Submission to the Inquiry into Local Government Sustainability

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Overview

You don't need to drive too far on a rural road in Australia to encounter a pothole, soft edge, or other hazard. Our local roads, especially in the bush, are a dangerous disgrace.

Local councils are responsible for 75 per cent of our nation's roads. But many regional and remote councils cannot afford to maintain roads to a safe and acceptable standard. Grattan has estimated that an extra $1 billion a year is needed just to keep the roads in the same state they're in today.

Along with providing core services like roads, councils are expected to provide an ever-expanding range of services to their communities – in part due to cost shifting from state and federal governments.

And while the range of services councils are expected to provide has grown, so has the cost of delivering them. Federal untied funding has not kept pace.

Many councils do not have a realistic way to raise the additional revenue needed themselves. Regional and remote councils already place a high rates burden on lower-income communities, and states impose restrictions on council revenue-raising.

An ongoing and adequately indexed funding injection from the federal government is needed to ensure all councils can provide core services to their communities. Taxpayers would get better bang for their buck if the federal government invested more in improving and maintaining local government infrastructure rather than on new megaprojects. This would also prevent costs escalating down the track, since delayed maintenance works only makes restoration more costly when the asset becomes unusable.

This funding injection should be untied, allowing councils to spend the money on the services that are priorities for their residents and ratepayers.

But it's not only a matter of new money. Taxpayers would also get better value if funding went to the councils that need it most. Too much funding is going to self-sufficient councils, while those with large road networks and limited revenue-raising abilities are missing out.

Councils would also benefit from a reduction in the morass of red tape they face when it comes to tied grant funding. Councils are obliged to spend part of any Roads to Recovery grant on road signs acknowledging the federal government as the funding source, and to get the money out the door within six months; tied state grants sometimes favour projects that aren't priorities for local residents.

But extra money, even if it's better targeted, still won't fix the problem. A Grattan survey of 81 councils found that almost 40 per cent of councils do not have the long term financial plans and asset management plans required by state legislation. And many lack basic data on their assets: a quarter do not know how many bridges they manage.

These shortcomings prevent councils from getting the most out of the funding they do have. They arise because councils lack the staff, technology, and data to do better. Federal and state governments can take practical steps to address these problems, starting with helping councils to collect basic, standardised data.

Recommendations

Boost funding for local roads

The federal government should:

- increase core funding to local governments with at least a $600 million annual increase in the Financial Assistance Grants. It should index this fund, and Roads to Recovery funding, to a cost index that reflects changes in the costs that councils face, and population; and
- establish a $200 million per year fund to assess and upgrade local roads identified as priority freight routes, in exchange for the council providing permit access to compliant heavy vehicles.

Ensure untied funding goes where it is needed most

The federal government should fix the distribution of the Financial Assistance Grants by:

- allocating grants between and within states according to the principle that every council should have the capacity to provide a similar level of service to its community;
- reducing the minimum grant to 10 per cent of an equal-per-capita share of the Financial Assistance Grants pool;
- combining the local roads component of the Financial Assistance Grants with the general component; and
- allocating funds for Roads to Recovery and similar programs according to the same new distribution used for the Financial Assistance Grants.

Make tied funding less onerous for councils

State and federal governments should reform tied funding arrangements to reduce poorly-targeted application, compliance, and accountability requirements.

Give councils more help to manage their roads

The federal government should:

- establish a small list of essential data for councils to collect, to enable the measurement of councils' performance, in consultation with states and Local Government Associations; and
- provide funding and support to councils to acquire the necessary technology, software, and staff training to collect and use this data.

1 Local councils are underfunded

Many local governments are facing funding shortfalls. These shortfalls have arisen because federal untied funding has not kept pace with the rising costs of service provision, and because councils' spending priorities have shifted over time.

When it comes to road infrastructure, a core function of local government, Grattan analysis has shown that councils are spending at least $1 billion a year less than is needed just to maintain roads in their current condition.[1]

The federal government should make up these funding shortfalls. Many councils are at the limit of their revenue-raising capacity, because they already impose high rates on lower-income populations, and because states impose restrictions on council revenue-raising.

State and federal governments both have an interest in ensuring all councils can provide a minimum level of services to their community. But the federal government is better placed to provide the necessary boost in funding because states are already heavily reliant on federal transfers.

1.1 Councils are facing a funding shortfall

Federal untied funding for councils has not kept pace with the increased cost of providing existing local government services.

While councils' funding has been squeezed over time, the scope of services the sector is expected to provide, and the cost of those services, has increased.

Service provision has expanded in line with changing community expectations, particularly in the areas of social services and environmental management. When federal and state governments reduce established funding, councils must decide between cutting services or funding the gaps themselves. Meanwhile, large federal and state infrastructure investments, together with increasing freight traffic across the country, have contributed to pushing up the cost of infrastructure for councils. These factors are discussed in the following subsections.

1.1.1 Commonwealth funding has not kept pace with costs

Long-term, reliable funding underpins the ability of councils to provide key services, including the stewardship of long-term infrastructure assets such as roads. But even though federal funding is crucial to a significant subset of councils, it has not kept pace with costs.

The primary untied grants relied upon by councils are the Financial Assistance Grants from the federal government. One reason councils are facing funding challenges is the federal government paused indexation of the Financial Assistance Grants for three years, between 2014 and 2017; and when it reinstated indexation, it did so from the new lower level. What's more, indexation is based on the Consumer Price Index (CPI), rather than a realistic index of costs councils actually face. The combined impact of the indexation freeze and CPI indexation has led to a funding gap in 2023 of close to $600 million. This has occurred without any discussion of a change in responsibilities (Figure 1.1).

There's also a problem with time-limited funding programs. For instance, the Local Roads and Community Infrastructure Program is currently in its fourth phase, offering $750 million to councils in 2023-24, including for local roads. But the program terminates in 2025, and councils cannot rely on replacement funding beyond that date. A

1. Terrill et al (2023).

recent increase to the Roads to Recovery program of almost $500 million annually is a positive step, but does not fully make up for the funding shortfalls.

1.1.2 The costs of providing services are escalating

Stagnant or uncertain federal funding is particularly problematic in an environment where costs have increased. Cost escalation is a widespread problem for road construction and maintenance: the problems that major construction firms report are just as true for councils in regional and remote areas.

The past decade has been a boom time for public investment in transport infrastructure. In NSW, infrastructure spending increased from around 3 per cent of gross state product (GSP) in 2013-14 to almost 4 per cent in recent years. And the 2021 federal budget saw a large step-up in infrastructure spending, which has remained high ever since.[2]

Not only has the amount of work underway reached all-time highs, so has the size of projects being built.[3]

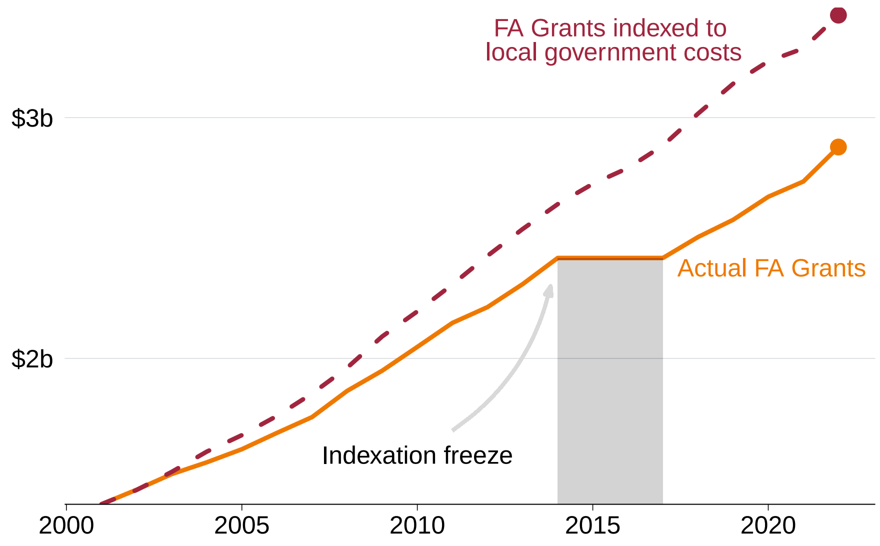
The rising prevalence of megaprojects has drawn labour, equipment, and materials away from smaller projects, and created near-term shortages that have pushed up the prices for engineering construction work in general. This makes it particularly difficult for councils to attract and retain staff to work on local road maintenance at affordable prices.

1.1.3 Council spending priorities have shifted over time

The focus of local government has shifted over time. While roads are still a key priority, transport expenditure has fallen from almost 50 per

Figure 1.1: Federal government funding for local government has not kept up with costs

Financial Assistance Grants 2001-2022, actual value and estimated value if indexed by local government costs



Notes: Values determined by taking value of grants in 2001 and indexing annually according to (a) the method outlined in the Local Government (Financial Assistance) Act 1995 (population and growth in the Consumer Price Index), with an indexation freeze starting in 2014-15 and ending in 2016-17 (orange); (b) population and growth in the SA local government price index (red).

Sources: Department of Infrastructure, Transport, Regional Development, Communications and the Arts 2023a, The South Australian Centre for Economic Studies 2023, ABS 1999.

