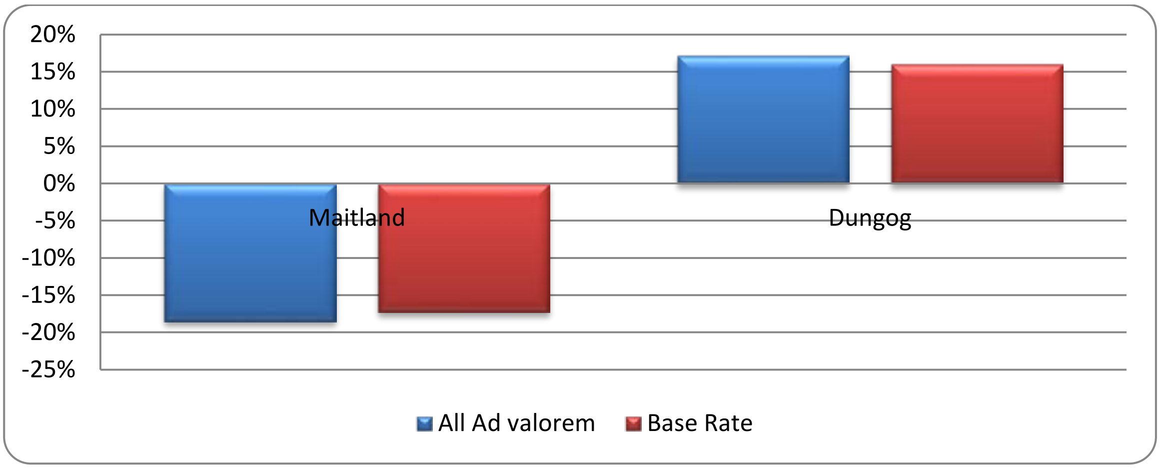


Figure 18 Impact on average farmland rates



4.3.8.2 Debt

Both councils carry comparatively low levels of debt which would be taken over by a merged council and both councils meet the Fit for the Future benchmarks debt servicing ratios, as does the merged council.

Table 26 Comparison of debt

Council	Debt ($000)	Debt Service Ratio	Debt per Capita ($)
Dungog Council	$891	1.2%	$103
Maitland Council	$21,545	3.1%	$281
Combined	$22,436	2.9%	$269

4.3.9 Scale and capacity

Scale

Scale has not been defined by the either the Independent Review Panel or the Office of Local Government. The government has asked each council to begin with the recommendation proposed by the Independent Review Panel as that is considered to be the appropriate scale and capacity for the council.

The ILGRP were of the view that "all Hunter councils appear financially sustainable, with the possible exception of Dungog" and "that Dungog council itself has reservations about its capacity to meet its infrastructure obligations in the medium term, and an updated sustainability assessment needs to be undertaken as soon as possible. That assessment should consider the option of merging Dungog with Maitland." It was the view of the ILGRP that a merger would meet these tests. It remains therefore for the Councils to satisfy the capacity tests as identified by the panel if they choose not to merge.

In the case of Dungog it may be difficult, given the size of the council and the population it serves to meet the government's test around scale and capacity on its own all the ILGRP indicate it potentially does. Maitland arguably can make a stronger case as the merger (which meets scale and capacity) makes less of an impact for Maitland than for Dungog when considered against the key aspects of scale and capacity.

Capacity

The panel report articulated the Key Elements of Strategic Capacity as follows.[14]

[14] Box 8, Page 32 of Revitalising Local Government

Figure 19 Scale and capacity

Box 8: Key Elements of Strategic Capacity

- More robust revenue base and increased discretionary spending
- Scope to undertake new functions and major projects
- Ability to employ wider range of skilled staff
- Knowledge, creativity and innovation
- Advanced skills in strategic planning and policy development
- Effective regional collaboration
- Credibility for more effective advocacy
- Capable partner for State and federal agencies
- Resources to cope with complex and unexpected change
- High quality political and managerial leadership.

The performance of the merger options against each of the key elements is set out in the following table. The assumption is that in a strict application of capacity each council on its own does not meet the capacity elements because each council was put into a potential merger group by the Independent Review Panel. We have also noted the extent to which there is any real change from the status quo when the criteria are compared to a single council. We note the degree of change for Dungog is likely to be far greater in some of the tests than it is for Maitland.

Table 27 Scale and capacity in the merged councils

Criteria	Merged Council	Degree of change
More robust revenue base and increased discretionary spending	Yes	Limited change
Scope to undertake new functions and major projects	Yes	Limited change
Ability to employ wider range of skilled staff	Yes	Limited change
Knowledge, creativity and innovation	Yes	Limited change
Effective regional collaboration	Yes	Limited change
Credibility for more effective advocacy	Yes	Limited change
Capable partner for state and federal agencies	Yes	Limited change
Resources to cope with complex and unexpected change	Yes	Limited change
High quality political and managerial leadership	Yes	No change

4.3.10 Indicators

A merged council would meet four of the indicators from day one; Own Source Revenue, Debt Service Cover, Asset Renewal and Real Operating Expenditure Ratios.

Of the other three measures:

- The Operating Performance Ratio steadily declines from -3.8% on day one of the merger down to -10.5% in 2023, well below the required benchmark of being greater or equal to break-even averaged over three years
- The Asset Maintenance Ratio remains steady at an average of 77% throughout the period modelled, well below the required benchmark of greater than 100% average over three years
- The Infrastructure Backlog steadily declines from a high of 4.6% in 2015, going below the benchmark requirement of less than 2%, in the final year modelled, 2023 when it reaches 1.8%

Table 28 Summary of merged council using Fit for the Future indicators

Indicator	At Day One	Over Modelling Period
Operating Performance	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Meets the benchmark	Meets the benchmark
Infrastructure Backlog	Does not meet the benchmark	Meets benchmark from 2023
Real Operating Expenditure	Meets the benchmark	Meets the benchmark

