

Southern and Hills Local Government

A sustainable funding future for local government

Policy Statement

August 2027



1. Purpose of this Policy Paper

This policy paper has been prepared to support advocacy by the Southern and Hills Local Government Association (SHLGA) on the financial sustainability of local government and the reforms required to ensure councils are adequately funded to meet the growing needs of regional communities.

The paper provides an overview of the current local government funding framework, explains the key financial sustainability challenges affecting councils across the Southern and Hills region and summarises SHLGA's advocacy priorities.

The paper is intended to build a shared understanding of why reform is needed, the evidence supporting SHLGA's advocacy, and the practical outcomes the Association is seeking on behalf of its constituent councils.

2. Why Financial Sustainability Matters

Local government plays a fundamental role in supporting the liveability, productivity and resilience of Australian communities. Councils own and maintain the infrastructure that communities rely upon every day, including local roads, footpaths, libraries, sporting facilities, community centres, parks, public health services and a growing range of environmental, social and economic development initiatives.

Over many decades, the role of local government has expanded significantly. While councils continue to deliver their traditional responsibilities, communities increasingly expect local government to contribute to housing supply, economic development, climate adaptation, emergency management, public health, community wellbeing, digital inclusion and regional collaboration. These expectations have often emerged without corresponding growth in long-term funding.

At the same time, councils are managing ageing infrastructure, rising construction and maintenance costs, increasing insurance premiums, workforce shortages and more frequent natural disasters. Population growth in some areas and changing demographics in others are creating additional demand for infrastructure and services.

Financial sustainability is therefore not simply about balancing council budgets. It is about ensuring local government has the financial capacity to maintain essential infrastructure, deliver quality services and invest in the communities Australia's future prosperity depends upon.

Why Financial Sustainability Matters in the Southern and Hills Region

While local government funding is a national issue, the financial pressures experienced by councils vary considerably depending on their geographic, demographic and economic circumstances. The Southern and Hills region illustrates this diversity.

Although each constituent council has its own priorities, five common themes help explain why financial sustainability is such an important issue for the Southern and Hills region.

Supporting Rapid Population Growth

Our region will continue accommodating a significant share of Greater Adelaide's future population growth, particular in Mount Barker and surrounds.

Population growth creates demand for new roads, footpaths, stormwater infrastructure, sporting facilities, community centres, libraries, parks and open space. Much of this infrastructure must be planned and delivered before the full rate revenue from new development is realised, placing considerable pressure on council finances.

Growth also generates increased demand for services such as community development, environmental management, traffic management, recreation and strategic planning. While growth expands the future rating base, it also requires substantial upfront investment in community infrastructure that is not always matched by external funding.

Supporting growth is therefore not simply a local issue. It is fundamental to the delivery of housing supply and economic development objectives identified by both the South Australian and Australian Governments.

Maintaining Extensive Regional Road Networks

Four SHLGA councils - Adelaide Hills, Alexandrina, Kangaroo Island and Yankalilla - are responsible for maintaining extensive local road networks that support regional communities, freight movement, tourism and emergency services. The scale of the road network in these areas is disproportionate to the council's population.

These networks extend well beyond urban streets. They include rural connector roads, sealed and unsealed roads, roads servicing agricultural production, access routes to townships and visitor destinations, and strategic links that support emergency response and recovery.

The cost of maintaining these networks continues to increase due to higher construction costs, ageing infrastructure, more frequent extreme weather events and growing freight movements. While Federal road funding provides an important contribution, councils continue to fund a significant proportion of road maintenance and renewal from their own resources, making roads a significant driver of financial sustainability pressure.

Supporting a Significant Visitor Economy

The Southern and Hills region includes some of South Australia's most significant tourism destinations, including the Adelaide Hills, Fleurieu Peninsula and Kangaroo Island.

Councils provide and maintain much of the infrastructure that supports this visitor economy, including local roads, main street precincts, coastal infrastructure, public amenities, walking trails, open spaces, visitor information, waste services and town centre improvements.

