Helping local government
build stronger communities.



Submission
Review of the Identified Local Road Grants Methodology

November 2026

lga South Australia

Executive summary

Road context

Road networks in Australia are fundamental to community life and economic activity. They provide essential access for residents, enable children to attend school, support social connectivity, and facilitate the efficient movement of goods and services across local, regional, and national economies.[1]

Across the nation local governments manage over 75% of the road network by length. This local road infrastructure, both sealed and unsealed, has an estimated national replacement cost of $286 billion.[2] Of this, about $16.6 billion is SA transport infrastructure in 2024-25[3].

To ensure these road assets are adequately managed and maintained, local governments in SA (particularly in regional areas), rely significantly on Commonwealth funding distributions provided under the *Local Government (Financial Assistance) Act 1995*[4] (the Act). This includes distributions of the Financial Assistance (FA) Grants in both the General Purpose and Identified Local Road Grant (ILRG) streams.

The Commission's Review

LGA notes that the South Australian Local Government Grants Commission (the Commission) has initiated a Review of the Identified Local Road Grants Methodology (the Review), seeking to:

- better align the SA distribution model with the Act and National Principle for ILRG[5]
- ensure the methodology is principles-based and transparent
- address inequities in the current methodology

The Commission advises in the Review's discussion paper that the ILRG will remain a fixed funding pool:

> *"...meaning any adjustments to the methodology that increase ILRG to some councils will also result in decreased ILRG to some other councils."*[6]

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[1] 2026 National State of the Assets Summary – Australian Local Government Association (ALGA), page 8
[2] Ibid
[3] Local Government Grants Commission, 2024-25 Database Reports
[4] Local Government (Financial Assistance) Act 1995 - Federal Register of Legislation
[5] National principles for the allocation of grants under the Local Government (Financial Assistance) Act 1995
[6] SA_LGGC_-_Outline_of_ILRG_Methodology_Review_-_Objectives_Principles_Design - 2026

LGA's ongoing advocacy on general purpose and road funding

Together with the Australian Local Government Association (ALGA), our national affiliated body, LGA continues to call for a stronger and more sustainable funding partnership between the Commonwealth and local government, through a restoration of FA Grants to 1 per cent of Commonwealth taxation revenue and other asks[7].

In addition, after sustained advocacy by LGA leading into the 2026-27 Federal budget, the Commonwealth determined to provide long term certainty in the continuation of Supplementary Local Road Funding (SLRF) to SA and the indexation of this fund for the first time.

The Commonwealth continues to acknowledge that:

> *"Supplementary funding for local roads in South Australia was first introduced in the 2004-05 Budget, to address an historical error in calculating the share of the national local road network managed by South Australian councils."*[8]

The Commission also acknowledges this inequity for SA in its commentary about SLRF. Saying that SA:

> *"...receives 5.5% of the national allocation and local government maintains approximately 11.8% of the National local road network and has approximately 7% of the population."*[9]

However, while relevant, we note that these wider systemic issues at a Commonwealth level sit outside the scope of this Review by the Commission.

At a glance: LGA's position on the Commission's Review

LGA supports the positive intent of the Commission to make local improvements by initiating this Review of the ILRG methodology, acknowledging both the limitations explained above and that this funding stream has not been reviewed since its inclusion under the FA Grants scheme in 1991.[10]

We strongly support the Commission engaging with the local government sector on this essential topic, but caution and encourage the Commission to treat this Review as the initiation of a broader ongoing methodology reform program.

LGA is interested in exploring partnership opportunities with the Commission in developing a suitable reform program.

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[7] Final public hearing to federal inquiry into local government wraps up | LGA South Australia
[8] Regional Ministerial Budget Statement 2026-27: Investing in Australia's Regional Growth and Prosperity (pages 73-74)
[9] Road funding | Department for Housing and Urban Development
[10] SA_LGGC_-_Outline_of_ILRG_Methodology_Review_-_Objectives_Principles_Design - 2026

Recommendations

LGA's recommendations are:

