



*Leading the Way...*

7th April 2008

## **SUBMISSION TO THE SENATE SELECT COMMITTEE ON HOUSING AFFORDABILITY IN AUSTRALIA**

**Drafted by: Adrian Ellson, Executive Office**  
**Cleared by: Allan Moles, Sponsoring CEO**

### **References:**

1. The Senate Select Committee on Housing Affordability in Australia, Terms of Reference, dated October 2007
2. Regional Price Index 2007, Department of Local Government and Regional Development, dated November 2007
3. Western Australian Local Government Act 1995

### **Preamble**

The Pilbara Regional Council is a statutory local government in accordance with the Western Australian Local Government Act 1995. The Shires of Ashburton, East Pilbara and Roebourne, and the Town of Port Hedland established the Pilbara Regional Council in May 2000 to address issues of regional interest and concern. Each member Council elects two Councillors, who meet together to form the Pilbara Regional Council.

The eight Councillors of the Pilbara Regional Council elect a chairperson. The current Chairperson of the Pilbara Regional Council is Councillor Lynne Craigie, who is also the Shire President of the Shire of East Pilbara.

The Pilbara Regional Council Executive consists of the four Member Council Chief Executive Officers (CEO) and the Executive Officer, Mr. Adrian Ellson, of the Pilbara Regional Council. The position of CEO of the Pilbara Regional Council is rotated on annual basis between the four CEOs. The current CEO of the Pilbara Regional Council is Mr. Keith Pearson, who is also the CEO of the Shire of Ashburton.

Work within the Pilbara Regional Council is allocated as evenly as possible to all CEOs and the Sponsoring CEO for preparation of this submission and the Pilbara Regional Council representatives appearing before the Committee's Hearing is Mr. Allan Moles, who is also the CEO of the Shire of Roebourne.

Councillors David Hipworth and Brad Snell have been delegated to represent the Pilbara Regional Council at the Senate Select Committee hearing in Karratha. Both Councillors come from the Shire of Roebourne, and Councillor Snell is also the Shire President of the Shire of Roebourne. Mr. Ellson has been assigned to support Councillors Hipworth and Snell as required. Councillor Hipworth has been delegated as the lead representative for the Committee's Hearing and all three gentlemen are authorized to provide comment if and as required.

A copy of the Senate Select Committee's terms of reference for its Inquiry into Housing Affordability in Australia is at Attachment 1. The matter of housing affordability is an important issue for Australia and a critical issue within the Pilbara at the present time.

The Pilbara Regional Council has reviewed and notes the submissions to Senate Select Committee listed on the Committee's Inquiry's website. The Council particularly notes:

- Submission 21 by Professor Fiona Mckenzie of the Housing and Urban Research Institute of Western Australia; and
- Submission 17 by Doctor Ron Silberberg of the Housing Industry Association.

Of all the comments and statements made within all the submissions, the Pilbara Regional Council, believes that the statement below provided by Mr Hugh Stretton (Submission 16), pertinently sums up the situation.

***"Housing is necessary material capital for developing human capital."***

We would like to add to this, that here in the Pilbara, despite the often referred to resource and construction booms in the Pilbara, that the Commonwealth's, State's and Industry's investment in housing stocks and community infrastructure has not been commensurate with that needed to support the expansion and sustainment of the mineral and petroleum sectors, or community growth. In terms of housing affordability, home ownership within the Pilbara is now limited to the governments, industry, selected investors and the very rich, and the same applies to rental properties.

### **Comments**

#### The Taxes and Levies Imposed by State and Territory Governments

The Pilbara Regional Council believes that any taxes and levies contribute to the cost of acquiring land and building or alternatively purchasing existing housing stock. Within the Pilbara this is not so much an issue or driver, as the lack of housing stock in the region.

#### The Rate of Release of New Land by State and Territory Governments

When considering the Pilbara, the Senate Select Committee should be cognizant that the Pilbara is, in many ways abnormal to the remainder or at extreme end of Australia when it comes to housing affordability. The paragraphs below from the Regional Price Index 2007 produced by the Department of Local Government and Regional Development (DLGRD) demonstrate why.

