Cessnock Council Capacity to Pay Report

Disclaimer

This Report was prepared by Professor Drew and Professor Miyazaki on behalf of Professor Joseph Drew Pty Ltd. The work herein has also been independently assured by Professor Yunji Kim from Seoul National University. This Report was produced in a strictly independent manner and the opinions expressed in the Report are thus exclusively the views of its authors and do not necessarily coincide with the views of the local government or any other body. The information provided in this Report may be reproduced for media review, quotation in literature, or non-commercial purposes, subject to the inclusion of acknowledgement of the source and provided no commercial use or sale of the material occurs.

The information contained herein is believed to be reliable and accurate. However, no guarantee is given as to its accuracy or reliability, and no responsibility or liability for any information, opinions, or commentary contained herein, or for any consequences of its use, will be accepted by Professor Joseph Drew Pty Ltd, or by any person involved in the preparation of this report.

Cessnock Council Capacity to Pay

Executive Summary

This Report provides a careful analysis of capacity to pay, by first examining metrics recommended by the regulator and then progressing to more robust and sophisticated measures. There can be no reasonable doubt after reading the comprehensive evidence in this report that Cessnock ratepayers do indeed have additional capacity to pay. On the basis of this evidence – and also our evaluation of need articulated in our various other reports, including the interrogation of the LTFP – we make a strong recommendation for the SV percentage increase, along with its' term. We close with some additional recommendations around measures that might be taken to achieve better distributive equity so that burdens are more closely aligned to individual capacity within the constraints of the legislation.

1. Introduction

The purpose of local government – any government in fact – is to foster the common good (which is best defined as the help accruing to people as a result of their co-operation; Drew, 2021). This means that local government ought to be mostly concerned with the provision of public goods, merit goods, and goods with externalities[1]. It thus comes as no surprise to find that the major portion of a local government's asset portfolio is dominated by public goods – especially roads. Because these goods are non-excludable in character, fees and charges cannot be levied on them, and private business would never be interested in providing things of this kind. Indeed, commercial concepts make little sense when applied to matter of local government and it is important that people recognise that the processes, responsibilities and opportunities for government are fundamentally different.

To pay for the provision of public goods, governments are obliged to levy taxes and local government rates are an instantiation of this. Otherwise stated, local government rates are indeed a tax. Natural law philosophers have long recognised that taxes are a moral obligation on citizens flowing from their membership within a community (George, 2010; Drew, 2021; Messner, 1952). Taxes are also a pre-requisite for natural justice – because we all have a natural right to land and other resources that were part of creation (see Finnis, 1998). Indeed, land ownership is a relatively modern concept useful for the optimal economic use of this particular resource, but not a moral right (for instance, one could hardly mount a moral claim to the use of other natural resources such as sunlight or oxygen). Thus, an unimproved tax is a critical component of natural justice – it allows everyone to derive some benefit from a natural resource bestowed on all of humanity.

[1] Public goods are things that are both non-excludable and non-rival (one person's use doesn't prevent another's – for example, roads or street lighting. Merit goods are things that we think embody a virtue (for instance reading books at a Council library). Goods with positive externalities are things which confer benefits on people other than those directly consuming them (for instance rubbish collection, which minimises odours and disease for everybody).

Indeed, the greatest proponent of unimproved land tax was a natural law philosopher called Henry George (2010) who proposed it as a single tax in his work *Progress and Poverty* published circa 1879. The idea here is to try to capture some of the unearned wealth created as a side-product of the unnatural human advent of land ownership. George argued that the value of land was likely to go up even if a person did nothing to it – because of the increase in population, new developments in the area, building of new transport links and the like. Thus, most of the increase in wealth accruing to an individual, because of their ownership of land, is actually derived from the efforts of others. In an unimproved land tax, we simply ask people to return a very small portion of their unearned wealth to the wider community who created the wealth. Indeed, local government taxes tend to be used for goods and services that generate even more unearned wealth for the landholder – thus payment of rates can hardly be considered an act of altruism.

Unlike other taxes, rates do not impact on wealth generated by a person's own efforts, nor do they have the same kind of distortionary influence on economic decision-making. For instance, the current top marginal income tax rate for Australia is forty-five percent (plus Medicare levy) and this heavy impost tends to be a disincentive to some to put their productive efforts into full use (through making investments, taking on additional work, or further developing their human capital). Indeed, there is a whole industry devoted to providing ways for people to minimise their income tax burden and this, for the most part, represents a loss to the productive economy. An unimproved land tax does not result in leakage from the economy, of this kind, and doesn't dissuade people from making productive economic decisions – indeed, it elicits the precise opposite because it encourages people to put their land to the most productive use (to minimise the effective nett burden). For example, an unimproved land tax might encourage people to put vacant land under cultivation, or to sell it so that people might build homes on it.

> *People should understand that an unimproved land tax is one of the most morally defensible ways to generate the revenue required for governments to provide the goods and services that we all use, and rely on, on a daily basis.*

Unfortunately, the efficacy of an unimproved land tax has been significantly damaged by constraints placed on local government decision-makers. For instance, some higher tier governments (NSW and more recently, Victoria) have introduced rate caps which mean that the value of the total tax levied by local governments has not been able to keep apace with the increase in unearned wealth accruing to landholders. This has resulted in both fiscal distress and exacerbation of inequality (especially relative to people who don't possess land). Unfortunately, rate caps are a politically attractive heresthetic whereby state politicians get to claim credit for reducing cost of living pressures, without suffering any ill-effects of their own (state government) budgets. Hence rate caps are popular with state politicians and are slowly spreading across our continent – as are financial sustainability crises and the associated blame games.

Indeed, local government rates are highly politicised. Not only are state politicians inclined to engage in rate capping and misleading rhetoric to divert attention from their own tax increases and financial sustainability predicament (see Table 1), but rate increases are also politicised at the local level. No-one likes paying extra tax and it is thus hardly surprising that political opponents will try to portray rate increase – especially special variations (SVs) – as unnecessary, the result of inefficiency, or the outcome of financial mismanagement. Claims of these kinds are popular with people hoping to avoid paying a fuller price for the public goods and services that the community relies on. However, as we have shown in our previous (Stage 1) work – and will also highlight in the other reports required to support this SV – the claims are mostly misleading, (and sadly have a high potential to inflict pain on the most vulnerable in the community).

For good decision-making, claims need to be based on robust evidence. Citizens should be wary of anyone in the community who tries to portray a picture of matters that is not supported by sophisticated robust evidence. Indeed, citizens should also be cognisant of the motivations of the people making various statements – both their bona fides and independence. That is why the suite of reports by four independent professors – three of which reside abroad and therefore can't reasonably be accused of bias – is so critical to the residents of Cessnock. Indeed, we note that the bona fides of scholars can easily be assured by looking at their publication records and the sophisticated empirical techniques that they have applied in the past.

One reason why rates tend to get politicised is because they are probably the most visible of taxes. This visibility arises because councils typically issue four tax invoices per annum, and people have to withdraw money from their savings accounts to meet these imposts. This state of affairs contrasts somewhat to the hefty income taxes that most of us pay which are taken out of our pay before we even see the money. Rates also contrast to the ten percent GST which often dwarfs the annual impost made by local government on residential ratepayers. Fuel excise tax is another example – 51.6 cents per litre (or around a quarter of the price of fuel) that most people are completely unaware of. Thus, the key issue seems to be about visibility – people don't complain about significantly larger imposts levied by other tiers of government, because they barely register that the taxes exist.

Moreover, it is quite interesting to ponder the relative increase in taxation receipts of the federal and state governments relative to Cessnock City Council in recent years.

Table 1. Tax Burden and Increase in Taxation Receipts by Tier of Government.

	2021	**2022**	**2023**	**2024**
Commonwealth	481,164	550,635 (14.4%)	618,227 (12.28%)	649,363 (5.04%)
All States	93,079	112,528 (20.90%)	116,941 (3.92%)	130,575 (11.66%)

Rate Cap (Cessnock)		2.0%	0.7% supplementary (2.5%)	3.8%

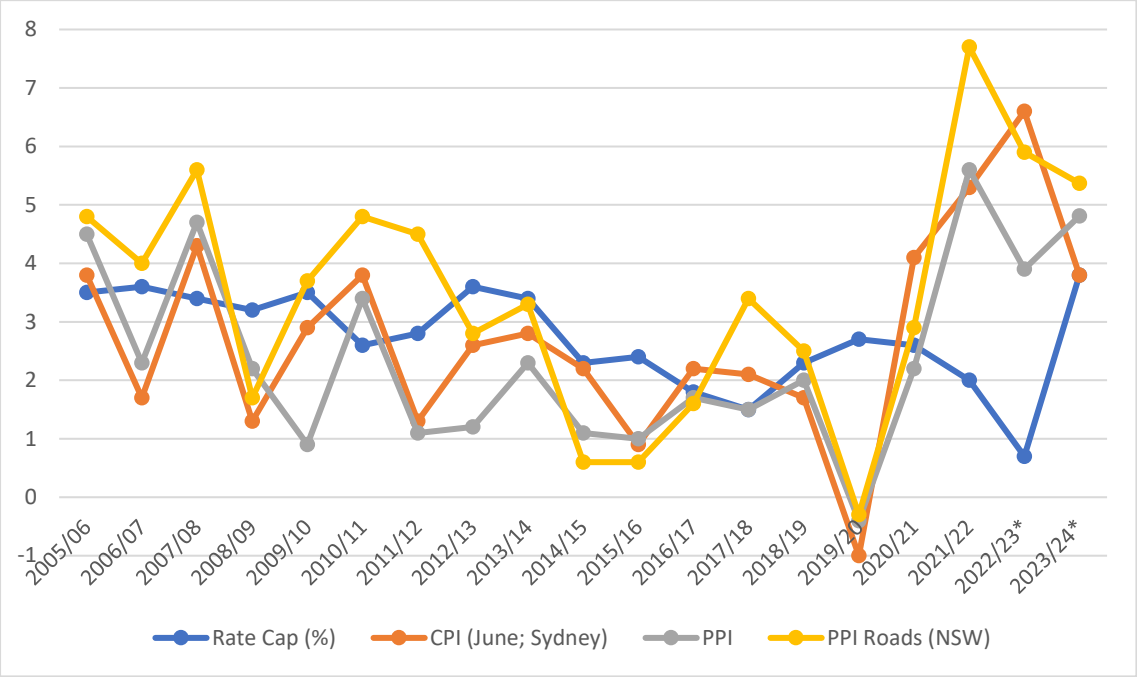
Source: Government Finance Statistics, Australian Bureau of Statistics (2025).

Notably these other tiers of governments are very vocal about the need to increase their revenues, and many are projecting alarming deficits. This seems to suggest that the cost of running government has been increasing at very steep levels in recent times.

Indeed, it is inevitable that taxes will go up, because the price of the goods and wages that governments consume, have gone up – much faster than headline inflation rates that residents might hear about in the media. The media tends to focus on the CPI (Consumer Price Index) which has very little relevance to government costs because it measures the change in the price of household goods, many of which are rarely purchased by governments. For instance, at the time of writing 17.44 percent of the CPI was weighted for food and beverages, 6.58 percent for alcohol and tobacco, 6.73 percent for health costs, and 4.69 for school costs…..it would thus be erroneous to use CPI when trying to gauge the cost pressures faced by local government.

In Figure 1, below, we set out the rate cap against various more useful measures of the cost pressures felt by government. PPI is the producer price index and measures a basket of goods and services purchased by producers (businesses). Even more specific, we include the PPI for road construction – which reflects the single largest responsibility of local governments in the state. Even a cursory look at this graph will reveal why more and more local governments have been forced to apply to IPART for an SV in recent years. We concede that Cessnock has been allowed one small increase above the cap in recent times, but this does not detract from the observation that the rate cap has exerted a cumulative deleterious effect on financial sustainability over a long period. In fact, as we will show later in this report, Cessnock rates have lagged the typical impost expected for a council of this particular socio-demographic.

Figure 1. The Rate Cap Compared to Various Measures of Inflation

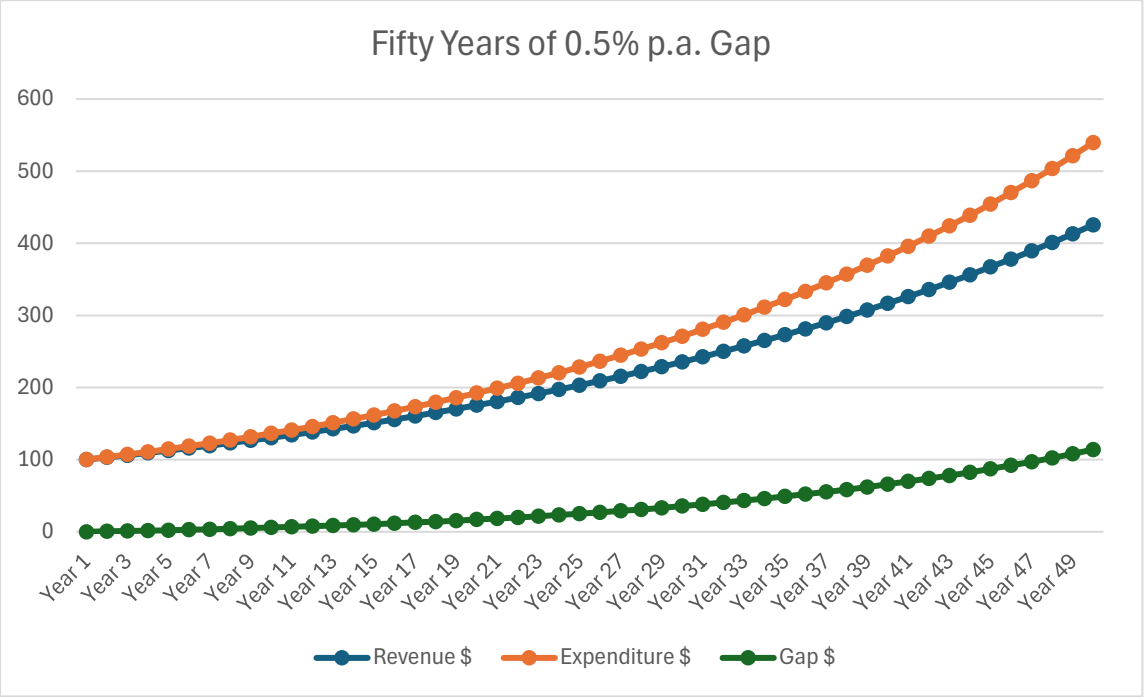


Years marked with * are the result of the new IPART methodology that provides specific rate caps for each council.

