

Submission

IPART - Benchmark Costs for Local
Council Infrastructure Contributions

7 November 2013

NSW MINERALS COUNCIL



Table of Contents

INTRODUCTION	2
INFRASTRUCTURE CONTRIBUTIONS – MINERALS INDUSTRY	3
ANSWERS TO INFORMATION PAPER QUESTIONS	5
1. For which infrastructure items would benchmark costs be most useful?	5
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?	6
3. Are there any existing hierarchies or typologies to which benchmarks could be applied for playgrounds, stormwater basins or other specific infrastructure items?	6
4. What factors contribute to variations in the costs of the same types of infrastructure and how significant are these variations?	7
5. What methods does your council use to ensure that it estimates efficient cost for ‘non-standard’ infrastructure?	8
6. What methods should councils use to cost land?	9
7. What index or indices should be applied to costs for different infrastructure items including land?	9
8. What approach should councils use to estimate contingency allowances and why?	10
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?	11
10. Does your council develop its own technical standards? If so, why does this occur, and what are these standards based on?	11
11. Are there any technical standards that you think are unnecessary or excessive?	11

Introduction

The NSW Minerals Council welcomes the opportunity to provide input to IPART in relation to the benchmarking of infrastructure costs. It is the view of the NSW Minerals industry that IPART would have been better placed to undertake this work after the Infrastructure Contributions Task has narrowed the focus of work by defining the essential infrastructure that will be included in local and regional infrastructure plans.

This submission is provided, despite reservations about the process, because the NSW minerals industry agrees that there is a need to provide greater transparency around the costs of infrastructure. Determining an appropriate set of infrastructure benchmarks applicable to all LGAs, even for a limited set of infrastructure, is extremely challenging.

However, negotiations between councils and developers can be lengthy and lacking in transparency. This results in significant costs to all parties. Providing benchmarks to the fullest extent possible, while allowing for adjustments is likely to result in reduced negotiation time and project delays.

About the NSW Minerals Council

The NSW Minerals Council (NSWMC) is a not for profit, peak industry association representing the State's \$24 billion minerals industry. NSWMC provides a single, united voice on behalf of our 90 member companies: 33 full members (producers and explorers), 27 associate members (junior explorers) and 30 associate members (service providers) and works closely with government, industry groups, stakeholders and the community to foster a dynamic, efficient and sustainable minerals industry in NSW.

Infrastructure contributions – Minerals industry

Position in relation to the IPART terms of reference

While the terms of reference are limited to providing advice on the benchmarking of the costs for infrastructure it is important that IPART is aware of the circumstances surrounding industries outside the residential property sector. The minerals industry and other sectors are concerned that the Government's focus in relation to infrastructure is driven by considerations of what infrastructure contributions should be made in relation to residential development. This is considerably different to the infrastructure that is required and benefits other industries.

It is the view of the NSW minerals industry that the definition of what constitutes "essential infrastructure" which is being decided by the Infrastructure Contributions Taskforce, should have been clarified prior to IPART being asked to benchmark the costs of provision of essential infrastructure.

There is a substantial amount of what is currently included as "essential infrastructure" which has no relationship to the development of a mining project or other non-residential property developments. Given the order in which the government is approaching what is essential infrastructure and how the costs can be benchmarked, the NSW Minerals Council has attempted to answer most of the questions posed by the information paper, even where it is unlikely that there will be benefit for mining projects from the class of infrastructure discussed.

Infrastructure contributions and mining

The NSW minerals industry overwhelmingly pays infrastructure contributions via voluntary planning agreements. These payments are negotiated with individual councils. There is very little guidance available to proponents, local government or the Department of Planning and Infrastructure to assist in the negotiation of these agreements.

While the Planning System Review White Paper includes the following in the seven contributions principles:

- *Beneficiary Pays – Parties should only pay for infrastructure that they will benefit from. When benefits are shared between groups, the distribution of costs should reflect this*
- *Avoidable costs – Developers should not be charged for infrastructure that is not required for new development. There must be a nexus between development and infrastructure need*

there is no guidance on what industries benefit from what infrastructure provided by the paper. There are considerable differences between the development sectors, including mining, and local government about how direct a benefit should be.

