2025 LGNSW Cost Shifting Report – How State Costs Consume Council Rates

For the financial year ending 30 June 2024

Document status

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1 Executive Summary

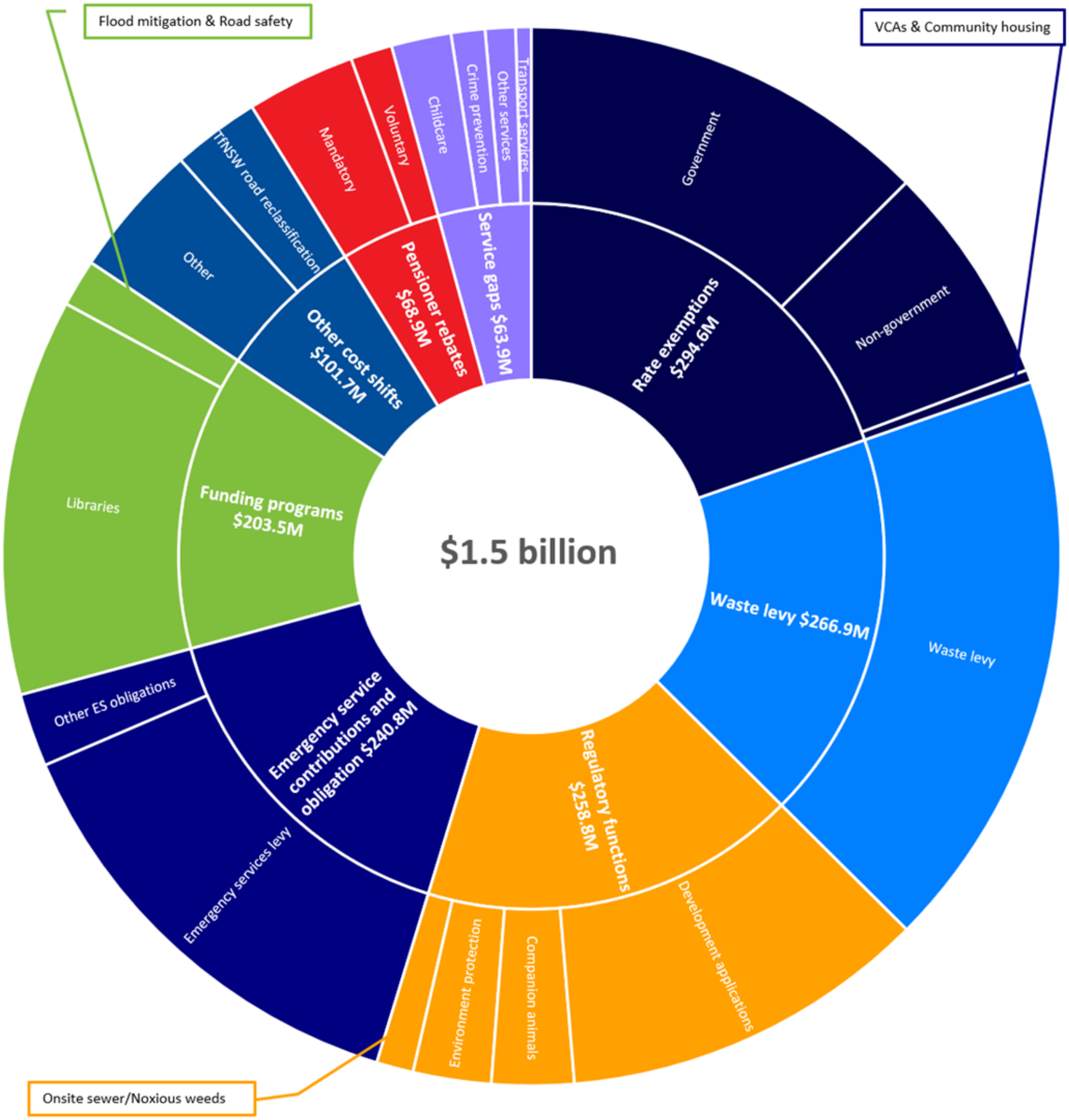
Cost shifting remains one of the most significant challenges to the financial sustainability of the New South Wales (NSW) local government sector. As the peak organisation representing the interests of general-purpose councils in NSW, as well as special purpose councils and related entities, Local Government NSW (LGNSW) regularly monitors the extent of cost shifting onto local government via its Cost Shifting Survey.

The 2023-24 Cost Shifting Survey has revealed that cost shifting totalled **$1.50 billion** in 2023-24 (see Figure 1 below), which is a 10 per cent increase from the last survey result of $1.36 billion in 2021–22. Overall, this is in line with expectations, as the Consumer Price Index (CPI) was also 10 per cent over the same two-year period. There were however some significant changes from the 2021-22 survey, which include:

- The Emergency Services Contributions and obligations have increased by 46 per cent ($75.4 million), which has predominately been in the emergency services levy with the removal of the COVID-related subsidy and increasing overall state budgets for emergency services.
- Unfunded regulatory functions have increased by 24 per cent ($50.8 million). The majority of this increase has come from increasing unfunded cost of development assessment.
- Several areas appear to have experienced reductions in the estimated cost shift since 2021-22, including the waste levy (9 per cent), pensioner rebates (5 per cent) and service gaps (4 per cent). However, when comparing the 44 councils common to both survey years, the cost shift for the waste levy increased by 16.1% and for pensioner rebates at 6.1% increase.

Cost shifting as a concept is also changing with an increased ability for councils to pass on these costs shifted to them from State and Federal government. The change that came about as a result of the IPART's review of the rate peg methodology has created the avenue for the NSW State Government to raise further taxes through local government rates. From 2024-25, Emergency Service Contribution increases have been incorporated into the calculation of the rate peg for each council. This has taken pressure off councils' finances by passing the obligation on to ratepayers, hidden within their rates bill. The same legislative change allows for ad hoc increases for other "cost shifts". Although likely not to be built into rates, other potential hidden taxes include the interment levy for cemeteries operations, which may be built into cemeteries fees, that has come into effect from 2025-26 and a dam safety levy, currently being discussed, which could be built into water services fees and charges for councils with a local water utility but will absorb general revenue for other councils.

Figure 1 2023-24 cost shifting components



2 Background

2.1 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 is imposed onto local government from a higher level of government (Commonwealth or State Government) generally without the provision of corresponding funding or the conferral of corresponding and adequate revenue raising capacity.

Cost shifting forces councils to divert funding collected from ratepayers and other revenue sources away from planned projects or services that the council has committed to deliver to the community in its Delivery Program.

In recent years, largely as a result of advocacy from the sector, some mechanisms have been introduced for councils to be able to collect revenue to cover the costs shifted to them from the State and Federal Governments. These include regular and ad-hoc adjustments to the rate peg set by the Independent Pricing and Regulatory Tribunal (IPART) to cover the increases in the costs. Most notably, this has been applied to the Emergency Services contributions from council from 2024-25 onwards.

While councils now have the ability to raise revenue to at least cover some of the increases in these costs, partly alleviating the financial pressures that cost shifting put on them, these costs then become an invisible tax on residents. Councils still incur the administrative costs and burdens of raising the funds and paying for these costs, making this an inefficient form of taxation. Residents expect the rates, fees and charges that they pay for council services, to fund the services that council provide and not be passed back to State Government. The lack of transparency in how some of these funds are syphoned off to pay for State and Federal costs only serves to exacerbate perceptions that councils are inefficient, bloated and money-wasting. This report considers both the direct cost shifting as outlined in the definition above and also this increasing invisible tax component of cost shifting.

In NSW, cost shifting has taken a number of forms including:

- **Imposing additional regulatory functions**: State and Federal levels of government implement or increase regulatory requirements through legislation that is then administered by local government. The cost of this new or increased regulatory function is often not funded by the determining level of government and councils must fund this through their own revenue sources including rates.
- **The Emergency Service contributions**: Councils are required to fund 11.7 per cent of the cost of Fire & Rescue NSW, Rural Fire Service (RFS) NSW and the NSW State Emergency Service (SES) through an Emergency Service Levy (ESL). A further 73.7 per cent of emergency services costs is funded through insurance premiums and the remaining 14.6 per cent from the NSW Government. Councils provide additional financial contributions to emergency services agencies in addition to the ESL (see section 3.2). From 2024-25 onward, the rate peg methodology has changed to allow for an ESL factor which will increase the rate peg to cover expected increases in council contributions, allowing councils to pass on the ESL cost increase to ratepayers (see section 2.2).
- **Cutting or failing to adequately continue to fund programs for services that need to continue**: Many funding programs announced by State or Federal government are required to be delivered by local government but are either not fully funded from their initiation or, if an ongoing initiative, funding is reduced over time leaving councils with the decision to either continue the program and make up the burden of the cost or cease the program entirely. An example of this is Libraries, where the original commitment from State Government was to fund up to 50 per cent of libraries' cost for many councils, it now covers approximately 6 per cent of the total costs, leaving councils to fund an additional $181.8 million to make up the difference.
- **Pensioner rebates**: Councils are required to provide pensioner rebates on rates and other charges, for which the State government only subsidises 55 per cent of the cost, the remaining 45 per cent is funded by other ratepayers. As the total dollar value of the mandatory rebate has not increased over time, some councils are also opting to provide further voluntary rebates.
- **Councils absorbing the costs of service and market gaps that should have been provided by State or Federal governments**: This is particularly an issue in rural and regional NSW, where councils often must step in to provide or support a service that is traditionally delivered either directly or through subsidised private providers. This can be for a diverse range of services from aged, disability or childcare through to medical services, education, or public transport services.
- **Forced rates exemptions**: Councils are required to exempt government and other organisations from paying rates in the local government area. These organisations utilise local government services and infrastructure. As they are exempt from paying rates, the burden of the costs they incur is shifted to the ratepayers to fund. Examples of exempt organisations include government departments, government-owned corporations (such as Forestry Corporation), private schools, and non-government social housing providers.
- **The waste levy**: The waste levy is not as much a cost shift to councils as an invisible tax levied on ratepayers through councils. The waste levy is a levy paid by waste facilities in metropolitan and some regional areas to the NSW Government, the cost of this levy is recovered through the waste collection fees levied by councils, in effect shifting the burden of this State Government tax on to ratepayers.

2.2 Cost shifting and the rate peg

Cost shifting has been a term used for many years to describe the cost impact on local government of decisions made at the State and Federal level. It is particularly relevant in NSW where a rate pegging system is applied to restrict how local government can raise rates revenue.

The issue of State and Federal decisions having a direct financial impact on local government exists in all states and territories of Australia to some extent. In many cases, local government can be the best and most efficient partner for State and Federal government to deliver its programs or services.

Challenges arise with respect to how the State and Federal initiatives are, or continue to be, funded. In states where there is not a rate pegging system in place, local councils are able to better manage the financial impacts by adjusting rates or levying specific fees and charges to reflect the change in costs of providing the imposed service, concession, asset, or regulatory function.

The rate peg in NSW sets out the maximum amount that local councils can increase their general income by and is set by IPART each year. The 2023 review of the rate peg methodology has improved IPART's ability to consider some elements of cost shifting impacts on councils in determining the rate peg.

The new methodology has applied from the 2024-25 financial year, so does not form part of the analysis in this report which focuses on the 2023-24 financial year. However, from 2024-25, IPART is able to consider specific adjustments for the Emergency Services Contributions made by councils and other potential additional adjustments for costs driven by external factors on an ad-hoc basis.

The Emergency Services Levy (ESL) factor applied in the rate peg is lagged by one year. This was a conscious decision by IPART in taking into account availability of the Emergency Services Contribution cost increases two months prior to the year that they are applied, and the need to provide certainty on the rate peg up to nine months in advance of the commencement of the financial year for councils to be able to undertake the planning and budgeting processes, including community consultation, required of them under the Integrated Planning and Reporting (IP&R) framework.

While IPART was of the view the ESL factor would "ensure the impact is transparent to councils, ratepayers and all stakeholders"[1], this is not entirely accurate. The introduction of the ESL and other ad-hoc factors to the rate peg has shifted tax collection and administration costs to councils and the tax itself directly to ratepayers. Many of these ratepayers already pay towards the State's costs of providing emergency services through the Fire and Emergency Services Levy Act 2017 that levies property insurance premiums. While it is acknowledged that the NSW Government is currently reviewing the ESL generally, there has been no indication that it will be removed from the rates collected by councils.

Unlike insurance premiums, Council rates notices do not separately disclose the amount collected and paid to the State for the Emergency Services Contribution. Ratepayers generally and rightfully expect that the rates that they pay, go directly towards funding the council services provided to their community. With funds

[1] IPART (2023) Final Report - Review of the rate peg methodology, https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Final-Report-Review-of-the-rate-peg-methodology-August-2023.PDF, retrieved 5 March 2025.

from rates going into the Emergency Services Contribution and other cost shifts, this can serve to exacerbate a perception that local government is inefficient and not able to provide value for money.

While the new rate peg methodology has allowed for additional and more nuanced considerations of councils' cost increases, even IPART acknowledges that it does not solve all the financial sustainability challenges that councils face.

> ***Our new rate peg methodology is designed to respond to many of the issues raised in consultation. But it cannot address all the issues people have highlighted during the consultation. The rate peg cannot adequately address the efficiency or sustainability of the cost base of councils.***[2]

There certainly remain inefficiencies in the rate pegging system, as well as a mechanism for the NSW government to continue to shift costs to local government so that councils have increasingly become tax collectors on their behalf. Recent debate on the introduction of a Dams Safety Levy and the introduction of the Cemeteries Levy from 1 July 2024 to fund a growing State government Cemeteries regulatory function, are examples of how this is taking shape.

2.3 This report

This report provides analysis and insights from the 2023-24 Cost Shifting Survey conducted in December 2024 and January 2025.

50% of councils responded to the 2023–24 survey. These councils represented 62% of the population. In contrast, the 2021–22 survey had a higher response rate, with 58.5% of councils participating, representing 70% of the population. Of those councils that participated in the survey, not all responses in the survey were completed by the councils.

44 councils participated in both surveys and in some instances not all the same questions were answered in both surveys. As a result, some variability in the estimates across all NSW councils is expected, which may affect the comparability of results between the two survey periods.

Where there is significant variance between the two surveys, the comparative analysis was undertaken using the common 44 councils across the two surveys and includes commentary in the report. We also used external data sources to capture information for all 128 councils where available.

Section 3 of this report provides more detail on the findings from the survey, breaking down the findings into their key cost shifting areas, as identified in section 2.1 above, and Section 4 outlines the approach and methodology used in the survey and analysis.

