

Wagga Wagga City Council Response to the NSW Indexation of Local Infrastructure Contribution Rates Review

Wagga Wagga City Council has recently adopted an updated Local Infrastructure Contributions Plan in April 2019 and is currently reviewing its Stormwater and Sewer Development Servicing Plans. The Local Infrastructure Contributions Plan 2019 – 2034 authorises that the contribution rates will be adjusted over time. The Section 7.11 rates will be indexed in accordance with annual movements in the March quarter of the Consumer Price Index (All Groups Index) for Sydney as published by the Australian Bureau of Statistics. The proposed cost of carrying out development, subject to a Section 7.12 levy, is also to be indexed in accordance with annual movements in the March quarter Consumer Price Index (All Groups Index) for Sydney. The indexing of the Development Servicing Plans will be reviewed as part of the development of the Plan.

During the development of the Local Infrastructure Contributions Plan, Council staff reviewed the appropriateness of the Consumer Price Index (All Groups Index) for Sydney. As a result Council made a recommendation to the LGNSW Board to consider updating the 2016 Developer Charges Guidelines for the Wagga Supply, Sewerage and Stormwater to reference using the Local Government Cost Index and modify Section 251 of the Environmental Planning and Assessment Regulation 200 to ensure reference is made to the Local Government Cost Index.

The Local Government Cost Index measures the movement of unit costs incurred by NSW Councils for ordinary Council activities funded by general 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. Council's recommendation to the LGNSW Board is attached to this response.

In response to the specific questions posed to stakeholder please see below.

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. Greenfield vs infill or metro vs non-metro)?

Response – Councils should have the option to adopt an index other than the CPI in all circumstances, where reasonable. Wagga Wagga City Council would recommend that individual Councils apply one consistent approach to indexing across development types and across catchment areas.

The only exception may be the use of the land value index applied to land acquisition. We can see the Land Value Index is required in Sydney growth areas but should also be considered for areas in rural NSW experiencing good growth rates, like Wagga Wagga. The Local Contributions Plan for the Wagga Wagga local government area has separate projects for the land acquisition component of projects, so it would be reasonable to apply a different index to these costs.

Similar to the rural index in the Rawlinsons Australian Construction Handbook, which is utilised by Councils, we recommended there is a regional index applied to

the indexation rates for regional and rural Council's to reflect the higher costs of construction.

- 2. What indexes, other than CPI, might be appropriate for adjusting:**
- a. Contributions for the cost of works (ie construction of transport and stormwater management infrastructure and open space embellishment), and**
 - b. Contributions for the cost of the land required for local infrastructure?**

Response – Council have made the recommendation to the LGNSW Board to use the Local Government Cost Index to index projects included in contributions plans and development servicing plans. This index reflects the inputs used by Councils and has produced an index which more accurately reflects the increases to the cost of providing infrastructure to the community.

As outlined in the IPART paper, Council consider the ABS Producer Price Indexes an option to be considered, but believe the Local Government Cost Index better reflects the true costs of providing infrastructure to communities.

It is recommended, whatever index is applied is readily accessible, reflects the changes in costs of the infrastructure over time, is easy to administer and is at no or low cost to councils to develop. Council agree with the statement in the IPART paper that the ABS figures are preferable over those privately produced as they are publicly available and widely used by governments.

In relation to the indexation of land, where the value of land is increasing at a higher rate (in areas of growth for example) Council support the concept of applying a Land Value Index. In areas where this is not the case, it would be recommended council's use one indexation system to ensure the process is as simple as possible.

- 3. If a plan adopts a land value index (LVI):**
- a. Is it reasonable for Councils to construct the LVI using independent land valuations?**
 - b. Should the LVI be specific to the composition of the land in the plan's catchment area (precinct specific), to the local government area or a broader region?**

Response – It is reasonable for Councils to construct the LVI using independent land valuations in growth areas where the land is expected to increase at a greater rate than the index applied to infrastructure. It is also reasonable the community is informed of the index used to ensure transparency and accountability.

The cost of acquiring such an index needs to be considered. This could be considered to be a project cost and would be passed onto developers through the contributions plan.

The LVI would need to be developed at the catchment area level and include the areas of high growth only. In Wagga Wagga such an index may be considered for the northern suburbs, and the areas of Lloyd and Forrest Hill.

LGNSW BOARD

Matter for Consideration

To provide a methodology of applying indexation across all contributions and development servicing plans that is consistent with the indexation used by the Independent Pricing and Regulatory Tribunal (IPART) in setting the rate peg, being the Local Government Cost Index (LGCI).

Background

Currently the legislative requirements restrict councils from applying the LGCI to contributions and developer servicing plans, and requires the application of the Consumer Price Index (All Groups Index) for Sydney.

