

21 October 2022

Mr Michael Brennan
Chair
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Dear Mr Brennan,

Final Submission to the 5 - year Productivity Inquiry Interim Report

I am pleased to provide a submission to the Productivity Commission's *5-year Productivity Inquiry, Interim Report*. This submission builds upon our initial submission to the Inquiry provided in March 2022, and our discussion with Commissioners Gropp and King on 15 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.

Attached to this submission is a research report commissioned by ALGA and prepared by SGS Economics and Planning. This research outlines local governments' impact on productivity and provides evidence that demonstrates that local government improves national productivity through its roles in service and infrastructure provision and regulation. It also outlines the issues that are constraining local government in delivering further productivity gains.

Local governments have a significant role in the forces shaping Australia's productivity challenge as outlined in the attachment and the SGS report including:

- Workforce and skills – see further information in the attachment and SGS Report P27
- Digital and data – see further information in the attachment and SGS Report P35
- Infrastructure and housing – see further information in the attachment and SGS Report P50
- Climate change – see further information in the attachment and SGS Report P62

Some of the key findings in this attached report include:

- Over the past decade, total expenditure per capita by local government has more or less flat-lined. This is despite a period of rapid population growth and escalating demand for volume, quality and reliability in public services. Meanwhile, outlays per capita by the Commonwealth have escalated sharply, and those of state and territory governments have grown steadily.
- By international standards, investment in Australian local governments is small, forcing councils to operate with very modest resources. Allowing for the differing scope of local government across nations, Australian local governments' share of GDP ranks amongst the very lowest of comparator nations.

- Local government directly impacts broader economic productivity in at least nine ways: providing urban infrastructure, mitigating externalities in urban development, placemaking and visitor economy, providing land for housing, better local labour markets, climate mitigation and adaptation, providing land for business, business clusters and innovation, and circular economy.
- Local government is held back by poor state and Commonwealth policy settings, including cost shifting, inadequate fiscal equalisation, and in some jurisdictions rate capping or rate pegging.
- The financial challenges many councils are consequently experiencing are impacting on their capacity to adequately maintain their local assets, attract and retain qualified staff, and undertake digital transformation initiatives.

Local government can be part of the part of the solution to increasing Australia’s productivity through increased investment in key infrastructure, workforce, technology, and climate change adaption.

Local governments are distinguished by the breadth of services they offer within their relatively small tax bases and administrations. The level of infrastructure local government is responsible for has been increasing at a higher pace than the level of resources made available to the sector.

Even though local government-controlled infrastructure has large productive impacts on the wider economy, local governments have been doing more with less, compared to other levels of government. If provided with adequate funding local governments could contribute even more to national productivity.

While local governments may have a degree of autonomy in terms of core services, their productivity in these areas is potentially constrained by statutory limits on their ability to invest in better delivery models. For example, rate capping may militate against council engagement with transformative e-government strategies.

Productivity in core local government services, more broadly defined in terms of meeting reasonable community expectations, is also constrained by inadequate fiscal equalisation. Many councils in rural and remote Australia do not have the capacity within their statutory fundraising limits to deliver basic infrastructure and services.

The first Productivity Inquiry, *“Shifting the Dial”* had a number of recommendations, some with direct relevance to local governments, including:

- Supporting local government performance through improving performance reporting;
- Improving inter-governmental relations;
- Strengthening internal capabilities within Australian governments; and
- Acknowledging the mixed outcomes (at best) of local government amalgamations.

As outlined in this submission and the accompanying SGS Report, some of the issues identified in the last inquiry are still live issues for local governments, and in particular, the constrained financial resourcing of local governments is holding back productivity dividends.

Local governments – as governments of local places – are integral to facilitating and supporting the productivity of their local and regional economies. Furthermore, efficient, and financially sustainable local governments can deliver social and economic productivity outcomes for their local communities.

Councils are seeking increased capacity to direct revenue toward investment in local priorities. Constrained funding environments such as rate-capping or constrained programs such as tied grants are

not an efficient way for councils to have capacity to deliver on what their community's tell them they need.

We are calling for further resourcing support so that local governments can play a greater role in lifting the nation's productivity. Below are the funding asks that ALGA has included in its 2022-23 pre-Budget submission that relate to the Productivity Commission's priority areas.

