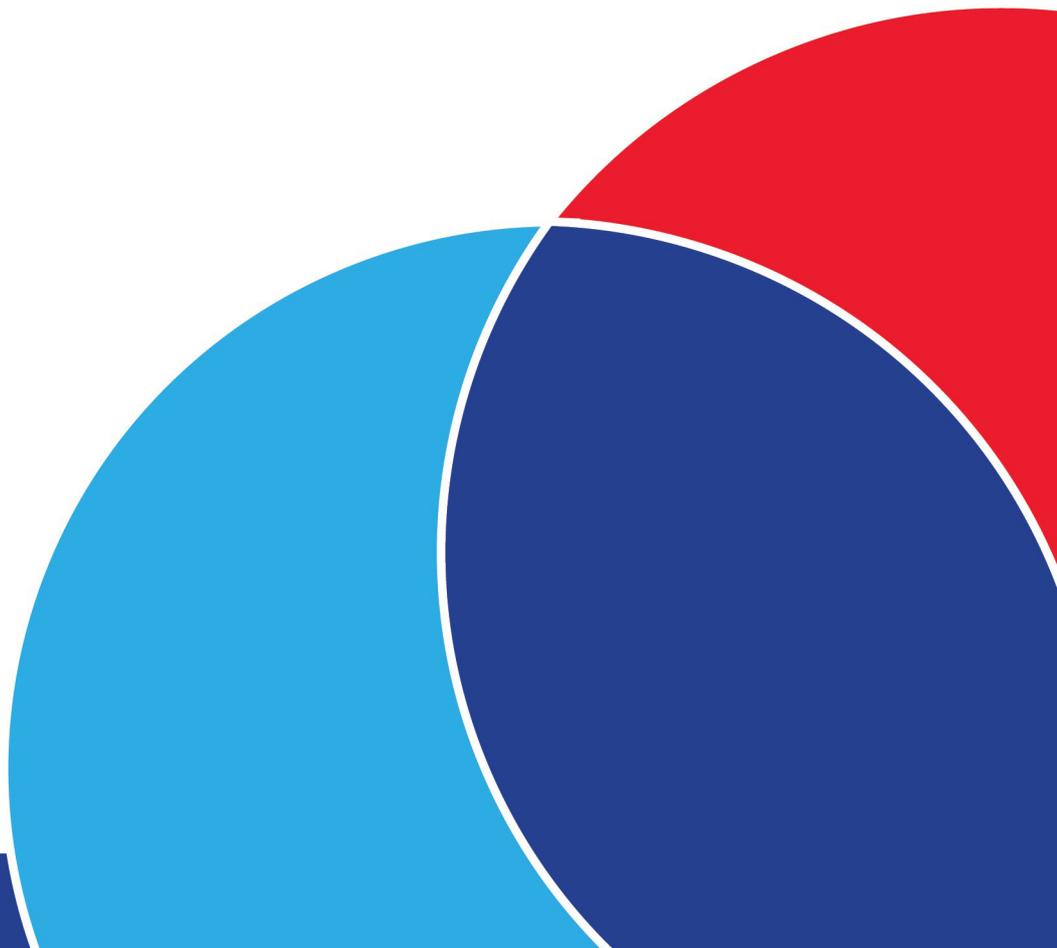


**LGNSW SURVEY REPORT**  
**IMPACT OF COST SHIFTING ON  
LOCAL GOVERNMENT IN NSW:  
A SURVEY OF COUNCILS**  
**OCTOBER 2018**



## CONTENTS

<b>KEY FINDINGS .....</b>	<b>3</b>
<b>INTRODUCTION .....</b>	<b>3</b>
<b>WHAT IS COST SHIFTING? .....</b>	<b>4</b>
<b>PARTICIPATION .....</b>	<b>4</b>
<b>METHODOLOGY .....</b>	<b>5</b>
<b>FINDINGS FOR INDIVIDUAL COUNCILS .....</b>	<b>6</b>
<b>GENERAL FINDINGS AND DISCUSSION .....</b>	<b>9</b>
<b>APPENDIX A – List of the 26 Functional Areas .....</b>	<b>14</b>
<b>APPENDIX B – Cost Shifting Survey for 2015/16 – Cost shifting ratio for sample and sample council groups (metropolitan, rural and urban regional) for individual cost.....</b>	<b>18</b>

### **ABOUT LGNSW**

Local Government NSW (LGNSW) is the peak industry association that represents the interests of all general purpose councils and related entities in NSW.

LGNSW aims to help strengthen and protect an effective, democratic system of local government across NSW. We do this by supporting and advocating on behalf of members and delivering a range of quality services.

This cost shifting survey is undertaken every two years by LGNSW as part of our advocacy work.

## KEY FINDINGS

Cost shifting by the NSW Government and the Australian Government on to local government in NSW in the financial year 2015/16 is estimated to amount to \$820 million - 7.5% of local government's total income before capital amounts and about \$150 million higher than the result for 2013/14 of \$670 million.

Cost shifting is estimated to have increased significantly, from \$380 million in 2005/06 to \$820 million in 2015/16.

The cost shifting ratio has also increased significantly, from 7% of total council income before capital amounts for 2013/14 to 7.5% for 2015/16.

The trend increase is mainly driven by the NSW waste levy. On a state-wide basis (i.e. all 152 general purpose councils existing at the start of the financial year 2015/16), cost shifting associated with the waste levy increased from \$212.5 million in 2013/14 to \$305.1 million in 2015/16. This is an increase of 43.6%.

The NSW Government is responsible for the vast majority of all cost shifting, with just 2 per cent attributed to the Australian Government.

The accumulated total cost shifting burden since the survey began in 2005/06 is an estimated \$6.2 billion.

