

## **PUBLIC STATEMENT EMBARGOED UNTIL 6AM TUESDAY 26 May 2009**

### **No Improvement Discernible in NSW Local Government Sustainability**

NSW councils are failing to improve their financial sustainability according to the 2009 Review of NSW Local Government Financial Sustainability.

Of the top 100 councils in NSW, 46 have sustainable financial policies and 37 don't. Vulnerable councils on the verge of being unsustainable number 16.

Only one Council (Botany Bay) does not publish its statutory financial reports in full on its website or respond to information requests. This is an improvement on last year when three councils lacked transparency.

Unsustainable councils are those that over the next ten years need to increase their annual rates, fees and charges by more than double the general inflation rate to eliminate their financial and infrastructure imbalances. Lack of sustainability should not be mistaken for insolvency since councils being government authorities have the capacity to levy or borrow to pay their bills.

Assuming price inflation averages 3% per annum, councils that are not sustainable would have to hike their rates, fees and charges by at least 6% a year for each of the next ten years to get their finances and infrastructure in order. That amounts to 80% or more over the period. The least sustainable council will need to increase its imposts by 300% to achieve sustainability.

By contrast, sustainable councils are those that should be able to achieve satisfactory financial and infrastructure outcomes with total rate, fee and charges increases of 60% or less over the next ten years.

Inner metropolitan and regional rural areas have the strongest concentration of sustainable councils while regional coastal areas have the least.

Compared with the 2008 Review, 14 councils were upgraded to a sustainable rating while 13 were downgraded to an unsustainable one resulting in a net improvement of only 1 council. These changes resulted from a combination of new council data and a refinement of the review methodology (e.g. replacing long term gross debt and spare cash with the all embracing concept of net financial liabilities).

The latest review is based on councils' own data for the last financial year (2007/08) and was undertaken by FiscalStar Services Pty Ltd at the instruction of Review Today Pty Ltd and sponsored by Dexia Credit Local Asia Pacific Pty Ltd.

Commenting on the findings, Review Today's Research Director, Professor Percy Allan said:

“The latest study does not capture the downturn in the economy which only became evident in the first half of 2008/09. The impact of the recession on councils won't be known until the next Review is conducted in 2010. However, it will be hard for councils to increase rates, fees and charges to repair their finances in a weak economy even if rate pegging and developer contribution caps were not an issue.

“FiscalStar's findings are based on data provided by the top 100 councils on their websites and in questionnaire returns. Water and sewerage operations are excluded.

“Since these councils serve over 90% of the state's population, the position of NSW local government as a whole in 2007/08 can be estimated as follows:

- ❑ \$4,528 million of local infrastructure was in an unsatisfactory condition (\$188 million less than the previous year),
- ❑ \$1,862 million was owed by councils in net financial liabilities (up \$553 million), and
- ❑ \$179 million was the combined operating surplus of councils (down \$27 million).

“It's encouraging that for the sector as a whole the \$500 million annual shortfall in infrastructure spending on road, stormwater drainage, recreation facilities, building and other infrastructure renewal uncovered by the Local Government Inquiry in 2006 has shrunk to about \$150 million. This was the net result of some councils overspending on asset renewals so as to overcome their infrastructure backlogs while others still continuing to under spend on renewals by a huge margin.

“The overall reduction in infrastructure backlog appears to be the result of better council measurement of the condition of assets since there is still an infrastructure renewals shortfall which should be adding to the backlog.

“It's pleasing that local government as a whole is only fractionally expanding its operating expenditure faster than its underlying cost inflation. Keeping a lid on operating services is vital for ensuring any real growth in revenues can be used for rehabilitating the \$4,528 million of physical assets that are in a poor condition.

“Most worrying about the latest findings is that while 46 of the 100 largest councils are charting a sustainable future, the rest have fiscal policies that are unsustainable or vulnerable to failure.

“Unless councils at risk undertake long term strategic, financial and infrastructure planning on how they are going to turn around their situations their communities as well as state and federal governments will be in the dark about the consequences for local finances, services, infrastructure, rates, fees and charges.

