Blacktown
City Council

File no: 96-74-6

Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB POST OFFICE NSW 1230

10 May 2019

Dear Sir or Madam

**Indexation of Section 7.11 contribution rates for local infrastructure plans**

Thank you for the opportunity to our view on the indexation of contribution rates for local infrastructure contribution plans.

Background

Blacktown City currently has a number of Section 7.11 (S.7.11) contributions plans. The catchment areas of these various plans effectively cover most of our city. These plans cover the North West Growth Area (NWGA) as greenfield development sites, and existing areas of Blacktown that were previously developed. Most of these contributions plans use the Consumer Price Index, (CPI) Sydney All Groups to index the works construction and land acquisition costs of those plans. Some older plans still apply the CPI - Sydney Housing.

Blacktown has extensive experience in developer contributions planning and delivery, spanning several decades, particularly with greenfield development. This experience has helped us to identify funding shortfalls in the life of contributions plans and helped us to inform this submission.

We have previously submitted to IPART for comment, a proposal to use a composite index for the indexation of works costs. The composite index proposed is the average of the Wage Cost Index NSW, and the Producer Price Index (PPI) for Road & Bridge Construction Index NSW.

We have also engaged with CoreLogic and property valuers to develop a land value index for Local infrastructure Contributions Plans operating within the NWGA.

Blacktown has worked closely with IPART on developer contributions over several years and has always appreciated its independence and expertise in formulating views.

IPART has specifically requested feedback on 3 questions;

**Question 1**

> *In what circumstances should contributions plans adopt an index other than CPI (All groups) for Sydney to adjust contribution rates? Is there a need for different approaches in different contexts?*

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CPI should be seen as a default or minimum indicator as a general measure of cost increase that is readily accessible, transparent and understood. However, as a measure CPI 'Sydney "All Groups" comprises a number of categories such as food, beverages, alcohol, tobacco, health and the like which are not necessarily relevant indicators for works or land costs in contributions plans.

Any contribution plan with a significant works program over a long time period should adopt an index that is most relevant to the works within that program. A works program that largely consists of buildings should use a building cost index, and a program that largely consists of road and drainage structures should adopt a road and bridge construction index for example.

For land values an appropriate index should be derived that is relevant to the land within the contributions plan. It is unlikely that general ABS indexes will represent the movement in land values that will be evident within a growth area over the course of development. In the case of the NWGA the land area to be acquired is large, and acquisition will take several years. We intend to have a specific index made for the NWGA for the reasons above. Other Councils may not require such an index or may settle for a relevant ABS index where the land areas and timeframes are not so large.

**Question 2**

*What indexes other than CPI might be appropriate for adjusting;*

- *Contributions for the cost of works*
- *Contributions for the cost of land*

IPART has provided a list of proposed Producer Price Indexes that can be used to index the cost of works. We agree that these are suitable for roads, stormwater and community facilities as suggested.

However, the use of the PPI – Non Residential Building Construction index for indexing Open Space works is not considered appropriate. The index is based on the construction cost of all non-residential buildings, which include factory, warehouse, commercial and retail spaces. Today these buildings are generally constructed of pre-cast or tilt up concrete slabs. The design is driven by utility and cost reduction, while aesthetics are secondary to advertising and corporate branding. This work does not reflect a typical open space works schedule.

A typical schedule of open space works in a contributions plan however, includes large areas of landscaping and turf, playing fields and courts, athletics facilities, fitness stations, playgrounds, bushland regeneration, lighting, irrigation and associated recreational facilities. All of these works are labour intensive in design, manufacture, installation and establishment

The built form associated with these works include toilet, shower, change rooms, kiosk and club rooms. Occasionally these are co-located and built with community facilities. These buildings are "non-residential" in nature but are designed at a residential scale to fit within the surrounding environment. The construction type is more closely akin to residential construction.

In addition to the nature of open space works being dissimilar to "non-residential buildings", the actual facilities required have been subject to ongoing increased community expectation and regulation. There is a constant need to improve standards of hygiene, safety and accessibility in particular. Consequentially new facilities always require the most recent design and equipment standards as a minimum. In this environment costs are always increasing.

