

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO DEVELOPER CONTRIBUTIONS FOR INFRASTRUCTURE COSTS ASSOCIATED WITH LAND DEVELOPMENT

**TRANSCRIPT OF EVIDENCE TAKEN
AT PERTH
ON WEDNESDAY, 7 APRIL 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

[11.10 am]

JOYCE, MR GREG

**Director General, Department of Housing and Works,
99 Plain Street,
East Perth, examined:**

ELLIOT, MR RICHARD ROBERT

**Manager, Land Planning, Department of Housing and Works,
99 Plain Street,
East Perth, examined:**

FINLAY, MR GLENN MAURICE

**Director, Landstart, Department of Housing and Works,
99 Plain Street,
East Perth, examined:**

MUHLEISEN, MISS CLARE

**Research Analyst, Department of Housing and Works,
99 Plain Street,
East Perth, examined:**

The CHAIRMAN: Welcome to the hearing. The committee hearing is a proceeding of the Parliament and warrants the same respect that 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 a contempt of Parliament. Have you completed the "Details of Witness" form and do you understand the notes attached to it?

The Witnesses: Yes.

The CHAIRMAN: Did you receive and read the "Information for Witnesses" briefing sheet regarding giving evidence before the committee?

The Witnesses: Yes.

The CHAIRMAN: Have you made a formal submission?

Mr Joyce: Yes, we have.

The CHAIRMAN: Do you wish to make any amendment to it?

Mr Joyce: There is one technical change, if we can just advise your clerk.

The CHAIRMAN: Would you put that on the record, because then it will be recorded by Hansard.

Miss Muhleisen: It is on page 3, with regard to term of reference No 4. The second sentence is incorrect.

The CHAIRMAN: That amendment will be noted. Is it your wish that the submission be incorporated with the transcript of evidence?

Mr Joyce: Yes.

The CHAIRMAN: Before I ask you any questions, do you wish to make any statement in relation to your submission?

Mr Joyce: If I could have the opportunity to say a couple of things, first of all, by way of introduction, these people are all in the operation of the Department of Housing and Works called Landstart. That is a very big part of the organisation. It produces between 2 500 and 3 000 lots a year and has done for probably the past 10 or 15 years, so it is responsible for about 20 or 25 per cent of the residential market in this State. It is the biggest land developer in this State. It is headed by Glenn Finlay, who is the manager, Richard Elliot is the strategic planner and Clare Muhleisen is the research person. The major reason we are here today is in respect of our land function. We are also here, as members would know, in respect of our role in home ownership, where we provide through Keystart and its various schemes about 4 000 loans a year for people on low and moderate incomes to get them into home ownership. The third reason we are here is because of our rental function, which members would know very well. We have 40 000 dwellings across the State, with 13 000 people on the list. It is a big part of what the Department of Housing and Works does. You people would be well aware of the issues involved in the rental function. That is why we are here and that is why we have made the submission.

If you will allow me, chairman, there are three points about our submission that I believe are important to make. First, there is an argument about urban consolidation versus the fringe. That argument has been raging for the 30 years that I have been in the department, and there is no lack of erudite scholarship on it.

The CHAIRMAN: It will still be raging in 30 years!

Mr Joyce: I want to argue to the committee that there are four points that come out of it. One is that the earlier studies in the 1980s and 1990s like Travers Morgan, Neilson and Voran have come out with notions. I think Travers Morgan says that we can save \$29 000 per lot. Neilson says \$41 000. Bear in mind that those figures are misleading in the sense that they are 30 years out, but with a discount rate in them they would reduce back to present day values. That is what they argue per lot. Those principles have been thoroughly challenged by later studies. A second principle that is emerging out of the argument is that they do not take into account the capacity of urban infrastructure, nor do they take into account the cost of maintenance of inner city infrastructure, and they do not take into account the cost of improving it if the capacity needs to be increased. That is a very important principle that is coming out of these later studies of Troy and others. The third thing that comes out of it - it is in one of your terms of reference - is that probably the most efficient yield you can get on a fringe subdivision is something like 17 dwellings per hectare, which is a 22.5 residential coding. I think that principle comes out of all the studies. The final point that comes out of this argument - it is probably the most important one - is that the retail price of land is market driven, and there is very little relevance, in all the studies that have been done, to cost. We will give some examples later on, but it is a very important principle. The second point I want to make is that this great principle of supply and demand is the most important principle in the cost of land. That is constrained by a number of factors, including the cost of social infrastructure and engineering infrastructure, which is the focus of your inquiry. However, it is only one of several constraints to land supply. I would argue that these other constraints, like planning constraints, local government constraints, environmental constraints, heritage constraints and Aboriginal heritage constraints, are all very important. One point that is really overlooked is the cost of construction. You need to examine the cost of construction in the inner city, the middle city and the fringe and try to compare apples with apples, and again that gets very difficult.

