

# Inquiry into Local Government Sustainability

**LGASA Submission**

**May 2024**

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## Executive Summary

The Local Government Association of South Australia (LGASA) is proud of the 68 member councils in this state who are delivering for their communities under extreme financial pressure, particularly because their roles and functions have changed and expanded considerably over the past decade. They are efficiently and effectively using public money to deliver services that are valued by their communities. Our councils collectively manage \$28 billion in infrastructure and assets, 75,000 km of local roads, 140 libraries, over 5,000 parks and employ over 11,000 South Australians. Recent independent research has demonstrated that, compared to state and federal governments, councils achieve the highest level of productivity and are perceived by the public as having less red tape, are less difficult to work with and more trusted. The South Australian Productivity Commission has also found that most councils in South Australia achieve high levels of relative efficiency. All tiers of government share the same aspiration of supporting Australian communities to thrive and prosper and it makes sense for federal and state governments to invest in councils as the tier of government that is closest to communities and delivers the greatest value for money in providing community services.

However, the current funding arrangements for local government are unsustainable and need to change. While the responsibilities of councils have increased and communities' expectations of councils continue to grow, funding from federal and state governments has not kept pace, putting at risk the essential council services that communities need. The value of financial assistance grants provided to local government has declined from approximately 1 percent of Commonwealth taxation revenue to around 0.55 percent over the past three decades. This included a decision to not index financial assistance grants at all between 2014-15 and 2016-17, which not only cost councils and their communities necessary funding support in those years but lowered the base funding for all future years.

**The LGASA asks the Inquiry to support an increase in federal government untied grant funding to councils to at least one percent of Commonwealth tax revenue to alleviate the pressure on councils and contribute to the improved liveability and growth of all South Australian communities.** Fair federal government support is critical to local government as councils collect less than four percent of national taxation and are reliant on state and commonwealth funding to maintain significant assets, provide services to their communities and provide the foundation for economic growth.

An increase in untied grant funding is required because councils have limited capacity to raise revenue through rates and there are excessive rate exemptions, concessions and fee limits set by the State Government that prevent councils from fully recovering their costs. These challenges are further compounded for regional and rural councils due to their small rating base and a lack of options to raise revenues from commercial activities.

From a governance perspective, the need for increased untied grant funding for local government to support the outcomes that their communities want is fundamental to the type of participatory democracy we seek in Australia. It provides the resources that empower our communities to determine the services and support they need from their councils rather than centrally controlled and mandated for them. When councils are financially sustainable, they can make strategic choices that align with their community's goals and expectations.

Financial sustainability has, for many years, been identified by council CEOs and General Managers as the number one risk facing local government.<sup>1</sup> There are, however, many different underlying factors that can impact on councils' sustainability. They include issues around the cost of replacing or upgrading infrastructure, the ability to appropriately manage assets as an ongoing concern and the growth in volume, scope and quality of legislated and non-legislated services (often linked to population growth)<sup>2</sup>.

Many of the factors that drive sustainability are outside the control of local government. They include:

- impacts of natural disasters and other external environmental factors that impact directly on council services and divert resources from other necessary council services
- expansion of the roles and requirements placed on councils by federal and state governments, increasing their costs without commensurate revenue to support them, and
- cost pressures faced by councils that exceed CPI, such as increases in the cost of building and maintaining infrastructure.

The LGASA agrees with the financial sustainability principles put forward by the Australian Local Government Association (ALGA) in its submission to this Inquiry on behalf of the sector. In particular, to ensure a strong and sustainable sector, local government:

- must have secure, long-term untied funding from the Federal Government
- is best placed to deliver local decision making that meets community needs
- has a substantial role preparing their communities for future change
- must be equipped to achieve efficiencies through the adoption and use of new technology and future planning, and
- can provide consistent access to services in every community, delivered through strong local institutions.

The LGASA calls on the Federal Government to support these principles.

As councils in South Australia have limited options to raise revenue to meet the growing needs of their communities, they rely on funding from both state and federal governments. Councils provide over 100 community services and this figure is growing. The reliance on council services by communities increases significantly the further you move away from the capital cities, in part because of the lack of essential services provide by other tiers of government or the private sector. Given the growing demands on local government, for councils to be financially sustainable councils need strong financial support from State and Federal Government to achieve its strategic goals and objectives.

Under the Local Government Act 1999, the South Australian government has established an independent advice scheme for councils. The Scheme that has been in place for two years will review all 68 councils in the state over four years. The reviews are carried out by Essential Services Commission of South Australia (ESCOSA) and it has confirmed the existing concerns of approximately one third of councils so far assessed, that they are at risk of being financially unsustainable. In many cases, the advice is confirming the challenges for councils to maintain and renew critical assets. New infrastructure grants, while important for delivering new services to communities, can exacerbate financial sustainability challenges as councils must fund the ongoing costs of operating and maintaining those assets, but without further grant funding to support it and limited ability to raise rates to fund it. An increase in FA Grants would help alleviate this situation.

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<sup>1</sup> JLT Public Sector Risk Report 2022/23

<sup>2</sup> South Australian Pro

Councils also play a key role in enabling economic growth for their communities, their state and the nation. For example, the Regional Development South Australia Regional Blueprint 2023-2024<sup>3</sup> identifies 1,081 projects that have a potential capital value of \$62.56 billion. This will require significant investment to support the economic growth.

Increases in taxation revenue are not as transparent across all levels of government. There is a legislated requirement in South Australia for councils to annually consult with their community on their plans and budget for the next 12 months. This results in significant public focus on the proposed average rate increase to deliver local services, maintain significant and diverse assets and growth the community. In comparison, the increases at state and federal taxes, fees and charges are not always transparent and not subject to public consultation, so the community is often not aware of the change. For example, in 2020-21 states and territory net tax revenues rose an average of 8.8 percent to \$92 billion (ABS Taxation Revenue 2020-21). However, by contrast, local government increased tax revenue by only 2.6 per cent to \$20 billion. While councils embrace the consultative and transparent rate setting process, it is not well understood that the tax take by local government is only around four percent of the total tax in Australia, while local government delivers around 80 percent of the services within their communities.

A healthy and productive local government sector is essential for local communities as 'consumers' of council services. Local government is the pillar of its community and to better support their communities now and into the future, they need greater financial and resource support.

## LGASA Recommendations

The LGASA calls on the Federal Government Inquiry into Local Government Sustainability to:

1. Acknowledge that local government is the tier closest to the community and is a trusted delivery partner of the state and federal governments;
2. Understand the key role that the federal government's Financial Assistance Grants play in supporting a sustainable local government sector in South Australia;
3. Recommend restoration of Financial Assistance Grants to at least one percent of Commonwealth tax revenue;
4. Recommend restoration of the Financial Assistance Grant funding lost following the 2014-15 to 2016-17 indexation freeze;
5. Adopt the following principles to ensure a strong and sustainable local government sector:
  - a) must have secure, long-term untied funding from the Federal Government
  - b) is best placed to deliver local decision making that meets community needs
  - c) has a substantial role preparing their communities for future change
  - d) must be equipped to achieve efficiencies through the adoption and use of new technology and future planning, and
  - e) can provide consistent access to services in every community, delivered through strong local institutions.
6. Introduce an appropriate indexation methodology to ensure that Financial Assistance Grants keep pace with cost pressures faced by councils;
7. Acknowledge that inadequate funding of local government places an unfair and inequitable financial burden on local communities and hinders the communities in delivering their needs, priorities and expectations.

<sup>3</sup> RDASA September 2023

## Introduction

The LGA South Australia (LGASA) welcomes the opportunity to provide input into the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport (the Committee) inquiry into local government sustainability (the Inquiry).