1. LGA supports the Review objectives to ensure the ILRG methodology is aligned with legislative requirements under the Act, the National Principle and equitable funding outcomes.
2. LGA also supports the principle of transparent and readily understood methodology design.
3. That the Commission treat this Review as the initiation of a broader ILRG methodology reform program, with ongoing partnership between the Commission and LGA to develop and test future methodology options.
4. That the Commission undertake further analysis and sector-wide modelling of methodology options, including consideration of approaches adopted in other jurisdictions, before determining any substantive changes[11].
5. That the Commission establish a continuous improvement approach to data, including assessment of contemporary road condition, usage and network datasets to support future methodology refinement.
6. That the Commission commits to a 'no worse off' transition principle whereby no council receives a reduced allocation because of any methodology changes arising from this Review. Any redistribution impacts should be phased in over time through growth in available funding, rather than reductions to existing council allocations.
7. That LGA, in consultation with the Commission, examine any participation and accessibility barriers within the Special Local Roads Program (SLRP), including the reasons some councils have historically made limited use of the program. Consider whether these issues can be addressed within the current framework before pursuing more fundamental structural reforms that may give rise to unintended consequences.
8. We reiterate LGA's broader advocacy position[12] that increasing the overall pool of FA Grants, including ILRG, remains a priority and that redistribution within a fixed funding envelope cannot address overall funding adequacy pressures faced by SA councils.

[11] Noting a high-level summary is available here: ILRG_Methodology_-_National_Distibution_Matrix_-_2025-26_Update.pdf

[12] Final public hearing to federal inquiry into local government wraps up | LGA South Australia

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About us

At LGA South Australia our purpose is to help local government build stronger communities.

As the peak body proudly representing 68 councils across South Australia and the Anangu Pitjantjatjara Yankunytjatjara, we champion the needs of our members every single day.

Working for our members, we represent the interests of local government at both state and federal levels and provide robust and innovative solutions to local challenges.

Whether it's policy development, coordination on important issues or training and development, our work is about empowering local government to deliver a real, lasting impact for South Australians. Our trusted services also include tailored cover and risk services for the sector, and access to pre-qualified suppliers and panels to save councils time and money.

With a focus on leadership and representation, our work is driven by a shared passion for making a difference in the lives of the communities.

LGA welcomes the opportunity to make a submission to the Commission in respect of the Review.

We also thank the Commission for accepting the invitation of LGA to present to the SA local government sector via a hosted webinar presentation on this topic on Monday 19 October 2026.

Background

In addition to the commentary outlined in the Executive Summary, LGA notes that the Commission asks for feedback and views as follows:

- Alignment to obligations: Core and key requirements that the Commission must consider in any methodology design.
- Inputs to the design of the methodology: Assumptions and inputs forming the basis of the current methodology, and options for change to these.
- Whether councils want to retain current methodology settings, adopt an alternative option or propose a further alternative for consideration.

To help facilitate these considerations, the Commission outlines three concepts for discussion in the paper for the Review[13], including alternate options. LGA's commentary in this submission

[13] SA_LGGC_-_Outline_of_ILRG_Methodology_Review_-_Objectives_Principles_Design - 2026

focuses on the policy considerations and implications of these proposals, rather than express a direct view on the options presented.

LGA notes that the impact of any methodology change will vary between councils depending on factors including reliance on road funding grants, historical dependence on SLRP, the nature of the final methodology adopted, any transition arrangements, and whether one or more changes will be adopted through this Review.

Submission

1. The Commonwealth Act – relative need and capacity

The first review option proposes to look at interpretations of the ILRG National Principle[14]. In particular, the 'relative need' of local government and weigh what roads costs against what each council can afford to fund.

Figure 1

Current methodology	Alternate Option
1. The Commonwealth Act s.2(b) – (Objects of the Act) *The capacity of local governing bodies to provide their residents with an equitable level of services* – may currently not be represented in the ILRG methodology. The ILRG Principle, directed to considering the relative needs for expenditure, not revenue capacity, is the only consideration. This is consistent with the practice of all other States' Grants Commissions and reflects the addition of the ILRG Principle in 1991, when the distribution of Commonwealth roads funding was transferred to the FA Grants process.	"Relative need" could be interpreted to mean both what roads cost and what each council can afford to fund from its own resources, including GPG funding. A council with high roads expenditure need but adequate own-source revenue does not have the same *relative* need for funding assistance for roads expenditure as a council with the same roads expenditure requirement but lower revenue capacity. The ILRG methodology could consider revenue as a relevant factor in assessing relative roads funding need, which would reflect the intent of the Objects of the Act (as well as the ILRG Principle).

The proposal to incorporate revenue capacity into the assessment of relative need represents a significant departure from the historical application of the ILRG National Principle in SA.