Mr M.G. HOUSE: Given that, Greg, surely you cannot argue that demand rather than cost is the most important factor with regard to rural urban development in country towns, or even larger rural centres.

Mr Joyce: Yes.

Mr M.G. HOUSE: I would have thought it is the other way around - that cost has a huge effect.

Mr Joyce: Yes, you are dead right. I was really pitching my remarks at the metropolitan area, which is where most of my experience is from. But you are right. The argument is different in regional centres, and there are good examples where you can show that that is true.

Mr M.G. HOUSE: As bushies we are used to some people in the city forgetting about us!

The CHAIRMAN: We are going to subsidise you all the time!

Mr Joyce: The final point I want to make before we get into the submission is that if you are looking at the Department of Housing and Works and what we try to do, we would argue that there always should be a balance between the fringe, the inner city and the middle city, because the forces that determine where we go are things like choice; that is, the notion that one man's meat is another man's poison. Some people swear by living on the fringe and other people swear by living in the inner city. In this modern democracy of ours, you have to give people choice. Certainly there is an expectation by our clients or people on the list that they have choice.

[11.20 am]

The other very important point of supply and demand is the availability of opportunities over time. We must take our opportunities when they come. For instance, Glen manages 10 big joint ventures on the fringe. Committee members might not know that large joint ventures such as Ellenbrook, Butler, Beeliar and Dalyellup in Bunbury are all our joint ventures. We have 10 of them. We have had to take our opportunities when they have arisen. We have been thoroughly criticised, for instance, about Ellenbrook. However, in many ways people now realise that that is the best residential development in Australia. It is very important that we take account of the availability of opportunities.

The CHAIRMAN: The comment that struck me was that prices were demand driven; therefore, if suddenly you were charged a whole pile of extra money, it would not make any difference to the end result. That is where there is a difference between what have you told us and what other developers have told us. Other developers would have us believe that a \$1 000 increase in the price of development contributions to community infrastructure makes a huge difference to the selling price - not \$1 000 - but in one case \$5 000 would make a helluva difference. I do not share that view. I think it is a furphy. The developer will try to get as much as he can for his land. If we reduce it by \$5 000, it will not mean that the price will go down.

Mr Joyce: I refer to an example on the weekend of the land sold at the Mandurah marina for \$600 000 a lot. They were 300-metre lots, which means they are worth \$2 000 a metre. I am sure that development costs on that - I do not know them exactly; Tony Morgan was in before me who might be able to tell you - would not be anything above \$150 000; whereas the lots are selling for \$600 000. I will quote from a pamphlet from BSD, as follows -

One of the myths exposed by research conducted throughout Australia is that higher developer contributions lead to higher land prices. What actually occurs in many cases is that developers' capacity to pay for englobo land is *reduced* by high developer contributions. Consequently, it is the original landowner who receives less. Research has confirmed that the retail value of land is market driven, and that developer contributions (other than in extreme situations) do little to influence the price paid by the first homebuyer and others in the market.

Mr M.G. HOUSE: In that context, given the Sydney market, the most extreme that I can think of compared to Perth, do you ever look at affordability? It staggers me that young people in Sydney can afford to buy a house, quite frankly. It blows me away. The percentage of their income that goes into buying a house must limit their ability to do a range of other things. However, do you take any of those things into account when you consider charges or costs?

