

31 May 2024

Mr Luke Gosling OAM MP
Chair
House of Representatives Standing Committee on Regional Development, Infrastructure and Transport
Parliament House
Canberra ACT 2600

Dear Mr Gosling,

Submission to the inquiry into local government sustainability

I am pleased to provide the Australian Local Government Association's (ALGA) submission to the inquiry into local government sustainability. This submission underscores the vital role of local governments in ensuring the economic, social, and environmental well-being of communities across Australia.

Attached to this submission is a comprehensive policy analysis of the importance of local government financial sustainability in Australia.

ALGA represents a sector that employs nearly 200,000 people and manages assets valued at \$643 billion with an annual operational spend exceeding \$38 billion. Local governments are responsible for one-third of Australia's public infrastructure, including 77% of the national road network, 96% of public libraries¹ and collectively are one of the largest providers of childcare in Australia. This submission highlights local governments' critical role in providing essential services, managing public infrastructure, and supporting community wellbeing across Australia.

At the heart of this submission, ALGA makes five key recommendations for the Committee.

To achieve long-term, liveable and productive communities that better achieve national priorities, the Committee should recommend to the Federal Government:

- 1. Increase untied Federal Government funding for local government to at least 1 percent of Commonwealth taxation revenue to provide long-term financial certainty and security for local government in Australia.**
- 2. The Federal Government should have greater ambition and confidence in funding local government directly through existing Constitutional heads of power and establish a process for constitutional change that recognises local government in the Constitution.**
- 3. Recognise the essential role of local government in achieving national priorities across productivity, improved community wellbeing, reduced inequality, environmental protection, circular economy, emissions reduction, emergency management, increasing secure well-paid jobs, and building a skilled workforce.**
- 4. Extend local government's role in National Cabinet to permanent membership, including on all ministerial forums.**

¹ National and State Libraries Australasia (2023) Public Library Statistics 2021-2022

5. Make no changes to the formulas that determine federal funding distributions for local government that would reduce the quantum of funding received by any Australian council.

In addition to these recommendations, ALGA believes that to best support a strong local government sector, the Committee should adopt policy principles that recognise 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 unique role in preparing 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 adequate services in every community, delivered through strong local institutions.

Local governments are integral to economic, social, and environmental service delivery, enhancing community liveability and productivity. Research and analysis commissioned for this submission highlights the clear productivity and macroeconomic benefits of well-funded, financially sustainable local government. This analysis shows that:

- If local government were provided annually with an additional \$350 million for the maintenance and delivery of quality open space, Australia's gross domestic product (GDP) would increase by \$858.9 million each year.
- If local government were able to effectively increase its capacity to perform regulatory services in planning and building, there would be an annual saving of \$859 million for development proponents and would generate an additional \$1.67 billion in GDP each year.
- Increased block transfers of Commonwealth funds to local governments can deliver greater efficiency and administrative cost savings of \$236 million and would generate increase GDP by \$330.8 million each year.
- Reducing local government staff turnover can save \$425 million in avoided costs and lead to a \$619.9 million increase in GDP each year.
- Investing an additional \$1 billion each year into the maintenance of local government roads would increase GDP by \$354.6 million annually.

This analysis demonstrated clear positive economic gains that can be achieved through increased investment in local government services, service delivery and workforce capacity. However, these economic gains do not come for free. Local government needs long-term sustainable funding to ensure it can implement the services and programs required to realise potential productivity gains within their communities. Despite the clear economic contribution of local government, historical funding models do not maximise local government's capacity to drive economic development. These models have not kept pace with increasing responsibilities and cost pressures. While Financial Assistance (FA) Grants provide a base level of funding their value has not kept up with rising costs, particularly in construction and wages.

In many circumstances, the state and federal governments have considered changing the distribution of federal funding between councils to achieve greater funding parity. These changes would remove the minimum grant payment guaranteed to each council under the existing FA Grants framework. However, this change will not address the underlying issues of financial sustainability for local government, but will instead lead to perverse and unintended consequences.

The 2021 Queensland Local Government Grants Commission (QLGGC) provides a clear case study. In 2021 the QLGGC changed how it distributed FA Grant funding to Queensland councils. This change saw small, regional councils such as North Burnett Regional Council lose more than \$2 million over three years despite having the fifth largest road network in the state. The loss of this funding directly led to cuts to services in the council area.

The Committee should also be aware of how potential economic contributions are limited by activities that restrict council decision making, including rate capping. New South Wales and Victoria have implemented rate-capping systems that restrict the size of annual rate increases. These schemes dictate the maximum level at which local government can increase rates each year. This removes the ability of each council to make decisions relevant to their communities, instead relying on central, state government bodies to determine the rate of additional funding a council needs for its local community. Contrary to the rationale that rate-capping increases council efficiency, rate capping significantly burdens councils regarding their ability to raise revenues in line with their communities' increasing demand for services and amenities.

Beyond this economic analysis, this submission highlights that local governments are efficient and effective service delivery organisations hampered by a lack of long-term financial security and sustainability. This submission outlines the challenges and opportunities facing local government across Australia. A lack of financial sustainability is holding back local governments from delivering key outcomes for their communities, local and national economies, and national priorities. This is summarised in the following sections.

Local government is vital in building liveable communities, growing productivity, and driving economic success:

- Local government plays a crucial role beyond traditional services. It has evolved into a sophisticated provider of a wide range of services, including emergency management, health and safety, and economic development, reflecting their communities' unique needs and characteristics.
- They are pivotal in enhancing community liveability and economic success by managing community assets, supporting local businesses, and facilitating economic development strategies.
- Councils are instrumental in regional and local economic dynamics, contributing to Australia's productivity through strategic investment in infrastructure, workforce, technology, and climate adaptation initiatives.
- Councils act as first responders in crises and manage regulatory services that maintain public safety and community well-being, underpinning sustainable economic growth.
- Effective collaboration between local and federal governments is essential for cost-effective service delivery and achieving national goals, with local councils positioned as crucial, proactive partners in this endeavour.

Local government in Australia faces financial challenges due to outdated funding models and restrictive state policies:

- Local government in Australia primarily generates revenue through property taxes (rates), user charges for services like parking, and grants from state and federal governments. Rates and user charges constitute most of their independent revenue. The reliance on government grants is significantly higher in rural and remote areas.
- The current funding model is outdated, struggling to meet the expanding service demands and changing community expectations. This has led to a lack of financial sustainability of councils, impacting their ability to provide consistent service levels across different communities.
- Local governments face significant financial constraints due to state-imposed restrictions on its revenue-raising capabilities, such as rate capping and limits on fees and charges. These restrictions hinder local governments' financial autonomy and ability to respond effectively to local needs.
- Although crucial, the FA Grants from the Federal Government have not kept pace with the increasing costs faced by councils, especially in terms of infrastructure and service delivery. This has exacerbated financial pressures on local government.

- Cost-shifting from state and federal governments to local governments without adequate compensation has placed an additional burden on councils, forcing them to either cut services or find alternative funding sources, impacting the overall community's liveability and sustainability.

Local government manages essential infrastructure but face financial constraints and need improved funding support:

- Local government manages a significant portion of Australia's public infrastructure assets, including roads, footpaths, parks, and community facilities. These assets are crucial for communities' social and economic well-being.
- Despite its importance, local government is financially constrained and struggles to maintain these assets. Federal funding for local roads is inadequate and grant programs are burdensome and inefficient.
- The Roads to Recovery program is a good model for direct funding to councils for local roads. This provides councils with funding certainty and flexibility and enables them to align funding with local needs.
- Local governments play a vital role in operating regional airports, which require government support. These airports are essential for the economic, social, and medical wellbeing of regional communities.

Local government is essential in disaster management but need more resources and broader support for community resilience:

- Local government plays a critical role in supporting communities before, during and after natural disasters. This includes hazard mitigation, preparedness, response and recovery activities.
- Local government lacks the resources to prepare for and respond to natural disasters effectively. The financial burden of natural disasters is significant and there is a mismatch between the risks communities face and the resources available to councils.
- More funding is needed for mitigation efforts to build community resilience and reduce disaster risks. This would save money in the long-term by reducing the need for post-disaster recovery funding.
- The Federal Government's definition of essential community infrastructure must include community assets beyond essential services like roads and schools. This would help councils manage the financial risks associated with natural disasters.

Local government leads in climate action but require more funding to enhance emissions reduction and adaptation efforts:

- Local governments play a critical role in reducing greenhouse gas emissions and adapting to the effects of climate change. They are leading efforts in their communities through various initiatives and planning.
- Councils are actively reducing emissions through their operations and by engaging communities. Many councils have ambitious emissions reduction targets, and some have achieved carbon neutrality.
- Local government needs more funding to reduce emissions further and implement new initiatives. This funding would also create opportunities for economic development alongside emissions reduction.
- Local government is crucial for adapting communities to climate change impacts. They take a place-based approach to adaptation planning but lack of resources limits their ability to implement all necessary measures.

Local government leads environmental protection but need more support to manage increasing waste and regulatory burdens:

- Local government is Australia's biggest spender on environmental protection, investing in waste management, biodiversity, water management and biosecurity.

- Australia's waste generation is increasing, recycling rates are low, and resource recovery infrastructure is not being invested in.
- Local government plays a crucial role in diverting waste from landfills and creating a circular economy. They are leading innovative projects but require more support.
- Local government has a wide range of environmental responsibilities, including managing biodiversity, biosecurity, contaminated lands, water resources and pollution control.
- Local government is increasingly burdened with environmental regulatory functions without the necessary funding from higher levels of government.

Local government faces severe skills shortages, impacting service delivery and community development:

- Local government faces significant skills shortages across a range of professions. This makes recruiting and retaining qualified staff and delivering services to communities difficult.
- Skills shortages lead to reduced productivity, service delivery and increased costs for local governments. It also hinders progress on critical issues like housing and infrastructure development.
- Local government struggles to compete with the private sector in terms of salaries. Rural and remote areas face additional challenges in attracting workers. Declines in apprenticeships and traineeships reduce the pipeline of skilled workers.
- Increased funding is needed to support local government to invest in skills development and training programs, implement programs that better attract workers to regional areas, and support programs to address broader skills shortages in the national economy.
- A skilled local government workforce is critical for strong communities and a healthy national economy.

Local government is key to Closing the Gap but need stable, long-term funding to support Indigenous communities fully:

- Local government is crucial for Closing the Gap's success as they deliver essential services and support to Indigenous Australians. However, financial constraints limit local government's contribution, as insecure funding limits councils' ability to participate fully in Closing the Gap initiatives.
- Due to reporting structures, many council-led projects go unnoticed in national reports. This downplays the contributions from local government, which is compounded by federal, state, and territory governments often excluding local government from Closing the Gap planning processes.
- Indigenous councils are already heavily involved in supporting Closing the Gap. Councils in specific regions, such as far north Western Australia, the Northern Territory, and Queensland, actively contribute to Closing the Gap through their regular activities. However, business as usual is not enough. Current funding allows councils to maintain existing services but not implement additional programs needed for significant progress.
- Long-term funding is needed for Closing the Gap programs. Current models don't provide the stability councils need to dedicate resources to long-term initiatives.
- Often Indigenous communities are at a greater disadvantage due to the structure of the local government funding model. Low home ownership rates and high social housing in Indigenous communities restrict income generation and limit councils' ability to raise rates, a key source of income.

Local government faces rising cyber threats but lack the resources and skills to defend against attacks effectively:

- Australia faces a growing cyber security threat with cyber-attacks increasing in frequency and sophistication, posing a significant economic risk.

- Local government holds vast amounts of sensitive data and manage essential services, making them prime targets. However, they are ill-equipped to defend themselves. Recent audits highlight policies, training, staff awareness, and technical control weaknesses.
- Several recent high-profile cyber-attacks have targeted local councils. These attacks include data breaches, ransomware attacks, phishing scams, and denial-of-service attacks.
- Lack of resources hinders local government preparedness for cyber security risks. Financial constraints and workforce skill shortages limit councils' ability to invest in cyber security.
- Existing federal support programs have low uptake due to a lack of capacity to utilise available resources due to competing priorities.
- Multiple challenges complicate local government cyber security. These include a complex threat landscape, outdated systems, interconnected services, and a cybersecurity skills gap.

Local government has endured financial and operational pressures from natural disasters and the COVID-19 pandemic, which have strained budgets and increased service demands. Improved funding models are needed to ensure financial sustainability and enable local governments to continue delivering essential services. Collaboration between local, state, and federal governments is crucial for effective service delivery and addressing structural impediments to local government operations.

Local government is indispensable in maintaining and enhancing community well-being, economic productivity, and environmental sustainability. Adequate and sustainable funding and effective policy support are essential for enabling local governments to meet their expanding responsibilities and continue serving their communities effectively.

ALGA strongly encourages the Committee to also consider the submissions of each state and territory local government association. These submissions provide additional insight into the impact of unsustainable, inadequately funded councils across Australia.

We welcome the opportunity to participate in a further roundtable with the Committee to discuss the contents of our submission. If you have any questions, please contact Kade Denton, Executive Director–Policy, on [REDACTED] or at [REDACTED]

Yours sincerely,

[REDACTED]

Linda Scott
President, ALGA

Attachment: ALGA Policy Analysis for Inquiry into Local Government Sustainability



AUSTRALIAN
LOCAL GOVERNMENT
ASSOCIATION

Policy Analysis

In response to the inquiry into local government sustainability

31 May 2024

Executive Summary

The Australian Local Government Association (ALGA) represents a sector that employs nearly 200,000 people and manages assets valued at \$643 billion, with an annual operational spend exceeding \$38 billion. Local governments are responsible for one-third of Australia's public infrastructure, including 77% of the national road network. This submission highlights local governments' critical role in providing essential services, managing public infrastructure, and supporting community well-being across Australia.

Local government is vital for economic, social, and environmental service delivery, enhancing community liveability and productivity. However, historical funding models for local government have not kept pace with increasing responsibilities and cost pressures. Financial Assistance (FA) Grants provide a base level of funding, but their value has not kept up with rising costs, particularly in construction and wages.

Local government offers a wide range of services, including property and infrastructure management, household services, business support, regulatory functions, and emergency management. Despite its broad responsibilities, local government has limited revenue-raising capabilities, primarily relying on property taxes, permits, and user fees.

Local government manages extensive infrastructure crucial for national productivity, such as local roads that form a significant part of the freight network. Adequate funding for local infrastructure is essential for maintaining and improving productivity, especially in rural areas with vast networks but small revenue bases.

Local government is at the forefront of climate change mitigation and adaptation, disaster response, and environmental protection. It spends more on environmental protection than other government levels, highlighting an important role in biodiversity, water management, and waste services.

The sector faces significant challenges in attracting and retaining skilled workers, with 91.4% of councils reporting skills shortages in 2021-22. Skills shortages impact service delivery and infrastructure maintenance, with critical gaps in engineering, town planning, and environmental health. Local government is a major employer, particularly in rural areas, and play a key role in regional economic development and workforce training.

Local government has endured financial and operational pressures from natural disasters and the COVID-19 pandemic, which have strained budgets and increased service demands. There is a need for improved funding models to ensure financial sustainability and enable local governments to continue delivering essential services. Collaboration between local, state, and federal governments is crucial for effective service delivery and addressing structural impediments to local government operations.

Local government is indispensable in maintaining and enhancing community wellbeing, economic productivity, and environmental sustainability. Adequate and sustainable funding and effective policy support are essential for enabling local governments to meet their expanding responsibilities and continue serving their communities effectively.

Recommendations

ALGA proposes five key recommendations for the committee to ensure that local government is funded and equipped to deliver the services their communities expect. These recommendations are:

1. Increase untied Federal Government funding for local government to at least 1 per cent of Commonwealth taxation revenue to provide long-term financial certainty and security for local government in Australia.
2. The Federal Government should have greater ambition and confidence in funding local government directly through existing Constitutional heads of power and establish a process for constitutional change that recognises local government in the Constitution.
3. Recognise the essential role of local government in achieving national priorities across productivity, improved community wellbeing, reduced inequality, environmental protection, circular economy, emissions reduction, emergency management, increasing secure well-paid jobs, and building a skilled work force.
4. Extend local government's role in National Cabinet to permanent membership, including on all ministerial forums.
5. Make no changes to the formulas that determine federal funding distributions for local government that would reduce the quantum of funding received by any Australian council.

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Introduction

Since the formation of the first councils in the mid-nineteenth century, local government has played a fundamental role in the fabric of Australian life. It touches all Australians, determining the social, economic, and environmental elements of the communities where we live, work, and recreate.

Local government is no longer limited to roads, rates, and rubbish. Instead, Australia's 537 councils are sophisticated service providers, delivering the services their communities expect and need. Australian councils are as diverse as the communities they represent, reflecting unique local economic, social, and geographical characteristics. Across this diversity, local government employs nearly 200,000 people and owns, manages, and maintains more than \$643 billion of community assets. Local government is an essential component of Australian communities.

