

Our ref: R90/0400-04 Out-28933  
Further contact: Mark Hely

10 May 2019

Mr Hugo Harmstorf  
Chief Executive Officer

By Email: [localgovernment@ipart.nsw.gov.au](mailto:localgovernment@ipart.nsw.gov.au)

Dear Mr Harmstorf

### **Review of indexation of local infrastructure contribution rates**

I am writing to provide IPART with input into its review of the methodology councils should use to index local infrastructure contribution rates.

#### **Context**

IPART is responsible for assessing councils' local infrastructure contributions plans when they propose contributions above the Government's mandated cap<sup>1</sup>. The Department of Planning and Environment's *Local Infrastructure Contributions Practice Note* sets out the criteria that IPART must apply in making its assessment. This includes whether "...the proposed development contribution is based on a reasonable estimate of the cost of the proposed public amenities and public services<sup>2</sup>."

In assessing 'reasonable cost', IPART considers whether a council's proposed method of indexing contribution rates is also reasonable. While most councils adopt the Consumer Price Index (CPI) as their preferred indexation method, an increasing number are applying different indexation methods, which they believe more accurately reflect 'reasonable cost'.

IPART has therefore initiated this review to help it better understand why councils have chosen different indexation approaches and whether those differences are reasonable. This will:

- improve the efficiency and consistency of IPART's decision making; and
- enable IPART to provide guidance to councils when preparing contributions plans.

#### **Consultation arrangements**

IPART has issued a brief discussion paper, *Indexation of contribution rates*, and is now seeking feedback from stakeholders on a range of different possible indexation approaches, in particular those relating to changing land values.

---

<sup>1</sup> Currently \$30,000 per lot or dwelling in identified greenfield areas and \$20,000 per lot or dwelling in other areas.

<sup>2</sup> Department of Planning and Environment, *Local Infrastructure Contributions Practice Note* (Jan 2019), p14,

Unfortunately, the three-week timeframe for stakeholder input included the Easter holiday period, effectively reducing the consultation period by at least one week. As a result, LGNSW has only been able to obtain input to this submission from a small selection of councils<sup>3</sup>.

### **LGNSW feedback**

In summary, LGNSW welcomes the acknowledgement by IPART that the CPI may not be the most appropriate indexation method for contribution plans and we support IPART conducting this review to consider alternatives.

This support is predicated, however, on the assumption that the review will result in councils having greater flexibility in determining the indexation method to apply in their plan/area (based on sound reasoning from the council). LGNSW would not support an outcome that resulted in councils being required to apply specific indexation methods in specific circumstances.

With regard to the indexation options IPART has identified in its discussion paper, LGNSW is not in a position to comment on their respective strengths and weaknesses. We do, however, endorse IPART's preliminary 'indexation criteria', namely:

- the methodology is compliant with relevant clauses in the *Environmental Planning and Assessment Regulation 2000* (EP&A Regulation);
- the methodology is suited to the context of the specific plan; and
- the methodology is cost reflective, transparent and easy to administer.

IPART has also sought feedback on whether there are indexation methods, besides CPI, that might be appropriate for adjusting costs. LGNSW believes the Local Government Cost Index (LGCI) is an option IPART should make available for this purpose. The LGCI, which IPART determines annually, is a measure of movements in the unit costs incurred by councils for ordinary council activities funded from general rate revenue. It is designed to measure how much the price of a fixed 'basket' of inputs acquired by councils in a given period compares with the price of the same set of inputs in the base period. The LGCI is similar to the CPI in that it's a composite index that combines changes in a number of input price indexes over time. However, the LGCI refers specifically to what councils require to provide services, whereas the CPI is a household indicator.

### **Indexation of other contribution plans**

It is important to recognise that, while IPART's review relates only to contribution plans that exceed the mandatory contributions cap, the issue of indexation applies equally to:

- contribution plans prepared under s7.11 of the *Environmental Planning and Assessment Act 1979* that do not exceed the cap; and
- contribution plans for water supply, sewerage and stormwater prepared under s64 of the *Local Government Act 1993*.

---

<sup>3</sup> Ballina, Blacktown, Inner West, Lake Macquarie, Lismore, North Sydney, Shoalhaven and Wollondilly councils.

In the case of plans that fall below the cap, clause 25I of the EP&A Regulation mandates the use the CPI (All Groups Index, Sydney), while plans made under the Local Government Act must comply with the *Developer Charges Guidelines for Water Supply, Sewerage and Stormwater*, which also mandate the use of the same CPI measure.

LGNSW believes that the mandatory application of the Sydney CPI to these contribution plans is not appropriate and we will be advocating to the Government that councils should be afforded greater flexibility to determine the most appropriate indexation method for these plans as well.

If you require any further information on this issue, please contact Mark Hely, Senior Policy Officer on [REDACTED]

Yours sincerely

[REDACTED]

Tara McCarthy  
**Chief Executive**