

# **PUBLIC ACCOUNTS COMMITTEE**

## **INQUIRY INTO DEVELOPER CONTRIBUTIONS FOR INFRASTRUCTURE COSTS ASSOCIATED WITH LAND DEVELOPMENT**

**TRANSCRIPT OF EVIDENCE TAKEN  
AT ALBANY  
ON MONDAY, 22 MARCH 2004**

### **SESSION 4**

#### **Members**

**Mr J.B. D'Orazio (Chairman)**  
**Mr M.G. House (Deputy Chairman)**  
**Mr J.L. Bradshaw**  
**Mr A.J. Dean**  
**Ms J.A. Radisich**

**LANTZKE, MR DAVID WILLIAM**  
**General Manager, Ardross Group of Companies,**  
[dlantzke@ardross.com](mailto:dlantzke@ardross.com), examined:

**The CHAIRMAN:** The committee hearing is a proceeding of the Parliament and warrants the same respect that proceedings of the House itself demand. Even though you are not required to give evidence on oath, any deliberate misleading of the committee may be regarded as a contempt of Parliament. Have you completed a "Details of Witness" form?

**Mr Lantzke:** Yes, I have.

**The CHAIRMAN:** Do you understand the notes attached to it?

**Mr Lantzke:** Yes, I do.

**The CHAIRMAN:** Did you receive and read the information for witness briefing sheet regarding giving evidence before the committee?

**Mr Lantzke:** Yes. The Ardross Group of Companies is a developer in regional areas, namely Albany, Bunbury, Jurien Bay and Manjimup. I am here to give evidence on behalf of not only the Urban Development Institute of Australia, of which we are a financial member, but also the group of companies as a developer in the City of Albany.

**The CHAIRMAN:** Have you made a written submission?

**Mr Lantzke:** I have not personally, but I understand the Urban Development Institute has made a submission.

**The CHAIRMAN:** You are not talking to that submission though, are you?

**Mr Lantzke:** No I am not.

**The CHAIRMAN:** Please proceed.

**Mr Lantzke:** Mr Robertson made some very good points. I could continue with anecdotes and stories about similar experiences with infrastructure providers up and down the coast and in regional areas, but the main thing we must bear in mind is the issue of housing affordability. I agree that there are main differences between regional areas and the metropolitan area in housing affordability, both in the capacity of consumers to pay for land and in housing costs. In my view, the cost of housing ranges between 120 and 130 per cent of the cost of housing in the metropolitan area. That has a direct relationship with the market price obtainable for residential blocks of land. Our group has been developing land in Albany since the early 1970s. The city planner has an estimate of the number of blocks that are created each year. Monty House's observation that not enough blocks are being created is correct. Based on our sales figures, we sell between 20 and 50 lots a year. We might sell 50 in one year and then drip-feed them for the next three to four years until there is either a rural boom, which seems to feed Albany, or something else happens and there is a pent-up demand caused by a lack of supply. It is therefore difficult to sell a lot of blocks in Albany in a year. In our experience, there are a number of reasons that we have not been able to put on the market as many blocks as we might otherwise have put on. There are all sorts of issues to do with the lack of a proper planning framework in Albany. Our group develops land in Yakamia hill, which is pretty much central to the town. Attempts have been made for about 15 years to develop an approved structure plan for that area. There have been three different goes at it and not one has been approved. Another one is in train at the moment.

**The CHAIRMAN:** You say it has not been approved; who by, the council?

**Mr Lantzke:** The council. One plan was close to being approved when there was a shire and a town during the issue of the shire and the town merging. Disagreements between the shire and town meant that the plan was never approved.

**The CHAIRMAN:** Why has it taken so long?

**Mr Lantzke:** There is a host of reasons. There has been a continual push towards looking at issues, such as a mini Bushplan in the City of Albany. It has been considered that designated areas that were in the past zoned urban for future use, but were not cleared, should now be conserved because of their regionally significant nature. In the issues of infrastructure provision with the multi-ownership factor and the land in fragmented ownership, the Ardross group is really the only major player and the main developer in that area.

**The CHAIRMAN:** How much land do you have in that development?

**Mr Lantzke:** Depending on the outcome of the structure plan, we have anywhere between 200 and 300 lots; that was in the old Town of Albany boundary.

**The CHAIRMAN:** What is the breakdown of costs for developing that land? In other words, does it cost \$7 000 a lot to provide the infrastructure, and is that a problem?

