

Inquiry into the Telecommunications Legislation Amendment

(Fibre Deployment) Bill 2010

LandCorp Submission

6 April 2010

Synopsis of Key Points

Customer needs are paramount and there needs to be a strong recognition of the needs of this State, which is powering the national economy.

LandCorp recommends greater clarity and detail be provided on how 'remote' WA communities will be serviced by the National Broadband Network (NBN); what is the developer costing model (and how it is regulated); how NBN developer requirements will integrate with existing project approval processes; and what roles and responsibilities are held by entities involved in land development.

LandCorp recommends the NBN Company and other Federal Departments recognise and commit greater resources to change management of industry processes and practices. It is important that all links in the 'approval and supply chain' are capable and ready to engage in the rollout of this initiative thereby supporting land release.

LandCorp recommends revision to policy settings governing the cost recovery model proposed for NBN Greenfield and Brownfield developments, so the first purchaser of new land does not pay a disproportionate capital cost upfront.

LandCorp's preference is to work with a single network entity (such as the NBNC) who has responsibility for trunk and subdivision reticulation and maintenance (and who meets costs through a variety of public and private funding sources rather than cost recovery from land purchasers).

1. Government Land Development View

LandCorp is the Western Australian Government's primary land developer, with over twenty years experience in the delivery of strategic projects throughout the State. It was formed in 1992 through an amalgamation of several land agencies and has responsibility for projects which will be developed over many decades.

LandCorp has in excess of 100 active development projects, with a further 100 in a planning and feasibility phase. LandCorp holds strategic parcels of land and infrastructure for Government (such as the Australian Marine Complex at Cockburn, heavy industrial sites, urban renewal centres and contaminated sites undergoing remediation). LandCorp is the largest development entity in Western Australia in terms of number and diversity of projects which it is responsible for delivering on behalf of the Government and the Western Australian community.

LandCorp reports to the Minister for Regional Development; Lands (under its enabling legislation) and Minister for Planning (for other special purpose redevelopment project legislation) and through the Ministers to the Premier and Western Australian Parliament.

LandCorp operates in accordance with the Western Australian Land Authority Act and also is a key participant in projects guided by the Hope Valley Wattleup Redevelopment Act and the Perry Lakes Redevelopment Act. LandCorp also works alongside a redevelopment agency operating under the Armadale Redevelopment Authority Act.

LandCorp's residential, industrial, infrastructure and commercial projects are located across Western Australia and LandCorp has a presence in and commitment to many local communities and business sectors.

As a Government Trading enterprise, LandCorp works closely with the Public and Private Sectors, the business sector and local communities. Importantly we work closely with local government, ultimately aiming to balance economic, social and environmental outcomes which must stand the test of future generations.

LandCorp's background enables it to provide a different insight into the National Broadband Network initiative. We trust our comments, provided with a unique set of experiences and observations, assist with this Inquiry.

2. Needs of Western Australia

Customer needs are paramount and there needs to be a strong recognition of the needs of this State, which is powering the national economy.

By way of background, prior to the announcement of the National Broadband Network initiative, LandCorp's position on the provision of infrastructure which would deliver access to broadband services was as follows:

- LandCorp customers (developers' customers more broadly) want services and choice. They expect value for money and accessibility and would benchmark their experiences against other forms of infrastructure reticulated within development projects. Customers could generally be seen to be less concerned with the underlying technical solution that developers install, though this is changing also as customer knowledge increases.
- Every lot sold or leased by LandCorp will have a user who has a communications requirement and owners and occupiers will expect this service is available on request or earlier.
- Where it has made sense to do so, LandCorp has installed pit and pipe on the basis fibre communications infrastructure will in time be reticulated in the region and estate. Other developers have also done this as a precautionary measure, while others have contracted with Telstra who rollout fibre to the home.
- LandCorp (like many other land developers in this State) is not an infrastructure owner. It is envisaged a telecommunications company would put in fibre communications infrastructure - with some underlying level of critical mass customer base. This meant that for many LandCorp projects in remote communities, fibre to the home or premises would not be provided.
- Telecommunications companies would not provide fibre based services to many communities without some supplementary financial contribution and even then such service provision may be commercially unviable.

With the advent of the National Broadband discussion and subsequent consultation processes around policy and draft legislation LandCorp understands:

- The NBN may provide a policy statement where a fibre network will be available to communities above a target level of population - however it remains unknown how or when this will be achieved given remote locations of many communities in regional Western Australia - and there is a real risk many WA communities will miss out.
- Costs and charging regimes need to be fair and reasonable. Models developed in consultation with developers and regulators apply to other reticulated services (eg water and power), similarly a cost contribution model needs to be presented for fibre systems which appropriately balances upfront developer contributions as well as the operating revenues secured when land owners and occupiers use those services.
- Fibre communications infrastructure reticulation by developers needs to be normalised - developers do not differentiate from power, sewer, and water reticulation systems, they are the inputs to lot creation. This is governed by laws, regulations and policy. Where possible policy settings for fibre communications systems need to align and dovetail with existing policies and practices.
- Roles and responsibilities of developers, builders, infrastructure providers and owners, certifiers (should they eventuate) telecommunication carriers, internet service providers, local governments and consumers need to be well defined and communicated effectively so the business sector, Governments and consumers can operate with complete knowledge and supply, demand and price are not distorted by a lack of clarity and ensuing uncertainty.