## INTRODUCTION

The Local Government NSW survey is based on the work of the *Independent Inquiry into the Financial Sustainability of NSW Local Government*, which found more "hard data" about cost shifting was required and recommended that LGNSW undertake an annual survey of all councils to measure and monitor cost shifting.

LGNSW's survey is a continuation of the cost shifting survey for the financial year 2004/05, undertaken by the Inquiry in 2006.<sup>1</sup>

LGNSW conducted surveys for the subsequent financial years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11, 2011/12 and 2013/14.<sup>2</sup> Since the survey for 2011/12, LGNSW has conducted the survey on a biennial basis to measure and monitor the extent of cost shifting onto NSW local government by the Australian and NSW Governments.

The survey:

- Measures the amount of cost shifting and calculates a cost shifting ratio for each respondent council included in the final survey sample and for the whole sample; and
- Extrapolates, from the sample ratio, an estimate of the amount of cost shifting on to the whole of NSW local government.

This report provides the findings of LGNSW's cost shifting survey for the financial year 2015/16. All NSW councils were invited to participate in the survey, which was conducted during May to November 2017. LGNSW would like to thank all councils and the staff involved for their participation.

---

<sup>1</sup> Independent Inquiry into the Financial Sustainability of NSW Local Government, *Final Report: Findings and Recommendations*, (2006), page 66-72.

<sup>2</sup> See for survey reports the LGNSW website at [www.lgnsw.org.au/policy/finance/cost-shifting-survey](http://www.lgnsw.org.au/policy/finance/cost-shifting-survey).

## **Amalgamations and boundary changes in 2015/16**

On 12 May 2016, the NSW Government announced council amalgamations and boundary changes, effective 13 May 2016. For this survey and report, councils were taken as they existed at the beginning of the financial year 2015/16. All amalgamated councils provided separate cost estimates for one or more pre-amalgamation councils. Councils were asked to provide cost estimates covering the financial year and, if necessary, make their own pro-rata adjustments.

## **WHAT IS COST SHIFTING?**

Cost shifting describes a situation where the responsibility for, or the cost of, providing a certain service, concession, asset, or regulatory function is “shifted” from one sphere of government to another sphere of government, without the provision of corresponding funding or the conferral of corresponding and adequate revenue raising capacity.<sup>3</sup>

- The Independent Inquiry into the Financial Sustainability of NSW Local Government in 2006<sup>4</sup> defined cost shifting as including: the imposition of responsibility for providing a certain service, asset or regulatory functions upon local government by the Federal or State Government without the provision of corresponding funding or compensation or the conferral of corresponding and adequate revenue raising capacity;
- the transfer of responsibility to local government for funding certain services or functions (including concessions and rebates) where responsibility for the funding of which lies with other spheres of government;<sup>5</sup>
- the situation where local government agrees to provide a service/function on behalf of another sphere of government but funding is subsequently reduced or stopped, and local government is unable to withdraw because of community demand;
- when another sphere of government ceases or provides insufficient levels of a service/function it is responsible for and local government steps in because of community of demand.

## **PARTICIPATION**

The online survey for 2015/16 was accessible to all general-purpose councils in NSW during a period of about ten weeks during May, June and July 2015. 73 councils completed the survey. From August to November 2015, returned surveys were assessed and issues clarified with councils. Seven returned surveys were rejected from the sample. Rejection took place if:

- Returned surveys were incomplete;
- Doubtful data could not be satisfactorily clarified with council; or
- Cost estimates could not be provided in more than 25 per cent of the 26 functional areas.

Of the 66 councils included in the final sample, 21 are classified metropolitan; 27 urban regional and 18 rural.<sup>6</sup>

---

<sup>3</sup> This description does not necessarily address the question of which sphere of government should be assigned a particular expenditure function.

<sup>4</sup> Independent Inquiry, op cit, pages 67-70; Moege S, *The Impact of Cost Shifting on Local Government in NSW - A Survey of Councils*, (2006).

<sup>5</sup> Mere price increases (as long as they are appropriate and apply to all service recipients equally) are not considered cost shifting. In the context of payments to state government agencies, cost shifting can only occur where cost related to a service/function are transferred onto local government even though responsibility for funding lies with other spheres of government (e.g. pensioner rate rebates). This is not the case where local government pays for a service like all other recipients.

<sup>6</sup> The classification is based on the Australian Classification of Local Government. Metropolitan councils include the sub-classifications “capital city” (UCC), “metropolitan developed” (UD...), and “fringe” (UF...) if within the Sydney metropolitan area; urban regional councils

## METHODOLOGY

The survey establishes the following figures:

### Cost shifting amount for each participating council

The survey establishes the total amount of cost shifting based on the council estimates of the net ongoing cost (excluding capital expenditure) in each of the 26 functional areas identified by the survey. Councils were invited to add further financially significant examples of cost shifting. These additional examples were accepted where they were considered consistent with the survey's approach towards cost shifting. A list of the 26 functional areas can be found as appendix A to this report.

Two additional cost shifting examples have been continued since the survey for 2009/10:

- *Question/example 24 - Revenue limitations on crown reserve land under council management*  
Cost in \$ associated with limitations imposed by the NSW Government on revenue raising ability on council managed crown reserve land or requirements to transfer revenue from council managed crown reserve land to the NSW Government.
- *Question/example 25 - Processing of development applications*  
Cost in \$ of processing development applications under the *Environmental Planning and Assessment Act (NSW) 1979* and associated regulations less any revenue related to this function (e.g. development application fees, state government payments/subsidies).

Net ongoing costs generally refer to the total annual cost of providing the service or function (operational and administrative, excluding capital expenditure) less any annual revenue related to the provision of the service or function, (e.g. grants or subsidies from the NSW or Australian Government, fees or contributions collected by councils).