**Mr Lantzke:** The total cost of development is somewhere between \$40 000 and \$45 000 a lot.

**The CHAIRMAN:** Does that include sewerage?

**Mr Lantzke:** Yes, that is for reticulated sewerage, underground power, drainage, Telstra - everything.

**The CHAIRMAN:** Is a community facilities charge included or a provision for some sort of contribution to community infrastructure?

**Mr Lantzke:** No, other than what the City of Albany charges on a per-lot basis as a cost towards planning. There is a planning fee levy, but no specific community contribution levy is charged.

**The CHAIRMAN:** Being a private developer, you have obviously looked at the costings. Is there some way of providing state government-type services at a cheaper price? We heard this morning that the Water Corporation and Western Power appear to pluck figures out of the air. Have you done any costings to provide those services at a cheaper price if you do not go through those authorities?

**Mr Lantzke:** Do you mean another authority in competition with them providing them?

**The CHAIRMAN:** Not another authority, but another person who could supply services such as sewerage, water and power.

**Mr Lantzke:** No, I do not believe so because everything is competitively priced. Most of the time we go out to tender and work out the cost of putting in services such as laying sewers, sewer mains and drainage lines. Western Power is a full-cost scenario.

**The CHAIRMAN:** Are you saying that the costs charged by Western Power and the Water Corporation are not necessarily more than cost recovery?

**Mr Lantzke:** There is a headworks charge. We pay the full costs of putting the services into the ground, such as roads, kerbs and all the rest of it. How the headworks charges are derived would be subject to a separate inquiry, absolutely. It is really a levy to tap into existing infrastructure. It is to cover things like dams, bores, water treatment plants and so on. Headworks charges contribute to permanent works and sewer rates.

**The CHAIRMAN:** Is the \$45 000 that you are talking about acceptable to the market here? Can you make a profit out of land development?

**Mr Lantzke:** Our blocks range between \$65 000 and \$70 000 and we must pay GST out of that as well. There is therefore a GST component of about \$4 500; so the margin is pretty low in regional areas. That is why we do not flood the market with lots.

**Mr J.L. BRADSHAW:** Does that \$45 000 include land costs?

**Mr Lantzke:** Yes. Our land costs were incurred in 1970. If we had not been writing off rates, taxes and holding charges all this time and, instead, capitalising them -

**The CHAIRMAN:** Is it right that the \$45 000 includes the cost of the land?

**Mr Lantzke:** No.

**Mr J.L. BRADSHAW:** That is the question I asked and I thought you said yes.

**Mr Lantzke:** I am sorry; I misunderstood the question. The \$45 000 does not include it. In the case of a \$60 000 block, if you are working out the margin, the cost of the land to us historically was about \$1 500 a block.

**The CHAIRMAN:** I understand that, but you cannot use that equation.

**Mr Lantzke:** No.

**The CHAIRMAN:** You have to index the price of the land to today's value.

**Mr Lantzke:** That is right.

**Mr J.L. BRADSHAW:** And add your costs to that.

**Mr Lantzke:** It is probably between \$7 000 and \$10 000 a lot in today's value.

**The CHAIRMAN:** Your margin is very low.

**Mr Lantzke:** That is right; the margin is very low.

**The CHAIRMAN:** Any blow-out on any sort of cost or holding would make it non-viable.

**Mr Lantzke:** That is right. An issue has also been raised as a result of the HIH fiasco. The number of builders in Albany has dropped significantly, mainly because of an inability to get indemnity insurance. There are therefore three major players in the market who insist on absolutely level building lots to build their houses on. We basically have to retain a lot of blocks that are on slopes. If you drive around the town of Albany, you will see that there are not many pieces of flat land. The only real piece of flat land is on the right of Albany Highway as you are coming into Albany, which is the Orana and McKail areas. As a result, the urban front has been heading out in that direction, mainly because it is easy to develop on that land. There is almost a sprawl happening. It is cheaper and easier to develop that land because it does not have to be retained. I cannot work out why Albany has to pay so much for retaining walls compared with what Perth pays.

I have never worked out why that is the case. It is probably due to demand and tightly held supply.

**The CHAIRMAN:** If those margins are so low, if it was \$15 000 a lot, the total cost of the sale per lot is covered by the land costs, so why would people be in the development game?

