

Submission
No 99

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Sydney Coastal Councils Group

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30 April 2024

The Hon. Emily Suvaal MLC
Committee Chair – Standing Committee on State Development
NSW Parliament
6 Macquarie Street
SYDNEY NSW 2000

By email to: state.development@parliament.nsw.gov.au

Dear Ms Suvaal

Re: Submission to NSW parliamentary inquiry into the ability of local governments to fund infrastructure and services

The Sydney Coastal Councils Group (SCCG) welcomes the opportunity to provide a submission to the above inquiry. Below is a series of issues and recommendations which the SCCG believe should be considered in helping improve funding for local government infrastructure and services.

1. Background

SCCG is a regional organisation of councils established in 1989 to promote the sustainable management of Sydney's coasts and estuaries through collaboration, capacity building, advocacy and research. We comprise nine member councils who represent approximately 1.3 million Sydneysiders.

SCCG is guided by its [2019-2029 Strategic Plan](#) which outlines goals related to healthy coastal waterways, marine biodiversity, liveable cities and climate resilience. Achieving these goals is heavily reliant on the infrastructure and services provided by our member councils.

Under the [NSW Coastal Management Framework](#), coastal councils are expected to play a lead role in delivering on the NSW Government's vision for thriving and resilient communities living and working on a healthy coast. The ability of our member councils to deliver on this vision through the provision of local infrastructure and services related to coastal, stormwater and waste management is, however, becoming increasingly challenging. This is due to increasing community expectations, lack of clarity on the need for future infrastructure, limitations in funding and problematic funding arrangements.

Whilst we acknowledge the Inquiry's [Terms of Reference](#) is focussed on rate pegging, we would like to direct our comments more towards other sources of income that councils rely on such as levies and grants, as well as the issues of continual cost-shifting from state to local government. Accordingly, the following comments are made in relation to items (a), (c) and (g) of the terms of reference.



Sutherland Shire
COUNCIL



INNER WEST



WAVERLEY
COUNCIL



Bayside Council

northern
beaches
council



WILLOUGHBY
CITY COUNCIL
City of Diversity



Randwick City Council
a sense of community



2. Inadequate understanding of funding required for green infrastructure to meet community and environmental needs

Community expectations for clean, healthy and resilient urban waterways have been rising steadily over many decades. As identified in the [Greater Sydney Outdoor Study](#), this can be driven by an increased desire to swim in our estuaries like the Cooks River, Parramatta River and Sydney Harbour.

These community expectations are acknowledged in major strategic planning documents at both a state and local level, and drive the strategic direction for improved waterway management. Strategic plans such as the [Greater Sydney Region Plan](#), [Greater Sydney Water Strategy](#), [Parramatta River Masterplan](#), community strategic plans (CSPs), local strategic planning statements (LSPS') and local environment strategies all invariably contain actions to protect and enhance our urban waterways.

These strategic plans highlight the importance of green infrastructure in waterway management. Green infrastructure, as defined by the [Framework for Valuing Green Infrastructure and Public Spaces](#), comprises the network of green spaces, natural systems and semi-natural systems that support sustainable communities. In terms of urban water management, it is helpful to categorise green infrastructure as existing or natural 'infrastructure' such as creeks, wetlands and bushland, and built green infrastructure like gross pollutant traps, constructed wetlands, bioretention systems, rainwater tanks and green roofs, that aim to improve the quality of stormwater runoff before discharge to urban waterways.

Built green infrastructure is considered an emergent class of asset that essentially overlays existing 'grey' infrastructure like roads and stormwater drainage networks. Although, existing built green infrastructure is accounted for in councils' asset management plans, coastal councils do not fully understand how much more green infrastructure is required to be installed across their local government areas (LGAs) to achieve ecological health targets and meet community expectations.

The extent of green infrastructure to be installed in the public and private domain has been investigated by plans like the [Botany Bay & Catchment Water Quality Improvement Plan](#). Based on broad scale financial modelling of various green infrastructure options needed to improve water quality in Botany Bay, this plan reveals future public and private life-cycle costs that are in the order of millions of dollars per year over several decades.

There is no defined approach by which councils within Sydney's coastal river catchments can build on the above work to together undertake the detailed sub-catchment planning to more accurately determine the amount and cost of green infrastructure required. Some councils have attempted to use the preparation of coastal management programs (CMPs), developed under the *NSW Coastal Management Act 2016*, to consider catchment actions. However, [NSW Government guidance on the integration of catchment management with CMPs](#) significantly curtails this approach and ultimately restricts grant funding for actions in the catchment. Councils' current asset management plans are therefore likely to poorly reflect the future need for green infrastructure.

3. Inadequate funding for green infrastructure and stormwater management

The installation of new green infrastructure is typically a difficult financial proposition for local councils that are already struggling with existing stormwater asset renewal backlogs and stretched maintenance budgets, as highlighted in the former Division of Local Government's [Local Government Infrastructure Audit](#).

Funding arrangements for green infrastructure and stormwater quality management were recently investigated by the SCCG as part of its work on the [Greater Sydney Harbour Catchment Management Program](#). Based on an initial survey of 20 councils within the Greater Sydney Harbour (GSH) catchment, it was found that nearly 70% of councils believed funding was inadequate.