[2] IPART website - *https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Review-of-rate-peg-methodology*, retrieved 5 March 2025.

3 Findings

Our survey found that cost shifting for NSW councils was $1.50 billion in 2023-24, which is an increase of approximately $140 million (10 per cent) from the $1.36 billion estimated in 2021-22. This represents $497.40 for each ratepayer and increase of $36.72 from 2021-22. In effect, this is the average amount of revenue that councils must divert from the services and infrastructure that council has committed to provide the community in order to fund the cost of services, programs and functions that are imposed from the State or Federal governments.

In 2023-24, the cost to NSW Councils of cost shifting was:

$1.50 billion

or

$497.40 per ratepayer

Many services, programs, and functions that the State and Federal governments require local councils to deliver, in turn provide benefits to the local communities they serve. This report does not provide an assessment on the merit of these costs, only to bring them to light. Due to the nature of how the services, programs and functions are provided and funded, cost-shifting can be hidden from view. This analysis helps to quantify and highlight these costs for all tiers of government and the community.

Figure 2 2023-24 cost shifting components

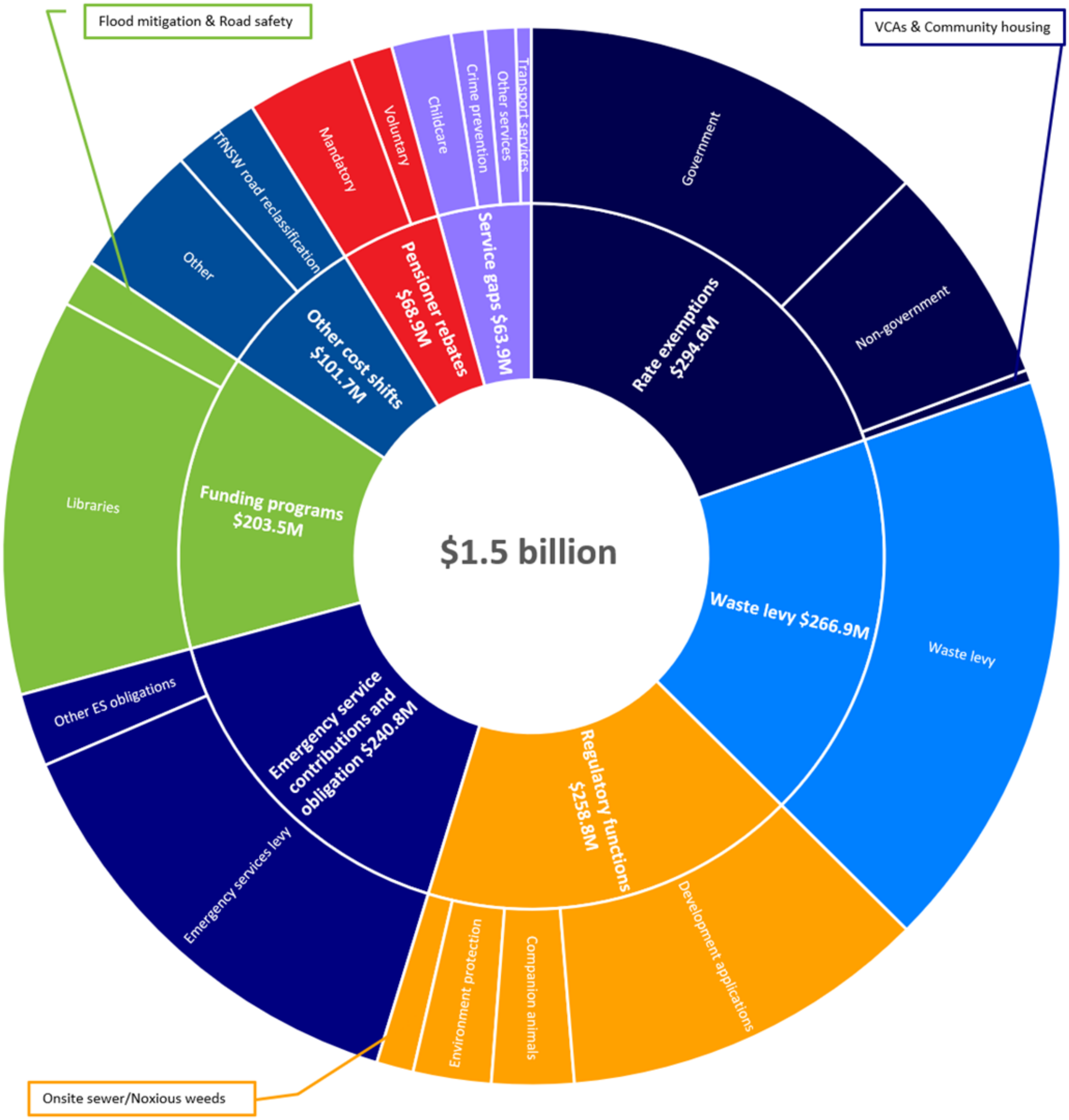


Table 1 Changes in cost shifting components since 2021-22

High level Cost Shift ($ millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Rate exemptions	$273.1	+$21.5 (+7.9%)	$294.6
Waste levy	$292.9	-$26.0 (-8.9%)**	$266.9
Regulatory functions	$208.0	+$50.8 (+24.4%)	$258.8
Emergency service contributions and obligation	$165.4	+$75.4 (+45.6%)	$240.8
Funding programs	$181.3	+$22.2 (+12.2%)	$203.5
Other cost shifts	$104.3	-$2.6 (-2.5%)	$101.7
Pensioner rebates	$72.4	-$3.5 (-4.8%)**	$68.9
Service gaps	$66.6	-$2.7 (-4.1%)	$63.9
Total	**$1,364.0**	**+$135.1 (+9.9%)**	**$1,499.1**

* * When comparing the 44 councils common to both survey years the cost shift for the waste levy increased by 16.1% and pensioner rebates increased by 6.1%.

The costs of regulatory functions and emergency service contributions have increased substantially in the two years since the 2021-22 survey. Emergency services contributions and obligations have increased by 46 per cent ($75.4 million), which has predominately been in the emergency services contributions with the removal of the COVID-related subsidy and increasing overall state budgets for emergency services. Unfunded regulatory functions have increased by 24 per cent ($50.8 million), with the biggest increase in this category coming from development applications costs which increased by $41.6 million.

While the increase in cost shifting was experienced by all but rural councils, metropolitan councils experienced the highest increase in cost shifting of $75.1 million (12 per cent) in nominal terms. Whereas large rural councils and metropolitan fringe councils experienced significant proportional increases with 18 per cent ($15.5 million) and 17 per cent ($36.6 million) respectively.

Even though the cost shift to rural councils was largely flat since the previous report (and likely a statistical result of different rural councils responding to each survey), they still experience one of the highest cost shifts per ratepayer ($550.44), only beaten by large rural councils with $571.06 per ratepayer.

Figure 3 Total cost shift by council classification

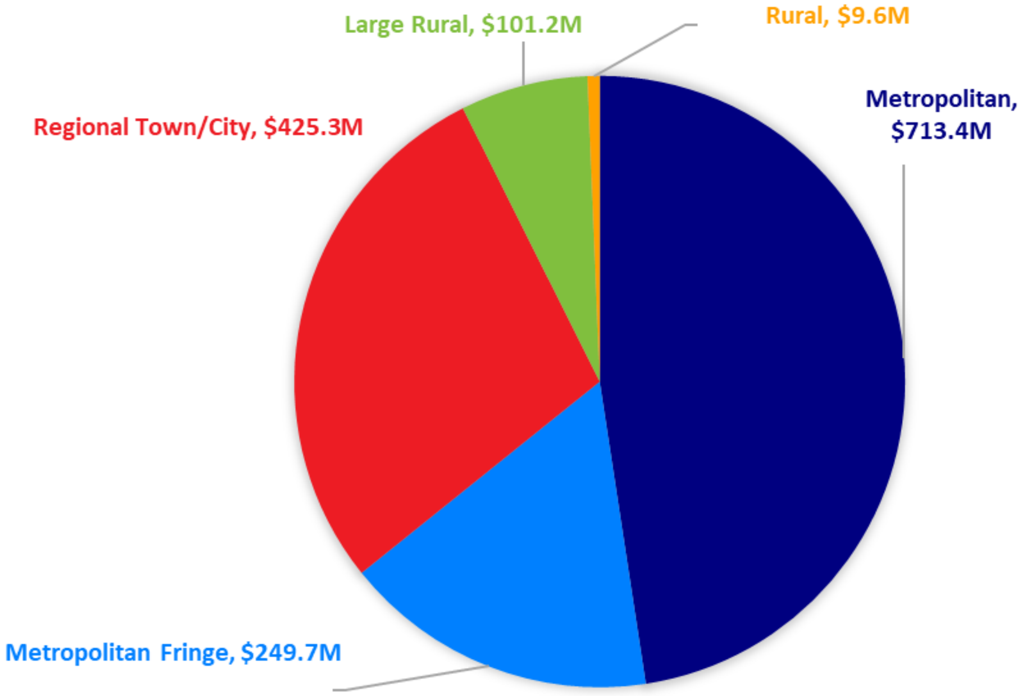
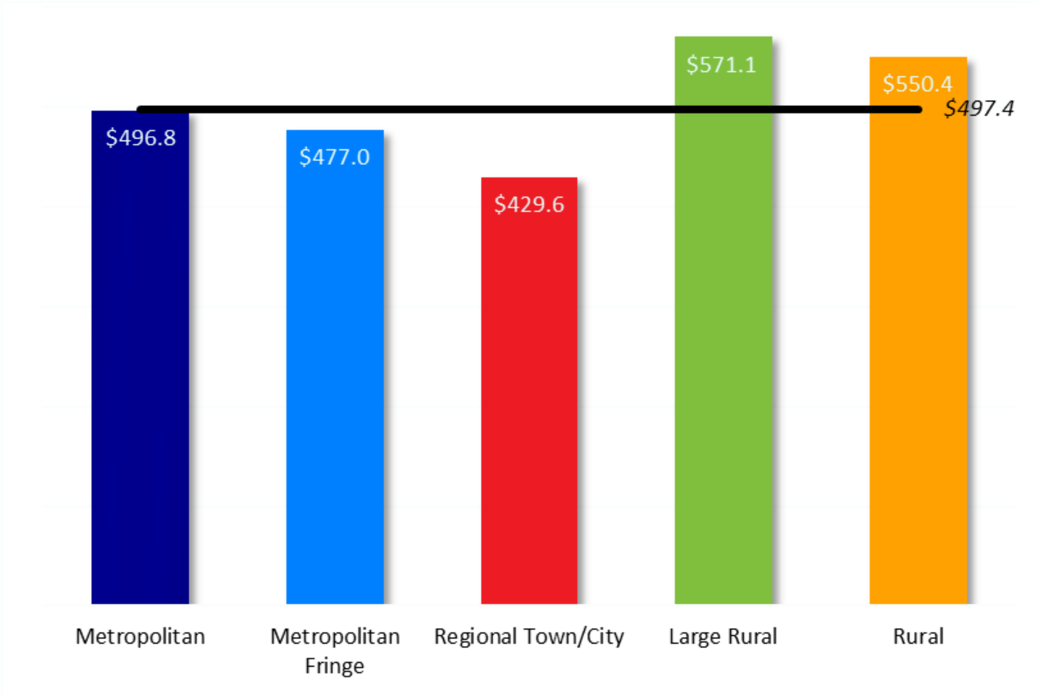


Table 2 Changes in total cost shift by council classification

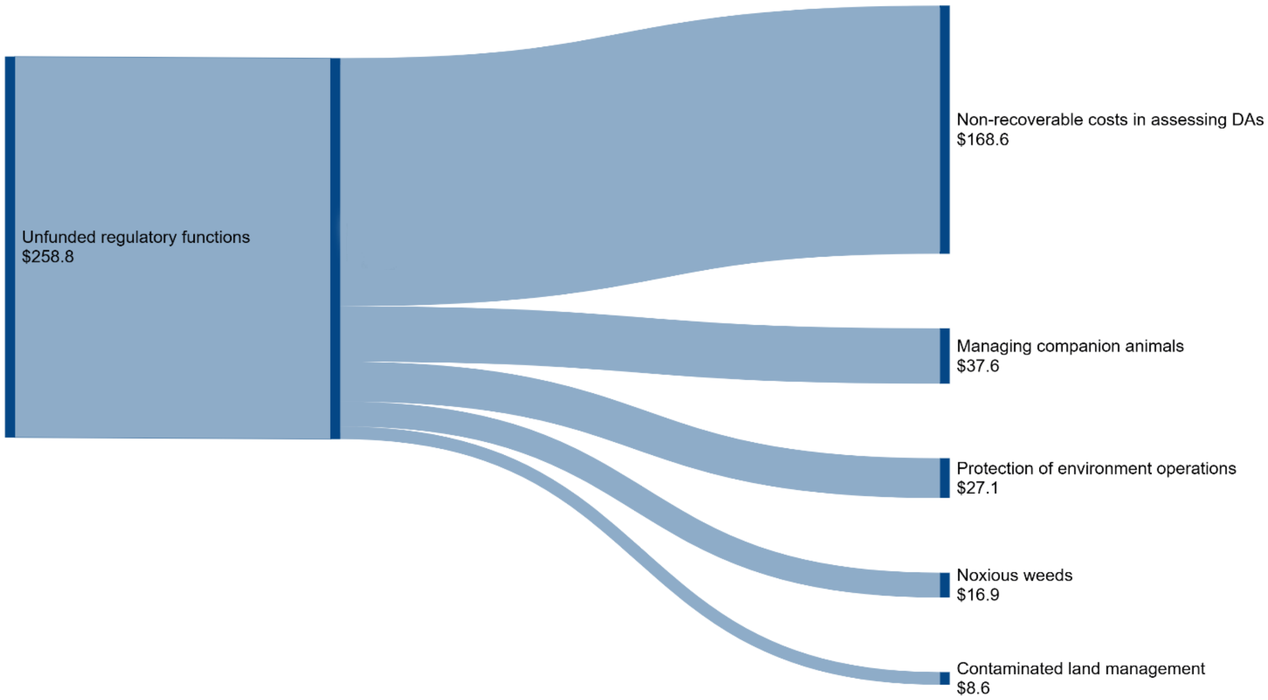
Council classification ($millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Metropolitan	$638.3	+$75.1 (+11.8%)	$713.4
Regional Town/City	$416.5	+$8.8 (+2.1%)	$425.3
Metropolitan Fringe	$213.0	+$36.7 (+17.2%)	$249.7
Large Rural	$85.8	+$15.4 (+17.9%)	$101.2
Rural	$10.3	-$0.7 (-6.8%)	$9.6
Total	**$1,364.0**	**+$135.1 (+9.9%)**	**$1,499.1**

Figure 4 Cost shift per ratepayer by council classification



We will explore each component of rate shifting in the following sections.

