

Fit for the Future

**Submission to
Independent Pricing and Regulatory Tribunal**

**Submission in Response to
DUNGOG SHIRE COUNCIL**

Table of Contents

EXECUTIVE SUMMARY.....	3
DETAILED COMMENTS IN SUPPORT OF EXECUTIVE SUMMARY.....	5
Council Performance.....	5
Community Engagement and Communication.....	6
Shire Circumstances and Future Focus.....	7
Assessment Criteria for Fit for the Future Comments.....	8
1. Scale and capacity to engage effectively across community, industry, governments.....	8
2. Sustainability.....	9
3. Effectively managing infrastructure and delivering services for communities.....	11
4. Efficiency.....	11
Rural Council Comments.....	12
Will to Change.....	12
Modelling Comments.....	13
Assessment Criteria for Fit for the Future Comments.....	13
Overall Assessment.....	13

Submission

In Good Faith

The purpose of this document is to provide information and opinion to the Independent Pricing and Regulatory Tribunal in relation to Dungog Shire Council's Fit for the Future submission.

EXECUTIVE SUMMARY

Council performance has been poor because of:

- Failure to focus upon it's core functions from a community and business perspective.
- Inability to engage in an effective manner with the community.
- The lack of transparency, from a community perspective, in it's operations and way forward.
- Failure to embrace real change that results in quantifiable outcomes for the community, and
- The lack of will to significantly change to create sustainable outcomes.

The proposed Improvement Plan demonstrates no different overall approach to the past. There are no quantifiable gains to productivity, overall outcomes or other service level improvements to be achieved. Overall, plans are vague or general and some do not even start until well into the future with no end point.

In essence, the main way forward proposed by Council is a huge rate variation. This is the opposite of what a proper business plan requires. That is:

- A sound strategy, supported by stakeholders.
- Objectives and actions that are achievable but which stretch Council to optimal performance.
- Quantifiable outcomes and measurable results that can be shared with the community at the start, during the process and at the end, and
- Resources that are required and sound risk management.

It is imperative that Dungog Council be focused upon what is essentially required to move this Shire forward, having regard to the circumstances and needs of the community. This has not been done and there is no indication in the Improvement Plan, including the modelling, of any real change.

Council's main focus in it's Operational and Management Plans has been on process level measures rather than the required outcome measures. Additionally, Council has attempted to be “all things to all people”. Current Council activities and expenditures are across a very broad range and have no

apparent central focus. These range from road maintenance to aged care accommodation and land development, with no apparent relationship.

This has encouraged and embedded a culture of being busy and efficient rather than achievement of the important outcomes or the results that are required for community success. In essence, Council has an inward and general rather than outward and specific focus.

In my opinion, Council needs to follow the lead of Councils like Gloucester that has embraced community involvement, continuous improvement with a shared focus and specific targeting for rate variations.

In my opinion Councils submission for a 13 % increase in rates via a special rating variation should be rejected because:

- Council has not engaged the community in any meaningful manner about the proposed rate variation or even the right to make submissions to IPART about their submission.
- Council has had ample but wasted opportunity over many years to undertake vital continuous improvement strategies and consequent actions, with appropriate community engagement, to significantly improve core infrastructure.
- There is no evidence in Council's submission of any meaningful change in it's approach to strategic planning and outcomes focused activities and measures.
- Council has the ability to raise more borrowings, in view of relatively low debt service ratio, to improve the state of infrastructure.
- Council is focussed primarily upon Operating Revenue and not upon Operating Results, which would require rigorous and specific examination of services, levels, value for money etc. Council's modelling (Attachment 1) only focuses upon the revenue side of the equation and not the expenditure side.
- Overall, there is no indication as to how the community will benefit from productivity improvements, and
- There are considerable Council assets that can be divested, the funds from which can be reinvested in core assets.

DETAILED COMMENTS IN SUPPORT OF EXECUTIVE SUMMARY

Council Performance

Dungog Shire Council is not a high capacity council at present and is unlikely to become one having consideration to past performance together with the lack of apparent willingness and capability to significantly change. Council has not:

- Delivered quality services and infrastructure. High level indications are evident in the Fit for the Future key assessment criteria, or
- Prepared soundly based plans for the future. They have been operationally and tactically based without any meaningful focus upon core purpose of Council, strategic vision, actions and measurement to show real progress towards outcomes. Council's current Operational Plan and Improvement Plan demonstrates this.

Operational Plan Examples (over 95% of “outcomes” are similar to these)

Item	Outcome	Comment
Review, update Council’s Road Asset Management Policy and Plans	Policies and Plans are reviewed	No indication of the final outcome. What is impact on the community?
Undertake road safety audits across the Shire	% age of road network reviewed	No indication of the final outcome. What is impact on the community?
Maintain facilities and assets within budgetary limitations	No. of complaints received	What % of assets are maintained and to what standards by when?