Local government has a clear future. Effective, well-resourced councils underpin strong, sustainable communities across the country. But more than ensuring business as usual, local government is fundamental to supporting communities to manage the social, economic, and environmental change Australia faces. Local government must be sustainable, well-resourced, and given the tools it needs to support every Australian.

This policy analysis outlines the principles and actions the committee must adopt to establish a strong, sustainable future for local government across Australia. It provides a clear insight into the role of local government as a positive contributor to achieving national priorities, such as increasing economic productivity, creating secure, well-paid jobs, improving the living standards of all Australians, reducing carbon emissions, protecting the environment, closing the gap, and increasing our resilience to natural disasters.

At its core, long-term secure funding is required to ensure local government can meet the needs and expectations of communities and state and federal governments. Long-term, secure funding that adequately meets the needs of every council will provide the sustainability and certainty essential to investments in communities and programs that deliver positive benefits for all Australians. The Federal Government is uniquely placed to provide this secure funding through its position as the largest tax collector and the economic beneficiary of the productivity dividend local government provides to the Australian economy.

The Federal Government should provide its baseline contribution to local government funding through the FA Grants framework. This framework should provide a minimum baseline of funding to local government equal to at least 1 per cent of Commonwealth tax revenue. The legislative formula of FA Grants provides certainty that goes beyond federal election cycles and funds well-established place-based delivery. Without adequate, secure funding, local government cannot realise its potential to support productive, liveable communities. This is to the detriment of all Australians.

ALGA believes that to best support a strong local government sector, the committee should adopt policy principles that recognise local government:

- must have secure, long-term untied funding from the Federal Government
- is best placed to deliver local decision-making that meets community need
- has a unique role in preparing 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 adequate services in every community, delivered through strong local institutions.

Importantly, these principles and subsequent actions are not hard and do not require courage. They deliver rapid, widespread benefits to all Australians in all communities. Effective collaboration between federal and local governments can benefit all levels of government, all communities, and all Australians.

Local government must have secure, long-term untied funding from the Federal Government.

The ability of local government to effectively plan depends on the security and adequacy of its funding. Local government in Australia has limited revenue options and, in many cases, is highly reliant on Commonwealth FA Grants. In recent decades, there has been a slow reduction in the proportion of total tax revenue going to local government. For example, FA Grants have declined from one per cent of Commonwealth taxation revenue in 1996 to just 0.5 percent today. This is despite increased costs and expected service delivery from local government.

The consistent downward trend of FA Grants has been coupled with ongoing cost-shifting and rate capping that increase the burden on councils and reduce their ability to raise revenue for community service delivery. Federal and state governments consistently require councils to deliver additional services with no commensurate increase in funding. Estimates from the Local Government Association of Queensland and Local Government NSW estimate this to be equivalent to \$360 million and \$1.36 billion in 2021-22 in their respective jurisdictions.

Local government funding is also increasingly provided through tied grants. Tied funding imposes clear prescriptions on how a council can spend money. This reduces the council's ability to make decisions based on community needs and in the best interests of their unique community circumstances. This is compounded by greater use of grant funding for local government. While grants have offset some reductions in federal funding, the use of grants has increased the uncertainty and insecurity of local government funding. The competitive nature of these grants, combined with their inflexibility, limits councils, decreasing their financial sustainability.

Grant funding cannot be considered part of a sustainable baseline funding level for local government. Grant funding is often distributed at the whim of election promises and the short-term cycle of Federal Government priorities. Competitive grants are also hard to access for resource-constrained councils who may not have spare staffing capacity or expertise to submit applications for additional funding.

The combination of these factors has resulted in a long-term decline in the certainty and security of funding. This prevents councils from making long-term investments in the infrastructure, services, tools, and decisions needed for their community. This long-term decline sits at the heart of all issues and opportunities for local government across Australia. A lack of long-term secure and adequate funding is holding local government back from increasing the quality and breadth of services they provide to communities nationwide. Reversing the decreasing proportion of less secure funding is essential to ensure local government can continue supporting liveable communities and productive economies across Australia now and into the future. ALGA advocates for secure, untied funding that removes politics from decision-making and allows councils to make long-term decisions – both for their organisation and community needs.

Local government is best placed to deliver local decision-making that meets community needs.

Councils are the level of government closest to local communities in Australia. This closeness and the connection between councils and the people they represent allow them to deliver the right services in the right manner for their communities. It is because of this connection that local government can deliver critical services to diverse communities across Australia.

This connection makes it essential that local decision-making is protected so that councils can continue to deliver what communities want and need. Unfortunately, recent decades have seen a long-term decline in councils' ability to make decisions that meet the needs of their communities. For example, the imposition of rate capping and planning reforms now prevent councils from making decisions about the level of funding their community needs to deliver the services they expect. It also prevents individuals from having a direct say in the make-up and structure of their community by removing their connection to local decision makers.

The removal of council decision-making ability has been further compounded by financial impositions on local government, which reduces their ability to direct funding towards their communities' highest priorities. Beyond the financial imposition of cost-shifting, councils are often hamstrung by changing regulations imposed by the federal, state, and territory governments. Heavy vehicle reforms are a key example of councils losing their approval and decision-making authority about using their local infrastructure to provide productivity benefits to the external industry.

The growth of tied funding further compounds these issues by dictating a specific purpose for the funding allocated to councils. While councils adhere to the principle of spending money on the purpose it was provided for, the growth of tied funding prevents councils from directing funding to community priorities.

It is also important to consider the fundamental principle that people living in communities have the best ideas for local, sustainable growth for their community. Done well, place-based decision-making and investment build effective coalitions between communities, decision-makers, and businesses. A place-based approach enables people to articulate their needs and priorities for change suited to the community's unique characteristics. Local government as anchor organisations and their place-based investments are essential to the self-direction and self-determination of communities across Australia. A recent report from the Paul Ramsay Foundation and Equity Economics has highlighted the positive role that place-based approaches have on local communities. This report outlines key important roles for place-based solutions offered by local government, including:

- responding to the growing diversity of regions across Australia and the social, economic, and environmental disruption they face
- offering a way to reset relationships and restore trust in communities
- addressing locational disadvantage and child poverty, and
- enabling first nations empowerment and closing the gap.

Recognise that local government has a unique role in preparing its communities for future change.

Local government is at the front line of the social, economic, and environmental change Australia is experiencing now and will face over the coming decades. Effectively equipping councils to manage this change will ensure they are best placed to support their community in managing and adapting to the change. As the level of government closest to this change, councils can provide the tools to support their unique community needs to manage the change.

Local government's management and long-term planning are most evident in its role in supporting housing planning, development, and construction. Councils play an essential role in the long-term planning that underpins new housing development to ensure community liveability and access to basic services. This includes preparing for future population growth, increased pressure on services, such as water and sewerage systems, and the increased need for green space and efficient transport.

As discussed further in this report, recognising local government's role in supporting communities in managing change will recognise their essential role in emergency management and recovery. It will also support long-

term investments such as betterment funding to ensure that reconstruction following natural disasters results in stronger, more resilient communities.

Recognising this fundamental role of local government will also ensure that local knowledge is retained and strengthened in the planning system. Moves to remove this authority from councils reduce the ability of local government to make decisions about the structure and make-up of their communities.

Local government must be equipped to maintain efficient operations by adopting and using new technology and future planning.

Community expectations on service delivery, both across the public and private service sectors, are changing. The speed of take-up of online services and the desire to "share data once" and be connected have advanced with technology and been accelerated by the online world post-COVID.

Local governments share community expectations to increase their efficiency through adopting new technology and future planning. This allows each council to continue to operate lean organisations that use resources efficiently. Effective adoption of technology and systems will allow councils to continue to provide high-quality services through efficient resource use.

However, to achieve this, councils must have the support and certainty that allows long-term planning and investments. While diverse, complex factors influence each council's ability to implement this planning, increased funding and greater support will equip all local governments to achieve these positive outcomes for their communities.

Greater longer-term security will also allow councils to invest in emerging technology needs to ensure their data, operations and community services remain safe in the face of new threats. Cyber security provides a key example of this emerging challenge. There is a significant need to ensure that local government is equipped to deal with the sensitive nature of cyber security threats, alongside the efficiency of technology use. As more and more services transition to online platforms, councils will need greater capacity to protect cyber and technological assets and ensure that the sensitive data they hold remains secure. Many councils also own and operate critical infrastructure such as water and sewerage. Councils must be equipped to manage these assets' operation and technological security to ensure they remain operational in the face of potential disruption by bad-faith actors.

Local government can provide services that respond to community needs, delivered through strong local institutions.

Local government plays an important role in delivering social services designed to address the needs and challenges faced by specific cohorts of the population. These services require more specialised resources, locations, and trained staff. Because of their unique role and requirements, local governments must ensure they have the right level of expertise and skills.

While social services are the remit of state and federal programs and funding streams, many councils now play an important role in the delivery of these services. This is especially the case in rural and regional areas. In many rural and regional areas, small populations create 'thin markets' where private sector services may not be able to operate profitably, leading them to withdraw their services. In many cases, local government are forced to step in and act as a service provider in these 'thin markets'. These situations can rarely be planned for and councils are expected to provide stop-gap services – often without the proper training, resources, or expertise.

Local government's economic and social contribution

Key takeaways:

- Local governments play a crucial role beyond traditional services, evolving into sophisticated providers of various services, including emergency management, health and safety, and economic development, reflecting their communities' unique needs and characteristics.
- They are pivotal in enhancing community liveability and economic success by managing community assets, supporting local businesses, and facilitating economic development strategies.
- Councils are instrumental in regional and local economic dynamics, contributing to Australia's productivity through strategic investment in infrastructure, workforce, technology, and climate adaptation initiatives.
- Local governments act as first responders in crises and manage regulatory services that maintain public safety and community well-being, underpinning sustainable economic growth.
- Effective collaboration between local governments and the Federal Government is essential for cost-effective service delivery and achieving national goals, with local councils positioned as crucial, proactive partners in this endeavour.

Local governments are a fundamental part of every community across Australia. The first elected local government was established in Adelaide in 1840, with Sydney, Melbourne and Brisbane following shortly after. These early municipalities focused on providing primary services to cities, including sanitation and basic infrastructure such as street lighting and drainage. Over time, local government expanded its remit to cover public infrastructure (roads, bridges, public buildings) and public amenities (gardens). Because of this background, local government responsibilities are often characterised as being roads, rates, and rubbish. However, it does not reflect the contemporary position of local government as a sophisticated service provider.

Over the century and a half since the first council, local governments have taken on more responsibilities, responding to the needs of their local communities. Local governments across Australia are now as diverse as the communities they represent, reflecting local economic, social, and geographical characteristics. This is compounded by the differing roles, responsibilities, and financial operations outlined in state and territory government legislation establishing and regulating local government.

Because of this broad range of diverse responsibilities, local government is seen as the primary body responsible for community liveability and social enrichment. Councils provide significant economic, social, and environmental services that enhance the liveability, productivity and economic success that meet the needs of their communities. Through these services, local government forms an integral part of the systems and activities of Australia's national economy.

Through their responsibilities, councils across the country engage in most activities, investments, and regulations that determine the productivity and liveability of the Australian economy and communities. In many cases, councils take a lead role in local and regional economic development for their areas. This includes providing positive business environments for local businesses and supporting their development. This support for business development includes filling gaps left by other governments in local investment attraction, business mentoring, training, networking, and incubation.

Local government also plays an important role in developing productivity and economic dynamism in the Australian economy. While diverse underlying factors influence productivity and economic dynamism, local

government can be part of the solution to increasing Australia's productivity through increased investment in key infrastructure, workforce, technology, and climate change adaption.

It is important to recognise local government's role in overcoming this stagnation, contributing to increased productivity and dynamism, ultimately underpinning long-term sustainable economic growth across the country. While each council will provide specific activities for their unique community, common services that underpin economic activity include:

- Owning, investing in, and maintaining community assets such as roads, bridges, active transport networks, and other assets that underpin transport and economic distribution.
- Business services that support local firms with training and networking programs, providing facilities and services to support tourism, and forming local economic development strategies that leverage local competitive strengths.
- Emergency management, community support through risk management and planning, and provision of first responder capability in the face of fires, floods, and other crises.
- Regulatory services that minimise the impact of market failures and negative externalities. These include land use planning and development assessment, assurance of the structural sufficiency of approved buildings, health and safety, and public amenities.
- Household services, including operation of neighbourhood and community-specific aged care and disability facilities; investment in arts infrastructure and orchestration of events, festivals and place designations that celebrate distinctive local culture; provision of community centres, early childhood centres and neighbourhood houses which enable delivery of diverse services of value to families and children, youth and various special needs groups; creation of a network of indoor and outdoor sporting facilities; and registration of pets and animals.

Local government also has an important role in social programs and activities. This can provide an economic impact through early intervention at a lower cost than high-cost problems at the state and federal levels. For example, early intervention through healthier environments and more active transport can encourage healthier communities, reducing the long-term burden on the state healthcare system.

Because of this position, local government must be seen as a positive, productive partner in achieving the positive outcomes the Federal Government seeks for all citizens. As the level of government closest to communities, local government hold tools and systems that can support the development and implementation of government priorities across the nation. Through effective engagement, councils can support greater outcomes and faster implementation of Federal Government priorities. This can see better outcomes through more cost-effective investments, targeting service delivery to sections of the community that need it most. At the same time, ineffective engagement or delayed collaboration with local government can result in ineffective implementation, higher costs, and sub-optimal outcomes. Local governments want to and are best placed to be trusted and effective partners with the Federal Government.

Local government's productivity contribution

Local government activity sits at the heart of Australia's economy. Local government's activity, programs and services all have a significant impact on the productivity of Australia's economy. ALGA has commissioned research and analysis by SGS Economics and Planning and Victoria University to demonstrate the positive impact well-funded, financially sustainable local government can contribute to the national economy.

This analysis, conducted through macroeconomic modelling shows that:

- If local government were provided annually with an additional \$350 million for the maintenance and delivery of quality open space, Australia's gross domestic product (GDP) would increase by \$858.9 million each year.
- If local government were able to effectively increase its capacity to perform regulatory services in planning and building, there would be an annual saving of \$859 million for development proponents and would generate an additional \$1.67 billion in GDP each year.
- Increased block transfers of Commonwealth funds to local governments can deliver greater efficiency and administrative cost savings of \$236 million and would generate increase GDP by \$330.8 million each year.
- Reducing local government staff turnover can save \$425 million in avoided costs and lead to a \$619.9 million increase in GDP each year.
- Investing an additional \$1 billion each year into the maintenance of local government roads would increase GDP by \$354.6 million annually.

Increased funding for local government has positive economic benefits. This can be achieved through increased investment in local government services, service delivery and workforce capacity. However, these economic gains do not come for free. Local government needs long-term sustainable funding to ensure it can implement the services and programs required to realise potential productivity gains within their communities.

The local government funding model

Key takeaways:

- Local governments in Australia primarily generate revenue through property taxes (rates), user charges for services like parking, and grants from state and federal governments. Rates and user charges constitute the majority of their independent revenue. However, the reliance on government grants is significantly higher in rural and remote areas.
- The current funding model is outdated, struggling to meet the expanding service demands and changing community expectations. This has led to a lack of financial sustainability within local governments, impacting their ability to provide consistent service levels across different communities.
- Local governments face significant financial constraints due to state-imposed restrictions on their revenue-raising capabilities, such as rate capping and limits on fees and charges. These restrictions hinder local governments' financial autonomy and ability to respond effectively to local needs.
- Although crucial, the FA Grants from the Federal Government have not kept pace with the increasing costs faced by councils, especially in terms of infrastructure and service delivery. This has exacerbated financial pressures on local governments.
- Cost-shifting from state and federal governments to local governments without adequate compensation has placed an additional burden on local councils, forcing them to cut services or find alternative funding sources, impacting the community's liveability and sustainability.

Australian local government has relied on the same funding model for many decades. Under this current funding model, local government revenue comes from three main sources:

- property taxes, commonly known as rates
- user charges and fees for services, such as parking, and
- grants from other levels of government.

Under this model, councils, on average, raise over 80 per cent of their revenue independently, with approximately 38 per cent stemming from rates and 25 per cent from user charges. The remainder is largely from state and federal grants and other revenue sources such as fines and yields from investments. However, grants often make up over half of council revenue in rural and remote councils due to small populations and large asset bases, such as roads and bridges.

While this model has previously supported local government, it has not kept pace with changing community expectations and expanding service delivery requirements. Because of this, the Australian local government sector does not have adequate financial sustainability, and there is significant variation in the level of service provision available based on common makeup.

The sustainability, resilience, and productivity of local governments and their communities largely depend on their long-term financial sustainability. The ability to provide the right mix of services and infrastructure that meets the needs of local communities is essential to the long-term growth, contribution, and, ultimately, the liveability of communities across Australia.

