

WALGA Central Country Zone

COST SHIFTING AND COMPLIANCE



Executive Summary

Fifteen Local Governments in the WALGA Central Country Zone have significant financial burdens on their ratepayers due to the consistent increase in shifting of responsibilities from Federal and State Governments to Local Governments. This has been compounded by rising costs associated with statutory requirements, the rising costs of doing business and limited or no ability to generate revenue or recover costs.

The population and rate base varies across the Zone members but the legislative and regulation requirements do not.

A large number of Acts impose requirements on Local Governments to devote resources to implement Federal and State Government legislation and regulations. Often the resourcing costs are under-recognised, meaning that the true cost of performing these functions is not always adequately provided for and Local Governments are also unable to set appropriate fees and charges to recoup these costs – limited either by legislation, economics or community expectations.

Local Governments are committed to the delivery of their community's priorities however they are required to allocate resources to implement and meet Federal and State legislation and regulations without adequate funding, which diverts funds away from core services such as roads and community facilities.

Additionally, the need to provide essential services, which are typically the responsibility of State or Federal Governments—such as the provision of primary health services—due to market failures in rural areas, further exacerbates the financial strain.

What is Cost Shifting?

For the purposes of this report the following definition of cost shifting applies:

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

Zone Snapshot

- Largest population base is 3424 (Shire of Narrogin) with rates income of \$5.446 million.
- Smallest population base is 356 (Shire of Wandering) with rates income of \$1,338,041.
- Rate base in majority of Zone members is stable to declining, whilst cost shifting by the State and Federal Government becomes more frequent and inadequately proportionate to costs directly incurred by Local Governments.
- The internal capacity to meet compliance set with regulatory and service shifting varies. The majority of Local Governments have an average of 32 employees with resource sharing across multiple Local Governments also in place to improve wider service delivery requirements (both within the Local Government's control and outside of it).

Key Findings

Third Sphere of Government administering State Government Legislation and Regulation

A key issue for Local Governments is the difficulty of raising sufficient revenue from rates to deliver the services they are required by law to provide or which their communities increasingly demand. This is particularly the case when Local Government responsibilities change – either because of statutory/regulatory change by another level of government, or because that other level of government fails to provide services in line with community expectations.

A large number of Acts impose requirements on Local Governments to devote resources to implement State Government legislation and regulations. Examples of such requirements include functions under the Planning and Development Act which has had no indexing since 2013; administering the emergency services levy on behalf of DFES with no increase in remuneration paid to Local Governments to do so for over a decade despite wages and the cost of doing business rising; and collecting on behalf of the State Government building levies and training fund levies (BCITF). To note is that the Local Government's also pay the BCITF levy for Shire infrastructure projects however can not access the training funds to develop its building and construction workforce.

The resourcing costs to implement these State Acts are under-recognised, meaning that the true cost of performing these functions is not always adequately provided for, remunerated by the State Government and Local Governments are also unable to set appropriate fees and charges to recoup these costs – limited either by legislation, economics or community expectations.

For example, the average cost per Development Application for Local Governments who undertook the first stages internally, then engaged an external larger Local Government with capacity was a net cost of \$2,003 per application. Recouping costs associated with Development Applications is heavily dependent on the type received. In 23/24 a Local Government in the Zone invoiced \$18,912 in charges and income was only \$10,873 incurring a loss of \$8,039. Another indicated that they provide advice to the applicant which cannot be recouped in Development Application fees.

Another example is Building Permits. The Shire of Corrigin received \$6,413 income for Building Permits in 2023/24. It is estimated that for the internal administration of Building Permits by the Shire of Corrigin and other Local Governments in the Zone, it costs \$836 per application. The Shire of Corrigin receives between 10-15 Building Permits each financial year, amounting to \$12,540 internal costs yet the Shire charges only the statutory fees to the applicant. In the 2023/24 year this left \$6,127 unaccounted for in costs that is borne by the ratepayer.

