

Local Government  
Association of NSW



Shires Association  
of NSW

The Impact of Cost Shifting on NSW Local  
Government: A Survey of Councils  
- Financial Year 2010/11 -

Report by the Local Government and Shires  
Associations of NSW

2012

## KEY FINDINGS

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

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 2010/11 is estimated to amount to 5.72% of Local Government's total income before capital amounts or \$499 million.<sup>1</sup>

This ratio is consistent with ratios established for previous financial years (5.74% for the financial years 2009/10 and 2008/09; 5.92% for 2007/08; 5.95% for 2006/07; and 5.84% for 2005/06). In absolute terms, cost shifting is estimated to have increased significantly from \$380 million in 2005/06 to \$499 million on 2010/11.

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

The survey for 2010/11 continues including two cost shifting examples introduced in the previous survey for 2009/10 which are contained in question 24 (revenue raising restrictions on council managed Crown lands) and question 25 (shortfall in cost recovery for assessing development applications as a result of fee regulation). Inclusive of those two new examples, cost shifting is estimated to amount to 6.37% (6.38% in 2009/10) of Local Government's total income before capital amounts or \$555 million.<sup>2</sup>

## INTRODUCTION

The LGSA cost shifting survey is an annual survey which seeks to establish the extent of cost shifting by the Australian and NSW Governments 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 in the 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 the LGSA' cost shifting survey for the financial year 2010/11. 86 councils participated in the survey which was conducted during May to October 2012. 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 2006<sup>3</sup> and the surveys for the financial years 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 undertaken by the LGSA.<sup>4</sup>

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)*.

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<sup>1</sup> Includes cost shifting associated with the 2008 Local Government election, see below.

<sup>2</sup> Ibid.

<sup>3</sup> Independent Inquiry into the Financial Sustainability of NSW Local Government, *Final Report: Findings and Recommendations*, (2006), page 66-72

<sup>4</sup> See for survey reports the LGSA Website at [www.lgsa.org.au/policy/finance/cost-shifting-survey](http://www.lgsa.org.au/policy/finance/cost-shifting-survey).

## 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 sphere of government on to a lower sphere of government without the provision of corresponding funding or the conferral of corresponding and adequate revenue raising capacity.<sup>5</sup>

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*.<sup>6</sup> 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 spheres 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 spheres of government.<sup>7</sup>
- (The cost related to) 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 for the service/function.
- (The cost related to) the situation where, for whatever reason, another sphere of government ceases to provide or provides insufficient levels of a service/function it is responsible for and Local Government steps in because of community of demand for the service/function.

## PARTICIPATION

The survey for 2010/11 was provided online and was accessible to all 152 general purpose councils in NSW during a period of about ten weeks during May, June and July 2012. 86 councils completed the survey.

During August to November 2012, returned surveys were assessed and issues clarified with councils. Ten 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 25 functional areas.

Of the 76 councils included in the final sample, 26 are classified metropolitan; 30 urban regional and 20 rural.<sup>8</sup>

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<sup>5</sup> This description does not necessarily address the question of which sphere of government should be assigned a particular expenditure function.

<sup>6</sup> 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).

<sup>7</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>8</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 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 25 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 25 functional areas can be found as appendix A to this report.

Two new cost shifting examples continue being included 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 State Government on revenue raising ability on council managed crown reserve land or requirements to transfer revenue from council managed crown reserve land to the State 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 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>9</sup>

### **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.

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<sup>9</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.

## FINDINGS

Table 1 below shows the survey findings for individual councils and council groups for the financial year 2010/11.

**Table 1: Proportion of cost shifting in relation to total ordinary revenue for the sample of 76 NSW councils, 2010/11**