During holiday periods and major events, the population in many communities increases substantially, creating additional demand for infrastructure and services. While visitors contribute significantly to local economies, they do not contribute directly to council rate revenue in the same way as permanent residents.

As a result, councils often provide infrastructure and services for a much larger service population than is reflected in census data or traditional funding formulas.

Servicing Dispersed Regional Communities

Much of the Southern and Hills region comprises dispersed townships and rural communities rather than a single large urban centre.

Adelaide Hills, Kangaroo Island and Yankalilla, for example, maintain infrastructure and deliver services across numerous communities separated by considerable distances. This increases the cost of maintaining roads, community buildings, recreation facilities, public spaces and other local assets.

Providing equitable access to services across dispersed communities can also require duplication of facilities and longer travel distances for staff, contractors and plant. These additional costs are an inherent characteristic of regional local government and are not always visible when funding is assessed primarily on population.

Building Climate Resilience

The Southern and Hills region is increasingly affected by the impacts of climate change and natural hazards.

The region includes extensive bushfire-prone landscapes, vulnerable coastlines, significant biodiversity assets and communities exposed to flooding, storm events and coastal erosion. Councils play a critical role in reducing these risks through infrastructure maintenance, emergency preparedness, environmental management, community recovery and long-term adaptation planning.

These responsibilities continue to expand as climate risks become more frequent and more severe. At the same time, councils face increasing costs associated with asset renewal, insurance, disaster recovery and infrastructure designed to withstand more extreme conditions.

Building resilient communities therefore requires sustained investment in local infrastructure and places additional pressure on council finances beyond traditional service delivery responsibilities.

A Diverse Region with Shared Challenges

While the financial pressures experienced by each SHLGA council are different, they are united by a common challenge:

The funding framework does not reflect the full range of responsibilities that councils now undertake or the diverse circumstances in which they operate.

Understanding these regional characteristics provides important context for SHLGA's advocacy. It highlights why more financial assistance is required, and funding reform is needed to better recognise the varied factors that influence the cost of delivering local government services in regional Australia.

3. How Local Government is Funded

Local government is the only sphere of government without a guaranteed share of taxation revenue. Unlike the Federal and State governments, councils have limited revenue-raising powers and rely on a combination of locally generated income and grants from other levels of government to deliver infrastructure and services.

The mix of funding sources reflects the different roles each revenue stream is intended to play. Rates provide councils with a stable and predictable source of income to support ongoing service delivery and asset maintenance, while government grants supplement local revenue by supporting infrastructure investment, recognising differences in councils' financial capacity, and contributing to projects of state or national significance.

The diversity of funding sources provides flexibility but also creates challenges. Different funding streams are designed for different purposes, are subject to different conditions, and are influenced by government policy decisions outside the control of councils. Understanding how councils are funded helps explain why financial sustainability has become an increasingly important issue for local government across Australia.

Table 1: Summary of Local Government Funding Sources

Funding source	Primary purpose	Typical uses	Key characteristics
Rates	Primary source of recurrent income	Day-to-day services, asset maintenance, operational costs	Stable and predictable, but growth is generally limited to changes in property values, development and annual rate decisions.
User charges and fees	Recover the cost of specific services	Waste collection, planning fees, community facilities, licences and permits	Can only recover costs for services provided.
Federal funding	Support local infrastructure and improve financial capacity	Financial Assistance Grants, Roads to Recovery, disaster recovery, major infrastructure and competitive grant programs	Includes both untied funding that councils can allocate to local priorities and tied funding for specific projects.
State Government funding	Support delivery of state and shared priorities	Limited community programs, infrastructure partnerships and other targeted initiatives	Primarily provided through program-specific grants and partnership agreements.
Other income	Supplement council revenue	Interest, commercial activities, development contributions, asset sales and other miscellaneous income	Generally variable or one-off sources that cannot be relied upon to fund ongoing operations or maintenance costs.

