URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA (WA DIVISION)

SUBMISSION TO THE INQUIRY INTO DEVELOPER CONTRIBUTIONS FOR INFRASTRUCTURE COSTS

FEBRUARY 2004

Introduction

The Urban Development Institute of Australia (UDIA) is the peak industry body representing the urban development industry in Western Australia. It is in this capacity that we make this submission to the *Inquiry into Developer Contributions for Infrastructure Costs*.

UDIA members aim to ensure the equitable and affordable supply of land for housing through the creation of new residential communities and we believe that this process is essential to ensure that all West Australians have access to a range of housing options and the quality of life enjoyed by residents in this state is maintained.

Currently the development of new communities in frontal locations provides high quality housing and community services for households in lower socio-economic groups. It also provides the type of housing that the overwhelming majority of Western Australians prefer - single dwellings on a $500m^2$ to $600m^2$ lots - in outer and coastal locations.

This submission demonstrates that developments in urban frontal locations currently attract substantial developer contribution requirements in comparison to development in infill locations. For example:

- Approximately 23.5% of infill land development costs are made up of government taxes, levies and other contributions to infrastructure.
- Approximately 57% of middle sector development costs are made up of government taxes, levies and other contributions to infrastructure.
- Up to 75% of frontal development costs are made up of government taxes, levies and other contributions to infrastructure.

It is therefore clear that home buyers in urban frontal locations are forced to bear substantial additional infrastructure costs as part of the cost of a land purchase on which to build a new home. Developer contributions in infill areas are substantially lower, reflecting requirement for new infrastructure provision, however this means that new home buyers in infill locations benefit from existing public funded infrastructure at little additional cost.

In this regard we feel that the imposition of any further levies on home buyers in frontal areas would have significant, detrimental impacts on the ability of first home buyers and low to middle income earning West Australians to afford a basic house and land package.

We also believe that all West Australians including people who choose or who can only afford to buy a house in frontal locations (many of whom are first home buyers) should have the right to do so, and should not be penalised any further by being forced to bear additional costs through infrastructure levies.

UDIA would therefore oppose the imposition of additional levies on property developers developing in frontal locations on the basis that they will:

- Have a direct negative impact on housing affordability by raising the cost of development - cost that will be passed directly to the purchaser, as has been experienced in other Australian capital cities.

- Result in a spillover of price increases on the fringe across the entire housing market and lead to a reduction in overall affordability and lifestyle choices.

- Create inequities between new and existing homebuyers/residents: new purchasers who pay additional costs for infrastructure; and existing home owners who have not paid any additional cost and will continue to benefit from the increased capital cost of their infrastructure.

- Result in inequities with the overall fiscal system: New home buyers will be forced to pay for services which for the majority of consumers are financed out of federal, state and local government revenue and will also be forced to pay taxes and municipal rates according to normal schedules. New home buyers would therefore be disadvantaged.

UDIA therefore submits that the government should use the already high level of revenue directly obtained from the development industry through taxes and charges to pay for the provision of essential services rather than further penalising new homebuyers in urban frontal areas, who are least able to afford it.

RESPONSE TO INQUIRY TERMS OF REFERENCE

1. Current formulae applied to developer contributions, State and local government taxes, levies and other contributions to infrastructure and service costs to both public and private sectors for new frontal (greenfield) development.

There is no set 'formula' for the application of development contributions in Western Australia, rather developer contributions are made up of a number of factors including:

- Infrastructure costs: including the charges paid to major utilities (water/sewerage, power and gas) for connection to, and/or the major works undertaken for the extension of existing networks and other infrastructure costs; special developer contributions; and the "on-site" costs incurred by developers on minor works for water/sewerage, retaining walls and power, roads, footpaths, landscaping etc.

- Contributions made through the planning approvals system in meeting conditions of subdivision relating to planning, infrastructure and environmental/conservation issues.

- Developer levies.

- Other, voluntary contributions made by the developer to the local community such as the funding of a community liaison or economic development officer, contributions for local community facilities and the organisation and sponsorship of community events.

- Taxation

In recent years developer contributions have increased exponentially. This is largely the result of increased government policy and regulation and resulting increases in the complexity of the subdivision approval process.

Infrastructure Costs

The *Future Perth Costs of Urban Form Discussion Paper* produced by SGS Economics and Planning on behalf of the Western Australian Planning Commission (WAPC) in 2003 has reviewed a range of aspects relating to infrastructure contributions in Western Australia. However UDIA believes that this document has based its findings on out of date and flawed information. In regards to infrastructure costs it states that:

'*…a sound 'user pays' approach to infrastructure cost recovery should be an integral part of metropolitan growth management. Arguably, Western Australia still has some way to go to putting these policy instruments in place. There is no comprehensive framework for the recovery of infrastructure costs through developer charges. Where contribution arrangements do apply, charges are often calculated on a regional or even*

Statewide average cost basis (e.g. Water Corporation headworks charges). That is, they do not reflect cost differentials of urban growth in particular locations. Under these distorted, or non-existent, infrastructure pricing arrangements, Perth's metropolitan form is not optimal'.

UDIA disputes this finding and submits that it is based on inadequate, out of date information and reflects a lack of understanding of the planning, infrastructure and developer contribution systems in Western Australia.

Recent data collected from UDIA members clearly indicates that infrastructure contribution arrangements in Western Australia are in place, are comprehensive and vary substantially according to the location of the development, the availability of existing infrastructure and the nature of the site and terrain.

Infrastructure Provision

Infrastructure for greenfield and brownfield estates is provided by the developer and ultimately funded by residents (purchasers of land) in a new estate. UDIA does not believe that this system is equitable as it requires the new home purchaser to pay for infrastructure that will be of benefit not only to the new home owner but other community members as well as future generations. We believe that the for infrastructure cost should be shared more equitably among all beneficiaries.

Water/Sewerage

Water/sewerage headworks charges are among the largest charges levied on developers by the major utilities in Western Australia.

The *Costs of Urban Form* discussion paper suggests the existing headworks charging system is inherently flawed and should be reviewed to '*examine the cross- subsides inherent in the Water Corporation's current system of 'averaged' headworks charges'*.

