

ITEM-26 LMM 13/12/2022 - FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT

MOTION:

That City of Newcastle:

1. Notes strongly held concerns regarding the financial sustainability of the local government sector.
2. Acknowledges the causes of those concerns are many and complex, being structural, policy related and political, including but not limited to, rate capping, cost shifting, shifting community expectations and devastating natural disasters.
3. Notes the most up-to-date data from Local Government NSW's report " *Impact of cost-shifting on local government in NSW*" shows a shift of costs from state to local government totals more than \$820 million in 2018, and more than \$6.2 billion since 2008.
4. Notes the difficulties already faced by councils in relation to their long-term financial sustainability and service and infrastructure delivery, particularly following year-on-year multiple natural disasters and a world-wide pandemic and recognizes the increased costs such events place on councils, in addition to the continued attempt by state government to shift its costs and responsibilities, as was recently announced regarding RFS Assets.
5. Calls on the NSW State Government and Labor Opposition to commit to the recommendations of that LGNSW report, including:
 - a) End cost shifting immediately: Make a commitment that no new, increased or transferred responsibilities will be imposed on local government without a sufficient, corresponding source of revenue or revenue-raising capacity. This could be achieved immediately by amending the NSW Government's Policy Proposal Evaluation guidelines to include specific requirements for agencies when developing regulation involving local government.
 - b) Return 100% of income from the waste levy to councils in NSW: Just 18% of the waste levy collected from local government by the NSW Government is returned to councils for community waste minimisation and recycling programs. We call for 100% of the levy to be returned to local government.
 - c) Sustainable funding for public libraries: Increase total state government public library grants and subsidies to meet the current and future demand for library services. Bookings to use the internet in public libraries alone hit 9.4 million in 2015/16 – an increase of four million bookings in just four years. Demand for library services will continue to increase due to rapid population growth.
 - d) Reimburse councils for mandatory pensioner rate 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. LGNSW's position is that, as a welfare measure, pensioner concessions should be managed, funded and financed by other spheres of government with broader taxation bases; i.e. the NSW and/or federal government.
 - e) Introduce fairer emergency services funding: Introduce a broad-based property levy to replace both the Emergency Services Levy on insurance policies and the 11.7% Emergency Services Levy on local government. Revisit the state government's (deferred) Fire and Emergency Services Levy legislation as promised, and work with local government and the business community to make it fairer and more transparent.

- f) Greater financial independence: Allow councils to raise revenue as they see fit through levies, value capture, voluntary planning agreements, fees and charges.

BACKGROUND:

The range of services delivered by councils is growing and changing. Local government is no longer confined to the essential services of rate collection, road infrastructure and waste disposal. Councils are also now actively engaged in the policy areas of liveable communities, circular economy, smart cities, and pandemic recovery. This expanding service delivery is against a backdrop of finite resources and increased need to remediate, and sometimes completely rebuild, large-scale community infrastructure due to impacts from extreme weather events and climate change. Improved dialogue is required between Commonwealth and State Governments to address the growth in cost shifting and provide more optimal outcomes for the communities they serve.

Cost-shifting occurs when the responsibility for or merely the cost of, providing a certain service, concession, asset or regulatory function is shifted from one sphere of government to another, without corresponding funding or revenue raising ability required to deliver that new responsibility.

Cost-shifting is the one of the most significant problems faced by councils in NSW. It undermines the financial sustainability of the local government sector by forcing councils to assume responsibility for more infrastructure and services, without sufficient corresponding revenue.

Cost-shifting by the state and federal governments is at an all time high, despite recognition of its adverse impacts. A recent report was completed in 2018 on this issue by Local Government NSW, titled '*Impact of cost-shifting on local government in NSW 2018*'. Using the latest cost-shifting data for NSW Councils, the report found \$820 million in cost-shifting onto NSW councils in the 2015/2016 financial year. The report also found a concerning trend, that is, not only does cost-shifting continue to grow but it is growing at an accelerated rate.

A number of factors have contributed to this high trend of cost-shifting faced by local councils, including more recently:

- Rising inflation, which has increased the costs of products, materials and even petrol.
- A consistently low rate peg of 0.7%, recently increased to 2.5% despite the currently level of inflation of 7.3%, with this rate cap increasing based on a measure of population growth for councils. While IPART has recognised that this rate peg has created a number of issues for councils in terms of its revenue raising capabilities and has allowed councils to apply for Special Rate Variations, this is not a sustainable outcome for communities. It is not appropriate for councils to create revenue by unfairly increasing rates for residents because the state government is failing local government and communities across NSW. It is noted IPART are currently undertaking a review of the rate-pegging methodology.
- A lack of adequate stimulus being provided by the state and local government throughout the pandemic. It should also be noted that Councils were left out of JobKeeper.
- A lack of appropriate and ongoing support from the state and federal governments to deal with environmental challenges being posed by councils across NSW, whether it be droughts, fire, floods coastal erosion and rising sea levels, which have devastated communities across NSW, including our own communities in the Newcastle LGA. One off grants are not adequate, there must be an ongoing commitment by this Government to address these issues of climate change and put in place mitigation plans.

