DUNGOG SHIRE COUNCIL – SPECIAL RATE VARIATION APPLICATION 2019-2020

Is an SRV Needed?

There is no doubt that an SRV is needed. It can well be argued that the action or inaction of prior councils in reducing rates, not increasing them appropriately, not pursuing SRVs and of course the action of the last council to vote down a voluntary amalgamation have left this council with no choice but to apply for an SRV and council has resolved to pursue it. The issue is the quantum of such an application.

What is the Purpose of the SRV?

It is apparent from the mail out under the hand of the Mayor and General Manager **[Attachment 21 p.4, p20]** that the driver for the SRV is satisfying the Government's Fit for the Future reform agenda.

By letter dated 8 February, 2019 **[Attachment A]** the Minister advised that Dungog Shire Council broadly satisfied the financial criteria. The letter further states that the Improvement Proposal is reliant on a Special Rate Variation of 78.9% (excluding rate peg).

That same document highlights that the only infrastructure obligation that would be met as a result of a 98% increase over 7 years is a 20 year timber bridge renewal program whilst there would be improvement in other areas.

What is to be achieved by satisfying the revised FFTF targets? The bar has been lowered to maximise the chance of small underfunded councils complying but even so we would not comply in all respects.

It is now only necessary to be trending towards compliance in 2026-27.

Will the SRV of even 98% (including the rate peg) make this Council Sustainable?

All of the indicators are that the doubling of rates will not achieve sustainability. There will be a lot of pain but no real gain.

Sustainability of this council has been considered in numerous reports over recent years commencing with the Independent Local Government Review Panel Report commissioned by government in 2012.

The report concluded:

All Hunter councils appear financially sustainable, with the possible exception of Dungog, which has 'Weak-Negative' FSR and received a 'Distressed' rating in DLG's Infrastructure Audit. The Panel understands 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.

The Proposed SRV is Not New

On 18th August, 2015 Council adopted an improvement plan which included a special rate variation of 13% over six years (108% including the rate peg).

IPART considered that plan in 2015, a copy the report is **Attachment B.**

The current Improvement Plan referred to in the Minister's Letter is predicated on an SRV of 98% - nothing has changed.

What Happened Next

On 16th November, 2015 after receipt of the IPART report council resolved to reject the IPART findings..

On 1st May, 2017 Council resolved to what in reality was the rejection of the voluntary merger proposal from Port Stephens Council by requiring a Poll to be conducted at the election in September 2017 when it was known the merger proposal would no longer be an available option after the election

On 16th May, 2017 a rescission motion was lost .

Immediately prior to the September 2017 election the then Mayor stated on a number of occasions that rates would never be doubled. She having moved the motion to initially adopt the 108% SRV and the motion to effectively reject the voluntary merger with Port Stephens was left with no apparent improvement proposal.

What has changed? We are back to August, 2015!

The Critical Issue

Scale and capacity is surely the critical issue.

No matter what strategies are adopted they will not increase the scale and capacity of the council in the foreseeable future, if ever.

Special government grants and pork barrelling gifts before each election do not amount to sustainability.

No economic development will in 20 years replace what has been lost with the demise of the dairy and timber industries less alone improve the scale and capacity of the council.

Even if the SRV were granted for 98% over 7 years the income of council will only increase by less that $5M per annum after the 7 year period.

The 2016 cost of repairing the administration building was $3M. This amount is still not budgeted and is not taken into account in the documents to be submitted to IPART in support of any SRV.

Since the IPART report of 2015 borrowings have increased by $3.7M, to fund timber bridge replacements. The improvement plan assumes that all bridges will remain serviceable until they are replaced throughout the next 20 years. It is a reasonable assumption that further borrowings will be required during that period.

These contingencies have not been taken into account in producing the best-looking set of numbers for a submission to IPART and even more importantly it would appear to satisfy government that this council is meeting the much reduced Fit For the Future criteria.

The lack of scale and capacity is evident every day. Not only in a lack of finance but in a lack of staff. The senior staff are obliged to put in an extraordinary effort to meet the quite unreasonable demands of the State Government in preparing Integrated Planning and Reporting Documents.

Many promises have been made leading up to the state election however they are no more than political promises dependent on the outcome of the election and the will to follow through on the promise.

Community Consultation

The form sent out with the rate notices [**Attachment 10b**] gave the community an ultimatum. Agree to a 98% rate increase or have services cut. There was no advice as to what services were intended to be cut if there was not agreement to the 98% increase.

Would Paterson residents be concerned about the closure of the Dungog Pool or would Dungog residents be concerned about less maintenance of sporting facilities in Gresford?

To obtain informed decision making more information should have been given.

The same goes for the telephone poll – the answers were not informed. To be informed you need to be made aware of both sides of the situation in a balanced manner.

Botany Bay City Council v The State of New South Wales and Minister for Local Government [2016] NSWSC 583 – upheld on appeal.

The Way Forward

Let us stop pretending that we have the scale and capacity to properly serve the residents into the future and acknowledge that we do not have and will not have the scale and capacity to be sustainable without government intervention.