Improvement Plan Examples

Item	Outcome	Comment
Ability to employ wider range of skilled staff	Completed asset management plans to better understand the community’s infrastructure needs	Community has no idea what these plans are and have had no meaningful input. Outcomes unknown
Advanced skills in strategic planning and policy development	Completed its new Local Environmental Plan	Same process indicator types as for Operational Plan

Effective Regional Cooperation	Council works closely with Chamber of Commerce etc. to diversify it's economy	No indication of the effectiveness of this strategy, e.g. New markets, Additional \$'s earned etc.
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Council has lagged well behind committed Shires like Gloucester in introducing sustainability strategies and quality programs (like shared services, restructuring management, prioritising service deliveries, rigorous and methodological asset management, etc.). Council has had the same opportunities but has chosen not to travel the same road.

Overall, Council has a relatively undeveloped and immature business model. Key features being:

- Trying to be all things to all people.
- Stretching scarce resources across service deliveries resulting in ineffectiveness, and
- Lack of outcome focus.

Community Engagement and Communication

Overall, Council has been unable to communicate, in a succinct and results orientated manner:

- It's current position in delivering value to the community compared to where it aims to be in the future, and
- What is essentially required to get there and major barriers to achievement.

Typically, community is able to input comment to Management and Operational Plans which are many hundreds of pages in length. Awareness of these plans and the opportunity to comment is via Council's web site. Plans are also deposited in local Post Offices. Awareness of these is, therefore, low and subsequent community input is even lower. Because of the daunting nature of the task, very little community input has been given over the years.

Commentary that I have provided, over many years relating to strategy, has not been acknowledged nor used to change. Minutes of Council meetings have broadly acknowledged this commentary as “strategic in nature”, nothing further.

Dungog Shire is very unlike Gloucester Shire (small rural as well) that has an active an involved community, even extending to community participation on Council committees. Feedback and involvement with planning processes is strong. In Dungog Shire, there would typically be very few responses to requests for feedback, including a Shire wide survey to ascertain community priorities about 2 years ago. There was a reply rate of less than 10%, being significantly below best practice of 80%.

There has been no community engagement into the Fit for the Future process. Submission documents only appeared on Council's website on 16 July after I requested this to happen. Neither the covering note to these documents nor a brief unsigned commentary in the Paterson Post, a local village newsletter, about the decision not to pursue an amalgamation with Maitland Council, made any reference to either a:

- Submission for a rating variation of 13% per annum for 6 years.
- Right to make input to Council, or
- Right to make a submission to IPART by 31 July (which I only found out when visiting the IPART web site).

Notwithstanding the April natural disaster, there is no excuse for Council not being open and transparent in relation to the stage reached in the process and possible consequences.

Shire Circumstances and Future Focus

Council acknowledges the:

- Relatively small and minimally growing population.
- Relatively low average income of residents, and
- Difficulty in acquiring and retaining skilled staff.

In my opinion, this means that the range and level of services overall must fit the environment with a strong bias towards “*basic and efficient*”. I accordingly propose that these involve:

- Road building and maintenance to the minimally required safety standards and having regard to best practice engineering standards, the Civil Liability Act and relevant Court decisions. This to be supported by outcome measurements & reporting to the community(e.g. % of sealed road network at a particular standard now will improve to x% by a certain date).
- Waste management *tailored* to suit residents needs (user pays).
- Minimal and compulsory regulatory functions on a risk management basis.
- Minimal parks and garden function. Apply a set criteria for determining location and size.
- Outsourcing (or a combination of Outsourcing and Rural Council initiatives 1,2,4 and 5):
 - Road building and maintenance.
 - Large recreation assets like the swimming pool.
 - Basic administrative functions like rate notifications and associated work, and
 - Information technology functions
- Divesting the 18 seniors resident units as this is not core business and reinvesting in core assets.

- Divesting land holdings (over \$1million presently) unrelated to Council's direct and core business operations, e.g. housing sub divisions, industrial lots, and reinvesting in core infrastructure. *Council should be creating the climate for private developer involvement not being directly involved as part of core business.*
- Ceasing involvement with aged care residential loans as it should not be part of Council's core business.
- Ceasing involvement with climate change initiatives unless State or Federal Government funded
- Reducing Land Management functions to State or Federal Government funded initiatives.
- Improving natural environment according to funding received.
- Actions in relation to strengthening and expanding the Shire's economic base only be funded where a business case justifies a return in excess of monetary outlays.
- Changing the main focus of the Community Involvement part of the Operational Plan to direct participation in Council's planning and key implementation activities.
- Ensuring any community events have a direct link to making Council more effective.
- Building outcome based and quantifiable (from the community's perspective) business cases to State and Federal Governments for specific funding. These to be modelled on best practice templates, and
- Ensuring overall asset management is supported by quantifiable outcome targets and measures that are reported to the community.