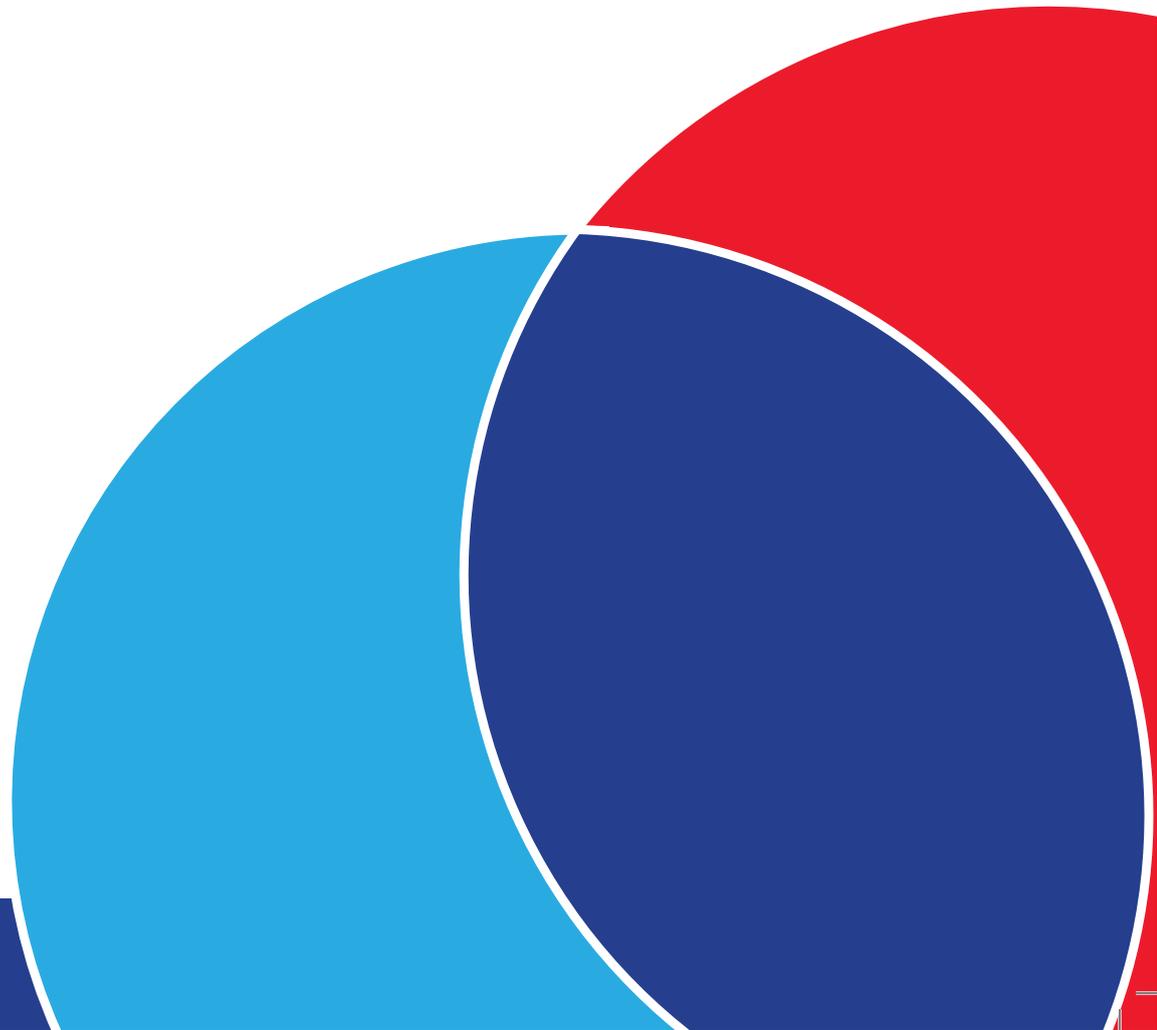
- An increase in the Emergency Service Levy. There must be a commitment to address this issue and provide a permanent solution.
- Waste Levy - Returning a greater share of the income from the Waste Levy to all NSW Councils. Conclusions provided by the NSW Audit Office are that only one third of \$750 million collected in 2019/20 as part of the levy, which was designed to promote recycling initiatives and reduce landfill, was actually spent on projects the levy was intended for.

ATTACHMENTS:

1. Local Government NSW, titled '*Impact of cost-shifting on local government in NSW 2018*'
2. LGNSW Policy Platform, April 2022, page 7 "*1. Financial Sustainability*".

IMPACT OF COST SHIFTING ON LOCAL GOVERNMENT IN NSW

2018



ABOUT LGNSW

Local Government NSW (LGNSW) is the peak organisation representing the interests of all 128 general purpose councils in the state, as well as special purpose councils and related entities.

Our aim is to strengthen and protect an effective, democratic system of local government across NSW and deliver quality services to our members.

LGNSW achieves this by:

- actively and persuasively representing the views of local government to the NSW and Australian governments
- providing effective, responsive and accountable leadership to member councils
- providing a comprehensive range of high-quality services and policy advice to members
- increasing the capacity of local government to deliver quality services and meet the growing needs of communities across NSW
- building awareness and trust in the important role of local government in shaping liveable, effective and prosperous communities in NSW.

THIS REPORT

The LGNSW cost shifting survey is undertaken every two years to monitor, measure and report on the extent of cost shifting onto local government in NSW. LGNSW uses the data to highlight the adverse consequences government regulation can have at the community level, when impacts on local government are not fully considered. LGNSW calls for an end to cost shifting by state and federal governments to allow communities in NSW to prosper.

This is the latest cost shifting data for NSW councils. There is an unavoidable lag between collecting and publishing data (exacerbated this year by the complexity of segregating data due to council amalgamations).

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, it is 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.
- Of the councils that participated in the survey, the following were most affected:

Top five NSW councils hardest hit by cost shifting (2015/16)		Annual amount cost shifted (15/16)
1	Ashfield Council (now Inner West Council)	17% of income (\$6.5 million)
2	Cessnock City Council	16% of income (\$11.3 million)
3	Maitland City Council	16% of income (\$13.9 million)
4	Hunters Hill Council	15% of income (\$2.1 million)
5	Bankstown City Council (now Canterbury-Bankstown Council)	14% of income (\$20.9 million)

Cost shifting amounts are calculated on total income before capital amounts for individual councils.

Before capital spend equals the total income received by councils from continuing operations, less grants and contributions provided for capital purposes, and less profit from disposal of assets and interests in joint ventures and associates as shown in the income statement of council financial statements.

- This summary report contains a breakdown of the councils most affected by cost shifting on a geographic basis - metropolitan, regional and rural NSW – as well as the budgetary impacts.

\$6.2 billion
The total cost shifting burden on councils over 10 years

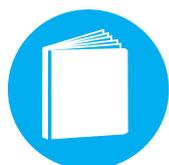
The most significant examples of cost shifting in 2015/16:



The **waste levy** is the single biggest contributor to cost shifting in NSW, particularly for metropolitan and regional councils. (Most rural councils are exempt, except in the north coast of NSW). In 2015/16 **\$305 million** was lost because the NSW Government did not fully reinvest the waste levy, paid by councils, back into local government environmental programs.



Councils paid **\$127 million** in mandatory local government contributions to fund the state government's emergency service agencies. The **Emergency Services Levy** was the number one contributor to the cost shifting burden on rural councils, the second highest for regional councils and third highest for metropolitan councils in 2015/16.



The NSW Government makes the lowest per capita contribution to **public libraries** of any state/territory government in Australia at just \$3.76 per capita. Councils footed the bill for a **\$130 million** shortfall in funding required to operate the state's 450 public libraries.



Councils lost **\$61 million** through the NSW Government's failure to fully reimburse councils for mandatory **pensioner rate rebates**, unlike all other state/territory governments in Australia.



Councils incur significant costs for activities required to meet **regulatory burdens** associated with companion animals, noxious weeds, flood controls and other activities.

Quality government regulation can, and should, lift up local communities and support economies; not deplete them. LGNSW calls on the NSW and Australian governments to end cost shifting immediately to support the viability of councils and communities across NSW.