The other thing to remember when thinking about the need for an SV is the fact that the rate cap has been in place in NSW for five decades. A small difference between the increase in costs actually faced, on the one hand, and the rate cap allowed, on the other, might be able to be absorbed in the short-term but it is not sustainable in the long-term. To illustrate this problem, consider the effect of a rate cap that was just 0.5 percent lower than required[2] – the cumulative effect of this after fifty years would be rates that were 26.8 percent lower than they ought to have been. Otherwise stated – rates in such a scenario would need to go up 26.8 percent in the fiftieth year just to be where they ought to have been. Indeed, if one wanted to catch up on all the missed revenue over the period (in the fiftieth year) then the increase would need to be greater than fourfold! This example shows the important effect that small insufficiencies in the rate cap have over long periods of time – which explains why NSW local governments (which have endured the longest rate cap regimes in the country) are also the least sustainable in the nation (Drew, 2021).

[2] We are not suggesting that an insufficiency of 0.5% has occurred each and every year for the fifty years – indeed, Figure 1 suggests that sometimes it may have been significantly higher – just trying to illustrate the cumulative effects of a rate cap regime.

Figure 2. The Effect of Small Gaps in the Rate Cap Over Time.



If local government revenue does not keep apace with the increases faced in expenditure a number of things will ineluctably result. Over time, deficits will emerge and widen. These deficits will result in higher debts – either explicit debts, or implicit debts. Explicit debts are loans at banks and the like that are reported uncontestably in financial statements. Implicit debts are reductions to maintenance and construction of needed assets that are generally poorly measured and disclosed. From an economic perspective there is little difference between an explicit debt, on the one hand, and an implicit debt, on the other. Indeed, in the case of postponed road maintenance, implicit debts are far worse than explicit ones – if road surfaces are not maintained properly the whole road foundation will ultimately need to be rebuilt at a cost which is generally eight hundred percent or more higher than the cost to have merely resealed the surface in a timely manner. There is good reason – supported by our own inspection of the area – to think that Cessnock council has a high burden of implicit liabilities in its roads and timber bridges, and it would thus be prudent to redress these as quickly as possible.

If revenue insufficiency is allowed to persist matters become significantly worse, as cumulative effects are largely compounding. Redressing financial unsustainability is thus an economic imperative. However, it is also a moral imperative – because financial unsustainability ultimately translates into intergenerational inequity. Otherwise stated, it is our children and grandchildren who will have to pay off the debt – it is hard to understand how this can be morally defensible especially when we reflect on the fact that our generation received its infrastructure largely unencumbered.

Arresting a descent into extreme levels of financial unsustainability is also an imperative from a local democracy perspective. The state government has not hesitated to dismiss councils and suspend local democracy in cases of perceived financial unsustainability in the past. For instance, Central Darling Shire was placed into Administration in December 2013 and right up to 2025 continued to be denied democratic representation (Drew and Campbell, 2016). Moreover, in 2016 many communities were forced into local government amalgamations which in most cases proved to be disastrous – this also is a real risk. We are not suggesting that either of these undesirable interventions are imminent at Cessnock – but the stark reality is that precedent suggests it as a possibility at some time, if redress of financial unsustainability is not made.

Before addressing other matters, a brief word is in order about hardship and local government taxation. Because rates are paid out of flows of income, sometimes genuine hardship can arise. This is why Council has a hardship policy which responds to provisions in the Act (1993, NSW). It should be understood that the far majority of taxes in Australia have no hardship provision (for example the GST or the fuel tax) and often also fail to even vary with incomes: for instance, a homeless person pays precisely the same ten percent on their food, as does a multi-billionaire; a struggling family pays the same 51.6 cents per litre for their fuel as does the person driving a Rolls Royce (although the person driving the Tesla might pay nothing). Thus, local government 'rates' are somewhat unique in trying to respond, at least a little, to possible hardship[3].

In the next section of this report, we will review comparative measures of capacity to pay that are typically (and often erroneously) used by councils applying for SVs. Many of these measures are *in*advisably required according to Office of Local Government (OLG) guidelines. Following this, we will turn our focus on residential rate specific indicators, business indicators, and farm specific indicators respectively. Thereafter we present an econometric exercise which is far superior to all other potential methods. This allows us to provide a precise figure for the typical tax take expected of a local government area with Cessnock's specific socio-economic characteristics. We conclude by enumerating a number of measures that might be taken to enhance capacity to pay.

[3] Trying to tailor local government taxes to the specific capacity to pay of particular individuals would be impossible in a land-based tax, and (were it even possible) would unfairly result in some people being allowed to keep far more of their unearned wealth than others (please see: https://www.youtube.com/watch?v=FQrMoVOt8rE)

2. Overview of Rates at Council and Its Peers

The first portion of this report presents the graphs required by OLG guidelines, as well as some additional metrics which provide important context. For these comparative exercises we have used a peer group comprised of other councils in the same OLG category (as suggested in the SV guidelines), notwithstanding the scholarly evidence that extant methods of categorisation could be significantly improved. In Table 2 we list the councils used in this comparative work.

Table 2. Peers Used for Comparisons

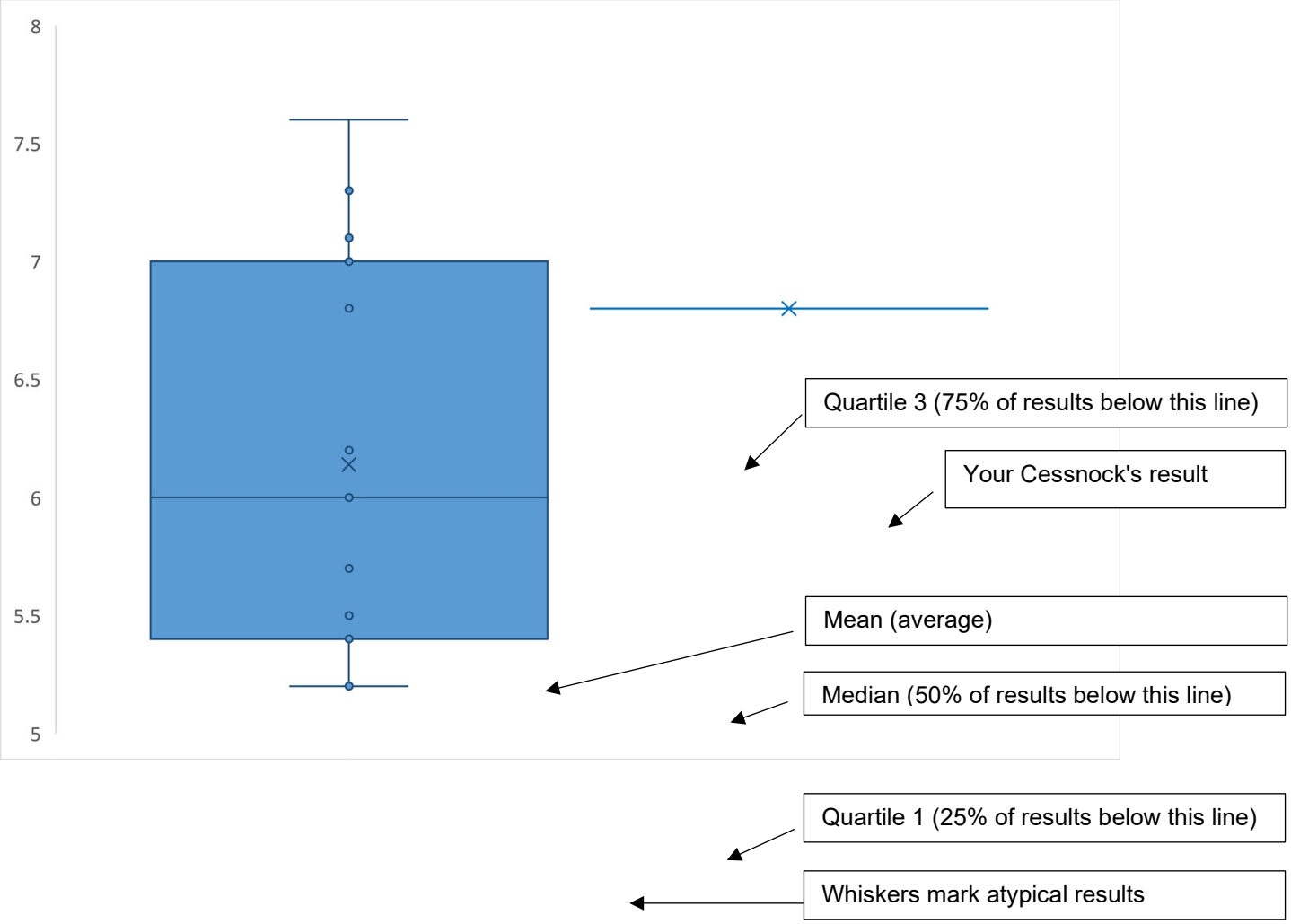
Bathurst	Kempsey	Singleton
Dubbo	Lismore	Tamworth
Eurobodalla	Mid-Western	Wagga Wagga
Goulburn Mulwaree	Queanbeyan-Palerang	Wingecarribee
Griffith	Richmond Valley	

People will always be inclined to argue that a particular comparator group may not be ideal, or that certain councils should be substituted with others. For this reason – and also because of the serious flaws in the metrics and statistics mandated by the OLG – the greatest reliance should be placed on the econometric exercises that form the centrepiece of this report.

Econometrics is far superior because it allows us to better accommodate all of the variables related to capacity to pay, and also make *ceteris paribus*[4] claims. Moreover, our econometric exercises include the entire cohort of urban councils for NSW, over a long panel of seven years of data. Broadening the cohort means that there can be no reasonable disagreement about comparators; whilst employing a seven-year panel of data means that we will not be misled by unrepresentative years (this seems especially important given the interruptions to incomes during the public policy response to COVID).

The best way to present graphical data for comparative purposes are box and whisker plots that have been part of the core mathematics curriculum for a few decades now. These graphs are particularly helpful because we can quickly perceive how Cessnock's results compare to typical outcomes, but also the spread of outcomes experienced by the relevant cohort. In case readers have forgotten how to read a box and whisker plot, we have provided a ready reckoner in Figure 3 below. Box and whisker plots used in this report usually span a period of four years.

[4] That is, holding all other factors constant – these are the kinds of claims that are consistent with the scientific method of reasoning.



In Table 3 we set out the current rate structure at Cessnock as per the relevant revenue policy.

Table 3. Ordinary Rate Structure

Rate Category	Rate Sub Category	Ad-Valorem Amount (Cents in the $)	Base Amount ($)
Residential		0.260060	430
Residential	Rural	0.192352	430
Farmland		0.150931	430
Farmland	Mixed Use	0.402952	535
Farmland	Business Rural	0.392005	535
Business		1.182532	535
Mining		4.717039	1,500

Source: Cessnock City Council
https://www.cessnock.nsw.gov.au/Residents/Rates/About-your-rates

We remind readers that rates are a tax based on unimproved land value. Furthermore, the idea of the tax is to recover a small portion of the unearned wealth accruing to landowners and return it to the community from whence it mostly came. We also remind residents that taxes are not a fee for service – sometimes people erroneously argue that certain ratepayers should pay a lower proportion of tax because they don't receive the same services as ratepayers elsewhere in the local government area. This is a spurious argument and one can quickly see its fallacious logic if one tries to universalise the idea[5].

An important concept in taxation theory is distributive equity. The idea is that the burdens of paying for government goods and services should be fairly distributed. Notably, this is a concept quite distinct from capacity to pay.

It seems from Table 3 that there is an apparent lack of distributive equity in Cessnock's rate system (this, unfortunately, is the case for most NSW local governments). For instance, business is paying around six times more cents in the dollar on their land value than residential ratepayers, and some classes of farmland are also paying significantly more than the residential rate. However, we must also recognise that most businesses and farmers will get to export some of their rates to the federal government as a tax deduction, whereas most residential landowners cannot do so (an exception are residential landlords). Nevertheless, it is hard to explain some of the discrepancies.

It is important to resist reading more into these observations than might be warranted. We are not suggesting that the rates of taxation ought to be precisely the same. Nor are we stating that extant practice at Cessnock is somehow 'wrong'. However, the data certainly indicates that there may be room for improvement with respect to distributive equity and this would clearly have an impact on capacity to pay. Accordingly, we recommend that the matter should be investigated, but note that doing so might take a year or more because of the need to properly canvass and evaluate the arguments of stakeholders.

Recommendation 1: That the General Manager be tasked with further exploring the distributive equity at Cessnock City Council. This will take upwards of twelve months to complete this work and is a separate task from the SV, which refers to the total tax take only.

Of further concern is the use of base rates at Cessnock. People frequently appeal to the benefits of a base rate in mitigating fluctuations (especially after new valuations come to hand) and also for 'flattening' out the tax impost. However, to achieve these objectives a base rate shifts the burden of taxation from the people with the highest land values to the people with the lowest land values. All things being equal,

[5] According to the philosopher Grimm, a good way to test reasoning is to try to apply the same ideas to different contexts or take them to the extreme cases. If we applied the aforementioned reasoning to federal income taxes, then it would suggest that very little federal money ought to be spent in Cessnock – because the majority of federal taxes are paid in the capital cities. We don't think people in receipt of federal pensions, or those who use federal agencies and federal roads would be happy if this kind of reasoning was applied in a federal tax context. It is not reasonable to advocate a warrant (a principle that gets us from data to a conclusion) that cannot be applied to similar situations.

increase in unearned wealth is likely to be highly correlated to land values. Therefore, a base rate typically results in the burden of taxation being shifted from people who had the most unearned wealth to the people who had the least. As such, a base rate can seem to be quite inequitable.

Moreover, a base rate that is an arbitrary number is difficult to defend on either moral or economic grounds (it also fails to send important price signals). For this reason, Drew (2021) recommends that if base rates are used then that they ought to be calculated annually with respect to a shared responsibility – such as the overheads for having a council. Doing so is more morally defensible – because everyone has the same basic needs for a representative Council – but also sends important signals about both the costs of having a council and the change in costs over time.

