

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 2

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

FENN, MR ROBERT JOHN
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The CHAIRMAN: Welcome to the Public Accounts Committee hearing. 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 contempt of Parliament. Have you completed the "Details of Witness" form?

Mr Fenn: Yes, I have.

The CHAIRMAN: Did you understand the notes attached to it?

Mr Fenn: I did.

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

Mr Fenn: I did.

The CHAIRMAN: You have made a formal written submission to the committee. Do you wish to propose any amendment to it?

Mr Fenn: No, not at this stage.

The CHAIRMAN: Is it your wish that it be incorporated as part of your evidence?

Mr Fenn: It is.

The CHAIRMAN: Do you wish to make a statement in relation to your submission?

Mr Fenn: I listened to the previous witnesses, and the witness statement is about a philosophical point on infrastructure rather than the detailed physical costs. The City of Albany is a fairly complex area ranging from the Nullakai Peninsula in the west through to Wellstead in the east etc. The submission primarily deals with the urban area, but I am more than happy to answer questions relating to rural settlements etc in the district as well

The CHAIRMAN: In relation to the price structure, do you have huge demand for lots in Albany? What price range are we talking about? Can you tell us what cost structures are involved in the division of those lots?

Mr Fenn: At the moment, within the city between 70 and 180 lots per annum are being created through the subdivision process.

The CHAIRMAN: That is urban lots.

Mr Fenn: That is the number of lots based upon the WAPC figures for the last three years.

Mr M.G. HOUSE: Are you including, say, Many Peaks and whatever in that figure?

Mr Fenn: Primarily, the lot yield is in the urban area. There is very little rural subdivision taking place

Mr M.G. HOUSE: Are you talking about what we might call lifestyle lots incorporated in that figure - lots greater than a certain size?

Mr Fenn: There would be a very small component. Looking at our population growth requirements, we need roughly 4 000 lots over the next 20 years. That equates to about 170 lots per annum required, based on our current growth rates.

The CHAIRMAN: Are you suggesting you are not producing enough lots?

Mr Fenn: At the moment it indicates that the demand for lots is being met within the current industry. When you look at greenfield subdivisions, most are 20 to 40 lots in size. There are very few substantial subdivisions, as you would see in the metropolitan area.

The CHAIRMAN: What sort of price range are we talking about with those sort of lots?

Mr Fenn: There is a professional developer here, but they probably range from mid \$40 000, low \$50 000, to a couple of hundred thousand depending on location and aspect.

The CHAIRMAN: What is the cost of developing those lots? Do you have a breakdown?

Mr Fenn: No, I do not. I would not like to hazard a guess.

The CHAIRMAN: In the process of developing those lots, do the Water Corporation and Western Power apply their normal charges?

Mr Fenn: Certainly. The Water Corporation and other agencies apply their standard headworks tax and the developer is required to put the necessary infrastructure in place, much the same as the city requires roads, drainage and other infrastructure to be built.

The CHAIRMAN: When it comes to local government infrastructure costs, apart from the standard type of cost, such as roads, footpaths etc, does the council have any specific allocation for the provision for childminding facilities, libraries etc?

Mr Fenn: We tried to look at that in the past but were told emphatically that such a condition would not be applied to subdivisions. The city has gone to great lengths over the past three years to get a handle on its assets. We have published brochures which now detail that sort of deficit. The very first one is infrastructure assets, which indicates the dollars the city is considering over the next 20 years to maintain the current asset base. It paints a pretty bleak picture. We have been trying to do the financial modelling to find the money to make it work.

Mr M.G. HOUSE: Does the figure you just quoted include subdivision of existing lots; for example, the rezoning of the Middleton Beach area, so that there are quarter-acre blocks that have three or four residents on them?

Mr Fenn: That is the type of figure. It would include everything from brownfields subdivisions, subdividing existing lots, through to new urban fronts. There are probably only two small greenfields fronts occurring in Albany at any one time. There tends to be some overlap in terms of sale and development.

Mr A.J. DEAN: Are they private developers?

Mr Fenn: Yes.

Mr A.J. DEAN: Is LandCorp involved?

Mr Fenn: No.

Mr A.J. DEAN: Does the City of Albany have any land suitable for rezoning and subdivision? I know the City of Bunbury, for example, has massive amounts of land available.