Further details, including the methodology used in the 2018 LGNSW Cost Shifting Survey, are available on the LGNSW website: lgnsw.org.au

WHAT IS COST SHIFTING?

Cost shifting occurs when the responsibility for, or merely the cost of, providing a certain service, concession, asset or regulatory function is shifted from one sphere of government to another, without corresponding funding or revenue raising ability required to deliver that new responsibility.

Cost shifting forces councils to divert ratepayers' funds away from much-needed local infrastructure projects, to meet additional demands placed on them by state and federal governments.

THE BURDEN OF COST SHIFTING ON NSW COUNCILS

Cost shifting by the Australian and NSW Governments on to NSW councils in 2015/16 is estimated to be \$820 million, or 7.5% of local government's total income (before capital amounts).

Over the past decade, the cost shifting burden on councils has increased by an estimated \$440 million (from \$380 million or 5.8% of total income in 2005/06 to \$820 million or 7.5% of councils' total income in 2015/16). This brings the cost shifting figure to an estimated \$6.2 billion over 10 years.

Impact of cost shifting on NSW councils over 10 years

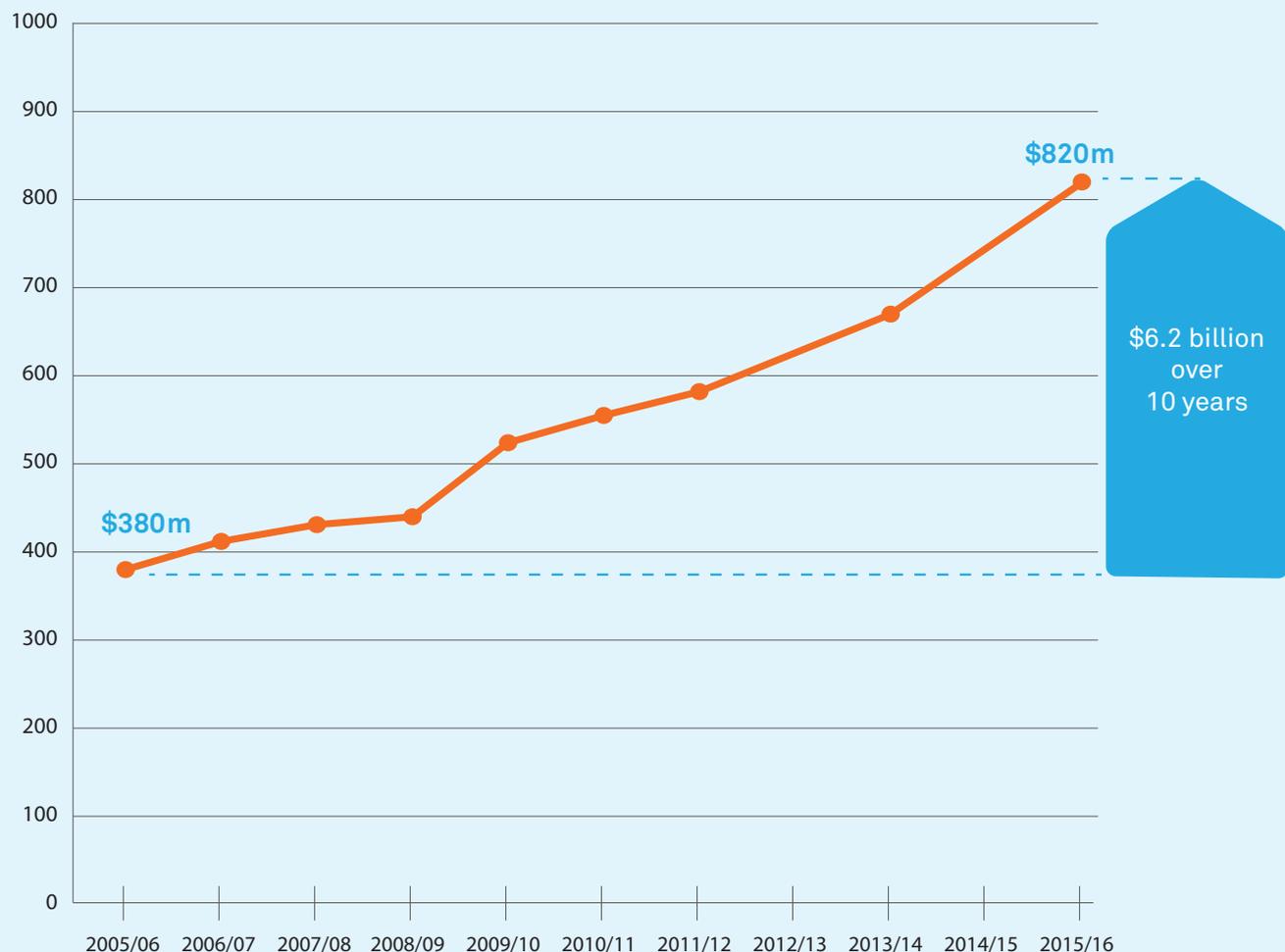


Figure 1: dollar value of cost shifting onto NSW local government 2005/06 - 2015/16 (before capital spend)

Councils were surveyed every year from 2005/06 until 2011/12 and every two years from 2011/12 to 2015/16. The survey establishes the total amount of cost shifting based on council estimates of net ongoing costs (excluding capital expenditure) in each of the 26 functional areas identified in the survey. A list of the 26 functional areas and details of the survey methodology are available on the LGNSW website: lgsw.org.au

Ratio of cost shifting by state and federal governments

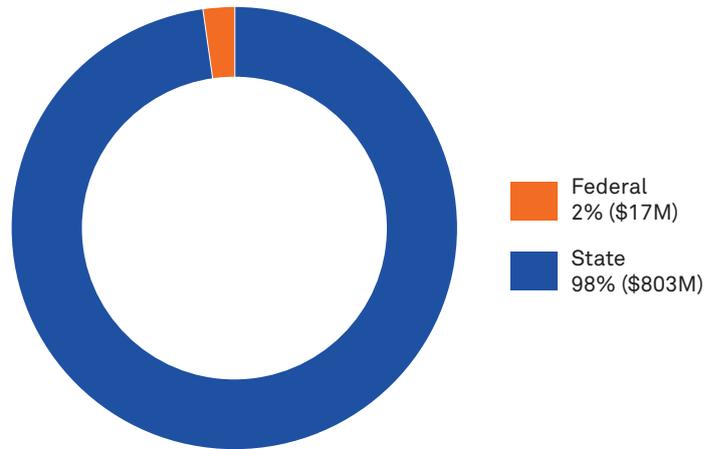


Figure 2: percentage of cost shifting on local government attributed to the NSW and Australian Government 2015/16

