Leeton Shire Council Financial Sustainability Report

30th June, 2025

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Leeton Shire Council Financial Sustainability Review

Executive Summary

This report demonstrates that Leeton Shire Council is not financially sustainable over the long-run. However, we hasten to add that whilst matters are serious there seems to be no immediate liquidity concerns. The biggest risk posed to council relates to the decade of projected budget deficits. This is especially concerning given current low levels of available cash. There is also a significant risk posed by potential state government policy making. It would thus be prudent for Council and the community to take timely action around securing ongoing increased revenue and also reduce expenditures wherever possible.

1. Introduction

This report is about the financial sustainability of Leeton Shire Council and the steps that may be required to assure same. Financial sustainability is probably best defined as the ability to meet the needs of the current residents without putting at risk the capacity of the next generation to meet their own needs (Drew and Dollery, 2020). It is essentially a moral endeavour which revolves around protecting the most vulnerable in our community, as well as assuring intergenerational equity. The latter is of particular concern, because if current residents don't at least fully fund operational expenditure now (as well as paying their fair share of capital spending), then a future voiceless generation will inevitably be forced to pick up the tab. This is, of course, a grave moral hazard that must be confronted (Buchanan, 1997; Drew, 2021).

Assuring financial sustainability is also important because a failure to do so in the past has resulted in some quite disagreeable interventions which have had catastrophic impacts on communities (Local Government Boundary Commission, 2022). Of particular note is the enduring risk of amalgamation which will inevitably arise again as a potential threat given both the state government's own fiscal distress, and the inability of regulators and politicians to learn from the mistakes of their last foray into boundary reform (see, Drew et al., 2022; Drew et al., 2023; Drew, 2025). Another intervention employed in the past has been to appoint an administrator, and the potential damage of such a move has been further heightened by recent legislative changes. We are not suggesting that either intervention is imminent for Leeton, but given the disastrous history of public policy in NSW it would not seem prudent to neglect these possibilities.

Local government is responsible for most of the essential services and infrastructure that Australians use on a daily basis. Yet, local government only extracts around 2.9 percent of taxation revenue in this country according to the most recent Australian

Bureau of Statistics (2025) *Government Finance Statistics*. Clearly the value that citizens routinely derive from their tax dollar at the local government level is far superior to that derived from state or federal spheres. Moreover, higher tiers of government have been encroaching on the single tax base (land rates) available to local government. Indeed, they have also increasingly been shifting costs onto councils to alleviate state fiscal difficulties, all the while playing blame games in the media around cost-of-living pressures.

Notably, local government is the only tier of government in this country that has to be transparent and accountable for its taxation increases. Most state and federal taxes increase in line with inflation – often exceeding this by a large margin. For instance, goods and services tax (GST) imposts automatically increase as prices of relevant goods go up – yet most people don't acknowledge this increasing burden and the pressure that it places on cost-of-living. Similarly, income tax imposts typically increase as wages try to keep apace with inflation, often by more than the nominal percentage wage increase because of bracket creep. However, once again, this is rarely acknowledged by citizens. Indeed, few people stop to contemplate that local government tax (rates) is by far the smallest tax burden in the typical family budget.

Notably local government is also the tier of government that takes the greatest care to protect vulnerable citizens from tax imposts. Consider the fuel excise tax (currently 50.8 cents per litre; according to the ATO, 2025), for instance – whether you are a well-remunerated executive, or a person on welfare the excise tax is the same. Indeed, wealthier folk are often able to afford electric, hybrid or new fuel-efficient vehicles and can thus escape all or a considerable portion of this tax. Reflect also on the GST – whether one is the Prime Minister of Australia or a homeless person, everyone is required to pay precisely the same tax for a given item. There are no hardship provisions at this tier of taxation. Yet, local government does typically have comprehensive hardship provisions, as well as discounts on the tax liability for pensioners.

Despite all of the aforementioned extraordinary circumstances of local governments a special rate variation (SRV) often presents as a politically challenging exercise. Because local government tax is more obvious (being billed quarterly instead of deducted before one receives one's pay, or simply included in the price of purchases) it garners much attention from citizens. Few welcome the prospect of paying additional tax, when they become aware of it. Additionally, media often misrepresents the matter encouraged by people intent on political mischief-making. Furthermore, the way the Office of Local Government (OLG) requires councils to communicate the size of the increase can also profoundly mislead people[1]. Yet despite all these difficulties many councils do indeed apply for an SRV most years. For instance, in the 2024-25 round nine applications were made (five approved); in 2023-24 seventeen applications were actioned (fourteen approvals) (IPART, 2025).

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[1] Especially with respect to including assumed rate pegs into the SRV figure and compounding this over several years (if applicable). Another problem relates to the dictate to present average tax increases for each category, even though it is known that the data is typically significantly skewed and furthermore that some people and sub-categories receive additional discounts.

If done rigorously, in the spirit of the Act (NSW, 1993), an SRV has the potential to transform organisations and assure intergenerational equity. It is also an important opportunity to educate members of the community and galvanise enduring co-operation. Part of a rigorous SRV is a strictly independent assessment of matters by bona fide experts using sophisticated empirical techniques and theory. Notably, no single metric is determinative or perfect: instead, evidence must be considered in totality with reference also to context and economic theory. The second part of a rigorous SRV is the interrogation of the application by the Independent Pricing and Regulatory Tribunal (IPART) according to the OLG Guidelines. Councillors and community must understand that it is not Leeton that will ultimately decide whether a tax increase is allowed – this decision is the purview of the IPART under Ministerial delegation according to the Act (NSW, 1993). Otherwise stated, council and community are not agreeing to any tax increase – they are merely putting a brief of evidence together, along with a recommendation, for the independent adjudication of the Ministerially appointed umpire (IPART).

An SRV application is in no way indicative of managerial or Councillor shortcomings. Nor is it a reflection of the dedication and efforts of council staff. In large part, it is simply a function of costs increasing at a rate that exceeds the anaemic movements in heavily constrained revenues.

Most people will be aware that Australia has experienced unusually strong rates of inflation since the federal and state government COVID policy interventions (see Drew, 2025 for a thorough discussion of the causes of inflation). Moreover, most people will appreciate that official inflation figures often fail to represent the actual cost-of-living increases felt (see, for example: https://www.youtube.com/watch?v=g4kJsDMglSU).

Indeed, inflation remains a particular concern for most in the community. However, it is also a cause of much confusion in the community: and also it seems, amongst some state and federal government decision-makers. There are, in fact, a number of measures of inflation produced by the Australian Bureau of Statistics. The Consumer Price Index (CPI) – the inflation measure most people implicitly refer to – is by definition, a measure of the change in a basket of *household* goods and services. It therefore has limited relevance to local government, although it might tangentially measure changes in capacity to pay of some residents[2]. The Producer Price Index (PPI) is arguably more relevant to local government – it measures the change in prices for business[3]. Even more informative is the PPI (roads) which is specific to the single largest cost for local governments.

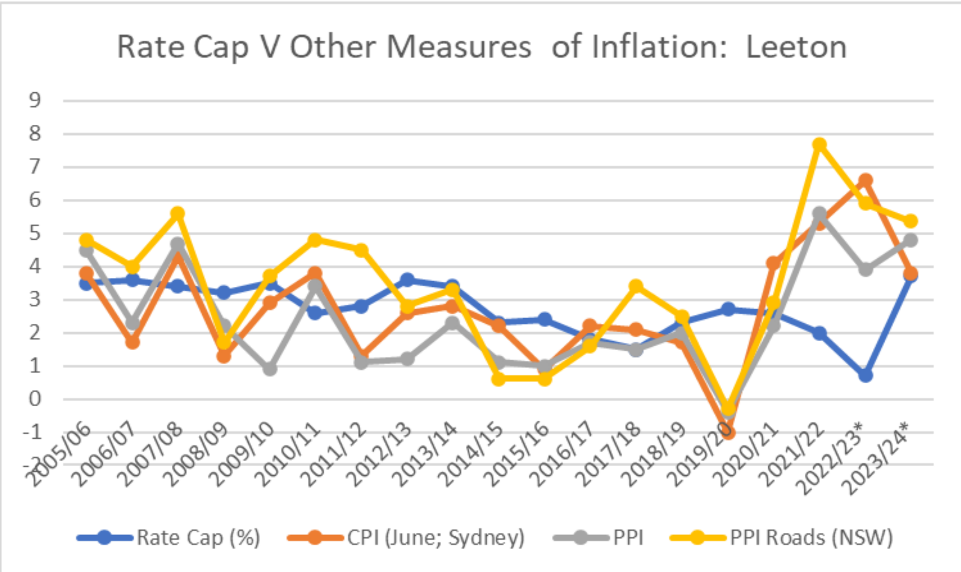
The local government cost index (LGCI) is meant to measure the increases to costs faced by local governments which have been immense because inflation has thus far disproportionately affected materials, insurance and energy (local government is

[2] Welfare is typically indexed twice per year to the higher of CPI or a bespoke living cost index.

[3] However, this is confounded by the fact that some businesses – such as call centres and the like – have experienced dramatic *decreases* in costs associated with outsourcing, going online or the use of AI. Often these sort of cost-mitigation strategies are not relevant to local government. Therefore, the general PPI is likely to be subject to a certain amount of conflation which reduces its appropriateness.

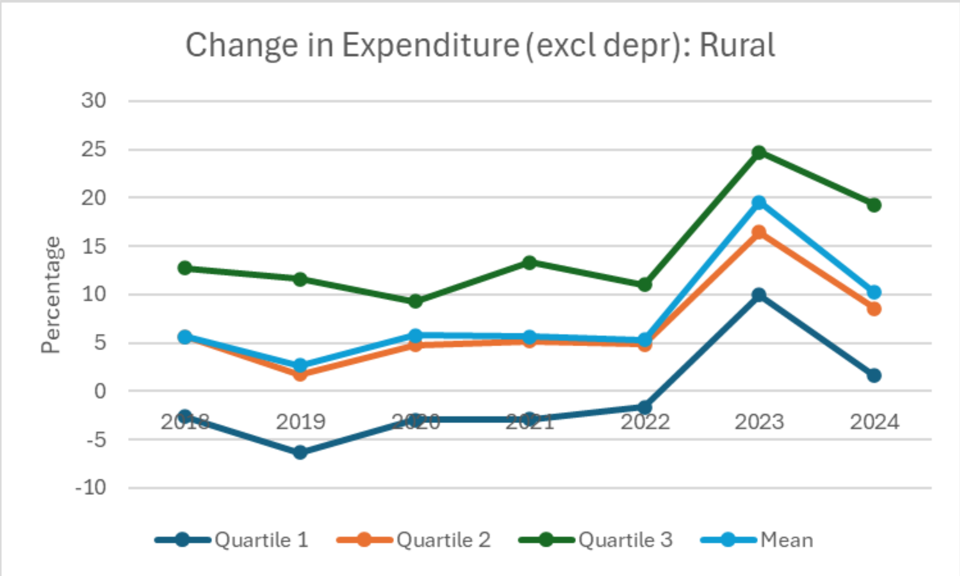
obliged to make considerable use of these resources to fulfil its remit: for example, the Leeton Shire Council expenditure on fuel in 2023/24 was $453,700, having risen from just $385,799 just two years earlier – which is over 17% in just two years). The local government cost index is used to guide decisions around the IPART rate cap which is the maximum percentage that a council can ordinarily increase its total tax take in a given year, in the absence of a special rate variation. Unfortunately, the LGCI does not measure local government cost pressures accurately – recent changes have improved matters a little, but it is still far from precise. As a result, the allowable tax increases for NSW local governments have largely lagged actual cost pressures over recent years according to Australian Bureau of Statistics data (Figure 1 below). This gap has been slowly compounding and explains some of the financial sustainability predicaments faced by local governments across the state.

Figure 1. Various Measures of Inflation Over Time



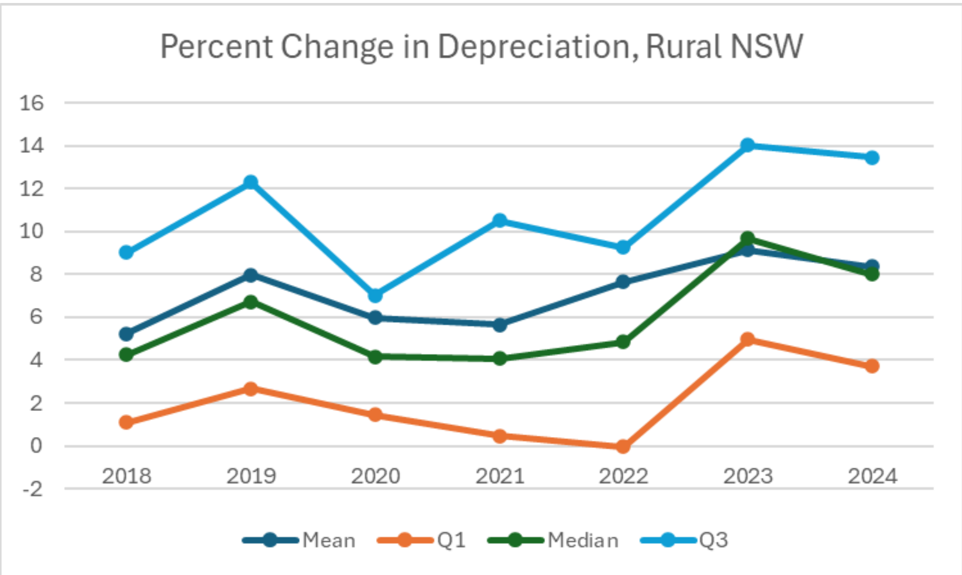
Clearly, the inability of a rate cap to keep apace with cost increases faced by local government will make it inevitable that councils will need to apply for SRVs from time to time. This insufficiency is further exacerbated by the extraordinary increases to operational expenditure that most rural local governments in the state have been obliged to absorb to meet their obligations to communities (as well as the national housing crisis) in the last few years. It should be clear that rate increases in the last two financial years have lagged expenditure obligations by a considerable margin (see Figure 2). {Matters are further inflamed by the fact that crucial grant receipts are linked to CPI (an inappropriate index which is typically lower than local government cost pressures)}.

Figure 2. Year on Year Percentage Change in Operational Expenditure (excluding depreciation), All Rural NSW Councils



Notably, Figure 2 excludes depreciation which has typically been increasing at a very fast pace because of apparent Auditor General misapprehensions around the intent of the AASB116 accounting standard (such as efforts to standardise depreciation accruals and also include assets that are clearly not under the control of council; see Figure 3).

Figure 3. Year on Year Change to Depreciation Expense, All Rural Councils



Further exacerbating matters are new regulatory costs such as the aforementioned central auditors (in truth, a cost-shift with relatively little value for communities; see McQuestin et al., 2021), Audit, Risk and Improvement Committees (ARICs), and new training requirements. Some of this is reflected in increases to staff costs (which are also subject to enterprise bargaining negotiated pay rises; Figure 4) as well as material and contract costs (Figure 5).

Figure 4. Year on Year Change to Staff Expenditure, All Rural Councils

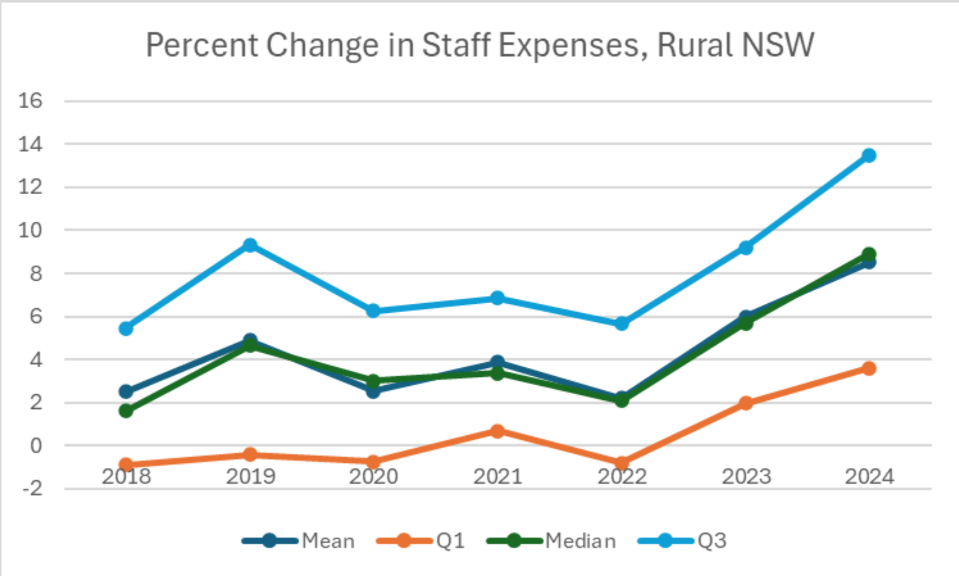
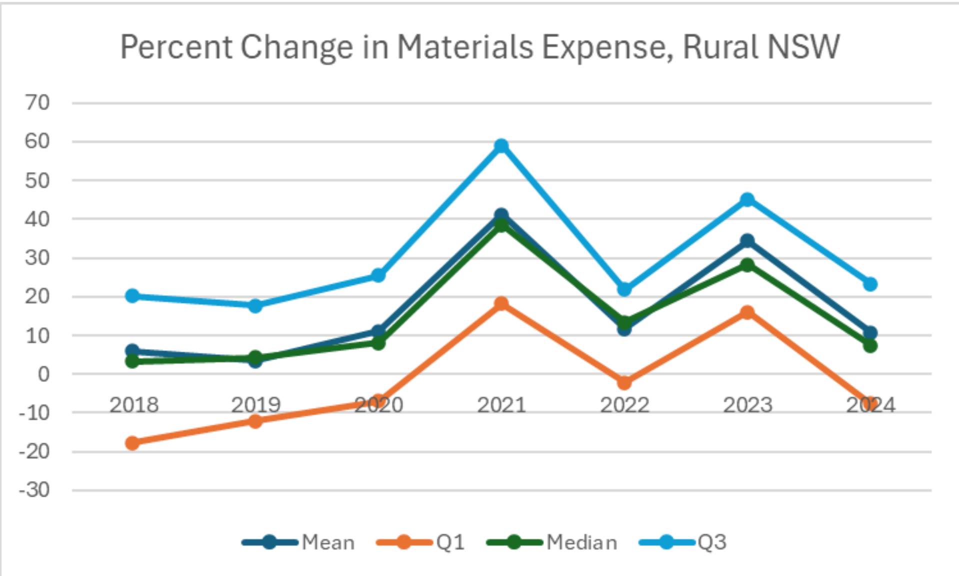


Figure 5. Year on Year Changes to Materials Expenses, All Rural Councils



Further compounding insufficient revenue growth with respect to sharply rising costs is the historical financial sustainability position of Leeton. For instance, we note that

TCorp (2013) declared Leeton to be ‘moderately’ sustainable with a ‘negative outlook’ based on its work mostly conducted in 2012. This was the fourth lowest ranking in the seven-part categorisation employed at the time, which was one rung above ‘weak’. Given the negative outlook provided at the time it is reasonable to assume that TCorp (2013) saw that Leeton was likely to deteriorate to at least ‘weak’ in the absence of a new revenue and/or expenditure paths. We note that the Council (2015) at the time proposed efficiencies – ‘reduction in FTEs’ (then 135 FTE), reducing motor vehicle fleet, reducing provision of mobile phones, reduced street sweeping, reduced roundabout plantings, reduced library hours, review of recreation facility fees and delivery models, contracting out of litter bin collection, ‘increased usage of the iconic Roxy Theatre’, ‘reduction in subsidy’ for the golf course, cost recovery for inspection fees, review of levies for Section 94A, ‘review the approach to depreciation’ – as part of their sustainability plan. Some of these proposed efficiencies weren’t efficiencies[4] at all; some had only marginal benefit; some were impossible to attain given new state government mandates; and some probably weren’t practical anyhow.

One of the key learnings that we have taken away from the councils we have previously helped is that *unnecessary* delay inevitably results in greater pain down the track. Every year that a council puts off collecting a reasonable quantum of taxation, increasing fees and charges, or improving technical efficiency is a year that ultimately will have to be caught up on. That is why one can sadly, all too regularly, see headlines about councils applying for SRVs of eighty percent or more (see for example Tenterfield or North Sydney). Nonetheless both the Council and the community must be ready before embarking on a SRV proposal – for instance long-term financial plans (LTFPs) as well as asset management plans (AMP) need to reflect the additional rigour demanded by IPART, pricing must be set carefully, subsidy programs must be reviewed, the community must be made aware of local government challenges and spending plans must reflect current circumstances. All of these preparatory matters may well have a bearing on what might be possible given the strict time constraints imposed by the SRV Guidelines. Furthermore, should the council commit to proceeding to Stage 2 (the SRV proposal) then a number of additional tasks would then be triggered as part of the process: including review of hardship policy, surveying of staff, surveying of community, councillor briefings & training, staff briefings and the like. An SRV is an intensive exercise that requires much time, dedication and thoroughness. With the right commitment and perspective, the process can work to the betterment of all stakeholders and result in new levels of understanding that might previously have eluded the various parties.

We reiterate that many people frequently misconceive who will make the decisions around an SRV. For the case of financial sustainability, the extant Guidelines (at time of writing) do not require that the community agrees to the tax increase – merely that

[4] Efficiency (technical or x-efficiency) is the conversion of inputs into outputs. Reducing both inputs and proportional outputs is not efficiency at all. Rather efficiency is reducing relative inputs whilst maintaining outputs, increasing outputs or avoiding a proportional decrease in outputs (or increasing outputs without a proportional increase in inputs). Confusion over how to define and measure efficiency was a feature of the Fit for the Future program (see Drew, 2021).

they have been made aware and that they have had a real chance to influence the design of the proposal in a reasonable way that acknowledges financial imperatives. The Councillors will then need to vote on a motion to forward the proposal to IPART. But this alone is no guarantee that the tax increase will occur – after all, in the last two rounds over a quarter of applications have been rejected by IPART[5]. The final decision is made by IPART around May each year, under delegation of the Minister for Local Government. IPART are quite thorough in their work – therefore only a comprehensive brief of sophisticated evidence and a demonstration of a real willingness to make changes and respond to community feedback can be assured of success. Indeed, one of the key tasks here is an independent interrogation of the LTFP and efficiency measures proposed to support the SRV application.