*"The 2007 Regional Prices Index for Western Australia was produced by the Department of Local Government and Regional Development. This Prices Index should be considered in isolation from any other index past or present, as it compares a unique basket of goods and services using a unique set of commodity weights.*

*The aim of the project was to price a basket of goods and services, of 250 items, in Perth and compare this to the same goods and services priced at 21 locations around the State, as a means of gauging the differences in the cost of goods and services. The differences between these costs were measured using indices, with Perth being the base (100).*

*The Pilbara was +20.1 per cent higher than Perth, resulting from the weighted average value for Karratha, which was +23.1 per cent higher and Port Hedland +17.6 per cent greater than Perth. On investigation, the higher commodity prices in the Pilbara region were mainly due to the goods and services in the two categories of **housing** and **recreation and education**.*

*In 2007, the cost of **housing** was highest in the Kimberley and the Pilbara, at +27.1 per cent and +49.0 per cent respectively, and these were believed to be due to the mining boom. ...."*

The Committee should note that DLGRD found that Karratha's Price Index for Housing was the highest in the State at +55.1%. Currently in Karratha, the selling price of a modest four bedroom two bathroom house is in excess of \$1,000,000, with a rent return in excess of \$2,000 per week. The rent on a modest three bedroom, one bathroom house is in excess of \$1,000 per week. The average person cannot afford these prices.

The lack of affordable housing in the Pilbara is a reflection of a lack of housing in the region. The so-called resource and construction boom initiated and gained momentum before the State Government's planning processes equally geared up. Notwithstanding that the Commonwealth and State Governments were negotiating with the mineral and petroleum sector on future projects, the lack of communication between Government agencies resulted in land not being available for permanent or transient residential purposes in a timely manner.

Eventually, the land did become available for residential purposes; however, by this time, the resource and construction companies had absorbed all the local builders, electricians, plumbers, etc in to their workforces. Accordingly, when the land did become available, there was nobody available to build houses.

To further complicate the matter, the resource and construction companies, in need of employees, adopted the practice of flying in and out their employees, and whilst in the Pilbara, housing these employees in what would otherwise have been residential and tourist accommodation.

Simply put the lack of housing stock coupled with resource and construction companies consuming residential housing and tourist accommodation, and for these companies being prepared to pay premium prices, has rocketed the prices of houses, rentals and other forms of temporary accommodation in the Pilbara. Long-term local residents are now leaving the region because of the high cost of living in the Pilbara and the ability to gain premium prices for house sales and rentals.

This matter could be discussed at length and there could be much finger pointing; however, the lesson learnt is better communications within and between Government Departments, and much better early planning. To this end, the Pilbara (Commonwealth, State and local Governments, and Industry) are now working in unison under the lead of the State Department of Planning and Infrastructure to develop a forward-looking settlement strategy for the Pilbara. Work is still under way but the preliminary settlement strategy has already identified gaps in future housing needs, which are now being addressed by Landcorp.

There remains the issue that part of Landcorp's charter is to make a profit for the State Government. While this remains a goal of the organization, there is and always will be a tendency to hold land to push land prices up. Worse still would be any situation where employee performance indicators are linked to this corporate performance measure, as this would be a personal motivator to impede land release, especially if there was a dollar value bonus linked to higher profit returns for the Government. The Pilbara Regional Council has no visibility of the employment contracts of any individuals within Landcorp, the comments here are generalization, it is the principle of profit and its impact on land release that is being made.

#### Proposed Assistance for First Home owners by State, Territory and the Commonwealth Governments and their Effectiveness in the Absence of Increased Supply

Another uniqueness of the Pilbara is its high numbers of indigenous people. This is of significant concern to local government, because the majority of our indigenous people are either unemployed or working in the work force at the lower end of the skills range because of their educational levels, and hence have lower incomes. This is not a slight on the indigenous people of the Pilbara, it is a fact related to the matter that the last of the nomadic aboriginals walked out of the desert here, in the Pilbara in the late 1960s, and a number of these people are still alive today. There is still a way to go in the socio-economic development of our indigenous people, and governments and industry are providing assistance wherever they can.

Of concern to this inquiry, is the desirability of encouraging Aboriginal people and other disadvantaged groups into home ownership but for there to be realistic housing price levels for the various first home buyers/Aboriginal housing schemes that reflect local conditions.