3.1 Regulatory functions



Councils incur costs of increased regulatory responsibilities that are not fully funded by increases in fees and charges. In 2023-24, the unfunded costs for regulatory functions represented $258.8 million, up from $208.0 million in 2021-22, which is a 24 per cent increase.

The most significant increase in regulatory function cost shifts was the cost of assessing development applications, which increased by $41.6 million to $168.6 million in 2023-24. The development assessment fees are set by the NSW Government and are generally set well below cost recovery for this function, with some fees not indexed. The significant increase in net costs for development assessments comes in part from a widening gap between the statutory fee and the cost of assessment. Many councils have noted that competition for qualified planning staff is fierce, and salary costs have grown substantially, increasing costs. Additionally, some councils have noted that the requirements on councils to provide written comments on State Significant Developments within their LGA are at times akin to drafting a development assessment report consuming significant resources.

Another area of relatively significant increase in net costs is in managing companion animals, which has increased by $8.0 million (27 per cent) to $37.6 million. Many councils have taken up partially funded grants to build animal rehoming centres only to find that this has increased their operational costs. Others have noted increased burdens on council facilities with private or not-for-profit facilities closing or no longer taking stray animals.

Protection of environment operations has also grown by $11.8 million (78 per cent) to $27.1 million since the 2021-22 survey. These functions relate to functions under the Protection of the Environment Operations Act 1997 and include responding to pollution complaints and managing illegal dumping.

Figure 5 Unfunded regulatory costs by category

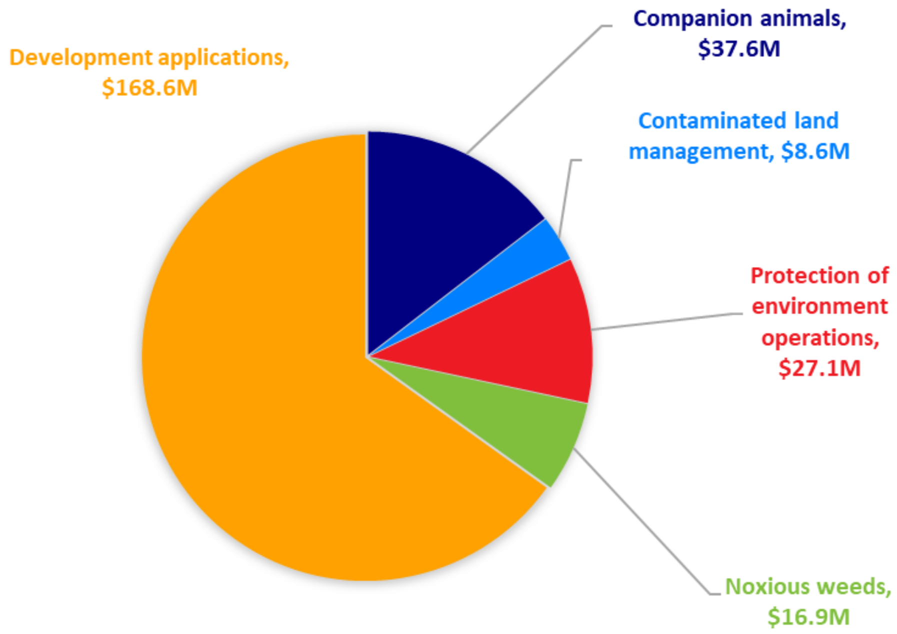


Table 3 Changes in unfunded regulatory costs by category

Unfunded regulatory costs ($millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Development applications	$127.0	+$41.6 (+32.8%)	$168.6
Companion animals	$29.6	+$8.0 (+27.0%)	$37.6
Protection of environment operations	$15.3	+$11.8 (+77.1%)	$27.1
Noxious weeds	$16.6	+$0.3 (+1.8%)	$16.9
Contaminated land management[3]	$14.3	-$5.7 (-39.9%)	$8.6
Onsite sewer facilities[4]	$5.2	-$5.2 (-100.0%)	N/A
Total	**$208.0**	**+$50.8 (+24.4%)**	**$258.8**

[3] Contaminated land management costs vary significantly year to year and across the different councils that responded to this survey.
[4] In the 2023-24 survey, a question on onsite sewer facilities was removed. This decision was made to streamline the surveys and the effort required for councils to complete it. Onsite sewer facilities didn't have a significant impact on the total cost shift.

Figure 6 Unfunded regulatory costs by council classification

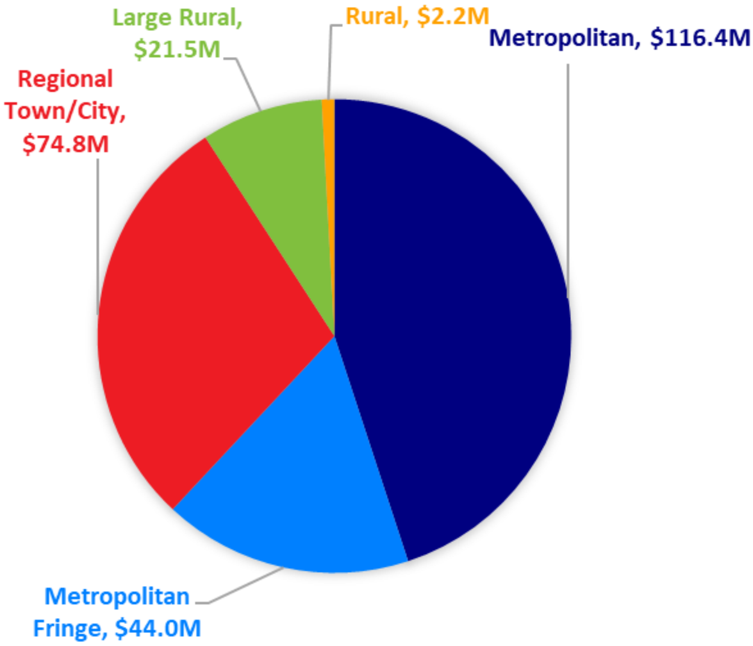
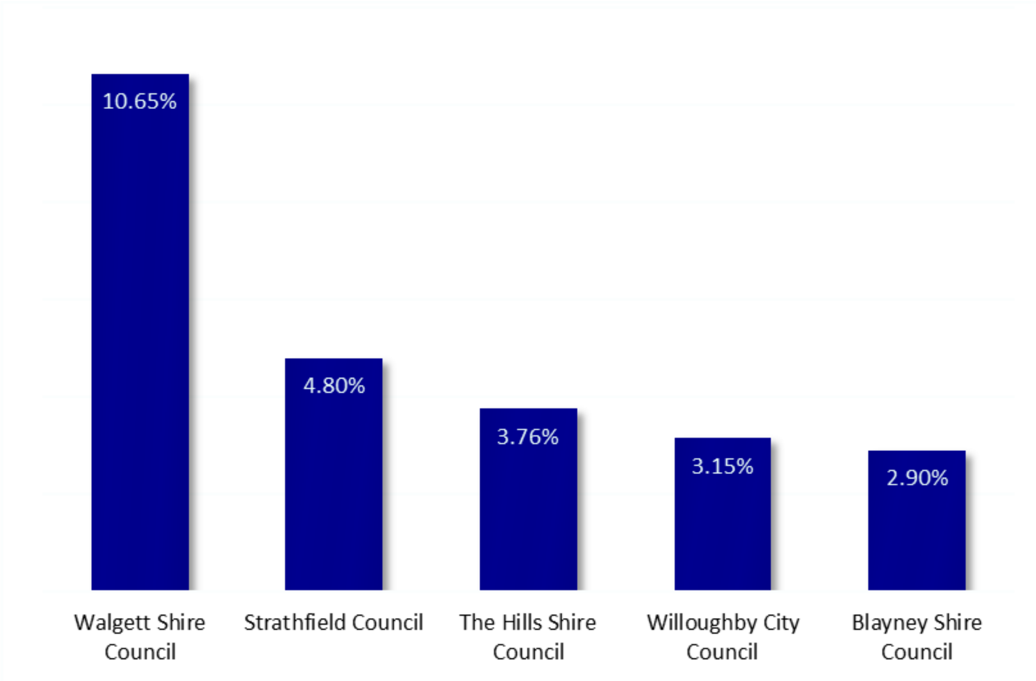


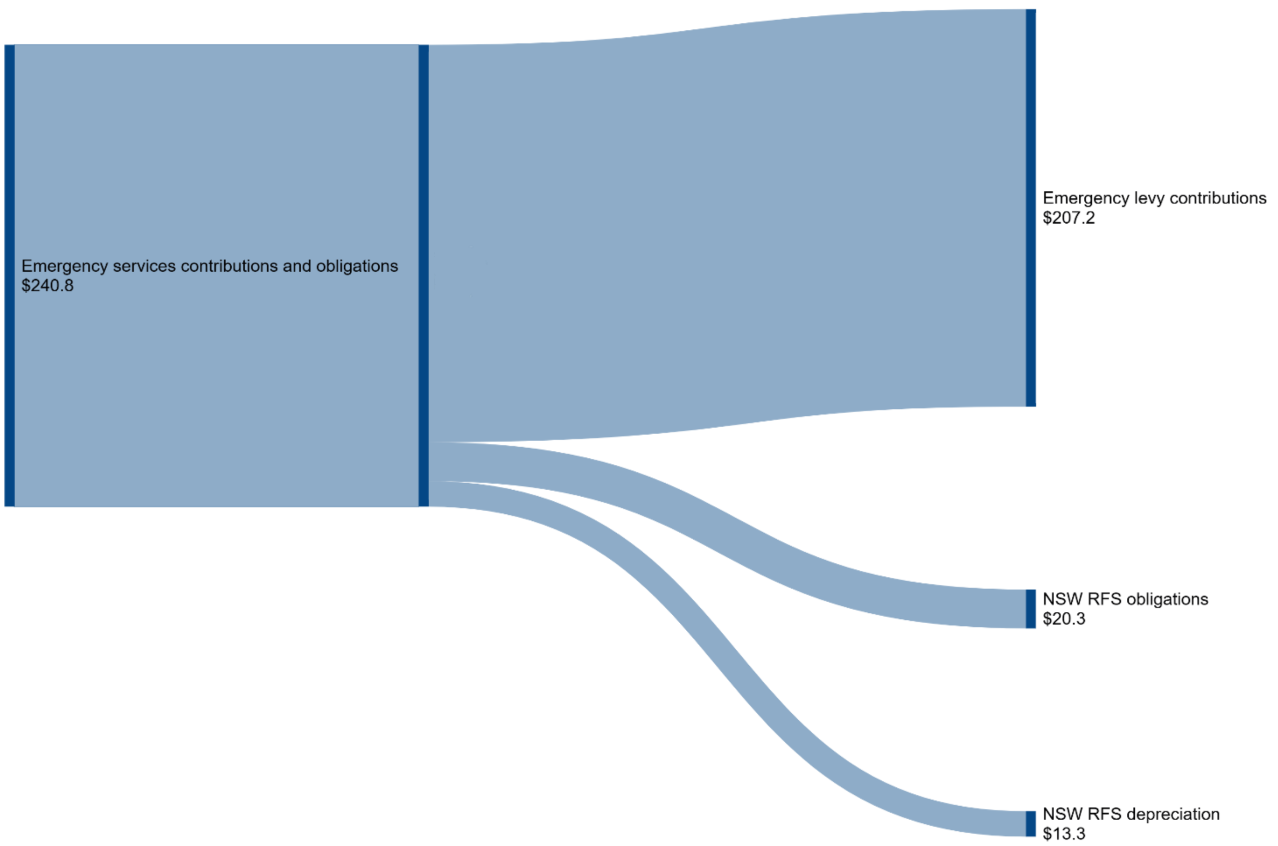
Table 4 Changes in unfunded regulatory costs by council classification

Council classification ($millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Metropolitan	$91.1	+$25.3 (+27.8%)	$116.4
Regional Town/City	$62.2	+$12.6 (+20.3%)	$74.8
Metropolitan Fringe	$34.5	+$9.5 (+27.5%)	$44.0
Large Rural	$18.3	+$3.2 (+17.5%)	$21.5
Rural	$1.9	+$0.3 (+15.8%)	$2.2
Total	**$208.0**	**+$50.8 (+24.4%)**	**$258.8**

Figure 7 Respondent councils with the largest regulatory cost as a proportion of total operating expenditure



3.2 Emergency services levy contributions and other emergency management obligations



Councils' contributions and costs of obligations to emergency services has increased by 46 per cent ($75.4 million) in the last two years, to $240.8 million. The most significant increase has been to the emergency services levy contribution, which has increased by $65.2 million (46 per cent), from $142 million to $207.2 million in 2023-24. However, the highest proportionate increase has been in councils' obligations to the NSW RFS which has increased by 61 per cent ($7.6 million) to $20.3 million.