Rates

Rates are a property tax that councils can implement within their jurisdiction. This is the primary form of revenue raising available to local government. Revenue collected through rates represents only a small proportion of the total tax collected by governments in Australia. For example, in 2022-23, council tax revenue represented only 2.88% of the total tax collected by the government in Australia.² This proportion of tax collected is progressively declining each year. Over the past two decades, local governments' per capita expenditure has grown at a slower pace (doubling from \$887 per capita in 2002-03 to \$1,801 in 2022-23, or a multiple of 2.03) than in state (multiple of 2.4) and Commonwealth governments (multiple of 2.36) over the same period (Figure 1).

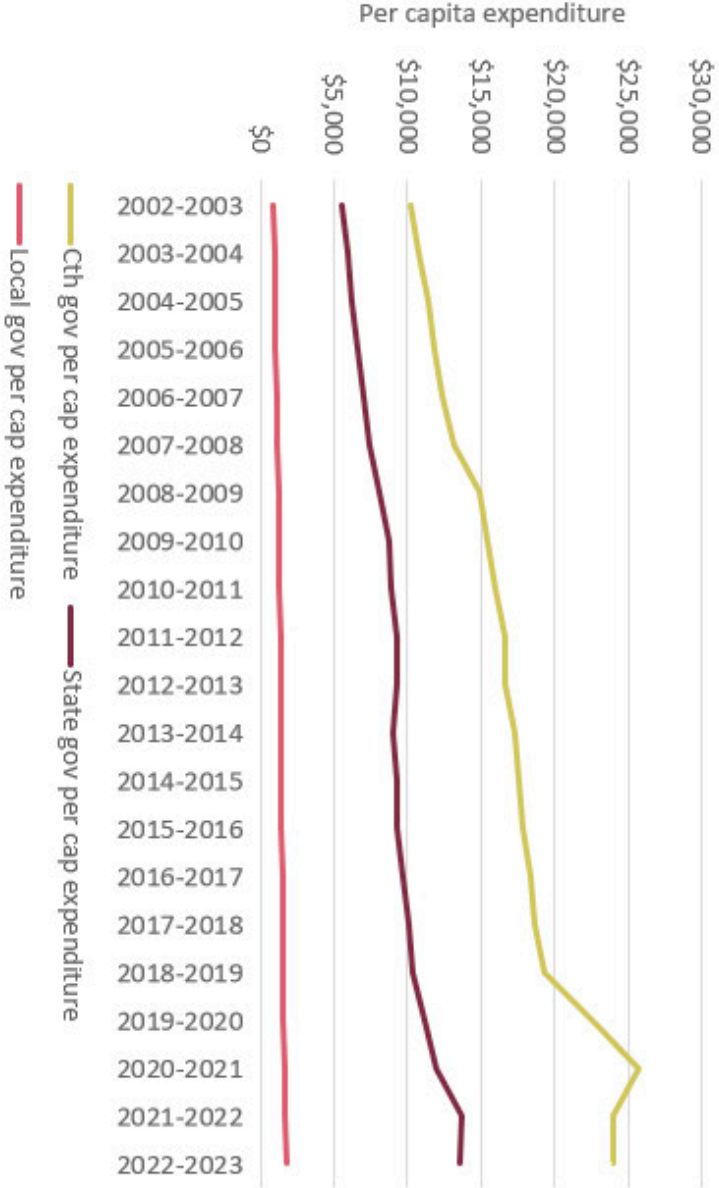


Figure 1. Federal, state and local government expenditure per capita 2002-03 to 2022-23.

This stagnating revenue collection direct flows to available funding for expenditure. Between 2003-04 and 2022-23, the compound annual growth rate in local government per capita expenditure was the lowest of all tiers of government (Figure 2). While rates are and will continue to be an important source of revenue for local government, they cannot be relied upon to ensure adequate financial income to meet community needs and expectations.

Fees and user charges

Through state and territory legislation, local governments are empowered to impose fees and charges for using council infrastructure and services. In most cases, fees and charges allow the council to implement cost recovery for services provided to individuals within the community.

² Australian Bureau of Statistics, Taxation Revenue, Australia 2022-23 financial year

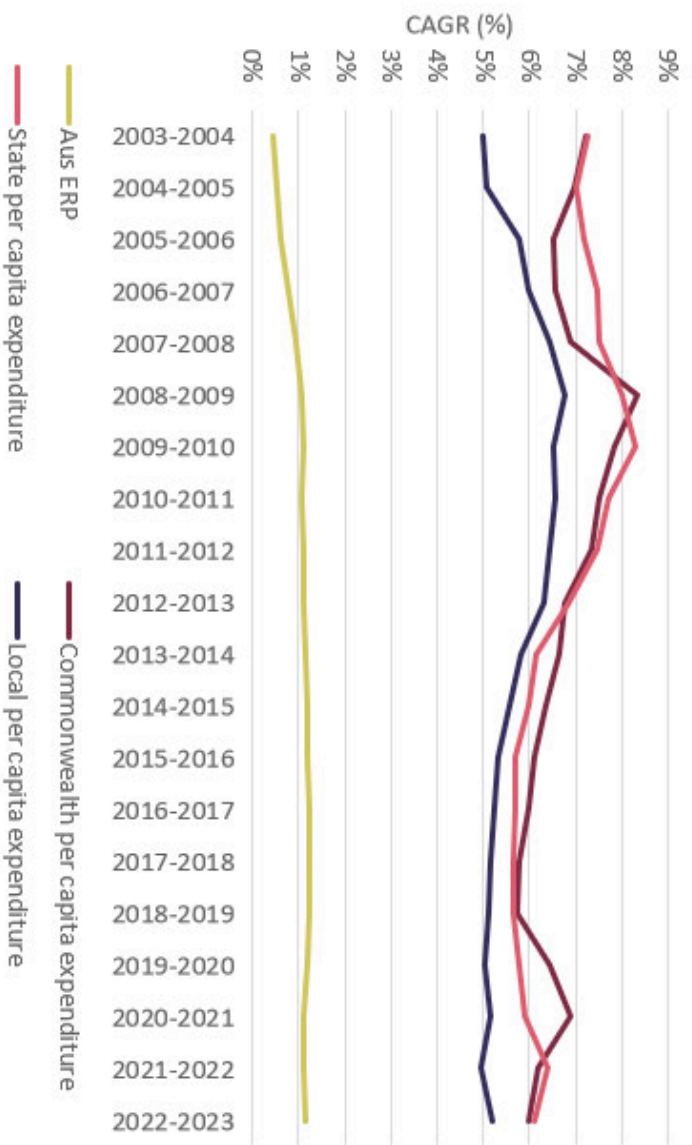


Figure 2. Compound average growth rate of per capita government expenditure for federal, state and local government 2002-03 to 2003-04 and the compound average growth rate of estimate resident population.

Commonwealth Grants

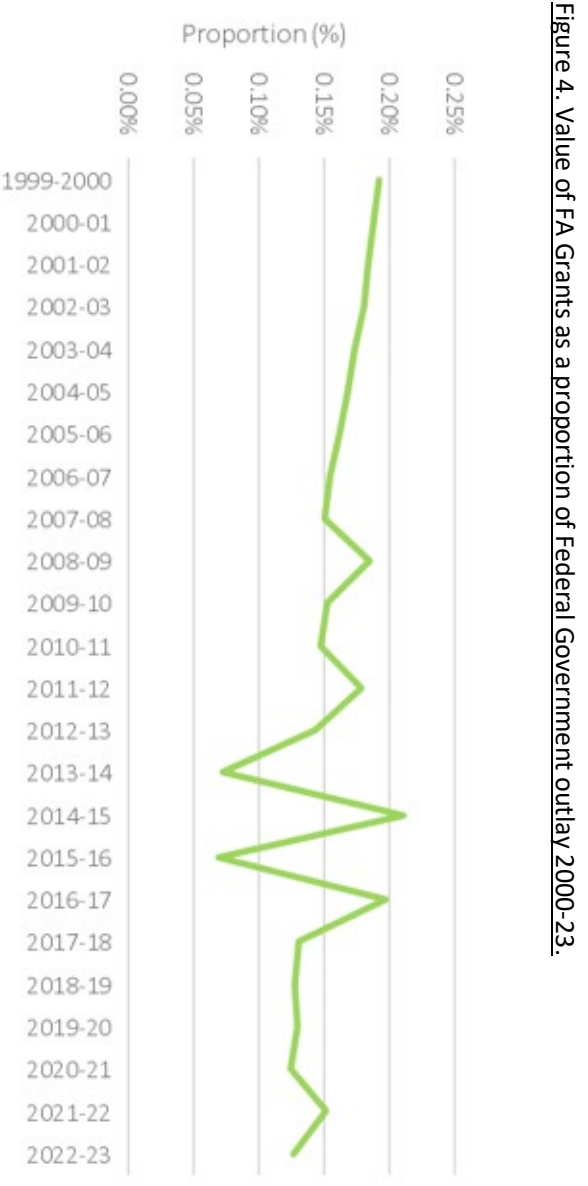
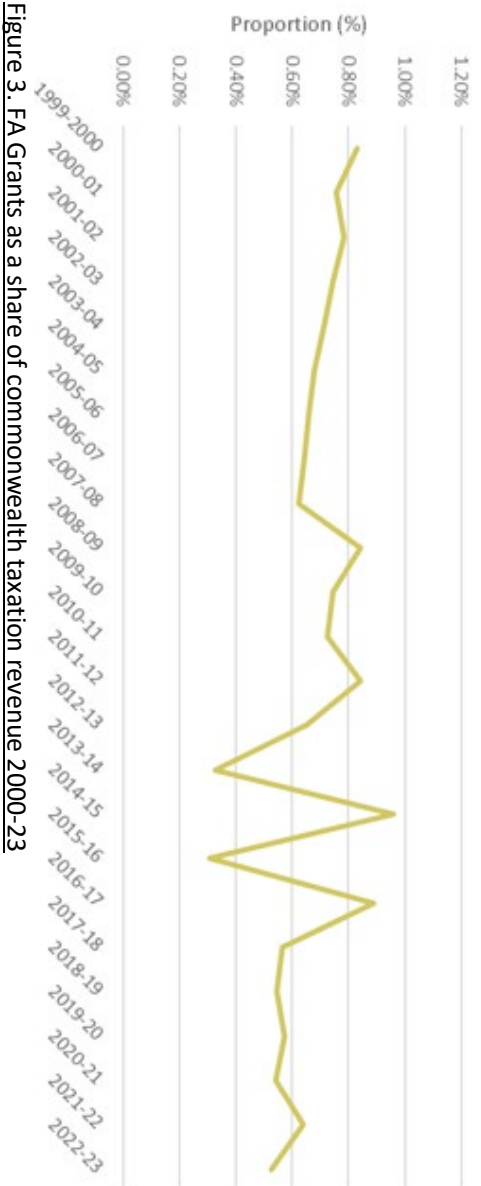
Historically, the Federal Government has recognised the important role of local government in economic, social, and environmental service delivery. Funding from the Federal Government to local government began in 1974-75. The objectives of this funding were to achieve equitable access to government services for all people in Australia through improved capacity of local government to provide for their communities and increasing local government efficiency and effectiveness.

The FA Grant program consists of a general-purpose component and a local road component. The general-purpose component is the larger component and is distributed between the states on a per-capita basis. In contrast, the local road component is distributed between the states according to fixed historical shares. Both funding components are untied and can be spent according to each local government's priorities.

Federal Government payments are on a steady decline.

Since 2000, the value of FA Grants as a share of total Commonwealth taxation revenue and Federal Government spending has declined (Figure 3 and Figure 4). Over the past 20 years, there has been a relative decline in the value of FA Grants from 0.19 per cent of national Gross Domestic Product (GDP) in 2000 to 0.13 per cent of national GDP in 2023 (Figure 5). This indicates a gradual erosion of councils' financial ability to deliver services to communities at a time when changing community needs and other factors are requiring councils to deliver more.

While there are annual increases to FA Grants, these are typically indexed to CPI. This does not accurately reflect movements in input costs for services provided by councils. These are largely dependent on construction, material, and wage costs. From 2014 to 2016, the indexation of FA Grants was frozen. Although restored in 2017, the impact of the freeze is still felt on the base level of grants.



Effective financial distribution from the Federal Government is also important for recognizing the mismatch in costs and benefits within the Australian economy. Local governments are a significant contributor to infrastructure that underpins economic productivity. For example, local governments own, operate and maintain 77% of the national road network by length. Significant proportions of this road network are part of the first and last-mile network of the freight system. They can greatly adjust the productivity of the network to businesses and consumers. However, there is a mismatch in the cost burden and benefits that come from increasing the productivity of this network. Costs associated with repair, maintenance and improvement of the road network are borne by local government. However, individual businesses and the Federal Government receive productivity benefits from this investment through a higher company tax take.

Financial Assistance Grants distribution methods.

Each year, FA Grants are provided to local government in accordance with a specific formula determined by the Federal Treasurer. This formula seeks to provide a fair funding distribution between councils based on relative need. In its current form, all councils are guaranteed to receive a minimum grant value of at least 30 per cent of the value of the grant if it were distributed on a per capita basis. Funding under the FA Grant program is paid through state governments to local governments. State grants commissions determine the intrastate distribution of the grants between local governments. These distributions are conducted in line with National Principles outlined by the Federal Minister and currently require the following considerations:

1. *Horizontal equalisation* - general purpose grants are allocated to local governing bodies, as far as practicable, on a full horizontal equalisation basis. This is a basis that ensures each local governing body in the State or Territory can function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State or Territory. It takes account of differences in the expenditure required by those local governing bodies in the performance of their functions and in the capacity of those local governing bodies to raise revenue.
2. *Effort neutrality* – adopting an effort or policy neutral approach will be used in assessing the expenditure requirements and revenue-raising capacity of each local governing body. This means as far as practicable, that policies of individual local governing bodies in terms of expenditure and revenue effort will not affect grant determination.
3. *Minimum grant* - the minimum general-purpose grant will be not less than the amount to which the local governing body would be entitled if 30 per cent of the total amount of general-purpose grants to which the State or Territory is entitled if the grant was allocated on a per capita basis.
4. *Other grant support* - other relevant grant support provided to local governing bodies to meet any of the expenditure needs assessed should be considered using an inclusion approach.
5. *Aboriginal peoples and Torres Strait Islanders* - financial assistance shall be allocated to councils in a way, which recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.
6. *Council Amalgamation* - where two or more local governing bodies are amalgamated into a single body, the general-purpose grant provided to the new body for each of the four years following amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained separate entities.

The Department of Infrastructure, Transport, Regional Development, Communications and the Arts outlines the following steps used to distribute funding for FA Grants, in line with the relevant Act:

1. Before the start of the financial year, the Federal Government estimates the quantum of general purpose and local road components that were to be allocated to local government across the nation.

This is equal to the national grant final entitlement for the previous financial year multiplied by the estimated escalation factor resulting from changes in population and the Consumer Price Index.

2. The Federal Government Minister responsible for local government (the Federal Minister) advises the states and territories of their estimated quantum of general purpose and local road components, calculated in accordance with the Act.
3. Local Government Grants Commissions in each state and the Northern Territory recommend to their local government minister, the general purpose and local road component allocations to be made to local governing bodies in their jurisdiction. The recommendations are made in accordance with National Principles formulated under the Act for allocating grants.
4. State and Northern Territory local government ministers forward the recommendations of the Local Government Grants Commission in their jurisdiction to the Federal Minister
5. When satisfied that the states and territories have adopted the recommendations of their Local Government Grants Commissions, the Federal Minister approves payment to the states and territories.
6. When updated Consumer Price Index and population information becomes available toward the end of the financial year, an actual escalation factor is calculated and the actual grant entitlement for the financial year is determined. As population estimates are applied to the general-purpose component, jurisdictions experiencing a negative population change from one year to the next will receive a declining share of the general-purpose funding.
7. Any difference between the estimated and actual entitlements in the current year is combined with the estimated entitlement in the next year to determine the next year's cash payment. This is known as the 'adjustment' referred to in the Act.

The FA Grants system provides a base level of funding for councils to distribute as they believe necessary and appropriate for the needs of their local communities. The system's long-term stability provides a base level of certainty and confidence for councils to make financial decisions. However, the long-term funding available through FA Grants has not kept pace with the cost pressures councils face across Australia.

Financial Assistance Grants Formula and Payment

FA Grants form an important component of local government funding in Australia. FA Grants form an important component of local government funding in Australia. However, the calculation and payment of these grants creates uncertainty for councils and do not facilitate long-term planning. The formula and model used to distribute FA Grants is complicated, hard to understand and not transparent for councils.

The formula and distribution of funding seeks to improve the capacity of local governments to provide their communities with an equitable level of services and increasing local government's efficiency and effectiveness. However, its complexity and lack of transparency do not facilitate this. The lack of clarity on the determination and distribution of Financial Assistance Grants reduces councils' ability to plan and prepare budgets for current and future financial years. The lack of clarity on the determination and distribution of FA Grants reduces councils' ability to plan and prepare budgets for current and future financial years. This is compounded by the Federal Government's ongoing decision to bring forward payment of the FA Grants. Since 2009, FA Grant payments have been brought forward with early payment of funding from the next financial year to be made in the current financial year. Whilst prepayments are welcomed to support council cash flows (particularly remote and Indigenous councils) they do create budget challenges for councils – who are currently attempting to finalise the next financial year's budget.

