

11 March 2024  
Independent Pricing and Regulatory Tribunal  
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## IPART draft Terms of Reference - review of the council financial model in NSW

SGS Economics and Planning is an Australian employee-owned independent public policy advisory consultancy. We have been supporting local governments to plan, service, finance and build strong communities for over 30 years. We understand how important local government is in Australia. They play a big role in shaping and supporting our communities today and in the future. We were pleased to see the IPART review of NSW council financial model, and share this feedback on the draft Terms of Reference.

In order to be a sustainable level of government, local government need to be adequately resourced, be supported by robust long term strategic planning that is informed by community needs. Local government needs the internal skills and talent to be able to implement these plans effectively and efficiently.

Local governments across Australia, and further abroad, such as the United Kingdom, are experiencing greater financial vulnerabilities. This is due to a range of factors such as increasing cost of services and infrastructure, responding to increased frequency of emergency events, increased community demands, increased staff wages needed to attract and retain talent, and inability to adequately raise revenue beyond the core means of rates, grants, and development contributions.

The recent *State of Local Government Finance in England 2024*<sup>1</sup> prepared by LGiU noted that, of the local governments that responded to their survey, over half were likely to declare effective bankruptcy in the next five years. In response to financial challenges councils in the UK are raising taxes, increasing fees and charges, cutting services, and drawing on financial reserves. In NSW, while not as wide spread, we are starting to see similar trends across the local government sector, with some already showing significant signs of financial crisis.

The *Sustainability Gap – the financial health of Victorian Councils*<sup>2</sup> identifies four risks to financial sustainability for Victorian councils, of which can also be applied in NSW:

- Deteriorating underlying surplus across local government
- A significant asset renewal gap
- The compounding effect of a rate cap which has consistently been set below the cost increases experienced by councils
- A limited and reducing unrestricted cash position of many councils.

The below figure highlights the changes in revenue across Commonwealth, NSW State Government, and NSW local governments. Between 2012-13 and 2021-22 the revenue per capita for local

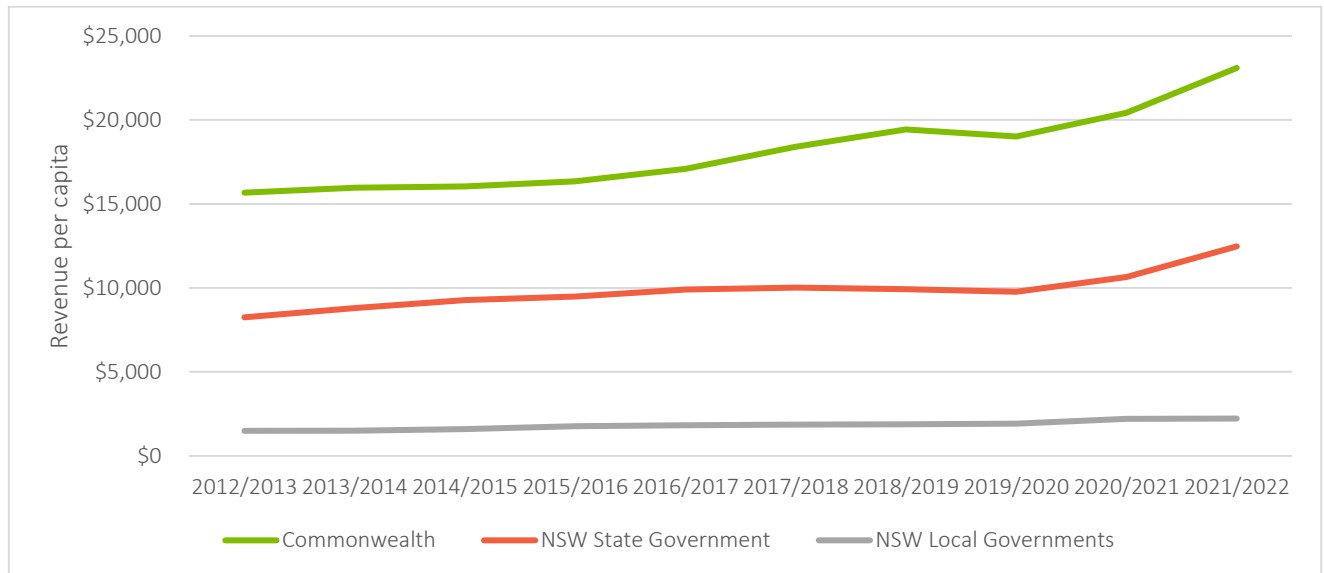
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<sup>1</sup> Local Demographic Research Centre and LGiU, 2024, *State of Local Government Finance in England 2024*

