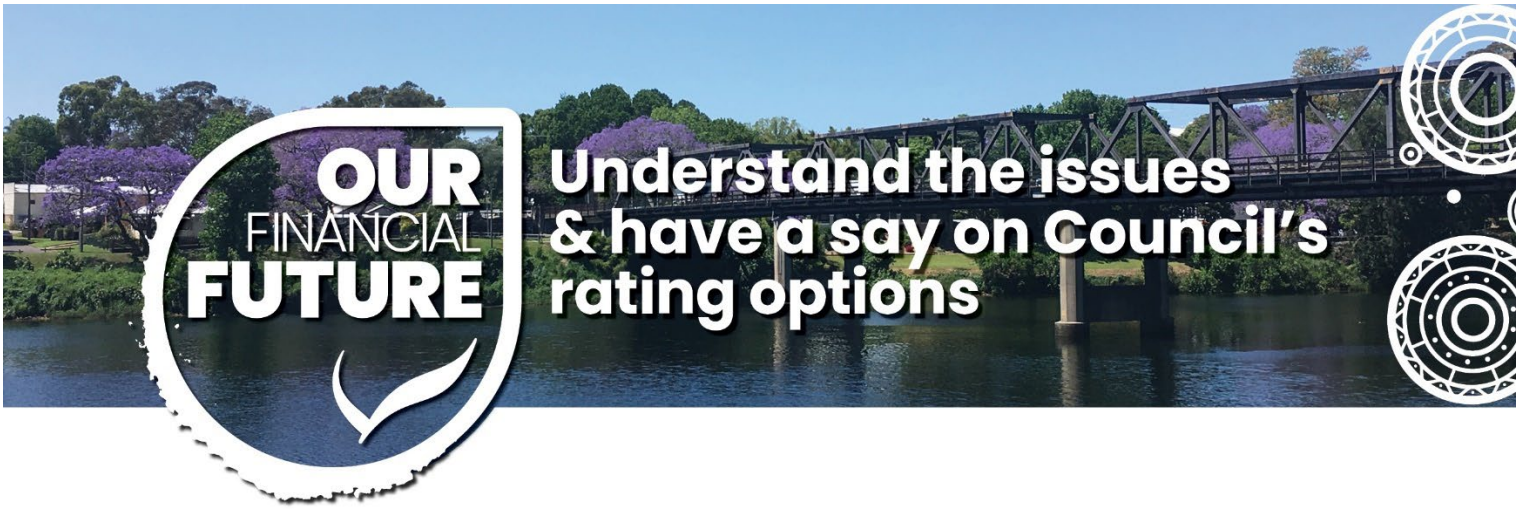


FACT SHEET 6 **Cost Shifting and Local Government**

WHAT IS COST SHIFTING?

Cost shifting – which occurs when the state or federal governments transfer, or 'shift' responsibility for providing a certain service, concession, asset or regulatory function to councils without providing sufficient implementation or maintenance funding to support that transfer – is one of the key pressures on the financial sustainability of local government, making it a critical issue for all councils.

HOW IS THE IMPACT OF COST SHIFTING MEASURED?

Local Government NSW (LGNSW), the peak organisation representing the interests of all councils in the state, have conducted a regular cost shifting survey since the 2005-06 financial year. The data is used to highlight the significance of cost shifting, and the consequences at a community level when impacts are not fully considered by other levels of government.

It is difficult to accurately measure the true impact of cost shifting because for many of the areas where Council must deliver a legislated service or pass on fees and charges to the users of affected services, there is an opportunity for Council to apply for grants to get a portion of the charges returned. This applies against the Waste Levy, noxious weed control, the Companion Animals Fund and Library infrastructure funding. These grants or subsidies are not guaranteed; take considerable Council resources to make applications, account for the financial transactions and complete reports proving how the funds were spent. This administrative burden is a hidden impact of cost shifting.

Impact of Cost Shifting on Local Government in NSW
LGNSW 2018 Report

Executive Summary

- Cost shifting is one of the most significant problems faced by councils in NSW. Along with rate capping, cost shifting undermines the financial sustainability of the local government sector by forcing councils to assume responsibility for more infrastructure and services, without sufficient corresponding revenue.
- For the past decade, LGNSW has monitored the cost of this practice to ratepayers. Despite recognition of its adverse impacts, cost shifting by the state and federal governments onto councils is now at its highest recorded level in NSW.