**Mr Lantzke:** If people have had land over a number of years, it is better to drip-feed and get some return on it. No-one will want to buy it.

**The CHAIRMAN:** I understand, but the question arises that if these figures are correct, nobody in their right mind would go to any of the regional centres and develop this land because there is no money in it. Why would they do it?

**Mr Lantzke:** That is right. We can do it only because on an accounting basis we will still show a reasonable return. We have written off all the holding costs and charges over a period. We cross-subsidise it. It is probably the same as a lot of the levies, even the headworks charge. There is a community service obligation. Metropolitan Perth subsidises regional areas because there is not

enough catchment for the sewer and water systems to work. We are also cross-subsidising with our other developments elsewhere in the State.

**The CHAIRMAN:** If your numbers are correct, is it right to say that if there is any increase in the actual cost of providing soft community infrastructure, it might affect the viability of any land release?

**Mr Lantzke:** It affects viability, mainly because of affordability. If we could charge another \$10 000 a block, we probably would be charging that now. If anything that is introduced affects the margin, it goes straight to the bottom line.

**The CHAIRMAN:** Do you think that the market would not wear that sort of cost?

**Mr Lantzke:** I do not believe so at the moment, mainly because of the cost of building. Construction costs are an impediment. I have not studied in detail why it costs more to build a house down here. It might have to do with the soil conditions. We are not dealing with sand in Albany; we are dealing with a clay element. We have heavier footing details. Another reason might be the lack of competition among the building industry because of the indemnity insurance issue.

**The CHAIRMAN:** Is there anything else you want to tell us?

**Mr Lantzke:** Not particularly. The UDIA submission puts quite clearly what the effect on the development industry would be. I could rave on for hours about the Water Corporation; it seems to be easy to bash over the head at the moment. We have a subdivision in Bunbury on which we attempted to conserve a creek line. A creek runs through the middle of the property and, based on the amenity of the -

**Mr A.J. DEAN:** Is that behind the caravan park?

**Mr Lantzke:** No it is in the Shire of Dardanup. It is a 1 400-lot subdivision called Millbridge and has a creek running through the middle. It was grazed; all the rest of the land was cleared and the trees were in the creek valley. We tried to save all the trees and have done so. We promoted a vacuum sewerage scheme to the Water Corporation rather than the usual gravity system. However, due to the reluctance of the corporation to accept a vacuum sewerage scheme, it took two-and-a-half years to convince the corporation that there should be a vacuum system. We had to go through a financial model of designing the corporation's system, which would have involved ripping up the creek and building a main down the middle of the creek. I do not know how section 18 of the Aboriginal Heritage Act would impact on that or what problems the Water and Rivers Commission would have had with that. We had to cost the Water Corporation's gravity system and compare that with our vacuum system. In the end we proved that our vacuum system was cheaper than the corporation's gravity system. The corporation then said that although it knew its manual provided that a type-90 pump station was needed there, it would have let us get away with a lesser pump station. That will now turn the model around so that it is \$100 000 the corporation's way. It has proved that its system was \$100 000 cheaper.

**The CHAIRMAN:** Can you provide those details to us?

**Mr Lantzke:** Yes.

**The CHAIRMAN:** These things need to be highlighted.

**Mr A.J. DEAN:** What about water supply? In Bunbury it is AqWest -

**Mr Lantzke:** The Water Corporation is in Dardanup.

**Mr A.J. DEAN:** I know. The development at Dalyellup involved an open tender between AqWest and the Water Corporation.

**Mr Lantzke:** The Water Corporation ended up winning it in the end, did it not?

**Mr A.J. DEAN:** Yes. Were you not given permission to try for an open tender?

**Mr Lantzke:** No we did not try. We were frontal to an existing Water Corporation line, so there was no point.

**The CHAIRMAN:** Can you provide the details of that sewerage system change because that is fundamental to what we are looking at? This must stop. There must be some sense to the whole process. If this is happening to you as a developer, obviously we need to look at it.

**Mr Lantzke:** That is an important point. Mr Robertson made many points about his trying to be innovative and pushing the envelope and people like him do not necessarily get recognised for it. The public never finds out that these things happen. There is no mechanism for that.

**Mr M.G. HOUSE:** That is how bureaucrats work. Having seen them at close quarters for longer than other people, I despair how we fix that. I have seen them put issues in front of political groups like this committee. They do not want to make decisions. They will not explain why. They come up with a manual, as you just said.