NSW COUNCILS MOST AFFECTED BY COST SHIFTING

The 10 councils most affected by cost shifting

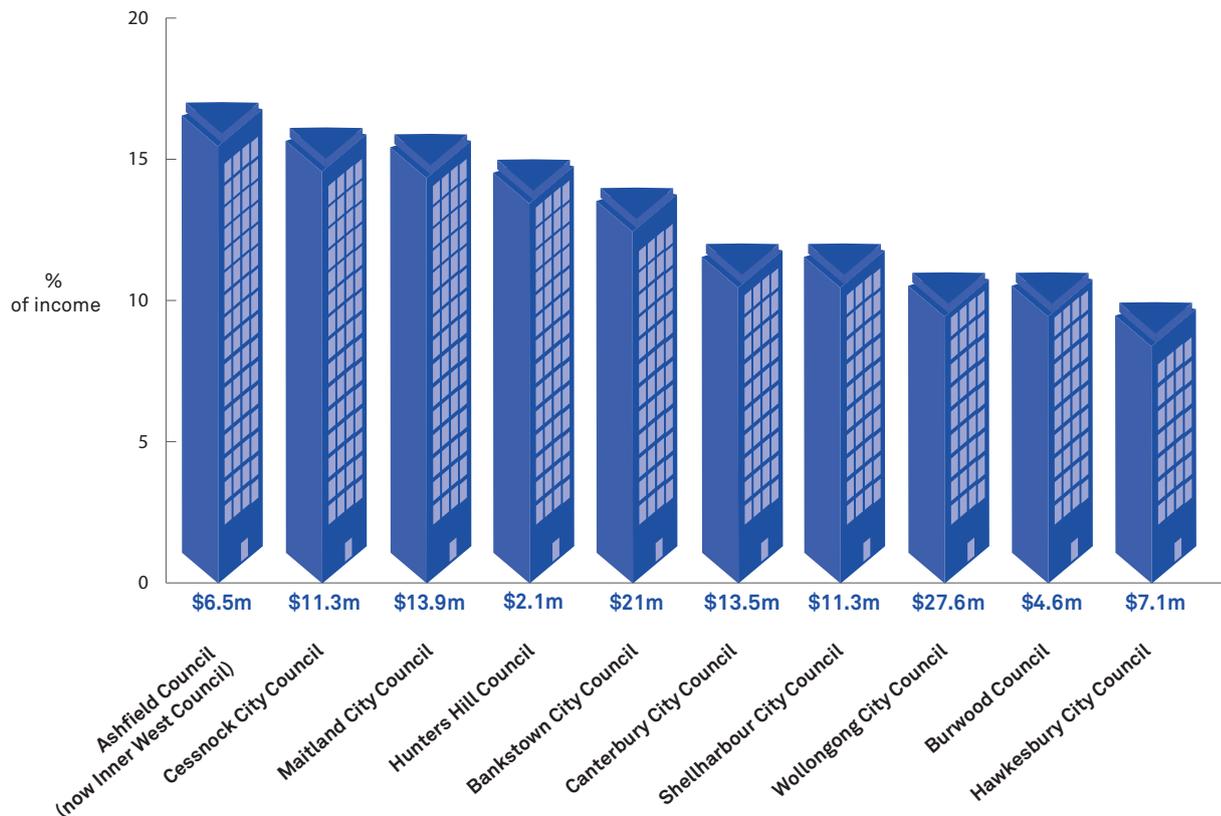
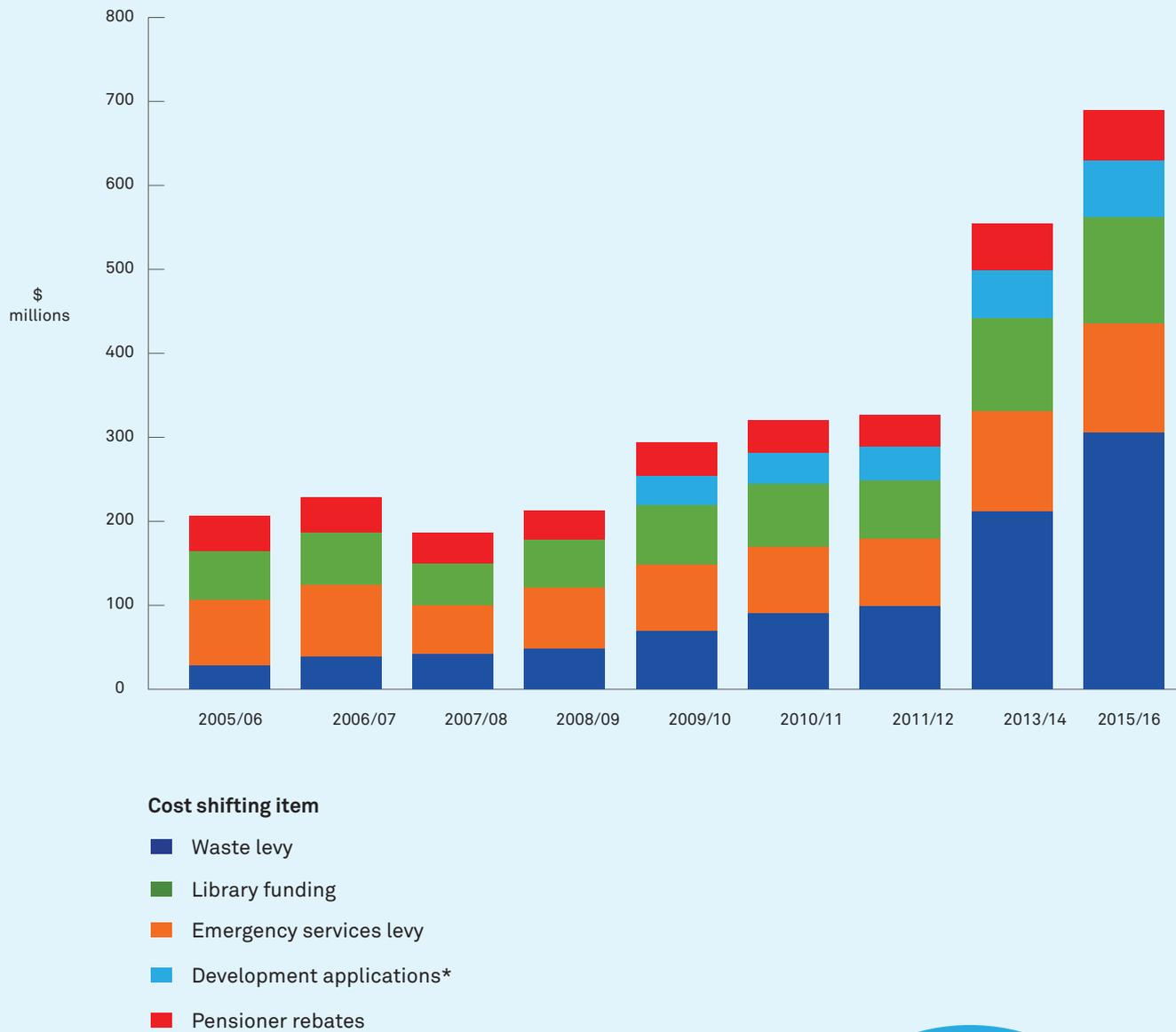


