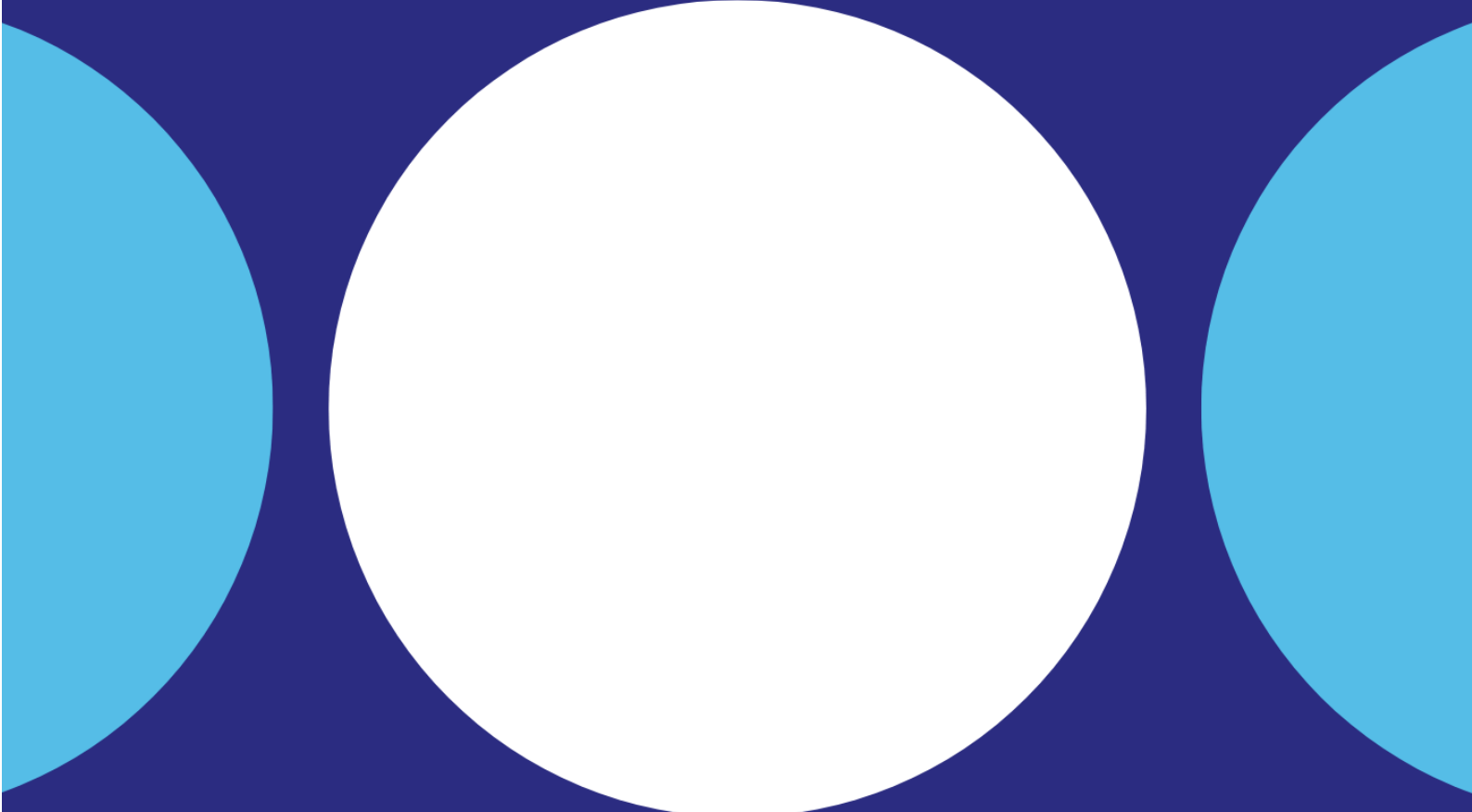


Helping local government
build stronger communities.



Federal Inquiry **Local Government Funding and** **Fiscal Sustainability**

3 February 2026



Executive Summary

Thriving councils mean thriving communities, and thriving communities mean thriving nations. Councils function as the closest tier of government to community, delivering essential services and growing communities. It is an efficient and trusted tier of government and play a vital role in shaping the wellbeing and productivity of their communities. South Australia (SA) has 68 councils, collectively representing communities across metropolitan, regional, rural and remote parts of the state.

Councils' positive influence is observed everywhere in daily life, from the quality of infrastructure and amenities in local neighbourhoods, services provided across all ages and stages of life, and productive economies responding to local skills and resources. These services are designed to respond to unique local contexts (socio-demographic, natural environment, economic, service gaps). In rural and remote areas, councils bear additional responsibility to fill the service gaps, particularly where other levels of government have stepped away. Delivery of these services is reliant on revenue streams to provide large services, over 300 different services and manage over \$33 billion of public assets. However, these services and assets are used to support the contributions that councils make to South Australia and the nation:

- Estimated Resident Population of South Australia is 1,878,011 (30 June 2024), which is 6.9% of Australian population.
- This is projected to increase to approximately 2.17 million by 2041 under medium-series projections. South Australia's strategic planning framework identifies a requirement for approximately 315,000 additional dwellings in Greater Adelaide by 2051, with further housing demand across regional council areas.
- South Australian councils manage a combined total of 75,234.75 kilometres of local roads, including sealed and unsealed roads and laneways (30 June 2024), which is 11.1% of the national road-network.
- There are approximately 163,634 actively trading businesses located across South Australian local government areas.
- The combined economic activity of SA council areas contributes to a state Gross Regional Product of approximately \$141.5 billion (2023–24), which is about 5.3% of the national Gross Domestic Product (GDP).
- Regional Development South Australia (RDSA) reported in their [Regional Blueprint 2024-2025](#) that a regional investment pipeline of \$65.43 billion in capital expenditure is under contemplation in regional South Australia. A barrier to this investment is building enabling infrastructure and providing facilities and housing for the required workforce in areas with financial sustainability challenges.

Continued delivery of this contribution to the nation is hampered by fragmented intergovernmental architecture, complex grant pathways and insufficient and competitive funding for the local government sector.

The contributions of South Australian councils to Australia demonstrate the significant responsibilities they carry to ensure thriving local communities. The contribution to the national economy from local communities cannot continue to be delivered without an appropriately predictable, equitable and sustainable funding mechanism for local government.

Increased financial support enables local governments to better meet community expectations, contribute to the national economy and support other levels of government to improve overall service efficiency.

This report outlines the key challenges currently faced by SA councils and presents our recommendations to unlock the full potential of local government so it can contribute more effectively to lift community wellbeing and support economic growth of our nation.

This paper builds on LGA South Australia's submission to the Inquiry into Local Government Sustainability in 2024.

Summary of Key Sustainability Issues

The financial stress facing local government in South Australia is structural rather than cyclical, arising from long-standing systemic pressures rather than temporary economic conditions. Councils operate under a persistent vertical fiscal imbalance, with responsibilities expanding faster than the revenue tools available to them, and they are often not treated as equivalent partners in intergovernmental decision-making. At the same time, their legislative and regulatory obligations continue to grow, community expectations for services and amenities are increasing, and population change and growth place further strain on infrastructure and service delivery. Unlike many OECD peers, Australian councils also work with a comparatively narrow revenue base, while external funding has eroded in real terms over time. Together, these factors create deep-seated financial challenges that cannot be resolved through short-term adjustments but instead require structural reform and more equitable funding arrangements.