Infrastructure backlog ratios, which are a key measure of councils' financial sustainability, highlight funding inadequacies. Nearly half of the GSH councils had infrastructure backlog ratios greater than the recommended benchmark of less than 2%, in part due to sub-standard stormwater asset condition and performance. Even some GSH councils with backlog ratios within the 2% benchmark noted that backlog ratios were increasing, again in part due to ongoing deterioration in stormwater asset condition and performance.

SCCG's work found that rate capping had substantially curtailed the ability of GSH councils to fund stormwater infrastructure and services, reflecting the NSW Productivity Commission's findings in its 2020 [Review of infrastructure contributions in NSW](#). This has forced GSH councils to rely on other funding sources such as special rate variations, the stormwater management service charge, environmental levies and developer contributions. Despite these additional sources of funding, it was concluded that stormwater quality management remains underfunded relative to community aspirations for clean, healthy and resilient waterways.

4. State government limitations imposed on the stormwater management service charge

The [stormwater management service charge](#), also known as the stormwater levy, was introduced by the NSW Government in 2006 as a means by which local councils could more sustainably fund stormwater management. The levy is currently capped at \$25 per residential lot, or up to a maximum of \$12.50 for residential strata lots, or at \$25 per 350 m² for commercial properties, and has not increased with CPI.

The stormwater levy was a welcome mechanism for generating a source of dedicated funding for stormwater management separate from council rates. There are, however, many limitations with the stormwater levy which are well known by the NSW Government. These have been raised on numerous occasions, for example, by [SCCG](#), [Stormwater NSW](#) and in a confidential report prepared by Frontier Economics and Alluvium in 2019 for the Department of Planning, Industry and Environment.

A key limitation for Councils is that there is no mechanism to increase the stormwater levy to reflect either inflation or rising community expectations for improved urban waterway management. Because the levy is excluded from general income under s 505(a) of the *Local Government Act 1993*, a special variation to increase the levy cannot be pursued through the Independent Pricing and Regulatory Tribunal (IPART). Adjusted for inflation, the levy today should be approximately \$39 per residential lot.

Another limitation is that, although councils have the flexibility to allocate the stormwater levy to a wide range of stormwater projects and programs, funding is mainly prioritised for stormwater drainage renewals and upgrades rather than stormwater quality improvement. This again reflects the lack of overall funding relative to need for stormwater quality improvement.

The situation with the stormwater levy stands in contrast to the stormwater service charge levied by Sydney Water on properties within catchments serviced by Sydney Water stormwater infrastructure. This charge is around \$81 per annum for a stand-alone house or over three times as much as the stormwater levy. Sydney Water's charges are also reviewed by IPART and have generally risen with inflation. Ultimately, the difference in revenue collected by Sydney Water and councils and the limitations imposed on councils for increasing the stormwater levy can lead to inequities in how stormwater management outcomes are delivered.

5. Limitations of current grant funding arrangements

Our member councils rely heavily on grant funding to supplement other funding sources, for providing infrastructure and services for coastal, stormwater and waste management. SCCG believes that many grant funding arrangements are often too restrictive and inconsistent.

For instance, SCCG has previously commented on the [limitations of the NSW Coastal and Estuary Grant Program](#) in relation to the development of CMPs. Although the grant program has been improved in recent years, [restrictions remain around the preparation and implementation of regional, multi-council CMPs in Sydney](#). These include:

- a cap of 20% of total project costs for project management, that does not reflect the true cost of project managing large and complex CMPs and is inconsistent with other NSW grant funding programs such as the NSW Smart Places Acceleration Program or the NSW Litter Prevention Grants Program that allow a much greater proportion of funds for project management
- no ability for multi-council organisations not designated as regional organisation of councils (ROCs) to apply for grant funding, despite there being no agreed definition of what constitutes a ROC
- no ability to pair coastal and estuary grant funding with grant funding from other funding sources such as the Federal Government's Disaster Ready Fund or Urban Rivers and Catchments Program.

SCCG has recently obtained grant funding from the NSW Litter Prevention Grants Program to develop a litter prevention strategy and roadmap as part of the [Greater Sydney Harbour Litter Prevention Project](#). Although grateful for receiving grant funding to prepare a regional litter prevention roadmap for Sydney Harbour, SCCG has found the funding process and funding levels to be not particularly supportive of regional organisations like SCCG in helping build capacity of their member councils.

6. Limitations of funding for waste management and litter prevention

Waste management is a core responsibility of local government that is partly funded through domestic waste management (DWM) charges and the NSW waste levy. The ability to use these funds for broader waste management measures like litter prevention and for helping achieve clean and healthy waterways, is restricted.

In its 2021 [submission to the IPART review of DWM charges levied by NSW local councils](#), SCCG noted the link between domestic waste management and the issues that the NSW Government was seeking to address through its [NSW Waste and Sustainable Materials Strategy 2041](#). These issues include:

- minimising waste and reusing resources efficiently in the transition to a circular economy
- services and infrastructure to deal with waste safely and for future generations, including opportunities for joint procurement among councils for DWM services.