For consistency purposes, councils were asked to exclude corporate overheads and base their estimate of the direct net ongoing costs only.

In the instance that councils were unable to provide an actual estimate they were given the two following options which both received a cost value of "zero":

- "n/a" (not applicable) if the functional area does not apply; or
- "unable" (unable to reliably estimate) if the functional area applies to council but council is unable to reliably estimate the cost.

### Cost shifting ratio for each council

As a second step, the survey establishes the cost shifting ratio for each individual council by dividing the cost shifting amount established for the council by the council's total income from operations before capital amounts.<sup>7</sup>

---

include the sub-classifications "regional town/city" and "fringe" if outside the Sydney metropolitan area; rural councils include all rural sub-classifications (R...).

<sup>7</sup> Total income from continuing operations less grants and contributions provided for capital purposes, less profit from disposal of assets, and less profit from interests in joint ventures & associates as shown in the income statement of council's financial statements.

## Cost shifting ratio for sample

As a third step, the survey establishes the cost shifting ratio for the sample councils by dividing the cost shifting amount established for the sample of councils by the sample's total income from operations before capital amounts.

## Cost shifting amount for all councils in NSW

Finally, the survey extrapolates the total amount of cost shifting onto NSW local government by applying the established cost shifting ratio for the sample to the total income from operations before capital amounts of all NSW councils.

## FINDINGS FOR INDIVIDUAL COUNCILS

Table 1 below shows the survey findings for individual councils, council groups and the total sample for the financial year 2015/16. The total cost shifting amount for the sample is \$473,701,520 (ratio of 7.49%) including questions 24 and 25 and \$434,295,823 (ratio of 6.87%) excluding questions 24 and 25.

**Table 1: Cost shifting amounts and cost shifting ratios (cost shifting in relation to total income before capital amounts) for individual councils in the survey sample, sample groups of metropolitan, urban regional and rural councils and total sample; financial year 2015/16**

Council	ACLG Cl.	Total income from operations before capital amounts in \$	Including questions 24 and 25		Excluding questions 24 and 25	
			Total amount of cost shifting in \$	Cost shifting in relation to total income	Total amount of cost shifting in \$	Cost shifting in relation to total income
Metropolitan						
Ashfield Council (former, now Inner West Council)	UDM	37,531,000	6,520,850	17.37%	6,021,570	16.04%
Bankstown City Council (former, now Canterbury-Bankstown Council)	UDV	149,257,000	20,944,874	14.03%	19,872,945	13.31%
Blacktown City Council	UDV	291,280,000	17,130,080	5.88%	17,003,392	5.84%
Burwood Council	UDM	42,769,000	4,613,756	10.79%	4,328,912	10.12%
Camden Council	UFM	80,291,000	4,630,270	5.77%	4,630,270	5.77%
Campbelltown City Council	UFV	151,996,000	8,043,450	5.29%	8,043,450	5.29%
Canada Bay City Council	UDL	81,573,000	6,349,612	7.78%	6,018,107	7.38%
Canterbury City Council (former, now Canterbury-Bankstown Council)	UDV	108,162,000	13,488,013	12.47%	12,506,250	11.56%
Hornsby Shire Council	UFV	135,214,986	12,421,213	9.19%	11,671,213	8.63%
Hunters Hill Council	UDS	14,293,000	2,104,657	14.73%	1,637,583	11.46%
Ku-Ring-Gai Council	UDL	120,875,622	9,300,823	7.69%	9,226,486	7.63%
Leichhardt Municipal Council (former, now Inner West Council)	UDM	86,005,381	7,672,158	8.92%	6,335,937	7.37%
Liverpool City Council	UFV	173,040,000	13,177,749	7.62%	13,177,749	7.62%
Marrickville Council (former, now Inner West Council)	UDL	102,603,000	6,550,347	6.38%	6,408,933	6.25%

Council	ACLG Cl.	Total income from operations before capital amounts in \$	Including questions 24 and 25		Excluding questions 24 and 25	
			Total amount of cost shifting in \$	Cost shifting in relation to total income	Total amount of cost shifting in \$	Cost shifting in relation to total income
Mosman Council	UDS	44,425,000	4,552,589	10.25%	3,449,333	7.76%
Parramatta City Council	UDV	191,513,000	18,310,373	9.56%	14,224,373	7.43%
Randwick City Council	UDV	143,512,000	11,932,291	8.31%	10,859,027	7.57%
Ryde City Council	UDL	133,772,000	13,493,690	10.09%	11,945,568	8.93%
Sutherland Shire Council	UDV	224,215,000	17,752,808	7.92%	17,426,248	7.77%
The Hills Shire Council	UFV	154,456,000	10,735,504	6.95%	9,241,503	5.98%
Warringah Council (former, now Northern Beaches Council)	UDV	172,756,402	16,256,662	9.41%	14,690,305	8.50%
<b>Summary Metropolitan</b>		<b>2,639,540,391</b>	<b>225,981,769</b>	<b>8.56%</b>	<b>208,719,154</b>	<b>7.91%</b>
Urban Regional						
Albury City Council	URM	116,751,000	2,890,289	2.48%	2,890,289	2.48%
Ballina Shire Council	URM	78,873,000	3,316,600	4.20%	2,662,600	3.38%
Bathurst Regional Council	URM	82,595,000	3,082,457	3.73%	2,892,958	3.50%
Bega Valley Shire Council	URM	80,947,000	3,576,558	4.42%	2,697,385	3.33%
Blue Mountains City Council	UFL	105,731,000	9,976,768	9.44%	8,658,811	8.19%
Broken Hill City Council	URS	33,680,000	1,471,310	4.37%	1,376,224	4.09%
Byron Shire Council	URM	76,643,000	1,770,145	2.31%	1,758,644	2.29%
Cessnock City Council	URM	69,422,000	11,326,361	16.32%	9,936,173	14.31%
Clarence Valley Council	URM	117,778,000	7,641,641	6.49%	6,802,981	5.78%
Coffs Harbour City Council	URL	160,231,000	5,484,617	3.42%	4,975,231	3.11%
Dubbo City Council (former, now Dubbo Regional Council)	URM	93,472,000	3,593,144	3.84%	3,055,773	3.27%
Hawkesbury City Council	UFM	67,556,000	7,067,197	10.46%	7,061,009	10.45%
Kempsey Shire Council	URS	64,615,000	4,698,314	7.27%	4,146,456	6.42%
Lake Macquarie City Council	URV	207,672,000	19,692,492	9.48%	17,673,600	8.51%
Lismore City Council	URM	101,470,000	9,095,198	8.96%	7,000,909	6.90%
Maitland City Council	URL	86,915,000	13,878,564	15.97%	13,878,564	15.97%
Mid-Western Regional Council	URS	61,879,000	2,622,482	4.24%	1,846,279	2.98%
Newcastle City Council	URV	249,660,000	11,031,970	4.42%	11,031,970	4.42%