2. Grattan analysis of NSW and federal budget documents
3. Terrill et al (2020).

cent of total local government expenditure in the 1960s to 21 per cent today.[4]

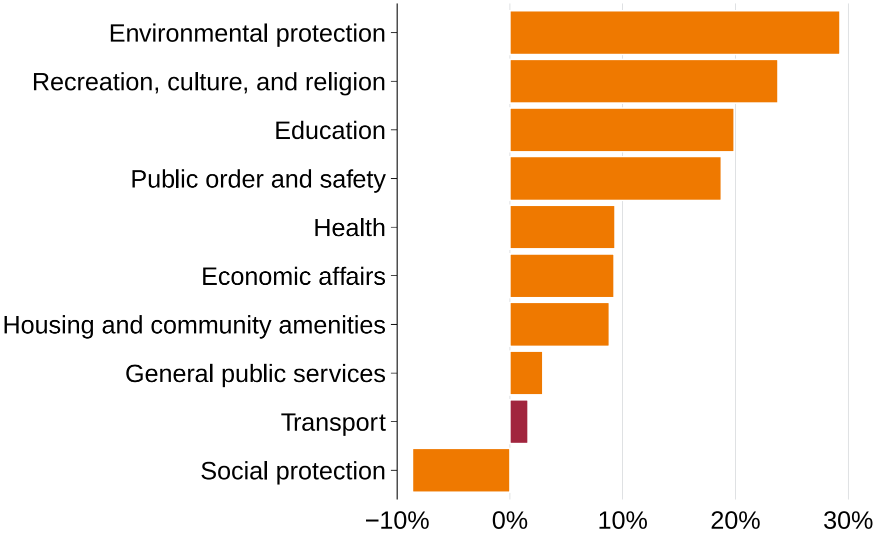
Instead, councils have focused more on the environment and human services. Child care and aged care are provided by private and not-for-profit providers in cities, but in regions these services are often not viable and so it falls to councils to provide them. Environmental protection was only identified as a separate area of expenditure in 2017-18, but it now accounts for 15 per cent of local government expenditure (Figure 1.2).

The changing focus of local government is sometimes attributed to cost shifting from higher levels of government. The argument is that councils curtail spending on their core functions, such as the provision of local infrastructure, because they find they must divert some of their revenue to cover functions and responsibilities that are legally required of them by other governments but for which not enough funding is provided. At the same time, other governments also limit councils' capacity to raise more of their own revenue to cover the gaps.

Claims of cost shifting are hard to assess because of woolly demarcation between the roles of state and local government. For instance, one state specifies the role of a council as 'to provide good governance in its municipal district for the benefit and wellbeing of the municipal community';[5] another requires local government 'to provide services and facilities that benefit its area, its ratepayers and residents, and visitors to its area'.[6] It is simply not clear in many cases whether any given service obligation can be considered a cost shift or part of a council's core business.[7]

Figure 1.2: Spending on transport has grown much more slowly than on other areas

Real growth in local government expenditure between 2013 and 2022, by category



Source: ABS 2023a.

Even for services that are clearly the responsibility of local government, there tends to be little clarity about the required service quality. Councils determine how responsive they are to changing community needs and attitudes – for instance, whether to install women's change rooms at sports fields in order to accommodate growing numbers of women taking up football and soccer,[8] or to extend library opening hours to service a lower socio-demographic community.

Notwithstanding this vagueness, there are some clear cases of cost shifting.

4. Commonwealth Grants Commission (2001) and ABS (2023a).
5. *Local Government Act 2020* (Vic), s. 8.
6. *Local Government Act 1999* (SA), s. 7.
7. McCracken (2023, p. 5); and SA Productivity Commission (2019).
8. Sutton (2019, p. 3).

Library funding in Victoria is a good example. In the 1970s, it was shared 50:50 between the state and local governments; today the state contributes just 17 per cent. Similarly, base funding for school crossing supervisors in Victoria is well below the 50 per cent in place in the 1970s.[9] Some councils argue that school crossings are a state responsibility.[10]

Victorian councils also pay more than they used to for costs associated with their planning function. One council noted that it must now fund the independent panel required to make recommendations on planning scheme amendments, as well as heritage advisory services and heritage studies.[11]

But it's the federal government that provides the primary untied ongoing funding to local councils. Its decision to freeze indexation of the Financial Assistance Grants between 2014-15 and 2016-17 was therefore most unwelcome to councils. In a related move, the federal government also removed the Local Roads Supplementary Grant to South Australia in 2014-15, before reinstating it in 2017-18.

State governments sometimes place legal obligations on councils without funding to match

Councils administer some legislation and regulations on behalf of state governments, but these functions may come without funding to cover the costs. For instance, councils in various states manage the regulation of dogs and cats;[12] litter;[13] roof trusses;[14] noxious weeds and flood controls; flammable cladding on buildings;[15] and the auditing of food businesses under food safety regulations.[16] In some states councils are required provide homes with four bins by 2030.[17]

The rules surrounding disaster recovery are another case of obligations that exceed the funding provided to meet them. Councils are underwritten by the federal government to build back after a flood, fire or other natural disaster; however, this contribution is often limited to like-for-like replacement.

Limiting the funding to rebuilding like-for-like prevents councils from rebuilding in a way that would be more disaster resilient, or otherwise less costly in the medium or longer term. But funding to build back better is only available under Category D, exceptional circumstance funding. The federal government's rules also include restrictions on reimbursing the use of 'day labour' and 'numerous [other] provisions to the use of the betterment provisions'.[18]

In many cases, betterment saves money in the long term by preventing damage in future events (Figure 1.3 on the next page). For every dollar spent on disaster risk reduction, there is an estimated $9.60 return on investment.[19] A Queensland betterment fund established in 2013 has funded 531 betterment projects to date; of those, 423 projects have been subsequently affected a total of 1,173 times by 44 separate natural disaster events.

9. While the 2023-24 budget increased the state's funding contribution for school crossing supervisors back to nearly 50 per cent, this top-up only lasts for one year.
10. Eddie (2022).
11. O'Rourke (2017, p. 3).
12. SA Productivity Commission (2019, p. 135); and Clarence Valley Council (n.d.).
13. SA Productivity Commission (2019, p. 135).
14. Sutton (2019, p. 6).
15. Eddie (2022).
16. Sutton (2019, p. 6).
17. Eddie (2022).
18. Local Government NSW (2014, p. 5).
19. National Emergency Management Agency (2023).

1.1.4 Councils are expected to provide heavy vehicle access without compensation

Roads matter to all sectors of the economy and all parts of society, and it's not surprising that road use has increased steadily over time, particularly for freight.[20]

Most road damage is caused by trucks, and truck operators pay for this through the Heavy Vehicle Road User Charge. This Charge is intended to cover the share of road construction and maintenance costs attributable to trucks; the mechanism is a 28.8 cents per litre tax on fuel consumption, and vehicle registration fees that vary by vehicle type and state.

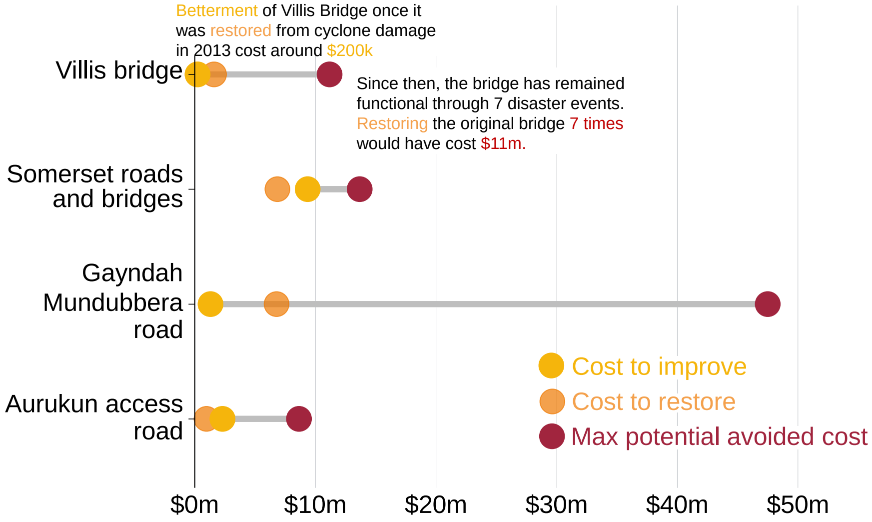
But even though local government road expenditure attributable to heavy vehicles is included in the calculation of freight charges, the federal government does not pass that revenue back to the road managers who remediate the damage.

Councils are required to assess heavy vehicle operators' requests to access local roads. Assessing and approving applications takes time and resources, and often councils do not have the skills or technology to assess whether any given route is save to travel on, or the damage that vehicle is likely to do to the road.[21]

And while councils do often grant access, it's generally not in their interest to do so, because they are left to foot the bill for any damage that the vehicle does to its roads. Even though most permit requests are approved within seven days, councils have expressed concern that

Figure 1.3: Building back better is often more cost-effective than like-for-like replacement

Restoration, betterment, and potential avoided costs, selected projects



Notes: The maximum potential avoided cost is the cost of re-construction multiplied by the number of disaster events affecting the location of the infrastructure since the betterment project occurred.

Source: Queensland Reconstruction Authority 2023.

20. BITRE (2022).
21. Grattan Road Manager Survey, 2023. Many councils, particularly in regional and remote areas, rely on rules of thumb for deciding whether to grant access, rather than an engineering assessment of a road or bridge's capacity. Several remote and regional councils said that they rely on 'local knowledge' or 'experience' to assess claims.

some operators would prefer to access roads without a permit than to wait for approval.[22]

> **Recommendation 1**
>
> The federal government should establish a $200 million per year fund to assess and upgrade local roads identified as priority freight routes, in exchange for affected councils providing permit access to compliant heavy vehicles as of right.

1.2 The federal government should fill the funding shortfall

While it would be ideal if local governments could increase their own revenue, that's not a realistic option for the many councils that already impose substantial rates burdens on lower-income populations. Councils are further stymied because higher levels of government impose restrictions on how councils raise and spend their own revenue.

While state governments are responsible for most of the administrative and cost burdens councils face in relation to local roads, councils face a set of administrative and service obligations that are not matched with reliable and adequate funding. The difficulty for states is that they themselves rely on the federal government to partially fund their spending responsibilities.

It's in the federal government's interest to ensure councils are adequately funded, to ensure a minimum level of services across the country, but also because council services have spillover effects outside of the council providing the service. And in many cases, federal investment in local government would provide better 'bang for buck' for taxpayers, and prevent higher costs in the long-run.

22. National Transport Commission (2019, pp. 39–42).

1.2.1 Many regional and remote councils are at the limits of their revenue-raising capability

Local governments already raise 83 per cent of their funding from their own sources.[23]

Land taxes such as council rates are generally considered to be efficient taxes.[24] Council rates also have the benefit of being levied and spent by the same level of government, a feature that minimises the fiscal illusion that can result when the cost of service provision is masked from citizens.