Mr Fenn: The City of Albany does not have the endowment land that the City of Bunbury has. We have been talking to parliamentarians about that issue. In terms of land assets, we will be looking at trying to capitalise on some of that land in the near foreseeable future to fund the major capital infrastructure we require. It is fair to say that it is difficult to realise that value with such a low development demand because we could very well flood the market if we tried to sell that land over a three or four year period to realise the value.

The CHAIRMAN: I understand why you are saying there is a shortfall, but that is like a normal government maintenance program. This not about development contributions and what they contribute to the subdivision. We would not expect a developer to include a component for ongoing maintenance of normal council infrastructure over the years. It would include the capital costs but not ongoing maintenance surely

Mr Fenn: I agree, Mr Chairman, but those figures indicate - looking at what it costs to run the business - that the city has very little or no capital left over to support infrastructure costs for development. Suddenly we have a development that leapfrogs the urban front, and we are required to put in a kilometre of road or a substantial drainage network. The infrastructure that is currently programmed simply must be put on the back burner because at the moment there is an expectation from the developer that that infrastructure will go in.

Mr J.L. BRADSHAW: If a developer leapfrogs, you have no capacity to put a demand on the developer to help fund those costs?

Mr Fenn: Quite often we advise the WAPC that we recommend against a subdivision on the basis that it leapfrogs and there should be a cost to physically connect it to the existing infrastructure. We have been very unsuccessful in getting those subdivisions stopped until there is an appropriate contribution to make that connection.

Mr A.J. DEAN: When was the last of those refusals?

Mr Fenn: Probably less than 12 months ago.

The CHAIRMAN: Can you give us the details? We would be very interested in that.

Mr Fenn: I can give you a number of examples where that has occurred.

The CHAIRMAN: We would appreciate that. In other places we have visited so far on the other side of the country it is a normal standard condition. If you want to leapfrog the residential front, you pay for the connection.

Mr Fenn: Yes; I am aware of that, having spent some time in the eastern States.

The CHAIRMAN: We need to look at that because obviously there is a problem if all of a sudden you have a plan and someone wants to change the order. We cannot expect the council to take up the cost.

Mr Fenn: Not only that, but even within existing urban areas if someone part the way up the catchment is doing a reasonably large redevelopment of a brownfield site, the extra capacity they put into that drainage system is often being ignored by the WAPC as a requirement or a condition. Under modern environmental standards we have to put in a retention system at the base to make it work or upgrade our network in between. Much of that stuff is being ignored.

The CHAIRMAN: Even though you have made it a condition, it has been knocked off?

Mr Fenn: That is what is happening.

The CHAIRMAN: Can you provide us with the details of those conditions. In relation to the local government infrastructure costs do you know what it costs per lot for your local government type infrastructure costs?

Mr Fenn: No, I do not. We set a standard. We have actually published our standards and requirements in terms of a policy. We allow the industry to go away and work that through to the best cost to the industry, as long as it is up to those acceptable standards.

Mr A.J. DEAN: Is that attached to your town planning scheme?

Mr Fenn: No, that is an independent policy of council.

The CHAIRMAN: Has the council considered going across the council area and working out what sort of infrastructure costs you would need to provide extra facilities? You obviously have zoning

in the area that is residential and that will generate a potential X, Y, Z population base. Has the council looked at what those lots should be contributing to the infrastructure costs to provide those facilities?

Mr Fenn: Not at this stage, Mr Chairman. We spent three years trying to get a handle upon the deficiencies with our current assets. As we finetune our financial modelling and start looking at population growth and demand for additional libraries, we should be able to get a handle on that, but at this stage we do not have that information.

The CHAIRMAN: The committee has been to Melbourne to look at these infrastructure costs. You said you have had some experience of that. Would you support a facility whereby a council would look at what infrastructure is required for an area and then end up with a cost that developers have to pay to support that structure?