Council	ACLG Cl.	Total income from operations before capital amounts in \$	Excluding questions 24 and 25		Including questions 24 and 25	
			Total amount of cost shifting in \$	Proportion of cost shifting in relation to total income	Total amount of cost shifting in \$	Proportion of cost shifting in relation to total income
Metropolitan						
Ashfield Municipal Council	UDM	31,670,000	3,709,939	11.71%	4,046,002	12.78%
Bankstown City Council	UDV	128,112,000	15,333,389	11.97%	15,333,389	11.97%
Blacktown City Council	UDV	218,851,000	10,412,831	4.76%	11,781,157	5.38%
Botany Bay City Council	UDM	46,223,000	2,553,530	5.52%	4,098,090	8.87%
Burwood Council	UDM	31,827,000	3,127,626	9.83%	3,683,080	11.57%
Camden Council	UFM	54,652,000	3,544,201	6.49%	3,544,201	6.49%
Campbelltown City Council	UFV	121,231,000	5,664,365	4.67%	6,278,617	5.18%
Canada Bay City Council	UDM	61,590,000	3,156,987	5.13%	3,340,014	5.42%
Fairfield City Council	UDV	137,573,000	8,148,728	5.92%	9,138,713	6.64%
Hills Shire Council	UFV	121,429,000	8,808,937	7.25%	9,377,507	7.72%
Hornsby Shire Council	UFV	106,044,000	7,399,098	6.98%	8,499,098	8.01%
Hunters Hill Council	UDS	11,342,000	1,016,816	8.97%	1,286,425	11.34%
Kogarah City Council	UDM	41,685,000	3,528,518	8.46%	3,528,518	8.46%
Ku-Ring-Gai Council	UDL	94,231,000	7,052,253	7.48%	7,147,985	7.59%
Lane Cove Municipal Council	UDM	32,398,000	3,295,361	10.17%	4,615,361	14.25%
Leichhardt Municipal Council	UDM	74,489,000	4,441,566	5.96%	5,460,989	7.33%
Liverpool City Council	UFV	151,846,000	7,313,592	4.82%	7,385,092	4.86%
Parramatta City Council	UDV	159,052,000	8,657,423	5.44%	11,892,645	7.48%
Penrith City Council	UFV	164,790,000	9,404,848	5.71%	10,712,846	6.50%
Randwick City Council	UDV	112,749,000	8,773,661	7.78%	9,679,167	8.58%
Rockdale City Council	UDL	68,164,000	7,639,587	11.21%	7,639,587	11.21%
Strathfield Municipal Council	UDM	25,564,000	2,521,569	9.86%	2,734,207	10.70%
Sutherland Shire Council	UDV	177,748,000	14,266,191	8.03%	14,479,691	8.15%
Sydney City Council	UCC	468,654,880	11,759,646	2.51%	16,028,137	3.42%
Warringah Council	UDV	130,664,000	8,668,149	6.63%	8,668,149	6.63%
Willoughby City Council	UDM	85,414,000	7,093,052	8.30%	8,603,478	10.07%
Summary Metropolitan		2,857,992,880	177,291,863	6.20%	198,982,145	6.96%

Council	ACLG Cl.	Total income from operations before capital amounts in \$	Excluding questions 24 and 25		Including questions 24 and 25	
			Total amount of cost shifting in \$	Proportion of cost shifting in relation to total income	Total amount of cost shifting in \$	Proportion of cost shifting in relation to total income
Urban Regional						
Armida Dale Dumaresq Council	URS	43,030,000	2,079,551	4.83%	2,472,551	5.75%
Ballina Shire Council	URM	62,934,000	2,382,617	3.79%	2,382,617	3.79%
Bathurst Regional Council	URM	65,982,000	2,239,210	3.39%	2,326,328	3.53%
Bega Valley Shire Council	URM	71,468,000	2,248,900	3.15%	3,004,900	4.20%
Blue Mountains City Council	UFL	86,929,000	6,011,090	6.91%	7,225,070	8.31%
Clarence Valley Council	URM	100,061,000	4,440,327	4.44%	5,036,444	5.03%
Coffs Harbour City Council	URM	120,065,000	3,880,831	3.23%	4,398,367	3.66%
Dubbo City Council	URM	77,409,000	2,715,961	3.51%	3,227,713	4.17%
Gosford City Council	UFV	213,398,000	6,561,696	3.07%	6,703,329	3.14%
Great Lakes Council	URM	59,690,000	2,655,021	4.45%	3,813,390	6.39%
Greater Taree City Council	URM	47,883,000	3,433,062	7.17%	3,852,060	8.04%
Hawkesbury City Council	UFM	55,674,000	4,692,474	8.43%	4,741,239	8.52%
Kempsey Shire Council	URS	49,234,000	2,818,745	5.73%	3,296,960	6.70%
Kiama Municipal Council	URS	45,537,000	1,512,625	3.32%	1,612,625	3.54%
Lake Macquarie City Council	URV	166,035,000	15,060,242	9.07%	15,598,055	9.39%
Maitland City Council	URM	59,316,000	7,504,837	12.65%	7,504,837	12.65%
Newcastle City Council	URV	204,935,000	12,775,284	6.23%	13,391,403	6.53%
Orange City Council	URM	77,531,000	2,553,110	3.29%	3,364,810	4.34%
Port Macquarie-Hastings Council	URL	117,603,000	4,280,349	3.64%	4,392,315	3.73%
Port Stephens Council	URM	91,193,000	4,027,785	4.42%	4,827,785	5.29%
Queanbeyan City Council	URM	61,482,000	2,272,361	3.70%	2,608,747	4.24%
Shellharbour City Council	URM	61,968,000	5,946,076	9.60%	6,087,363	9.82%
Shoalhaven City Council	URL	172,793,000	9,753,935	5.64%	12,544,907	7.26%
Tamworth Regional Council	URM	104,873,000	3,509,259	3.35%	3,633,131	3.46%
Tweed Shire Council	URL	140,148,000	4,232,566	3.02%	4,232,566	3.02%
Wagga Wagga City Council	URM	137,960,000	2,539,767	1.84%	2,706,627	1.96%
Wingecarribee Shire Council	URM	73,089,000	3,653,285	5.00%	4,112,146	5.63%
Wollondilly Shire Council	UFM	36,845,000	2,711,703	7.36%	2,946,703	8.00%
Wollongong City Council	URV	209,126,000	20,105,763	9.61%	22,799,435	10.90%
Wyong Shire Council	UFV	207,826,000	17,327,335	8.34%	18,418,809	8.86%
Summary Urban Regional		3,022,017,000	165,925,767	5.49%	183,263,232	6.06%