Figure 20 Merged council operating performance ratio

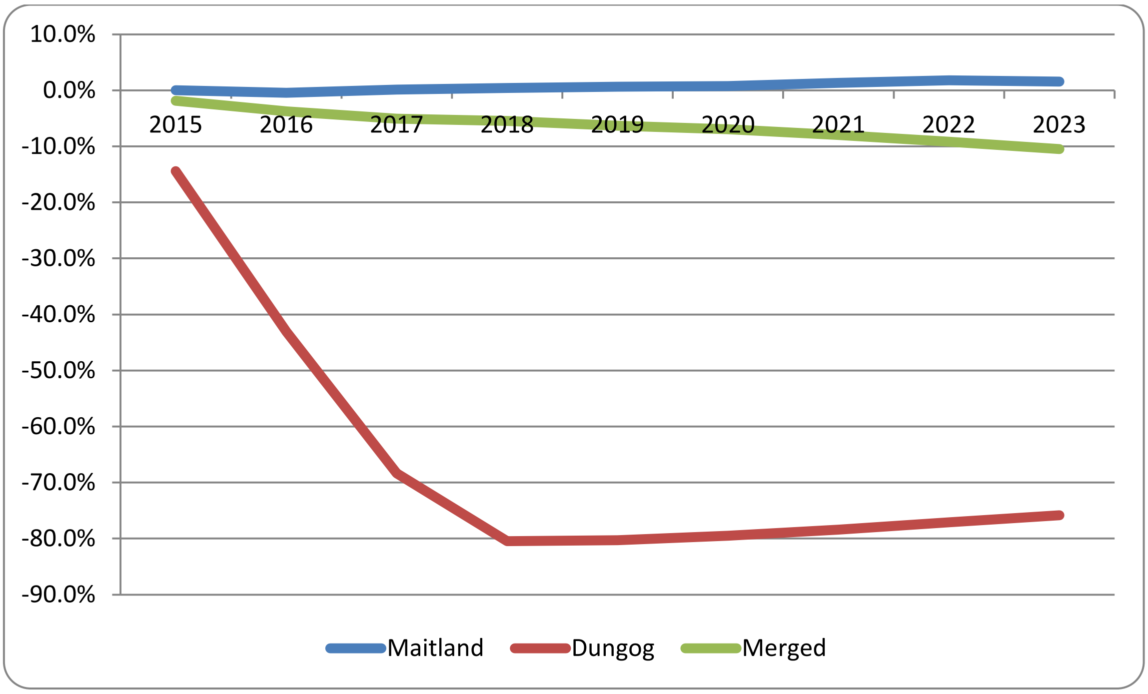


Figure 21 Merged council own source revenue

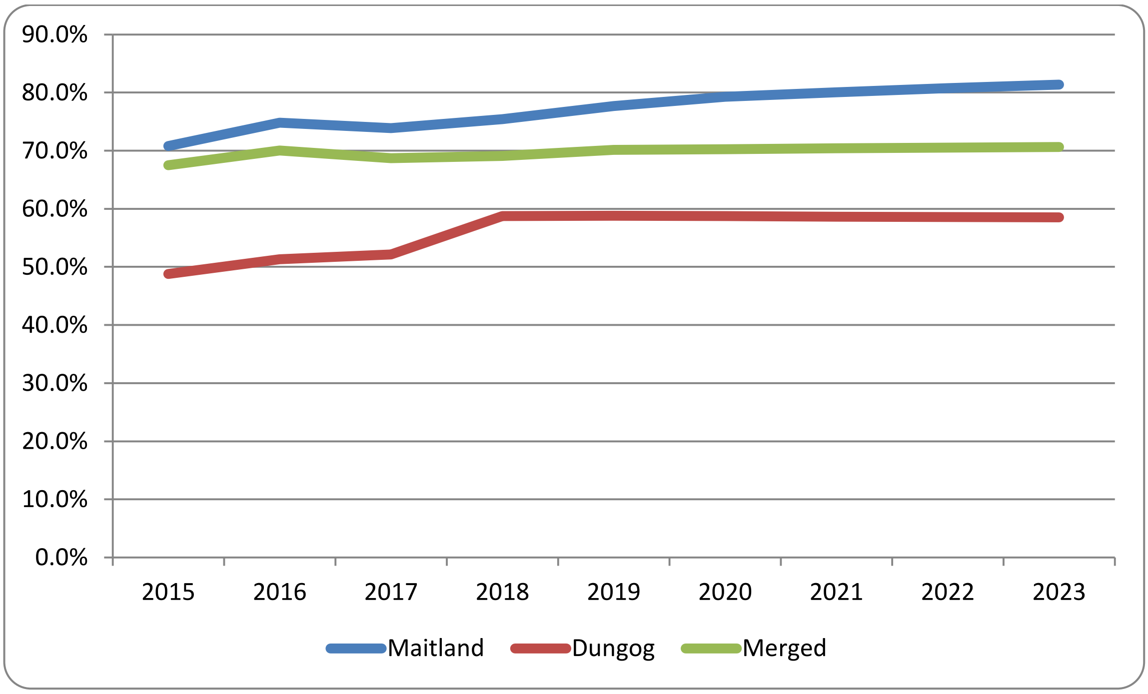


Figure 22 Merged council debt service ratio

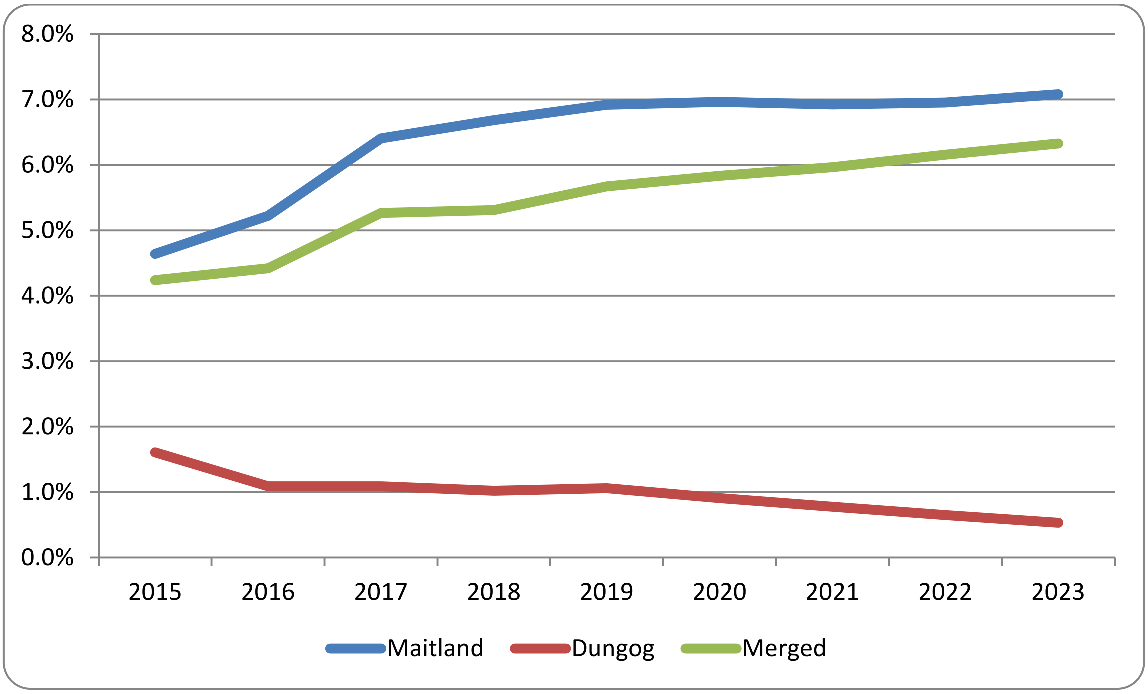


Figure 23 Merged council asset renewal ratio

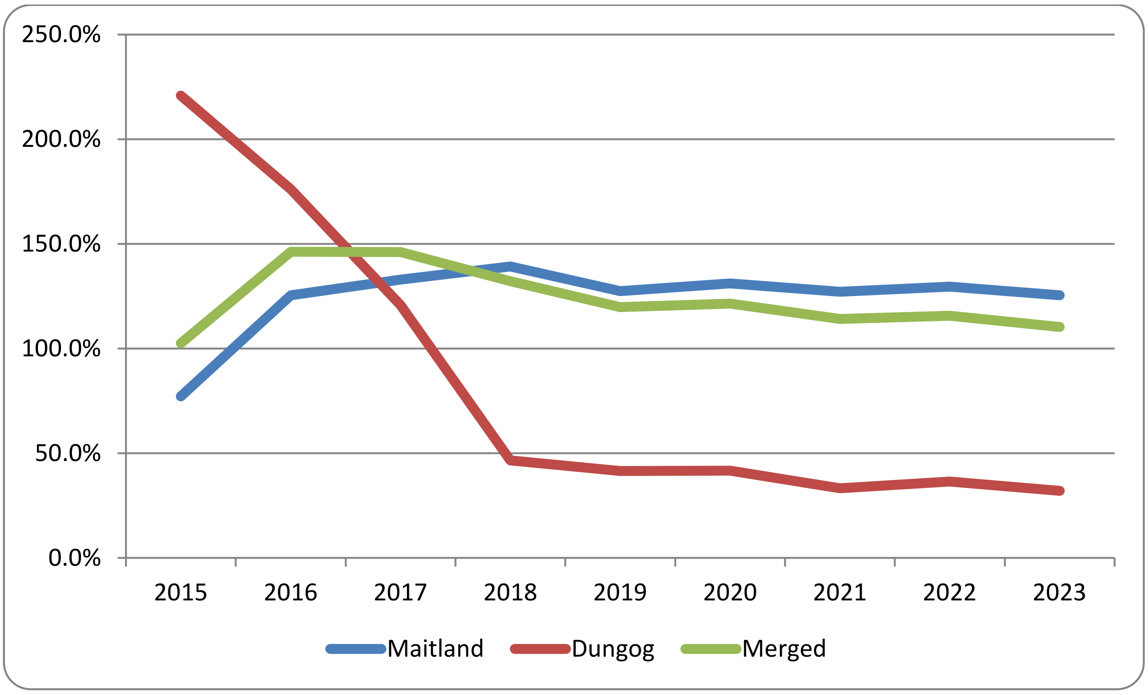


Figure 24 Merged council infrastructure backlog ratio

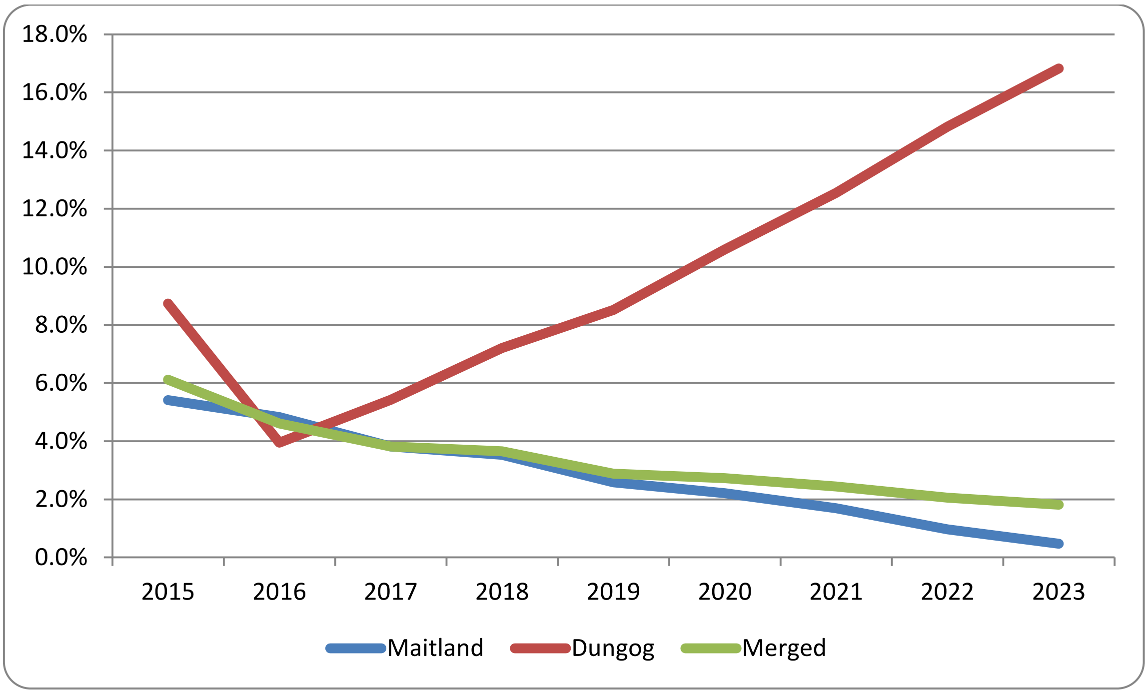


Figure 25 Merged council asset maintenance ratio

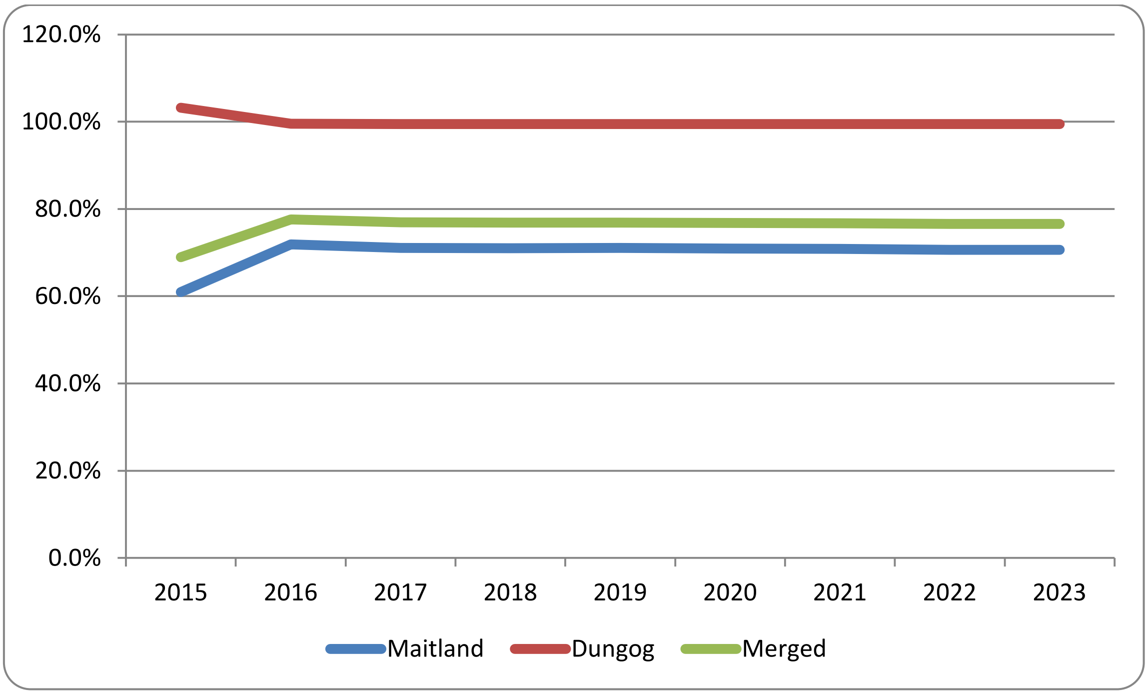
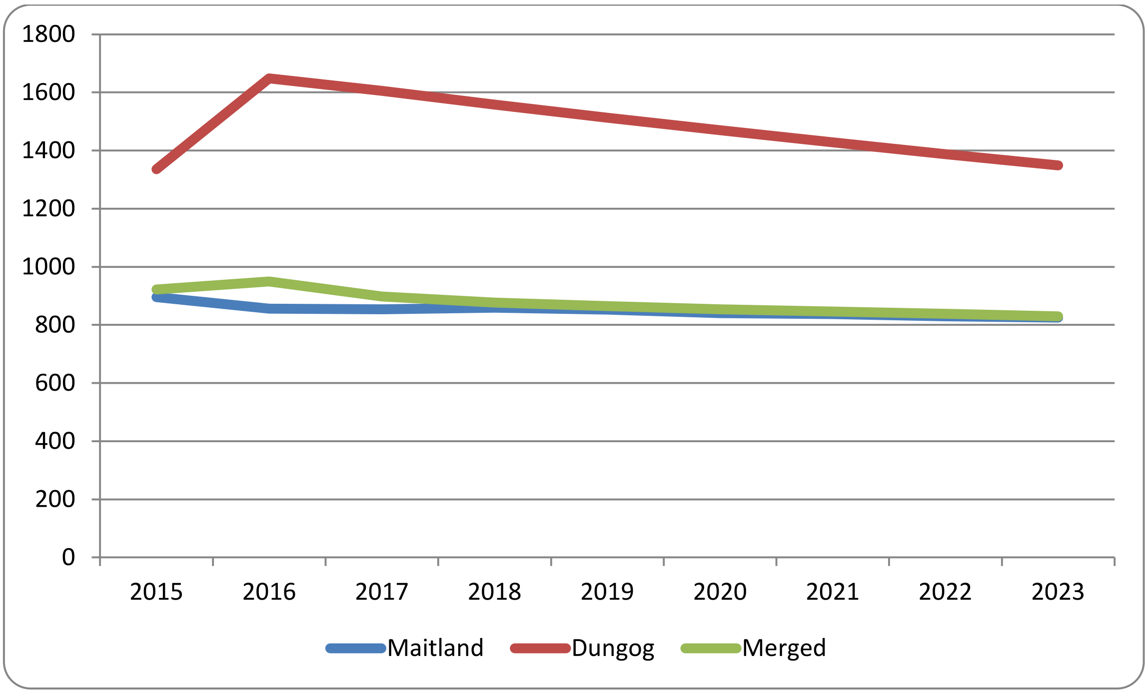


Figure 26 Merged council real operating expenditure



4.3.10.1 Asset maintenance

The same approach to the calculation of required annual maintenance used for each individual council was applied to a merged council to identify what, if any, gap in maintenance expenditure would exist. For the purposes of the modelling it is assumed that the combined expenditure on maintenance for the merged council is the total of the existing/predicted maintenance budgets.

In the case of the merged council, there is a gap with the estimated requirements being almost 33% more than the actual annual maintenance figures. With the merged council, this is not unexpected given that both individual councils also did not meet this measure.

For simplicity, the figures in the table below are presented as an average of the years projected in each council's LTFP while the model projects actual expenditure year by year.

Table 29 Merged council asset maintenance funding gap

Council	Actual Annual Maintenance ($000)	Estimated Required Maintenance ($000)	Gap ($000)
Merged Council	10,941	14,256	-3,315

4.3.10.2 Asset Renewal

The required annual renewal expenditure for the merged council is based on the combined calculation of the depreciation on building and infrastructure assets. For the purposes of the modelling it is assumed that the combined expenditure on building and infrastructure renewals for the merged council is the total of the existing/predicted renewal budgets for these assets.

For simplicity, this is presented as an average of the years projected in each council's LTFP while the model projects actual expenditure year by year.

Table 30 Merged council asset renewal funding gap

Council	Average predicted annual renewals ($000)	Average required annual renewals ($000)	Gap ($000)
Merged Council	19,826	16,781	3,045

While Dungog is showing significant under-funding for this benchmark on its own, given that Maitland exceeds this benchmark by a comfortable margin, the resultant merged council would have a surplus based on our modelling of this benchmark measure. In order to reduce the infrastructure backlog, we have then calculated what the merged council would need to spend on additional renewals (i.e. over and above maintaining a 100% asset renewal ratio) to reduce the backlog ratio to the benchmark within five years and set that out in the table below.

For simplicity, this is presented as an average of the years projected in each council's LTFP while the model projects actual expenditure year by year.

Table 31 Merged council renewal funding gap

Council	Cost to satisfactory ($000)	Target Backlog ($000)	Reduction Required ($000)	Per year (5 years) ($000)
Merged Council	41,313	17,937	-23,377	-4,675

4.3.10.3 Funding shortfall

Table 32 Merged council asset funding gap

Council	Asset Maintenance ($000)	Renewals ($000)	Infrastructure Backlog ($000)	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Merged Council	-3,315	3,045	-4,675	-4,945	-270

4.3.11 Operating performance

The operating result of the merged council (calculated on the same basis as the operating performance ratio and so excluding capital grants and contributions) has been reviewed and the merged council has a deficit of operating revenue over operating expenses, as identified below which would need to be addressed by the merged council. For simplicity, this is presented as an average of the years projected in each council's LTFP.

Table 33 Operating performance funding gap

Council	Gap ($000)
Merged Council	-5,072

4.3.12 Costs and savings of the merger

The costs and savings of the merger arise throughout the period being modelled. The costs and savings should not be considered in isolation. They only form part of the information on which a decision should be made and in particular they should be considered in conjunction with the infrastructure funding gap identified above.

Transition costs in the context of the two councils are a significant cost in the early and mid-periods of the newly merged council and arise from costs associated with creating the single entity (structure, process, policies, systems and branding), redundancy costs and the implementation of a single IT system. In the case of Dungog and Maitland, Maitland have invested in a new purpose built IT system that can accommodate Dungog with little further investment. Longer term costs continue to rise as staff numbers increase, which is typical of merged councils and are considered to arise as a result of increased services and service levels

Savings initially arise in the short term through the reduction in the number of senior staff and Councillors. These are minor. Our research has confirmed analysis by the councils themselves that current staff numbers are comparably low and therefore no reduction of staff below tier 1 and 2 is likely. Procurement and operational expenditure savings are also expected due to the size and increased capacity of the larger council but again these are small given the increase in size is modest. In the medium and longer term savings continue to arise.

