



# Financial sustainability in Australian local government: An overview

National General Assembly of Local Government

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**SGS Economics and Planning Pty Ltd acknowledges the First Nations Peoples of Australia on whose Country we live and work.**

SGS acknowledges that the Aboriginal and Torres Strait Islander peoples of Australia are one of the oldest continuing living cultures on Earth, have one of the oldest continuing land tenure systems in the world, and have one of the oldest continuing land use planning and management systems in the world.

We pay our respects to the First Nations Peoples, past and present, and acknowledge their stewardship of Country over thousands of years.

# Overview

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**Councils are good with money**

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**Councils face structural challenges in public finance**

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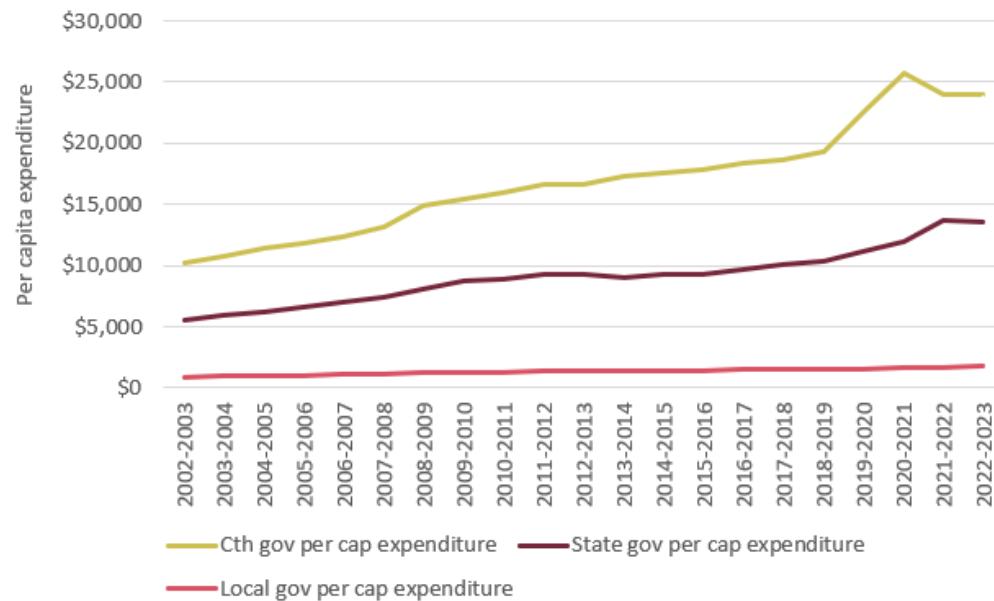
**Yet many Councils are struggling**

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**The pay-off in fixing the problem**

# Councils are good with money

GOVERNMENT PER CAPITA EXPENDITURE, 2002-03 TO 2022-23



Source: SGS Economics and Planning (2024), ABS (2013-2023).

- Compound annual growth in local government expenditure between 2013/14 and 2022/23 lagged inflation, representing a cut in real terms.
- Despite this, Councils maintained high satisfaction levels with their constituencies. This indicates greater efficiency compared to other tiers of government.

# Many councils are struggling financially

- More than 50% of councils are not raising enough revenue from their own sources to meet operating costs
- Almost half of all councils cannot renew assets
- Financial performance across the sector has deteriorated over the past 5 years
  - Only one in five councils report high financial sustainability on operating surplus, debt service and asset renewal ratios
- Access to basic local government services is at risk in many communities

# What does sound local government finance look like?



## **Fiscal autonomy**

Councils should have independent access to a tax base commensurate with their service responsibilities



## **Fiscal equalization**

Where Councils face tax base limits or costs beyond their control, they should be assisted to provide at least a basic level of service to their communities