- LGNSW's latest survey puts cost shifting onto NSW councils in the 2015/16 financial year at $820 million. This is a $150 million increase on 2013/14 and takes the accumulated total cost shifting burden on councils to an estimated $6.2 billion since the survey began 10 years ago.
- LGNSW research shows another concerning trend: not only does cost shifting continue to grow, but it is also growing at an accelerated rate.
- The per annum cost shift has more than doubled in a single decade. LGNSW data shows this trend is being driven largely by state government policies, particularly the waste levy. The federal government is responsible for just 2% of the cost shifting burden borne by councils each year.
- Councils' cost shifting burden now exceeds the estimated annual infrastructure renewal gap of $500 million per annum (which is the gap between what councils need to spend on their existing infrastructure and what they can actually afford). Cost shifting is increasingly impeding local government's ability to deliver services and maintain infrastructure for communities.
- Metropolitan and regional councils were hardest hit, largely due to the impact of the NSW waste levy. However, the data shows cost shifting also continues to drain the tight budgets of councils in rural NSW.

NOTE: The latest LGNSW cost shifting survey was conducted in April- May 2023 and the final report is expected to be published before November 2023.

WHAT ARE THE COST SHIFTING ISSUES FACING RURAL COUNCILS?

Top cost shifting issues affecting Rural Councils	Description	Statewide Value per 2018 report	KSC Dollar value per 2023-24 Budget
 Emergency Services Levy	Cost imposed on councils and the insurance industry to fund the emergency services budget in NSW. Majority is paid by insurance premiums, 11.7% by Councils and 14.6% by state government. In 2023 the NSW Government stopped the previous practice of funding the council component of the annual increase, which had been done since 2019.	24% of income $16 million	$800,000 which includes the additional $369,000 effective from 2023-24
 Public Library Funding	Service must be delivered according to Library Act 1939. Library Council of NSW, in conjunction with staff at State Library of NSW provide guidance regarding application of the Act. Local Libraries receive subsidies approved by the Minister for the Arts. Library regulation 2018 determines local populations for subsidy amounts. The annual subsidy per capita amount increased from $1.85 in 2018 to $2.85 per head in 2022-23, a 54% increase in per capita subsidy payments for all councils.	15% of income $10 million	$1.2M to operate Council's three libraries

	Companion Animals Act	Councils are responsible for enforcing companion animal management according to the Companion Animals Act 1998, which sets legislation around pet registration, rehoming, fees and fines. Costs incurred by Council include ranger staffing, vehicles and equipment, administration burden through customer service, operating the pound and compliance services. Fees and charges applied by Council regarding the Act are paid to the NSW Government with the Companion Animal Welfare Fund distributing some funding back to councils.	13% of income $9 million	$50,000
	Waste Levy	Waste levy is charged to waste facility operators when waste is sent to landfill, acting as an incentive for reducing, reusing and recycling waste. A flat levy is charged regardless of the type of waste in landfill, and is $84 per tonne in regional areas. Around a third of the levy is spent on waste and environmental programs.	10% of income $7 million	$1.7M
	Pensioner Rebates	The NSW Government funds just 55% of pensioner rate rebates, with councils funding the remaining 45%. All other state and territory governments in Australia fund 100% of pensioner concessions.	9% of income $6 million	$600,000
	Holiday Parks	5% of total Holiday Park revenue is returned to government as a levy or tax.		$500,000
	Total			**$5.2M**

ADDITIONAL COST SHIFTING BURDENS FOR KEMPSEY SHIRE COUNCIL

- The federal government's decision to pause indexation to the Local Government Financial Assistance Grants (FAG) Program for the three years commencing 1 July 2014 resulted in decrease in grant revenue despite inflationary pressures. The cumulative effect of this will continue to impact into the future.

- Activities conducted by the Forestry Corporation such as timber logging has a significant impact on the wear and tear of Council assets, specifically our rural roads and timber bridges, increasing demands on our maintenance programs. State Forests are exempt from Rates, hence the deterioration of Council assets and the associated increase in maintenance costs is borne by the community.

- Changes to the Crown Land Management Act came into effect 1 July 2018 with the implementation of a new reserve management structure. The changes in legislation and new requirements have created an administrative burden for councils and a real cost in engaging consultants to assist with the preparation of updated Plans of Management for all Crown Land Reserves.

- Management of Underground Petroleum Storage Facilities, the NSW EPA transferred responsibility for the implementation and enforcement of the Underground Petroleum Storage System (UPSS) Regulation to local government from 1 September 2019, making Council responsible for several actions at an additional cost.