

INFORMATION PAPER

Invitation for comment – Benchmark costs for local council infrastructure contributions

Purpose

Under the new planning reforms developed by the New South Wales Government, councils will be able to levy developers Local Infrastructure Contributions (LICs) to meet the efficient cost of providing ‘essential infrastructure’. The infrastructure includes local road transport facilities, local and district open space facilities, community facilities and stormwater drainage facilities.

IPART has been asked by the Government to provide benchmark costs for essential infrastructure and guidance on how to estimate efficient costs. As part of this work, we are also examining matters such as: regional cost variations, how to value land and how to keep costs up to date.

This Information Paper invites comments from interested individuals, groups or organisations to assist us with our investigations.

How to make a submission

We are seeking feedback on 11 questions listed in this Information Paper by 7 November 2013. Please send your responses by email to localgovernment@ipart.nsw.gov.au.

Alternatively, you can write to us at: Local Government Team, IPART, PO Box Q290, QVB Post Office NSW 1230.

Background to the review and IPART’s role

The NSW Government released *A New Planning System for NSW: White Paper* (the White Paper) in April 2013. The White Paper sets out reforms to the NSW planning system. This includes revised arrangements for contributions from developers towards the costs of infrastructure to support growth.

The Government has established a Contributions Taskforce to assist it with the task of refining the new development contributions framework. This work will determine how charges are set for developers to help fund the cost of infrastructure required for growth. The Taskforce is chaired by the Department of Planning and Infrastructure and comprises councils, industry groups, NSW agencies and IPART.

The Government has asked IPART to assist the Department of Planning and Infrastructure by investigating local infrastructure cost benchmarks or appropriate processes that councils can use to estimate the efficient costs of local infrastructure. The Premier issued IPART with the terms of reference for this review (Box 1) under section 9 of the IPART Act 1992.

Box 1 IPART's Terms of Reference

IPART is required to:

- ▼ Identify infrastructure items for which benchmark costs can be reasonably established, and infrastructure items for which benchmark costs cannot be reasonably established.
- ▼ Estimate benchmark costs for infrastructure items, where reasonable.
- ▼ Identify methods that are likely to lead to efficient costs for the infrastructure, eg, by competitive tendering, where benchmark costs cannot be reasonably established.
- ▼ Identify how costs may vary across different regions or development settings.
- ▼ Recommend a method for updating cost benchmarks eg, for cost escalation.
- ▼ Recommend any relevant adjustments (eg, cost contingency allowances) that councils should use to estimate the cost of infrastructure in a Local Infrastructure Plan.
- ▼ Recommend appropriate methodologies for determining the value of land to be purchase by, or provided by councils.
- ▼ Recommend effective mechanisms for resolving disputes about the application of benchmarks or cost methodologies.

In undertaking the tasks listed above, IPART should also:

- ▼ Identify and describe the main planning and environmental standards that local councils are required to meet through the provision of local infrastructure - ie, what are councils required by outside agencies to provide?
- ▼ Identify and describe the extent to which the standards met by councils are at the discretion of councils (eg, because they are above the required minimum) and comment on the rationale for choice of standards – ie, are councils setting their own standards? If so are those standards reasonable?

Our timeframe to complete this review is 6 months.

We intend to publish a Draft Report in November. We will invite comments on the Draft Report for 5 weeks between 19 November and 20 December 2013. We will provide a Final Report to the Premier in early March 2014.

Contributions framework proposed in the White Paper

The White Paper outlines 3 types of contributions which will be applied to development that creates a demand for new infrastructure, or increases the demand for existing infrastructure (Box 2).

Box 2 3 types of contributions

- ▼ **Local Infrastructure Contributions** (formerly section 94 contributions) collected by councils to meet the efficient costs of local roads, local open space, community facilities and stormwater management works. Unlike the current arrangements, local infrastructure contributions will not be capped.
- ▼ **Regional Infrastructure Contributions** for state and regional roads, transport land and works and education land or works. The contributions will be imposed on a subregional basis. Contributions will vary by subregion but will be applied across Sydney and in other high growth areas in the state.
- ▼ **Contributions to a Planning Growth Fund¹** to purchase regional open space land and all land for drainage. The contributions will be imposed on a regional basis.

Local Infrastructure Contributions will be used to fund the local infrastructure contained in Local Infrastructure Plans (LIPs). The new system removes the caps that currently apply to these contributions. Instead, councils will be able to levy an uncapped contribution towards the *efficient* cost of items on an ‘essential infrastructure list’.