Even though council rates have these attractive features, increasing council revenue is not a simple matter of raising rates. The capacity to increase rates revenue is very mixed across the country, and state governments restrict councils' control of their own revenue.

Many regional and remote councils already place a high rates burden on low-income populations

Large land areas and dispersed populations make providing services in regional and remote areas more expensive than providing the same services in cities.

For example, regional and remote councils manage far larger road networks than metropolitan councils. Even though local roads in more remote areas generally don't have the traffic load of urban roads, some roads are heavily trafficked, and, in any case, there is a minimum standard that councils must maintain for the safety of the driving public.

23. Department of Infrastructure, Transport, Regional Development, Communications and the Arts 2023a, p. 4. The single largest source of council revenue is land rates. Rates are a form of land tax levied on property owners, both business and residential. Different councils have different valuation methods, payment frequency, and tax rates. Councils also raise substantial revenue from the sale of goods and services: ibid, p. 5.
24. Cao et al (2015, Chapter 6).

Maintaining large networks is expensive. The cost per person in regional and remote areas is more than three times higher than in major cities.[25]

These higher costs are borne by smaller populations, and remote residents tend to have lower incomes. Nonetheless, remote councils are, on average, already raising $1,778 more in annual rates and charges per person than major city councils (Figure 1.4).

There's also less scope for remote and regional councils to raise revenue from sources such as parking fees.

State governments restrict councils' control of their own revenue

Even though most of the revenue councils spend is raised from their own sources, in the form of council rates, fees, and charges, state governments restrict councils' capacity to control their own revenue in several important ways.

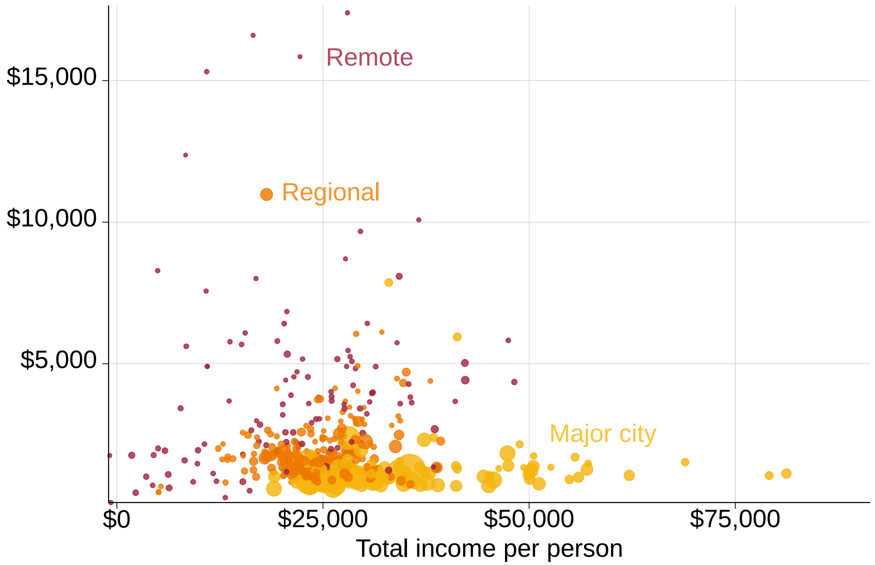
The most clear-cut of these is rate capping, or rate pegging, which limits the amount of revenue a council can raise from its largest revenue source. Rate capping has been in force in NSW since 1977 and in Victoria since 2016.[26]

Whether or not states have rate capping, they place limits on council rates for certain types of property owner.[27] Typical examples are rebates for pensioners[28] and for community housing properties, but extends to a range of other property types, including land used for

25. Terrill et al (2023).
26. In NSW, the annual limits to increases in councils' general rates income are calculated by estimating the change in the costs of delivering services, less an assumed (or desired) productivity factor to ensure ratepayers share in council efficiency gains. Councils can alter categories of rates up or down, provided they stay under the overall peg. Victoria's process is similar.
27. Terrill et al (2023).
28. Local Government NSW (2018, p. 4).

Figure 1.4: Regional and remote Australians face a higher rates burden than people in major cities

Average rates and charges revenue per resident, by council



Notes: Size of dots reflects population size. 2022 dollars.

Sources: ABS 2016; ABS 2022a; ABS 2021a; ABS 2022b; ABS 2020; ATO 2020a; ATO 2020b; and publicly available information from council budget documents.

the cultivation of oysters in NSW. In SA, the 75 per cent rebate for community housing has become a bigger burden for councils because the state government transferred a significant number of its properties to the not-for-profit sector in recent years.

States may also restrict councils' control of their own revenue by imposing compulsory fees on them. For example, NSW councils must make mandatory contributions to fund emergency services.[29]

Sometimes, too, states legislate a limit on how much a council can charge for a service that is insufficient to cover the cost of provision. In NSW, for instance, the waste levy falls is estimated by the Local Government Association of NSW to cost $305 million in a year.[30] SA's solid waste levy is set at a rate insufficient to cover the cost of the service, so councils pass on the remainder to ratepayers.[31] State legislation can also restrict councils' capacity to raise revenue through parking fines or development application fees.[32]

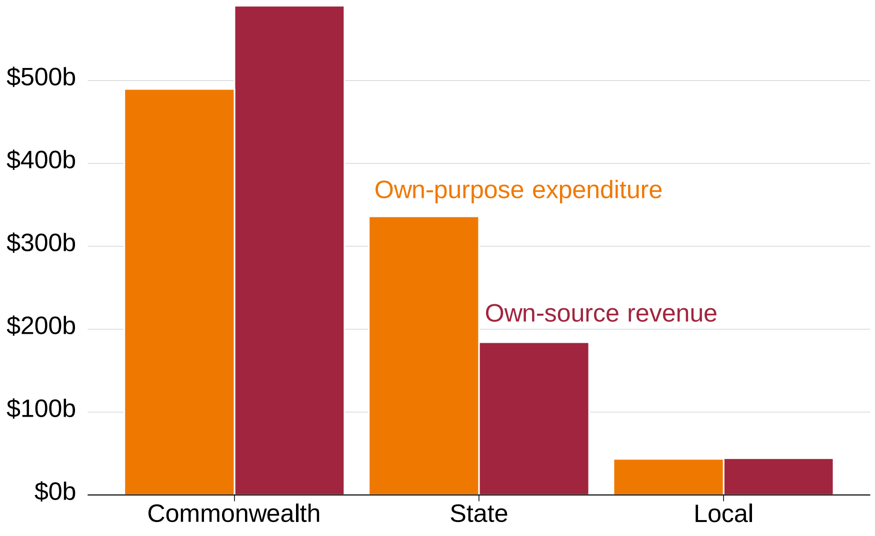
1.2.2 State governments already rely heavily on federal transfers

It is a feature of the Australian federation that states rely heavily on federal transfers, a condition known as 'vertical fiscal imbalance'. Almost since federation, the federal government has raised revenue above its spending needs, and the states have raised revenue below theirs (Figure 1.5). The degree of vertical fiscal imbalance has increased over time, exacerbated by the fact that the federal government has been the sole collector of income tax since 1942.[33]

Despite this, available data suggests that total state government funding for councils has increased relative to federal government

Figure 1.5: States rely on the Commonwealth to fund their responsibilities

Total own-source revenue and own-purpose expenditure by level of government



Notes: Calculated net of transfers between spheres of government. Expenses include depreciation but not net acquisition of non-financial assets. Total own-source revenue includes capital revenue.

Source: ABS 2023a.

29. Ibid (p. 10).
30. Ibid (p. 4).
31. Sutton (2019, p. 4).
32. Zbierski (2019).
33. Drew and Dollery (2015, p. 519).

funding.[34] However, the funding provided varies significantly from year to year, and is often non-ongoing and tied to specific state priorities. Because state governments rely on federal transfers, they tend to be reluctant to provide reliable ongoing funding to local government, particularly in untied form. What states should do is ensure that the administrative burden they impose on councils is proportionate and well-targeted.

1.2.3 Investment in local government infrastructure would provide ‘bang for buck’

Overinvesting in megaprojects and underinvesting in maintenance shortchanges the community, because the net benefits of local roads projects are typically much higher than those of megaprojects. For instance, a small local Black Spot project is only eligible to be considered for funding if its benefits to the community outweigh its costs by two to one; by contrast, even before costs blew out by billions of dollars, the Inland Rail freight line between Brisbane and Melbourne was only expected to yield one dollar of benefit for every dollar spent,[35] and Sydney’s CBD and South East Light Rail Project was expected to yield $1.40 for every dollar spent.[36]

And underinvesting in local government only costs more in the longer term. When councils are short of funds, there is a strong incentive to delay the maintenance of long-term infrastructure assets like roads and bridges, since the costs of delaying maintenance are not felt for some time, and political terms are relatively short.

34. Total transfers to local government in comparison to major federal programs; the Financial Assistance Grants, Roads to Recovery and Local Roads and Community Infrastructure (ABS 2023b)
35. Infrastructure Australia (2016).
36. Audit Office of New South Wales (2020).

Many councils have ended up with a ‘worst first’ maintenance regime for infrastructure assets, where there is a permanent backlog of rehabilitation works, and even failure of some parts of the network.

This approach obviously creates costs to the community, but also results in councils having to spend more to fix or replace assets once their condition has become critical. For example, road managers find that preventative pavement strategies provide a return on investment of around two to three times better than that achieved when assets are allowed to either deteriorate in an uncontrolled manner, or to a condition where full replacement is necessary.[37]

It would be more cost-effective for the federal government to ensure infrastructure maintenance is properly funded, rather than replacing these assets when they fail.

Recommendation 2

The federal government should increase the core funding to local governments for roads by:

- increasing the Financial Assistance Grants by at least $600 million per year;
- indexing both the Financial Assistance Grants and Roads to Recovery to a local government cost index that reflects changes in the costs that councils face, and population.

37. Toole et al (2021, p. 7).

2 Untied funding isn't going where it is needed

Properly funding local councils requires more than just increasing the amount of money in the system. The funding should also be better allocated so that it goes primarily to the councils that need it the most.

