CORRECTED VERSION

OUTER SUBURBAN INTERFACE/SERVICES AND DEVELOPMENT COMMITTEE

Inquiry into growing the suburbs:
infrastructure and business development in outer suburban Melbourne

Melbourne—26 March 2012

Members
Mrs J. Kronberg           Ms J. Graley
Mr C. Ondarchie

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Witness
Parklea Pty Ltd:
Mr D.S. Welsh, Deputy Chairman and Development Manager.
The CHAIR—Mr Craig Ondarchie has to leave this hearing, for your purposes, Mr Welsh, at 12.30. I am going to get him to ask his questions of you early on, and the questions will come from myself and the Deputy Chair after that.

On behalf of the Interface Services and Development Committee, which is an all party committee of the parliament of Victoria, we welcome you. What you have to say is going to be recorded. A transcript of that recording will be available to you in about two weeks time, and you can make spelling and typographical changes only. When you are with us in this setting and in this time while this hearing is operating parliamentary privilege is extended to you, but if you were to talk about the same topic out of this setting in a different time, parliamentary privilege would not be extended, but it does prevail while you are with us during this hearing right now. Before we start, could I get you to give me your name, your title, the organisation you represent and a statement as to whether you are here in a private or professional capacity today.

Mr WELSH—My full name is Donald Stewart Welsh, I am deputy chairman and development manager with Parklea Pty Ltd and I am here as a representative of the company today.

The CHAIR—Thank you very much. We welcome your opening remarks, and I will invite you to give us those opening remarks. We will concentrate, as those flow, on Mr Ondarchie putting some questions to you in the first instance.

Mr WELSH—Parklea is a privately-owned developer. We operate primarily in the south-east of Melbourne. We are active in residential development, industrial and commercial development, as well as retail. We basically cover the full gamut of development activity. Our holdings are quite significant, and primarily in the Cardinia Council. We have approaching 10,000 residential lots in the pipeline in Cardinia, as well as we are a joint venture with the Cardinia Shire Council in the SouthEast Business Park and we also own significant areas of land that are zoned for industrial and to be developed into the future.

From our point of view we do have holdings in our municipalities, so our exposure to interface and growth council experiences and approaches is fairly broad. We also have two residential developments in the City of Whittlesea, and we also operate in regional Victoria. We have a large subdivision in Wonthaggi, a residential subdivision in San Remo, and so forth. Without dwelling on it too greatly, Parklea has a broad based experience, and it has also been in operation for 30 years and we have also had the benefit of observing trends and approaches over those three decades.

Today we wanted to present to the committee three parts to what we saw as your terms of reference, in particular your (a), (b) and (c), and they were the provision of infrastructure and the requirement for that, and we would like to present to you on our perceptions of that approach and, secondly, the case study of the SouthEast Business Park which in our view covers a number of those issues. Firstly, in respect to the provision of the infrastructure, part of your terms of reference is, ‘Does the current infrastructure adequately cater for growth in the population?’ I think the answer is that it does not, and it needs to be upgraded to meet that. Whether that is sewerage or social facilities, we believe the key to success is the management and delivery of those.
We would also submit to the committee that in growth areas, the past approaches are not going to be appropriate for the future. The reason for that is that over the last decade, councils have tended to rely on development contribution plans to fund the infrastructure, and so have authorities like South East Water and VicRoads. Over the last decade we experienced exceptional growth in almost every activity, whether it was commercial or residential. We were selling at rates beyond our expectations; rates both in terms of volume and price. I think developers tend to look at the bottom line and accept the approach at the time, and if that does not prejudice their financial capacity then it will be accepted.

What was the case in the last decade? It was developer contribution plans going from $6,000 per lot to now approaching $20,000 per lot in that high growth period and also those developer contributions being brought forward and asking developers to put that in at the start of the development. As I say, in our case we were budgeting on selling 50 to 80 lots per annum and we were actually selling 200. We were able to cope with those circumstances. When we look into the next decade, are we going to continue to experience those circumstances? In our view it is 'no'. In our view, due to the reduction in immigration, changes in the national economy, from manufacturing, over to mining and service delivery, that there will be a different model, and growth on the fringe of Melbourne will slow down.