Council	ACLG Cl.	Total income from operations before capital amounts in \$	Excluding questions 24 and 25		Including questions 24 and 25	
			Total amount of cost shifting in \$	Proportion of cost shifting in relation to total income	Total amount of cost shifting in \$	Proportion of cost shifting in relation to total income
Rural						
Bland Shire Council	RAL	23,191,000	811,944	3.50%	834,826	3.60%
Blayney Shire Council	RAL	10,667,000	451,327	4.23%	625,727	5.87%
Cabonne Shire Council	RAV	31,841,000	1,205,197	3.79%	1,255,197	3.94%
Gloucester Shire Council	RAM	12,639,000	773,073	6.12%	809,335	6.40%
Gunnedah Shire Council	RAV	32,581,000	1,430,242	4.39%	1,840,543	5.65%
Guyra Shire Council	RAM	10,347,000	570,095	5.51%	570,095	5.51%
Hay Shire Council	RAM	8,655,000	348,067	4.02%	348,067	4.02%
Inverell Shire Council	RAV	30,077,000	1,261,478	4.19%	1,581,541	5.26%
Junee Shire Council	RAL	11,726,000	492,656	4.20%	492,656	4.20%
Lachlan Shire Council	RAL	22,979,000	1,599,298	6.96%	1,819,298	7.92%
Liverpool Plains Shire Council	RAL	19,809,000	769,399	3.88%	769,399	3.88%
Moree Plains Shire Council	RAV	44,556,000	805,834	1.81%	834,842	1.87%
Muswellbrook Shire Council	RAV	32,576,000	935,456	2.87%	983,340	3.02%
Parkes Shire Council	RAV	33,071,000	1,230,452	3.72%	1,245,452	3.77%
Tumut Shire Council	RAV	27,143,000	1,062,000	3.91%	1,062,000	3.91%
Upper Lachlan Shire Council	RAL	21,411,000	776,002	3.62%	784,682	3.66%
Warren Shire Council	RAM	12,191,000	390,307	3.20%	436,213	3.58%
Wellington Council	RAL	20,543,000	809,984	3.94%	809,984	3.94%
Yass Valley Council	RAV	23,979,000	1,005,801	4.19%	1,130,835	4.72%
Young Shire Council	RAV	19,862,000	710,147	3.58%	806,978	4.06%
Summary Rural		449,844,000	17,438,759	3.88%	19,041,010	4.23%
<b>Total sample</b>		6,329,853,880	360,656,389	5.70%	401,286,387	6.34%

## DISCUSSION OF FINDINGS

### **Survey findings**

As shown above, the cost shifting ratio for the complete survey sample is 5.70% of total income before capital amounts. This ratio is consistent with ratios established for previous financial years (5.72% for 2009/10 and 2008/09; 5.92% for 2007/08 5.95% for 2006/07 and 5.84% for the financial year 2005/06). Including the new examples contained in questions 24 and 25, the ratio increases to 6.34% (6.35% in 2009/10) with question 25 alone adding \$38,024,742 to the sample cost shifting amount.