Mr Joyce: Too right. I have been prepossessed for the long time that I have been in the department with the home ownership function. All the studies show - recently the national housing strategy - that 95 per cent of Western Australians want to own their own home. I have concentrated the strategy of the organisation towards that. If you have a look at the home ownership rates - I have them here - and how we are doing across Australia, surprisingly, we come only third, albeit a close second behind Victoria. However, Sydney has dropped way back. We are at 71 per cent and Sydney is dropping back well into the mid 60s. It is 74.2 per cent for Victoria - this is the last census of 2001, so the position will have changed again; South Australia is 71.3 per cent and Western Australia is 70.7 per cent, whereas New South Wales has dropped back to 68 per cent. The capacity for an individual to purchase is always going to be the most important issue.

The CHAIRMAN: Can we have a look at the Queensland numbers? When we were there it was suggested that the New South Wales buyers were moving up to south Queensland.

Mr Joyce: Queensland is well down - 65.3 per cent.

Mr J.L. BRADSHAW: With regard to your joint ventures, is it to obtain the land for public housing or to sell off and make a profit for the Department of Housing and Works, or a combination?

Mr Joyce: It is two things. At Ellenbrook - I defy you to pick them - we have 300 rental properties there. Given the history of public housing, which you three members have dealt with all your working lives, that is a great achievement. We have put robust tenants there. Some of our more difficult tenants have gone out there. I think I have had one series of complaints about the behaviour of one tenant, but for the rest of it, the 300 properties are working very well. Our argument to dismantle public housing, which we have done in most of the areas now, and to merge and extinguish, if you like, to become self-effacing within those communities, is working. Secondly, yes; over time. We are in a position in Ellenbrook whereby all our exposure has been paid back and we are starting to make a profit.

Mr J.L. BRADSHAW: From the land sales?

Mr Joyce: Yes. On the one hand, it is good from an economic point of view because we can show we are making a profit. It also deals with the social side and getting our people off the list.

Mr J.L. BRADSHAW: I guess what you are trying to say to us is that you do not want more contributor costs from developers. I think Dalyellup is the Rolls Royce of subdivisions. It is fantastic. Surely extra costs have gone into that subdivision and development that many of the other developments do not have, which adds to the price of those blocks.

Mr Joyce: The principle of our joint venture at Ellenbrook, Dalyellup or wherever is that not only did we pay for the engineering infrastructure but also we developed this notion of paying for the social infrastructure; that is, schools, shopping and services required out there. We just accept that as a developer cost. That is the price we pay to get decent subdivisions. The point made by Monty House is always on our mind: when do we reach a limit? To a certain extent, we are getting towards the end of the limit. The question arises at Ellenbrook and Dalyellup of whether we should drop the standard of our subdivisions. I always argue that we should not because we do not want to go back to the early days of the 1970s when we created massive public housing estates.

The CHAIRMAN: I almost cannot believe it. At Ellenbrook you are contributing only \$300 a lot for community infrastructure. It is not exactly a large sum. I do not see how you reached the limit at Ellenbrook. I am glad you said we need to pay for social infrastructure, because that is basically what our inquiry is about: where do we draw a line and what facilities should we provide as a standard subdivision component? Most councils on the fringe are complaining that they do not have the revenue to provide the facilities, especially at Ellenbrook. I was involved with that from day one. That was far too premature from when it was approved. Developers must cop the fact that

they must put in some money. We cannot expect people to provide 10 kilometres of road so that they can join up their subdivisions so that they can make a dollar.

Mr Joyce: No. Ellenbrook is a good example. I was thrown out of every office in Perth, both private and public, on the basis that Ellenbrook should not go ahead. I think it was opposed by most politicians. The truth is that Ellenbrook is the success story of Australia. We accept that the cost we paid - you mentioned \$300 a lot - is one of our contributions to social infrastructure. However, if we think about the rest of it, we developed all the public open space and maintained it for a period. We provided schools in houses until the Education Department could get there. We enticed services out there such as doctors. We dragged Lord Street from frontal development right through to it. We dealt with the issues of transport. As Clare reminded me, we paid all the costs of the engineering infrastructure to Water Corporation. We paid and paid and paid. However, it is still a model for residential development.

The CHAIRMAN: How does a committee that must make recommendations to the minister and the Parliament identify that level of contribution? How do we come up with a set of standards that will be accepted by people like you? What is the baseline that we do not go above or below in relation to providing soft infrastructure costs?

