

# **Auditor-General's Report**

## **Residential Land Supply and Development Report No. 2 / 2011**

**February 2011**





## ACT AUDITOR-GENERAL'S OFFICE



PA 10/06

The Speaker  
ACT Legislative Assembly  
Civic Square, London Circuit  
CANBERRA ACT 2601

Dear Mr Speaker

I am pleased to forward to you a Performance Audit Report titled '**Residential Land Supply and Development**', for tabling in the Legislative Assembly, pursuant to Section 17(5) of the *Auditor-General Act 1996*.

Yours sincerely

Tu Pham  
Auditor-General  
24 February 2011



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## **LIST OF ABBREVIATIONS AND GLOSSARY**

ACTEW	ACTEW Corporation Limited
ACTPLA	ACT Planning and Land Authority
AHAP	The ACT Government's Affordable Housing Action Plan
Certificate of Occupancy	Final clearance by ACTPLA to permit use of a building by the occupier
CMD	ACT Chief Minister's Department
DA	Development application, lodged with ACTPLA
DECCEW	ACT Department of the Environment, Climate Change, Energy and Water
DHCS	ACT Department of Disability, Housing and Community Services
EDP	Estate Development Plans, submitted to ACTPLA by the developer, prior to the lodgement of the DA
EIS	Environmental Impact Statement
englobo	Unserviced land released to the private sector for servicing and sale
EPBC Act	Commonwealth <i>Environment Protection and Biodiversity Conservation Act 1999</i>
greenfield land	Land that has or previously had a non-urban use and is proposed to be developed or being developed for urban development
Hawke Review	2010 Review of ACT Government Public Sector Structures and Capacity by Dr Allan Hawke
ILRP	Indicative Land Release Program, established to define annual targets
Joint Venture (JV)	Arrangement between the LDA and a commercial development partner(s) to develop land for release
Land Rent Scheme	The Land Rent Scheme is a initiative within the ACT Government's Affordable Housing Action Plan. The Scheme allows a purchaser of an LDA estate block to make lease payments over the term of the lease, rather than as a capital payment upfront.
LAPS	ACT Department of Land and Property Services
LDA	ACT Land Development Agency
OwnPlace Program	A program managed by the LDA to supply house and land packages within the affordable housing pricing range to eligible purchasers
PD Act	<i>ACT Planning and Development Act 2007</i>

## List of abbreviations

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shovel-ready land	Serviced land that is ready to be built on
TAMS	ACT Department of Territory and Municipal Services
TBL	Triple-bottom-line. TBL reporting includes reporting on social, environmental and financial aspects.
Territory Plan	The key statutory planning document in the ACT, which provides the policy framework for the administration of planning in the ACT
Treasury	ACT Treasury
Trunk pipeline	The installation of infrastructure (e.g water, electricity and sewerage mains) up to the boundary of a new land development
urban infill	Land located within existing urban areas, which has previously been used for urban use

# **1. REPORT SUMMARY AND CONCLUSIONS**

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## **INTRODUCTION**

- 1.1 This report presents the results of a performance audit that reviewed the processes for supplying and developing land for residential purposes and their effectiveness in delivering government objectives.
- 1.2 Managing the supply and development of land within the ACT is a complex activity, which involves inter-relationships between various government agencies, private enterprises and the ACT community. A wide variety of considerations need to be taken into account, including social considerations, environmental considerations and financial and budgetary interests of the ACT Government. ACT Government agencies are often managing competing interests in the discharge of responsibilities for the supply and development of land.
- 1.3 A number of ACT Government agencies have specific responsibilities for land supply and development, including:
  - the Department of Land and Property Services (LAPS);
  - the Land Development Agency (LDA);
  - the ACT Planning and Land Authority (ACTPLA); and
  - the Department of Territory and Municipal Services (TAMS).
- 1.4 The Department of Disability, Housing and Community Services (DHCS) also has a large land holding, used to provide housing services to people with greatest needs and community services to the broader ACT community. DHCS is not directly involved in land supply and development.
- 1.5 The importance of land supply and development to the ACT community, including the revenues that are generated for the ACT Government, means that the Chief Minister's Department (CMD) and the ACT Treasury (Treasury) also have a role in managing aspects of land supply and development.
- 1.6 Audit appreciated the cooperation and assistance of all ACT Government agency staff during this audit, and the input provided by key stakeholders from the industry.