Table 5 Changes in emergency services levy contributions and other emergency management obligations since 2021-22

Emergency services ($millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Emergency levy contributions	$142.0	+$65.2 (+45.9%)	$207.2
NSW RFS obligations	$12.7	+$7.6 (+59.8%)	$20.3
NSW RFS depreciation	$10.7	+$2.6 (+24.3%)	$13.3

Emergency services ($millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Total	**$165.4**	**+$75.4 (+45.6%)**	**$240.8**

Figure 8 Emergency services levy contributions and other emergency management obligations by council classification

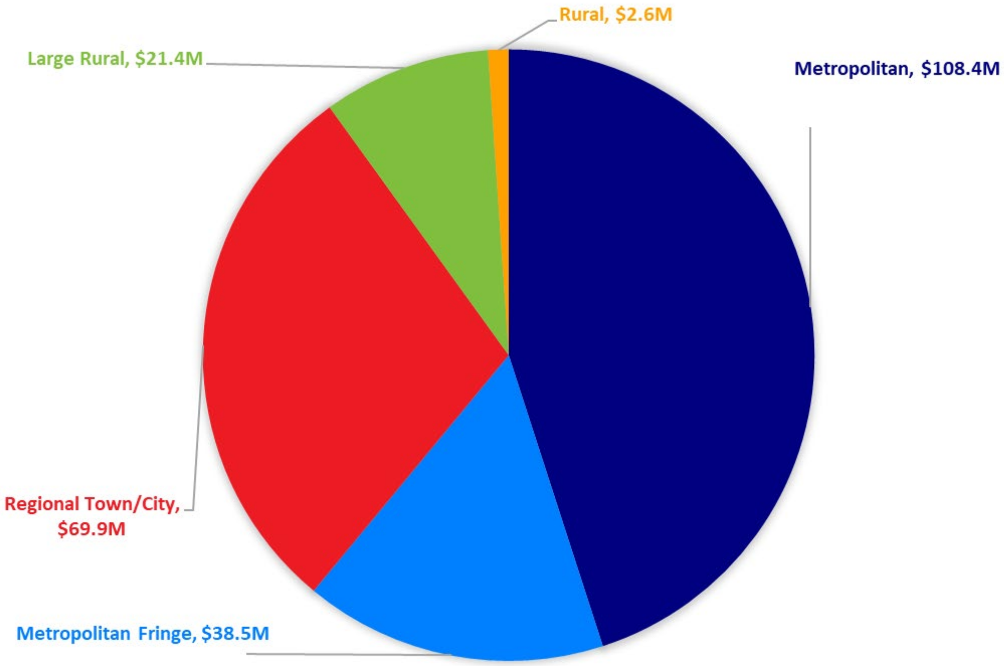


Table 6 Changes in Emergency services levy contributions and other emergency management obligations by council classification

Council classification ($millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Metropolitan	$71.8	+$36.6 (+51.0%)	$108.4
Regional Town/City	$48.1	+$21.8 (+45.3%)	$69.9
Metropolitan Fringe	$26.9	+$11.7 (+43.1%)	$38.5
Large Rural	$16.2	+$5.1 (+32.1%)	$21.4

Council classification ($millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Rural	$2.3	+$0.3 (+13.0%)	$2.6
Total	**$165.4**	**+$75.5 (+45.6%)**	**$240.8**

Figure 9 Respondent councils with the highest emergency services levy contributions and other emergency management obligations

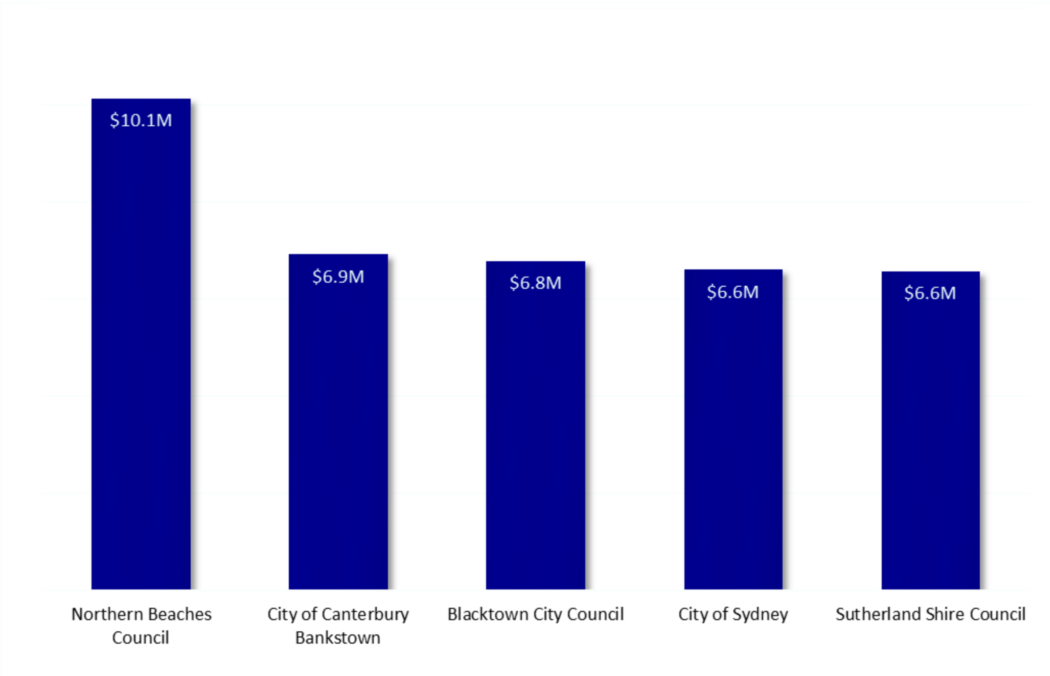
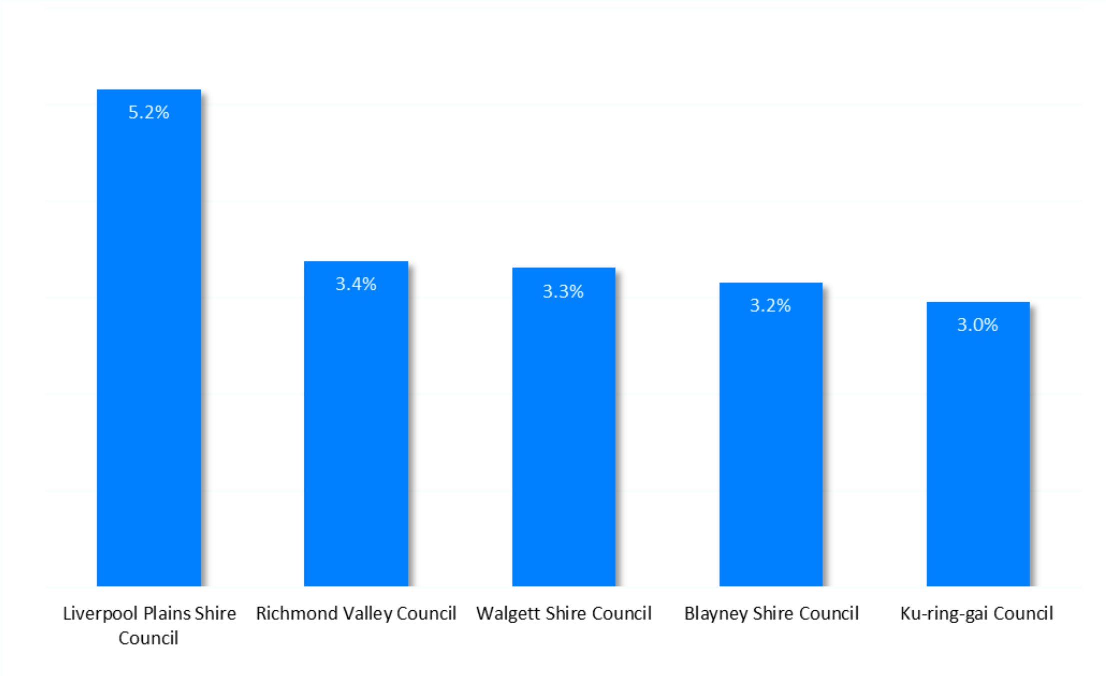


Figure 10 Respondent councils with the highest emergency services levy contributions and other emergency management obligations as a proportion of total operating expenditure



NSW councils are required to fund 11.7 per cent of the NSW SES, NSW Fire and Rescue and NSW RFS budgets through a direct contribution levied each year by the State Revenue Office. This is funded directly from general revenue, primarily rates, as councils have no ability to raise revenue to fund this in any other way.

Councils also have no influence on the costs or budget setting of these organisations. This contribution of ratepayers' funds is in addition to the emergency services insurance contribution under the Fire and Emergency Services Levy Act 2017 that is extracted through insurance companies, who cover 73.7 per cent of the agencies' budgets and results in higher insurance premiums for policy holders.

The emergency service contribution is estimated to have cost NSW councils overall $207.2 million in 2023–24. That is a total of $66.97 per ratepayer, a 45 per cent increase from the $46.23 per ratepayer that was estimated in 2021-22.

In 2019, the NSW Government subsidised councils for the increase in emergency service contribution costs, because of a large increase in workers compensation costs followed by the Black Summer Bushfires and the unfolding COVID pandemic. From the 2023–24 financial year, the NSW Government increased the budgets and therefore costs for the three relevant agencies and removed the subsidy at the same time. The increase represented a $41.2 million cost increase from the prior 2022–23 financial year.

From 2024-25, increases in the emergency services contribution paid by councils are incorporated into the rate peg increase with an ESL factor applied to each council based on the prior year's increase in costs.

Figure 11 Respondent councils with the largest emergency services levy contribution

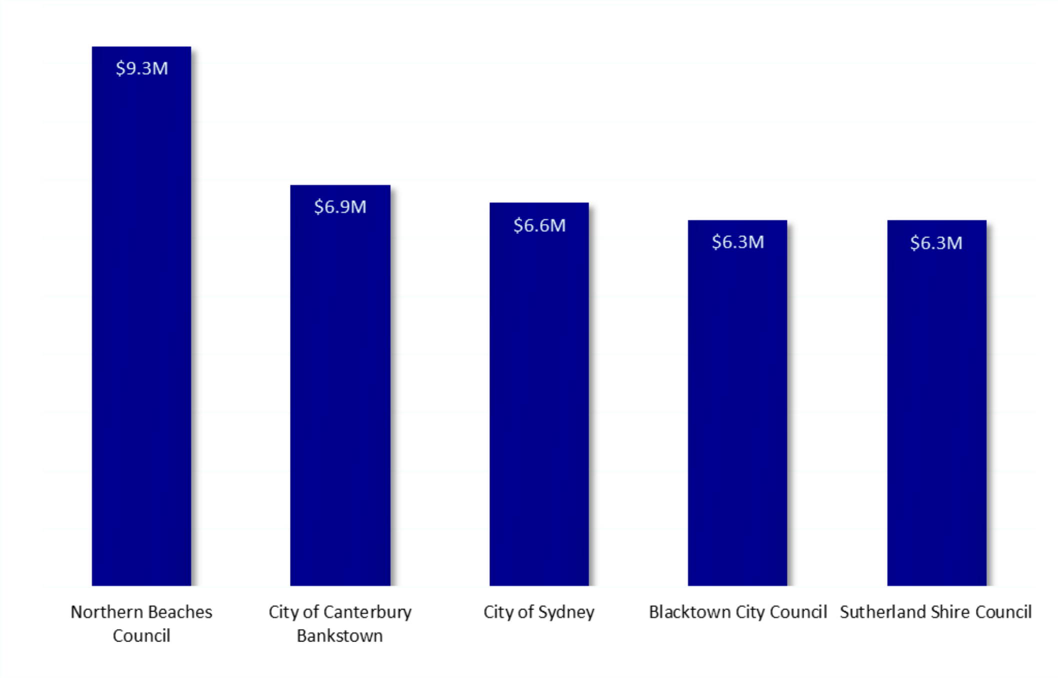
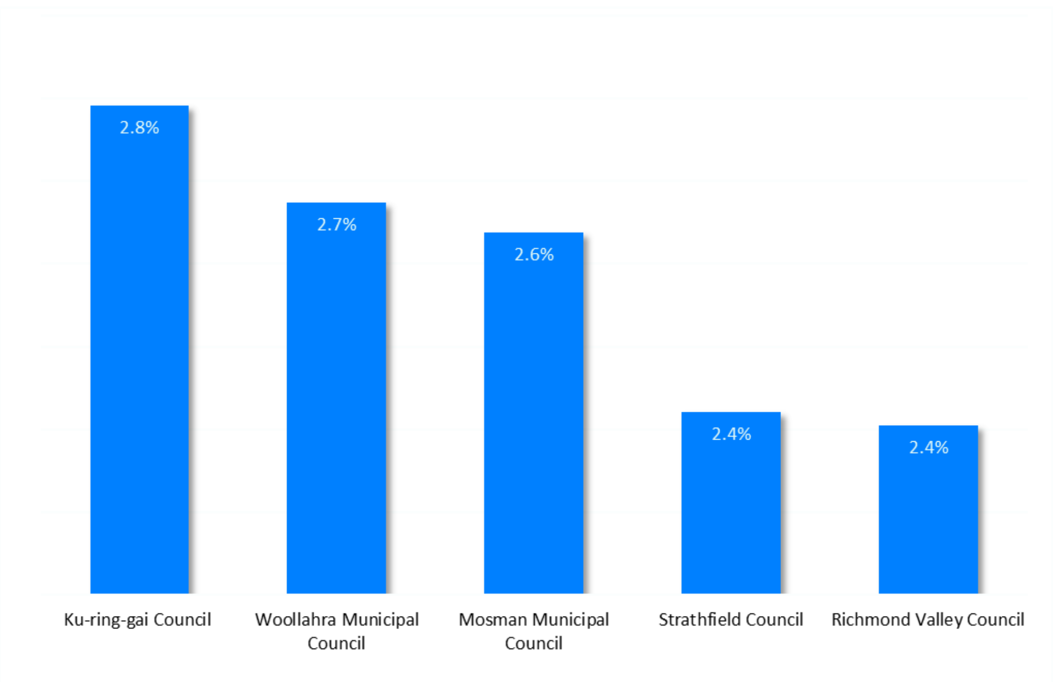


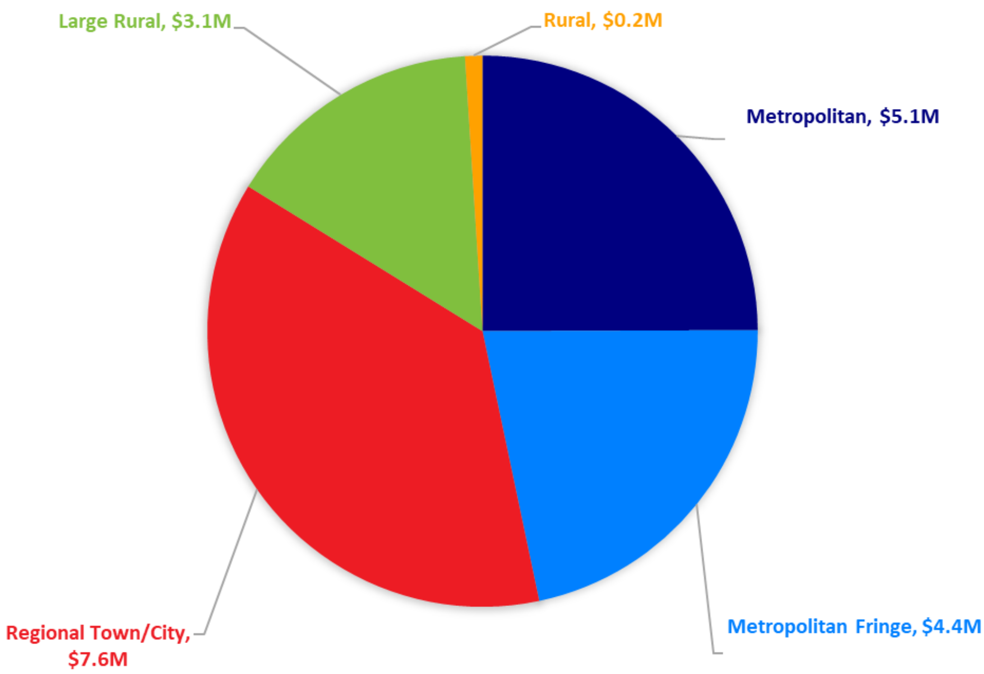
Figure 12 Respondent councils with the largest emergency services levy contribution as a proportion of total operating expenditure



Metropolitan councils pay more emergency services contribution in both total dollar value and as a percentage of total operating expenses.