The findings for each of the three groups of councils (metropolitan, urban regional and rural) are reasonably consistent in the last four financial years. For 2010/11 the cost shifting ratio is:

- 6.20% for the sample of metropolitan councils (6.96% including the new examples 24 and 25; 6.98% for 2009/10) compared to 6.30% for 2009/10, 6.21% for 2008/09, 6.62% for 2007/08, 6.3% for 2006/07 and 6.1% for 2005/06;
- 5.49% for the sample of urban regional councils (6.06% including the new examples 24 and 25; 6.09% for 2009/10) compared to 5.47% for 2009/10, 5.44% for 2008/09, 5.63% for 2007/08, 6.0% for 2006/07 and 5.9% for 2005/06; and
- 3.88% for the sample of rural councils (4.23% including the new examples 24 and 25; 4.45% for 2009/10) compared to 4.04% for 2009/10, 4.11% for 2008/09, 4.22% for 2007/08, 4.5% for 2006/07 and 4.5% for 2005/06.

This group comparison shows that metropolitan councils and, to a lesser extent, 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, particularly, metropolitan councils to cost shifting associated with the waste levy (question 21) and the provision of public libraries (question 5). The table in appendix B shows the cost shifting ratio for each council group in the sample for each individual question.

By applying the established cost shifting ratio of 5.70% to the figure of total income from operations before capital for 2010/11 for all NSW councils (\$8,723,492,462),<sup>10</sup> the amount of cost shifting onto Local Government in NSW (i.e. all 152 general purpose councils) is calculated as being \$497,038,850. 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 \$553,033,109 (ratio of 6.34%).

Only a small portion of cost shifting can be attributed to the Australian Government (0.20% of total cost shifting or just over \$817,000 for immigration and citizenship ceremonies (question 12); about 0.35% of total cost shifting or just over \$1,384,000 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 which represent 3.28% of total cost shifting or just over \$13,163,000 (question 20)).<sup>11</sup> The remainder is attributed to the NSW Government.

### **Election cost**

Any estimate of cost shifting also needs to include cost shifting associated with making the NSW Electoral Commission (NSWEC) fully responsible for the provision of, and implementing a full cost recovery model for, the Local Government elections in 2008.<sup>12</sup> Election costs increased

<sup>10</sup> The NSW Department of Premier and Cabinet, Division 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 2010/11 on 26 September 2012.

<sup>11</sup> Calculation based on baseline plus questions 24 and 25 scenario.

<sup>12</sup> In 2003/2004, following review of the State Electoral Office by the NSW Council on the Cost and Quality of Government, the NSW Government required the NSWEC to charge the full cost of providing Local Government elections. As part of this change the NSWEC became fully responsible for the provision of elections. This commenced after the 2004 Local Government elections with Local Government by-elections from that point being conducted by the NSWEC on a full cost recovery basis. The 2008 Local Government elections were the first occasion the full cost recovery model was implemented across NSW in a general Local Government election.



significantly in comparison to the 2004 elections and there are significant concerns over the lack of disclosure and explanation of the cost charged to councils by the NSWEC.<sup>13</sup>

For the purpose of estimating the cost shifting involved in the running of the 2008 elections, the survey firstly focussed on selected items in the NSW Electoral Commission's expenditure<sup>14</sup> that appear either not to have been necessary and/or efficient or lack transparency as to whether they were necessary and/or efficient. The following expenditure items were included:

- Overcharging associated with the NSWEC Administration Fee: \$1,200,635  
The NSWEC charged councils an administration fee of \$2,295,890. According to the NSWEC, this fee was based on resources of 18 staff for 19 weeks and 35 hours a week<sup>15</sup>; i.e. an hourly staff rate of 191.80. Apart from the fact that it is unclear what this fee was charged for, it appears to be overstated. The average hourly staff rate of NSWEC staff, according to its annual report 2008/09, was \$91.50 which the survey assumes as efficient cost.<sup>16</sup> Applying the efficient hourly staff rate of \$91.50, the administration fee should have been \$ 1,095,255. This amounts to an overcharging of \$1,200,635.
- Overcharging associated with payroll processing: \$293,440  
According to the NSWEC, the cost for payroll processing was \$293,440. However, it is assumed that the cost of processing of payroll should be covered by the administration fee mentioned above. Therefore, the total amount is considered cost shifting.
- Unnecessary charging for maintenance of electoral rolls: \$367,740  
Electoral rolls are maintained for federal and state election. No further costs are involved in using these rolls for Local Government elections.<sup>17</sup>