LandCorp recommends greater clarity and detail be provided on how 'remote' WA communities will be serviced by the NBN; what is the developer costing model (and how it is regulated); how NBN developer requirements will integrate with existing project approval processes; and what roles and responsibilities are held by entities involved in land development.

3. Land Supply Considerations

The introduction of the new infrastructure requirement must not interrupt the supply of land to the market.

Western Australia went through and unprecedented period of growth in its economy. The State's population growth was sustained over the growth period of the economic cycle.

Many property analysts anticipate that the Global Financial Crisis (GFC) effects to continue to impact on property sectors through 2010/11, notwithstanding the prognosis for the State's economic growth in the same period.

In this State it is clearly evident that developers are feeling the effects of the GFC, particularly in accessing working capital (borrowings) to fund development works to bring land to the market. Supply levels are being impacted by the lending requirements placed on developers by financial institutions.

While the brief pause in market conditions has enabled the planning system to assess new applications and progress others already in progress, the Civil Contractors sector capacity is already tightening further constraining land release opportunity (assuming credit conditions return to normal and the planning approval processes are expedited).

The timing of the introduction fibre telecommunications requirements is going to impact on developer costs, subdivision approval processes, and civil construction timelines and land prices.

It is LandCorp's view that from a practical perspective the Western Australian land development industry will need to make very quick adjustments to avoid a negative impact on speed to market with finished product. If capacity of the WA industry is not lifted to meet this new requirement, then land supply is going to be interrupted in the immediate and short term and there is some risk to the State's economy attributable to rollout of this initiative.

With housing demand pressure already expected in the next upturn and no excess housing stock, a pause in new land release from Greenfield and Brownfield sites in Perth and the major growth centres in regional Western Australia directly attributable to a 'broadband rollout difficulty' will quickly materialise and flow on to land and house prices.

Public interest in land and housing prices is high and based on past experiences, there will be extensive media comment and criticism directed towards Governments at all levels in event delays happened due to a new Government's initiative. This is not to say the NBN initiative is not supported by LandCorp and should not happen, rather LandCorp sees the need for the initiative and process to be very well managed.

This is a change process and it needs to have regard to market conditions and supply chain capacities in each State. When national and State policy settings are clear, planning approval processes clarified and streamlined and capacity built into the civil construction and communications sectors (in Western Australia) LandCorp would expect supply conditions to normalise. Eventually fibre communications infrastructure provision will be very much basic infrastructure and business as usual for the land development industry.

LandCorp recommends the NBN Company and other Federal Departments recognise and commit greater resources to change management of industry processes and practices. It is important that all links in the 'approval and supply chain' are capable and ready to engage in the rollout of this initiative thereby supporting land release.

4. Cost of Land, Land Prices and Housing Affordability

Housing affordability is a critical issue in WA.

LandCorp does not support cost recovery models which result in the price of land in Greenfield estates rising - making homes within those estates less affordable.

There is a need to strike a balance between the upfront capital payment made by a developer to an infrastructure provider (and factored into the land price) and the recurrent payments received from users of the infrastructure. LandCorp does support infrastructure cost recovery models where the user pays (across the usable life of that infrastructure).

LandCorp has had a number of indicative fibre reticulation cost estimates prepared for projects located across the State - to assess the potential delivery and budget impacts. In these estimates there would be a design and 'headworks' fee payable by the developer of approximately \$100,000 per estate (or large stage release) and then a per lot cost of between \$2000 and \$4000.

For a 'small' 100 lot subdivision in regional Western Australia (in a town with a population exceeding the threshold) the additional delivery cost exceed \$0.5 million. For other towns in the North West of the State experiencing rapid growth where a larger scale of developmeny is needed (eg 1000 lots), the additional costs will be substantial and run into millions. These are additional costs to a project, as it was the case previously that Telstra provided communications infrastructure to owners and occupiers and there was no contribution to be made by the developer.