The Department of Housing and Works (DHW) has the charter for providing housing to low income earners. There are various schemes available for these people to be able to purchase the house that they are living in; however, the purchase price is linked to the housing market. For example, DHW may have built a house in 2004 for \$200,000 but the equivalent sales price in 2008 is \$700,000. The person who lives in the house and would like to purchase the house is expected to pay a price based on the current market value (\$700,000) rather than a price based on the \$200,000 indexed by some percentage each year. For example: a house built 2004 for \$200,000 with an index of 15% per year.

2004	\$200,000
2005	\$230,000
2006	\$264,500
2007	\$304,175
2008	\$349,801

While this is a simplistic example, it does demonstrate that the State Government can get a reasonable return on its investment while still assisting low-income earners purchase their first home. The percentage return should be based on Commonwealth Bonds or equivalent interest return measure.

The other area of concern is that these same first home owners do not appreciate the costs of owning their home. Many have come to grief when moving from public housing tenant to private owner because of a lack of awareness of the cost of maintenance, rates, water etc. Homeswest addressed these issues, either automatically or on request from the tenant. Accordingly, there needs to be better awareness training on home maintenance to assist these people move from renting to home ownership, and possibly some financial training.

#### The Role of all Levels of Government in facilitating affordable Home Ownership

Local government has no role in assisting people purchase or rent homes, other than its own employees. Furthermore, we appreciate that local government is often criticized when it comes to development levies associated with new estates. These have to be imposed to cover the cost of providing community infrastructure such as footpaths, libraries, community halls, ovals, etc. The calculated cost is based on design, purpose and dwelling density.

The issue for the Pilbara and elsewhere in Western Australia is not that we have to impose development levies but that we also have to impose higher levels of rates or deliver lesser quality services because the State's local governments cannot properly rate resource companies operating under pre 2005 State Agreements. This is prohibited via the following clauses from the Western Australian Local Government Act 1995.

#### **6.29. Valuation and rates on mining and petroleum interests**

(1) *Subject to subsection (2), if a mining tenement held under the Mining Act 1978 (whether within the meaning given to that term by that Act or by the Mining Act 1904 3) or a petroleum production licence or exploration permit held under the Petroleum Act 1967 is located in an area for which the basis for rates is the gross rental value of the land the local government is to rate the tenement, licence or permit, as the case may be, at the unimproved value.*

(2) *If a tenement, licence or permit referred to in subsection (1) is located in a district for which only rates on the basis of gross rental values apply, the local government is to impose a rate on the basis of unimproved value for the purpose of subsection (1).*

#### **6.30. Valuation of and rates on certain land**

(1) *Subject to subsection (2), the owner of any land —*

*(a) held or granted pursuant to a Government agreement, which agreement provides that for the purposes of imposing rates under this Act, the land is to be assessed on the unimproved value thereof; or*

*(b) held under a production licence for petroleum granted under the Petroleum Act 1967, and to whom this section applies by virtue of the*

operation of section 533AA of the Local Government Act 1960 4 as in force before the commencement of this Act is to have the land valued for the purpose of imposing rates under this Act on the following basis —

\$1.00 per 4 000 square metres for each of the first 40 000 hectares or part thereof;

\$0.75 per 4 000 square metres for each of the second 40 000 hectares or part thereof;

\$0.50 per 4 000 square metres for each of the third and fourth 40 000 hectares or part thereof;

\$0.25 for each 4 000 square metres in excess of 160 000 hectares.

(2) This section does not apply to any part of the land upon which —

(a) there is erected a dwelling house; or

(b) there stand any improvements that are used in connection with a commercial undertaking other than that of the person for the time being entitled to the benefit of the agreement referred to in subsection (1)(a) or the production licence for petroleum referred to in paragraph (b) of that subsection.

For those people choosing to live in the Pilbara, they currently have to pay higher rates and charges to offset the maintenance and renewal costs incurred from the resource companies accessing and using Pilbara's community infrastructure because these companies cannot be properly rated. The royalties and rents being paid by the resource companies end up in the Commonwealth and State coffers, with very little being returned to local governments for service and asset maintenance, renewals and developments. This has been a matter of contention for many years now.