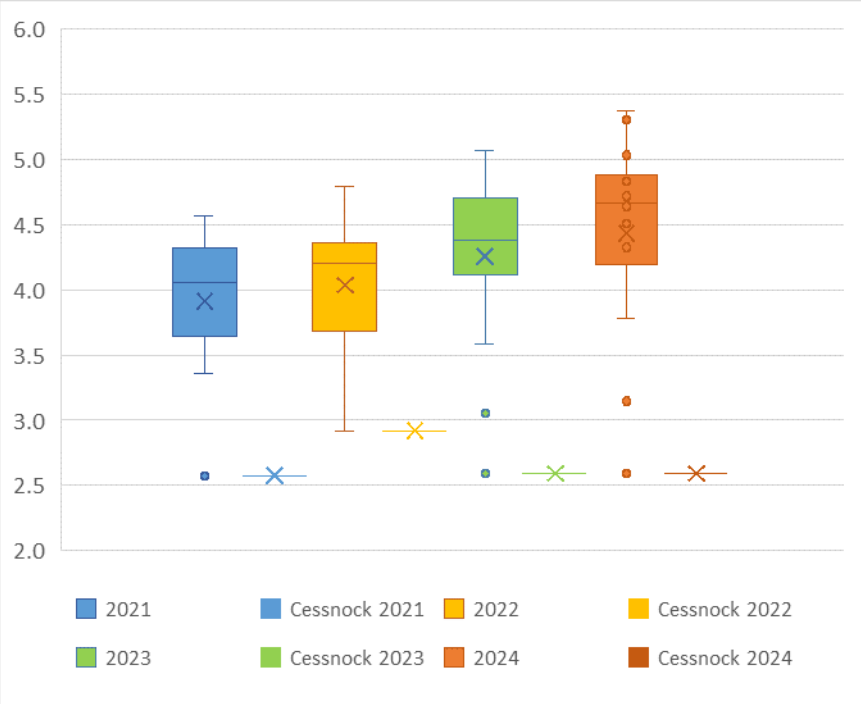
One of the biggest measures Cessnock City Council could take to mitigate capacity to pay concerns is to significantly reduce or eliminate the base rate.

Recommendation 2: Council should review the base rate with a view to either eliminating it entirely, or reducing it significantly (preferably to a figure linked to council overheads). Ideally, a decision on this matter should be taken as soon as practicable.

OLG Guidelines require us to compare average rates for the council against the putatively similar peers. This is a very bad idea because averages are subject to distortion in the presence of outliers (particularly large or small numbers – we will demonstrate this high level of distortion a little later on). Moreover, comparing average rates without looking at incomes at all clearly casts little light on capacity to pay. Nonetheless, the rules call for a flawed comparison of averages therefore we are obliged to conduct this exercise.

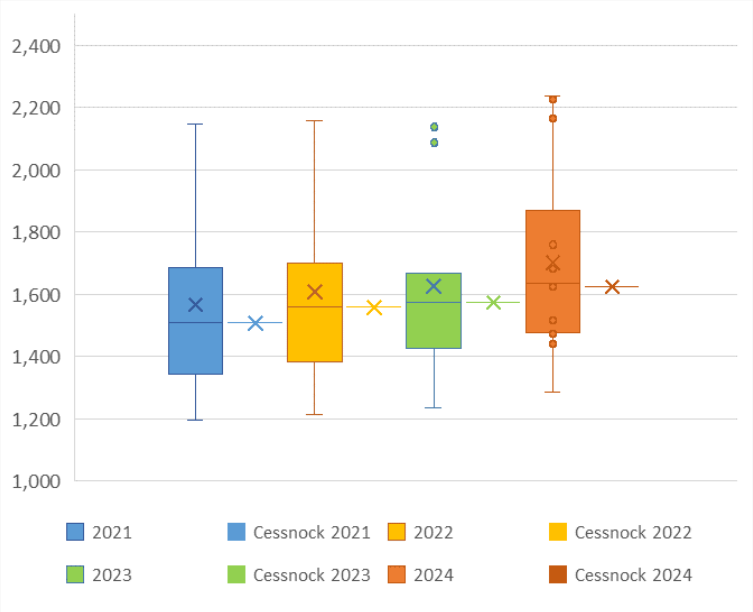
In Figure 4 we provide comparative data on the average of the sum of rates, fees and annual charges on a per assessment (per property) basis for the last four financial years according to audited financial data. This seems to suggest that Cessnock is consistently an extreme outlier with respect to the peer group, on the downside. Otherwise stated, Cessnock City Council appears to have been collecting far less, on average, than comparable peers.

Figure 4. Rates, Fees and Annual Charges per Assessment ($000)



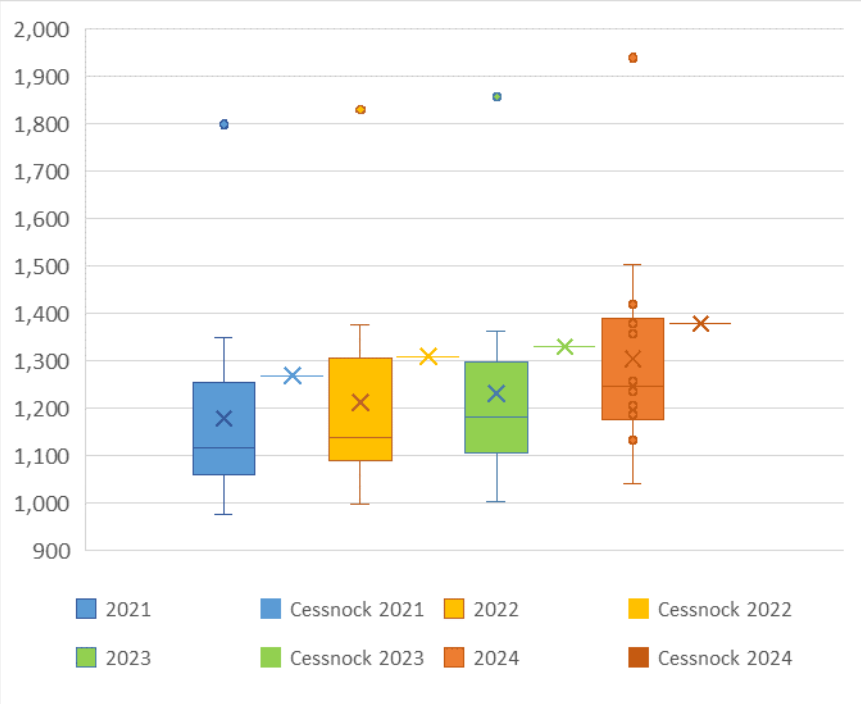
If we just look at average rates per assessment (setting aside fees and charges) in Figure 5 then Cessnock appears to be well below average, but close to the median. We remind readers of the distortion inevitable in average rates summaries. However, it does seem to suggest that fees and charges might also need to be reviewed at Cessnock City Council to ensure that they are indeed fully covering costs including overheads.

Figure 5. Total Rates per Property Assessment ($)



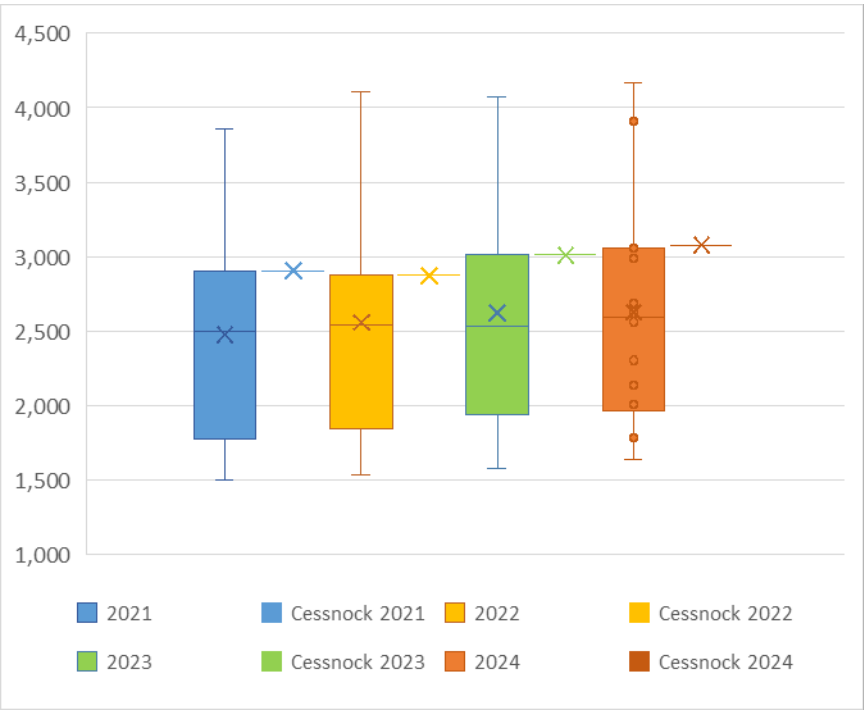
Matters are even more confused if we turn to specific categories of average rates – for residential rates one could (erroneously) conclude that Cessnock ratepayers are often in the top quartile. However, we must be mindful of skewing in the data and also the fact that these measures have nothing useful to say about capacity to pay, because they include no information on incomes.

Figure 6. Residential Rates per Assessment ($)



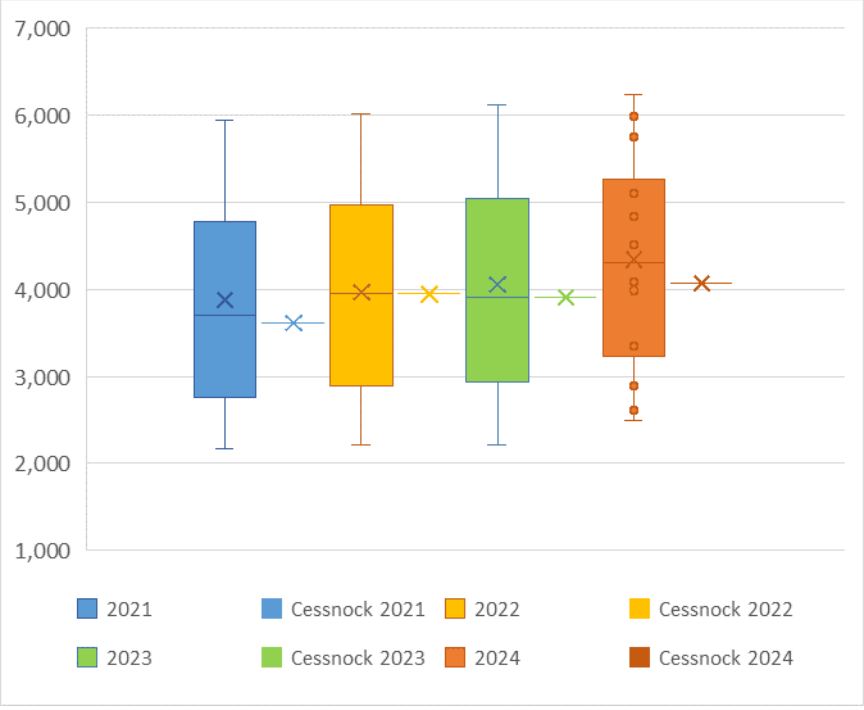
Farm rates suggest a similar pattern – but again we caution that it would be unwise to use this data for decision-making purposes because it is subject to skewing and contains no information on the incomes from which rates are ultimately paid.

Figure 7. Farm Rates per Assessment ($)



When it comes to business rates – misleading average data suggests that these are lower than the peer group.

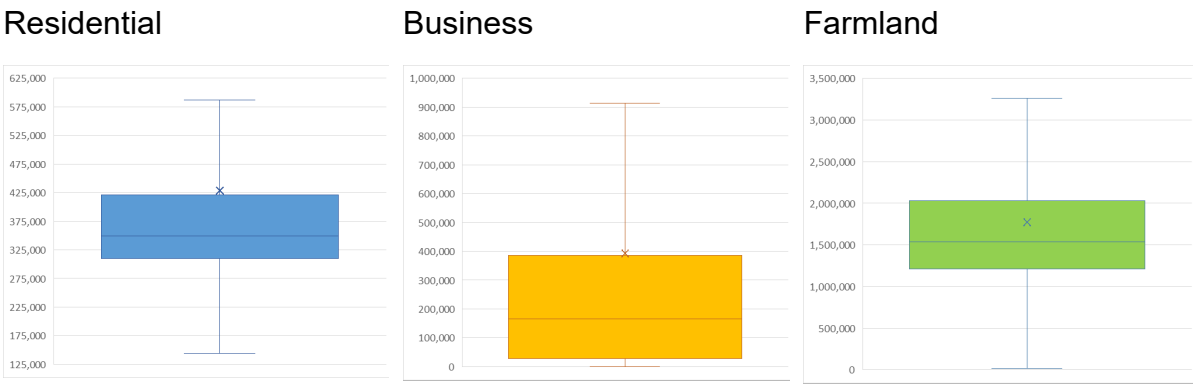
Figure 8. Business Rates per Assessment ($)



In sum, the average rate data provides grounds for a gamut of contrary conclusions none of which would be wise to make given that we know it is almost certainly skewed and also entirely ignores the incomes that must be at the heart of the matter of capacity to pay.