There is often some conjecture on how much it costs to produce land for residential purposes. LandCorp has (on the basis this is a legitimate role it plays for Government) made such information available to assist with public policy formation and discussion. It is on this basis that LandCorp provides the following case examples:

KARBW - Karratha Baynton West (40 lots over 4 hectares)

SEVIL - Armadale Seville Grove (101 lots over 11 hectares)

KARBW		AVERAGE PER LOT	SEVIL	
GST EXCL.	GST INC.		GST EXCL.	GST INC.
\$12,353	\$13,588	Consultant Fees	\$13,157	\$14,473
\$102,596	\$112,856	Construction + Fees (H'works)	\$60,711	\$66,782
\$9,240	\$10,164	Marketing sales, rebates, selling cost, rates & taxes	\$26,681	\$29,350
\$13,780	\$15,158	Future Act Payment	-	-
\$137,969	\$151,765	TOTAL SUB COST	\$100,549	\$110,604
\$6,305	\$6,935	Englobo Land Cost per lot (historic price - at time of purchase - not market value)	\$43,216	\$47,537
\$144,273	\$158,701	TOTAL LOT COST	\$143,765	\$158,142
\$159,460	\$175,406	Average Sales Price (lots that sold)	\$164,729	\$181,201

It is important to note that the costs provided are 'static', the lot prices do not incorporate holding, interest or other financing costs. The costs do not include NBN associated costs or costs associated with reticulation of fibre or any other form of communications infrastructure.

Indicatively the Karratha lot production estimates are for costs to rise by approximately \$5,000 per lot (\$100,000 for additional design and headworks fees plus a per lot cost of \$3,000). No provision has been made in this estimate for additional trunk infrastructure or backhaul costs which may be levied onto the developer. All costs would be factored into market prices for land and ultimately passed onto the first purchaser of the land.

With respect to Seville Grove, lot production estimates are for costs to rise by approximately \$3,000 per lot (allowing \$100,000 for design and headworks fees and some \$2,100 per lot). Again no provision has been made for trunk infrastructure costs.

The above tables demonstrate there is little capacity for a developer to absorb additional costs and there will be a flow-on impact on price as new costs are experienced.

The above estimates are not the final cost to the purchaser of the land, additional costs will be factored into the home builder specification and contract to take the communications fibre from the dome at the lot boundary into the home. While this is beyond the scope of LandCorp's direct experience, it is important to also factor in additional costs to be incurred by the home owner into their build cost (with even higher costs likely in regional and remote communities).

The imposition of an additional cost onto developers for fibre communication infrastructure is counter to moderating prices in regional towns where Crown land is the single source of supply. There is also the additional hidden cost to the home builder for the connection from the dome to the home.

When the new costs are applied there will be an adjustment to land prices, with developers setting prices independently but the market overall moving in unison. The home building industry will make similar adjustments. There is no doubt additional costs flow on to land and house prices and in turn (assuming other variables remain constant) impact on housing affordability and new home buyer lending.

It has not been communicated how a new cost flowing on to Greenfield or brownfield land prices will be 'reconciled equitably' with the established home market. It is presumed existing urban area homes and businesses will eventually access NBN through retrofit programs and that costs will also be 'recovered' from land owners. Cost and price impacts will be immediate in new developments, but price impacts will be less transparent in the existing home market, making the established areas a comparatively lower cost option for home buyers.

In summary, the NBN approach will add \$2,000 to \$4,000 to new land prices and conservatively up to a further \$1000 for 'internal' home fibre communications connection and 'wiring'.

LandCorp recommends revision to policy settings governing the cost recovery model proposed for NBN Greenfield and Brownfield developments, so the purchaser of land does not pay a disproportionate capital cost upfront.

5. WA Development Industry

In its simplest form, LandCorp would prefer to see the requirement to install fibre communications infrastructure being affected in a similar way to that which applies to other services (roads, water, power and sewer) in Western Australia.

As a condition of subdivision LandCorp is required to build the infrastructure (roads, power, water and drainage) to meet a prescribed set of specifications. The infrastructure within the estate would be built, inspected and certified as meeting the technical design specification and after testing, the infrastructure would be transferred to the appropriate body, with that subdivision infrastructure becoming part of that utilities network. It is presently unclear who LandCorp will transfer fibre infrastructure to once it has been constructed.

The total costs for trunk infrastructure upgrades (backhaul) or new infrastructure installations to the boundary of the estate would not be fully paid by the developer as the first mover, rather the infrastructure provider would prefund and recover costs as staged development (potentially by many land holders) progresses. Other infrastructure providers (eg power) have a costing model where a first mover pays a proportion but not the full cost on trunk upgrades.

LandCorp's engineers would have a precisely defined set of technical and design criteria (industry standards) which would inform subdivision design and LandCorp would continue to contract (via a competitive tender process), a "Prime Contractor" to who would subcontract specific fibre communications works to an accredited contractor. The prime would reticulate fibre throughout the estate and to individual connection domes for each lot. Various firms are now lobbying for LandCorp to competitively tender subcontracting arrangements.

LandCorp's sales and marketing information about the land would contain specific information about the nature of the communication services potentially accessible through the infrastructure within the estate and when it would become available.

The purchaser would advise their home builder on their fibre and communications needs within the home (and the builder would subcontract certified installers to take the connection from the dome into the home).

When the purchaser's home is completed, the owner/occupier makes contact with a service provider of their choice and makes arrangements for a range of communication services to be provided into the home.

LandCorp's preference is to work with a single network entity (such as the NBNC Co) with responsibility for trunk and subdivision reticulation and maintenance (and who meets costs through a variety of public and private funding sources rather than full cost recovery from land purchasers).

6. Further Information from LandCorp

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