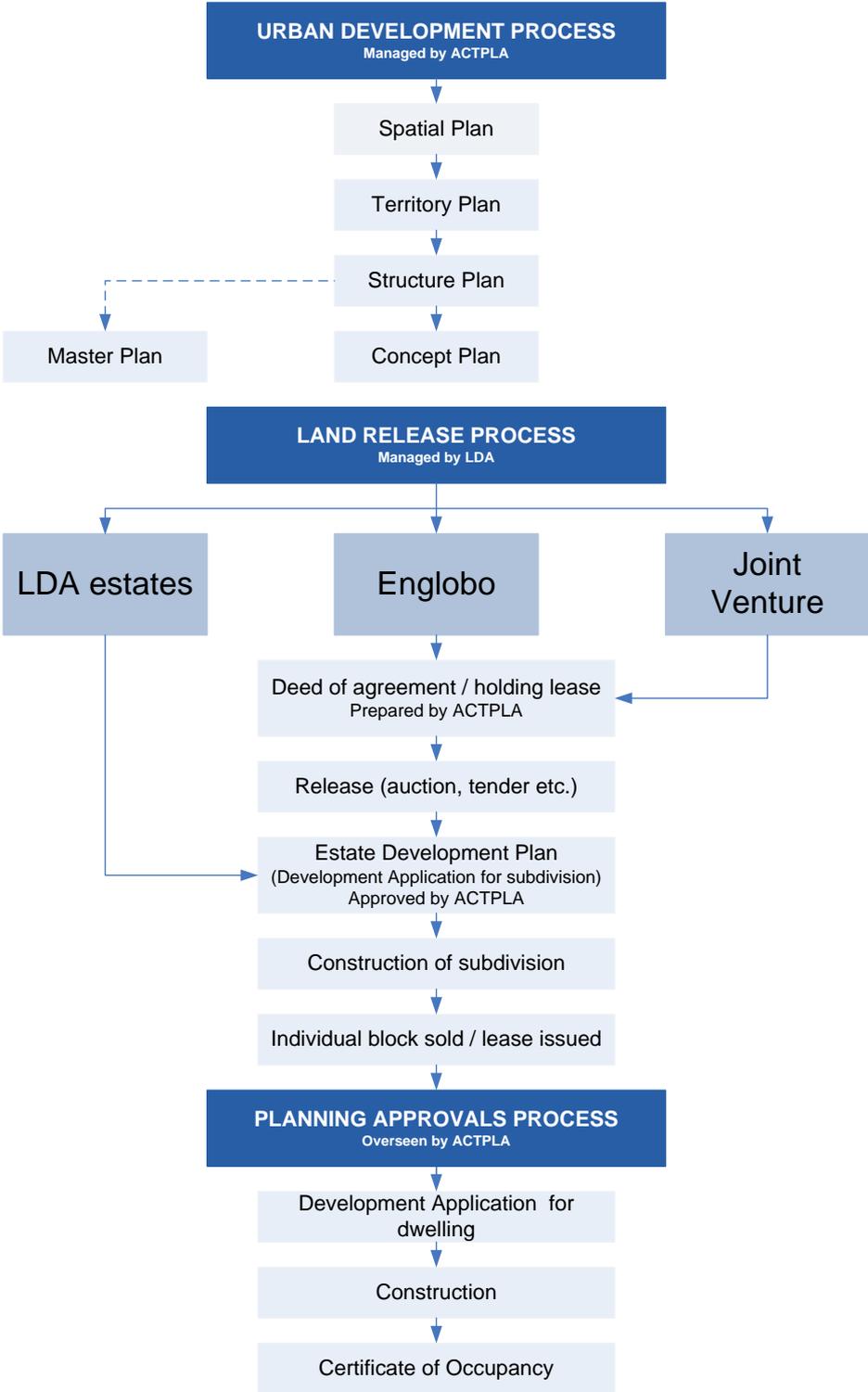
## **BACKGROUND**

- 1.7 Land development is the process of converting land into construction-ready sites for future residential, commercial or industrial use. It involves preparing the land for building construction and adding infrastructure such as roads, utilities and sewerage infrastructure.
- 1.8 Land development may be characterised as greenfield development or infill development (which is also known as urban renewal). Greenfield land is a term used to describe a piece of previously undeveloped land, in a city or rural area,

either currently used for agriculture, landscape design or left in its natural state. Infill refers to land that has previously been developed for another use.

1.9 Figure 1.1 demonstrates the general process for urban development and supply of land for residential purposes within ACT greenfield sites.

**Figure 1.1: Land supply and development process**



Source: Audit Office diagram from ACTPLA and LAPS documents

## AUDIT OBJECTIVE

1.10 The objective of the audit was to provide an independent opinion to the Legislative Assembly on the effectiveness of the processes for supplying and developing land for residential purposes in delivering government objectives. This included consideration of:

- planning processes to develop the ACT Government's Indicative Residential Land Release Program;
- the delivery of the ACT Government's Indicative Residential Land Release Program against agreed targets and timeframes; and
- the achievement of financial, social and environmental objectives for the residential land development programs.

## AUDIT CONCLUSIONS

- Residential land supply and development within the ACT is a complex activity, which involves several ACT Government agencies and methods of land supply, including through LDA estates, private developer estates and joint venture estates.
- Inter-agency coordination has improved in recent years. There have been increased efforts and commitment by all agencies to accelerate the land release program to respond to unmet demand from past land release processes and on-going strong demand for residential dwelling sites.
- Notwithstanding recent improvements, the land supply and release process and programs to date have not been effective in achieving the Government's stated objectives, which include meeting demand, providing affordable land and housing and establishing an inventory of serviced land.
- There was scope for improvement in strategic management, monitoring of industry activity and adopting a robust approach to identifying and responding to residential land demand. There is also a need for clear reporting on the supply of 'shovel-ready' land to the market, to provide more certainty to stakeholders in the industry and to the ACT community.
- The LDA has a strong financial management focus that facilitates the achievement of its identified financial objectives and targets for its development activities. However, public reporting and accountability for LDA's performance in meeting the social and environmental objectives of Government was inadequate. Although the LDA recently developed an Environment and Sustainability Framework, it is too early to assess its implementation in new estates.
- The Affordable Housing Action Plan sets out social objectives and outcomes for land supply and development, and has been a key influence on the activities of various ACT Government agencies. Since its introduction in April 2007, there have been some good results, but there is scope for improvement in implementing some initiatives and in identifying measurable targets for specific initiatives and risk management.

### KEY FINDINGS

1.11 The audit conclusions are supported by the following findings:

#### Processes for the supply and release of residential land (Chapter 2)

- In recent years, the ACT Government's accelerated land release programs have led to a significant escalation of land supply and release activity. The increased workload has placed increased pressure on existing agency resources as well as inter-agency relationships and protocols.
- LAPS has assumed responsibility for land supply and development policy and inter-agency coordination, and these roles were outlined in the Administrative Arrangements Orders (AAO) in 2009 and 2010. However, in practice, there remains some uncertainty with respect to the specific roles and responsibilities of LAPS, the LDA and ACTPLA, particularly with activities that occur at the boundary of the different agencies' legislative responsibilities.
- Various inter-agency governance committees and working groups were established in early 2010 to facilitate communication across the agencies, and this has led to some improvement in inter-agency communication. However, there is a need to improve knowledge of relevant staff of the inter-relationship of these groups and formal processes for escalating issues of concern for decision or action within these groups.
- ACT Government agencies have not used a robust model in identifying residential dwelling demand, including comprehensively assessing key underlying factors and their potential impact on the Indicative Land Release Program (ILRP). While forecast models have limitations, it is better practice to use such a model as a starting point to provide a more rigorous analysis of relevant assumptions and information to better inform decision making processes.
- Agencies have consistently under-estimated the apparent demand for residential dwellings within the ACT, and ACT Government land release targets have been significantly and frequently revised upwards in recent years. Despite the current accelerated land programs, there was evidence of a shortage of the supply of residential land, capable of being built on, to meet the pent-up and on-going strong demand.
- ACT Government agencies have not yet developed robust mechanisms for monitoring developers' and builders' pipelines, which was a key requirement under the Affordable Housing Action Plan. More effective monitoring of developers' and builders' pipelines would assist in identifying future land release volumes.
- In addition, to improve transparency, more information should be made available to key stakeholders and the ACT community on the supply and release of residential land, including the volume of land that is zoning ready, planning ready, release ready and building ready.