The issues outlined in the Inquiry's terms of reference are of particular interest to LGASA and the broader local government sector in the state. We reinforce the Inquiry's observation that "local government sustainability is essential to supporting [our] Australian communities through the provision of vital infrastructure and related services".<sup>4</sup>

As the peak body for the local government sector in South Australia, LGASA is in a unique position to make contributions to the Inquiry which reflect the broader concerns of local government in South Australia and help the Committee understand the challenges faced by our member councils in delivering sustainable services that communities rely upon across the state.

LGASA has contributed to and supports the Australian Local Government Association's (ALGA) submission to the Inquiry. Our submission to the Inquiry reiterates the issues raised by ALGA in addition to matters that are of concern to local government in South Australia.

LGASA's submission is focused on achieving the best outcomes for the local government sector nationally, in South Australia, and for local communities.

## Financial Sustainability and Funding of Local Government

Local government in South Australia (SA) is required under the *Local Government Act 1999 (SA)* to use its resources fairly, effectively and efficiently and to ensure that its long-term financial performance is sustainable. The South Australian local government sector in 2019 adopted the following definition of financial sustainability:

*A Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.*<sup>5</sup>

We are, unfortunately, reaching a period where some councils are having to cut important community services in order to balance their finances. The example of Mid Murray Council demonstrates this reality and is presented later in this submission.

Councils are the closest tier of government to communities and are best able to understand and respond to the expectations of their communities. However, there are many factors that are making it increasingly difficult for councils to meet the growing needs of communities within current funding arrangements.

## Financial Assistance Grants

Established almost 50 years ago, Financial Assistance Grants (FA Grants) from the Commonwealth Government were fundamentally conceived as a base-load mechanism for horizontal fiscal equalisation

<sup>4</sup> Parliament of Australia Media Release, *New inquiry - Australia's local government sustainability*, 21 March 2024 ([https://www.aph.gov.au/About\\_Parliament/House\\_of\\_Representatives/About\\_the\\_House\\_News/Media\\_Releases/New\\_inquiry\\_-\\_Australia's\\_local\\_government\\_sustainability](https://www.aph.gov.au/About_Parliament/House_of_Representatives/About_the_House_News/Media_Releases/New_inquiry_-_Australia's_local_government_sustainability))

<sup>5</sup> LGASA 2019, *Financial Sustainability*



in local government. The grants were thus intended to support all councils but with a specific bias towards those that must contend with additional service delivery costs or 'exogenous' revenue raising constraints.<sup>6</sup>

FA Grants are not tied to terms and conditions, non-competitive, and can be used by councils at their discretion to meet the needs and priorities of local communities. Therefore, if they are maintained at the right level, they support the principles of participatory democracy by allowing local communities to make their own decisions. All councils depend on these grants to deliver local services and infrastructure that enable changes to improve the liveability of local communities. The grants are a primary contributor to local employment and the development of the workforce through apprenticeships and traineeships. Devoid of these grants, local governments would either need to generate additional revenue to maintain required service levels or decommission infrastructure and reduce services to communities to remain financially viable.<sup>7</sup>

FA Grants contribute more than 10 percent of the total operating revenue of 50 percent of councils in Australia. For 23 percent of councils in Australia (or 123 local government bodies), the FA Grants contribute more than 20 percent of total operating revenue. This shows that local governments rely upon FA Grants for financial sustainability. The reliance upon these grants is much more for remote councils with FA Grants contributing more than 20 percent of the total operating revenue for 42 percent of rural agriculture councils and 40 percent of rural remote councils.<sup>8</sup>

This reliance notwithstanding, FA Grants have declined from 1.2 percent of Commonwealth revenue in 1993-94 to 0.53 percent in 2021/22.<sup>9</sup> FA Grants are usually indexed to CPI. However, this does not accurately reflect movements in input costs for services provided by councils. These are largely dependent on wage, construction and material costs. Indexation of FA Grants was frozen in 2014 to 2016. Despite restoration of indexation in 2017, the effect of the freeze is still felt on the base level of grants.<sup>10</sup> The AEC Group estimates a shortfall of \$3.5 billion in FA Grants to achieve horizontal equalisation, thus provision of average services to all Australian communities.<sup>11</sup>

An ALGA survey of CEOs/General Managers across the local government sector found that council services that are most reliant upon FA Grants include:

- protecting communities from natural disaster;
- response to climate change; public safety;
- provision of recreation and open space activities;
- library and educational services;
- provision of community events and festivals;
- equitable access to services;
- healthier communities; and
- support for at risk populations.

Infrastructure most reliant upon FA Grants include:

- unsealed road maintenance;
- sealed road maintenance;
- stormwater drainage; and

<sup>6</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, Page 22

<sup>7</sup> Australian Local Government Association (ALGA) 2022 *Financial Assistance Grants*, Prepared by AEC Group, Page 1

<sup>8</sup> Australian Local Government Association (ALGA) 2022 *Financial Assistance Grants*, Prepared by AEC Group, Page 2

<sup>9</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, Page 22

<sup>10</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, Page 22

<sup>11</sup> Australian Local Go

- footpaths and cycle paths.

All survey participants noted that they required certainty in FA Grant funding to be able to plan effectively to deliver services, plan and support growth and for the ongoing financial sustainability of their councils. Certainty around the FA Grants is vital as SA councils as they are legislatively required to have a long-term financial plan covering a 10 year period.

Additionally, from a productivity perspective, the practice of having under-resourced councils navigate the costly process of grant applications with no guarantees of what they will receive is far less productive than having a stable, non-competitive grant process that is still based on due process and sound rationale. Further, smaller councils often don't have capacity and capability to develop the bids and are challenged with implementation of significant projects. Therefore, the SA local government sector acknowledges that grants from other spheres of government are most beneficial when untied and available unconditionally for a wide range of purposes.<sup>12</sup> Specific purpose funding typically fund infrastructure or temporary programs, are allocated based on Federal or State/Territory priorities and does little to support the financial sustainability of local government services.<sup>13</sup>

The SA local government sector shall continue to welcome grants from federal/state governments and negotiate terms that will most benefit local communities. The LGASA therefore reiterates ALGA's calls for the federal government to restore FA Grants to at least one percent of Commonwealth taxation revenue and provide councils with an additional once-off payment of \$3 billion to address the practice of bringing forward payments.<sup>14</sup>

## The Increasing Challenge of Reduced Financial Assistance Grants

Councils constantly balance available resources with both current and future needs. Councils across South Australia, on behalf of their communities, will always have desires beyond their finite resources. However, councils currently are facing significant pressures because of the reduction in FA Grants.

The value of FA Grants provided to local government has declined from approximately 1 percent of Commonwealth taxation revenue to around 0.55 percent over the past three decades. This included a decision to not index financial assistance grants at all between 2014-15 and 2016-17, which not only cost councils and their communities necessary funding support in those years, but lowered the base funding for all future years.

The pressures from reduced FA Grants are amplified in regional and remote communities, where the capacity to fund services from rate payers is limited due to lower population densities and other factors. Some of the challenges created by reduced FA Grants are:

- Pressure for councils to maintain core services needed by their communities.
- Pressure for councils to raise rates to compensate for declining grants, which may not be possible for communities that do not have the capacity to pay.
- It compromises the horizontal fiscal equalisation principle that FA Grants are designed to support, as councils may need to either raise rates or cut service levels, providing an inequitable outcome between communities.
- Reducing services levels to lower costs.

<sup>12</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, Page 23

<sup>13</sup> Australian Local Government Association (ALGA) 2022 *Economic, Financial, and Social Benefits of Local Government Financial Assistance Grants*, Prepared by AEC Group, Page ii

<sup>14</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, Page 23



- Facing trade offs between maintaining existing assets valued by communities versus investing in new assets which may contribute to greater economic development and increasing population.
- Inability to fill gaps in critical services where they are not provided by the government or private sector (e.g. medical services and childcare)
- Reduced ability to invest in the future (technological changes, new assets to attract investment, upgrades), which limits innovation and economic development.

