gln.
planning
consulting
strategy

Memorandum

18 April 2024

Westmead South Local Infrastructure Contribution Plan Options

1 Brief and levying options tested

Council requested our advice on the following infrastructure contributions levying options for the provision of local contributions in Westmead South Precinct:

i. Section 7.11 contributions for residential development not exceeding $20,000 per dwelling.

ii. Section 7.12 levies set a higher rate than the 1% of development cost. The levy to apply to all development with a cost greater than $200,000.

iii. A hypothetical residential contribution rate that reflects the total infrastructure cost apportioned to development divided by the number of net additional dwellings in the precinct. (i.e. the s7.11 full rate that could be imposed if there was no 'essential works' list to be considered by IPART in their review of draft contributions plans).

In response, GLN Planning developed five levying options to test income – two testing capped and uncapped s7.11 contributions and three others with different s7.12 rates higher than the current maximum 1% of cost of development. They are Options A to E below.

A	Section 7.11 contribution of $20K per dwelling, unindexed
B	Section 7.12 contribution rate of 2% for residential development and 2% for non-residential development + quarterly PPI indexing of the cost of development
C	Section 7.12 contribution rate of 4% for residential development and 2% for non-residential development + quarterly PPI indexing of the cost of development
D	Section 7.12 contribution rate of 5% for residential development and 1% for non-residential development + quarterly PPI indexing of the cost of development
E	Section 7.11 contribution that covers the full cost of local infrastructure that is attributable to development + quarterly PPI indexing of the contribution rates

ABN 39 585 269 237
A Level 10, 70 Pitt Street Sydney NSW 2000 P GPO Box 5013, Sydney NSW 2001
T (02) 9249 4100 F (02) 9249 4111 E info@glnplanning.com.au
glnplanning.com.au

2 Income and expenditure modelling

2.1 Assumptions

Inputs

	Input assumption	Value	Source
	Development Westmead South		
A	Proposed contributions plan period	15 years / 60 quarters	
B	Total dwellings in 2024	3,259 dwellings	Westmead South master plan development yield schedule (8/04/24)
C	Potential new dwellings	7,559 dwellings	
D	Total dwellings (retained + additional)	9,880 dwellings	
E	Net additional dwellings to be constructed	6,621 dwellings	
F	Total Residential GFA to be constructed	774,699 sqm	
	Development costs		
G	Residential development construction cost unit rate	$5,500 /sqm GFA	RLB construction cost estimator - Residential multi storey units, over 20 and up to 40 storey, units 90-120m2
H	Assumed development cost inflation	1.07% per quarter	Producer Price Index - Non-Residential Building Construction 10-year quarterly average change (Dec 2013 – Sept 2023)
	Section 7.11 modelling		
I	Net additional dwellings	6,621 dwellings	
J	Dwellings per quarter (60 quarters)	110	J = I ÷ 60
K	Option A contribution rate ($/dwelling)	$20,000 (no indexing)	
L	Option E contribution rate ($/dwelling)	$31,292, indexed quarterly	GLN Planning local infrastructure schedule for Westmead South draft contributions plan Producer Price Index - Non-Residential Building Construction 10-year quarterly

	Input assumption	Value	Source
			average change (Dec 2013 – Sept 2023)
	Section 7.12 modelling (2% 4% 5%)		
M	Total new dwellings	7,559	
N	Dwellings per quarter (60 quarters)	126	N = M ÷ 60
O	Total development cost at plan start ($2024)	$4,260,844,500	O = F x G
P	Development cost per quarter at plan start ($2024)	$71,014,075	P = O ÷ 60
Q	Construction cost per dwelling at plan start ($2024)	$563,678	Q = O ÷ M
	Local infrastructure costs and spending		
R	Total local infrastructure costs in contributions plan at plan start ($2024)	$210.5 million	Mitchell Brandtman (2024)
S	Infrastructure spend per quarter at plan start ($2024)	$3,508,057	S = R ÷ 60
T	Assumed infrastructure cost inflation	1.07% per quarter	Producer Price Index - Non-Residential Building Construction 10-year quarterly average change (Dec 2013 – Sept 2023)

Note: The infrastructure spending profile in the model assumes the total spend of $210 million is evenly distributed over the 15 years and 60 quarters that make up the assumed life of the plan. The quarterly spend is $3.5 million at plan start and increases in line with inflation every quarter.

Draft contributions plan works schedule

The local infrastructure expenditure is based on the infrastructure items and costs included in the works schedule of a preliminary version of the Westmead South contributions plan.