UDIA submits that this conclusion reflects a lack of understanding of the principles behind the headworks contribution system in Western Australia as well as local conditions in Perth. The report also fails to appreciate that the current headworks contribution system does allow for and makes provision for the application of surcharges for frontal development through the identification of 'Special Developer Contribution Areas'.

It is further noted that the Water Corporation has undertaken a review of developer contributions to headworks charges in 2003 (undertaken by Marsden Jacob Associates) and that this review identified a number of State and local issues which limit the ability and suitability of applying differential developer charges in Perth.

Where developments occur beyond the existing servicing frontier for water and sewerage services, additional headworks contributions may be applied by the implementation of

Special Developer Contribution Areas (SDCAs), or alternatively the developer may pre-fund all of the cost of the required headworks infrastructure. This approach reflects the principle that developers should accept the risk and cost of advancing the timing of the provision of infrastructure. Currently in the Perth metropolitan region, there are two main SDCA's (in the North West and North East Sectors), involving additional headwork charges of around $3,000 per lot.

Where developers pre-fund all of the cost of any required headworks infrastructure, the Water Corporation will refund the cost to the developer after an agreed period (which is generally a maximum of 10 years).

Power and gas

Developers are also required to make contributions to Western Power and Alinta Gas for the provision of power and gas infrastructure for new residential communities.

Other Infrastructure Costs

In addition to the charges levied by major utilities, developers also directly provide and fund all other infrastructure within a subdivision, such as roads, footpaths, landscaping, minor works for water/sewerage and power (i.e. reticulation from mainlines to, and within, individual lots) and drainage. Although the cost of these types of infrastructure will vary according to topography and the intended market for the development (e.g. home buyers may place a premium on the landscaping of a subdivision), the total cost for developers is substantially higher than the infrastructure payments to major utilities.

In addition, under the *Town Planning and Development Act 1928*, special infrastructure payments may be required from developers to meet an increased need for various offsite infrastructure, such as a need for a local council to upgrade an arterial road to meet increased traffic or a requirement to extend the public transport system to developments beyond the existing urban frontier. The nature of these contributions varies according to individual circumstances.

Contributions through the planning approval process

The majority of developer contribution requirements are imposed and enforced through the statutory planning approval process. In recent years there has been a substantial increase in planning and environmental policy and regulation and this has resulted in an exponential increase in the cost of land development for the private sector. In particular there have been growing requirements for developers to fund environmental and conservation initiatives as part of the subdivision process.

A primary example of this is *Bush Forever*, a state government policy which aims to preserve vegetation which is perceived to have regional conservation significance for the long term benefit of the state's community. Bush Forever is being implemented by the WAPC through statutory planning instruments (the planning approval process) and requires developers or land owners to cede land for conservation to the state free of

charge or through a Negotiated Planning Solution, which leaves very little recourse for compensation.

Developer levies

The urban development industry is also increasingly called upon to contribute towards the financing of a range of community facilities and services. Such contributions (development levies) are imposed upon the industry by way of conditions of subdivision and various fees and charges. Such contributions substantially add to the cost of land development.

Voluntary Contributions

In addition, a large proportion of developers usually make many additional voluntary contributions to local community infrastructure and services which are often not recognised by state and local governments. These include the funding of community capacity building projects, the employment of community liaison officers, the provision of community and recreation infrastructure, sponsorship of local events, undertaking strategies to grow local employment and organizing and funding community events and community groups.

All major developers operating in the Perth metropolitan region can provide examples of expenditure on these types of contributions.

UDIA strongly believes that the private development sector deserve greater recognition for these contributions.

Taxation

Government taxes, charges and levies are 'direct' charges imposed by local government and other Government bodies, including GST, stamp duty on the purchase of land and land tax.

UDIA believes that the urban development and housing industries in Australia are considered soft targets by state governments looking to increase revenue through taxation and this has had direct, negative impacts on housing affordability in the state. In Western Australia alone these costs currently contribute to approximately 20% of land development cost in Perth - and have increased exponentially on new house and land packages in recent years.

Stamp Duty

Stamp duty is an inequitable tax that directly hinders the ability of home buyers to enter the property market and acts as a disincentive to economic growth in the state.

As prices of property increase each year, buyers pay more stamp duty. This tax eats into people's hard-earned deposit, and particularly for first home owners, is often an unbudgeted cost. It can extinguish the dreams of first homebuyers and totally negate the benefits of the First Home Owners Scheme grant.

In recent years growth in the value of property has resulted in state governments receiving windfall annual revenue of over $450 million from stamp duty at the cost of home buyers. Despite this the last the State Government has increased stamp duty rates in the last two state budgets, taking an additional $166 million dollars from West Australian home buyers. This is clearly unfair and inequitable. We therefore believe that there is an urgent need for stamp duty rates to be reviewed to ensure more equitable rates that do not unfairly add to the cost of housing.

Land Tax

Land tax is collected under the *Land Tax Assessment Ac*t, which is administered by the Office of State Revenue. Land tax is levied upon the unimproved value of taxable land owned at midnight on the 30th of June preceding the year of assessment and is payable annually by the land owner. Taxable land for land tax purposes includes commercial and industrial properties, residential rental land and vacant land.

UDIA has serious concerns about the impact of land tax on new home buyers. In Western Australia, land taxes have increased by $51 million each year since 2001 while the top rate of land tax has been increased by 25%. This has had a substantial impact on the cost of land and housing the State.

In addition, the Western Australian State Government has recently abolished the land tax concession that was introduced in May 1996 when the Western Australian Parliament passed the Taxes and Charges (Land Subdivision) Legislation Amendment Bill ("Act"). The main objectives of the Bill were to increase the buffer stocks of residential lots to assist in keeping land prices affordable and to smooth the seasonal pattern of decline in residential lots immediately prior to 30 June each year.

Goods and Services Tax (GST)

The goods and services tax (GST) is a broad based consumption tax imposed by federal government and collected by the Australian Taxation Office. GST is charged on the sale of property, including vacant land.

UDIA believes that because GST is purported as a 'consumption tax' the responsibility to pay GST should only fall to the consumer/purchaser of the product at the final stage of development.