Overall, the modelling projects a net total cost over the eight years to the two councils arising from the merger as set out in the table below.

Table 34 Summary of costs and savings

NPV at 4%	NPV at 7%	NPV at 10%
$7,660.360	$6,095,800	$4,881,240

4.3.13 Risks arising from merger

There are significant potential risks arising from the merger both in a financial and non-financial sense. The obvious financial risks are that the transitional costs may be more significant than set out in the business case or that the efficiencies projected in the business case are not delivered. The business case is high level and implementation costs and attaining the savings will be difficult to achieve.

If, for example, the council chooses not to follow through with the projected efficiencies, this will affect the financial viability of the merged council. Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

Careful consideration of the issue of cultural integration will be required and the most consistent remedy to these particular risks is in our view strong and consistent leadership. Corporate culture misalignment during the post-merger integration phase often means the employees will dig in, form cliques, and protect the old culture. In addition to decreased morale and an increased staff turnover rate, culture misalignment reduces business performance. It also prolongs the time it takes for the predicted efficiencies to be achieved.

The integration of services with differing service levels often leads to standardising those service levels at the highest level of those services that are being integrated. This is quite often a response to a natural desire to deliver the best possible services to communities as well as the need to balance service levels to community expectations across the whole area. However it does pose the risk of increased delivery costs and/or lost savings opportunities. Similarly, introducing services that are not currently delivered in one or more of the former council areas to the whole of the new council area will incur additional costs.

Alongside these typical risks arising from a merger any reduced financial performance would be likely to lead to the new council having to review services and service levels to seek significant further efficiency gains and/or increase rates to address the operating deficit.

5. CONCLUSIONS

The government has made it clear that the starting point for every council is scale and capacity. Based on the Independent Panel position, it appears that their view was that scale and capacity for each of the two councils arises through a merger with each other.

Individually, each Council achieves only some of the governments Fit for the Future benchmarks.

5.1 Meeting the benchmarks

While Maitland has an operating surplus, in order to meet all of the Fit for the Future benchmarks both councils will still need to increase revenue and/or a decrease costs to address the short and longer term infrastructure issues.

The table below identifies the extent of the funding gap to address the infrastructure benchmarks of asset renewal and maintenance ratios and to bring the infrastructure backlog[15] to the benchmark of 2% within five years. After that the funding gap diminishes for each council in order to satisfy only the renewals and maintenance ratios.

Table 35 Summary of infrastructure funding gap

Council	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Dungog Council	-4,509	-1,927
Maitland Council	-4,016	709

The table below shows the average annual surplus (for Maitland) and deficit (for Dungog) of operating revenue over operating expenditure (as per the Operating Performance Ratio guidelines) over the time period within each council's LTFP.

[15] Based on condition 3 being satisfactory and as calculated using the Morrison Low methodology

Table 36 Operating performance funding gap

Council	Average gap ($000)
Dungog Council	-8,201
Maitland Council	832

5.2 Merged council

5.2.1 Scale and capacity

Based on the Independent Panel position, it appears both councils may satisfy the scale and capacity criteria in their own right but that sustainability, scale and capacity for Dungog arises through a merger.

In the case of Dungog it may be difficult, given the size of the council and the population it serves to meet the government's test around capacity on its own but that is something for the council to assess. Maitland arguably can make a stronger case as the merger (which meets scale and capacity) makes less of an impact for it than for Dungog when considered against the key aspects of scale and capacity.

5.2.2 Fit for the Future benchmarks

The merged council is the sum of its parts. This means that the asset and financial positon of each council directly contributes to the overall asset and financial position of the merged council.

The asset focus of the Fit for the Future benchmarks means that like the individual councils, the merged council meets only one of the asset related benchmarks over the period modelled. While a merged council would meet the asset renewal ratio benchmark, a funding gap in order to address the asset maintenance and infrastructure backlog ratios exists which is set out in the table below.

Table 37 Merged council asset funding gap

Council	Average funding required per annum (5 years) ($000)	Average funding required per annum (5 years+) ($000)
Merged Council	-4,945	-270

The transitional costs identified throughout this report and the financial performance of the two councils combined means the operating performance ratio is negative from day one and while some efficiency benefits have been modelled in arising through the merger these are not sufficient to improve the financial performance of the council.

The trend over the period modelled is for the operating result (excluding grants and contributions for capital purposes) to stay below the required benchmark for the Operating Performance Ratio decreasing over the period modelled.

A merged council would meet four of the indicators from day one; Own Source Revenue, Debt Service Cover, Asset Renewal and Real Operating Expenditure Ratios.

Of the other three measures:

- the Operating Performance Ratio steadily declines from -3.8% on day one of the merger down to -10.5% in 2023, well below the required benchmark of being greater or equal to break-even averaged over three years
- the Asset Maintenance Ratio remains steady at an average of 77% throughout the period modelled, well below the required benchmark of greater than 100% average over three years
- the Infrastructure Backlog steadily declines from a high of 4.6% in 2015, going below the benchmark requirement of less than 2%, in the final year modelled, 2023 when it reaches 1.8%.

Table 38 Summary of merged council using Fit for the Future indicators

Indicator	At Day One	Over Modelling Period
Operating Performance	Does not meet the benchmark	Does not meet the benchmark
Own Source Revenue	Meets the benchmark	Meets the benchmark
Debt Service Cover	Meets the benchmark	Meets the benchmark
Asset Maintenance	Does not meet the benchmark	Does not meet the benchmark
Asset Renewal	Meets the benchmark	Meets the benchmark
Infrastructure Backlog	Does not meet the benchmark	Meets the benchmark from 2023
Real Operating Expenditure	Meets the benchmark	Meets the benchmark

5.2.3 Debt

Both councils carry low levels of debt which would be taken over by a merged council and both councils meet the Fit for the Future benchmarks debt servicing ratios, as does the merged council.

5.2.4 Rates

Modelling the changes in rates in a merger is very difficult to do with any degree of accuracy. Presently there are a number of significant differences in the rating systems of the councils which impact on the rates charged to an individual property.

Table 39 Comparison of proportion of rates

Proportion of rates	Maitland Council	Dungog Council
Residential	71.6%	53.2%
Business	23.8%	6.2%
Farmland	4.6%	40.7%

Changes to the average business, residential and farmland rates are modelled using an entirely ad valorem and then a base rate scenario to represent a range of potential impacts that could be expected, with the results showing the percentage movement for each category shown in the table below.

Table 40 Merged council modelled rating impacts

	Maitland (ad valorem)	Maitland (base rate)	Dungog (ad valorem)	Dungog (base rate)
Residential	-5%	-4%	58%	46%
Business	-4%	-9%	136%	294%
Farmland	-18%	-17%	17%	16%

5.2.5 Environment and community aspirations

In terms of the natural environment both councils have clearly stated policies around the environment with both looking to protect and enhance the attributes of the natural environment that are important in their local government areas, particularly those of national significance.

Both councils look to protect their built environments, with Maitland focussing on planning for and protecting human-made resources of Maitland while Dungog protecting their built heritage, particularly items and areas of heritage significance.

Maitland's LEP looks to achieve a variety of growth related outcomes around sustainable and orderly development, diversity of housing and minimisation of risks from natural hazards, while Dungog's seeks to promote sustainable development, protect agricultural lands by preventing land use conflict, provide for housing choice and strengthen important economic sectors. Both councils appear to have flexible residential land use policies indicating an accommodative approach overall.

5.2.6 Representation

Assuming a merged council has less councillors overall, compared to the present thirteen for Maitland and nine for Dungog Council, the number of people represented by each councillor would increase for both areas, significantly in the case of Dungog.

5.2.7 Community profile and communities of interest

The local government areas of Maitland and Dungog have some similar features, and some differences, many of which reflect the different natures of the areas, Dungog being a more rural shire, with Maitland a more urbanised area. There are a number of similarities between the council areas. These include:

- full time employment makes up the majority of employment across the regions, but participation in the labour market is an issue across the two council areas
- the percentage of Indigenous Australians in each community sits just above the State average
- English proficiency is high, and there is a very low level of people born in countries other than Australia across the region
- the most common qualification across both councils post-school is certificate level
- household types are consistent across the two LGAs
- both areas have SEIFA scores above the New South Wales average.

However a number of differences can also be observed:

- The age profile shows some differences, with Dungog showing an older population that Maitland, particularly over 45 years
- Population growth, while positive in both regions is very strong in Maitland at nearly 44%, as compared to Dungog at only 2.8% in the out years
- Political representation is different across the two regions, with Maitland represented by the Labor party at the State and Federal level, and Dungog the Nationals and Liberal party

5.2.8 Potential risks

The restructuring of any business activity is always a source of potential risk and the merging of council organisations is no exception. A proper risk assessment and mitigation process is an essential component of any structured merger activity.

Notwithstanding the above, this report is not intended to incorporate or deliver a detailed risk management strategy for any merger of the councils. However it is possible to at least identify the major risks involved in the process from a strategic perspective.

Subsequent events and policy decisions

The primary risk is that the efficiencies projected in the business case are not delivered. This can occur for a variety of reasons however the highest risk is that subsequent events are inconsistent with the assumptions or recommendations made during the process.

Those events may arise from regulatory changes between analysis and delivery or subsequent policy decisions about service levels or priorities. As an example, a policy decision to adopt a ‘no forced redundancies’ position after the statutory moratorium expires is unlikely to deliver on the financial savings proposed.

Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

APPENDIX A Fit For The Future Benchmarks[16]

Operating Performance Ratio

$$\frac{\textit{Total continuing operating revenue (exc. capital grants and contributions) less operating expenses}}{\textit{Total continuing operating revenue (exc. capital grants and contributions)}}$$

Description and Rationale for Criteria:

TCorp in their review of financial sustainability of local government found that operating performance was a core measure of financial sustainability.

Ongoing operating deficits are unsustainable and they are one of the key financial sustainability challenges facing the sector as a whole. While operating deficits are acceptable over a short period, consistent deficits will not allow Councils to maintain or increase their assets and services or execute their infrastructure plans.

Operating performance ratio is an important measure as it provides an indication of how a Council generates revenue and allocates expenditure (e.g. asset maintenance, staffing costs). It is an indication of continued capacity to meet on-going expenditure requirements.

Description and Rationale for Benchmark:

TCorp recommended that all Councils should be at least break even operating position or better, as a key component of financial sustainability. Consistent with this recommendation the benchmark for this criteria is greater than or equal to break even over a 3 year period.

Own Source Revenue Ratio

$$\frac{\textit{Total continuing operating revenue less all grants and contributions}}{\textit{Total continuing operating revenue inclusive of capital grants and contributions}}$$

Description and Rationale for Criteria:

Own source revenue measures the degree of reliance on external funding sources (e.g. grants and contributions). This ratio measures fiscal flexibility and robustness. Financial flexibility increases as the level of own source revenue increases. It also gives councils greater ability to manage external shocks or challenges.

Councils with higher own source revenue have greater ability to control or manage their own operating performance and financial sustainability.

16 Office of Local Government Fit for the Futre Self-Assessment Tool

Description and Rationale for Benchmark:

TCorp has used a benchmark for own source revenue of greater than 60 per cent of total operating revenue. All Councils should aim to meet or exceed this benchmark over a three year period.

It is acknowledged that many councils have limited options in terms of increasing its own source revenue, especially in rural areas. However, 60 per cent is considered the lowest level at which councils have the flexibility necessary to manage external shocks and challenges.

Debt Service Ratio

$$\frac{\textit{Cost of debt service (interest expense \& principal repayments)}}{\textit{Total continuing operating revenue (exc. capital grants and contributions)}}$$

Description and Rationale for Criteria:

Prudent and active debt management is a key part of Councils' approach to both funding and managing infrastructure and services over the long term.

Prudent debt usage can also assist in smoothing funding costs and promoting intergenerational equity. Given the long life of many council assets it is appropriate that the cost of these assets should be equitably spread across the current and future generations of users and ratepayers. Effective debt usage allows councils to do this.

Inadequate use of debt may mean that councils are forced to raise rates that a higher than necessary to fund long life assets or inadequately fund asset maintenance and renewals. It is also a strong proxy indicator of a council's strategic capacity.

Council's effectiveness in this area is measured by the Debt Service Ratio.

Description and Rationale for Benchmark:

As outlined above, it is appropriate for Councils to hold some level of debt given their role in the provision and maintenance of key infrastructure and services for their community. It is considered reasonable for Councils to maintain a Debt Service Ratio of greater than 0 and less than or equal to 20 per cent.

Councils with low or zero debt may incorrectly place the funding burden on current ratepayers when in fact it should be spread across generations, who also benefit from the assets. Likewise high levels of debt generally indicate a weakness in financial sustainability and/or poor balance sheet management.

Asset Maintenance Ratio

$$\frac{\textit{Actual asset maintenance}}{\textit{Required asset maintenance}}$$

Description and Rationale for Criteria:

The asset maintenance ratio reflects the actual asset maintenance expenditure relative to the required asset maintenance as measured by an individual council.

The ratio provides a measure of the rate of asset degradation (or renewal) and therefore has a role in informing asset renewal and capital works planning.

Description and Rationale for Benchmark:

The benchmark adopted is greater than one hundred percent, which implies that asset maintenance expenditure exceeds the council identified requirements. This benchmark is consistently adopted by the NSW Treasury Corporation (TCORP). A ratio of less than one hundred percent indicates that there may be a worsening infrastructure backlog.

Given that a ratio of greater than one hundred percent is adopted, to recognise that maintenance expenditure is sometimes lumpy and can be lagged, performance is averaged over three years.