Keeping the above factors in mind, the following are the key sustainability risks identified:

1. **Number 1 risk:** Financial sustainability remains the top risk for local government, with 73% of SA council CEOs identifying it as their greatest concern and 35% of councils, mostly remote and regional, found to be potentially unsustainable, as assessed by the independent regulator.

2. **Declining taxation share:** Falling untied Financial Assistance Grants are increasing pressure on councils. Restoring these grants to one percent would offer major economic gains.
3. **Short-term competitive tied grants** create operational and financial pressures on councils, disadvantage smaller councils, and reduce funding stability by limiting flexibility and reinforcing inequities in the local government sector.
4. **Cost shifting** from other governments is creating structural deficits for SA councils, indicating at least \$145.6 million in unfunded responsibilities in 2023–24 and sector-wide estimates exceeding \$250 million.
5. **Revenue-raising constraints:** Councils are financially constrained due to heavy reliance on rates, limited external funding, widespread operating pressures, and deferred asset renewal, underscoring the need for a more sustainable and equitable funding framework.
6. **Missed opportunity for GDP investment:** Stronger local government funding could unlock an estimated \$7 billion boost to national GDP, as Australia's councils currently operate with some of the lowest expenditure and grant support among high-income countries, limiting their capacity to drive economic growth.
7. **Ageing infrastructure,** rising renewal costs and demographic pressures are creating a widening asset renewal gap for councils, driving higher risks, escalating maintenance costs and increasing long-term financial strain.
8. **Councils often act as providers of last resort** in remote and disadvantaged areas, filling critical service gaps in health, aged care and childcare when other governments or markets are absent.
9. **Severe workforce shortages** across essential roles are limiting councils' ability to deliver services and renew assets, with regional and remote areas most affected due to challenges in attracting and retaining skilled staff.
10. **Decline in South Australia's supplementary local road funding** has created a significant disadvantage to SA councils. Without this additional support and compared to other states, SA would receive by far the least in both per kilometre and per capita funding, and it has not been indexed for nine years.
11. **Climate related disasters** and rising asset repair costs are rapidly outpacing council revenues, creating escalating financial risks for SA councils and reducing their capacity to maintain assets, protect coastlines and support communities.

Summary of Recommendations

LGA requests the following recommendations be considered to address the funding and fiscal sustainability issues raised in this paper. The recommendations respond to the Inquiry's Terms of Reference:

Interactions between governments:

- Recommendation 1: Introduction of **mechanism to prevent cost shifting**.
- Recommendation 2: **Introduce subsidiarity policy** to ensure local fiscal autonomy in local government.

Impacts and effectiveness:

- Recommendation 3: **Restore Financial Assistance Grants to at least 1%** of Commonwealth tax revenue.
- Recommendation 4: **Formalise indexation** of Financial Assistance Grants.
- Recommendation 5: **Reform and modernise Supplementary Local Road Funding** by:
 - **Continuing Supplementary Road Funding** beyond 2025–26 to ensure equity in Commonwealth Road funding
 - **Indexation of funding from 2026–27** using the Australian Bureau of Statistics' Producer Price Index for Road and Bridge Construction (PPI-RBCM) to reflect real cost increases. This method would reflect real cost increases in building of road infrastructure assets, funding should be \$31.8 million in 2026–27, with corresponding increases applied based on the movement of the PPI-RBCM in future years.
 - **Providing legislative certainty** enabling sustainable infrastructure/asset planning.
 - **Delivering a one-off \$56 million catch-up payment** in 2026–27 to offset nine years of unindexed funding since 2017–18.
- Recommendation 6: **Formalise funding for local government's critical role in disaster** preparedness, response and recovery.
- Recommendation 7: **Note [recommendations](#)** LGA made as part of previous inquiry.

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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 provide a submission on Inquiry into Local Government Funding and Fiscal Sustainability. Working together we can make positive contributions to the financial sustainability of our sector for the benefit of South Australians.

Considerations

1. This submission references two confidential reports commissioned by LGA and independently prepared by SGS Economics and Planning:
 - a. South Australian Local Government Grant Funding Review – Final Report, September 2025- Focused insights into the Financial Assistance (FA) Grant funding model for South Australia and recent trends in other major grant programs.
 - b. South Australian Local Government Cost Shifting Survey, January 2025

We consider these reports to be confidential as the report's recommendations remain under active consideration. We have provided these documents to this Inquiry separately for consideration, but request that they are not for publication.

2. This submission is an addendum to the previous [submission responding to the Inquiry into Local Government Sustainability](#) in May 2024 and references our previous submission when required.

Submission

Introduction

LGA's submission responds to the [Inquiry's Terms of Reference \(ToR\)](#) and reflects the collective experience of South Australia's councils operating across diverse high-growth, peri-urban, metropolitan, coastal, rural and island contexts. It provides practical, place-based insights grounded in the service delivery and governance realities of local government.

These differing contexts generate markedly different cost drivers, service demands and revenue raising capacities. However, despite this diversity, councils across the state face a common set of escalating structural pressures. These include ageing infrastructure, demographic change, constrained ability to raise revenue, increasing regulatory and service expectations, climate-related impacts, and construction and operating costs often rising faster than CPI.

These structural pressures cannot continue to be primarily funded through rates and fees with many councils already dependent on receiving grant funding. This is not sustainable and a fairer share of Commonwealth taxation revenue is required given the quantum assets councils manage and services delivered; not only for those living in the community but also as part of the engine room driving the nation's economy and wellbeing.

This section is structured in two parts:

- Part One presents key sustainability issues and the underpinning evidence.
- Part Two outlines recommendations that respond directly to these findings and address the Inquiry's Terms of Reference.

Part 1 - Key sustainability issues

There are several structural issues that inhibit council's ability to sustainably fund service levels to meet community expectations.

1.1 Number one risk for local government in SA¹

Nationally, financial sustainability has been the leading risk for local government for the last seven years.²

For South Australia, the JLT Public Sector Risk Report 2025 (SA) reported that 73% of South Australian council CEOs ranked financial sustainability as their top risk.³

The financial sustainability challenges across South Australia are also reflected through the assessments undertaken by the Essential Services Commission of SA (ESCOSA) to ensure long-term sustainability and service delivery for ratepayers. Over 3 financial years, ESCOSA have assessed 49 councils, with 35% being assessed as potentially unsustainable. Of the potentially unsustainable councils, 89% of them are remote, regional and very remote councils.

1.2 Declining taxation share

Financial Assistance (FA) Grants play a significant role in local government's operating budget and is a structural constraint that is placing a handbrake on growing the nation. In SA, 47% of the councils depend on FA Grants to fund more than 10% of their total operating expenditure.⁴

Figure 1 displays the increasing dependency on FA Grants, especially in the rural, regional areas where there are limited opportunities for raising revenue.