We also remind interested parties of recent changes to the Local Government Act (NSW, 1993) that 'permits council to catch up on the shortfall in general income over any one or more of the next 10 years' (IPART, 2025). This catch-up provision seems to apply to both 'the rate peg or the percentage specified in a special variation' (IPART, 2025). Thus, even if an SRV proposal is approved by IPART there can be no guarantee of the precise amounts and years that the increase might take place over – or whether it takes place at all[6]. This is an important matter to take note of and generally provides additional safety for the community, should circumstances change in an unanticipated positive manner in the future.

The remainder of the report presents a number of simple ratios whereby comparisons are made to a group of peer councils derived from the appropriate OLG group and assisted by Euclidian cluster analysis (for similarity). Table 1 lists the peers used.

Table 1. Peers Used in Comparisons

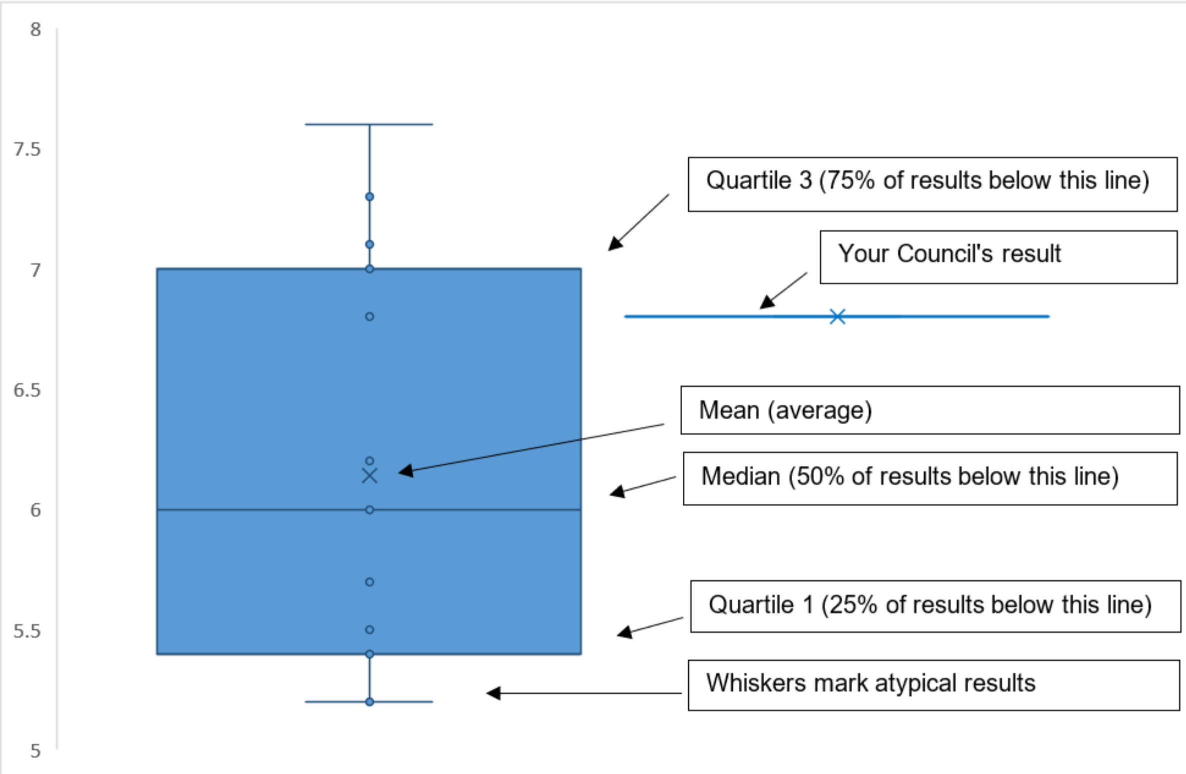
Bellingen	Greater Hume	Nambucca Valley
Cabonne	Gunnedah	Parkes
Cootamundra-Gundagai	Hilltops	Snowy Valleys
Cowra	Inverell	Yass Valley
Federation	Muswellbrook	

Comparative data is presented in box and whisker plots which are usually considered to be the best way to illustrate a particular council's performance relative to its peer group. In all cases the only practical option available is to use audited

[5] This was at the time of writing. For the 2025-26 round six applications were made: one was rejected, one partially approved, and the rest approved in full.
[6] Indeed, for these reasons, the Councillors who vote to put forward a proposal to IPART *may* not be the Councillors who vote to pass on any rate increase subsequently approved.

financial statement data, and this is what IPART mostly relies on also[7]. Figure 6 explains how best to interpret such a plot.

Figure 6. Interpreting Box and Whisker Plots



In addition, we formulated a sustainability index based on rigorous mathematical techniques (principal components analysis) for all rural councils for the 2024 financial year (according to the ratios presented in audited financial statements). We graphed Leeton's relative position with respect to its peers in the figure following presentation of comparative data for the regulatory ratios.

Thereafter we present a large number of additional ratios which paint a deeper and more accurate picture of the financial sustainability position and challenges.

Following this we conduct a cross-section regression to derive a benchmark for capacity to pay[8]. Notably this latter work is conducted with reference to councils in NSW designated 'rural' (which is Leeton's classification) according to the Australian Classification of Local Government. This was a cohort of fifty-seven NSW local

[7] Only audited financial statement data is assured as being free of material misstatement – the requirement under Australian Audit Standards. Moreover, only audited financial statements have sufficiently detailed publicly available data for all peer councils.
[8] The panel regression and other tasks that we will do in a potential Capacity to Pay report will be more thorough, but likely yield broadly consistent answers.

governments for the 2024 financial year because of a few missing data points due to audit delays and the like.

We conclude with our recommendations regarding the next steps for Council.

2. Regulatory Metrics

In this report we will be presenting a number of simple metrics, where comparisons are made to the aforementioned peer groups. As a general rule it is important to consider all metrics together and not be tempted to myopically focus on any single number. Moreover, it is necessary to remain cognisant of the fact that metrics can be flawed from conception – this is certainly the case for many of the regulatory metrics that immediately follow – and may not have significant rigour or inputs to allow for good decision-making. These facts were demonstrated beyond reasonable doubt by scholars prior to and following the recent amalgamations (see, for example, Drew, 2021; Drew et al., 2022). Indeed, the best basis for decision-making is often the robust sophisticated evidence that can only be produced by trained scholars – especially when it is based on panels of data and wide cohorts. We present some indicators of this kind in this report and will do so further – with respect to capacity to pay, efficiency, and liability capacity – should council proceed to Stage 2. For now, it is enough to understand that greatest emphasis should be given to the more sophisticated analyses (the principal components analysis (PCA) and regression results based on 57 councils) and that rudimentary ratios need to be approached with a critical mindset.

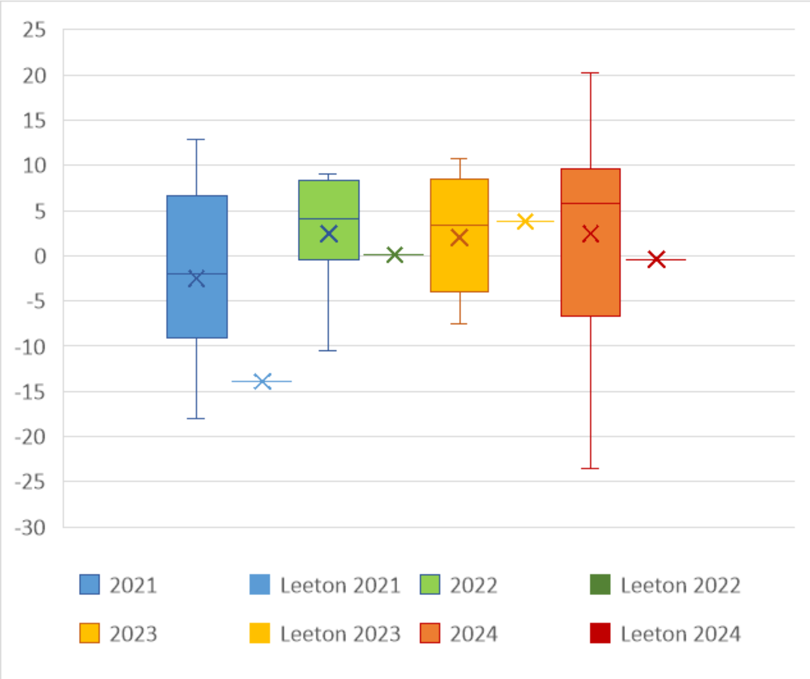
In this section of the report we will look first at the nine ratios that regularly appear in the audited financial statements, with respect to the fourteen peers. We will then conduct a PCA of the same ratios for all 57 councils as reported in the 2024 audited financial statements.

Perhaps the key ratio employed for decision making by councils and regulators alike is the operating performance ratio. The metric essentially reports the surplus or deficit (excluding capital grants[9]) as a proportion of revenue to allow for fair comparison between councils and over time. At one time the benchmark was negative four percent, at a different time it was break even (0) over three years, but currently the benchmark is break even in each year. The current benchmark is not appropriate given that expenditures, in particular, tend to be lumpy – we therefore prefer a measure over at least three years. It seems from Figure 7 that Leeton has struggled to meet the extant benchmark in recent times[10]. Moreover, the projections from the long-term financial plan (LTFP) suggest that achievement of the benchmark will prove even more elusive in the future.

[9] Some people argue that excluding capital grants in a double-entry book-keeping regime is problematic, however, this needs to occur because capital grants can't ordinarily be used to cover day-to-day expenses. Moreover, a large part of revenue tends to be for capital grants. If the benchmark recognises matters correctly then the exclusion of capital grants is reasonable.

[10] The precise numbers going back the last four years were -0.38%, 3.82%, 0.12%, and -13.88%

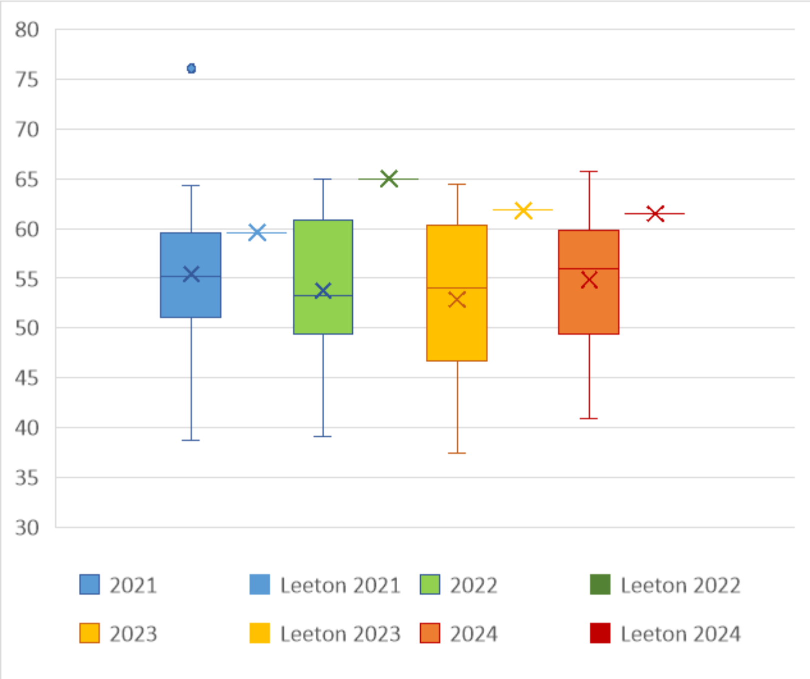
Figure 7. Operating Performance Ratio



Much emphasis has been placed on the own source ratio in recent years, but this has mostly been in error and seems to have resulted from serious misapprehensions around the horizontal fiscal equalisation (HFE) objectives enshrined in the main grants regime (Local Government (Financial Assistance) Act (1995, CTH)). This kind of flawed metric is an example of why we should never place myopic focus on a single crude ratio in the absence of an understanding of economic theory or context. Indeed, the single benchmark of sixty percent for all NSW local governments is clearly not sound.

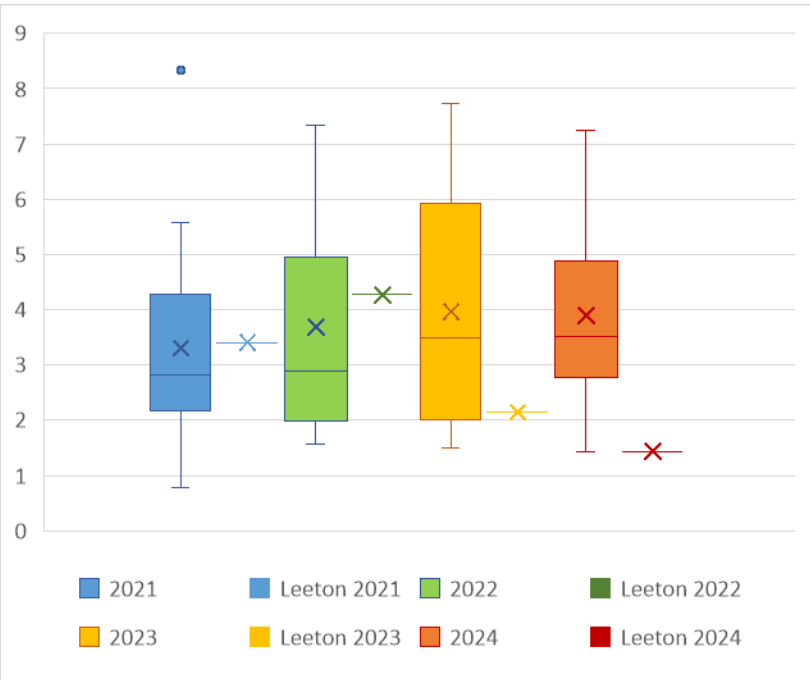
As it turns out Leeton is one of the few rural local governments that does regularly achieve the benchmark, helped out in large part by the childcare business that it operates.

Figure 8. Own Source Ratio



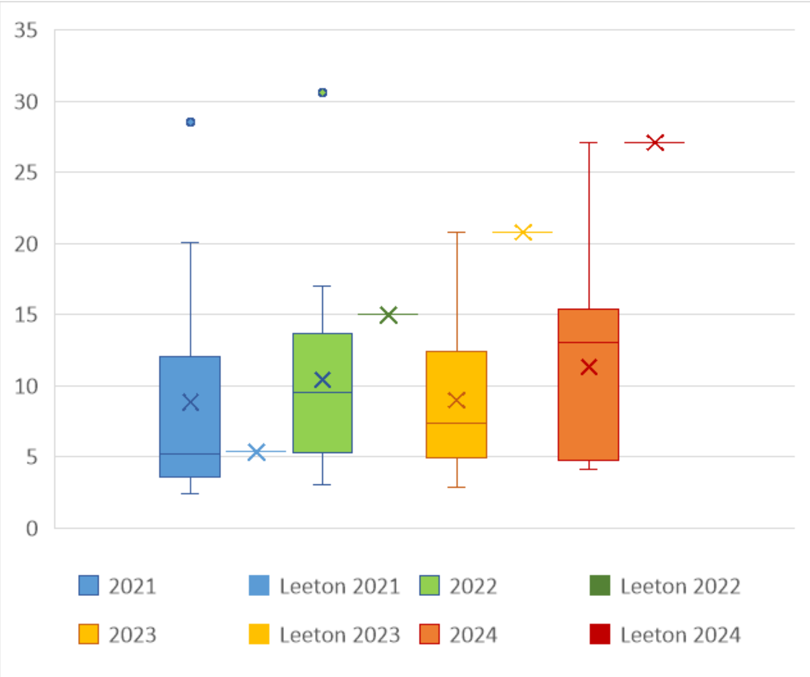
The unrestricted current ratio is a liquidity metric – it is intended to speak to the ease with which a council can meet its obligations as they fall due. It is essentially a ratio of unrestricted current assets to current liabilities. The council is currently below the benchmark for this metric (of 1.5 or greater), which is a matter of concern, notwithstanding the timing conflation of the most recent financial reporting period. When considered also in terms of the LTFP deficit projections this ratio suggests the need for timely intervention to arrest the apparent trend that has emerged since 2022.

Figure 9. Unrestricted Current Ratio



The debt service ratio is a particularly poor metric which probably explains why it is not used in the other local government jurisdictions. It is a ratio of the operating result to repayment cashflows and as such fundamentally misconceives both how debt is serviced and the nature of prudent cash management. Later in this report we will present a much more competent indicator – the nett financial liabilities ratio – and should council proceed to Stage 2 then we will provide an even more robust econometric analysis of liability capacity. Despite the obviously flawed nature of this metric, it is part of the regulatory suite that has been used in the past to determine state government policy intervention (including amalgamation) and thus still warrants critical attention. The ratio suggests good debt capacity, but we must remember that it is flawed in construction and also does not reflect recent debt drawdowns.

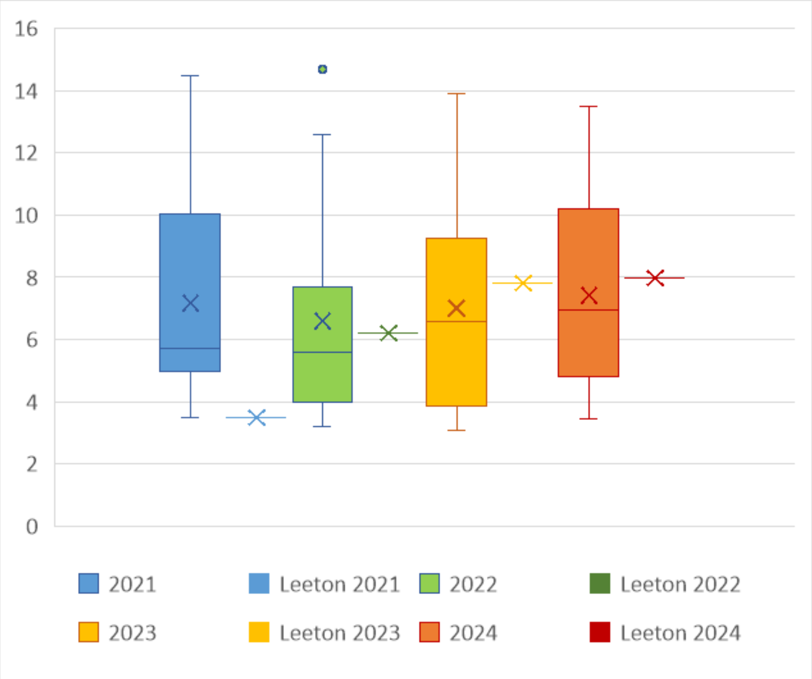
Figure 10. Debt Service Ratio



The rates and charges outstanding metric *may* provide some tangential information on capacity to pay, but it is significantly confounded by apparent distributive inequity[11] and also the effort expended by councils to collect overdue imposts. Figure 11 suggests that Leeton has greater than typical rates and charges outstanding. Given the econometric evidence that we present later in this report, the most likely explanations for the figure under reference would seem to be either a lack of distributive equity or perhaps less than ideal effort with respect to following up overdue accounts.

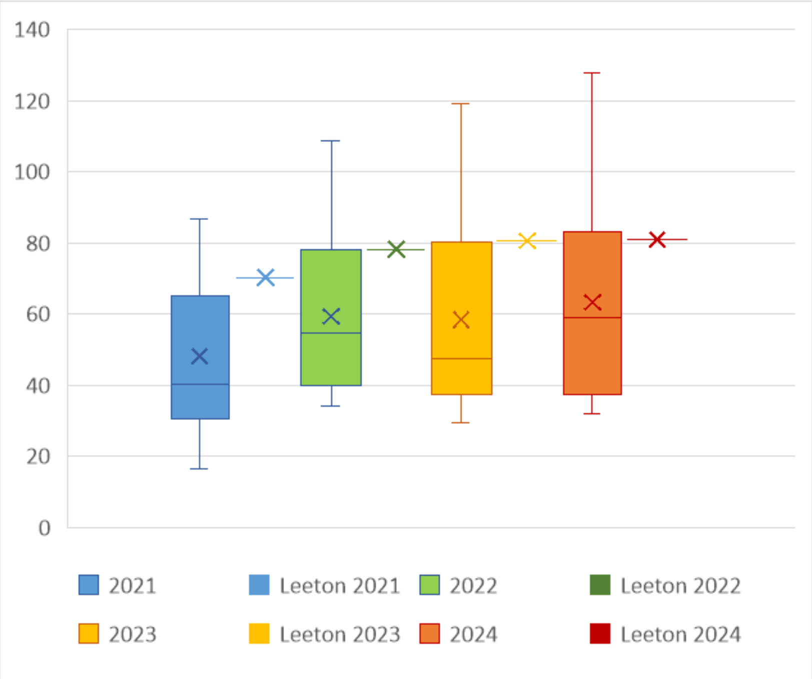
[11] This refers to how the burdens are distributed throughout a community. Economic theory asserts that use of base rates, minimum rates, various ad valorem rates and discounts all affect distributive equity. These matters also inevitably impact on capacity to pay. Should council proceed to Stage 2 then we will conduct analysis and training on this important, but usually neglected, aspect of SRVs and rates more generally.

Figure 11. Rates and Charges Outstanding



The cash expense cover ratio ought to be a measure of liquidity superior to the unrestricted cash metric. However, because the ratio includes restricted cash in the numerator it is probably not fit for purpose in a local government setting. As we have already alluded to, unrestricted cash is currently at very concerning levels. Thus, the apparent glowing picture painted in Figure 12 only really attests to the poor design of the regulatory metric and no serious attention to the number seems warranted.