Building and Infrastructure Renewal Ratio

$$\frac{\textit{Asset renewals (building and infrastructure)}}{\textbf{Depreciation, amortisation and impairment (building and infrastructure)}}$$

Description and Rationale for Criteria:

The building and infrastructure renewals ratio represents the replacement or refurbishment of existing assets to an equivalent capacity or performance, as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance. The ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration.

This is a consistent measure that can be applied across councils of different sizes and locations. A higher ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

Performance of less than one hundred percent indicates that a Council's existing assets are deteriorating faster than they are being renewed and that potentially council's infrastructure backlog is worsening. Councils with consistent asset renewals deficits will face degradation of building and infrastructure assets over time.

Given that a ratio of greater than one hundred percent is adopted, to recognise that capital expenditures are sometimes lumpy and can be lagged, performance is averaged over three years.

Infrastructure Backlog Ratio

$$\frac{\textit{Estimated cost to bring assets to a satisfactory condition}}{\textit{Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets}}$$

Description and Rationale for Criteria:

The infrastructure backlog ratio indicates the proportion of backlog against the total value of the Council's infrastructure assets. It is a measure of the extent to which asset renewal is required to maintain or improve service delivery in a sustainable way. This measures how councils are managing their infrastructure which is so critical to effective community sustainability.

It is acknowledged, that the reliability of infrastructure data within NSW local government is mixed. However, as asset management practices within councils improve, it is anticipated that infrastructure reporting data reliability and quality will increase.

This is a consistent measure that can be applied across councils of different sizes and locations. A low ratio is an indicator of strong performance.

Description and Rationale for Benchmark:

High infrastructure backlog ratios and an inability to reduce this ratio in the near future indicate an underperforming Council in terms of infrastructure management and delivery. Councils with increasing infrastructure backlogs will experience added pressure in maintaining service delivery and financing current and future infrastructure demands.

TCorp adopted a benchmark of less than 2 per cent to be consistently applied across councils. The application of this benchmark reflects the State Government's focus on reducing infrastructure backlogs.

Reduction in Real Operating Expenditure

Description and Rationale for Criteria:

At the outset it is acknowledged the difficulty in measuring public sector efficiency. This is because there is a range of difficulty in reliably and accurately measuring output.

The capacity to secure economies of scale over time is a key indicator of operating efficiency. The capacity to secure efficiency improvements can be measured with respect to a range of factors, for example population, assets, and financial turnover.

It is challenging to measure productivity changes over time. To overcome this, changes in real per capita expenditure was considered to assess how effectively Councils:

- can realise natural efficiencies as population increases (through lower average cost of service delivery and representation); and
- can make necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs).

Assuming that service levels remain constant, decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Description and Rationale for Benchmark:

The measure 'trends in real expenditure per capita' reflects how the value of inflation adjusted inputs per person has grown over time. In the calculation, the expenditure is deflated by the Consumer Price Index (for 2009-11) and the Local Government Cost Index (for 2011-14) as published by the Independent Pricing and Regulatory Tribunal (IPART). It is acknowledged that efficiency and service levels are impacted by a broad range of factors, and that it is unreasonable to establish an absolute benchmark across Councils. It is also acknowledged that council service levels are likely to change for a variety of reasons however, it is important that councils prioritise or set service levels in conjunction with their community, in the context of their development of their Integrated Planning and Reporting.

Councils will be assessed on a joint consideration of the direction and magnitude of their improvement or deterioration in real expenditure per capita. Given that efficiency improvements require some time for the results to be fully achieved and as a result, this analysis will be based on a 5-year trend.

APPENDIX B Costs and Benefits Arising from a Merger of the Maitland and Dungog Councils – Detailed Assumptions

Costs and benefits identified below form the basis of the modelling referred to throughout the report. Costs outlined below are one off unless stated otherwise whereas benefits continue to accrue each year unless stated otherwise.

Assumptions have been made using the best available information including analysis of various reports on and estimates of merger costs in other similar situations. This has been supplement with professional opinion of Morrison Low staff based on experience including with the Auckland Transition Authority.

Queensland Treasury Corporation August 2009 Report

In an August 2009 report[17] from the Queensland Treasury Corporation reporting on costs associated with the amalgamation of the Western Downs Regional Council, the report said:

> *A net cost outcome in the first local government term is likely, as local governments will incur most of their amalgamation costs prior to, and in the two to three years subsequent to, amalgamation. These costs then taper off. However, the savings resulting from amalgamation are likely to gradually increase over time through:*
>
> - *Greater efficiency (i.e., a reduction in costs through improved economies of scale)*
> - *Improved decision making capability, and*
> - *Improved capacity to deliver services.*
>
> *While Western Downs only identified minor potential future benefits, it is likely that benefits will be generated from a reduction in CEO wages, natural attrition and procurement efficiencies etc., while providing existing services at current service standards. It is noted that Western Downs has been able to extend the delivery of certain services across the local government area.*

Queensland Treasury also provided comment on the reality that local government is different from businesses and that it can be difficult to measure benefits from mergers on a commercial basis:

> *Businesses generally undertake amalgamations and mergers on the basis of a number of factors such as cost savings, increased market share, improved synergies and improved decision making capability. Generally, these factors are measured in the context of reduced staff numbers, reduced operating costs, improved profitability, increased market share and higher share prices.*
>
> *With local government these benefits are more difficult to measure as local governments may utilise savings achieved from improved economies of scale to increase the range and/or to improve the quality of services offered. As a consequence, the cost savings of amalgamation of local governments do not generally show up as improved profitability (i.e., operating surpluses). Similarly, improved decision making capability results in more effective decisions and better outcomes to residents but may not be reflected in a local government's bottom line. This is because local governments, unlike the private sector, are not in the*

[17] Queensland Treasury Corporation - Review of Amalgamation Costs Funding Submission of Western Downs Regional Council, August 2009

business of making profits. Therefore, it is more difficult to measure the cost savings resulting from amalgamation of local governments than it is for corporations, as the benefits will generally be utilised by the amalgamated local government in the provision of services.

Alan Morton in his report titled Outcomes from Major Structural Change of Local Government, which was released in July 2007, estimated administrative cost savings from the Cairns, Ipswich and Gold Coast amalgamations of 1992/93 were between 1.1 per cent and 3.1 per cent. The report also stated that the South Australian Government estimated savings of 3.0 per cent to 5.0 per cent of expenditure resulting from amalgamation.

These estimates focused on administrative efficiency rather than the outcomes achieved through improved local government decision-making capability. A potential measure of improved local government capability is ratepayer satisfaction. Alan Morton, together with the company Market Facts, undertook a survey of ratepayers of the five amalgamated local governments in 1992/93. The outcome of this survey was very positive and it indicated that over double the number of ratepayers considered the amalgamations were successful compared to those that thought the amalgamations were unsuccessful. This is considered a good outcome considering the main ratepayer concerns surrounding amalgamation are loss of jobs and loss of access to elected officials. QTC has not been asked to comment on improved capability.

The costs and benefits that Morrison Low has modelled for a possible merger of Maitland and Dungog Councils are described below:

1 Governance and executive team

The formation of a new entity is likely to result in some efficiencies resulting from a new governance model and rationalisation of the existing executive management teams. For the purposes of this review the governance category includes the costs associated with elected members, Council committees and related democratic services and processes, and the executive team.

The table below summarises the expected efficiencies together with the associated timing for governance.

	Staff	Duplicated Services	Elected Members	On Costs
Transition Period	Nil	Nil	Nil	Nil
Short Term (1 to 3 years)	Streamlined management (General Managers and Directors) Natural attrition (voluntary)	General Managers, Directors, Mayoral/GM support council/committee secretarial support	Reduced councillors and remuneration	Staff associated costs e.g. HR, accommodation, computers, vehicles
Medium Term (3 to 5 years)	Streamlined management and staff Natural attrition (voluntary)			Staff associated costs e.g. HR, accommodation, computers, vehicles
Long Term (5 years plus)				

1.1 Governance ($88K)

The formation on a new entity is expected to result in efficiencies resulting from a new governance model and a reduction in the number of existing Mayors and Councillors. However, this will depend directly on the adopted governance structure including the number of councillors. Estimated governance costs for the new entity have been based on 12 councillors for the new merged council.

1.2 Executive management ($230K)

The formation of a single entity will result savings in executive management costs as it is likely that there will be only one less position in a merged council and a reorganisation of Tier 2 positions. Revised remuneration packages for the new entity have been informed and assumed to be on par with similar sized councils.

It is important to note that while ongoing efficiencies have been identified effective from the short term, there is a potential one off cost of redundancies of an estimated $1.25m that in our experience is a cost incurred during the transition period. This redundancy cost is based on 38 weeks.

1.3 Rationalisation of services

Under a single entity a number of the existing governance services would be duplicated and there would be an opportunity to investigate rationalising resourcing requirements for a single entity and realise efficiencies in the medium term.

As an example the councils currently have the resources necessary to support the democratic services and processes including council and committee agendas and minutes. Under a new entity there is likely to be a duplication of democratic resources and the new entity would need to determine the resources required to deliver this service. The expected efficiencies relative to this area are realised in the Corporate Services Section but in our view in this merger and opportunities would be minor.

2 Corporate services

In the formation of a new entity there is likely to be a reduction in staffing numbers across the corporate services in the medium term. The corporate services incorporates most of the organisational and corporate activities such as finance and accounting, human resources, communication, information technology, legal services, procurement, risk management, and records and archive management. Across the councils there is likely to be some element of duplication so there should be efficiency opportunities as it relates to administrative processes and staffing levels.

The potential opportunities for efficiency within the corporate services category are summarised in the table below along with the indicative timing of when the efficiency is likely to materialise.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period	Natural attrition (voluntary)	Finance ICT Communications Human Resources Records Customer Services Risk Management			
Short Term (1 to 3 years)	Natural attrition (voluntary)				Staff associated costs e.g. HR, accommodation computers, vehicles
Medium Term (3 to 5 years)	Streamlined management (Tier 3) Natural attrition (voluntary)				Staff associated costs e.g. HR, accommodation computers, vehicles
Long Term (5 years plus)					

2.1 Rationalisation of duplicate services ($0K)

Consistent with the disestablishment of two councils and the creation of a single entity, there are normally a number of back office duplicated services that would be replaced, standardised and simplified. The rationalisation and streamlining of back office services means that there would an opportunity to rationalise financial reporting, business systems, administrative processes and staff numbers.

Examples for the rationalisation of corporate services include:

- Finance - A reduction in finance service costs with the rationalisation of financial reporting and financial planning with a single, rather than separate Resourcing Strategies, Long Term Financial Plans, Asset Management Strategies, Workforce Management Plans, Annual Plans and Annual Reports needing to be prepared, consulted on and printed. In addition the centralisation of rates, accounts receivable, accounts payable and payroll, including finance systems will reduce resourcing requirements and costs.
- Human Resources (HR) – The size of the HR resource would be commensurate with the number of FTEs in the new entity based on industry benchmarks. The number of HR resources would be expected to reduce proportionately to the reduction in organisational staff numbers.
- Communications – The resourcing would be expected to reduce since there would be a single website and a more integrated approach to communication with less external reporting requirements.
- Customer Services – No reduction in the 'front of house' customer services has been assumed on the basis that all existing customer service centres would remain operative under a single entity and the existing levels of service would be retained. However there is potential to reduce the number of resources in the 'back office' such as the staffing of the call centre.

This potential efficiency in the corporate services category is in our view limited. Dungog has a small multi skilled staff and we have already identified both organisations appear under resourced. We have not allowed for a reduction in staff, rather a reorganisation to improve service delivery.

Areas for further efficiency

Based on the experience from previous amalgamations in local government there are other areas where we would expect there to be opportunity to achieve efficiencies. These areas include management, staff turnover, procurement, business processes, property/accommodation, waste and works units.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period					
Short Term (1 to 3 years)	Staff Turnover	Property/ Accommodation, Works Units	Printing, stationary, ICT systems/ licences, legal	ICT Benefits	Staff associated costs e.g. HR, accommodation, computers, vehicles
Medium Term (3 to 5 years)	Streamlined Management (Tier 3 & 4)	ICT Resourcing	Waste	ICT Benefits	Staff associated costs e.g. HR, accommodation, computers, vehicles
Long Term (5 years plus)					

2.2 Management tier 3 and 4 ($0K)

The extent of efficiencies for Tier 3 and Tier 4 is directly dependent on the organisational structure of the new entity, types of services and the manner in which these services are to be delivered in the future, i.e. delivered internally or contracted out.

On the basis that two councils are being disestablished and a single entity created there is typically opportunity for a reduction in Tier 3 and 4 positions. However given the lean nature of the organisations, the council's organisational structures and the geographic distance between them means that in this case there is unlikely to be any reduction in this aspect of the organisation.

2.3 ICT Benefits ($200K)

Without a full investigation into the current state of the two councils ICT infrastructure and systems, and without an understanding of the future state, the ICT benefits cannot be quantified at this stage. However benefits would include improved customer experience, operational cost saving and reduced capital expenditure, higher quality of IT service and increased resilience of service provision. It is also necessary to model a value for the benefits to balance the costs that have been allowed for in the transition.

The operational cost savings and reduction of capital expenditure would be as a direct result of rationalising the number of IT systems, business applications, security and end user support from two councils to a single entity. The cost of IT and the number of staff resources required to support it would be expected to decrease over time. FTEs are assumed to reduce[18] over time in line with reduced IT applications and systems.

[18] Report to the Local Government Commission on Potential Savings of a Range of Options for the Re-organisation of Local Government in the Wellington Region, Brian Smith Advisory Services Limited, November 2014

Through the work undertaken as part of the Wellington reorganisation, Stimpson and Co have undertaken a sensitivity analysis on the ICT costs for two options and based on an ICT cost of $90 million have estimated the Net Present Value at $200 million and payback period of 5 years. Without a detailed investigation of systems, processes and the future state of the IT system and support it is not considered possible to model the benefits as arising at a similar rate however to retain consistency with the estimated costs and the basis for them benefits have been modelled as arising over the long term and a rate of $200K per annum.