The imposition of GST at earlier phases in the process results in the inequitable and unfair practice of 'double taxing'. Since the introduction of GST, double taxing on property has been a growing problem, which according to recent information currently

adds approximately $6,000 to the cost of a house and land package in Perth, costs which are unfairly borne by a new home buyer.

In addition, GST has contributed to increased ongoing fees and charges for home owners, with GST being included in the calculation of gross rental values of properties in some local authority areas, increasing local authority rates.

Cost of Greenfield Development to the Private Sector

In 2002 the Urban Development Institute of Australia (UDIA) commissioned ACIL Tasman to undertake an independent assessment of the cost of urban development in Australia. This research provided a detailed and up to date assessment of the average cost of developing a typical urban lot in Perth and other capital cities in Australia including the identification of costs for State government taxes, levies and other contributions to infrastructure made by the private sector.

Table 1 provides an example breakdown of the costs of developing a new lot in the Perth suburb of Clarkson/Butler as outlined in the ACIL '*Landcost*' report.

Table 1 - Residential land costs ($ per lot) – Perth (Clarkson/Butler)

	1992*		2002*		
Item	**Amount**	**Percent of land cost**	**Amount**	**Percent of land cost**	**Real percent change**
Acquisition	10,050	29%	10,700	20%	-14%
Direct Servicing	7,256	21%	20,790	39%	133%
External & Indirect Authority Requirements	2,735	8%		0%	
Government Taxes and Charges	6,780	20%	9,070	17%	9%
Financial & Management	5,588	16%	3,500	7%	- 49%
Selling Costs	1,690	5%	9,770	18%	369%
Total Development Costs	34,099	100%	53,830	100%	28%
Net Selling Price	37,000		64,600		
GST (remitted to ATO)	na		3,400		
		% of package		% of package	
Gross Land Price	37,000	47%	68,000	42%	49%
House Price	41,700	53%	95,399	58%	86%
House and Land Package	78,700	100%	163,399	100%	69%

(*) The Lawson at 125 square metres.

(**) The "Deakin" built by Dale Alcock Homes. Total area of 236m2. 4 bedrooms, study, 2 bathrooms, family and games room with integrated double garage.

Source: ACIL Tasman Land Cost Report, 2002

This breakdown indicates that in 2002, private developers bore a cost of approximately $68,000 for the development of an average lot in the Clarkson/Butler area of Perth. $33,260 or 49% of this cost was made up of government taxes, levies and other contributions to infrastructure, including:

- Direct servicing costs of **$20,790** (39% of total lot development costs for the developer). Direct servicing costs include all land development works associated with the estate. Major cost components here are earthworks and retaining walls, landscaping (estate), storm water drainage, water, sewerage, underground power installation, road works and professional fees. They also include the provision of public open space, recreation, education and community facilities. Governments can influence the extent of these costs through setting requirements and standards. For example, stricter environmental or planning controls add to the costs of meeting direct service requirements for land.

- Government taxes and charges of **$9,070** (17% of total lot development costs for the developer). This includes include 'direct' charges imposed by local government and other Government bodies. For example, stamp duty on purchase of land, levies, public open space (POS) contributions and land tax.

- Goods and Services Tax of **$3,400**.

External or Indirect Authority Costs

However, as is noted in the *Costs of Urban Form Discussion Paper*, the 2002 Butler/Clarkson example did not incorporate any 'external or indirect authority requirements' (i.e. costs associated with offsite upgrades or extensions to existing trunk infrastructure) because the land from which the development costs were obtained was located in an immediate frontal area with additional infrastructure capacity.

However these types of contributions do apply for new greenfield development in the Perth Metropolitan Region where the upgrades or extensions to existing trunk infrastructure is required. This includes other developments in Clarkson/Butler and adjacent frontal areas.

For example, land development cost details obtained by UDIA for two other developments in Clarkson/Butler and adjacent areas (as part of research undertaken for the 2002 *Landcost* report) indicate that other greenfield developments located in this area have been required to pay external and indirect authority costs of $5,500 and $16,846 per lot respectively.

For the developments in question, this amounted to between 9.8% and 16% of the total development cost and bought the total cost of direct servicing costs and taxes and charges to between $41,700 and $56,102 or 55% to 75% of the total development cost of the lot. Indicative cost breakdowns for these developments are provided in *Table 2*.

This breakdown clearly indicates that developers are required to pay additional infrastructure contributions for development in frontal locations and that these contributions amount to a significant proportion of total development cost.

This finding is supported by up to date (2003) development cost breakdowns outlined in the State Government's submission to the *Productivity Commission Inquiry into First Home Ownership*.

The submission provides an indicative breakdown of development costs for suburban greenfield development in a middle sector location (see Table 3). This breakdown indicates that the cost of providing direct services in this sector is $44,234 (46% of development cost) and adding utility fees taxes and charges, this rises to $54,731 (57% of total development cost). These costs are extremely high and it must be remembered that they reflect current cost for development in the middle sector, not frontal areas where additional costs and charges would apply.

Table 2 - Residential land costs ($ per lot) – Perth

	Development A		**Development B**	
Item	Cost per lot	Cost % per lot	Cost per lot	Cost % per lot
Acquisition	$8,400	15%	$32,582	32%
Direct Servicing	$26,300	47%	$30,120	30%
External & Indirect Authority Requirements	$5,500	10%	$16,846	16%
Government Taxes and Charges	$9,900	18%	$9,136	9%
Financial & Management	$4,000	7%	$2,516	2%
Selling Costs	$1,750	3%	$10,128	10%
Total Development Costs	$55,850		$101,811	

Table 3 – Cost of Suburban Greenfield Development (2003)