Secondly, the survey also considers as cost shifting the failure to return revenue from penalty notices to Local Government, amounting to \$7,188,335. Revenue from penalty notices should be returned to the Local Government area they were issued in as the NSWEC is to fully recover its cost from charging councils and does not require any additional revenue for the running of Local Government elections. Revenue from penalty notices has not been returned and neither NSWEC nor NSW Treasury has provided any information on revenue collected. According to the NSWEC, 398,489 penalty notices were issued and 130,697 of those referred to the State Debt Recovery Office<sup>18</sup> with the penalty amount being \$55 per notice.<sup>19</sup> Assuming 130,697 recoverable penalty notices, this represents potential gross revenue of \$7,188,335. In the absence of any disclosure of actual revenue from penalty notices by the NSWEC, the full gross amount is regarded as cost shifting.

In total, this amounts to cost shifting associated with the 2008 Local Government elections of \$9,050,150. Spreading this amount over the electoral cycle of four years, the annual amount is \$2,262,537.<sup>20</sup> This annual amount is to be added to the amount of cost shifting identified in the survey of \$497,038,850 (\$553,033,109 including the new questions 24 and 25) taking the total

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With the election of the O'Farrell Government this policy was changed and council can run election again by themselves as of June 2011. Calculated election costs will therefore only be included over the four relevant financial years 08/09, 09/10, 10/11 and 11/12.

<sup>13</sup> See LGSA, Submission to the Inquiry into 2008 Local Government Election, (June 2009) and supplementary submission (September 2009).

<sup>14</sup> Total itemised expenditure for the 2008 Local Government Election was not available from the NSWEC and was calculated by LGSA on the basis of individual council invoices and expenditure items therein as disclosed in NSWEC, Report on the Local Government Elections 2008, (2008), appendix 14.

<sup>15</sup> Letter from the NSWEC to LGSA of 28 July 2008.

<sup>16</sup> See for the methodology: LGSA, Submission to the Inquiry into 2008 Local Government Election, (2009), pages 10ff. Total employee related expenses for the NSWEC in 2008/09 amounted to \$5.995m with 36 permanent staff employed (NSWEC, Annual Report 2008/09, pages 62 and 85). This represents an hourly staff rate of \$91.50 (52 weeks and 35 hours per week).

<sup>17</sup> It needs to be noted that Local Government already carries the cost of maintaining non-residential rolls (i.e. register of land owners who do not reside in council area) and thus participate in the cost for electoral rolls.

<sup>18</sup> See NSWEC, Report on the Local Government Elections 2008, (2008), page 127. According to this report, across NSW 672,794 electors failed to vote at the 2008 Local Government elections (page 126).

<sup>19</sup> See section 314 of the *Local Government Act (NSW) 1993* and section 17 of the *Crimes (Sentencing and Procedure) Act (NSW) 1999* and section 120C of the *Parliamentary Electorates and Elections Act (NSW) 1912*.

<sup>20</sup> It needs to be noted that the calculation of cost shifting associated with the 2008 Local Government elections does not take into account in kind contributions by councils for work that should have been performed by the NSWEC.

amount of cost shifting to \$499,301,387 (ratio of 5.74%) or \$555,295,646 including the new questions 24 and 25 (ratio of 6.38%).

### Final results

Table 2 outlines the results of the surveys undertaken so far by the LGSA (financial years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11).

**Table 2: 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 <i>Survey baseline (questions 1 to 23)</i>	Ratio and total amount of cost shifting <i>Baseline plus 2008 election cost shift</i>	Ratio and total amount of cost shifting <i>Baseline plus questions 24 and 25</i>	Ratio and total amount of cost shifting <i>Baseline plus questions 24 and 25 and 2008 election cost shift</i>
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**
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 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, \$412 million in 2006/07, \$431 million in 2007/08, \$440 million in 2008/09, and \$471 million (\$524 million including the new questions 24 and 25) in 2009/10 to approximately \$499 million (\$555 million including the new questions 24 and 25) in 2010/11.