Figure 12. Cash Expense Cover Ratio (Weeks)

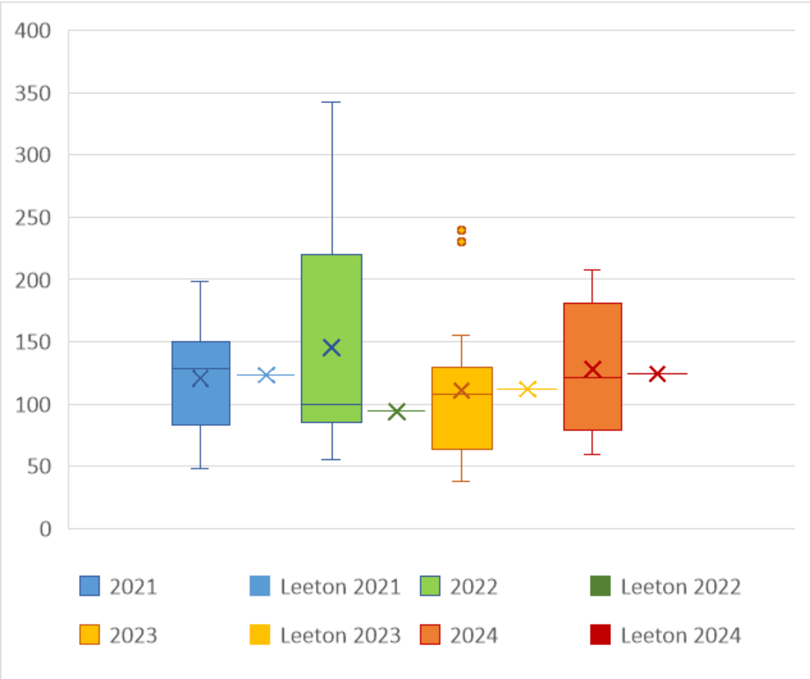


Similarly, the asset metrics on the whole have proven unreliable and their substantial shortcomings have also been demonstrated in the scholarly literature – see, for example, Drew 2017. Notably these metrics are reported in Special Schedule 7 which follows *after* the auditor's statement, further casting doubt on their reliability.

Furthermore, Council has discovered some errors in the Special Schedule 7 data which we expect to be corrected in the forthcoming 2025-26 financial statements. Sadly it is not unusual for councils in NSW to find large errors in this data. We have been provided with a detailed account of the errors, and concur with the Council's plan to correct the record. Nevertheless, in the following comparative graphs we use the audited financial statement data because this is the extant process outlined by the OLG and IPART (indeed, we note that it is quite possible that some of the comparator group also contain large errors).

The renewals ratio reports asset renewals as a function of depreciation. Leeton has had typical performance in this indicator relative to the peer group over a long period of time.

Figure 13. Buildings and Infrastructure Renewal Ratio

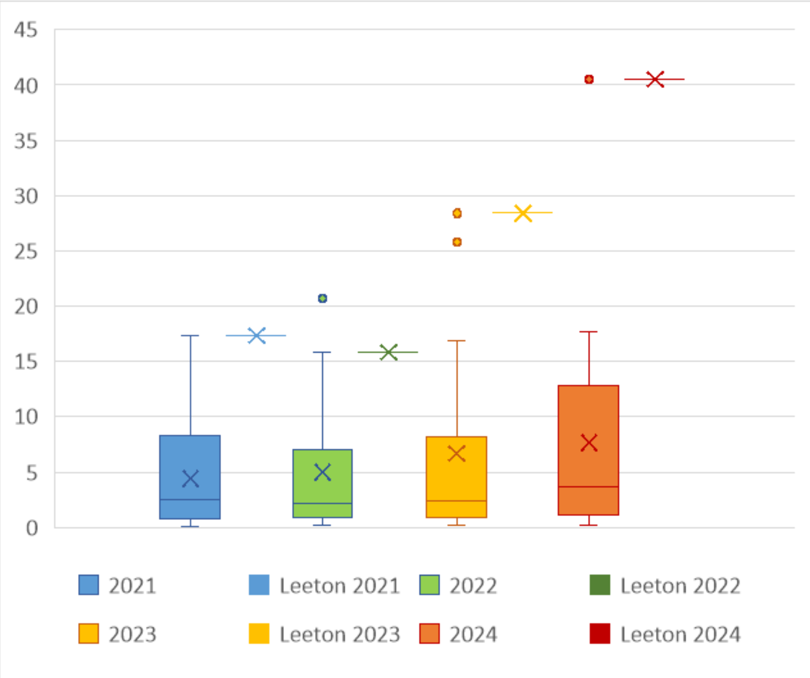


The backlog ratio, on the other hand, is the cost to bring assets to a satisfactory standard divided by the nett value of hard assets. The numerator of this metric has long been a matter of contention and the OLG accounting guide provides insufficient information for councils for reliable assessment without falling foul of definitional drift (Drew, 2017). We have long advocated that individual councils fill this definitional void by providing concise definitions of asset conditions, along with exemplar photos for the main kind of assets and have Councillors review same each term (Drew, 2021). A guide of this kind should then appear on the council website so that the community can be clear on matters.

Further, we understand that recent work has been conducted on asset condition scoring, and we suggest that this be used in combination with the aforementioned definitions and photos to produce data in this area in future.

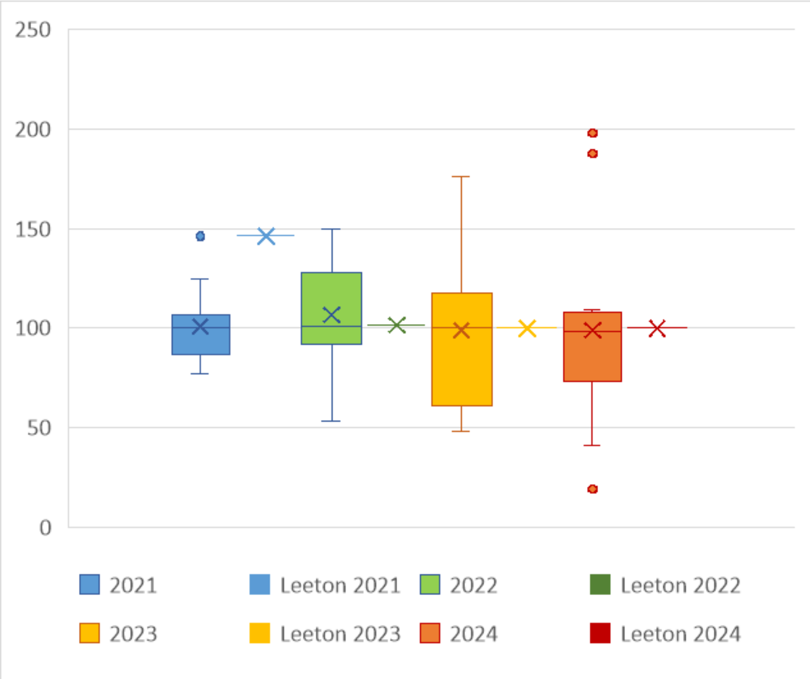
On the face of things, Leeton seems to be an extreme outlier in a poorly performing manner on this metric. However, given enduring uncertainty regarding the reliability of this data at both Leeton and the comparator councils it may not be prudent to place undue emphasis on Figure 14.

Figure 14. Infrastructure Backlog Ratio



The last regulatory metric relates the cost to being assets to an agreed service level with respect to the gross replacement cost. Once again, definitional gaps plague this metric with the result that one should be very cautious of placing much reliance on same. A similar process to what we recommended with respect to condition scoring would seem appropriate here also. Leeton is pretty typical of the cohort for the asset maintenance ratio, but one must remember to approach the number with due scepticism.

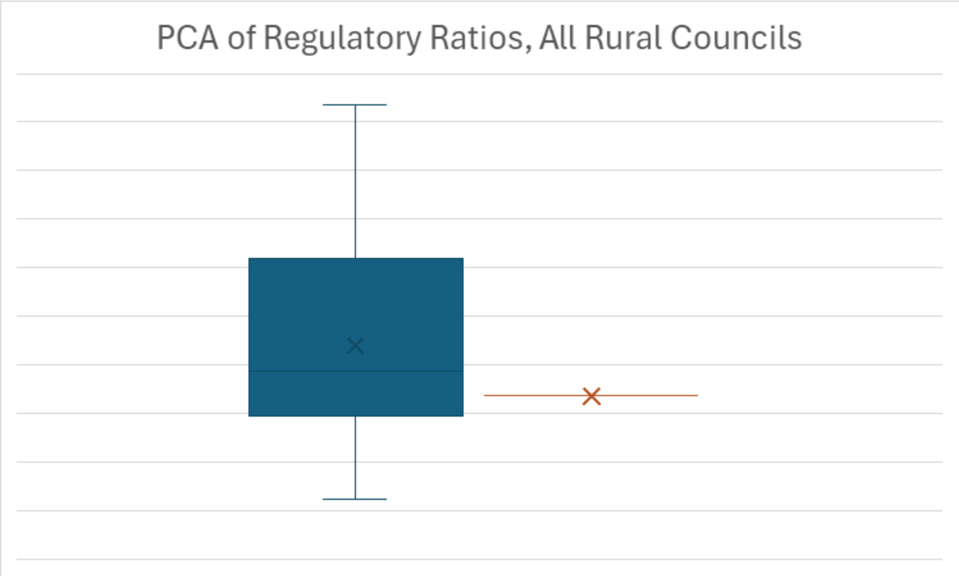
Figure 15. Asset Maintenance Ratio



One of the problems with any suite of performance indicators is how to form conclusions around the overall meaning of disparate metrics. A robust empirical approach to resolving this problem is to conduct principal components analysis (see, for example, Drew et al., 2024). Principal components analysis (PCA) reduces several numbers into a single figure according to linear projections arranged upon a set of axes positioned in a way that maximise variance (see, Dunteman, 1979 for further explanation).

In Figure 16 we provide a summary of the PCA score for Leeton with respect to all 57 rural local governments for the 2024 financial year. This demonstrates that Leeton is in the lowest half of the cohort according to regulatory financial sustainability ratios. Furthermore, there is little distance to the lowest quartile. We note that a result of this kind is not inconsistent with the TCorp (2013) evaluation.

Figure 16. PCA for all Rural councils



3. Other Metrics

In this section of the report, we cast our net wider to better understand the context of Leeton and also more robustly appraise financial sustainability.

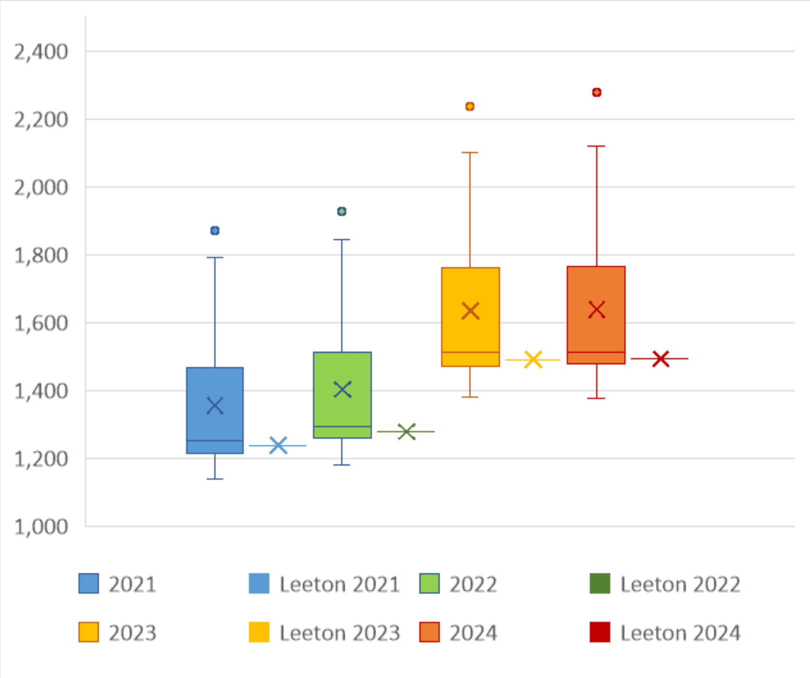
One of the key foundations for the financial sustainability of rural local governments is that they receive fair grant allocations that respond to the horizontal fiscal equalisation objectives of the enabling legislation (Local Government (Financial Assistance) Act (1995, CTH)). Horizontal fiscal equalisation (HFE) is defined as an allocation that allows each council sufficient resources to provide basic standard of local goods, provided that they both exert reasonable revenue effort and are also relatively efficient. It is a critical concept in sub-national financial sustainability – especially for rural councils – because some local government areas are simply richer than others (Drew, 2021). Moreover, large local government areas – often dwarfing the size of entire nations abroad – come with large cost functions, especially with respect to the large road networks that national economic performance relies upon.

Figure 17 provides a comparison of road grants per kilometre for Leeton and the peer group. It appears from this that Leeton has consistently been allocated with lower than typical unit road grants over the last four years. This is particularly problematic given the heightened road costs associated with an irrigation area: irrigation channels running parallel to roads weaken the substrate[12] and hence incur considerably greater maintenance expenditure. It seems that the Grants Commission may not have paid appropriate regard to this unique cost driver experienced at Leeton.

Furthermore, matters are even more concerning if one compares allocations at Leeton to the monies typically given to more urbanised communities. For instance, in 2024 Albury apparently received over $3,369 per km, Blacktown over $3,253 per km, and Canada Bay over $3,965 per km as allocations from the same grant scheme. These figures are around twice as much as Leeton receives (just shy of $1,500 per km in Leeton according to the Grant Commission Annual Reports for the last two years) and it is hard to reconcile such discrepancies with the HFE objectives of the legislation. Furthermore, urban councils typically don't have the same level of heavy vehicle traffic that does much of the damage to road seals in rural areas. They also do not have irrigation channels running alongside their roads. It is true that urban councils tend not to have much unsealed (dirt) roads which are associated with relatively lower expenditures: however, no rural council has unsealed roads by choice. Instead, unsealed roads are the artefact of insufficient grant allocations over many years, and it thus seems strange that grant allocations which ought to respect HFE might disadvantage councils for not being able to provide typical standards of service.

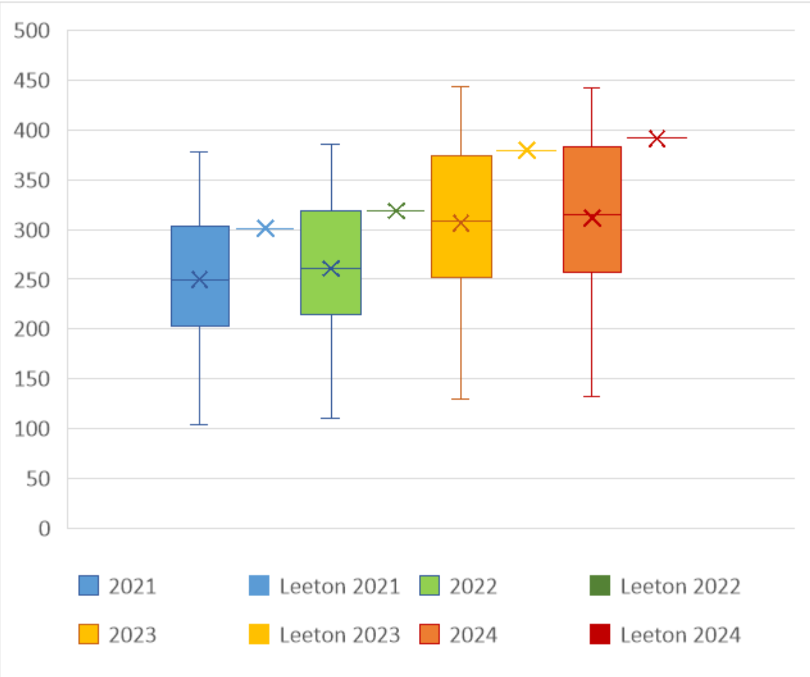
[12] The big danger to any road is having moisture penetrate under the road seal. Once this occurs roads will crack and ultimately fail – a bit like how the timber on a house fails once the paint surface cracks.

Figure 17. Road Grant per Kilometre



Matters are better when it comes to the general component of the grant. When viewed in terms of the peer group – and our measures of important demographic drivers – then allocations appear to be good.

Figure 18. General Component of Financial Assistance Grant per Person

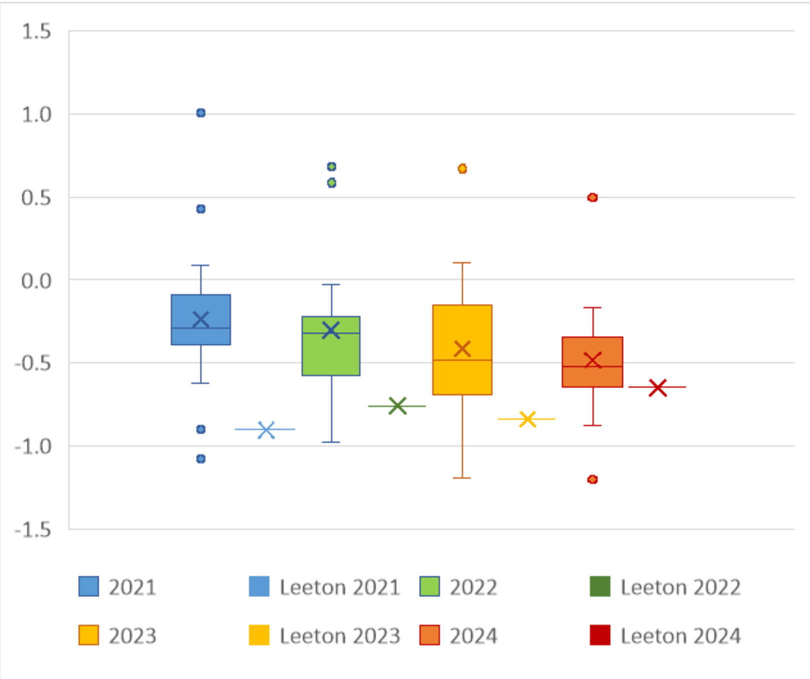


One potential avenue for addressing recurring deficits is through additional debt. However, debt comes with financial and intergenerational risk – it is essentially the bringing forward of future revenues at a significant cost. Thus debt, should only ever be countenanced for the funding of long-life assets with a number of caveats that we will explore in considerably greater detail should Leeton proceed to Stage 2.

For now, it will be helpful to get a feel for Leeton's debt capacity with respect to a more competent metric, than that stipulated by the regulators. The nett financial liabilities ratio is far more comprehensive than most simple ratios because it defines the numerator as liabilities less current assets, and the denominator as revenue less capital grants. However, the ratio is a little counterintuitive because in this case a lower result is actually preferred. Furthermore, the 2024 result excludes the large debt drawdown that occurred after June 30.

Figure 19 suggests that Leeton in 2024 was in the top quartile with respect to additional debt capacity, relative to the peer group. With all of these simple metrics it is important to remember that comparisons are being made to councils in the same OLG peer group – and that these councils are generally under some fiscal distress. Thus, a comparatively good outcome in relative terms may still remain a poor result in absolute terms. Should council commit to Stage 2 work then we will conduct panel regression to get a more accurate understanding of matters relative to a much broader cohort (all rural NSW local governments). For now, it is sufficient to take-away the idea that Leeton may have some remaining debt capacity that could conceivable be employed to fund long-life assets provided that appropriate caution is applied.

Figure 19. Nett Financial Liabilities



Depreciation accruals have been a source of ongoing difficulties for all local governments in Australia (see, for instance Drew, 2017). Moreover, it seems of late that some regulators and politicians may harbour fundamental misapprehensions about the matter.

Depreciation is the apportioning of costs over the useful life of an enduring asset and governed by the Australian Accounting Standards, associated with the International Financial Reporting Standards, backed by Commonwealth law. It is thus a ‘real’ expense every bit as much as employee or material costs. Indeed, long life assets will decay whether we like it or not, and irrespective of whether we take note of the depreciation expense. Recent alarming suggestions by the NSW Government (2025) that this expense can be side-lined or ignored ultimately neglect reality on the ground.

If we don’t pay proper heed to depreciation then we are not doing double entry book keeping (unless we instead expensed the entire capital cost in the year of construction or acquisition) and will therefore end up with a perverted understanding of our annual financial outcomes, as well as sustainability more generally. Furthermore, if we overly standardise depreciation accruals as appears to be happening under the NSW Auditor-General then we will find that the figures ultimately have no useful meaning because they depart significantly from facts on the ground (McQuestin et al., 2020).

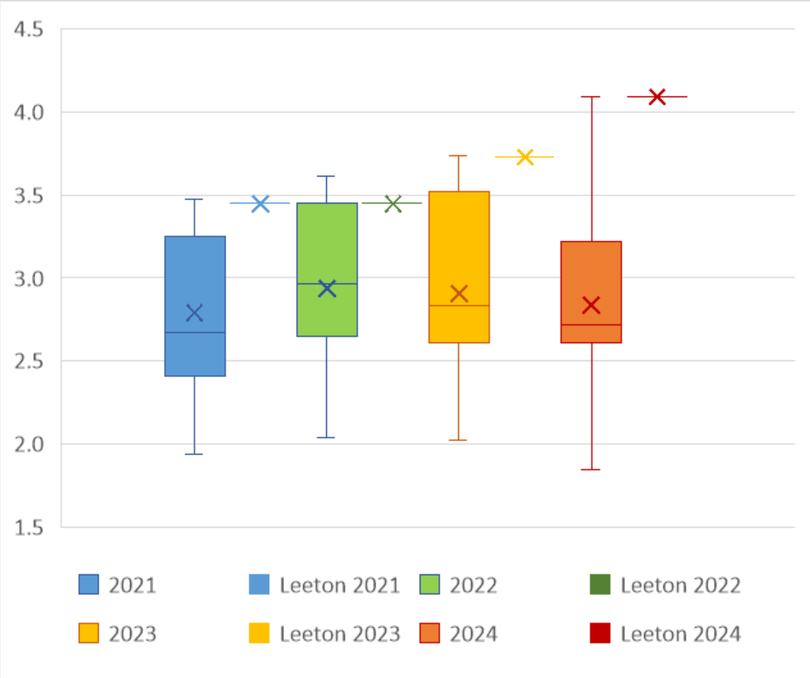
Nevertheless, it is sometimes the case that councils don’t depreciate accurately, and comparisons can occasionally be useful for casting light on potential problems that have important implications for long-term sustainability. Generally, when there is an error, it tends to be under-depreciation and this is important because it makes the financial situation appear better than might be warranted.