Contribution Plans Prepared Under Section 7.11 the Environmental Planning and Assessment Act 1979

Section 7.11 of the *Environmental Planning and Assessment Act 1979* allows councils to levy contributions towards the cost of providing local infrastructure. Contributions plans set out the local infrastructure required to meet the demand from new development, and the contributions a council can levy on developers to fund the necessary land and works.

Section 25I of the *Environmental Planning and Assessment Regulation 2000* highlights the requirements to use the CPI (All Groups Index) for Sydney:

25I Indexation of monetary section 7.11 contribution—recoupment of costs
For the purposes of section 7.11 (3) of the Act, the cost of providing public amenities or public services is to be indexed quarterly or annually (as specified in the relevant contributions plan) in accordance with movements in the Consumer Price Index (All Groups Index) for Sydney issued by the Australian Statistician.

Contribution Plans Prepared Under Section 64 of the Local Government Act 1993

Section 64 of the *Local Government Act 1993* enables a local government council to levy developer charges for water supply, sewerage and stormwater. This derives from a cross-reference in that Act to section 306 of the *Water Management Act 2000*.

A Development Servicing Plan (DSP) is a document, which details the stormwater developer charges to be levied on development areas utilising stormwater infrastructure. DSPs are prepared in accordance with the *Developer Charges Guidelines for Water Supply, Sewerage and Stormwater (December 2002)* issued by the Minister for Land and Water Conservation, pursuant to section 306(3) of the *Water Management Act 2000*.

Section 306(3) of the *Water Management Act 2000* outlines a requirement to consider the Minister's guidelines:

306 Authority may impose certain requirements before granting certificate of compliance

- (3) *In calculating an amount for the purposes of subsection (2) (a):*
(c) *consideration is to be given to any guidelines issued for the time being for the purposes of this section by the Minister.*

Within the *2016 Developer Charges Guidelines for Water Supply, Sewerage and Stormwater* issued by the Minister is section 2.4 which again, outlines the requirements to use the CPI for Sydney (excerpt):

2.4. Reviewing/Updating Developer Charges

After adoption of a DSP document, developer charges should be adjusted on 1 July each year on the basis of the change in the Consumer Price Index (CPI) for Sydney in the preceding 12 months to December, excluding impact of the GST. However, general purpose local government councils may index developer charges quarterly if warranted to match the indexing cycle of their section 94 contribution plans.

Both pieces of legislation are inconsistent with the approach taken by IPART whereby IPART has developed the LGCI for use in setting the maximum allowable increase in general income (the 'rate peg') for local government in New South Wales, which commenced in the 2011/12 income year.

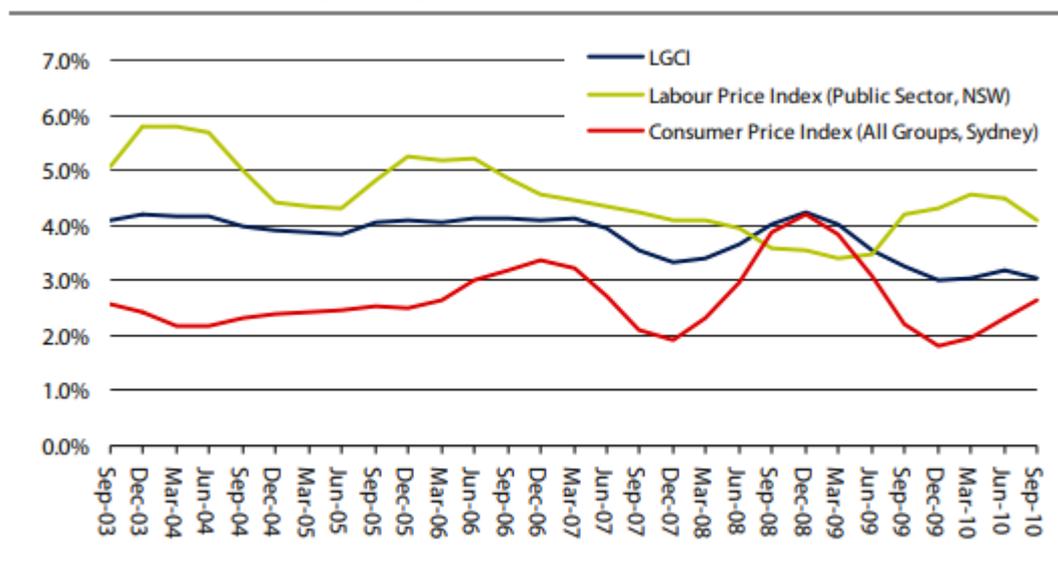
What Is the LGCI and Why IT Should Be Used?