Innovation and Diffusion of New Processes and Ideas

- Restoration of Financial Assistance Grants to at least one percent of Commonwealth taxation revenue
- \$120 million per year over four years to support the community arts and culture sectors impacted by COVID-19
- \$200 million over four years for a Local Government Climate Response Partnership Fund
- \$100 million per year for four years for local government circular waste innovation projects
- \$100 million per year for four years for Closing the Gap initiatives

Data, Digital Technology and Cyber Security

- \$55 million over four years to continue the Stronger Regional Digital Connectivity Package

A Productivity-Friendly Business Environment

- \$500 million per year for a four-year extension of the Local Roads and Community Infrastructure Program
- \$300 million per year for four years to address road transport first and last-mile issues
- An increase in Roads to Recovery funding from \$500 million to \$800 million per year
- An increase in Black Spot Program funding from \$110 million to \$200 million per year for the next four years
- \$20 million per year permanent supplementary road funding for South Australia
- \$200 million per year for four years for disaster mitigation


A Skilled and Educated Workforce

- \$200 million over four years for innovative affordable housing partnerships
- \$100 million over four years for a local government place-based health and activity program

The following attachment provides specific responses to the areas the Commission has identified as being of interest, whilst the SGS Report provides more detail and an evidence base. We welcome the opportunity to participate in a further roundtable with the Productivity Commission to discuss the contents of our submission.

If you have any questions please contact Liz de Chastel, Executive Director Policy on 02 6122 0443 or at Liz.deChastel@alga.asn.au.

Yours sincerely,

A handwritten signature in black ink that reads "Linda Scott". The signature is written in a cursive, slightly slanted style.

Linda Scott
President, ALGA

Attachments: ALGA Submission to Productivity Commission Productivity Inquiry Interim Report
SGS Economics and Planning Research Report into Local Government Productivity



AUSTRALIAN
LOCAL GOVERNMENT
ASSOCIATION

**Submission to the Productivity
Commission - *Productivity Inquiry*
Interim Report**

The key to prosperity

21 October 2022

Table of Contents

Introduction.....	1
How local governments contribute to national productivity.....	1
Forces shaping Australia’s productivity challenge	3
Enabling future productivity growth.....	4

Introduction

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 operational 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 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.

How local governments contribute to national productivity

Local governments provide a breadth of services that affect business productivity and which are delivered within relatively small tax bases and administrations. These services generally fall into the following categories:

- **Property & infrastructure services**, which relate to investment in and maintenance of shared physical assets that hold communities and local economies together. More specifically local governments maintain the road and active transport network covering all assets other than the relatively few which are designated to be of state and national significance. They are similarly responsible for the bulk of parks and gardens enjoyed by the community; councils perform key environmental management functions including the drainage and overland flow aspects of the water cycle; and they provide infrastructure cleaning, waste management and resource recovery services;

- **Household services**, including operation of neighbourhood and community-specific aged care and disability facilities; investment in arts infrastructure, and orchestration of events, festivals and place designations which celebrate distinctive local culture; provision of community centres, early childhood centres and neighbourhood houses which enable delivery of diverse services of value to families and children, youth and various special needs groups; creation of a network of indoor and outdoor sporting facilities; and registration of pets and animals;
- **Business services**, which include: supporting local firms – large and small –with training and networking programs; sponsoring high street and seasonal promotions (eg Christmas and Easter) to boost business; providing facilities and services to support tourism, such as toilets, information centres, caravan parks, wayfinding and so on; and the formation of local economic development strategies which leverage local competitive strengths and assist in community wealth building;
- **Regulatory services**, which are essential due to market failures and externalities. These cover health & safety (for example, in maintaining hygiene standards in local food outlets); land use planning and development assessment; assurance on the structural sufficiency of approved buildings; and formulation and enforcement of local laws relating to pets, noise, use of public land; and
- **Emergency management**, which includes risk management and planning as well as provision of first responder capability in the face of fires, floods and other crises. Many also engage in long-term recovery efforts well beyond the event.