Minimum payments under Financial Assistance Grants

Under the existing FA Grants framework, all councils are guaranteed a minimum payment each year. This minimum payment equals 30 per cent of the value of the grant that would be paid if the FA Grants were paid on a per capita basis. This minimum guaranteed payment must be maintained.

Minimum grant amounts ensure the continued provision of essential services and infrastructure in communities nationwide. By guaranteeing a stable and predictable funding stream, the Federal Government can support local councils in delivering vital services such as road maintenance, waste management, community health, and recreational facilities. This funding is especially important for smaller councils with limited revenue-raising capacity, as it helps them to meet their statutory obligations and address local needs effectively.

Maintaining the minimum grant amount also plays a crucial role in promoting regional equity. It ensures that all Australians can access comparable services and quality of life regardless of location. This is particularly significant in addressing the disparities between urban and rural areas, where the cost of delivering services can be higher and the population base smaller. By providing adequate funding, the government helps to bridge these gaps, supporting social cohesion and reducing regional inequalities.

Furthermore, stability in funding allows local governments to plan and implement long-term projects crucial for sustainable community development and economic growth. These projects can include major infrastructure improvements, such as upgrading water and sewerage systems, building and maintaining public amenities, and investing in local economic development initiatives. Reliable funding enables councils to attract additional investment, both public and private, creating jobs and stimulating local economies.

Changes to the distribution model for FA Grants and federal funding often has perverse outcomes. For example, in 2021 the Queensland Local Government Grants Commission changed its formula for the FA Grant distribution within the state.³ This change had broader perverse outcomes that came at the detriment of small, regional councils. Rockhampton, Toowoomba, Bundaberg, Fraser Coast and North Burnett Regional Council were all reclassified into the same category as larger metropolitan councils such as Brisbane City Council, Gold Coast City Council, Moreton Bay Council and Sunshine Coast.⁴ This reclassification resulted in less funding each year.

For Rockhampton Regional Council this resulted in \$6.774 million less funding each year after it was reclassified.⁵ For North Burnett Regional Council (NBRC) the reclassification saw revenue decrease by over \$2 million over three years.⁶ This is despite NBRC managing Queensland's fifth largest road network and limited capacity to raise its own revenue. As a result of these changes, NBRC was forced to reduce several services to make up for this lost funding, including scaling-back library and waste facility operating hours, changing from wet to dry grading, and maintaining only two of the region's pools. Even with these service cuts, NBRC would still have a \$5.5 million budget deficit.⁷

³ https://www.statedevelopment.qld.gov.au/__data/assets/pdf_file/0024/74355/financial-assistance-grant-allocation-methodology-information-paper.pdf

⁴ <https://www.rockhamptonregion.qld.gov.au/AboutCouncil/News-and-announcements/Latest-News/Grants-Commission-rips-millions-out-of-Rockhampton-region-community>

⁵ *ibid*

⁶ <https://northburnett.qld.gov.au/state-government-delivers-another-blow-to-the-residents-of-the-north-burnett/>

⁷ <https://www.abc.net.au/news/2021-05-10/qld-region-faces-pool-library-closure-as-funding-dries-up/100123486>

Any movement away from the existing model requires a significant increase in the total funding provided to local government each year. This would support additional funding for rural and regional councils that need extra support without coming at the expense of other councils.

State restrictions on local government revenue raising.

A fundamental flaw of the existing local government funding model is the clear restrictions state governments place on local government's ability to raise their revenue independently. These restrictions burden councils as they cannot generate sufficient revenue to support their services and remove local decision-making. State restrictions on revenue raising include:

- rate capping
- constraints on the fees and charges councils are allowed to levy under other legislation
- non-payment of rates to councils by several state bodies and other groups, and
- restrictions on borrowings.

Rate capping and exemptions

Many states restrict councils from raising rates independently. New South Wales and Victoria have implemented rate-capping systems that restrict the size of annual rate increases. These schemes dictate the maximum level at which local government can increase rates each year. This removes the ability of each council to make decisions relevant to their communities, instead relying on central, state government bodies to determine the rate of additional funding a council needs for its local community.

This system is compounded by rate exemption schemes imposed by state and territory governments. These schemes require councils to exempt certain organisations and property owners from paying rates. While this is designed to support specific organisations and groups, it requires the council to continue to provide services to specific sites without commensurate cost recovery for those services.

The rationale behind rate-capping is that it encourages individual councils to increase their efficiency and deliver a higher standard of services for a consistent level of rate income. However, this rationale is not supported by evidence. Research in NSW has found no evidence to support any claim that rate-capping enhances municipal efficiency. Instead, rate capping significantly burdens councils regarding their ability to raise revenues in line with their communities' increasing demand for services and amenities.

Also, rate capping increases the burden on the local and federal governments. If state governments institute rate-capping, the proportion of rates in council revenues will drop, leading to a deepening demand on state and Commonwealth grants and other revenues, or councils will have to trim back infrastructure spending and service provision. Unintended consequences include excessive cuts in expenditure on infrastructure, leading to mounting asset renewal and maintenance backlogs, as well as the potential shift of the cost to the next generation. Rate-capping also affects productivity and liveability, impacting the nation's productivity and well-being.

Cost shifting

Cost-shifting represents another significant challenge for the long-term financial sustainability of councils in Australia. Cost-shifting refers to the transfer of responsibility for service provision from the state or federal government to a local government or being called upon to provide a service when the state or Federal Government withdraws. This occurs in several ways:

- local government is required to provide services that had been previously provided by the other spheres of government

- other spheres of government require the provision of concessions and rebates with no compensation payment
- services are formally referred to and assigned to local government through legislative and other state and federal instruments without corresponding funding
- local government is required to be the sole provider of essential/important local services that 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
- local government is required to 'pick up' services as a result of the direct transfer of 'ownership' of infrastructure from another sphere of government
- government policies are imposed that require local government to undertake costly compliance activity, and
- fees and charges that local government is permitted to apply for services prescribed under state legislation or regulation are not indexed.

Cost-shifting is having a real effect on communities across Australia. Every service shifted to local government without compensation reduces the services the council can provide. Local Government NSW and the Local Government Association of Queensland have each commissioned research into the impact of cost-shifting in their jurisdiction.

This research found significant additional costs were shifted from state, territory and federal governments onto councils each year with no commensurate funding to support the new services. This shift is increasing each year, reducing the available funding for councils to deliver services to their communities. For example, LGNSW's latest cost-shifting report released in November 2023 highlighted a total cost shift to councils of \$1.36 billion in 2021-22, equivalent to more than \$460 per ratepayer annually. In Queensland, between 2002 and 2021–22, cost-shifting increased from \$47 million to \$360 million—a 378 per cent increase. The impact of this cost-shifting isn't academic. Cuts to councils are cuts to community liveability. Every service shifted to local government means that people miss out because funding, policies and legislation from federal and state governments haven't kept pace with the needs of every local community.

Impact of existing funding model on local government activities

This current funding model is not working. While the three components provide some flexibility for councils, they do not deliver the long-term certainty and security councils need to provide adequate services for their communities.

FA Grants are not increasing at a rate that supports councils to maintain the services their communities need and expect. While the Federal Government increases FA Grants in line with CPI, these increases do not reflect the increased cost-pressures councils face.

At the same time, there can be opposition to increased rates as a mechanism to provide greater certainty. This places councils in unfair situations where they are required to make hard decisions to increase rates against the wishes of their community, decrease services, or rely on short-term tied funding for community services that do not improve the council's overall financial security.

This is having a direct impact on the investments and services local governments can provide to their communities. For example, recent research by A New Approach highlights that local government's per-capita funding for arts and culture is now at the lowest level on record.

Federal government funding mechanisms for local government

The Federal Government is essential in supporting local governments across Australia through the FA Grants model and other individual grants programs. To date, funding from the Federal Government to local governments is constrained regarding the quantum of funds and the mechanism for this funding.

ALGA has long advocated for significant increases in the quantum of funding the Federal Government provides to local government. This can and should increase through the existing mechanisms available to the Federal Government. Importantly, this can occur quickly through the Budget process, which allocates funding to local government through Financial Assistance Grants and Roads to Recovery. Importantly, this can occur quickly through the Budget process, which allocates funding to local government through FA Grants and Roads to Recovery. To date, the Federal Government has made an ongoing active decision to not increase its support for local government through the FA Grants program in real terms. The Federal Government has relied on annual indexation for these increases. This should change. The Federal Government should increase funding for local government through Financial Assistance Grants to at least one per cent of the total Commonwealth tax revenue or more. The Federal Government should increase funding for local government through FA Grants to at least one per cent of the total Commonwealth tax revenue or more.

Beyond these existing funding streams, the Federal Government should expand its mechanisms for funding local government. ALGA recognises that the Constitution constrains the federal government regarding what it can fund directly. ALGA supports recognising local government in the Constitution as an activity the Federal Government can directly fund. In place of Constitutional recognition, ALGA believes that the Federal Government needs to be more ambitious in using existing heads of power to provide funding to local government directly rather than solely relying on state and territory governments.

The local government funding model and financial sustainability

A lack of adequate funding and long-term certainty is impacting on the financial sustainability of councils across Australia. This can be viewed through three broad indicators of financial sustainability – operation surplus ratio, debt service ratio, and asset sustainability ratio.

Operating surplus ratio

The operating surplus ratio is a measure of a council's financial health. A positive ratio indicates the council generates more revenue (excluding grants and other contributions) than operational expenditure, while a negative ratio indicates that operational expenditure exceeds revenue.

In 2021-22, more than 50 per cent of councils in all states did not achieve a target operating surplus ratio of between 0 and 10 per cent ([Figure 6](#)). The majority of Tasmanian councils (93 per cent) failed to meet the target, followed by 66 per cent of Western Australian councils.

A regional breakdown shows that rural councils are disproportionately affected by the inability to generate sufficient operating income above operating expenditure, with 36 per cent of all rural councils failing to meet this target compared to 24 per cent of non-regional councils, and

The average operating surplus ratio for councils considered in this analysis was -1.8 per cent, signalling financial stress in the sector. Many councils are already relying on government contributions and grants to provide services and avoid a deficit.

This highlights the importance of federal and state grants on the financial sustainability of local government especially in rural and regional areas. Without effective grants, they are not able to raise enough independent revenue to operate sustainably.

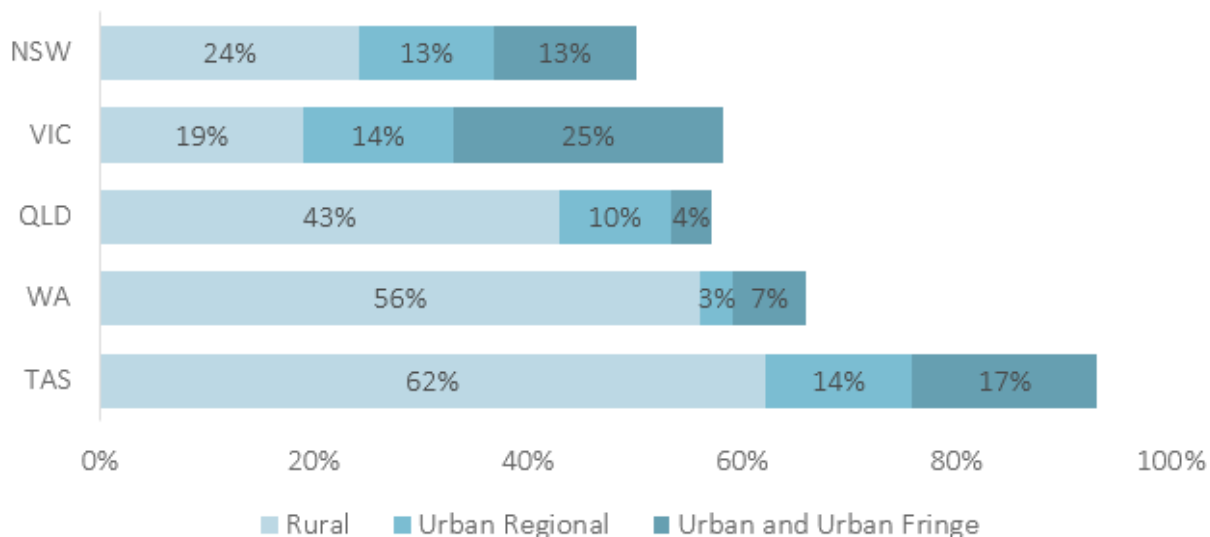


Figure 6. Proportion of councils not meeting operating surplus indicator by state and region.

Debt surplus ratio

The debt surplus ratio is a measure of the proportion of council's general income used to repay financial liabilities. If financial liabilities account for a significant portion of operating revenue, a council will have limited capacity to increase loan borrowings and may experience stress in servicing existing debt. In 2021-22, the majority of councils met the debt servicing targets required by their state government ([Figure 7](#)).

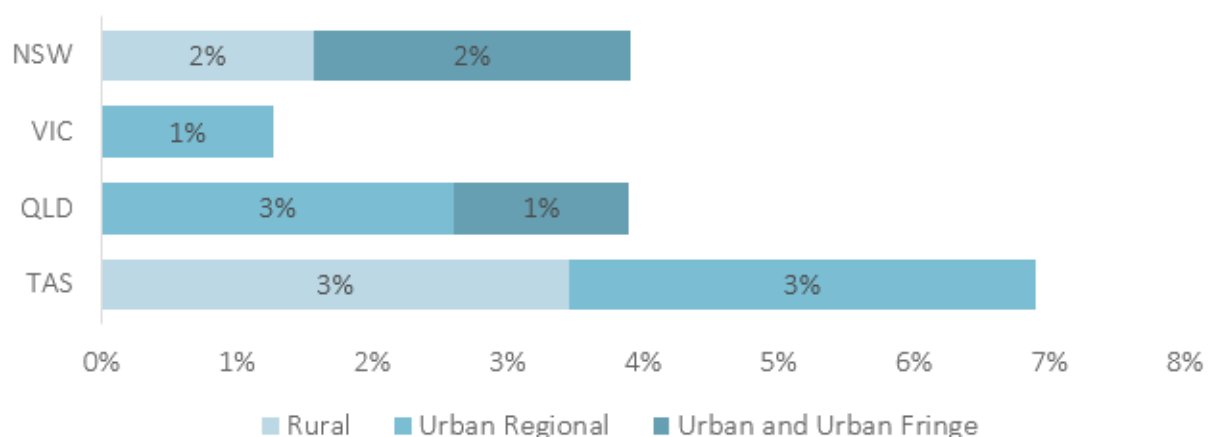


Figure 7. Proportion of councils not meeting the debt servicing indicator set by their state government, by state and region.

Asset sustainability ratio

The asset sustainability ratio is a measure of whether assets are being renewed and replaced in an optimal way, relative to depreciation. A ratio below 100 per cent could indicate underinvestment and lead to higher costs in the future. In 2021-22, 47 per cent of councils nationally did not meet target asset renewal ratios of at least 90 per cent ([Figure 8](#)). A breakdown by jurisdiction shows that Queensland had the highest proportion of councils failing to meet the target (74 per cent), followed by Tasmanian councils (68 per cent) and New South Wales (52 per cent). Rural councils were over-represented in this analysis, noting the limited financial flexibility in the context of smaller rate bases over which to spread asset renewal and maintenance in large geographies.

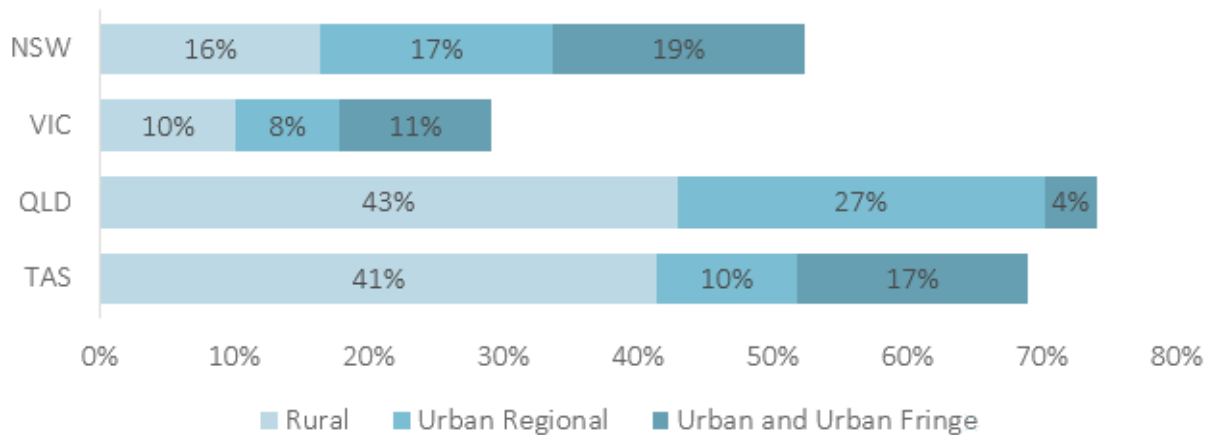


Figure 8. Proportion of councils not meeting the asset sustainability indicator set by their state government, by state and region.