With limited revenue, dispersed populations, and large road networks, regional and remote councils are losing the postcode lottery. Without support, some councils struggle to provide basic services.

Untied funding – that is, the no-strings-attached grants designed to enable all councils to provide basic services – isn't going where it's most needed. The main source of untied grants favours more populous states and allocates too much money to councils that are self-sufficient.

2.1 Some councils need more support

Australians rely on local government for those services that are most effectively delivered at the local level. Decentralised responsibilities allow councils to to be accountable and responsive to their local communities.[38] But decentralisation has costs. The postcode lottery means that some councils struggle to raise enough revenue to meet basic services expectations. These councils need support. The federal government provides untied funding to supplement the income of these councils while allowing them to remain responsive to their community in the way they spend.

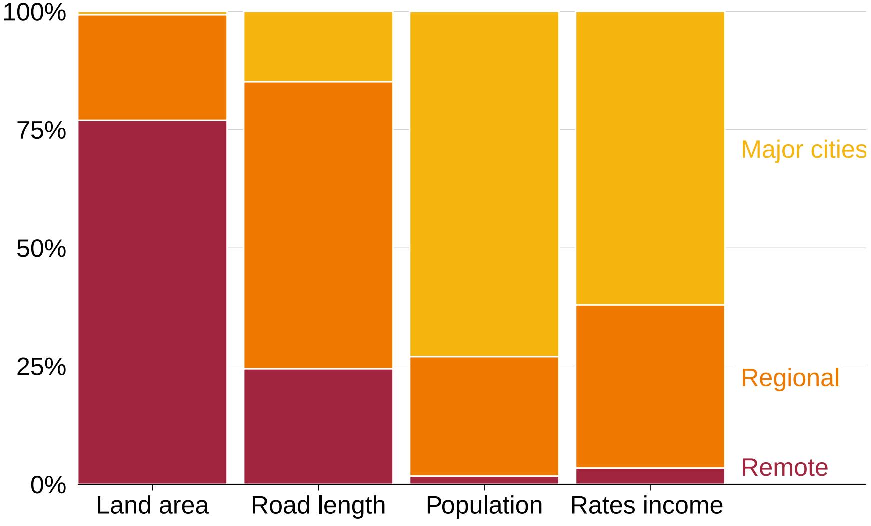
But remote and regional councils face a mismatch in responsibilities and revenue.

Councils outside major cities manage 85 per cent of the national local road network with less than 40 per cent of the total income from annual rates and charges (Figure 2.1). More remote councils maintain roads

38. Boadway (2004).

Figure 2.1: Regional and remote councils manage vast road networks with limited scope to raise revenue

Share of land area, road length, population, and annual rates and charges income, by remoteness



Sources: ALGA 2021; ABS 2022b, Grattan analysis of publicly available council budgets and financial statements.

for populations dispersed over very large areas, have much smaller populations to tax, and are unable to raise revenue from sources like parking fees (Figure 2.1).

This mismatch between responsibilities and revenue extends to other services too. While regional and remote councils have smaller populations, the costs per ratepayer of basic services such as waste and environmental management are higher in areas where the population is very dispersed. And since many of the private and public services that are available to most Australians are not commercially viable in remote areas,[39] councils become providers of last resort for services such as childcare and aged care, often running them at a loss. Considering these challenges, it is unsurprising that remote and regional councils are much more dependent than major city councils on grant funding (Figure 2.2).

To ensure councils can provide at least a basic minimum level of service, the federal government provides local governments with untied funding. The funding is intended to enable each council to function at a standard not significantly lower than the average of other councils, and so takes into consideration differences in costs and capacity to raise revenue. The federal government does not mandate how councils spend the money, just as it does not mandate how states spend their share of the GST. The rationale is to provide the capacity for a standard of service provision, but not to override the preferences of communities as expressed to their elected council representatives.

2.2 ... but the current distribution of funding is not working

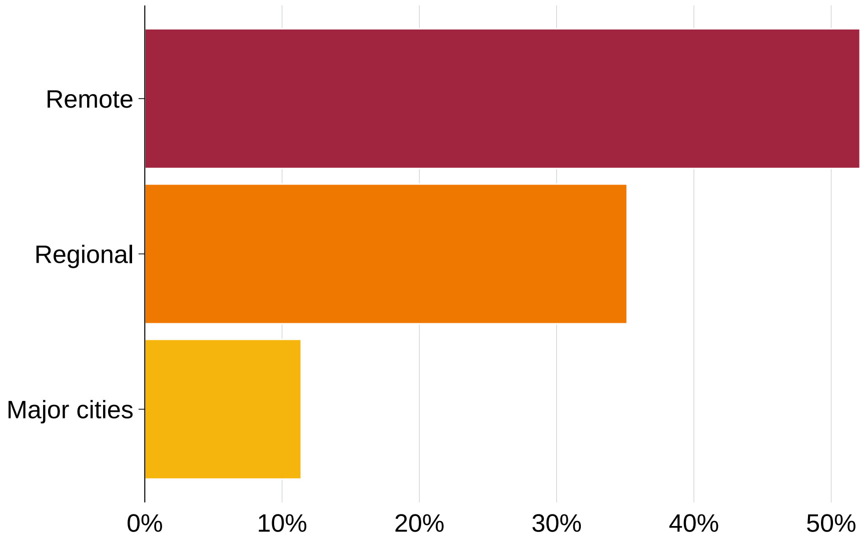
Untied funding isn't going where it is most needed. Problems with the distribution are disadvantaging some states and causing too large a share of the funding to go to councils that can already afford to provide services to their communities.

The Financial Assistance Grants are the main way the federal government gives untied funding to local government, equalling about $2.6 billion dollars in 2020-21.[40] The grants are split into a general component and a local roads component, although both are untied and can be spent by councils as they see fit.

39. Dollery et al (2010).
40. Department of Infrastructure, Transport, Regional Development, Communications and the Arts (2022).

Figure 2.2: The typical remote council is more dependent on grants for its revenue

Grants as a percentage of total council revenue



Notes: Median council in each remoteness area. Data is for councils in NSW and Victoria.

Source: Grattan analysis of publicly available council budgets and financial statements.

The current process of allocating the grants (Box 1 on the next page) has three significant impacts that should be reviewed. First, the general component of the Financial Assistance Grants favours densely populated states, so similar councils in different states get vastly different funding outcomes. Second, the minimum grant to all councils diverts too large a share of funding away from councils that are least able to raise their own revenue. Third, the outdated distribution of the local roads component creates large variations in outcomes for similar councils in different parts of the country, and provides too large a share of the funding to self-sufficient councils.

2.2.1 Federal-to-state distribution favours densely populated states

The allocation of the Financial Assistance Grants to the states does not reflect the different makeup of councils in each jurisdiction.

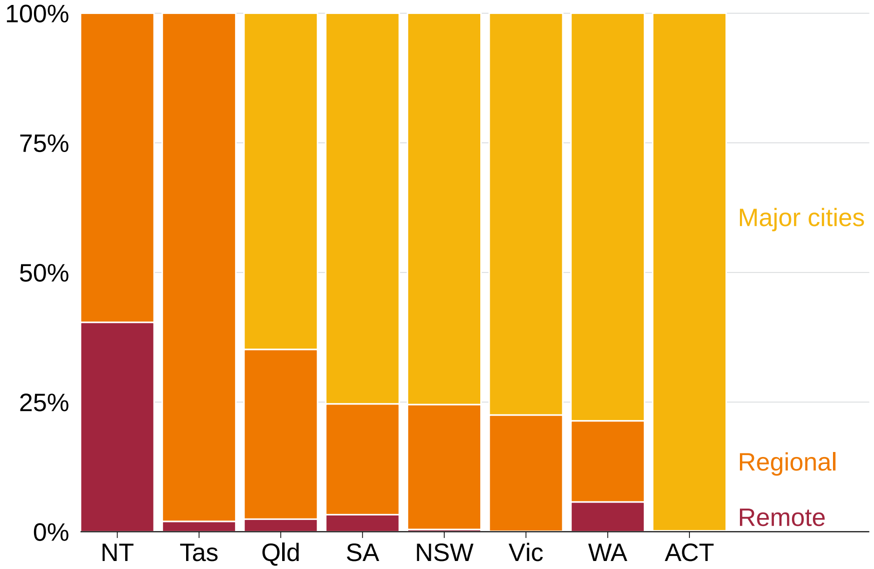
The general component of the grants (69 per cent of the total pool) is allocated to states based only on their population size. For this allocation to be consistent with the principle of equalisation, the costs and revenue capacities of councils in different states would have to be similar.

But the types of council in each state are very different. The NT and Tasmania have small populations, but are entirely made up of regional and remote councils (Figure 2.3). In contrast, the vast majority of people in NSW, Victoria, and the ACT live in major cities, with very few people living in remote areas, if any.