¹ Please note the figures provided in 1.1 are an update to LGA South Australia's last submission

² [7th Edition JLT Public Sector Risk Report](#), 2025, page 9

³ [JLT Public sector risk report South Australia](#), 2025, page 3

⁴ Economic, Financial, and social benefits of local government Financial Assistance Grants, January 2022, page 10

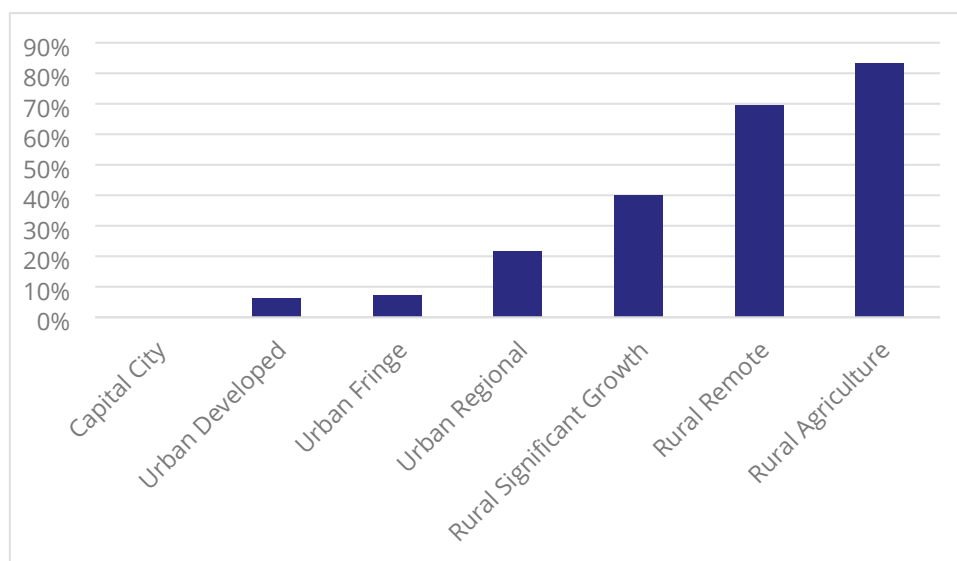


Figure 1- Councils that receive FA Grants over 10% of their Total Operating Cost- Count by LGA Classification⁵

The costs of operating a council are increasing faster than CPI (a basket of household goods rather than infrastructure-based increases). Therefore, councils are effectively going backwards in real terms, with spending increases consistently outpaced by rising costs. Recent analysis also shows a 2.4% compound annual growth in national local government spending per capita compared to a 2.6% compound annual growth in the consumer price index between 2014 and 2023⁶, highlighting this growing gap. The gap is even greater when a more appropriate index is used such as the Local Government Price Index (developed by Adelaide University - see LGA South Australia's last submission to the Inquiry) or infrastructure index recommended by the Bureau of Infrastructure and Transport Research Economics (BITRE).

On top of it, as noted in our earlier submission, the financial position of local government has been steadily weakened by a shrinking share of national taxation revenue. The relative value of the FA Grants has declined over the last few decades, dropping from 1 per cent share of national taxation revenue in 1996 to 0.5 per cent in September 2025.⁷

The reducing share of the national taxation revenue is affecting all Australian communities, particularly regional and remote communities, where FA Grants contribution plays a vital role in delivering services and providing the foundation for economic growth.

On the flip side, increasing FA Grants to 1% of total Commonwealth taxation revenue would achieve an additional \$2,149 million in funding from the Australian Government to local

⁵ Economic, Financial, and social benefits of local government Financial Assistance Grants, January 2022, page 10

⁶ ALGA, Long-term trends in Australian local government financial sustainability, 2024

⁷ South Australian Local Government Grant Funding Review – Final Report, September 2025, page 5

government bodies in 2022-23 (in addition to the anticipated adjustment), supporting an increase in economic output of \$6,517 million and an increase to Gross Regional Product (GRP) of \$3,262 million, creating an additional \$2,014 million in income and 21,639 jobs across Australia.⁸

In SA, increasing FA Grants to 1% would achieve \$148.5 million in funding, supporting an increase in economic output of \$451 million and an increase to GRP of \$226 million, creating an additional \$140 million in income and 1,499 additional jobs, especially in the rural agriculture and rural remote areas where the skill shortage is observed to be acute (as demonstrated in Key sustainability issues 1.4).⁹

1.3 Short-term and competitive tied grants

When accounting for tied and untied funding, the proportion of total Commonwealth grant funding to local government in financial year 2022-23 (\$4.794 billion) amounted to 0.9 per cent of total Commonwealth taxation (\$531.96 billion).¹⁰

While tied, short-term, competitive grant programs can help councils showcase achievements through high-profile projects (for example, a new recreational facility), they also create significant operational pressures on councils and an expectation gap with communities. Most grants outside of FA Grants are tied, episodic, and application-based, often imposing strict conditions that may not align with local priorities. These one-off grants leave councils responsible for ongoing operating and maintenance costs, compounding financial pressures over time.¹¹

Case study: Wulanda Recreation and Convention Centre, Mt Gambier

The City of Mount Gambier received \$15 million from the Federal Government, \$10 million from the South Australian Government, and \$350,000 from the District Council of Grant to fund the Wulanda Recreation and Convention Centre. The Council contributed approximately \$37.15 million through borrowings and internal financing to complete the project, representing more than half of the total cost. The facility recorded a total income of \$2.7 million and a gross operating deficit of \$1.23 million in 2023/2024.

⁸ Economic, Financial, and social benefits of local government Financial Assistance Grants, January 2022, page 24

⁹ Economic, Financial, and social benefits of local government Financial Assistance Grants, January 2022, page 24, table 4-4, and table 4-6

¹⁰ South Australian Local Government Grant Funding Review – Final Report, September 2025, page 5

¹¹ [Research for submission to local government productivity inquiry](#), August 2022, page 23-24

Smaller councils face additional barriers due to limited capacity for complex applications, co-funding, and reporting requirements.¹² They may be competing with the other well-resourced councils which have the capabilities and skills to win the short-term grants compared to under-resourced councils. This form of grant funding is inequitable. The lack of formal constitutional recognition of local government reinforces funding instability, leaving councils reliant on the discretionary decisions of the Commonwealth and the state.¹³

Importantly, any competitive grant funding awarded is not considered as part of the revenue component in the FA Grant allocation method. Tied and competitive grants, which vary from year to year and are not guaranteed for all councils. However, when councils spend grant funding it is assumed to be reflected in the expenditure component in subsequent years. This potentially results in a scenario where some councils which receive high FA Grant allocations also receive significant competitive grant funding, leading to uneven financial support for the local government sector.¹⁴

Tied funding far outweighs untied funding and has implications for the ability of councils (and state government) to spend funds on locally (i.e. community) determined priorities.¹⁵

1.4 Cost shifting

Over time, the local government sector has absorbed Commonwealth and state government responsibilities (such as childcare, health services, aged care, GP services). This cost shifting alongside a dense compliance environment is creating structural deficits for councils. Survey data from 24 South Australian councils indicates that in financial year 2023-24, cost shifting amounted to at least \$145.6 million; equivalent to \$6.3 million on average per council and an average per rateable property cost of \$418. The true figure is likely much higher.¹⁶

Case study: The District Council of Elliston

The District Council of Elliston assessed the annual additional cost and revenue impact on areas subject to Native Vegetation Heritage Agreements to total nearly \$50,000 per annum, or 6.5 per cent of the council's rateable income.