While the Commonwealth Government and State/Territory Governments typically set up one or two purpose departments and rely on economies of scale in service delivery, local governments typically do not have this option. Instead, their advantage in service delivery stems from economies of scope; that is, generating more value from available resources by leveraging place-based synergies between facilities and programs. For example, open space required for flood management can double as playing fields for most of the time. Similarly, by providing well-designed multi-purpose community facilities, local governments can induce otherwise unused volunteer effort in skills development, health maintenance and cultural learning.

Local governments are also mandated to boost the productivity of other sectors in the economy. Local government directly impacts broader economic productivity in at least nine ways as described below.

1. Providing urban infrastructure
 - Arterial Roads
 - Major cycleways
 - Green space networks
 - Clean streets
2. Mitigating externalities in urban development
 - Development approvals
 - Building controls
 - Separation of incompatible uses
 - Place making and visitor economy
3. Tourism infrastructure
 - Culture and arts
 - Place quality/attractions
 - Safe streets

4. Providing land for housing
 - Strategic planning for housing development
 - Infrastructure coordination to support housing development
5. Better local labour markets
 - Provision/facilitation of childcare services
 - Facilitating access to training
 - Supporting social enterprises as skill accumulators
 - Supporting key worker housing
6. Climate mitigation and adaptation
 - Mapping and management of climate change hazards
 - Emergency management and recovery
 - Regulated retreat
 - Renewable energy networks
7. Providing land for business
 - Strategic planning for employment areas
 - Infrastructure coordination to support employment lands
8. Business clusters and innovation
 - Promotion of local business districts
 - Business incubators
 - Business angels
9. Circular economy
 - Resource recovery and reuse
 - Management of landfill

Forces shaping Australia's productivity challenge

These issues are outlined further in the attached SGS report but local governments are integrally involved in the leading forces shaping national productivity which include:

Workforce and skills

- Local governments have an important role in workforce development, both for their own productivity and that of their host regions. As the level of government closest to constituents, Councils are well placed to act as an anchor organisation in the community, supporting the economic benefits of harnessing talent and facilitating community cohesion. Councils are a major employer in many regional and rural areas.

Digital and data

- Local governments can play a critical role in supporting and modelling technological innovation and developing best-practices in the evolving digital economy.

Infrastructure and housing

- The level of infrastructure local government is responsible for has been increasing at a higher pace than the level of resources made available to them. This local government-controlled infrastructure has large productive impacts on the wider economy.

Climate change

- Increasingly local governments recognise the community's calls to respond to climate change. Firstly, by reducing emissions and showing local leadership by taking action. Secondly by adapting to the myriad of changes that are already locked in. This includes building resilience and disaster preparedness, and disaster response and recovery after natural hazards events.

Enabling future productivity growth

Innovation and Diffusion of New Processes and Ideas

Local governments have a long history of innovation across their infrastructure and service delivery functions. Councils have to respond to the issues in their local communities, often with constrained resources, so look for new and innovative ways to overcome challenges. Local governments have a track record of collaboration, working across boundaries and within regions to address common issues. Councils are also often leaders in innovative practices and can quickly implement new ideas and work across portfolio areas effectively.

Local governments also facilitate local innovation and ideas in their local communities through economic development programs such as business grants, business-friendly policies, new investment attraction activities and business networking events.

Research undertaken by the Western Australia Local Government Association¹ shows that local governments enable and facilitate economic outcomes aiming to attract new business, retain existing business, encourage the growth of existing business, attract investment, diversify the economy, improve community outcomes through job creation, training and education, enhance infrastructure, grow the population, attract visitors and reduce impediments to commercial activity

The National Awards for Local Government² highlight innovative and resourceful solutions implemented by local governments that make a difference to their local communities. These awards celebrate excellence in service delivery and showcase community initiatives that directly respond to community needs by overcoming barriers through new contemporary and creative solutions.

For example, the *Productivity through Infrastructure Award* recognises local government projects that utilise technological innovations or regulatory changes, consider sustainability, liveability and productivity in investment strategies and planning, or address long-term infrastructure priorities and offer clear economic productivity benefits. Successful projects in this award category benefit communities by connecting cities and regions in a way which supports population growth, providing safe and efficient transport links and service delivery and strengthening and diversifying regional economic bases by better connecting industries to markets and customers.