Mr Fenn: The principle sounds fine but you need to look at it in context. Monty just mentioned, for example, the Middleton Beach area, which is well served with infrastructure. However, in some of our outer urban areas, where there is no district level playing ground or infrastructure, how fine grained do you get? This is part of the argument we have had with the Western Australian Planning Commission. Do you take a Water Corporation type philosophy of averaging it over everything or do you look at it on a suburb-by-suburb basis? How do you define the boundaries for something like a library - an additional lot in town? Is that one-thousandth of one per cent of 15 years of capital upgrade or does that mean an extra book? It is very difficult to quantify that information.

The CHAIRMAN: I understand that, but if you do not do it no one else will contribute, and therefore you will take it up as your normal activities.

Mr Fenn: I agree. The dilemma is trying to quantify that information. For example, if you looked at the capital cost of providing a basic library service in Wellstead, the cost per lot would be astronomical.

Mr M.G. HOUSE: Do you actively seek developers to do subdivisions, or is it council policy to drive the growth by making things available, making concessions or trying to make it happen, or does it work the other way? Do developers usually come to you and proffer an opinion about an opportunity?

Mr Fenn: We are in the fairly fortunate situation at the moment where we have a decade of land supply already zoned and waiting to be developed. I have spent a considerable amount of council's money over the last three to four years -

Mr A.J. DEAN: You have 1 500 lots waiting to go?

Mr Fenn: We probably have a 10 to 15-year supply sitting there.

Mr A.J. DEAN: That is about 1 500.

Mr Fenn: Yes, whatever. We spent a considerable amount of council money doing structure planning for those areas. In terms of the basic structure in all of our main growth areas, we have a fair idea where that is going. We are in the process at the moment of trying to do all the planning for our public open space areas in terms of rationalising their function and working out what needs to go on them. We are slowly working through that process to give us a clear understanding. To answer your question, no, there is no need to canvass development. It is occurring but it is at the developers' desire and market demand.

The CHAIRMAN: The next stage of your 1 500 lots would be the community infrastructure you need to provide?

Mr Fenn: That inevitably is included within the structure planning for those suburbs, so we know it in terms of the new urban front. We are looking at the existing brownfields areas to work out how they are developed.

The CHAIRMAN: Do you have a costing for providing local government infrastructure to those sites?

Mr Fenn: No. All we have done at this stage is identify the sites. Again, we need to work out physically what goes on those and a cost structure. However, again in terms of financial planning in our current model, it is some time out before we would need to spend those funds.

The CHAIRMAN: Is there a huge demand for lots in Albany?

Mr Fenn: There is a trickle of demand, but again we have had our major -

The CHAIRMAN: What does "a trickle" mean? Does that mean that you have not got a huge pressure on demand?

Mr Fenn: There is no huge demand, and I would suggest that until we get a major industrial development or some major catalyst occurring down here - and we have got some of those projects in the pipeline at the moment - I would not see that changing in the foreseeable future.

The CHAIRMAN: You have not got the attraction of the Margaret River area, whereby everybody wants to go and retire down there.

Mr Fenn: They have not discovered us yet, but I would say that probably in the next five years that will change quite dramatically. Our other problem is that we have one area that is growing slightly faster in terms of the urban front. There is a very limited supply there. When we switch across to our other urban fronts, because of the fragmented lot arrangement, we are going to be dealing with multiple developers. We do not have a large developer creating the massive urban front. We have a lot of small developers actually creating these lots.

Mr J.L. BRADSHAW: Are you getting much infill in Albany, or is it still just the greenfields sites and the expansion in that direction that the lot demand is coming from?

Mr Fenn: I would say probably 20 per cent would be brownfields redevelopment. At the moment we are also analysing our urban areas. We have a consistent R coding across the whole lot. We would be looking at trying to review that to determine in fact where we can get some increased densities.

The CHAIRMAN: What is that consistent R coding?

Mr Fenn: R20.

The CHAIRMAN: And that is with no variation - just straight R20?

Mr Fenn: It is R20. There are small pockets of 30, 40, 50 and even one of 60.

The CHAIRMAN: What I was really getting at is that there is no split coding - for example, 20 or 25 - and if you meet certain standards, you can go to a smaller lot size. There is nothing like that?

Mr Fenn: No. The only one would be the Emu Point area, which was not sewered. Now that it is sewered, it has actually gone up to R20. It was previously R15.