The current methodology assesses 'relative need' by way of road length, population and (regionally) council area. The alternate option would also consider a council's capacity to fund those needs.

[14] National principles for the allocation of grants under the *Local Government (Financial Assistance) Act 1995*

Policy basis

This raises a broader policy question: should ILRG principally recognise road infrastructure need, or should it also operate as a form of fiscal equalisation, like the FA Grants General Purpose Grants?

Altering the interpretation of 'relative need' to include revenue capacity potentially changes the policy basis upon which ILRG funding is distributed and therefore warrants clear local government sector discussion regarding objectives, principles and intended outcomes before implementation is considered.

LGA considers that moving the model for distributing ILRG closer to the principles outlined in the Act regarding horizontal fiscal equalisation has merit. However, we caution that the consideration of 'relative need' that more closely aligns with the principles under the General Purpose portion of the FA Grants[15] has some limitations.

In 2025, LGA engaged SGS Economics and Planning to review local government grant funding. While not a public document, it has been provided both to our member councils and the Commission[16].

This report found that, as it relates to the General Purpose portion of FA Grants, the 'Minimum Grant' principle conflicts with the principle of 'Horizontal Equalisation'[17]:

> *"The Minimum Grant principle effectively prevents a significant amount of the FA Grant funding from being fully redirected to councils on a needs basis. Consultation with South Australian local governments indicates that there is some support for removing or reducing the minimum grant principle. However, this would be contingent on transparency, accountability, and the effective use of reallocated funds by recipient councils. Moreover, in the absence of any increase to the total FA Grant pool, any adjustment to the distribution model will result in some councils receiving less funding than under the current formula, and others receiving more."*

The above research findings have contributed to LGA forming a strategic vision, together with ALGA, calling for a stronger and more sustainable funding partnership between the Commonwealth and local government[18]. This will be achieved through:

- restoring FA Grants to 1 per cent of Commonwealth taxation revenue

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[15] National principles for the allocation of grants under the Local Government (Financial Assistance) Act 1995

[16] South Australian Local Government Grant Funding Review – Final Report: September 2025 (SGS Economics and Planning)

[17] National principles for the allocation of grants under the Local Government (Financial Assistance) Act 1995

[18] Final public hearing to federal inquiry into local government wraps up | LGA South Australia

- reviewing FA Grants indexation to ensure funding better reflects councils' actual cost pressures
- ensuring appropriate funding and resourcing when responsibilities are shifted to local government
- shifting away from short-term, tied and competitive grants towards untied funding.

Given the potential implications for the fundamental purpose of the program, along with the potential for redistribution of funding between councils, these matters warrant broader strategic consideration than is currently contemplated by the Commission's Review process.

A way forward

Accordingly, LGA recommends that the Commission treat this Review as the initiation of a broader process to consider potential reforms, rather than as a means of determining final changes to the ILRG distribution methodology.

Further steps could include:

- A further 'first-principles' assessment.
- A formal review of interstate distribution methodologies used for ILRG specifically and their applicability to the South Australian context[19].
- Detailed sector-wide modelling of methodology options, including for standard and (any) anomalous outcomes across councils.
- Reviewing findings and reports from the Australian Parliament's Inquiry into Local Government Funding and Fiscal Sustainability[20].

This will test whether proposed changes are likely to achieve the Review's objectives and will help all stakeholders better understand the distribution of impacts across all South Australian councils, including both standard and (any) anomalous outcomes.

In addition, LGA supports the principle that no council should be financially disadvantaged because of any changes arising from this Review. If amendments to the ILRG funding method or program structures are pursued, implementation should be phased over time and funded through future growth in the overall funding pool, rather than through immediate redistribution between councils.

[19] Noting a high-level summary is available here: ILRG_Methodology_-_National_Distibution_Matrix_-_2025-26_Update.pdf

[20] Inquiry into Local Government Funding and Fiscal Sustainability – Parliament of Australia

This would allow adjustment to occur through natural increases in funding allocations, minimise financial disruption, and provide councils with sufficient certainty to manage long-term asset planning and infrastructure investment commitments.

Reviewing relative need should ensure the framework does not inadvertently disadvantage councils that have exercised prudent financial and asset management over time. While funding should respond to genuine and enduring differences in need and capacity, it should also maintain appropriate incentives for responsible asset stewardship and avoid outcomes that reward or reinforce conditions that may be influenced by historical investment, maintenance or financial management decisions.