The role of Financial Assistance Grants

The Australian Government's Financial Assistance Grants (FA Grants) program is the only source of untied, formula-based Federal funding provided directly to every local government in Australia. The program comprises two components:

- General Purpose Grants, which are distributed by the SA Local Government Grants Commission using the principle of horizontal fiscal equalisation to recognise differences in councils' capacity to raise revenue and the relative cost of providing services; and
- Identified Local Road Grants, which support the construction and maintenance of local roads and are distributed using a nationally agreed formula.

Unlike competitive grant programs, FA Grants provide councils with the flexibility to allocate funding to the highest local priorities. This flexibility is one of the program's greatest strengths, enabling councils to respond to changing community needs while supporting long-term financial planning.

A summary of the 2025/26 FA Grants received by SHLGA councils is provided in **Appendix A**.

The declining value of Financial Assistance Grants

FA Grants have been the cornerstone of Federal support for local government for almost 50 years. They were originally provided at approximately 1% of Commonwealth taxation revenue. While the program continues to provide vital untied funding to councils across Australia, its value has not kept pace with the changing role of local government or the increasing cost of delivering infrastructure and services. Over time, the relative value of the program has declined significantly while the responsibilities and costs of local government have continued to grow.

Over recent decades, councils have assumed broader responsibilities, while also responding to significant increases in construction costs, asset renewal requirements and community expectations. Despite these growing responsibilities, the overall Federal funding pool has not increased at the same rate.

SHLGA strongly supports the Australian Local Government Association's national advocacy to restore Financial Assistance Grants to 1 per cent of Commonwealth taxation revenue, recognising that the current funding pool is no longer sufficient to meet the contemporary role of local government.

At the same time, SHLGA supports the ongoing review and refinement of funding methodologies to ensure they continue to reflect the diverse circumstances and contemporary cost pressures experienced by councils across Australia, and do not inadvertently entrench financial inequity or disadvantage.

Funding constraints

While councils receive revenue from a range of sources, each has inherent limitations that affect long-term financial sustainability.

Rates fund ongoing services, not all future infrastructure needs

Rates provide a stable revenue base but are intended to fund the ongoing delivery of local government services and the operation, maintenance and renewal of community assets. They are not sufficient, on their own, to fund the significant infrastructure investment required to support rapid population growth, major asset replacement or recovery from natural disasters, for example.

Competitive grants create uncertainty

Over recent years, governments have increasingly relied on competitive grant programs to deliver infrastructure investment. Although these programs have enabled councils to undertake important projects, they are inherently uncertain. Councils cannot rely on them for long-term financial planning, projects often proceed only when funding opportunities arise, and considerable resources are invested in preparing applications with no guarantee of success. Smaller councils, and councils with financial sustainability pressures, are often unable to provide the matching co-contributions required to access competitive grants, which further entrenches financial inequity across the system.

Many grants are tied to specific purposes

Much government funding is provided for defined projects or programs and cannot be redirected to other local priorities. While targeted funding is valuable, it provides less flexibility than untied funding and may not always align with the most pressing needs identified by local communities.

Cost shifting places increasing pressure on council budgets

Councils are increasingly expected to deliver activities that extend beyond their traditional responsibilities or support the objectives of other levels of government. In some cases, new responsibilities are transferred without ongoing funding or existing funding does not fully cover the cost of delivery. Over time, these additional responsibilities reduce councils' financial capacity to maintain existing infrastructure and services.

Construction costs continue to outpace funding growth

The cost of constructing and maintaining infrastructure has increased significantly in recent years due to rising prices for materials, labour and plant. In many cases, funding programs have not increased at the same rate, reducing the purchasing power of both grant funding and councils' own revenue.

4. SHLGA's Reform Priorities

Addressing the financial sustainability challenges facing local government requires a coordinated package of reforms. No single initiative will resolve the pressures facing councils. SHLGA therefore advocates for reforms that increase the overall level of Federal investment in local government, ensure funding frameworks continue to reflect contemporary council circumstances, and provide councils with the certainty needed to plan and invest for the long term.