Council	ACLG Cl.	Total income from operations before capital amounts in \$	Including questions 24 and 25		Excluding questions 24 and 25	
			Total amount of cost shifting in \$	Cost shifting in relation to total income	Total amount of cost shifting in \$	Cost shifting in relation to total income
Orange City Council	URM	91,249,000	4,360,450	4.78%	3,326,062	3.65%
Port Macquarie-Hastings Council	URL	164,171,000	7,889,748	4.81%	7,889,748	4.81%
Shellharbour City Council	URM	92,299,000	11,341,126	12.29%	11,292,527	12.23%
Shoalhaven City Council	URL	211,855,000	17,135,796	8.09%	16,547,644	7.81%
Wagga Wagga City Council	URM	102,923,000	3,526,714	3.43%	2,911,714	2.83%
Wingecarribee Shire Council	URM	99,852,000	5,914,021	5.92%	4,594,065	4.60%
Wollondilly Shire Council	UFM	48,638,000	3,893,310	8.00%	3,563,853	7.33%
Wollongong City Council	URV	254,350,000	27,630,333	10.86%	24,185,175	9.51%
Wyong Shire Council (former, now Central Coast Council)	UFV	280,677,636	24,247,902	8.64%	22,921,768	8.17%
<b>Summary Urban Regional</b>		<b>3,201,904,636</b>	<b>228,155,507</b>	<b>7.13%</b>	<b>207,578,412</b>	<b>6.48%</b>
Rural						
Bogan Shire Council	RAM	17,797,000	499,412	2.81%	499,412	2.81%
Boorowa Council (former, now Hilltops Council)	RAM	9,509,000	464,784	4.89%	401,184	4.22%
Cabonne Shire Council	RAV	35,861,000	1,486,926	4.15%	1,486,926	4.15%
Coonamble Shire Council	RAM	19,756,000	534,205	2.70%	516,149	2.61%
Cowra Shire Council	RAV	33,896,000	1,048,040	3.09%	878,593	2.59%
Dungog Shire Council	RAL	15,316,000	1,454,593	9.50%	1,191,172	7.78%
Forbes Shire Council	RAL	35,087,000	946,356	2.70%	885,356	2.52%
Gunnedah Shire Council	RAV	42,687,000	1,120,665	2.63%	814,761	1.91%
Harden Shire Council (former, now Hilltops Council)	RAM	14,254,000	578,808	4.06%	530,840	3.72%
Inverell Shire Council	RAV	38,388,000	2,528,967	6.59%	2,195,924	5.72%
Kyogle Shire Council	RAL	23,579,000	981,372	4.16%	981,372	4.16%
Lockhart Shire Council	RAM	12,442,000	360,107	2.89%	351,107	2.82%
Muswellbrook Shire Council	RAV	43,087,000	2,601,002	6.04%	2,501,717	5.81%
Narrabri Shire Council	RAV	43,332,000	1,079,283	2.49%	1,079,283	2.49%
Temora Shire Council	RAL	16,721,000	847,491	5.07%	805,697	4.82%
Upper Lachlan Shire Council	RAL	29,267,981	932,222	3.19%	901,222	3.08%

Council	ACLG Cl.	Total income from operations before capital amounts in \$	Including questions 24 and 25		Excluding questions 24 and 25	
			Total amount of cost shifting in \$	Cost shifting in relation to total income	Total amount of cost shifting in \$	Cost shifting in relation to total income
Walgett Shire Council	RAL	30,104,000	977,626	3.25%	977,626	3.25%
Wellington Council (former, now Dubbo Regional Council)	RAL	22,584,000	1,122,385	4.97%	999,916	4.43%
<b>Summary Rural</b>		<b>483,667,981</b>	<b>19,564,244</b>	<b>4.04%</b>	<b>17,998,257</b>	<b>3.72%</b>
<b>Total sample</b>		<b>6,325,113,008</b>	<b>473,701,520</b>	<b>7.49%</b>	<b>434,295,823</b>	<b>6.87%</b>

## GENERAL FINDINGS AND DISCUSSION

### **Survey ratio - baseline (questions 1 to 23)**

The cost shifting ratio for the complete survey sample is 6.87% of total income before capital amounts. This ratio is significantly higher than ratios established for previous financial years:

- 6.35% for 2013/14;
- 5.60% for 2011/12;
- 5.70% for 2010/11;
- 5.72% for 2009/10 and 2008/09;
- 5.92% for 2007/08;
- 5.95% for 2006/07; and
- 5.84% for 2005/06.