That means that councils, if they continue to ask for up-front payments and increased development contributions, it will be that the sale rates will not generate the cash for the developers to respond to that. Our proposition is that there needs to be new ways of bringing infrastructure on. Clearly, over that last 10 years, what has happened is that infrastructure has followed development. A DCP does not even deliver what would be the optimum circumstance, and that is that infrastructures, at least in the early stages of the development of the community—and you will see many instances where it is a decade or two decades behind. That means that you have a generation of residents there that have missed out on those facilities.

I think Parklea's point is that the past decade screens some major flaws. Our argument would be that the government needs to look at alternative processes. We think things like local bonds are an opportunity. There are massive funds being invested into superannuation funds and so forth, and those people looking for secure investments. We shifted from developer contribution plans to local bonds where people could get a return. I do not have time to go into the details of how developer contribution plans are managed, but the way they are managed is that basically they take the worst-case scenario, they escalate the price to the optimum so they minimise the risk to the authority managing it, which is the council, and they really put in everything they can possibly think of that might occur in the next 20 years. In that case there are often projects that are not real, but a DCP is the one opportunity for the council to get that. You have to get to a better way of doing that.

Parklea's first proposition to the committee is that when you look at infrastructure and how you cover the gap, we are suggesting to you that DCPs are not the only option, and we believe that DCPs will fail into the future. It assumes development. It assumes that a developer will do a development and will pay the money at the end of the development. If the developer does not develop, the infrastructure never gets funded. Whether your community is 100 per cent of the forecast population or 50 per cent of the forecast population, often infrastructure is not a function of numbers, it is a physical thing that needs to be provided. For example, a sports ground, or a community facility, you cannot half build it. You either build it or you do not. As I say, we have a view that it needs to be brought online earlier to make better community service.
Mr Welsh, if I could stop you at that point. The committee is aware of an example in Western Australia where a lot of infrastructure has gone in that was actually led by transit oriented development. It was a TOD model. The global financial crisis impacted on those developers to the degree that the activities area, where you would see often space and community centres and even retail space provided, is still not there, and yet the residential component is. Can you see any impacts like that of developers as a community being impacted on, the increasing tensions, and the access to money as governments borrow money around the world? Are those things starting to come through—a GFC milder version—in your forecast period?

Mr Welsh—What we are seeing is the new type of employment corridor has to be completely different to the past. For example, Hallam Park is basically an industrial estate. To make our area competitive we need to provide support services. We need to provide recreational, entertainment and retail services to the employees that work in the employment node. To take a project that we are involved in, called the Cardinia Road Employment Precinct, it has residential, retail, industrial and commercial areas planned. Parklea is the largest landowner in that area and we have been looking at the planning of that precinct. It requires about $15 million up-front capital. A company is not prepared to put in that $15 million because of the risk and the slow take-up of employment land. We turn to the residential component of it. We say that the residential component is viable. The problem is that if you create a residential component that has no other services then you are creating something you do not want to achieve, and that is an isolated residential community.

The CHAIR—What would the residential component look like? Would that be normal densities or increased densities?

Mr Welsh—High densities, marginally higher, but at the end of the day, residential is driven market demand and it will be fairly close to what you would find generally because it is a competitive market. You need people to take it up, particularly if you are prepared to spend millions up-front. Under the current DCP model, the only party capable of funding the up-front infrastructure is the developer. This is the DCP model. What we say is, to do that we need the residential first, and then after the residential, at a level that will attract a supermarket—they say, 'We have thresholds in terms of demand,' and we say, 'Well, there's a terrific employment community planned here,' and they say, 'We don't care about that.'

The CHAIR—They want to know what is there now.

