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Received by

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Resolved to publish ☒ Yes / No**Item: MM002-24 Cost Shifting onto Local Government****Mayor:** The Mayor, Councillor Elmir**BACKGROUND**

The pressure on councils to continue to provide services of appropriate standard to our communities is now extraordinary.

The growth of cost shifting to councils, regulated charges, coupled with rate pegging, is increasingly eroding financial sustainability in the local government sector and risking the capacity of councils to deliver tailored, grassroots services to their communities and properly deliver and maintain vital local infrastructure.

The latest research commissioned by Local Government NSW (LGNSW) shows that the increase in cost shifting has been accelerating by various NSW Government policies.

As shown in the latest cost shifting report produced by independent consultants Morrison Low on behalf of LGNSW for the 2021/22 financial year (www.lgnsw.org.au/costshifting), an amount of \$1.36 billion of expense has been passed on to councils to fund. This is an increase of \$540 million since the last report from the 2017/18 financial year and represents lost services, lost opportunity and lost amenity for all our residents and businesses.

The cost-shifting examples in NSW, along with their associated financial impacts, include:

- **Emergency Service Contributions:** Councils fund 11.7% of Fire & Rescue NSW, RFS, and SES costs via an Emergency Service Levy (ESL). Additional contributions are also made by councils beyond the ESL. A total of \$165.4 million, which encompasses contributions to emergency services like the Fire & Rescue NSW, Rural Fire Service (RFS), and the State Emergency Service (SES). With no ability to recoup the contribution. For Georges River Council \$2.7 million annually, which equates to \$40 - \$50 per ratepayer.
- **Rate Exemptions:** Councils must exempt certain organisations from paying rates, such as government departments, hospitals, land use for religious purposes, public and private schools etc., shifting the financial burden to other ratepayers. These exemptions amount to \$273.1 million, representing potential rates that are exempted and thus redistributed to other ratepayers across the State. For Georges River Council \$3 - 4 million annually, which equates to \$50 - \$70 per ratepayer.
- **Waste Levies:** Paid by all waste facilities to the NSW Government, the waste levy's costs are passed on to ratepayers through council waste collection charges, effectively acting as an invisible tax. An additional \$288.2 million in waste levies are passed onto ratepayers through waste collection fees included in their rates bill. For Georges River Council \$5 - 7 million annually depending on tonnage volumes, which equates to \$80 - \$120 per ratepayer.
- **Library Funding Shortfalls:** Programs initiated by State or Federal governments that require local government delivery may not be fully funded, or funding may diminish over time. This forces councils to either absorb the costs to continue the programs or cease them. An example includes library services, where the State Government's original commitment to fund 50% of the costs has significantly reduced. Councils have incurred \$156.7 million in costs to cover the gap between the funding committed for library operations and the subsidies actually received. For Georges River Council \$7 million annually, which equates to approximately \$120 per ratepayer.

- Companion Animals: Resources required by local councils to effectively manage companion animal welfare and public safety related to pets. These services might include registration and microchipping, managing stray and dangerous animals, providing animal shelters, enforcing regulations around animal ownership, and promoting responsible pet ownership. With an estimated cost of \$19.6 million across the State and for Georges River Council \$306,000 annually, which equates to approximately \$5 per ratepayer.
- Contaminated Land Management: Contaminated land includes areas affected by substances that pose a risk to health or the environment. This could be due to previous industrial activities, waste disposal, or accidental spills, leading to soil, groundwater, or surface water contamination. Costs councils around \$7.2 million across the State and for Council \$500,000 annually, which equates to approximately \$9 per ratepayer.
- Protection of Environment Operations: Refers to regulatory functions related to environmental protection that local councils are involved in. These functions might include activities aimed at preserving the natural environment, managing waste, controlling pollution, and ensuring sustainable use of resources. This regulatory function has led to \$9.9 million in costs across the State and for Council \$300,000 annually, which equates to approximately \$5 per ratepayer.
- Noxious Weeds: Refers to the management of invasive plant species that are considered harmful to the environment, agriculture, or public health. Costing councils \$11.1 million across the State and for Council \$70,000 annually, which equates to approximately \$1.20 per ratepayer.
- Development Applications: Is the process by which local councils review and approve proposals for new construction and development projects within their LGA. This can include residential, commercial, and industrial developments, as well as renovations and extensions to existing structures. The development application process typically involves the assessment of plans and proposals to ensure they comply with local planning regulations, zoning laws, and building codes. Representing the largest share of the burden at \$86.7 million across the State and for Council \$800,000 annually, which equates to approximately \$14 per ratepayer.

The above items in total relate to \$320 - \$350 per ratepayer annually and trends have highlighted an ongoing annual increase.

Georges River Council does not dispute the value of these services in the community and supports the delivery, though requests a transparent and equitable system of cost recovery, to reduce the reliance on ratepayers.

State and Federal governments may impose new or expanded regulatory duties on local governments without providing the necessary funding, forcing councils to cover these costs through their revenue sources, predominantly rates. Other examples placing a strain on financial sustainability, include the gap between regulated service costs and the corresponding regulated fee and/or charge. These often don't fully cover the costs of various regulator functions imposed on councils, leading to additional financial burdens passed onto ratepayer who do not utilise the service and must then subsidise.

In the Independent Pricing and Regulatory Tribunal's (IPART) final report on the '*Review of the rate peg methodology, August 2023*' it found that Ratepayers expressed concerns about affordability and considered that councils could improve how they communicate with the communities. Improving the transparency and management of cost shifting plays a critical element in addressing this finding.

With councils having to fund this ongoing subsidy for the State Government each and every year it means our communities get less or go without. They go without better roads, they go without better parks, they go without important community services that only councils provide, and they and their ratepayers are effectively paying hidden taxes to other levels of government.

Councillors, our communities deserve better and this must stop. Prior to the most recent state election the then Minns Opposition wrote to LGNSW acknowledging that cost shifting had undermined the financial sustainability of the local government sector.

Now in 2024, it is important to councils and communities that the NSW Government urgently seek to address cost shifting through a combination of regulatory reform, budgetary provision and appropriate funding.

MOTION:

- (a) That Council receive and note the findings of the LGNSW Cost Shifting report for the 2021/22 financial year; and
- (b) That the General Manager write to the Premier, the NSW Treasurer, the NSW Minister for Local Government and Independent Pricing and Regulatory Tribunal (IPART) seeking that they:
 - i. Urgently seek to address these costs through a combination of regulatory reform, budgetary provision and appropriate funding.
 - ii. Include cost shifting and regulated fees as an area within the IPART's review of the council financial model in NSW.

ATTACHMENTS

Nil