The LGCI is a measure of movements in the unit costs incurred by NSW councils for ordinary council activities funded from general rate revenue. The LGCI is designed to measure how much the price of a fixed 'basket' of inputs acquired by councils (Refer to Appendix A) in a given period compares with the price of the same set of inputs in the base period. The LGCI does not directly measure councils' total level of costs. It is a composite index that combines changes in a number of input price indexes over time. The LGCI is similar to the Consumer Price Index (CPI) in this respect. The CPI does not measure household costs directly, but measures changes in prices of various goods and services over time that are purchased by households. The difference therefore being that the LGCI refers specifically to what councils require to provide services, whereas the CPI is a household indicator.

In comparing the two indicators, the LGCI for 2018/19 was set at 2.3% with the average CPI rate for the three quarters from June 2018 to December 2018 being 1.9%. The difference between the indicators results in a further financial impost on councils, with the contributions received falling short of the cost to councils of delivering the infrastructure required.

Contained within IPART's Local Government Cost Index Information Paper from December 2010 is the following graph:

Figure 3.1 LGCI estimates from September quarter 2003 to September quarter 2010, annual average change (%)



Source: IPART calculations from ABS data.

It is clear from the above graph that during the period of 2003 to 2010, the LGCI was consistently higher than CPI. Since 2010, there has been at least one occurrence, being during 2017/18 where CPI for the four quarters commencing June 2017 to March 2018, was on average 2.1% and the LGCI was only 1.5%, however this is an unusual occurrence.

Recommendation

For the LGNSW Board to consider requesting the State Government to:

1. Update the *2016 Developer Charges Guidelines for Water Supply, Sewerage and Stormwater* issued by the Minister, to change the Section 2.4 and ensure reference is made to using the Local Government Cost Index (LGCI) in preference to the Consumer Price Index (CPI) for Sydney
2. Modify Section 25I of the *Environmental Planning and Assessment Regulation 2000* to ensure reference is made to the Local Government Cost Index (LGCI) in preference to the Consumer Price Index (All Groups Index) for Sydney

APPENDIX A

What are the Components of the LGCI?

The component price indexes of the LGCI have been selected to mirror selected cost categories for NSW councils. The table below shows the structure of the LGCI.

Table 2.1 Structure of the LGCI

Cost items	Component price indexes^a
Recurrent	
Employee benefits and on-costs	LPI - Public sector, New South Wales
Plant and equipment leasing (excluding waste management)	PPI - 663 Other goods and equipment rental and hiring
Operating contracts (excluding waste management)	PPI - 729 Other administrative services
Legal and accounting services	PPI - 693 Legal and accounting services
Office and building cleaning services	PPI - 7311 Building and other industrial cleaning services
Other business services	PPI - 7299 Other administrative services not elsewhere classified
Insurance	CPI - Insurance Services, Sydney
Telecommunications, telephone and internet services	CPI - Telecommunications, Sydney
Printing publishing and advertising	PPI - 16 Printing (including the reproduction of recorded media)
Motor vehicle parts	CPI - Motor vehicle parts & accessories, Sydney
Motor vehicle repairs and servicing	CPI - Motor vehicle repair & servicing, Sydney
Automotive fuel	CPI - Automotive fuel, Sydney
Electricity	CPI - Electricity, Sydney
Gas	CPI - Gas & other household fuels, Sydney
Water and Sewerage	CPI - Water & sewerage - Sydney
Road, footpath, kerbing, bridge and drain building materials	PPI - 3101 Road and bridge construction, New South Wales
Other building and construction materials	PPI - 3020 Non-residential building construction, New South Wales
Office supplies	CPI - Audio, visual and computing media and services, Sydney
Emergency Services Levies ^b	Price index developed by IPART
Other expenses	CPI - All groups, Sydney
Capital expenditure	
Buildings – non-dwelling	PPI - 3020 Non-residential building construction, New South Wales
Construction works - road, drains, footpaths, kerbing, bridges	PPI - 3101 Road and bridge construction, New South Wales
Construction works - other	PPI - 3101 Road and bridge construction, New South Wales
Plant and equipment – machinery	PPI - 231 Motor vehicle and motor vehicle part manufacturing
Plant and equipment – furniture etc.	PPI - 24 Machinery and equipment manufacturing
Information technology and software	CPI - Audio, visual and computing equipment – Sydney

^a Data sources for the component price indexes are provided in Appendix B. 'LPI' refers to ABS Catalogue 6345.0 Labour Price Index, Australia, 'PPI' to ABS Catalogue 6427.0 Producer Price Indexes, Australia and 'CPI' to ABS Catalogue 6401.0 Consumer Price Index, Australia.

^b Emergency Services Levies include levies related to the NSW Fire Brigade, Rural Fire Services and State Emergency Services.