Although any increase in FA Grants will not alleviate the need for trade off decisions because of finite resourcing, it will reduce the pressure and provide greater long-term stability for councils.

## Financial sustainability – the leading risk in local government

For the past five years, South Australian council CEOs and General Managers have identified financial sustainability as the number one risk in local government. This result comes from annual surveys conducted by JLT and reported in its annual Public Sector Risk Reports.<sup>15</sup>

Key factors of concern raised in relation to financial sustainability in the survey are the:

- increases in the volume, scope and quality of services over time;
- cost of upgrading or betterment of infrastructure and the ability to appropriately manage assets, particularly with the challenge of attracting trades to carry out the works required;
- reduction in untied FA Grants from one percent of commonwealth taxation revenue in 1996 to approximately half a percent today. This is despite population growth, increased responsibilities, along with the surge in disasters, catastrophes and the working in the post-Covid workplace; and
- transfer of responsibilities from state and federal governments to local government. Often described as cost shifting, the respondents to the risk survey ranked this as the leading issue underpinning financial sustainability.

The financial sustainability risk exists despite councils benefiting from the relative stability of general rates which increase modestly most years. These increases are quickly offset through cost shifting, the escalating cost of meeting community expectations, maintaining and upgrading key public assets and supporting economic growth. This combination of factors presents council executive teams and elected members with major planning and budgetary hurdles year-on-year. These challenges are made more complex in a tight labour market that makes recruiting appropriately qualified and experienced employees very difficult.

In South Australia, councils also have responsible for the care and maintenance of state-owned assets, e.g. foreshore land, jetties, historic buildings. These assets can be expensive to maintain and replace but are seen as a critical asset to a town's tourism and local economy. When closure occurs, the impacts on the community are significant.

<sup>15</sup> The 2023 JLT Public Sector Risk Report is available at <https://www.marshmclellan.com/content/dam/mmc-web/insights/publications/2023-jlt-public-sector-risk-report.pdf>

### **CASE STUDY - LOOKING AFTER STATE ASSETS – TUMBY BAY JETTY**

Tumby Bay Jetty is a vital focal point for the town, offering daily enjoyment for residents and tourists. The Jetty is a state government asset that has been leased to the small rural Council and has been closed for nearly two years due to significant damage, with no imminent plans for repair.



This long-term closure has had far-reaching consequences for the community and the local economy as the Jetty is a vital attraction for tourist (across the SA, Jetties contribute more than \$100 million to the state economy This has resulted in less spending in local businesses and the community has lost their recreational leisure opportunities.

Urgent action is required to repair the Jetty but the estimated cost of \$4 million (about equivalent to the Council's total annual general rates) is beyond the financial capacity of Council. To reflect the importance of this asset to the community, the Progress Association contributed \$75,000 to put towards an interim solution for the Jetty.

## **Productivity and efficiency of local government as a service provider**

Local government delivers a broad array of services across the following areas, including:

- Place making, social infrastructure and visitor economy – safe streets, culture and arts, place quality/attractions, sport and recreation infrastructure and services, halls, camping grounds and caravan parks, tourism infrastructure;
- Infrastructure and assets - local roads, bridges, footpaths, drainage and buildings, clean street, cycleways and paths, green space networks;
- Circular economy – management of landfill, resource recovery and re-use, waste collection, management and education;
- Public health services such as wastewater management, food inspections, immunisation services and nuisance and litter control activities;
- Community services, such as childcare, aged care, youth activities, disability access and inclusion, multicultural and First Nations activities, community care, transport, supporting homelessness and welfare services;

- Economic development such as tourism, small business support and affordable housing;
- Planning and development - strategic planning for housing development and employment areas, infrastructure co-ordination to support development, development approvals, separation of incompatible uses and building inspections, licensing, controls and certification;
- Provision and management of facilities, such as aerodromes, ports and marinas, cemeteries, parking;
- Climate mitigation and adaptation – emergency management and recovery, renewable energy networks, construction of mitigation works, mapping and management of climate change hazards, regulated retreat;
- Business clusters and innovation – business incubators, business angels, promotion of local business districts;
- Cultural facilities, such as libraries, art galleries and museums, and community events;
- Water and sewerage services; and
- Other services, such as dog and cat management, business operations (ICT, finance, asset planning, etc.)

If these key areas are broken into individual services, they represent over 100 services delivered to community.<sup>16</sup> Local government role as a service provider is essential in supporting strong, resilient, productive, safe, healthy and liveable communities. The sector (19 metropolitan and 49 regional councils) in SA collectively manages \$28 billion in infrastructure and assets, 75,000 km of local roads, 140 libraries, over 5,000 parks and employs over 11,000 South Australians. A sustainable, productive and healthy local government sector is important to communities as ‘consumers’ of municipal services.

Ideally, local government’s service provision should be governed by the subsidiarity principle where councils have full discretion over the tax/spend trade-offs in genuinely local matters ranging from infrastructure provisions to execution of regulatory functions and service delivery. Relatedly, where local government is providing services on behalf of higher spheres of government because of its local knowledge and adaptability, it ought to be treated as an equal partner.<sup>17</sup>

However, local government’s productivity in delivering its wide range of services is impeded by social, economic, demographic or environmental changes (i.e. structural change) that create financial, governance and/or infrastructure and service delivery challenges. For instance, councils may be left with an insufficient tax or skills base to support service provision due to population decline or a shift in the local economy.<sup>18</sup>

Notwithstanding the above challenges, local government is an efficient provider of government services, when compared to state and federal governments. ALGA’s 2022 submission to the Local Government Productivity Inquiry referenced research conducted by SGS Economics which indicated that:

*“... household, business and property services provided by local government have high efficiency which generate value [...] compared to the service provision of Territory, State and Commonwealth productivity”.<sup>19</sup>*

Further evidence of local government’s careful and effective stewardship of public resources is found in satisfaction surveys where local government regularly outshines the State and Commonwealth in terms

<sup>16</sup> For example, the City of Burnside lists its 106 councils services at <https://www.burnside.sa.gov.au/About-Council/What-Does-Council-Do>

<sup>17</sup> Australian Local Government Association 2022, Research for Submission to Productivity Commission’s Productivity Inquiry, Prepared by SGS Economics and Planning, Page 6

<sup>18</sup> Australian Local Government Association 2022, Research for Submission to Productivity Commission’s Productivity Inquiry, Prepared by SGS Economics and Planning, Page 6

<sup>19</sup> Australian Local Go

of trust, which is reflective not only of accountability and accessibility, but also faith in the delivery of service.<sup>20</sup>

Notably, the South Australian Productivity Commission (SAPC) 2019 Inquiry into Local Government Costs and Efficiency found during its:

*“... analysis of council efficiency [...] that compared with each other, most councils [in SA] achieved high levels of relative efficiency...”<sup>21</sup> though “...further significant improvements were possible”<sup>22</sup>*

SAPC concluded that:

*“... increases in the volume, scope and quality of services have been significant drivers of the sector’s expenditure over the last decade. This is true of both mandated (or legislated) and non-mandated services and is likely to be strongly influenced by decision making at the local level.”<sup>23</sup>*

The SAPC comments confirm that, while local government expenditure has been stable and well below the cost increases of State and Federal Government, its expenditure growth is largely driven by expanding services rather than inefficiency.

Research commissioned by LGASA also highlights that, compared to state and federal governments, the public perceive local government as having less red tape, less difficult to work with and is more trusted. This research, conducted by Hudson Howell in 2023 from a survey of over 1,000 residents across metropolitan and regional South Australia, supports the findings of SGS Economics and SAPC that local government is efficient and delivers public value.