It is the view of the NSW mining industry that:

- **Infrastructure contributions should not be seen as the opportunity to procure windfall gains or make up for historic under funding of infrastructure by either councils or state government.** Infrastructure contributions from mining projects can be viewed as a de-facto royalty to local government. Infrastructure contributions should only be paid where there is a direct nexus between the infrastructure and the development.
- **One industry should not be made to pay for the benefits that accrue directly to other industries.** That is, infrastructure benefits that relate to dwelling and other property

development should be paid for by those developers. Additional costs should not be apportioned to mining projects because they employ people who are resident or become resident in the LGA. Those costs have already been paid by the developer of the property and through rates attaching to the property.

- **Essential infrastructure should be truly essential, related to the development and infrastructure that local government has a statutory responsibility to provide.** The provision of infrastructure and services that are not essential or where the council has no statutory responsibility to provide should be paid for: by the NSW or Commonwealth Government, through rates or by developers, but only on a genuinely voluntary basis.
- **Capacity of councils to absorb the impacts of development need to be taken into account when considering infrastructure contributions.** This is particularly important in areas that have experienced reduced population growth where infrastructure and services may be under-utilised as a result.

Answers to Information Paper questions

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

Providing benchmarks for essential infrastructure items offers greater certainty, fairness, transparency and simplicity for those liable for the charges.

Benchmarking data should therefore be provided for as wide a range of standard '*essential infrastructure*' items as is feasible, but only for those items for which it is considered reasonable that local infrastructure contributions be made.

An essential infrastructure list is yet to be finalised but will broadly include:

- Local roads and traffic management (land and capital works)
- Local open space and embellishment (land and capital works)
- Basic community facilities (land and capital works)
- Capital costs of stormwater drainage (capital works).

Care needs to be taken in determining those items that should be included under 'basic community facilities'. A number of items currently included in developer charges, such as swimming pools, community halls and child care facilities, cannot be linked directly to a new development but rather are things a community might like to have. Rates and charges are a more appropriate funding mechanism for such items.

Benchmarks should be provided for items where there is a significant degree of uniformity across LGAs, or where variations in costs can reasonably be understood and loading factors applied with credibility.

As an example, pipes, steps and fencing may all be considered standard items. However, the geology and topography of the area where they are to be used means that the preparation and labour costs associated with installing/constructing the items will not be standard. Additionally, remote areas will face higher transportation costs. These factors should be given consideration.

For items that need to be significantly altered from a standard specification due to specific local circumstances (topography, existing structures, etc.), a separate costing exercise should be recommended. A methodology and guidelines provided for this process should be provided, to improve transparency and reduce negotiation times which are currently lengthy and costly to the economy.

To the extent that it is possible to provide benchmarking for infrastructure costs, a range of outcomes will be required that reflect: the type of development, whether it is greenfield or infill and whether the area for development is considered metropolitan, regional or rural, mature or developing.

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?

NSWMC considers the Austroads classification to be the appropriate method for developing a list of essential road infrastructure items.

Austroads notes the responsibility of Local Governments should be to fund all roads other than the national highway system, roads of national importance and the state arterial network. The Austroads classifications of local and collector roads provide sufficient transparency in determining what constitutes a local road – that is, one to be funded by local governments.

From time to time there is uncertainty around definitions of a road due to different interpretations of classifications or actual differences in road networks. This can lead to uncertainty over funding responsibility, especially for sub-arterial roads. Traffic volumes and road width are not always a reliable indicator of whether a road should be considered local or not.

The function of local and collector roads is to collect and distribute traffic within a local system or to a wider road network. The local road hierarchy, from a local to a regional basis, is broadly:

- District access roads – allow for movement within and through suburbs/areas of an LGA at maximum speeds of 60km per hour with traffic volumes varying significantly across LGAs.
- Neighbourhood access roads – may provide access to a specific residential development. Typically lower traffic volumes than district road.
- Local access road – provide access to limited number of dwellings. Limited through flow of traffic.