The CHAIRMAN: Some councils actually have a split coding. If you are under coding R25, there is also a reduction in lot sizes, so in actual fact it is not 25; it is 30. If you go through the back door, it is a way of encouraging development by saying, "If you meet these standards, you can have a higher zoning", and then developers make the financial decision whether they want more lot yields and therefore better returns, but they have to provide better infrastructure.

Mr Fenn: We are trying to reconcile the age-old problem of two councils, in that we had completely different urban fronts with a whole pile of gaps in the middle, and we are now trying to fill those gaps. Our infrastructure is substantially dispersed.

Mr M.G. HOUSE: People from the Shire of Denmark just gave evidence that indicated they were looking more at what I would term a satellite development system. We have not seen a whole lot of that in practice, but that is what they said to the committee. Has Albany looked at that in the same

way? Would you go to areas like Lower Denmark Road and do what you might call a satellite suburb, the same as Bayonet Head was when it was proposed? It seemed like a long way out of town when it was first developed.

Mr Fenn: Bayonet Head is a classic case. A high cost has now been incurred by the city in upgrading Ulster Road and Collingwood Road, because the community out there has no option other than to travel through the middle of an existing suburb. We have worn a high cost from that satellite development. I am sure the Water Corporation has also worn substantial costs with dispersed sewerage and water. It is difficult. I know there is a development on the other side of Oyster Harbour, and that developer is currently confronted with a \$1 million cost to put in a third storage tank for water supply, because at the moment the water over there is basically coming straight out of the supply main, which means that if the pump is working, you get high pressure and if the pump is turned off, you get no pressure.

Mr J.L. BRADSHAW: Apart from your leapfrogging, where you feel you need contributions from the developers, are you happy with the current contribution from developers under the normal circumstances?

Mr Fenn: No. I think at the moment there is - I take the Chairman's point - a community cost that is not being borne at the moment in terms of libraries and all the other infrastructure. How you quantify that is a fairly difficult question. If I draw a parallel in terms of the Water Corporation, it seems to have plucked a figure out of the air and said that that is now a tax applied per lot for development. If a similar standard were to be applied to local government, it certainly would be very advantageous for us to bring forward some of those programs that currently we cannot fund.

The CHAIRMAN: The basis on which it is done in Victoria is that they have a plan and say, "These are what the costs are", and they advertise it publicly and people can comment. It is up front. Everybody knows. It is basically a town planning scheme. Would that help or hinder the process? After talking to some of the smaller councils this morning, it appears to me like it would be a hindrance, because you need only \$6 000 for the whole lot, and if it is going to cost you \$20 000 to develop it, it is not going to work; it is just not going to happen. Is Albany big enough and does it have enough demand for those sorts of extra levy costs to be borne by the market?

Mr Fenn: I could not comment on that. I know that at the moment, if you look at the building industry, the other state impost with BCTIF and all these other costs have substantially increased the value of building a house. If you are looking at a first home buyer, not only now do you have a premium to build a house, but also you are now putting a premium on buying the land. Therefore, affordability, I think, becomes a fairly important issue, and certainly the smaller councils raised that this morning. Within our district we have Wellstead, which has a reticulated water supply; Manypeaks, where they had their own self-funded water supply; and Redmond, which has no water supply at all. They are three towns with identical populations and identical sizes, but with vastly different infrastructure requirements. How you apply that figure becomes a fairly important point, and my submission highlights the fact that inevitably, if we treat the State as a homogenous unit, we are going to fail, because what happens in the metro area is not suitable down here, and what is suitable down here is not suitable in Mt Barker or Denmark. How you derive those local derivatives and how you apportion a sudden expansion of our sporting facilities and our libraries against the existing population, plus projected future growth, becomes a very difficult and, I suppose, somewhat problematic process of trying to quantify that. How much should the existing community pay towards upgrading our sporting facilities versus future subdivisions? How do you quantify that?

The CHAIRMAN: Should that not be the role of the controlling authority, being the local authority in the area that controls the developers? Should it not make that decision in consultation with its community?

Mr Fenn: We are extremely good at forward planning. We know what we need to build and when we need to build it. I would say that we are probably the exception to the rule. In trying to quantify that, we need to put an extra X square metres of floor space onto the sporting complex or to build a youth centre in five years time, most people would be guessing.

Mr J.L. BRADSHAW: You have not brought it down to a value.