Figure 3: percentage of council income diverted due to cost shifting by other spheres of government and dollar impact on each council 2015/16

Cost shifting amounts are calculated on total income before capital amounts for individual councils in the total survey sample (metropolitan, urban regional and rural councils) for 2015/16.

WHAT DRIVES COST SHIFTING IN NSW?

Top cost shifting issues affecting councils over 10 years



* Not surveyed prior to 2009/10

Figure 4: dollar value of cost shifting items as reported by individual councils 2005/06-2015/16

The waste levy increased councils' costs by **44%** over the years 2013/14 to 2014/15

SYDNEY COUNCILS

The five metropolitan councils most affected by cost shifting

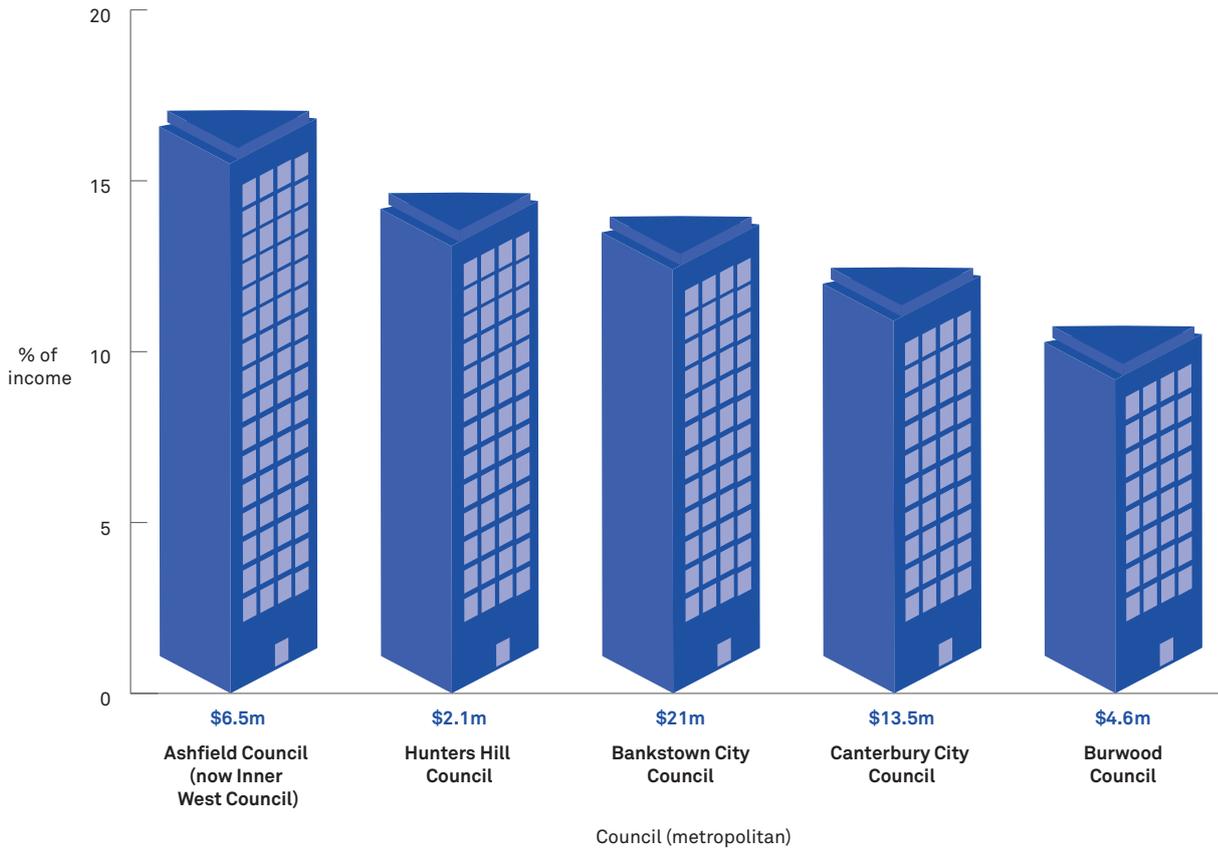


Figure 5: percentage of total income (before capital amounts) spent on cost shifting expenses, and dollar impact on each council 2015/16

WHAT DRIVES COST SHIFTING FOR METROPOLITAN COUNCILS?