However, there can be less certainty around the primary function of sub-arterial roads and therefore where fiscal responsibility lies. The function of arterial and sub-arterial roads is to carry through traffic, typically over longer distances. These roads also provide routes for freight and dangerous goods and provide access for public transport. By and large, these will be the responsibility of the NSW Government. However, in instances where there may be ambiguity around responsibility for sub-arterial roads, independent traffic experts can be called upon to assist in making a determination. This process will ensure that funding comes from the appropriate source.

There are separate classifications of road for special purpose functions. This is likely to include access roads to mines which are unlikely to be used for any other purpose. In such instances, the mining proponents fund the construction of these roads as a condition of the project approval, rather than through an infrastructure contribution.

3. Are there any existing hierarchies or typologies to which benchmarks could be applied for playgrounds, stormwater basins or other specific infrastructure items?

To the extent that infrastructure hierarchies (other than for roads) are adopted at all in NSW, or Australia more broadly, this is typically done on a regional basis under local planning schemes, with significant variations across LGAs.



In the case of playgrounds, variations in general will reflect local populations of relevant age groups and available open space. This also appears to be the case in other states. Standards apply to equipment safety, but not to the type of equipment provided.

In the case of stormwater basins, hierarchies exist in relation to quality management rather than the types of retarding basins. Hierarchies may exist in other jurisdictions, which IPART will no doubt investigate as part of this work.

Where it is feasible to do so, hierarchies should be established for as wide a range of infrastructure as possible. Without suggesting that the following should be included as basic infrastructure, benchmarks could be provided for the following infrastructure, together with guidelines on how to manage variations in standards required, for example as a result of geology. In each case, a basic standard should be benchmarked, with any additional requirements funded directly by councils rather than through developer charges.

- Pools and other sporting facilities
- Libraries
- Child care facilities
- Community centres (youth, senior citizens, etc)
- Fencing
- Playground equipment
- Playing surfaces
- Shade structures
- Bus stops and shelters
- Culverts (range of standards required)

This should be done drawing international best practice, input from appropriate industry providers and advisers as well as LGAs. A minimum level of equipment can be selected for benchmarking purposes; if LGAs then chose to expand the range and nature of equipment provided, any additional funding can be gained directly from the community through rates and other charges.

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

The IPART Information paper notes that:

“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.”

IPART has been tasked by the NSW Department of Planning and Infrastructure to determine whether it is feasible to set infrastructure charging benchmarks for certain items covered by LICs. This approach replicates the model recommended by the Queensland Infrastructure Taskforce (2011)¹,

¹ Queensland Infrastructure Charges Taskforce, Final Report, March 2011



whereby there is a standard charge applied to infrastructure items that can be costed, with a loading factor that takes into account regional and other variations.

The Queensland Government is moving away from this approach because regional variations are considered too wide to accommodate benchmarks for most types of infrastructure. Notwithstanding the difficulties that benchmarking presents, wherever it is reasonable and feasible to do so, benchmarks should be produced. Even a curtailed benchmark list will greatly assist in negotiations around, and the determination of, LICs.

There are a wide range of influences on infrastructure costs for standard items relating to its location, including:

- Topography
- Geological conditions
- Greenfield or infill
- Nature of surrounding structures in infill areas and level of disruption
- Transport costs (higher to rural and remote areas)
- Number of providers in the area and ability of Councils to seek contestable services
- The resident population and resulting economies of scale achievable
- Land values in the area.

The impact of these variations in terms of cost is difficult to determine as publicly available information is extremely limited. Anecdotal evidence from developers, however, is that variations are extremely wide (i.e. potentially in the order of 50% or more in some cases).

Costs will also vary according to who carries out the works: developers report being able to achieve substantial savings if works are carried out in kind.

However, as noted in Question 3 above, there are a number of items, such as playground equipment and libraries, for which benchmarks can be determined.

While there may be a case for variations to apply to some LGAs it is important to ensure that this does not lead to overcharging. The methodology for applying a variation must include clear and transparent criteria and require evidence that the criteria are met.

