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# **Financial Sustainability and the Australian Experience: Lessons for New Zealand Local Government**

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## **Introduction**

### **Numerous official inquiries into Australian local government at national level**

- 2001 Commonwealth Grants Commission Report
- 2004 Commonwealth Government 'Hawker' Report
- 2006 PriceWaterhouseCoopers Report

All found evidence of acute financial distress, with local infrastructure badly hit



## **State-based inquiries by state local government associations**

- 2005 SA Financial Sustainability Review Board Report
- 2006 Independent Inquiry into the Financial Sustainability of NSW Local Government ('Allan Report')
- 2006 Queensland Local Government Association Report
- 2006 WA Local Government Association Report
- 2007 Tasmanian Local Government Association Report

**All found evidence of financial distress and local infrastructure depletion**



# WHAT IS THE PROBLEM

## **Commonwealth Grants Commission Report (2001) cost pressures**

- 'devolution of responsibility' from higher tiers of government;
- 'cost-shifting'
- 'raising the bar'
- 'increased community expectations'
- 'policy choice'

**Effect has been big financial pressure on local councils**



- Hawker Inquiry (2003): ‘significant infrastructure renewal gap’ and ‘falling asset standards’
- PriceWaterhouseCoopers (2006) tried to define ‘financial sustainability’
- Found many councils ‘unsustainable’
- Infrastructure borne brunt (not current service provision)
- These conclusions reinforced by all state inquiries.



## **Estimates of infrastructure backlog**

- 2006 PriceWaterhouseCoopers: between \$15.3 and \$12 billion nationally
- 2005 SA Inquiry: more than \$300 million
- 2006 NSW 'Allan Report': \$6.3 billion
- 2006 WA Inquiry: \$1.75 billion
- 2007 Tasmanian Inquiry: \$29 million



# PROPOSED SOLUTIONS

## Five main policy proposals

- Structural reform
- Asset management
- Shared services
- Federal/state local infrastructure funds
- Debt finance through bond issue



# Structural Reform

- Remains main policy instrument state governments
- Recent amalgamation programs in NSW and Queensland
- Planned amalgamation in NT and possibly WA
- Problem is past amalgamation has not fixed financial problems



# Asset Management

- PriceWaterhouseCoopers (2006) as well as SA, NSW, Queensland, WA and Tasmania state inquiries all found infrastructure management poor.
- All suggested better local infrastructure management
- Infrastructure problem so enormous better management alone not enough



# Shared Services

- Queensland Inquiry argued shared service generates big cost savings
- International evidence suggests savings are available
- But these savings relatively modest
- Too small to fund massive infrastructure backlog



## Federal/state local infrastructure funds

- PriceWaterhouseCoopers (2006) and Dollery *et al* (2007) proposed federal local infrastructure fund
- Commonwealth government collects most taxes and has growth taxes, like GST, corporate tax and income tax
- Thus only Commonwealth has capacity to fund massive local infrastructure shortfall
- WA inquiry and others want state local infrastructure asset funds
- Problem is state governments already do not fund local government adequately



## Debt finance through bond issue

- Byrnes *et al* (2008) argue that the infrastructure crisis requires debt finance
- Propose bond market issue based on local council income
- NSW 'Allan Report' also favours debt finance
- Problem is public opinion heavily against council debt



# LESSONS FOR NEW ZEALAND

## Infrastructure funding

- Rates Inquiry and Local Authority Funding Project - infrastructure cost around \$31 billion to 2016
- Infrastructure and depreciation thus major driver of rates increases
- Unlike Australia, NZ has already had (a) radical structural reform (b) asset management reform and (c) councils can already borrow
- But rates higher proportion of income and growing fast
- Central government intervention through (a) asset fund or (b) other sources of revenue necessary to alleviate pressures on rates



# Financial sustainability

- Much Australian focus on defining financial sustainability
- But cannot be defined with precision
- Local councils not businesses but democratic service agencies involved in 'place-shaping'
- Need for equitable service provisions across nation means financial intervention from central government essential