We also need to accommodate the increasing demands placed on open space facilities due to unexpected increased population density. Development density in the NWGA is exceeding expected yields and results in significant population increases. Presently, we do not have the option of simply buying additional land area and new facilities to meet the additional demand. Instead we are required to find ways of improving the capacity and serviceability of the proposed facilities; this again requires the best design and equipment standards and the inflated costs.

The attached graph, (Attachment A) shows the cumulative growth of 4 potential indexes over the past 20 years.

- The Non Residential Building Cost index NSW (NRBC, Blue)
- The Wage Price Index NSW (WPI, Red)
- The Consumer Price Index, Sydney all groups (CPI, Green)
- The proposed Blacktown Contributions Index (BCI, Black)

We are of the view that CPI Sydney - All Groups is a simple all-purpose index that provides some measure for inflation, but does not specifically represent the various work programs within contributions plans. The NRBC can be regarded as better aligned to costs movements relevant to a contributions plan, but does not sufficiently represent the works program. The NRBC also displays significant volatility, including periods of negative movement which is not representative of our actual costs and extreme growth. The 2003 and 2004 calendar years had a 20% increase, yet in other years had a very low increase.

The NRBC is very susceptible to the vagaries of private investment across the Sydney Olympics and the GFC rather than the cost to Council of servicing residential growth with open space facilities.

There is no specific index that adequately describes the range of work type and trades involved in the supply of open space facilities.

We believe that a more appropriate index would be a wage price index, as applied to open space and where the works are labour intensive

**Question 3**

*If a plan adopts a Land Value Index (LVI):*

- *Is it reasonable for Councils to construct the LVI using independent land valuations?*
- *Should the LVI be specific to the composition of the land in the plans catchment area (precinct), the local government area (LGA) or a broader region (Sydney)?*

Councils generally have limited options available to keep contribution rates for land acquisition effective to the market value of the land that is to be acquired. The value of land increases substantially within a release area or designated growth precinct, particularly early in the life of that area.

Growth in land value will outpace general inflation and outpace growth in surrounding land that is not subject to development pressure. The general notion of planning gain, that is the increase in land value brought about simply by rezoning from rural to residential, is not immediately apparent in the market, but takes time to be realised as development progresses.

Historically our approach has been to track the value increase by using CPI and simply adopting a reviewed plan on a frequent basis in order to keep land values within the plan current. This is no longer an efficient or adequate process given the time taken to complete a review, particularly as growth centre plans need to be assessed by IPART and are subject to ministerial advice. The typical timeframe for a review to be completed and land values updated is around 12 to 18 months. Over this period of time in our growth area contributions plans we have seen steep increases in what we pay for land compared to what we estimate in our contributions plans and well ahead of CPI. As this trend continues, our plans will consequentially be years behind current land values.

The land that is to be acquired under a local infrastructure contributions plan can be identified and quantified in terms of area and cost at a point in time . The purpose of the index is to simply indicate the magnitude and direction of change of that land value as a whole. How the index is derived is not important in itself, provided the index can be demonstrated to be reasonably accurate in measuring the magnitude and direction of change, and can be made readily accessible and easily understood.

We are presently working towards a single index for land either in each of the growth area contributions plans, or a single index for the growth area as a whole. A city wide index would favour the majority of established properties across the LGA and would not reflect the movement in value within the growth centre, as demonstrated in the attached graph, (Attachment B). We have plotted the growth in our land acquisition costs ($/Sqm) within the North West Growth Area against 4 common ABS indices, over the past 5 years. The land value has outstripped the nearest index 3 times over within the first 3 years. More importantly the final year shows NWGA land costs increasing when the alternate property indexes show a decrease. This highlights the need to have an index that reflects the local market movements rather than a broader picture.

A precinct based index that consisted of several index numbers to reflect different zones would be too complex to be easily understood in the Blacktown context and would be prone to confusion.