### **Survey ratio - baseline plus additional questions 24 and 25**

Including the examples contained in questions 24 and 25, the ratio increases to 7.49% of total income before capital amounts. This ratio is significantly higher than the equivalent ratios established for previous financial years:

- 6.96% for 2013/14;
- 6.26% for 2011/12;
- 6.34% for 2010/11; and
- 6.35% for 2009/10.

Question 25 alone adds \$38,590,696 to the sample cost shifting amount.

### Cost shifting ratios of different council groups

The table below provides findings for each of the three groups of councils (metropolitan, urban regional and rural) compared to previous surveys.

**Table 2: Cost shifting ratios for metropolitan, urban regional and rural for 2015/16 survey and compared to previous surveys**

Year	Metropolitan councils		Urban regional councils		Rural council	
	Survey baseline	Survey baseline plus questions 24 and 25	Survey baseline	Survey baseline plus questions 24 and 25	Survey baseline	Survey baseline plus questions 24 and 25
2015/16	7.91%	8.56%	6.48%	7.12%	3.72%	4.04%
2013/14	6.56%	7.33%	6.60%	7.12%	3.64%	3.97%
2011/12	5.98%	6.82%	5.63%	6.18%	3.56%	3.95%
2010/11	6.20%	6.96%	5.49%	6.06%	3.88%	4.23%
2009/10	6.30%	6.98%	5.47%	6.09%	4.04%	4.45%
2008/09	6.21%	n/a	5.44%	n/a	4.11%	n/a
2007/08	6.62%	n/a	5.63%	n/a	4.22%	n/a
2006/07	6.30%	n/a	6.00%	n/a	4.50%	n/a
2005/06	6.10%	n/a	5.90%	n/a	4.50%	n/a

### Total cost shifting amounts

By applying the established cost shifting ratio of 6.87% to the figure of total income from operations before capital for 2015/16 for all NSW councils (\$10,948,154,844)<sup>8,9</sup>, the amount of cost shifting onto local government in NSW (i.e. all 152 general purpose councils) is calculated to amount to \$751,723,789. Including the new examples contained in questions 24 and 25, the amount of cost shifting onto local government in NSW (i.e. all 152 general purpose councils) is calculated as being \$819,931,214 (ratio of 7.49%).

### Discussion

The significant increase in the cost shifting ratio from 6.4% for 2013/14 to 6.9% of total income before capital amounts (survey baseline) or 7% for 2013/14 to 7.5% (survey baseline plus additional questions 24 and 25) is mainly driven by significant increases above total sample trend in cost shifting in the metropolitan council grouping associated with the waste levy (question 21). Accordingly, cost shifting ratios have increased in the metropolitan grouping and remained relatively stable in the urban regional and rural grouping. On a state-wide basis (i.e. all 152 general purpose councils), cost shifting associated with the waste levy has increased by 43.6% from \$212,491,325 in 2013/14 to 305,072,543 in 2015/16.

<sup>8</sup> The NSW Office of Local Government provided data on the total income from continuing operations before grants and contributions provided for capital purposes, gains from asset sales, and gains from interests in joint ventures as shown in the statement of financial performance for the financial year 2015/16 for 151 of the 152 NSW general purpose councils on 20 November 2017 (\$10,824,321,549). Financial data for Botany Bay City Council was not available for 2015/16 and 2014/15. The survey used data from Botany Bay City Council's financial statements of 2013/14 and indexed it, reflecting income growth patterns of other metropolitan councils between 2013/14 and 2015/16 (i.e. \$57,374,000 for 13/14 and 13.5% revenue growth equals \$65,119,490).

<sup>9</sup> Total income from operations before capital figures for 2015/16 used in the survey are slightly different to the reported figures provided by OLG insofar as the survey uses income estimates for the whole financial year up to 30 June 2016 from three amalgamated councils (Leichhardt Municipal Council, Warringah Council and Wyong Shire Council) and one boundary-changed council (Hornsby Shire Council) instead of income amounts up to 12 May 2016 as required of amalgamated councils pursuant to financial reporting requirements.

The group comparison also shows that metropolitan and urban regional councils suffer more from cost shifting than rural councils. This can be explained by a number of factors, including the greater exposure of urban regional councils and metropolitan councils to the waste levy (question 21), the provision of public libraries (question 5), and to a lesser degree, pensioner rate rebates (question 3) and the development application process (question 25).

The table in Appendix B shows the cost shifting ratios for the total sample and each council group in the sample for each individual cost shifting item.

Only a small portion of cost shifting can be attributed to the Australian Government (\$834,659 for immigration and citizenship ceremonies (question 12); \$1,108,345 for half of the funding shortfall in the flood mitigation program (question 16) and an unidentified proportion of the funding shortfall in community and human services amounting to \$15,263,853 (question 20)).<sup>10</sup> The remainder is attributed to the NSW Government.

### Significant cost shifting items

The table below provides the amount of cost shifting onto local government in NSW for selected significant cost shifting items as calculated from the survey sample.

**Table 3: Amount of cost shifting for selected significant cost shifting items in 2015/16 compared to 2013/14**

Cost shifting item	Amount in 2013/14	Amount in 2015/16
Waste levy paid by councils not returned to local government (question 21)	\$212 million	\$305 million
Shortfall in library funding (question 5)	\$119 million	\$130 million
Contribution to fire and emergency service funding (questions 1, 2, 2a)	\$110 million	\$127 million
Shortfall in cost recovery for DA process (question 25)	\$58 million	\$67 million
Only half reimbursement for pensioner rebates (question 3)	\$55 million	\$61 million
Shortfall in funding for companion animal regulation (question 7)	\$22 million	\$23 million
Shortfall in funding for noxious weed management (question 10)	\$12 million	\$12 million

The tables below provide the dollar amount of cost shifting onto local government per council category. These are based on the Federal Government Australian Classification of Local Governments' categories.