Suburban Greenfield Development (Middle Sector, Perth Metropolitan Region)	$ per lot	% of total price (including GST)
Price of a vacant block of land	**15,561**	6.1%
Developer's infrastructure costs	**51,127**	20.2%
Charges by utilities	6,890	2.7%
Water Corporation (for water, sewerage and drainage headworks)	4,390	1.7%
Western Power (electricity connection)	2,500	1.0%
On-site infrastructure costs (non-government)	44,237	17.5%
Site preparation (earthworks, levelling, retaining walls, etc.)	14,393	5.7%
Other infrastructure contributions (landscaping, drainage, roads, etc.)	20,782	8.2%
Water and sewerage reticulation and minor works	2,404	0.9%
Electrical reticulation and minor works	1,391	0.5%
Consultant fees	5,267	2.1%
Government taxes, fees and charges paid by the developer	**3,604**	1.4%
Stamp duty on land purchase paid by the developer	925	0.4%
Land taxes (holding cost, if applicable)	1,693	0.7%
Local government clearance fees and charges	123	0.0%
Local government rates (holding cost, if applicable)	863	0.3%
Net GST (on land purchase and development costs)	-	-
Developer's management and finance costs	**9,204**	3.6%
Selling costs and other professional fees	**16,261**	6.4%
Advertising, agent's commisions, legal and settlement costs	16,261	
Developer's margin	**24,553**	9.7%
Total land value (excluding GST)	**120,310**	47.5%
House construction (excluding GST)	**110,000**	43.4%
Total house and land value (excluding GST)	**230,310**	90.9%
GST paid by home buyer	**23,031**	9.1%
Total house and land price (including GST)	**253,341**	100.0%
Stamp duty paid by a home buyer (for house/land package)	*9,814*	*3.9%*

Source: Western Australian Government Submission to the Productivity Commission Inquiry into First Home Ownership

Total Private Sector Development Costs per Lot (2002)

It is therefore evident that costs to private developers for frontal development and the additional contributions to fund infrastructure in these locations are very substantial.

Outlined below is a comparison of the cost of these developments with some additional development cost examples from Clarkson/Butler and adjacent areas. These examples indicate that total development costs per lot borne by the private sector ranged from between $53,830 and $101,811 per lot in 2002.

The proportion of this which was made up of government taxes, levies and other contributions to infrastructure varied from 44% (where no external or indirect authority costs were applied) to 75% (where external and indirect authority costs did apply).

Again, the cost examples cited from the state government and outlined in *Table 3* are consistent with this finding.

Table 4 - Residential land costs ($ per lot)

Development	Total Servicing, Authority & Taxation Costs*	Total Development Cost per lot	% Servicing, Authority & Taxation Costs of Total Development Cost Per Lot
A	$52,637	$115,981	45%
B	$56,102	$125,212	44%
C	$29,860	$53,830	55%
D	$41,700	$55,850	75%
E	$26,800	$44,300	60%
F	$32,800	$63,400	52%

*Total cost to private developers of government taxes, levies and other contributions to infrastructure

UDIA believes that these figures seriously challenge recent claims by the state government (based on the *Costs of Urban Form* Discussion Paper) that it funds up to 78% of the cost of developing land in fringe locations.

The *Costs of Urban Form* paper estimates that the full cost per lot for developing fringe land in Perth (2002 prices) is between $57,000 and $63,000. This is based on 1991 development cost figures as cited in the 1994 National Housing Strategy (increased to 2002 costs).

The cost estimate includes the cost of providing sewer, water, drainage, roads, power, telephone, site preparation, survey and design, and community facilities such as sports and recreation facilities, police, education, health, ambulance and fire stations.

Based on these estimates the Discussion Paper concludes that the private development sector contributes just 22% to 30% of the cost of infrastructure provision, with the majority proportion (70% to 78%) being borne by the public sector.

However the State Government's submission to the *Productivity Commission Inquiry into First Home Ownership* outlines the following costs to the State government from supporting infrastructure for new development:

- *"brownfield" redevelopment in existing areas – no or minimal cost;*
- *development on the urban development "front" - $30,000 per block; and*
- *development off the urban development front - $66,000 per block.*

No justification is provided for these figures, however if they are accurate it is clearly evident that the proportion of infrastructure paid for by the development industry is well beyond 22% to 30% and can more accurately be estimated at 50% to 65% using the 2002 cost examples. This is likely to be significantly higher again if 2004 cost estimates were obtained.

UDIA does not have any cost examples for development off the urban front (the Clarkson/Bulter area is considered frontal) however if examples of developments where external and indirect authority costs were applied are used as examples, it is estimated that the development industry (at the absolute least) contributes between 39% and 46% of the cost of developing a lot beyond the front, however in reality (at 2004 prices and if accurate costs were for this type of development) the contribution of the private sector is likely to be much higher.

Furthermore if these current development costs are applied to the table cited in the *Costs of Urban Form* Discussion Paper, it is clearly evident that the report seriously underestimated the contribution of the private sector to new frontal development (see *Table 5* below).

In this context, UDIA seriously questions the findings of the discussion paper that the existing infrastructure pricing system in Western Australia is 'distorted' or 'non-existent'.

Table 5 – Indicative Development Cost Per Allotment: Fringe Land (2002 Prices)

City	Full cost per lot ($)	Public Sector Cost Per Lot	Public Sector Cost as Percentage of Full Cost
Sydney	81,352	42,507	52.2%
Melbourne	66,627	29,413	44.1%
Brisbane	61,458	24,687 (d)	40%
Adelaide	61,107	24,546	40%
*Perth	57,000 to 63,000	7,000 to 30,200	11% to 53%
Average	65,610	29,060	44.3%

* Perth Costs have been updated as per UDIA (WA) 2002 Statistics
Source: SGS Economics and Planning: Costs of Urban Form Discussion Paper

2. In terms of new frontal development, at what density is the greatest financial efficiency in infrastructure costs obtained, while recognising that most frontal development will be at relatively low density?

There is very little current research examining the cost of infrastructure provision according to residential density in Perth and, as such, it is difficult to make assumptions regarding optimum densities for infrastructure efficiency.

It can be established that, in general, higher density lots have lower overall development costs than low density lots and it is evident that higher density development does provide cost savings in regards to the use of land resources. However the cost of servicing and infrastructure provision varies widely between different developments and as a result, higher density does not necessarily equate to reduced costs for the provision of infrastructure and services.

Table 6 (below) provides a comparison of development costs and lot size for six frontal urban developments located in adjacent coastal areas of Perth's northern corridor. These statistics do show a positive correlation between the size of lots and total development cost (which is primarily related to the cost of land acquisition) and a minor correlation between lot size and direct servicing costs however costs savings for higher density lots can only be considered minor on an individual lot basis.