Top five cost shifting issues affecting metropolitan councils

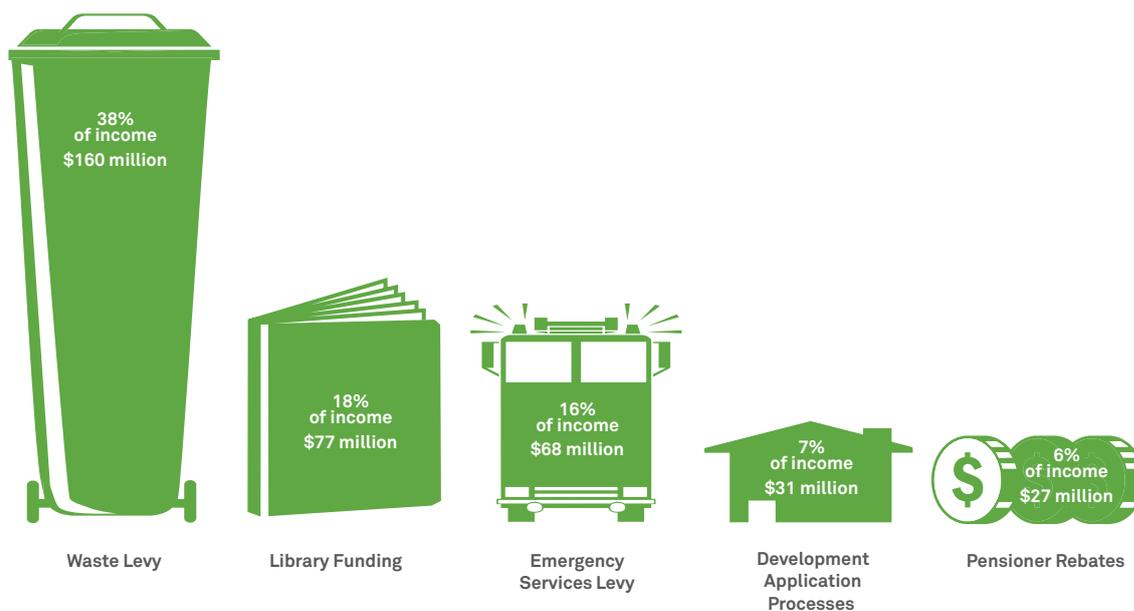


Figure 6: dollar value of cost shifting issues for metropolitan councils, and percentage of total metropolitan cost shifting 2015/16

REGIONAL COUNCILS

The five regional councils most affected by cost shifting

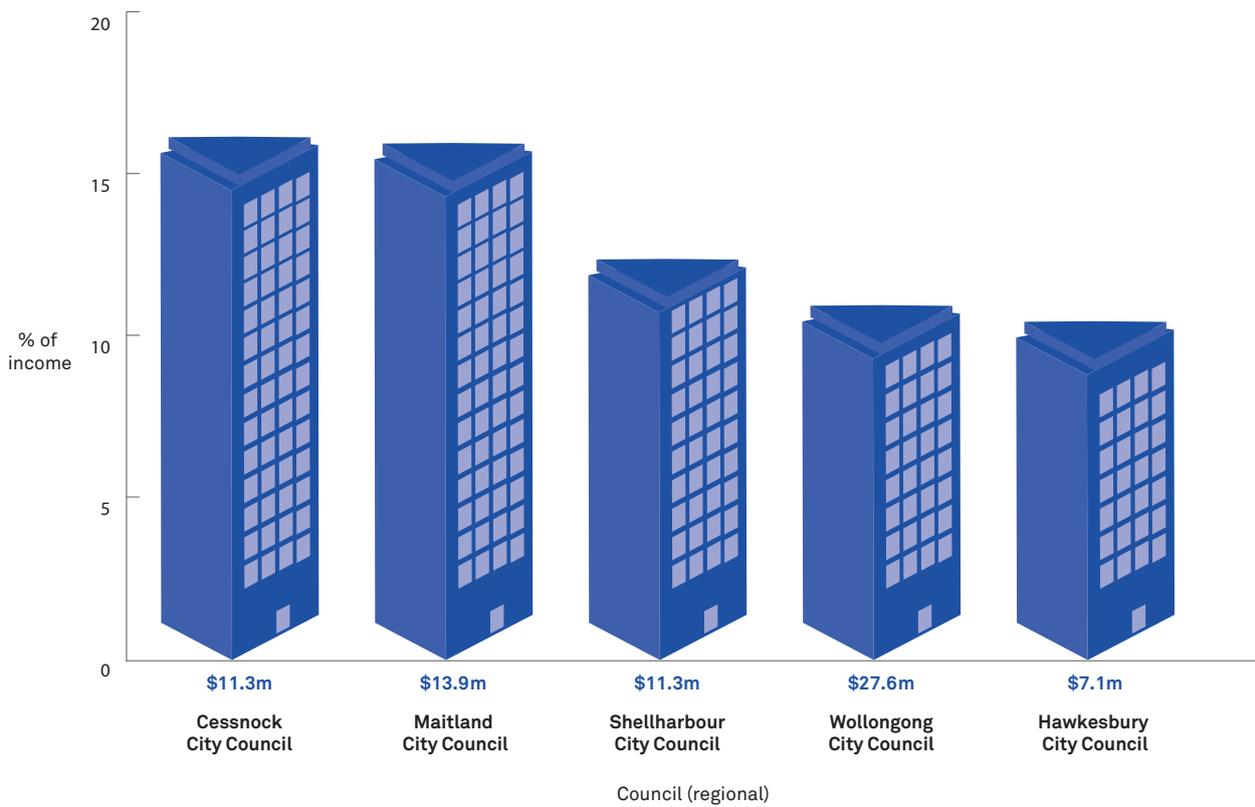
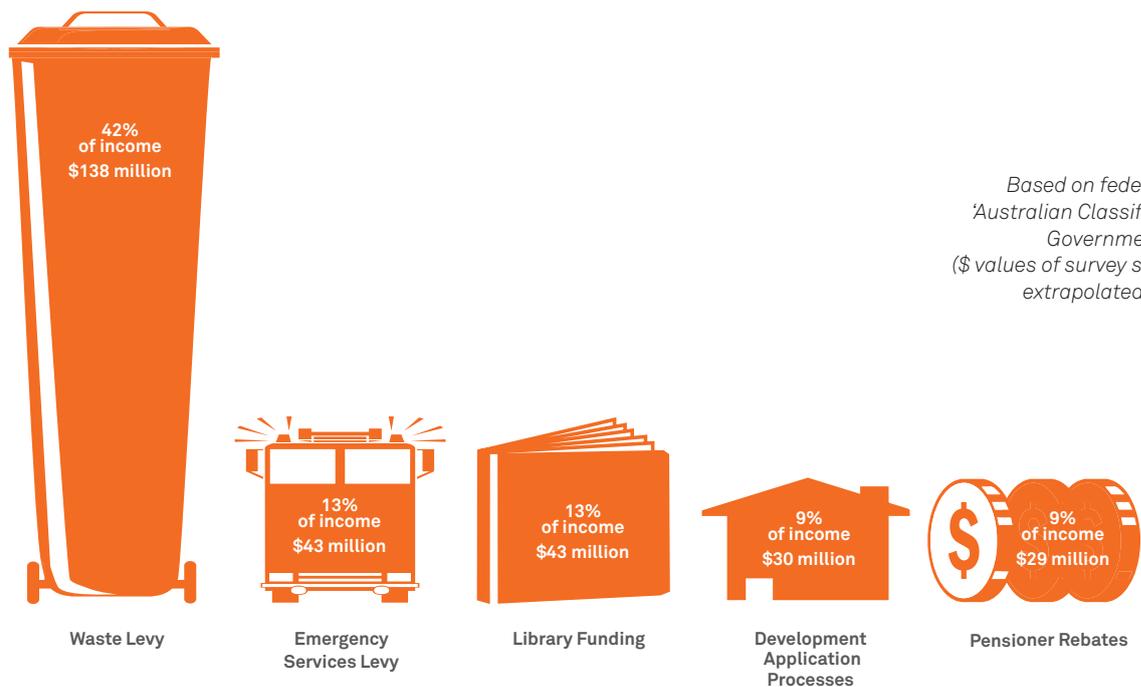


Figure 7: percentage of total income (before capital amounts) spent on cost shifting expenses, and dollar impact on each council 2015/16

WHAT DRIVES COST SHIFTING FOR URBAN REGIONAL COUNCILS?

