ALGA

Australian Local Government Association

# Submission to the Select Committee on Productivity in Australia

## Unlocking Australia's productivity through strong Local Government

February 2026

# Introduction

The Australian Local Government Association (ALGA) is the voice of local government in Australia, representing 538 councils across the nation. ALGA was established in 1947 and throughout its history has been actively involved in issues of national significance affecting local government and local communities.

In structure, ALGA is a federation of state and territory local government associations. This submission should be read in conjunction with any separate submissions received from state and territory associations as well as individual councils.

Local government is a critical partner in Australia's national productivity agenda. Councils are responsible for extensive public infrastructure and essential services that underpin daily economic activity, workforce participation and local labour markets.

The productivity and funding challenges facing Australia's local government sector are neither new nor poorly understood. A substantial body of work through federal inquiry and review has consistently documented the structural constraints that limit councils' capacity to plan, invest and deliver long-term productivity gains. Reviews such as the Colvin and Glasser disaster funding and governance reviews, together with the interim findings of the Commonwealth's inquiry into local government financial sustainability, have reinforced that the barriers facing local government are long-acknowledged, systemic and well-evidenced.[1] These processes highlight that fragmented, short-term and increasingly prescriptive funding arrangements undermine efficiency, resilience and value for money, and that improving productivity requires addressing these known constraints rather than re-diagnosing them.

Despite the central role councils play in enabling economic activity, productivity outcomes at the local level remain constrained by the current intergovernmental funding framework. These arrangements limit councils' ability to plan, invest efficiently and deliver long-term productivity benefits. These constraints are compounded by the fact that local governments are frequently responsible for implementing Commonwealth and state initiatives, yet are too often excluded from the forums where key national economic reforms are designed and agreed. Better productivity outcomes require stronger alignment between decision-making and delivery, so that local, place-based insights can inform policy design, reduce implementation risk and support more efficient delivery.

Councils plan, deliver and maintain infrastructure and services that directly influence workforce participation, business activity and community resilience. These include local roads and transport networks, waste and resource recovery systems, land-use planning and development assessment, libraries, community facilities and public spaces. [2] Productivity gains at the national level depend on the effectiveness of these local systems and services.

Where councils are adequately resourced and able to plan long-term, productivity benefits extend beyond local communities to the broader economy. However, Australian local government operates with comparatively limited revenue bases and under increasing financial pressure. By international standards, Australian local government investment as a share of GDP is low. Evidence shows that real per-capita

[1] Australian Government, Independent Review of Commonwealth Disaster Funding (Colvin Review), 2024; Australian Government, Independent Review of National Natural Disaster Governance Arrangements (Glasser Review), 2024; Commonwealth of Australia, Inquiry into Local Government Financial Sustainability – Interim Report, 2025

[2] Australian Local Government Association (ALGA), *Submission to the Productivity Commission Productivity Inquiry*, 2022.

expenditure by local government has flatlined over the past decade despite population growth and rising service demand, constraining councils' capacity to maintain assets and invest in productivity-enhancing initiatives.[3]

## Funding certainty and the importance of untied, formula-based funding

From a local government perspective, productivity gains are closely linked to funding certainty and flexibility. Efficient investment requires the ability to plan across multiple years, align capital works with asset maintenance and respond to changing local conditions. Uncertainty and fragmentation in funding arrangements undermine this capacity. Short-term, project-based funding encourages reactive decision-making, limits the strategic sequencing of works and increases administrative overheads. Research shows that these funding characteristics reduce overall public-sector productivity and contribute to growing infrastructure maintenance backlogs.[4] A productivity-focused funding framework must therefore prioritise certainty, predictability and local decision-making.

**Untied, formula-based funding** enables councils to allocate resources where they deliver the greatest local and economic benefit. This type of funding supports long-term infrastructure and financial planning, efficient asset management, integrated service delivery and tailored responses to place-based productivity constraints. Financial Assistance Grants (FA Grants) are the only national, **untied and formula-based** funding stream available to local government. They play a central role in supporting councils' capacity to deliver core services and maintain productive infrastructure. Evidence demonstrates that FA Grants reduce administrative burden, provide funding certainty and allow councils to focus on delivery rather than compliance.[5] However, the declining real value of FA Grants has reduced councils' capacity to maintain assets, manage rising costs and invest in productivity-enhancing initiatives. Strengthening this funding stream would be a direct and efficient mechanism for supporting productivity at the local level.[6]

Competitive grant programs are frequently presented as mechanisms to drive efficiency and innovation. However, from a local government perspective, heavy reliance on competitive grants often produces the opposite outcome. Competitive grants impose significant administrative and compliance costs, divert skilled staff away from service delivery and generate duplicated effort across the sector. Councils must invest substantial resources in applications and reporting regardless of funding success.[7] In many cases, councils are also required to compete for the same limited funding pools as not-for-profit organisations and community service providers, despite being a recognised tier of government. These programs also tend to advantage councils with greater internal capacity rather than those facing the greatest productivity constraints, resulting in inequitable outcomes and inefficient allocation of public resources. Short funding