2.4 Materials and contracts ($43K)

The opportunity for efficiencies in procurement is created through the consolidation of buying power and the ability to formalise and manage supplier relationships more effectively when moving from two councils to one. An estimate needs to take into account that the councils currently engage in some collective procurement and resource sharing through the various Hunter Councils initiatives.

The increased scale and size of the infrastructure networks managed by the council would in our view lead to opportunities to reduce operational expenditure through making better strategic decisions (as distinct from savings arising from procurement).

2.5 Properties ($0)

Typically there is an opportunity to rationalise and consolidate the property portfolio through assessing the property needs of the new entity and disposing of those properties no longer required for council purposes.

However the nature of the two councils, the geography and the limited opportunities to reduce staff numbers means that in our view that no allowance should be made for the rationalisation of buildings.

2.6 Works units

Staff ($300K)

Based on our experience of reviewing a large number of works units across NSW we have found significant savings in all organisations that we have reviewed. As such it is reasonable to assume that a reduction in staff in the order of 5% across the works areas will be easily achieved in the medium term to reflect the duplication of services across the depots.

Redundancy costs have been modelled in for all works staff based on an average of 26 weeks.

Following the end of the natural attrition period redundancies would be applied to reduce staffing levels to those identified above.

Plant and Fleet ($530K – one off)

Based on our experience of reviewing a large number of works units across NSW, most councils have significantly more plant and equipment than reasonably required to undertake their day to day functions. As such it is reasonable to assume that a reduction in plant and fleet in the order of 10% would be achievable should there be an amalgamation of the councils.

3 Services and Service Levels ($ unknown)

Typically merged councils see an increase in staff associated with rises in services and service levels. Research conducted for the Independent Review Panel noted that each of the councils involved in the 2004 NSW mergers had more staff after the merger than the combined councils together[19] and an average over the period of 2002/3 to 2010/11 of 11.7%.

An allowance has been made for a 2% increase in staff from year 4 onwards (i.e. after the period of natural attrition.

4 Transition costs

The formation of the new entity from the current state of two councils to one will require a transition to ensure that the new entity is able to function on Day 1. This section identifies tasks to be undertaken and estimates transitional costs that are benchmarked against the Auckland Transition Agency (ATA) results and the costs as estimated by Stimpson & Co.[20] for the proposed Wellington reorganisation.

In the transition to an amalgamated entity there are a number of tasks that need to be undertaken to ensure that the new entity is able to function from Day 1 with minimal disruption to customers and staff. The types of tasks and objectives are summarised in the table below.

Governance	• Developing democratic structures (council committees) • Establishing the systems and processes to service and support the democratic structure • Developing the governance procedures and corporate policy and procedures underlying elected member and staff delegations • Developing the organisational structure of the new organisation
Workforce	• Developing the workforce-related change management process including new employment contracts, location and harmonisation of wages • Establishing the Human Resource capacity for the new entity and ensuring all policies, processes and systems are in place for Day 1 • Ensuring that positions required are filled
Finance and Treasury	• Ensuring that the new entity is able to generate the revenue it needs to operate • Ensuring that the new entity is able to satisfy any borrowing requirements • Ensuring the new entity is able to procure goods and services • Developing a methodology for interim rates billing and a strategy for rates harmonisation • Developing a plan for continued statutory and management reporting requirements • Developing a financial framework that complies with legislative requirements
Business Process	• Planning and managing the integration and harmonisation of business processes and systems for Day 1 including customer call centres, financial systems, telephony systems, office infrastructure and software, payroll, consent processing etc. • Developing an initial ICT strategy to support the Day 1 operating environment that includes the identification of those processes and systems that require change

19 Assessing processes and outcomes of the 2004 Local Government Boundary Changes in NSW, Jeff Tate Consulting

20 Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

	• Developing a longer term ICT strategy that provides a roadmap for the future integration and harmonisation of business processes and systems beyond Day 1
Communications	• Ensuring that appropriate communication strategies and processes are in place for the new entity • Developing a communication plan for the transition period that identifies the approach to internal and external communication to ensure that staff and customers are kept informed during the transition period
Legal	• Ensuring any legal risks are identified and managed for the new entity • Ensuring that existing assets, contracts etc. are transferred to the new entity • Ensuring all litigation, claims and liabilities relevant to the new entity are identified and managed
Property and Assets	• Ensuring that all property, assets and facilities are retained by the new entity and are appropriately managed and maintained • Ensuring the ongoing delivery of property related and asset maintenance services are not adversely impacted on by the reorganisation • Facilitating the relocation of staff accommodation requirements as required for Day 1
Planning Services	• Ensuring the new entity is able to meet its statutory planning obligations from Day 1 and beyond • Ensuring that the entity is able to operate efficiently and staff and customers understand the planning environment from Day 1 • Developing a plan to address the statutory planning requirements beyond Day 1
Regulatory Services	• Ensuring that Day 1 regulatory requirements and processes including consenting, licensing and enforcement activities under statute are in place • Ensuring that business as usual is able to continue with minimum impact to customers from Da1 and beyond
Customer Services	• Ensuring no reduction of the customer interaction element – either face to face, by phone, e-mail or in writing from Day 1 and beyond • Ensuring no customer service system failures on Day 1 and beyond • Ensuring that staff and customers are well informed for Day 1 and beyond
Community Services	• Ensuring that the new entity continues to provide community services and facilities • Ensuring that current community service grant and funding recipients have certainty of funding during the short term

Note - This is not an exhaustive list but provides an indication of the type of work that needs to be undertaken during the transition period.

The transition costs are those costs incurred, during the period of transition, to enable the establishment of the new entity and to ensure that it is able to function on Day 1. The estimated transition costs for establishment of a new entity are discussed below.

4.1 Transition body ($1.5 million)

In the case of Auckland, the ATA was established to undertake the transition from nine councils to one entity. In order to undertake the transition the ATA employed staff and contractors and it had other operational costs such as rented accommodation, ICT and communications. The cost of the ATA in 2009 was reported at $36 million and it is important to note that a substantial number of staff were seconded to the ATA from the existing councils to assist with undertaking the transition tasks. The cost of these secondments and support costs was at the cost of the existing councils and not the ATA.

The work undertaken for the reorganisation of Wellington identified the cost of the transition body as $20.6 million[21] including an assessment of the merger costs for the three rural councils of the Wairarapa. On the assumption of FTEs to transition body costs for Wellington, the estimated cost of the transition body for the councils is $2.25 million. This figure may be understated and is dependent on the governance structure adopted and other unknown factors that may influence the cost of the transition body. The cost of staff secondment and support costs from existing councils to the transition body is not included in the cost estimate.

4.2 ICT ($1.5 million)

The costs associated with ICT for the new entity relate to rationalising the existing councils ICT infrastructure, business applications, security and end user support for the single entity. The full rationalisation of IT systems based on other amalgamation experience will not occur for Day 1 of the new entity and could take anywhere between three to five years to finalise depending on the complexities of the preferred system. However there are some critical aspects for the new entity to function on Day 1 including the ability to make and receive payments, procurement and manage staff so there are ICT costs incurred during the transition.

Maitland have invested in a new IT system that has the capacity to also serve Dungog. Most costs will lie in extending the system into Dungog, creating reliable connectivity, telecommunications establishment, data migration and training.

The estimated cost of using the Maitland as a basis for merger model is spread across the initial years of the councils operations with the majority falling in the first two years.

4.3 Business Process (existing Council budget)

As part of ensuring the entity is functional on Day 1 is the requirement to redesign the business processes of the existing councils to one that integrates with the ICT systems. This would include the likes of consents, licensing and forms to replace that of the two existing councils. In the case of Auckland these tasks were largely undertaken by staff seconded to the transition body, the cost of which was not identified as it was a cost picked up by the nine existing councils.

4.4 Branding ($400K)

The new entity will require its own branding and as part of this a new logo will need to be designed. Once agreed there will be a need to replace the existing signage of the two councils for Day 1 of the new entity on buildings, facilities and vehicles. In addition it will be necessary to replace the existing staff uniforms, letterheads, brochures, forms and other items. The estimated cost for branding is $400K based on other amalgamation experience.

[21] Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

4.5 Redundancy Costs ($170K)

This is based on a reduction in from two general managers to one for a merged council and is based on employment contracts with a redundancy period of 38 weeks, and based on the councils' respective Annual Reports 2013/14.

4.6 Remuneration Harmonisation ($428K)

The remuneration, terms and conditions for staff would need to be reviewed as part of the transition as there is currently a variation in pay rates and conditions across the two councils. In order to estimate the cost of wage parity for moving to a single entity, the average employee costs for similar councils have been compared to that of the combined councils combined as well as between the two councils.

4.7 Elections ($0K)

There is a possibility of proportional savings in existing council budgets as instead of two separate elections there will be one for the new entity. However the costs of the election are likely to be higher than for future elections as there will need to be additional communication and information provided to voters to inform them of the new arrangements. The costs will also be dependent on the future governance structure, as was the case in the Auckland amalgamation the election costs were more than the budgeted amounts from the previous councils. For the purposes of the transition costs, no additional budget has been allowed for assuming there is sufficient budget in the two councils.

APPENDIX C Dungog and Maitland - Planning Controls around Natural Environment, Built Heritage and Approach to Growth and Development

The following is based on overarching aims of applicable planning instruments as an indication of:

- protection of the natural environment
- protection of the built environment and built heritage
- general approach to growth and development

	Natural	Built	Approach to Growth
Dungog (Dungog LEP 2014)	**Emphasis on natural environment** The particular aims of the LEP which relate to the protection of the natural environment are: • *to protect rural lands, natural resources, and items and areas of heritage significance* (emphasis added) • *to protect, enhance and provide for biological diversity, including native threatened species, populations and ecological communities, by long term management and by identifying and protecting habitat corridors and links throughout Dungog* The Aims recognise the significant natural environmental assets of Dungog LGA and outline actions to achieve asset protection	**Emphasis on built heritage** The particular aim of the LEP which relates to the protection of built heritage is: • *to protect rural lands, natural resources, and items and areas of heritage significance (emphasis added)* Protection of built heritage is seen as part of an overall approach to amenity management	The aims of the LEP look to promote sustainable development, protect agricultural lands by preventing land use conflict, provide for housing choice and strengthen important economic sectors: • *to manage development to benefit the community* • *to promote the principles of ecologically sustainable development and sustainable water management, and to recognise the cumulative impacts of climate change* • *to encourage a mix of housing to meet the needs of the community* • *to protect agricultural lands by preventing adverse impacts from non-agricultural land uses* • *to strengthen retail, agricultural and tourism opportunities* The LEP contains R1 (General) and RU5 (Village) residential zones allowing significant flexibility in dwelling types, indicating an accommodative approach in support of the economic development of (e.g.) Dungog township and supporting the smaller settlements in the LGA.

	Natural	Built	Approach to Growth
Maitland (Maitland LEP 2011)	**Emphasis on natural environment** The particular aims of the LEP which relate to the protection of the natural environment are: • *to protect and maintain the extent, condition, connectivity and resilience of natural ecosystems, native vegetation, wetlands and landscapes, including those aspects of the environment that are matters of national environmental significance within Maitland in the long term* • *protect, enhance or conserve the natural resources of Maitland including the following:* *areas of high scenic rural quality* *productive agricultural land* *habitat for listed threatened species and endangered ecological communities* (emphasis added) *minerals of regional significance* The LEP recognises the importance of the natural environment of Maitland and the responsibility of the Council in managing assets of national significance	**Emphasis on built heritage** The specific aim in the LEP which relates to the protection of built heritage is: • *to properly plan and protect human-made resources of Maitland including buildings, structures and sites of recognised significance which are part of the heritage of Maitland* Protection of the built heritage of Maitland is an aim in its own right	The aims of the LEP are extensive and promote a policy of sustainable and orderly development, diversity of housing and minimisation of risks from natural hazards. • *to facilitate ecologically sustainable development of land and natural assets* • *to create liveable communities which are well connected, accessible and sustainable* • *to provide a diversity of affordable housing with a range of housing choices throughout Maitland* • *to allow for future urban development on land within urban release areas and ensure that development on such land occurs in a co-ordinated and cost-effective manner* • *to concentrate intensive urban land uses and trip-generating activities in locations most accessible to transport and centres, strengthening activity centre and precinct hierarchies and employment opportunities* • *to ensure that land uses are organised to minimise risks from hazards including flooding, bushfire, subsidence, acid sulfate soils and climate change* • *to encourage orderly, feasible and equitable development whilst safeguarding the community's interests, environmentally sensitive areas and residential amenity* Residential land is mainly zoned R1 (General) indicating Council has a flexible and accommodating policy towards growth.

