Submission
No 87

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Central Coast Council

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Submission on the ability of Local Government to fund infrastructure services.

Overview / Introduction

The Central Coast is situated on the coastline of New South Wales, strategically located within 90 minutes of both Sydney and Newcastle and linked by the M1 motorway and most recently Northconnex connection, enabling greater access from Western Sydney. For an urbanised region it is vast, being 1,680 km2, stretching along 80km of coastline and encasing large lakes, waterways and forested areas. It is an area of outstanding natural beauty ranging from beaches to valley ridgetops and from wetlands to bushland. This provides a scenic backdrop to urban development and the clusters of distinctive villages and town centres.

The Central Coast is described as a peri-urban environment with large areas between built-up suburbs and rural landscapes. The area features a diversity of uses, from residential to light industrial, agricultural and rural and also encompasses the major coastal waterways of Brisbane Water, Tuggerah Lakes and southern Lake Macquarie.

Maintaining the amenity, natural setting and desired liveability factors of the region, as well as balancing the community expectations with financial constraints and regulatory frameworks, is an enormous responsibility and places significant pressures on Central Coast Council.

The area was historically a farming and early tourism region, with limited infrastructure built to support the growing population. This has led to many challenges, with many roads and residential streets originally constructed to a very low standard. The cost to bring these streetscapes and many other Council assets up to current standards, and the standards to which a modern society living in an urban area expect is well beyond Council's current financial means.

Rate pegging

Rate pegging poses a notable constraint on local government finances, limiting the extent to which councils can adjust rates to provide suitable services and meet community expectations. While rate pegging serves to provide stability and predictability for ratepayers, it can hinder councils' ability to adequately fund essential infrastructure projects and service delivery. A recent example is the rapid increase of construction costs, which has risen well beyond CPI and Council's income generated through residential rates. In order to reduce costs to balance Council's expenditure with the income received, Council is often required to reduce its level of service to the community.

Cost shifting

Cost shifting exacerbates the financial strain on local government by transferring responsibilities from higher levels of government without corresponding funding allocations. This transfer of responsibilities, or government programs mandated to be delivered by councils, are often not supported by the provision of the required skills. Council's also face the challenge of competing with other levels of government for the same resources and skills. Addressing this issue requires advocacy efforts to hold higher levels of government accountable in relation to seeking fair reimbursement for additional or upgraded mandated services.

Examples include the transferring of assets to be managed and maintained by Council, such as:

- State road assets
- Assets constructed by TfNSW as part of a state road upgrade (ie, footpaths, retaining walls, embankments, street lighting). An example is the new section of Pacific Highway at Lisarow where an asset has been constructed that will potentially become a Prescribed Dam. The project driver is entirely the upgrade of the State Road, yet the ancillary assets created to support the project becomes Council's to manage and maintain, often at considerable cost.
- Street lighting costs for the State Road network exceeding the grant funding provided to Council.
- Costs borne by Council in supporting emergency services such as insurance costs, Rural Fire Services and State Emergency Service offices, equipment and maintaining plant and fleet for these services and ongoing supporting services.
- The new Dam Safety Levy proposed to be charged on each of our Dams from FY24/25. Not only does Council cover the compliance cost of the recent change in legislation ($100K per annum in consultant costs plus escalated emergency management costs), Council is now asked to effectively cover the State's cost in administering the same.

<u>Funding for ongoing maintenance and depreciation of new assets</u>

Council continues to advocate and secure as much funding from state and federal government as we can to assist in the upgrade and management of our infrastructure networks. Council has been successful in securing grant funding under several Australian and New South Wales grant funding programs which will see extensive repairs and renewal works undertaken along with upgrades and safety improvements over the coming years. However, balancing the grant funding and political desires for new assets is a challenge without concurrent allocations of ongoing continuing expenses to cover "ongoing operational costs" which is funded by Council. These costs include asset depreciation costs, costs to operate the asset (ie, electricity, staff costs) and ongoing maintenance and cleaning costs.

