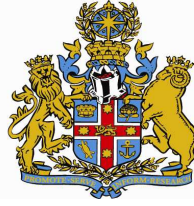


Local Government
Association of NSW



Shires Association
of NSW

The Impact of Cost Shifting on Local Government
in NSW: A Survey of Councils
- Financial Year 2007/08 -

Report by the Local Government and Shires
Associations of NSW

2009

KEY FINDINGS

According to the Local Government and Shires Associations of NSW (LGSA)' cost shifting survey, cost shifting by the Australian and NSW Government on to NSW Local Government in the financial year 2007/08 is estimated to amount to 5.92% of Local Government's total income before capital amounts or \$431 million.

This ratio is consistent with ratios established for previous financial years (5.84% for the financial year 2005/06 and 5.95% for 2006/07). In absolute terms, cost shifting is estimated to have increased significantly from \$380 million in 2005/06 and \$412 million in 2006/07 to \$431 million in 2007/08.

INTRODUCTION

The LGSA cost shifting survey is an annual survey which seeks to establish the extent of cost shifting by the Australian and NSW Government on to NSW Local Government. The survey measures the amount of cost shifting for a representative sample of the 152 general purpose councils in NSW, calculates a cost shifting ratio for each council and for the 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 the LGSA' cost shifting survey for the financial year 2007/08. 78 councils participated in the survey which was conducted during April to September 2009. The LGSA would like to thank all councils and the staff involved for their participation.

The survey is a continuation of the cost shifting survey for the financial year 2004/05 undertaken by the *Independent Inquiry into the Financial Sustainability of NSW Local Government* in 2006¹ and the surveys for the financial years 2005/06 and 2006/07 undertaken by the LGSA in 2008.²

The survey is based on the work of the *Independent Inquiry into the Financial Sustainability of NSW Local Government* which recognised that more "hard data" about cost shifting was required. Recommendation 4 of the inquiry recommended that the LGSA build on its work and undertake an annual survey of all councils to measure and monitor the total amount of cost shifting on to NSW Local Government. Accordingly, the LGSA commenced undertaking an annual cost shifting survey, with the first survey undertaken for the financial year 2005/06.

The survey results help quantify the extent of cost shifting onto NSW Local Government and support Local Government's argument for that practice to end. It also assists in monitoring compliance with the national *Intergovernmental Agreement Establishing Principles Guiding Intergovernmental Relations on Local Government Matters, (2006)*.

WHAT IS COST SHIFTING?

Cost shifting describes a situation where the responsibility for, or merely the costs of, providing a certain service, concession, asset or regulatory function are "shifted" from a higher level of government on to a lower level of government without the provision of corresponding funding or the conferral of corresponding and adequate revenue raising capacity.³

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

² See for a survey report: www.StrenghteningLG.lgsa.org.au.

³ This description does not necessarily address the question of which level of government should be assigned a particular expenditure function.

The definition adopted for the survey is based on the definition used in the survey undertaken for the *Independent Inquiry into the Financial Sustainability of NSW Local Government in 2006*.⁴ The following cost shifting scenarios are covered:

- (The cost related to) the imposition of responsibility for providing a certain service, asset or regulatory functions upon Local Government by other levels of government (Australian or State Government) without the provision of corresponding funding or compensation or the conferral of corresponding and adequate revenue raising capacity.
- (The cost related to) the transfer of responsibility to Local Government for funding a certain service or function (including concessions and rebates) where the responsibility for funding of which lies with other levels of government.⁵
- (The cost arising from) the situation where Local Government agrees to provide a service or function on behalf of another sphere of government subject to funding but funding is subsequently reduced or withdrawn, and Local Government is unable to withdraw because of community demand for the service or function.
- (The cost related to) the situation where, for whatever reason, another level of government ceases to provide, or provides inadequate levels of a service or function that it is responsible for, and Local Government is required to step in because of community demand for the service/function.

PARTICIPATION

The survey for 2007/08 was provided online and was accessible to all 152 general purpose councils in NSW during a period of about eight weeks during April, May and June 2009.⁶ 78 councils completed the survey.

During July to September 2009, returned surveys were assessed and issues clarified with councils. 13 returned surveys were rejected from the sample. Rejection took place in the following circumstances:

- 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 23 functional areas.

Of the 65 councils included in the final sample, 18 are classified metropolitan; 29 urban regional and 18 rural.⁷

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

⁵ 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 levels of government (e.g. pensioner rate rebates). This is not the case where Local Government pays for a service like all other recipients.

⁶ See: www.StrengtheningLG.lgsa.org.au under "Cost shifting survey".

⁷ 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 include the sub-classifications "regional town/city" and "fringe" if outside the Sydney metropolitan area; rural councils include all rural sub-classifications (R...) (see Independent Inquiry, op cit, *Background and Issues Paper*, (2005), Appendix B).