In addition to the emergency services contribution, local councils are required to support the RFS and SES in other ways. This commitment seems to be different for different councils. For example, for some councils, when the RFS annual budget is allocated back to the districts, some of these funds are vested in councils through the Rural Fire Fighting Fund (RFFF). These funds are then administered by councils to deliver repairs and maintenance of buildings and a small amount of plant and equipment. In some cases, councils also fund other functions such as training and provision of office supplies. If the RFFF is insufficient to provide these in any one year, some councils will then provide further financial support directly to the districts to meet the difference.

Figure 13 Additional RFS contributions by council classification

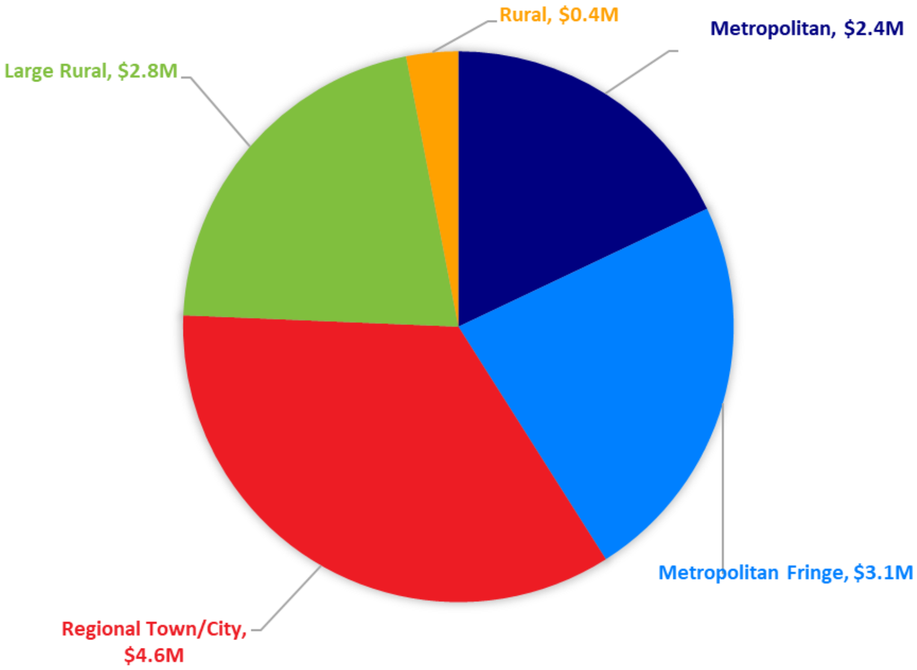


The RFS funding arrangements are the most complex of all the emergency services and creates challenges for both councils and the RFS. While councils are aware that their obligations to provide financial support to the RFS are generally over and above the RFFF, the costs at a district level are extremely volatile from one year to the next and dependent on whether there is a bushfire in the district (in which instance the district will fund some aspects of other districts' costs if they come to support the local bushfire response) or if the district comes to the aid of another district (in which instance they will receive additional funding which reduces the pressure on its own budget and therefore the financial support required from the local council).

What results is that councils have to bear the budget risk of the volatility of RFS costs and funding, while RFS districts do not have accountability for their own budgets and costs, and are not able to help to provide certainty because they do not know where the next emergency will be. Much of these volatility issues are resolved at a State level, when looking at the RFS services overall.

In addition to the direct repair and maintenance costs, the NSW Government has asserted that councils are also required to recognise RFS red fleet assets and account for their depreciation expense in council financial reports. In 2023-24, this depreciation cost is estimated at $13.3 million.

Figure 14 RFS Depreciation Expense by council classification



This has been a somewhat contentious issue in recent years and ultimately comes down to identifying where control of these assets lies. In summary, the NSW Government has concluded that these assets are vested to councils under the *Rural Fire Services Act 1997* and therefore "on balance, councils control this equipment" under the Australian Accounting Standards[5].

The NSW Audit Office had previously accepted this position in undertaking their audit function of local government. While 43 NSW councils received a qualified audit opinion of their 2021-22 financial reports for not recognising these assets in their balance sheets, this reduced to 36 councils in 2022-23. By 2023-24, there were no qualified opinions as a result of non-recognition of the red fleet.

Although no longer a financial audit issue, the issue is ongoing. While depreciation itself is not a cash expense, the accounting for depreciation in local government has two key financial implications. Firstly, the increase in depreciation expense will reduce a council's overall surplus or increase its deficit, which has implication for a council's measures of financial sustainability. Secondly, for most local government assets, depreciation is used as the estimate of required renewal expenditure for councils to maintain assets at their current condition. In other words, councils must fund depreciation with a similar level of capital cashflow to ensure assets are kept at required standards, this is not the case for firefighting equipment, which is funded through the State Government's budget allocation to the RFS.

Over 2024 and 2025 the NSW Parliament's Public Accounts Committee inquired into the assets, premises and funding of the NSW Rural Fire Service (RFS). The inquiry considered the funding, maintenance, accounting and operational management of NSW RFS assets and premises and arrangements between the NSW RFS and councils. The May 2025 recommendations of this inquiry included that these red fleet assets should be

[5] Audit Office of New South Wales (2023) *Regulation and monitoring of local government*, NSW Government, 23 May 2023.

vested in the NSW Government. The forthcoming NSW Government response may impact this figure in coming years.

3.3 Funding programs

Councils are occasionally required or compelled to fund the continuation of several funding programs that were instigated by the NSW Government, but for which funding commitments have, over time, either been reduced or removed entirely. The total cost to council to continue to meet the funding shortfall of these programs was $203.5 million in 2023-24 up by $22.2 million (12 per cent) from $181.3 million in 2021-22.

The three main funding programs councils currently continue to fund are:

- Library subsidies: the original library funding subsidy was for the State Government to fund up to 50 per cent of library services costs for many councils, however this has reduced over time. In 2023-24, the subsidy received by councils represented 6 per cent of total expenditure, down from 7 per cent in 2021-22. Councils paid an estimated $181.8 million on library services that covered the original commitment for a 50 per cent State government subsidy. This has changed from $156.6 million in 2021-22, an increase of $25.2 million (16 per cent).
- Flood mitigation: the program was originally established with the State and Federal governments providing 80 per cent of the costs and councils funding 20 per cent. The shortfall of this funding is estimated to be costing councils $18.1 million, which is no change from the $18.2 million in 2021-22.
- Road safety program: funding for programs and ongoing staff for community education and behavioural change, however councils were not able to reduce the costs with the removal of the funding program. In 2023-24, councils have an estimated cost burden of $3.6 million, down from $6.4 million in 2021-22. When comparing the 44 councils common to both survey years the cost burden for 2023-24 decreased by $110,000.

Figure 15 Funding program costs shifted by category

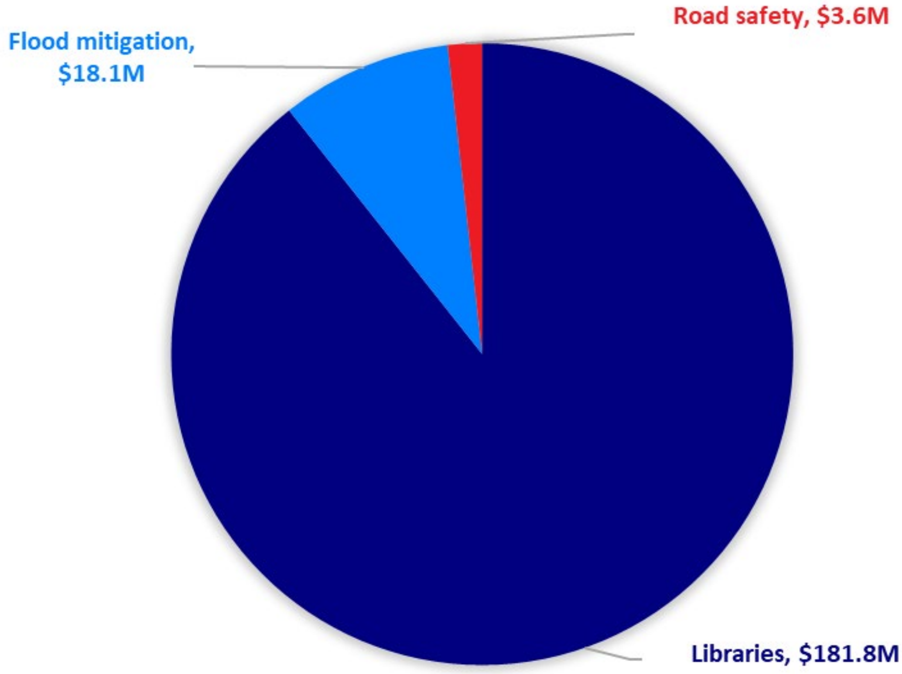


Table 7 Changes in funding program costs shifted by category

Funding programs ($millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Libraries	$156.6	+$25.2 (+16.1%)	$181.8
Flood mitigation	$18.2	-$0.1 (-0.5%)	$18.1
Road safety	$6.5	-$2.9 (-44.6%)**	$3.6
Total	**$181.3**	**+$22.2 (+12.2%)**	**$203.5**

** When comparing the 44 councils common to both survey years the cost burden for 2023/24 decreased by $110,000.

Figure 16 Funding program costs shifted by council classification

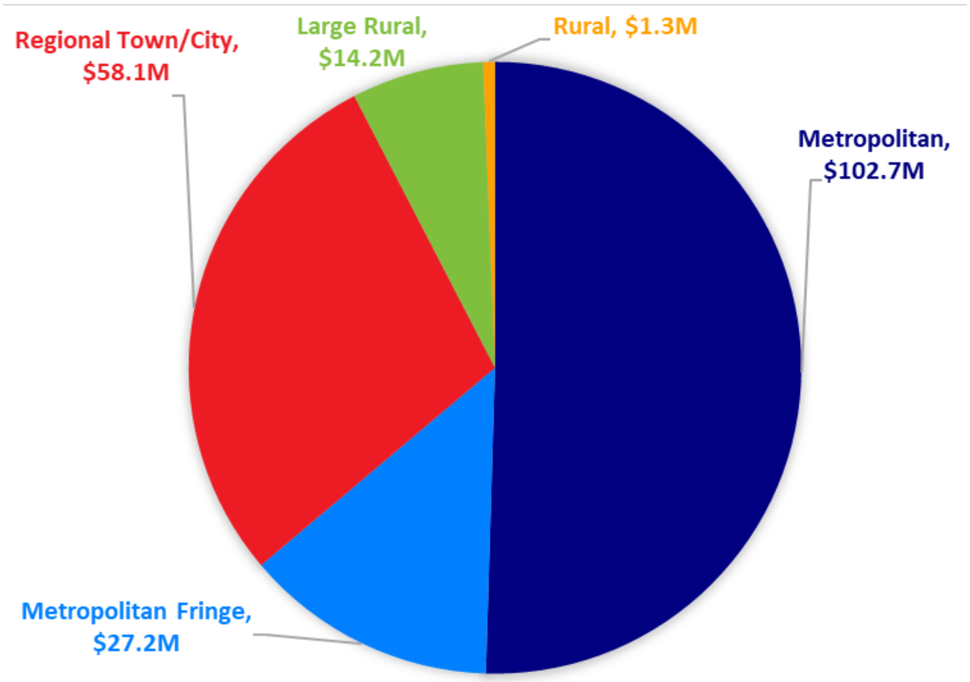
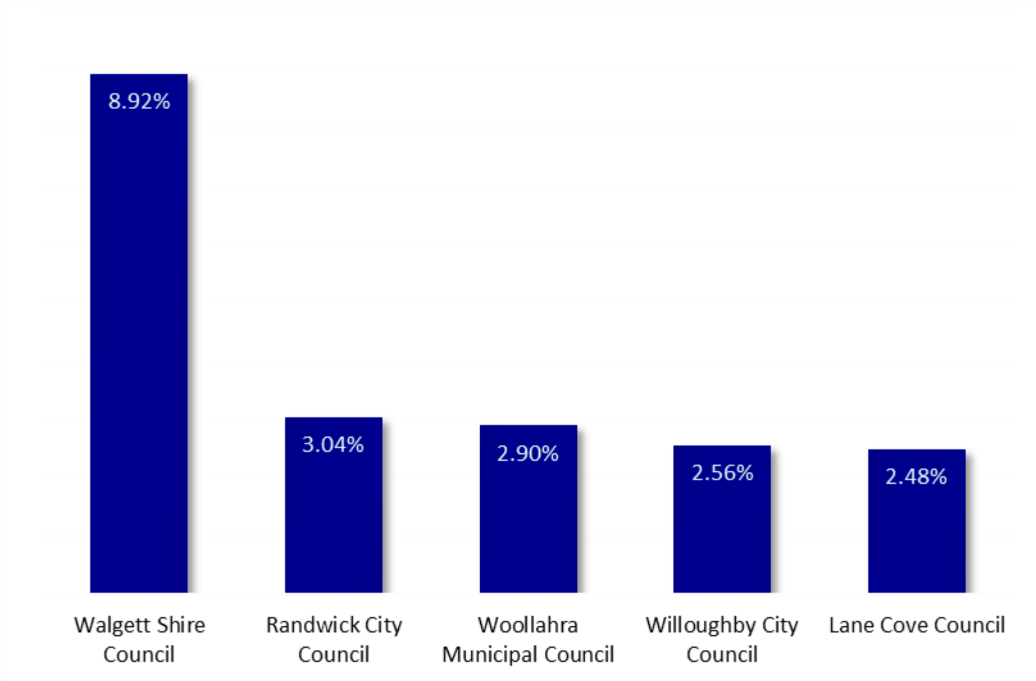


Table 8 Changes in funding program costs shifted by council classification

Council classification ($millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Metropolitan	$89.7	+$13.0 (+14.5%)	$102.7
Regional Town/City	$56.5	+$1.7 (+2.8%)	$58.1
Metropolitan Fringe	$21.8	+$5.4 (+24.8%)	$27.2
Large Rural	$12.2	+$2.0 (+16.4%)	$14.2
Rural	$1.2	+$0.1 (+8.3%)	$1.3
Total	**$181.3**	**+$22.2 (+12.2%)**	**$203.5**

Figure 17 Respondent councils with the largest funding program costs shifted as a proportion of total operating expenditure



3.4 Pensioner rebates

Councils are required to provide rates rebates to pensioners, which are partially subsidised by the NSW Government. This mandatory pensioner rebate is an estimated net cost to councils of $49.7 million. This does not include the cost of administering the mandatory pensioner rebates, as each pensioner claim needs to be registered and their details checked by the council.