Local government can play an even stronger role in boosting our nation’s productivity if the challenges of subsidiarity and structural change identified above are successfully addressed in state and commonwealth funding arrangements and legislation.<sup>24</sup>

## Financial constraints and cost pressures

Notwithstanding the high efficiency of local government in providing community services and meeting community expectations, the sector faces severe financial constraints and cost pressures. In 2022 alone, there was more than 500 disaster support declarations across 316 local government areas. Councils work hard to support their communities through flooding, heat waves, bushfires and cyclones but face severe financial challenges following major emergency events that impact on their capacity to support communities.<sup>25</sup>

<sup>20</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 3

<sup>21</sup> South Australian Productivity Commission 2019, *Inquiry into Local Government Costs and Efficiency – Final Report*, November 2019, page 10

<sup>22</sup> South Australian Productivity Commission 2019, *Inquiry into Local Government Costs and Efficiency – Final Report*, November 2019, page 10

<sup>23</sup> South Australian Productivity Commission 2019, *Inquiry into Local Government Costs and Efficiency – Final Report*, November 2019, page 14

<sup>24</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 8

<sup>25</sup> Australian Local Go



### **CASE STUDY – MID MURRAY COUNCIL, THE RURAL PERSPECTIVE**

ESCOSA in its 2022-23 advice to the Mid Murray Council found the Council's "financial position as potentially unsustainable due to recurring operating losses from rates and other revenue unable to meet service requirements of its assets."<sup>26</sup>

The Council is receiving only 36 percent of the Local Government Grants Commission's assessed financial assistance income needed from the Commonwealth Government, a shortfall of \$7 million in 2023/24. The consequence of this is that Council is currently consulting with its community about potential service reductions, closures of an office and critical community assets such as libraries, pools and standpipes.<sup>27</sup> The Council's position is that appropriate federal grant funding is absolutely vital to its survival and for their communities to have any hope of having any kind of facilities or infrastructure into the future<sup>28</sup>.

The impact on regional communities within this Council is deeply concerning if essential services are cut as a result of inadequate FA Grants and an inequitable rates system. The mental health impacts are alarming, particularly given that the suicide rate within Mid Murray is already more than double the regional average. Many sporting clubs and communities are currently in dire need of support from the Mid Murray Council, but Council simply cannot afford to offer support.<sup>29</sup>

Compounding the funding pressures, SA Government regulations prevent councils from levying rates in a way that promotes equity across its community and which would provide relief to its residents and Council finances. In particular, councils are prevented from levying rates on electricity generators, resulting in other residents cross-subsiding those businesses and paying unnecessarily high rates. According to the Council's Mayor, an energy company is about to invest \$130 million in a solar and battery farm within one of the Council's towns. The valuation of this investment is equivalent to an entire town in the region, yet Council cannot rate the electricity generating equipment and plant of this company.

The exemptions afforded to electricity generators are unjust and gives the electricity generating industry preferential treatment over all other ratepayers while contributing financial pressures on councils.

Since 2022, the Essential Services Commission of South Australia (ESCOSA) has been responsible under the Local Government Act 1999 for providing advice to South Australian councils on their long-term financial plans and asset management plans. This scheme operates on a four-year cycle, with around a quarter of all councils being reviewed by ESCOSA each year.

In its latest statutory advice to local government (2023-24), ESCOSA identified five out of 17 councils as potentially unsustainable. For 2022-23, ESCOSA found six out of 15 councils as having sustainability issues. About a third of all councils reviewed have been advised that they are at risk of being financially unsustainable. In many cases, the advice is confirming known challenges for councils to maintain and renew critical assets, recommending a focus on maintenance of existing assets as distinct from investing in new assets.

<sup>26</sup> Essential Services commission of South Australia (ESCOSA) *Council Advice 2022-23 – Mid Murray Council*. See <https://www.escosa.sa.gov.au/advice/advice-to-local-government/council-advice-2022-23>

<sup>27</sup> Simon Bailey (2024). *It's time for a more equitable rates system*. Murray Pioneer – 17.4.2024

<sup>28</sup> The Murray Valley Standard. *A Sustainable Future For All*. The Murray Valley Standard. 18 April 2024.

<sup>29</sup> Simon Bailey (2024)

New infrastructure grants, while important for delivering new services to communities, can exacerbate financial sustainability challenges as councils must fund the ongoing costs of operating and maintaining those assets, but without further grant funding to support it and limited ability to raise rates to fund it. An increase in FA Grants would help alleviate this situation.

The cost pressures impacting councils' financial sustainability also include cost shifting, declining and ad-hoc grants from higher levels of government, inflationary pressures and management of an increasing number of depreciating assets.<sup>30</sup>

Councils have some limited capacity to increase revenue such as rates and some user charges and do not have access to a growth tax that would allow councils and their communities to share in the prosperity of the economy. However, there is a pervasive culture of keeping rates low, excessive exemptions and concessions in rating systems and statutory limits on fees and charges that prevent full cost recovery. In fact, AEC identified that if FA grants were totally removed and council increased rates to cover the loss, rural agriculture councils (about 40% of LGAs in Australia) would need to increase by 41 percent and rural and remote councils (about 14 percent of LGAs in Australia) would need to increase by 30 percent<sup>31</sup>. These challenges are further compounded for regional and rural councils due to their small rating base and a lack of options to raise revenues from 'commercial' activities. For more metropolitan councils, the additional challenges come from growth pressures. Therefore, councils need external funding support from both the state and federal governments.

Adding to the cost pressures is that many local councils are tackling issues beyond their traditional remit without associated funding. Underfunded council services generate social costs that put further pressure on budgets, degrading services often resulting in community outrage. This hurtful cycle is an engine of political disaffection that over time corrodes confidence in democracy. As local government's role continues to evolve so must the funding mechanism that enable the sector to function.

## Reassignment of Responsibility without Funding

Notably, the federal and state governments are increasingly leaning on local government to deliver many of their priorities, often with low or no funding to do so. This shifting of costs or responsibilities to local government from higher tiers of government work against the statutory requirements in SA. This requires the use of ratepayer's contributions that would otherwise be used to provide services to the community.

Cost-shifting occurs when state and federal governments force councils to assume responsibility for infrastructure, services and regulatory functions without providing sufficient supporting funding. Cost-shifting is inconsistent with open, responsive and accountable government. Examples include:

- other spheres of government require provision of concessions and rebates with no compensation payment, e.g. mandatory rebate example below, zero rates for renewable energy infrastructure;
- services are formally referred to, and/or are assigned to local government through legislative and other State and/or Federal instruments without corresponding funding;
- local government is required to be the sole provider of essential/important local services that clearly contribute to local, regional, state, and national public good.
- local government is required to be the sole provider of new and innovative services that have no historical funding precedent.

<sup>30</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 21

<sup>31</sup> AEC Group Ltd. (Ja



- local government is required to 'pick-up' services because of the direct transfer of 'ownership' of infrastructure from another sphere of government e.g. jetties.
- local government becomes the provider of last resort where state or federal government have not or are not providing the right level of service for the community e.g. homelessness, hording and squalor, attraction and retention of doctors;
- government policies are imposed that require local government to undertake costly compliance activity;
- federal and state government changes in funding arrangements resulting in local communities paying for the services through rates e.g. libraries funding, waste levy;
- fees and charges that local government is permitted to apply, for services prescribed under state legislation or regulation, are not indexed or have no relevance to the costs to deliver the services (see Revenue Leakage below).

When costs are shifted, responsibility and blame are also shifted. Many ratepayers are not aware of the costs from other levels of government that are being passed on to them through their council rates or a reduction in service levels or service quality. The growing burden of state and federal government costs shifted to local government puts upward pressure on council rates. Council budgets are being squeezed by cost shifting combined with state government restrictions on council revenue raising. Cost shifting creates uncertainty for local government and makes planning and budgeting for delivery of facilities and services more difficult.

#### **CASE STUDY – COUNCILS PICKING UP ROLE OF OTHER TIERS OF GOVERNMENT**

There are many services provided by councils as a result of gaps in service delivery from higher tiers of government which add to the cost pressures confronting the sector and attendant adverse impact on its financial sustainability. For example, addressing homelessness is one such area where local authorities have had to step in; it is discretionary spending and not core council business.