¹² [2022 Local Government Workforce Skills and Capability Survey](#), November 2022, page 2

¹³ Local Government Association South Australia (LGA) 2024 submission on [Inquiry into local government sustainability](#), page 3-5

¹⁴ South Australian Local Government Grant Funding Review – Final Report, September 2025

¹⁵ South Australian Local Government Grant Funding Review – Final Report, September 2025, page 76

¹⁶ South Australian Local Government 2024 Cost Shifting Survey, January 2024, page 4

If the findings from the survey of 24 councils is extrapolated to the 68 councils in South Australia, the total cost shift to the local government sector is estimated as \$253.9 million, or an average of \$3.7 million per council and an average per rateable property cost of \$271.¹⁷

LGA's submission to the previous parliamentary inquiry highlighted that councils have absorbed cost-shifted responsibilities, including aged care, environmental management, childcare and health services, without adequate compensation, further straining their revenue base and impacting mental health. This is highlighted in the case study previously submitted about Mid Murray Council.¹⁸

Cost shifting is an enduring policy concern, as observed over the decades in council submissions to parliamentary inquiries and more recently, in research led by Local Government New South Wales (LGNSW) and Local Government Association of Queensland (LGAQ). For example, LGAQ quantified \$360 million per annum in services shifted onto Queensland councils (a 378% increase since 2002),¹⁹ while LGNSW/Morrison Low found substantial unfunded burdens in emergency services, waste levies, rate exemptions, regulatory functions, and service gaps.²⁰

1.5 Revenue-raising constraints

Compared to the other levels of government, councils in SA demonstrate strong relative operational efficiency, supported by empirical studies and independent inquiries showing they deliver essential services effectively under tight fiscal constraints²¹. Nationally, local government receives around 0.9% of national taxation. The funds are used to primarily deliver essential services.

Councils rely heavily on local taxation, particularly council rates, which account for approximately 71% of their total revenue. Only a small share comes from state and federal government funding or other revenue sources.²²

Compared with other states, South Australian councils also derive the highest proportion of their revenue from local taxes, which creates a challenge in light of cost-of-living pressures. Furthermore, the reliance on rates to be the primary source of council revenue creates stress between councils and their communities.²³

¹⁷ South Australian Local Government 2024 Cost Shifting Survey, January 2024, page 4

¹⁸ Local Government Association South Australia (LGA) 2024 submission on [Inquiry into local government sustainability](#), page 12

¹⁹ [LGAQ Cost shifting report](#), January 2024, page 7

²⁰ [2022 Local Government Workforce Skills and Capability Survey](#), November 2022

²¹ UTS Centre for Local Government, [Measuring Relative Technical Efficiency of South Australian Local Governments](#), March 2018

²² [Council rates explained: Where your money goes and why it matters](#), 2025

²³ LGIU, Local government finance in Australia Meeting the needs of the future?, Table 2, page 18

Over 50% of Australian councils do not generate sufficient own-source revenue (rates, fees, commercial activities) to cover operating costs, and around 25% perform poorly on key financial indicators like operating surplus and asset renewal ratios.²⁴ At the sector level, SA local government recorded income of \$3.043 billion compared to the expenses of \$3.002 billion in 2023–24, a narrow operating surplus of \$41 million that leaves limited capacity for renewals and resilience investments.²⁵

Cost-shifting further strains councils' already limited revenue by increasing responsibilities without providing the resources needed to meet them.

As a result, many regional councils are unable to meet their operating costs and often not investing in asset renewal to free up revenue for day-to-day services. The sector needs a more equitable, sustainable funding framework and the opportunity to be a partner at the intergovernmental level with both state and federal governments. Without meaningful reform, councils remain trapped in a cycle of under-resourced services and deferred infrastructure renewal that will hinder national growth and inequitably impose asset renewal costs on future generations.

1.6 Missed opportunity for a \$7 billion boost to national GDP

Independent research has found that a \$7 billion boost to national GDP could be achieved through improved funding for local government. Councils across Australia contribute to state and national economies, however Gross Domestic Product (GDP) share of local government expenditure in Australia is one of the lowest (less than 5% of 2019 national GDP) compared to other high-income countries, as shown in the figure 2.²⁶

This provides a strategic investment opportunity to lift local government's financial contribution to Australia.

Figure 3 shows local government has high reliance on federal government grants and subsidies in 2019 where they deliver health, education and social services. Australian councils are one of the lowest receivers of federal government grants at about 1% of the national GDP, compared to other high-income countries.

²⁴ [Financial sustainability in Australian local government](#), July 2024, page 4, 13

²⁵ Office of Local Government, SA, [Local Government Finances](#), 2024

²⁶ Scope and funding of local government: an international comparison, November 2019, page 8

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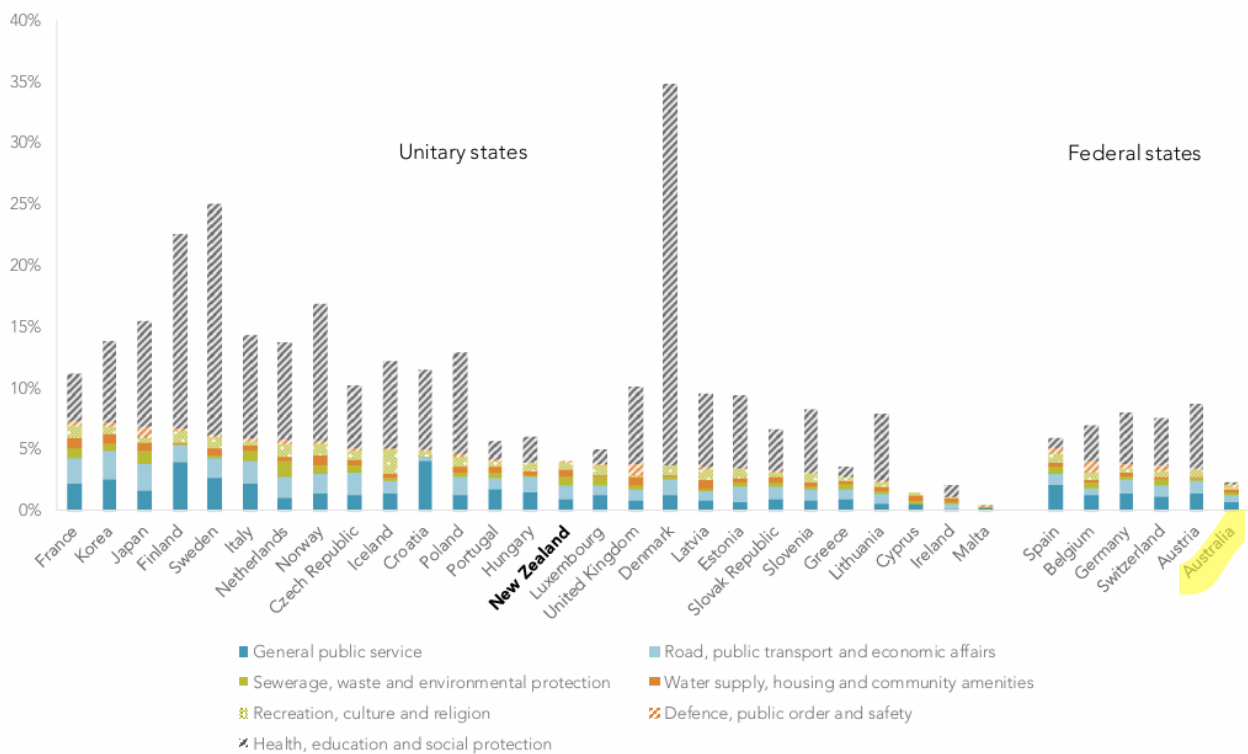


Figure 2- Local Government expenditure by function as percentage of GDP of 2019²⁷