¹ WALGA 2019 [Collaboration Integration Alignment Advantage – Economic Development Framework](#)

² <https://www.infrastructure.gov.au/territories-regions-cities/local-government/national-awards-local-government#about>

Data, Digital Technology and Cyber Security

Poor connectivity in regional and rural areas impacts on local businesses and economic activity as well as local government operations. ALGA's position over many years is that equitably delivered and affordably priced telecommunications facilities should be available to all Australians, no matter where they live – however, the challenges of Australia's geography and population distribution are acknowledged.

Provision of information technology to all Australians is vital to innovation, economic growth and social equity, however, it is even more important to regional Australia where the tyranny of distance increases the inequity of services available – including education, health, economic and social.

Local governments play a critical role in supporting and modelling technological innovation and developing best-practices in the evolving digital economy. Innovative technology is becoming more broadly available and has the ability to boost productivity and economic growth.

Councils around Australia continue to embrace new technologies to improve their service delivery standards and broaden consultation and engagement with their local communities. However, many councils lack basic technological infrastructure and have a shortage of necessary skills and resources.

In a 2017 survey conducted by the Local Government Association of Queensland, councils in that state cited poor internet coverage (66 percent) and speed (62 percent), alongside high costs (59 percent), as key barriers to successful execution of digital technology initiatives. Smaller-sized councils face bigger barriers to effective take up of digital technologies, including lack of available funding and constrained access to skilled resources. Access to quality network infrastructure has an especially large impact on the connectivity and technology take-up of rural and regional councils.

More councils are providing free Wi-Fi and communicating or consulting with stakeholders through online forums and social media. Local government websites are becoming more sophisticated and mobile apps are being developed to enhance service provision to their communities.

The COVID pandemic has helped spur the adoption of digital technologies in local government. Many councils pivoted their in-person services to online channels so staff could continue to serve residents and ratepayers safely.

Local governments began live-streaming meetings and forums of an elected representative to allow otherwise locked-down residents to attend virtually. Some state governments have legislated to make this a permanent feature of council governance, a development that will strengthen the democratic accountability of local government.

Rolling out new digital technologies and platforms is expensive, however, and councils are at different stages of maturity. The capital-intensive nature of digital transformation – and new requirements that councils as owner/managers of critical infrastructure and data invest appropriately in cyber security systems, highlights the need for federal and state and territory governments to support local governments in this transformation.

For local government, there are some significant gains from coordinated approaches to Information Communication Technology (ICT), many of which state/territory local government associations are already leveraging. These include shared ICT and shared services, coordinated/joint procurement and the sharing of knowledge and approaches that deliver the best results.

Data captured representing communities' concerns and ideas, desired amenities and suggestions for development paired with more effective, automated analysis could facilitate an unprecedented level of open engagement between citizens and government while contributing to increasing the productivity of local government and supporting Australia's productivity.

The Federal Government's City Deals and Regional Deals, which facilitate partnerships between the three levels of government and work towards a shared vision for a place, town, or region, continue to expand. These models provide greater coordination, certainty, and efficiency of infrastructure provision at the local level.

A Productivity-Friendly Business Environment

A healthy and productive local government sector is clearly important to local communities and businesses as 'consumers' of municipal services.

Local government is also a regulator of business activity and councils have been reviewing their practices to streamline the approvals process for small businesses. For example, the City of Melville in Western Australia has developed a "Small Business Friendly Approvals Program"³ which makes it easier for small businesses to establish, operate and grow. The council investigated how it could streamline its approvals process to make a difference to business customers.

During the COVID lockdowns, many councils worked with their small businesses supporting them with fee reductions or waivers, free advice, local procurement and business promotional activities.

ALGA and its state and territory associations strongly support collaboration and engagement between local governments – and between all levels of government – to enable better service delivery outcomes for all communities. This is particularly important in regional areas where thin markets can conspire against efficient and equitable service provision.

To address this, many like-minded regional and remote-area councils have created voluntary groupings, or Regional Organisations of Councils (ROCs), to enable capacity building and resource-sharing. These groupings vary in number, governance, and priorities from jurisdiction to jurisdiction.

Local governments provide the underpinning infrastructure in local communities that allow businesses and communities to thrive and prosper. Councils also enhance the livability of places, for example through the provision of land for housing, attractive public places, cultural events, libraries, and community centres promoting social cohesion and knowledge gaining.