### Managing the supply and release of residential land (Chapter 3)

- There was a comparatively low level of residential land released in 2004-05 and 2005-06 (468 and 780 dwelling sites respectively), before land releases were significantly escalated in subsequent years. In 2009-10, land for 4 297 dwelling sites was released.
- The LDA has exceeded its land release targets since 2007-08, but there is a lack of clarity and transparency in land release figures. The LDA data on land release does not necessarily equate to the release of shovel-ready blocks. Better defined targets and measures would provide more accurate information on the status of land release and supply of 'shovel-ready' land for building activity. This would also be consistent with the intention of the land release programs to achieve an inventory of serviced land.
- The LDA is supplying blocks from LDA estates where development and civil works are yet to be completed. Settlement periods for land supplied through these estates may be as long as 18 months. While there are advantages for some buyers arising from the long lead time between the purchase of blocks and settlement of sale contracts, there are various risks associated with this process, particularly from the ACT's Land Rent Scheme, which has seen a significant increase in its take-up.
- There were significant concerns raised by industry stakeholders regarding the lack of 'shovel-ready' land and the long lead times to access the land for construction.
- Due to levels of pent-up demand and the need to supply land as quickly as possible, the LDA has not established quarterly targets for over-the-counter sales, nor does it conduct regular over-the-counter sales for blocks from LDA estates, as required under the Affordable Housing Action Plan.

### Meeting financial objectives of residential land supply and release (Chapter 4)

- The LDA's organisational objectives and key priorities, as articulated in its annual Statement of Intent, are supported by overall financial-related KPIs. However, the financial KPIs are not adequate to assess the LDA's specific performance and achievements for a range of its land development activities and methods of deliveries, namely the LDA's own estates, joint ventures or englobo land sales.
- In 2009-10 the LDA met or exceeded its identified financial-related KPIs. However, as a commercial operation, the LDA was not subject to normal commercial risks. For example:
  - the LDA is not required to pay TAMS for the land until individual blocks are settled with end-purchasers and is therefore able to minimise any borrowing or finance costs;
  - organisational overheads and administrative costs are not attributed to projects; and
  - the LDA itself determines the cost of land payable to TAMS, which does not always reflect independent valuations.
- The LDA's capacity to determine the cost of land payable to TAMS, which allows the LDA to achieve a guaranteed profit of 20 percent on its non-LDA developed land, including englobos and direct sales, can reduce incentives to control its costs

to achieve efficiency.

- LAPS has not sought to independently benchmark the LDA's development costs, as required by the Affordable Housing Action Plan. Doing so would provide the Government with greater assurance that the LDA's key businesses are efficiently managed, and would provide a stronger and transparent basis for Government to make strategic decisions about future land releases.
- There is a lack of comparative analysis of the results of the different methods of delivery of land release, including their merits and shortcomings in meeting competing financial, social and environmental objectives. Consequently, there is no robust process for LAPS to inform the Government's decision on an appropriate mix of land releases by different delivery methods, or any trade-off required to deliver competing government priorities.

### Meeting social objectives of residential land supply and release (Chapter 5)

- The 2007 Affordable Housing Action Plan (AHAP) sets out social objectives and outcomes in relation to land supply and development, and has been a key influence on activities of various ACT Government agencies. AHAP initiatives were principle-based, and hence were phrased generally, with an expectation that these would be articulated into clear and measurable targets and indicators within Statements of Intent of the LDA and Statements of Performance of ACTPLA and other agencies. This did not occur for many AHAP initiatives.
- There were some good results achieved for the supply of affordable blocks. Between the introduction of the AHAP and June 2010, 238 blocks supplied through LDA estates have been settled for less than the affordable housing threshold of \$120 000. In 2009-10, 135 blocks were settled for less than \$120 000, which exceeded the then 10 percent target for land supplied in LDA estates within the affordable housing range. Most blocks supplied within this threshold are OwnPlace Program blocks.
- The LDA has implemented affordable housing targets in the Deeds of Agreement for englobo land releases, requiring the private sector developers to provide 15 percent of their dwelling blocks for affordable house and land packages. These requirements are enforced by ACTPLA. Since 2007, the LDA has also commenced incorporating affordable housing targets into its LDA estate releases. Due to timing differences between release and settlement (discussed in Chapter 3) not all of these releases have been translated into the actual supply of affordable house and land packages to the market. Over the two years since the introduction of the OwnPlace Program and June 2010, 247 OwnPlace blocks have been sold to builders, and only 112 of these blocks have since been released to eligible purchasers.
- The Land Rent Scheme, introduced in July 2008, allows buyers/lessees to make lease payments for LDA estate blocks over the term of the lease rather than as a upfront capital payment, (4 percent annually on the value of the land, or a discount 2 percent for eligible buyers), thus aiming to improve housing affordability.
- Under the current Government policy, all buyers of LDA land (regardless of income) can access the Land Rent Scheme. Purchasers, including owner-occupiers, builders and investors, can hold multiple blocks (maximum 5 blocks),

and can unilaterally rescind the sale contract without any penalty or conditions prior to settlements.

- At the time of the audit, there has been a cancellation rate of 12.4 percent on these Land Rent contracts. There has also been an increasing proportion of LDA land releases being sold under this scheme, and in November 2010, the value of unsettled land rent block was about \$133 million, which is subject to potential contract cancellations.
- The current rate of contract cancellations, combined with the LDA practice of supplying blocks within its estates with long settlement periods creates a number of risks to the land development and supply process, and has financial and budget implications, including:
  - no certainty for the LDA when entering into Land Rent contracts in terms of sales and revenue;
  - the difficulty to re-sell these blocks, if this happens at a time when a range of other estates are beginning to come on line and sell blocks;
  - considerable administrative inefficiency as the LDA needs to re-sell these blocks possibly multiple times, incurring additional costs such as marketing and legal registration of their Land Rent leases;
  - increased compliance and enforcement costs to ensure individuals and companies comply with the Scheme; and
  - increased uncertainty with respect to forecasting revenue for the ACT Government.
- As at January 2011, the ACT Revenue Office administered 54 Land Rent leases at a standard rate, and 34 leases at a discount rate to eligible low income lessees.