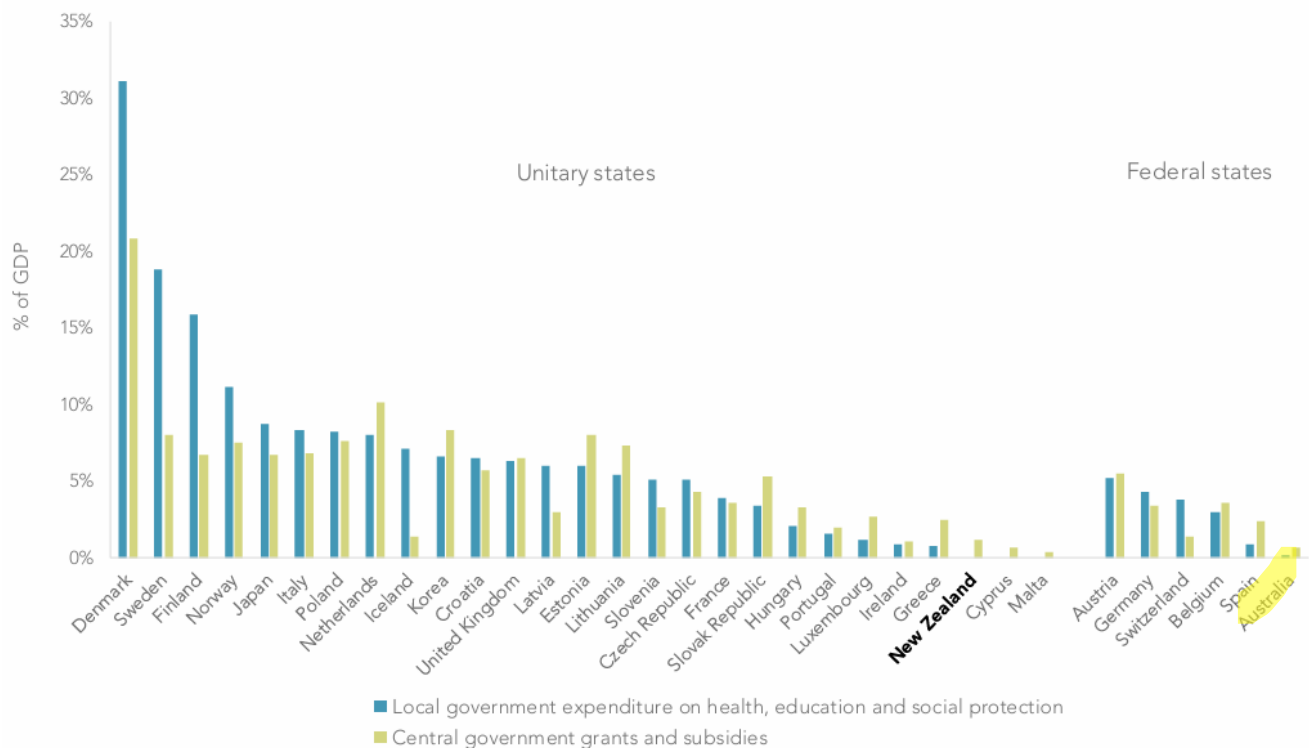


Figure 3- Reliance on central government grants and subsidies 2019²⁸

²⁷ Scope and funding of local government: an international comparison, November 2019, page 8

²⁸ Scope and funding of local government: an international comparison, November 2019, page 10

Helping local government build stronger communities.

Improving financial sustainability in local government could deliver a \$7 billion boost to Australia's Gross Domestic Product (GDP) through productivity gains, employment growth, and increased tax revenues. These benefits would stem from efficiencies such as:

- Reduced vehicle operating and accident costs on better-maintained roads
- Health savings from greater use of well-equipped open spaces
- Faster development approvals, and
- Lower recruitment and training costs as councils offer stronger career pathways.

Economic modelling undertaken by SGS Economic and Planning highlights the scale of these gains:

- A \$1 billion investment in local road maintenance could generate \$3.5 billion in GDP
- \$250 million for parks and gardens could add \$900 million in GDP
- Streamlined regulatory processes across 537 councils could lift GDP by \$1.7 billion annually
- Increased block transfers from Commonwealth and states could save \$235.6 million in administration and boost GDP by \$300 million each year
- Improved workforce retention could save \$424.5 million and add \$600 million annually.

Together, these measures underscore the transformative impact of strengthening local government finances.²⁹

1.7 Ageing infrastructure

Local government assets across Australia are deteriorating at a rate that threatens service reliability and safety. One in ten assets is in poor condition, and three in every hundred may require full replacement. The estimated cost to replace poor-condition assets is \$51 billion, while upgrading fair-condition assets could require \$106–\$138 billion nationally.³⁰ As infrastructure ages and requires renewal or replacement, the financial burden on councils and their communities is expected to rise significantly.

Local government is also expected to deliver despite community intergenerational challenge posed by a rapidly ageing population, combined with a comparatively smaller younger population. This challenge is even more pronounced in regional and remote areas, where younger people are more likely to migrate to larger cities while older residents remain, reducing the local revenue base while increasing demand for age-related services and infrastructure.

²⁹ ALGA, [Financial sustainability in Australian local government](#), July 2024, page 5

³⁰ [2021 National State of the Assets Report](#)

These structural constraints mean councils cannot easily pivot to user pays or commercial income at the scale needed, reinforcing the renewal backlog and affordability risks flagged by ESCOSA across multiple SA councils as exemplified below.

This systemic renewal gap means councils face escalating maintenance costs, higher risk of asset failure, and reduced capacity to meet community expectations. Without adequate funding and long-term support, councils are forced to defer renewals, which creates compounding costs and service risks over time.

Case study: SA councils demonstrating aging infrastructure driving sustainability risks

Alexandrina Council's high expenditure on new and upgraded infrastructure, combined with underfunded renewals, has driven a \$7.1 million operating deficit in 2023–24 and left its \$695.1 million asset base vulnerable to accelerated deterioration, prompting ESCOSA to classify its current financial position as potentially unsustainable.

Renmark Paringa Council was assessed unsustainable now and potentially unsustainable going forward, with planned average rate rises of 5.3% per annum and inadequate asset condition data, which undermines credible renewal programming and cost forecasts across \$138.1 million in infrastructure.

Wudinna District Council with a small rate base must maintain \$70.8 million in assets and a very large road network (117 km sealed; 1,570 km unsealed). ESCOSA flags expense growth (3.0% p.a.) and rate growth (4.0% p.a.), with depreciation of 34% of operating expenditure, all indicators of mounting renewal/maintenance pressure that drive the council's 'marginally unsustainable' current status and 'potentially unsustainable' projections.

Town of Gawler's capital program has been lifted to two times that of historical levels to tackle renewal backlog, pushing borrowings towards prudential limits and relying on average rate rises 4.9% per annum to sustain \$393.4 million of assets, leaving its short-term status 'potentially unsustainable', despite mostly sustainable long-term projections.

1.8 Provider of last resort

Councils regularly act as a service provider of last resort, addressing market gaps and regulatory failures to ensure that community needs are met.³¹ In Queensland and remote

³¹ ALGA, [Adapting Together: Local Government Leadership in a Changing Climate](#), June 2025, page 18

Australia, multiple inquiries and sector reports document that service delivery costs rise with remoteness, sparse populations, and socio-economic disadvantage. Reviews into remote Indigenous service delivery and council roles show structurally higher costs and complex service gaps that local governments often step in to address (i.e. the provider of last resort).³²

For example, having or maintaining GP services, aged care, and childcare within communities is outside the scope of local government. However, councils often step in where there are service gaps that are not being filled by the state or Commonwealth government as councils see these services are essential to the wellbeing of their community. These services are also important in attracting and retaining people who contribute to the local economy.