1. Restore Financial Assistance Grants to 1% of Commonwealth Taxation Revenue

Financial Assistance Grants are the foundation of Federal support for local government. They provide councils with flexible, untied funding that can be directed to local priorities and support long-term financial sustainability. However, the value of the program has declined

significantly over time, despite the expanding role of local government and increasing infrastructure and service delivery costs.

SHLGA strongly supports the Australian Local Government Association's national advocacy to restore Financial Assistance Grants to 1 per cent of Commonwealth taxation revenue, ensuring the funding pool better reflects the contemporary role of local government.

What would success look like?

- A larger and more sustainable pool of untied Federal funding.
- Increased capacity for councils to maintain community infrastructure and essential services.
- Greater financial resilience across the local government sector.

2. Modernise Funding Methodologies

Formula-based funding remains an important strength of the Financial Assistance Grants program. To maintain confidence in the system, funding methodologies should be reviewed periodically to ensure they continue to reflect the changing role of local government, contemporary cost pressures and the diverse operating environments of councils.

SHLGA supports an evidence-based approach that preserves the principles of horizontal fiscal equalisation while ensuring funding methodologies evolve alongside the communities they are designed to support.

What would success look like?

- Funding methodologies that reflect contemporary service delivery costs.
- Appropriate recognition of factors such as growth, extensive regional road networks, dispersed settlements, seasonal populations and climate resilience.
- Funding outcomes that support equity without inadvertently entrenching financial disadvantage.

3. Provide Greater Funding Certainty

Councils manage infrastructure with asset lives measured in decades, yet many Federal funding programs operate over short timeframes and rely on competitive funding rounds. This uncertainty makes long-term planning more difficult and can delay important infrastructure investment.

The former Local Roads and Community Infrastructure (LRCI) Program provides a strong example of the benefits of formula-based infrastructure funding. By allocating funding directly to councils using a transparent formula, the program enabled councils to identify local priorities, plan projects with confidence and deliver infrastructure without the uncertainty and administrative burden associated with competitive grant rounds. Making a program of this nature a permanent feature of Federal funding would provide councils with greater certainty, support long-term capital planning and enable more strategic investment in local infrastructure.

While competitive grant programs have an important role, they should complement - not replace - predictable, ongoing funding arrangements that enable councils to invest strategically and collaborate across regions.

What would success look like?

- Greater use of predictable, formula-based funding agreements.
- Reduced reliance on fragmented, short-term competitive grant programs.
- Improved long-term infrastructure planning, workforce investment and regional collaboration.

4. Improve Access to Federal Funding

Competitive funding programs often require councils to commit significant resources to preparing applications and meeting co-contribution requirements. These requirements can unintentionally disadvantage smaller and regional councils, limiting their ability to compete for funding despite having genuine infrastructure needs.

Many Federal infrastructure programs are also heavily focused on funding new or expanded infrastructure, with limited opportunities to support the renewal or replacement of existing community assets. Yet many councils face significant infrastructure renewal backlogs and increasing costs associated with maintaining ageing roads, buildings, sporting facilities and other essential community infrastructure.

The Australian Local Government Association's *National State of the Assets Report* highlights the growing renewal challenge facing councils across Australia and the increasing investment required to maintain existing assets in safe, functional and serviceable condition. A more balanced approach to Federal infrastructure funding would recognise that maintaining and renewing existing assets is just as important as delivering new infrastructure.

What would success look like?

- More flexible and proportionate co-contribution requirements.
- Simpler and more efficient application and reporting processes.
- More equitable access to Federal funding opportunities for regional councils.
- Infrastructure funding programs that support the maintenance, renewal and replacement of existing community assets, as well as investment in new infrastructure.

5. Deliver Fair and Sustainable Funding for Local Roads

Why?