This leads to undesirable outcomes. States where a larger share of councils are self-sufficient have a greater capacity to distribute the grants where they are most needed. As a result, similar councils in different states end up with very different funding outcomes. Remote councils in NSW receive over six times more Financial Assistance Grants funding per person than remote councils in the NT (Figure 2.4

Figure 2.3: The Northern Territory and Tasmania have many more remote and regional communities than other states

Share of population by remoteness and state, 2021

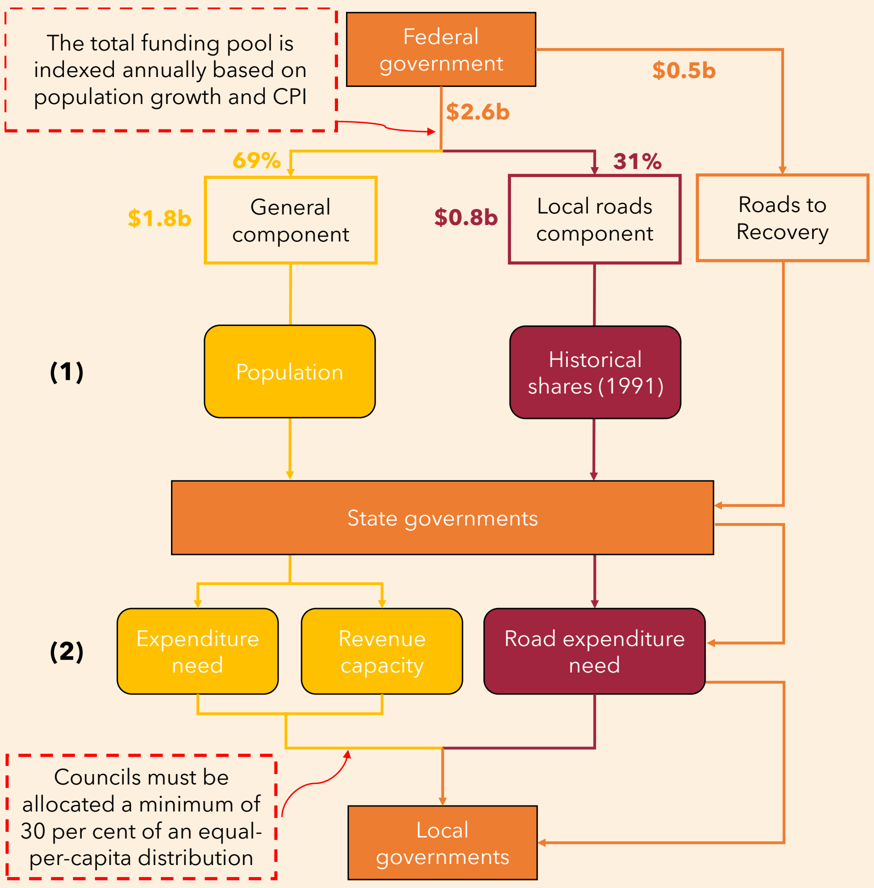


Source: ABS 2021b.

Box 1: How the Financial Assistance Grants work

Each year, the Financial Assistance Grants are distributed from one large pool of funds. First, the total size of the grants is indexed based on national growth in population and CPI. Second, the indexed funds are split into the general component (69 per cent) and local roads component (31 per cent).[a] Grants are then allocated to councils via the states in a two-step process.[b]

1. The federal-state distribution:
   - The general component is allocated to each state or territory based on population size.
   - The local roads component is divided according to historical shares of tied roads grants that considered the population, road length and land area of each state.[c]
2. For the state-council distribution, shares of the Financial Assistance grants are allocated according to National Principles set by the minister.
   - For the general component, state grants commissions consider how costly it is for each council to provide standard services and their ability to raise revenue. Grants are then allocated relative to assessed need. The Act requires that every council receives a minimum grant of at least 30 per cent of an equal-per-capita distribution.
   - The local roads component is required to be allocated to councils based on the relative costs of preserving their road network, but without consideration of their revenue.



a. Department of Infrastructure, Transport, Regional Development, Communications and the Arts 2022. Roads to Recovery funding is allocated according to the same distribution as the local roads component.

b. *Local Government (Financial Assistance) Act 1995.*

c. The exact details of how the historical allocation was calculated are unknown.

on page 18). In fact, the entire NT receives less funding from the general component of the Financial Assistance Grants than the City of Greater Geelong in Victoria.[41]

Regional and remote councils have the largest spending shortfalls in their maintenance budgets and the least ability to raise more revenue, and so are highly dependent on grants. Because these factors are not considered in the federal allocation to the states, the distribution of the general component of the Financial Assistance Grants undermines the ability of councils in less populous states to maintain their roads.

2.2.2 Too much funding goes to self-sufficient councils

The principles that guide the distribution of the Financial assistance grants from states to councils are incongruent. The horizontal equalisation principle – that all councils should have the capacity to provide similar services to their communities – is in tension with the principle that dictates minimum grants.

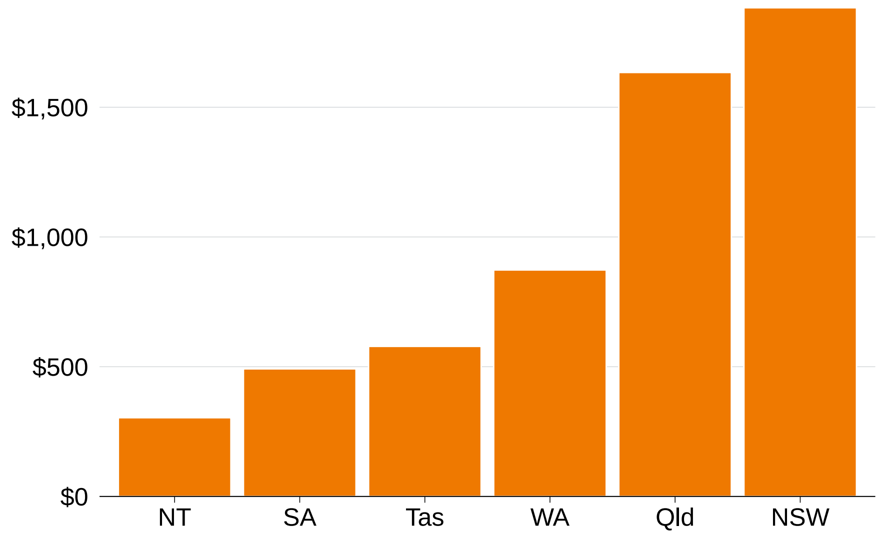
The minimum grant requirement recognises that all councils contribute to the provision of government services and the functioning of the national road network, and, accordingly, ensures that every council receives at least 30 per cent of what they would have received under an equal-per-capita distribution of the Financial Assistance Grants.

But there is currently a massive disparity between the capacity of councils to serve their communities. The Western Australia Local Government Grants Commission estimates that in 2020-21, the average remote council in WA was only capable of raising 71 percent of the revenue required to provide an average standard of services, even after receiving the Financial Assistance Grants. In contrast, the average

41. In the 2022-23 financial year, the NT (population: 230,000) received $17.1 million and City of Greater Geelong (population: 270,000) received $18.9 million (Department of Infrastructure, Transport, Regional Development, Communications and the Arts 2023b).

Figure 2.4: Remote councils in less populous states are disadvantaged by the distribution of grants

Financial Assistance Grants received per capita by remote councils, by state



Notes: Grants received in the 2020-21 financial year. There are no councils in Victoria with most of their population in a remote area.

Source: Department of Infrastructure, Transport, Regional Development, Communications and the Arts 2023b.

council in a major city was able to raise 142 per cent of their required revenue.[42]

The proportion of funding going to these self-sufficient councils is large and growing. The share of Australia's population living in councils that receive the minimum grant has increased from 31 per cent in the 2001 financial year to 48 per cent in 2021.[43] In turn, this has increased the amount of funding allocated to self-sufficient councils. In 2021, these councils received $260 million of general grant funding, or 14 per cent of the total.

Lowering the minimum grant wouldn't materially affect minimum-grant councils, but it would give an out-sized boost to smaller and more remote councils. For the typical minimum-grant council, total funding from the Financial Assistance Grants amounts to just 3 per cent of their revenue from annual rates and charges. These councils also have the greatest capacity to raise additional revenue, while still maintaining much lower rates and charges per person than those in regional and remote areas. For instance, the Northern Beaches Council in NSW raised more from parking fees alone than it received in Financial Assistance Grants in 2022.[44]

42. Data taken from the 2020-21 Balance Budget spreadsheet produced by the WA Local Government Grants Commission (Western Australian Local Government Grants Commission Annual Report 2020-21 2020). Estimates of revenue include own-source, Financial Assistance Grants, State Transport Grants and 63 per cent of Roads to Recovery funding. A council is considered equalised when assessed revenue is equal to assessed expenditure.
43. Australian National Office of Local Government (2003) and Department of Infrastructure, Transport, Regional Development, Communications and the Arts (2023a).
44. In 2021-22, Northern Beaches Council received $10,349,000 in parking area revenue (Northern Beaches Council 2023, page 131) and $8,358,480 in total Financial Assistance Grants (Department of Infrastructure, Transport, Regional Development, Communications and the Arts 2023b).

Financial Assistance Grants form a much larger proportion of total income for those councils that receive more than the minimum grant. The typical council in this category receives grants equal to 26 per cent of their annual rates and charges revenue. These councils are also less likely to be able to raise additional revenue themselves.

For these reasons, a number of independent inquiries conducted in the past two decades have recommended the reduction or removal of the minimum grant.[45] For as long as funding remains insufficient for all councils to be able to provide basic services, it is hard to justify its retention at the current rate of 30 per cent.

2.2.3 The distribution of the local roads component is outdated and inconsistent

Local roads grants are distributed to states according to a historical allocation of tied roads grants based on the population and road length of each state. These grants changed from tied to untied in 1991 and the allocations have not been updated since then.[46]

In the past three decades, the road network has changed significantly.[47] A number of jurisdictions claim the allocation between states is no longer a fair reflection of the network.[48]

The exact details of how road grants were originally calculated have been obscured by a flurry of change in roads grants at the time, and may date back to before 1981.[49] Without knowing the basis for the allocation, it is impossible to assess its appropriateness in 2023.

45. Parliament of Australia (2003), Henry (2009), Comrie (2013) and Sansom et al (2013).
46. Australian National Office of Local Government (2003).
47. BITRE (2017).
48. NT Grants Commission (2013) and QLD Local Government Grants Commission (2013).
49. Australian National Office of Local Government (2003) and BTE (1987).

Once states receive their share of local roads component, they allocate the funds to councils based on ‘the relative needs of each local governing body for roads expenditure and to preserve its road assets’.

The concept of ‘relative need’ is vague. The National Principle states that relative need should consider the ‘length, type and usage of roads’ but makes no mention of councils’ costs or funds. Each state grants commission estimates need differently and to a varying degree of sophistication. This leads to significant variation in how funds are distributed to similar councils in different states.[50] And no state accounts for council revenue-raising ability when allocating local roads grants. The vague principle of ‘relative need’ means that funding is not in fact allocated to where it is most needed.