Not all local infrastructure is to be delivered using s7.11 or s7.12 contributions. Council staff have recommended developer works conditions, planning agreements including agreements to implement 'key site' provisions, and State and Commonwealth grants be used to deliver certain infrastructure items.

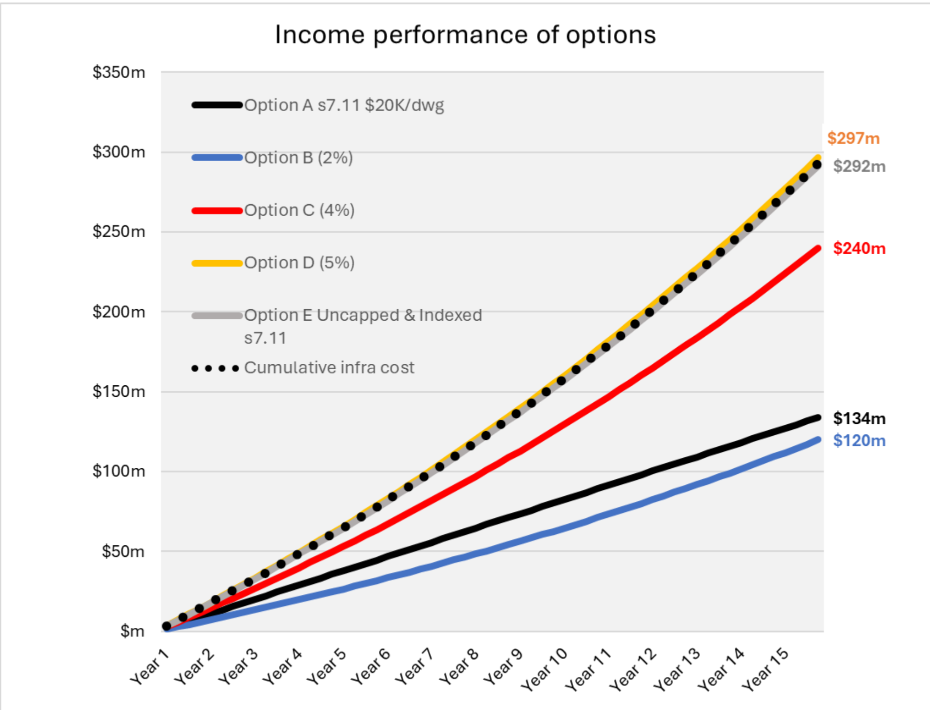
The current assumed distribution of delivery mechanisms and current estimated costs of local infrastructure assigned to each mechanism category are shown in the following table.

Delivery mechanism	No. of items	Costs ($2024)	Costs apportioned to developers in CP ($2024)	Nexus-based contribution rate ($2024)
Local contributions	50	$210.5m	$207.2m	$31,292 per dwelling
Planning agreement or developer works conditions	13	$81.3m	NA	
Grants from State or Federal Government	5	$4.8m		
All local infrastructure	68	$296.6m	$207.2m	

2.2 Results

The following chart shows:

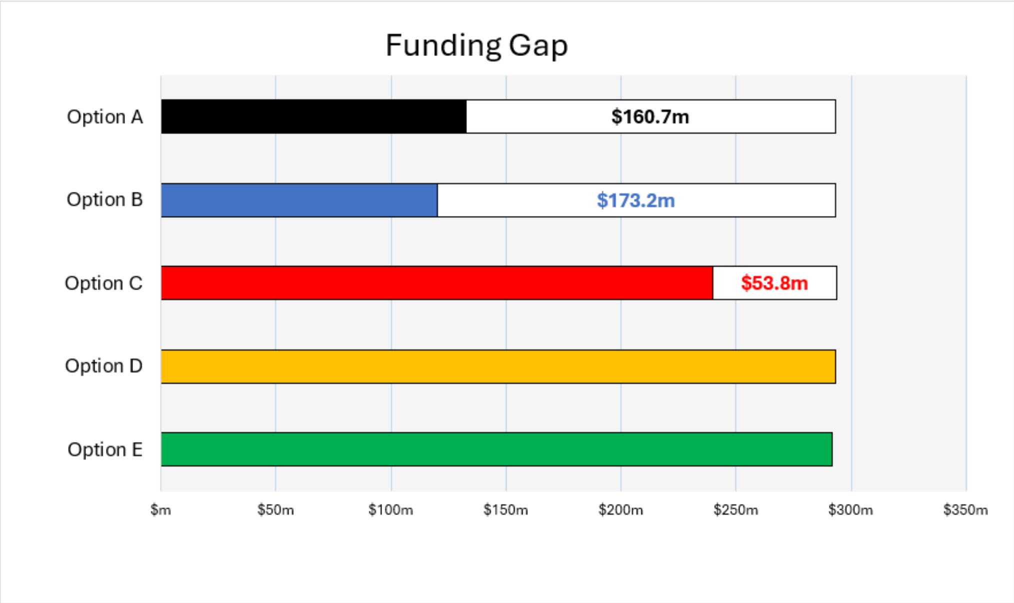
- The contributions income results for the levying Options A to E over the life of the plan (15 years)
- The infrastructure spending profile (shown as the dotted line)