Local roads are one of the largest infrastructure responsibilities of regional councils and are fundamental to community safety, economic productivity and regional connectivity. In the Southern and Hills region, councils maintain more than 5,500 kilometres of local roads that

support freight movement, tourism, emergency services, school transport and access to essential services.

The Australian Government's 2026–27 Budget made an important commitment by extending the Supplementary Local Road Funding program for ten years and introducing annual indexation. These reforms provide councils with greater funding certainty and help maintain the real value of Federal investment over time.

However, South Australia continues to receive the lowest level of Federal local road funding per kilometre in the nation. While the Supplementary Local Road Funding program helps reduce this disparity, it does not address the underlying inequity in the distribution of Identified Local Road Grants, which continues to disadvantage South Australian councils. SHLGA therefore supports reform that permanently addresses this long-standing inequity while maintaining the certainty provided by the long-term Supplementary Local Road Funding commitment.

What would success look like?

- A permanent solution to South Australia's historic road funding inequity through reform of the Identified Local Road Grants distribution methodology.
- Funding arrangements that better reflect the scale, function and maintenance needs of regional road networks.
- Improved long-term planning, renewal and resilience of local road infrastructure.

6. Stop Cost Shifting

Local government increasingly delivers activities that support national and state priorities, including public health, emergency management, environmental management and community wellbeing. Where responsibilities are transferred or expanded without adequate funding, pressure is placed on council budgets and local ratepayers. Councils often need to buy in new expertise, set up new systems, implement new programs and absorb new overhead costs. This financial pressure disproportionately impacts regional councils where the necessary skills and resources are not readily available.

New responsibilities, where they are appropriately delivered at the local government level, should be accompanied by significant establishment funding and support and sustainable ongoing funding.

What would success look like?

- Better alignment between responsibilities and funding.
- Reduced financial pressure on council rate revenue.
- Stronger long-term financial sustainability for councils.

7. Strengthen the Federal–Local Government Partnership

Local government is a key delivery partner in achieving national priorities, including housing, climate resilience, disaster recovery, regional development and economic productivity.

Stronger partnerships between governments will deliver better outcomes for communities and ensure funding programs are informed by local knowledge and experience.

What would success look like?

- Greater collaboration between the Federal and local government in the design of funding programs.
- Recognition of councils as long-term delivery partners in achieving national objectives.
- Funding frameworks that support integrated planning across all levels of government.

Appendix A – Southern and Hill Region Federal Funding Summary

The following tables illustrate how Federal funding is distributed across SHLGA constituent councils through the Financial Assistance Grants program and local road funding programs, and highlight the diversity of council circumstances within the Southern and Hills region.

The data demonstrates the importance of formula-based funding in recognising differing council needs and responsibilities. It also reinforces SHLGA's advocacy for a stronger and more sustainable funding framework that increases the overall level of Federal investment in local government, ensures funding methodologies continue to reflect contemporary council circumstances, and provides councils with greater certainty to plan and invest for the long term.

Table A1: General Purpose Financial Assistance Grants – SHLGA Councils (2025–26)

Council	2024–25 actual grant	2025–26 estimated grant	Annual change	Change	2025–26 grant per resident
Adelaide Hills	\$1,070,598	\$1,113,007	\$42,409	4.0%	\$26.27
Alexandrina	\$1,853,183	\$1,964,952	\$111,769	6.0%	\$63.62
Kangaroo Island	\$2,286,671	\$2,218,070	-\$68,601	-3.0%	\$429.28
Mount Barker	\$1,177,857	\$1,295,643	\$117,786	10.0%	\$29.70
Victor Harbor	\$431,623	\$449,847	\$18,224	4.2%	\$26.27
Yankalilla	\$228,366	\$205,529	-\$22,837	-10.0%	\$33.22
SHLGA total	\$7,048,298	\$7,247,048	\$198,750	2.8%	—

Source: South Australian Local Government Grants Commission, General Purpose Grants Over Time and 2025–26 General Purpose Grants Model Summaries. Grant per resident figures are those published in the 2025–26 model summaries.