“Residents and rate payers of such councils are facing mounting bills to rectify their finances and infrastructure unless other tiers of government come to the rescue. Their councillors should be asking hard questions about the sustainability of their councils’

existing revenue and expenditure policies if they don't want to be made scapegoats for the outcome.

“Councils should be using their rate notices, annual reports and websites to bring their plight to the attention of their communities. The view that financial and infrastructure problems should be publicised only at a state-wide rather than council, ward and street level is the main reason local government is not attracting support from local citizens and MPs for remedial action. It's simply off the radar.

“But for the work of FiscalStar there would be an information gap in NSW about the sustainability of local government because the findings of the 2006 Local Government Inquiry are already dated.

“On FiscalStar's latest findings, sustainable councils should be able to achieve modest budget surpluses, modest debt and little or no dilapidated infrastructure with average annual increases in rates, fees and charges of no more than 60% over the next ten years.

“By contrast unsustainable councils will have to increase their rates, fees and charges by at least 80 % over this period while vulnerable councils will have to strike increases between these two figures”, Professor Allan concluded.

Mr Bob Gaussen, Managing Director of Review Today added:

“To help councils evaluate their financial sustainability under different scenarios we have arranged to make FiscalStar's powerful, but easy to use modelling software available free of charge to 30<sup>th</sup> June 2009 on the Review Today internet site: [www.reviewtoday.com.au](http://www.reviewtoday.com.au).

“This will enable councils to get a general feel for what they need to do to get their finances and infrastructure in order. However, the version of the software on the web-site focuses solely on certain key financial outcomes and does not address the specific policy adjustments needed to achieve these outcomes.

“Only a detailed sustainability review can provide the details necessary to develop a council's future financial priorities and 10 year business plans. In addition the version of the model left with a council following a sustainability review enables the contribution of specific policy adjustments – such as the impact of increases or decreases in rates, fees and charges or in spending on services – to be directly assessed and compared”, Mr Gaussen said.

End Note: Professor Percy Allan AM chaired and directed the NSW Local Government Inquiry of 2006. He is a former Secretary of the NSW Treasury (1985-1994) and was Chairman of the Premier's Council on the Cost & Quality of Government (1999-2007).

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The full 2009 FiscalStar report can be downloaded from [www.reviewtoday.com.au](http://www.reviewtoday.com.au)

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# The Sustainability of Present Financial and Infrastructure Policies of the Largest 100 Councils in NSW, 2007/08

As assessed by:



larger NSW councils	financial sustainability rating of existing policies <sup>(a)</sup>
<b>METROPOLITAN: INNER</b>	
Ashfield Municipal Council	Sustainable
Botany Bay City Council	n.a.
Burwood Council	Unsustainable
Canada Bay City Council	Unsustainable
Canterbury City Council	Sustainable
Hurstville City Council	Sustainable
Kogarah Municipal Council	Sustainable
Lane Cove Municipal Council	Sustainable
Leichhardt Municipal Council	Sustainable
Manly Council	Sustainable
Marrickville Council	Vulnerable
Mosman Municipal Council	Vulnerable
North Sydney Council	Sustainable
Randwick City Council	Sustainable
Rockdale City Council	Sustainable
Strathfield Municipal Council	Sustainable
Sydney City Council	Sustainable
Waverley Council	Sustainable
Willoughby City Council	Vulnerable
Woollahra Municipal Council	Vulnerable
<b>METROPOLITAN: OUTER</b>	
Auburn Council	Sustainable
Bankstown City Council	Sustainable
Baulkham Hills Shire Council	Vulnerable
Blacktown City Council	Sustainable
Blue Mountains City Council	Unsustainable
Camden Council	Vulnerable
Campbelltown City Council	Sustainable
Fairfield City Council	Sustainable
Gosford City Council	Unsustainable
Hawkesbury City Council	Vulnerable
Holroyd City Council	Sustainable
Hornsby Shire Council	Sustainable
Ku-ring-gai Council	Unsustainable
Liverpool City Council	Unsustainable
Parramatta City Council	Vulnerable
Penrith City Council	Unsustainable
Pittwater Council	Sustainable
Ryde City Council	Sustainable
Sutherland Shire Council	Sustainable
Warringah Council	Sustainable
Wollondilly Shire Council	Unsustainable
Wyong Shire Council	Unsustainable

