

# **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 5**

### **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**

**RYE, MR MAYNARD**  
**Deputy Chief Executive Officer,**  
**Great Southern Development Commission,**  
**110 Serpentine Road,**  
**Albany, examined:**

**The CHAIRMAN:** Welcome to the hearing. Before we proceed, I need to read to you the procedure for the examination of witnesses. The committee hearing is a proceeding of Parliament and warrants the same respect that the proceedings in 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 Rye:** Yes.

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

**Mr Rye:** Yes.

**The CHAIRMAN:** Did you receive and read an information for witness briefing sheet on giving evidence before the committee? Have you made a written submission?

**Mr Rye:** It is a presentation which we could leave.

**The CHAIRMAN:** You can make that presentation during this process.

**Mr Rye:** The Great Southern Development Commission is often required to comment on land use and planning issues on behalf of a diverse number of stakeholders in the region. This can range from the impacts that such planning may have on the region's natural resources and the environment, to infrastructure requirements and supporting sustainable settlements and communities.

We notice that such planning complexities have escalated over many years due to legislative and procedural requirements that have inevitably led to increased costs, increased time delays in the completion of plans and jurisdictional issues between state government agencies and local governments. This is resulting in the number of quality structure plans that comprehensively address the planning requirements decreasing relative to demand. If this continues, the long-term effect is likely to be that the supply of appropriate land tenure to facilitate the development of the region will fall well short of demand and become a major constraint to regional development. A common theme is emerging when speaking with the shires within the region. Rural development does not grow as fast as that in the metropolitan area, yet the costs of development and headworks are the same as those applied to the metropolitan area, which is experiencing rapid growth. The result of these inordinate expenses and lack of equity are impacting on regional development. Development, particularly within townsites, is deterred due to the high capital costs associated with potential subdivision. Charges by government instrumentalities such as Western Power and the Water Corporation are of such magnitude that sometimes there is no commercial advantage for subdivision to occur within townsites. Due to artificial charges imposed by utilities, potential developments within townsites simply will not occur; for example -

**The CHAIRMAN:** Where are the examples of artificial charges?

**Mr Rye:** One of our local government colleagues bought a block for \$87 000 plus stamp duty and subdivided it into three vacant blocks, plus a house lot. Associated costs to subdivide comprise Water Corporation charges, \$15 300; headworks costs, \$12 147; Western Power charges, \$13 300; surveyors' fees, \$2 200; and site works costs, \$11 251. In 1997 the person concerned purchased a house and land situated near the Albany Highway, the gross sales proceeds for which were in the

vicinity of \$131 000. The total costs to bring the land on line, including its original buying costs, amounted to \$139 000. That resulted in a net loss to that developer of \$8 000. That does not include the costs of borrowing the money originally to buy the property, the consumer price index factor and the cost of internal roads, if required.

Such cases will drive developers to look to rural land as an alternative, further exacerbating land use issues, for example, by pressure being exerted on rural land for creation of lifestyle blocks by the splitting up of existing locations, which will result in blocks that are no longer viable for agricultural production. Many of the blocks created do not have adequate services, creating future difficulties for not only the owners, but also the council.

**The CHAIRMAN:** We have had that example already. No lots are being created in the rural area; the lots already exist and the entitlements are already there. The fact is the developer cannot sell the three blocks you refer to because no-one wants to buy them for \$26 000. Down the road at Denmark, blocks are selling for between \$50 000 and \$100 000. You cannot expect the Water Corporation, Western Power and the State to subsidise a developer who thinks that developing four blocks is a good idea, but is that what you are telling us?

**Mr Rye:** We are saying that the formulae that apply - I am not a planner - to our metropolitan areas should not be applied -

**The CHAIRMAN:** This is not a formula applied to the metropolitan area. This is Denmark compared with Mt Barker.

**Mr Rye:** Denmark is a unique place because of the people it attracts. The people who are attracted to Mt Barker are different. They need to move there because of the nature of the businesses and developments that occur there.