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) for each of the 23 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 23 functional areas can be found as appendix A to this report.

Net ongoing cost 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 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.⁸

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 on to NSW Local Government in NSW by applying the established cost shifting ratio for the sample to the total income from operations before capital amounts of all NSW councils.

⁸ 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.

FINDINGS

Table 1 below shows the survey findings for individual councils and council groups for the financial year 2007/08.

Table 1: Proportion of cost shifting in relation to total ordinary revenue for the sample of 65 NSW councils, 2007/08

Council	ACLG Cl.	Total income from operations before capital amounts in \$	Total amount of cost shifting in \$	Proportion of cost shifting in relation to total income
Metropolitan				
Ashfield Municipal Council	UDM	26,671,000	2,869,196	10.76%
Bankstown City Council	UDV	118,144,000	11,188,814	9.47%
Blacktown City Council	UDV	187,334,000	8,426,807	4.50%
Botany Bay City Council	UDM	40,284,000	2,302,065	5.71%
Camden Council	UFM	42,993,000	2,418,988	5.63%
Campbelltown City Council	UFV	106,192,000	5,799,624	5.46%
Canterbury City Council	UDV	81,744,000	5,868,560	7.18%
Fairfield City Council	UDV	123,729,000	7,149,547	5.78%
Holroyd City Council	UDL	60,300,000	4,261,568	7.07%
Ku-Ring-Gai Council	UDL	77,093,000	7,032,443	9.12%
Liverpool City Council	UFV	98,323,000	7,471,224	7.60%
North Sydney City Council	UDM	71,496,000	4,371,000	6.11%
Penrith City Council	UFV	133,869,000	8,135,872	6.08%
Randwick City Council	UDV	95,431,000	6,318,455	6.62%
Sutherland Shire Council	UDV	148,876,000	10,513,640	7.06%
Warringah Council	UDV	112,161,000	7,873,454	7.02%
Waverley Council	UDM	115,735,000	5,177,776	4.47%
Willoughby City Council	UDM	67,940,000	5,847,919	8.61%
Summary Metropolitan		1,708,315,000	113,026,952	6.62%
Urban Regional				
Albury City Council	URM	69,472,000	3,299,141	4.75%
Bathurst Regional Council	URM	58,955,000	2,024,285	3.43%
Bega Valley Shire Council	URM	55,992,000	2,796,544	4.99%
Blue Mountains City Council	UFL	74,387,000	4,053,375	5.45%
Byron Shire Council	URM	44,237,647	2,009,831	4.54%
Clarence Valley Council	URM	77,408,000	3,885,881	5.02%
Coffs Harbour City Council	URM	100,918,000	3,216,398	3.19%
Deniliquin Council	URS	12,662,000	593,507	4.69%
Gosford City Council	UFV	185,906,000	8,737,217	4.70%

Council	ACLG Cl.	Total income from operations before capital amounts in \$	Total amount of cost shifting in \$	Proportion of cost shifting in relation to total income
Goulburn Mulwaree Council	URS	40,641,000	1,266,505	3.12%
Great Lakes Council	URM	49,743,000	1,983,381	3.99%
Greater Taree City Council	URM	39,487,000	2,066,024	5.23%
Griffith City Council	URS	35,242,000	1,208,066	3.43%
Kempsey Shire Council	URS	39,735,000	2,264,259	5.70%
Kiama Municipal Council	URS	37,321,000	1,263,659	3.39%
Lake Macquarie City Council	URV	143,959,000	12,576,809	8.74%
Maitland City Council	URM	54,192,000	4,635,756	8.55%
Mid-Western Regional Council	URS	44,527,000	2,261,456	5.08%
Newcastle City Council	URV	181,333,000	10,725,236	5.91%
Orange City Council	URM	62,442,000	2,626,652	4.21%
Richmond Valley Council	URS	36,174,839	1,812,635	5.01%
Shoalhaven City Council	URL	141,981,000	6,915,362	4.87%
Singleton Shire Council	URS	32,316,000	1,813,399	5.61%
Tamworth Regional Council	URM	82,644,000	4,111,102	4.97%
Tweed Shire Council	URL	111,434,000	4,701,760	4.22%
Wagga Wagga City Council	URM	71,454,200	2,525,993	3.54%
Wollondilly Shire Council	UFM	28,426,000	2,364,870	8.32%
Wollongong City Council	URV	169,406,000	16,059,910	9.48%
Wyong Shire Council	UFV	174,642,000	13,224,868	7.57%
Summary Urban Regional		2,257,037,686	127,023,881	5.63%
Rural				
Blayney Shire Council	RAL	10,732,000	461,442	4.30%
Cabonne Shire Council	RAV	25,575,000	1,373,240	5.37%
Coolamon Shire Council	RAM	8,186,000	444,360	5.43%
Cooma-Monaro Shire Council	RAL	18,555,000	776,864	4.19%
Coonamble Shire Council	RAM	14,164,000	587,724	4.15%
Cootamundra Shire Council	RAL	12,499,000	535,215	4.28%
Gloucester Shire Council	RAM	9,669,000	591,457	6.12%
Gunnedah Shire Council	RAV	24,689,000	630,698	2.55%
Inverell Shire Council	RAV	27,693,000	1,311,262	4.73%
Junee Shire Council	RAL	10,456,000	562,175	5.38%
Liverpool Plains Shire Council	RAL	15,875,000	695,327	4.38%
Lockhart Shire Council	RAM	6,870,000	414,010	6.03%
Moree Plains Shire Council	RAV	34,409,000	637,824	1.85%