The formulae used by the grants commissions matter. The local roads component was $800 million in 2021, but programs such as Roads to Recovery, and the Local Roads and Community Infrastructure Program, allocate funds according to the same model. In 2021, more than $2.8 billion in funding was allocated on the same basis as the local roads component.[51]

Both the general grant and the local roads component are untied. There is no need for the roads component to be allocated on a different basis to the general grant. Distributing funds on an equalisation basis is the best way to ensure all councils can afford to maintain their roads.

50. Terrill et al (2023).
51. The local roads component of the Financial Assistance Grants equalled $800 million in 2021; phase 1 and 2 of the Local Roads and Community Infrastructure Program were equal to a combined $1.5 billion in the second half of 2020; and $2.6 billion of Roads to Recovery funding will be allocated between 2018-19 and and 2023-24, equalling $520 million per year.

2.2.4 Our proposal

To help address funding shortfalls, funding for councils needs to go where it is needed most. The distribution of the Financial Assistance Grants should be reformed and simplified (Figure 2.5 on the following page) to better ensure all councils have the capacity to provide basic services such as maintaining their roads. Our proposal to reform the allocation of the Financial Assistance Grants has four parts.

First, similar councils should get similar federal funding. To fix the allocation of general and local roads grants to the states, a new model for the entire funding pool should be implemented. The allocation should reflect the relative costs and revenue capacities of councils in different jurisdictions. The Commonwealth Grants Commission, which recommends the states’ shares of the GST, should be asked to determine a revised basis for the inter-state distribution of the Financial Assistance Grants.

It is important that the new funding model is neutral to the policies and practices of the states, including rate capping. This will ensure there are no incentives for further cost shifting from state to local governments. Similarly, the expenditure estimates for councils should not be dependent on the different council responsibilities, legislated or otherwise, in each state. Calculations should instead consider average or typical council expenditure functions across the country, and typical cost factors such as population, remoteness, and road length.

Second, the minimum grant should be reduced, from 30 to 10 per cent of an equal-per-capita share, to free up a larger share of the funds for the councils that have the least scope to raise sufficient revenue for their spending obligations.

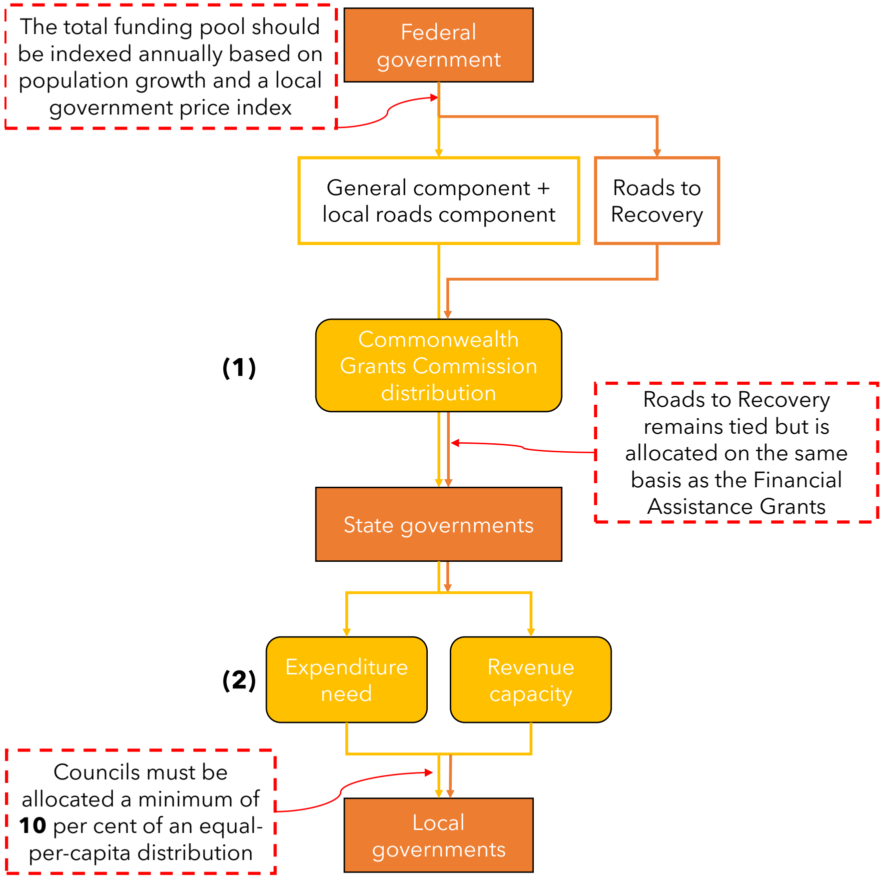
Third, given that the local roads component of the Financial Assistance Grants is inconsistently allocated and ignores the different abilities of councils to raise revenue, this funding should be combined with the general grants and allocated on the same equalisation basis.

Fourth, funding provided under the ongoing Roads to Recovery program, and other grants, such as the Local Roads and Community Infrastructure program, should also be distributed in the same way as the general component of the Financial Assistance Grants.

Under our proposed reforms, the entirety of the Financial Assistance Grants and Roads to Recovery program would be allocated on an equalisation basis, subject to a 10 per cent minimum grant that ensures all councils receive some funding, while a greater share is distributed to where it is most needed.

If these reforms had been in place in 2021 in WA, they would have resulted in a minor decrease in funding for major cities, and a significant boost for remote and regional councils (Figure 2.6 on the next page). The typical minimum-grant council would have needed to increase annual rates and charges by just 2 per cent to completely offset this change. The redistribution would have freed up $57 million to be allocated to councils receiving more than the minimum grant.

Figure 2.5: A better way to distribute the Financial Assistance Grants



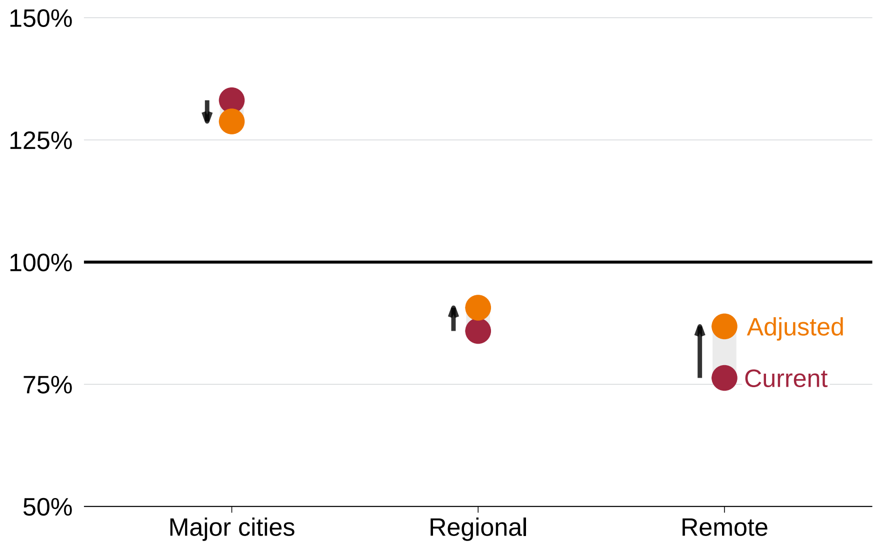
Recommendation 3

The federal government should amend the *Local Government (Financial Assistance) Act 1995* and reform the National Principles:

- The allocation of grants to the states should be made consistent with horizontal equalisation between councils in all jurisdictions, reflecting the different expenditure needs and revenue capacities of councils in different states. The Commonwealth Grants Commission should be tasked with determining the revised basis for the inter-state distribution of the Financial Assistance Grants.
- The minimum grant should be reduced to 10 per cent of the per capita share in each state.
- The local roads component of the Financial Assistance Grants should be combined with the general grants and distributed on the same basis.
- Roads to Recovery and similar programs should be allocated according to the new general grant distribution.

Figure 2.6: Simplifying the Financial Assistance Grants would help close the remote and regional funding gap

Median council revenue as share of expenditure need, by remoteness, WA



Note: Adjusted distribution is determined by lowering the minimum grant to 10% and allocating the local roads component and Roads to Recovery funding on the same basis as the general grant (Figure 2.5 on the preceding page).

Source: Values for revenue and expenditure need taken from WA Local Government Grants Commission calculations (2021 financial year).

3 Tied funding should be less onerous for councils

Tied grant funding comes with many conditions. Some are entirely reasonable, such as the requirement to acquit the money properly. But there are also obligations on recipients to erect a sign acknowledging the funding source – rules which not only specify the size of the sign and prominence of the Australian government crest, but also require the grant recipient to submit final proofs of the sign design for approval before production.

Tied grant conditions can be over the top, and they can also have unintended consequences. Restrictive grant conditions can prevent councils from timing the spending of the grant to get the best value for money. When application processes are onerous, the councils least likely to apply or be successful are often remote and rural councils. Funding can also skew councils to invest in new infrastructure that they cannot afford to maintain.

3.1 Tied grant conditions are over the top

There can be good – if limited – reasons for federal and state governments to provide funding to councils in the form of tied grants.[52]

When federal and state governments provide tied grants for identified purposes that go beyond a council's boundary, they need to ensure the funds have been spent as intended.

But many of the conditions on tied grants are excessive. Tied grant programs run by federal and state governments often impose onerous conditions on councils, including lengthy applications, mandatory signage, submission of works schedules, frequent financial reporting, and minimum co-contributions.

For instance, grants from the Roads to Recovery program can be spent on any road construction or maintenance projects as long as they are specified in a submitted works schedule. Despite this, councils must submit quarterly reports on the progress of the works, as well as an annual financial report.[53] Councils must also erect a Roads to Recovery sign for any project worth more than $10,000 – an expensive overhead that does little for accountability.

The balance isn't right. While councils face onerous application requirements for small projects, federal and state governments do not impose the same constraints on themselves. Since 2001, a third of all transport infrastructure projects valued at $20 million or more have been committed to by state governments before the financial or regulatory requirements were in place; and only one quarter of projects valued at $500 million or more and committed to between 2017 and 2020 had an approved business case at the time of the decision to invest.[54]

3.2 Tied grant conditions often have unintended consequences

Not only are tied grant conditions unnecessarily onerous, they also can have unintended consequences. These consequences can include unnecessarily high costs, unfairly disadvantaging remote and rural councils, and skewing council priorities to favour new construction over prudent maintenance.