High house prices relative to income, record low rental availability and ongoing issues relating to rental affordability across all local government areas in SA are driving an increase in overall homelessness. Regional and rural councils are particularly impacted by the lack of government funded support services to assist in managing issues relating to homelessness, leaving councils to provide some of these critical services. Councils are also noting that community facilities such as libraries and community centres are increasingly being called on to support users with complex needs. This places a greater pressure on resourcing these services and additional support to a workforce that has not traditionally been required to provide such supports.

Funding for homelessness services is provided by the Commonwealth and State and Territory Governments under the National Housing and Homelessness Agreement (NHHA). As homelessness becomes more visible in the community, residents and businesses expect someone to do something and their first call is often to the local council. The cost to councils associated with homelessness includes staff resourcing across multiple sections: street regulatory teams, street clean up, social planning, customer services, community services, and libraries among others. Additional costs include storage of abandoned goods, rubbish disposal, and repairing street furniture.

The following demonstrates how councils have dedicated ratepayer funds to improve homelessness in their communities:



- The City of Port Adelaide Enfield has run the Reconnect Program for young people experiencing homelessness.
- The City of Salisbury funds and employs a full time Social Planner whose focus is on homelessness responses, connection and coordination.
- The City of Adelaide adopted a Homelessness Strategy that includes resourcing social workers in their libraries to provide services to vulnerable community members.

Evidence of the impact of cost-shifting can be seen through research carried out by Local Government NSW and the Local Government Association of Queensland. Their research independently found that significant additional costs were shifted from state, territory, and federal governments onto councils each year with no commensurate funding to support the new services. For example, in Queensland, between 2002 and 2021–22 cost-shifting increased from \$47 million to \$360 million, a 378 percent increase. The latest report on cost-shifting from Local Government NSW that was released in November 2024 estimates the total cost shift to councils at \$1.36 billion.

The LGASA has recently commissioned research to identify the costs to local government in SA of such shifting of responsibilities, with low or no funding support from the state and federal governments. As an example, the costs to the SA local government sector amounted to \$32 million in the 2019-20 financial year because of the 75 percent to 100 percent mandatory rebates that are made available to community housing providers, religious institutions, providers of education and health services, cemeteries and zoos. The figures are much higher when it pertains to exemptions or zero rates—afforded to universities, crown land, sports and recreational facilities, emergency services organisations, etc., with the City of Adelaide alone forgoing \$34.7 million in the 2022-23 financial year.

Cost-shifting reduces funding available to provide council services and is a key factor contributing to reduced local government sustainability.

## Revenue leakage

Councils can impose fees and charges on users of specific services where they deliver benefits for an individual or household (e.g. car parking, dog registration) rather than a service available to all ratepayers or visitors (e.g. access to library, visitor information centres, parks and gardens maintenance). In SA, many of the fees and charges for council services are set by the State Government. Fees set in this manner are a significant revenue leak because a lack of regular review (fees may remain at the same nominal levels for decades), lack of indexation and lack of a transparent methodology in setting the fees (fees do not appear to be set regarding appropriate cost recovery levels).<sup>32</sup>

In SA, some of these fees are usually raised at a rate close to the consumer price index (CPI). However, over time there has been a growing discrepancy between the cost to councils of providing certain services and the fees that the council is entitled to charge for that service. Since councils do not have control over the determination of fees set by statute, this revenue leakage is recovered from rate revenue, meaning all ratepayers are subsidising the activities of select developers, businesses and specific users.

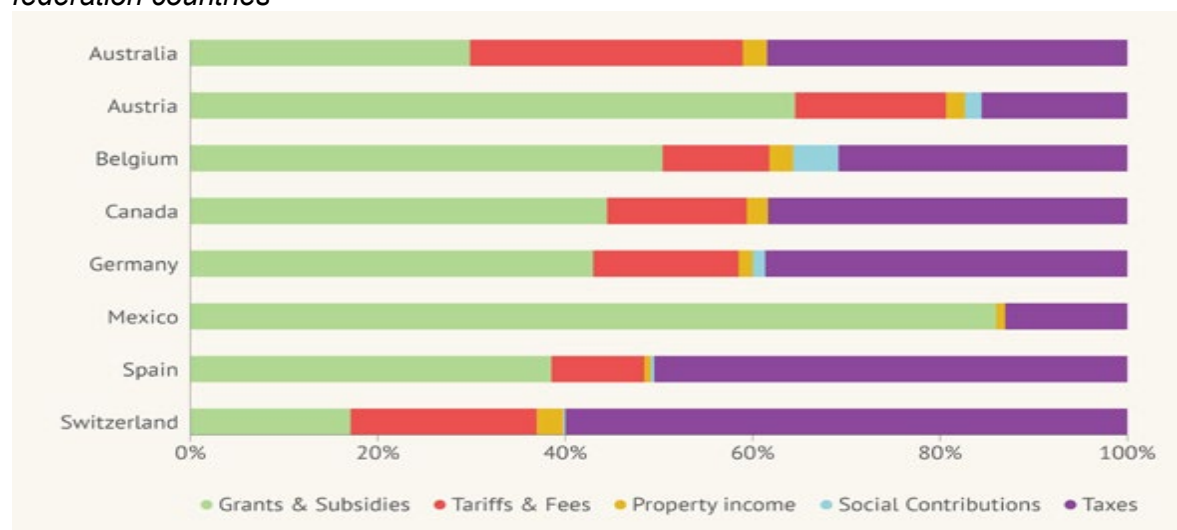
## Australian Local Government at a Disadvantage – An International Comparison

Investment in Australian councils is low by international standards, and this is constraining local governments' capacity to deliver core services. Internationally, Australia shares less resources to local

<sup>32</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*. Prepared by SGS Economics and Planning, Page 22

government, resulting in councils operating with very modest resources, which hinders the sustainability of the sector.<sup>33</sup> Compared to other OECD nations with central, subnational and local levels of government, Australia has the second lowest local government expenditure as a percentage of GDP at 2.4 percent. Canada's local government expenditure as a percentage of GDP was 8.8 percent, over 3.5 times that of Australia. Similarly, Australia has the second lowest local government expenditure per capita.<sup>34</sup>

*Figure 1. Revenue source as a share of total local government revenue in federations and quasi-federation countries*



Source: OECD Cities and Regions Statistics (2019)<sup>35</sup>

Figure 1 demonstrates that Australia has the second lowest grant and subsidies revenue share out of their total local government revenue, with almost 30 percent and the largest share of tariffs and fees as a revenue source, at 29 percent. Remaining revenue originates from taxes with a 38.5 percents share of revenue and property income with 2.6 percent. There are no social contributions. This shows that in other comparable nations, there is a larger reliance on stable funding coming from higher spheres of government.<sup>36</sup>

Local government in SA recognises the fiscal limitations of being only four percent of taxes compared with the 80 percent collected by federal government and 16 percent collected by state government. Even with the meagre resources compared to state and federal government, local councils work hard to deliver the services that communities expect from ratepayers' money. In fact, up to 80 percent of the public services delivered within communities across SA are delivered by local government.