Figure 20, by contrast, suggests that Leeton might be over-estimating depreciation relative to the peer group. However, this data needs to be understood with respect to two important caveats: (i) the fact that many councils under-estimate depreciation expense, and (ii) the particular environmental context of Leeton (especially water flowing next to roads). Our own inspection of assets suggests that figures probably are broadly in-line with facts on the ground. However, we would encourage Council to continue to work on the matter carefully with respect to asset plans and visual inspections of a sub-sample of assets[13]. Indeed, councils that we have worked with in the past have found it helpful for senior members of the asset and finance teams to conduct a number of joint site visits so that each party has a better understanding of what are typically different perspectives on matters[14]. We acknowledge the recent improvements of Leeton, in this area, and encourage council to continue its efforts.

[13] The best approach is to take a *random* sub-sample of assets and send a qualified person out to evaluate the nett carrying amount. This evaluation should be done by someone who has not been given any indication of the recorded nett carrying amount. An evaluation of variation from recorded data should then be made to see if it is within tolerable levels.

[14] It is not uncommon for respective asset managers and finance people not to understand the connexion between the work that each party does. Given the history of contention around putting figures to assets at Leeton – going back to at least 2015 – it would seem particularly important to engage in an exercise such as

Figure 20. Total Depreciation of Infrastructure, Property, Plant and Equipment Deflated by Carrying Amount



One of the key elements of HFE that we wrote of earlier is the caveat that councils must be exerting reasonable revenue effort – this means that council needs to be charging appropriate rates, fees and user charges. In the nexus ratio we express fees and user charges as a proportion of operating expenditure and compare Leeton to peers for the last four financial years.

Councils that run non-core businesses (like childcare and the like), such as Leeton, generally have above typical nexus results. This is indeed the case for Leeton as expected. Nonetheless it is important that Councils remain cognisant of the imperative to constantly assure themselves that fees and charges do in fact cover long-run marginal costs unless a specific subsidy has been acknowledged. Our recent visit to Leeton uncovered a very large number of community and sporting groups apparently in receipt of very large ongoing subsidies. This is not a problem if the Councillors, and the groups themselves are aware of the quantum of the subsidy and can communicate the value that they return to the wider community. During his visit Professor Drew explained the need to quantify the cost of the subsidies provided annually to these groups and have them apply for these each year in a form that makes clear:

(i) The nature and quantum of the subsidy
(ii) The value that the group returns to the broader community
(iii) The actions that the group is taking to reduce dependency on subsidies into the future.

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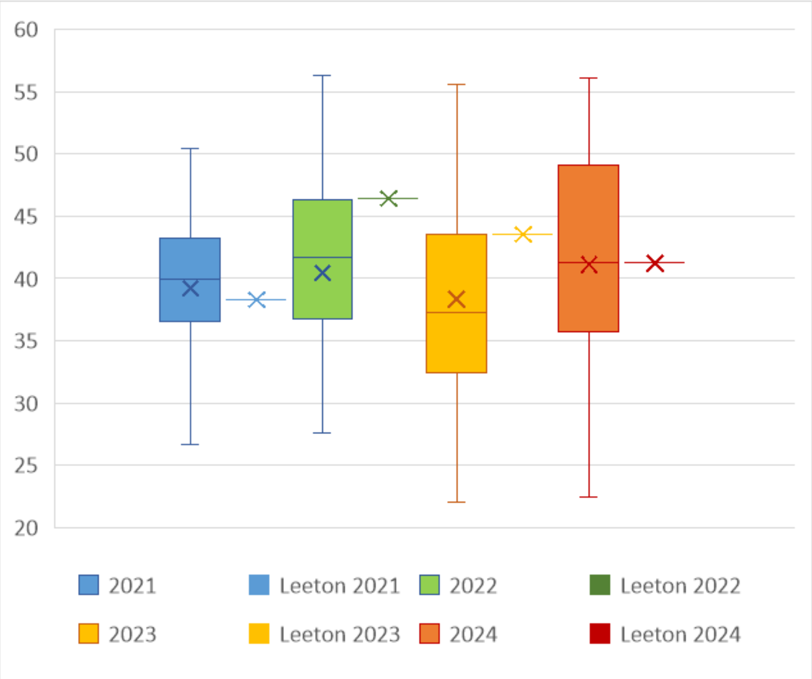
this over a few days. Indeed, we suspect that the LTFP does not fully reflect changes to the future cost structure for maintaining assets such as roads and therefore view this exercise as being very important for moving towards the higher standards of robustness generally required by IPART.

For instance, a sporting association might acknowledge the costs of maintaining buildings or mowing sport grounds each year, cite specific good outcomes that their activity has for most people in Leeton, and investigate ways that they could become more independent in the future (perhaps, for example, considering the possibility of mowing their own playing fields). The emphasis here is not to immediately reduce support for critical community services, but instead create greater transparency and accountability for ratepayers. Typically, we find that no-one – neither council, the group, nor community – understand the substantial costs associated with supporting community groups and often it is the case that understanding can give rise to innovative solutions that improve outcomes for everyone (see, the discussion of the principle of subsidiarity in Drew, 2021). {We also note that an approach of this kind would seem broadly consistent with the undertakings provided by Leeton Shire in 2015}.

Figure 21. Nexus



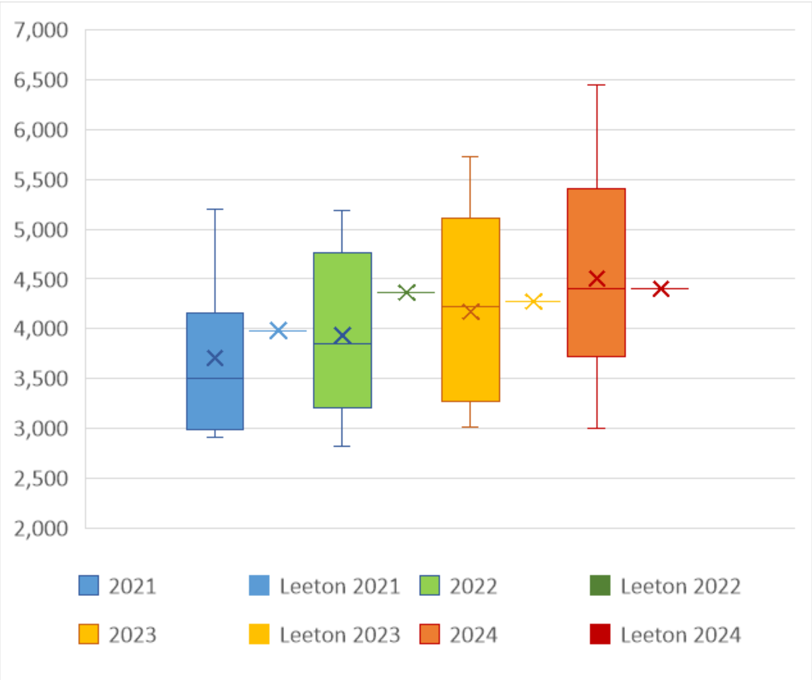
Comparing rates fees and charges between different local government areas is difficult when only using crude ratios because of the problem of skewing. Skewing is the statistical term used to describe sets of numbers characterised by a few unusually large or small figures. It is a particular problem if people use averages – especially if this is done in the absence of a measure of spread such as the standard deviation or better still the IQR (inter quartile range which is the distance between quartile 1 and quartile 3 – the coloured rectangle in the box and whisker plots that we employ here). For instance, the set of numbers (1,1,2,3,65) has an average of 14 – but one could hardly argue that 14 was a sensible measure of the typical result!

Skewing is a particular problem in rural areas because they are often characterised by disparate sized farms, as well as towns and villages with very different typical land values. Because local government rates are calculated on unimproved land values it follows that crude ratios in a given rural area will typically be subject to extreme skewing, and pretty meaningless as a measure of central tendency. When we compare skewed measures of central tendency in one council with skewed measures in a peer council, the result is merely nonsense.

Unfortunately, the Office of Local Government (OLG) requires councils to talk about average rate levels in SRV applications. This requirement profoundly misleads communities and perhaps even the IPART decision-maker – not just because it is skewed, but also because it abjectly fails to measure capacity to pay in any sense (see below). Nevertheless, we must follow the Guidelines – although we mitigate this be presenting a more reasonable approach to matters afterwards (furthermore, if Council does decide to proceed to Stage 2, then we will provide a comprehensive review of Capacity to Pay in a later dedicated report).

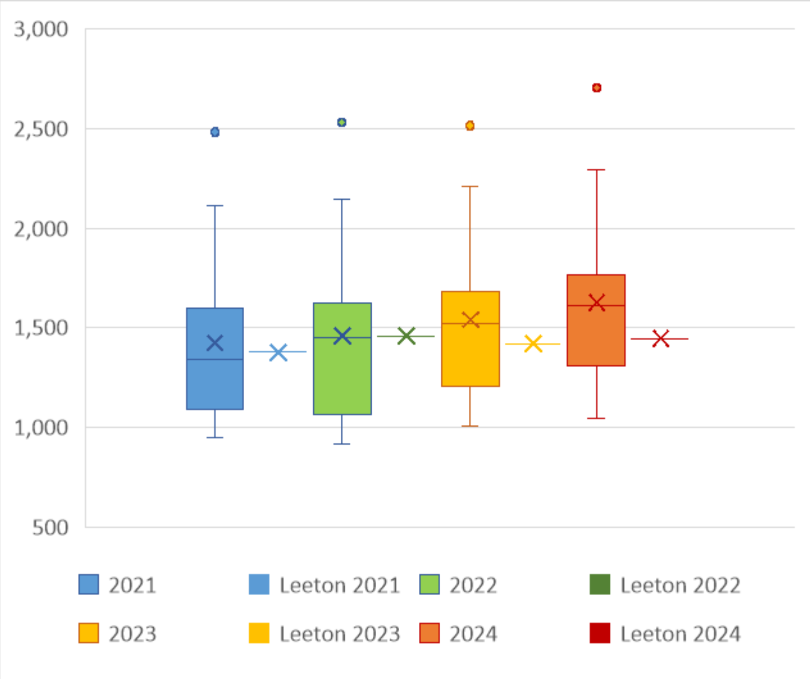
In Figure 22 we present rates, fees and charges on a per assessment basis. By this metric it seems that Leeton is exerting a typical revenue effort. However, we caution again about skewing and also note that typical revenue is unlikely to be sufficient if a local government has higher than typical unit expenditures (generally because of high quality goods and services). With respect to this latter point the community should understand that the standard and scope of services in Leeton Shire Council is far higher than we have seen at comparatively sized rural local government areas.

Figure 22. Rates, Fees and Annual Charges per Assessment ($)



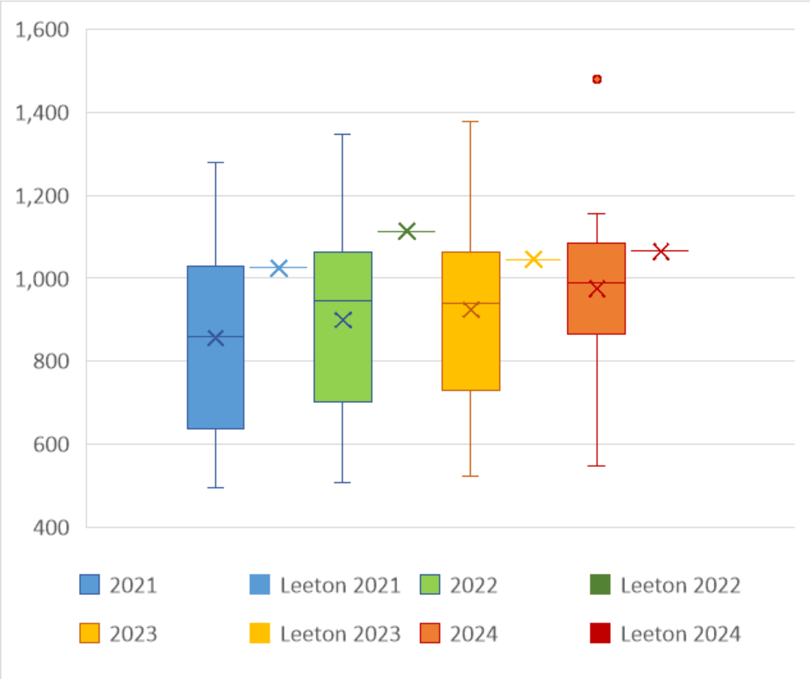
In Figure 23 we look at matters with respect to total rates on a per assessment basis – once again, our caveats around skewing and service quality and resultant expenditure remain salient. By this metric Leeton seems to have lower than typical rates. Furthermore, we note that relative performance has reduced in recent years owing mostly to the fact that some of the peer group have had substantial SRVs approved in recent times in response to sustainability predicaments (for instance, Federation, Cootamundra-Gundagai and Snowy Valleys).

Figure 23. Total Rates per Property Assessment ($)



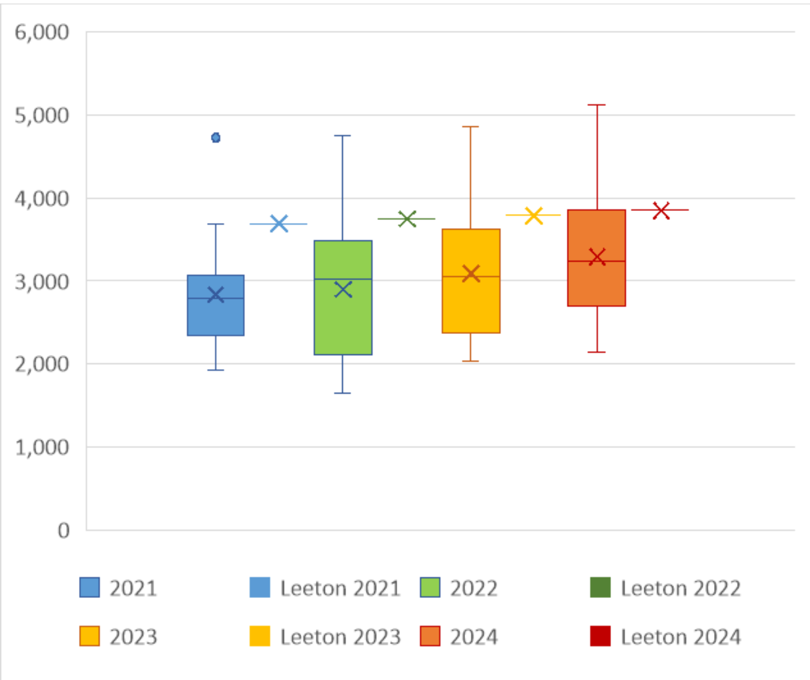
When we look at specific rate categories, as we are now obliged to do, we also start to drift into the concept of distributional equity – because different categories may have different rates of local government tax we can find that a below typical result for the aggregate of all categories, can hide above typical results for specific areas. For example, Leeton seems to have above typical rates on a residential rates per assessment evaluation. However, the matter of skewing is particularly salient here given the relatively high numbers of residential properties outside of Leeton itself (for instance in Whitton and Yanco), which is a little unusual for rural local government areas. Furthermore, average rates per category provided no indication of capacity to pay – as is often misconceived – because no account is made of the incomes accruing to residential property owners. We thus caution readers not to put much emphasis on these disaggregated average rates comparisons.

Figure 24. Residential Rates per Assessment ($)



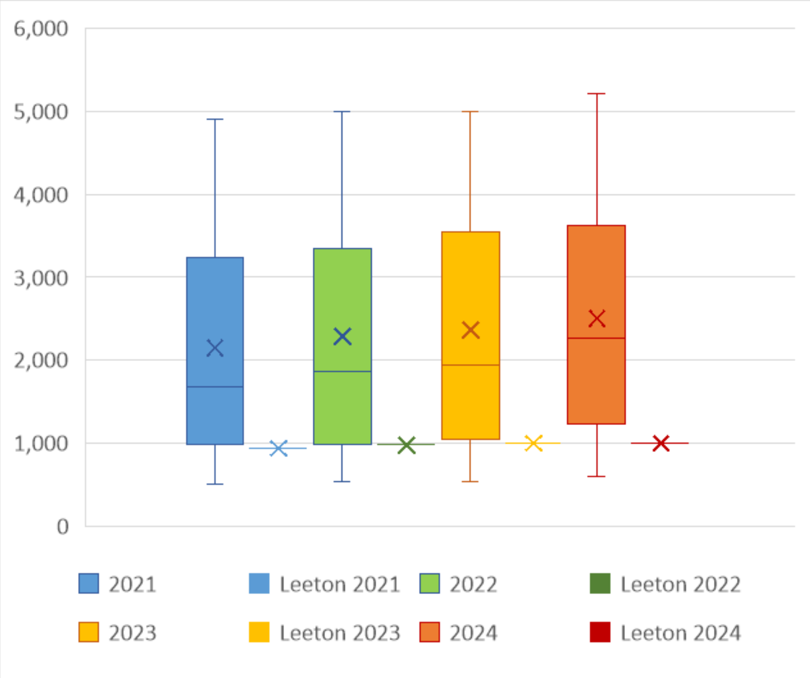
Farm rates also appear to be well above typical – but once again, it is subject to obvious skewing and takes no account of the incomes produced from the said farms (which is clearly necessary to provide any understanding of capacity to pay).

Figure 25. Farm Rates per Assessment ($)



In Figure 26 we provide a summary of average non-farm business rates. Our clear caveats around skewing and income derived from the business are also very important here.

Figure 26. Business Rates per Assessment ($)



As we have already noted capacity to pay can't really be considered in the absence of data around the incomes accruing to people and various businesses in the local government area. Indeed, it is the rates paid as a proportion of incomes that represents the real revenue effort, and the thing that probably means the most to people in a practical sense (because rates are paid out of incomes, not averages). For instance, if two local government areas had precisely the same average rates (assuming that the formidable problem of skewing didn't apply for some reason), but the people in one local government area typically earned double that of the other, we could hardly claim that they had the same capacity to pay. To use a metaphor – no-one would think that a comparison of the average quantum of income tax was sensible, because doing so takes no account of what was earned and thus provides no indication of capacity to pay. It is similarly silly to compare average amounts of land tax without any reference to either (i) the amount of land owned, and (ii) the amount of income earned or potentially earnable from the land owned.

One way to quickly assess capacity to pay is to conduct a regression analysis of capacity to pay for Leeton with respect to all other rural local governments in NSW. The basic idea of regression here is to establish an equation that describes the expected tax take (aggregate rates[15]) in terms of the different incomes accruing to people in the local government area (wages, various forms of social security, unincorporate business income and the like). Once we have established an equation of this kind for the whole rural NSW cohort, we then put in the specific numbers of various income earners for the case of Leeton. The result is a robust estimate of the

[15] Because of the problem of distributive equity that we discussed earlier this regression activity cannot sensibly be conducted on a disaggregated (rates category) basis.

total take that might be expected were Leeton to exert the typical revenue effort for a local government area with its' specific characteristics.

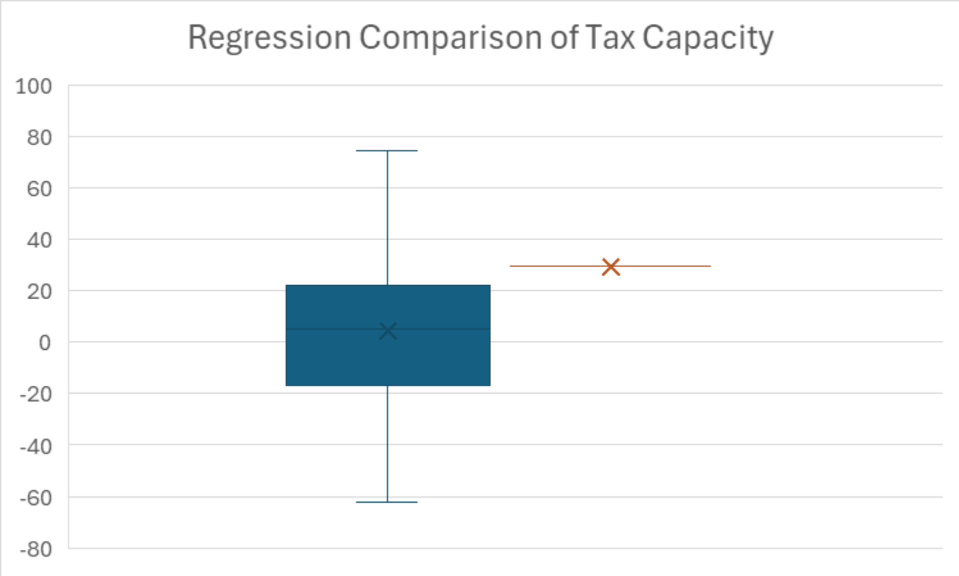
The particular type of regression that we have done here is called cross-sectional regression because it only refers to the most recent financial year. Data is obtained directly from the audited financial statements as well as the Australian Bureau of Statistics (for income, pension data and the like). Cross-section regressions are not quite as robust as panel regressions (multiple years), but we do not expect significant differences in the event that Leeton proceeds to Stage 2, and we conduct this exercise again for a five or six year panel. We also note that in the case of a potential Stage 2 project that we would typically provide additional comprehensive data on personal and farm business incomes.

Regression has a number of advantages over other potential methods. First, it allows us to take account of *all* of the important variables known to affect capacity to pay simultaneously. In addition, regression allows economists to make *ceteris paribus* claims – that is, precisely understand statistical associations between the regressand and regressors, holding all other things constant.

Readers should be aware that the two professors who have authored this report are extremely experienced scholars, with a combined output of hundreds of works, which have been approvingly cited thousands of times by their scholarly peers. Indeed, one is the editor at a highly esteemed academic journal. Otherwise stated, they are world-class in this field and routinely conduct sophisticated empirical work of this kind. Econometrics is based on a strong body of theory developed over centuries and is something that students study at both the undergraduate and graduate levels. Typically, to become an econometrician one studies at least a bachelor's degree (three years), followed by a two-year master's. Both of the professors involved in this present work hold doctorates (the highest qualification available from universities), and have successfully taught postgraduates at the highest level. For readers interested in further information on econometrics, we refer them to the introductory works of Wooldridge (2006) or Kennedy (2003).

