

8 October 2018

## Local Infrastructure Benchmark Costs

The information paper sets out IPART's position on using IPART's 2014 *Local Infrastructure Benchmark Costs* report for the preparation or revision of section 7.11 local infrastructure contributions plans (contributions plans).<sup>1</sup>

### We assess contributions plans against DPE's Practice Note

IPART assesses contributions plans that propose contributions above \$30,000 per lot or dwelling in identified greenfield areas and \$20,000 per dwelling in other areas.

We assess whether the contributions plan meets the criteria set out in the Department of Planning and Environment's (DPE's) *Local Infrastructure Contributions Practice Note* (the Practice Note).<sup>2</sup>

Criterion 3 of the Practice Note requires us to assess whether the proposed development contribution is based on a *reasonable* estimate of the cost of the proposed public amenities and public services.

### We published a benchmark costs report in April 2014

In September 2013, the NSW Government asked IPART to advise on benchmark costs for infrastructure and how councils can establish the *efficient* costs of local infrastructure, as part of proposed reforms to the NSW planning system.<sup>3</sup> Subsequently, in April 2014, IPART published its report on *Local Infrastructure Benchmark Costs*.

At that time, the Government was contemplating reform to local infrastructure funding arrangements. The intention was that local infrastructure contributions would be uncapped and based on standardised, benchmark costs for essential works.<sup>4</sup> In preparing plans, councils would use the benchmark costs to estimate the costs of infrastructure items. The benchmark costs included in the *Local Infrastructure Benchmark Costs* report, were prepared for this purpose. However, the planning reforms were not progressed.

Notably, IPART's *Local Infrastructure Benchmark Costs* report states that the onus would be on councils to justify any deviations from the benchmark costs.

### We prefer councils use site-specific cost estimates

When assessing contributions plans we review the method the council has used to estimate the cost of works. In doing this, we seek to ensure the resulting cost estimates will not significantly over or under recover what it spends on local infrastructure. Therefore, our preference is that when preparing or revising contributions plans, councils use the best available information to estimate the cost of the necessary local infrastructure. This will generally involve preparing, or commissioning, independent advice on estimates specific to each plan, or relying on such advice prepared during precinct planning.

<sup>1</sup> IPART, *Local Infrastructure Benchmark Costs* – Final Report, April 2014.

<sup>2</sup> DPE, Practice Note, Local Infrastructure Contributions, January 2018.

<sup>3</sup> The then NSW Premier directed IPART to undertake this review of benchmark costs under section 9 of the NSW *Independent and Regulatory Tribunal Act 1992* (the IPART Act).

<sup>4</sup> See Terms of Reference issued to IPART in *Local Infrastructure Benchmark Costs*, Appendix A.

## **There are inherent limitations with using benchmark costs**

The guidance in IPART's *Local Infrastructure Benchmark Costs* report focuses on using the benchmark costs as a standard across all contributions plans. However, there are inherent limitations with using these benchmark costs. These include:

- ▼ The benchmark figures do not consider the relevant site-specific factors, eg, topography, location, patterns of land ownership, and context (greenfield as opposed to infill development).
- ▼ We could not reasonably establish benchmarks for all infrastructure items.
- ▼ There is potential for selective use of benchmarks, particularly where the benchmark cost is higher than the likely actual cost.

Benchmarks are often useful as a point of comparison for councils when estimating their costs. However, reliance on benchmarking without considering site-specific factors can lead to councils significantly over or under recovering the costs of providing local infrastructure.

## **Benchmark costs are reasonable in some circumstances**

It may be reasonable for a council to use a benchmark cost when:

- ▼ It is not practical to obtain a site-specific cost estimate, for example when an infrastructure item is added to the plan after site-specific cost estimates for most other items have already been obtained and obtaining site-specific costs will delay the finalisation of the contribution plan.
- ▼ There is insufficient information to inform a site-specific cost estimate, for example at the early stages of infrastructure planning (prior to the preparation of concept designs).
- ▼ The cost of the infrastructure item is likely to be insignificant in the context of the total cost of infrastructure in the contributions plan and relying on benchmark costs is therefore unlikely to result in a significant overstatement or understatement of costs.

We have assessed the use of benchmark costs as being reasonable in a number of assessments, as outlined in Box 1.1.

### **Box 1.1 Past findings on the use of benchmark costs**

In our assessments, we have found the use of benchmark costs to be reasonable in several contexts:

- ▼ West Dapto CP – for bus shelters, which were of a relatively low/insignificant value
- ▼ CP16 Box Hill North– for bus stops, which were of a relatively low/ insignificant value and some roads/road upgrades where the dimensions were similar to the road items in the benchmark report.
- ▼ CP15 Box Hill – for bus stops, which were of relatively low/significant value, and some road segments in early versions of the plan where the council did not have sufficient information in the time available to obtain site-specific costs.

We note that when a council is revising costs in a contributions plan, the use of benchmark costs may no longer be reasonable. This is most likely to occur when the planning and delivery of the infrastructure is more advanced (for example, the project has moved from the strategic planning stage to the concept design stage).