Overall financial sustainability

Combining these three metrics provides an overall picture of financial sustainability of local government in different jurisdiction. From this, in 2021-22:

- 27 per cent of all councils were assessed as having low financial sustainability
- Tasmania had the highest proportion of councils (66 per cent) with low financial sustainability, followed by Queensland (43 per cent) and New South Wales (32 per cent) (Figure 6)
- Western Australia had the highest proportion of councils (39 per cent) with high financial sustainability overall (Figure 9), and
- Financial sustainability across the national local government sector did not differ markedly by remoteness (Figure 10). Approximately half of all councils in rural and urban areas are deemed as having moderate financial sustainability, with remaining councils roughly evenly split between the high and low financial sustainability categories.

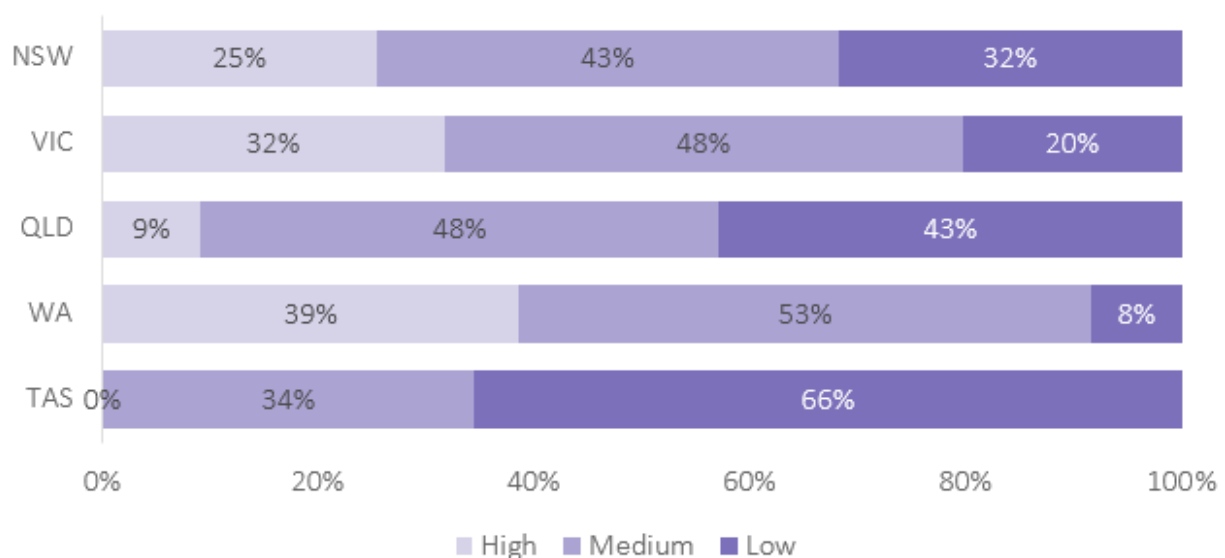


Figure 9. The per centage of councils by category of financial sustainability in 2021-22.

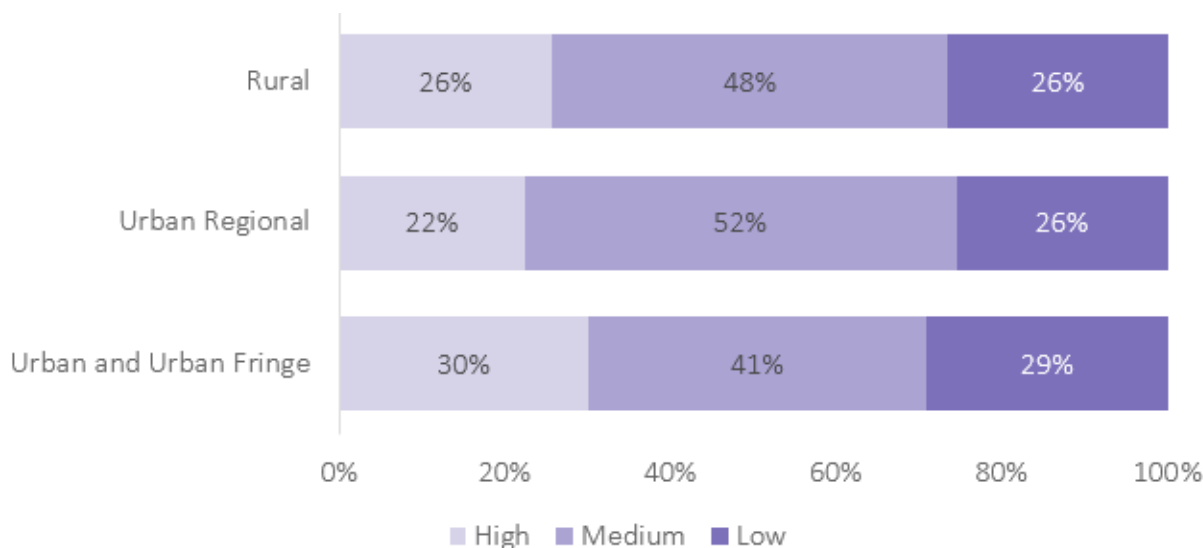


Figure 10. The percentage of councils by category of financial sustainability and region, 2021-22.

The lack of financial sustainability is impacting service delivers for all communities

A national analysis of local government spending per capita demonstrates that between 2013-14 and 2022-23, spending on key activities remained relatively consistent in nominal terms ([Table 1](#)). Given inflation and cost increases, this nominal consistency represents significant decreases in real terms. Rather than delivering consistent services, local government must cut or scale back services to maintain services to the community. While this demonstrates positive per capita growth, it masks specific declines happening within individual states and specific councils. This is evident when looking at each jurisdiction ([Table 2](#)).

Table 1. Australian local government spending per capita (\$m) by service type, 2013-14, 2022-23, compound annual growth rate.

Service type	2013-14 spending per capita (\$m)	2022-23 spending per capita (\$m)	Compound annual growth rate
Economic affairs	\$570	\$583	0.3%
Education	\$45	\$69	4.8%
Environmental protection	\$1175	\$1662	3.9%
General public services	\$2441	\$3084	2.6%
Health	\$147	\$163	1.2%
Housing and community amenities	\$1120	\$1335	2.0%
Public order and safety	\$261	\$361	3.7%
Recreation, culture and religion	\$1660	\$2128	2.8%
Social protection	\$536	\$565	0.6%
Transport	\$2193	\$2617	2.0%
Total	\$10148	\$12567	2.4%

Table 2. Examples of the largest proportionate declines in per capital spending by service (\$m), 2013-14 and 2022-23.

State / Territory	Service type	2013-14 spending per capita (\$m)	2022-23 spending per capita (\$m)	10 year change in \$m per capita	Proportionate change (%)
NT	Economic affairs	\$144.1	\$87.1	-\$57	-39.5%
NT	Health	\$20.6	\$15.8	-\$4.7	-23.1%
SA	General public services	\$102.6	\$90.7	-\$11.9	-11.6%
QLD	Social protection	\$12.1	\$11	-\$1.1	-9.0%
NT	Recreation, culture and religion	\$247	\$233.6	-\$13.4	-5.4%
NT	Education	\$16.5	\$15.8	-\$0.6	-3.8%
VIC	Social protection	\$163.4	\$160.2	-\$3.1	-1.9%
TAS	Social protection	\$40.9	\$40.1	-\$0.8	-1.9%

Roads, Transport and Community infrastructure

Key takeaways:

- Local governments manage a significant portion of Australia's public infrastructure assets, including roads, footpaths, parks, and community facilities. These assets are crucial for communities' social and economic well-being.
- Despite their importance, local governments are financially constrained and struggle to maintain these assets. Federal funding for local roads is inadequate, and grant programs are burdensome and inefficient.
- The Roads to Recovery program is a good model for direct funding to councils for local roads. This provides councils with funding certainty and flexibility and enables them to align funding with local needs.
- Local governments play a vital role in operating regional airports, which require government support. These airports are essential for the economic, social, and medical well-being of regional communities.

The local government sector collectively owns, manages, and maintains roads, cycleways, footpaths, parks, pools, and other community assets, conservatively valued at \$643 billion, with an annual operation spend of over \$38 billion. This represents one-third of all Australia's public infrastructure assets. Local roads make up approximately 39% of total local government infrastructure assets and 77% of the national roads network by length.

The size and scope of the local government's asset base offer a significant burden and a great opportunity. Modest investments across local government infrastructure substantially benefit economic productivity, social well-being and, ultimately, community liveability. Local governments' community infrastructure and services, such as libraries, pools, sporting facilities, arts and culture facilities, parks, and sports grounds, play a significant role in ensuring the well-being of local communities.

Population and financial pressures in some locations mean that these vital community services and facilities can be over capacity, in need of repair and upgrade, or unavailable. One of the most significant issues in asset management is the ability of councils to maintain current assets, given funding is often only available for new infrastructure.

Council infrastructure needs greater investment from the Federal Government.

Owning, managing, and maintaining 77 per cent of the national road network means that local government play a crucial role in delivering roads and road-related infrastructure upgrades in partnership with the Federal Government. Without a strong partnership, roads and road-related infrastructure cannot achieve the efficiency or efficient development needed to increase the long-term productivity of Australia's transport network. Councils' long-standing track record, effective management, and commitment to community engagement and sustainability make them trusted partners in this critical endeavour.

Despite this, the Federal Government is not investing sufficiently in local roads to ensure long-term road safety, community liveability, or economic productivity. In Australia, many councils with the largest road and infrastructure base are those with the smallest population and rates base. This means they cannot fairly or reliably raise sufficient revenue from within their jurisdiction to maintain and improve their assets sustainably. Because of this, councils are heavily reliant on state, territory, and federal grant programs for road funding.

This is highlighted in the Grattan Institutes' 2023 report "Potholes and Pitfalls - how to fix local roads."⁸ This report highlighted the significant shortfalls in funding faced by councils responsible for managing and maintaining local roads in Australia. The report emphasised that the current levels of road funding to councils are inadequate to sustainably manage a safe and efficient regional, rural, and local road network. The report recommends increasing the proportion of road and road-related infrastructure funding allocated to councils through direct funding mechanisms, such as FA Grants and the Roads to Recovery program.

While the Federal Government has recently increased recurrent funding for road maintenance, it is important to consider the cost burden of existing maintenance backlogs highlighted in ALGA's National State of the Assets (NSoA) reports. Forthcoming analysis in the 2024 NSoA Report highlights the significant issues in condition, function and capacity of local government owned infrastructure, partly due to a lack of sustainable funding. In the report, ALGA has identified that, on average:

- 8% of local government infrastructure assets are in poor condition with significant defects and require higher-order costs and interventions.
- 7% of local government infrastructure assets have poor function and have limited ability to meet program/service needs.
- 8% of local government infrastructure assets have poor capacity, with demand exceeding or well below design capacity, displaying significant operational issues.

These results demonstrate that approximately 20 to 30% of local government assets are in fair condition, function, and capacity, and less than 10% are poor to very poor. This is a small improvement on the 2021 results, which can be traced partly to the Federal Government's increased funding for local government roads and community infrastructure during the pandemic. Despite increased investment, the estimated replacement cost of all infrastructure assets in poor condition, function, and capacity is estimated to be \$48 to \$54 billion, close to the \$60 billion received in total annual revenue for the 2022-23 financial year.

This data is supported by an analysis of the asset maintenance ratio in different jurisdictions. Based on available data for 2020-21:

- 50.8 per cent of councils in NSW reported that their required asset maintenance was greater than their actual asset maintenance.
- There is significant differences in councils' asset maintenance across different regions, with urban regional councils lagging behind rural and urban fringe councils ([Figure 11](#)). A ratio equal to or greater than 100 per cent indicates that sufficient funds are being directed towards asset maintenance and renewal.
- Victorian local governments reported a total asset renewal gap of \$470 million in 2020-21, and a cumulative total asset renewal gap of \$1.84 billion from 2016-17 to 2020-21 ([Figure 12](#)). Depreciation can be considered a proxy for the amount of funding required to renew assets each year. Depreciation in excess of renewal expenditure indicates a shortfall in necessary funding for capital maintenance.

⁸<https://grattan.edu.au/wp-content/uploads/2023/11/Potholes-and-Pitfalls-How-to-fix-local-roads-Grattan-Report.pdf>

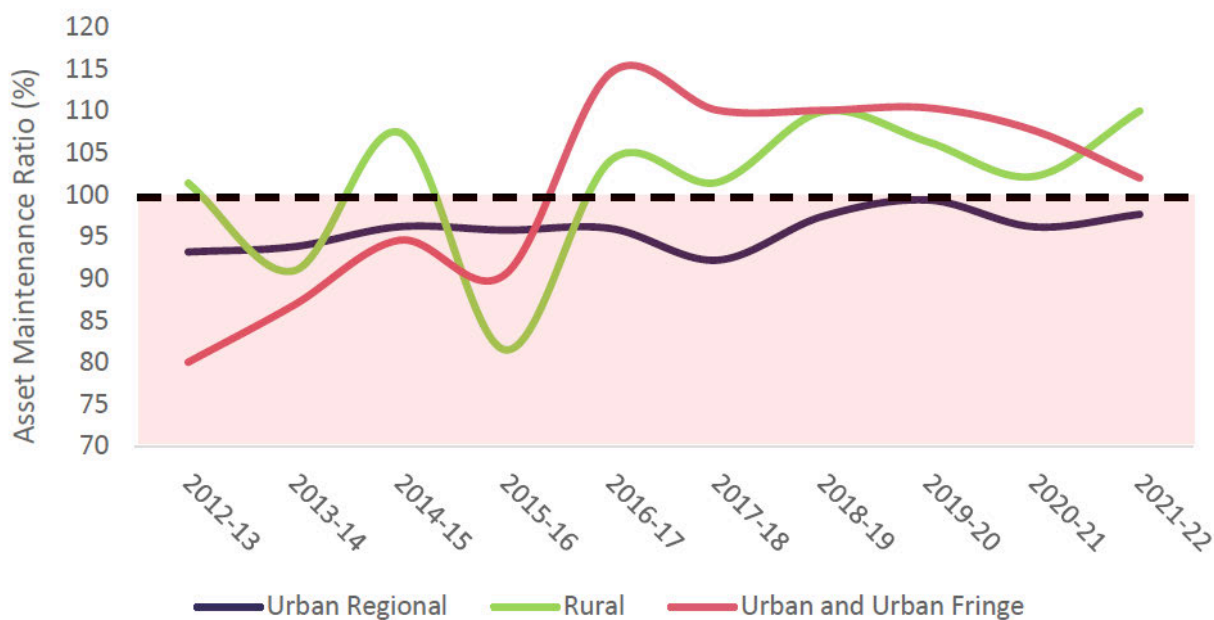


Figure 11. Average annual asset maintenance ratio by regional area in NSW 2013-2022

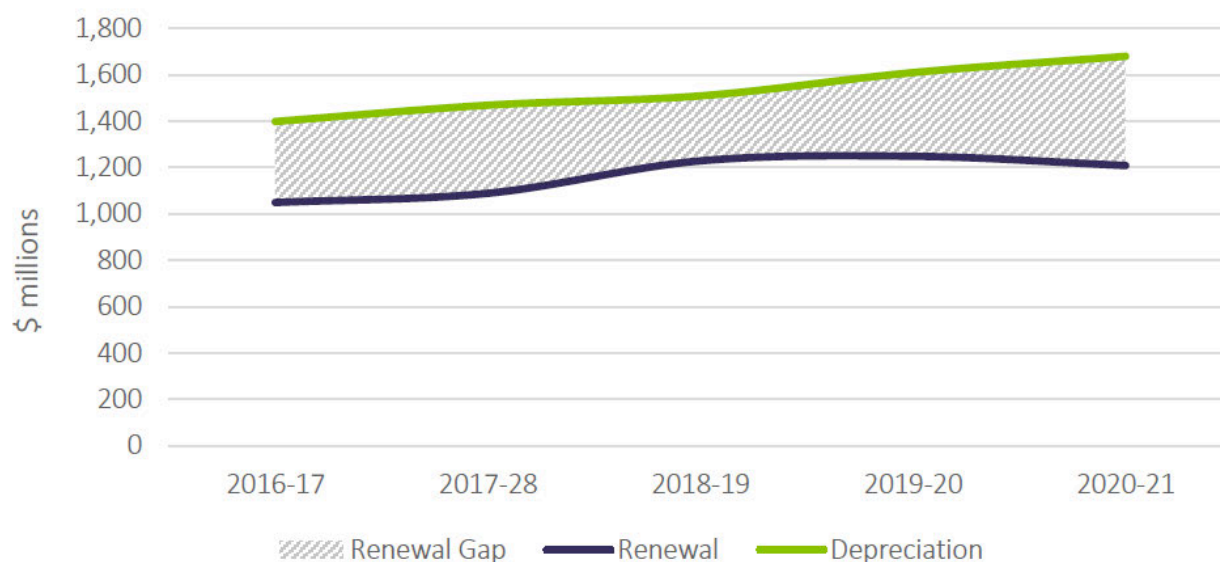


Figure 12. Total asset renewal gap in Victoria 2017-2021

Not only is there existing pressure on these assets, but the quality of the local road network is vulnerable to sustained rain and flooding events. Without funds for preventative measures and maintenance, these roads deteriorate at an increased rate under climate pressures.