Case study: GP service by Wudinna District Council

Wudinna District Council currently spends 7.7% of general rates revenue on supporting the local GP service. Wudinna has a small population of 1168 people with a \$4 million operating budget and \$68 million worth of assets being managed. Therefore, these funds should be used to deliver key council services rather than propping up medical services that would otherwise be accessible in metropolitan areas. The consequence of not having access in regional and remote areas mean a significantly shorter life expectancy (on average 11 to 16 years less than metropolitan areas) and illness and injury resulting from health conditions that go untreated or receive delayed treatment due to a lack of local health services.

1.9 Capability Gaps

The local government sector across Australia is grappling with workforce challenges that directly impact productivity and asset management. The Australian Local Government Association (ALGA) commissioned national workforce survey found that nine in ten councils face skills shortages in essential roles, including engineers, planners, building surveyors, and environmental health officers. These shortages are particularly acute in regional and remote areas, where attracting and retaining qualified staff is compounded by housing constraints and limited local services.³³

Our previous submission highlighted significant workforce challenges in SA, including skill shortages driven by employee attrition and an ageing workforce. It also noted the link between workforce availability and housing constraints, the limited access to family services in regional and rural areas, and barriers to effective workforce planning and management.

³² [Measuring progress in Queensland's remote Aboriginal and Torres Strait Islander communities](#), April 2020

³³ [2022 Local Government Workforce Skills and Capability Survey](#), November 2022

Furthermore, the submission emphasised the growing impact of these workforce challenges on the delivery of essential council services, such as stormwater infrastructure, community sewerage management, and aged care.

The lack of skilled personnel can delay infrastructure renewal projects and increase reliance on contractors (often at higher cost and frequently difficult to find), and limits councils' ability to deliver efficiently. Without targeted investment in workforce development and funding certainty to support training and retention strategies, councils risk falling further behind on critical renewal programs, exacerbating the systemic infrastructure gap and reducing community resilience.

1.10 Decline in supplementary road funding

South Australia is heavily dependent on a top up funding unique to our state, Supplementary Local Road Funding (SLRF). SLRF was established in 2004-05 following an earlier federal inquiry into local government and cost shifting³⁴ to supplement South Australia's historical disadvantage under the Identified Local Road Funding component of FA Grants. A funding pause on SLRF between 2014-15 to 2016-17 was a significant challenge to councils in South Australia and resulted in significant additional LGA and ALGA advocacy to reinstate this funding.

Without this additional support and compared to other states, South Australia would receive by far the least in both per kilometre and per capita funding. This is despite maintaining approximately 11% of the national local roads network, being home to 7% of the national population, and receiving only 5.5% of the national allocation of Identified Local Roads funding under the FA Grants.³⁵

This reliance on SLRF highlights a structural imbalance and the vulnerability of South Australia's road maintenance capacity if the funding is discontinued. Table 1 below highlights the disparity in funding allocations, both with and without accounting for SLRF.

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Estimated allocations - 2023-24 (without SLRF) (\$ million)	278.4	197.2	186.9	152.5	52.5	50.7	22.4	30.7	971.3
Distribution (%)	28.7	20.3	19.2	15.7	5.4	5.2	2.3	3.2	100.0

³⁴ [House of Representatives Committees – Rates and Taxes - A Fair Share for Responsible Local Government - Parliament of Australia](#)

³⁵ South Australian Local Government Grant Funding Review – Final Report, September 2025, page 51

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Grants per person (\$/person)	34.0	29.0	34.3	52.8	28.3	88.4	87.0	65.1	35.7
Grants per km (\$/km)	1876	1482	1245	1201	672	3566	unknown	1702	1416
Estimated allocations - 2023-24 (with SLRF) (\$ million)	278.4	197.2	186.9	152.5	72.5	50.7	22.4	30.7	991.3
Distribution (%)	28.1	19.9	18.9	15.4	7.3	5.1	2.3	3.1	100.0
Grants per person (\$/person)	34.0	29.8	35.2	52.8	39.1	88.4	87.0	65.1	36.5
Grants per km (\$/km)	1876	1482	1245	1201	928	3566	unknown	1702	1446

Table 1- Estimated local road financial assistance grants per state, 2023-24

Council also faces significant challenge due to the misalignment between long term planning obligations and short- term funding cycles places additional pressure on councils as they work to maintain essential services and meet statutory responsibilities. Under the *Local Government Act 1999* (South Australia), councils are required to plan responsibly over a ten-year horizon³⁶, yet the SLRF only extends for short term two or three-year budget cycles, creating uncertainty that undermines confident investment decisions.

When SLRF was reinstated in 2017-18, it was set at \$20 million annually without any further funding boost or indexation applying over the intervening nine years, while only minimal changes have been made to its distribution across different council types.³⁷ Currently, it is only budgeted to the end of the 2025-26 financial year and it is particularly vulnerable to budgetary constraints and austerity measures at a federal level.

When funding is inconsistent or insecure, like SLRF, both councils and the state are placed at a disadvantage, increasing the burden on local governments as they provide essential enabling infrastructure to their communities without guaranteed support. This is exacerbated in regional and remote areas, as councils work to meet statutory obligations with fewer resources for proactive investment. This uncertainty undermines financial stability

³⁶ [Local Government Act 1999 SA](#), Chapter 8, Part 1, 122 (1a)

³⁷ South Australian Local Government Grant Funding Review – Final Report, September 2025, page 56

and results in deferred maintenance, higher long-term costs, and increasing infrastructure backlogs.

Case study: Demonstrating maintenance burden for Northern and Yorke LGA while SLRF is frozen at \$20 million annually

Northern and Yorke LGA has 15 councils as its members. This region has significant road network which demands the councils in that region to have a high road maintenance, which is a significant burden on councils.

The table below shows that this council's materials pricing has increased by at least one-third, while the SLRF allocation has remained frozen at \$20 million since 2018-19.

Asphalt Rates	Price per tonne	% increase
2018	\$ 182.40	
2025	\$ 251.82	38%
Spray Seal Rates	Price per m²	% increase
2018	\$ 6.61	
2025	\$ 9.15	38%
Rubble Rates	Price per tonne	% increase
2018	\$ 10.50	
2025	\$ 15.50	48%

Table 2

1.11 Climate Change impact

South Australian councils are incurring escalating, recurrent repair and replacement costs for coastal and community assets such as seawalls, jetties, stormwater systems, parks, and other facilities, as climate -related floods, storms, heatwaves, bushfire, and coastal erosion become more frequent, with damage costs rising far faster than council revenues.³⁸

As a result, financial exposure is intensifying for everyone, especially for councils. Councils also face accelerating depreciating asset due to recurring, more intense climate-induced disasters. Insured climate damage costs are now 12 times higher than two decades ago while local government revenue has only increased 3 times, widening operating deficits and depleting renewal reserves.³⁹ Figure 4 demonstrates the wide gap between the coastal protection expenditure in comparison to council's income as of 2019-20. Due to this, councils

³⁸ [Local governments face soaring cost of climate change](#), September 2025

³⁹ [Local governments face soaring cost of climate change](#), September 2025

are increasingly facing financial sustainability risks, even those which are proactive in climate proof planning.