Mr Welsh—'We want to know that you've got permanent residents that will consume our services.' Consequently you then need to bring your retail online several years after your resident population is established. They start the first part of their life commuting outside the area for basic services. To bring an employer there you definitely need to be able to say, 'Here is the drycleaner for your staff. Here is the newsagent for your staff. Here are the banks for your business. Here are the cafes.' In the modern community people transact business in cafes, restaurants and so forth. You need to establish those. It is this hierarchy of dependency—

The CHAIR—are you including in your thinking an accommodation provider?
Mr WELSH—We think in the south-east there is a massive gap in terms of accessible accommodation, and it is not only the new areas we are looking at, it is existing operators like O'Connors Meats which is a large abattoir in this corridor. They have joint ventures with Japanese and US people. Those people, when they visit the abattoir and interact on a regular basis, do not use any accommodation in this area. We think there is the opportunity but it is really that scale to get more than just O'Connors in this area. We are caught in this situation, as I say, almost a hierarchical situation of one precedes the other. The only way to flick that around is to look for new opportunities to fund the basic infrastructure. What I said before about when you have a structure where a developer is required to do that as an offset against a DCP, then you need to recover your money in a shorter time frame, and you need to turn to the more traditional processes. Alternatively, if it was infrastructure led by the authority that is responsible for it, then there is a different scenario.

Mr ONDARCHIE—Don, I am very familiar with Bridge Inn Rise and Everton Gardens. That is not very far from where I live. You have had a long history in local government. Are you talking about councils issuing council bonds? Is that what you are talking about?

Mr WELSH—I am saying that you need to structure the growth areas with an authority capable of doing more than one function or the other. The interesting thing is that we now have PSPs. We actually define the areas that we want to turn our attention to and create a new community. What is happening at the moment is the Growth Areas Authority only deals with doing the plan for the PSP and then they say, 'We've finished our job, we've got it rezoned,' and the council, 'Good luck hereafter.' I think you need to take a new authority and empower them for the whole process, and that process includes the planning and doing that very efficiently; it includes dealing, and having some authority in dealings, with the retail water providers; and also the funding. They need to be able to, in my view—we think the superannuation pool of money is one that should be identified and accessed. We think that local bonds are a good idea.

Mr ONDARCHIE—Are you suggesting Cardinia issue local bonds? Is that what you are saying?

Mr WELSH—What I am saying is that—

The CHAIR—Will it be more regional.

Mr WELSH—It would be more regional about growth areas, if you have a single authority that would issue bonds for a PSP.

Mr ONDARCHIE—What does your forecasting tell you about the propensity of mums and dads to buy into the bond market?
Mr WELSH—We have not gone out to research all of that because it is not our business. Our business is we are involved in DCPs and we are saying there are better alternatives, and I am suggesting that a local bond system, as in the US—in the US, local government runs banks, there are local banks. The issue of enabling people to invest in their local community—so if you live up in Pakenham and you have confidence in who is managing your local financial institute and you want to get a return on investment, you want a safe investment, but you also want to feel as though, 'I'm assisting in infrastructure in my community.' We are saying models like local banks, local bonds, it needs to revisit the whole structure of what are the functions of the levels of government involved in developing new communities at the interface of the city.

Now, Parklea's resources are not such that it sees a role in that, and they are not such that it feels it should use its resources on the investigation, but we do feel that there needs to be a change from the traditional process of simply saying, 'We're all on this treadmill of rezoned DCP, dream up a whole lot of numbers and unload it onto the developer.' Australia is a country that is now driving superannuation investment. How do you capitalise on that pool? I certainly do not have the expertise to be saying that is a good model, it is better than something else, but we think there is the potential there. The infrastructure has to be built. The current system is really flawed. When you look at the indexation of that, you are escalating your figure, people are ultimately paying it but nobody is really getting the benefit of that figure and nobody is getting the benefit of infrastructure being provided.

Mr ONDARCHIE—You are talking about sharing risk rather than shifting risk?

Mr WELSH—Absolutely. It is about sharing risk. How do you manage that risk and how do you mitigate that risk for the parties involved? I think sharing risk is the only way that you can be successful at the interface, and that probably leads me to SouthEast Business Park which is a really good example of a local government sharing the risk with the private sector, and particularly in terms of bringing infrastructure to the site early.