APPENDIX D Comparison of Community Strategic Plans of the two Councils

Council	Vision	Values and themes
Maitland	We are a vibrant river city, with heritage in our heart. Our people are caring and active, with access to services and facilities that meet the needs of all of our citizens. We are focused on our environment, balancing conservation and development and enhancing where we can. Our many leaders work together to see the city prosper and maximise benefits for our people. We are a strong and proud community, celebrating together and embracing newcomers. Together, we make Maitland.	PROUD PEOPLE, GREAT LIFESTYLE • Our growing community retains our sense of place and pride in our city whilst welcoming diversity and change • Our community and recreation services and facilities meet the needs of our growing and active communities • As a community, we join with each other and our visitors to celebrate iconic events and local festivals OUR BUILT SPACE • Our infrastructure is well-planned, integrated and timely, meeting community needs now and into the future • All residents are able to move around our city in safety and with ease - on foot, bicycle, car, bus or train • Our unique built heritage is maintained and enhanced, coupled with sustainable new developments to meet the needs of our growing community • Across the city, diverse and affordable housing options are available for our residents throughout all life stages OUR NATURAL ENVIRONMENT • The potential impacts of our growing community on the environment and our natural resources are actively managed • Our local rivers and floodplains are enhanced, utilised and valued. Local people are aware of their personal impacts on the environment and take steps to prevent or minimise negative impacts and promote positive action

Council	Vision	Values and themes
		A PROSPEROUS AND VIBRANT CITY • Our transport and telecommunications infrastructure is progressive and meets the needs of contemporary businesses and our community • A unique sense of identity and place is found within our villages, suburbs, towns and City Centre • Our economy is growing and prosperous, offering a diverse range of equitable job opportunities across our city • Maitland is seen as a desirable place to live, an easy place to work, a welcoming place to visit and a wise place to invest • Central Maitland is the vibrant heart of our city, engendering a strong sense of pride within the community CONNECTED AND COLLABORATIVE COMMUNITY LEADERS • Our community's diverse leaders have been identified and connected, boosting leadership capacity across the community • Meaningful, informed and genuine community participation is active in decision-making at all levels of government • Maitland City Council is efficient and effective in its operations, actively listening to the community and anticipating and responding to community needs • A sustainable Council for a sustainable city
Dungog	**Vision Statement:** "A vibrant united community, with a sustainable economy. An area where rural character, community safety and lifestyle are preserved". **Mission Statement:** "To manage, enhance, and protect, the resources of the Shire, in consultation with the community."	• **Community Consultation**: Council will be responsive to community needs, and work with them to enhance community life, and achieve the common good • **Customer Service:** To provide our community and other customers with excellent service • **Team Work:** For the Elected Members, Management, and staff to work together as a team to achieve our defined Community Outcomes

Council	Vision	Values and themes
		• **Efficiency:** That services to our community be provided as efficiently and effectively as possible. • **Integrity**: That the organisation displays integrity, professionalism, and a businesslike manner in all it does, and that work is carried out to the highest ethical standards. • **Equity**: That Council be a fair and equitable employer, and is consistent in its dealings with members of the community. • **Access Requirements**: In consideration of our ageing population and other disadvantaged sections of our community, Council will work with the community to improve public access to transport, buildings and other facilities wherever possible. • **Achievement**: That Elected Members, Management, and staff work together to develop a culture of high achievement of our goals, and that this results in a well-trained, motivated, and focussed Council staff • **Value for Money**: That Elected Members, Management, and staff work at all times to provide “value for money” for our community, and develop a culture of frugality in the expenditure of Council funds. • **Governance**: that Elected Members and Management provide stable, sensible governance, remembering at all times that we are the custodians of the Shire for present and future generations.

APPENDIX E Risk Table and Controls

Risk	Risk Description	Rating	Controls
Accuracy of base data	Base data provided/collected may contain error or be based from incorrect assumptions	Medium	• Ensure consistency of approach between entities • Ensure consistency of assessment methodology • Ensure consistency of planning methodology
Savings not being realised	Changed circumstances or conditions as imposed by legislative, community or political imperatives which reduce the entities ability to maximise savings. Asset valuations out of line with market expectations. IT cost and result estimates incorrect.	Medium	• Clearly identify potential savings and utilise project planning methodology including individual elemental risk mitigation to maximise the opportunity to realise real savings • Market test valuations • Thoroughly research implications and synergies relating to IT decision making
Transitional cost increase	Real cost increases relating to such issues as incorrect asset condition assessments; salary & wages creep; senior staff attraction packages; systems costs and unforseen issues.	High	• Set target tolerances and monitor • Ensure branding decisions and roll out of branding changes are logically managed • Market test contract salary packages before the need to fill roles
Corporate, cultural and community alignment • Staffing • Geographic distances between workforce/s • Inequity of impacts regionally • Culture unification • Productivity impacts of distance		High	• Invest an equally proportionate time pre and post-merger into ensuring the transition to the new entity maintains momentum (this was a significant shortfall in Queensland amalgamations which lead to de-amalgamation debate) • Assess skills and specialities inherent in the merging workforce to “best” align staff to structure • Managing down time and travel time considerations when evaluating for productivity efficiency • Consider access for the community, representation requirements and level of service and the perceptions/expectations that come from individual community groups and elements.

Risk	Risk Description	Rating	Controls
Systems, processes & standards	Alignment and selection of suitable systems, processes & standards to meet corporate and community outcomes from existing suites currently used considering impact on personnel productivity and service delivered.	Medium	• Assess suitability of system alignment opportunity in a holistic manner • Assess process and standards alignment and or development in a non-parochial manner. • Engage existing staff into decision making
Service mix & service levels	Not defining and promoting services and service levels to be provided by new entity. No assessment or critiquing of current services provided by the individual entities.	Medium	• Clearly identify future standard expectations • Clearly identify continuing or modified services • Rationalise services provided to remove ambiguity and duplication • Obtain bipartisan agreement on acceptable and sustainable future service levels. • Manage disparate Rural-v-Urban perceptions of services and service levels.
Assets Rationalisation	Community and/or political interference in the rationalisation process preventing realisation of full rationalisation.	High	• Rationalise to remove unnecessary or unviable assets • Rationalise in line with agreed service levels and standards • Engage Community in decision making providing all information • Approach rationalisation from an economic basis
Rating Structure Single rating Structure required	Current multi- tiered rating arrangements require alignment	Medium	• Determine appropriate rating structure • Plan transition to new structure • Communicate
Lack of resources to drive transition	Both physical and financial resources are paramount to achieving the desired results	Medium	• Identify available resources versus desired outcomes and gap analyse the result

APPENDIX F Services Comparison

SERVICES	*DUNGOG*		*MAITLAND*	
Public Order and Safety	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Enforcement of Local Government Regulations	Internal	Different	Internal	Different More structured
Animal Control	Internal	Similar	Internal	Similar
Governance	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Council – elected members	Internal	Different No facilities, equipment or dedicated support	Internal	Different
Elections	Internal/external	Similar	Internal/external	similar
Civic Functions	Internal	Similar	Internal	Similar
Corporate image and publications	Internal	Different	Internal	Different - higher Internal design, publications resources and focus on branding
Community Strategic Plan	Internal	Different	Internal	Different More resources for planning and engagement
Administration	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Communications	Internal	Different	Internal	Different Coms team, social media, newsletter, marketing and promotions

SERVICES	*DUNGOG*		*MAITLAND*	
Customer service	Internal	Different RMS agency	Internal/External (After hours service)	Different
Human Resources	Internal	Different	Internal	Different Higher – dedicated resources
ICT	Internal/External	Different	Internal	Different Key IT roles within organisations
Internal audit	Nil	Different No internal audit	Internal/external	Different
Health	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Inspections	Internal/Contract when insufficient resources	Different	Internal	Different Proactive program
Environment	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Noxious Plants and Insect / Vermin Control	Internal	Similar	Internal	Similar
Other Environmental Protection	Internal	Different	Internal	Different Environmental education programs
Solid Waste Management	External contract New contract awarded	Different	Internal/External contract	Different Contract recycling Green Waste tender process commenced Kerbside bulky goods tender commenced (booked service) Free EWaste, mattress, chemical drop off programs Require new landfill or alternatives

SERVICES	*DUNGOG*		*MAITLAND*	
Street Cleaning **Graffiti removal** **Litter collection**	Internal	Different As required. Hire in street sweeper when necessary	Internal	Different Mechanical CBD streets swept daily Remaining streets are swept twice a year Includes bus shelter cleaning; CBD paver scrubbing and maintenance of CBD street furniture
Stormwater Management	Internal	Similar	Internal	Similar except urban nature and concentration of development impacts service levels, responses
Housing and Community Amenities	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Building Maintenance	Internal/External	Different 355 Cttees	Internal/External	Different Renewal by contract
Public Cemeteries	Internal/external	Different Seasonal works program adhered to	External contract (mowing)	Different High maintenance expectations and standards Heritage cemeteries also – conservation management plans in place
Public Conveniences	Internal	Different Twice weekly or by complaint	External contract	Different CBD daily Others by service standards
Planning and Building	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Town Planning	Internal	Similar	Internal	Similar

SERVICES	*DUNGOG*		*MAITLAND*	
Construction Approvals	Internal	Similar	Internal	Similar
Development Assessment and Compliance	Internal	Similar	Internal	Similar
Building Control	Internal	Similar	Internal	Similar
Community Services and Education	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Administration and Education and Social Protection	Not provided	Different Aged Housing	Internal	Different Community Options Immunisation Clinics
Aged Persons and Disabled	Internal	Similar	Internal	Similar
Youth/Children's Services	Not provided	Similar	Internal	Different
Community Safety			Internal	Different
Aboriginal, youth and migrant services, Healthy lifestyle services			Internal	Different
Recreation and Culture	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Public Libraries	Part of Newcastle Regional Library Service	Different	Internal	Different Higher – longer opening hours, plus range of established programs for different segments; focus on local heritage also

SERVICES	*DUNGOG*		*MAITLAND*	
Museums	External bodies	Different Number and type Paterson Courthouse Museum Dungog Historical Society Clarence Town Historical Society	Internal/External committees	Different Number and type Walka Water Works Maitland Gaol Morpeth Museum
Art Galleries	Not provided	Different	Internal	Different – Higher, although is a regional facility
Community Centres and Halls	Internal/Committees	Different 355 committees Number of facilities	Internal/Committees	Different All Council managed Number of facilities – 114
Performing Arts Venues			Internal – if Town Hall included	Different
Heritage and village development			Internal	Different
Caravan Park	External	Different Contractor Williams River Holiday Park	Nil	Different
Visitors Information Centre	Internal	Similar	Internal	Similar
Economic Development	Internal	Different ED/Tourism Coordinator	Not Provided	Different CBD Renewal
Sporting Grounds and Venues	Internal	Different Showgrounds	Internal/external	Different Higher service levels
Swimming Pools	External	Different pools contracted out	Internal	Different pool and leisure facilities open more frequently New facility under development

SERVICES	DUNGOG		MAITLAND	
Parks and Gardens (Lakes)	Internal	Different Lower service levels No hierarchy	Internal/Contract	Different Larger premier gardens CDB landscaping Tree care Higher service standards Internal gardening crew Single crew for Maitland Park Maintenance crews Recreational cycleways/shared pathways
Events	Internal	Different	Internal/external	Different Event s team
Transport and Communication	**Is service provided and how?**	**How different are service levels**	**Is service provided and how?**	**How different are service levels**
Strategic infrastructure planning			Internal	Different
Road Maintenance	Internal/external	Different Rural focus and service levels Some functions contracted out Supply of materials	Internal	Different Urban service levels Supply of materials 50 bridges/culverts 13,500 drainage pits 337 pipes
Road Construction	Internal/external	Different Rural focus and service levels Grading 9mths to 30mths 270km roads Road width and characteristics More Bridges and	Internal	Different Urban service levels RMS work Different methodologies 670km of roads

SERVICES	DUNGOG		MAITLAND	
		culverts		
Footpath maintenance	Internal	Different	Internal	Different Larger asset base Higher service levels Renewal program
Footpath construction	External	Different	Internal	Different
Parking Areas	Not provided	Different	Internal	Different
Kerb and Gutter	External	Different	Internal	Different
Drainage	Internal	Different	Internal	Different Number of pits and performance requirements
Works Depots	Internal	Similar	Internal	Similar
Plant and Fleet	Internal	Different 60% own - 40% hire	Internal	Different Mostly own
Legacy Issues		Quarry rehabilitation Landfill legacy		Underground Fuel tanks Depot legacy Former Landfill legacy (Anambah) Former gasworks site legacy (East Maitland) Current Waste Facility near capacity – will be transfer station - legacy

APPENDIX G Detailed Community Profile

Maitland and Dungog

1 INTRODUCTION

A desktop review of the communities of Maitland and Dungog been undertaken in order to understand the current demographic composition of the area, the similarities and differences between the council areas, and the interrelationships and communities of interest that currently exist within the area.

Communities of interest and geographic cohesion are considered essential considerations for any boundary adjustment process (Section 263 of the Local Government Act). The key references for this review is ABS Census Data, NSW Department of Planning's Population Forecast (2014), the ABS Estimated Residential Population figures for 2011 and 2012, along with the analysis contained in the *New South Wales Local Government Areas: Similarities and Differences, A report for the Independent Local Government Review Panel* report.

2 SUMMARY OF KEY SIMILARITIES AND DIFFERENCES

There are a number of similarities between the two council areas. These similarities and differences should be considered

Similarities include:

- full time employment makes up the majority of employment across the regions, but participation in the labour market is an issue across the two council areas
- the percentage of Indigenous Australians in each community sits just above the State average
- English proficiency is high, and there is a very low level of people born in countries other than Australia across the region
- the most common qualification across both councils post-school is certificate level
- household types are consistent across the two LGAs
- both areas have SEIFA scores above the New South Wales average.

