

Financial Model Inquiry

The financial model of local councils is severely stressed. In general, Council expenditure has outstripped income and Councils do not appear to be able to bring their finances back into balance without being granted a Special Rate Variation (SRV) to increase rate revenue. Up to a third of all local Councils in NSW have already been granted a SRV, with another third commencing the application process and the remaining third waiting in the wings ready to start.

Some say that the financial model for Councils is so out of balance, so under stress, that it is now effectively broken.

A. Suggested Causes

In my opinion there are five main factors why Councils are in such an unhealthy state.

1. Diminshing Commonwealth Support. Over the past decades the amount of money normally given to local Councils by way of Financial Assistance Grants from the Federal Government has fallen from 1 per cent of tax receipts to 0.53 per cent. It may not seem much, but in dollar terms it means local councils receive billions less from the Commonwealth.

2. Cost Shifting. Councils and communities have been forced to carry ever-greater responsibility for state government services and infrastructure. Local Government NSW says the burden is now the equivalent of more than \$460 per ratepayer annually.

3. Increase in Costs. According to the ABS the cost of living has increased dramatically by over 10 per cent since 2020. Councils are not immune to this nationwide trend and the increase in labour, goods and services now places an additional burden \$millions to the expenditure of Councils.

4. Rate-Pegging. Even though expenditure has risen significantly over the past decade, the NSW Government has prevented Councils from increasing their revenue to keep pace – with the notable exception of the SRV mechanism. It is called “rate-pegging”. Hence revenue continues to fall further and further behind expenditure, unless a SRV is granted.

5. Quality of elected Councillors. Council is not just a cosy meeting place. It is a business. In the case of most Councils in NSW, it is a business that employs hundreds of people, has revenue in the many \$millions and assets worth hundreds of millions. They are big businesses, yet the ratepayers repeatedly elect people who don't have the skills and experience at running a major corporation. It is time that something be done to upgrade the skills and experience of elected Councillors.

B. Suggested Solutions

1. New Revenue Stream. The majority of Councils revenue comes from rates. Fees, charges and Grants make up the remaining quarter to one-third. This is a narrow form of revenue and is highly dependent on the property market (as rates are directly correlated to property values).

Traditional sources of revenue from the Commonwealth and State to augment Council revenue have been reducing over the decades, as the Tax base of the States and Commonwealth are under considerable pressure too. There needs to be a new, independent source of revenue for Councils.

Australia introduced a limited Financial Institutions Duty (FID) in 1982, levied on deposits in all financial institutions. It was abolished in 2001 when the Goods and Services Tax was introduced.

Australia could reintroduce a Financial Transaction Tax (FTT) covering all amounts withdrawn from all accounts by banking and financial institutions. I would suggest a modest levy of 0.25 per cent on all withdrawals would be sufficient. This tax, when cleared, is instantly deposited through the Electronic Funds Transfer (EFT) system into the National Treasury. From there it will be automatically distributed to Councils in proportion to the area, population and size of the economy they serve.

2. Larger, more competent Councils. In the early 1900s, there were 327 local councils in New South Wales. By 1991 that number had been reduced to 176. Currently, there are 128 Local Councils in New South Wales, but a significant proportion of them are struggling financially. In many reports going back over decades, the number of Councils in NSW itself has been proven to be a determinant factor with regard to the financial sustainability (even viability) of many Councils.

Rather than have a new (and large) source of revenue being dispersed across 100 + Councils throughout NSW, it would be preferable if the money was distributed to fewer, larger "super" councils. Conveniently, local councils are already aggregated into 13 Joint Organisations covering most of the State. It could be these Joint Organisations that receive the largess from any new revenue stream.

Over time, the joint Organisations will become the dominant player in the regional they serve and eventually the many, small local councils within them will voluntarily decide to start the process of merging and amalgamating. One added benefit from funding to and through Joint Organisations, and the resultant reduction in local Councils, is that better paid and better-quality Councillors will be attracted to the position.

To give one example of the Joint Organisations of the Central West of New South, there are currently 11 Councils with 11 elected Mayors and over 80 elected Councillors/Alderman. As much as everyone would like to think that all the Mayors and the Councillors to all the 11 Councils are skilled, competent, business-savvy people – the reality is they are not.

If Joint Organisations received the new revenue and eventually a process of Council consolidation ensued, then the quality and remuneration of those elected officials would improve.