**Table 4: Top five cost shifting items for metropolitan councils in 2015/16**

Cost shifting item	Amount in 2015/16	% of total metro cost shifting
Waste levy paid by councils not returned to local government (question 21)	\$160 million	38%
Shortfall in library funding (question 5)	\$77 million	18%
Contribution to fire and emergency service funding (questions 1, 2, 2a)	\$68 million	16%
Shortfall in cost recovery for DA process (question 25)	\$31 million	7%
Only half reimbursement for pensioner rebates (question 3)	\$27 million	6%

\* Dollar values of survey sample councils are extrapolated to all councils.

<sup>10</sup> Calculation based on baseline plus questions 24 and 25 scenario.

**Table 5: Top five cost shifting items for urban regional councils in 2015/16**

Cost shifting item	Amount in 2015/16	% of total urban regional cost shifting
Waste levy paid by councils not returned to local government (question 21)	\$138 million	42%
Contribution to fire and emergency service funding (questions 1, 2, 2a)	\$43 million	13%
Shortfall in library funding (question 5)	\$43 million	13%
Shortfall in cost recovery for DA process (question 25)	\$30 million	9%
Only half reimbursement for pensioner rebates (question 3)	\$29 million	9%

\* Dollar values of survey sample councils are extrapolated to all councils.

**Table 6: Top five cost shifting items for rural councils in 2015/16**

Cost shifting item	Amount in 2015/16	% of total rural cost shifting
Contribution to fire and emergency service funding (questions 1, 2, 2a)	\$16 million	24%
Shortfall in library funding (question 5)	\$10 million	15%
Shortfall in cost recovery for functions under the companion Animal Act (question 7)	\$9 million	13%
Waste Levy paid by councils not returned to local government (only applies to North Coast NSW) (question 21)	\$7 million	10%
Only half reimbursement for pensioner rebates (question 3)	\$6 million	9%

\* Dollar values of survey sample councils are extrapolated to all councils.

### Comparison with previous surveys

Table 7 outlines the results of the surveys undertaken so far by LGNSW.

**Table 7: Ratio and total amount of cost shifting onto NSW local government**

Financial year	Sample size (no. of councils)	Total income from operations before capital amounts for all NSW councils	Ratio and total amount of cost shifting			
			Survey baseline (questions 1 to 23)	Baseline plus 2008 election cost shift	Baseline plus questions 24 and 25	Baseline plus questions 24 and 25 and 2008 election cost shift
2015/16	66	\$10,948,154,844	6.87% \$751,723,789	n/a*	7.49% \$819,931,214	n/a*
2013/14	72	\$9,617,445,003	6.35% \$610,650,884	n/a*	6.96% \$669,654,954	n/a*
2011/12	73	\$9,268,064,244	5.60% \$519,236,368	5.63% \$521,498,905	6.26% \$579,981,213	6.28% \$582,243,750
2010/11	76	\$8,723,492,462	5.70% \$497,038,850	5.72% \$499,301,387	6.34% \$553,033,109	6.37% \$555,295,646
2009/10	84	\$8,209,306,141	5.72% \$469,191,741	5.74% \$471,454,278	6.35% \$521,626,171	6.38% \$523,888,708
2008/09	69	\$7,664,066,547	5.72% \$438,007,674	5.74% \$440,270,211	n/a**	n/a**
2007/08	65	\$7,280,361,566	5.92% \$431,284,746	n/a*	n/a**	n/a**

Financial year	Sample size (no. of councils)	Total income from operations before capital amounts for all NSW councils	Ratio and total amount of cost shifting			
			Survey baseline (questions 1 to 23)	Baseline plus 2008 election cost shift	Baseline plus questions 24 and 25	Baseline plus questions 24 and 25 and 2008 election cost shift
2006/07	84	\$6,928,487,164	5.95% \$412,244,986	n/a*	n/a**	n/a**
2005/06	84	\$6,502,482,000	5.84% \$379,744,949	n/a*	n/a**	n/a**

\*Cost shifting associated with the 2008 local government election is distributed among the relevant financial years 08/09, 09/10, 10/11 and 11/12.

\*\*Questions 24 and 25 were included for the first time in the survey for 09/10.

As table 4 shows, in absolute terms, cost shifting on to NSW local government is estimated to have increased significantly to approximately \$752 million (\$820 million including the new questions 24 and 25) in 2015/16 from approximately:

- \$380 million in 2005/06,
- \$412 million in 2006/07,
- \$431 million in 2007/08,
- \$440 million in 2008/09,
- \$471 million (\$524 million including the new questions 24 and 25) in 2009/10,
- \$499 million (\$555 million including the new questions 24 and 25) in 2010/11
- \$521 million (\$582 million including the new questions 24 and 25) in 2011/12; and
- \$611 million (\$670 million including the new questions 24 and 25) in 2013/14;

### Others

Finally, the cost shifting ratio and amount established by the survey can be regarded as conservative for several reasons:

- Although councils were encouraged to add financially significant examples, councils basically worked within the 26 functional areas identified in the survey.
- The survey asked councils to exclude corporate overheads from the individual cost estimates for each cost shifting area. The addition of corporate overheads could increase costs by around 10% based on the average corporate overheads ratio established by the Independent Inquiry into the Financial Sustainability of NSW local government in a separate survey.<sup>11</sup>
- If councils were not able to reliably estimate the cost of individual areas of cost shifting these areas were assigned a zero costing.<sup>12</sup>
- While most councils that were amalgamated as of 13 May 2016 adjusted their estimates to reflect the full financial year until 30 June 2016, a few councils provided estimates only up to 12 May 2016, understating the total cost shifting amount.