The local government sector in SA acknowledges that the amount of funding from federal government in terms of special purpose grants and grants for priority projects is below the national average and that tax revenue shares and how revenue is distributed should always be considered. The SA local government sector shall continue to maximise contributions and investment from other tiers of government to contribute toward local government financial sustainability and ultimately toward more liveable communities. In due course, there needs to be a shift in the tax take from the Commonwealth

<sup>33</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning

<sup>34</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, Page 17

<sup>35</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 24

<sup>36</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, Page 24



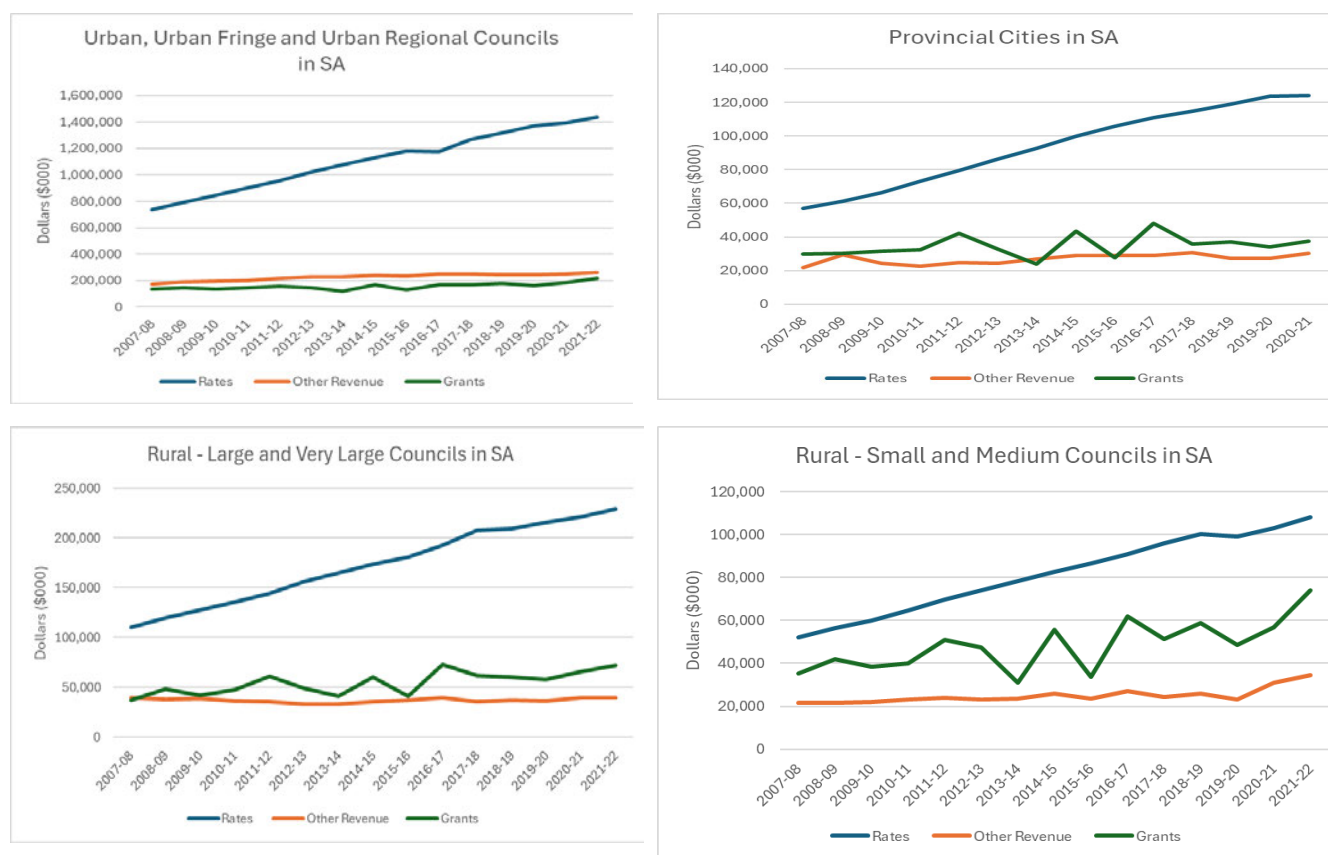
to local communities through councils. This should commence immediately with an increase to at least one percent of Commonwealth tax revenue.

## Regional and Remote Councils

Regional and remote councils in South Australia are more reliant on grants for funding operations than urban councils. Around a third of total operating income for small and medium rural councils comes from grants. For urban councils, around 10 percent of total income comes from grants. These proportions have stayed relatively constant over the past fifteen years and highlight the disparity in revenue sources between urban and rural councils.<sup>37</sup> It shows that grants are especially critical for rural councils in delivering ongoing services to their communities.

Though financial sustainability is the number one risk for local government, councils in regional, rural and remote locations, with small ratepayer bases and extensive road networks, often face additional challenges.

The following figures show that council reliance on grant funding increases the further you move away from cities and urban areas<sup>38</sup>:



<sup>37</sup> Source: council data reported to the SA Local Government Grants Commission.

<sup>38</sup> South Australian Gr

## CASE STUDY – RURAL COUNCIL COMPARED WITH A METROPOLITAN COUNCIL

There are several issues faced by rural councils that make financial sustainability a challenge. For example, the Yorke Peninsula Council has 3,890 kilometres of roads to manage and renew. Crop farming is a key economic activity and this places significant heavy vehicle pressure on Council's road network. It has 12 large towns and 33 smaller townships that are predominately located around the coastline with 11,922 people residing in the Council area. There are 485 kilometres of coastline that have 12 jetties and 33 boat ramps included in the total community assets valued at \$304.5 million. The road network and other community assets on the coast are used by the 520,800 visitors who come to the area but generally do not contribute directly to Council revenue. Their ability to raise rates and seek other revenue raising opportunities is limited.

This is compared with the City of Burnside, a metropolitan council that has 243.85 kilometres of road to manage and renew. It is a homogeneous area with no coastline and services a residential population of 47,444. The City of Burnside has \$866 million in infrastructure, property, plant and equipment. It has residents with a greater capacity to pay rates and can seek other revenue raising opportunities that are not available to Yorke Peninsula Council.

LGASA notes that nine out of the 11 councils found by ESCOSA under its advice scheme to be potentially unsustainable are smaller councils. Of the other two, one is a regional city and the other is a large metropolitan council. A key factor is that regional and remote councils usually have a sparse and ageing population indicating a significantly smaller ratepayer base while covering a large geographical area. This means higher cost per capita in the delivery of essential services like water, sewerage and roads. This is exacerbated by falling population in many remote councils. 70 percent of remote councils saw a population decline from 2014 to 2018 compared to 38 percent of all local government areas.<sup>39</sup> This is putting financial sustainability at higher risk in remote councils.

The decline in ratepayer base considerably affects the financial stability of remote councils. Empirical analysis has shown that a key threat to the financial sustainability of remote councils is the long-term inability to maintain assets to an adequate level. This presupposes that remote councils will be reliant on state and federal government grants to remain sustainable.<sup>40</sup>

Fiscal constraints for remote councils resonate through the local economy through foregone output and employment. Moreover, the Australia Institute notes the stimulatory effect of local government expenditure and employment in regional areas, where the work of local government investment contributes a much greater share of economic activity than in metropolitan areas. The benefits for the nation from the rural council area towards the economy, such as food production, fishing, tourism, need to be considered and supported through appropriate funding mechanism. This contribution ought to be acknowledged as a serious risk if that source benefit becomes constrained (e.g. cannot move food from farms due to the quality of the local road network).<sup>41</sup>

## Comparison of Inflationary Pressures Measures

Councils in SA have two measures of inflation that they can compare and use in setting changes in rates each year. The council can use Consumer Price Index (CPI) or the University of Adelaide Local