The current model for funding the local road network is unsustainable. For the freight industry, the fragmented funding for council roads has resulted in a fragmented road network that cannot ensure reliable and effective end-to-end access to deliver the freight task. For local communities, the recent severe weather events have meant seeing roads and vital community connectivity cut off, and impacted on road safety.

The Grattan report calls for a comprehensive approach to addressing the shortfalls in funding faced by councils for local roads and regional airports. It advocates for increased direct funding, reduced administrative burdens, flexible co-funding arrangements, and an efficient and sustainable transport network across Australia.

The Federal Government must increase its investment in local roads through councils as a primary mechanism to increase economic productivity, enhance road safety and improve liveability, especially in regional areas. This funding increase should be delivered through guaranteed funding models such as Roads to Recovery. The Roads to Recovery distribution model is widely accepted as providing fair and reasonable outcomes for all councils. Councils view Roads to Recovery as central to their ability to service their local road networks. The funding model under Road to Recovery enables:

- Funding certainty over the five years, with flexibility to manage delivery within the cycle
- Ability to align funding with the local government's 10-year road asset management plans and other strategic plans
- Enabling safety improvements for all road users as part of road maintenance, and
- Not requiring a laborious grant application process.

Roads to Recovery must also be indexed to ensure that the program's value is not diminished in real terms. This is especially important in the context of Australia's construction skills shortages, where councils may not be able to access a skilled workforce to conduct repairs and maintenance in a timely manner.

[Grant programs are an unsuitable avenue for infrastructure funding.](#)

Both federal and state governments supplement infrastructure funding through grant programs. While these grant programs are highly valued, grant application processes are onerous and time-consuming. Not all councils have the resources to apply for all the various grant-funded programs available to councils. This means that some councils will not be able to apply for these grants or not be able to make a competitive bid. This can mean that councils that need additional funding the most are the ones who miss out on new funding for their communities. Funding models like Roads to Recovery and the Local Roads and Community Infrastructure Program should be prioritised over individual grant programs.

Additionally, these grant programs can also require significant administrative burdens. Councils do not object to reporting and accountability but systems and processes put in place to administer these programs should be cognisant of council time and resourcing constraints.

Grant programs can also disadvantage councils that cannot provide adequate co-funding. Councils with a low revenue base often face significant challenges in meeting the financial obligations associated with co-funding requirements. As a result, many councils in need of funding cannot access grant-funded programs that require co-funding.

There are several ways to make co-funding requirements more flexible. One option is to reduce the co-funding required for councils with a low revenue base. Another option is to allow councils to use in-kind contributions, such as labour or materials, to meet co-funding requirements. Additionally, governments could provide more flexible repayment options for councils struggling to meet their co-funding obligations.

[Local government is essential to rural and regional air services](#)

Two hundred regional and remote airports are owned and operated by local government. At least 60 per cent of these are not financially viable. Instead, they only remain operational because councils and their communities subsidise the ongoing operation of these facilities.

Regional and remote airports play a critical role in their communities' economic, social, and medical well-being. They provide essential transportation links for people and goods in remote areas where road and rail infrastructure may be limited or non-existent. They enable residents to travel for work, education, medical care, and other essential purposes.

Many regional and remote communities rely on air transport to access medical services unavailable locally. Airports facilitate the transportation of patients to larger cities for specialised care, as well as the delivery of medical supplies and personnel to remote areas. Airports support local economies by providing jobs in various sectors, including aviation, tourism, and logistics. They also facilitate business development and investment in regional areas, creating employment opportunities in various industries. They enable the rapid deployment of personnel, equipment, and supplies to affected areas and facilitate the evacuation of residents from danger zones.

Council-owned and operated airports play a vital role in the country's social fabric and facilitate access to similar opportunities for their communities as those enjoyed by people living in more populated and better-serviced areas of the country. Most councils do not have the capability or capacity to raise the necessary funding for airports through their operational revenue. Therefore, governments must step in to support the ongoing operation of these airports. This is especially true for airports transferred from Federal Government ownership to councils under the Aerodrome Local Ownership Plan (ALOP) during the 1980s and 1990s.

Emergency management

Key takeaways:

- Local governments play a critical role in supporting communities before, during and after natural disasters. This includes hazard mitigation, preparedness, response and recovery activities.
- Local governments lack the resources to prepare for and respond to natural disasters effectively. The financial burden of natural disasters is significant, and there is a mismatch between the risks communities face and the resources available to councils.
- More funding is needed for mitigation efforts to build community resilience and reduce disaster risks. This would save money long-term by reducing the need for post-disaster recovery funding.
- The Federal Government's definition of essential community infrastructure must include community assets beyond essential services like roads and schools. This would help councils manage the financial risks associated with natural disasters.

Local government plays a critical role in supporting the community in preventing, preparing for, responding to, and recovering from emergencies. Working with their communities, local governments undertake hazard and mitigation activities, build community resilience, enhance health and well-being, and support vulnerable communities. As the impacts of climate change are felt through greater frequency and severity of natural disasters, it is essential that local government is effectively equipped to support their communities, increase their resilience, and speed up recovery from natural disasters.

The particular roles undertaken by councils vary between jurisdictions and between councils depending on their capacity and the natural disaster risks their communities face. However, there is an underlying commonality that councils need greater support to effectively enable their communities to withstand the impact of natural disasters.

The relationship between emergency management and financial sustainability has become increasingly apparent in the last five years. Between January 2019 and 2023:

- 434 local government areas have been impacted by natural disasters
- \$19.3 billion has been spent on recovery
- \$12.2 billion of insurance losses
- 17.8 million Australians affected

At the same time as these natural disasters have impacted Australia, councils have not been able to rebuild to a better standard. A lack of support for improvement has meant that councils have had to repair the same roads and infrastructure on numerous occasions and have not been able to make the infrastructure more resilient.

[Councils must be better resourced to manage the risk of natural disasters.](#)

Councils need to prepare for climate change's impacts. As climate change increases the frequency and severity of natural disasters, councils will be increasingly called on to support their communities in managing disruption. However, there is a mismatch between the amount of local government infrastructure exposed to climate change risks and the resources local governments have to adapt effectively to manage these risks. Australia's efforts to address and respond to climate change are not taking full advantage of the opportunity for partnership and collaboration with local government.

Councils are uniquely placed to identify effective place-based solutions for their communities to respond to natural disasters. However, councils often cannot implement these projects alone and require additional help to implement innovative solutions. In most cases, local governments in regional areas are the most exposed to natural disasters (fire and floods) and have the lowest capacity to invest in new programs due to small local tax revenue. Because of this, these councils generally do not have the means to co-fund projects or to achieve betterment after disaster events to make the assets they rebuild more resilient to future events. Funding assistance is imperative, particularly for small councils that rely heavily on federal funding for financial viability.

While councils understand the need to reduce risk and build more resilient infrastructure, many cannot undertake any mitigation without additional funding. Because of this, many communities are now at risk of being unable to reduce their disaster risks of recovering from events efficiently and effectively. The Federal Government has recently implemented some projects to support councils better; however, these programs are too small to lead to the substantial change needed to equip local communities to better deal with the impacts of climate change.

For example, the Disaster Ready Fund offers an opportunity to assist councils in implementing mitigation projects and enhancing their preparedness for the next natural disaster. However, the \$200 million was not adequate, with Round One oversubscribed and an expectation that Round Two will be oversubscribed as well. Instead of this one-off approach, the Federal Government must implement a large, long-term funding stream that provides resourcing for targeted natural disaster mitigation activities. Such a program would build the preparedness of communities and deliver co-benefits that accrue even in the absence of a natural disaster. ALGA's call for increased disaster mitigation funding is supported by a 2014 Productivity Commission inquiry into natural disaster funding, which found funding for reconstruction and recovery consumed 97% of disaster funding in Australia, compared with only 3% that went towards mitigation and community resilience measures. This funding allocation is at odds with existing research, which has shown that investment in preparedness delivers significantly higher benefits than funding for reconstruction.

Research from Deloitte Access Economics⁹ has highlighted that the cost of data recovery efforts is \$38 billion annually, likely to rise to at least \$73 billion annually by 2060. Further, the US Federal Insurance and Mitigation Administration has identified that every \$1 spent on mitigation saves \$6 on recovery grants. This makes the case for greater upfront investment in funding more resilient roads a clear priority, as this investment will help to ensure that our economy does not take a massive hit as it has in recent adverse weather events. Upfront mitigation investment will ensure communities recover quickly as road access is not cut off, allowing help to make it to those in need. It will also support faster economic recovery due to keeping supply chains open.

The Federal Government needs a broader definition of community infrastructure.

It is important to consider the impact of natural disasters on broader community infrastructure. In many cases, the Federal Government focuses on the impact of natural disasters on economic infrastructure, which is considered an essential asset, such as roads, road infrastructure, bridges, tunnels, public hospitals, and public schools. However, impacts on broader community infrastructure also impact community liveability.

Under the existing framework, the Federal Government does not consider substantial council-owned assets essential public assets. This includes sporting, recreational and community facilities, religious establishments or memorials, and landfills/transfer stations. Because of this, councils are required to individually insure these community assets and hold the financial burden of insurance premiums. With the increasing frequency and severity of natural disasters, there are ongoing price increases for insurance premiums, impacting the financial sustainability of councils. In some cases, councils can no longer afford to insure these assets or are ineligible for any insurance at all.

⁹ <https://www.iag.com.au/newsroom/community/natural-disasters-estimated-cost-australia-73-billion-year-2060>

Climate Change

Key takeaways:

- Local governments play a critical role in reducing greenhouse gas emissions and adapting to the effects of climate change. They are leading efforts in their communities through various initiatives and planning.
- Councils are actively reducing emissions through their operations and by engaging communities. Many councils have ambitious emissions reduction targets, and some have achieved carbon neutrality.
- Local governments need more funding to reduce emissions further and implement new initiatives. This funding would also create opportunities for economic development alongside emissions reduction.
- Local governments are crucial for adapting communities to climate change impacts. They take a place-based approach to adaptation planning. Still, lack of resources limits their ability to implement all necessary measures.

Local government has an essential role in facilitating the transition to a low-carbon economy across Australia. Across Australia, local government has demonstrated leadership in proactively reducing carbon emissions, integrating climate solutions into local decision-making, adapting to the impacts of a changing climate, responding to natural disasters, and improving infrastructure resilience.

Climate change adaptation and mitigation are now integrated into council planning and decision-making, such as strategic plans. For example, in the [2023 NSW Local Government Climate Survey](#), more than half of the surveyed councils developed an environmental or sustainability action plan or strategy that embedded climate change targets or actions. Of the councils surveyed, 31% indicated that they had allocated budget resources to mitigation, and 18% had allocated budget resources for adaptation actions.

Despite councils' ongoing leadership, more must be done to accelerate cutting greenhouse gas emissions. Local government plays a critical role in their communities to reduce greenhouse gas emissions. Not only have councils focused on reducing our operational emissions, but they have also engaged the community through education, sustainability programs, land use, and development planning, as well as advocating for climate action at other levels of government.

Local government contribution to emissions reduction

Many councils are already investing in new technologies to reduce emissions, supporting local businesses to innovate and adapt, and creating new jobs in their communities. Local government operations, including aquatic centres, sports field lighting, streetlights, community buildings, and water utilities, are huge energy consumers. Investing in new technologies and prioritising energy efficiency for these operations has allowed local governments to reduce emissions and find cost savings. Through these activities and direct engagement, local government has demonstrated a unique role in delivering emissions reductions that suit the individual needs of individual communities.

The positive work of local government in reducing emissions is evident in the [2021 Australian Local Government Climate Review](#). This review highlighted the widespread action of local government in adopting emissions reduction plans, such as that of responding councils:

- 73 per cent have set or are planning ambitious corporate or operational emissions reduction targets, and

- 80 per cent have set or are investigating developing community-wide emissions reduction targets.

These targets build on existing research by [100% Renewables](#) that shows that in 2021, more than one in six councils across Australia will adopt a net zero target, and ten will already be carbon neutral. These plans and works of local government demonstrate that effectively supported local government can drive Australia's net zero ambitions through individual, place-based solutions that offer positive development opportunities for all communities. Working in partnership with other levels of government, councils can deliver highly effective climate change projects to help achieve Australia's net zero emissions goals.

Many councils across Australia are already investing in new low-carbon technologies and supporting local businesses to innovate, adapt, and create new jobs in their communities. This includes introducing energy efficient LED streetlights, installing electric vehicle charging stations, using recycled road construction materials, and increasing tree canopy coverage. While councils have had significant success in leading local emissions reduction activities, there is significant opportunity for well-funded programs that provide support and financial security for councils to invest in additional new activities that deliver key synergies between economic development and emissions reductions.

For example, additional funding for local government can allow local government to implement new programs that reduce emissions, decrease operating costs and increase economic growth. These activities may include:

- Installing renewable energy (solar PV and battery storage) on council buildings
- Powering council operations with renewable energy and setting targets to increase the level of renewable power for council operations over time
- Reducing demand for energy through efficiency upgrades and swapping technology
- Electrifying council fleet vehicles and powering these with 100% renewable energy
- Reducing greenhouse gas emissions from landfills by capturing and processing organic waste
- Implementing landfill gas methane flaring or capture for electricity generation
- Meeting renewable energy or emissions reduction targets, and
- Support community engagement and action to reach net zero emissions.

With effective long-term planning, these programs offer dual benefits for councils and communities by reducing greenhouse gas emissions, decreasing operating costs using renewable energy, and improving energy efficiency.

[Local government adapting to climate change impacts.](#)

In addition to leading place-based emissions reduction programs, local government also plays an essential role in adapting to the effects of a changing climate. Through effective action, local government plays a critical role in building resilient and sustainable communities, helping to buffer people and places against social, economic, and economic disruptions, and overcoming adversity.

Local governments have adopted a place-based approach to adaptation, considering community views, socioeconomics, geographical considerations, and localised climate impacts. While this has allowed councils to support their local communities, funding pressures and a lack of effective financial sustainability are limiting councils from adopting the full suite of adaptation measures that can effectively prepare their communities and lower the cost of climate change impacts for all levels of government.

The effects of climate change also have the potential to damage council assets, cause serious disruptions to the delivery of council services, generate unbudgeted financial impacts, and affect the well-being of the community. Ensuring infrastructure can withstand future climate-change realities is vital for creating prepared

and resilient communities. This makes local government a valuable partner in adapting to climate change impacts. Early planning and preparation to minimise the impacts of climate change in local communities will reduce long-term economic, social, and environmental costs.

Many councils have already responded by adopting proactive strategies to adapt to unavoidable climate change impacts through climate change risk assessments and adaptation plans. However, some councils are not able to fund this work due to budget pressures.

Examples of local government responses to climate change

There are numerous examples of local government responding to climate change. This includes:

- Building Future Program – Waverley Council (NSW) – The Building Future Program by Waverley Council works directly with selected strata stakeholders to identify and implement cost-effective energy-saving solutions, empowering this traditionally hard-to-access sector to take action to help deliver the council's ambitious net zero emissions target by 2050. Each building receives expert energy assessments, NABERS rating, costed efficiency upgrade recommendations, waste advice, matched funding, expert implementation support, training and networking opportunities, and recognition for achieving targets. Recent data shows that because of energy-saving retrofits, the program has achieved an average 24% energy reduction, avoided 651 tonnes of carbon emissions each year, and saved around \$13k on an average bill each year for each building. Paybacks on investment are as little as six months and average around 2.5 years, making this an attractive and beneficial program to encourage the implementation of energy-efficient buildings.
- Floating solar panels – Jamestown, Northern Areas Council (SA) – The floating panels in Jamestown in South Australia's Mid North have been built at a wastewater treatment facility managed by the Northern Areas Council. These solar panels don't just supply power; they also help conserve water by preventing water evaporation and reducing blue-green algae, which is a major issue for many water utilities. This is a floating solar concept, so it avoids taking land that could be used for other purposes, such as agriculture. The facility will generate an estimated 57 per cent more power than fixed land-based solar systems, and the Northern Areas Council is expected to save approximately 15 per cent on its current energy expenditure.
- Hybrid Solar and Battery Off-Grid Stadium and Relief Centre - Nillumbik Shire (Vic) – Located less than 25 kilometres from Melbourne's city centre, Nillumbik's Community Bank Stadium is now the region's main Bushfire Refuge Area—thanks to the solar battery system that can run the facility in off-grid mode during emergencies. Nillumbik's world-first Hybrid Solar and Battery Off-Grid Stadium and Relief Centre is a facility that has been renovated to operate as an emergency shelter. The stadium is critical as an emergency relief centre for the community vulnerable to power outages during heatwaves, flooding, and bushfires. Council has installed 100 kilowatts of solar PV and a 100-kilowatt-hour battery system to provide off-grid power for up to eight hours during emergencies, including bushfires, floods and heatwaves. In normal times, the system helps to cut emissions and costs by reducing grid-sourced electricity by 80 per cent. A unique aspect of this type of solar battery system is that it simultaneously addresses climate change adaptation and mitigation. As bushfires become more regular and intense in the highly forested and populated area of Nillumbik, employing advanced technologies to keep our

communities safe is essential. At the same time, it reduces their environmental footprint and electricity bills.