The role of technology

The Commission should also consider how contemporary road asset data and emerging technologies could strengthen the assessment of 'relative need' within the ILRG methodology. AI-enabled and other emerging datasets may provide more timely and consistent information on road condition, usage, network characteristics and deterioration than has historically been available.

Options to integrate AI and data across both council and state maintained roads was one of the aspects that officers from the Department for Infrastructure and Transport (DIT) gave updates on at the recent LGA Roads and Works Conference in September 2026[21]. Some councils caution this approach saying that state maintained roads in their areas are not as well kept as council managed assets. Again, conditions vary across the sector.

In addition, such data may not yet be sufficiently consistent or comparable to directly inform grant allocations. However, the Commission could investigate the possibility for future application to strengthen the ILRG methodology and support better-targeted investment in preventative maintenance, renewal and network uplift.

Other Review drivers

The Commission advised in the webinar of 19 October 2026 that one of the drivers for this Review was a submission made to the Commission by the Wakefield Regional Council (WRC) in 2022 seeking a review of the ILRG methodology[22]. WRC's submission stated that:

> *"Despite its relatively low population base, WRC has a significant and extensive road network, which is the fourth largest road network for which a council is responsible in South Australia. The network roughly covers 2728kms – the same distance as Adelaide to Perth."*

And

[21] LGA Roads and Works Conference | LGA South Australia
[22] Submission-to-SA-LGGC-on-ILRG-June-2022-Wakefield-Regional-Council.pdf

> *"It is WRC's position that the current methodology employed by the Commission is unfairly skewed by population weighing, which in turn, unfairly disadvantages non-metropolitan Council's with significant road networks and a relatively low population."*

LGA notes that the ILRG National Principle[23] does not include population as a distinct 'relevant consideration' for assessing road needs. The ILRG Principle states:

> *"The identified road component of the financial assistance grants should be allocated to local governing bodies as far as practicable on the basis of the relative needs of each local governing body for roads expenditure and to preserve its road assets. In assessing road needs, relevant considerations include length, type and usage of roads in each local governing area."*

It is therefore reasonable to reconsider both the role of population as a proxy for road expenditure need and whether revenue capacity should influence the assessment of relative need. However, these questions go to the underlying purpose of the ILRG program as discussed above, including how to best align with the ILRG principle.

2. The Special Local Roads Program

The second proposal is to reduce or remove both the ILRG and SLRF pools that feed SLRP and redistribute these funds via the ILRG formula. A reduced funding pool would be available to SLRP under Roads to Recovery (R2R). This would be about $10 million:

Figure 2

Current methodology	Alternate Option
2. The Special Local Roads Program (SLRP) Allocation is a Prior Charge The SLRP allocation deducts 15% from South Australia's total ILRG and Supplementary Local Roads (SLRF) funding pool before an assessment of councils' need for roads expenditure and roads preservation is calculated. The SLRP is a competitive tied grants program based on 15% of SA's ILRG and SLRF funding (otherwise untied) and 15% of the tied Roads to Recovery (R2R) grant.	The SLRP allocation from the untied ILRG and SLRF funding pools could be reduced or removed, increasing the pool of funding to be distributed to all councils (on an untied basis) via the ILRG methodology. This would deliver a larger pool of funds (approximately $12 million) to be distributed via the ILRG, would be consistent with the majority of other jurisdictions and would support the Commonwealth Act's Object 3(4). A reduced pool of funding would continue to be available for SLRP (approximately $10 million), subject to the Commonwealth continuing to allocate 15% of SA's R2R program to the SLRP without the equivalent ILRG and SLRF allocations.

[23] National principles for the allocation of grants under the *Local Government (Financial Assistance) Act 1995*

Under a model that reduces or removes SLRP and instead increases each council's ILRG and SLRF by the corresponding 15% (under either existing methodology distribution, or any new distribution conditions), most councils are likely to become slightly better off in a predictable funding sense, with more access to untied funding.