Our preference would be for a single LVI that applied across all growth centre precincts. This in our view would be the simplest solution. Work is currently underway to develop that index with CoreLogic.

**Other Issues**

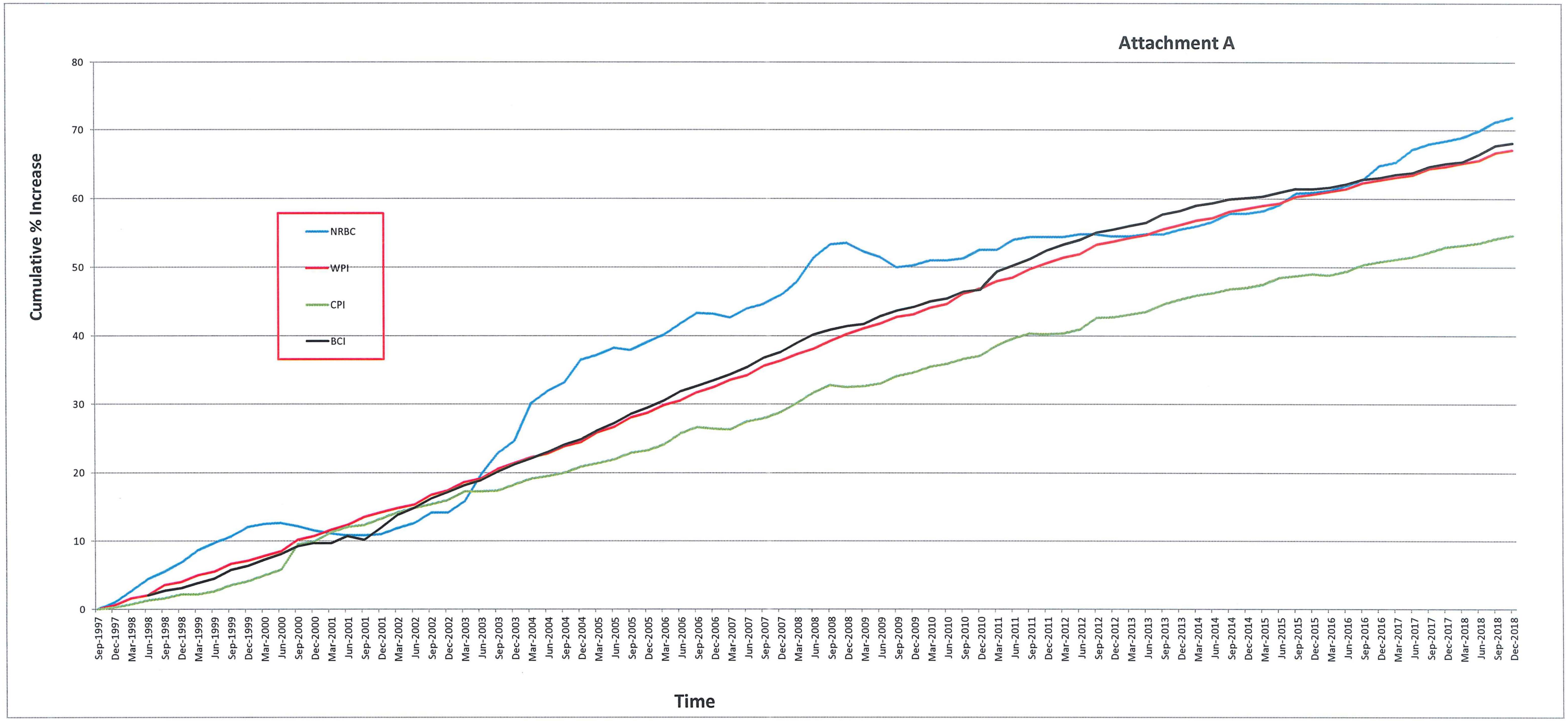
We would welcome the opportunity to further discuss this important issue with IPART to assist it with its view on this matter. Should you require any further information regarding this matter, please contact me on [redacted]

Yours faithfully,

[redacted]

Wayne Rogers
Director Corporate Services

Attachment A



## Attachment B