Local Governments in the Zone also forgo millions in rates as a result of section 6.26 of the Local Government Act.

Firstly, land owned by the CBH Group (a charity) that is used solely for the storage of grain and where there is a written agreement to make a contribution to the Local Government, is not rateable land.

Secondly, the costs to Local Government to provide a local and regional road freight network for industry such as the CBH Group is significant – particularly if there are no Main Roads in the network. Road construction and maintenance is borne by the Local Government.

For example, in the Shire of Williams, the Narrakine site has a total grain storage capacity of 573,810 tonnes and consists of 15 permanent open bulk heads, two silos and one permanent open bulkhead. It has seen an 8.5% increase in grain tonnage over the last five seasons (up from 607,660 in 2019/20 to 659,000 in 2023/24). Grain movements to the Narrakine site impact on the local and state road and bridge network. It is estimated that there are upwards of 10,000 truck movements to get grain to the Narrakine site each harvest. That grain is then moved out of the site via truck to ports or other markets. The Shire of Williams are responsible for maintaining and upgrading the local road network and bridges that connect growers to the CBH site. There is significant cost associated with this upkeep including expenditure on plant and equipment, staff and related overheads and capital improvements. Because the CBH Group is a charity (different to the mining industry), they cannot be rated appropriately and the State Agreement does not include road freight funding arrangements.

A number of years ago the State Government set the requirement that amendments to legislation and regulation had to undertake a regulatory impact assessment. The Zone believes that it should be mandatory for regulatory impact assessments to be undertaken for any amendments to legislation and regulation.

ZONE POSITION: A regulatory impact assessment is mandatory for all amendments to legislation and regulation.

There should be transparency and a statement of benefits in State Agreements to reduce risk and financial costs on Local and State Governments.

Audits

Audits for the Local Governments in the Zone can be either completed by the Office of Auditor General or subcontracted (CAFs) to a third party. Audits are a requirement by the State Government and the Zone members understand and support the requirement, however the audit process and costs associated with the annual financial audit have significantly changed in the past few years.

In 2024, 92% of all WA Local Government audits were contracted and of those, **two thirds were affected by increased prices from contract audit firms (CAFs).**¹

In the 2023/24 financial year across 11 Local Governments in the Zone, total fees for the annual audit were \$395,660.

¹ [Information-on-local-government-fees.pdf](#)

Over time the scope of the audit for Local Governments has increased. The Local Government is provided with a CAF or the Office of Auditor General (directive) and there is considerable time spent by Local Government staff preparing and educating auditors about Local Government. Additionally, if the CAF has completed the audit on behalf of the Office of Auditor General, there is additional time spent on liaising between three entities (Local Government, Auditor and Office of Auditor General) and in turn costs to the Local Government. One Local Government indicated that there was more than 40hrs spent preparing the audit alone.

Audit fees cannot be recouped by Local Governments and this is a direct cost to ratepayers.

The movement of annual audit costs for the Zone members between 2017/18 to 2023/24 ranges between 96% to a 276% increase. As an example, the Shire of West Arthur had annual audit fees of \$28,790 plus other audit fees for State Government grants of \$4,600 amounting to **1.6% of their rate income**. The Shire of Dumbleyung had a total of \$43,934 in audit fees in 2023/24 which was **2.1% of its rate base**.

All Band 4 Local Governments (fourteen members of the WALGA Central Country Zone are Band 4) experienced a median increase of 25% in annual audit fees in 2024/25 with annual audit costs ranging from \$29,600 to \$75,300.²

The additional compliance on the Zone members has necessitated the appointment of Governance Officers and engagement of external contractors to prepare and assist Local Governments through the audit process, further adding to the costs to complete this compliance.