### 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 25 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>21</sup>
- If councils were not able to reliably estimate the cost of individual areas of cost shifting these areas got a zero costing.<sup>22</sup>
- Lastly, and importantly, the survey, for most functional areas questioned, 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.

<sup>21</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>22</sup> Unless returned surveys were rejected because cost estimates could not be provided in more than 25 per cent of the 25 functional areas.

## **APPENDIX A - LIST OF THE 25 FUNCTIONAL AREAS**

1. Contribution to NSW Fire Brigade.
2. Contribution to NSW Rural Fire Service.
- 2a. Contribution to NSW State Emergency Service.
3. Pensioners rates rebates.  
Net cost in \$ incurred due to mandatory pensioners rebates for rates and charges (total amount of mandatory concession minus state reimbursement). Please do not include in your calculation rebates for water supply and sewerage charges as these charges are subject to a separate fund and cost can be recovered across all users.

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.

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 (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).

Do not include capital expenditure. Do not enter the total operational expenditure for libraries. Please explain if your figure is larger than half the expenses from continuing operations for public libraries in special schedule 1 of your financial statements.

6. Shortfall in cost recovery for regulation of on-site sewerage facilities.  
Cost in \$ of services/functions less any revenue related to them (fees, state government payments/subsidies). Please only include necessary costs that cannot be recovered as a result of regulatory constraints. Do not include capital expenditure.

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

7. Shortfall in cost recovery for 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.

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. Shortfall in cost recovery for 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.

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. Shortfall in cost recovery for 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).

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. Shortfall in cost recovery for functions as 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 on land other than council land. Do not include cost of other environmental weeds control or general bushland care. If contracted, please include the proportion of cost of bush regeneration contract that fulfils council's responsibility under the noxious weed legislation. Do not include capital expenditure.

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. Please do not include the contributions to the Rural Fire Service and NSW Fire Brigade covered in questions 1 and 2.

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). Please include 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.

12. Immigration services and citizenship ceremonies.

Cost in \$ of providing these services less any revenue related to them (fees, state government payments/subsidies).

13. Shortfall in cost recovery for administering food safety regulation.

Cost in \$ of services/functions less any revenue related to them (fees, state government payments/subsidies). Please only include necessary costs that cannot be recovered as a result of regulatory constraints.

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 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). Do not include capital expenditure.

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 sphere of government (not the total cost of operating the facility).

15. Community safety.

Net cost in \$ of community safety services in public spaces necessary because of insufficient services by other spheres of government (e.g. CCTV surveillance, security patrols, crime prevention programs, community safety committees).

Please note that this only applies to crime prevention or policing activities that should have been undertaken by the state government (e.g. police). It should not include council activities to protect community from other risks (e.g. surfer and swimmer injuries (beach patrols), safety at council events, or security of council facilities). Do not include capital expenditure.

16. Flood Mitigation program.

Cost in \$ representing the proportion of expenditure that was not funded by other spheres 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). Please estimate shortfall in actual funding from other spheres of government in comparison with what council would have obtained under the original funding arrangement.

Please only include activities that are eligible for or receive funding from other spheres of government under the flood mitigation program. Please include in your calculation funding for infrastructure projects.

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 spheres 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 other spheres 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); i.e. the shortfall between adequate and actual funding for such programs that were initiated by other spheres of government. Do not include capital expenditure.

Community and human services include children service program, aged and disabled care programs, community development/liason 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).

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).

Please provide estimate of net costs with respect to the 2010/11-scheme with a levy of \$70.30 per tonne (Sydney metro), \$65.30 (extended regulated area), and \$20.40 (regional regulated area).

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.

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.

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

24. Taking away of revenue from crown reserve land under council management

Cost in \$ associated with the State Government taking over allowable revenue raising activities on council managed crown reserve land or with requirements to transfer revenue from council managed crown reserve land to the State Government. Please note that this does not represent the total net cost of managing (maintaining) crown lands.

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 are considered cost shifting.

Please do not include in your calculation any surplus revenue over and above the total amount of maintenance and improvement cost for all of your crown reserve land.

25. Shortfall in cost recovery for 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).

Please estimate the amount of costs of processing development applications that cannot be recovered through development application fees or any other related income. Please 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 2010/11 - Cost shifting ratio for council group (metropolitan, urban regional, and rural) for individual cost shifting examples