**Mr Lantzke:** It is the precautionary principle. Unless we can categorically prove to them what will be the effect and that it will not have any adverse effect, they will apply the precautionary principle to let things go on as they are. I can recall another issue in Albany involving two temporary pumping stations within about 400 metres of each other in Yakamia. However, because of the potential mini-Bushplan sites, the original sewerage system was designed to gravitate from the top of the hill through future development. That future development of our land now does not look as though it will happen because we cannot get the land rezoned from deferred urban to residential. So we put in a temporary pump station until the permanent scenario was working. For the next block we built another temporary pump station. It took six months to convince the Water Corporation to let us spend 100 per cent of that cost to build that temporary pump station in order to get sewerage for that land. The Water Corporation said it was not its policy to have two temporary pump stations; they wanted us to pay the maintenance cost on the other temporary pump station for which we paid 100 per cent until we could convert that sewerage to the other temporary station, which will end up being a permanent pump station. That is 100 per cent funded by us because without it, we would not have been able to develop at all. It sends sewerage over a hill so that it can gravitate down. The Yakamia structure plan, which is in draft and which I have not seen, will probably show that we cannot develop. The whole way the infrastructure is being developed over that land is totally inefficient in an urban area. The City of Albany has said that there was too much public open space in there and it did not want to take vesting of it as open space. There is no region scheme in Albany, even though it has been mooted for a while. I know, John, you have said that it is just a matter of asking for a region scheme. However, it takes five years to review a scheme even though it must be reviewed every five years. That is the rate the planning commission is working at now. In fact, some are taking six and seven years to review every five years. In effect it is taking 10 to 12 years to review schemes. That is what we are dealing with.

**Mr A.J. DEAN:** It took 20 years in Bunbury.

**Mr Lantzke:** In Bassendean, Dandaragan - every shire that we are working with that is reviewing its scheme, it is taking five, six or seven years.

**The CHAIRMAN:** In Bayswater it took two years.

**Mr Lantzke:** That is because you were the mayor.

**The CHAIRMAN:** Thank you very much. Is there anything else you would like to tell us?

**Mr Lantzke:** It must be horses for courses in looking at developer contributions. It is not as easy as applying it across the board. There are places in which it most probably can be withstood. This issue of leapfrogging is very vexed. How did Ellenbrook in the Swan Valley happen? It is a village that grew out of nothing. It was not frontal to any development; nonetheless, it is one of the most

awarded subdivisions in the State. It had to do with housing affordability. There are times when leapfrogging should be allowed to create affordable housing. Ellenbrook is exactly such an example.

**Ms J.A. RADISICH:** I argue that with today's planning thinking hats on, we would never have allowed Ellenbrook. I do not know how it was allowed, but it was approved 20 years ago. Residents have been there for 10 years now.

**The CHAIRMAN:** The residents of Ellenbrook are screaming for facilities they do not have.

**Ms J.A. RADISICH:** Do not get me started!

**Mr Lantzke:** It is a vexed issue. Even though we have a difference of opinion on it, if it had not been allowed to happen, a developer could have sat there and speculated without developing and pushed up the prices.

**Ms J.A. RADISICH:** They could have developed adjacent to the existing urban front. There was no need to go out another 10 or 15 kilometres.

**Mr Lantzke:** The developers did not have control of the land, though.

**The CHAIRMAN:** Somebody must pay for the infrastructure to connect them to facilities and provide the roads.

**Mr Lantzke:** The developers made quite a few contributions. They extended the Lord Street -

**The CHAIRMAN:** They did make a contribution but the pressure is on now for further access. That comes back to other people to pay. I understand where you are coming from. There is also a balance to the equation.

**Mr Lantzke:** It is a vexed issue. It could be said that one size fits all across the board, as has occurred in the planning system. Graeme is right - I know about that special rural subdivision issue. Effectively, state planning policy has killed off special rural subdivisions. Anything less than four hectares requires scheme water. It is not efficient to put scheme water past blocks that are 100 to 150 metres wide. It cannot be done. Basically that is killing off special rural as a development option. Special rural areas are not anywhere within cooee of scheme water in any event, so it seems like a nonsense. That is outside the terms of reference.

**The CHAIRMAN:** Thank you very much for your submission. We look forward to reporting.

**Proceedings suspended from 12.56 to 2.15 pm**