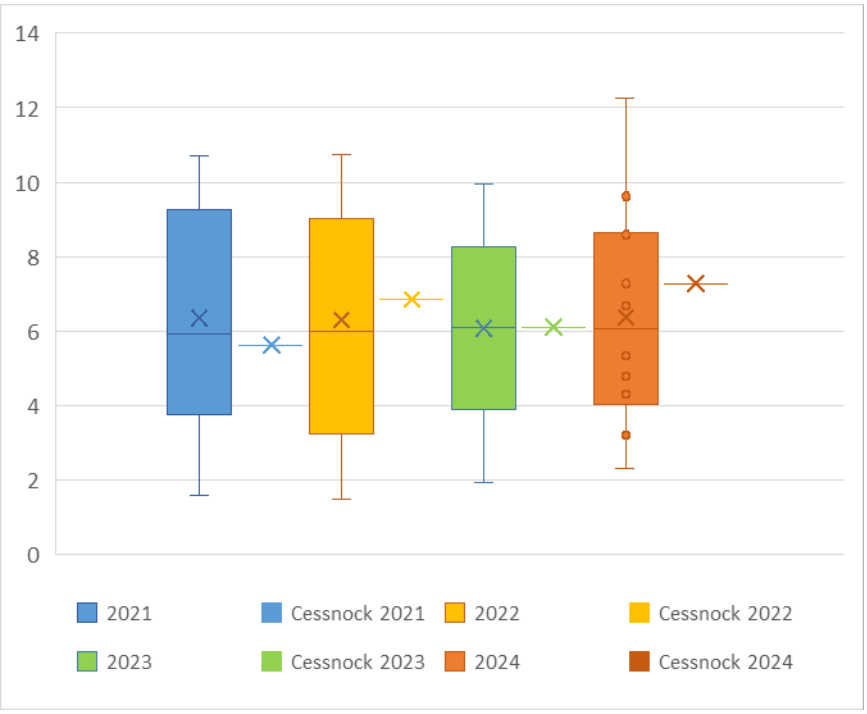
To make plain the error in examining average rates, we plotted the land values for all the properties in Cessnock, for each of the three main legislated categories. The skewing is clearly quite extreme – for instance the average for both residential and business is located in the top quartile, and farmland is only slightly better. Given that rates are based on land values one can easily deduced that the rates within Cessnock are similarly skewed – as any primary school mathematics teacher would tell us, averages are extremely misleading measures of 'typicality' when the data is heavily skewed. Moreover, we can be pretty certain that the comparator councils also have skewed data. Thus, in the aforementioned graphs of average rate levels we did little more than compare misleading measures of central tendency at Cessnock, with misleading measures of central tendency at the peer group Councils. Otherwise stated, the exercise was non-sense.

Figure 9. Skewing in Land Values, Which Will Distort Average Rate Comparisons.



Before leaving this section we will briefly consider a final piece of data that *may* provide some useful insights – rates and charges outstanding which in certain situations can be a weak indicator of capacity to pay (albeit confounded by any extant distributional inequity and also council processes for pursuing overdue monies). In Figure 10 we plot outstanding imposts for Cessnock and its peers over the last four years. This seems to suggest that the community is more or less typical over the last four years. When considering this typical result we must remember the evidence in Table 3 of *prima facie* distributive inequity.

Figure 10. Rates and Charges Outstanding (%)



To summarise Section 2, it is clear that the prescribed ways of trying to assess capacity to pay leave us with a confused picture that is almost certainly subject to serious misrepresentation. In the sections that follow we will investigate a series of better ways to assess matters, culminating in our econometric work in the penultimate section.

3. Residential Rate Variables

In this section we consider the single largest category of ratepayers at Cessnock – residential – which accounts for a little less than eighty percent of taxes, followed by business (approximately thirteen percent) and farmland (less than six percent).

To assess the level of residential rates, the Office of Local Government Guidelines encourage councils to pay regard to the Socio-Economic Index for Areas (SEIFA) scores. As a matter of fact, there are indeed four different SEIFA indexes, although it appears that our attention has been directed to the Index of Relative Socio-Economic Disadvantage (this data is only available in census years).

In Figure 11 we plot Cessnock's Australian decile ranking against the peers and in Figure 12 we plot the State level decile ranking. In both cases, Cessnock has been ranked pretty close to the bottom.

Figure 11. SEIFA, Australian decile

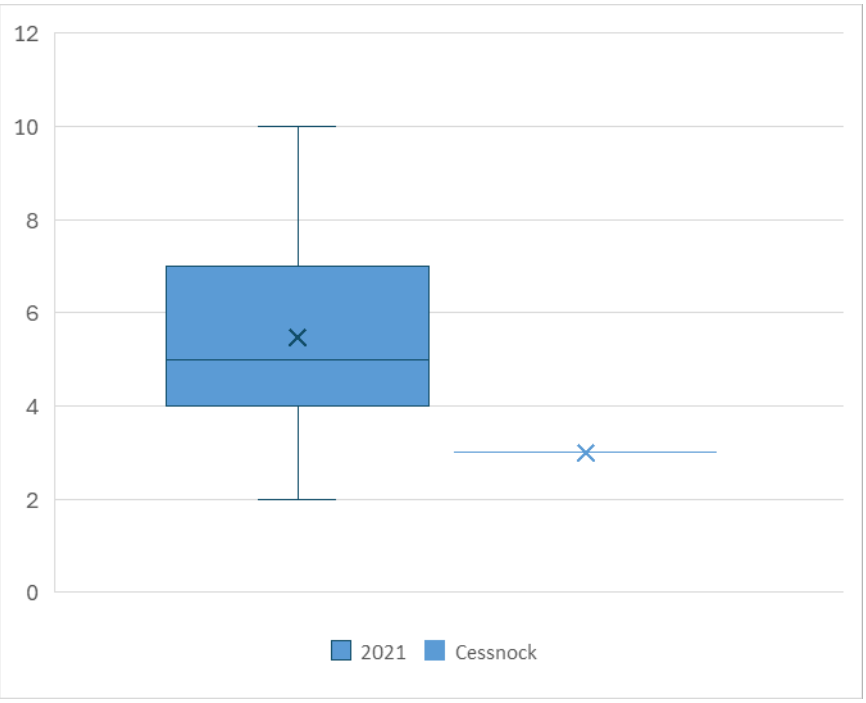
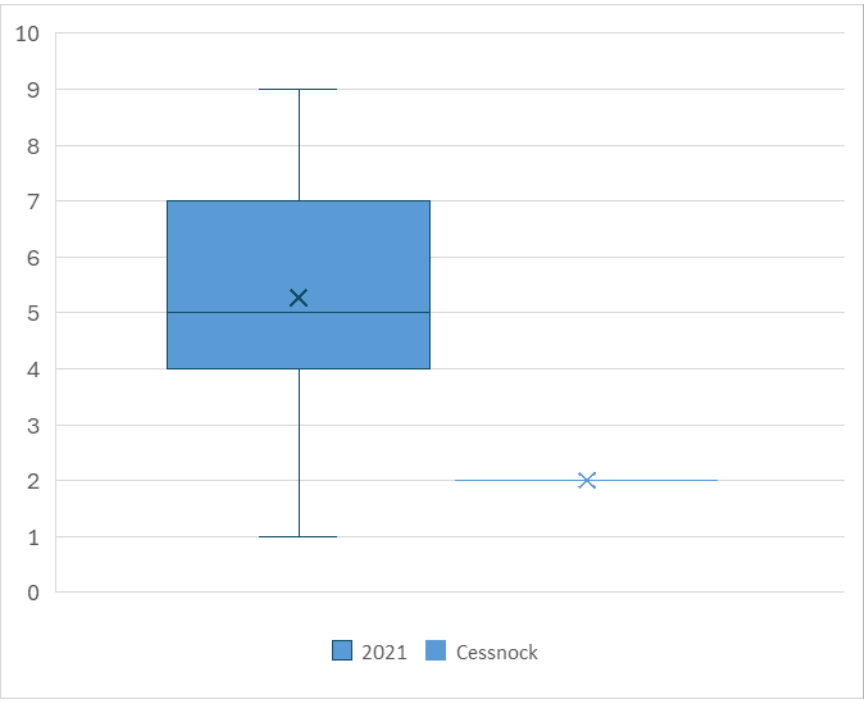


Figure 12. SEIFA, State decile



However, indexes of this kind can be very misleading if people do not understand how they have been constructed. First, any index strategy loses information value – in the case of SEIFA the ABS have used principal component analysis (PCA) which can be robust for relatively small suites of variables (less than ten is the usual rule of thumb), when the data is sufficiently spherical, and when the data is not highly leveraged. The ABS seem to have used fifteen variables, which is concerning. Moreover, the ABS don't appear to provide any information on whether their PCA of fifteen variables was indeed a reasonable choice of indexing technique with reference to say the Kaiser-Meyer-Olkin or Bartlett's tests – so we can only guess if the index technique was appropriate or not. Secondly, the input variables to 'disadvantage' indexes will clearly have a determinative effect on the results obtained – in Table 4 we list the SEIFA loadings as reported by the ABS in their technical paper. This allows us to see that many of the variables used have very little, if any, relevance to the matter of capacity to pay – education level, occupation category, number of dwellings putatively requiring more bedrooms, percent of people divorced and the like. It is thus clear that the SEIFA index may have little of use to say with respect to capacity to pay. It would therefore not be reasonable to place any emphasis on the aforementioned figures (11 and 12).

Table 4. SEIFA Score Loadings, 2021 Census

Final IRSD variables and loadings		
Variable name	Variable description	Variable loading
INC_LOW	Per cent of people living in households with stated annual household equivalised income between $1 and $25,999 (approx. 1st and 2nd deciles)	-0.87
CHILDJOBLESS	Per cent of families with children under 15 years of age who live with jobless parents	-0.78
NOYR12ORHIGHER	Per cent of people aged 15 years and over whose highest level of education is Year 11 or lower. Includes Certificate I and II	-0.75
LOWRENT	Per cent of occupied private dwellings paying rent less than $250Â per week (excluding $0 per week)	-0.71
UNEMPLOYED	Per cent of people (in the labour force) unemployed	-0.68
OCC_LABOUR	Per cent of employed people classified as 'labourers'	-0.68
DISABILITYU70	Per cent of people aged under 70 who need assistance with core activities due to a long term health condition, disability or old age	-0.63
ONEPARENT	Per cent of one parent families with dependent offspring only	-0.58
OVERCROWD	Per cent of occupied private dwellings requiring one or more extra bedrooms (based on the Canadian National Occupancy Standard)	-0.51
OCC_DRIVERS	Per cent of employed people classified as Machinery Operators and Drivers	-0.51
SEPDIVORCED	Per cent of people aged 15 and over who are separated or divorced	-0.51
NOEDU	Per cent of people aged 15 years and over who have no educational attainment	-0.47
OCC_SERVICE_L	Per cent of employed people classified as Low Skill Community and Personal Service Workers	-0.45
NOCAR	Per cent of occupied private dwellings with no cars	-0.43
ENGLISHPOOR	Per cent of people who do not speak English well	-0.35

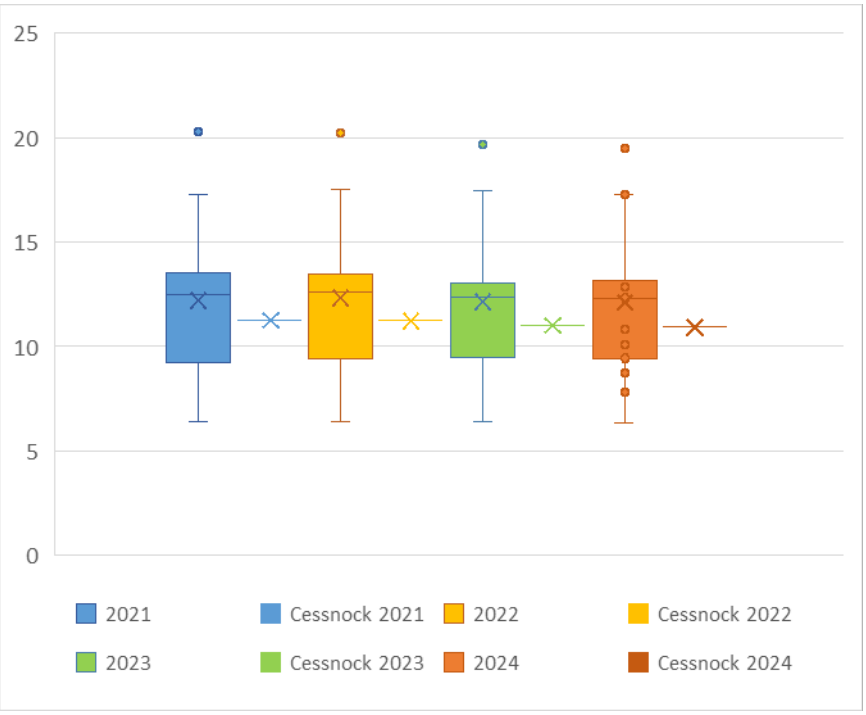
Source: Australian Bureau of Statistics, Construction of the indexes, 2021

What is key to capacity to pay are incomes. We first review levels of various welfare receipts, because these will clearly have a dampening effect on capacity to pay (exacerbated by the pensioner discount required by state legislation); later we will look at incomes, and revenue effort.

In Figure 13 we plot the proportion of aged pensioners in Cessnock relative to the peer group. The aged pension cohort is particularly important because it is by far the largest pension group in most local government areas (disability pensions generally run at less than half the size, and single parent pensions less than a quarter). Otherwise stated, any relative advantage or disadvantage for this particular (aged pension) cohort is far more powerful as a factor in overall capacity to pay relative to other pension groups.

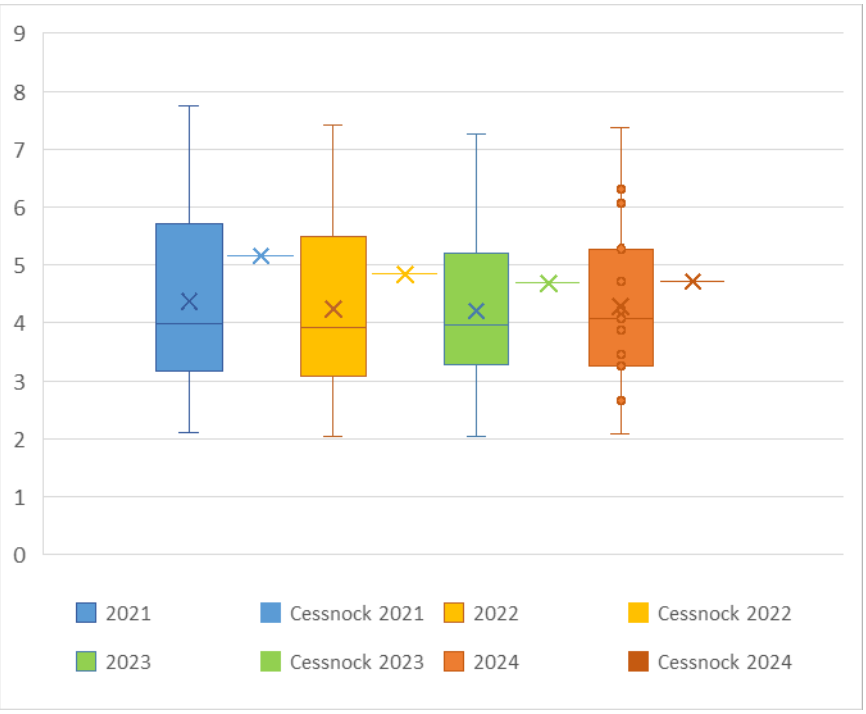
As it turns out, the size of the aged pensioner cohort at Cessnock is significantly less than typical. This means that all other things being equal (*ceteris paribus* in economic jargon) Cessnock would have a higher than typical capacity to pay relative to the peer group.