**The CHAIRMAN:** You cannot create and sell blocks for \$26 000 in the town centre if it costs \$26 000 to service them. You do not expect the State to subsidise them, do you?

**Mr Rye:** We must look at the long-term consequences. Unless there is a more equitable arrangement for dealing with these sorts of issues, what will happen is that people will start moving out of town for developments rather than staying in the structural plan that the Shire of Plantaganet, let us say, might have had in mind.

**The CHAIRMAN:** If people are not willing to pay \$26 000 in Mt Barker for a lot, do you not see a fundamental problem of no demand?

**Mr Rye:** Currently that could be an issue.

**The CHAIRMAN:** Witnesses from the Shire of Cranbrook said this morning that they can have blocks at \$6 000 but no-one wants them. It is a demand problem rather than a utilities problem, is it not?

**Mr Rye:** Yes, but did the Shire of Plantaganet explain the issues it had with the demand for lots within the area of its structural plan?

**The CHAIRMAN:** Absolutely. The problem is that people can buy 10 acre blocks out of town for \$50 000, and people are doing it. That is market driven. If developers have three blocks that they cannot sell for \$26 000, will they be able to sell them for \$20 000?

**Mr Rye:** It is an issue of what sort of structural plan we will get. Surely we want urban Mt Barker progressing in a logical and sequential way within the town boundaries, by making land available at prices people are willing to pay, rather than it occurring external to a structural plan that puts the council under more pressure.

**The CHAIRMAN:** Those blocks with separate titles already exist. People are buying them and want to live there. That is one issue, but as for the issue of the supply of blocks, if you are supplying blocks in Mt Barker for \$26 000 and cannot sell them, does that not give you a message?

**Mr Rye:** For current demand, yes, but it is always an ongoing problem.

**The CHAIRMAN:** I understand that, but the development costs in that case are far less than those for Denmark down the road?

**Mr Rye:** True, but if you look at those supply and demand issues, as you rightly point out, the price drops to meet supply. We are saying that at that supply price the development costs are too high.

**The CHAIRMAN:** You cannot expect the State to subsidise infrastructure so that you might, pie in the sky, create some lots that someone might buy in the next 50 years?

**Mr Rye:** You are applying a model whereby in a more urban area those supply costs are less because there is the demand that creates supply.

**Mr A.J. DEAN:** Are you suggesting that the costs associated with these developments in Mt Barker are not a true reflection of the actual costs or are you suggesting that if they are a true reflection, we need to do something artificial to bring them down? There is a choice. If the costs are real, must we bring them down artificially, which, as the Chairman is saying, would mean that taxpayers would be subsidising the owner of six blocks so that he can make money on them?

**Mr Rye:** I am saying that the formula for how these infrastructure costs are arrived at should be reviewed. The State's sustainability strategy is that these agencies should get together to review them. We deal with some of these instrumentalities on a regular basis for some of the larger development projects around town. If we get a quote from Western Power, it can be \$750 000 one moment and drop down to \$500 000 the next.

**The CHAIRMAN:** I can understand that argument. You used the example of those three lots. If the developer had left the property as it was, with a house and \$80 000 worth of land around it, someone would have bought it for \$80 000, in the same way that the developer bought the property. The demand is there, but create three lots and no-one wants three lots no matter what price is put on them?

**Mr Rye:** It depends on what kind of urban environment Mt Barker is trying to create. We are saying that the infrastructure costs there are too high for the supply price.

**Mr J.L. BRADSHAW:** If people cannot buy a block for \$26 000, they probably will not be able to build a house. You cannot compare urban blocks to special rural or 10-acre lots in the country. Generally people who choose to buy a lifestyle block in the country incur extra costs. If they build a house, they must install a rainwater tank, for example. We differed about the cost this morning, but the cost might range from \$8 000 to \$15 000 depending on the size of the tank and how it is connected. They would incur infrastructure costs without having a regular water supply.