The CHAIRMAN: Cost.

Mr Fenn: It is a bit difficult because, as it is, we had already planned to do major expansions to our library, our recreation facilities and our swimming pool. When we actually sat down and worked out how we could afford to pay for it, what became a five-year plan suddenly blew out to a 20-year plan.

The CHAIRMAN: I understand that, but if you had developers contributing as they develop lots so that a fair bit of it went into a reserve fund for that purpose - that is what I am talking about - clearly identified, then you would have the funds when you need them. The problem with that is that obviously someone has to pay. Therefore, the person who is buying the block will have to pay the extra fee. I am sure the developer will still want his margin.

Mr Fenn: We would dearly love to have some contribution coming back from greenfields subdivisions, because by the time those lots are occupied and people are in there, they will also be using those facilities. Yes, as a principle, I agree.

Mr M.G. HOUSE: If you look at Albany, there has been some deficiency in the decisions that have been made for provision of facilities here in the past. You mentioned it. The swimming pool is a very good example. I do not think you can then heap that sort of problem on to a developer or residents who might come and buy and who will eventually pay, as the chairman says. There have been some decisions made that have not allowed some of those facilities to progress in the past.

Mr Fenn: I tend to disagree with that statement, in that the pool at that stage was adequate for the purpose. You could argue that we did not look far enough into the future, but the comment amongst the community at the moment is that it should have been a 50-metre pool. You talk to all the experts and they say you do not build 50-metre pools; you build 25s or you build two 25s. In terms of that planning, that decision was right. We are in the process of building a recreation pool alongside the existing pool. Again, that future community will be using that recreation pool.

Mr M.G. HOUSE: I guess that is matter of opinion, is it not?

Mr Fenn: Again, we have not found anyone in the industry who is telling us to go out and build a 50-metre pool.

Mr M.G. HOUSE: Is that right?

Mr Fenn: That is right.

The CHAIRMAN: We will not get into that argument.

Mr Fenn: Again, with library services, do you build double the floor space for anticipated future growth? If that growth does not materialise, you end up with vacant space. You have to be able to afford what you build at the time.

Mr J.L. BRADSHAW: Would it not be better to place a new library in a new area rather than everyone coming to the central library as well?

Mr Fenn: We have looked at that, and certainly, for example, in terms of sporting infrastructure, there is a critical mass that the existing site can accommodate, so we will be looking at future active sporting fields that will not be on the current site. Library services can be delivered through a whole range of mechanisms. I think it is probably one of the few services where people still do want to pick out a book, rather than do it electronically. However, there is now some movement towards electronic libraries, and out-stations can be provided. Again, to answer your question, we

have not worked out how that will be done. The current site may well be the constraining factor that forces us to put a second library somewhere else. It may be that we can expand on what we have got.

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

Mr Fenn: No, other than that, as a principle, I completely agree with where you are going.

The CHAIRMAN: We are not going anywhere. We are just asking questions about the issue. We have not decided any position at all.

Mr Fenn: I think the current arrangements are deficient. I think, quite frankly, the State Government, through its agency, has a lot to offer. We are out there. Private enterprise is meeting its fair share of its costs. At the moment state government agencies are not. In my submission I talk about the new justice complex in Albany and I talk about primary schools. The constant ethos of simply building the base infrastructure and letting the community sort out the problems around those sites is deplorable. Even the City of Albany makes sure that the full cost of a development is met, and that includes all the external costs. I think we need to move towards some sort of arrangement whereby greenfields subdivisions and also small lot subdivisions on existing brownfields areas are contributing towards community infrastructure. The real challenge will be how do you determine those costs and be able to make them justifiable. I also point to the Water Corporation at the moment. I would like someone to tell me how those costs are derived.

Mr M.G. HOUSE: So would we. We would like someone to tell us, and we are going to ask them.

Mr Fenn: On the one hand, you have a government agency that is able to tax without any justification for the value of that tax, whereas we are not allowed to even go to the basic principle of taxing.

The CHAIRMAN: We will be asking the appropriate questions of the water authority - if you want to come to listen to that hearing, it will be a public hearing - and I am sure we will get those answers. Thank you very much for your submission, and we look forward to reporting back to the Parliament.