1.1 Essential infrastructure list

The White Paper outlined how a single list of essential infrastructure will apply across NSW. Essential infrastructure will include:

- ▼ local roads and transport facilities (land and capital works)
- ▼ local open space and embellishment (land and capital works)
- ▼ district open space (capital works)²
- ▼ community facilities (land and capital works)
- ▼ capital costs of stormwater drainage (capital works).

The cost of land for district or regional open space and all land for stormwater drainage will be funded through the Planning Growth Fund (Box 2).

¹ The Planning Growth Funds were called Regional Growth Funds in the White Paper.

² The Department of Planning and Infrastructure defines district open space as larger scale consolidated public areas intended to provide for both active and passive recreation and serving a larger population base than local open space.

The Department of Planning and Infrastructure and the Contributions Taskforce will be refining the essential infrastructure list. IPART is undertaking the benchmarking exercise with a preliminary list, which may not reflect the final essential infrastructure list. As part of the review, IPART is to identify which items are 'standard' and therefore can be benchmarked, and which are 'non-standard'.

Councils must continue to demonstrate that there is a nexus between the new development and the infrastructure to charge developers. Councils will also need to demonstrate that they have shared the cost of the infrastructure between new and existing users (apportionment).

IPART seeks comments on the following

- 1 For which infrastructure items would benchmark costs be most useful?

1.1.1 Local Roads and Transport Facilities

Local Roads and Transport Facilities include infrastructure items such as roads, footpaths, intersections (signalised and unsignalised), roundabouts and cycleways.

In preliminary consultation, most councils have suggested that we use the AustRoads classification of road types, which includes:

- ▼ State Roads
- ▼ Arterial Roads
- ▼ Sub Arterial Roads
- ▼ Collector Roads
- ▼ Local Roads.

1.1.2 Local open space and embellishment

Local open space includes both active and passive open space in greenfield and highly urbanised environments. Examples of local open space embellishment may include turfing, extensive paving, playgrounds, park and civic furniture, shade structures, planting and toilet and change room facilities.

Some councils have suggested to us that the cost of playground structures are relatively standard and could therefore be benchmarked.

1.1.3 District open space (capital)

District open space embellishment services a larger area and may contain infrastructure items such as sportsfields, tennis or netball courts and security lighting.

1.1.4 Community facilities

Community facilities include community centres, libraries, youth and senior citizen centres childcare/preschool facilities and swimming pools.

1.1.5 Stormwater drainage

Local stormwater infrastructure incorporates capital works costs only (not land costs). Examples of stormwater infrastructure include detention basins, culverts, bio-retention systems and pipes.

Our consultation to date suggests that the cost of stormwater detention and bio-detention basins may be difficult to benchmark.

IPART seeks comments on the following

- 2 Is the Austroads classification the best available method for developing a list of essential local road infrastructure items, and what classification of roads should be considered local infrastructure?
- 3 Are there any existing hierarchies or typologies to which benchmarks could be applied for playgrounds, stormwater basins or other specific infrastructure items?

1.2 Variations by regions and development settings

Differences in costs for the same type of infrastructure may be driven by many factors such as the site location, the level of service sought and market conditions.

With the assistance of expert consultant advice, IPART is developing a schedule of infrastructure, including percentage loadings or factors. These loadings would apply to the benchmark costs for some infrastructure items to account for regional variations such as metropolitan versus non-metropolitan areas and the nature of the development ie, greenfield versus infill development.

There will be other factors affecting cost which are not necessarily identified at the concept design stage for a project eg, due to site contamination. This type of variation should be captured in costing by the contingency allowance (see Section 1.5.2 below).

IPART seeks comments on the following

- 4 What factors contribute to variations in the costs of the same types of infrastructure and how significant are these variations?

1.3 Non-standard infrastructure items

For those infrastructure items which are not considered 'standard' and which cannot be reasonably benchmarked, IPART is to identify methods that will lead to efficient costs for the infrastructure.