However based on this limited assessment it is estimated that greatest financial efficiency in infrastructure costs for frontal development would apply at densities roughly between approximately 500m^2 and 580 m^2 per lot.

Table 6 – Cost of Infrastructure and Servicing vs Lot Size (2002 Prices)

Development	Total Servicing, Authority & Taxation Costs*	Total Development Cost per lot	Lot Size	% Servicing, Authority & Taxation Costs of Total Development Cost per lot	Cost of Servicing, Authority & Taxation Costs per Square Metre
A	$52,637	$115,981	750m^2	45%	$70.18 ($53 direct servicing only)*
B	$56,102	$125,212	700 m^2	44%	$80 ($56 direct servicing only)
C	$29,860	$53,830	580 m^2	55%	$51 ($36 direct servicing only)
D	$41,700	$55,850	560m^2	75%	$74 ($47 direct servicing only)
E	$26,800	$44,300	550 m^2	60%	$49 ($47 direct servicing only)
F	$32,800	$63,400	480 m^2	52%	$68 ($53 direct servicing only)

*Total cost to private developers of government taxes, levies and other contributions to infrastructure

*Direct Servicing Only includes land development works associated with the estate. Major cost components here are earthworks and retaining walls, landscaping (estate), storm water drainage, water, sewerage, underground power installation, road works and professional fees

This generally concurs with the findings of the *Costs of Urban Form* Discussion Paper which concluded that the most efficient densities in frontal developments are likely to occur in densities of between R22.5 and R15, which equate to approximate average lot sizes of between 440 and 666 square metres.

UDIA would support the provision of higher density frontal development as long as a healthy mix of lot sizes and lifestyle choices are provided which enable West Australians to access the lifestyle of their choice.

Private developers are currently actively seeking to increase the choice and diversity of housing supply. Information obtained through the UDIA Land Supply Survey shows that in 2003 the average size of lots developed was between 556 and 570 square metres, down from an average of 585 to 612 square metres in 2002 and 601 to 608 square metres in 2001.

Private developers are also making significant effort to move beyond standard detached housing to provide medium and high density housing options in all areas. However UDIA recognises that the primary demand in outer suburban areas will remain for low density traditional housing, and we believe that it is essential to ensure an appropriate supply of low density housing is maintained to meet this demand.

This preference was demonstrated through the results of the '*Dialogue with the City'* survey undertaken by the Department of Planning and Infrastructure which clearly indicate that the majority of residents in the Perth Metropolitan Region prefer single dwellings on a $500m^2$ to $800m^2$ lot and have a preference for coastal locations.

In addition, developers often encounter obstacles to increasing both density and the mix of housing type in new developments due to a preference by local communities and local authorities for more traditional low density forms of development. As such any move to increase densities in suburban areas of Perth would need to overcome these problems.

3. What factors relating to new frontal developments contribute to disproportionately high increases in infrastructure and may otherwise be avoided?

There are a number of factors which UDIA believes can disproportionately increase the cost of new urban development in frontal locations. This includes:

- Inadequate planning and budgeting for infrastructure provision to cater for land supply and development.
- Co-ordination and efficiency of service provision.
- Lack of integrated planning between different local authorities and lack of consistency in standards between local authorities.
- 'Over engineering' of residential development.
- Competition amongst service providers
- Overly restrictive buffer policies
- Poor communication of or failure to communicate policy requirements to the development industry.
- Delays and uncertainty in the planning and environmental approvals process.

1. Inadequate planning and budgeting for infrastructure provision to cater for land supply and development

UDIA believes that a key problem associated with increased costs of infrastructure provision for new frontal development arises from a lack of planning for and provision of adequate infrastructure to properly meet demands for land supply.

While we support the process of the Metropolitan Development Program, which has gone some way to addressing this issue, we believe that problems can arise where budgets for infrastructure provision are not developed in accordance with the MDP and therefore do not keep up with demand for new housing development. This results in the private sector being required to fund the whole cost of infrastructure provision up front, a cost that will inevitably be passed on to the home purchaser and has a considerable impact on the cost of purchasing a new home. Alternatively it can lead to the inefficient provision of infrastructure and the resultant direct and indirect costs to the State.

UDIA understands that infrastructure planning and expenditure is primarily the responsibility of the WAPC Infrastructure Co-ordination Committee and that this committee does not include an industry representative. UUDIA believes that it would be

of significant benefit for a development industry representative to be included n the committee.

2. Co-ordination and efficiency of service provision

In order to be cost efficient, there is a need to ensure the co-ordination of service provision among the different utility providers.

Servicing new communities requires physical connections to power, sewerage, water, roads, drainage and telecommunications. As previously outlined, most of these services are funded by the private development sector and the new community and handed over to the various utility service providers that operate and charge for the services provided.

All utility services include elements of 'reach' and 'capacity'. Reach is provided by physical connection to each property, while capacity is provided by size for services like sewers and water, and transformer or exchanges for electricity or telecommunications systems.

With discrete land holdings and different time frames for development, the reach and capacity for an area are often funded, in full, by the first home buyers in the particular area. The different requirements/criteria specified by service providers may result in conflict in the location of services on individual parcels of land. This conflict often means inefficient servicing of some land, the additional cost of which is being borne by the local community.

It is inefficient and difficult to resolve the above conflicts at an individual project level. The provision of utility services therefore needs to be coordinated at a strategic level to ensure an equitable and efficient outcome is achieved.

UDIA is supportive of coordination of utility services in order to improve equity and efficiency and we believe that to achieve this, existing utility service providers need to be more customer-focused and accountable.

In particular, UDIA would support the following initiatives to reduce infrastructure costs in greenfield communities:

Water Corporation

- Promoting the sharing of costs of minor works to ensure users of a service contribute to the cost of service provision.
- Ensuring standard headwork charges are allocated in accordance with peak use.
- Ensuring bonding of outstanding works is based on risk assessment.

Western Power

- Promoting the use of system and asset charges that equitably distribute the cost of high voltage distribution components.

- Ensuring load and land use demand profiles are reasonably assigned to different land uses.