In November 2004, the Standing Committee on Public Administration and Finance in its review of the **Local Government Rating System and Distribution of Funds**, recommended:

- *“That if there are to be future State Agreement Acts that:
 
  - they do not automatically impose rating restrictions on local government authorities, and
  - the State will not generally seek to include such provisions in State Agreement Acts”<sup>1</sup>;*
- *“That the State should immediately provide funding support, on a needs basis and with full accountability, to the affected local government authorities in regional areas of Western Australia, in a manner that does not impact on the local government authorities' grants. This funding support should continue until such time as the problems affected local government authorities, identified in this report, are resolved”<sup>2</sup>; and*
- *“That, in relation to existing State Agreement Acts, the State Government should enter into negotiations with the parties to the State Agreement Acts, with a view to negotiating a restitution to negate the impact of the rating restrictions imposed on certain local government authorities under the State Agreement Acts”<sup>3</sup>.*

The State Government in response to the above stated that the above would be included and addressed within the 2004 State Agreement Rates and Planning & Building License Study. This study was to be completed in October 2005, but as of today's Hearing, it still has not been completed and nor is an end date in sight.

<sup>1</sup> Report of the Standing Committee on Public Administration and Finance in relation to Local Government Rating System and Distribution of Funds, November 2004, p22

<sup>2</sup> *ibid*, p66

<sup>3</sup> *ibid*, p66

### The Effect on the Market of Government Intervention in the Housing Sector including Planning and Industrial Relations Laws

The Pilbara Regional Council believes that part of the challenges associated with land being released is heritage and native title clearance. These clearances can take some time to get, and in the case of heritage the clearance lapses after five years. The Council believes that the State Government needs to establish land banks of cleared land that is either handed over to and be managed by local government or be readily accessible by local government. The availability of land banks would have had offset many of the initial delays associated with the lack of communications between Government Departments referred to above (page 3).

### The Role of Financial Institutions in Home Lending

The Pilbara Regional Council believes that the Senate Select Committee should look towards the banks, financial institutions and other mortgage lenders. These institutions lending and borrowing practices directly impact on house affordability through mortgage interest rates. For example, recent increases in mortgage rates by the banks is claimed to be needed because of the 'credit squeeze' in the United States; however, there is a lack of transparency as to whether this is as a result of borrowing or investment.

The Pilbara Regional Council's concern is that the banks, financial institutions and other mortgage lenders may be cost shifting investment losses from the United States to home loans within Australia. The costs associated with bailing out investments should be born by these institutions shareholders not their clients. The Senate Select Committee is encouraged to examine this matter as part of its inquiry, and if found to be the case, seek provision prohibit this type of cost shifting

### The Contribution of Home Ownership to Retirement Incomes

The Pilbara Regional Council believes that early home ownership contributes significantly to a persons quality of life when they retire, and therefore supports any efforts that can facilitate early home ownership. This said, the Pilbara Regional Council has no specific comment to make with regard to this specific issue.

### **Conclusion**

As expressed by Mr. Hugh Stretton '***housing is necessary material capital for developing human capital***'. Here in the Pilbara, the Commonwealth and State Governments, and Industry need to invest more in housing stocks, community infrastructure and community growth, if this region is to continue to be Australia's major export district. To do any less will result in continued and increasing housing costs and may result in further population loss and unsustainable business. It is only through establishing and sustaining balanced communities and growth that housing affordability can be maintained over the long term.

The Pilbara Regional Council thanks the Committee for the opportunity for the Pilbara to express its thoughts, views and opinions.

The PRC point of contact regarding this submission is the Executive Officer, Mr. Adrian Ellson, and he can be contacted via 08 9187 0687, 0428 940 632, [prc@roebourne.wa.gov.au](mailto:prc@roebourne.wa.gov.au) or [usellsons@dodo.com.au](mailto:usellsons@dodo.com.au).

**TERMS OF REFERENCE:**

That a select committee, to be known as the Select Committee on Housing Affordability in Australia be established to inquire into and report upon:

The barriers to home ownership in Australia, including:

- a. the taxes and levies imposed by state and territory governments;
- b. the rate of release of new land by state and territory governments;
- c. proposed assistance for first home owners by state, territory and the Commonwealth governments and their effectiveness in the absence of increased supply;
- d. the role of all levels of government in facilitating affordable home ownership;
- e. the effect on the market of government intervention in the housing sector including planning and industrial relations laws;
- f. the role of financial institutions in home lending; and
- g. the contribution of home ownership to retirement incomes.

That the committee present its final report on or before **16 June 2008**.