The Local Roads and Community Infrastructure (Commonwealth) and Roads to Recovery (Commonwealth) grants required additional audits outside of the annual audit of the Local Government. As an example the Shire of Wickepin incurred an additional \$4,250 for the LCI Audit and \$1850 for the Roads to Recovery audit for a qualified audit on top of its \$26,500 annual audit cost (representing 2.16% of its rateable income). Not included in these fees are the internal cost of senior staff time preparing, submitting and reviewing the audit.

ZONE POSITION: That the Office of Auditor General review their costing formulae for Local Government audits and show constraint in audit costs.

That the Office of Auditor General provide a breakdown on the cost of the audit and justification for any variance to the estimate to the Local Government as part of the final billing process.

Provision of Doctors

In the absence of adequate State and Commonwealth health services, many rural Local Governments are required to fund or subsidise general practitioner (GP) and medical services to ensure basic access, and proximity to primary healthcare for their communities. These contributions often include cash contributions to the Practice, housing, vehicles, and facility maintenance, support for a Practice Manager—costs which are absorbed through rates and place considerable strain on limited rate bases.

Local governments are required to step into the space of primary health care because the per capita expenditure by the Commonwealth and States on health is lower in the regions, the viability of practices is challenged due to remote geography, increased business costs and less patients.

For example, the Shire of Lake Grace allocates **\$250,000** annually to support the provision of medical services, representing **7.3% of its total rate income**. This included cash retainer, accommodation, two

² [Information-on-local-government-fees.pdf](#)

surgeries, a vehicle and fuel. If there was no doctor in the town of Lake Grace or Newdegate, the closest distance a resident would have to travel is 184km one way.

The Shire of Corrigin reported annual costs of **\$150,000** to retain GP services, equating to approximately **5.2% of its rate base**.

The cash contribution made by Local Governments are in addition to incentives provided by State and Federal Government for health and medical services in the regions and are necessary contributions due to significant shortfalls in funding by both tiers of Government.

ZONE POSITION – The Australian Government increase the Financial Assistance Grants to Local Governments and recalculate distributions to those Local Governments in remote and rural locations that are providing block funding to attract and retain general practitioners, therefore redirecting ratepayer funds to Local Government responsibilities.

The Medical Facilities Cost Adjustor in the Financial Assistance Grants provided to Local Governments, administered by the WA Grants Commission, be increased to \$200,000.

Conclusion

The persistent and increasing trend of cost shifting from Federal and State Governments to Local Governments—without corresponding funding or revenue-raising ability or capacity—has placed a disproportionate burden on ratepayers and compromised the delivery of essential local services and core Local Government responsibilities. Local Governments are compelled to absorb costs that are beyond their core responsibilities and financial capabilities and cannot generate fees and charges accordingly as its directed by a higher tier of government.

This systemic issue erodes the Local Governments ability to invest in critical infrastructure and achieve priorities of communities. The examples provided illustrate the cumulative impact of unfunded mandates and regulatory compliance, which divert limited resources (rates) away from roads, facilities, and other vital services. There needs to be meaningful reform to increasing funding associated in the delivery of State Government regulations; a commitment to mandating regulatory impact assessments for amendments to legislation and regulations; transparency in State Government agreements; and an increase in funding arrangements under the Financial Assistance Grants if Local Governments are fulfilling the core responsibilities of the Commonwealth – such as primary health care.

It is imperative that Commonwealth and State Governments acknowledge the true cost of legislative and regulatory impositions and work collaboratively with Local Governments to ensure adequate funding, flexibility in revenue generation, and a fairer distribution of responsibilities. Only through such measures can Local Governments maintain their essential role in fostering resilient, well-served communities.

Shire of Beverley | Shire of Brookton | Shire of Corrigin | Shire of Dumbleyung | Shire of Kulin | Shire of Lake Grace | Shire of Narrogin | Shire of Pingelly | Shire of Quairading | Shire of Wagin | Shire of Wandering | Shire of West Arthur | Shire of Wickepin | Shire of Williams |