While the provision of new assets is a benefit to the community, the lack of accompanying operational funding creates a strain on existing Council resources. Without adequate provisions for depreciation, operational and maintenance costs when Council receives grant funding for new works, Councils face the dilemma of balancing the demands for expanding infrastructure with the imperative to maintain and sustain existing assets. This imbalance not only risks the long-term viability of infrastructure but also imposes financial burdens on future budgets, potentially compromising the delivery of essential services to residents. As such, prudent financial planning and strategic prioritisation of projects and services are essential to navigate the drive for new assets and fiscal sustainability in local governance.

Regarding grant funding, when other levels of government release significant funding packages that may impact councils, resourcing of works through external contractors or additional staff is also challenging as all funded councils are competing for the much the same resources. This often results in a premium being paid by councils to attract suitable contractors and potential employees.

Central Coast Council has recently received a $40 million federal government grant to fund 45 road pavement upgrades and one road and drainage upgrade, which will benefit roads across the Central Coast without creating an additional maintenance or depreciation cost. This road pavement upgrade package is an example of Government funding renewal works, which was well received by Council and the community.

Developer contribution funding

Additionally, Council utilises developer contribution funding to fund new infrastructure works. Developer contributions are payments made to Council by developers when new development occurs, to assist in the costs of providing new or improved infrastructure to cater for an increased population and growth of an area. However, these developer contributions do not fund ongoing depreciation, maintenance and operational costs associated with the new infrastructure. Unless this development creates an commensurate increase in rates income, the additional costs from these new or upgraded assets must be met from a Council's existing revenue placing greater pressure on the Council's resources.

The cap on development contribution rates under section 7.11 of the Environmental Planning and Assessment Act 1979 impacts delivery of priority local infrastructure to support new housing and local communities. The cap was introduced in 2008 (amended in 2010) and has not been indexed to reflect the increasing cost of providing infrastructure by councils and the development industry. It was put in place after lobbying by the development industry in order to limit the increase in residential land prices. The massive increase in land prices since then shows that this cap has been ineffective and has only served to provide a windfall to the owners of undeveloped residential land at the expense of ratepayers.

The change proposed under the Low and Mid-Rise Housing Reforms will also likely be introduced prior to councils having an opportunity to ensure infrastructure planning is complete and revised development contribution plans adopted. To ensure infrastructure funding is provided from these new developments, section 209 of the Environmental Planning and Assessment Regulation 2021, should be amended to allow Local Government to apply a 3% development levy where the Low and Mid-Rise Housing SEPP applies.

Special Rate Variations

The special rate variation (SRV) process offers a mechanism for councils to increase rates beyond the rate peg limit, subject to community consultation and approval by the Independent Pricing and Regulatory Tribunal (IPART). However, this process entails rigorous assessment criteria and community engagement, adding complexity, and time to the decision-making process. Unfortunately, not only is the SRV process quite lengthy and costly to Council, there is often negative sentiment from the community when Councils pursue this option. The ongoing need for Councils to continue to apply for SRV's in order to fund the services which the community expects, is generally perceived as being poor for Council's reputation, the community's perception of Council, and typically results in negative feedback from the community.

Due to the complex and lengthy process that councils have to comply with when applying , an SRV often seeks a steep, one-off jump in the total rates that a resident pays to Council. This sudden jump in expenditure is often difficult for many households, who are often managing their budget on a week-to-week basis, to manage. A gradual increase in rates over many years, rather than a steep one-off jump would likely be more accepted by the community and assist many households who are living week to week in managing their expenditure.

In a community such as the Central Coast which is transitioning from rural regional to urban, there is a growing community expectation of an improving standard of infrastructure such as the provision of kerb and gutter and footpaths. Large areas of the Council area have been historically developed without these. It would require a significant increase in rates income if this Council was to begin to upgrade these. It would also take a significant long term program to effect this. The current SRV process has the potential to pit the "haves" against the "have nots" and not generate a rational community debate around the merits of such a program.