In Figure 27 we present a comparison of additional tax capacity with respect to the entire cohort of rural NSW local governments as derived from our regression work. As can be seen Leeton is in the top quartile (top twenty-five percent) of the cohort with respect to its need to increase rate revenue to achieve typical tax effort. To be even more specific, *Leeton could have increased its total rates by some twenty-nine percent in nominal terms in 2024 and still have only exerted typical effort. This represents around $2.3 million foregone in the 2024 Financial Year.* We remind readers again that Leeton has above typical services in terms of both quality and scope. It is hard to see how below typical revenue could be sufficient to support above typical service levels in a financially sustainable way.

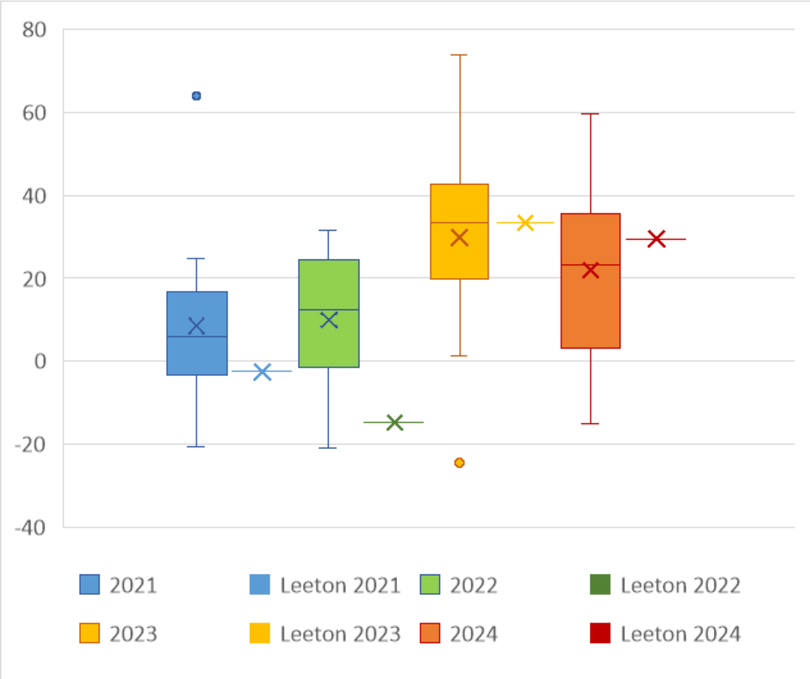
Figure 27. Additional Tax Capacity as Measured by Robust Regression Analysis



One of the important, albeit commonly overlooked, matters with respect to financial sustainability and associated SRVs is the accuracy of budgeting processes. Because financial sustainability is a long-run concept we need to have reasonable confidence in budget projections to really be able to discern matters clearly. Moreover, scholarly research has shown that poor budget processes can also lead to inefficiency which clearly has an impact on sustainability (see McQuestin et al 2020).

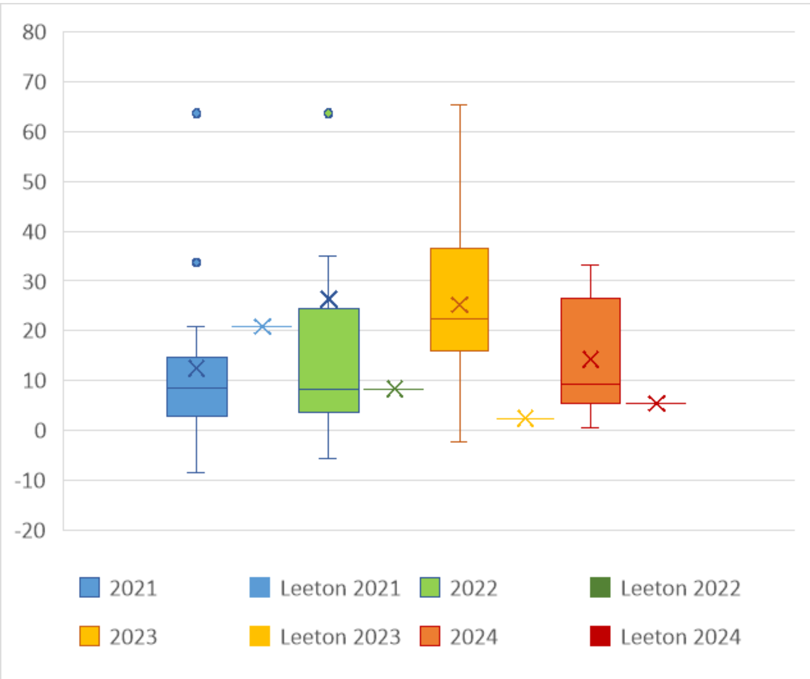
In Figure 28 we plot the deviation from budgeted revenue for Leeton and the peer group for the last four audited financial statement years. Large errors have unfortunately become typical according to this audited financial statement data and mostly relate to unexpected grant flows, which are favourable with respect to nett operating results. However, the relative scale of errors for Leeton over recent years has been increasing – according to the audited financial statement data – and could become a concern if it continues. This is especially the case because of an economic concept called fiscal illusion which refers to an inability of residents to accurately understand the costs of the goods and services that they consume, or the financial situation of their government. When strong grant flows occur residents effectively receive a large subsidy on goods and services and this can result in misconceptions about the true state of affairs (later in this report we will present useful information around the various sources of revenue at Leeton that should be disseminated via rates notices and the like as soon as practical to dispel potential for misconceptions).

Figure 28. Deviation from Budgeted Revenue



On the expenditure side of the ledger relatively modest unfavourable over-spends have been a feature in recent years (excluding 2021 which was significant). We note that deviation from budgeted expenditure is generally far lower than most of the peer councils, but urge renewed vigilance in this area into the future.

Figure 29. Deviation from Budgeted Expenditure



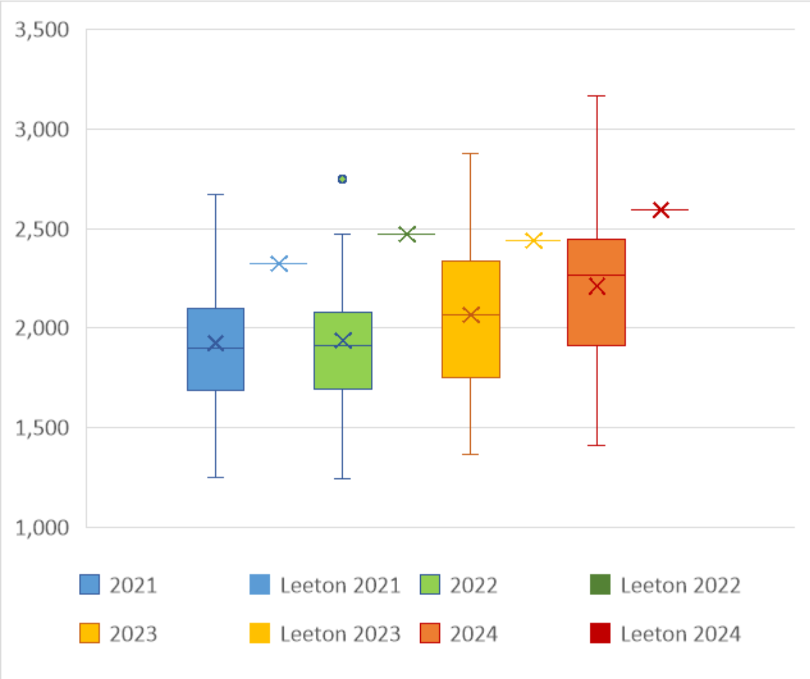
Before moving on to the next matter, we would like to acknowledge that Leeton Shire has done much work on its accounting software and processes in recent times. We are therefore expecting better budget accuracy in the future.

One of the key criteria of the OLG which IPART must assess matters on is efficiency. Technical efficiency refers to the conversion of inputs into outputs. Generally, consultants working in this field merely look at operational spending per capita, but the scholarly literature has been scathing of this 'efficiency' metric that clearly does not measure efficiency[16] (Drew, 2021). The gold standard evaluation of efficiency is full disposal hull analysis (a type of envelope analysis). Evaluations of this latter kind are ideal because they closely conform to economic definitions of efficiency. However, envelopment empirical work is very complex and time consuming and thus a matter usually dealt with in a dedicated Efficiency Report should council proceed to Stage 2 (although we do present a basic data envelopment analysis shortly).

One of the places to start when considering the matter of efficiency is staff costs – especially in response to the undertakings made in response to the 2015 *Fit for the Future* (FFTF) program that we surveyed earlier (although noting our concerns regarding practicality and subsequent state government mandates). Figure 30 suggests that staff expenditure at Leeton is relatively high compared to the peer group, albeit far from the highest. Part of the explanation for this is the fact that Leeton runs businesses such as the early learning (childcare) centre which accounts for an approved 25.9 FTE staff (around 15% of total council staff). Nevertheless, it does seem that there is a need to carefully constrain staff costs in the future – an issue which might be best considered in terms of staff expenditure as per Figure 30 (acknowledging inevitable growth each year associated with enterprise bargaining agreements and the like), rather than mere FTE numbers as proposed in the FFTF days.

[16] It is incorrect to combine the two distinct kinds of inputs – staff and money – into a single input proxy. Moreover, it is completely erroneous to combine all of the distinct types of outputs into a single proxy of population. Indeed, this is particularly problematic because the ABS tells us that there are very large errors in population data in inter-censal years. Furthermore, population has a negative correlation with road length and using this is clearly a very bad idea given that roads are the single largest destination for expenditure in local government. In addition, use of a population figure would seem to suggest that the people who designed this metric think that it costs four times as much to pick up domestic waste from a family household of four than it does a household of one – or that every single person in a family drives a vehicle (including infants). In our FDH analysis we use outputs of: sealed roads, unsealed roads, number of farm assessments, number of business assessments, number of residential assessments. It ought to be clear that these five proxies are a much better estimation of where money is actually spent in local government.

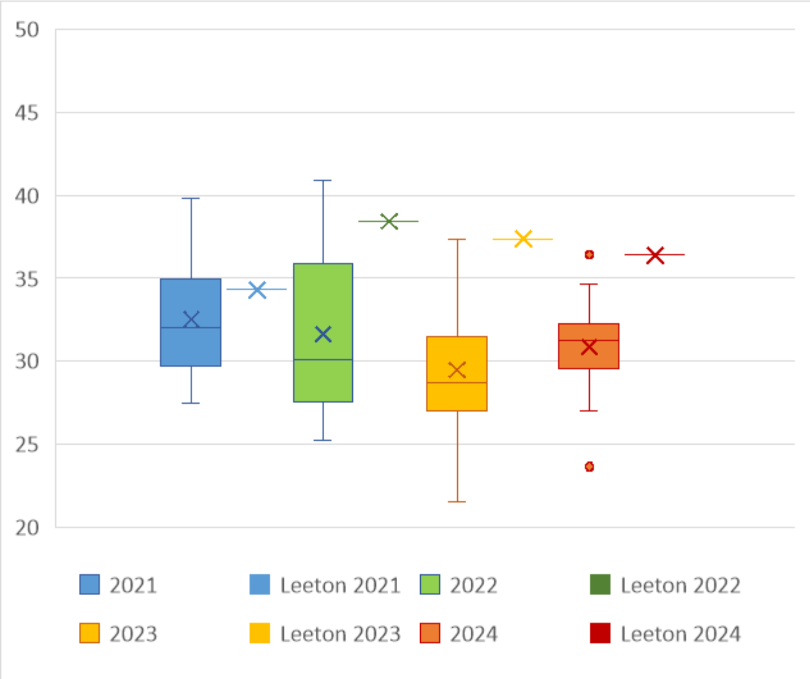
Figure 30. Staff Expenditure per Assessment ($)



Another way to look at this area of expenditure is in terms of staff costs as a proportion of total local government operating expenditure. As can be seen, Leeton has had the highest in the peer group over recent years. This figure must be interpreted with reference to the data on the aforementioned childcare centre which is not a usual local government activity. Readers should also consider the issue with reference to the concept of production factor mix, associated with efficiency.

Essentially any organisation faces a dichotomous choice with respect to how it performs its functions: tasks can either been done in-house or contracted out. It is sometimes said that contracting out is a cheaper option (although this is not always the case), but this comes at significant costs: (i) less local employment with flow-on effects for local businesses and the community broadly, (ii) sometimes less pride in work and accountability, and (iii) less capacity to take back the functions at a later date (due to loss of staff and skills) and thus less bargaining power with suppliers in the future. Thus, it should be clear that things are not quite as simple as might first be thought when examining Figure 31.

Figure 31. Proportion of Expenditure on Staff



As we have already suggested, ordinarily efficiency analysis is a task which is reserved for a Stage 2 project because of the complexity and time involved in doing the analysis. However, in view of the particular concerns at Leeton, we have decided to present a local intertemporal data envelopment analysis (DEA) which wasn't priced into this work[17]. We hope that the leaders at Leeton will gain value from what follows.

Data envelopment analysis (DEA) is a linear programming[18] technique that allows for the robust evaluation of efficiency with which multiple inputs are converted into multiple outputs (as per our economic definition earlier). As such, DEA is far more consistent with the economic definition of technical efficiency than are the more common single input output ratios. The specification for the work that we produced is as follows:

Staff ($) + operating expenditure ($) → residential (no.) + farm (no.) + business (no.) + sealed roads (km) + unsealed roads (km).

Here we consider staff in pecuniary terms to reflect the different skills and productivity that ought to be reflected in remuneration, consistent with Drew, Kortt and Dollery, 2015. The output proxies we employ recognise that the respective categories of properties (residential, farm and business) usually have access to vastly different baskets of goods and services. Moreover, we also include as outputs sealed and unsealed roads respectively which reflects that roads represent the

[17] We did this DEA outside of work hours. If a Stage 2 project did eventuate a more fulsome understanding of efficiency would be gained through FDH and scale analysis, which we would also do at this time.
[18] Linear programming is a mathematical technique that can be employed when multiple feasible solutions exist in a mapped function responsive to introduced mathematic constraints. It is iterative in nature and therefore requires significant levels of computing power.

single largest items of expenditure, with quite different maintenance schedules (depending on surface). The proxies as a suite are thus the best option to recognise what councils actually do within the limitations of Nunamaker's rule[19] – and far more realistic than the single input output ratios ordinarily used by commercial consultants, as discussed earlier. Notably, in the DEA pecuniary data is adjusted to properly reflect the time value of money.

For the work that follows we used an input-orientation consistent with the relevant scholarly literature (Drew, Kortt and Dollery, 2015). An input orientation recognises that local government decision-makers have relatively little direct control over the number of disaggregated assessments and roads, but much more discretion around the resources that they invest into producing these. For example, the length of roads is more-or-less given, but how we assign money and staff to maintain them, is certainly something that might change.

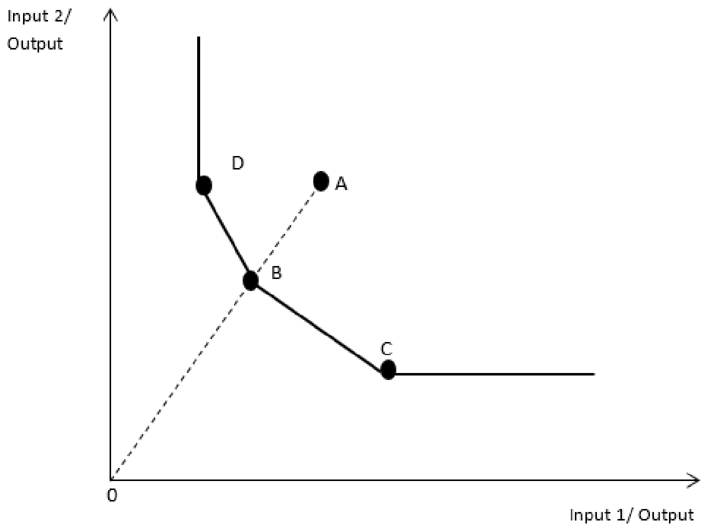
We also used variable return to scale specifications of the linear programming. This means that we adjusted for the effects of scale for fair comparisons. Furthermore, we used bootstrapping protocols with 1,000 repetitions to provide additional assurance.

DEA results are both relative and unconditional. Relative means that interpretation of the results can only validly be made with reference to the particular decision-making units and years analysed. {To allow for comparisons over a long timeframe we conducted a special kind of DEA called local intertemporal (or windows) analysis, with a two-year window}. Unconditional means that we haven't adjusted for any operating environment effects (other than size, captured by VRS). It is possible to conduct a second-stage regression to examine the drivers of efficiency, but work of this kind is well outside of the current project scope.

The best way to understand DEA is generally through a graphical illustration. In Figure 32 we present a simplified input-orientated example. Here the curve drawn between Councils D, B and C represents the theoretically possible efficient frontier. These are the councils that have the best conversion of inputs into a given set of outputs. Councils of this kind are considered perfectly efficient in a relative sense and assigned a score censored at one. Councils in the interior of the curve (such as 'A') represent relatively less efficient decision-making entities. The ratio of the radial distances marked provides a score between zero (perfectly inefficient) and one (perfectly efficient). This number represents the relative technical efficiency of A with respect to the rest of the cohort under analysis (sometimes people multiply this number by one-hundred and then talk about the percent relative technical efficiency).

[19] Nunamaker's rule is a decision-making tool which prescribes that the sum of inputs and outputs ought not exceed a third of the number of decision-making units (DMU; that is, local governments). For our rural cohort (including Leeton) the upper limit for the sum of inputs and outputs would be nineteen – our specification is well within this range.

Figure 32. Input-Orientated DEA



The mathematic specification for our DEA is:

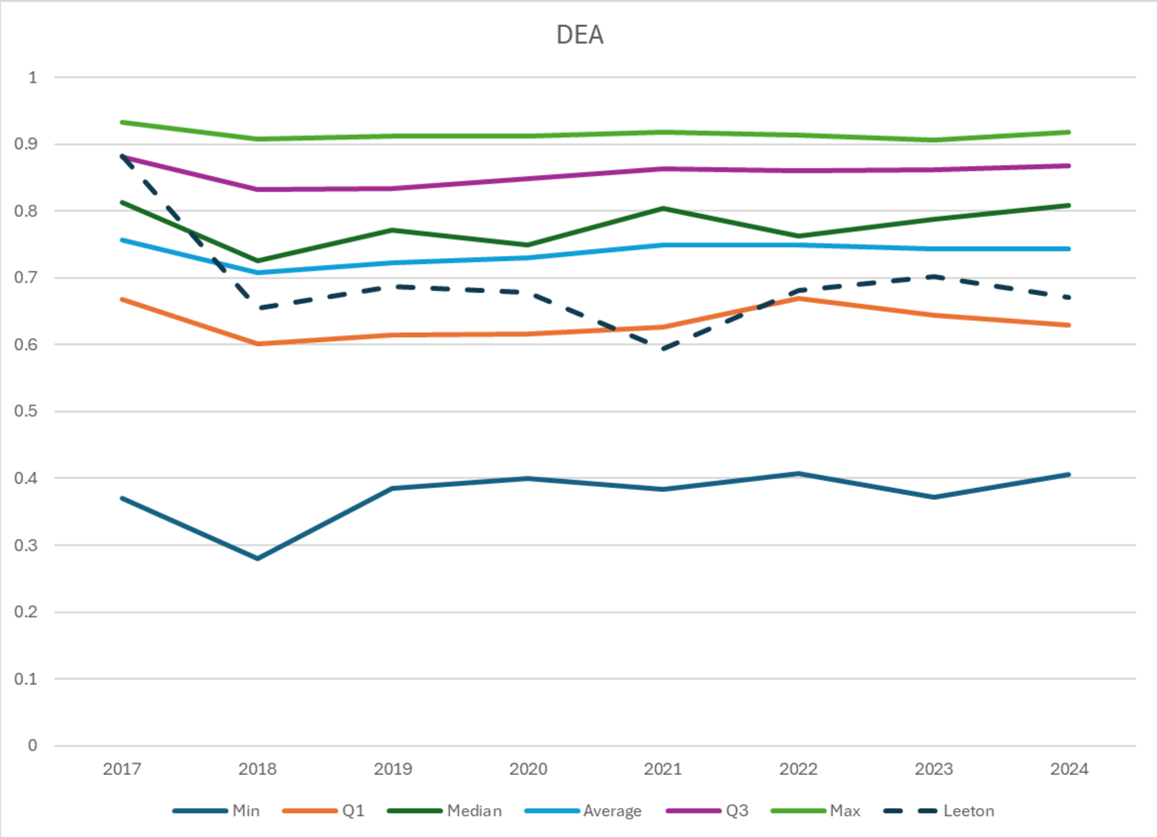
$$
\begin{aligned}
&\min \theta \\
&s.t. \\
&\sum_{j=1}^{n} \lambda_j x_{ij} \leq \theta x_{i0}, i = 1, \dots, m \\
&\sum_{j=1}^{n} \lambda_j y_{rj} \geq y_{r0}, r = 1, \dots, s \\
&\sum_{j=1}^{n} \lambda_j = 1\ (VRS) \\
&\lambda_j \geq 0
\end{aligned}
$$

In Figure 33 we present a graph of local intertemporal efficiency at Leeton and its peers from 2017 until 2024 financial years. As is typical in rural efficiency analyses, the councils are reasonably close with respect to standard measures of spread.

Leeton (the dashed line) has been mostly located towards the bottom of quartile 2 (the lowest fifty percent of rural councils) for most of the time of our analysis. It is notable that this is a similar position to the PCA of regulatory sustainability metrics that we illustrated in Figure 16.

