



2 May 2019

Director - Local Infrastructure Contributions
Independent Pricing and Regulatory Tribunal
localgovernment@ipart.nsw.gov.au

Dear Ms Blackwell

Subject: Discussion Paper - Indexation of local infrastructure contribution rates

Thank you for the opportunity to provide feedback on the discussion paper relating to indexation of local infrastructure contribution rates. Staff from Lake Macquarie City Council (LMCC) have reviewed the discussion paper and offer the following comments.

Please note that this letter is a staff submission and has not been supported by a Council resolution.

1. In what circumstances should contributions plans adopt an index other than the CPI (All Groups) for Sydney to adjust contribution rates? Is there a need for different approaches in different contexts (eg, green field vs infill vs non-metro)?

Difference indexes should apply to contributions for works and contributions for land costs. With the exception of indexation to land costs, the indexation of contributions for works costs can be applied across an Local Government Area (LGA) without the need to distinguish between greenfield, infill or non-metro areas.

2. What indexes, other than CPI, might be appropriate for adjusting:

- **Contributions for the cost of works (ie, construction of transport and stormwater management infrastructure and open space embellishment)?**
- **Contributions for the cost of land required for local infrastructure?**

The Producer Price Index (Non-residential building construction – NSW) is an appropriate alternative to CPI. It should be acknowledged that the more indexes that are used by a single council will increase the complexity and administration costs of managing development contributions.

It is essential that land costs (land to be acquired) are indexed by a land value index.

Our Ref: F2009/00289 Your Ref:

3. If a plan adopts a land value index (LVI):

- **Is it possible for councils to construct the LVI using independent land valuations?**
- **Should the LVI be specific to the composition of land in the plan's catchment area (precinct specific), the local government area (LGA) or a broader region (eg, Greater Sydney house prices)?**

The preferred approach is a localised (precinct specific that reflects the contributions plan area) blended land value index (LVI) prepared by experienced and duly qualified valuers, which is being undertaken by staff in accordance with adopted contribution plans.

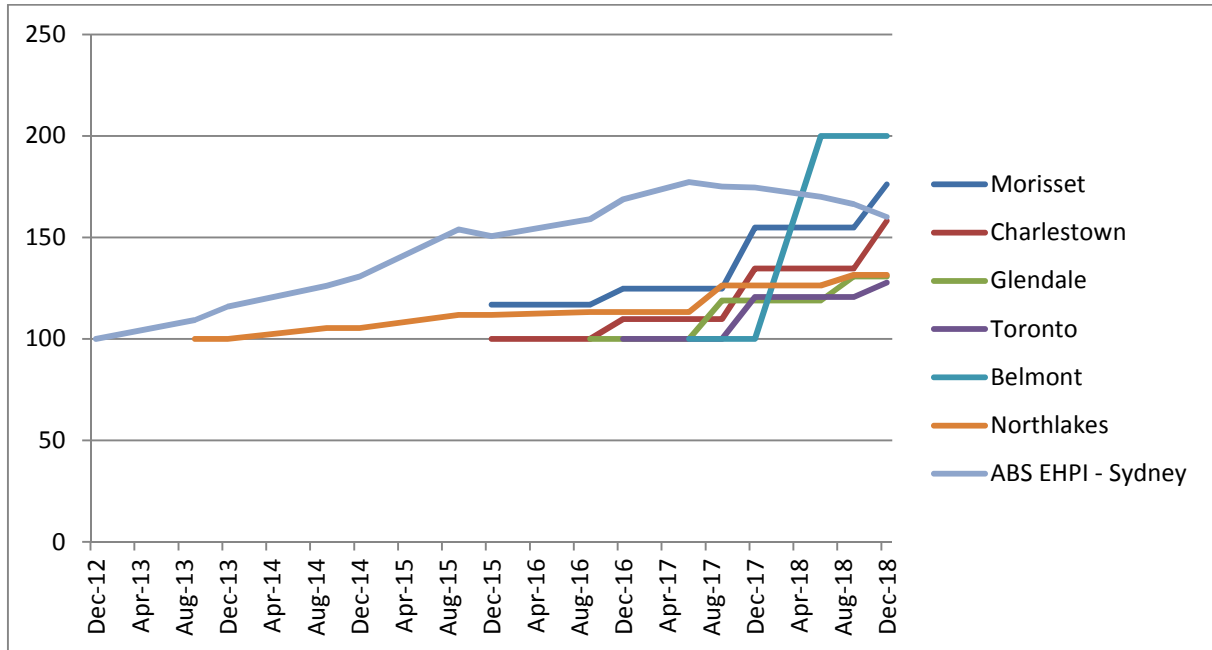
LMCC contribution plans identify land to be acquired from more than one of the following property types:

1. Residential:
 - a. Standard residential lot;
 - b. Englobo residential;
 - c. Low density,
 - d. Medium density;
2. Commercial zoned;
3. Non-urban investigation;
4. Rural;
5. Rural reserve waterfront;
6. Absolute waterfront;
7. Environmental; and
8. Private recreation.

The LVI is derived from comparative sales within each property category identified in the contributions plan (weighted evenly). For example if the plan identifies four property categories, the change for each category is calculated and 25% of each property category change is applied in the overall calculation.

Figure 1 (over page) details the LVI for each of Council's contributions plans with comparison to the Established House Price Index – Sydney.

Figure 1 – Contributions Plan Land Value Index comparison



Land and property costs in Lake Macquarie vary across the Local Government Area (LGA) as can be seen by the variation in Figure 1 for each contributions plan. LVIs across Lake Macquarie also differ significantly from the Established House Price Index – Sydney and are reflective of a different property market to that of Sydney. If the Established House Price Index were applied to Council’s land acquisitions this would result in a funding shortfall for the Morisset and Belmont plans, and a higher than necessary indexation for the Northlakes, Toronto and Glendale plans. This information also demonstrates the timing differences of price changes between the Sydney and Lake Macquarie property markets.

Applying the Established House Price Index – Sydney is problematic for Council as it does not take into account non-residential property types nor the full range of property types included in Council’s contribution plans.

Council prefers the localised blended LVI as it provides a balanced trend of the market across the various types of properties in each contributions plan, and better reflects the adjustments to acquisition costs expected in the review of the contributions plan. A localised LVI is more equitable for Council and the development industry.

In the absence of support for localised LVIs, consideration could be given to producing an index for each property market outside of Sydney, such as the Hunter Valley.

Should you require further information, please contact Development Contributions Coordinator, Deborah Scott on [REDACTED]

Yours sincerely,

[REDACTED]

Justin Day

Head of Development and Planning