Council	ACLG Cl.	Total income from operations before capital amounts in \$	Total amount of cost shifting in \$	Proportion of cost shifting in relation to total income
Tenterfield Shire Council	RAL	12,120,000	576,933	4.76%
Tumut Shire Council	RAV	20,723,000	940,500	4.54%
Upper Hunter Shire Council	RAV	27,459,000	1,039,300	3.78%
Upper Lachlan Council	RAL	17,617,000	743,820	4.22%
Urana Shire Council	RAS	4,684,000	421,238	8.99%
Summary Rural		301,975,000	12,743,389	4.22%
Total sample		4,267,327,686	252,794,222	5.92%

DISCUSSION OF FINDINGS

The cost shifting ratio for the complete survey sample is 5.92% of total income before capital amounts. This ratio is consistent with ratios established for previous financial years (5.84% for the financial year 2005/06 and 5.95% for 2006/07). Ratios for individual councils range from approximately 2% to about 10%.

Table 2 outlines the final results of the three surveys undertaken so far by the LGSA (financial years 2005/06, 2006/07 and 2007/08) extrapolating the total amount of cost shifting onto Local Government in NSW by applying the established cost shifting ratios to total income from operations before capital amounts for all NSW councils.⁹

Table 2: Total amount of cost shifting onto NSW Local Government

Survey of financial year	Sample size (councils)	Cost shifting ratio in %	Total income from operations before capital amounts for all NSW councils in \$	Total amount of cost shifting onto NSW Local Government in \$
2007/08	65	5.92	7,280,361,566	431,284,746
2006/07	84	5.95	6,928,487,164	412,244,986
2005/06	84	5.84	6,502,482,000	379,744,949

As table 2 shows, in absolute terms, cost shifting on to NSW Local Government is estimated to have increased significantly from approximately \$380 million in 2005/06 and \$412 million in 2006/07 to approximately \$431 million in 2007/08.

The findings for each of the three groups of councils (metropolitan, urban regional and rural) are reasonably consistent in the last three financial years. The 2007/08 cost shifting ratio for the sample of metropolitan councils is 6.62% (6.1% for 2005/06 and 6.3% for 2006/07); 5.63% for urban regional councils (5.9% for 2005/06 and 6.0% for 2006/07) and 4.22% for rural councils (4.5% for 2005/06 and 4.5% for 2006/07). This group comparison also shows

⁹ The NSW Department 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 of all 152 NSW general purpose councils for the financial year 2007/08 on 15 June 2009. Income data for the financial year 2007/08 was not available from Warrumbungle Shire Council and was substituted with data from the previous financial year.

that metropolitan councils and, to a lesser extent, urban regional councils suffer more from cost shifting than rural councils.

The cost shifting ratios established by the survey can be regarded as conservative for several reasons.

Firstly, although councils were encouraged to add financially significant examples, councils basically worked within the 23 functional areas identified in the survey. The only additional areas accepted for a small number of councils refer to local emergency management (contribution to state emergency services) and maintenance of crown reserve land.

Secondly, 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.¹⁰

Thirdly, if councils were not able to reliably estimate the cost of individual areas of cost shifting these areas got a zero costing.¹¹

Lastly, and importantly, the survey excluded any capital expenditure related to the functional areas and comments were provided by many councils that the inclusion of capital expenditure would significantly increase the amount of cost shifting.

¹⁰ DG & AB Maxwell, *Corporate Overheads of Local Government*, (2006), page 14; Local Government Inquiry, *Interim Report: Findings and Options*, table 10.2, page 201.

¹¹ Unless returned surveys were rejected because cost estimates could not be provided in more than 25 per cent of the 23 functional areas.

APPENDIX A - LIST OF THE 23 FUNCTIONAL AREAS

1. Contribution to NSW Fire Brigade in \$.
2. Contribution to Rural Fire Service in \$.
3. Pensioners rates rebates.
Net cost in \$ incurred due to mandatory pensioners rates rebates (total amount of mandatory concession minus state reimbursement).

Note:

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).