## **Subsidiarity**

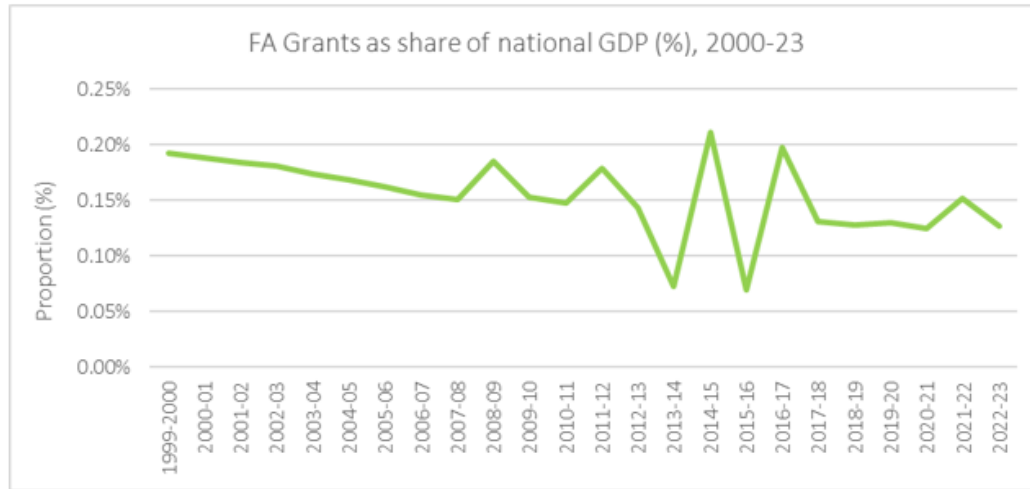
Beyond fiscal equalization, Commonwealth and States should only interfere with local resource allocation on matters of genuine national or state significance

# Council financial autonomy is ebbing away

- Councils typically raise between 70% and 80% of their revenue from their own sources
  - A benchmark minimum is 60% (NSW Office of Local Government)
- More than half of NSW councils have own source revenue below this minimum
  - Ten years ago, fewer than 30% of councils fell below this minimum standard
- Growth in own source revenue in local government has flat lined compared to those for other tiers of government over the past 5 years
  - Commonwealth            8%
  - State                            5.2%
  - Local government            4%

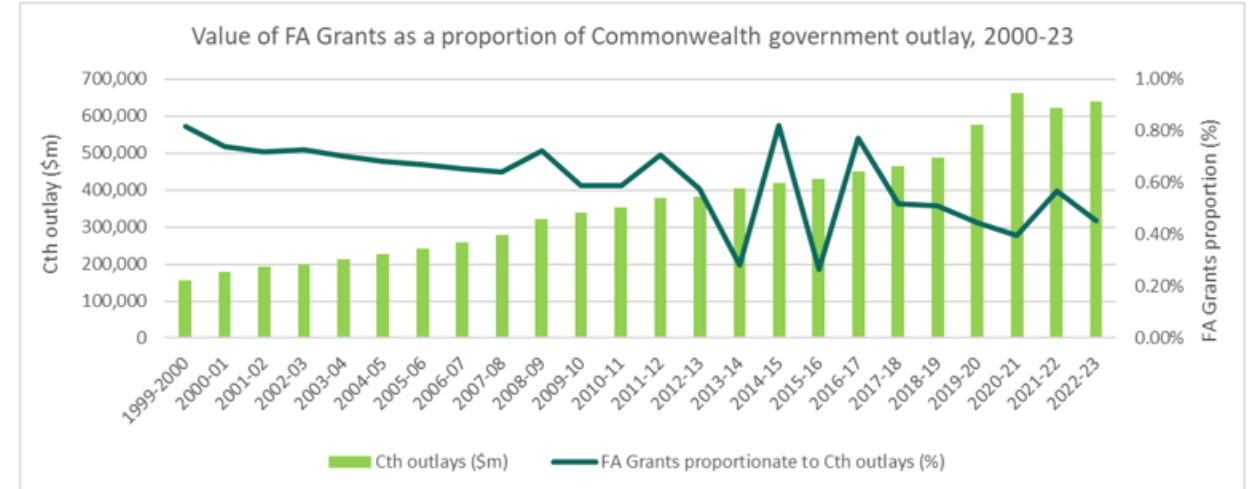
# Fiscal equalization: Commonwealth support for fair access to Council services is falling and volatile