The CHAIR—Whose idea was it to put the entities together? How did that come about?

Mr WELSH—In 1998, Cardinia Council said that they have a problem. They have a commuting community that is travelling many kilometres out of its own community. There are small developments and small industrial sites. 'We're losing the benefit of people being in their own community, they're travelling for such long hours a day.' It was part of a full strategy that the council sought to firstly create second and third housing choices, and then create a significant employment node to bring the jobs to the community. In terms of the second or third housing choice, they chose to joint venture with Delfin in the Lakeside residential estate. It is a 2,300 lot development. The largest subdivision in Cardinia prior to that, or the largest current subdivision, at the time that the council entered into an agreement with Delfin, was 100 lots. What were the aspirations of its own community? Its aspirations were to move out of Pakenham into Berwick. The council needed to reverse that by quality second and third housing choice.

Then in terms of the employment there was no significant opportunities to attract major employers to the area. There were no well serviced industrial parks. Council, in parallel with acquiring what is now known as Lakeside, it acquired a 150 hectare employment site with the best potential that it thought appropriate at the time, and that was that it abutted the future bypass road. Access and so forth was good. The issues were that it did not have major infrastructure. It did not have a sewer to service either the industrial estate or the residential development. It knew that each individual developer had no capacity to fund that either. Everything was stopped because the rules from the South East Water were beyond any individual party.
The approach was—and this is where we go back to the Parklea view about bonds and so forth—the council said, 'We're triple A rated and we can borrow money. So we will borrow $5 million to bring this sewer that you all say is required to open up each one of your estates but you will pay the interest bill on that loan,' and the council negotiated with South East Water but the loan was a fixed loan. It was taken out in September 2000 and it was to be paid back in September 2006. You knew how much it was, you knew when it was to be repaid and you knew what the interest bill was each quarter. You then apportioned that interest bill across the benefiting developers and they all came to the party, there was no dispute whatsoever and it was done. That is the catalyst that opened up many residential developments in this corridor but particularly the iconic, in our view, Lakeside, and the badly required industrial estate.

That is why we say that DCPs are for the easy challenges, but for the more difficult ones of about how do we create a new opportunity for a community, then you need to do something different than a DCP. A developer will not do it. The problem with employment land in an interface council is the take-up is very slow, and developers cannot cope with the holding costs of a long period of time. If we go and look at SouthEast Business Park it is an 18-year development agreement. The reason it is 18 years is because the council at the time felt that it would take that sort of time to get up and running. What you did is you shared the risk. You took on the holding costs in that it was your land over that period of time. You also participated in the provision of infrastructure and it was not only local government infrastructure, it was the role of local government as the economic development facilitator for that industrial estate.

The CHAIR—As part of the industrial estate, do you have a view whether the industrial estate should be one that is built where it is modelled on synergistic relationships that might include a business incubator as well, or are we looking at the situation with a lot of prefabricated buildings going up and you would have an industrial base that might be something that follows population expansion, rather than something that could be designed especially for a whole range of conditions that makes the region unique or specialised, and there were synergies within that industrial park?

Mr WELSH—Yes. Well, I agree with that, that interface councils when they look at employment they need to be different to the more traditional areas. The challenge for this area is that it is competing with Dandenong South and the Keysborough area. If it delivers the same product its only competitive edge is a lower cost per square metre. Generally that will not be the driving decision for those people. When you understand the purchaser, what are their priorities, cheaper land is generally not it. Incubator training facilities, what does each person in an industrial park need to do? They generally need to have ongoing training programs. Can you be smarter about that? For example, in SouthEast Business Park, could a training centre be built that is funded by the estate and by a body corporate type arrangement, so you have training facilities, you have recreational facilities. You need to be creative and you need to brand the product differently to what you would find elsewhere. You also need for it to be compatible with your natural strengths. What are the strengths of the particular interface council? The relevant council needs to be clear about what those strengths are and how they are built on.