Some of the change that can be observed could be explained, in part, by the need to get council more compliant – which is a challenge that the current GM rightly embraced towards the begining of the period under analysis. However, for the most part, technical efficiency tends to decrease as service levels increase. Every time a council builds something new, or starts a new program, then technical efficiency will suffer. If matching ongoing additional revenue, or matching ongoing savings, are not executed immediately following new builds or new services then financial sustainability will inevitably suffer. This is simply a matter of arithmatic. Leeton has service levels far beyond what one could reasonably expect for a rural council of its size; it has also been building new infrastructure that seems to involve ongoing program costs. Given the decline in techical efficiency in recent years (illustrated in Figure 33) – along with the likely decline that will be attendant if planned projects start – it would be reasonable to suggest a need for some prudent cost-cutting and abeyance of new future builds and programs until things have improved.

Figure 33. Local Intertemporal Data Envelopment Analysis of Technical Efficiency, All Rural NSW Councils, 2017-2024

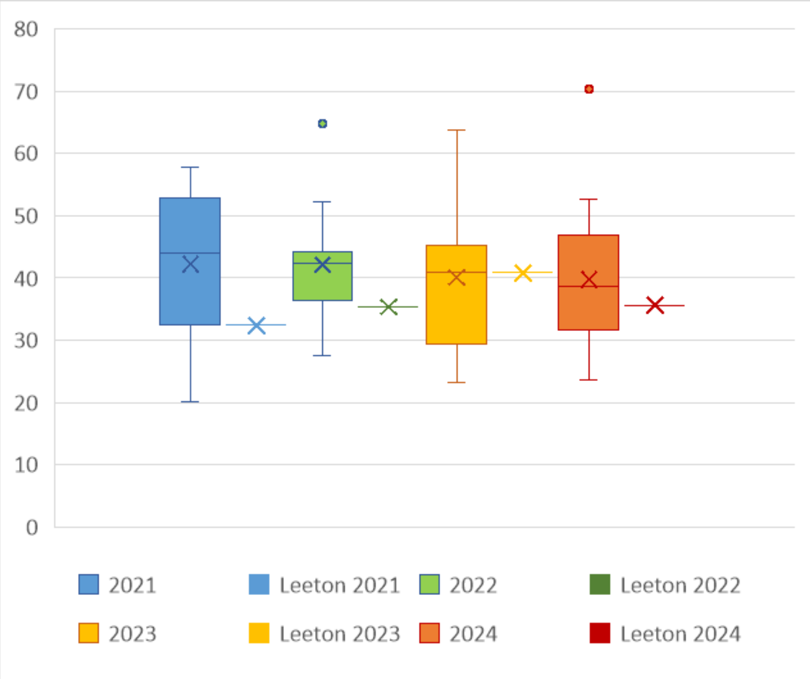


One of the key matters that should be considered for a thorough understanding of financial sustainability is where the cash has been flowing in recent years. According to the Australian Accounting Standards cash flows are reported under three broad categories: (i) operating, (ii) investing, and (iii) financing. {In the graphs that follow cash flow data is deflated by revenue in all cases which is the standard way to ensure fair comparisons}.

In Figure 34 we present the operating cash flows for Leeton and the peer group over the last four financial years. Operating cash flows in local governments are receipts such as rates, fees, and grants less payments to employees, for materials and also borrowing costs. Typically operating cash flows are very positive in local government finances and generally it is the case that the more positive the better.

In a comparative sense Leeton has performed satisfactorily for most of the peer group for a number of years, but this data needs to be considered in light of two important facts: (i) that the peer group is relatively weak in a financial sustainability sense, and (ii) that strong grant flows have clearly helped.

Figure 34. Operating Cash Flows (deflated by Revenue)

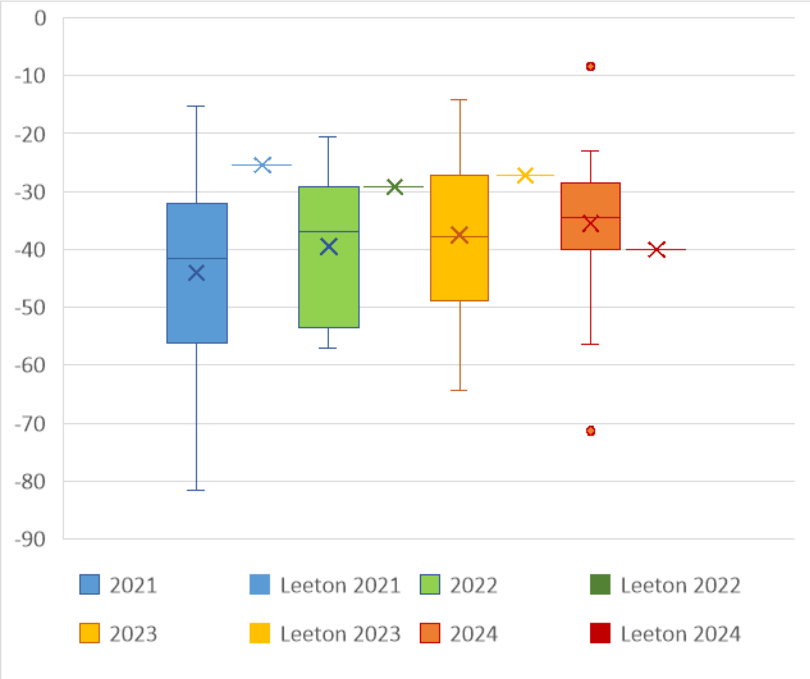


Investing cash flows largely chart how much money is being used to purchase infrastructure, property, plant and equipment (IPPE) but is admittedly often confounded somewhat by movements in and out of long-term financial investments. Typically investing cash flows are very negative in nature.

Nevertheless Figure 35 can yield some important insights – not least of which is the fact that in most years Leeton has been investing less than other councils (with the exception of 2024). This audited financial data may come as a surprise to some, but it seems that the other councils in the peer group accelerated spending in this area even more so than Leeton in response to COVID-19 stimulus and the like.

Notably, bona fide economists, such as Professor Drew and Professor Miyazaki, are on the record as having urged caution and restraint in the face of media and higher tier calls for profligacy following COVID. This was because classically trained economists were aware that spending surges are usually accompanied by inefficiency, budget blowouts, long hangovers, and enduring increases to cost base (new depreciation and maintenance costs as well as sometimes new staff costs) – see for example this prescient video from 2020-21: https://www.youtube.com/watch?v=pou_561jJxE

Figure 35. Investing Cash Flows (Deflated by Revenue)

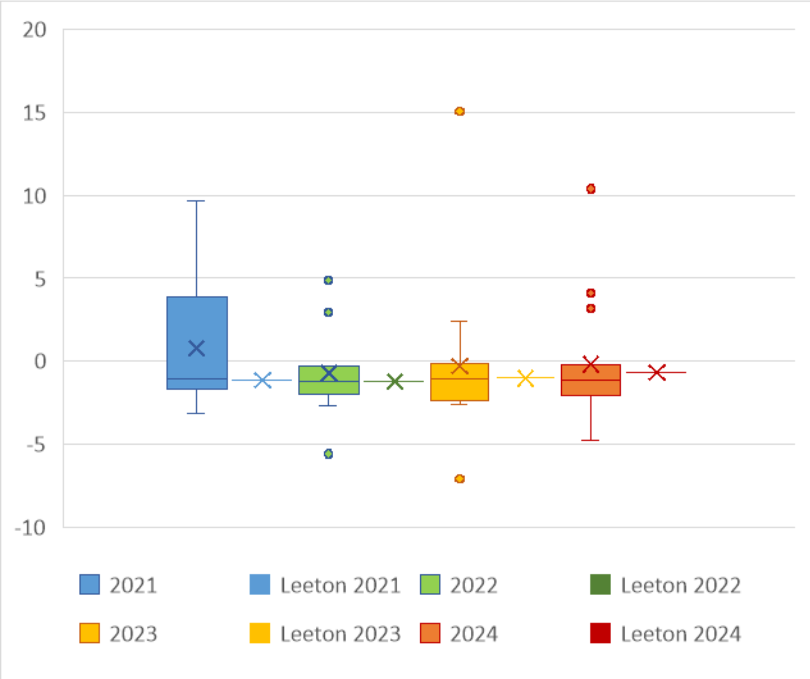


Financing cash flows are usually of only marginal interest for local governments (please note that the Australian Accounting Standards apply to both business as well as government and hence that some elements don't translate quite as well as might be hoped for[20]). In most years cash flows will be slightly negative because of loan repayments. Things generally only change in years when debt is drawn down, whereby investing cash flows turn strongly positive.

Figure 36 demonstrates that Leeton has had pretty typical financing cash flows and that the peer group occasionally has very positive individual results in years that particular councils drew down debt. We note that the 2025FY will probably include a strong positive result for Leeton in this area of cash flows because of a recent loan drawdown and that this is no matter for immediate concern.

[20] In business enterprise financing cash flows are arguably far more important and interesting. This is because businesses are typically highly leveraged (borrow lots of money) and use this money to buy things that produce profits larger than borrowing costs. Government is starkly different – here leverage can be a financial sustainability and intergenerational equity risk; moreover the items purchased make 'losses', not profits.

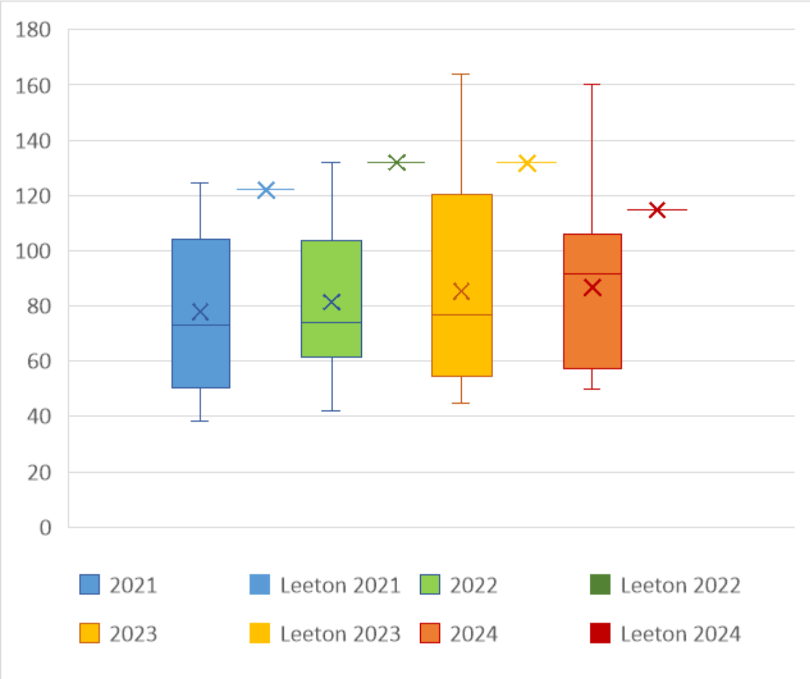
Figure 36. Financing Cash Flows (Deflated by Revenue)



Arguably of greatest concern for Leeton is the cash position of council – especially when considered in light of future serial budget deficit projections. Numbers are presented as a proportion of revenue.

In Figure 37 we chart total cash and equivalents for Leeton and the peer group. At first glance this may seem very healthy, however an understanding of the three types of cash is necessary to properly appreciate matters. Local government cash is categorised as either externally restricted, unrestricted or internally restricted. Externally restricted cash relates to money that can only be used by law for the purposes for which it was given – things like developer contributions, specific purpose grants and the like. Unrestricted cash can be used for any purpose and is the way local governments fund cash deficits, new projects etcetera. Internally restricted, on the other hand, is cash that has been set aside for important purposes such as staff entitlements, plant and equipment replacement and the like. It should thus be clear that the total cash balance only tells a small part of the story.

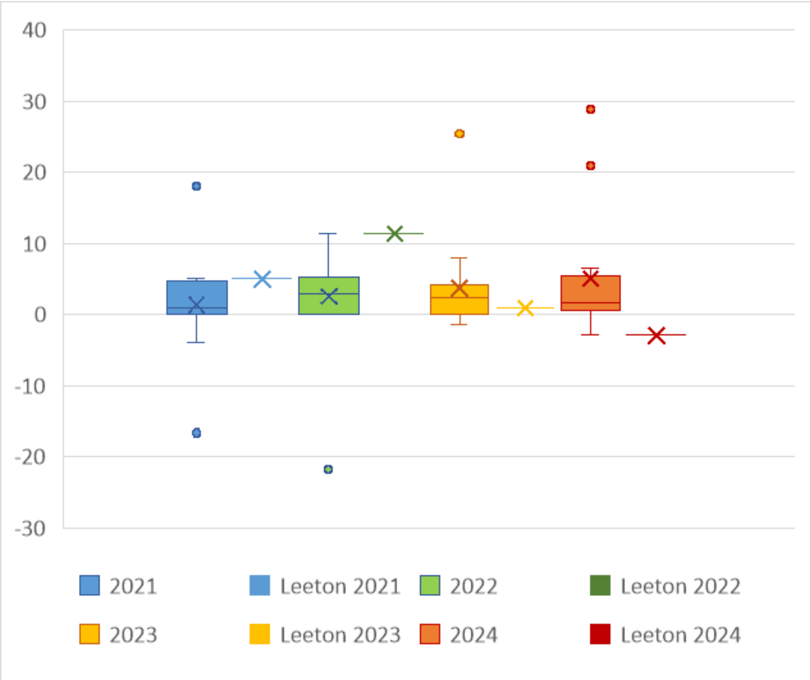
Figure 37. Total Cash, Cash Equivalents and Investments, deflated by revenue



In Figure 38 we present unrestricted cash, deflated as before. Last financial year this number was negative, which is an extremely concerning state of affairs. The year prior it was very low and close to zero which is also an extremely concerning situation. Some of this result can be a timing issue – for instance, it must be remembered that financial statements are constructed on a specific day (30 June) and that significant inflows might have been expected a few days later, or a loan almost about to be drawn down (as was part of the explanation). However repeated low results warrant close attention. For instance, in a situation such as this, councillors would ordinarily be well-advised to be specifically asking for an update on the unrestricted cash position each meeting, at least, and the Director of Corporate is probably asking for a daily update.

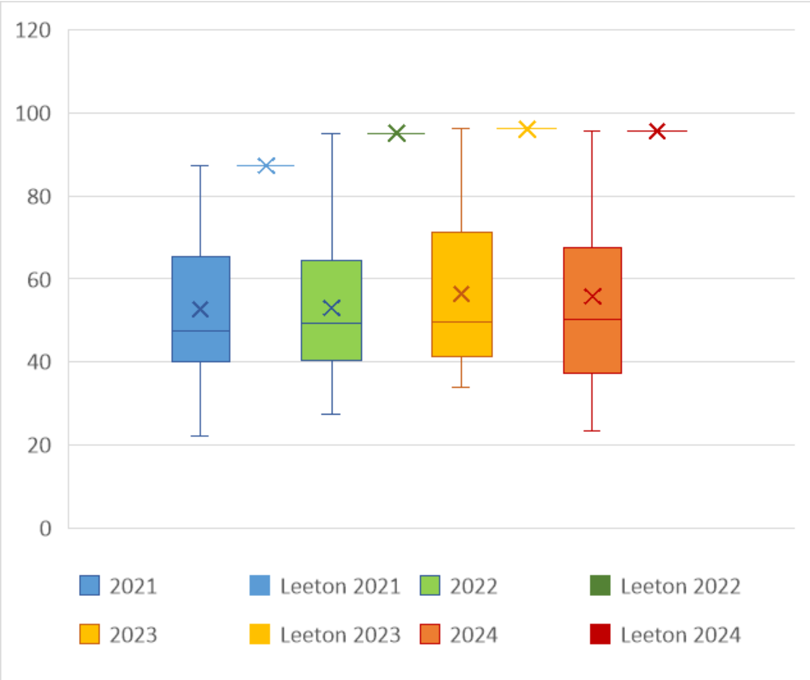
As a general rule of thumb, most people believe that the unrestricted cash ideally should be sitting at an equivalent of three months cash operational expenditure, which for Leeton would be around $7 million. Certainly, one would wish at least two months operating cash which is just over $4.6 million for Leeton. Clearly much work needs to be done to move from the negative $1.299 million, as at 30 June 2024, to what would be reasonable. In addition, it is also evident from Figure 38 that most of the peer group is in a similarly serious situation.

Figure 38. Total Unrestricted Cash, Cash Equivalents and Investments, deflated by revenue



As we noted earlier, total cash can often be confounded by the presence of large specific purpose grants which have, in fact, been extraordinarily high across the jurisdiction since 2020. In Figure 39 we present data on comparative externally restricted cash, relative to the peer group. This confirms our understanding that Leeton has been a large ‘beneficiary’ of capital grants in recent times; some of which is clearly still unspent (there are also large developer contributions in line with the activity in the area). This is good in one sense – new infrastructure – but problematic in terms of the financial sustainability challenge alluded to in the YouTube video we provided the link for earlier as well as our discussion of the DEA results. We remind readers that externally restricted money (which also includes funds for water and sewer businesses) can only be lawfully used for the specific purpose for which it was provided.

Figure 39. Total Externally Restricted Cash, Cash Equivalents and Investments, deflated by revenue

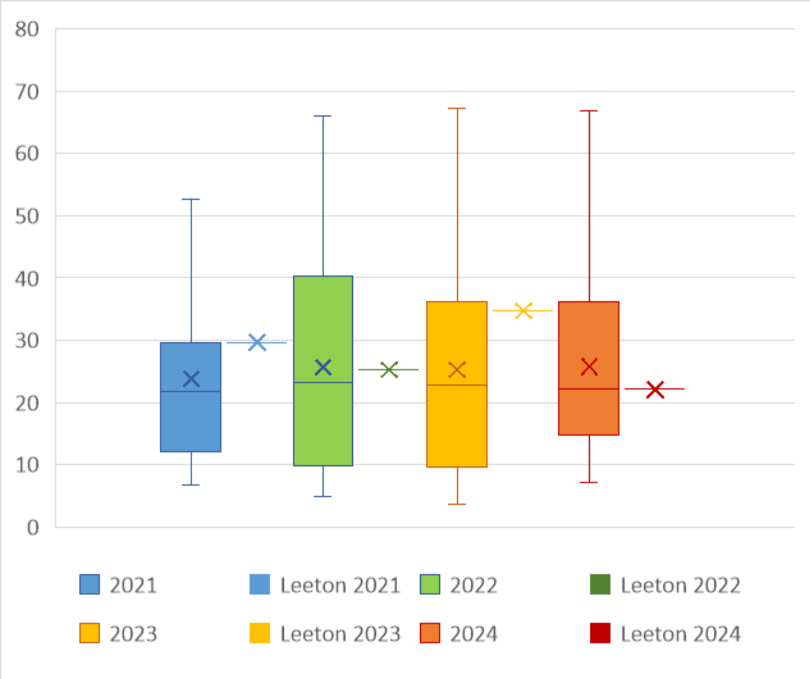


Internally restricted money are funds for important purposes crucial to the ongoing sustainability of any government. One of the things that often happens in a council under stress is that the internally restricted cash is reduced at a faster than expected rate. The comparative audited financial data suggests recent activity that seems to be consistent with precisely this kind of behaviour. Readers should note that internally restricted cash ought to be increasing each year to keep apace with inflation (which is an important thing to do) – and this would especially seem to be the case given increased pre-payments of financial assistance grant monies. Not all councils internally restrict these large commonwealth grants (like Leeton does) but they certainly should do so because one-day it is inevitable that the grants won't be prepaid and if the money were already spent then a liquidity crisis might emerge. We commend Leeton Council for their prudence in this matter.

We also note that the broad trend over the four years for Leeton is a downward progression in internal reserves which is contrary to the trend of the peer group, which readers will recall is not a financially strong one. This is a real concern and it is clear that much ground needs to be recovered to be sure that sufficient internal reserves will be present to meet needs in the future.

In sum, whilst the overall cash position is good it becomes clear on closer inspection that unrestricted cash is unsatisfactory and internal reserves unlikely to be adequate. To achieve financial sustainability these deficiencies will clearly need to be remedied.

Figure 40. Total Internally Restricted Cash, Cash Equivalents and Investments, deflated by revenue



We will now present a number of more general metrics that help to paint a picture around the context and operating environment at Leeton. Figure 41 charts relative income per assessment for the peer group whilst Figure 42 charts relative expenditure for the same cohort over the same four years. The two graphs should be considered together for maximum insights.

The picture that emerges is one of a council that tends to mostly extract less than typical revenue, but at the same time often spends more than typical on a per assessment basis. There are exceptions, of course, but this is the general picture that confronts us when we look at the audited financial data for Leeton and the fourteen peers. This is also our general impression of Leeton from the site visit.

The proposition that one could hope to be sustainable while receiving less than typical income and simultaneously spending more than typical wouldn't stand the test in our personal finances, and it doesn't stand up to close scrutiny in local government finance either. Something clearly needs to change in a material way to mitigate what appears to be a long-standing problem – our experience in the past suggests that both sides of the accounting ledger will ultimately prove to be the solution.