Assessment Criteria for Fit for the Future Comments

1. Scale and capacity to engage effectively across community, industry, governments

Effective engagement across the community has not been evident in the past. Example being repeated very low responses to planning documents, change proposals or surveys.

Council's business case examining a merger with Maitland Council resulted in a negative response.

Key reasons are set out on page 3 of Council's Attachment 1.

Of these there is only one that appears to be certain, i.e. "That is there is a substantial cost for the Council's to merge".

The other 6 reasons all include the words "may not be achieved or may be higher" etc, which, in my opinion:

- Is not a ringing endorsement for a no merger case, nor
- A positive indicator of a willingness to embrace change.

This is a disappointing outcome, especially when combined with Council's rejection of a Rural Council solution and the relative lack of significant strategic change over the years.

In my opinion, there is further room for both Councils to continue negotiations and possibly make submission to Government about special allocation of funds.

Key Elements of Strategic Capacity

As for the criterion in Box 3.1, I make the following observations:

- There is little scope presently to undertake new functions and major projects. Council will need to define core business as a starting point. Then it will need to develop a change focus and capacity that is not there right now.
- There is little scope to employ a wider range of skilled staff. Council comments in the Improvement Plan support this.
- Advanced skills in strategic planning have not been demonstrated. Evidence of this can be found in the Operational Plan which is activity based with no outcome or results focus.
- Effective advocacy as far as making a business case for special grants etc. has not been demonstrated to the community. There are no cases, based on best practice business plans, available to the community.
- Resources for complex and unexpected change are severely limited in large scale, lengthy circumstances. Evidence for this can be found in past and current performance which has fallen well short of nearly all benchmarks. How can there be capacity for unexpected significant change when normal operational standards are not being met?
- High quality political leadership, as far as it relates to charting and explaining a course for the long term, has not been evident to the community. I refer to comments made under Community Engagement and Consultation.

2. Sustainability

Council comments are at a very high level and do not indicate any real progress towards sustainability, even though there have been many opportunities to address various issues over many years. I have made commentary about this above.

In comparison, Gloucester Shire has achieved significant progress over the last few years through the will, capability and community involvement. That Shire's examples are specific, significant and have arisen from very similar circumstances that Dungog Shire has experienced over many years.

(a) Operating Performance Ratio

On current information, I am of the opinion that Council will never meet this indicator. Council's Operating Result is influenced by:

- Too many services provided.
- Services provided at wrong level, and
- Poor or no funding proposals for special needs (e.g. no State maintained Roads, Very High Bridge Numbers, high through heavy vehicular traffic other than residential). Business cases have been hampered by lack of evidence based material of a quantitative nature. The level of influence of State & Federal government decisions has been historically low.

As commented previously, Council's proposed strategies are mainly operationally based as they have always been. The essence of strategic plans is long term, with clear objectives and actions in a framework of measurement, reporting and review.

Overall, the main element for Council moving forward is the 13% variation sought. More money is rarely the main solution for sustainability.

It is much more about the overall framework being sound and development of a change strategy for moving forward. No solid foundation, no future.

Additional funding is the enabler for that effective change to take place.

At present, I conclude there is no evidence that Council is willing or able to change from ways of the past. The Council submission made contains a series of actions proposed that merely will affect the edges of overall performance and not make the big breakthrough that is needed.

The comments made in relation to the column "Impact on Other Measures" is revealing and a confirmation of my conclusion above:

- "Result in positive impact on relevant asset indicators if *revenue sources* are increased."

Again, a single strong focus upon revenue. No analysis on the expenditure side of the equation. For example:

- What are Council's core activities?
- Can other current services be reduced, eliminated or outsourced?
- Can there be further efficiencies?

Therefore there is great potential for this ratio to significantly improve with a much lesser rate variation than 13%.

(b) Own Source Revenue Ratio

According to the 13% modelling, this ratio all but meets the target in 4 years.

However, it appears that there has been no formal reviews of revenues that may be available outside of a special rate variation. There is little to suggest anything significant will occur in the short term

Therefore there is potential for this ratio to improve in a shorter time than 4 years with a much lesser rate variation than 13%.

(c) Building & Asset Renewal Ratio: asset renewals/depreciation

According to the 13% modelling, this ratio will be nearly met after 4 years.

However, this could be considerably earlier should asset divestment occur as I have suggested earlier. In addition, should improvements be made to extend the life of assets, a further positive effect would occur.

Therefore there is potential for this ratio to improve in a shorter time than 4 years with a much lesser rate variation than 13%.

3. Effectively managing infrastructure and delivering services for communities

The width and breadth of infrastructure managed is an important part of this equation. It essentially involves the question “what core business is Council in?”. I have commented on this above and will not repeat here. However, it is clear that the amount of infrastructure managed can be reduced.