AlintaGas
- Ensuring installation is completed by the Principal Contractor on the site.

Telstra and Other Carriers
- Ensuring the alignment and sharing of access to telecommunication service corridors are managed in an equitable manner.

2. Lack of consistency and co-operation/integration between local authorities

It is the objective of the land development industry to provide quality residential development. UDIA therefore supports state and local government policy initiatives that promote a quality-planning outcome in the design and development of residential estates.

As such, while we support the development of policy initiatives and recognise the importance and necessity for statutory provisions, we are concerned about the lack of consistency in the application of these policies across local authorities.

In the past, there have been instances where local authorities have introduced new policy initiatives or statutory provisions which were inconsistent, or in conflict with, state or local government policies at the time.

In addition, inconsistencies across local authorities result in confusion within the industry and delays in approval timeframes. The primary consequence of this is an increase in the costs of land development.

UDIA also has concerns regarding the lack of integration and co-operation between local authorities in providing infrastructure to new communities.

In order to ensure the efficient provision of infrastructure and services there is a need for local authority areas to work together in an integrated fashion to identify and provide the most efficient mechanisms and processes to meet the needs of the metropolitan region as a whole.

We believe that there are serious inefficiencies in the provision of infrastructure and services resulting from 144 local authorities in Western Australia working independently within sometimes illogical physical boundaries to provide infrastructure and services to the local community. This results in duplication of both infrastructure and services, lack of integration between different areas, inefficiencies and ultimately increased cost of provision. UDIA would support better integration between different local authority areas for the provision of infrastructure and services, and at the very least, increased opportunities between local governments for infrastructure sharing.

3. 'Over engineering' of residential infrastructure or inappropriate infrastructure standards

UDIA believes that current infrastructure regulations and standards can result in the 'over engineering' of residential infrastructure such as roads and drainage and lack flexibility to enable the provision of infrastructure appropriate to the actual needs of an individual development. As such, new residential developments can be provided with infrastructure standards that are higher than those actually required (such as roads of excessive width for the traffic volume they service) reducing residential amenity and adding considerable cost to the development.

In addition UDIA has concerns about the implementation of infrastructure policy which has serious cost implications without proper consideration or balance between potential economic, environmental and social impacts.

An example of this is the Water and Rivers Commission Policy on 'Living Streams' introduced in 2001-02, which aimed to decrease conventional drains and replace them with 'Living Streams'. It is estimated that implementation of this policy can triple development costs in typical frontal urban development such as the Clarkson Butler area due to the high land requirements ('living streams' were required to be between 30m and 100m wide). In addition the policy was implemented without clear communications of the requirements to the development industry, without a proper assessment of development cost and without proper scientific investigation to examine the suitability of the policy for implementation in Perth and within different local conditions in the Perth metropolitan region. These types of policy decisions create uncertainty for the development industry and can have serious and unnecessary impacts on the cost of urban infrastructure in Perth.

4. Competition amongst service providers

Market competition has created a highly efficient, competitive and flexible industry of private and government land developers. Services that the community now considers as essential are constructed at development, generally by private contract, to comply with conditions imposed by the Western Australian Planning Commission. These services are then handed over by the developer to utility service providers for operation and maintenance (this is the process for roadworks and stormwater drainage, water supply, sewerage and main drainage and underground power). These types of services must be constructed to standards imposed by sole utility providers.

Market competition amongst developers has created leadership in providing affordable housing. We believe that service providers can assist to maintain this lead with adoption of commercial and technical best practices, and by supporting competition amongst providers.

UDIA would therefore support greater competition amongst service providers and creation of alternative service providers where appropriate to achieve that objective. In addition, we believe that the adoption of commercial and technical best practices in the provision of utility services is essential to ensure existence of a competitive market.

5. Restrictive Environmental Conservation Policies

Urban development is increasingly being affected by state and local government policies that relate to the conservation of areas considered to be of environmental significance (such as bushland areas and wetlands).

This can result in developers being required to cede land, free of cost for conservation as part of the planning process or can sterilise land from development and leave the developer with the responsibility and cost of managing the area for conservation purposes. This significantly increases the cost of development and infrastructure provision within an individual development.

The development industry recognises that it has a role to play in protecting and enhancing the functions of urban wetlands, however UDIA considers that their management is ultimately the responsibility of state and local governments.

To avoid the existing fragmentation of decision-making processes within government agencies, we believe that there should be a clearly defined coordinated process to deal with approvals for developments impacted by environmental conservation issues to provide certainty in the planning approval process.

In addition we believe that many conservation areas have a valuable passive recreation function that should be recognised with a full public open space (POS) credit. In addition we submit that the procedure for determining POS credits needs to be standardised across local government authorities.

6. Overly restrictive buffer policies

Land use buffers are intended by governments to avoid potential conflicts between "incompatible" uses of adjacent land holdings. According to current practices, such incompatible uses include residential dwellings and poultry farms, market gardens, dog kennels, airports and/or other industrial activities. The need for continuing expansion of the urban development front to provide for maximum efficiency in infrastructure provision highlights the need for a pragmatic, equitable and consistent approach in resolving such potential conflicts.

The government's current approach is based on a simplistic and pre-determined set of buffers for various notionally incompatible activities. There is also disparity in the way such policies are implemented by different agencies leading to uncertainty and impediments to development.

UDIA believes buffers should be regarded as "areas of sensitivity" rather than "no go" zones. Where an area of land is zoned under a regional or town-planning scheme for urban development, then subdivision and development should follow in accordance with the relevant scheme and the *Town Planning and Development Act 1928*.

We believe that a whole-of-government approach is needed to ensure land uses are appropriate and consistent with all relevant legislation and local authority by-laws. In particular, greater cooperation and consistency is required between the Department of Environmental Protection (as the buffers policy originator) and the Western Australian Planning Commission (as the state's planner) in addressing incompatible land use issues. In this regard we believe that state and local governments should provide relocation incentives for incompatible landowners within the urban growth path.

7. Implementation of draft policy and failure to communicate policy requirements to the development industry

It has been of continual concern to UDIA that both state government and local government officers are using draft policies, guidance statements and legislation in their assessment and management of development proposals without any legal basis for such actions.