What the evidence shows

General Purpose Financial Assistance Grants are the principal source of untied Federal funding provided directly to local government. The allocations to SHLGA councils demonstrate the operation of the horizontal fiscal equalisation methodology, with funding varying significantly according to each council's assessed revenue-raising capacity and expenditure needs.

In 2025–26, General Purpose Grants to SHLGA councils range from \$26.27 per resident to \$429.28 per resident, reflecting the diverse circumstances of councils across the region. These differences are an intended feature of the funding model, recognising that councils face varying costs in delivering infrastructure and services and have differing capacities to generate their own revenue.

Overall, General Purpose Grant funding to SHLGA councils is estimated to increase by 2.8 per cent in 2025–26. However, changes at an individual council level vary considerably, with some councils receiving significant increases while others experience reductions. For councils that rely more heavily on untied Federal funding, even relatively modest changes in annual allocations can have a material impact on long-term financial planning.

The table also highlights the importance of untied funding to local government. Unlike project-specific grants, General Purpose Grants allow councils to respond to local priorities, maintain essential infrastructure and services, and invest where community need is greatest.

The evidence demonstrates the value of a formula-based funding system that recognises the differing circumstances of councils. It also reinforces SHLGA's advocacy that the overall Financial Assistance Grants program should be strengthened by restoring it to 1 per cent of Commonwealth taxation revenue, while funding methodologies continue to be reviewed to ensure they reflect the contemporary role of local government, evolving cost pressures and the diverse operating environments of councils.

Table A2: Federal Local Road Funding Received by SHLGA Councils (2025–26)

Council	Identified Local Road Grant	Supplementary Local Road Funding	Combined road funding	Road length used in grant model	Combined funding per km
Adelaide Hills	\$999,586	\$343,502	\$1,343,088	1,010 km	\$1,330
Alexandrina	\$904,115	\$310,694	\$1,214,809	1,356 km	\$896
Kangaroo Island	\$581,105	\$199,694	\$780,799	1,340 km	\$583
Mount Barker	\$976,959	\$335,727	\$1,312,686	799 km	\$1,643
Victor Harbor	\$403,513	\$138,665	\$542,178	381 km	\$1,423
Yankalilla	\$240,678	\$82,708	\$323,386	496 km	\$652
SHLGA total	\$4,106,956	\$1,410,990	\$5,517,946	5,382 km	\$1,025

Source: South Australian Local Government Grants Commission, Identified Local Road Grants Model Summary 2025–26 and Supplementary Local Road Funding 2025–26. Road length is the length used in the grant allocation model and excludes unformed roads.

What the evidence shows

The six SHLGA councils received approximately \$5.52 million in Federal local road funding in 2025–26, comprising \$4.11 million in Identified Local Road Grants and \$1.41 million in Supplementary Local Road Funding. Together, this funding supports the maintenance and renewal of approximately 5,382 kilometres of local roads across the Southern and Hills region.

The data also illustrates the diverse road responsibilities of SHLGA councils. Some councils maintain extensive rural road networks that support agriculture and freight, others manage rapidly expanding networks associated with population growth, while coastal and tourism-based councils maintain roads that service visitor populations significantly larger than their resident communities. These differences reinforce why funding methodologies must continue to recognise the varying costs of maintaining local road networks across Australia.

The Supplementary Local Road Funding program contributes more than 25 per cent of all Federal road funding received by SHLGA councils. Without this program, average Federal



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road funding across the region would fall from approximately \$1,025 to \$763 per kilometre, demonstrating its importance in supporting South Australia's local road network.

Despite these positive reforms, South Australia continues to receive the lowest level of Federal local road funding per kilometre in Australia through the Identified Local Road Grants program. The Supplementary Local Road Funding program helps reduce this long-standing inequity, but it does not address the underlying distribution issue.