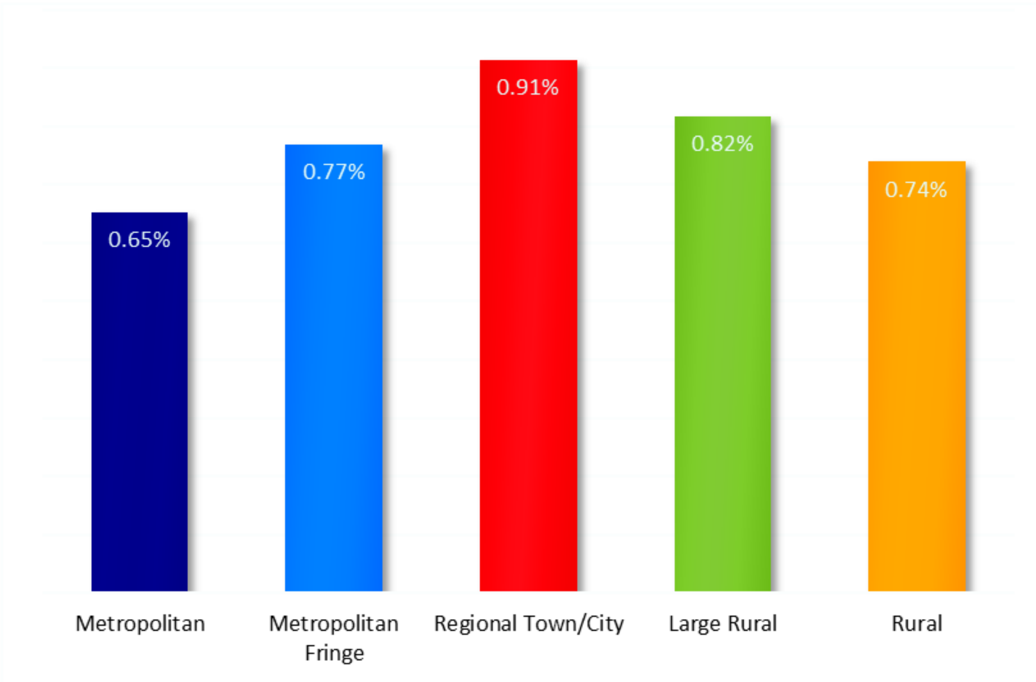
The level of mandatory rebate has not risen substantially over many years and therefore has not kept pace with inflation. As a result, many councils have elected to apply further voluntary rebates to partially ease the burden on pensioners on fixed incomes. NSW councils incur an additional $19.1 million in voluntary pensioner rebates. The total cost of pensioner rebates is estimated to be $68.9 million.

During the 2024 NSW Parliamentary inquiry into the ability of local governments to fund infrastructure and services, some councils commented, as have some industry observers and academics in their analyses, that social welfare is the responsibility of the federal government and should not be the domain of local governments. One of the measures which may be of benefit to the local government framework identified in IPART's 2023 rate peg methodology review, was to conduct "a comprehensive state-wide evaluation of existing rate payer concessions"[6]. The 2024 NSW Parliamentary inquiry reinforced this, recommending that

[6] Independent Pricing and Regulatory Tribunal (2023) *Final report – Review of the rate peg methodology*, August 2023, p1.124.

"the NSW Government conduct a comprehensive review of the rate exemptions and concessions under the Local Government Act 1993"[7].

Figure 18 Average total pensioner rebates as a proportion of total rates revenue by council classification[8]



[7] The Standing Committee of State Development NSW Legislative Council (2024) *Ability of local governments to fund infrastructure and services,* Report 52, November 2024, p40. AND
Drew and Ryan (2016) *Giving local governments the reboot – improving financial sustainability of local governments,* The McKell Institute, p.10

[8] Total pensioner rebates includes both mandatory and voluntary rebates.

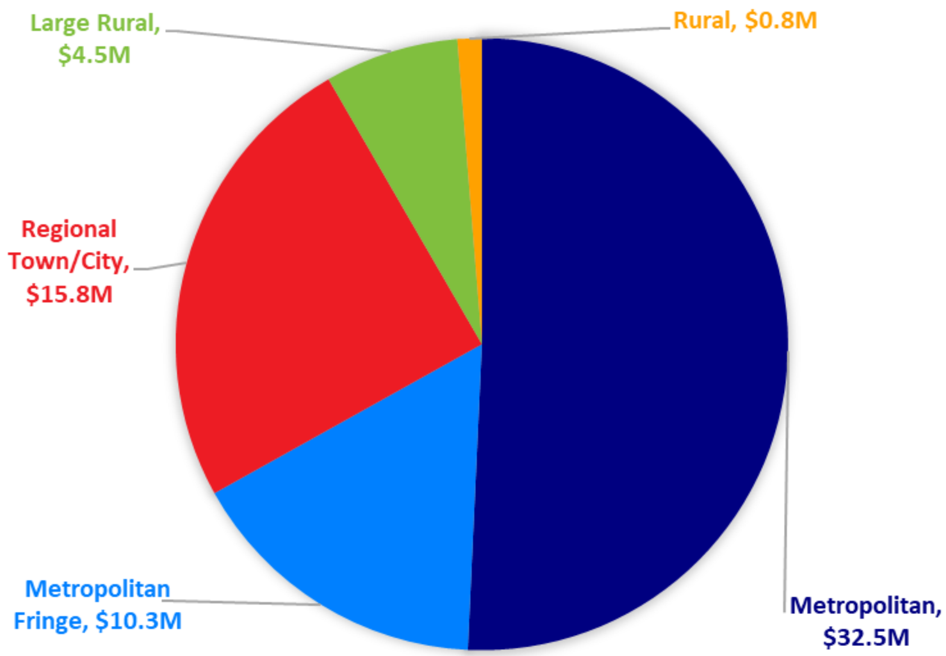
3.5 Service gaps

This section captures costs incurred by councils in providing services as a result of insufficient service or non-existent provision by another level of government or a market failure of a subsidised or privatised public service.

The NSW Parliamentary Inquiry into the ability of local governments to fund infrastructure and services in 2024 referred to these costs as a function of local government being the "service provider of last resort". It noted that "while these services are not mandatory for local governments to provide, many councils, in conjunction with their community, opt to provide these services – many of which are a significant expenditure source with only marginal external revenue attracted – to ensure they remain available"[9].

In 2023-24, it is estimated that councils spent $64 million in filling these gaps, which was a small decline from $66.6 million in 2021-22. As financial sustainability puts increasing pressure on council resources, some councils may be opting to reduce or close these services to ensure the ongoing financial viability of the council. We can see that reductions in these costs have been experienced by regional and rural councils particularly.

Figure 19 Service gap costs by council classification



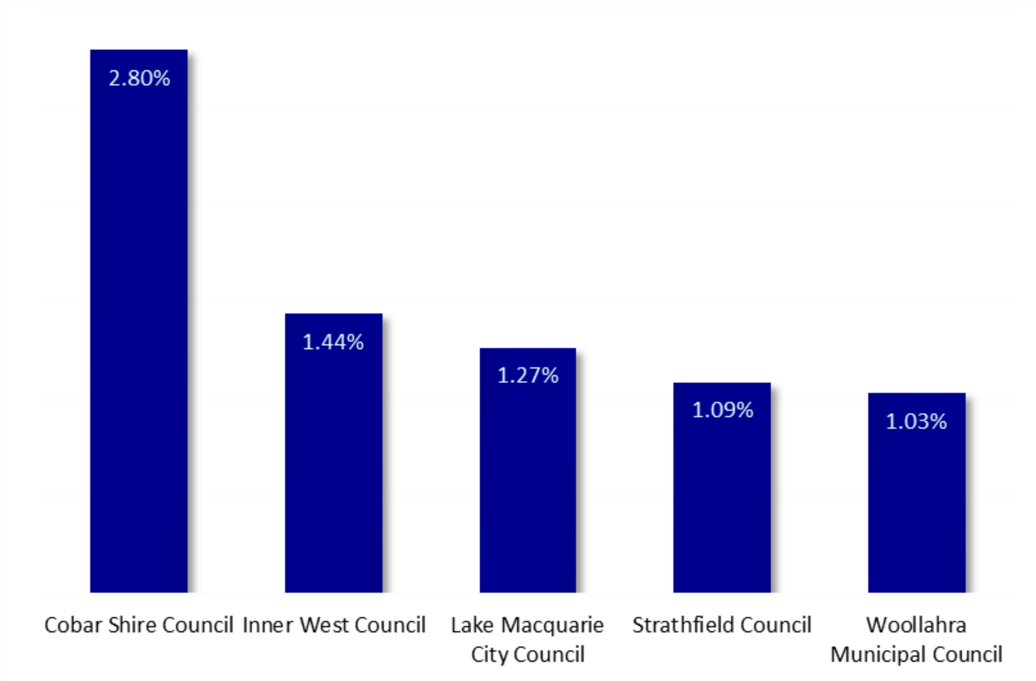
[9] The Standing Committee of State Development NSW Legislative Council (2024) *Ability of local governments to fund infrastructure and services,* Report 52, November 2024, p8.

Table 9 Changes in service gaps costs by council classification

Council classification ($millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Metropolitan	$30.7	+$1.8 (+5.9%)	$32.5
Regional Town/City	$21.3	-$5.5 (-25.8%)**	$15.8
Metropolitan Fringe	$5.2	+$5.1 (+98.1%)	$10.3
Large Rural	$7.5	-$3.0 (-40.0%)**	$4.5
Rural	$2.0	-$1.2 (-60.0%)**	$0.8
Total	**$66.6**	**-$2.7 (-4.1%)**	**$63.9**

** When comparing the 44 councils common to both survey years the increase in cost shift was 30.5%.

Figure 20 Respondent councils with the highest service gap cost as a proportion of total operating expenditure



3.6 Waste levy

The waste levy is a tax on landfill facilities and only applies to 42 metropolitan and 19 regional levy areas shown in Figure 23. As the cost of the levy is recovered through waste charges – it represents a somewhat "invisible tax".

The purpose of the waste levy is to provide economic incentive to alternative waste management processes, such as recycling and resource recovery. The funds raised by the waste levy go directly to NSW Government general revenue. Some funds do come back to communities and councils through grants for a variety of projects, but this only represents 10 to 15 per cent of the funds raised through the tax.

The metropolitan levy is $163.20 per tonne in 2023-24 up from $147.10 per tonne in 2021-22 and the regional levy is $94.00 per tonne in 2023-24 up from $84.70 per tonne in 2021-22. Some councils, such as Central Coast and Newcastle, operate their own landfill facilities and pay the levy directly to the NSW Government. Not all councils operate landfills directly, many councils have their waste managed through contracts with private providers. While these providers will incur the levy directly, councils in the levy areas will collect waste charges that include the waste levy as a component of the waste fees. Depending on how their waste management contracts are structured, some councils have been able to provide an estimate of this levy collected in the waste fees while others have not.

We have estimated the total amount of the waste levy paid through waste collection fees in 2023-24 at $266.9 million, which is down from $292.9 million in 2021–22. When comparing the 44 councils common to both survey years the estimated waste collection fees in 2023-24 was $134.7 million and in 2020-21 was $116 million, which is an increase of $18.7 million or 16.1%.