Figure 13. Aged Pension



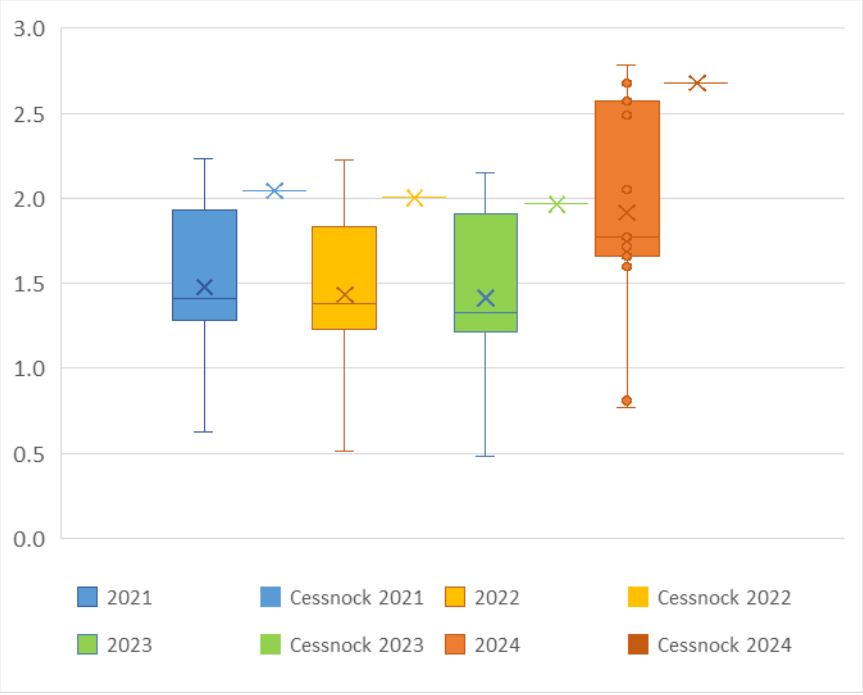
Matters are quite different when it comes to the disability support pension (DSP) – in this case Cessnock has an above typical sized cohort. However, we must be mindful that the relative size of DSP recipients is less than half that of the aged pensioners. Therefore, the above typical size of this cohort fails to nullify the relative advantage seen in the earlier Figure 13.

Figure 14. Disability Support Pension



In Figure 15 we plot relative levels of single parent pensioners. In this case the result for Cessnock is in the top quartile (top twenty-five percent) relative to the peer councils. However, the size of this cohort in Cessnock is less than a quarter of the aged pensioner group – and even when combined with the DSP cohort fails to completely nullify the relative advantage to capacity to pay evident in Figure 13.

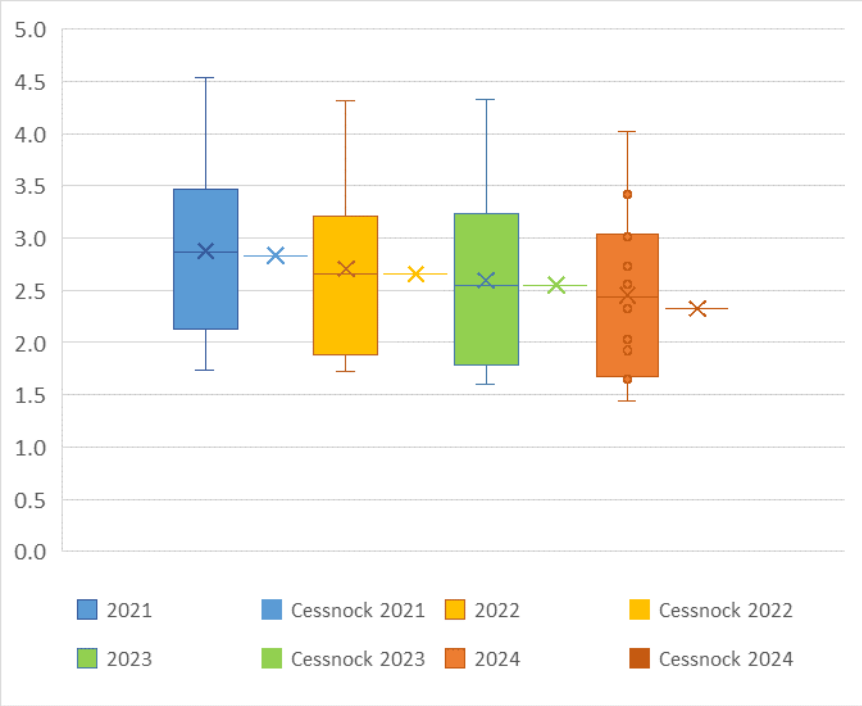
Figure 15. Single Parent Pension (% of residents)



In Figure 16 we plot the pensioner discount relative to the peer group, which confirms our earlier deductions around the combined effect on relative capacity to pay. Even though Cessnock provides a pensioner discount in excess of the $250 per annum required by state government legislation, the total relative figure is marginally less than typical. We encourage council to consider whether it is still feasible to provide a discount *greater* than that given by most councils, and required by law, in view of the financial sustainability challenges faced at Cessnock. Unfortunately, there is no getting around the fact that when a discount is applied to one group of ratepayers it means that another group of ratepayers must effectively pay more. Many people are also unaware that council only receives less than half of state government discount back by way of rebate – otherwise stated Cessnock was left some $440,000 worse off in the 2024 financial year because of this policy.

Certainly, when it comes to discussing the matter of hardship policy it needs to be conceded that council is already doing more than most to alleviate the burden on the pensioner cohort.

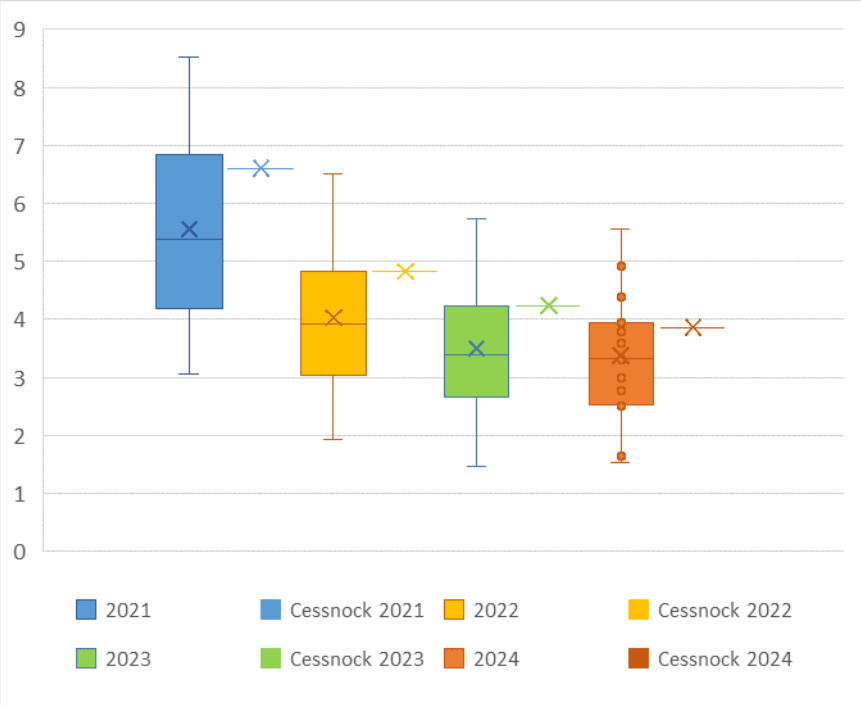
Figure 16. Pensioner Discount (as a Proportion of Residential Rate Revenue)



Notably, other cohorts in the community sometimes face greater challenges than pensioners but receive no relief via state government legislation. This includes people recently made unemployed and also casual employees with unpredictable incomes. In Figure 17 we plot the levels of unemployed people, subject to usual ABS data lags. It will be noted that Cessnock is routinely positioned near the top quartile of the comparator group. However, it should also be noted that the absolute levels of unemployed persons have plummeted in recent years – close to half of what it was at the beginning of the period under examination. Furthermore, the relative size of the cohort is quite small compared to other groups such as wage earners and pensioners for instance. In addition, it is unlikely that most long-term unemployed

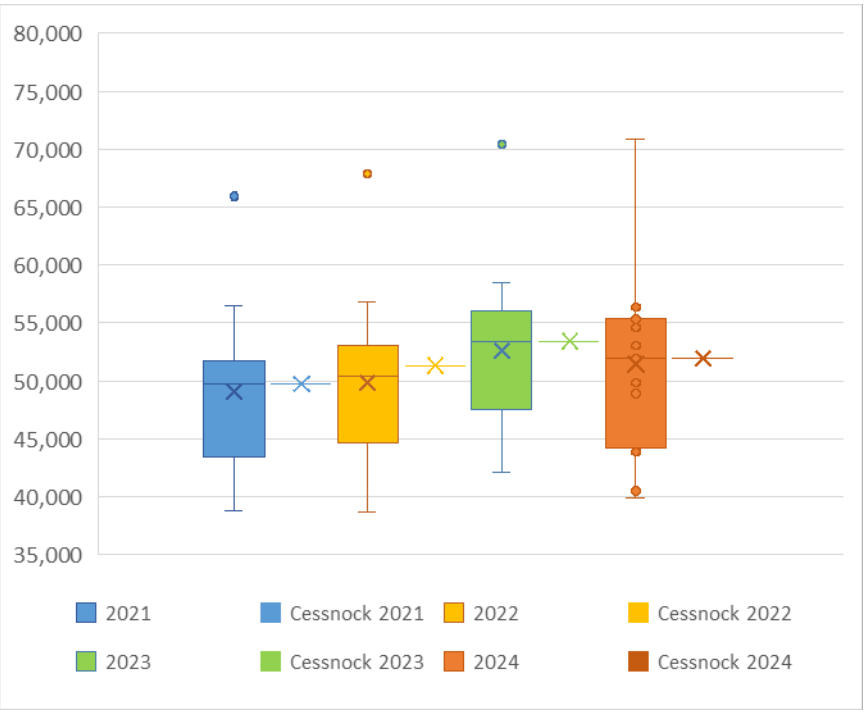
people would be direct ratepayers: usually people who do not have a job, do not own property, but instead rent. Indeed, most rental agreements cover lengthy periods and rates only form a very small portion of a landlords' costs which they typically export as a tax deduction to the federal government. There is thus no justification for any landlord to put up rents by the whole value of any SV – moreover, in most cases it is not possible to do so in the short-run anyhow.

Figure 17. Newstart Allowance/Jobseeker



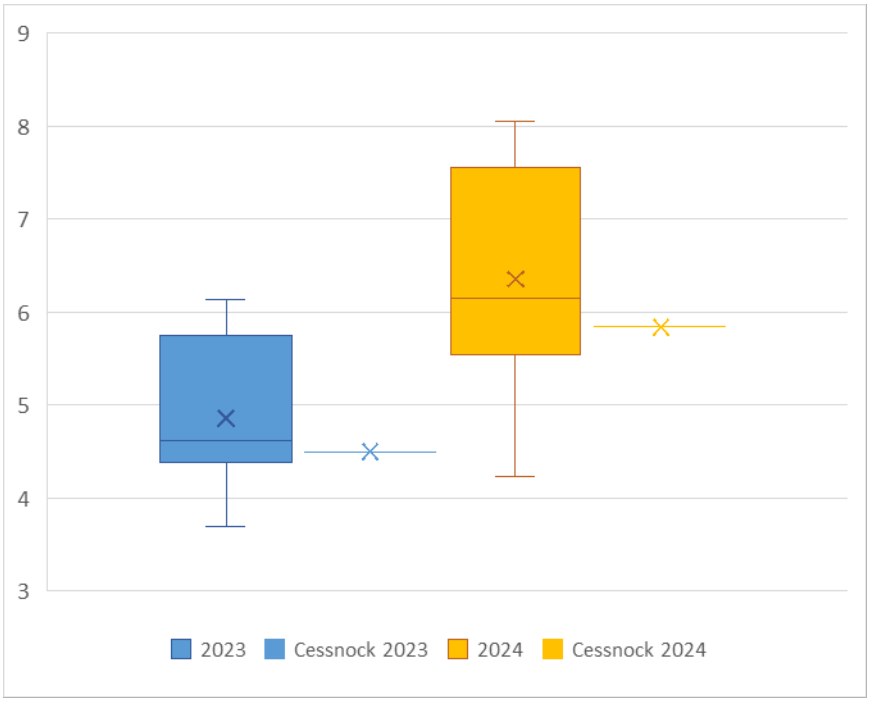
By far the largest cohort with respect to capacity to pay residential rates are wage earners. In Figure 18 we illustrate the fact that Cessnock wage earners rank significantly above average (and slightly higher than the median) for each of the four years under analysis (notably here we use the median wage earner data because the average data has become almost meaningless due to distortions arising from the COVID response). This seems to suggest that Cessnock might be likely to have higher than average capacity to pay residential rates.