Several methods could be used to help a council to estimate the efficient cost of these non-standard infrastructure items. These include:

- ▼ **developing budget cost estimates with a bottom-up approach**
 - This could be done either by the council or an external consultant and involves an estimation of the individual cost components and usually a site specific risk assessment.
- ▼ **using historical costs**
 - Councils may use actual costs incurred from their previous infrastructure projects (as collected on a database), other infrastructure cost databases (eg, Cordells) or data from similar infrastructure projects occurring in other LGAs. Consultants engaged on a project may also draw upon their contract experience in formulating cost estimates.
- ▼ **using a cost estimating publication** (eg, Rawlinsons)
 - Cost estimating publications make broad assumptions about technical specifications but still may be helpful for comparing similar items.
- ▼ **issuing tenders for specific infrastructure items**
 - Although tenders provide a useful means of testing the market, they also require the availability of a detailed design for specific infrastructure and an immediate start for the works. Councils are often unlikely to be at this stage when developing their LIPs.
- ▼ **using a panel of preferred contractors**
 - Councils could invite contractors to participate on a panel through an open tender process. Ideally, the contractors would provide data on their current rates for certain infrastructure projects, which may be utilised by the council.

IPART seeks comments on the following

- 5 What methods does your council use to ensure that it estimates efficient cost for 'non-standard' infrastructure?

1.4 Land valuations

The proposed planning reforms allow councils to levy contributions towards land for essential infrastructure in an LIP that it has already acquired and/or land that it must acquire in the future.

In general, the cost of land that a council must acquire in the future should reflect the current market value of the land plus any compensation payable in accordance with the *Land Acquisition (Just Terms Compensation) Act 1991*. The market value is not always easily determined but independent valuers or the Valuer General can provide estimates of land value.

How to cost land that a council has already acquired is potentially more controversial. This is because costing land at the perceived market value may discourage development (if the value is high) or encourage a council to hold land instead of releasing it for development. An alternative option is to cost land based upon the historical purchase price indexed in accordance with movements in the Consumer Price Index (All Groups Index) for Sydney.

IPART seeks comments on the following

6 What methods should councils use to cost land?

1.5 Other costing considerations

1.5.1 Cost escalation

Estimates for benchmark costs will need to be escalated over time in order for the costs to be relevant for councils to use when developing their LIPs.

There are different indices available to apply in escalating infrastructure costs. To account for cost increases between the time of estimating infrastructure costs and adopting the infrastructure plan, some councils use Australian Bureau of Statistics (ABS) price deflators (eg, Road and Bridge Construction Index for NSW and other Producer Price Indices). Other councils use private sector published indices of construction prices (eg, Rawlinsons).

In some circumstances, councils may have already incurred costs acquiring land or undertaking works to facilitate new development prior to the finalisation of an LIP. These costs also need to be escalated to current dollars and a single index such as the Consumer Price Index (All groups) may be used.

1.5.2 Contingency allowance

This is an allowance included in the total infrastructure cost to address foreseeable risks in the course of planning and delivering infrastructure. These risks include events such as site contamination, encountering unexpected underground utility infrastructure, spikes in demand for labour or interruptions to supplies.

The level of contingency allowance applied to a project will depend on the perceived risk of these types of events occurring, and will usually differ across infrastructure types.

1.5.3 Council 'client' costs

There are a range of other costs that councils will incur in delivering infrastructure projects. These types of costs are commonly termed "client costs" and include costs such as professional or project management fees.

Councils will be able to include professional fees in their local infrastructure plans to cover the costs to design, develop and supervise infrastructure projects. These professional fees include services provided by architects, engineers and surveyors.

Other council costs which may be included relate to important administrative and management activities throughout the infrastructure planning and delivery process. Such activities include project planning, resource management and quality assurance.

IPART seeks comments on the following

- 7 What index or indices should be applied to costs for different infrastructure items including land?
- 8 What approach should councils use to estimate contingency allowances and why?
- 9 What approach should councils use to estimate its 'client' costs eg, professional fees or project management fees? Will these vary according to infrastructure categories or items?

1.6 Planning and environment standards or technical requirements

For the purposes of this project 'planning and environmental standards' in the terms of reference refer to technical requirements (eg, engineering specifications or design standards). Identifying and defining the technical specifications for infrastructure items will help to determine the appropriate benchmark costs.

To date, IPART has undertaken consultation with key stakeholders to understand what regulatory technical requirements exist for the relevant infrastructure categories. Consultation has also identified how some councils have developed their own technical requirements for certain infrastructure.

IPART has engaged a consultant to assist with establishing reasonable technical standards that will apply to infrastructure items. The purpose of setting technical standards will be to establish the efficient cost of infrastructure.

IPART seeks comments on the following

- 10 Does your council develop its own technical standards? If so, why does this occur, and what are these standards based on?
- 11 Are there any technical standards that you think are unnecessary or excessive?

Contact

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