Standards, legislation, specifications and best practice

A particular challenge for Councils across New South Wales is to fund infrastructure and services that are becoming increasingly complex as standards, legislation, specifications and best practice continue to rise alongside higher levels of service expected by the community. With evolving technological advancements and growing population needs, Council is tasked with meeting increasingly stringent standards while balancing limited financial resources. This often requires innovative construction techniques, innovative funding strategies and proactively seeking grants, to bridge the gap between rising demands and available budgets.

The local community demands increased service delivery and infrastructure improvements while concurrently requiring modern equivalent replacements built to current standards, such as those addressing climate change and evolving regulatory requirements. Meeting these demands necessitates significant financial investments and meticulous planning to ensure that new infrastructure not only satisfies current needs but also anticipates future challenges. Moreover, aligning infrastructure upgrades with contemporary standards adds complexity, as it often involves retrofitting or rebuilding existing assets to meet stringent criteria. Balancing the aspirations of communities for enhanced services with the practicalities of modernising infrastructure presents a formidable challenge for Councils, requiring careful prioritisation, innovative funding strategies, and robust stakeholder engagement to achieve sustainable and resilient outcomes for local communities.

Examples include:

- Replacement of existing assets with modern equivalents, such as low cost timber bridges are now replaced with higher cost concrete bridges.
- Historically, where a stair-case could be built, standards now dictate that a ramp with acceptable grades be constructed, often at a significantly higher cost. While Council supports the provision of accessible infrastructure, the increased costs to provide the infrastructure is met by Council.
- Disability Discrimination Act (DDA) / Disability Standards for Accessible Public Transport (DSAPT) requirements for bus stops: Legislation was introduced where Councils are required to upgrade bus stops to meet disability access standards. Whilst Council supports the provision of assets to provide access to all in the community, funding was not provided by higher levels of government to the Central Coast to assist with construction costs. Council was subsequently required to fund all associated bus stop upgrade works, many of which are complex with significant construction costs.
- Continued upgrade to Standards, guidelines and TfNSW technical guidelines for the provision of roads and road related infrastructure. Ie, wider footpaths and shared paths, the provision of kerb and gutter, increased drainage capacity requirements.

- The provision of '6 star' amenity and toilet facilities.
- The provision of "soft fall" at play areas

Government Levies

In addition to cost shifting there are several charges that state government directly levies councils. Examples include the emergency services levy, the Section 88 levy and contributions to regional infrastructure funds. Whilst some levies can be passed on through specific user charges, in most cases these levies are funded from general rates revenue. Whilst these levies are intended to support certain services or initiatives, the direct benefit to the ratepayers is often difficult to establish or quantify. These levies add pressure to councils' budgets and reduce funding availability for infrastructure.

Possible solutions

In addition to the aforementioned challenges, other related matters such as population growth, ageing infrastructure, and evolving community expectations further compound the funding dilemma faced by local government on the Central Coast. As such, a multifaceted approach is necessary to address these issues effectively.

To mitigate these challenges and ensure sustainable funding for infrastructure and options include exploring alternative revenue streams, fostering partnerships with the private sector and community organisations, and advocating for reforms to address cost shifting and rate pegging limitations. Furthermore, enhancing transparency and engaging the community in decision-making processes are essential to build trust and garner support for funding initiatives.

Additional Government funding injections is the key requirement to bring the many Council assets up to current standards and the standards expected by the community in urban environments. Infrastructure on the Central Coast typically lags behind neighbouring Council regions due to the historic low initial standard of infrastructure. Funding for both the initial capital construction costs, as well as ongoing depreciation, operational and maintenance costs are required to assist Council and could be implemented through an increase and formula adjustment to the Federal Assistance Grant.

A solution may be to provide local government with a greater share of tax funds generated by the Commonwealth. The Commonwealth receives approximately 80% of the total tax generated but only manages approximately 10% of the assets. A significant portion of tax income is generated from property taxes and good and services that directly benefit from the housing growth and economic development which Councils infrastructure supports.

Thank you for the opportunity to provide feedback regarding this inquiry, if you have any questions regarding our submission, please do not hesitate to contact us.

David Farmer
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