Figure 18. Median Wage-Earner Income



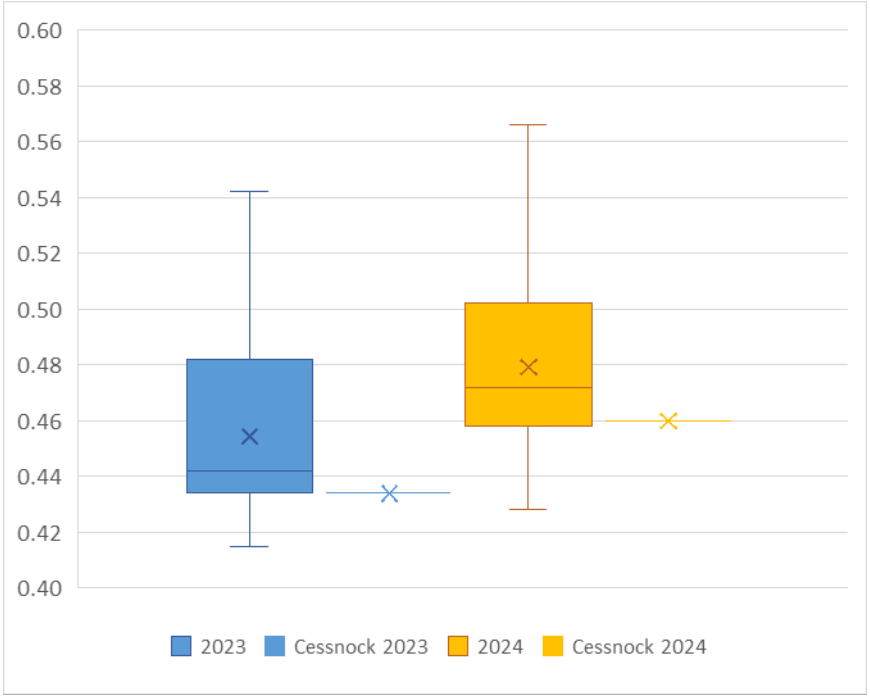
Capacity to pay is an individual matter and there is often some inequity in the distribution of incomes in a local government area. Accordingly, it is important to also look at specific measures of income inequality. In Figure 19 we illustrate the p80/20 ratio which is the 80th percentile income divided by the 20th. This ratio is often preferred by scholars to the better-known GINI coefficient which is very susceptible to changes around the middle of the distribution. Figure 19 suggests that Cessnock suffers from far less inequality than most of the peer group. This is important because it also means that capacity to pay is likely to be distributed far more evenly in Cessnock compared to many of the peer local government areas.

Figure 19. P80/20 Income Inequality Ratio



The GINI coefficient associated with the Lorenz curve suggests even lower inequality hovering around the bottom quartile – this reinforces our comments around Figure 19.

Figure 20. Gini Coefficient Income Inequality Metric



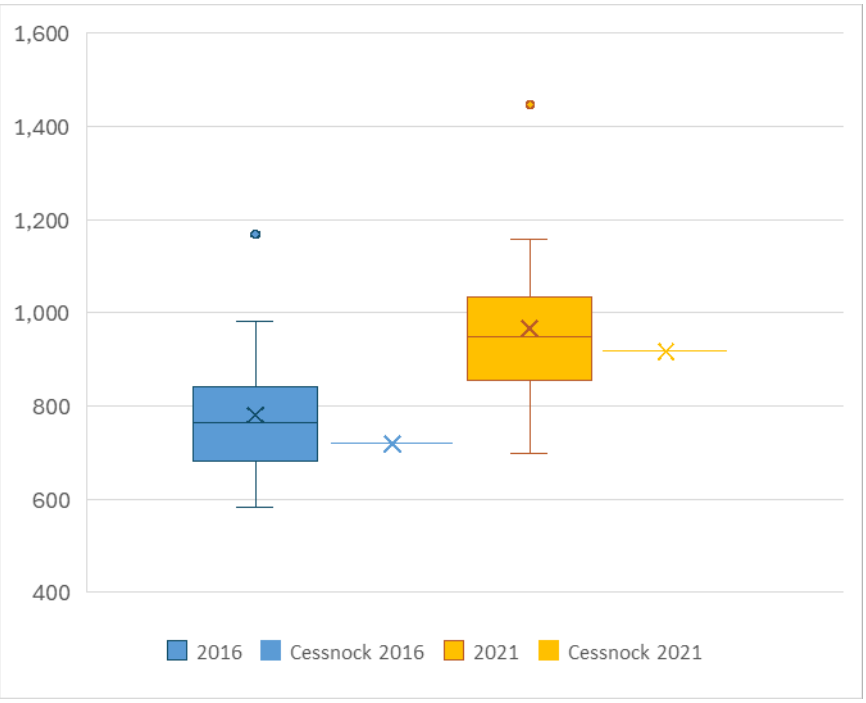
Sometimes it is useful to look at equivalised household incomes. The ABS calculates this measure in census years by using a scale from the OECD to adjust incomes to

reflect the number of people living in a household. Unfortunately the weightings used (1 point for the first adult, 0.5 point for each additional person over 15, and 0.3 points for each child under 15) appear arbitrary and implausible (for example, it is hard to believe that it costs 50% more for two adults living in a house given that fixed shelter costs in the country are so high – moreover we note that the Australian government does not use this factor when calculating single or partnered welfare benefits).

Nevertheless, we plot equivalised household incomes in Figure 21 – these would suggest Cessnock is below typical.

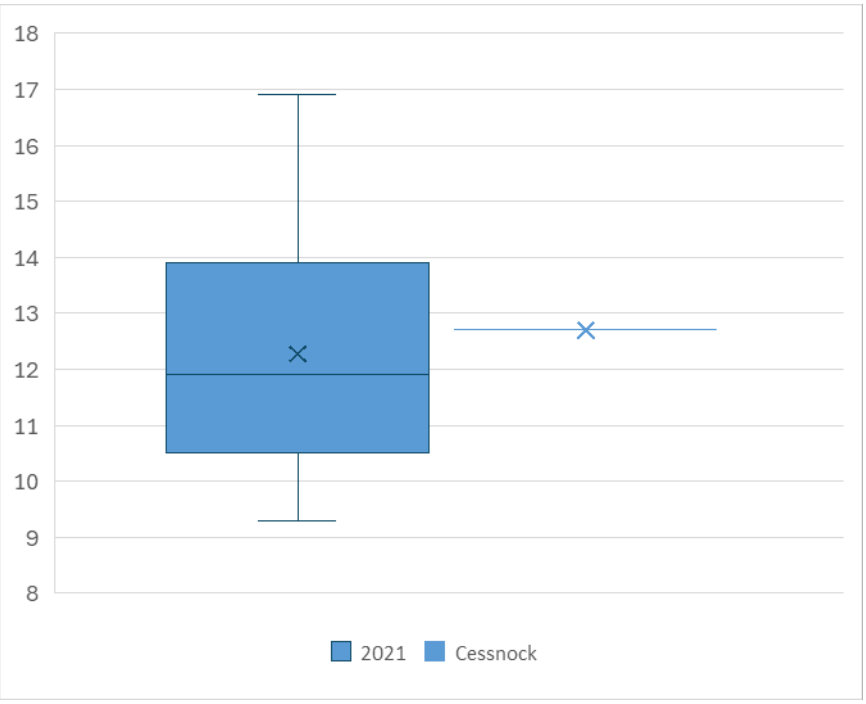
Figure 21. Median Equivalised Household Income

Both census years



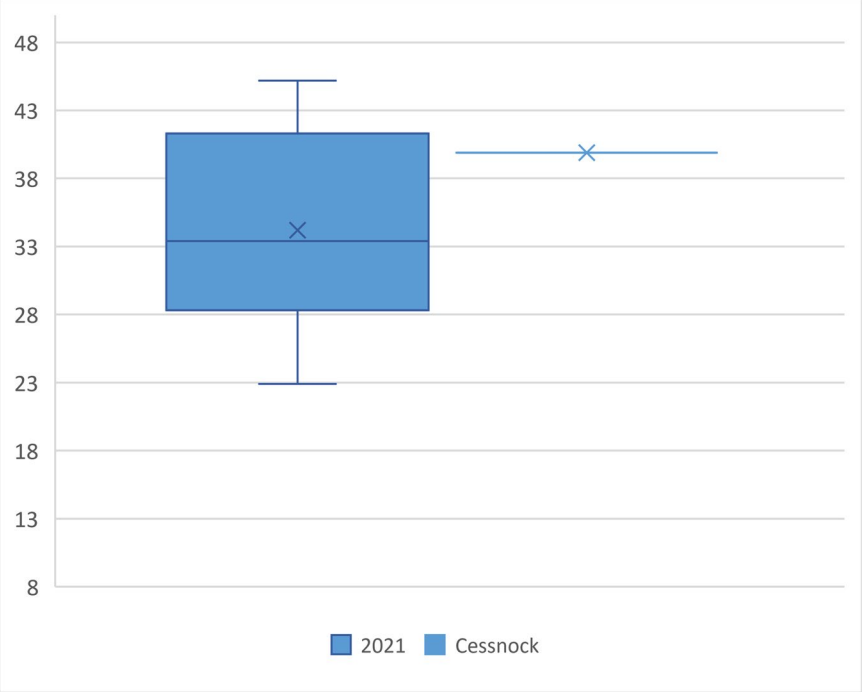
Another metric sometimes appealed to are the household stress data calculated in census years. This figure suggests higher than average stress for those people in Cessnock paying a mortgage – however, we must be mindful that the data is quite stale (2021) and that the many changes in mortgage interest rates since this time would clearly alter things meaningfully.

Figure 22. Household Stress (mortgage greater than or equal to 30% of household income)



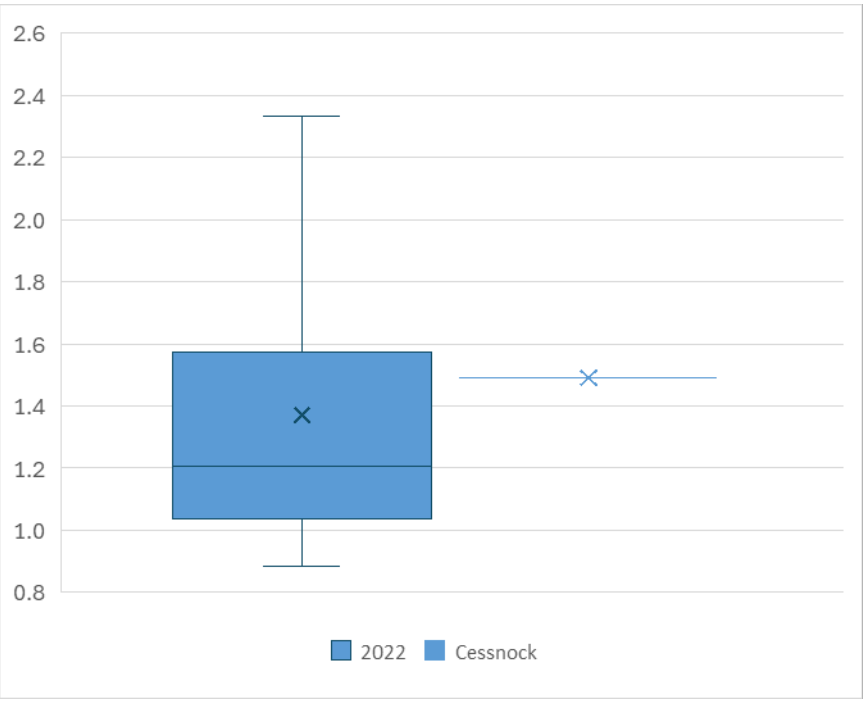
In Figure 23 we illustrate household stress for renters which seems very high in Cessnock. However, we must be mindful of two important facts: (i) the data is almost four years out of date, and (ii) renters do not directly pay rates (and landlords cannot reasonably pass on the entire expense because it is a tax deduction for them anyhow).

Figure 23. Household Stress (rent greater than or equal to 30% of household income)



The best way of assessing capacity to pay is an econometric approach using a long panel which is what we will present in the penultimate section. A slightly inferior but still useful method is to look at revenue effort. Revenue effort divides the total incomes of people living in Cessnock by the total residential rates paid in Cessnock. It is essentially an expression of local government taxes as a percentage of incomes (see, Drew and Dollery, 2015). In Figure 25 we graph the revenue effort using the most up-to-date ABS data at the time of writing, including investment incomes. This data suggests that residents at Cessnock are paying more than average rates, *compared to the peer group*, as a proportion of incomes. However, a number of other facts can be deduced which are also salient to a SV debate: (i) the revenue effort at Cessnock is still significantly less than the third quartile (that is, a quarter of the peer councils have a *higher* revenue effort), (ii) the revenue effort of Cessnock is less than two-thirds of the highest revenue effort in the cohort, and (iii) the residential revenue effort is just under 1.5% which is considerably less than other taxes such as income tax, or the GST as per our introductory comments. Indeed, when one considers the large array of local government services that we all use on a daily basis it is hard not to come to the conclusion that local government rates at Cessnock are exceptional value.

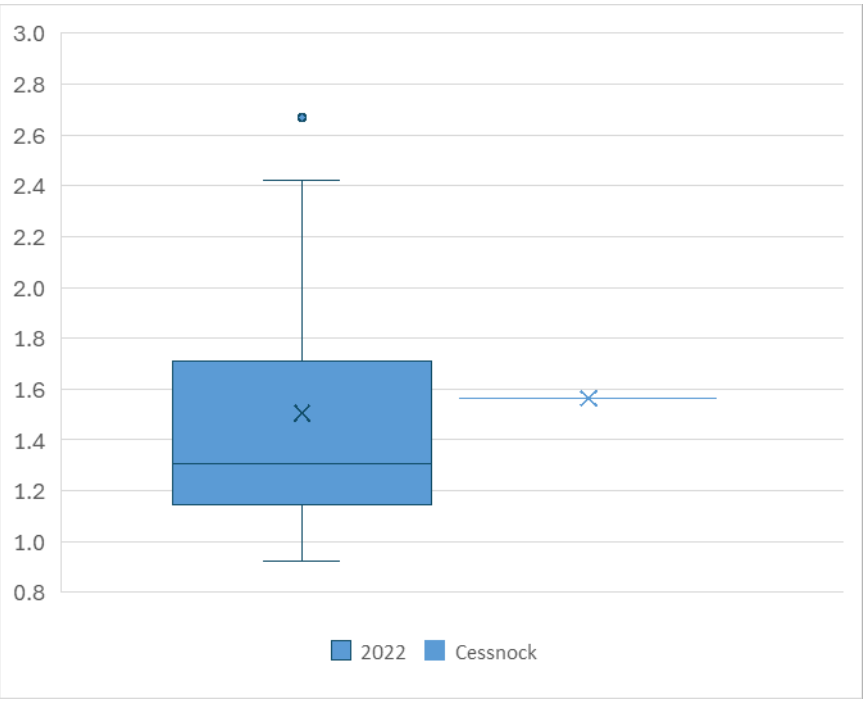
Figure 24. Approximate Residential Revenue Effort (including investment incomes)



We also calculated residential revenue effort, excluding investment income data which might otherwise bias results because it is not always available for the payment of rates. Figure 25 suggests that Cessnock is marginally above average on this slightly better measure of revenue effort.

We note for end-users that residential is only one out of the three main categories of rates and thus does not completely describe capacity to pay. Moreover, the fact that several peer councils are paying far more of their incomes in rates than Cessnock (in fact, 2.67 percent in one case with also a much lower figure for rates and charges outstanding (1.49 per cent)) clearly does demonstrates that residents at Cessnock ought to be able to pay higher rates if necessary.