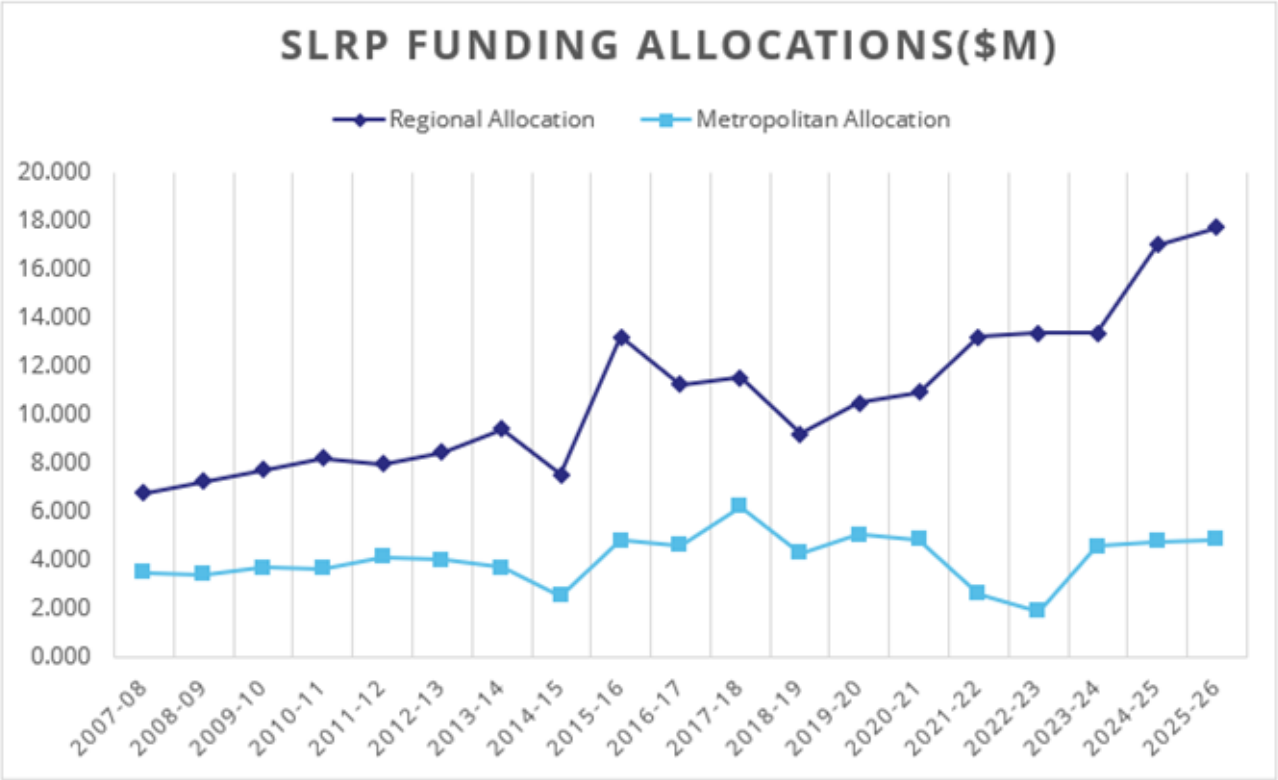
However, councils that have historically received significant SLRP allocations, many of which are regional councils with extensive road networks, are likely to experience the greatest reduction in funding under a redistribution model.

LGA modelling of impacts

LGA has done some high-level modelling about potential impacts of this change and a summary of key findings is provided below:

- Most metropolitan councils contribute more to SLRP than they receive.
- SLRP results in a material transfer of funding from metropolitan to regional councils.
- For the last decade, SLRP funding allocations to regions has been steadily increasing year on year, while the metropolitan allocation has broadly remained consistent. (see Chart 1)
- Road funding provided under each of the Commission's distributed road funding streams (ILRG, SLRF, R2R and SLRP) generally represents a smaller proportion of overall metropolitan council income/revenue but a more significant proportion for some regional councils. (In some cases, this can be up to one quarter of their annual revenue in some years)
- Some regional councils exhibit particularly high reliance on road funding pools (including ILRF, SLRF, R2R and SLRP) and may be disproportionately affected by any ILRG methodology change, depending on what these changes are.
- Regional councils delivering large, multi-year road projects are likely to be particularly exposed to any reduction in the overall SLRP funding pool.
- Removing or substantially reducing SLRP funding could create a funding gap for multi-stage and multi-year projects already underway, increasing the risk that councils are unable to complete works as planned.

Chart 1



Understanding participation and access barriers

LGA notes that some councils have indicated, either directly through feedback or indirectly through limited participation in funding rounds, that there may be barriers to accessing SLRP funding. While these barriers have not been formally assessed, they may include factors such as:

- resourcing constraints
- project readiness
- co-contribution requirements
- perceptions about the likelihood of success
- perceived project standing within a broader regional transport context
- application complexity (or perception of the need to have grants application expertise either in-house or bought in)

Before significant changes are made to the funding methodology or overall structure of SLRP, LGA considers there would be merit in jointly examining these issues with the Commission to better understand whether the existing program is operating as intended across the sector.