Top five cost shifting issues affecting urban regional councils



Based on federal government 'Australian Classification of Local Governments' categories. (\$ values of survey sample councils extrapolated to all councils)

Figure 8: dollar value of cost shifting issues for urban regional councils, and percentage of total urban regional cost shifting 2015/16

RURAL COUNCILS

The five rural councils most affected by cost shifting

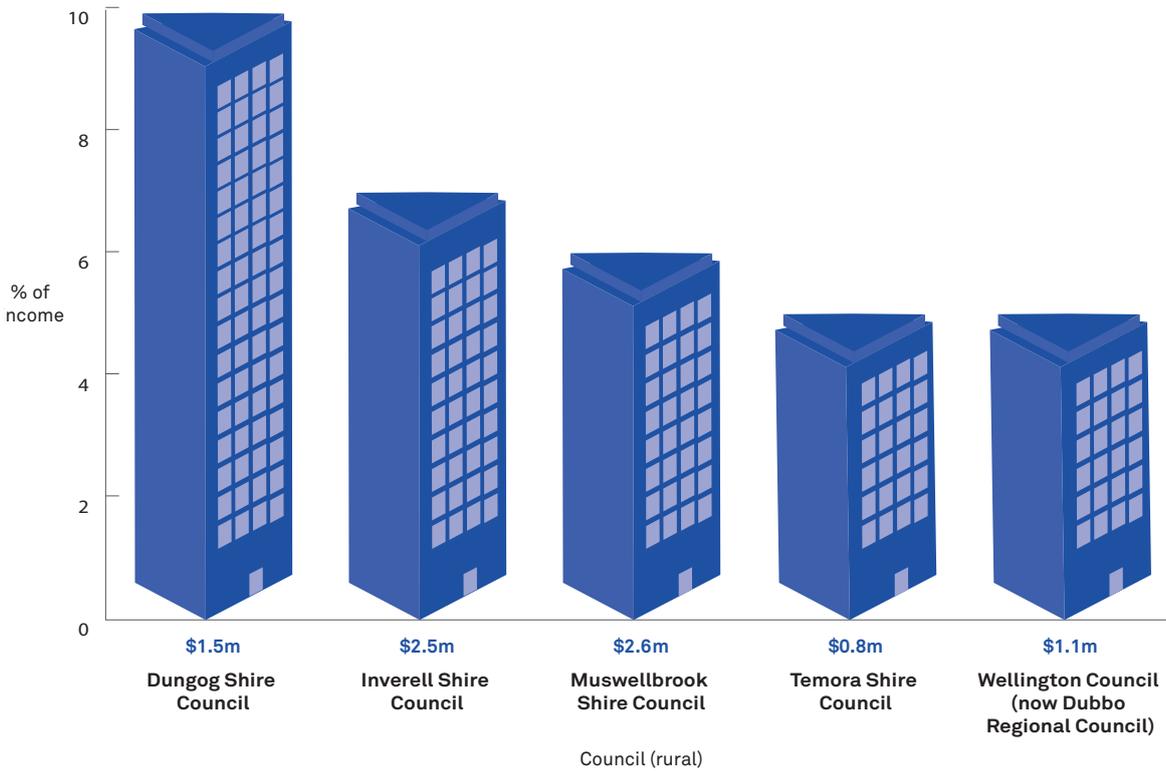


Figure 9: percentage of total income (before capital amounts) spent on cost shifting expenses, and dollar impact on each council 2015/16

WHAT DRIVES COST SHIFTING FOR RURAL COUNCILS?

Top five cost shifting issues affecting rural councils

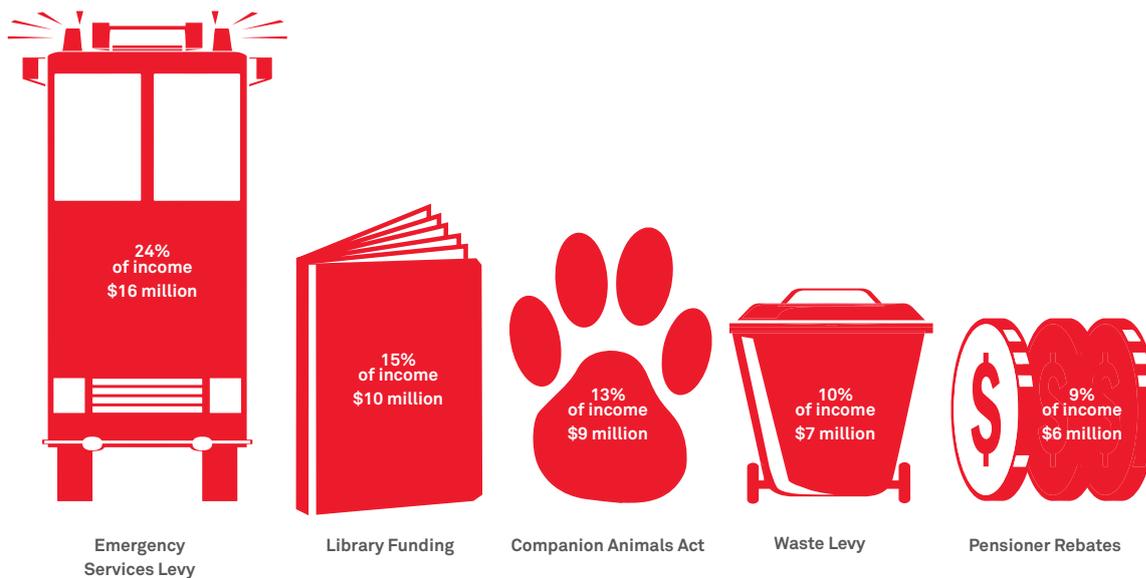


Figure 10: dollar value of cost shifting issues for rural councils, and percentage of total rural cost shifting 2015/16

Based on federal government 'Australian Classification of Local Governments' categories (\$ values of survey sample councils extrapolated to all councils).