**Mr Rye:** That is understood. We are dealing with a population here that has the lowest per household income of any area of the State.

**The CHAIRMAN:** That said, the guy who bought the property with a house and land value of \$87 000 maybe paid twice the value of the house and land; maybe he should have paid only \$40 000, and then the price of the lots when they were put on the market would have been \$10 000 or \$15 000?

**Mr Rye:** To another person?

**The CHAIRMAN:** The price for servicing those lots is far less than anywhere else in the regional centres of Denmark or Albany or in that area. Are you saying that the servicing of those lots should be subsidised by someone else so that the guy who bought the land on speculation can make a profit?

**Mr Rye:** No, we are saying that the formula for arriving at those costs should be reviewed. The basis of the formula by which those instrumentalities charge for the development of urban lots in rural areas should be review. That is contained in the state sustainability strategy.

**The CHAIRMAN:** A developer made a submission this morning that he had to pay \$30 000 or \$40 000 to service lots in Albany and Denmark. He would ask you how someone can get a lot serviced for \$8 000 or \$15 000 in Mt Barker when he must pay \$30 000 in Albany and/or Denmark. What is the answer?

**Mr Rye:** It depends on what regional development you want. There will always be urban pressure on the coast. Mt Barker is a different kettle of fish because it is slightly inland where there is a need for making available urban land at a price.

**The CHAIRMAN:** The servicing cost does not change. It might be marginally different, but it will still need water and roads.

**Mr Rye:** Yes. What do you do in areas where there are different socioeconomic drivers for maintaining urban infrastructure.

**Mr J.L. BRADSHAW:** I am not sure of the costs for getting water onto those blocks. If a developer made a normal subdivision, even after putting in roads, sewerage etc, the biggest cost would be the land component, even in Mt Barker. I am not sure how anyone can get the cost down much below \$26 000. There are not many places where land can be bought for \$26 000?

**Mr Rye:** Towns like Mt Barker are in a bit of a quandary with their urban development. If they want a development to go ahead and to divide blocks up, it is too expensive.

**The CHAIRMAN:** Someone must want to buy them. If no-one wanted to buy them, what would be the point of creating blocks?

**Mr Rye:** People who buy them would be part of the socioeconomic community involved in the businesses and services coming out of Mt Barker. They are different from the wealthy retirees down here. They would more likely be servicing the plantation and wine industry. You will probably find the lifestyle blocks you refer to are bought by the semi-professional types who are moving into the industry. Where do the labourers come from?

**Mr A.J. DEAN:** Where do they live now?

**Mr Rye:** A lot of them commute.

**The CHAIRMAN:** From Albany?

**Mr Rye:** Yes.

**The CHAIRMAN:** They are happy to pay \$76 000 for blocks in Albany but not \$26 000 for blocks in Mt Barker.

**Mr Rye:** I am not sure about that. I have not done an analysis of that.

**Mr J.L. BRADSHAW:** You said earlier that the problems have arisen since 1996. What has changed since 1996 to create more problems?

**Mr Rye:** I do not have the specific details but I can get them. We noticed that additional legislative and procedural requirements came through.

**The CHAIRMAN:** Such as?

**Mr Rye:** They are dealing with structural plan requirements and the issues that the shires must go through when doing their structural plans.

**The CHAIRMAN:** A structural plan is a good thing. Structural plans resolve where developments are to go.

**Mr Rye:** Yes, there is no doubt about that. One of our staff was involved in running structural planning workshop to deal with some of the issues coming out of Denmark. No doubt that issue might have arisen today. One of the main issues that came out was a need for the local DEP office to help with some of those environmental planning issues. We have taken that up through the regional development council.

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

**Mr Rye:** No, that is about it.

**The CHAIRMAN:** Thank you very much for your submission. We will take on board what you have told us.

**Committee adjourned at 2.36 pm**