Other key parts are:

- The way in which assets are maintained or renewed, and
- The additional funding that may be able to be sourced from special grants.

I have commented on these above and will not repeat here. However, it is clear that there is significant scope for positive change in these areas.

(d) Infrastructure Backlog Ratio

According to the 13% modelling, this ratio will be nearly met after 2 years.

With changes suggested, there is significant potential for this ratio to improve in a shorter time than 2 years with a much lesser rate variation than 13%.

(e) Asset Maintenance Ratio

According to the 13% modelling, this ratio will be met short term.

With changes suggested, there is significant potential for this ratio to improve in a shorter time than 2 years with a much lesser rate variation than 13%.

(f) Debt Service Ratio

This ratio is already met.

There is potential for additional borrowings to improve service delivery as commented above.

This would reduce the need for a special rate variation.

4. Efficiency

(g) Real Operating Expenditure Ratio

The 13% modelling suggests that this is well on the way to being met.

However, this ratio could be considerably lower without the 13% increase having regard to:

- What assets and asset levels need expenditure (what is core business?), and
- What funding is available (e.g. special grants), see Operating Performance Ratio.

I have commented on these above and will not repeat here. However it is clear that there is significant scope for positive change in these areas.

Rural Council Comments

Council rejected this option on the basis of uncertainty about establishment and operation. This was notwithstanding a very high degree (arguably 100%) of fit to the characteristics as set out in Box 2.1 of the Fit for the Future reforms paper.

Council assesses the degree of fit as high with the following exceptions:

- Small and static population over large area. This Shire has a small but slowly growing population that is spread over a relatively large area, and
- Limited options for mergers. Council has rejected a merger with Maitland. This assessment by Council appears to be saying there are other opportunities for mergers. There is no further information about this in Council's submission.

Council's conclusion that there does not seem to be any benefit again just adds to the continuing theme of a seeming reluctance to embrace real change.

There is no substantial analysis of the key elements set out in Figure 2.2 of the Fit for the Future reforms paper.

It appears clear that at least Options 1, 2, 4 & 5 offer great opportunity to reduce costs and share best practice. In my opinion this is a prime example of the localised and insular thinking of current and past Council. It just seems to be more of the same with a little change here and there, with most gains made by squeezing a little more from less.

There is no apparent appetite for “big step” improvement, in Continuous Improvement terms, and what it takes to achieve that.

Will to Change

A circuit breaker is an imperative to create a platform for this Shire to make a significant jump and deliver real value add for the community which can be readily acknowledged and appreciated.

Without the will to change and determination over time hardly anything significant will happen. It will be much the same with some improvements around the edges, larger cash flows through rate increases and virtually no chance of the community seeing better value for their rate dollars.

There is little indication of an appetite for real change or even sense of urgency in Council's submission. The number one strategy for achieving Fit for the Future status is to obtain a huge 13% special rate variation. Other strategies and actions could have been tried many years ago but were not. Example: “undertake service delivery reviews”. These do not depend on a rate variation. This alone indicates a lack of the will to change significantly and, quite possibly, the wherewithal to change as well.

This does not bode well for the future.

Modelling Comments

I am unable to make specific comments about the modelling as I do not have access to the actual spreadsheets to enable manipulation of the data in order to propose different scenarios and outcomes.

However, I do note that the modelling is based on financial detail as at 2014/2015, extrapolated to the out years with adjustment for various special rate variations only. In other words there has been no apparent modelling of various scenarios reflecting, for example, significant changes that might be brought about through redefining core business or other aspects commented upon in the sections:

- Shire Circumstances and Future Focus, and
- Assessment Criteria for Fit for the Future Comments.

Therefore I do not regard the modelling as complete or reflective of the changes that I consider Dungog Shire needs to deliver before it becomes effective, efficient and accountable to the Community.

Overall Assessment

- History of little significant (breakthrough) change to deliver better value to the community
- Low level of performance as indicated by the benchmarks.
- Very low level of effective community engagement
- Vast majority of Fit for the Future benchmarks could be met with a much lower rate increase than 13% (considering improvements that could be made) by focussing on the “basic and efficient” aspects mentioned above in “Shire Circumstances and Future Focus” and those included in the Assessment Criteria comments.
- No real evidence of the will to make significant changes.

I note that the special rate variation applied for will not be set aside for a particular program with a particular and quantifiable result. In my opinion, this is a continuation of Dungog Shire's general approach. It is basically not holding Council accountable to the community.

I consider that no special rate variation be granted until Council has demonstrated a willingness and capability to make real changes.

Should that not be acceptable I would propose a modest special rate variation of less than 5% be granted for 3 years, with a review at that time of Council's progress in their change endeavours and Fit for the Future benchmarks.