larger NSW councils	financial sustainability rating of existing policies <sup>(a)</sup>
<b>REGIONAL: COASTAL URBAN</b>	
Ballina Shire Council	Unsustainable
Bega Valley Shire Council	Unsustainable
Byron Shire Council	Unsustainable
Coffs Harbour City Council	Unsustainable
Eurobodalla Shire Council	Vulnerable
Great Lakes Council	Unsustainable
Greater Taree City Council	Unsustainable
Kempsey Shire Council	Unsustainable
Kiama Municipal Council	Unsustainable
Lake Macquarie City Council	Sustainable
Newcastle City Council	Sustainable
Port Macquarie-Hastings Council	Unsustainable
Port Stephens Council	Vulnerable
Richmond Valley Council	Unsustainable
Shellharbour City Council	Vulnerable
Shoalhaven City Council	Sustainable
Tweed Shire Council	Unsustainable
Wollongong City Council	Unsustainable
<b>REGIONAL: INLAND URBAN</b>	
Albury City Council	Unsustainable
Armidale Dumaresq Council	Unsustainable
Bathurst Regional Council	Unsustainable
Broken Hill City Council	Unsustainable
Cessnock City Council	Unsustainable
Dubbo City Council	Unsustainable
Goulburn Mulwaree Council	Sustainable
Griffith City Council	Sustainable
Lismore City Council	Unsustainable
Lithgow City Council	Vulnerable
Maitland City Council	Sustainable
Orange City Council	Sustainable
Queanbeyan City Council	Vulnerable
Singleton Shire Council	Sustainable
Tamworth Regional Council	Vulnerable
Wagga Wagga City Council	Unsustainable
Wingecarribee Shire Council	Sustainable
<b>REGIONAL: RURAL</b>	
Bellingen Shire Council **	Unsustainable
Cabonne Shire Council	Unsustainable
Clarence Valley Council	Unsustainable
Cooma-Monaro Shire Council	Sustainable
Cowra Shire Council	Sustainable
Forbes Shire Council	Sustainable
Gunnedah Shire Council **	Sustainable
Gwydir Shire Council	Unsustainable
Leeton Shire Council	Sustainable
Liverpool Plains Shire Council	Unsustainable
Inverell Shire Council	Sustainable
Mid-Western Regional Council	Vulnerable
Moree Plains Shire Council ***	Sustainable
Muswellbrook Shire Council	Unsustainable
Nambucca Shire Council ***	Unsustainable
Narrabri Shire Council	Sustainable
Parke Shire Council	Sustainable
Temora Shire Council	Sustainable
Tumut Shire Council **	Sustainable
Upper Hunter Shire Council	Sustainable
Upper Lachlan Council	Vulnerable
Wellington Council	Unsustainable
Young Shire Council	Sustainable

**Explanatory notes:**

Note: All assessments exclude a council's water & sewerage operations.

<sup>(a)</sup> Assessment of the financial sustainability of a council's existing financial and infrastructure policies is based on the council's most recent statutory financial reports, focussing on its operating deficit, debt level and infrastructure backlog – each as reported by the council. n.a. = not assessed (only Botany Bay has not published any of its full statutory financial reports for 2005/06, 2006/07 or 2007/08 on the internet).

A council's existing financial and infrastructure policies are assessed as financially 'unsustainable' where substantial revenue (or expenditure) adjustments over the next few years seem unavoidable. The financial solvency of such councils is not being called into question. Rather, it is the continuation of a council's present revenue-raising and spending that is financially unsustainable. In the absence of increased grants funding, the substantial rates increases and/or spending cutbacks necessary if these councils are to achieve financial and infrastructure conditions that are prudent and responsible will impose a considerable cost on ratepayers and the communities they serve.

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