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[3] SGS Economics & Planning, *Local Government Productivity Report*, 2022.
[4] LGIU, *Local Government Finance in Australia: Meeting the Needs of the Future?*, 2025; SGS Economics & Planning, *Financial Sustainability in Australian Local Government*, 2024.
[5] Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Financial Assistance Grant to Local Government*, 2025.
[6] Australian National Audit Office, *Grants Administration*, 2024
[7] Australian National Audit Office, *Grants Administration*, 2024

horizons further limit councils' ability to plan and deliver value for money. When administrative effort and opportunity costs are considered, competitive grants can reduce overall public-sector productivity.

Housing availability is also a fundamental pillar of economic productivity, influencing workforce participation, labour mobility and local economic growth. Local government is central to enabling housing supply through land-use planning, development assessment and the provision of enabling infrastructure. Where councils lack predictable funding for enabling infrastructure, housing delivery is delayed and national objectives become harder to achieve. Many councils have already had to scale back or delay new infrastructure, with 40 per cent of local governments reporting that they have cut back on new infrastructure developments due to inadequate enabling infrastructure funding.[8] **A productivity-focused funding framework should therefore recognise the role of councils in unlocking housing supply and ensure that funding settings support long-term planning and investment for enabling infrastructure**.

## Workforce Capacity as a productivity constraint

Local government productivity is increasingly constrained by Australia's jobs and skills crisis. Councils collectively employ around 213,000 people nationwide, making local government a major national employer and a critical delivery partner for infrastructure, housing and community services.[9] ALGA's 2022 Local Government Workforce Skills and Capability Survey found that nine out of ten Australian councils are experiencing jobs and skills shortages, directly hindering project delivery, service provision and strategic planning.[10] The most acute shortages are in town planners, building surveyors and engineers, occupations essential to land-use planning, development assessment, infrastructure delivery, asset management and climate adaptation.

These workforce constraints have direct implications for national productivity priorities. Objectives such as increasing housing supply and accelerating infrastructure delivery cannot be achieved without a capable and adequately resourced local government workforce. Where councils are unable to attract the skilled professionals required to manage infrastructure delivery, productivity gains are delayed and policy objectives are undermined. Addressing these challenges requires funding frameworks that support not only infrastructure investment, but also workforce development and capability building. **Councils require increased and more predictable federal funding to invest in training, attract skilled workers, particularly in regional and remote area, and contribute to addressing broader skills shortages across the national economy**.[11]

However, workforce constraints also require system-level reforms beyond funding alone. Barriers to workforce mobility, such as inconsistent recognition of qualifications across jurisdictions, compound shortages in critical occupations. Strengthening the local government workforce requires coordinated action to expand the supply of key occupations, including through education and training pathways that support workforce growth, particularly for regional communities where shortages are often most acute.

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[8] Australian Local Government Association (ALGA), *Addressing the Housing Crisis*, Equity Economics, 2024
[9] Australian Bureau of Statistics, *Public Sector Employment and Earnings, 2024–25*
[10] Australian Local Government Association, *Local Government Workforce Skills and Capability Survey: National Report*, 2022
[11] Australian Local Government Association (ALGA), *Local Government Workforce Skills and Capability Survey: National Report*, 2022; Australian Bureau of Statistics, *Public Sector Employment and Earnings, 2024–25*, 2025

# Climate resilience, disaster mitigation and long-term productivity

Climate change and disasters are also increasingly shaping productivity outcomes at the local level. Climate impacts are placing growing pressure on local infrastructure and services that underpin economic activity and liveability, while also increasing the costs and disruption associated with asset damage and recovery. Councils are already delivering place-based adaptation measures that protect infrastructure, reduce disruption to communities and support long-term economic resilience. **Proactive investment in local climate adaptation can reduce future costs and minimise productivity losses by strengthening resilience across infrastructure, emergency management and community systems**.[12]

The increasing frequency and severity of natural disasters is a significant and escalating productivity constraint.[13] Disasters divert council resources away from strategic investment and service delivery, disrupt local economies and impose costs on businesses and communities through asset damage, reduced economic activity and recovery burdens, with Australian councils experiencing 529 natural disaster events in 2024–25 alone.

Local government capability and capacity is at the heart of **mitigation and resilience for meeting the increased severity and frequency of natural disaster events.** Rather than reliance on short-term, competitive and administratively complex disaster funding, a comprehensive reform of current disaster funding arrangements is needed as part of system wide uplift is required.[14] Proactive and stable funding arrangements for mitigation would reduce repeated productivity losses and support more sustainable long-term outcomes.