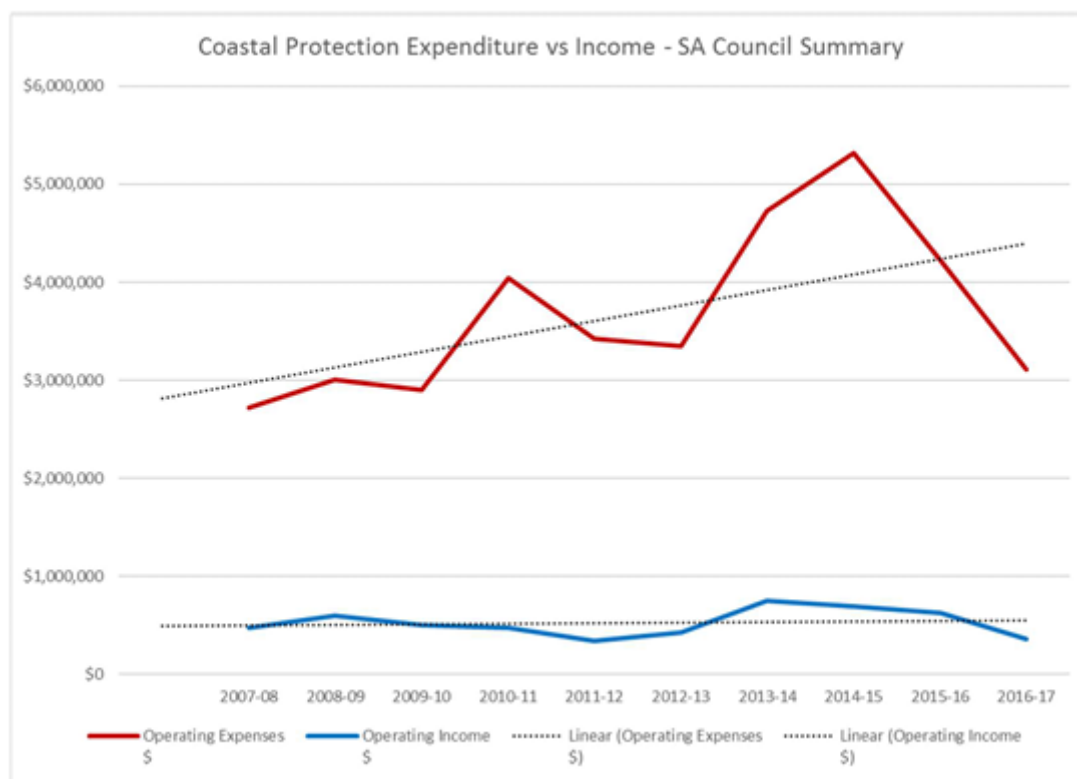


Figure 4- Coastal protection expenditure and income by councils across SA as reported in 2019-20⁴⁰

In addition, coastal councils are being faced by tough choices as they continue to balance competing interests in protecting coastlines and communities from rising sea levels and worsening erosion. The cost for local governments to restore eroding beaches or safeguard beachfront properties and infrastructure (for example, jetties) often exceeds \$1 million (as researched in 2019, seven years ago), and in some cases, could climb as high as \$54 million annually.⁴¹ Despite the escalating costs and risks, SA's grant and subsidy allocation for local government is capped at approximately \$1.2 million for the entire state for a couple of years to protect and manage the state's coastline.⁴²

⁴⁰ [Situation analysis of coastal management in South Australia, 2019-20](#)

⁴¹ Climate Council, [Neighbourhood issue: climate costs and risks to councils](#), September 2021, page 2

⁴² [Department for Environment and Water - More support to protect SA's...](#)

Case study explaining the increasing need of funding for disaster resilience - Kingston District Council

In June 2025, severe storms and king tides caused major structural failure to the Kingston South East Jetty, with sections of the 161-year-old jetty collapsing and the structure assessed as beyond repair.

The South Australian Government has since identified funding of approximately \$2.87 million for Kingston jetty works under the SA Jetties Renewal Program, however this amount does not cover the full cost of rebuilding a marine structure of this scale, which is expected to run into several million dollars

Repairs have not progressed because Kingston District Council has a small ratepayer base and limited borrowing capacity. Many jetties in South Australia are state-owned but leased to councils, leaving councils responsible for maintenance and co-contributions.

Without additional state or federal funding to meet the full replacement cost, the council has been unable to proceed with reconstruction despite the jetty's economic and community importance.

South Australia also experienced a prolonged and severe drought that placed significant pressure on communities and regional economies, leading to widespread direct and indirect impacts across social and economic systems. In 2024–25, gross value added in the agriculture, forestry and fishing sector declined by 14 per cent, representing the largest single subtraction from overall growth in Gross State Product (GSP), driven by the combined effects of drought conditions and algal bloom events.⁴³

National modelling also indicates councils will need to outlay more than \$2 billion over the next five years for climate and disaster mitigation, around \$400 million per year, with SA councils facing similar budget pressures amid static or declining real grant funding.⁴⁴ These mounting funding pressures create escalating financial instability for SA councils, reducing their capacity to maintain services, manage assets and meet growing climate and disaster obligations.

Councils also play a vital role in bridging the gap between immediate community expectations and the timing of state responses, while carrying the responsibility for meeting local needs for disaster resilience, such as climate adaptation projects, disaster preparedness plans, and infrastructure recovery and cleanup operations post an event. Expecting the

⁴³ The University of Adelaide, Economic briefing report, Dec 2025, page 19

⁴⁴ ALGA, [Adapting Together: Local Government Leadership in a Changing Climate](#), June 2025, page 51

communities impacted by an event to provide significant funding for recovery, only creates additional harm.

During the first four months of the algal bloom, and in the absence of a coordinated response, councils faced significant unplanned resource demands to mitigate impacts and support their communities. Although from July and August 2025, state government and federal government support became available for addressing algal bloom, councils had to carry the full weight of community expectations, and state government expectations of response (as exemplified below in Yorke Peninsula) diverting their resources from core services. Evidence from national disaster inquiries shows that delays or uncertainty in funding allocation can hinder local response capability and increase overall recovery costs.⁴⁵

Without a coherent long-term strategy, adequate funding for climate induced disasters, and timely state level responses, councils face mounting financial and operational pressures that ultimately threaten long term sustainability.

Case study explaining council impacts during extreme climate event (Algal Bloom) - Yorke Peninsula

Yorke Peninsula Council manages 485 kilometres of coastline with numerous access points and 32 coastal settlements. In August 2025, the State Government had outlined an expectation for council to arrange the manufacture and installation of 250 beach advisory signs, which was not achievable within their current staffing, budget, or local contractor capacity. As a result of Algal Bloom, council assets were also under pressure:

- Bush campground visitation was down 61%.
- Caravan park bookings have declined, with increased summer cancellations.
- Ongoing wash-up of dead marine life has increased clean-up demands along the coastline.

This decline in visitation affects long-term financial sustainability, with council managing extensive assets and infrastructure on a \$44 million budget. This prolonged downturn also impacts the rate base, service delivery and asset management capacity of council.

⁴⁵ Productivity Commission, [Natural Disaster Funding Arrangements Inquiry report](#), 2014/2015

Case study explaining councils faced intensive operational demands during Algal Bloom - City of Holdfast Bay

In SA, the state government estimates 500 tonnes of marine waste has been cleared from beaches since the bloom emerged in March.