It is a source of some frustration to UDIA members that planning and environmental agencies seem to begin to prepare policy positions, lose momentum, and then commence production of a policy position on a separate issue, leaving a raft of uncompleted draft policies, creating substantial uncertainty within the industry and can have a serious impact on infrastructure cost by holding up the planning approvals and clearance process.

In addition, UDIA receives numerous complaints from developer members regarding the lack of communication of draft or new policy requirements by both state and local authorities. This again leads to uncertainty and delays in the planning approval process when developers are faced with unexpected and inadequately undefined conditions of subdivision which they are required to meet to obtain final clearances.

8. Delays and uncertainty in the planning and environmental approvals process.

Delays in the planning approvals process also have a serious impact on the cost of new development. In Western Australia, anecdotal evidence suggests that planning approval delays in recent year have been in the order of 5 – 15 months however, there are some instances where delays go back as far as August 1999. These delays are experienced in all areas of land development including sub divisions and rezoning amendments and can delay construction contracts often worth millions of dollars, thereby increasing the cost of infrastructure provision for the development.

4. To inquire into the current formulae applied to developer contributions, State and local government levies and other contributions made to infrastructure for infill development.

It is evident that development costs for infill development are lower generally than those for greenfield urban development in middle and fringe areas due to a reduced requirement for new infrastructure. However, developer contributions for infill development are still required and incorporate:

- Infrastructure costs including the charges paid to major utilities (including water, sewerage, power and gas) and other on site costs incurred by developers on minor works for water, sewerage, power, gas, roads, footpaths, retaining walls, fences and landscaping.

- Contributions to environmental enhancement such as the clean up of site contamination, rehabilitation of native vegetation or the ceding of a Bush Forever site.

- Contributions for community facilities and services. This type of contribution is often required in infill redevelopment or revitilisation projects.

Infill Development Costs

The table below shows a breakdown of indicative development costs for infill development. The data is based on costings outlined in the Western Australian Government submission to the *Productivity Commission Inquiry into First Home Ownership* for a typical urban in-fill subdivision in the Perth metropolitan region.

Table 7 – Urban Infill Development Costs

Urban Infill Development
(Single Residential Lots of Approximately 500 sq m)

	$ per lot	% of total price (including GST)
Price of a vacant block of land	**109,524**	33.5%
Developer's infrastructure costs	**39,252**	12.0%
Charges by utilities	6,890	2.1%
Water Corporation (for water, sewerage and drainage headworks)	4,390	1.3%
Western Power (electricity connection)	2,500	0.8%
On-site infrastructure costs (non-government)	32,362	9.9%
Site preparation (earthworks, levelling, retaining walls, etc.)	12,100	3.7%
Other infrastructure contributions (landscaping, drainage, roads, etc.)	13,044	4.0%
Water and sewerage reticulation and minor works	3,000	0.9%
Electrical reticulation and minor works	1,310	0.4%
Consultant fees	2,908	0.9%
Government taxes, fees and charges paid by the developer	**9,803**	3.0%
Stamp duty on land purchase paid by the developer	6,816	2.1%
Land taxes (holding cost, if applicable)	2,283	0.7%
Local government clearance fees and charges	105	0.0%
Local government rates (holding cost, if applicable)	600	0.2%
Net GST (on land purchase and development costs)	-	-
Developer's management and finance costs	**12,176**	3.7%
Selling costs and other professional fees	**5,603**	1.7%
Advertising, agent's commisions, legal and settlement costs	5,603	
Developer's margin	**10,849**	3.3%
Total land value (excluding GST)	**187,206**	57.3%
House construction (excluding GST)	**110,000**	33.6%
Total house and land value (excluding GST)	**297,206**	90.9%
GST paid by home buyer	**29,721**	
Total house and land price (including GST)	**326,927**	100.0%
Stamp duty paid by a home buyer (for house/land package)	*14,784*	*4.5%*

Source: Western Australian Government Submission to the Productivity Commission Inquiry into First Home Ownership

This data clearly indicates that developer contributions for infrastructure provision for infill development are significantly lower than those required for greenfield development. However they are by no means insignificant.

Direct servicing charges outlined in this example still make up 18% of the total cost of land development while government taxes and charges make up 5.5%. This means that approximately 23.5% of infill land development costs are made up of government taxes, levies and other contributions to infrastructure.

The Western Australian Government suggested in their submission to the Productivity Commission Inquiry that costs incurred to the State government for infill development are *nil or minimal*.

UDIA concurs that infrastructure costs for infill development are generally lower than for greenfield development however we question the basis for this finding, which is inconsistent with the findings of the Costs of Urban Form Discussion Paper which states that *'…literature is not entirely clear on the question of whether consolidation (i.e. infill development) will provide savings vis a vis outward growth with respect to the cost of hard infrastructure like water supply, sewerage, drainage, roads and telecommunications. Most studies suggest that savings can be made by accommodating households in established areas rather than on the fringe. However, much depends on the capacity constraints applying to existing infrastructure'*.

In addition, the Metropolitan Development Program Urban Land Release Plan 2003/2004 to 2007/2008 clearly indicates that projects in inner and middle areas are impacted by environmental issues, transport issues, zoning issues, drainage issues and sewerage issues. While the number of projects impacted by these issues is significantly less in inner areas than in frontal areas they do appear to be significant. For example, the need for significant investment in major infrastructure projects has been demonstrated in projects such as 'Subi Centro' and the East Perth redevelopment.

It is also evident that the cost of land in infill areas is many times that of the cost of land for frontal development and that, as a result, the purchase price of a new house and land package in an infill area would be well beyond the reach of the average first home buyer.

Therefore, while UDIA supports policy for urban infill development we believe that it is only part of the solution to meeting Perth's future land supply needs and we urge caution from the government in espousing infill development as the best and most cost efficient solution to meeting Perth's future housing needs.

5. To compare relative contributions made in Western Australia to those in other jurisdictions in Australia

Analysis of developer contributions in Perth in comparison to other capital cities in Australia clearly indicates that developers in Western Australia do pay comparable or higher contributions than developers in other states.