- Eco-Industrial Precinct - Townsville City Council (Qld) – The Townsville City Council, with a population of 194,000, has committed to establishing a new Eco-Industrial Precinct as an environmentally sustainable, advanced manufacturing, processing and technology estate. The Lansdown Eco-Industrial Precinct will be Northern Australia's first environmentally sustainable advanced manufacturing, processing and technology hub. The Precinct is primed to realise the objectives of the Townsville City Deal (a tri-partisan agreement spanning 15 years and all levels of government) to activate industry and export growth for Townsville and its regional partners as the Industry Powerhouse of the North. Development proposals need to be in line with the planning objectives of the Precinct, including: best-practice, low-emission, energy-efficient, ecologically sensitive industrial development; innovative and dynamic enterprises that support the creation of new job opportunities for Townsville residents; co-location of industrial uses, such as advanced manufacturing, processing, and technology, with supporting and complementary enterprises that grow Townsville's domestic and international profile. The city has shared its knowledge with other councils by publishing a procurement manual to help develop business cases and project management from inception to close. Partnering with large customers has helped the city to build scale, gain the perspectives of a diverse customer group and encourage replication of the model across a wide range of sectors. Numerous councils across Victoria are forming a renewable energy working group to undertake procurement processes similar to MREP.
- Urban Forest Strategy – Town of Victoria Park (WA) – In 2016, the Town of Victoria Park had a canopy cover of 10% of land area - one of the lowest in Perth and significantly less than is required for a healthy urban environment, including cooling the built-up areas of the town. Across both public and private land, pressures on the town's urban forest were increasingly apparent. Community concerns about this trend resulted in the development of the town's first urban forest strategy (UFS). The UFS is a community-initiated and driven process—endorsed by Council in September 2018—that identified the need to expand and better manage trees within the Town, both on public and private land. Together with a Working Group, the Strategy was then translated into an Implementation Action Plan (IAP) for 2019 - 2024 - setting out how the Town and the community will work together and implement actions to deliver a target of increasing the Town's tree canopy cover from 10% to 20%. There are six key strategic outcomes from the IAP: plant and protect sufficient trees by 2020 to achieve a 20% canopy target; maximise community involvement and collaboration; increase tree diversity that favours local endemic and West Australian species (where appropriate) that also support wildlife; maintain a high standard of tree health; improve soil and water quality; and improve the urban ecosystem. The IAP also proposes establishing a volunteer urban foresters network that can be mobilised for a mass planting and stewardship program.

Waste management, circular economy and environmental protection

Key takeaways:

- Local government is Australia's biggest spender on environmental protection, investing in waste management, biodiversity, water management and biosecurity.
- Australia's waste generation is increasing, recycling rates are low, and resource recovery infrastructure is not being invested in.
- Local governments play a crucial role in diverting waste from landfills and creating a circular economy. They are leading innovative projects but require more support.
- Local governments have many environmental responsibilities, including managing biodiversity, biosecurity, contaminated lands, water resources and pollution control.
- Local governments are increasingly burdened with environmental regulatory functions without the necessary funding from higher levels of government.

Local government spends more money on environmental protection than any other level of government. As a sector, councils spent \$6.75 billion in 2021/22 on biodiversity, biosecurity, water management, and waste management. For context, states and territories spent \$6.62 billion, and the Commonwealth \$6.7 billion over this period.

Waste and resource recovery

Waste management has been a fundamental responsibility of local government since its inception. While waste collection and disposal activities have developed over time, local government plays a critical role in Australia's circular economy. Local government collects and receives around 9 million tonnes of waste each year. In 2018-19, local governments landfilled 4.9 million tonnes of waste and, during the same period, paid an estimated \$1.13 billion in waste levies. Collecting, treating, and disposing of Australian domestic waste costs the local government an estimated \$3.5 billion annually.

Australia's waste is a growing problem that has broad impacts for local government. In the last decade, the amount of waste generated in Australia has increased by around 12 percent. This is compounded by low levels of recycling—Australia's recycling rate is below that of most OECD countries.

Material recovery is limited in Australia by the absence of product design standards that promote the recyclability of materials introduced to the market and the lack of processing facilities and end markets for reprocessed materials. However, recycling is still an end-of-pipe solution. A circular economy needs to prevent waste in the first place through "upstream" solutions. Further up the supply chain, interventions are needed to avoid unnecessary waste and shifting disposal costs onto consumers and local government. Local government wants to see waste designed through the product's ability to be reused, repaired and remanufactured. We are running out of accessible landfill capacity, and all Australians' recycling collection costs continue to rise.

Despite capacity restraints stemming from their limited revenue-raising abilities, councils are pioneering many innovative and exciting responses to the waste crisis, usually in collaboration with local communities. These projects are helping to deliver cleaner, safer environments, sustainable jobs, and economic development, particularly in regional areas. But local governments cannot do it alone. A whole-of-government approach is needed – with strong leadership, binding national agreements, more incentives to invest in new infrastructure, ambitious procurement targets, and mandatory industry-wide programs to avoid waste generation.

Councils are committed to identifying and implementing opportunities to divert more waste from landfills and establish a circular economy where valuable resources are collected, separated, and processed into new products. However, a lack of financial sustainability for local governments across the country is impacting the ability of councils to invest in local waste management and resource recovery infrastructure and solutions. Without the ability to invest in new and existing waste management technologies, local governments across the country are not going to be able to implement new techniques and processes that maximise the productive use of waste and materials. This will broadly impact the ability to increase the circularity of Australia's economy and maximise the benefit of better waste management.

Increased support for councils will translate to more local options for processing municipal co-mingled recycling. It will help us educate communities about their waste practices and provide more support for local businesses to supply or source recycled products like road bases incorporating crushed glass.

In many cases, innovative waste management programs led by local government deliver multiple benefits for communities through reduced landfills, locally sourced compost, and recycling of products that otherwise would go to landfills. Examples of these programs include:

- The City of Melbourne collects 11,000 tonnes of residential recycling each year. To combat the plastic previously destined for landfill, The City of Melbourne, its subsidiary Citywide, and the Citywide North Melbourne Asphalt Plant are using 50 per cent recycled plastics and other recyclable materials to resurface their streets, with five being paved so far.
- In the NSW Northern Rivers, the Tweed Shire Council has partnered with SOILCO, an organics recycling business, to deliver a state-of-the-art Organic Recycling Facility (ORF) that can process up to 25,000 tonnes of food and garden organics annually. The compost from this facility is good for homes, businesses, and agriculture and represents a potentially lucrative income source.
- Randwick City Council in NSW has diverted 1400 tonnes of food and garden organics (FOGO) from going to landfill, with a low contamination rate of 1.5 per cent, since implementing the FOGO bins in March 2021.

Environmental Management

Whether it's managing biodiversity, biosecurity, contaminated lands, water resources, sustainability or pollution control, councils play a critical role in educating households and businesses on environment policy and driving environmental programs and initiatives in their local communities. With key roles in managing and protecting the environment included in each jurisdiction's local government legislation, councils have a range of functions, powers, and responsibilities. In some cases, councils are regulators or co-regulators established under state and territory legislation.

Councils help protect plant and animal life in their local area through biodiversity strategies and plans, land use planning mechanisms, management of invasive species and other biosecurity controls and working with the community on biodiversity projects and programs.

In some jurisdictions, councils also have a major role in managing contaminated land to protect their communities' health and ensure healthy and appropriate development of their local government area. This is regulated through the planning process; councils must consider contamination when making rezoning and development decisions and may specify remediation works through development controls. Local governments might also be responsible for addressing contamination from historical land uses contributing to contamination of council-managed lands, including former landfills, gasworks, mines, uncontrolled fill, former night soil sites, wastewater treatment plants and derelict underground petroleum storage systems.

Local government is experiencing increased regulatory functions passed on from state and territory governments. The costs of this new or increased regulatory function are often not funded by the determining level of government, and councils must fund this through their revenue sources, including rates. For example, the 2023 LGNSW Cost Shifting Report¹⁰ additional regulatory functions cost NSW councils \$14.3 million to manage contaminated land, \$15.3 million for environment protection and \$16.6 million to manage invasive weeds.

Examples of councils conducting high quality and innovative environmental management programs include:

- The City of Greater Geelong's Dell Eco Reef project at Clifton Springs has installed an innovative artificial reef that helps to reduce coastal erosion while also creating a habitat for marine life. The 46 Erosion Mitigation Units, made of eco-friendly concrete using the bi-product fly ash instead of standard cement, blended with recycled shells, the units are helping to reduce coastal erosion by creating a permeable barrier in shallow water 60 metres offshore. The reef units create habitat for marine life and become a tourist destination for recreational snorkelers and swimmers.
- With fewer than 50 Coastal Emus estimated remaining in the wild, Clarence Valley Council identified a range of collaborative approaches to protect its endangered population. A key focus was reducing the risk of vehicle strikes at emu crossing points, including a 7km section of Brooms Head Road at Taloumbi. Driver awareness of the presence of coastal emus was increased through speed limit reductions, fencing trials on reserve boundaries, and installation of dedicated vehicle activated signs.
- Kempsey Shire Council's Tropical Soda Apple Control and Landholder Resilience Program encompasses social inclusion programs, landholder resilience and best practice training to support the eradication of Tropical Soda Apple along the Macleay River and tributaries in the Upper Macleay/Kempsey area. A comprehensive control program of the riparian zones was implemented to eliminate infestations of Tropical Soda Apple and protect the local environment as well as preventing further spread to private lands.

¹⁰ [ML Report-LGNSW-Annual Cost Shifting](#)

Local government jobs and skills

Key takeaways:

- Local governments face significant skills shortages across a range of professions. This makes recruiting and retaining qualified staff and delivering services to communities difficult.
- Skills shortages lead to reduced productivity, service delivery and increased costs for local governments. It also hinders progress on critical issues like housing and infrastructure development.
- Local governments struggle to compete with the private sector in terms of salaries. Rural and remote areas face additional challenges in attracting workers. Declines in apprenticeships and traineeships reduce the pipeline of skilled workers.
- Increased funding is needed to support local governments to invest in skills development and training programs, implement programs that better attract workers to regional areas, and support programs to address broader skills shortages in the national economy.
- A skilled local government workforce is critical for strong communities and a healthy national economy.

Jobs and skills are important factors affecting local governments and their communities. Australia's 537 local governments employ nearly 200,000 people across almost 400 occupations. Collectively, councils are one of the country's largest employers and must manage a diverse, multidisciplinary, and multi-skilled workforce. This means that it is essential for local government to have a workforce with the right skills for the right job. This will ensure the long-term sustainability and effective operation of local government.

At the same time, local government plays an important role as an incubator of local employment within their communities. Local government runs important trainee and apprenticeship schemes that employ young people and people from diverse backgrounds. Local governments also support employment within their local and regional communities through procurement and investment in community infrastructure and economic development programs. This means that local governments are essential anchor organisations in the community, supporting the economic benefits of harnessing talent and facilitating community cohesion.

The combination of these factors means that the existing employment and workforce landscape significantly impact local government's productivity, capability, and capacity to deliver positive, cost-effective services to local communities.

Councils must meet existing and future skills needs to deliver effective services and cost-effective administration for local communities. Like many other sectors, the local government faces a job and skills crisis. Councils struggle to attract and maintain the full suite of staff with the right skills, training, and experience across diverse roles that meet community needs and expectations. In 2022, an ALGA-commissioned survey identified that 192 of 210 councils surveyed – 91.4% – reported experiencing skills shortages. This is compared to the 68.9% of councils surveyed in 2018. This survey also highlighted that two-thirds of local governments have had local projects impacted or delayed because of these skills shortages.

Several elements contribute to local governments' workforce challenges, including:

- Broader skills shortages within the economy
- Pay competition with the private sector
- Lack of people with suitable skills in the community

- Financial capacity to invest in programs that train people within the community, including internal capacity to train people to upskill to take on new skills to increase organisational capacity, and
- Community services to support migration to take up existing opportunities.

Australia's economy has a skills shortage. There is a clear lack of workers who can adequately provide the skills, experience and expertise needed to contribute to certain occupations and workforce activities. Councils have significant challenges recruiting and retaining skilled workers in this environment. This is most prevalent for skill sets in areas of national skill shortages, such as engineering. This national shortage disadvantages councils in competition with the private sector, which can provide higher pay.

This skills shortage is evident in ALGA's 2022 survey of local government skills shortages. In this survey, local government identified the five most cited skills shortages as:

- engineers – 46%
- urban and town planners – 40%
- building surveyors – 36%
- environmental health inspectors – 30%
- human resources professionals – 29%

These skills require complex, sophisticated education and training that cannot be quickly or easily provided. As a result of these skills shortages, local governments said that they resorted to recruiting less skilled applicants for engineering, urban and town planning, building surveying, and supervisors and team leader roles. In this survey, councils identified that the most common drivers of shortages of these skilled professions are:

- a market shortage of suitably skilled candidates
- an inability to compete with the private sector and other local governments on remuneration, and
- locational disadvantages.

Skills shortages are exacerbated in rural and remote settings, where recruitment of specialist skills generally involves attracting people from outside the region. In these settings, local governments are often the only viable service providers. They must attract new staff and cannot rely on other firms or employers to provide skilled employees or contract services.

However, external recruitment can be limited by the availability of essential services for the community. For example, a lack of housing in a community can prevent suitably qualified workers from taking up employment opportunities because there is nowhere to live. This can also be exacerbated by poor supporting services, such as the school's capacity to accommodate a worker's family.

External recruitment isn't the only workforce planning challenge for local government. In many cases, local government provides skills and training pathways for people in the community, including apprenticeships and on-the-job training. However, local government has experienced ongoing declines in apprenticeship and traineeship engagement, reducing the number and quality of skilled workers developed through these pathways. At the same time, the national skills shortage of qualified tradespeople has also increased the number of council-trained workers leaving local government employment for opportunities in the private sector.

Combined, workforce challenges create systemic vulnerabilities for local government that reduce the availability of services for local communities, reduce organisational capacity and capability, increase costs, and impede recovery from and resilience to natural disasters.

While the clear gaps in the available workforce impact all sectors in Australia, they uniquely impact local government. The difficulty in securing the right quantum and mix of skills is limiting the productivity of the local government and, by extension, the broader Australian economy. Because local government greatly impacts local communities' productivity and liveability, reduced productivity directly flows through to reduced productivity for other sectors. This has a direct impact on a broad range of issues facing Australia. This includes cost-of-living, housing, emissions reduction, health and welfare, and community liveability.

The impact of local government skills shortages can be seen in housing. Councils play an essential role in facilitating the development and construction of housing across Australia. This occurs through several skills roles that are increasingly hard to fill. For example, each of the following roles has an important role in housing development and faces significant challenges and critical skills gaps:

- *Town planners* – complex legislative changes and requirements, insufficient cadets, insufficient budget to allow for succession planning, courses no longer being offered
- *Building surveyors* – lack of staff interest to upskill, impacts of private certification, insurance costs, inability to compete with private sector remuneration, lack of applicants with required skills, experience and accreditations
- *Project managers* – lack of experience, inability to compete with private sector remuneration, border closures resulting from COVID-19
- *Administrative and professional services* – lack of qualified candidates who want to work in local government, budget and time limitations that prevent training, and
- *Operational and trade jobs* – lack of trainees, increased requirements for qualifications in industry, lack of local applicants, succession gaps, digital literacy.

Local government plays an important role in communities as a skill development and training driver. This is especially important in rural and remote communities where local government is often the largest employer. However, as demonstrated in the occupations above, local government must navigate a complex environment to build and retain skills and capacity within its workforce. This includes a high level of investment, planning and action to address the factors needed to overcome existing skills shortages. However, several factors influence local governments' ability to achieve this skill development. These include:

- Skill shortages in private and public organisations that the COVID-19 pandemic has exacerbated
- Resource shortages within councils and the loss of corporate knowledge as employees retire or resign creates barriers to workforce planning and management, and
- A lack of suitable housing within communities reduces the ability to attract new workers into a community.

As the level of government closest to communities, local government will be the key driver of many reforms and activities needed to future-proof Australia. There is an essential, strategic need to build a future workforce with the skills, capacity, and productivity to handle Australia's 'big picture' needs. This workforce has the agility to handle disruptions arising from pandemics, climate change (through emissions reduction and, increasingly, adaptation), technological advances, regional development, and better managing metropolitan growth.