### Meeting environmental objectives of residential land supply and release (Chapter 6)

- The ACT Government adopted a new approach to comply with the *Environment Protection and Biodiversity Conservation (EPBC) Act* for the Molonglo residential development, which involved a strategic assessment for the entire estate, rather than having an EPBC referral for each individual suburb development.
- There were significant delays to the completion of the EPBC strategic assessment, which was commenced by ACTPLA in September 2008, and was yet to be resolved. This has delayed land release and development processes in Molonglo and has impacted achievements against land release targets. To facilitate land releases, agencies took action to excise specific suburbs from the overall strategic assessment and separately pursued EPBC referrals for Wright and Coombs. However, continuing delays to the strategic assessment place at risk future land releases.
- The LDA has not identified measurable environment and sustainability indicators in its Statement of Intent to enhance its accountability for its environmental and sustainability performance. The LDA's current narrative and general discussion in its annual report about the application of ESD principles to their business activities can be improved with reporting against specific measures and targets.

- Unlike the financial matters, the LDA did not routinely monitor or report on project-specific environment and sustainability initiatives to the Board.
- The LDA has recently developed an Environmental and Sustainability Framework, which is comprehensive, but it is too early to review its application to the LDA's developments. Consistent application of the Framework to all LDA land development activities and key business processes should assist in contributing to achievement of the environment and sustainability objectives.

### RECOMMENDATIONS AND RESPONSE TO THE REPORT

- 1.12 The audit made thirteen recommendations to address the audit findings detailed in this report.
- 1.13 In accordance with section 18 of the *Auditor-General Act 1996*, a Proposed Report was provided to the Chief Executives of the LDA, LAPS and ACTPLA for consideration and comments. Relevant sections of the Proposed Report were also provided to ACT Treasury for comments.
- 1.14 The Chief Executives' overall responses are shown below:

#### Response from the Chief Executive of the LDA

*I welcome the Report and specifically note the report's conclusion that the LDA has a strong financial management focus and the finding that the LDA has exceeded its land release targets since 2007-08. I also note that the audit did not identify any inefficiencies in LDA's operations.*

*The Report, however, does not adequately analyse or recognise the LDA's performance and significant achievements in effectively responding to the Government's accelerated land release program and other policies. In large part, the Report appears to focus on increasing the range of performance indicators, rather than assessing the demonstrated performance against the program and policy objectives and deliverables specified by the Government in LDA's annual Statements of Intent. In this context, the Report's discussion on affordable housing only covers a limited range of the LDA's activities in this area, and is silent on successful projects such as the demonstration villages in Franklin and Dunlop.*

#### Response from the Chief Executive of LAPS

*I welcome the report and support the thrust of the recommendations.*

*The Report as a performance audit, however, does not adequately recognise the performance and significant achievements of Government Agencies in developing and effectively responding to the Government's accelerated land release program and other policies. The Report focuses on a range of additional reporting requirements without appropriately acknowledging the delivery of land during a period where demand for land increased due to many factors including the first homebuyers grant and boost, affordable housing action plan, increase in net migration, and the increase in Commonwealth employment. All States and Territories have been required to increase land supply and the ACT was one of the best performers in the delivery of land during this period.*

*The Report also does not fully discuss the benefits of the Government Land Rent Scheme and does not assess the performance of the Scheme in the context of affordable home ownership.*

#### **Response from the Chief Executive of ACTPLA**

*The ACT Planning and Land Authority (ACTPLA) acknowledges the audit's findings and agrees with those recommendations that have a direct bearing on it.*

#### **Response from the Chief Executive of Treasury**

*The Audit has noted that it has not fully examined the costs and the benefits of the Land Rent Scheme. In principle, any discussion of the risks or costs needs to be in the context of the policy objectives and benefits of the program.*

- 1.15 In addition, the Chief Executives provided responses to each recommendation, as shown below.

#### **Recommendation 1 (Chapter 2)**

ACT Government agencies, including LAPS, the LDA and ACTPLA, should further develop formal governance documents, e.g. Memoranda of Understanding, to clearly outline roles, responsibilities and accountabilities for the land supply and development process.

#### **LDA's response:**

**Agreed** - noting existing documentation of the relationship between LDA and LAPS referred to in the Report.

#### **LAPS' response:**

**Agreed** - the further development of governance arrangements and clarity of roles has been continuing through the committee process (established for governance purposes) and will proceed, taking into account administrative arrangements arising from the Hawke Review.

#### **ACTPLA's response:**

**Agreed** – ACTPLA has previously prepared a memorandum of understanding with the Department of Land and Property Services and is awaiting comments back in order that this can be finalised.

**Recommendation 2 (Chapter 2)**

LAPS should disseminate relevant information associated with various inter-agency governance committees and working groups to agencies to increase awareness of the roles of these groups. This could include:

- (a) articulating clear processes on how the groups should work together and coordinate issues for review, consideration and decision; and
- (b) clarifying the authority, if any, of the committees to make decisions on various land development and planning matters.

**LDA's response:**

**Agreed.**

**LAPS' response:**

**Agreed** - LAPS will again articulate the agreed terms of reference, roles and process that currently support the committee structure with relevant agencies.

**Recommendation 3 (Chapter 2)**

LAPS should publish detailed information on the ACT Government land development and supply strategy, including the factors considered and assumptions made in developing future land release programs. Such information should lead to better understanding by ACT Government agencies and public stakeholders, such as the community, developers and builders, of the decision making process.

**LDA's response:**

**Agreed.**

**LAPS' response:**

**Agreed** - LAPS agrees to publish more detailed information on the assumptions that support the land release program.

**Recommendation 4 (Chapter 2)**

LAPS should develop a more rigorous model to assist in assessing future residential land release targets under the Indicative Land Release Program. The model should identify the underlying factors impacting demand and supply of residential land, compiling and analysing relevant data to better inform the decision-making process.

**LDA's response:**

**Agreed** - noting that the underlying factors impacting demand are numerous, market demand can be highly volatile over relatively short timescales and statistical data are

largely lag indicators. Numerical models need to be supplemented by the exercise of professional judgement in determining specific targets.

**LAPS' response:**

**Agreed in part** - LAPS undertakes its own demographic analysis, monitors dwelling supply, considers the forecasts by the ABS and other public and private authorities, monitors price movement and other leading indicators and seeks regular advice from private sector stakeholders and local industry experts as input into its determination of demand. It needs to be recognised that the demand drivers in the ACT for housing have over recent years been volatile due to exogenous factors such as the Commonwealth Budget and recruitment policies, the Global Financial Crisis, first home owners assistance and net immigration. A model to determine future land release targets will always require the exercise of professional judgement.