IPART noted that costs associated with street sweeping, installation of public rubbish bins, litter reduction campaigns and litter clean-ups should not be funded under the DWM charge. SCCG argued that these services should instead be permitted to be funded under the DWM charge on the basis that they directly influence the amount of waste going to landfill (whether positively or negatively) and hence the resultant payment of the NSW waste levy. This in turn would influence the amount of waste levy revenue raised that could be returned to councils.

SCCG noted that despite an increase in the waste levy, the proportion of waste levy returned to councils has declined in recent years. This has put pressure on councils to seek funding for waste management from other sources such as general rates and contestable funding.

Financial pressures for waste management have also become more pronounced for councils with the push by the NSW Environmental Protection Authority for councils to seek external funding for the implementation of actions identified in litter prevention roadmaps, outside of funding from the [NSW Litter Prevention Grants Program](#). Given the restriction on using DWM revenue and that most other grant programs are geared towards capital expenditure, it is not readily apparent where councils would be expected to obtain additional funding for ongoing litter prevention, other than general revenue.

7. NSW Beachwatch program as an example of ongoing cost shifting

Our member councils have continued to suffer under the weight of cost shifting from the NSW Government to local government. The [NSW Beachwatch program](#) is one of the latest examples of cost shifting from state government to local government.

Late last year, the NSW Government announced it was seeking to have coastal councils in Sydney pay for the Beachwatch program. In its [letter to the Minister for the Environment regarding Beachwatch](#), the SCCG raised concerns about the lack of prior consultation with councils, the unclear rationale for the decision to shift costs and the absence of any legal obligation for councils to undertake water quality monitoring.

SCCG argued that the NSW Government's decision represented a significant financial impost on coastal councils that was to the detriment of local ratepayers. It was also noted that councils could not expect to obtain grant funding assistance for water quality monitoring given the focus of grant programs on capital not operational expenditure.

SCCG, together with its member councils, has consequently called upon the NSW Government to maintain Beachwatch as a fully-funded state program without shifting costs to coastal councils.

8. No mechanism for planning for long-term financial implications of coastal adaptation

Climate change and how we adapt are some of the most pressing issues of our time. This is particularly pertinent in Sydney where coastal inundation with sea level rise has been identified in coastal management programs like the Greater Sydney Harbour CMP as a priority threat with significant, long-term financial implications for local councils.

In response, SCCG has developed a [position paper on the threat of coastal inundation and sea level rise in Sydney](#). The position paper introduces the nature of coastal inundation and sea level rise in Sydney but notes the varying government responses to this threat. The paper identifies an urgent need for greater consistency, leadership and support from government for coastal adaptation.

We have since called for the [NSW Government to lead the development of a coastal adaptation planning framework for Sydney](#). However, in the absence of any substantive response from the NSW Government, SCCG moved forward early this year with applying to the NSW Reconstruction Authority for grant funding under the Round 2 of the Commonwealth's Disaster Ready Fund to develop a coastal adaptation planning framework for Sydney.

SCCG's grant funding application was unsuccessful, highlighting the difficulty in applying for highly competitive and over-subscribed grant funding programs. Sydney coastal councils therefore remain without a coordinated and regionally consistent mechanism to undertake local coastal adaptation planning and assess the long-term financial implications of coastal adaptation for their communities. It is uncertain whether the NSW Reconstruction Authority's forthcoming framework and guidelines for disaster adaptation planning will be sufficiently detailed or adequately funded for councils to commence the necessary planning for coastal adaptation.

9. Recommendations

To address the issues raised above, we offer the following recommendations to the NSW Government for the Committee's consideration:

1. Building on the work of the Greater Sydney Harbour CMP, explore best-practice governance, planning and funding mechanisms for promoting integrated catchment and waterway management and for determining the amount of green infrastructure required to be installed.
2. Review the stormwater levy with the aim to provide for increases in the levy:
 - in line with inflation as a minimum
 - in order to meet community expectations for clean and healthy waterways
 - to achieve some measure of equity with Sydney Water's stormwater service charge.
3. Support a review of the domestic waste management service charge to provide for greater flexibility of expenditure such as on street sweeping, installation of public rubbish bins, litter reduction campaigns and litter clean-ups.
4. Review and update the NSW Coastal and Estuary Grants program in order to:
 - increase the cap for project management in preparing regional, multi-council CMPs

- allow access for grant funding for multi-council catchment groups that are not ROCs
 - enable grant funding to be paired with grant funding from other sources
5. Refrain from shifting costs for long-running, state programs like the NSW Beachwatch Program to local councils.
 6. Support SCCG efforts to prepare a framework by which coastal councils can undertake regionally consistent, local coastal adaptation planning and so help determine the long-term financial implications to councils and their communities.

I trust our submission will be useful for your inquiry. We would be happy to expand on the points raised here or answer any questions the Committee may have if invited to appear before the inquiry. If so, please do not hesitate to contact me

Yours sincerely

Sarah Joyce
Executive Officer