<sup>39</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 24

<sup>40</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 24

<sup>41</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 24



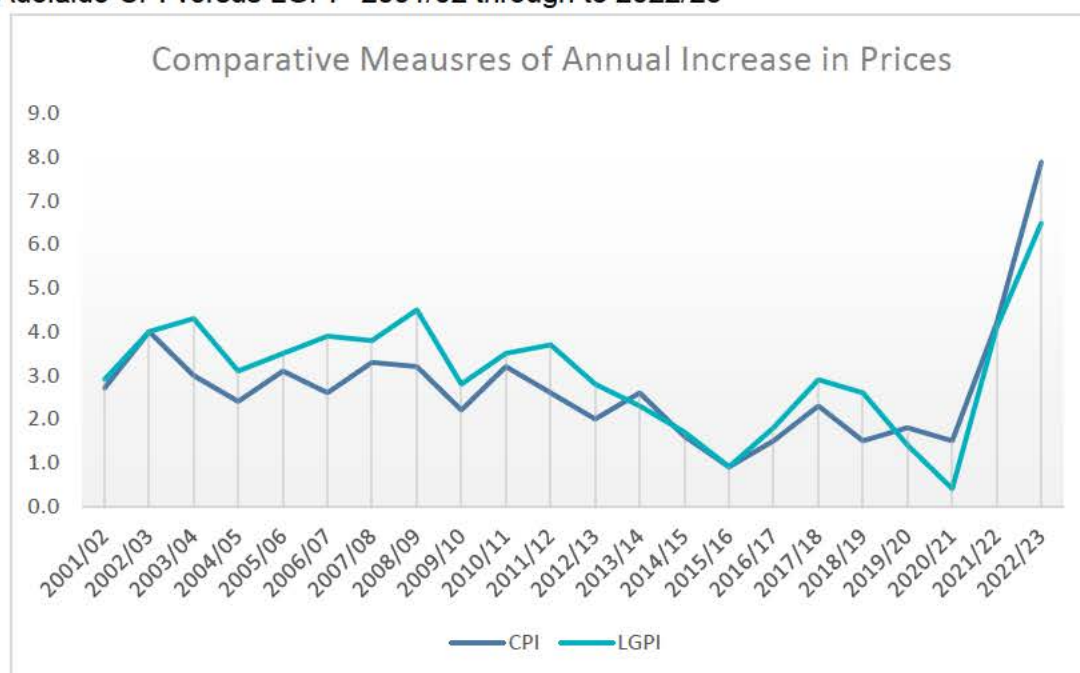
Government Price Index (LGPI). The use of the most appropriate measure to manage changes in prices is vital as the compound impact on council finances over time is significant.

Goods and services consumed by households are quite different from that purchased by local governments. Therefore, price movements faced by households differ from those faced by local governments. Consequently, price movements measured by CPI, a measure of changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by metropolitan households, will therefore not accurately reflect price movements faced by local governments.<sup>42</sup>

To accurately reflect the price movements faced by councils in South Australia, the South Australian Centre for Economic Studies of the University of Adelaide prepares the LGPI. The LGPI is a chained Laspeyres price index which represents an arithmetic average of the pure price change of items based on expenditure patterns on the previous year. The LGPI, is a more reliable and independent measure of price movements faced by councils in SA. It is relevant to note that the LGPI was originally prepared by the Australian Bureau of Statistics (ABS) and provided by the ABS until the September quarter 2009.<sup>43</sup>

The following figure compares the CPI annual change to the annual change in the LGPI. Mostly, the LGPI is generally higher than CPI reflecting a higher cost to operate a council when compared to changes in household costs. There are only five of the 22 years in the attached graph where LGPI is less than CPI. In particular,

Figure 1. Adelaide CPI versus LGPI –2001/02 through to 2022/23



Source: The South Australian Centre for Economic Studies<sup>44</sup>

As can be seen from Figure 1, whereas the Adelaide consumer price index rose by 80.7 points for the period under consideration (2000/01 to 2022/23), the local government price index increased by 93.8 points.

<sup>42</sup> Local Government Price Index (2024) *Local Government Price Index*. See <https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index#local-government-price-index-annual-series>

<sup>43</sup> Local Government Price Index (2024) *Local Government Price Index*. See <https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index#local-government-price-index-annual-series>

<sup>44</sup> Local Government Price Index (2024) *Local Government Price Index*. See <https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index#local-g>



This indicates that inflationary pressures faced by local governments in SA is much higher than is reflected in the CPI. Indexing grants from the Commonwealth to local governments in SA using the CPI does not adequately accommodate the precise inflationary pressures facing the sector.

## Changing infrastructure and service delivery obligations of local government

Councils are constantly being asked to do more, by their communities and other levels of government but, aren't being resourced to deliver on these responsibilities. Research commissioned by ALGA shows that over the past decade local government expenditure per capita has flatlined, while spending by the other two tiers other government has continued to rise.

This is having a direct impact on the safety and liveability of communities across the country. For example, in 2023 the Grattan Institute identified local governments needed an additional \$1 billion per year to effectively maintain their roads. ALGA's 2021 National State of the Assets Report notes that 10 percent of local government infrastructure assets are in poor condition and need attention. Further, the Institute of Public Works Engineering Australia (IPWEA) estimate that three in every 100 local government assets may need to be replaced. According to the IPWEA, "replacing poor quality infrastructure will cost \$51 billion and replacing infrastructure in fair condition will cost between \$106 billion and \$138 billion".<sup>45</sup> <sup>46</sup>. A decision is urgently required as the cost to resolve is growing while the sector is seeking a decision. The Institute concludes that an "infrastructure renewal gap is prevalent, where assets deteriorate faster than councils can fund maintenance/renewal works."<sup>47</sup> It costs over \$35 billion to manage the total asset and infrastructure in councils.<sup>48</sup> In simple terms, the cost of replacing the assets in poor condition exceeds the total annual revenue available to local government.

Councils across the nation are responsible for approximately one third of the public sector assets and infrastructure.<sup>49</sup> Many councils have acknowledged that they do not believe they have the capacity to finance the management of infrastructure and assets and are therefore at risk of being financially unsustainable.<sup>50</sup> The SGS Economics report support this position as it found that "revenue constraints will drive local government to reduce asset levels to save on maintenance and depreciation costs", resulting in a reduction of community infrastructure. IPWEA suggests further that capability and capacity deficits can also increase inefficiency and costs.<sup>51</sup>

This is not a problem that started today, it is the manifestation of decades of trying to balance servicing today and preparing for the future. In some cases, it represents the lack of funding over time so that the only decision a council can make is to run down assets to fund current services. Being in this position is not good for the community nor the nation. It creates an imperative for a substantial expansion to the funding available to councils from other tiers of government to support all Australian communities.

As discussed previously, specific purpose grants, whilst representing an opportunity to leverage funds to carry out projects which may otherwise not be achievable, can work against local government's focus on renewal and replacement of existing assets as grant funding is predominately focused on capital 'new' works rather than 'renewal' or 'maintenance'. This is often an issue identified in the ESCOSA

<sup>45</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, Pages 1 and 23

<sup>46</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, Pages 1 and 23

<sup>47</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, Page 23

<sup>48</sup> JLT Public Sector Risk Report 2022/23, page 11

<sup>49</sup> JLT Public Sector Risk Report 2022/23, page 11

<sup>50</sup> JLT Public Sector Risk Report 2022/23, page 11

<sup>51</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 23

reports and reflection the fact that grant funding does not cover ongoing operating costs and therefore, create a further demand on the limited council resources. Often within grant programs there is also a requirement to provide match funding, plus there are the associated increase in interest costs, maintenance and depreciation following the construction of the asset.

Another consideration in terms of assets and infrastructure is the need for dependable and mature data that can support informed and robust planning and decision-making. It also must incorporate the fundamental and determinative interrelationship between asset management planning and financial sustainability. This component of the asset management cycle would be beyond the capacity and/or capability of many councils.

Grant funding is also often tied to a particular outcome or function (for example – funds must be used on open space or arts/culture projects). These areas may not be the highest priority area within a council's asset management plan however, in order not to miss out on funding opportunities, projects are brought forward or reprioritised.