Figure 25. Residential Revenue Effort (excluding investment income)



In summary for residential revenue effort, we must conclude that Cessnock does have significant additional capacity to pay – pensioner numbers are lower than typical, incomes are higher than typical, and well over a quarter of the peer councils are extracting far higher revenue efforts from their residents than does Cessnock. We will now turn to a brief examination of business variables.

4. Business Income Variables

Unfortunately, it is not possible to calculate revenue effort for businesses directly (like we did for the residential category), because data for corporate incomes are not available on a local government area level. Instead, in this section we will have to content ourselves with a brief overview of business activity (we remind readers that business rates account for just over thirteen percent of Cessnock's tax revenues).

In Figure 26 we plot the various categories of business activity in Cessnock for 2024. It is interesting to note that construction is a disproportionately large part of the economy – which is a reflection of the growth pressures on Cessnock City Council that clearly makes the job of achieving financial sustainability considerably harder (Drew et al., 2023; see also the Sustainability Report[6]). We also note a relatively small component of arts and recreation activity – which probably reflects local tastes, but also lowers the susceptibility of the economy to cost-of-living squeezes.

Figure 26. Categories of Business in Cessnock, 2024.

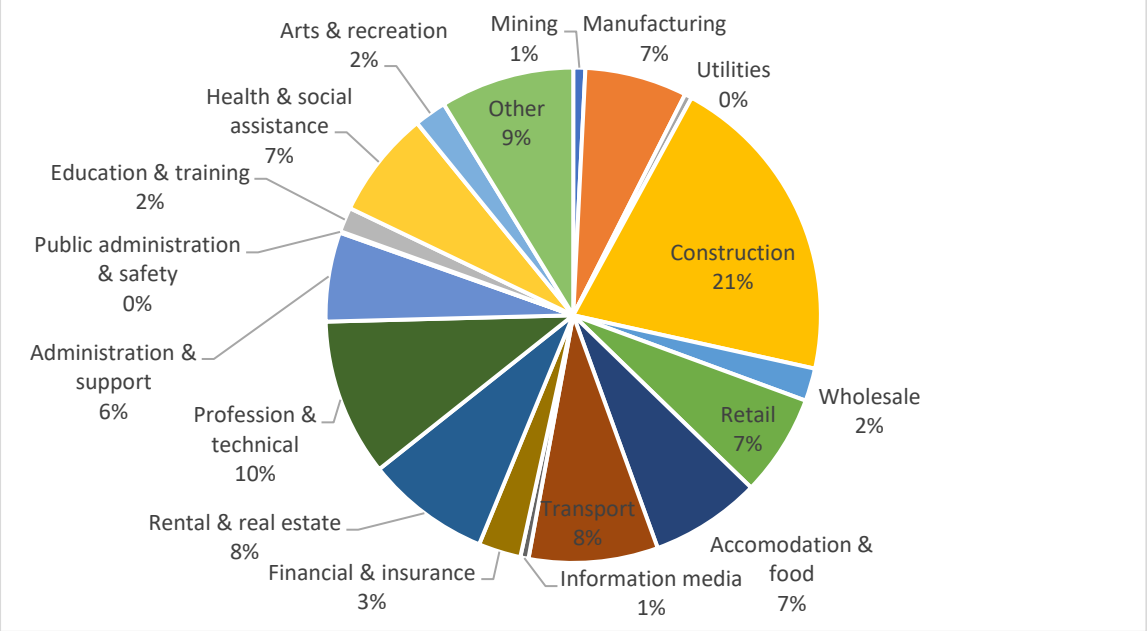


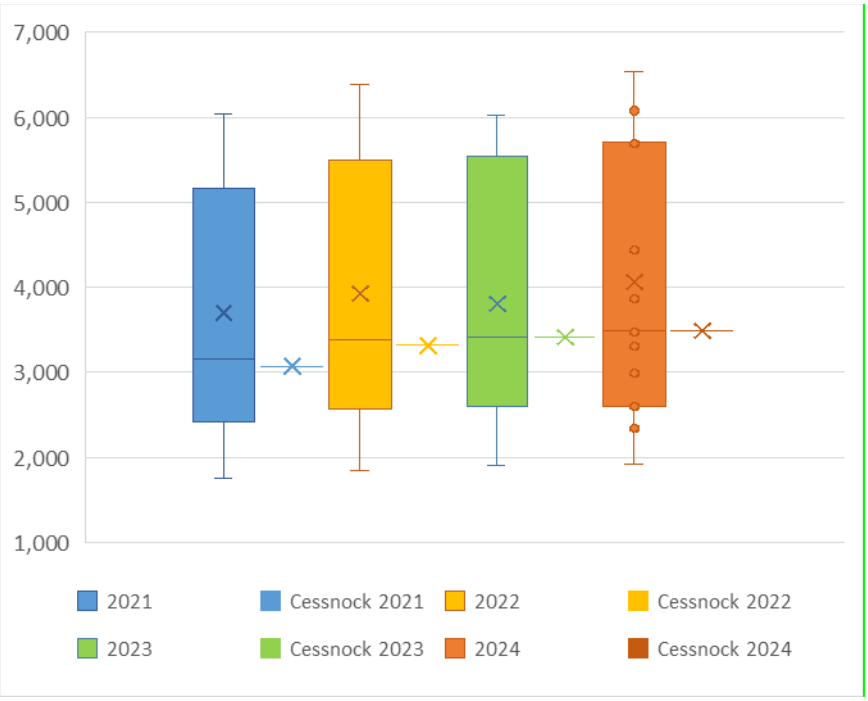
Figure 27 illustrates that numbers of businesses have been growing steadily over the last four years and have improved from a relative position below typical (according to the median) to one that is now above typical. Much of this growth in business activity will be associated with the growth in population at Cessnock – but it also suggests that business owners believe that it will be profitable to commence operations in the area taking into account operating costs (including rates). We should be mindful that businesses typically export a large portion of their rates to the federal government as a business income tax deduction. Indeed, for medium to large sized businesses,

[6] Recall rates are less than a third of Cessnock's income and that grants don't respond meaningfully to growth at the margin – it is hardly surprising then that growth in assessments translate into additional hurdles for trying to remedy financial unsustainability.

rates are an insignificant part of their cost bases (paling in significance to staff costs or franchise fees).

For this reason, it is particularly important to reduce the base rate used for business because it is effectively requiring small business owners to provide an un-needed (and probably unacknowledged) subsidy to large businesses. Doing so will considerably improve capacity to pay for businesses located on relatively small parcels of lower value land.

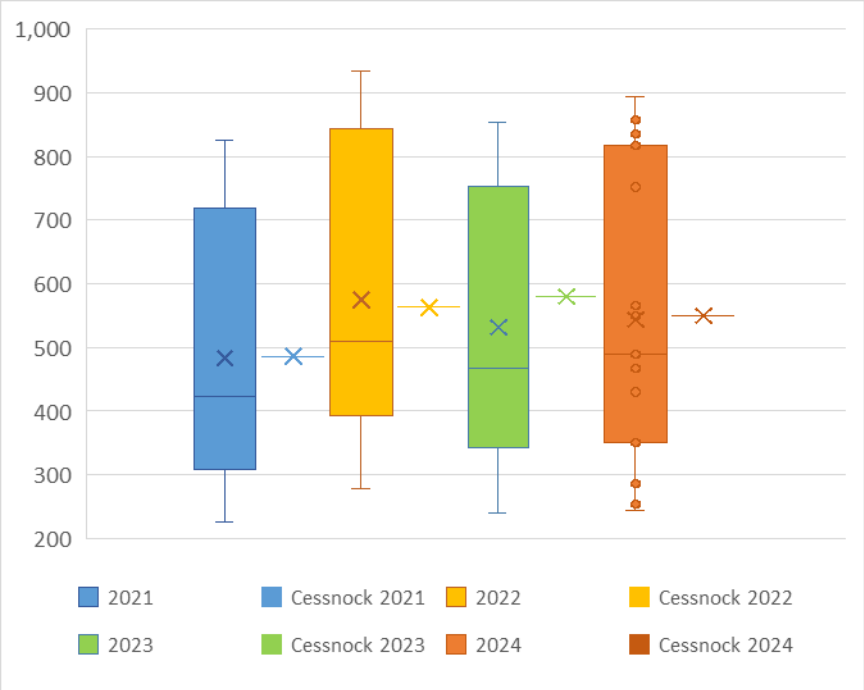
Figure 27. Number of Businesses



Given Figure 27 it is not surprising to see that business entries are above average. Clearly current rates levels are not proving to be a particular disincentive to starting a business at Cessnock, which might suggest additional implied willingness[7] to pay.

[7] Willingness to pay is a slightly different concept to capacity to pay (see, Drew 2021).

Figure 28. Business Entries



A brief word on mining business activity also seems warranted here. It is not possible to ascertain revenues for individual mines, and hence not possible to calculate mining revenue effort. Moreover, there is only one mine in Cessnock and this is currently in caretaker mode, making revenue effort a rather moot point. Nevertheless, mining accounts for a little over three-and-a-quarter percent of rates revenue. This fact – when combined with ideologies and higher tier government policies – seems to create some additional risks for Cessnock, with the possibility of an important component of revenue dwindling over time (which would need to be picked up by the other categories of ratepayers). This further underscores the importance of redressing current unsustainability as promptly as possible.

In summary, we can see that the local economy at Cessnock is clearly attracting business owners to commence operations in the area. It would enhance capacity to pay, for small business owners in particular, if the base rate for the business category was reduced considerably (or eliminated).

We now turn to a consideration of the last major category of ratepayers – farm business owners.

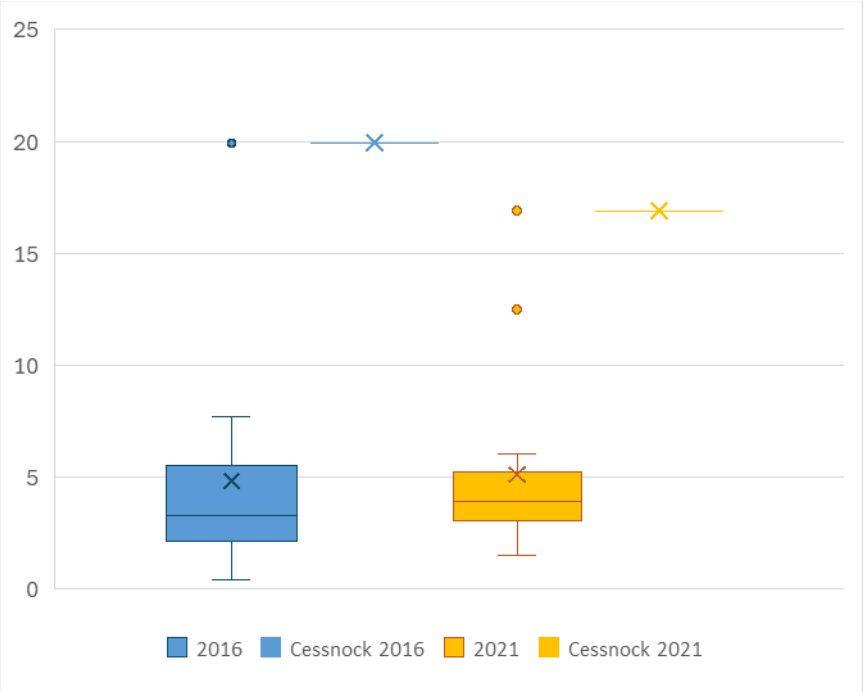
5. Farm Income Variables

Farm rates account for a little less than six percent of Cessnock's tax revenues. This might conceivably warrant an analysis of farm products, soft commodity forecast and the like. However, matters are rather conflated in the case of Cessnock due to the farm sub-categories of 'business' and 'mixed' as per Table 3. These subcategories have arisen because of the nature of much of the auxiliary farming activities in the area which often include cellar doors, breweries, convention centres and accommodation – especially in vineyard enterprises. These auxiliary activities generate considerable income which in some cases may serve to trivialise the farm product revenue from the property. As such, an investigation of soft commodity forecasts and agricultural product value is somewhat misplaced and likely to merely confuse matters.

To illustrate the potential for erroneous conclusions to be formed from examining the farm category one simply needs to consider the matter of farm revenue effort. Every census, ABARES (Australian Bureau of Agricultural and Resource Economics and Sciences) collects data on the value of the agricultural product for each local government area. We can thus calculate a farm revenue effort in census years – that is, the percentage of farm income paid out in local government tax.

Figure 30 plots the farm revenue effort for 2016 and 2021 – and on the face of things, matters seem very grim for this category. However, the revenue effort is clearly confounded by significant non-agricultural incomes generated by the 'farm business' and 'farm mixed' categories (data that is not collected in the aforementioned ABARES surveys). As a result, the comparisons are misleading, and the data is not a sound basis for decision-making.

Figure 30. Farm Revenue Effort, 2016 and 2021.



Moreover, we feel that Figure 30 supports the case for a review of the farm rating category as well as the categorisation of particular enterprises subject to the Act (1993, NSW). Figure 30 also supports our earlier recommendation to review the distributive equity at Cessnock – a task outside of an SV, and one that will take upwards of a year to complete.

6. Econometric Analysis of Total Rate Capacity

Thus far we have surveyed a large number of indicators that mostly agree with the assertion that ratepayers at Cessnock have capacity to pay additional levels of rates, if necessary. Certainly, it is clear that residential ratepayers elsewhere are paying substantially higher proportions of their incomes with much lower levels of delinquency. Similarly, rates are clearly not posing an obstacle to business growth at Cessnock, and if our recommendation is adopted to decrease or eliminate the base rate, then this will be even more so the case. Only for the category of farmland, do rates appear to be high – but even here a note of caution seems to be in order given the mixed use and other business operations included in this taxation grouping.

An SV is not about particular categories of local government taxation, but rather the total tax take of all categories in aggregate. Moreover, our earlier individual metrics fail to account for interaction effects, only examine a portion (less than a quarter) of the cohort of relevant NSW councils, and might have been subject to distortions in individual years. For these reasons, and others, an econometric exercise is the best way to get a handle on the total tax take that ought to be extracted by a local government seeking to exert typical revenue effort. We use the word 'ought' advisably here – because it is a fact that a failure to extract at least typical revenue effort is likely to result in declining financial sustainability, intergenerational inequity, and perhaps even work as a brake on local economic growth.