FA GRANTS AS SHARE OF NATIONAL GDP, 2000-23



Source: SGS Economics and Planning (2024), ABS (2000-23), DITRDCA (2024).

FA GRANTS AS SHARE OF COMMONWEALTH OUTLAY, 2000-23

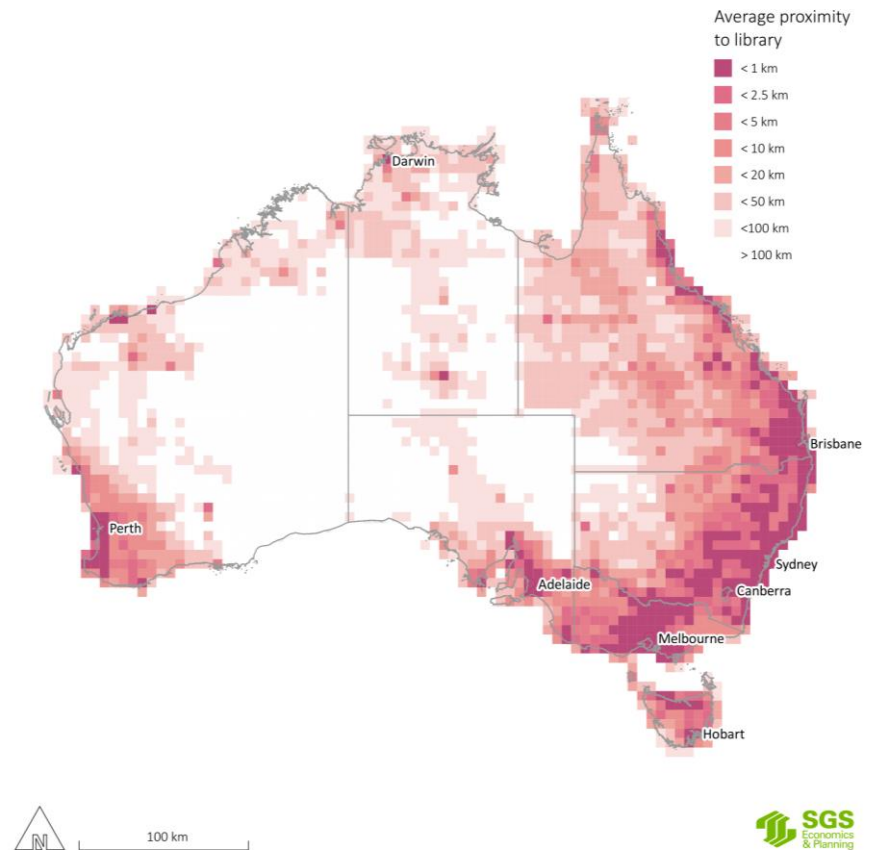


Source: SGS Economics and Planning (2024), DITRDCA (2024).