The City of Holdfast Bay faced intensive operational demands, including daily clean-up efforts of 9 km of beach when 37 tonnes of fishes were washed up in August 2025. This occurred almost every day and the cost was shouldered by the council, as they hired additional waste contractors to clean the beach, and increased community engagement.

While specific financial costs weren't published for Holdfast Bay alone, insights suggest substantial economic impacts; many councils and local businesses reported tens of thousands in losses.

Part 2. Recommendations

2.1. Interactions between governments

Our submission highlights that local government delivers essential services and programs that directly impact daily life in our communities. Local government is the one that communities trust the most and engage with most frequently. Councils also have legislative responsibilities to consult on plans and budgets and therefore have a deeper understanding of both community need and expectation around service and infrastructure delivery.

For local government to operate efficiently, all spheres of government must communicate effectively, be appropriately resourced, and work together in genuine collaborative partnership.

The recommendations under 2.1 have been developed in consideration of the following key sustainability issues (identified in part 1):

- Key sustainability issue 1.1 - Number 1 risk
- Key sustainability issue 1.4 - Cost shifting
- Key sustainability issue 1.5 - Revenue raising constraints
- Key sustainability issue 1.6 - Missed opportunity for GDP investment

Recommendation 1: Prevent cost shifting

Under this recommendation, LGA requests a mechanism to prevent unfunded mandates from state and federal governments to local government. This would ensure that responsibilities are appropriately resourced, incorporate no-net-cost clauses with transparent impact assessments and that revenue raised through council community consulted annual plan are used for local priorities.

The benefits include improved financial sustainability, reduced administrative burden, and enhanced accountability. Councils will be able to focus on service delivery rather than decisions on the trade-off costs that should be borne by other levels of government.

Recommendation 2: Introduce subsidiarity policy

Local governments currently face restrictions on revenue generation and financial flexibility, limiting their ability to respond to local priorities.

Financial autonomy allows councils to shape revenue and spending decisions in ways that reflect local investment needs. International evidence shows that when local governments

have greater control over their own financial tools, they tend to manage resources efficiently and respond better to community needs. Studies of Italian municipalities demonstrate that fiscally autonomous councils exhibit less inefficient behaviour, reinforcing the value of decentralisation and reduced vertical fiscal imbalance.⁴⁶ With this autonomy, councils can also innovate and invest during economic downturns, supporting local resilience rather than being restricted by narrow or inflexible funding structures.

By investing in local government autonomy, councils will be able to more efficiently and effectively tailor strategies to community needs, innovate in revenue generation, and manage costs effectively. This strengthens the foundation for liveability and economic growth.

2.2 Identification of all funding sources

LGA does not have any recommendations under 2.2.

2.3. Impacts and effectiveness

Effective local government delivers trusted, efficient services tailored to community needs. However, to achieve this outcome, it requires predictable, equitable and sustainable funding mechanisms from the Commonwealth to meet national challenges that are implemented locally.

Councils in South Australia are required under legislation to prepare 10-year financial plans, and this is difficult when there is little long-term funding clarity.

The recommendations under 2.3 have been developed in consideration of the following key sustainability issues (identified in part 1):

- Key sustainability issue 1.1- Number 1 risk
- Key sustainability issue 1.2 - Declining taxation share
- Key sustainability issue 1.3 - Short-term competitive tied grants
- Key sustainability issue 1.5 - Revenue raising constraints
- Key sustainability issue 1.7 - Ageing infrastructure
- Key sustainability issue 1.8 - Providers of last resort
- Key sustainability issue 1.9- Capability gap
- Key sustainability issue 1.10- Decline in supplementary local road funding
- Key sustainability issue 1.11- Climate change impacts

⁴⁶ ALGA, [Financial sustainability in Australian local government](#), July 2024

Recommendation 3: Restore Financial Assistance Grants to at least 1% of Commonwealth tax revenue

Indexing and growing FA Grants to reflect service demand will ensure councils can maintain service quality without cutting programs or deferring infrastructure investment.

Increasing FA Grants to at least 1% of Commonwealth tax revenue, would enable better alignment with need.

Recommendation 4: Formalise indexation of Financial Assistance Grants

Indexing and growing FA Grants has a two-fold benefits:

1. predictable, indexed funding improves multi-year budgeting and asset management, limiting the need for deferred maintenance that raises lifecycle costs.
2. restoring the real value of the grant supports regional equity, helping councils in low-growth, low-base areas maintain essential services as expectations rise (e.g., climate adaptation, emergency management, housing-enabling infrastructure).

South Australian sector feedback during the 2024–25 federal sustainability inquiry reinforces that FA Grants have nearly halved as a share of taxation over decades, and that stable growth is essential to meet the rise in expectations and change in circumstances without excessive rate burdens.

Recommendation 5: Reform and modernise Supplementary Local Road Funding

Increasing SLRF drives economic growth and regional productivity. Fit-for-purpose local roads underpin regional economies by supporting agricultural exports, tourism, and local businesses. By reducing transport bottlenecks and improving connectivity, SLRF unlocks economic potential and strengthens national productivity, particularly in SA regional areas.

The reformation of SLRF is recommended as follows:

- Continue Supplementary Road Funding beyond 2025–26.
- Indexation of funding from 2026–27 using the Australian Bureau of Statistics' Producer Price Index for Road and Bridge Construction (PPI-RBCM) to reflect real cost increases. Funding should start at \$31.8 million in 2026–27, with corresponding increases applied based on the movement of the PPI-RBCM in future years.
- Provide legislative certainty enabling sustainable infrastructure/asset planning.
- Deliver a one-off \$56 million catch-up payment in 2026–27 to offset nine years of unindexed funding since 2017–18.

The above recommendations promote fairness in national road funding. South Australia has historically received the lowest per capita and per kilometre funding under the ILRF formula. Supplementary funding helps address this imbalance. Reforming and indexing SLRF ensures

South Australian communities are not increasingly disadvantaged compared to other states, fostering a more equitable distribution of Commonwealth resources.

Recommendation 6: Formalise funding for local government's critical role in disaster preparedness, response and recovery

Rapid, well designed funding mechanisms are essential to ensure councils can act decisively in both immediate response and long- term- recovery.

Strengthening funding arrangements also requires genuine recognition of local government as a partner in disaster resilience. South Australia's emergency management system highlights that councils possess critical local knowledge, community networks, and place-based expertise that higher levels of government rely on during -emergencies.⁴⁷

When state and federal funding programs are co-designed with councils, rather than imposed through rigid or administratively burdensome processes, resources are more effectively targeted, accountability improves, and communities recover faster. International evidence reinforces that collaborative governance models lead to stronger resilience outcomes, particularly in regions with diverse geographic and socio-economic risk profiles like South Australia.⁴⁸

Ensuring that funding mechanisms recognise and promote partnership with local government not only supports effective disaster response but also strengthens long term climate adaptation across the state.

2.4. Previous Inquiry

Recommendation 7: Note recommendations LGA made as part of previous inquiry

LGA's previous submission to the Inquiry into Local Government Sustainability identified a range of additional concerns and made several recommendations. The concerns raised and recommendations made in the previous submission remain valid and continue to apply.

⁴⁷ [South Australian Fire and Emergency Services Commission](#), financial report, June 2021

⁴⁸ [OECD Regional Outlook 2021](#), May 2021

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build stronger communities.**

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