The Landcost report prepared for UDIA by ACIL Tasman provided a breakdown of developer contribution requirements by State. This indicated that private sector contributions are approximately

- $21,360 in Adelaide (51% of the total cost of development per lot)
- $36,745 in Brisbane (42% of the total cost of development per lot)
- $46,895 in Melbourne (57% of the total cost of development per lot)
- $59,000 in Sydney (37% of the total cost of development per lot)

If these costs are compared to the current development costs cited by the state government for middle sector greenfield developments (see *Table 3* in this submission) which indicated that the cost of providing direct services in this sector is $44,234 (46% of development cost) and that adding utility fees taxes and charges, this rises to $54,731 (57% of total development cost), it is evident that developer contributions in Western Australia are actually among the highest in the country.

This is also evident if current developer costs are allocated to the cost comparison table cited in the *Costs of Urban Form* paper. On the basis of the total cost (public and private) of developing a lot in a fringe location being between $57,000 to $63,000 current cost statistics from the private sector indicate that the proportion of public infrastructure funded by private developers in Western Australia must be at least comparable, if not higher than in other states. This is illustrated in *Table 5* of this submission and is again outlined in *Table 8* below.

Table 8 -Indicative Development Cost Per Allotment: Fringe Land (2002 Prices)

City	Full cost per lot ($)	Public Sector Cost Per Lot	Public Sector Cost as Percentage of Full Cost
Sydney	81,352	42,507	52.2%
Melbourne	66,627	29,413	44.1%
Brisbane	61,458	24,687 (d)	40%
Adelaide	61,107	24,546	40%
*Perth	57,000 to 63,000	7,000 to 30,200	11% to 53%
Average	65,610	29,060	44.3%

* Perth Costs have been updated as per UDIA (WA) 2002 Statistics
Source: SGS Economics and Planning: Costs of Urban Form Discussion Paper

6. To provide comparative analysis between Terms of Reference 1 and 4 to formulate recommendations to address inequities and strengthen efficiency in relation to private and public infrastructure contributions

Providing equitable and affordable residential communities is the cornerstone of the urban development industry's philosophy in Western Australia.

UDIA therefore aims to ensure that all WA residents have access to affordable housing. To achieve this we believe that it is imperative that residents of new housing estates in frontal locations are not unduly penalised for services compared with residents in established areas. This includes all costs associated with provision of government and local authority services and amenities, conservation of the environment and investment in new infrastructure.

This submission has demonstrated that costs to the developer for infrastructure provision in frontal locations are significantly higher than those for infill locations. For example:

- Approximately 23.5% of infill land development costs are made up of government taxes, levies and other contributions to infrastructure.
- Approximately 57% of middle sector development costs are made up of government taxes, levies and other contributions to infrastructure.
- Up to 75% of frontal development costs are made up of government taxes, levies and other contributions to infrastructure.

All of these costs are added directly on to the cost of purchasing new home in these areas.

It is therefore evident that there is a discernible trend towards increasing developer contributions and increasingly onerous conditions being imposed on subdivision approvals for new urban development in frontal locations. Conditions of approval impact directly on the price of land sold and we believe that they are often questionable. To maintain the affordability of new housing, it is imperative to ensure that conditions are reasonable and justified.

In addition, we believe that further increasing the cost of land on the urban fringe through additional requirements for developer contributions will:

- Have a direct negative impact on housing affordability by raising the cost of development - cost that will be passed directly to the purchaser, as has been experienced in other Australian capital cities.

- Result in a spillover of price increases on the fringe across the entire housing market and lead to a reduction in overall affordability and lifestyle choices.

- Create inequities between new and existing homebuyers/residents: new purchasers who pay additional costs for infrastructure; and existing home

owners who have not paid any additional cost and will continue to benefit from the increased capital cost of their infrastructure. In particular we have concerns that home buyers in frontal areas (where land and house prices are cheaper and the socio-economic status of the community is generally lower) will be forced to pay additional cost for infrastructure while those living in the more affluent middle areas, who can afford to pay additional cost, will benefit from existing publicly funded infrastructure and services. This is clearly inequitable.

- Result in inequities with the overall fiscal system: New home buyers will be forced to pay for services which for the majority of consumers are financed out of federal, state and local government revenue and will also be forced to pay taxes and municipal rates according to normal schedules. New home buyers would therefore be disadvantaged.

We believe that the benefits of infrastructure provision are shared by a wide section of community and future residents. Therefore processes should be established to ensure an equitable cost sharing arrangement that avoids the cost burden falling on the purchasers of new land.

In addition UDIA reiterates the need a diversified land supply market to provide purchasers with a choice in location, size and cost of land and provide lifestyle opportunities that meet the needs of West Australians. It is therefore crucial that opportunities for a range of development types in the metropolitan region are maintained.

7. To determine any patterns where densities for infill development can be calculated having regard to capacities of existing infrastructure and in the effort to maximise cost efficiencies in infrastructure and service providers.

UDIA would support the identification of patterns where densities where infill development can be calculated having regard to capacities of existing infrastructure and to opportunities to maximise cost efficiencies in infrastructure and service providers. In this regard we would support an audit of infrastructure and infrastructure capacities across all agencies and utilities in the metropolitan region with an aim to identify areas where higher density infill development may be appropriate.

Conclusion

It is evident that the private development industry currently makes substantial contributions to the provision of infrastructure for new frontal developments.

Based on the information provided in this submission, we estimate that the private development sector pays at least between 50% and 65% of the cost of developing new infrastructure for frontal development at the expense of new home buyers. This is comparable or higher than contributions in other capital cities in Australia.

We therefore urge the state government not to impose higher levies on developers for urban infrastructure, particularly for infrastructure in frontal locations.

UDIA believes that the imposition of high infrastructure levies for frontal development would be seriously inequitable and would have a serious and adverse impact on the affordability of new home ownership.

UDIA would not support such an initiative on the basis that we believe that such levies are an inefficient method of financing public infrastructure and would only serve to increase the cost of land, reduce housing choice and diminish the ability of West Australians to attain affordable housing. This has been demonstrated in NSW, where the ever escalating cost of housing in Sydney has resulted in an affordability crisis.