Imposing 15% for two years to remain in the rate base (32.75%) gives the community the opportunity to express their view at the next election and allows time for there to be appropriate meaningful negotiation with the state government for a proper long-term solution to the real problem – a lack of scale and capacity.

If granted by IPART council will have the benefit of the increased income while taking appropriate action for a long term solution. If necessary a further application can be made to IPART to follow the 2 year period.

John Connors

Councillor – Dungog Shire Council

ATTACHMENT 'A'

The Hon. Gabrielle Upton MP
Minister for the Environment
Minister for Local Government
Minister for Heritage

Doc ID:A618255

E-MAILED Date 27/2 By MO

Clr Tracy Norman and Ms Coralie Nichols
Mayor and General Manager
Dungog Shire Council
PO Box 95
DUNGOG NSW 2420

By email: [redacted]

Dear ~~Clr Norman~~ Tracy and ~~Ms Nichols~~ Coralie

Thank you for submitting Dungog Shire Council's Improvement Plan for reassessment in the *Financial Criteria Reassessment – Round 3* program.

The NSW Government remains committed to programs that strengthen the system of local government across the State. These programs aim to ensure that councils are able to deliver the quality services and infrastructure that NSW communities deserve.

The Office of Local Government (OLG) has assessed Council's proposal against the financial sustainability criteria and associated benchmarks. I am pleased to advise that Dungog Shire Council has broadly satisfied the NSW Government's financial criteria.

The assessment has been made based on Council's reassessment proposal, Council's Long Term Financial Plan and other available data.

Key results from the reassessment of Dungog Shire Council are as follows:

Improvement Proposal Reassessment – Satisfied

- Council satisfied the financial criteria overall as, on balance, it met the financial sustainability criteria;
- Council has implemented a number of strategies to address its sustainability following the initial Independent Pricing and Regulatory Tribunal (IPART) review;
- Council's proposal is reliant on a Special Rate Variation (SRV) which, if approved, will support Council's ability to address its long term financial sustainability goals;
- Council commenced community consultation for a SRV of 78.9 per cent cumulative (excluding the rate peg) over seven years, to commence in 2019-20.
- Council continues to focus on a range of strategies to improve its financial outlook. The strategies proposed appear to be realistic and sustainable;
- Council has outlined strategies including a mix of raising additional revenue, reducing operating expenditure, rationalising assets and developing a culture of efficiency and productivity to achieve ongoing sustainability.

Sustainability – Satisfied

- Council's operating performance ratio (OPR) is forecast to be 9.6 per cent in 2026-27 which meets the benchmark;
- Council's own source revenue ratio (OSR) is forecast to be 72 per cent in 2026-27, inclusive of FAGs, which meets the benchmark;
- Council's building and infrastructure renewal ratio (BIRR) is forecast to be 144 per cent by 2026-27, which meets the benchmark.

Infrastructure and Service Management – Satisfied

- Council satisfied the infrastructure and service management criteria in the original IPART assessment.

Efficiency – Did not satisfy

- Council's real operating expenditure was $2,335 in 2016-17, declining to $2,207 in 2020-21, then increasing to $2,494 in 2026-27.

Council's summary will be published on OLG's website as an addendum to the Financial Criteria Reassessment Report – Round 3, which details the reassessment process and results.

I can confirm that the positive assessment of Council's Improvement Proposal by OLG allows Council to access Treasury Corporation's (TCorp) competitive rate loan facilities, subject to TCorp's credit criteria.

Council should ensure that the strategies and actions identified in its Improvement Proposal continue to be reflected in Council's suite of Integrated Planning and Reporting documentation, in particular its Delivery Program and Resourcing Strategy.

It is the development of these documents and the associated consultation processes that enables Council and the community to continue to work together in determining the main priorities and aspirations of the community, and ensures Council delivers the services and infrastructure its community requires into the future.

I would also like to highlight that OLG remains committed to supporting Council as it continues on its path to long-term financial sustainability. OLG will also continue to monitor and assess the performance of Council to ensure it delivers the improvements committed to and continues to strengthen its financial position overall.

At my request, Chris Allen from the Office of Local Government is available on [redacted] should you have any further enquiries.

Yours sincerely

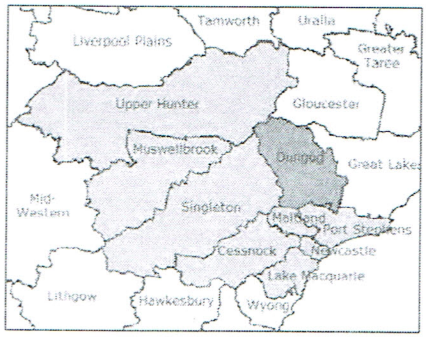
[redacted]

Gabrielle Upton MP
Minister for the Environment
Minister for Local Government
Minister for Heritage

8·2·19

ATTACHMENT 'B'

DUNGOG SHIRE COUNCIL – CIP



NOT FIT

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

ILGRP options (preference in bold)

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

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

Merge or council in Hunter JO (all shaded).

Assessment summary

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

Fit for the Future – NOT FIT

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

Scale and capacity – does not satisfy

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

Sustainability – does not satisfy

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

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

Infrastructure and service management – satisfies

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

Efficiency – does not satisfy

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

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