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

This is a question for councils only

6. What methods should councils use to cost land?

The information paper correctly identifies that the cost of future land acquisitions is determined under the provisions of the *Land Acquisition (Just Terms Compensation) Act 1991*. Under the Act, payments made by councils for the acquisition of land include the market value of the land, plus additional payment for disturbance items, solatium payments and severance damage. These items vary depending on the specific circumstances of the property owner, the specific nature of the property and the extent to which individual properties are affected by land acquisitions. These heads of compensation typically result in payment for acquisition of land being significantly in excess of the market value of the land.

It is also important to recognise that, for acquisition purposes, the market value of the land is assessed without regard to the public purpose for which it will be used. As a result, land that is zoned for public open space and is being acquired for that purpose is nevertheless valued on the basis of the most likely alternative zoning assuming that the public purpose did not exist.

While this is a complex area, it is not beyond the capability of an experienced real estate valuer to address these issues in preparing estimates. As such the quantification of expected acquisition costs based on estimates prepared by an experienced property valuer is an appropriate method of estimating costs of acquisition of land required for public purposes.

In practice this process also places an emphasis on councils to reliably identify specific properties that are likely to be required for future public purposes and creates a higher level of accountability and transparency in the cost estimation process.

In relation to land already acquired, adopting an historic cost basis and applying an escalation amount based on property price movements in the region reflects the current opportunity cost of the land to a council. This is preferential to applying a cost based on current market value as it removes the burden of repetitive valuations.

However, this methodology also provides a potential for windfall increases in developer contributions, including from increases in value that are the result of public works that have been funded from previous contributions.

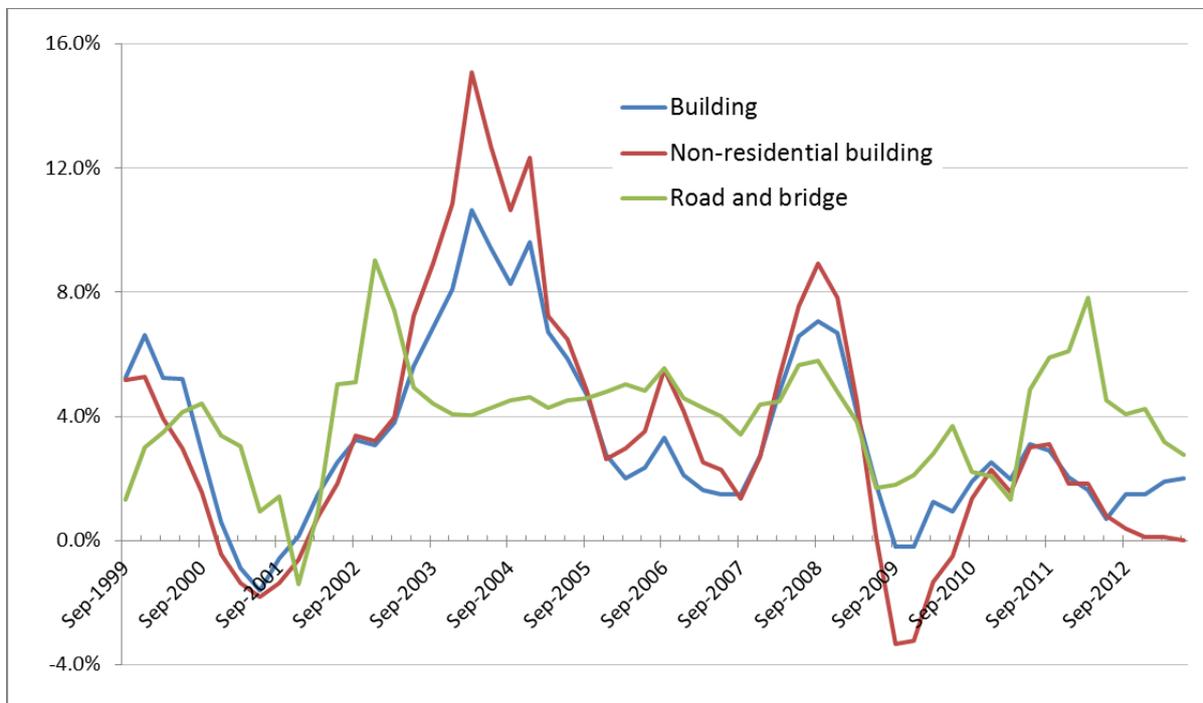
The more appropriate way of valuing historic acquisitions for purposes of determining infrastructure charges, is for land holdings be valued at acquisition cost plus any associated financial holding cost (typically Council's cost of funding from Treasury Corporation).