Note: Income for residential development only included. Results do not account for any affordable housing making up part of the projected additional dwellings. Affordable housing dwellings are exempted from s7.12 levies under the EP&A Regulation and are often exempted from s7.11 contributions.

- The cumulative attributable infrastructure cost of $293 million represents the indexed future cost of the works proposed to be included in the contributions plan works schedule ($210.5 million in today's dollars)
- The cumulative contributions projected to be received under the standard, capped s7.11 Option A is $134 million
- Levying Option B – which applies a 2% levy on all expected development – results in less contributions income than Option A. It can be disregarded as a viable option.
- Levying Option C – which applies a 4% levy on all expected development - results in projected contributions income of $240 million. While this amount is lower than the total indexed infrastructure cost over the life of the plan, it is still superior to the default Option A (i.e. the only one of the tested options that Council has control over) by $105 million.
- Levying Option D – which applies a 5% levy on all expected development – results in projected contributions income roughly matching (but $4 million greater than) the indexed contributions spend over the life of the plan.
- Option E is a hypothetical option in that current NSW Government policy is that only infrastructure on the 'essential works list' can be included in a contributions plan that includes residential contribution rates above the $20,000 threshold.[1]

The following chart shows the projected contributions funding gap for each option at the end of the expected life of the plan (i.e. year 15).



Notes:
a the escalated infrastructure spend over the 15-year life of the plan assumed in the model is $293.1m
b the model shows Option D generates a funding surplus of $6m over the life of the plan

[1] Our analysis of the draft Westmead South contributions plan works schedule indicates at least 10 works with a total cost of more than $22 million that may not be considered by IPART to be essential works.

Option D's combination of a 5% for residential and 1% for non-residential development is the one option that yields just enough income to meet the developer apportioned cost of infrastructure proposed to be include in the Westmead South contributions plan.

Option A's funding gap is due to the inability to index contribution rates. The gap begins when the first development approval is issued, as the full contribution rate - which per Option E - starts at $31,292 per dwelling and is indexed over time. By the end of Year 15, the model shows the full rate inflating to $59,281 per dwelling.

2.3 Observations

A summary of the financial impacts, advantages, and disadvantages of the options is included in the table below.

	Section 7.11 plan with maximum residential contribution of $20,000 for each dwelling	Higher rate s7.12 levy contributions plan
Approval process	Westmead south precinct contributions can be added as a chapter to the current plan. Council has control over the approval process. Any public amenities and services can be funded by s7.11 contributions provided residential contribution rates remain at or below the threshold. Contribution rates above $20,000 must be directed to providing 'essential works' only.	Any variation to the current 1% maximum s7.12 levy requires application to be made to DPHI Application must show that higher rate levy proposal meets the criteria included in the practice note (see section 2.4). The criteria in the practice note are generally not onerous. Council cannot impose a s7.12 rate higher than 1% until the Minister amends the EP&A Regulation.
Income and funding shortfall	Contributions will meet less than half the cost of Westmead South local infrastructure over the life of the plan. The larger unfunded Council co-contribution in the s7.11 levying option is due to inflation in works costs not being matched by indexed s7.11 contributions.	For Westmead South a s7.12 rate set at around 2.5% or more will yield more income than a capped s7.11 plan.
Funding shortfall	A contributions plan consistent with Option A and implemented over 15 years would, based on our modelling, yield less than half the funds needed to meet the developers' apportioned cost of local infrastructure.	Potentially no shortfall – i.e. a contributions plan consistent with Option D and implemented over 15 years would, based on our modelling, fully fund the developers' apportioned cost of local infrastructure.
Advantages	Council has control over the approval process whereas higher rate levies require Ministerial approval.	Levy amounts in consents are indexed to the time of payment. using a building construction index. Unlike the capped s7.11 contribution this indexing means that contributions can keep pace with infrastructure costs. Condition of consent cannot be challenged by a developer.