Figure 41. Total Income per Assessment ($000)

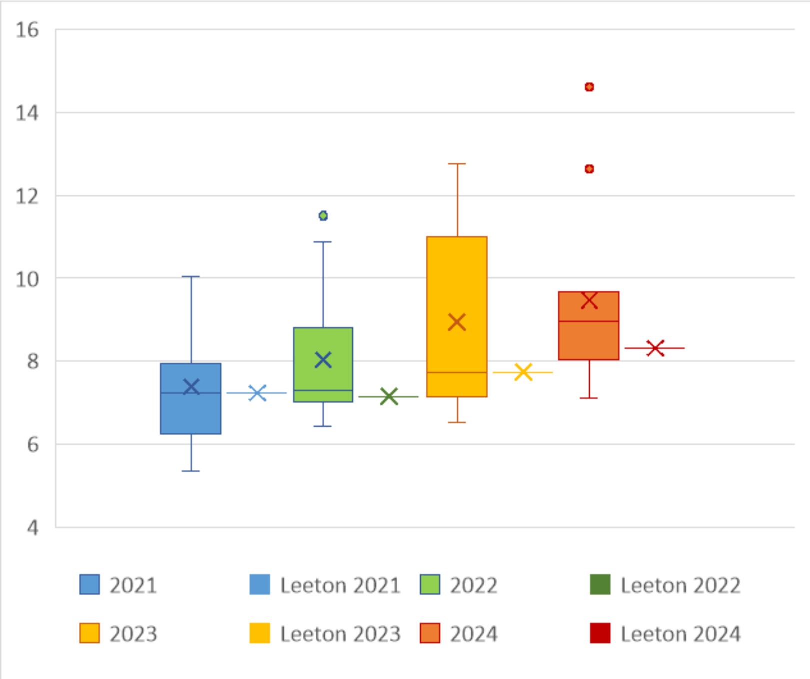
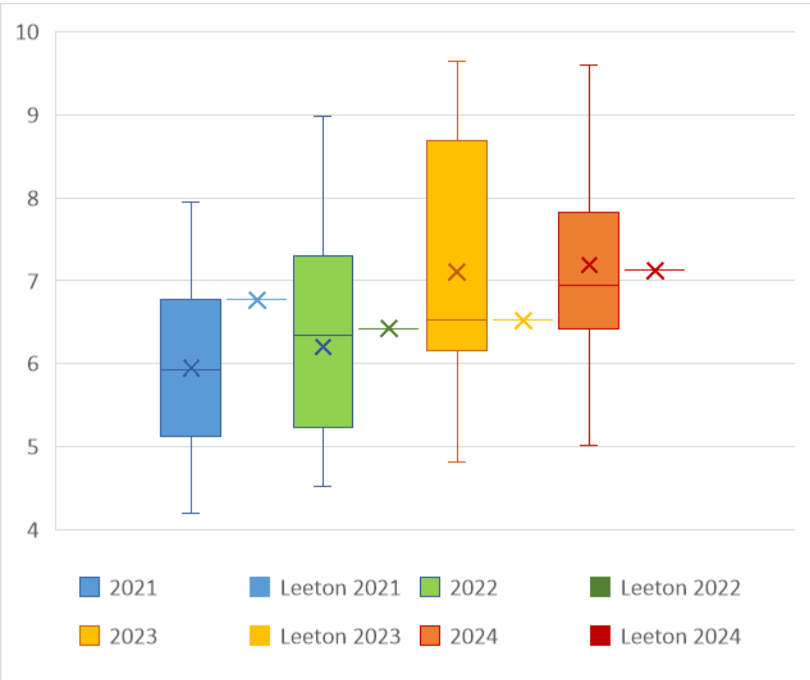


Figure 42. Total Expenditure per Assessment ($000)

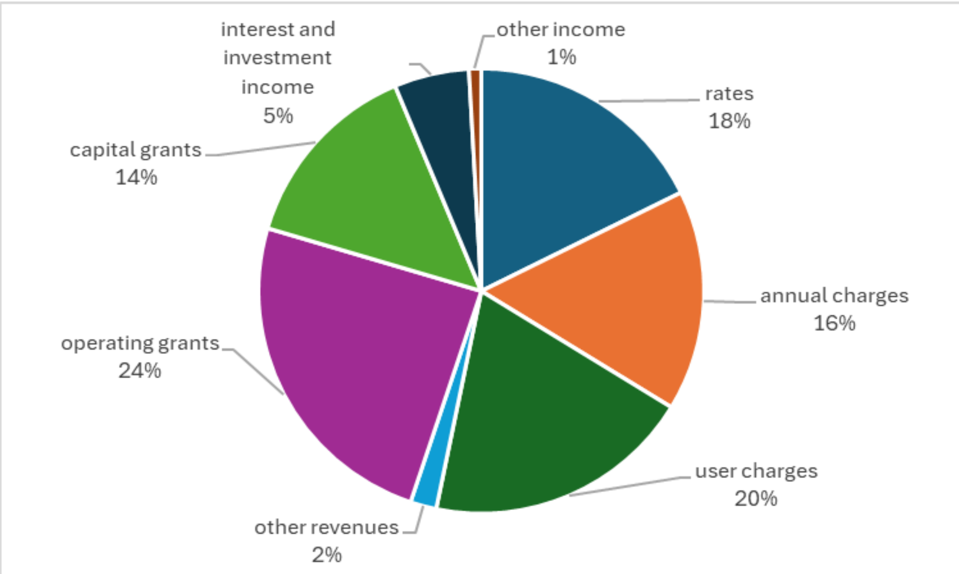


Another critical component of financial sustainability is community education – hence the videos we have done, as well as this report which should become public. These recent initiatives should be augmented also with better price signals (for instance ticket prices that include clear information on the size of the subsidy provided by the wider taxpayer body, and also greater transparency around the generous support currently being provided in cash or kind to a surprising array of not-for-profit community organisations). In addition, we must get clear and easily consumable information around the sources and destination of council funds in a place where residents will see it – such as the quarterly rates notices.

Figure 43 is an exemplar of what we mean. Most residents are under a profound misapprehension about how much they actually contribute to the running costs of a local government area. In Leeton, rates account for just 18 percent of consolidated revenue in 2024 which is far less than the twenty-five percent or so that we would expect from a rural council with these particular characteristics. Annual charges relate mostly to domestic waste, water and sewer services – and notably these are levied mainly on residents and commercial businesses (generally not farms). User charges, on the other hand, receive a significant boost by the council childcare business as well as roadwork conducted on behalf of the state government.

What should be apparent from Figure 43 is that ratepayers in Leeton only directly contribute just over half of the revenue needed to run the local government area. Indeed, in FY2024, 38 percent of revenue came from the state and federal government in the form of grants. Yet, Leeton residents are the main beneficiaries of the goods and services provided by Leeton Shire Council. We feel that this is an important message to convey to residents and urge Council to do so through regular information on rates notices and the like.

Figure 43. Leeton Revenue Components, FY 2024.



It is also helpful for residents to get a sense of the expenditure side of things. In Figure 44 we present data for Leeton in the FY2024. The first thing to note is that the depreciation at Leeton is higher than might usually be expected at a rural council. We note previous commercial consultant advice to council – and also the information sent to residents – around 'depreciation review. DONE $600K SAVED … Assumptions benchmarked against NSW Councils and adjusted' (see 'Important Notice to Ratepayers', 2022). This was incorrect – adjusting depreciation is not a saving, it is merely a different approach to accounting for the consumption of long-life assets[21]. Furthermore, whilst benchmarking against other NSW can provide some information about potential problems it is not sufficient, in and of itself, to warrant a change.

Depreciation is an apportioning of the consumption of long-life assets over time and is governed by the Australian Accounting Standards which have force of Commonwealth law. The key task here is to ensure that depreciation expense matches the consumption of hard assets such as roads, buildings and the like. Depreciation in every local government area will vary and should vary because the consumption patterns will differ in important ways. To understand this properly it is useful to consider roads which is the single biggest driver of inflation. How a road deteriorates (is consumed) depends on a number of things, including inter alia: the substrate under the road, the type of vehicles using it (especially heavy agricultural machinery), the weather (extremes such as drought or temperature or floods crack seals), and the volume of traffic. It is no good saying that a council in Sydney depreciates road by a certain percent every year, so we should do the same. Instead, what is required is a matching of depreciation expense to the facts on the ground.

Our site visit revealed the likely cause of the higher-than-usual depreciation: the irrigation canals that we have already noted that leak under the road seals and increase deterioration substantially. We are not engineers by trade, but our inspections of various assets at Leeton – with reference to the many councils we have surveyed previously – suggests that things are about right. Reducing depreciation without supporting evidence regarding facts on the ground, won't actually improve financial sustainability which is a long run concept because the roads will be deteriorating irrespective of how we do our accounting. We understand that Council has recently prudently engaged professionals in this field to review asset conditions, and we will defer to their judgement on matters – but whatever happens, it will neither be a saving nor an additional cost…. instead it will be a more accurate accounting of the facts on the ground.

As we have already noted, the staff component is a little high, but this is mostly driven by the childcare business which we have already noted accounts for around 25.9 FTE.

The materials component is the arithmetic outcome of the other matters that we have already discussed. The only thing to note here is that this is where costs have been really rising for all rural councils (recall Figure 5) and furthermore that we expect further significant increases with the new gravel deal commencing, and also the likely higher costs for subcontracted road sealing. Indeed, limited competition in the

[21] One can always reduce depreciation to a rate lower than the actual consumption of the asset if the auditor fails to pick up on matters. However, it doesn't actually change the expense in the long-run because the asset deteriorates independently of what accountants might do. All that happens in the event of manipulation is that we get a loss on disposal, or a large upward adjustment at a later date. *Unwarranted* changes to depreciation are thus no more than 'smoke and mirrors' and make absolutely no difference to financial sustainability (which readers will recall is a long-run concept).

local area means that Leeton is more exposed than many councils when it comes to increases to materials costs.

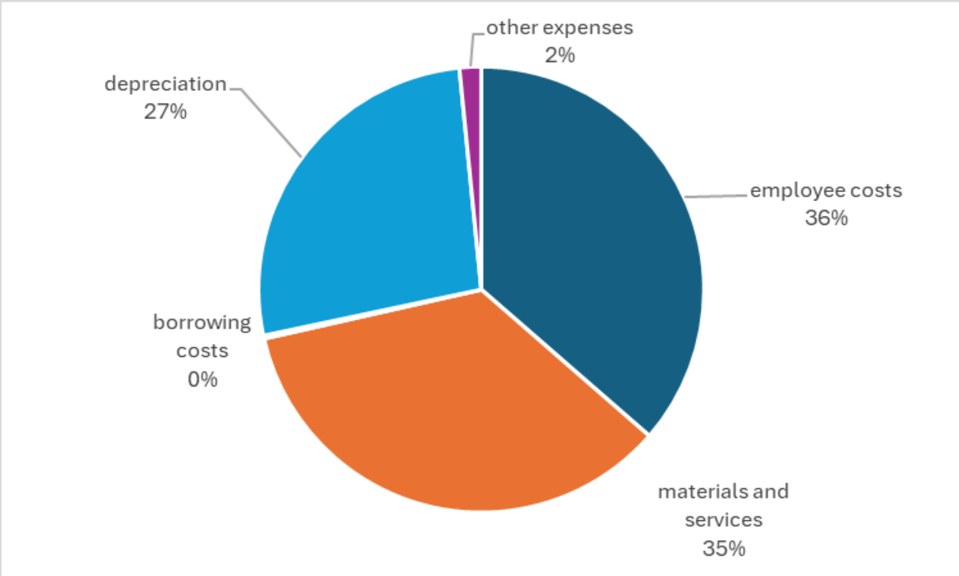
The other learning that can be derived from Figure 44 relates to potential efficiencies. As we have seen, depreciation[22] is around 27 percent of expenditure and is entirely outside of the control of council – it relates to assets on the ground (usually constructed many years ago), accounting rules, and the auditor. Some control is possible in the area of staff costs however – but this will usually involve morally confronting decisions about hiring and reduced service standards. Seeking to mitigate staff expense could also potentially involve divestment of the childcare centre – but once again, this has important implications for the community. Furthermore, we must remain cognisant of the fact that the state government is constantly implementing changes that require more work from councils and hence lead to upward pressure on staffing. In addition, staff typically have annual pay increases – like almost every other worker in the country – and this means that total staff costs are almost certain to go up annually. The final area for potential efficiencies is materials expense – but this includes many big ticket non-discretionary items such as electricity ($702,000), councillor fees (quite low actually, and regulated by the remuneration tribunal according to law), insurance ($535,000) and the like. Most of these are unavoidable in the short-run.

The point of all this is that people need to be realistic about how much could be saved through efficiencies – only a relatively small part of total expenditure is fully within council control. Ongoing savings of a few percent might be possible, but whilst absolutely essential, they are clearly not enough to fully redress the sustainability predicament faced at Leeton. Sadly, a common refrain in financial sustainability debates – a refrain favoured by our current Local Government Minister – is that council just needs to become more efficient in order to assure sustainability: but reality on the ground makes clear that this is not a true solution at all. It might be *part* of a solution, but it will never go anywhere near fixing the problems faced by most councils.

We strongly encourage residents and decision-makers to watch this video: https://www.youtube.com/watch?v=k7kTdjEwSaU

[22] Of course, depreciation was not included in our earlier envelopment analysis.

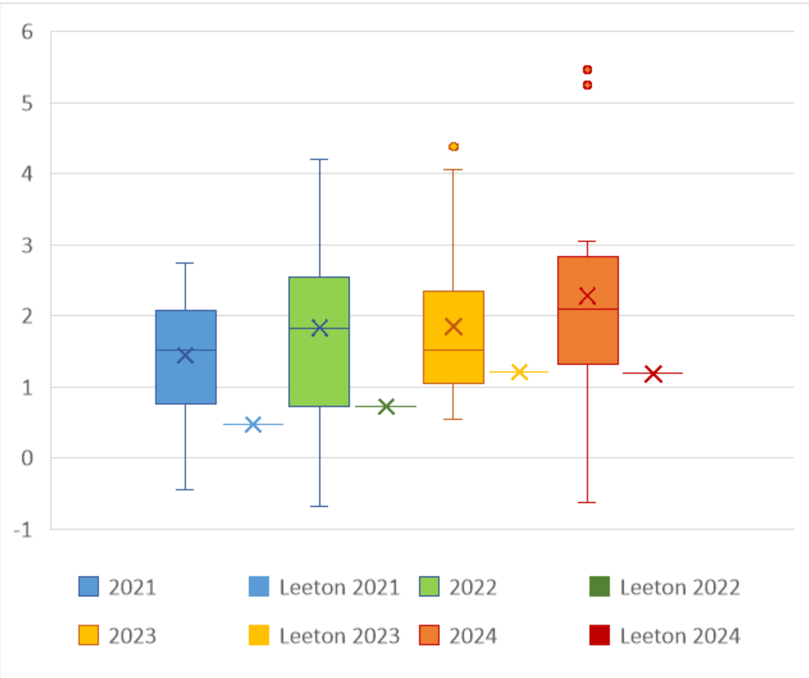
Figure 44. Leeton Expenditure Components, FY2024



Another interesting exercise is to express operating results in per assessment terms. In Figure 45 we chart nett operating result, *including capital grants*, per assessment. Users of this report will recall that capital grants can only lawfully be used for the purpose for which they were provided. As a result, this presentation of operating outcomes tends to be more flattering than practical.

Figure 45 suggests an improvement in outcomes over the last four years, in per assessment terms. However, this is mostly the result of unusually strong grant flows.

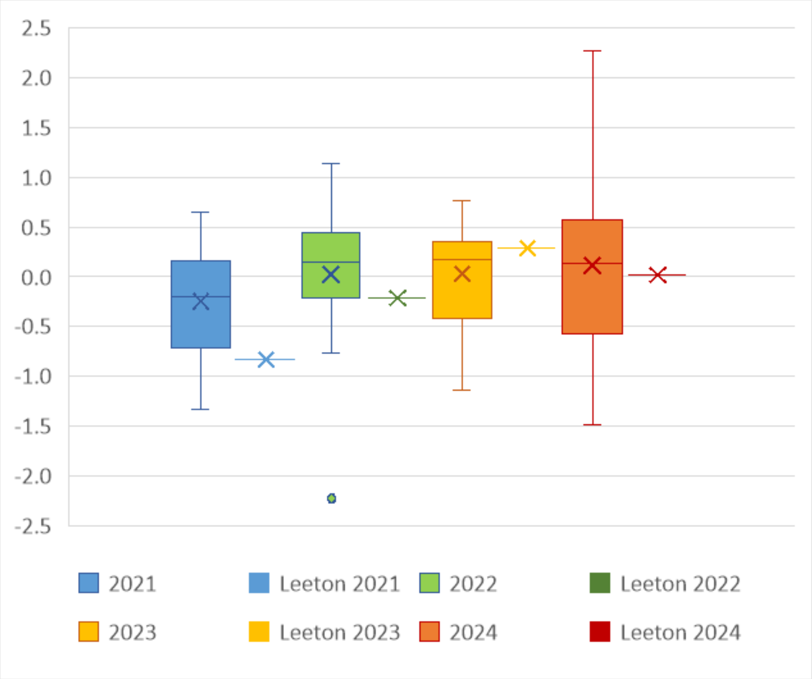
Figure 45. Nett Operating Result Including Capital Grants, per assessment



In Figure 46 we present the operating result after excluding the confounding influence of capital grants. Results overall are not good – and the outcomes of 2021-

2022 were particularly concerning. Overall, for the period the nett operating result has been a deficit per ratepayer and this does not augur well for either intergenerational equity or financial sustainability. Perhaps even more concerning is the projected outcomes in the Long-Term Financial Plan (LTFP). Clearly there is a need for significant change of the kind we discuss in the conclusion to this report.

Figure 46. Nett Operating Result Without Capital Grants, per assessment



Part of the problem – from a financial sustainability perspective at least – is the strong growth in number of assessments (properties), of late. A growing rural local government area brings many economic benefits and sometimes social benefits as well. However, scholars have demonstrated beyond reasonable doubt that growth also has a significant deleterious impact on local government sustainability (see Drew et al., 2024). In simple terms, the problem mainly arises because around half of the revenue is not derived from the ratepayers – additional properties and ratepayers come with additional costs, but new revenues typically only cover a fraction of these expenses (especially if we also consider long-run capital costs).

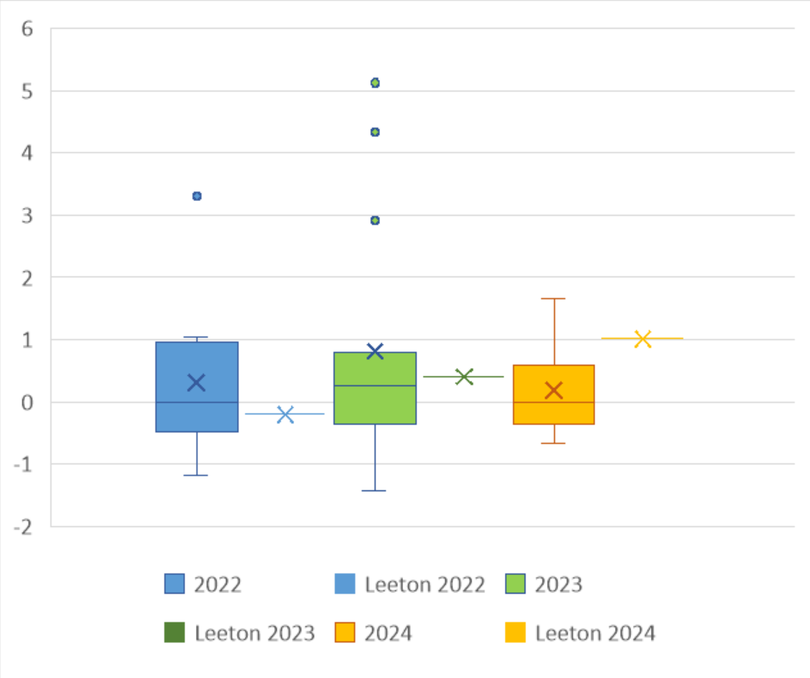
Figure 47. Growth in Number of Assessments

In Figure 48 we chart the data on growth in residential assessments and it seems that in recent years Leeton has come close to topping the peer group. If this outcome continues in the future, then the financial sustainability challenge will unfortunately become more difficult – not just because of the failure of revenue to keep up with expenses, but also due to the fact that new residents bring with them different tastes for local goods and services and that trying to meet disparate wants is a major drag on technical efficiency (see, Ladd, 1994).

Figure 48. Growth in Number of Residential Assessments

As depicted in Figure 49, growth in number of business assessments is also very strong at Leeton. Indeed, it was startling to see the scope of commercial and light industrial activity, supported by the thriving agricultural sector, during our visit. Residents are truly blessed and should understand that this is very unusual for a rural town. Business growth has been a great thing for the general economy, for certain, but does come with significant problems from a local government financial sustainability perspective.

Figure 49. Growth in Number of Business Assessments

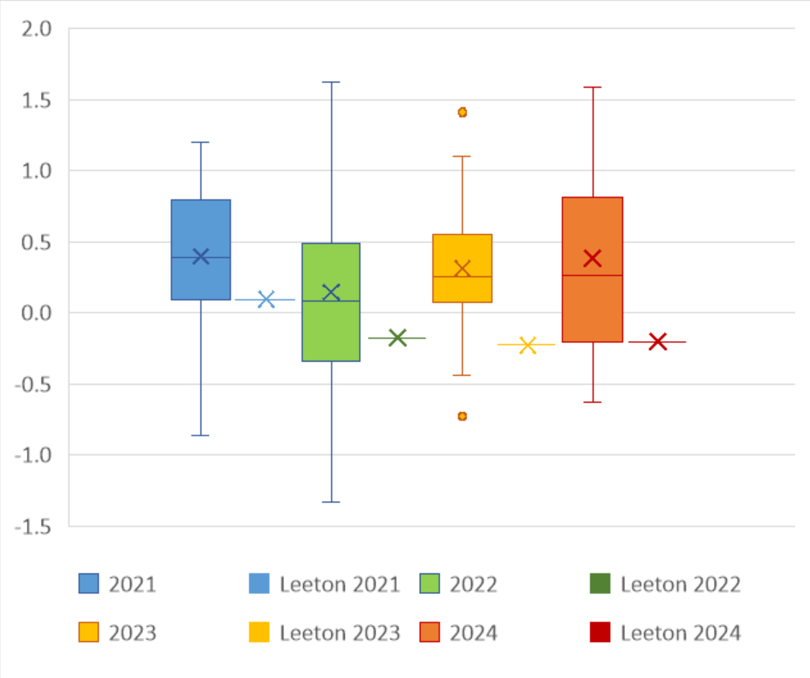


Many stakeholders – including the Office of Local Government it seems – still myopically focus on population growth when it comes to assessing efficiency and unit costs. As we have already noted this is clearly a flawed approach – not least because road lengths are negatively correlated with population, but also because costs, such as rubbish, water and the like, are much more strongly associated with properties. A myopic focus on population size implicitly and implausibly asserts that every member of a household (including infants) exerts the same cost pressures on local government (see our earlier footnote on this). It also seems to suggest that businesses don't come with costs for local government (because people don't usually live in business premises), or that they are somehow closely correlated to population size.