4. Voluntary conservation agreements
Net cost in \$ incurred due to rate exemptions as a result of voluntary conservation agreements.

Note:

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.

5. Public library operations.
Cost in \$ 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. Do not include capital expenditure. Do not enter the total operational expenditure for libraries.

Note:

I.e. shortfall between actual State Government subsidies (i.e. the 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 (i.e. applying the original funding arrangement of a state subsidy of half the amount expended by council on the operation of libraries from rate income).

6. On-site sewerage facilities.
Cost in \$ of services/functions less any revenue related to them (fees, state government payments/subsidies). Do not include capital expenditure.

Note:

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

7. Administration of the Companion Animal Act (NSW) 1998.
Cost in \$ of services/functions less any revenue related to them (fees, state government payments/subsidies). Do not include capital expenditure.

Note:

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 Department of Local Government which returns only a small proportion of those fees to Local Government.

8. Administration of Contaminated Land Management Act (NSW) 1997.
Cost in \$ of services/functions less any revenue related to them (fees, state government payments/subsidies). Do not include capital expenditure.

Note:

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.

9. Functions under the Protection of the Environment Operations Act (NSW) 1997.
Cost in \$ of services/functions less any revenue related to them (fees, state government payments/subsidies).

Note:

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.

10. Functions as local control authority for noxious weed.
Cost in \$ of 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 management and control of noxious weeds. Do not include capital expenditure. Do not include cost of environmental weeds control.

Note:

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

11. Functions under the Rural Fires Act (NSW) 1997.
Cost in \$ of services/functions less any revenue related to them (fees, state government payments/subsidies). Do not include capital expenditure.

Note:

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).

12. Immigration services and citizenship ceremonies.
Cost in \$ of providing these services less any revenue related to them (fees, state government payments/subsidies).
13. Administering food safety regulation.
Cost in \$ of services/functions less any revenue related to them (fees, state government payments/subsidies).

Note:

Councils are required to undertake registration and inspection of food and food premises under the Food Act (NSW) 2003.

14. Provision of educational services.

Net cost in \$ of providing educational services due to the State Government's withdrawal from providing such services (e.g. sporting facilities used by public schools, education programs, classes for disadvantaged children in youth centres). Do not include capital expenditure.

Note:

Where facilities are used by other governments (e.g. public schools) please estimate the proportion of operation and maintenance cost allocated to the use by the other level of government (not the total cost of operating the facility).

15. Community safety.

Net cost in \$ of community safety services necessary because of insufficient services by other levels of government (e.g. CCTV surveillance, security patrols, crime prevention programs, community safety committees). Do not include capital expenditure.

16. Flood Mitigation program.

Cost in \$ 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 (originally the Australian Government and State Government provided 80% of the required funds; whereas now the Australian Government provides one third and the State Government is required to provide another one third, and the rest has to be made up by council).

Note:

I.e. shortfall in actual funding from other levels of government in comparison with what council would have obtained had the original funding level been applied (originally the Australian Government and State Government provided 80% of the required funds; whereas now the Australian Government provides one third and State is required to provide another one third, and the rest has to be made up by council).

17. Transfer of responsibilities for roads under recent RTA road reclassification reviews.

Net cost (only operational) in \$ inherited due to reclassification of regionally important roads as local roads or state-important roads as regional or even local roads.

18. 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). Do not include capital expenditure.

19. Road safety.

Net cost in \$ of road safety officer/road safety program necessary due to the State Government's (RTA) withdrawal of funding or cost of net contribution to other authorities that provide such officer/program. Do not include capital expenditure.

20. Community and human services.

Net cost in \$ of all programs necessary to the community where the State Government has initiated the program and initially provided adequate funds but now provides inadequate funds or has withdrawn completely; e.g. State Government contribution do

not increase in line with these actual costs (e.g. employment cost). Do not include capital expenditure.

Note:

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

21. Waste levy.

Cost in \$ of paying levy to the State Government dependant on the amount of waste produced by council less any amounts recovered through meeting waste performance criteria (section 88 of the *Protection of the Environment Operations Act (NSW) 1997* and *Protection of the Environment Operations (Waste) Regulations (NSW) 2005*) (applies only for Hunter, Central Coast, Sydney metropolitan area and Illawarra). Please provide estimate of net costs with respect to the 2007/08-scheme with a levy of \$38.60 per tonne (Sydney) and \$30.70 (other regions).

22. Sewerage treatment system license fee.

Cost in \$ of license fee, load based and administrative, to be paid to State Government in relation to sewer effluent discharge.

Note:

Councils are required to pay this fee as polluter under the Protection of the Environment Operations Act (NSW) 1997.

23. Waste management site license fee.

Cost in \$ of license fee (administrative fee, no load based fee) to be paid to State Government.

Note:

Councils are required to pay this fee council as polluter under the Protection of the Environment Operations Act (NSW) 1997.