If barriers to participation exist, addressing them may improve the accessibility and effectiveness of SLRP without altering its underlying policy objectives. LGA considers there

would be value in understanding why some councils have historically made limited use of the program and whether there are practical, structural or perceived barriers to participation.

It would be prudent to first consider whether identified participation barriers and accessibility issues can be addressed within the current framework before pursuing more fundamental structural reforms. This would reduce the risk of unintended consequences arising from significant changes to a program that has, for many councils, become an important component of long-term road infrastructure planning.

Impacts to LGA

LGA must also consider any organisational impacts of changes to SLRP[24]. LGA provides executive support for SLRP and the Local Government Transport Advisory Panel (LGTAP)[25], which oversees the governance and operations of SLRP.

Any changes to SLRP may impact LGA's resourcing and delivery of SLRP. In addition, noting that the Commission and LGA have been working towards implementing a memorandum of understanding (MoU) for the ongoing delivery of SLRP, any methodology changes may impact the implementation of this MoU.

This is why LGA requested, by way of a letter to the Commission on 7 October 2026, that ongoing negotiations of the MoU be paused while the Commission undertakes this Review.

[24] Special Local Roads Program (SLRP) funding | LGA South Australia
[25] Local Government Transport Advisory Panel (LGTAP) | LGA South Australia

3. Assessment Road Costs

The third proposal is to reconstruct the methodology to move away from broad based proxies and determine shares based on different road types and costs of renewing them.

Figure 3

Current methodology	Alternate Option
3. Assessment Road Costs The ILRG pool (after the Aboriginal Communities and SLRP allocations) is allocated between councils based on long-standing data 'proxies' for road expenditure need, by: • Stage 1 - an equal weighting of road length and population, creating two funding sub-pools, for metropolitan councils and rural councils; • Stage 2 – metropolitan councils' sub-pool is allocated based on road length (50%) and population (50%); and rural councils' sub-pool allocated on road length (33%), population (33%) and area of the council (33%).	The methodology could be reconstructed to replace the current broad-based 'proxies and two-steps' methodology. A new methodology could determine each council's share of the available funding pool based on actual road lengths of several road types (for which data is reliably available and regularly updated (i.e., sealed built-up, sealed non-built-up, unsealed built-up and unsealed non-built-up) and typical costs of renewing/ replacing each road type (based on councils' reported actual expenditures). The model could be designed to moderate extreme or outlier data.

There is merit in moving from broad proxies towards a methodology more directly informed by the characteristics and costs of councils' road networks. Assessing different road types against typical renewal or replacement costs may provide a stronger basis for estimating road expenditure need and be a step towards better reflecting the ILRG National Principle.

However, while the Commission's alternate option would more directly recognise **road length** and **type**, it does not explicitly incorporate **road usage** and therefore, misses a component of the ILRG National Principle, which mentions all three factors[26].

While road length and type are significant cost drivers, they are not the only drivers. Other factors to consider relating to road usage include:

- road standard and complexity
- heavy vehicle and traffic volume (usage and regional productivity)
- terrain, soil and drainage
- remoteness and haulage of resources for the road building or renewal task
- network dispersion
- climate and hazards

[26] National principles for the allocation of grants under the Local Government (Financial Assistance) Act 1995