A big challenge to national productivity is the impact of climate change and natural disasters damaging essential infrastructure and people's homes and businesses. Local government is well positioned to drive climate adaptation locally, to reduce emissions, demonstrate local leadership, adapt to natural hazards

³ <https://www.melvillecity.com.au/our-city/publications-and-forms/urban-planning/small-business-friendly-approvals-program>

and build disaster resilience and preparedness and response. Lack of funding is a hurdle to investing in resilience and disaster preparedness, as national funding continues to be directed to disaster recovery primarily, at the expense of investment in preparedness. Councils also have capacity constraints and a lack of guidance and coordination.

ALGA strongly supports the national focus on improved productivity and safety through investment in infrastructure. There is a need to unlock local and regional productivity improvements through investment that improves access for freight vehicles and connectivity between local roads and preferred state and national freight routes. Locally controlled roads account for approximately 77% of total road length in Australia, or 678,000 kilometres⁴ and local roads make up about 39% of total local government infrastructure assets.

In 2020, ALGA commissioned IPWEA to prepare the 2021 State of the Assets Report⁵. This new research confirmed that two-thirds of all local government assets are in good condition while around one-third are not. Specifically, nearly 1 in 10 of all local government assets need significant attention, and 3 in every 100 assets may need to be replaced.

The local government sector is increasingly facing financial stress through varying cost pressures, impacting its financial sustainability. Local government revenue in 2020-21 was in the order of \$20.06 billion [ABS Government Finance Statistics, Australia, 2020-21] and given the significant level of assets under management, councils face considerable difficulties in maintaining and renewing these assets while providing the other services that are expected by local and regional communities and other levels of governments.

These cost pressures include:

- Cost shifting, where responsibilities are passed onto local councils from other levels of government;
- Councils tend to step in as a provider of last resort when other levels of government or the market do not deliver a service efficiently to the community;
- Declining and ad-hoc grants from higher levels of government;
- Management of an increasing number of depreciating assets; and
- The implementation of rate capping in some jurisdictions, where rate rises are limited by state government.

A Skilled and Educated Workforce

Local governments collectively employ approximately 200,000 people in over 400 occupations, and in many communities are the largest employer. However, Australia's 537 councils are facing a jobs and skills crisis that is only getting worse. Around nine in ten local governments are now experiencing skill shortages – an increase of 30% from just four years ago – and two-thirds of councils have had local projects impacted or delayed as a result.

There are a range of factors that are making it increasingly harder for councils to recruit, train and retain suitably skilled workers. Housing affordability and availability is an ongoing issue, particularly for regional and rural councils looking to attract specialist staff from outside their local community.

⁴ National Local Roads Data System, ALGA.

⁵ <https://alga.com.au/2021-national-state-of-the-assets-report/>

Retaining the staff they already have is also a big challenge for many councils, given the current competition for skills within the private sector and also other levels of government. Nationally the employee turnover rate in local government is about 15 percent, and it's closer to 20 percent in rural areas.

Some of the hardest jobs to recruit include engineers, urban and town planners, building surveyors, environmental health inspectors, and HR professionals.

Local governments are also an incubator of local employment within their councils and also support employment within their local and regional communities, through procurement and investment in community infrastructure and economic development programs. Councils also play an important role as an anchor organisation and in increasing productivity through utilizing endogenous talent and innovation.

Challenges to delivery are:

- Skill shortages in private and public organisations exacerbated by the COVID-19 Pandemic;
- Employee attrition and an ageing workforce are an ongoing and escalating difficulty; and
- Barriers to workforce planning and management, including a shortage of resources within councils, a lack of skilled workers and the loss of corporate knowledge as employees retire or resign.

However, the biggest hurdle to attracting and retaining qualified staff is the lack and uncertainty of long-term funding to support workforce planning and development.

All levels of government need to work together to improve training pathways and address skills and labour shortages for the benefit of councils, communities, and businesses right across Australia.

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.

With the shortage of skilled workers across the nation, governments need to invest in initiatives to attract and retain skilled labour as part of a broader workforce plan for the nation. With further support and security of long-term funding streams, councils can properly resource and skill its workforce. This includes Financial Assistance Grants returning to at least 1% of Commonwealth Taxation Revenue, providing untied funding for councils to undertake workforce planning and development strategies.