Figure 21 Waste levy by council classification

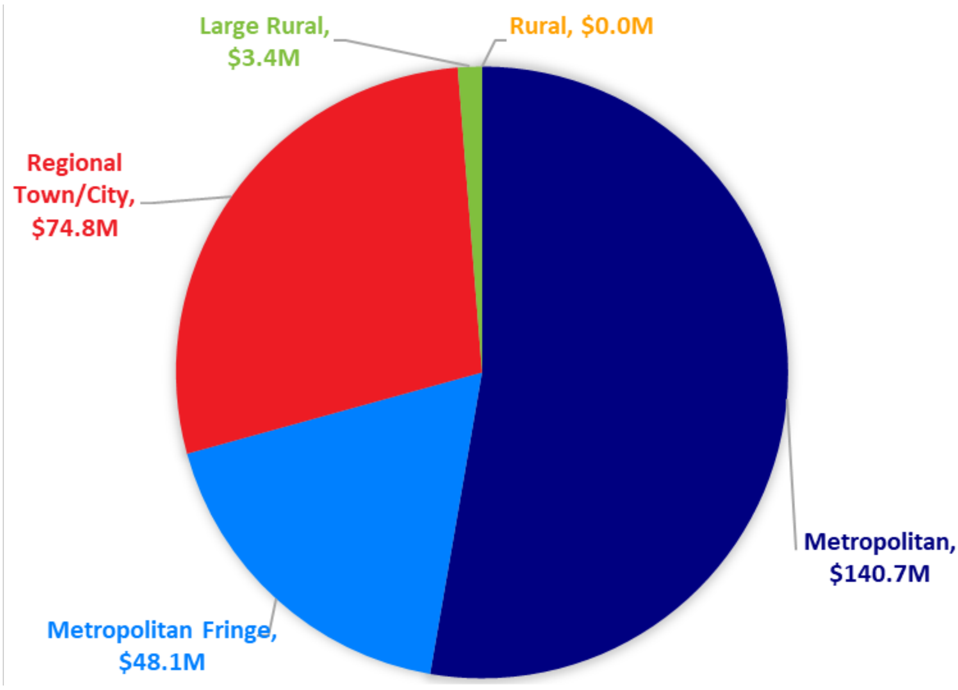


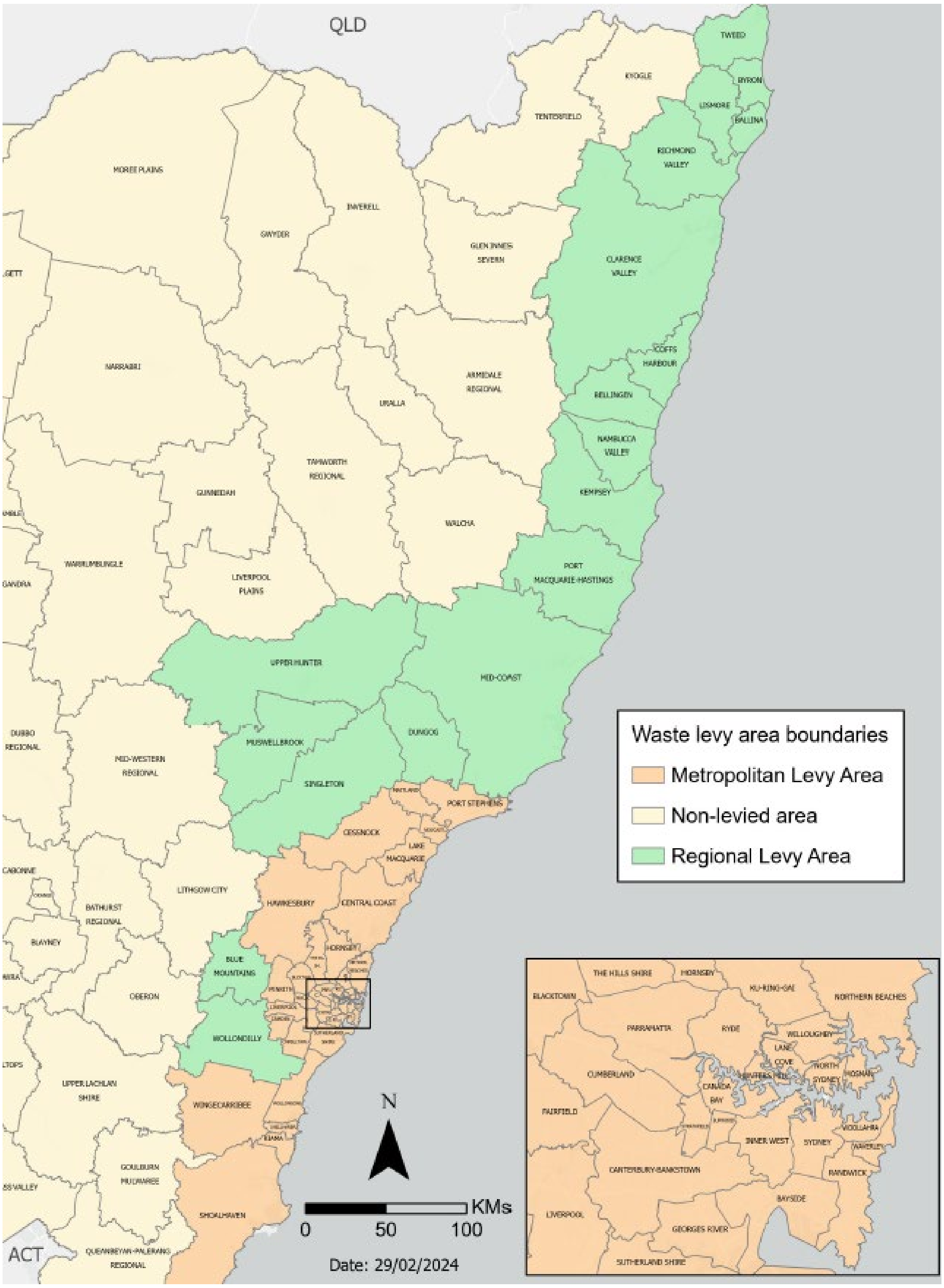
Table 10 Changes in waste levy by council classification

Council classification ($millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Metropolitan	$138.1	+$2.6 (+1.9%)	$140.7
Regional Town/City	$97.5	-$22.7 (-23.3%)**	$74.8
Metropolitan Fringe	$54.5	-$6.5 (-11.7%)**	$48.1
Large Rural	$2.7	+$0.7 (+25.9%)	$3.4
Total	**$292.9**	**-$25.9 (-8.9%)**	**$266.9**

** When comparing the 44 councils common to both survey years the estimated waste collection fees in 2023-24 was $134.7 million and in 2020-21 was $116 million, an increase of $18.7 million or 16.1%.

Figure 22 Respondent councils with the highest waste levy

Figure 23 Waste levy area map[10]



[10] https://www.epa.nsw.gov.au/sites/default/files/levy-area-map.pdf.

3.7 Rate exemptions

Many government and private property owners in a local government area are exempt from paying rates to councils. Due to the way rates are calculated, this doesn't usually affect the total amount of revenue that councils are able to raise through rates. It does mean that the distribution of the rates burden falls more heavily on the existing rate payer base.

For government-owned properties, rate exemptions are a part of a complex set of arrangements for exemptions of some taxes between the different tiers of government. State Owned Corporations (SOCs and GTEs) pay tax on lands owned and used for commercial purposes. This is provided for under competitive neutrality policy/National Competition Policy (a notable exception to this arrangement is the Forestry Corporation). Councils are exempt from most State and Federal taxes (for example land tax, payroll tax, stamp duty, and income tax). Councils are also involved in delivering a wide range of services or regulatory functions under various State and Commonwealth Acts and they receive a large number of different grants from State and Federal governments, including the untied Financial Assistance Grants (FA Grants) that the States administer and distribute to councils. FA Grants have been declining as a percentage of commonwealth taxation revenue.

Additionally, there are many non-government organisations that are also exempt from paying rates, including private schools, hospitals and retirement villages, as well as not-for-profit organisations such as religious organisations. While these organisations are exempt from paying rates; all expect and receive services and use infrastructure from councils, the cost of which is funded by ratepayers.

Community housing was an area that we asked councils about specifically as the NSW government has been in the process of transitioning the ownership and management of public and social housing to non-government Community Housing Providers (CHPs). Under past practice, social and public housing provided by State Government agencies paid rate equivalents on all their properties. CHPs are exempt from rates and more and more social and public housing is moving into this category. As a result, the rates exempt status seems to be moving with the community housing property. For councils in NSW the amount varies between LGAs and in some cases this is significant. For example, Penrith City Council has an estimated rate exemption of $415,000.

The total amount of rate exemptions represented $294.6 million in 2023-24, which is a $21.5 million (8 per cent) increase from the $273.1 million estimated in 2021-22.

Figure 24 Rate exemptions by category

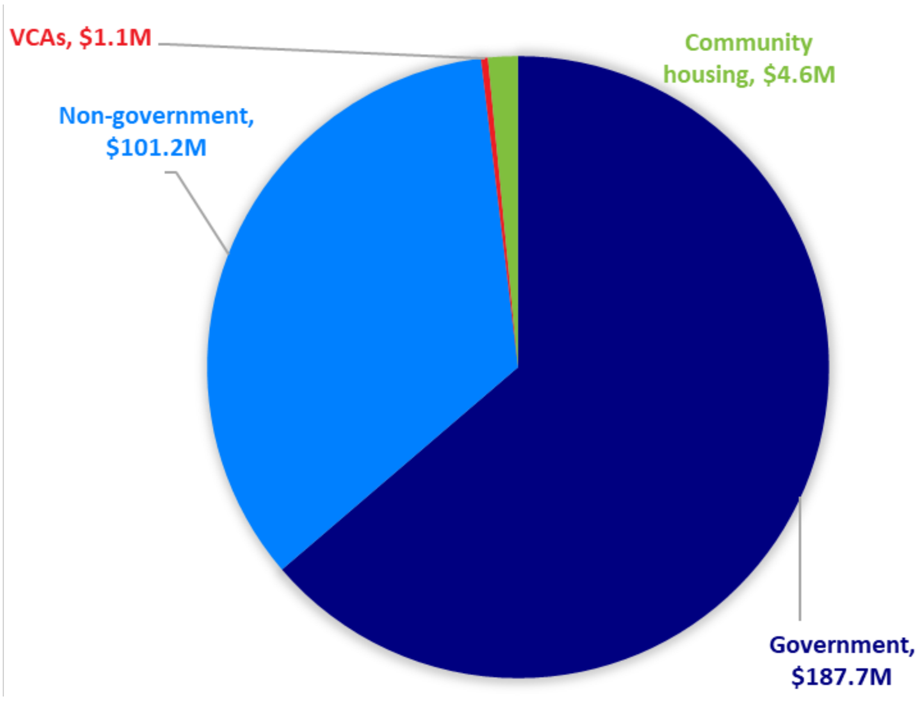


Table 11 Changes in rate exemptions by category

Rate exemptions ($millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Government	$151.0	+$36.7 (+24.3%)	$187.7
Non-government	$114.9	-$13.7 (-11.9%)**	$101.2
Community housing[11]	$5.2	-$0.7 (-11.5%)	$4.6
Voluntary Conservation Agreements (VCAs)	$1.9	-$0.9 (-42.1%)	$1.1
Total	**$273.1**	**+$21.5 (+7.9%)**	**$294.6**

** When comparing the 44 councils common to both survey years the estimated rate exemption costs increased by 17.4%.

[11] Rate exemptions for community housing varies significantly across LGAs and in some cases this is significant. For example, Penrith City Council has an estimated community housing rate exemption cost shift of $415,000.

Figure 25 Rate exemptions by council classification

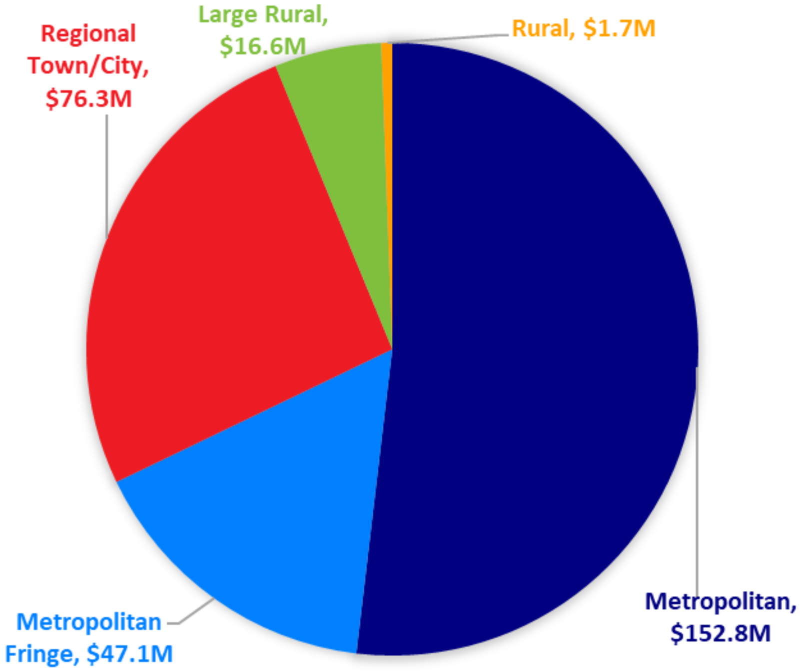


Table 12 Changes in rate exemptions by council classification

Council classification ($millions)	2021-22 estimate	Change from 2021-22 to 2023-24	2023-24 estimate
Metropolitan	$142.1	+$10.7 (+7.5%)	$152.8
Regional Town/City	$72.9	+$3.4 (+4.7%)	$76.3
Metropolitan Fringe	$41.8	+$5.3 (+12.7%)	$47.1
Large Rural	$14.6	+$2.1 (+14.4%)	$16.7
Rural	$1.7	$0.0 (0.0%)	$1.7
Total	**$273.1**	**+$21.5 (+7.9%)**	**$294.6**

Figure 26 Average rate exemption for respondent councils as a proportion of rates revenue by council classification

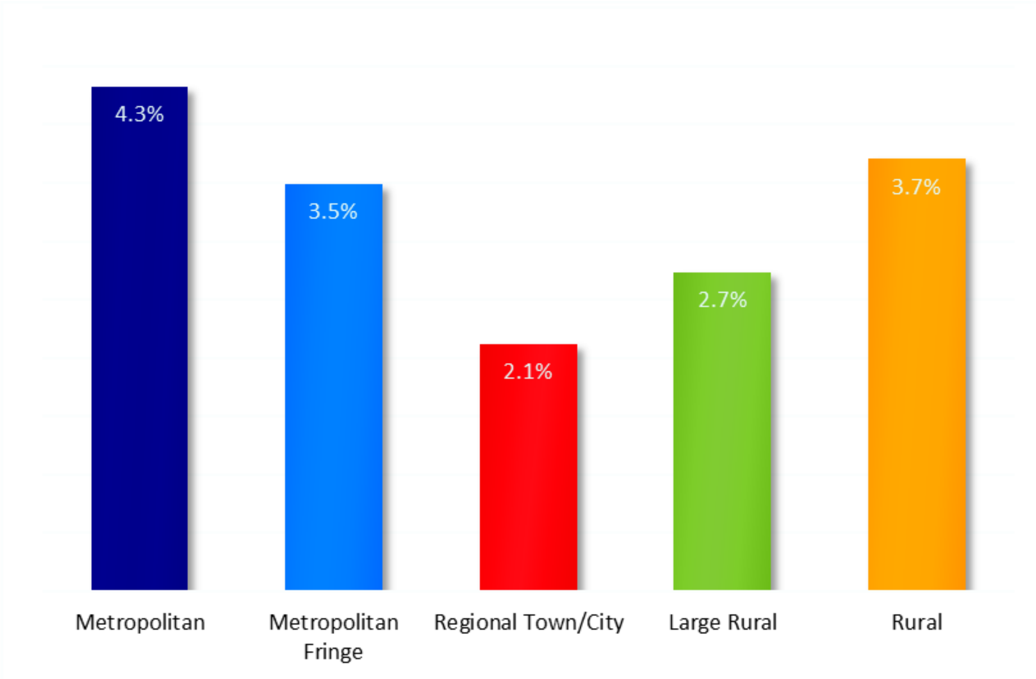


Figure 27 Respondent councils with the highest rate exemptions as a proportion of rates revenue