# One example: neighbourhood libraries

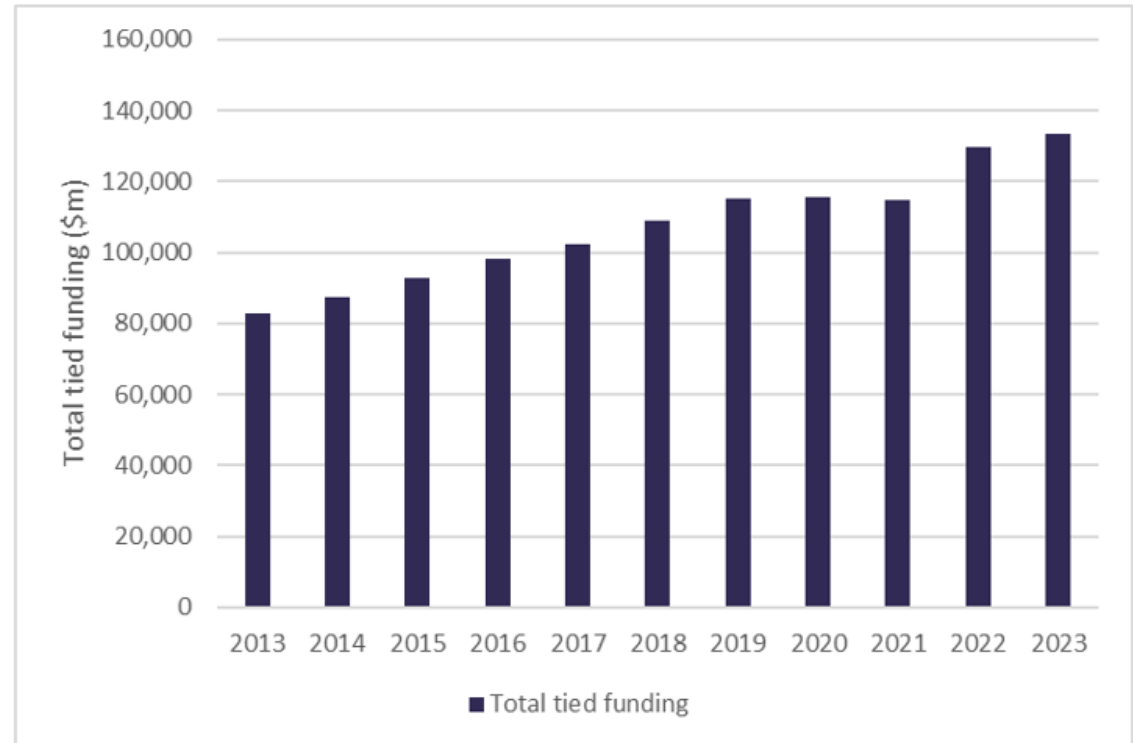
- These are a core and highly valued local government service
- Access is highly variable across Australia
- In Queensland, 1/3<sup>rd</sup> of citizens have to travel further than 2.5 klm to access this service – in both the Brisbane metro area and in the regions



# Tied and competitive grants are on the rise

There is a growing tendency for the Commonwealth to influence the spending decisions of other tiers of government.

This is problematic for local government for two reasons. First, compared to block funding, councils are less able to align resources with community priorities. Second, councils may face an unwanted additional cost burden from compliance and reporting requirements.



Source: SGS Economics and Planning (2024), ABS Government Finance Statistics (2024). Amounts are GST exclusive. Amounts are calculated from Commonwealth grant expenses to other tiers of government, less the FA Grant amount for each year.

# The economic pay off from stronger local government

Greater financial sustainability for local government means:



- Saved vehicle operating costs on better maintained roads



- Health cost savings and labour productivity gains from better engagement with public open space



- Faster and better decision making on planning and building



- Saved administrative costs in tied and competitive intergovernmental transfers



- Saved workforce recruitment and retention costs in local government

***What about the cost to Commonwealth and State governments?***

*Reforms involve*

- *Re-allocation of functions and revenues*
- *Administrative clean ups*
- *Additional outlays*

*Budget outlays from Commonwealth/States of the order of \$1.5 billion - \$2.0 billion / year*

*Best delivered via boosted FA Grants*

# The pay off



- Once embedded in the economy, these savings and efficiencies would boost GDP by more than \$7 billion / year
- This would lift Commonwealth tax revenues by around \$1.7 billion per annum
- ***Putting local government on sustainable financial footing would largely pay for itself***

Thank you