

31 March 2022

Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Dear Sir/Madam

Re: Initial submission to Productivity Inquiry

Thank you for the opportunity to make a submission to the Productivity Commission's *Productivity Inquiry* and for our initial discussion with Commissioners Gropp and King on the 15th March 2022.

The Australian Local Government Association (ALGA) is the national voice of local government, representing 537 councils across the country. In structure ALGA is a federation of state and territory local government associations.

This submission provides some overarching issues most of which were discussed with the Commissioners on the 15th March. ALGA intends to submit a more comprehensive submission to the Productivity Commission towards the middle of the year.

We are also interested in holding another roundtable with the Productivity Commission and our Local Government Association CEO's when we have completed our more comprehensive submission.

ALGA's position is that local governments as governments of local places are integral to facilitating and supporting their local economies. Efficient and financially sustainable local governments can deliver social and economic productivity outcomes for their local communities.

Please find attached an outline of our issues that we will explore more fully in our comprehensive submission mid-year. Liz de Chastel, Executive Director Policy can be contacted for further information

Your sincerely,

Matt Pinnegar
Chief Executive

Summary of Main Issues

Overview

Local governments across the country are diverse and reflect their local economic, social, and geographic characteristics. In addition, local governments are subject to differing roles, responsibilities and financial operations as outlined in their respective State/Territory Government legislation.

The local government sector collectively employs nearly 200,000 people and owns, manages, and maintains roads, cycleways, footpaths, parks, pools, and other community assets conservatively valued at \$523 billion with an annual operation spend of more than \$38 billion.

Collectively, local governments are responsible for one-third of all Australia's public infrastructure assets. Local roads make up approximately 39% of total local government infrastructure assets and make up 77% of the national roads network by length.

As the government of local communities, local governments know what local targeted investments, support mechanisms, and interventions will enable communities to grow and prosper.

With extensive business and service activity expertise, councils understand local economies in ways that state, territory or Commonwealth agencies or governments frequently do not.

Historically, local councils have been relied on to deliver public services including waste management, road and freight infrastructure, childcare and early learning, aged care, land use planning, population management, building and development regulation, social cohesion, environmental management, and resources stewardship. However local governments frequently step in to provide services where there are thin markets.

Local Government also takes a lead role in local and regional economic development – filling in the gaps left by other governments in local investment attraction, business mentoring, training, networking, and incubation.

Local government has over many years called for recognition in the Constitution to enable it to have an equal footing with other levels of government and to have access to a fair share of tax revenue.

Financial sustainability

The resilience and local economic productivity of local communities depends in large part on the financial sustainability of their local government's ability to provide a mix of services and infrastructure appropriate to their local circumstances.

Local Governments and their communities have been through challenging times recently managing the impacts of drought, bushfires, COVID and flooding. This has added unplanned costs to Council budgets, for example with infrastructure repairs, increased support services to communities and loss of income during COVID lockdowns and natural disasters.

These challenges compound an already perilous financial situation for many councils particularly in rural, regional, and remote communities where local government areas are often geographically large, but small in terms of population and hence ratepayers.

Often councils step in to provide support services that are not being provided by the private or non-government sector because of thin regional markets. This adds costs to the council's budgets.

Furthermore, rate capping by some State Governments has constrained local governments' ability to maintain financial viability and keep pace with rising costs of fuel, labour, and materials.

For these reasons, ALGA has been advocating for an increase in financial assistance grants to 1% of Commonwealth Taxation Revenue to enable councils to better support their communities now and into the future.

Increased funding to local communities via councils will have considerable benefits. The multiplier effect of local government expenditure is substantial as in many communities councils are the key employer and driver of business and employment.

Independent analysis provided to ALGA shows that increases in Financial Assistance Grants can contribute \$2,370 GDP to the national economy and create an additional 16,000 jobs.

Climate Change and Natural disasters

Local Governments play a critical role in building resilient and sustainable communities and helping to buffer people and places against social, economic, and economic disruptions and overcome adversity.

Climate change variability across Australia and the unique geographical, environmental, economic, and social circumstances of each region will mean the effects of climate change will be "uneven" and vary from region to region.

Australia has been profoundly impacted by natural disasters recently and the impacts of climate change will result in more frequent and more severe disasters in the future. Communities need support to take preventative mitigation measures to limit the severity of disasters, as well as needing appropriate and adequate support to recover from these events.

Natural disasters have claimed many lives and impacted hundreds of thousands of people. Mitigation measures reduce the costs of response and recovery and are a sound investment in strengthening community resilience. Not only does mitigation reduce Commonwealth and State expenditure on recovery after an event, but it is also important in reducing the risks faced by communities and preparing for increased future risks. Ensuring infrastructure can withstand future climate-change realities is vital for creating prepared and resilient communities.