7. What index or indices should be applied to costs for different infrastructure items including land?

An appropriate benchmark for escalation costs applied to infrastructure charges should be independently derived and publicly available. The index should also pertain to the relevant infrastructure inputs.

NSWMC recommends use of the Australian Bureau of Statistics' quarterly Producer Price Indices (6427.0), NSW sub-indices. This series is broken down into a range of sub-indices, including non-residential construction' and roads and bridges' as shown in Figure 1 below.

Figure 1 - Annual per cent change in PPI (NSW construction)



Source: Australian Bureau of Statistics, 6427.0 Producer Price Indexes, Australia (June 2013)

Figure 1 illustrates the variations in sub-indices. Non-residential building prices demonstrate greater amplitude in cycles than the total building or roads and bridges components but are a reasonably accurate reflection of actual costs.

It is recommended that cost escalation is achieved by using the road and bridges component for roads, and the non-residential building index for all other infrastructure.

As the index may on occasion demonstrate some volatility due to unusual circumstances (i.e. not cyclical factors), an approach to smoothing, such as use of a three year moving average, should be considered.

8. What approach should councils use to estimate contingency allowances and why?

Contingencies are often calculated as an across-the-board percentage addition on the base estimate, typically derived from intuition, past experience and historical data.² In the case of construction, this is generally in the order of 20%.

It is possible to impose more advanced risk analysis methodologies (such as Monte Carlo analysis) on a project by project basis. However, the net costs of LGAs engaging experts to do so is likely to be higher than the benefits over time.

² Baccarini, D, 2004 Estimating project cost contingency – a model and exploration of research questions, Curtin University

It is recommended that a two-level approach to contingencies is adopted.

- Tier 1: 10% contingency to be used for smaller projects with a ceiling of, for example, \$500,000 project budget and a relatively short time frame to completion (e.g. less than six months).

The ceiling would be determined based on the profile of LGA projects and an analysis of the cause and size of typical overruns.

- Tier 2: 20% contingency to be applied to all larger projects

For smaller councils, project expenditure is likely on average to be significantly lower than for the largest council. For this reason, the Tier 1 ceiling might need to be set at a lower level in smaller LGAs. Ceilings could be determined by examining the normal distribution of infrastructure projects.

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?

Professional fees vary significantly across infrastructure types and budgets. There is no single approach to the determination of design, architectural or engineering fees. A general approach is a percentage fee based on the estimated capital costs. This is most appropriate for larger projects. Hourly rates may apply for small projects.

Contestability in the provision of fees should ensure the best outcomes for councils. However, to ensure that there is accountability, it is recommended that a benchmark cap for fees is set. These should be determined in consultation with each of the relevant professions.

10. Does your council develop its own technical standards? If so, why does this occur, and what are these standards based on?

This is a question for councils only.

11. Are there any technical standards that you think are unnecessary or excessive?

There is little transparency around the technical standards that are adopted by different councils and other relevant authorities.

A Productivity Commission working paper enquiring into international infrastructure charging practice found that one potential problem with funding local infrastructure through developer contributions, is that councils have both the incentive and the scope to insist on standards that are higher than necessary 'and to possibly over-design'³.

Developers in particular often complain of so-called 'gold plating', particularly in relation to road specifications.

³ Chan, C., Forwood, D., Roper, H., and Sayers, C. 2009, Public Infrastructure Financing — An International Perspective, Productivity Commission Staff Working Paper, March 2009



In order to address this issue, IPART should investigate appropriate technical standards that can be applied consistently and these should be published in detail with local infrastructure plans.