**Recommendation 5 (Chapter 2)**

In accordance with Affordable Housing Action Plan, LAPS in conjunction with ACTPLA, should develop more robust mechanisms for compiling and monitoring the developers' and builders' pipelines.

**LDA's response:**

**Agreed.**

**LAPS' response:**

**Agreed** - noting work has already commenced on this matter.

**ACTPLA's response:**

**Agreed** – the on-going development of the eDevelopment platform within ACTPLA has the capacity to improve reporting for the developers' and builders' pipeline, however, the focus to date has been to establish electronic development assessment and building approval functions that already increase the capacity for more accurate reporting on the pipeline. Additionally, the data warehouse project, currently under way, will enable the aggregation of data from across the Authority and enable a much greater capacity to analyse and report on activity and trends.

**Recommendation 6 (Chapter 3)**

The LDA should identify and report against better defined and additional measures for land release, which include the supply of shovel-ready blocks within LDA and joint venture estates.

**LDA's response:**

**Agreed in principle** - noting the LDA currently reports against clearly defined measures agreed with the policy departments and specified in the LDA's annual Statements of Intent.

The LDA considers that an appropriate additional measure of dwelling unit sites that are ready for settlement and building construction to commence would be of value.

### LAPS' response:

**Agreed in part** – LAPS notes that LDA already reports against a range of defined measures as specified in its Statement of Intent. Further measures will be considered in the context of providing appropriate and measureable information for various stages of the land development pipeline.

### Recommendation 7 (Chapter 4)

The LDA should include additional financial indicators in its Statement of Intent, to improve accountability regarding the various methods of delivery for land releases. Financial indicators should be developed and reported separately for LDA estates, joint ventures and englobo sales.

### LDA's response:

**Agreed** - the LDA monitors a number of other financial indicators relating to individual estates and developments. Subject to any commercial-in-confidence considerations, these indicators will be considered for public reporting purposes to meet the intent of the recommendation.

### LAPS' response:

**Agreed in principle** – LAPS considers the current financial indicators are appropriate. Additional financial indicators will be considered, including indicators that may compare the different release mechanisms.

### Recommendation 8 (Chapter 4)

LAPS should advise the Government on an appropriate agency to assume responsibility for managing the valuation process and determining the appropriate value of land that is supplied to the LDA, to increase transparency in financial achievements reported by the LDA.

### LDA's response:

**Agreed.**

### LAPS' response:

**Agreed in principle** - LAPS agrees to investigate an improved process for determining an appropriate valuation of land supplied to the LDA, noting that the current process utilised by the LDA is in accordance with current agreements.

**Recommendation 9 (Chapter 4)**

In accordance with the Affordable Housing Action Plan, LAPS in conjunction with the LDA, should seek to independently benchmark the LDA's land development costs on a regular and ongoing basis.

**LDA's response:**

**Agreed** - the LDA notes that the vast majority of its land development costs relate to contracts with private sector suppliers that have been established by competitive tender processes, conducted in accordance with the *Government Procurement Act*.

**LAPS' response:**

**Agreed in principle** - noting LDA costs relating to development are market tested through tendering processes.

**Recommendation 10 (Chapter 5)**

ACT Government agencies should translate AHAP initiatives, which are principle-based into specific, clear and measurable targets within agencies' Statements of Performance or equivalent, and report against these on an annual basis.

**LDA's response:**

**Agreed.**

**LAPS' response:**

**Agreed.**

**ACTPLA's response:**

**Agreed.**

**Recommendation 11 (Chapter 5)**

ACT Government agencies should, pending the outcomes of the Government review of the Land Rent Scheme, develop additional processes and procedures to address the identified risks.

**LDA's response:**

**Agreed** - noting that LDA continuously monitors risk factors and modifies procedures within its areas of responsibility as necessary.

### LAPS' response:

**Agreed in principle** – LAPS will provide input into development of additional policy on the management of the Land Rent Scheme, noting that the primary focus of the Land Rent Scheme is to support affordable home ownership.

### ACTPLA's response:

**Agreed.**

### Treasury 's response:

**Noted** - Treasury supports improvement in processes and procedure as a general principle. A two year post-implementation review of the Land Rent Scheme was included in the original policy. The review is close to completion with significant input from the ACT Planning and Land Authority, Department of Land and Property Services, Land Development Agency, Canberra Institute of Technology and the ACT Revenue Office. It is anticipated that a number of improvements will follow from this review.

### Recommendation 12 (Chapter 6)

The LDA should develop appropriate performance indicators for its environment and sustainability objectives and priorities in accordance with the LDA's Environmental and Sustainability Framework. These indicators should be specific and measurable, and should be incorporated within its Statement of Intent.

### LDA's response:

**Agreed.**

### LAPS' response:

**Agreed** – LAPS will assist LDA with additional measures.

**Recommendation 13 (Chapter 6)**

The LDA should, as part of its ongoing monitoring and reporting process, such as monthly Board reports and budget analysis reviews, routinely consider and report on achievements against non-financial indicators, including environmental and sustainability initiatives and objectives.

**LDA's response:**

**Agreed** - the LDA regularly monitors and reports on achievements against a number of non-financial indicators in monthly Board and other reports. This reporting will be expanded to include further indicators developed in accordance with recommendation 12 above.

**LAPS' response:**

**Agreed** – LAPS will assist LDA with additional measures.



## 2. PROCESSES FOR THE SUPPLY AND RELEASE OF RESIDENTIAL LAND

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### INTRODUCTION

- 2.1 This chapter describes ACT Government management processes for the supply and release of land for residential purposes. It includes consideration of inter-agency governance and administrative arrangements, the development of the ACT Government's residential Indicative Land Release Program (ILRP) and activities for monitoring the developers' and builders' pipelines.