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

Infrastructure and asset management

Of the three levels of government, Local Government has the largest relative infrastructure task in terms of asset management. Local roads account for around 75% of the total road length in Australia, or 662,000 kms. However Local Government has the smallest revenue base of all the tiers of government, raising only 3.4% of Australia's total taxation revenues. Unlike other levels of government, Local Government has no direct mechanism to raise funds for road construction and maintenance such as road user charges, registration charges or other road or transport-related fees or charges.

Throughout the recent natural disasters and COVID-19 shut down Local Governments' community infrastructure and services such as libraries, pools, sporting facilities, arts and culture facilities, parks and sportsgrounds have played a significant role in ensuring the wellbeing of local communities.

In addition, population and financial pressures in some locations have meant that these vital community services and facilities can be over capacity, in need of repair and upgrade, or not available.

One of the most significant issues in asset management is the ability of Councils to maintain current assets given funding can be focused on building new infrastructure. The availability and management of data platforms is also variable across the country and the availability of data is becoming more important with productivity reforms, for example for national heavy vehicle reform.

ALGA will outline this issue in more detail in our more comprehensive submission and draw on our research from our National State of the Assets Report.

Housing

The shortage and costs of rental properties and affordable home ownership is causing significant social and economic impacts in cities and towns across Australia, including rural and regional communities. This is due to a range of factors such as changes in recent migration patterns, cheap finance and labour and material shortages in the construction sector.

Whilst the provision of affordable housing and direct support to people who are homeless is not a local government responsibility, local governments often facilitate affordable housing and support to those who are homeless within their communities, operating within state/territory planning, financial and other legislation requirements. The housing challenge is different in each community and the council response is dependent on its financial resources and priorities.

There are many examples across the country of councils stepping up to assist their communities with affordable housing. For example, some councils have been funded by their State Governments to provide support to people who are homeless, others have stepped into thin housing markets to facilitate affordable housing or councils are working with other councils in their regions to address the housing issues.

Councils also administer and develop local planning schemes operating within the relevant State/Territory planning legislation.

The impacts on local governments and communities includes housing stress for individuals and families, difficulty in attracting and housing key workers including council staff and an increase in homelessness and housing stress in communities.

Workforce and Skills

Recruiting and retaining skill sets is difficult for all councils, particularly where there is direct competition with the private sector in areas of national skill shortages, such as engineering. This problem is acute in rural and remote settings where recruitment of specialist skills generally involves attracting people from outside the region.

Where facilities such as housing, schooling, recreational opportunities, and general amenity are not comparable to those elsewhere, the difficulty in filling vacancies is compounded.

Skills shortages are creating short-term risks to project delivery and are likely to be exacerbated in the medium term due to an ageing workforce with the risk of losing key personnel. There is insufficient recruitment, upskilling and development of staff to meet future skills needs.

Many of the above workforce challenges are exacerbated in regional areas, where councils are often the only viable service deliverer for other levels of government. Regional councils also face additional challenges attracting and retaining staff.

Increased funding, and more certain funding through untied grants such as financial assistance grants, will help councils appoint additional staff, including trainees and apprenticeships, achieving the objectives of the Australian Government, and addressing an emerging skills gap in councils and the broader community. It will help the roll out of local economic development strategies and bust regulatory congestion that is potentially slowing or blocking other investments flowing into communities across Australia.

ALGA with funding from the Federal Department of Infrastructure, Regional Development, Transport and Communications is undertaking a Local Government Sector Workforce and Organisation Capability research project. We anticipate being able to provide the Commission with the findings from this survey in our more comprehensive submission.

Digital Technology

ALGA's position over many years is that telecommunications should be delivered equitably to all Australians no matter where they live. Some regional and remote areas still lack access to reliable connectivity and pay a higher cost for services compared to their metropolitan counterparts.

Telecommunications connectivity underpins business development and connected communities. COVID-19 has seen a much greater dependence on telecommunications as many people have worked from home and some have moved from the cities to the regions to work remotely.

Reliable, high-speed broadband is essential to support community resilience as people continue the trend of working from home and migrating out of the cities. Access to telehealth and online education have also been critically important during COVID-19 to enable communities to access services while in isolation and when borders have been closed.

Removing remaining mobile blackspots is vital if this trend of remote working arrangements continues to enable communities to remain sustainable and resilient.

ALGA has also called for measures to bolster resilience of communications networks serving communities threatened by bushfire, to enable them to remain informed, connected, and safe. This is also consistent with the findings and recommendations of the Royal Commission into National Natural Disaster Arrangements.