Supporting councils to better compete in the national employment market will support their success in building this future-focused workplace. To do this, councils need greater certainty and resources to invest in long-term skill development and provide more effective social and economic services that facilitate internal migration that fills existing employment opportunities.

A key element of this is to provide increased and more certain funding for local government through untied grants, including greater funding through FA Grants. Increased and more certain funding will allow councils to

better compete in the market, appoint additional staff, including trainees and apprenticeships, provide greater economic services such as housing, and ultimately address local and national skills shortages.

Addressing local government skills shortages will also positively impact the Australian economy. Fewer skills shortages and a higher capacity workforce will support the rollout of local economic development strategies and bust regulatory congestion. In doing so, local government will support greater facilitation of new economic opportunities and investment flowing into communities across Australia.

Examples of local government actions to address skills and workforce challenges

There are numerous examples of local government delivering programs and services that address their skills and workforce challenges. These include:

- Careers at Council—Careers at Council is a strategic response by Australia’s state and territory local government associations to attract staff to local government and to develop an employee brand for the sector. This need was identified in the 2013-2020 National Local Government Workforce Strategy and the 2016-2020 NSW Local Government Workforce Strategy. Careers at Council was established in late 2019 to encourage active and passive candidates to work in local government via informative content, social media (LinkedIn and Facebook), Google advertising and links with a wide range of government, industry and career sites. Careers at Council is now recognised by the Commonwealth and NSW Governments as the careers and jobs portal for local government, with listings on the Jobs Hub, Australian Apprenticeship Pathways and Careers NSW websites. The jobs of approximately 200 local governments are listed on the site which attracts around 1,000 visitors per day. To raise awareness amongst graduates of the career opportunities in local government, Careers at Council has established a partnership with GradConnection which holds the largest national database of university students and graduates. Roles suitable for graduates are sent to prospective candidates undertaking or completing degrees in areas of skills shortage (engineering, planning and development, environment, project management and human resources). Careers at Council also actively promotes employment opportunities to veterans through its participation in monthly ADF Transition seminars and to careers advisors via participation in industry information update events. Careers at Council provides a foundation from which the sector could leverage recruitment advertising campaigns on a sector/regional/occupation basis and more detailed information about career pathways into and within local government.
- Workforce Planning Guidelines for Local Government in Tasmania—In 2016, the Local Government Association of Tasmania (LGAT) partnered with Burnie City Council, Circular Head Council, Waratah-Wynyard Council and the UTS Centre for Local Government to develop Workforce Planning Guidelines for local government in Tasmania. A Reference Group established to shape and tailor the guidelines included: Break O’Day Council, Burnie Council, Circular Head Council, Glamorgan Spring Bay Council, Hobart City Council, Kingborough Council, and Waratah-Wynyard Council. The guidelines propose six steps to workforce planning and provide detailed descriptions, key questions to ask, case studies, and other resources to equip councils who are preparing a workforce plan:
 1. Starting out – This section guides councils to consider the scope and scale that is relevant to their local context of workforce planning. It also provides guidance on internal and external

stakeholders, and relevant data and information sources when undertaking workforce planning.

2. Where are we now? – This section guides councils to gather information about the current state, i.e. current workforce profile, current macro-trends and strategic context in which the council operates.
3. Where might we be in the future? – This section provides guidance on qualitatively forecasting the external context, having regard to political, economic, social, technological, legal and environmental considerations.
4. What are the gaps? – This section guides councils to assess current and future workforce gaps, and to prioritise these for action via a ratings-based risk matrix or other framework.
5. Strategies to assess the gaps? – This section guides councils to identify strategies and actions that respond to the current and future gaps. It also provides a list of common gaps and issues, and potential strategies and actions in response to these.
6. Monitoring and evaluation – This section highlights the ongoing and iterative nature of workforce planning, which suggests a need for workforce plans to be reviewed and outcomes to be evaluated.

Closing the Gap

Key takeaways:

- Local governments are crucial for Closing the Gap's success as they deliver essential services and support to Indigenous Australians. However, financial constraints limit local government's contribution, as insecure funding limits councils' ability to participate fully in Closing the Gap initiatives.
- Due to reporting structures, many council-led projects go unnoticed in national reports. This downplays the contributions from local government, which is compounded by federal, state, and territory governments often excluding local government from Closing the Gap planning processes.
- Indigenous councils are already heavily involved in supporting Closing the Gap. Councils in specific regions, such as far north Western Australia, the Northern Territory, and Queensland, actively contribute to Closing the Gap through regular activities. However, business as usual is not enough. Current funding allows councils to maintain existing services but not implement additional programs needed for significant progress.
- Long-term funding is needed to close the gap in programs. Current models don't provide the stability councils need to dedicate resources to long-term initiatives.
- Often, Indigenous communities are at a greater disadvantage due to the structure of the local government funding model. Low home ownership rates and high social housing in Indigenous communities restrict income generation and limit councils' ability to raise rates, a key source of income.

Closing the Gap (CTG) is a critical mission that local governments across Australia are committed to achieving. The success of Australia's ambition in this activity will depend on the ability of the local government to deliver services and support for Indigenous Australians. This is highlighted in the National Agreement on Closing the Gap, which recognises the critical importance of every level of government working in genuine partnership with Aboriginal and Torres Strait Islander people.

Insecure and insufficient financial sustainability hampers local government from contributing to achieving the goals of the Closing the Gap agreement. Currently, most councils do not have the funds to engage properly in specific CTG projects. Additionally, many existing council-led projects are absorbed into state-level reporting, meaning councils may not receive adequate acknowledgment of their contributions when they act.

This recognition is compounded by federal, state, and territory governments' approaches to planning and implementation for CTG programs, where local governments lack connection to strategies planned by ACCOs and state and federal governments. However, the work of many councils is routinely focussed on CTG. Predominantly Indigenous councils across far northern Western Australia, the Northern Territory and Queensland directly contribute to Closing the Gap as part of their everyday business-as-usual activities. These activities range from housing programs, arts and culture preservations, supporting education and job creation, and advocating for connectivity and digital inclusion.

However, the Federal Government cannot rely on councils to deliver benefits through business as usual alone. For long-term results towards CTG, measures need to be projects that are above the business as usual efforts to sustain services and liability of community members—they need to be above parity—to close the gap on aspects of Indigenous people's lives, not simply sustain the current levels of services.

While councils can progress CTG targets through ongoing operations, a lack of financial sustainability can hamper them from fully contributing through their broader organisational structures. Councils are often not equipped to deal with the complexity of issues that factor into the CTG targets. Some councils are also not equipped to develop a Reconciliation Action Plan or properly develop cultural protocols and policies around employment targets. ALGA is committed to helping more councils along this journey, but it will take time and resources.

CTG programs must have long-term resource commitments that councils cannot dedicate without financial support. Though many councils have (49) Reconciliation Action Plans (RAP), most smaller councils do not have the funds to engage in the process or have the staff capacity to develop an RAP to the standard that Reconciliation Australia recommends.

Councils survive through state and federal funding and the ability to raise rates—the core concept being that any growth in the community would reflect an increase in this form of income. However, home ownership rates in First Nations communities have traditionally been very low. Communities with high levels of social housing—typically exempt from raising rates—cannot leverage this mechanism of generating income. The whole funding model requires a supported approach to fully empower councils to participate in Closing the Gap actions.

Examples of local government contribution towards Closing the Gap

There are numerous examples of local government delivering programs and services that work towards Closing the Gap. This includes:

- Elected members in the Northern Territory—Consistent with Priority Reform 3: Transforming Government Organisations in the Northern Territory, nearly 60% of all local government elected members in the NT are Aboriginal, and approximately 89% of regional council elected members are Aboriginal. Of the 154 elected members in the NT (as at August 2023), 92 are Aboriginal elected members. Nine of the NT's 17 councils have majority Aboriginal elected members, and four of those are entirely Aboriginal elected members. There are 67 Local Authorities across regional and remote communities in the NT. Local Authorities, operated by regional councils, are involved in planning, giving feedback on service delivery, and identifying priority community projects. Although no official data collected, it is estimated most Local Authority members are Aboriginal.
- The Palm Island Night Patrol—Residents on Palm Island have addressed youth crime issues by developing a night patrol. The night patrol was developed through a Local Leadership Group in discussions with councillors, council executive and Rangers. There is very strong support within the community for this initiative and widespread discussion on how positive it is. Each night teams of volunteers take part in the night patrol based in the town centre, talking to wandering children and encouraging them to go home. The night patrol members record their actions with who was out and what action was taken, and where necessary they go and approach parents and families the day after to follow up. Within a matter of weeks, the initiative had a “massive impact” on property crime on the island.
- City of Wanneroo Indigenous Employment Path—The City of Wanneroo implemented a three-year Aboriginal and Torres Strait Islander Employment Plan in 2020, which included recruitment of an

Aboriginal Employment Advisor. The Plan targeted an increase from 0.3 per cent to 1.4 per cent of employees identifying as Indigenous by the end of FY2022-23. That target has been eclipsed, with 1.6 per cent of total staff, or 2.2 per cent of full-time equivalent staff, identifying as Indigenous

- Shire of Halls Creek appoint Aboriginal Advisor—The Shire of Halls Creek has appointed Jaru-Gija man, Dean Mosquito, to liaise with Aboriginal Communities and advise the council on where services can be improved.
- City of Belmont (WA)—The City of Belmont is the first WA Local Government to develop an Aboriginal Strategy that aims to directly address three key Aboriginal policies; the National Agreement on closing the Gap 2020, Western Australian Aboriginal Empowerment Strategy and Reconciliation Australia Reconciliation Action Plan Framework. The city is currently in a consultation phase working in partnership with its local Aboriginal community to deliver a strategy developed by the community, for the community. It will address the following six priority areas:
 - Country and climate Land, water, and air
 - Celebrating and recognising cultural and heritage
 - Racism-free and culturally safe environment
 - Creating long Healthy lives through accessible, culturally appropriate services
 - Jobs, training, and education, and
 - Economic participation and empowerment.
- Shire of Halls Creek (WA)—Through their Olabud Doogethu suite of programs the Shire of Halls Creek aims to provide local employment while improving the safety of Halls Creek. Programs focus on youth justice, youth engagement, youth case intervention, alternative education re-engagement, human rights, community justice and tribal affairs.
 - Community Justice Program: It is the first justice reinvestment project in Western Australia. It is co-led and codesigned by 11 Aboriginal communities. Through community-led solutions, the project aims to create a new justice system in Halls Creek which prioritises Aboriginal Law and culture.
 - Alternative Education: Through their Mibala project the Shire aims to guide and support disengaged children back into mainstream education. The project aims to provide re-connection to culture and Country to instil a sense of identity and pride within children.
 - Employment: With a previous unemployment rate of 40% the Shire committed its own resources to create new jobs and to upskill those struggling to find re-employment. In partnership with the State Government and Main Roads, the Shire established its own local roads team and purchased equipment to undertake works. In collaboration with North Regional Tafe, the Shire also employed Trainees to complete their certificate III in Civil Construction Plan Operations.
- Albury City Council (NSW) has worked closely with the local Wiradjuri Elders, to facilitate the establishment of a local Aboriginal custodian group, who provide a voice in the decision-making processes regarding council business and for other sectors. Albury City Council has an informal arrangement with the Wiradjuri Elders Group, to ensure there is a traditional custodian lens over

projects, especially for land redevelopment and cultural activation projects. Albury City Council also formally supports the Wiradjuri Elders Group, by way of a community and cultural grant. The development and implementation of the inaugural Albury City Innovate Reconciliation Action Plan provides a framework that helps Albury City connect with the local Aboriginal and Torres Strait Islander community, by demonstrating a commitment to a greater understanding and appreciation of culture and aspiration that contribute to the future of the Albury community. Albury City is working together with others towards enhancing the health and well-being of the local Aboriginal and Torres Strait Islander people.

Cyber security

Key takeaways:

- Australia faces a growing cyber security threat, with cyber-attacks increasing in frequency and sophistication, posing a significant economic risk.
- Local governments hold vast amounts of sensitive data and manage essential services, making them prime targets. However, local governments are ill-equipped to defend themselves. Recent audits highlight policies, training, staff awareness, and technical control weaknesses.
- Several recent high-profile cyber-attacks have targeted local councils. These attacks include data breaches, ransomware attacks, phishing scams, and denial-of-service attacks.
- Lack of resources hinders local government preparedness for cyber security risks. Financial constraints and workforce skill shortages limit councils' ability to invest in cyber security.
- Existing federal support programs have low uptake due to a lack of capacity to utilise available resources due to competing priorities.
- Multiple challenges complicate local government cyber security. These include a complex threat landscape, outdated systems, interconnected services, and a cybersecurity skills gap.

Cyber security is an urgent national problem that must be addressed to protect Australia from devastating economic impacts. On average, one cybercrime is reported every six minutes, and trends show these attacks are increasing in numbers and sophistication. At the same time, their impact and severity have also increased. The cyber security stakes are getting higher, and local governments must be equipped effectively to keep ahead of the risk.

Cyber security for local governments is a critical element of the national approach to increasing Australia's cyber security. Local governments collect and store vast amounts of sensitive data, including personal information about citizens, financial records, and operational data. They are responsible for managing critical infrastructure such as water and power networks, transport systems, and emergency services, which can maintain operational technology often based on legacy systems that are no longer subject to patch updates and are particularly vulnerable to attack.

However, local government isn't equipped to deal with the growing threat. Several recent auditor general reports from different states have found that local government cyber security's overall capability and capacity is poor. Reports have found local governments, in general, have:

- Insufficient investment in cyber security
- Weaknesses in governance and oversight, including policies, procedures and risk management;
- Lack of staff awareness and training
- Inadequate technical controls, including network security, access controls and patch management
- Limited incident response capabilities, including detection, response planning, and coordination with external stakeholders such as police
- Dependency on third-party providers, increasing risk of supply chain attacks, and
- Compliance challenges against the Australian Government Information Security Manual (ISM) and the Protective Security Policy Framework (PSPF).

Several cyber-attacks targeting local governments in Australia have been reported in recent years, ranging from ransomware and phishing scams to data breaches and denial-of-service attacks. Given these findings and

recent events, more must be done to improve local government security and preparedness. However, local governments struggle to increase their cyber security preparedness due to a lack of financial resourcing and skills shortages within their workforce.

There are currently several federal government programs that can support local governments in improving their cyber security capability. This includes the Australian Cyber Security Centre's Partnership Program. However, there is no effective uptake of these resources. With limited resources and many services already covered, local governments cannot adequately address the requirement. The other barriers local governments face includes an ever-increasing complexity of the threat landscape, a backlog of legacy systems and infrastructure, the interconnected nature of local government services, and a shortage of cybersecurity professionals.

Improving the cyber security capability of local governments will require a coordinated effort involving collaboration between federal, state, and local governments, as well as industry stakeholders. For local governments to take on their responsibilities, the federal government should consider providing specific cyber security funding, resources, and education, develop enforceable minimum standards, and provide dedicated technical assistance and expertise to the local government sector.

Conclusion

The sustainability and effectiveness of local governments are paramount to the overall well-being and prosperity of communities across Australia. Local governments are the cornerstone of public service delivery, managing a vast infrastructure and providing essential services supporting economic growth, social cohesion, and environmental stewardship. Despite their crucial role, local governments face significant challenges, particularly in financial sustainability, workforce development, and adapting to the increasing demands.

The current funding models have not evolved to match the expanding responsibilities and rising costs associated with service delivery and infrastructure maintenance. As a result, many local governments struggle to meet their communities' needs. While providing a necessary foundation, FA Grants have not kept pace with inflation and the escalating construction costs and wages, leaving local governments with insufficient resources to address their growing responsibilities.

The sector's ability to attract and retain skilled workers is critical for maintaining high-quality service delivery. Widespread skills shortages, particularly in engineering, town planning, and environmental health areas, hinder local governments' capacity to manage infrastructure effectively and deliver essential services. Addressing these shortages requires a concerted effort to enhance workforce development, offer competitive remuneration, and provide adequate training and professional development opportunities.

Local governments also play a pivotal role in climate change mitigation and adaptation, disaster response, and environmental protection. Their efforts in these areas are essential for building resilient communities capable of withstanding future challenges. However, these responsibilities come with substantial costs that local governments often struggle to bear without adequate funding and support.

To ensure local governments' long-term sustainability and effectiveness, funding models must be reformed to provide more reliable and sufficient financial resources. Collaboration between local, state, and federal governments is crucial to address the structural impediments that hinder local governments' operations and to ensure that they are well-equipped to meet the needs of their communities.

Local governments are indispensable to Australia's national fabric. Their contributions to economic productivity, community well-being, and environmental sustainability cannot be overstated. With adequate untied funding, effective policy support, and a focus on workforce development, local governments can continue to thrive and provide the essential services that underpin the quality of life for all Australians. The future success of local governments will depend on our collective commitment to supporting them in fulfilling their vital roles within our society.