### KEY FINDINGS

- In recent years, the ACT Government's accelerated land release programs have led to a significant escalation of land supply and release activity. The increased workload has placed increased pressure on existing agency resources as well as inter-agency relationships and protocols.
- LAPS has assumed responsibility for land supply and development policy and inter-agency coordination, and these roles were outlined in the Administrative Arrangements Orders (AAO) in 2009 and 2010. However, in practice, there remains some uncertainty with respect to the specific roles and responsibilities of LAPS, the LDA and ACTPLA, particularly with activities that occur at the boundary of the different agencies' legislative responsibilities.
- Various inter-agency governance committees and working groups were established in early 2010 to facilitate communication across the agencies, and this has led to some improvement in inter-agency communication. However, there is a need to improve knowledge of relevant staff of the inter-relationship of these groups and formal processes for escalating issues of concern for decision or action within these groups.
- ACT Government agencies have not used a robust model in identifying residential dwelling demand, including comprehensively assessing key underlying factors and their potential impact on the Indicative Land Release Program (ILRP). While forecast models have limitations, it is better practice to use such a model as a starting point to provide a more rigorous analysis of relevant assumptions and information to better inform decision making processes.
- Agencies have consistently under-estimated the apparent demand for residential dwellings within the ACT, and ACT Government land release targets have been significantly and frequently revised upwards in recent years. Despite the current accelerated land programs, there was evidence of a shortage of the supply of residential land, capable of being built on, to meet the pent-up and on-going strong demand.
- ACT Government agencies have not yet developed robust mechanisms for monitoring developers' and builders' pipelines, which was a key requirement under the Affordable Housing Action Plan. More effective monitoring of developers' and builders' pipelines would assist in identifying future land release volumes.

- In addition, to improve transparency, more information should be made available to key stakeholders and the ACT community on the supply and release of residential land, including the volume of land that is zoning ready, planning ready, release ready and building ready.

### BACKGROUND

- 2.2 A number of different ACT Government agencies are involved in managing land supply and development and the preparation of the residential ILRP.
- 2.3 ACTPLA has responsibility for setting the overall planning context for land supply and development within the ACT, which it achieves through the Planning Strategy and Territory Plan, both of which are the subject of ACT Government decisions, and in the case of the Territory Plan, the approval of the ACT Legislative Assembly.
- 2.4 The Department of Land and Property Services (LAPS) has primary responsibility for managing the supply of land for residential purposes. The supply of land for residential purposes relates to the sequence and volume of land that is released for development. Although LAPS has primary responsibility for this process, other ACT Government agencies that provide input include:
- Chief Minister's Department;
  - Treasury;
  - ACT Planning and Land Authority; and
  - the Land Development Agency.
- 2.5 The specific roles and responsibilities of the key ACT Government agencies in land supply and development are discussed in the following sections of the report.

### ACT GOVERNMENT AGENCIES' ROLES AND RESPONSIBILITIES

#### Department of Land and Property Services

- 2.6 LAPS was created in December 2009. It absorbed several functions from CMD (Strategic Project Facilitation) and TAMS (ACT Property Group) and has assumed portfolio responsibility for overseeing the Land Development Agency.
- 2.7 By virtue of *Administrative Arrangements 2009 (No.3)* (Notifiable Instrument NI2009-593) (effective 1 December 2009) LAPS has been charged with the following functions:
- land release;
  - land development;
  - major land and project facilitation; and
  - government accommodation and property services.
- 2.8 Practically, since its commencement in December 2009, LAPS appears to have assumed responsibility for land supply and development policy and overseeing

inter-agency coordination. However, there is little formal documentation to support its activities in these roles.

### The Land Development Agency

2.9 The LDA was established on 1 July 2003 under the *Planning and Land Act 2002*. The enactment of the *Planning and Development Act 2007* (PD Act) subsequently provided an opportunity to review and restate the purpose and functions of the LDA. Subsection 32(1) of the PD Act provides for the following functions to be undertaken by the LDA:

- to develop land;
- to carry out works for the development and enhancement of land; and
- to carry out strategic or complex urban development projects.

2.10 The LDA is responsible for the development and release of ACT Government owned land for residential, commercial, industrial and community purposes. The LDA ‘operates at the boundary of commercial and public sector activities.’<sup>1</sup> The LDA seeks to balance potentially competing priorities and package opportunities for private sector development to maximise the return to the community from ACT land assets.

2.11 The LDA manages the release of land through three key mechanisms:

- releasing serviced sites from its own greenfield estates, urban renewal and infill locations (LDA estates);
- partnering with the private sector in joint ventures (joint venture estates); and
- engloba releases of large parcels of undeveloped land to the private sector (private sector estates).

### ACT Planning and Land Authority

2.12 Subsection 12(1) of the *Planning and Development Act (2007)*, provides for a range of functions to be undertaken by ACTPLA, including *inter alia*:

- to prepare and administer the territory plan;
- to continually review the territory plan and propose amendments as necessary;
- to plan and regulate the development of land;
- to advise on planning and land policy, including the broad spatial planning framework for the ACT;
- to decide applications for approval to undertake development;
- to provide planning services, including services to entities outside the ACT;

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<sup>1</sup> LDA Statement of Intent 2010-11, p.1.

- to provide opportunities for community consultation about, and participation in, planning decisions; and
  - to promote public education and understanding of the planning process, including by providing easily accessible public information and documentation on planning and land use.
- 2.13 Accordingly, ACTPLA has responsibility for setting the overall planning context for land supply and development within the ACT, which it achieves through the Planning Strategy and Territory Plan. The purpose of the Territory Plan is ‘to manage land use change and development in a manner consistent with strategic directions set by the ACT Government, Legislative Assembly and community’.
- 2.14 The Territory Plan sets out zones and precincts in the ACT, objectives and development tables applying to each zone, and a series of general, development and precinct codes and includes structure plans and concept plans for the development of future urban areas.
- 2.15 A key role of ACTPLA in land development is the preparation of structure and concept plan and precinct codes. Developing these plans establishes a supply of ‘planning ready’ land.

### INTER-AGENCY GOVERNANCE AND COORDINATION

- 2.16 A key consideration for the audit was the effectiveness of inter-agency governance and administrative structures and coordination arrangements. This recognises that there are a number of different agencies that are involved in land supply and development, and that effective inter-agency working relationships are important in achieving overall government outcomes.
- 2.17 Audit also recognises that key policies that influence land supply and development within the ACT, e.g. affordable housing policies, may have been developed by agencies other than those reviewed in this audit. By way of example, the Land Rent Scheme is a policy responsibility of ACT Treasury.
- 2.18 During the course of the audit, discussions with various agencies indicated that there was some tension and frustration between the different agencies with land supply and development responsibilities. Audit was advised that this is primarily derived from the recent land supply and development environment, which had seen a significant escalation of land supply and development activity and increased workloads across the agencies. In such an environment, recognising and understanding inter-agency dependencies is critical, because any failures to meet timeframes or expectations, or perceived failures to meet timeframes or expectations, can impact inter-agency cooperation, and ongoing relationships.
- 2.19 Increased workloads for agencies is evident in the continuing escalation of the land release program, under which 5 000 dwelling sites are to be released in 2010-11 and 2011-12. This contrasts with 2 122 dwelling sites released in 2006-07. More than doubling the number of dwelling sites to be released within this period has placed pressure on existing agency resources, capabilities and relationships.

