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A Dire Warning of Australian Local Government Insolvencies

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A Dire Warning

There are grave warnings that local government councils across New South Wales, Australia, are on the verge of fiscal collapse.[1] Local governments, referred to as municipalities in some international jurisdictions, are crucial for the effective delivery of essential services for local communities, including with respect to roads, pathways, waste management, planning and building approvals, community centres, public libraries, and recreational services. They also play a critical role in the democratic representation of local communities; they provide 'a voice for local communities and [facilitate] the development of local identity and local unity through local representatives who are accountable to the local community for re-election'.[2]

However, it has long been recognised that there is a financial crisis among Australian local governments, with high numbers facing severe fiscal distress and 'infrastructure backlog'.[3] There are concerns that local government authorities may not have sufficient funding to meet financial obligations and to meet the needs of local communities.[4] In 2024, it was reported that a Grattan Institute survey 'of 81 councils found that almost 40 per cent of

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[1] Audit Office of New South Wales, *Local Government 2025* (Report, 28 January 2026) < https://www.audit.nsw.gov.au/our-work/reports/local-government-2025 >; Jonathan Hawes, 'Economist Warns Rural NSW Shires Are on the Verge of Financial Ruin' (ABC News, 23 February 2026) < https://www.abc.net.au/news/2026-02-24/rural-nsw-councils-warn-of-financial-sustainability-crisis/106358104 >; Natasha Bradshaw and Dominic Jones, Submission no. 74 to House of Representatives Standing Committee on Regional Development, Infrastructure and Transport, *Inquiry into Local Government Sustainability* (27 May 2024) 3 < https://grattan.edu.au/wp-content/uploads/2024/05/Submission-to-the-Inquiry-into-Local-Government-Sustainability.pdf >.

[2] Elizabeth Streten, 'Solving the Democratic Deficit Problem for Insolvent Local Government Authorities' (2024) 50(1) *Monash University Law Review* 130, 155 ('Solving the Democratic Deficit Problem for Insolvent Local Government Authorities').

[3] Brian E Dollery, Michael A Kortt, Bligh Grant, *Funding the Future: Financial Sustainability and Infrastructure Finance in Australian Local Government* (Federation Press, 2013).

[4] Streten, 'Solving the Democratic Deficit Problem for Insolvent Local Government Authorities' (n 2) 131-132.

councils do not have the long term financial plans and asset management plans required by state legislation…[also] many lack basic data on their assets'.[5] These concerns have heightened following release of a report by the Audit Office of New South Wales ('the Report') on 28 January 2026 which evaluates New South Wales local government councils.[6] The Report reviewed, among other things, the fiscal standing of New South Wales's 128 local councils, consisting of 57 rural, 37 regional, and 34 metropolitan councils, as at 30 June 2025.[7]

2026 Report by the Audit Office of New South Wales

The Report raised numerous concerns, including:

- There have been increases with respect to the number of New South Wales local government councils making operating losses, with 17 making such losses in 2024–25, (one metropolitan, 4 regional and 12 rural) compared with only 5 in 2023–24, which raises concerns as to fiscal sustainability.[8]
- Two New South Wales councils, Bathurst Regional Council and Upper Hunter Shire Council, breached the *Local Government Act 1993* (NSW) by spending externally restricted cash other than for intended purposes, which was attributed to these councils having 'insufficient cash flows, not subject to external restriction, to meet general fund expenses' and both needed Ministerial approval to use internal borrowings to support their cash flow.[9]
- 'Over the past 12 months, total cash and investments have grown in metropolitan and regional councils, but they have declined in rural councils.'[10]
- As of 30 June 2025, there were 19 New South Wales local government councils (2 metropolitan, 8 regional and 9 rural) with 'insufficient cash and investments, not subject to external restrictions, to meet 3 months' worth of expenses' raising concerns as to the fiscal liquidity of these councils. This is an increase from 16 as of 30 June 2024.[11]
- Of the above 19 New South Wales local government councils that had insufficient cash and investments to meet 3 months' worth of expenses, excluding those

[5] Natasha Bradshaw and Dominic Jones (n 1) 3.
[6] Note: New South Wales is one of Australia's 6 States. Australia also has 2 territories. All 6 States and 1 of the Territories have local governments. The Australian Capital Territory does not have local government. There are Constitutional complexities in Australia regarding both recognition and funding of local government. For further details of these complexities see Streten, 'Solving the Democratic Deficit Problem for Insolvent Local Government Authorities' (n 2) 149-155.
[7] Audit Office of New South Wales (n 1) [4.1].
[8] Ibid [6.1].
[9] Ibid [6.2].
[10] Ibid.
[11] Ibid.

subject to external restrictions, 11 councils had heightened financial sustainability risk as a result of 'various combinations of operating losses, insufficient cash, declining populations and low capacity to generate own source revenue'.[12]

- 21% of New South Wales local government councils did not have long-term financial plans that contain financial models for different scenarios.[13]

Call for Action

As demonstrated in the Report, there are clear and significant concerns for the fiscal sustainability of numerous New South Wales local government councils. Change is clearly needed. In November 2025, the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport launched an inquiry into the funding and financial sustainability of local government in Australia.[14] At the time of writing, that inquiry is ongoing with upcoming public hearings scheduled.

It is argued that action is needed to improve the fiscal sustainability of Australian local government, and to ensure that local government councils can provide essential services and serve their democratic functions.[15] Dr Streten, the first author of this article, has also called for reconsideration of insolvency frameworks for Australian local governments which are largely discretionary in nature, particularly in New South Wales.[16] In New South Wales, local councilors are displaced throughout administration processes, the timing of which are left to the discretion of New South Wales officials: the *Local Government Act 1993* (NSW) enables administrations to continue until such time as the Governor calls for election or terminates the administration in his or her discretion.[17] In the case of one fiscally distressed New South Wales local government council, Central Darling Shire Council, this resulted in a drawn-out administration which lasted over a decade during which time the community was not represented by democratically elected councillors.[18] There is risk that more New South Wales local government councils will be the subject of fiscal collapse, and

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[12] Ibid [1], [6.2], Appendix 2.
[13] Ibid [6].
[14] House of Representatives Committee, Standing Committee on Regional Development, Infrastructure and Transport, 'Inquiry into Local Government Funding and Fiscal Sustainability' (Inquiry, 6 November 2025) < https://www.aph.gov.au/LocalGovernmentFunding >.
[15] Streten, 'Solving the Democratic Deficit Problem for Insolvent Local Government Authorities' (n 2) 155-156.
[16] Streten, 'Solving the Democratic Deficit Problem for Insolvent Local Government Authorities' (n 2); Elizabeth Streten, Submission 34 to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport, *Inquiry into Local Government Funding and Financial Sustainability* (27 January 2026) ('Submission 34').
[17] *Local Government Act 1993* (NSW) ss 256–8. South Australia and Tasmania also have broad discretions as to timing: for further details in this regard see Streten, 'Solving the Democratic Deficit Problem for Insolvent Local Government Authorities' (n 2).
[18] For more detail see Streten, 'Solving the Democratic Deficit Problem for Insolvent Local Government Authorities' (n 2).

that their local communities could face the same lengthy administration processes which interfere with democratic representation. These risks demand urgent attention.