<sup>11</sup> DG & AB Maxwell, *Corporate Overheads of Local Government*, (2006), page 14; Local Government Inquiry, *Interim Report: Findings and Options*, table 10.2, page 201.

<sup>12</sup> Unless returned surveys were rejected because cost estimates could not be provided in more than 25 per cent of the 26 functional areas.

## APPENDIX A – LIST OF THE 26 FUNCTIONAL AREAS

### **Contribution to Fire and Rescue NSW**

The amount of the emergency service levy invoice from the NSW Government.

### **Contribution to NSW Rural Fire Service**

The relevant amount of the emergency service levy invoice from the Ministry for Police and Emergency Services.

### **Contribution to NSW State Emergency Service**

The relevant amount of the emergency service levy invoice from the Ministry for Police and Emergency Services.

### **Pensioners rate rebates**

NSW is the only state that requires councils to fund approximately half the cost of mandatory pensioner concessions (ss575-584 of the *Local Government Act (NSW) 1993*).

This category thus refers to the net dollar cost incurred due to mandatory pensioners rebates for rates and charges (total amount of mandatory concession minus state reimbursement). However, it excludes rebates for water supply and sewerage charges, as these charges are subject to a separate fund and cost can be recovered across all users.

### **Voluntary conservation agreements**

Pursuant to section 555 of the *Local Government Act (NSW) 1993*, land (or the proportion of the landholding) that is subject to a voluntary conservation agreement between the landowner and the relevant NSW Minister (environment portfolio) under section 69 of the *National Parks and Wildlife Act (NSW) 1974* is exempt from all council rates. This category thus relates to the net dollar cost incurred due to rate exemptions as a result of voluntary conservation agreements.

### **Public library operations**

Dollar cost representing the proportion of operational expenditure that was not funded by the State Government but would have been funded had the original funding arrangement of a State Government subsidy of half the amount expended by council on the operation of libraries been applied (i.e. shortfall between actual State Government subsidies (prescribed amount pursuant to s13(4)(b) *Library Act (NSW) 1939* and the regulation) and the subsidy council would have been eligible for pursuant to s13(4)(a) *Library Act (NSW) 1939* (the original funding arrangement of a state subsidy of half the amount expended by council on the operation of libraries from rate income). This category excludes capital expenditure.

### **Shortfall in cost recovery for regulation of on-site sewerage facilities**

Councils are required to regulate the installation, approve and monitor the operation and keep a register of all on-site sewerage management systems (section 68 of the *Local Government Act (NSW) 1993*).

This category this covers the dollar cost of services/functions, less any revenue related to them (fees, state government payments/subsidies). It includes only necessary costs that cannot be recovered as a result of regulatory constraints and excludes capital expenditure.

### **Shortfall in cost recovery for regulatory functions/services under the *Companion Animal Act (NSW) 1998***

Councils' role was expanded from a pure enforcement role to a regulatory body with functions including preparation of companion animal management plan, operation of lifetime registration system, separation of cats and dogs, maintaining facilities, enforcement, and the collection of fees for the Office of Local Government which returns only a small proportion of those fees to local government. This category therefore covers the dollar cost of services or functions under the Act,

minus any revenue related to them such as State Government grants or subsidies. The category excludes capital expenditure.

**Shortfall in cost recovery for regulatory functions/services under the *Contaminated Land Management Act (NSW) 1997***

Councils are required to respond to contaminated land issues, undertake the administration, registration and mapping of contaminated sites not regulated by the NSW Environment Protection Authority, develop policies, and consider contamination in land-use planning processes. This category relates to the dollar cost of services/functions less any revenue related to them (fees, state government payments/subsidies), but excludes capital expenditure.

**Shortfall in cost recovery for functions under the *Protection of the Environment Operations Act (NSW) 1997***

Councils are required to administer the licensing system and enforce protective regulation (issuing of environmental notices, prosecution of environmental offences, undertaking of environmental audits) in relation to all non-scheduled activities not regulated by the NSW Environment Protection Authority. This category relates to the dollar cost of regulatory services/functions less any revenue related to them (fees, state government payments/subsidies).

**Shortfall in cost recovery for functions as control authority for noxious weed**

Councils are required to regulate and control noxious weeds pursuant to the *Noxious Weeds Act (NSW) 1993* and s183 of the *Local Government Act (NSW) 1993*.

This category covers the dollar cost of regulatory services/functions less any revenue related to them (fees, state government payments/subsidies; e.g. grants from the NSW Department of Primary Industries) or cost in \$ of net contributions to other authorities for reasonably necessary regulation of noxious weeds on land other than council land and council managed Crown land. Excludes capital expenditure, and cost of other environmental weeds control or general bushland care.

**Functions under the *Rural Fires Act (NSW) 1997***

Councils are required to administer and remedy complaints about fire hazards on council property, and to map and administer bushfire prone land (e.g. asset protection work, fire trails). This category includes the net cost of assistance provided to the Rural Fire Service to fight bushfires declared under s44 of the *Rural Fires Act (NSW) 1997* on any land within the council area, minus any revenue related to them (e.g. fees, state government payments, or subsidies). It excludes capital expenditure, along with any contributions to the Rural Fire Service and/or NSW Fire Brigade (which were captured in Categories 1 and 2).

**Immigration services and citizenship ceremonies**

Councils conduct citizenship ceremonies under the *Australian Citizenship Act (Cth) 2007*. This category covers the dollar cost of providing these services less any revenue related to them (fees, state government payments/subsidies).