The CHAIR—I am interested to know—we are really tapping into some of your advanced thinking here, Mr Welsh—in terms of the synergies or the direction or the kind of businesses or industrial base you might want to attract, could you see that being tied to the Bunyip Food Belt, for instance?
Mr WELSH—This area is the interface to Gippsland and what are strengths of Gippsland, and what are the service needs of Gippsland? I think that the relevant local authority needs to be very clear about that and it needs to invest in that. I represent a development company. We have a joint venture. Some of the things I have mentioned today are our opinions about the responsibilities of the relevant authority, and in this case it is the council, but we need to limit what we present to the committee to simply say that structurally we think the driver is the council and that they need to establish that. Whether it is the Bunyip Food Belt or something else, ironically food is very high risk for Australia and that is because countries like South America can produce food of almost the same quality as Australia at a much lower price and in much bigger volumes.

When you are thinking about the role of an area in food production, what is it that you are wanting to produce? Is it an export product? At the moment with the Australian dollar that puts that area at risk. What are you targeting? That goes back to issues about the scale of your employment area and what you think you can yield. Again it is an issue for the authority. Sometimes people are unrealistic in their ambitions. They think they are going to have a massive employment park and you do not have the natural strengths to develop that. Again there has to be compatibility between what you are creating and what your natural strengths are.

The CHAIR—Thank you very much.

Ms GRALEY—Following up from what you just said, how important is the development of the Port of Hastings to this area then?

Mr WELSH—To the south-east generally?

Ms GRALEY—Yes.

Mr WELSH—I think the south-east's future is the link from Port of Hastings through to Dandenong, and particularly through Lyndhurst and a modal interchange along that corridor. In Parklea's view, the Port of Hastings, Lyndhurst, Dandenong corridor is the dominant employment corridor. The role of this area is a subregional role under that. When you look at what was dominating the south-east in the past, and what you need to create in the future, the Port of Hastings is critical. The concern is when will it come online, but when it does the interdependency of employment is critical, employment nodes. Our view is that areas like Cranbourne need to look at the opportunities linked to the Port of Hastings.

Ms GRALEY—I am trying to get my head around this idea of no developer contributions.

Mr WELSH—I did not say 'no developer contributions'.

Ms GRALEY—That is what I wanted to get out of you, because everywhere we have gone some people saying they are small, or large, they are too big, they are not enough. There has been a real conversation happening around what they should be. Would you like to comment on what you think they should be, how they should work and what they should be used for?
Mr WELSH—Right. I think developer contributions, at the moment everything is put in the developer contribution bracket. What I say is in a particular PSP, or precinct structure plan, there is critical start-up infrastructure.

Ms GRALEY—What can you say about this?

Mr WELSH—It varies. If I go back to the Pakenham case in early 2000, the critical infrastructure was the sewer. That was the be-all and end-all of life for that group. In the Officer PSP which Parklea is hosting the construction of the sewer, again this sewer is about a $13 million sewer. We are a relatively small part of the Officer PSP. Our development is only about 800 lots, but we are hosting the construction of that sewer because we know that it is critical and it will open up the whole corridor. In the case of Officer it is sewerage. In the case of Cardinia Road Employment—it is nearly always sewerage by the way. In that case it was sewerage but it is probably also road infrastructure, and then there are alterations to a gas main.

The CHAIR—What about any electricity substations and things like that?

Mr WELSH—The substation is not the issue I think you are exposed to, I think it is the long-term issue of blackouts in this area.

The CHAIR—You do not see the need for a substation for your industrial park?

Mr WELSH—For the one we propose?

The CHAIR—Yes.