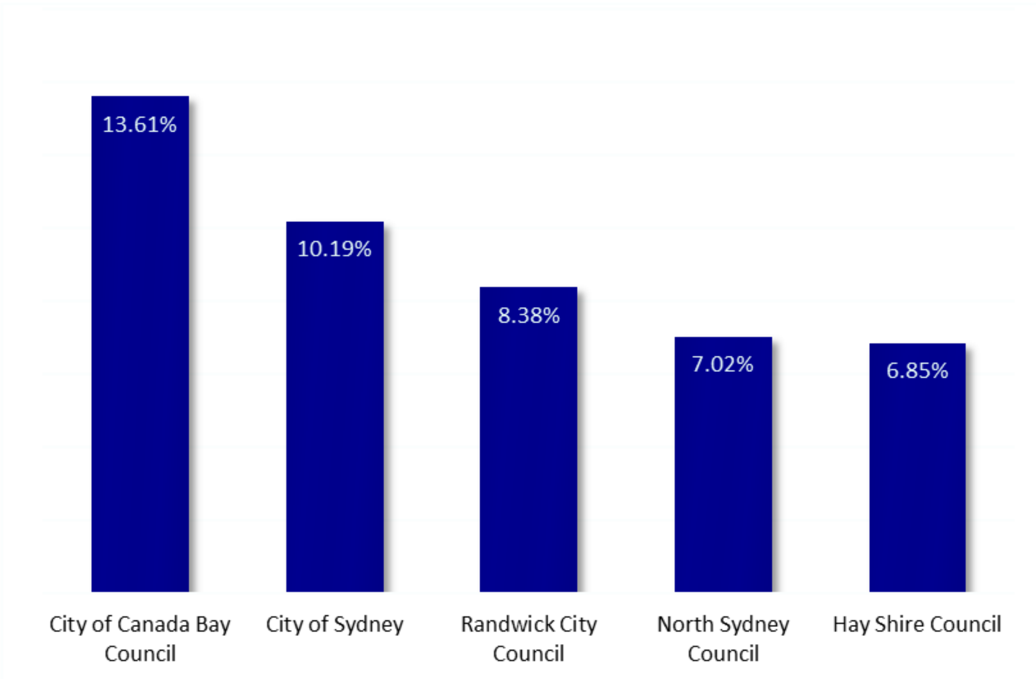


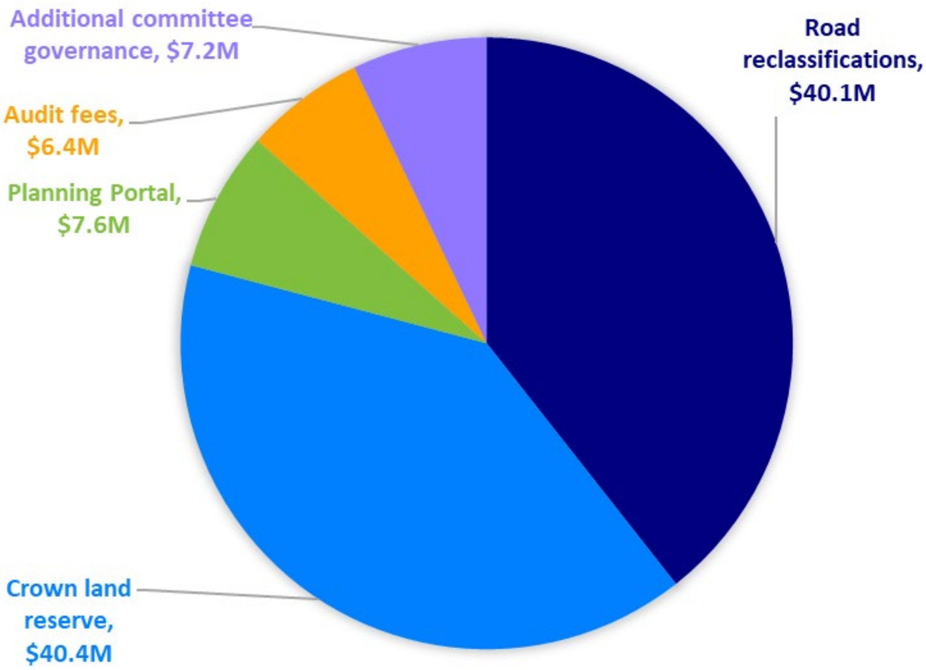
Table 13 Cost for rate exemptions

Rate exemption ($ million)	Total amount of cost shift provided	Estimated total cost shift for all NSW Councils (based on population)
Government-owned property	$113.3	$187.7
Non-government-owned property	$60.7	$101.2
Voluntary conservation agreements	$0.6	$1.1
Community housing	$2.7	$4.6

3.8 Other cost shifts

A number of other areas for cost shifting were identified and gathered in the survey and are outlined here.

Figure 28 Other cost shifts by category



Under the Transport for NSW (formerly RMS) road reclassification program in the 1990s, many roads were reclassified as local or regional road for councils to own and maintain. Of the 64 councils that responded to the survey, 24 were able to estimate the cost of this reclassification, 18 were not able to reliably estimate, and 20 stated that it was not applicable. The total estimate of costs of maintaining reclassified roads was $40.1 million in 2023-24.

Under the Crown Lands Act 1989, councils have full responsibility to maintain crown reserves under council management and are expected to subsidise shortfalls in maintenance cost from general revenue. The NSW Government's rationale of this is that 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). The NSW Government will on occasion take over allowable revenue raising activities on council managed crown reserve land (not including national parks) or will require councils to transfer revenue from council managed crown reserve land to the State Government.

Of the 64 councils surveyed, 25 estimated the lost revenue at $18.2 million in 2023–24. A further 21 councils were not able to reliably estimate the costs and 17 councils advised that this item didn't apply to them. This estimate does not represent the total net cost of managing (maintaining) crown lands. Nor does it include transfers associated with the caravan park levy. Only, any action by the State Government to limit revenue raising capacity or require the transfer revenue to the State Government has been considered cost shifting.

Over recent years, two other cost shifts have come into play. Since 2016, the NSW Audit Office has been accountable for undertaking the auditing of financial statements of NSW councils, which in effect has created a monopoly on the service. We asked respondent councils to provide an estimate of the net increases in external audit fees for the auditing of 2022-23 financial statements. The estimated increase in external audit fees for NSW councils is $6.4 million. While one council experienced a reduction in audit fees, most councils commented that they have seen significant one-year increases ranging from 9 per cent to 100 per cent. Many also stating that they have been advised to expect further significant increases in future years.

The second new cost-shift experienced is a result of the introduction of the NSW Planning Portal. Councils are required to manage a variety of planning processes, including development applications and certifications, through the planning portal. Forty-six councils were able to provide an estimate of the increased cost burden of using the portal, while 15 were unable to estimate the costs, two didn't respond and one responded that it was not applicable (as costs were fully grant funded). The majority of councils commented that there have been additional costs required to support and operate the portal since implementation, including the development and testing of integration solutions, additional effort required by planners to operate processes within the portal, and to implement controls and error fixing measures, with some commenting on the frustration and unreliable nature of the portal. Others have noted that there have been some productivity gains from the portal, resulting from a decrease in manual scanning and downloading of information. Overall, the estimated net cost to councils of using the NSW Planning Portal is $7.6 million.

3.9 Cost of funding growth

Councils theoretically fund the costs of essential new infrastructure required to support growing development and population through local infrastructure contributions also known as developer contributions. While the costs associated with increased services and the other lifecycle costs of the new infrastructure (such as maintenance and renewal) through supplementary rates assessments and the increases provided by the population growth factor that has been implemented within the rate peg methodology from 2022-23.

Developer contributions are only able to be levied in relation to a Developer Contributions Plan, which sets out the infrastructure required to support new development and the associated costs to build this infrastructure. Councils have two mechanisms to raise developer contributions under the Environmental Planning and Assessment Act 1979:

- Section 7.11 allows for a contributions rate per dwelling or square metre.
  - There must be a demonstrated link between the development and the infrastructure to be funded.
  - Section 7.11 contributions also have a threshold or cap (usually around $20 thousand per dwelling).
  - If a council wants to charge a rate above the threshold, it must submit its Developer Contributions Plan to IPART for an independent review who will assess it against the criteria set out in the Department of Planning, Housing and Infrastructure’s Local Infrastructure Contributions Practice Note (2019).
- Section 7.12 allows for the contribution to be charged as a percentage of the estimated cost of the development:
  - This can only be charged as an alternative to Section 7.11 contributions, not in addition to it.
  - The maximum percentage that can be charged under Section 7.12 in most areas is 1 per cent.

In lieu of some or all developer contributions payable, councils are able to negotiate voluntary planning agreements with developers that can be used to fund the infrastructure associated with the development.

However, councils are increasingly identifying that Developer Contributions are not adequate to fund the new infrastructure required for growing communities. While councils can apply to IPART to increase the cap on contributions, some councils are reluctant to do so as IPART applies a definition of essential infrastructure to be included in Developer Contributions which excludes social infrastructure councils consider this to be too restrictive.

Additionally, alternative housing models, such as build to rent, are becoming more prevalent but are creating challenges for councils to fund the services required for these developments. These developments are often rated as one property, even though they are housing multiple dwellings, with each relying on councils’ services and infrastructure.

In the 2023-24 Cost Shifting Survey an additional question was identified by the local government sector to include in the survey. This question aimed to ask councils whether they had estimated the funding gap created by capping developer contributions and development applications fees, question 43 as outlined below.

Q43 Capping developer contributions and DA fees: Estimated shortfall in costs for infrastructure and community facilities that should be funded through development contributions and development application fees. Council experiences ongoing pressures from rapid population growth and the challenges of providing infrastructure, facilities, and services to new communities with limited government support.

Twenty councils provided an estimate of this funding shortfall, a further 21 councils stated that they were unable to estimate, and nine councils stated that the question was not applicable to them.

Of the councils that provided an estimate, there was a substantial variation in the amounts estimated ranging from $4.3 billion for one council to $23,000 for another. The estimates of the gap in funding infrastructure for growth was most substantial for Sydney metropolitan and metropolitan fringe councils. The variation in responses to this question reflects the more subjective nature of determining infrastructure needs and the timing of their delivery.

As a result of the very mixed feedback in the survey, we have not included this cost in the total estimate of cost shifting. But as it is a growing issue for many councils, it is an opportunity for councils to agree on an approach to estimate the funding gaps that are occurring and highlight the cost of the limitations of the current funding mechanisms.

3.10 Future survey considerations

We asked councils what other areas should be considered for future surveys. The key areas that respondents identified as costs to be captured in future surveys included:

- Local Emergency Management Committees. Costs of councils facilitating, hosting and administering meetings of emergency services resulting in councils bearing cost all expenditure.
- Funding for Local Emergency Management Officers.
- Additional reporting burden and governance associated with grant reporting. Some councils reported experiencing some unnecessary and extreme reporting obligations and requirements with a number of funding bodies.
- Costs associated with legislative changes / processes that impose further administrative and compliance burdens on councils for mandatory processes required e.g. Modern Slavery changes to computer system / associated reporting.
- ESL Reform – changes mean council may have to maintain a database for Revenue NSW to charge the Levy.

- Council required to pay for design reviews of intersections and maintenance costs (for 10 years) of intersection traffic lights, which was paid by Transport for NSW in the past.
- State Significant Development proposals often require significant advice and input from councils. Yet as this development is State-assessed, councils cannot collect fees from proponents to recover their costs. With more developments in NSW progressing through these State-assessed planning pathways, this cost shift is expected to grow.
- The cost of meeting the obligations for and applying for a Special Rate Variation.
- Valuer General's fees for private valuations.
- Commercial food organics/garden organics (FOGO) inspections under the new mandatory food organics requirements for commercial premises over a certain size. State Government has proposed that Council environmental health officers undertake inspections of commercial premises.

These additional items will need to be validated in terms of the details of what is entailed and whether they are indeed cost shifts before inclusion in any future survey.

4 About the survey

This section outlines the methodology employed to develop and administer the 2023-24 cost shifting survey.

4.1 Development of the survey

The last cost shifting survey of NSW councils was undertaken with 2021-22 financial data. The 2021-22 survey marked a reinvigoration of the survey and approach to estimating cost shifting in New South Wales. We have used this last survey as the starting point for the 2022-23 Cost Shifting Survey questions. We undertook a review of the previous questionnaire guided by the following guiding principles:

- Ensure that questions are still relevant.
- Where possible maintain questions so that there can be direct year on year comparisons if required.
- Ensure that interpretation of questions is understood and consistent across all councils.
- Identify new areas of cost shifting where required.

An initial review of questions was undertaken by the project team, consisting of Morrison Low and LG NSW staff. We also established a reference group that included representatives of senior leaders and financial staff of a cross section of rural, regional, and metropolitan councils. The working group undertook a review of the questions and provided their feedback through a facilitated workshop.

4.2 Conducting the survey

The final survey was provided in a Microsoft Excel format to councils on Thursday, 5 December 2024 along with a request of councils' 2023-24 Financial Data Return (FDR), which contained council's audited financial Statement information. The FDR was used to gather a small amount of cost shifting information, but predominantly for data validation purposes.

4.3 Responses to the survey

Councils were asked to return their survey responses and FDRs by Monday 3 February 2025. Some councils requested extensions to this date, which were granted up to 24 February 2025. A total of 64 out of 128 councils provided completed surveys (a 50 per cent response rate), although not all answers were completed by all responding councils. The 50% response to the survey, represents 62% of the population. Among the 64 councils that participated, 20 were new and had not taken part in the previous survey. Their inclusion provided additional insights and enriched the overall findings. All 64 councils provided their FDRs.

44 councils participated in both surveys and in some instances not all the same questions were answered in both surveys. As a result, some variability in the estimates across all NSW councils is expected, which may affect the comparability of results between the two survey periods.

Where there is significant variance between the two surveys, the comparative analysis was undertaken using the common 44 councils across the two surveys and includes commentary in the report.

4.4 Data validation and analysis

Data validation included review of outliers both in total terms as well as a proportion of the council's proportion of total operating expenditure. Where possible, we also compared survey responses with councils FDR data returns and to the council's 2021-22 survey responses if available to understand if there may have been discrepancies or misinterpretations of questions. This required us to seek further information and validation with some councils on their responses to some questions.

For most questions, we have used population as the basis for estimating the total cost shift to all NSW councils for the survey data received. For some we were able to directly estimate through published reports. For example, we used the State Library's 2023-24 report on local council libraries with included operating costs and subsidies received. For other questions, such as the waste levy, where it is not relevant to all councils and there are different levels of the levy between metropolitan and regional councils, we used populations within the relevant and group councils as a basis for estimating the total cost of the waste levy.