# Local Government, supply chains and freight productivity

Local government plays a critical role in Australia's supply chains and freight productivity, as almost every freight journey begins and ends on infrastructure owned, managed and maintained by councils. Local roads therefore underpin first- and last-mile freight movements and have a direct impact on business costs, network reliability and national productivity. Local government-managed roads comprise approximately 77 per cent of Australia's road network by length and represent a substantial proportion of local government infrastructure assets.[15] These roads support the movement of goods between producers, ports, distribution centres and consumers, meaning inefficiencies on local networks are rapidly transported through the broader freight and supply chain system.[16]

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[12] Australian Local Government Association (ALGA), Adapting Together: Local Government Leadership in a Changing Climate, 2025

[13] Deloitte Access Economics, Update to the Economic Costs of Natural Disasters in Australia, 2021; Productivity Commission, 5-year Productivity Inquiry, Vol. 6, 2023

[14] Productivity Commission, 5year Productivity Inquiry: Managing the climate transition, 2023; Australian Government, Independent Review of Commonwealth Disaster Funding (Colvin Review), 2024; Australian Government, Independent Review of National Natural Disaster Governance Arrangements (Glasser Review), 2024

[15] Australian Local Government Association (ALGA), 2024 National State of the Assets report

[16] Australian Local Government Association (ALGA), *2024 National State of the Assets* report; Infrastructure Australia, *Australian Infrastructure Audit*

Councils are a key delivery partner in improving freight productivity through landuse planning, route identification, asset maintenance and local traffic management. Evidence from the local government sector demonstrates- that targeted investment in local freight routes and the removal of first and -lastmile bottlenecks can unlock significant productivity gains and wider economic benefits, particularly in regional and -exportoriented- economies.[17] However, fragmented and shortterm funding for local roads has resulted in a network that often struggles to provide reliable, -end-toend- freight access, particularly in regional areas. The doubling of the Roads to Recovery funding to $1 billion per year is welcomed, but requires further dedicated funding to meet basic maintenance needs[18], as well as modern pressures from an evolving network. **Strengthening councils' capacity to maintain and upgrade local roads through predictable, untied funding is therefore not only a local issue, but a national productivity imperative**.[19]

In addition to funding, improving freight productivity also requires system-level reforms that reduce administrative burden and enable better data-driven decision-making across the network. Nationally coordinated approaches to road access systems, road asset data and service standards can reduce duplication for councils and industry, improve network reliability and support more efficient freight movement, particularly where supply chains depend on consistent first- and last-mile access across jurisdictions.[20]

**Cost shifting and productivity constraints**

Local government productivity is further constrained by ongoing cost shifting. Councils frequently assume responsibility for services and infrastructure without corresponding funding, particularly where other levels of government withdraw support or market provision fails. Evidence shows that cost shifting diverts council resources away from strategic investment and asset renewal, erodes financial sustainability and limits councils' capacity to contribute to productivity growth.[21] **Addressing productivity therefore requires alignment between responsibilities and funding across all levels of government**.

# A more productive funding framework

To support national productivity objectives, local government needs a funding framework that includes:

- a return to 1% of Federal taxation revenue delivered as untied, formula-based allocations in the FA Grants;

[17] Australian Local Government Association (ALGA), *National State of the Assets Report 2024*; Infrastructure Australia, *Australian Infrastructure Audit*

[18]Marion Terrill, Natasha Bradshaw and Dominic Jones (Grattan Institute*), Potholes and Pitfalls: How to Fix Local Roads*, 2023

[19] Australian Local Government Association (ALGA), *National State of the Assets Report 2024*; Infrastructure Australia, *Australian Infrastructure Audit*; Productivity Commission, *5-year Productivity Inquiry*

[20] Austroads, *Road Asset Data Standard*; Australian Government and National Heavy Vehicle Regulator, *National Automated Access System* and *Strategic Local Government Asset Assessment Project*

[21] Local Government NSW, *Cost Shifting 2025: How State Costs Eat Council Rates*; Local Government Association of Queensland, *Cost Shifting Report: A Fairer Funding Deal for Queensland Communities*

- creation of formula based funding approaches that are limited to local governments, similar to Roads to Recovery to meet the needs of significant national priorities at the local level related to:
    - enabling infrastructure to unlock housing supply;
    - building and maintaining community infrastructure;
    - delivering safer roads;
    - natural disaster mitigation and resilience and improvement in local government's emergency management capacity and capability; and
    - climate adaptation initiatives.
- streamlined and harmonised grant programs.

Such reforms would reduce duplication, lower administrative costs, improve equity across councils and maximise the return on public investment. Importantly, they would allow councils to plan and deliver infrastructure, services and workforce initiatives in ways that genuinely support long-term productivity.

A strong, sustainable and well-resourced local government sector is essential to Australia's long-term productivity, growth and prosperity.