52. The general principle governing the carve-up of responsibilities between federal, state and local governments is that decisions should be taken by the most local level of government equipped to do so.

53. Department of Infrastructure, Transport, Cities and Regional Development (2019).

54. Terrill et al (2020, pp. 19, 31).

3.2.1 Short timeframes cost councils more to get work done

Now is a time of high demand in engineering and construction, due in large part to the high volume of work under way by state governments. It is also a time of high demand for road repairs and upgrades by local government, especially in those areas that have been flooded or burnt over the past few years.

These high demands, coupled with constraints on the supply of materials, labour and equipment, have led to significant price escalation.[55]

Despite supply constraints and cost increases, most tied grants programs from state and federal governments require funding to be spent within short timeframes. Councils must spend Roads to Recovery grants, for example, within six months of receiving them.

Since construction costs can vary considerably from one year to another, limiting councils' flexibility about when to commence work means that projects can end up costing more than they needed to. This problem is compounded when councils receive multiple grants with overlapping deadlines.

3.2.2 Over-the-top grant conditions disadvantage rural and remote councils

While some tied grants specifically target disadvantaged councils, remote and rural councils are often disadvantaged in the allocation of tied grants.

Many tied grants are distributed on a competitive basis, rather than simple criteria applied to all councils. Applications for competitive grants can consume a lot of time and effort for councils, and councils that can't spare the necessary resources are less likely to apply.

55. ABS (2023c).

Application guidelines regularly require that projects are 'shovel-ready', fully planned, and, in some cases, have a comprehensive business case.[56] For resource-constrained councils, developing full project plans and business cases for works that might not attract funding is not prudent.

State and federal grants also often require councils to match funding that they receive.[57] A respondent in the Grattan Road Manager Survey explains:

> We are only a small council with limited resources and have difficulty matching funding grants so we are not able to apply.

There are also problems with the way competitive grants are selected from the pool of those councils that do manage to apply. In 2016, the Australian National Audit Office found that the selection of federal Bridges Renewal grants favoured large projects, despite smaller proposals having similar relative benefits.[58]

The same report found that the program did not consider the financial capacity of councils. Tied grants have the biggest impact when they enable projects that wouldn't otherwise be completed. Failing to take into account councils' ability to pay means funding is not going where it would have most impact.

3.2.3 Restrictive grant conditions starve maintenance spending

Tied grant programs usually fund new or upgraded infrastructure rather than maintenance or renewal. But new roads add to council liabilities:

56. KPMG (2017), Department of Infrastructure, Transport, Regional Development and Communications (2020a) and Department of Infrastructure, Transport, Regional Development and Communications (2020b).
57. KPMG (2017), Department of Infrastructure, Transport, Regional Development and Communications (2020a) and Department of Infrastructure, Transport, Regional Development and Communications (2020b).
58. ANAO (2016).

the up-front cost of a road represents only about a fifth of its lifetime cost.

Several councils told us that they prioritise spending based on the availability of grant funding from the federal or state government. One council stated that it ‘currently favours construction (over maintenance) because of significant grant opportunities available’, while another stated that it gives priority to co-funded projects, with ‘100 per cent rates-funded projects given the lowest priority’.[59]

If councils are struggling to maintain the roads already they have, adding new ones is brewing a problem for later.

Federal and state governments should only impose application and compliance costs and restrictions that are reasonable and proportionate.

Recommendation 4

Federal and state governments should:

- allocate a greater share of council funding on an untied basis;
- provide councils a minimum of two years to acquit grants;
- ensure maintenance and renewal spending is eligible for tied grant funding where consistent with objective criteria;
- account for the ongoing costs of maintaining new investment when allocating tied grants;
- minimise duplication in grants administration by standardising and sharing application and reporting data between departments;
- by default, provide funding on an allocative rather than competitive basis; and
- minimise any co-contribution requirements, and where a business case is required, include this in the grant funding.

59. Grattan Road Manager Survey, 2023.

4 Councils need help to manage their finances and assets better

Collectively, local governments manage almost $600 billion in assets, and spend more than $45 billion each year providing services to their communities.[60]

Managing extensive assets in a way that meets community expectations while balancing costs and risks is not easy. It requires extensive planning in collaboration with the community, using high-quality and timely data, and following through with those plans.

But many councils do not meet legislated requirements for planning and community consultation, and do not have basic data about the assets they manage. These shortcomings arise because councils lack the staff, technology, and data to do better.

Federal and state governments can take practical steps to address these problems. The first step is to help councils collect the basic, standardised data they need.

4.1 Planning documents are often out of date or non-existent

Given the extensive asset holdings of local government, long-term planning is essential to make informed decisions, ensure councils remain financially viable, and provide the best value to their communities.

To ensure proper management, legislation in every state and territory requires councils to prepare planning documents, such as asset management plans and long-term financial plans, typically covering a 10-year time period.[61]

Despite their importance, many councils have poor quality plans, or don't have them at all. Of the councils that responded to the Grattan Road Manager Survey, 72 per cent report having an in-date asset management plan, 62 per cent have an in-date long-term financial plan, and just half of councils have integrated the two plans, as is best practice.[62] Remote councils are least likely to have plans, but even among inner-city councils, more than one-third of those surveyed did not have integrated planning documents (Figure 4.1 on the next page).

Even when councils do have these key planning documents, they are often of low quality. This is echoed across the country: the Queensland Auditor-General found that 'most councils plan poorly for the long term', and that their long-term financial plans 'lack substance and rigour';[63] in 2019 the South Australian Productivity Commission found that the quality of long-term financial plans and asset management plans across the sector were 'variable';[64] and the most recent National State of the Assets report makes clear that long-term planning by local government remains at 'unacceptable levels'.[65]

Non-existent or poor-quality planning exposes councils to several potential challenges.

The first challenge is that poor planning can cause councils to invest in assets that are not affordable over the long term, or to overlook the

60. ABS (2023a).
61. State and territory legislation. Queensland councils are no longer required to provide long-term financial plans.
62. In the most recent National State of the Assets report, 80 per cent of councils said they had an in-date asset management plan for roads, and 67 per cent said they had one across each of their major asset classes in 2020. This rate has been declining over time. 86 per cent report having a long-term financial plan: Verity 2021.
63. Queensland Audit Office (2023a, p. 3).
64. SA Productivity Commission (2019, p. 19).
65. Verity (2021, p. 79).

ongoing costs of new assets when weighing up whether to invest in them.

If councils do not understand and plan for the ongoing expenses related to large investments, they may find themselves in financial trouble. For example, one council in Queensland invested in a new asset only to find that the ongoing maintenance cost was five times what they had initially expected.[66]

A second problem created by poor planning is that when councils do not plan, they cannot consult the community on what they are doing – a key and often legislated role of local government.

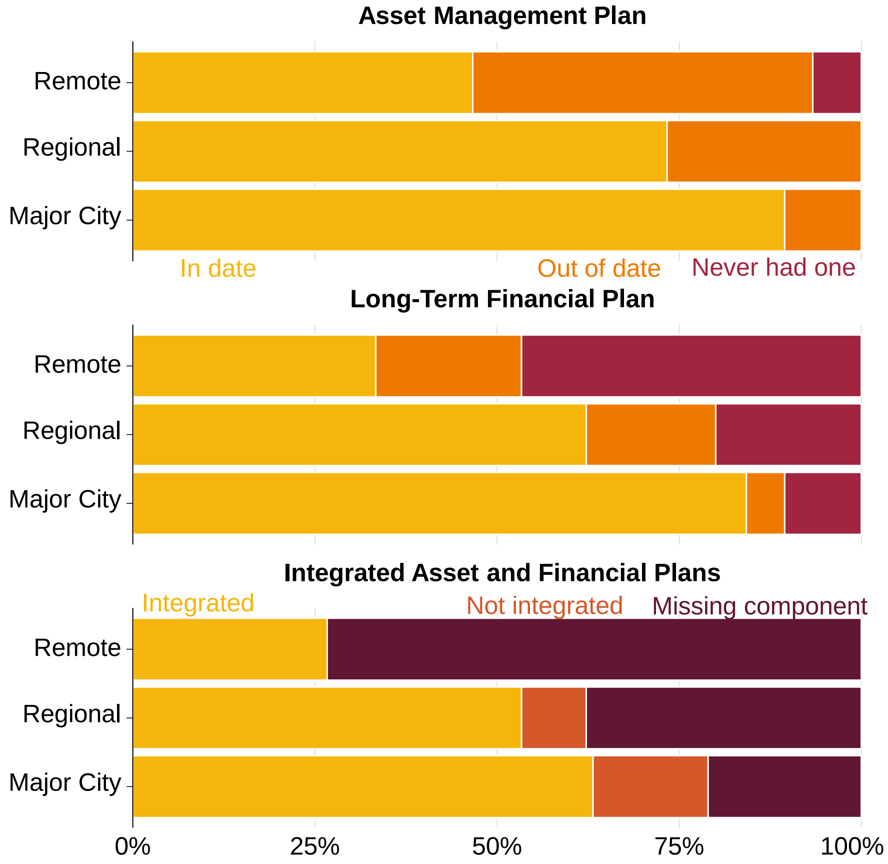
An audit of five councils in Queensland found that no council could demonstrate that it 'engaged with the community on what condition level they should maintain assets to, and what that would mean for its financial sustainability.'[67]

When we asked councils how they prioritise road-related maintenance and construction, and how they set service level standards for their road assets, few were able to outline a process of community consultation. Many councils relied only on community complaints, and some councils reported that they don't even have enough funds to repair the roads people were complaining about, a situation that can only tarnish a council's reputation in the community.[68]

A lack of sophistication when it comes to planning and forecasts leads to a final challenge for some councils: it limits their ability to use borrowing as a tool for managing their roads.

Borrowing may be used to complete maintenance works at the optimal time, reducing costs over the life-cycle and improving service

Figure 4.1: Many councils are not adequately planning
Share of surveyed councils with plans, by remoteness



Source: Grattan Road Manager Survey, 2023.