WHAT COUNCILS NEED

LGNSW, on behalf of councils and members, calls on the NSW Government to:

1

End cost shifting immediately

Make a commitment that no new, increased or transferred responsibilities will be imposed on local government without a sufficient, corresponding source of revenue or revenue-raising capacity. This could be achieved immediately by amending the NSW Government's Policy Proposal Evaluation guidelines to include specific requirements for agencies when developing regulation involving local government.

2

Return 100% of income from the waste levy to councils in NSW

Just 18% of the waste levy collected from local government by the NSW Government is returned to councils for community waste minimisation and recycling programs. We call for 100% of the levy to be returned to local government .

3

Sustainable funding for public libraries

Increase total state government public library grants and subsidies to \$50 million by 2021/22 (from \$28.8 million in 2017/18) to meet the current and future demand for library services. Bookings to use the internet in public libraries alone hit 9.4 million in 2015/16 – an increase of four million bookings in just four years. Demand for library services will continue to increase due to rapid population growth. The 450 public libraries in NSW receive less state government funding than any state or territory in Australia at just \$3.76 per capita (compared to \$7.94 in Victoria, \$6.07 in Queensland, and \$25.69 in South Australia).

4

Reimburse councils for mandatory pensioner rate 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. LGNSW's position is that, as a welfare measure, pensioner concessions should be managed, funded and financed by other spheres of government with broader taxation bases; i.e. the NSW and/or federal government.

5

Introduce fairer emergency services funding

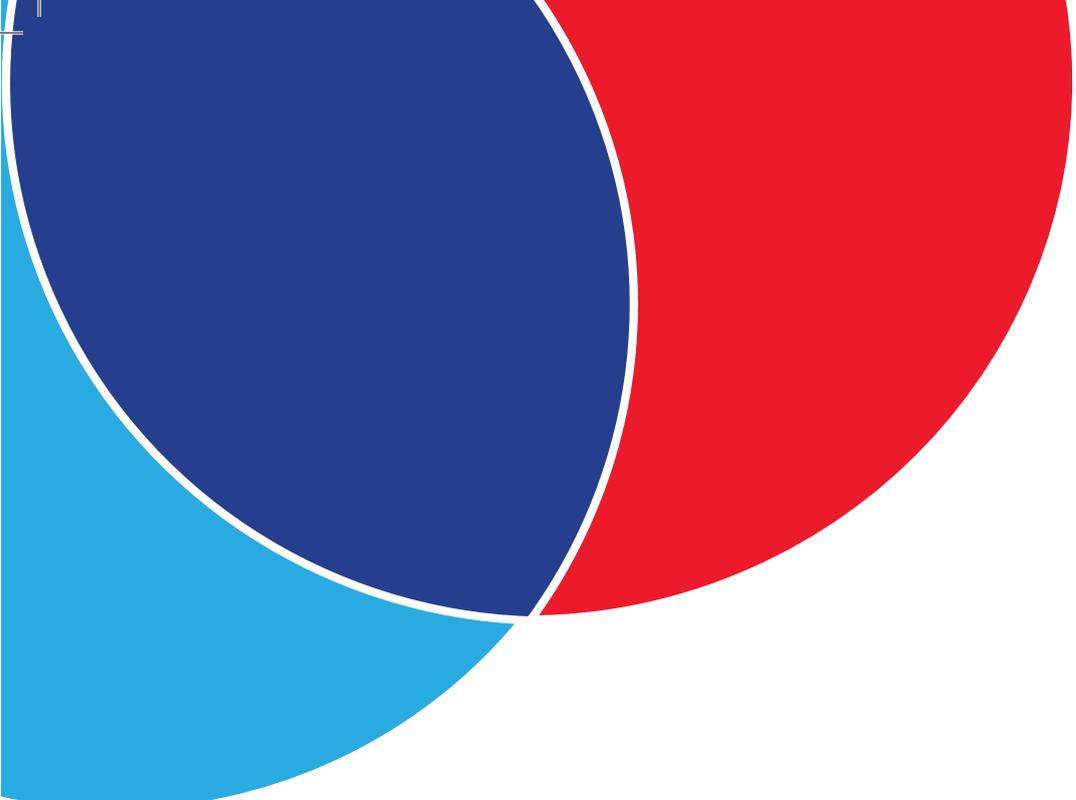
Introduce a broad-based property levy to replace both the Emergency Services Levy on insurance policies and the 11.7% Emergency Services Levy on local government. Revisit the state government's (deferred) Fire and Emergency Services Levy legislation as promised, and work with local government and the business community to make it fairer and more transparent.

6

Greater financial independence

Allow councils to raise revenue as they see fit through levies, value capture, voluntary planning agreements, fees and charges.

For more information on LGNSW's cost shifting survey please visit: www.lgnsw.org.au



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1. FINANCIAL SUSTAINABILITY

Local government is a partner in the economic stewardship of NSW and responsible for the provision of a wide range of essential infrastructure and services.

However, the financial sustainability of councils has been undermined by rate pegging for over 40 years, which has resulted in the under-provision of community infrastructure and services and the deferral of infrastructure maintenance and renewal expenditure resulting in significant infrastructure backlog.

OUR POSITION

LGNSW advocates for:

- 1.1 The removal of rate pegging and reform of the NSW local government rating system, including the removal of inequitable rate exemptions and greater autonomy and flexibility in rating policy, structure and practices.
- 1.2 Greater autonomy in determining fees and charges.
- 1.3 Financial Assistance Grants to be increased to at least 1% of total Commonwealth taxation revenue.
- 1.4 Federal Government to increase Financial Assistance Grants funding to 1% of Commonwealth tax revenue, prior to any changes to the formula.
- 1.5 Increased specific purpose grants from State and Commonwealth Governments to assist councils in meeting the infrastructure and service needs of their communities (e.g., Roads to Recovery, library grants).
- 1.6 An end to cost shifting onto local government by the State and Commonwealth Governments.
- 1.7 New and fairer financing opportunities for local government which:
 - Ensure that councils' capacity to provide infrastructure and services for their communities is not diminished.
 - Enable infrastructure funding through value capture, Voluntary Planning Agreements (VPAs) and other funding mechanisms.
 - Enable proper and full cost recovery of fees and charges to ensure councils can fulfil their statutory responsibilities (for planning and development assessment and compliance).
- 1.8 Permanent recurrent funding for Joint Organisations (JOs) to support their viability and effectiveness.
- 1.9 The introduction of a broad-based property levy to replace both the Emergency Services Levy on insurance policies and the 11.7% Emergency Services Levy on local government.
- 1.10 A more flexible procurement framework to enable councils to benefit from innovative procurement practices.
- 1.11 Inclusion of climate change considerations in approved terms of reference for investigations and reviews by Independent Pricing and Regulatory Tribunal.