However a number of differences can also be observed:

- The age profile shows some differences, with Dungog showing an older population than Maitland, particularly over 45 years
- Population growth, while positive in both regions, is very strong in Maitland at nearly 44%, as compared to Dungog at only 2.8% in the out years
- Political representation is different across the two regions, with Maitland represented by the Labor party at the State and Federal level, and Dungog the Nationals and Liberal party

3 POPULATION SUMMARY

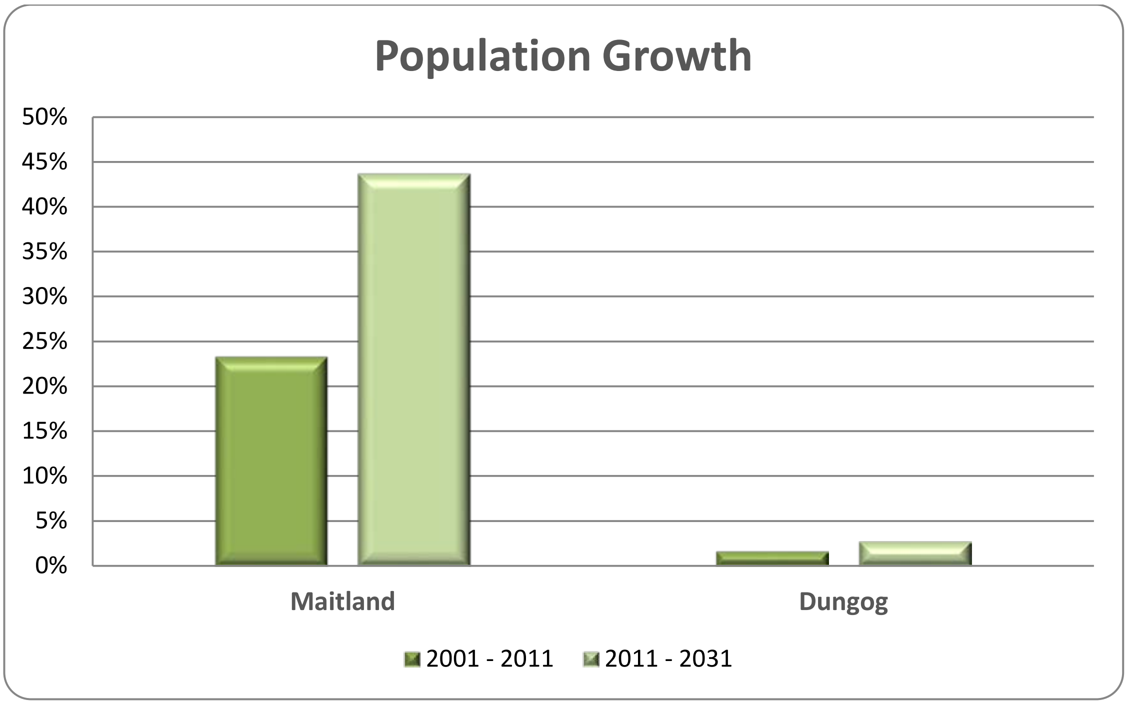
Current Base Information

	Population (ERP 2012)	No. Households	Land Area (km/2)	Population Density
Maitland	71886	24097	391.5	183.62
Dungog	8696	3117	2250	3.86
Total	80582	27214	2641.5	30.51

Population Growth and Forecasts

Analysis of the census data and the NSW Department of Planning's Population forecasts has been undertaken to identify the patterns of past and future population growth within the region. Both regions have experience positive levels of growth in the previous ten year period. This is predicted to continue in the out years. Maitland in particular has experienced considerable growth of over 20%. This however will double in the following twenty year period, to just nearly 44%. The Similarities and Differences Report notes that Maitland's growth rate puts it above that of a 'typical Sydney suburb'.

Dungog's growth rate increases slightly, up from 2% in the period 2001 – 2011, compared with 2.8% from 2011 – 2031.



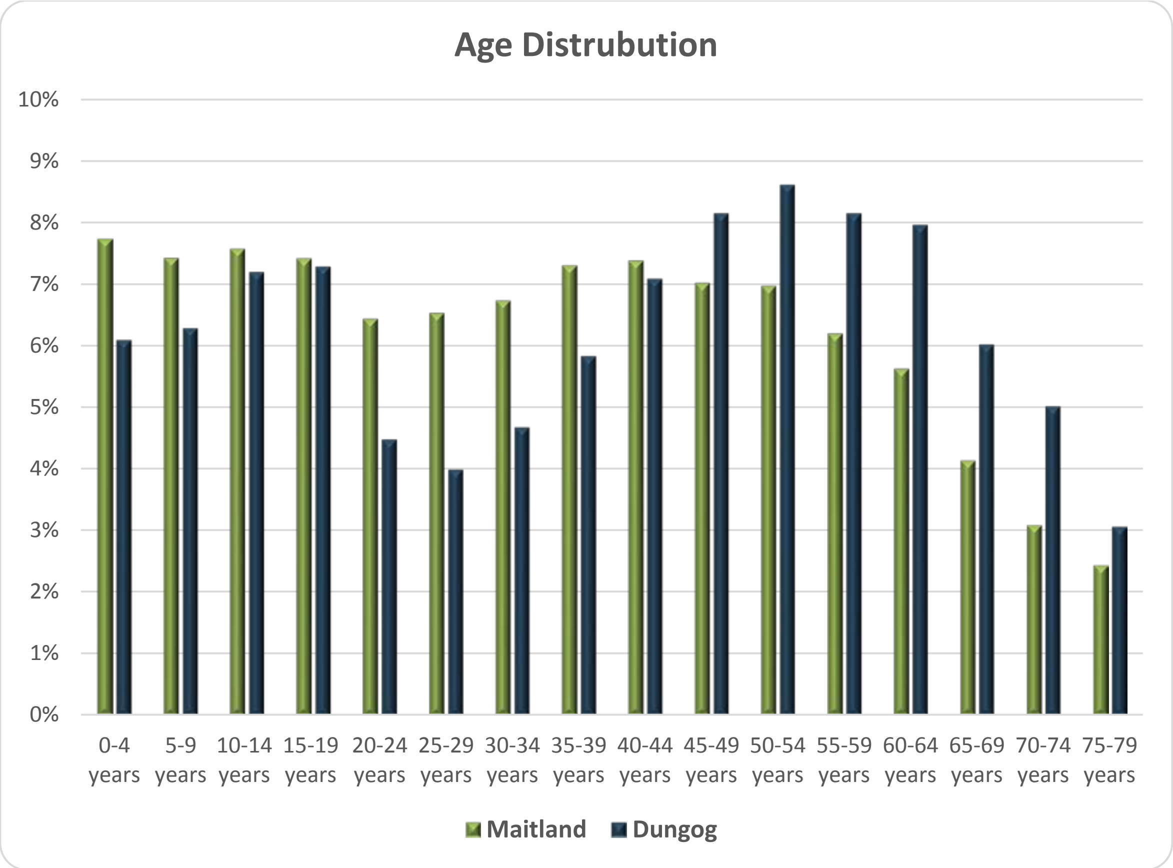
There will be some change to population density in both regions, reflective of the growth in population in the region. Maitland will see an increase from 183.6 to 256.7 people/km2, and Dungog a small change from 3.86 to 3.91 people per km2.

The Age Structure

The age structure of the community provides an insight into the level of demand for age based services and facilities, as well as the key issues on which local government will need to engage with other levels of government in representation of their community.

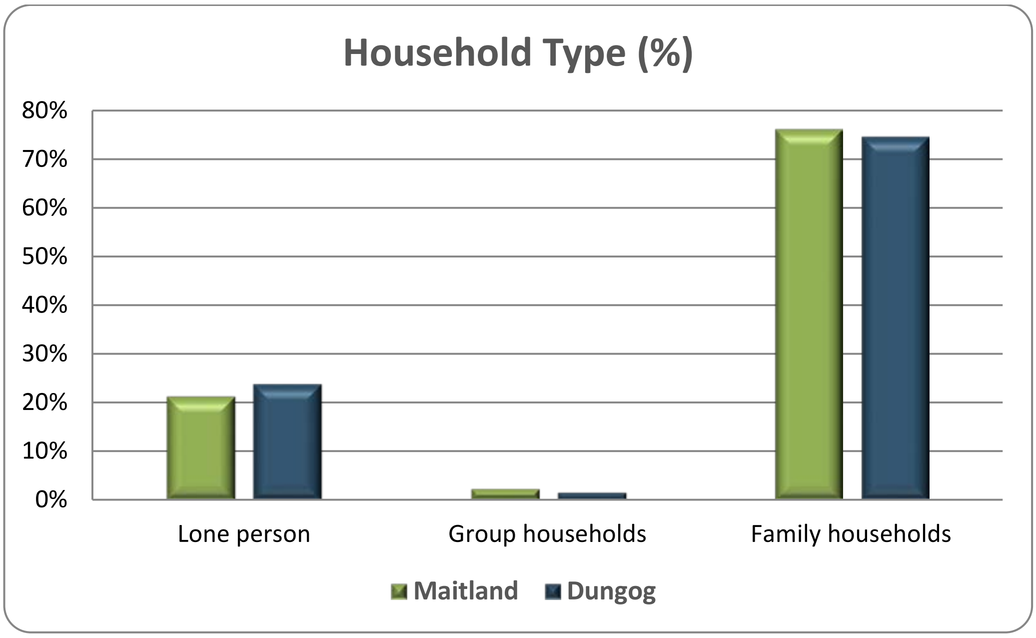
The *Similarities and Differences* analysis views the council areas in two different groupings. Maitland is included in a cluster characterised by significant population growth with a relatively low level of population ageing.

Dungog on the other hand has a greater proportion of its population over 45 years of age, which present different issues with regards to servicing.



Household Types

The make-up of household types across the two regions is consistent. Families make up the largest proportion of household types across the two council areas.



4 LANGUAGE AND CULTURE

The majority of residents in the region were born in Australia. This background is reflected in very high levels of English being spoken at home.

	Born Overseas
Maitland	12.2%
Dungog	9%

Representation of Aboriginal and Torres Strait Islander people in both council areas sit higher as a proportion of the total New South Wales and Australian population more broadly.

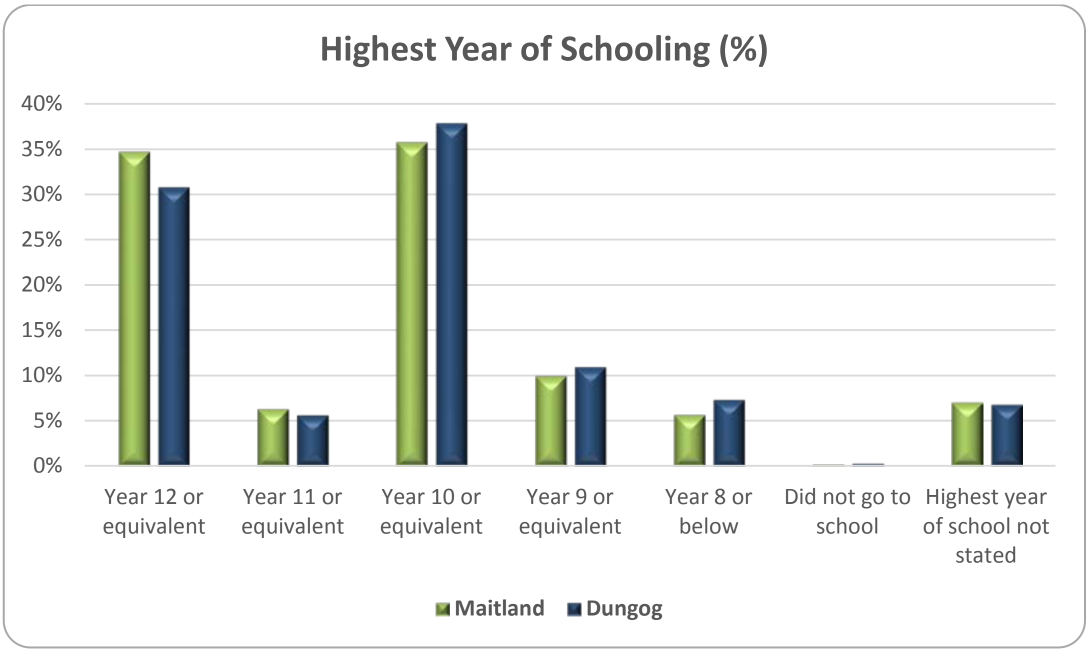
Maitland	Dungog	New South Wales	Australia
3.4	3.1	2.89%	3%

5 EDUCATION

School Completion

School completion data is a useful indicator of socio-economic status. Combined with Educational Qualifications it also allows assessment of the skill base of the population.

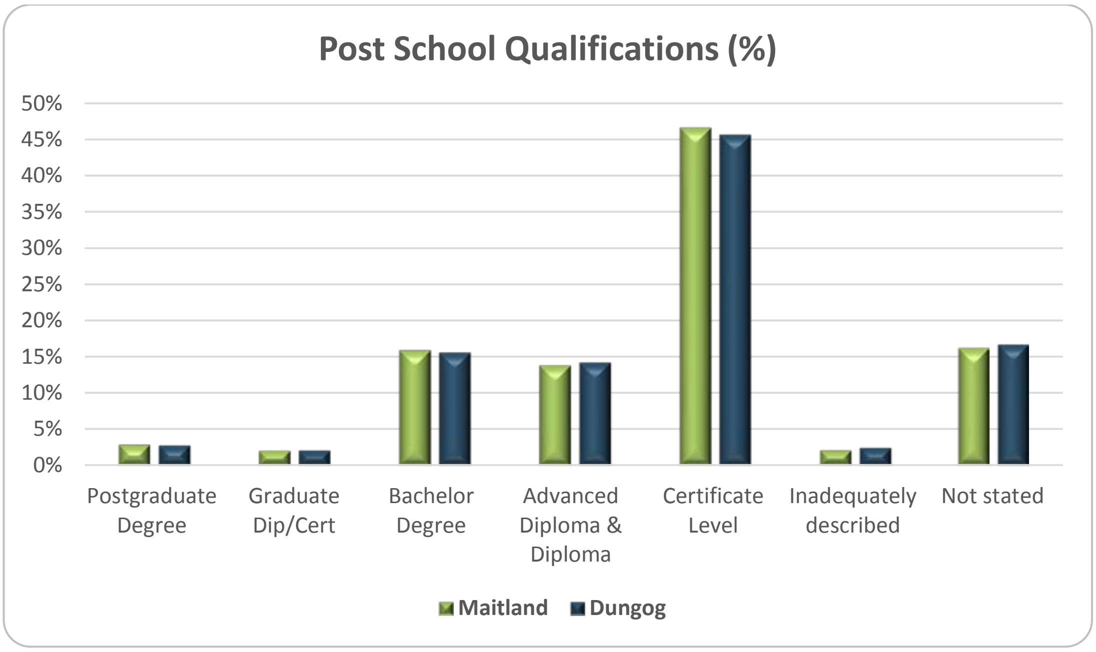
Overall, the rates Year 12 school completion sit between 31 and 35% across the two council areas. This places both council areas above the average level of attainment for regional areas at 30.8%, however falls below the New South Wales average of 47.6%.



