



**PORT STEPHENS**  
COUNCIL

# Consolidated Report

**Independent Financial Analysis – 2022**

*New England Education and Research Proprietary Limited  
Emeritus Professor Brian Dollery & Professor Joseph Drew*



## **Background**

Port Stephens Council has engaged Professor Joseph Drew and Emeritus Professor Brian Dollery of the University of New England to commission four reports to aid in assessing Council's overall financial sustainability and a potential application for a special rate variation.

The Centre for Local Government at UNE is a multi-disciplinary centre for research, consultancy, and education activities to all sectors of Local Government. Of critical importance, Professor Drew has conducted similar reports for Cootamundra-Gundagai Council that were included in their successful 2021-22 SRV and was widely accepted by the community as an independent voice with a level of depth and insight beyond standard practices.

### **Report 1: Financial Sustainability**

- Fifty metrics examined, rigorous empirical work including econometric modelling and data envelopment analysis, concludes that PSC is facing a financial crisis that needs to be addressed.
- While PSC has met its goal for operating ratio in the past, due to the ongoing impacts of COVID-19 this will not be possible in the short or long term. Stemming from the sudden drop-off in Holiday Park revenue, the absence of Airport dividends, and drastically reduced Children Services revenue.
- PSC has become exposed to commercial risks in its struggle to maintain sufficient revenues in addressing its inadequate rate base.
- A Special Rate Variation is recommended to address ongoing financial sustainability.

### **Report 2: Capacity to Pay**

- The report details the insufficiency of rates revenue for PSC in the short to long term.
- Review of rate structure with suggestions to improve both distributive justice and capacity to pay. Concerns with lowering or abolishing base amounts.
- Recommended capacity for a double-digit SRV application size and 3-year length – refer to p105.

### **Report 3: Efficiency Report**

- Results of Data Envelopment Analysis (DEA) show PSC performed close to the typical result being 0.75 (1 being perfectly efficient).
- Confirmation that ratepayers, Councillors and IPART can be assured that PSC provides good value for money.

## Recommendations for further improved Efficiency

1. Explicit Measures to Combat Fiscal Illusion – targeted campaign
2. Abolish Ward Structures – 3.4% increase in unit expenditure per additional ward
3. Review Corporate Structure – emphasis on the number of lower-level managers
4. Service Level Review – aligning the current process with a willingness to pay
5. Council Led Internal Efficiencies – deferral of discretionary projects, better procurement process, capture tourist revenue, more appropriate use of carefully tailored fees and charges

## Report 4: Debt Capacity

- Previous debt is associated with discretionary projects which exacerbate fiscal illusion.
- Advice that PSC is already close to its debt capacity ceiling. \$5.3 million consolidated and special case view (excluding Airport) \$20 million.
- Commends prudent financial management exemplified through actions taken to continuously maintain debt at the lowest rates.
- Advice to defer any new debt liabilities until reduced risks and SRV approval. Discouraged financing costs of debt through reserves or the sale of land.

### Definition

**Fiscal illusion** occurs when local ratepayers do not understand the financial circumstances of their local council and underestimate the true cost of current municipal service provision (p1., Financial Sustainability Report)