<sup>2</sup> MAV and FinPro, 2022, *Sustainability Gap – the financial health of Victorian Councils*

governments has remained relatively stable, whereas both the State and Commonwealth governments have seen a significant increase. In 2021-22 revenue for NSW State Government was \$12,476 per capita, compared to all NSW local governments at \$2,227 per capita.

**FIGURE 1: REVENUE PER CAPITA ACROSS COMMONWEALTH, NSW STATE GOVERNMENT, AND ALL NSW LOCAL GOVERNMENTS 2012-2022<sup>3</sup>**



In contrast to revenue, capital expenditure was substantially higher. In 2021-22 the capital expenditure per capita for NSW State Government was \$34,706. This was closely followed by spending from all NSW local governments at \$23,552 per capita.<sup>4</sup>

Transparency of budgets, budget decisions, and forward planning should be a requirement across all levels of government. In order for local governments to continue to provide critical local infrastructure and services the following components need to be considered:

- **Financial planning:** This should capture and represent the financial resources required to deliver on all councils adopted strategies, capital plans, services, contracts, and workforce. This should include a long and short term financial plan. This planning provides councils with an understanding of their financial scope and capacity, including ability to access and service loans.
- **Asset management:** This should include long and short term capital plans including renewal, redevelopment, and new assets required. This should be aligned with councils community services and infrastructure planning informed by place planning. This planning provides councils with an overview of the state of assets, required long term investment needed, and potential opportunities to invest or divest in assets.
- **Service planning:** Every council service should have a service plan. This should include the expected service standards, market share, resources, forecast community changes that may impact service, and continuous improvement opportunities to deliver the service over the short and long term.

<sup>3</sup> ABS, 2023 Government Financial Statistics

<sup>4</sup> ABS, 2023 Government Financial Statistics

Service planning provides councils with the evidence to make decisions to increase or decrease service delivery. It also provides councils with the ability to assess the market and their ongoing role.

- **Revenue:** Local governments are unable to sustain the current delivery of services through existing revenue sources. If the State Government intend on local government continuing to provide critical local services and infrastructure, funding will need to be allocated appropriately. Alternatively, the ability for local governments to raise revenue through other streams will need to be accommodated.
- **Workforce:** Local governments are grappling with significant challenges in relation to recruitment and retention of skilled staff which is impacting productivity.<sup>5</sup> Staff wages account for approximately 30 per cent of local government budgets, however the average wages, and increase in wages is still below CPI. The ability for local governments to compete with the private market, and other levels of government, is having an impact on the sector. Significant investment in the future workforce will be required to ensure local governments continue to be a workplace of choice.
- **Governance:** Several local governments across Australia have required a review into governance and or the allocation of municipal monitors. The outcomes of these reviews should be used to guide future governance changes in NSW. This includes ensuring councillors are equipped with the required skills and knowledge to make decisions which have a financial impact.

These elements need be reflected in any updates to the NSW Councils Integrated Planning and Reporting Frameworks to integrate needs, budgets, and outcomes in a sustainable way. SGS looks forward to being involved in the review process to ensure that NSW local governments can continue to have ongoing financial capacity to deliver local service and infrastructure to the growing and changing communities across NSW.

Should you wish to discuss any of our feedback please contact [REDACTED]  
[REDACTED].

Kind regards,

[REDACTED]

[REDACTED]

SGS Economics & Planning Pty Ltd  
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<sup>5</sup> SGS Economics and Planning, 2022, [Local Government Workforce Skills and Capability Survey](#), prepared for Australian Local Government Association, with funding from the Federal Department of Infrastructure, Transport, Regional Development, Communications and the Arts.