- 2.20 In the 2010-11 budget, the Government provided additional funding to assist agencies in meeting the increased workload associated with the accelerated land supply targets.

### **Roles and responsibilities of LAPS, LDA and ACTPLA**

- 2.21 The PD Act provides a legislative framework for the administrative responsibilities of the LDA and ACTPLA. As noted previously, the PD Act separately identifies the respective roles and responsibilities of the LDA and ACTPLA.
- 2.22 However, the creation of LAPS in December 2009 has resulted in an additional agency with a role in planning for the supply and release of land, which has also added complexity to the process. While LAPS does not have a role in strategic spatial planning, there is a nexus with its land supply responsibilities. LAPS is not recognised in the PD Act, but has received its mandate through the Administrative Arrangements Orders.
- 2.23 Audit's review of the agencies' mandates, roles and responsibilities demonstrates some overlap, particularly with respect to LAPS and the LDA. In practice, the LDA undertakes practical aspects of land development, including operational planning, management of contractors and sales and marketing, while LAPS' role, in practice, appears to be strategic and policy-focused.
- 2.24 At the time of audit fieldwork in November 2010, key agency staff indicated that there still remained some uncertainty as to the agencies' respective roles and responsibilities, but these were being continually refined as the relationship developed.
- 2.25 LAPS advised that there is no overlap between LAPS and the LDA, as LAPS is the portfolio agency responsible for LDA. This view is however not shared by the industry representatives. During the audit, industry stakeholders expressed concern that there was no clear identification of these agencies' roles and responsibilities. This led to frustration on the part of industry stakeholders, particularly when seeking advice or guidance from the Government on key issues.

### **Overlap of roles and responsibilities of ACTPLA and LDA**

- 2.26 Audit notes that the PD Act is not prescriptive with respect to specific activities for land supply and development for the LDA and ACTPLA and, within the general legislative framework of the PD Act, there is still potential for some overlap of activities. This primarily occurs with respect to the practical implementation of activities that occur at the boundary of responsibility between ACTPLA and the LDA, such as concept planning, which is a responsibility of ACTPLA, followed by the LDA's activities to prepare and release the land.
- 2.27 The Concept Plan, which is prepared by ACTPLA, may be described as the translation of the overarching Territory Plan into more specific and detailed principles and policies for future land development and use. Following a variation to the Territory Plan, the Concept Plan also serves as a Precinct Code, which should inform all future planning and development activities for the area.

The development of the Concept Plan, including the background studies, generally takes 18 to 24 months to complete.

- 2.28 Following the Concept Plan, the LDA then takes carriage of the land supply and development process, which may be achieved through its own estates, joint ventures or through sale of land to private sector developers. A subsequent key deliverable in the land development process is the preparation of the Estate Development Plan (EDP), which translates the Concept Plan into more detailed and specific plans for the development. The EDP is prepared by the developer, whether it be the LDA or a private sector developer, and this needs to be approved by ACTPLA.

### *Availability of planning-ready land*

- 2.29 The availability of planning-ready land, i.e. land with prepared Concept Plans, has been a source of tension for the agencies. Views differed between the key agencies about whether there are currently sufficient quantities of planning-ready land available to the LDA.
- 2.30 Such differences in views can be a result of:
- a lack of clarity as to the deliverables to be produced during the structure and concept planning stage and the extent to which particular issues, e.g. environmental issues and requirements need to be addressed and managed; and
  - the potentially long timeframe between the development of the initial Territory Plan, structure and zoning requirements and the initiation of development activity.
- 2.31 Concerns by the agencies and stakeholders have also been exacerbated by delays to the Molonglo residential development, which is currently undergoing a strategic assessment under the Commonwealth EPBC Act. This is discussed further in Chapter 5.
- 2.32 With respect to the potentially long timeframes between initial planning and development, Audit notes that during estate development and planning processes, LAPS and the LDA have sometimes sought to revise existing concept plans prepared by ACTPLA. The re-prosecution of planning work to respond to emerging issues or considerations can lead to an elongation of the planning process and further delay, including the need to re-start the consultation process. The LDA suggests that revising existing concept plans is necessary to reflect changed circumstances and government priorities.
- 2.33 Audit notes that these inter-agency issues occur, notwithstanding that each of these agencies is acting in accordance with its legislation and mandate. Under these circumstances, it is therefore important that there are strong governance, communication and cooperation protocols in place.

### Other ACT Government agency involvement

- 2.34 A range of additional ACT Government agencies also provides varying degrees of input into land supply and development process. In addition to ACTPLA, LAPS and the LDA, other agencies include:
- Chief Minister's Department (CMD) - whole-of-government policy, priorities and strategic directions;
  - ACT Treasury (Treasury) on policies, financial and revenue issues;
  - DECCEW - environmental issues and considerations;
  - Emergency Services Authority - bushfire issues and considerations;
  - ACTEW – water issues and considerations; and
  - TAMS – various components of TAMS are involved in planning for roads and infrastructure and public transport planning issues and considerations.

### Existing governance documents

- 2.35 Audit identified that some documents had recently been developed to provide guidance to ACT Government agencies on respective roles and responsibilities. These included:
- *Roles and Responsibilities Agreement* between LAPS and LDA (1 July 2010) – the agreement was intended to document the role and responsibilities of the agencies, the services to be provided and the protocols to be observed for day-to-day support and for the various stages of business projects with a significant policy component;
  - *Planning Pipeline for Greenfield Land Development* (May 2010) – a diagrammatic representation of the different planning requirements for greenfield land development and the identification of ACTPLA and LDA roles; and
  - *Guidelines for the Preparation of Estate Development Plans* (ACTPLA May 2009).
- 2.36 The *Roles and Responsibilities Agreement* between LAPS and the LDA outlines the agencies' respective roles and responsibilities. However, there is no similar document between either LAPS and ACTPLA or the LDA and ACTPLA. Audit was advised that a draft Memorandum of Understanding between ACTPLA and LAPS was prepared but has not been finalised. Similarly, there are no other roles and responsibilities documents that also recognise the input of other agencies such as TAMS and DECCEW.
- 2.37 The planning pipeline document, while useful, was a single, brief diagram. There was no evidence that it had been approved and agreed by the various agencies and it was not supported by a comprehensive document similar to the agreement between LAPS and the LDA. It succeeds as a diagrammatic representation of a complex process, but does not adequately define roles, responsibilities and accountabilities.