Mr Joyce: Terrific question. I will ask my officers.

Mr Finlay: Firstly, the aspect that is of most concern to most developers is not the level that is required but that it be known in advance. The point Greg Joyce quoted from the BSD report was that we cannot add it to the end price of the lot because we are in competition with a whole lot of other developers. As you know, when developers decide to buy a lot, they do their feasibility studies backwards. They work back from the lot price they can achieve and decide how much they can pay for that piece of land.

[11.30 am]

If these charges are all being added on and it is not viable, people just do not buy the land, so that land is not being developed. If, in advance, developers knew exactly what charges they were going to be required to pay, whether they be local government charges, state government charges or anything else that is required, they could do their sums with some accuracy and work out exactly what they could put in.

The CHAIRMAN: One of the suggestions that has been made to us is that when you do your structure plan for the subdivision and you work out what you will provide, the structure plan should move down a level to show the specific facilities that are to be provided, and costed, so that everybody knows up front what will happen. Is that the model that you support? At least you know that it will cost \$1 000 or \$1 500 a lot to provide a recreation centre, childcare facility or whatever. Would you support some sort of policy like that?

Mr Finlay: Yes.

Mr Elliot: We have already related the Ellenbrook experience. Our next planned development in the City of Swan we are calling the Albion Town project, which is a little bit south of Ellenbrook. We have been through quite a lengthy structure planning process with the City of Swan, because it requires basically a three-tier level of planning approvals. We start off with the structure plan, then move to a more detailed outline development plan and then move to a subdivision plan. At the structure plan stage, we have had to do a lot of work on demonstrating that the development will be sustainable, if you like, in terms of its social environment.

The CHAIRMAN: Does part of that process include childcare facilities, libraries and so on?

Mr Elliot: Yes, we have had to indicate the level of facilities that we would envisage going in there. I guess at this stage the actual proportional cost between the developer, the council and the lot owner has not really been determined, but I suppose what you are suggesting is that as we move

to the next stage - perhaps the outline development plan stage - maybe those sorts of issues can be costed more thoroughly.

The CHAIRMAN: Costing is not the important part. Who pays is the important part here. You can have nice plans with squiggly lines and all the rest of it, but somebody has to foot the bill. The question is, do we recommend that it should be the developers' cost - which the council would say it is - or should there be some other formula to achieve that end. If we do ask the developers to pay, where do we draw the line for what is fair and equitable for those developers to pay?

Mr Joyce: I think we should always keep our eye on the point that Monty has made - that is, affordability - to make sure, at least with the subdivision that we do, that at the end of the line they are affordable and that we are not going overboard.

The CHAIRMAN: I think the biggest suggestion we had was from the Western Australian Local Government Association, which was \$5 000 a lot. The council is saying \$3 000 and we are talking about a figure lower than that. It will not really make a difference to the end result. It is really about what we as a community expect the developers to provide for a greenfield subdivision. I can remember when we had a fight with you guys at Beechboro because you would not give us underground power and said no. Now it is a standard condition. Obviously the bar will go up.

Mr Joyce: I am sorry for interrupting, but the other important point to make, which we make in our submission, is that there should be uniformity across the State. We go to one local authority and it wants this, that and the other. Another one wants an arm and a leg. We get into all sorts of fights about what we should and should not pay. That does worry us.

The CHAIRMAN: Because the Western Australian Planning Commission is the authority that approves subdivisions, it is not so difficult. It can just amend its planning bulletin to say what things it will consider. You have a right of appeal through that process. I do not think that is really a problem. The problem is deciding what is the acceptable level of social soft infrastructure in the community, which the Planning Commission will make part of its planning bulletins.

Mr Joyce: You are right to a certain extent, but do not forget the secondary point: that is okay for the appeal rights on a subdivision but when it gets to a development, we will get local authorities imposing conditions that are not subdivisional conditions but development conditions. That is where we will also get into trouble.

The CHAIRMAN: What are they imposing?

Mr M.G. HOUSE: Upgrading the access road?

The CHAIRMAN: Not in a housing development, they could not.