- conditions and maintenance backlog

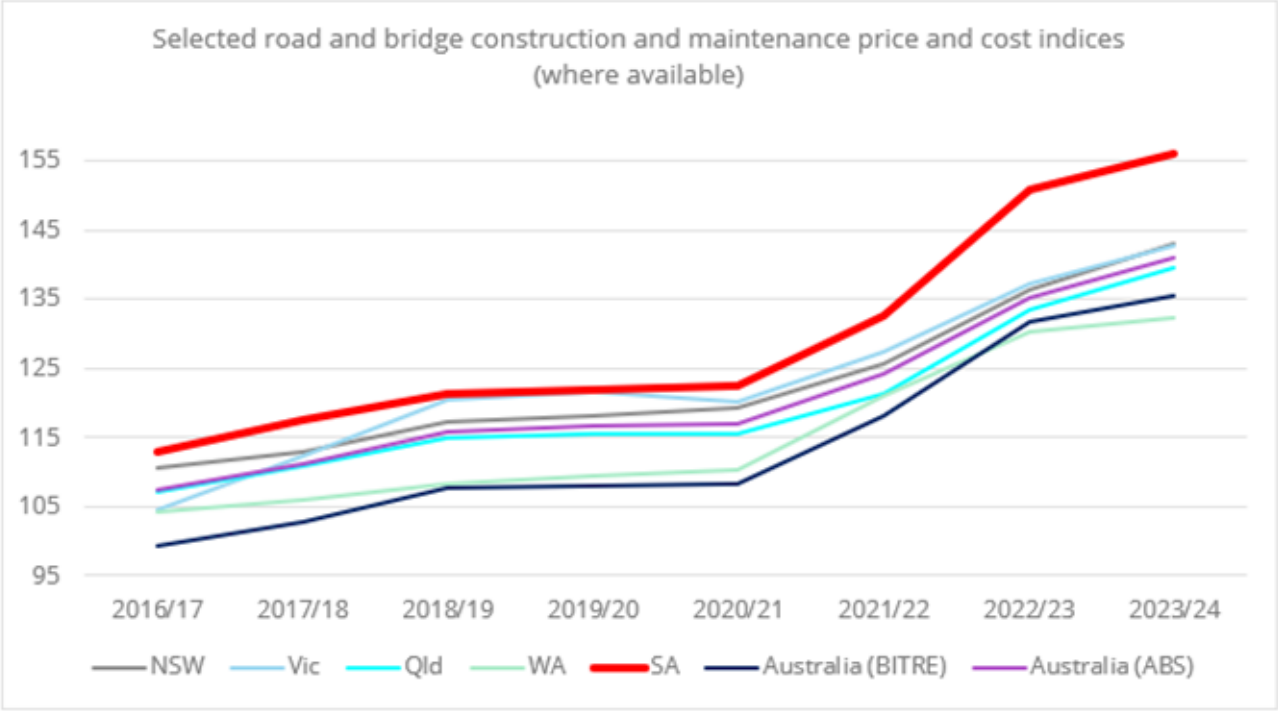
It is noted that the Commission's existing road 'Cost Relativity Indices' recognise some of these elements.

Broader project and cost pressures

An additional consideration is whether the methodology adequately reflects differences in road construction and renewal costs between jurisdictions. As part of LGA's previous advocacy for an ongoing allocation and increase to SLRF for SA, we analysed data from the Bureau of Infrastructure and Transport Research Economics (BITRE) and Australian Bureau of Statistics (ABS)[27] on road and bridge construction and maintenance price and cost indices. (see Chart 2)

This showed that road construction costs in SA were generally higher than both the national average and most other reported jurisdictions.

Chart 2



Updated data published in the latest BITRE 2025 Yearbook[28] confirms that construction costs continue to increase across all jurisdictions, including SA.

[27] Australian Infrastructure and Transport Statistics - Yearbook 2024 (table 6.16: selected road and bridge constructions and maintenance price and cost indexes, which includes a mixture of ABS indexes (NSW, Vic, Qld, SA and WA data) and the BITRE index

[28] Australian Infrastructure and Transport Statistics - Yearbook 2025 (table 4.12)

Further support for this position is provided in the Audit Office of South Australia's 27 October 2026 report 'State finances – insights on the 2026-27 Budget'[29] (see Chart 3). While the report focuses on state government expenditure, many of the underlying cost pressures are equally relevant to local government infrastructure delivery, as councils operate within the same regional economic and construction environment as the State Government.

Chart 3

Figure 6.4: Construction price indexes – South Australia – June 2016 to June 2026[26]



The Audit Office attributed these substantial construction cost increases to the following factors:

- supply chain disruptions
- skilled labour shortages
- strong demand for trades
- strong demand for construction materials

The Audit Office report also highlighted the influence of megaprojects like the Torrens to Darlington South Road upgrade and the new Women's and Children's Hospital, both of which place substantial additional demand on SA's construction market.

As councils operate within the same labour and contractor markets, these factors are likely to significantly affect local government road renewal and construction costs. This suggests that any methodology based on estimated road renewal costs should be capable of recognising material differences in these conditions within and between jurisdictions where evidence demonstrates those differences exist.

[29] State finances – insights on the 2026-27 Budget | Audit Office of South Australia

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