66. Queensland Audit Office (2023a, p. 4).
67. Ibid (p. 33).
68. Terrill et al (2023).

standards. Borrowing can also be used to smooth out the cost of large infrastructure costs over time. This smoothing allows the cost of the asset to be borne by its users, rather than just those paying rates at the time of the investment.

This is particularly relevant for local government, because councils have very large holdings of infrastructure assets with long lives. The local government sector has asset holdings of more than 10 times the value of its annual revenue, compared to 4.8 times for states, and 1.3 times for the federal government.

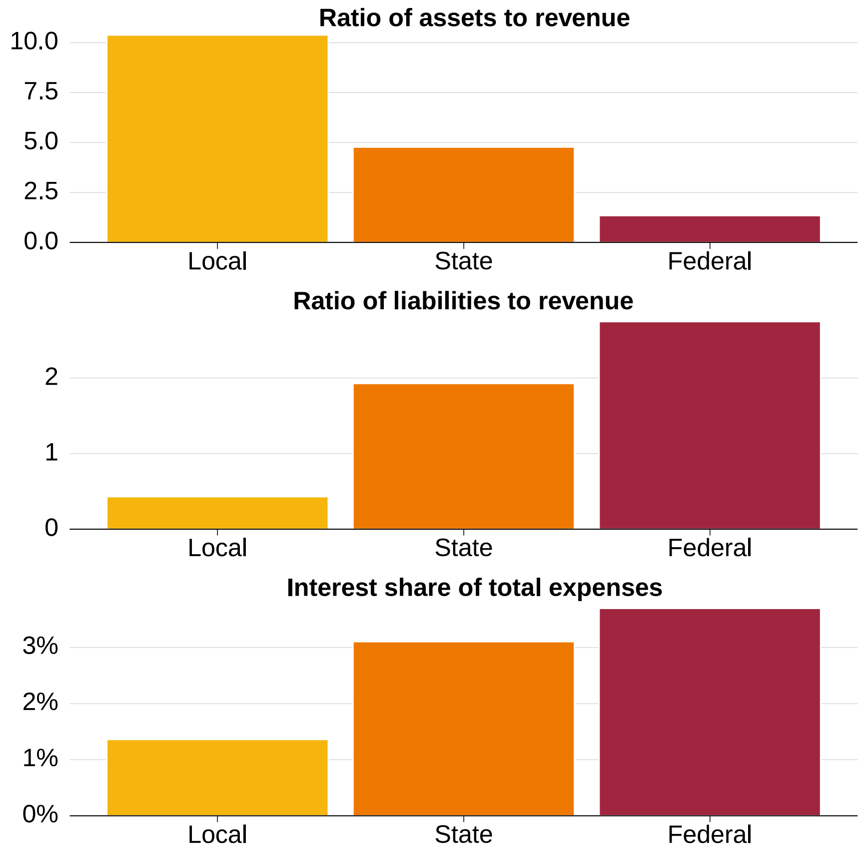
But most councils rely very little on debt. As a share of revenue, council liabilities and interest expenses are much lower than for other levels of government (Figure 4.2). And on average, council debt remains well below benchmark levels.[69]

Major-city councils, which typically have higher incomes and more sophisticated practices, have higher rates of borrowing than regional and remote areas. City councils' liabilities as a share of their annual revenue is twice that of remote councils, and almost 20 per cent higher than regional councils.[70]

Improvements in planning and more sophisticated asset management would enable greater use of borrowing, and so improve the service levels councils can offer their communities within their assigned budgets. Greater certainty of funding would also increase councils' ability to safely use borrowing as part of their asset management strategy.

State governments, in consultation with Local Government Associations, should develop best practice templates of documents for

Figure 4.2: More sophisticated planning would allow councils to make greater use of debt
Financial aggregates, by level of government



Source: ABS 2023a.

69. In NSW the average debt to service ratio (which measures the availability of cash to service debt) is 67.1 - dramatically above the benchmark of 2.0 or higher: Your Council NSW 2021
70. Grattan analysis of publicly available council budget information.

asset management plans and long-term financial plans, and provide them to councils, free of charge. These templates should be audited annually by council audit committees, and every five years by state auditors-general.

4.2 Many councils cannot improve their financial and asset management under current arrangements

Many councils' planning and financial management are far from best practice, but headwinds prevent them from doing better.

4.2.1 Finding, training, and retaining staff is challenging

A lack of qualified staff, and difficulty accessing and funding training programs for staff, is a challenge for local government.

Almost 90 per cent of respondents to Grattan's survey reported having difficulty hiring in the past 12 months.

While council responsibilities and the complexity of council work has increased over time, the number of people working in local government has been in decline since 2016.[71]

Staffing problems are particularly acute in regional and remote councils. In NSW, very remote councils on average have just 60 full-time equivalent staff members, compared to 709 in councils located in major cities.[72] While these staff are servicing much smaller populations, they do not have the benefit of economies of scale, and each staff member is stretched across more functions.

71. SGS Economics (2022).
72. NSW Office of Local Government (2023).

4.2.2 Data is extremely poor

Accurate and comparable data across councils is beneficial to councils, ratepayers, and the federal and state governments. It helps councils to prioritise work, manage their finances, measure and improve their performance, plan for the future, and consult their communities. It also gives ratepayers information about the performance of their council.

Despite the importance of high-quality data, one quarter of councils do not know how many bridges they are responsible for, or the number and length of roads in their jurisdiction, even within ± 10 per cent accuracy (Figure 4.3 on the following page).

In just one five-year period, Queensland councils 'found' 44 assets valued at a total of $1.3 billion, which had never previously been recorded in their financial statements.[73] It is very difficult to effectively manage an asset that you don't even know you have. More detailed information is even more scarce.

Some councils use simple solutions to improve their data collection, such as affixing cameras to their rubbish trucks to collect information on their roads without having to send a team out to survey them. But many councils report even this is not feasible with current budgets and resources.

The importance of collecting data is recognised by the sector, and data collection has improved over time. But while advances have been made in data collection, much of it remains unreliable, or not fit for purpose.

State or national datasets allow councils to benchmark their performance, identify ways to improve, and provide ratepayers information about their council. But where these data exist, they are often poor quality or not fit for purpose.

73. Queensland Audit Office (2023b, p. 17).

For example, the usefulness of the National Local Roads Data System is limited by significant errors: one council in NSW reported that their sealed roads increased from 187km in 2019 to 1,424km in 2020. Another council in Victoria reported spending just $2,300 maintaining a network of 526km of unsealed roads in 2018.[74]

Such obvious errors make these datasets unreliable for decision-making because users cannot trust that the information is accurate, even when it is less obviously incorrect.

Victoria was the first state to introduce state-wide benchmarking. Its benchmarking tool compiles all relevant data and provides an interactive dashboard interface. While this provides a template for other states, it has several weaknesses. It often relies on inaccurate data, is missing information about factors that make service provision more costly in some councils than others, does not include council targets, and focuses primarily on outputs rather than outcomes for the community.

4.3 Supporting council financial and asset management

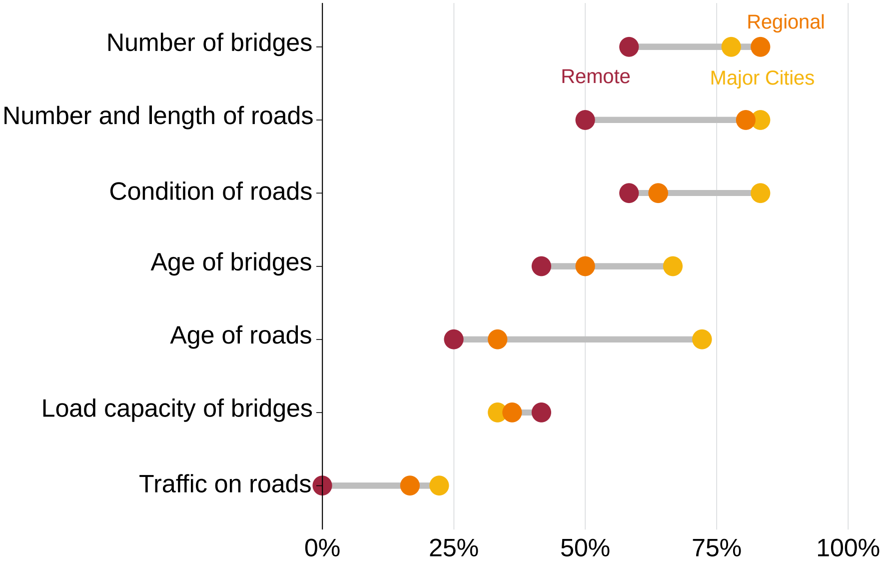
All levels of government have a role to play in helping councils to improve their financial management and asset management planning.

While more funding and a better distribution of funding will help councils, it won't be enough.

Improving councils' performance on road management will require a long-term approach that addresses deficiencies in funding, data, technology, staff, planning, and community consultation. This new approach should be jointly driven by the federal government and local governments to ensure it is nationally consistent, is genuinely helpful for all types of local governments, and that any additional burden placed on local government provides value.

Figure 4.3: The more remote a council, the less likely it is to have data on its roads

Share of surveyed councils with accurate asset data, by remoteness



Source: Grattan Road Manager Survey, 2023.

74. ALGA (2021).

The first step for the federal government, in consultation with the Australian Local Government Association, should be to establish a short list of key metrics that local governments must collect, and provide necessary supports to councils to collect this data on a consistent basis.

Recommendation 5

The federal government, in consultation with states and local councils, should establish a list of metrics for councils to collect. These metrics should:

- be measurable, with only a small list of essential data items related to roads;
- provide a detailed explanation of how the data should be collected to ensure it is consistent across councils;
- be suitable for benchmarking costs;
- include measures of the quality of services, as well as outcomes, and context that may explain differences in costs and performance.

The federal government should provide funding, and in collaboration with the ALGA, support to councils to acquire the necessary technology and software to collect these metrics, and to train staff.

Once support measures are in place, councils should be required to collect the relevant data, and the ALGA should audit the data to ensure it is high quality and accurate.

The data should be available for councils and the community to access online.

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