	Section 7.11 plan with maximum residential contribution of $20,000 for each dwelling	Higher rate s7.12 levy contributions plan
		Flexibility in delivering infrastructure as no need to account for apportionment. S7.12 can fund the full cost of infrastructure.
Disadvantages	$20,000 per dwelling IPART review threshold has not been indexed since it was introduced 15 years ago. The real value of contributions at the threshold level continues to decline over time, severely restricting the contributions collected.	The time taken to have the higher rate levy in place in an approved contributions plan and EP&A Regulation amendment made can take 6 months to 1 year.

2.4 Higher rate levy criteria

Councils seeking the Minister's approval must first submit information to DPHI demonstrating that the proposal meets the relevant criteria included in the section 7.12 levies practice note published by the Department of Planning in 2021.

Table 1.1 of the practice note lists general criteria that a council needs to address when making an application to increase the maximum s7.12 levy from 1% to 2%.

Table 1.2 includes additional criteria for councils seeking a maximum s7.12 levy of 2% or more. Extracts of these tables from the practice note are reproduced below.

Table 1.1: Councils should demonstrate how an area meets the following criteria for an increased levy of more than 1% on the cost of development.

Item	Criteria for Greater Sydney Region councils*
a.	The strategic areas are identified in a regional plan, district plan or respective Local Strategic Planning Statement, as a strategic centre, growth area, local centre or economic corridor.
b.	Local planning controls reflect, or are being amended to reflect relevant strategic direction and targets for the centre or defined area.
c.	A requirement for a review every 5 years from the date the new contributions plan comes into force is written into the contributions plan.
d.	Ongoing consultation with the Department regarding changes to works schedules will be undertaken, otherwise the higher percentage levy will no longer apply.
e.	The contributions plan should focus on delivering quality place-based community and green infrastructure, and public space improvements that enhance amenity of the centre. **Criteria for all other councils**: Contributions should focus on delivering high cost infrastructure items identified in regional plans and strategic plans such as roads.
f.	The centre has been identified by the relevant strategic plan/s to accommodate significant employment growth. An example of this includes facilitating an increase of at least 25% more employment opportunities than currently available in the centre. **Criteria for all other councils**: Not applicable.

* Defined as councils within the boundary of Greater Sydney Region as defined in Schedule 1 to the *Greater Sydney Commission Act 2015*.

Table 1.2: Councils should demonstrate how an area meets the criteria in Table 1.1 and the following criteria for an increased levy of more than 2% of the cost of development.

Item	Criteria
a.	The works schedule has been prepared in consultation with the Department.**
b.	Financial modelling is provided demonstrating that a maximum 2% levy on the cost of development is insufficient to deliver identified infrastructure in the proposed timeframe.

** This gives an opportunity for the Department to liaise and coordinate with broader infrastructure agencies in identifying strategic, place-appropriate infrastructure. Additionally, the Department can also help to ensure infrastructure needs are met in the most efficient manner.

3 Conclusion

Income modelling conducted on the five options indicates that a higher rate s7.12 levy at 5% of development cost for residential development and 1% of development cost for non-residential development is the optimal levying approach for Westmead South development for the following reasons:

- This option generates income significantly higher compared to the other options modelled, apart from Option E.
- Income is able to be indexed in line with infrastructure costs for options B to E. Option A is capped at $20,000 per dwelling over the life of the plan.
- Option E theoretically yields enough income to match spending, however the option is hypothetical in that it assumes that all infrastructure included in the plan would meet IPART's

essential works criteria. Our review of the draft contributions plan suggests that 14% of the schedule items might not meet the criteria..

- Option D provides just enough income to meet the developer's apportioned future cost of local infrastructure to be included in the Westmead South contributions plan.

- The contributions plan implementing Option D is simpler to prepare than a s7.11 approach and there is no need to demonstrate nexus and apportionment.

The only material advantage of the maximum $20,000 per dwelling S7.11 contribution levying approach (Option A) is that Council controls the approval process. No engagement with the Department, IPART or the Minister is required. However, there are significant negative flow-on effects associated with this option including:

- A $159 million shortfall in potential contributions income at Year 15, which is about 54% of the total developer-apportioned infrastructure costs.

- Substantially less infrastructure provision due to the funding limitations.