## Attraction and Retention of a Skilled Workforce

Local government is a major national employer with over 190,800 workers in almost 400 occupations.<sup>52</sup> In SA, the sector employs 10,700 full-time equivalents as of 2021.<sup>53</sup> It plays a key role as an anchor organisation and in increasing productivity through utilising endogenous talent and innovation.<sup>54</sup> However, the sector encounters challenges in securing the right quantum and mix of skills to support local government service provision. This challenge considerably limits the productivity of the sector.<sup>55</sup> Councils have an important role in workforce development, both for local government productivity and that of their host regions. Challenges to delivery include:

- employee attrition and an ageing workforce are an ongoing and escalating problem;
- the workforce challenge has now become inextricably linked to the housing challenge, with the attraction of key workers limited for many communities if there is no housing available;
- limited availability of services for families in rural and regional communities e.g. choice of schools, medical services, lack of diverse shops; and
- barriers to workforce planning and management include a shortage of resources within local governments, a lack of skilled workers and the loss of corporate knowledge as employees resign or retire.

## Attracting and Retaining the Right Capacity and Capability

The 2022 Local Government Workforce Skills and Capability Survey (the Survey) found that nine out of every 10 Australian councils are facing jobs and skills shortages, with engineers, planners, building surveyors and environmental health officers all in high demand. Due to these skills shortages, councils resort to recruiting less skilled applicants for engineering, urban and town planning, building surveying and supervisor and team leader roles. Unavoidably, this has had negative repercussions for local government productivity.<sup>56</sup> Often councils can't afford to pay remuneration that's comparable to the private sector or other levels of government.

<sup>52</sup> Australian Local Government Association (ALGA) 2022 *2022 Local Government Workforce Skills and Capability Survey: South Australia Report*, Prepared by SGS Economics and Planning, Page 1

<sup>53</sup> Australian Local Government Association (ALGA) 2022 *2022 Local Government Workforce Skills and Capability Survey: South Australia Report*, Prepared by SGS Economics and Planning, Page 22

<sup>54</sup> Australian Local Government Association (ALGA) 2022 *2022 Local Government Workforce Skills and Capability Survey: South Australia Report*, Prepared by SGS Economics and Planning, Page 1

<sup>55</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, Page 1

<sup>56</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 29

Increasing turnover and reduced retention of long-standing employees works against local government productivity. It dissipates 'corporate memory' and diverts scarce resource to training and induction processes. Local governments have considerably older workforce with a declining participation level of workers under the age of 30. This is due in part to the regional and rural areas having a higher average age than the major cities. Low apprentice and trainee numbers, combined with existing skills shortages have led some councils to reskill or upskill existing workers. However, this will depend on resourcing and there is a view that lack of suitable local trainers, competing workloads and training costs may be prohibitive.<sup>57</sup>

The 2022 Local Government Workforce Skills and Capability Survey found that the key drivers of skill shortages in South Australia varied considerably and included the following:

- Budget constraints and an inability to compete with other sectors on remuneration;
- Provision of fixed-term contracts, when candidates were seeking greater job security;
- Challenges of competing against major infrastructure projects for labour;
- The pandemic's border closures and subsequent impact to skilled workers;
- Depth of the local labour market such that some neighbouring local governments were competing for talent; and
- Lack of employment opportunities for spouses, which make it less likely for a household to relocate.<sup>58</sup>

Compared to the 2018 Survey, the 2022 Survey found that a broader scope of factors were affecting skill shortages in SA, indicating that local governments in SA are contending with an increasing diversity of drivers that may exacerbate skills shortages.<sup>59</sup>

Regional, rural, and remote councils particularly also face additional issues securing skilled workers. This problem is compounded as they may find it impossible to find accommodation. This can be because of the increasing house prices in some locations. This has led to some councils in SA purchasing housing to assist in attracting and retaining the skill they need. Rural councils experienced the highest rates of employee turnover in both 2017 and 2022. Simultaneously, rural councils face the greatest challenges in attracting replacements due to remoteness, distance and the depth of skills, qualifications and educational opportunity in remote areas. While urban regional councils had the greatest proportion of workers exceeding 20 years of service, rural councils had the greatest proportion of newer (less than one year) workers.<sup>60</sup>

The SAPC 2019 Inquiry into Local Government Costs and Efficiency found, "difficulties in recruiting and retaining skilled labour and deficiencies in education and training systems have exacerbated labour cost pressures, particularly in rural areas".<sup>61</sup>

## Future workforce skills

The 2022 Local Government Workforce Skills and Capability Survey found that an ageing workforce, major council or external infrastructure projects and increasing levels of governance and compliance

<sup>57</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 30

<sup>58</sup> Australian Local Government Association (ALGA) 2022 *2022 Local Government Workforce Skills and Capability Survey: South Australia Report*, Prepared by SGS Economics and Planning, Page 42

<sup>59</sup> Australian Local Government Association (ALGA) 2022 *2022 Local Government Workforce Skills and Capability Survey: South Australia Report*, Prepared by SGS Economics and Planning, Page 42

<sup>60</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 30

<sup>61</sup> South Australian Pr

were among the factors that would most impact future skilling needs.<sup>62</sup> Other factors that would impact future skilling needs in South Australia include:

- Opportunity to study planning at a South Australian university;
- Training providers establishing a presence in regional areas; and
- The ongoing impacts of the COVID-19 pandemic.

Regarding how councils are responding to a changing workforce environment, less than 50 percent of survey participants noted that they analysed future roles and requirements. Quality data that reports on the whole of sector workforce profile will be crucial evidence to support relevant initiatives.<sup>63</sup>

Crucially, skills need to be transferred from more experienced local government employees to early-career employees. High staff attrition limits the transfer of knowledge, and the increase in hybrid/remote working may impede knowledge transfer.<sup>64</sup>

Remaining current with best practice or capturing the latest innovations requires both digital infrastructure and digital capability. While digital infrastructure is the technology underpinning organisations, digital capability means the human skills required within an organisation to use digital infrastructure.<sup>65</sup> This presents a significant challenge for SA councils in both the investment in infrastructure, training of the existing workforce and attracting and retaining the new skills. There needs to be funding certainty to allow the councils to be agile to take advantage of these innovations.

As technological enhancements enable more routine technical tasks to be automated, workplaces will increasingly depend on non-technical skills such as problem-solving skills, critical thinking and emotional judgement. Soft skills contribute to higher revenue, productivity and profitability across countries and industries. Soft skills provide more resilience for both workforce participants and organisations and are transferrable. Soft skills are now being included in education curriculums and being assessed across year groups in a similar style to NAPLAN testing. To be able to capture the benefits of such skills, councils will increasingly need to be able to attract and retain younger staff.<sup>66</sup>

In the Survey, local governments identified a range of resources and/or support that would help them to meet future skill needs:

- Funding assistance to support a larger training budget and to enable local governments to employ more trainees and apprentices;
- Greater availability of training options at reasonable costs; and
- Relationship-building with the education sector, which could help to raise the profile of regional employers.

There is a clear link between financial sustainability and having the right capacity and capacity to deliver services to SA communities, both now and into the future.

<sup>62</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 32

<sup>63</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 32

<sup>64</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 32

<sup>65</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 32

<sup>66</sup> Australian Local Government Association (ALGA) 2022 *Research for Submission to Local Government Productivity Inquiry*, Prepared by SGS Economics and Planning, page 32

## Conclusion

South Australia's 68 councils play a key role in building a productive and resilient nation and urge this Inquiry to recommend increasing untied funding to the local government sector as well as discouraging cost-shifting from the other tiers of government in Australia.

Services provided by local government have high efficiency which generate value, in comparison to services provided by territory, state and Commonwealth governments. Notwithstanding this high efficiency, Australia shares less resources to local government compared with other nations.

The allocation of less resources to the local government sector in Australia hinders the sustainability of the sector as well as Australia's productivity. Investing in local government as a trusted partner with the Commonwealth, state and territory governments will enable the local government sector to provide the services and facilities that communities need to deliver today's services and more efficiently and effectively prepare for the future.

Key to allocating more resources to the sector, which will enhance its sustainability, is to restore Financial Assistance Grants to at least one percent of Commonwealth taxation revenue. This would enable councils to build and support more resilient communities.