Furthermore, the Australian Bureau of Statistics (ABS, 2025b) clearly discloses that population is a mere estimate in intercensal years with errors in the order of 8.9 percent at the SA2 level. It seems foolish to use data that we know is very distorted – especially in rural areas – when accurate data on assessments, that is also more meaningful in terms of the cost of providing services, is available.

In Figure 50 we present population growth based on the intercensal estimate provided by the ABS. People will likely draw their own conclusions regarding the advisability of using population estimates in view of the two previous presented graphs.

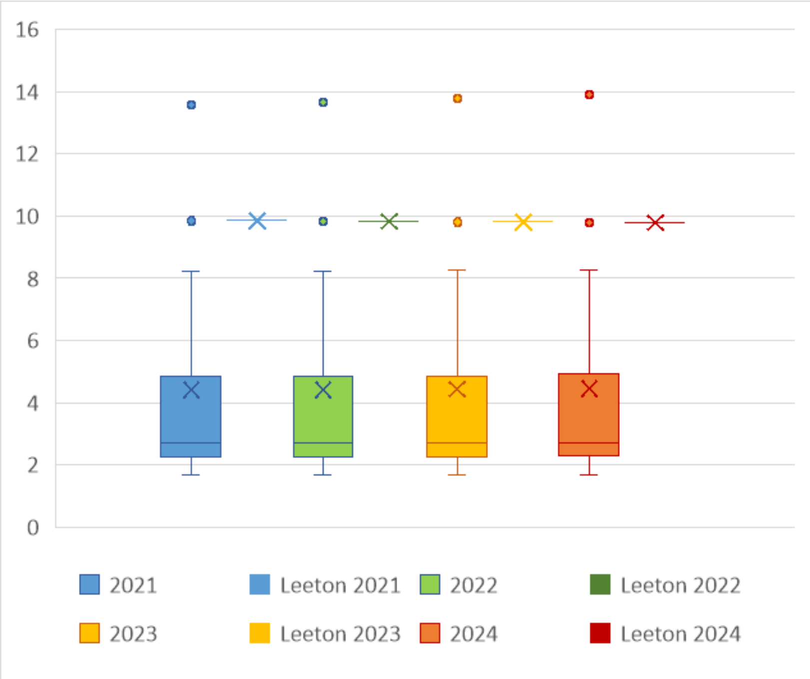
Figure 50. Population Growth



Far more important than population size, is population density. Economists have long known that economies (and diseconomies[23]) of density can have significant impacts on the efficiency of local government service delivery (see, for example, Ladd, 1994). This is hardly surprising because it is clear that houses located closer to one another require less lengthy roads, water pipes, and domestic waste pickups just to name a few major examples. For this reason also infill development should always be preferred to greenfield sites. Figure 51 demonstrates that density is relatively high for Leeton compared to the peer group.

[23] Diseconomies of density arise when development becomes too concentrated as a result of high-rise constructions and the like– it is not a relevant issue for rural councils. In diseconomies of density costs arise because of congestion effects, as well as the substantially higher costs associated with maintenance and capital construction.

Figure 51. Population Density

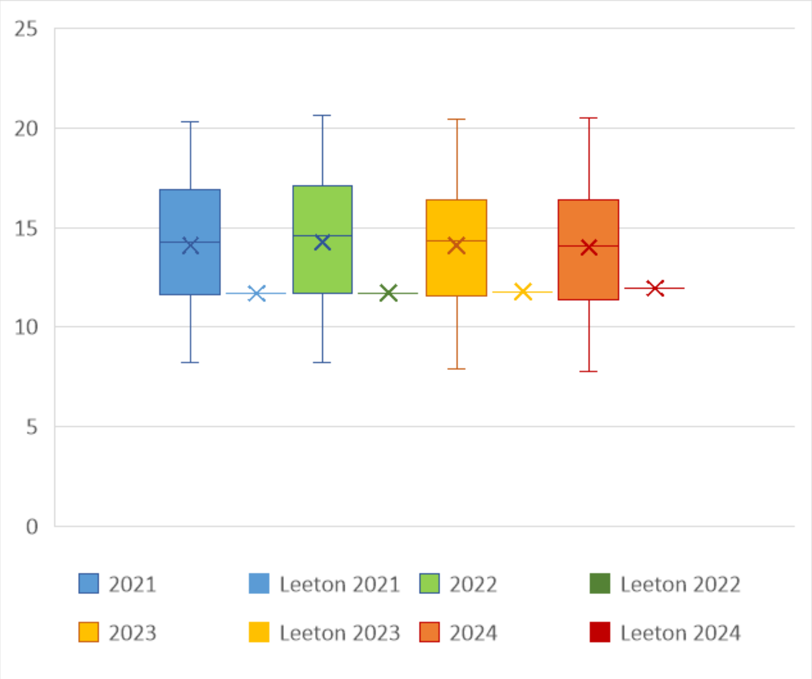


One of the big obstacles for rural councils trying to maintain financial sustainability are pensioner discounts which must be provided, by law, to eligible ratepayers for rates, water, sewerage, and domestic waste services. The problem comes about because generally only a fraction of the discounts are reimbursed to councils by the state government. This is an example of what economists call mandate cost shifting – a state government makes a politically popular policy (such as pensioner rebates), but the local governments pay a good proportion of the cost. It is a particularly acute problem for rural local governments because: (i) they have a far higher proportion of pensioners (an average of 13.38% compared to urban counterparts at 10.27% in 2024), and (ii) they generally provide water and sewer services (which have a mandated discount) which urban peers typically do not.

To illustrate matters, pensioner rates discounts in Leeton for FY2024 were $233,000, but only $82,000 was refunded by the state government. When this occurs year after year there is clearly a large impact on financial sustainability.

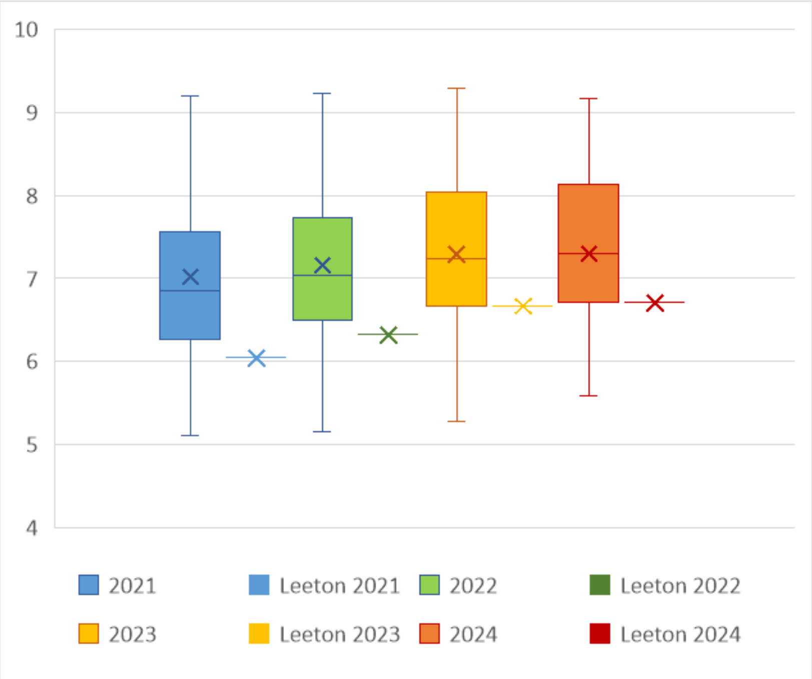
Figure 52 illustrates that Leeton is in a relatively good position (low numbers of pensioners) when it comes to financial sustainability implications compared to the peer group. However, it is also clear that the proportion of pensioners in Leeton is significantly higher than the average for urban councils which illustrates the relatively greater challenge faced at the council.

Figure 52. Aged Pension



Given the concerns regarding mandate cost-shifting it is important to consider the proportion of the demographic that is likely to transition to pensioner status in future years. Figure 53 suggests that Leeton is in a relatively good position compared to the peer group, but the challenge is clearly present over time which makes financial sustainability all the more difficult to achieve. This is yet another reason for prompt and decisive action as soon as practical.

Figure 53. Percentage of Population Aged 60-64



Figures 54-56 provide information on other major welfare categories. In sum, it is a mixed bag – Leeton has helpful characteristics for disability support pensioners (DSP) and unemployment (the latter no doubt an artefact of the unusually thriving business environment), but unhelpful characteristics with respect to single parent support.

Figure 54. Disability Support

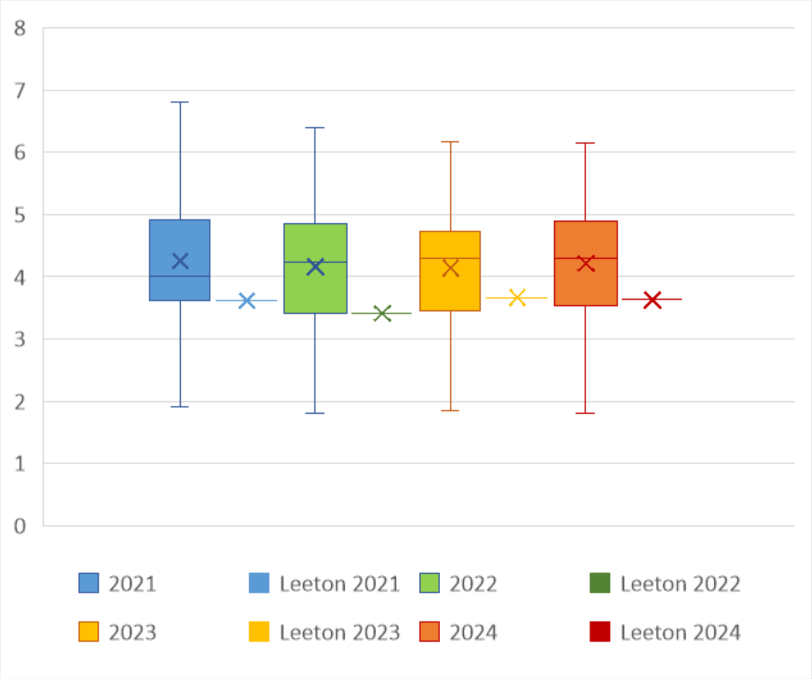


Figure 55. Newstart Allowance/ Jobseeker

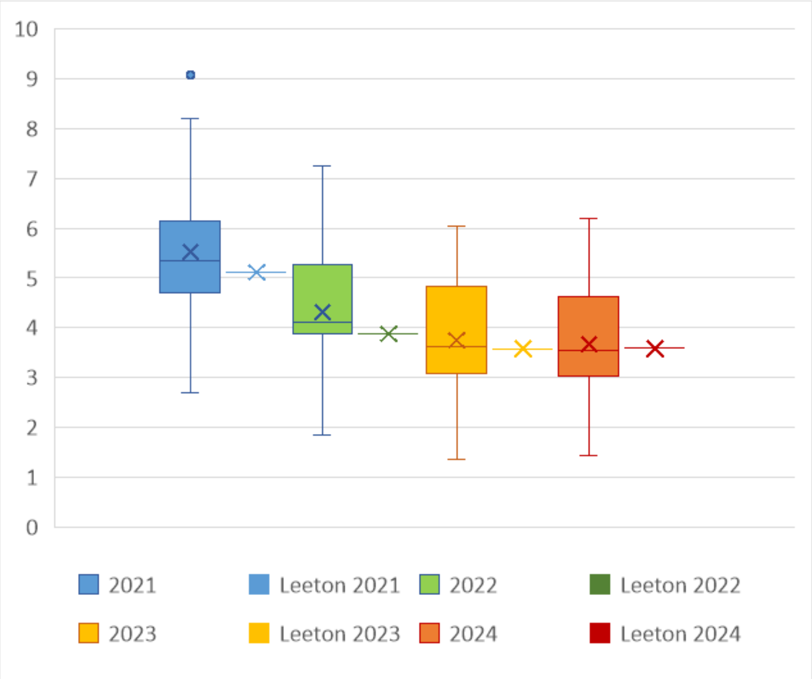
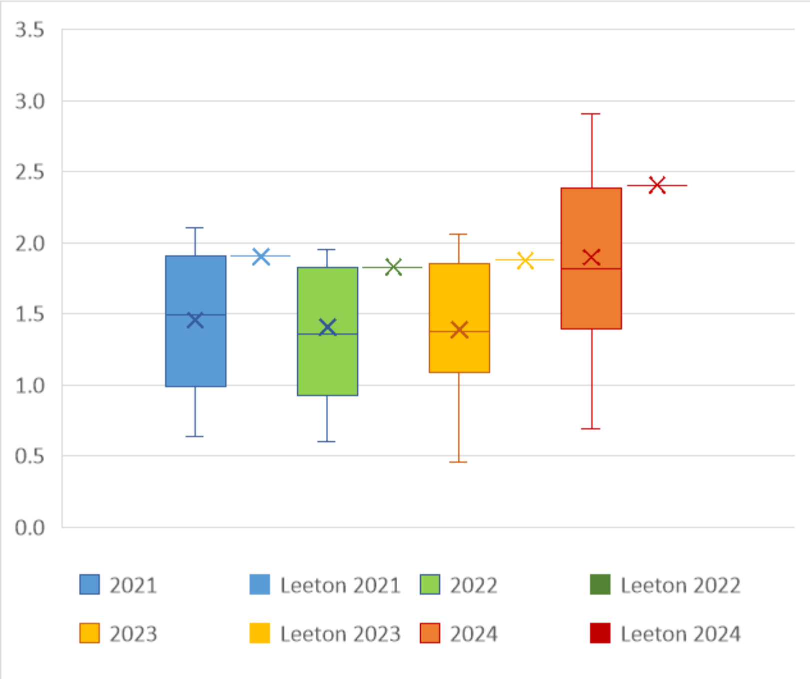


Figure 56. Single Parent Pension

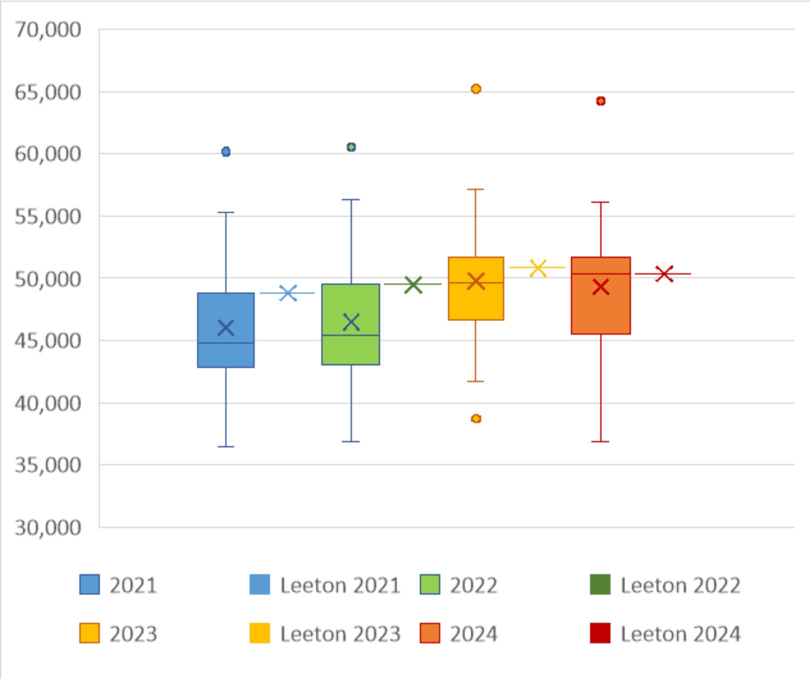


The last thing that we must examine is the typical incomes of people in Leeton compared to the peer group. Resident income is important to local government financial sustainability for at least two important reasons: (i) a host of econometric studies have shown beyond reasonable doubt that as incomes rise, so do the service standards (and hence costs to council) demanded by residents, and (ii) rates are paid out of incomes (see Drew, 2021).

Things are a little complicated by the lags in data from the ABS on income. In addition, since the days of federal and state government COVID policy, average data has become so distorted as to make it unusable for long panels (essentially low income workers were hit disproportionately by COVID policy which skewed everything to the upside). Accordingly, in Figure 57 we present median data for Leeton with the customary ABS lag. This suggests that incomes in Leeton tend to be higher than much of the peer group which goes some way to explaining the unusually high standards of local government services and infrastructure. The data also explains much of the unexploited additional tax capacity demonstrated in our chart of the regression work in Figure 27[24].

[24] We remind readers that business and farm incomes are also important and would clearly have to be surveyed in any potential Stage 2 work.

Figure 57. Median Employee Income



With 57 Figures completed, our review of Financial Sustainability indicators is now at an end. In the section that follows we turn our attention to summarising matters with respect to recommendations for future action.

4. **Recommendation**

We commend council on the respect for our independence and also the unfettered access provided to staff and documentation. We are particularly grateful to the General Manager for her open-mindedness and commitment to the community. We also applaud the Councillors for their integrity and dedication to the people of Leeton. The mere fact that council engaged us – given our reputation for evidence-based frank advice – should make it clear beyond any reasonable doubt that the leaders of Leeton are genuinely trying to do their best. It is always easy in hindsight to provide a commentary on decisions and actions taken – but this kind of reflection usually fails to acknowledge that we all make mistakes from time to time, especially when we are not in possession of good information.

Indeed, previous advice provided to Leeton Shire Council may not have been as comprehensive as one might have hoped. Certainly, we struggle to understand why the commercial consultants engaged in the 2022 SRV investigation a few years back didn't provide more robust and frank advice to the councillors and senior management (including the General Manager) – we feel that it would have been reasonable for Leeton decision-makers to have expected better guidance around risks and the need for significant changes to mitigate technical efficiency than they appear to have received.

In addition, like many councils, it seems that Leeton may also have been a little misled by the profligate behaviour and messaging of our state and federal governments. For instance, it is abundantly clear that the federal and state government policy responses to COVID contributed significantly to the problems now faced – not just with respect to accelerated spending but also in relation to the financial failure of contractors engaged by Leeton council (Lloyd Group and HME).

Whatever the precise causes, the facts of the matter are that unrestricted cash is in an unsatisfactory state which is particularly concerning given the projected serial deficits in the LTFP. Moreover, we are yet to be convinced that the LTFP (in common with many other councils it must be said) has the level of rigor required by IPART – after all it is the key piece of empirical evidence used by IPART for their decision-making and they are likely to want a high level of assurance regarding the veracity of projections. In this regard we make note of the significant resources that management have recently invested into the LTFP of late. This includes a change of software to the product that we personally consider to be best in class for NSW. We therefore hope for improved accuracy in the future and remind readers that Stage 2 of projects of this kind always involve a rigorous interrogation of the LTFP and its assumptions, by Professor Drew, in order to provide IPART and the community with additional assurance.

There is also a good deal of other work that must be done before Council is ready to apply for an SRV that could be expected to be successful. This includes: an understanding that discretionary projects will likely need to be deferred for the foreseeable future, an appreciation that new future decisions need to be made with specific reference to capacity in the LTFP, reductions in spending with a view to improving technical efficiency, divestments, even greater enhancements to capital works controls (both prior to commitment and through to the end of projects), repricing and better price signals, considerably more rigour around community grants (including in-kind support), constraints around staffing levels, a continued commitment to educating the community, enhancing the value to the community around the Roxy re-development, financial sustainability training, a careful look at previous commitments, as well as enhanced staff welfare measures.

Further complicating matters is the recent NSW Government Response to the *Inquiry into Ability of Local Government to Fund Infrastructure and Services*. Essentially, it casts significant doubt on whether permanent financial sustainability SRVs will be possible under new rules and the terms and conditions for same. For a successful SRV Councils with good quality and rigour in their reports generally need to commence work in July and assign significant resources to same. However, typically the IPART rules for the process don't turn up until much later. Usually this presents few problems because the rules change little from year to year. However, given the recent NSW Government publication we can expect significant changes for the coming round. There is a thought by some that the new rules will not take effect for the next round[25] – but we simply cannot be sure of this at this point in time. If we commenced an SRV and the rules did change then we fear that much expense would be incurred with little chance of success.

Moreover, Councillors and staff must understand that an SRV represents a major commitment in time and focus. It is not merely a matter of having a majority vote in the Council chambers, sending out a flyer, and doing some community events. As we noted earlier, a good proportion of SRVs fail – and this is usually because people have not been prepared to do the hard yards and make the tough decisions. Before embarking on an SRV process it would be imperative that all involved ensure that they have the time and mindset necessary to provide a reasonable apprehension of success.

Given the particular circumstances of Leeton, we thus do not feel that it would be prudent to apply for an SRV in the current climate of uncertainty.

It is unfortunate that a delay of another twelve months now seems inevitable, but both the conditions at Leeton, and prevailing uncertainty at the state government level make this a less than propitious moment. Instead, we recommend that council invests the next twelve months into getting matters within its control redressed. There is much work to do, and we believe that senior staff and elected representatives will be very busy in addressing our long list (and other matters) so that a firm foundation can be set for the Leeton community financial sustainability journey. {We encourage council to establish a Financial Sustainability Team to work through the list of recommendations that we have detailed in the appendix}.

[25] This is certainly possible. However, the whole purpose of the new policy seems to be to alleviate cost of living concerns in the media coming up to the March 2027 election. Given that SRV decisions come out in May, the next round is the final full round before the state election. It would thus seem likely that the NSW government will have its new policy in place by the end of the calendar year.

Because of the lengthy list of changes that seem to be advisable for operations, and hence plans, it is impossible for us to be definitive about the size of a future SRV at this point. Furthermore, the size of the headline rate of an SRV is also significantly impacted by; (i) the predicted rate cap, and (ii) the length of the SRV period (more years result in a higher headline rate because the imputed rate caps are effectively compounded). However, given the additional tax capacity that we have calculated, an SRV in the order of twenty-five to thirty-five percent seems to be a reasonable expectation.

This report marks the completion of our current engagement with Leeton Shire Council. We have provided world's best empirical techniques, combined with theory, and first-hand experience to generate prudent advice to Council. We have also been frank and fearless with the best interests of all stakeholders at heart. We therefore encourage everyone in Leeton to constructively engage with this advice and offer our informal help[26] wherever possible.

[26] We may be able to help in our own time after hours subject to potential constraints that may be imposed by our employers.

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