Mr Finlay: If I could give one example; as you know, we are developing St Andrews in Dianella. At one stage we applied for the rezoning of a fairly small commercial area, and the rezoning was held up subject to the department having to pay for the second part of the dual carriageway at Northwood Drive, which is not a normal requirement.

The CHAIRMAN: That is not development; that is rezoning. Development is when people put in an application to build something. I understand zoning, because that is the only power that a council has got. Sometimes councils do use that power inappropriately.

Mr Finlay: I stand corrected, Chairman.

Mr M.G. HOUSE: I was pursuing the issue of infill development, because it seemed to me from some evidence that we were taking that some options there might give some good results. We were convinced by people in Sydney, where there has been a lot of infill development. Where there was high-density housing, those guys were arguing that there was no impact on social problems. I was approaching it from the point of view that if they do this and create a social problem, perhaps they need to make a contribution that allows that to be dealt with. I was flying a bit of a kite, which, as I can see by the smiles on your faces, you have picked up. What really surprised me was that they

argued strenuously that no social problems were created these days by greater density infill. I was very surprised by that. Given your experience, do you believe that is a fact?

Mr Joyce: No. It is certainly my experience, and I am sure it is the experience of you three members in your electorates, that where we create densities of one socioeconomic group, all hell breaks loose. One of the great strategies of my department while I have been CEO has been to dismantle those densities, for public housing estates to become self-effacing and merge with the general community, and to use forces like peer pressure and other things, whereby people conform with the rules of society. I would not agree with that.

Mr M.G. HOUSE: Can I take that one step further? Subiaco looks like a huge success story to me as I drive through it on a regular basis. It is a very dense development by Australian standards of the past. Do you foresee that it could become a problem area?

Mr Joyce: No, I do not because the people who can afford to buy there are people who are, generally speaking, conservative and well behaved; whereas, if you take the whole stratum of society, you will note that there is no affordable housing in Subiaco. I know there will be some attempts to get it in there, but at the moment, for instance, public housing is not there. We have recently acquired some lots where we will get in there, but the truth is that the development is being built for the higher value people.

The CHAIRMAN: The western suburbs.

Mr Joyce: Yes, the western suburbs.

The CHAIRMAN: Getting back to state government infrastructure costs, the suggestion has been that through this process when you are doing a greenfield subdivision - for example, at Butler - where you will be extending the urban front, should developers be paying a contribution to the freeway extension, the railway line extension and those other things that really are only of benefit to those people who are at the end of the line? Should the State be looking at recovering some of those costs from those developers who are picking up dollars on the fringes - for example, \$200 000 in premiums - which I could not believe was being paid for a lot that is nowhere near the ocean and in the middle of nowhere?

Mr Joyce: There are several answers to that.

Mr Finlay: I guess I go back to the previous point that the more the infrastructure costs are loaded on the developer, the less the developer will proceed. Developers will wait until they can get sufficient return out of their lots to be able to pay for that infrastructure.

The CHAIRMAN: If you are getting \$200 000 for a lot, \$5 000 will not be a great difference to the end result, will it? If it is a lot at \$70 000 at the other end of the southern corridor, I can understand it, but when you are getting \$200 000 for a lot of 450 square metres, with no remediation and in the middle of nowhere, we might ask why the developers are not making a contribution to the infrastructure to service those lots.

Mr Finlay: I take your point on that, but just to qualify it, the \$200 000 is being achieved by the west of Marmion Avenue development, not by Brighton itself. It is a separate joint venture in which we are also involved. On the other side, although we have achieved prices of up to \$150 000, which to my mind is very high for where it is, we are now looking, in company with our joint venture partners, at some method of introducing affordability in there, because we do feel that we are now getting to the stage where, with a house and land package of \$230 000 and upwards, there is a certain part of the market that is being forced out of home ownership.

[11.40 am]

That is of very serious concern to us and our joint venture partners, to give them credit, are interested as well. We have put together a committee that involves the planners and the engineers and also representatives from the building industry to see how we can reduce the price of the land,

maybe by a slightly smaller size of land and a slightly less embellishment of the presentation, and also to get the builders to put in a product that is probably more suitable to the first home buyer. We feel that in many cases the demography is not a husband, wife and two children. Many times it is a single parent or childless couple who do not need a 4 x 2 house.