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. As famously noted by Ladd (1989), capacity to pay is ultimately a function of incomes, so in a regression we include details of the number of various taxpayers, their wages, various welfare benefits, and also unincorporated business incomes. A second advantage of regression is that panel methods can allow us to ascertain matters over multiple years and thus mitigate any distortions that may have arisen if a given year were atypical. Furthermore, by recourse to sophisticated econometric techniques – such as fixed effects regression – we can even account for unobservable variables, provided that they are close to time invariant. This means that there is relatively little risk of under-specification.

We understand that people can sometimes be cautious of sophisticated mathematical techniques that they do not fully comprehend. For this reason, it should serve as a great comfort to the report end-users to know that the three professors who have authored this report are extremely experienced scholars, with a combined output of well over two hundred works, cited more than four thousand times by their scholarly peers. Indeed, the lead report author is an editor at an A-ranked journal that specialises in econometric work of far higher complexity. Otherwise stated, it would be entirely reasonable to be assured that the work which follows is gold-standard.

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. All three of the professors involved in

this present work hold doctorates in the field (the highest qualification available from universities), and all 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).

Given the experience of the authors – in addition to the fact that rigorous tests were conducted on our model – there can be no reasonable basis for disputing the findings which follow.

Our regressions were conducted on the entire cohort of urban councils within NSW, over a seven-year panel of detailed data which has been laboriously assembled from audited financial statements, Australian Bureau of Statistics data, as well as Office of Local Government data. The regression is thus considerably broader than the earlier graphical work which mostly refers to just the cohort of councils in the same Office of Local Government category as Cessnock for just four years.

The final model specification that we employ in our analysis can be expressed as follows:

$$\mathbf{T}_{it} = \alpha_i + \beta_1 \mathbf{A}_{it} + \beta_2 \mathbf{I}_{it} + \mu_{it} \qquad t = 1..7$$

Where **T** is the total tax take (that is the sum of all categories of taxation) expected of a local government, **A** is the disaggregated assessment data, **I** is a vector of relevant income data for particular local government areas at specific times and μ is an idiosyncratic error term. The subscript *it* refers to the i^{th} council entity and the t^{th} year. Here we included all seventy-one councils categorised as broadly similar under the extant federal government classification system. Log transformations were employed to counter skewness when econometric diagnostics tests revealed the need to do so. We also conducted and satisfied all other relevant diagnostic tests. In addition, we experimented with various other regression models and found the results to be surprisingly resistant to alternate specifications. Table 5 provides the definition for each variable employed.

Table 5. Definitions of Variables

Variable	Definition
Rates	
Rates	Total taxation (rate) take ($000)
Assessments	
Residential	Number of residential assessments.
Farm	Number of farm assessments.
Business	Number of business assessments.
Income Controls	
Median employee income	Median employee income (lagged).
Aged	Proportion of people on an aged pension.
DSP	Proportion of people on a disability support pension.
Newstart	Proportion of people on a Newstart allowance.
Single	Proportion of people on a single parent pension.
Unincorporated	Unincorporated business income (with lag).

In Table 6 we provide details of the total tax take shortfall for each of the seven years of analysis. Readers will note that these figures jump around a bit from year to year – this occurs as a result of changes to incomes and welfare recipient levels, as well as changes to the total tax take of other councils (in response to SVs – to name just one of many Queanbeyan-Palerang (64.3%)). {Notably, relative wage levels at Cessnock were particularly susceptible to the effects of the COVID policy measures}.

Nevertheless, the results are broadly in line with what we might have expected given the following:

- Residential revenue effort work which showed that Cessnock residents were paying only around two-thirds of the level paid by some of their peers.
- Business data which suggested that rates were not hindering the relative expansion of the local economy.
- Farmland rates data on the high side (albeit confounded by mixed and business use of farmland); and
- The fact that urban councils typically have far lower revenue efforts than do rural councils (Cessnock City Council tends to be a hybrid of the two major types of councils and comparing it to just the urban peers is likely to have understanded additional tax take required to be typical).

Notably the results in Table 6 only illustrate the increase required to bring total tax take at Cessnock up to the typical level of other urban councils. Moreover, it does not factor in the increase that would be required to make up the foregone taxation revenue from previous years. This is important because a failure to extract at least typical total tax take at Cessnock means that council was deprived of an astounding $47.8 million over the last seven years – more than the entire tax take in the 2024 financial year! (this underscores our introductory comments around the cumulative effect of not charging sufficient rates for many years). It is thus not hard to see why Cessnock council is struggling to maintain a semblance of sustainability.

Table 6. Expected Total Tax Take Predicted by the Fixed-Effects Regression, 2018-2024 Inclusive.

Year	Total Tax Take Shortfall	Increase Required to Meet Shortfall	Year	Total Tax Take Shortfall	Increase Required to Meet Shortfall
2018	6,655.99	19.03%	2022	5,576.31	13.06%
2019	7,938.88	21.71%	2023	4,678.20	10.48%
2020	8,393.36	21.74%	2024	7,799.10	16.53%
2021	6,765.63	16.72%			

Thus, econometric evidence puts it beyond doubt that rates would need to go up by at least 16.53% on 2024 numbers in nominal terms to even approach typical. We note that the suggested increase over the entire period ranged up to 21.74%, and furthermore that a regression done on 2025 data (not available until 2026) would be likely higher still because it would capture more of the recent large SVs (such as Tamworth, 36.3%). We also wish to make plan that a typical revenue effort simply will not suffice when there has been an insufficiency over so many years, resulting in so much foregone revenue. Indeed, if we were to adjust matters in terms of standard deviations (a statistical term used to measure spread) then the indicative ceiling for a tolerable SV increase would be 40.6%. We note that this number is a little higher than that proposed, but consistent with what one might expect after looking at the revenue effort for the single largest category of rates.

Following our careful examination of the LTFP and also the recent draft financial statements we would sadly have to recommend to Council that they consider proposing to IPART an SV around the top of the range previously indicated in the Financial Sustainability Report prepared by the University of Newcastle. We are particularly concerned about the *negative* ten million in unrestricted cash, the recent large deficit, the persistent unacceptable backlogs, the absence of slack in liability capacity, and the parlous asset maintenance metrics. When set alongside an environment of rapid growth, spurred on by a national housing crisis, then it becomes clear that the present situation cannot be allowed to persist much longer.

Moreover, we highly recommend that Council ask for this increase to be implemented over one year, with the request that it remain permanently in the rate base. With respect to the recommendation to apply the SV all in a single year we particularly note: (i) the urgent need for unrestricted funds, (ii) the significant risk that communities would otherwise be exposed to because of the unpredictability of a rate cap in such a volatile economic environment and (iii) our previous experience of people being otherwise profoundly misled by the OLG mandated method of calculating the headline SV rate for multiple years. Furthermore, our experience in the past has been that most people in the community prefer to get things done quickly, partly in recognition that prompt action allows councils to redress significant

foregone revenue more prudently which ultimately results in a better outcome for ratepayers. The recommendation to request a permanent increase, on the other hand, follows from our detailed examination of the long-term financial plan (LTFP) – it is clear that if only a temporary rate increase was allowed, then council would later have to go through the cost and expense of yet another SV for at least the same amount at its expiry. Furthermore, a temporary increase would not result in the certainty of cash flows necessary to make efficient management decisions[8].

Just as we were completing this report IPART released its' rate cap for the 2026/27 at 3.8% for Cessnock. Combining this new information with the findings of our other reports as well as our interrogation of the LTFP, *we are forced to recommend to council that they propose a SV of 39.9% over one year, permanent for the current round (see our report on the LTFP for guidance around additional SVs that are likely to be required in the later half of the LTFP).*

We note that additional revenue and other measures will also be required to mitigate the financial sustainability predicament at Cessnock. For instance, we have already noted the urgent need to go through non-regulated fees and charges and adjust these to long-run marginal costs. We also endorse the efficiency measures appended to our Efficiency Report. Furthermore, it is clear that population growth is causing great problems for Council and we would therefore urge the federal government, in particular, to do more for councils that are valiantly trying to mitigate the housing shortage mostly elicited by Commonwealth policies. It does not seem reasonable for the ratepayers of Cessnock to disproportionately feel the burden for policies outside of their control.

We know that Councillors might be inclined to pursue an SV lower than this recommendation – in response to their genuine concern for Cessnock citizens – but caution that doing so comes with consequences. To be more precise, we believe that an additional SV will almost certainly be necessary in the second half of the LTFP (probably 2031/32). Reducing the SV below our present recommendation will sadly only bring forward the date and increase the size of the likely next SV.

[8] What tends to happen in this case is that work is outsourced or people are brought in on contract. Both are likely to be more expensive in the medium-term and typically result in poorer quality work (Drew, 2021).

Measures to Improve Capacity to Pay

One of the greatest concerns for Councillors and IPART alike is to ensure that any proposed SV will be within capacity to pay. We remind all parties that an SV refers to the total tax take, and that decisions on the rate structure taken around May each year will actually determine most of the distribution of the burden for particular categories of rate payers. In addition, the regular land revaluations – conducted by the NSW Valuer General are determinative for individual rate payers.

As we have already suggested in this report, removing or reducing base rates will result in less of the burden being placed on lower land value ratepayers. All things being equal, lower value landholders are likely to have lower capacity to pay. Thus, a reduction to base rates is a key capacity to pay measure. This is especially the case for business. We suggest that a reduction to the base rate could be implemented at the next striking of the rates (for 2026/27). In the interim we would like the Council to consider at least freezing the base rate as part of the current SV proposal.

It is also important to have a good look at distributive equity more broadly in view of our evidence. When doing so, decision-makers should be mindful of the philosophical foundation of unimproved land tax, and also the fact that some ratepayers get to export a significant portion of their rates via income tax deductions. This particular task is much more involved and would take at least a year to do in view of the consultation required. As such, an examination of the rate structure is a task that might be assigned to the General Manager for possible implementation in the 2027/28 financial year.

We would also underscore the importance of Councillors advocating for fairer support for Cessnock to meet growth challenges elicited principally by Commonwealth government policy. As we showed in the financial sustainability report Cessnock has astonishingly high rates of growth and is doing more than most local governments to redress the housing shortfall in the country. However, this also means that existing residents of Cessnock are having to shoulder more of the financial burden for mitigating the housing crisis than residents in most other local government areas. This has certainly contributed to a portion of the current (and likely the future) SV and it would therefore reduce the burden on ratepayers if the federal government were to better support Cessnock City Council in its endeavour to ensure that people can be housed in this nation.

One final small thing that can be done to improve capacity to pay is to ensure that residents are aware of regular direct debit schemes on offer through council. Residents can have payments made automatically for an amount and on a frequency that suits them best. Higher uptake of this would clearly improve capacity to pay and we encourage council to promote this option on future rates notices. In addition, we also recommend that council consider printing a coupon payment booklet – our experience at other councils has been that this option is particularly popular with older folk.

We commend this report to Councillors and IPART.

References

Australian Bureau of Statistics (ABS). (2021). *Data By Regions*. ABS: Canberra.

Australian Bureau of Statistics (2025). *Government Finance Statistics*. ABS: Canberra.

Baum, S., Flanagan, M., Mitchell, W. and Stimson, R. (2018). Wage inequality across Australian labour market regions. *Australasian Journal of Regional Studies,* 24(2), 124-146.

Buchanan, J. (1997). The Balanced Budget Amendment: Clarifying the Arguments. *Public Choice,* 90: 117-138.

Dollery, B. E., Crase, L. and Johnson, A. (2006). *Australian Local Government Economics,* University of New South Wales Press: Sydney.

Dollery, B. E. Johnson, A. and Byrnes, J. (2008). Cost Shifting in Australian Local Government: An Analysis of the Spatial Impact of Pensioner Rate Concession Rebates in New South Wales. *Australian Geographer,* 39(4), 467-478.

Dollery, B. E., Wallis, J. L. and Allan, P. (2006). The Debate That Had to Happen But Never Did: The Changing Role of Australian Local Government. *Australian Journal of Political Science,* 41(4), 553-567.

Drew, J. and Campbell, N. (2016). Autopsy of Municipal Failure: The Case of Central Darling Shire. *Australasian Journal of Regional Science*, 22(1): 81-104.

Drew, J. and Dollery, B. (2015). A Fair Go? A Response to the Independent Local Government Review Panel's Assessment of Municipal Taxation in New South Wales. *Australian Tax Forum*, 30(3): 471-489.

Drew, J. (2020). *Reforming Local Government*. Springer Palgrave: Singapore.

Drew, J. (2021). *Saving Local Government*. Springer Palgrave: Singapore.

Drew, J. and Dollery, B. (2020). Introduction to the Special Edition of Public Administration Quarterly: The Economics and Politics of financial Unsustainability in Local Government. *Public Administration Quarterly*, doi.org/10.37808/paq.44.2.1.

Drew, J. and Miyazaki, M. (2020). The moral justification and practice of intergovernmental equalisation grants to local government–A subsidiarity perspective. *Australian Journal of Public Administration*, doi: 10.1111/1467-8500.12445.

Drew, J., Miyazaki, M. and Kortt, M. (2023). The Other Side of the Local Government Ledger – The Association Between Revenue Growth and Population Growth. *Australian Journal of Public Administration*, DOI: 10.1111/1467-8500.12583.

Finnis, J. (1998). *Founders of Modern Political and Social Thought: Aquinas.* Oxford University Press: Oxford.

George, H. (2010). *Progress and Poverty*. Robert Schalkenbach Foundation: New York.

Grant, B. and Drew, J. (2017). *Local Government in Australia: History, Theory and Public Policy.* Springer Palgrave: Singapore.

Kennedy, P. (2003). *A Guide to Econometrics.* MIT Press: Cambridge.

Messner, J. (1952). *Social Ethics: Natural Law in the Modern World*. Transl. J. Doherty. B Herder Book Co: St Louis.

New South Wales Parliament (1993). *Local Government Act.*

Oates, W. E. (1972). *Fiscal federalism*. Harcourt Brace Jovanovich: New York.

Oates, W.E. (1999). An Essay on Fiscal federalism. *Journal of economic Literature*, 37(3), 1120-49.

Wooldridge, J. (2006). *Introductory Econometrics: A Modern Approach.* Thomson: Ohio, USA.