Mr WELSH—It will be required but that will not be the critical infrastructure that means that the precinct will not be able to be opened up, but there may be cases where a power substation—

The CHAIR—Would that be something Parklea funds, or funded in conjunction with the council?
Mr WELSH—At the moment, as I said, in the south-east because of the take-up rates of land, in SouthEast Business Park we sold one block in the last 12 months. That is an indication. No-one will take that risk, so you need to figure out clever ways to do that. I am not being specific about the project but it is more the generic principle that there will be critical projects to open up the precinct and if you enable, the developers will follow. For example, the Cardinia Road proposed DCP says, 'The first developer has to put in $5 million because we think this is critical.' This council has already identified that there is $5 million worth of infrastructure. I can assure you that if we are the individual developer who is asked to do that, then that puts that project on the backburner. Whether that is good for this community then others need to judge that, but that is the consequence of a flawed approach to DCPs. What we are saying is that DCPs do have their role and it is probably around the non-critical infrastructure that you can tolerate it but it needs to come online at a particular point of time where the population has reached its—

The CHAIR—Very briefly, Mr Welsh, in two columns could you list critical infrastructure from your perspective, and non-critical infrastructure?

Mr WELSH—Verbally now? Well, it is probably all the hard infrastructure of sewerage, roads, water, drainage, but I think there is a real flaw to only limit it to that. I can think of a case where a community does not get a school for 15 years, and what that means is—when you look at what we do on the interface, our target is first home owners, and generally they are people that will have young children. For those young children to be born and get to 13 or 14 or 15 years of age and not have a local primary school, to me that is not appropriate, and that family has to commute and take their children through a period of time of not having a hub to their community. Primary school, that is where friendships are made, both children and adults. You want to see that infrastructure up-front. Certainly school and medical services would, in my view, come into what you would regard as critical infrastructure that needs to be there relatively early. It is a little bit of loss leading, you do not build it when you have gone past 100 per cent demand, you really want to bring it online a bit earlier. I think educational facilities, and equally recreational facilities need to be brought online as well.

The CHAIR—Non-critical?

Mr WELSH—Well, the non-critical facilities, if I think about the Officer PSP it has very large expenses with an arts and performing facility, and the PSP itself says they are not clear about the definition of what that is. Those type of facilities are non-critical, and also the community should have input into, firstly, whether they want it and then, secondly, if they do want it, what form should it have. The problem with PSPs is they are a 30-year plan and you are trying to forecast the community, its shape and its form on how it behaves today, and what we know is with technology how quickly this community is changing. They have budgeted, for example, for libraries. I am not too sure in 20 years time you are going to need a library.

The CHAIR—I would probably tend to agree with you. It might be an entirely different facility.

Mr WELSH—Yes. Why would there be in the current up-front payments that when you a development you will pay a DCP, and a vast majority of that DCP is libraries and performing areas. The other thing it does is it shifts all that cost forward and it inflates the price of the land for the purchaser. We are talking about first home buyers, the last $10,000 is difficult for them, yet we are pushing all these costs of things that we are not too sure, not really 100 per cent that we need it, but because we think we need it we will put it in the DCP and make these people pay.
The key should be to try to take an up-front cost and put it back to an operational cost or a lower cost. The classic of that is a toll road. The community needs a road. The community cannot afford to pay the capital. What they do is they convert that capital into an operational cost, and you pay for the capital cost as you pay your fees. DCPs are the complete reverse of that. It says, ‘We haven't really got enough money but we're just going to load up the price up-front anyway.’ You will see in the DCP that the DCP is not only the capital cost, it will be a maintenance cost at a certain period of time of the infrastructure anyway. It is not only this broad base about critical and non-critical infrastructure, it is critical and non-critical infrastructure, plus operational costs, all loaded up and put up-front as a capital cost as an impost on the first home owner and a restriction on affordability.

The CHAIR—Mr Welsh, we will have to draw our time with you to a close now. The input you have provided today is most welcome and really helps us open up our thinking. They are some seismic shifts you are talking about there and I do welcome the fact that you have made a contribution that hopefully we will see a different way of approaching these things because I think you have put quite a compelling argument to us. Thank you very much for the points you have raised. Can I say this: it might come about that my executive officer Nathan Bunt wishes to follow certain elements up with you. Are you amenable for dialogue as we shape things from here on in?

Mr WELSH—I am more than happy to.

The CHAIR—Thank you very much, and thank you for coming along today. We really appreciate it.

Mr WELSH—Pleasure.

Witness withdrew.

Hearing suspended.