

Terms of Reference

Review of Local Government Infrastructure Charges

1. Project Background

Queensland Competition Authority

The Queensland Competition Authority (the Authority) is an independent statutory body responsible for assisting with the implementation of competition policy for government owned business entities in Queensland.

Under the provisions of the *Integrated Planning Act 1997*, the Minister for Infrastructure and Planning has requested that the Authority assist in the review of Infrastructure Charges Schedules (ICS) of local councils as referred by the Department of Infrastructure and Planning (DIP).

2. Requirements of each Consultancy

The consultancy shall consist of the following two components.

Component 1

Component 1 requires the consultant to assess whether there is sufficient information to verify a particular council's estimates of the cost of trunk infrastructure assets and application of the DCF approach in accordance with the Assessment Framework agreed between the Authority and DIP.

The cost of trunk infrastructure includes costs for design, construction, supervision and commissioning trunk infrastructure.

For each trunk infrastructure network subject to review, consultants will be required to establish the appropriateness of the costs of trunk infrastructure by reviewing the top 10% (by value) of assets (or unit rates and their application) in each class of infrastructure and a random sample of an additional 30% (by number) of assets of each class of infrastructure.

In most instances, the assets associated with the trunk infrastructure will be those required to meet future demand. Where council has not sought to apply audited values for existing assets, the consultant will be required to also verify the cost of those assets.

In addition, for the purpose of Component 1, the consultant should:

- (a) confirm that councils can provide the basis of each cost and the DCF model (including the parameters used to establish the model);
- (b) confirm whether the description provided by the Council of trunk infrastructure (including any maps and reference numbers) is sufficient to identify relevant assets for the purpose of verifying their cost;
- (c) recommend the appropriate classes of trunk infrastructure assets for the purpose of verification;

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- (d) confirm whether the proposed trunk infrastructure has been, or can be, grouped into suitable classes (with land treated as a separate class) for the purpose of verifying their costs;
 - (e) identify a proposed sample design for each network which should include:
 - (i) assets that form the top 10% (by value) in each class;
 - (ii) a sample of 30% (by number) of the remaining assets in each class; and
 - (f) identify the sample assets (or unit rates) from the proposed sample design. The consultant is to provide a table that specifies the number of assets and unit rates to review for each asset class by network.

Component 2

After consultation with the Authority, if the information available is considered sufficient to progress the review, the consultant may then be asked to proceed to verify council's estimates for trunk infrastructure on the basis of an approach agreed with the Authority and to verify council's application of DCF.

For each of the networks, and for each charge area within each network, the consultant should establish:

- (a) the reasonableness of the proposed costs of trunk infrastructure assets included in the ICS for each network. Usually, the reasonableness of costs is established by reviewing individual asset values or unit rates on the basis of available industry standards or benchmarks;
- (b) that costs are attributed to user groups and allocated to catchments consistent with demand apportionments approved by DIP.

In reviewing council's DCF approach, the consultant will be required to verify that the DCF technique and parameters used have been appropriately and consistently applied to each network and, in particular, to assess whether:

- (a) asset values have been expressed in consistent dollar terms;
- (b) the method used to index infrastructure costs through time and then discount these costs to the base-date are appropriate and internally consistent;
- (c) the method used to calculate the base-date infrastructure charge and then index the charge forward through time is internally consistent. In this regard, the consultant is referred to the Authority's *Note for the Consistent Calculation of Infrastructure Charges*; and
- (d) the discount rate complies with the Standard Infrastructure Charges Schedule (SICS).

3. Project Time Frame

The Authority will have eight weeks in which to complete each review. Consequently, consultants will be required to report on the sufficiency of the information (Component 1) within seven days of being engaged and provide a final report (Component 2) within four to six weeks.

4. Rates

Consultants are required to apply the schedule of charge rates in their application to join the approved panel. The total invoiced costs must not exceed \$55,000 (including GST), unless specifically authorised.

The cost of the review is to be finalized at the completion of Component 1.

At the completion of the project, the consultant is to advise the Authority of the total cost of the consultancy and provide disaggregated information documenting the application of the charge rates.