Post School Qualifications

Educational qualifications relate to education outside of primary and secondary school and are one of the most important indicators of socio-economic status. With other data sources, such as employment status, income and occupation, an area's educational qualifications help to evaluate the economic opportunities and socio-economic status of the area and identify skill gaps in the labour market.

Across the areas, levels of attainment are comparable for each council in each qualification bracket. The rates of attainment are comparable to other regional New South Wales areas. certificate level studies form the largest proportion of post school qualifications achieved by residents across the two council areas. Post graduate qualifications are low, which may reflect access to these qualifications.

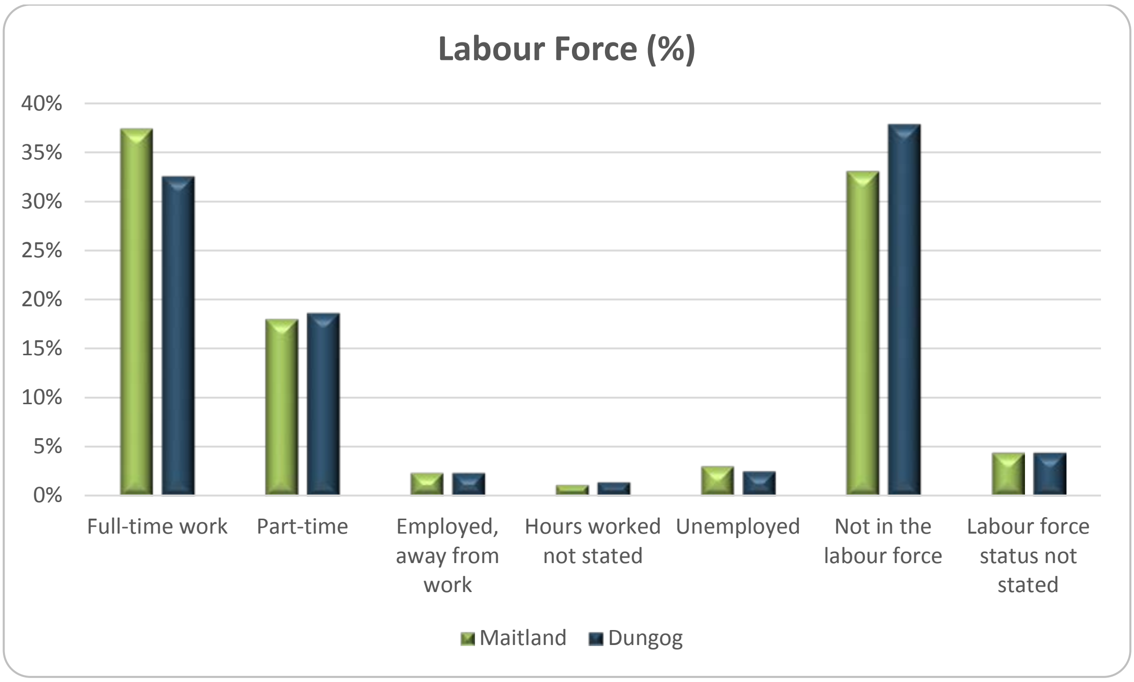


6 LABOUR MARKET

The *Similarities and Differences* report groups the region with regards unemployment and social security take-up – all of them moderate, but hours worked are lower and the FTE employment rate is generally low.

Employment Status

Labour Market indicators are comparable across the two council areas. Full time makes up a considerable proportion of the labour market status of people across the two regions, with Maitland showing a higher level of people in full time employment. While people who identify as unemployed are low, the proportion of people not in the labour market is high which is a concern for overall productivity and confidence in the region.



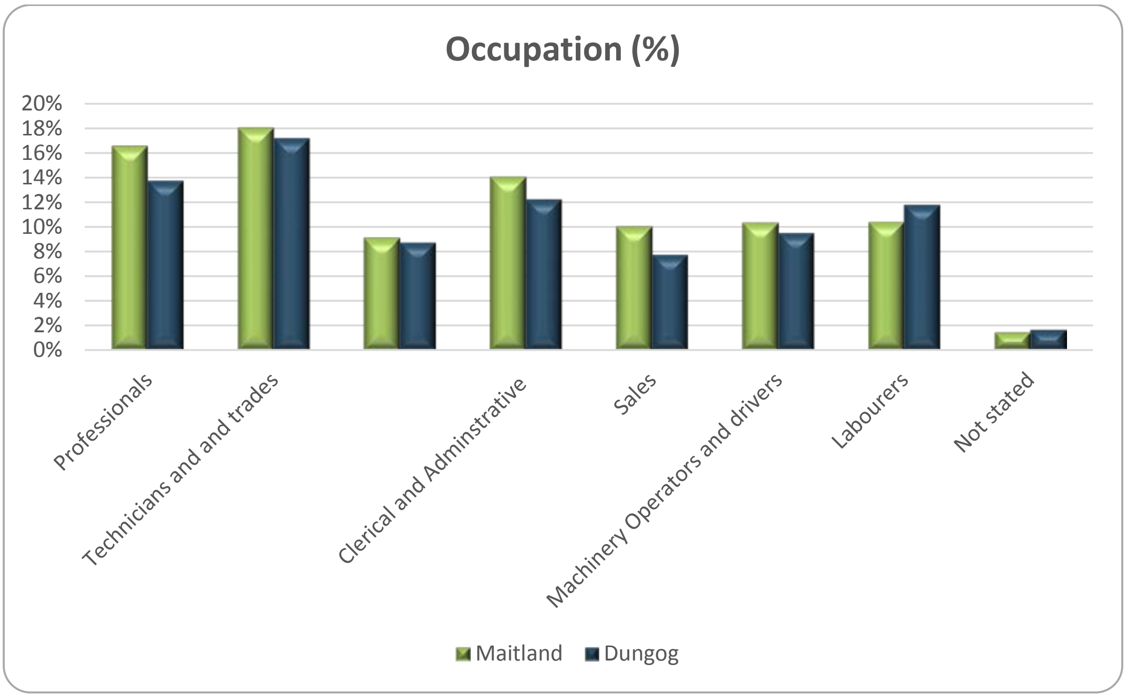
Industries of Employment

There are differences in the industry composition of the two council areas. Health and social assistance features in both council areas, and is consistent with industry trends nationally.

	1	2	3
Maitland	Manufacturing	Health Care and Social Assistance	Retail
Dungog	Agriculture, Forestry and Fishing	Health Care and Social Assistance	Construction

Occupations

There is a spread of occupation types across the two Council areas. Maitland shows a higher level of individuals employed across all occupations with the exception of labourers.



7 HOUSEHOLD INCOME AND WEALTH

In considering household income across the two councils, the *Similarities and Differences* report group across two clusters.

Maitland falls within a cluster of middle incomes with a high wage and salary component – from which is deducted significant taxes. Property income is significant – up to 25% of disposable income. Business and benefits both contribute around 10 per cent of disposable income. The median family income in Maitland is $1,555 per week.

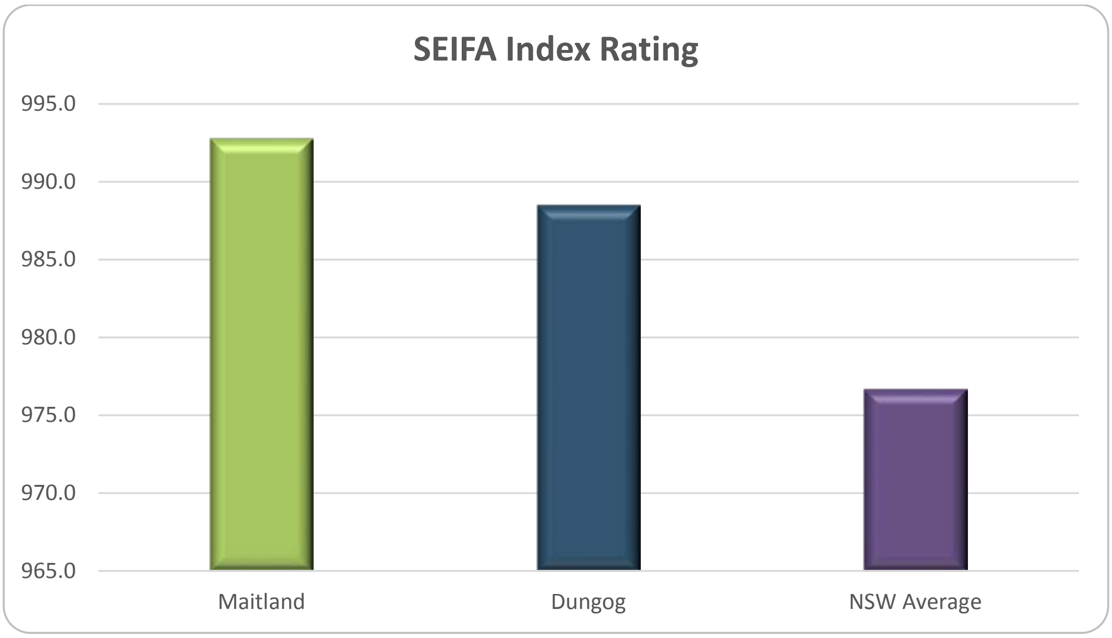
Dungog is grouped with 70 LGAs with average incomes are low to middle with per capita disposable incomes typically round $35,000. Income sources tend to be diversified: around 60 per cent wages contribution to disposable income and 15 per cent each from small business, property and benefits. The income growth rate has generally been fairly low over the past five years. Median family income in Dungog is $1,278 per week.

8 SOCIOECONOMIC DISADVANTAGE

The SEIFA Index of Disadvantage measures the relative level of socio-economic disadvantage based on a range of Census characteristics. It is a good place to start to get a general view of the relative level of disadvantage in one area compared to others and is used to advocate for an area based on its level of disadvantage.

The index is derived from attributes that reflect disadvantage such as low income, low educational attainment, high unemployment, and jobs in relatively unskilled occupations.

Lower scores on the index reflect higher levels of disadvantage, where higher scores indicate greater advantage.



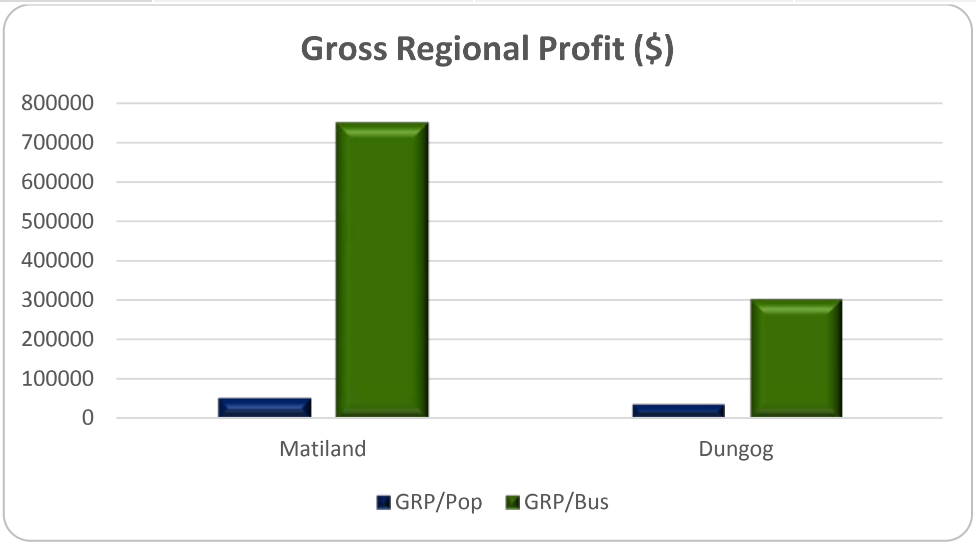
Maitland is considered less disadvantaged than Dungog against the SEIFA index. Both have a higher index than the New South Wales average.

9 LOCAL ECONOMIC FEATURES

Gross Regional Product

The Gross Regional Product for each council area is:

	Gross Regional Profit	GRP/Pop	GRP/Bus
Maitland	$3,620.421 M	$50 363	$753 156
Dungog	$304.095 M	$34 969	$305 316



Journey to Work

Journey to work information shows strong ties between the two council areas, particularly in the direction of Maitland.

- The majority of Maitland's residents live and work in the LGA
- Both LGAs also see considerable economic transition to Newcastle and Singleton
- Port Stephens also draws a reasonable proportion of residents from both regions
- Over half of Dungog's residents work outside the LGA, with the largest proportion working in Maitland, followed closely by Newcastle

	Persons, Place of Usual Residence	
Place of Work	Maitland	Dungog
Maitland	12895	468
Newcastle	6640	410
Singleton	1983	153
Port Stephens	1966	308
Cessnock	1642	66
Lake Macquarie	1401	80
Muswellbrook	340	24
Dungog	143	1642
Wyong	103	0
Kempsey	70	4
Sydney	56	8
Gosford	43	3
Great Lakes	29	32
POW No Fixed Address (NSW)	1005	153
POW State/Territory undefined (NSW)	1773	203
POW Capital city undefined (Greater Sydney)	26	0
Other regions <20 people	324	65
	30439	**3619**