**Shortfall in cost recovery in the administration of food safety regulation**

Councils are required to undertake registration and inspection of food and food premises under the *Food Act (NSW) 2003*. This category covers the dollar cost of the relevant services/functions, less any revenue related to them (fees, state government payments/subsidies). It is limited to necessary costs that cannot be recovered as a result of regulatory constraints.

**Provision of educational services**

Net cost of providing educational services due to the State Government's withdrawal from providing educational services that should be state government responsibility (e.g. sporting facilities used by public schools, education programs, classes for disadvantaged children in youth

centres, but not child care). Excludes capital expenditure and council education programs for which the state government is not responsible for (e.g. waste and sustainability education). This category also excludes any proportion of operational or maintenance costs which could be allocated to use by other government organisations (e.g. public schools).

### **Crime prevention/policing**

Net cost of crime prevention/policing services in public spaces necessitated by insufficient services by other spheres of government (e.g. CCTV surveillance, security patrols, crime prevention programs). This only applies to crime prevention or policing activities that should have been undertaken by other spheres of government (e.g. police). It does not include council activities to protect community from other risks (e.g. surfer and swimmer injuries or beach patrols), safety at council events, or security of council facilities). Also excludes capital expenditure.

### **Flood Mitigation program**

Dollar cost representing the proportion of expenditure that was not funded by other levels of government but would have been funded had the original funding arrangement been applied (e.g. if the Federal and State Governments originally provided 80% of the required funds; but now the Australian Government provides one third and the State Government is required to provide another third, and the rest must be made up by council). This category is restricted to activities eligible for or receiving funding from other levels of government under the flood mitigation program.

### **Transfer of responsibilities for roads under RMS road reclassification reviews**

Net cost (operational only) associated with all roads inherited due to reclassification of regionally important roads as local roads, state-important roads as regional or local (since the significant reclassifications in the early 1990s). This category measures the ongoing maintenance and depreciation cost (or annualised renewal cost) associated with all roads so transferred since the 1990s. The figure does not include any compensation received in association with a reclassification.

### **Medical services**

Net cost in \$ of providing medical services necessary because of insufficient services by other levels of government (e.g. retaining general practitioners, nurses and dentists; aboriginal and other medical services required by the community). Excludes capital expenditure.

### **Road safety**

Net cost of road safety officer/road safety program necessary due to the NSW Government's (RMS) withdrawal of funding or cost of net contribution to other authorities that provide such officer/program. Does not include capital expenditure.

### **Community and human services**

Community and human services include children service programs, aged and disabled care programs, community development/liason programs, youth development programs, aboriginal community programs, cultural development programs etc.

Net cost of all programs necessary to the community where other levels of government have initiated the program and initially provided adequate funds but now provide inadequate funds or have withdrawn completely; e.g. State Government contribution do not increase in line with these actual costs (e.g. employment cost). This category covers the shortfall between adequate and actual funding for such programs that were initiated by other levels of government but excludes capital expenditure.

### **Waste levy**

The waste levy applies to the Sydney metropolitan area; the Illawarra, Hunter and Central Coast area (extended regulated area); and the area including the Blue Mountains, Wollondilly and local government areas along the coast north of Port Stephens to the Queensland border (regional regulated area). The category includes the dollar cost of the levy paid to the NSW Government (dependent on the amount of waste produced by council), less any amounts recovered through "Waste Less Recycle More" program grants

Net costs for the 2015/16-scheme have been calculated on the basis of a levy of \$133.10 per tonne (Sydney metro), \$133.10 (extended regulated area), and \$76.70 (regional regulated area).

### **Sewerage treatment system license fee**

Councils are required to pay this fee as polluter under the *Protection of the Environment Operations Act (NSW) 1997*. This category therefore relates to the dollar cost of the load-based and administrative license fee paid to the State Government in relation to sewer effluent discharge.

### **Waste management site license fee**

Councils are required to pay this fee as polluters under the *Protection of the Environment Operations Act (NSW) 1997*, so this category covers the cost of license fee (administrative, not load-based) paid to State Government.

### **Taking away of revenue from crown reserve land under council management**

Under the *Crown Land Act (NSW) 1989*, councils have full responsibility to maintain crown reserves under council management and are expected to subsidise shortfalls in maintenance cost from general revenue. This is considered appropriate as the benefits from crown reserves under council management generally accrue to the local community.

However, as a result, councils should also be entitled to any current or potential revenue from crown reserves that is required to cover maintenance and improvement cost (e.g. revenue from refreshment facilities, telecommunication facilities). Any action by the State Government to limit revenue raising capacity or require the transfer revenue to the State Government is considered cost shifting.

This category covers the cost associated with the NSW Government assuming allowable revenue raising activities on council-managed crown reserve land, or with requirements to transfer revenue from council-managed crown reserve land to the NSW Government. This does not represent the total net cost of managing (maintaining) crown lands, and excludes transfers associated with the caravan park levy, along with any surplus revenue over and above the total amount of maintenance and improvement cost.

### **Shortfall in cost recovery for processing of development applications**

Cost of processing development applications under the *Environmental Planning and Assessment Act (NSW) 1979* and associated regulations, less any revenue related to this function (e.g. development application fees, state government payments/subsidies).

This category is limited to the costs of processing development applications that cannot be recovered through development application fees or any other related income, but does include costs associated with services by other agencies (e.g. initial fire safety reports from the NSW Fire Brigades, s144 of the *Environmental Planning and Assessment Regulation (NSW) 2000*).

## APPENDIX B – COST SHIFTING SURVEY FOR 2015/16 – COST SHIFTING RATIO FOR SAMPLE AND SAMPLE COUNCIL GROUPS (METROPOLITAN, RURAL AND URBAN REGIONAL) FOR INDIVIDUAL COST