Mr Joyce: If I can have a go at answering the question, it is very hard to refute the logic, particularly in those examples you have given, and there are lots of others. You have to be careful. Let me give you a converse example. We have held 260 hectares at Armadale for 30 years. We have tried to get that to work on the financials but have never been able to; that is, the development costs are higher than what the market says. You have to be careful you do not damage that great force of supply and demand. I think your argument holds true in most of the situations, but in Armadale - the south eastern corridor is probably our most difficult corridor - it is ad hoc and unilateral and development there has not gone ahead properly. You need to be careful that you do not ruin the market with extra costs.

The CHAIRMAN: I understand that. But the problem we have in this buffer is that you suddenly get people paying \$200 000 for a lot and they expect to have the convenience of a railway line, a freeway and other such access. Someone has to pay for it and the State just cannot afford to pay for those sorts of major infrastructure extensions without getting revenue from somewhere.

Miss Muhleisen: In addition to that, it is probably quite a difficult question for us to answer in that we are the Government. You can charge us an additional for the freeway, but all our profit goes back into public housing; we are the State.

The CHAIRMAN: I understand that, but we are not treating you like that. We are treating you like a developer and asking question in that capacity, because in the end whatever applies to you applies to everybody else.

Mr M.G. HOUSE: That is a good point.

Miss Muhleisen: But it is a circular thing, is it not, in that if you charge us for the freeway, we will put that on the cost of land and the user will pay. Whether they pay it through tax as an overall, and the whole of Western Australia pays for it, or whether you just charge the people of Brighton for it, it is all going to be borne by the end user.

The CHAIRMAN: Should it not be a mixture of both? Should it not be a mixture of taxation as well as a contribution?

Mr Joyce: I think it is currently, Mr Chairman. The total package of social and engineering infrastructure is jointly borne by both the general public and the individual.

The CHAIRMAN: It is in relation to sewerage alone, but you are only paying 40 per cent, which we only found out during this inquiry. We thought the Water Corporation was being mean, but it is only charging you 40 per cent.

Mr M.G. HOUSE: Maybe.

Mr J.L. BRADSHAW: Does not the Department of Housing and Works pay shire or council rates?

Mr Joyce: Yes, \$30 million a year across the board.

The CHAIRMAN: We had that fight a few years ago.

Mr Joyce: Even that figure of 40 per cent that you, Mr Chairman, just quoted, gets quite mysterious around the edges.

The CHAIRMAN: We had the same problem. They seem to have some logic to it. We needed a whole day to analyse it and try to work out what happens with it.

Mr M.G. HOUSE: We reckon you are right, but we are having a bit of difficulty teasing out the detail. They are very professional with their submissions.

The CHAIRMAN: It just seems they can vary things depending on the circumstances, which is more intriguing. Is there anything else you want to tell us? Thank you for being so frank with us. Some of the things you have said today have been really good and have helped us crystallise in our minds where we need to get to.

Mr Finlay: I will make a comment on community infrastructure. There are certain aspects of community infrastructure that are reasonably easy to fund because you can involve the private sector. As an example, the first schools and houses in Ellenbrook were constructed by the joint venture but then on-sold to an investor who leased it to the education department, which, at the end of its term, sold it off thus making money out of it. At present, childcare centres are eagerly sought after. They seem to be quite a solid business these days. If you construct one of those, we very easily get it taken up. In other areas, for example Dalyellup, we built schools in shops and combined that with a community centre. We funded the community centre which was used partly by the school, partly by council and by the community in general. We have now reached the stage at which the first public school has been built there - the numbers have provided for it - and the shop units that were being used by the school are now being put out commercially. So that can be easily covered. You have to look at some aspects of community infrastructure that are not going to be taken up by the private sector and will be an ongoing burden. That is where the difference needs to be taken.

The CHAIRMAN: Yes, but councils cannot afford to build the recreation centres; however, if they are built, they will do the ongoing operating. It is not just the private sector; councils are involved here. They are happy to run some of those facilities, not build them, because they do not have the money.

Mr Finlay: Yes, sure.

The CHAIRMAN: Thank you.

Committee adjourned at 11.45 am