2.38 The availability of formalised, clearly understood governance documents, particularly between ACTPLA and LAPS or ACTPLA and the LDA, is needed to clarify roles and responsibilities between the agencies when conducting business activities and will facilitate the delivery of that ACT Government land supply and development outcomes.

**Recommendation 1**

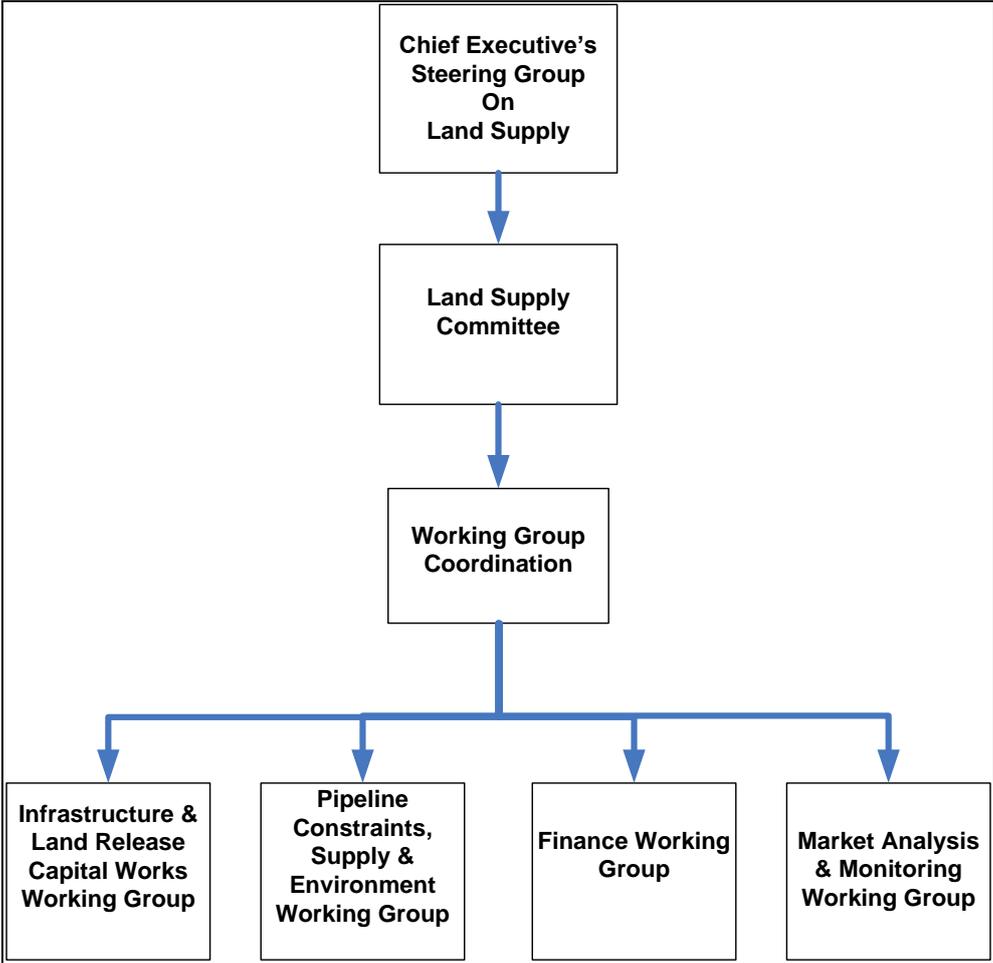
ACT Government agencies, including LAPS, the LDA and ACTPLA, should further develop formal governance documents, e.g. Memoranda of Understanding, to clearly outline roles, responsibilities and accountabilities for the land supply and development process.

**Inter-agency committees and working groups**

2.39 ACT Government agencies cooperate to plan for the supply and development of residential land through a series of inter-agency committees and working groups.

2.40 Figure 2.1 demonstrates the structure of the inter-agency committees and working groups:

**Figure 2.1: Inter-agency committees and working groups**



Source: LAPS

2.41 This committee and working group structure has been in place since early 2010. Prior to this, the only groups that met were the:

- Chief Executives’ Land Supply Steering Group; and
- Chief Executives’ Land Supply Sub-Committee (which has since been replaced by the Land Supply Committee).

2.42 The Chief Executives’ Steering Committee comprised of Chief Executives from LAPS, ACTPLA, Treasury, CMD, DECCEW and TAMS. Audit identified that the Committee had met as follows:

**Table 2.1: Chief Executives’ Steering Committee meetings**

Year	Number of Meetings
2006	2
2007	9
2008	3
2009	2
2010	9

Source: Audit Office, based on LAPS information

2.43 As a key mechanism for inter-agency coordination for the supply and development of land, Audit notes that the infrequency of meetings during 2008 and 2009 was a shortcoming in the Committee’s operations.

2.44 However, the Chief Executives’ Land Supply Sub-Committee appeared to have supplanted the Chief Executive’s Steering Committee meetings during 2008 and 2009, as this group met seven times in 2008 and eight times in 2009.

2.45 The working groups began to meet regularly from July 2010. Since their establishment, the groups have met as follows, up to December 2011:

**Table 2.2: Working group meetings**

Group	Number of Meetings
Land Supply Working Group Coordination	5
Finance Working Group	5
Market Analysis & Monitoring Working Group	5
Pipeline Constraints, Supply & Environment Working Group	7
Infrastructure & Land Release Capital Works Working Group	6

Source: Audit Office, based on LAPS information

2.46 Since the implementation of the revised committee and working group structure in 2010, all of the groups had developed terms of reference and responsibilities, thereby providing a basis on which to conduct inter-agency coordination.

- 2.47 Audit was advised by some agency staff that they were not aware how the different working groups were to work together and coordinate issues, findings and decisions for escalation to the Chief Executives' Steering Committee and other working groups and this had impaired the effectiveness of the various groups.
- 2.48 However, agency representatives have also advised that, since the reinvigoration of the committee and group structure in early 2010, the groups had been a useful mechanism through which to promote discussion amongst the various agencies at *officer-level*.
- 2.49 The working groups have been in operation since early 2010 and practical operations and processes may take some time to develop and become embedded. Nevertheless, the availability of more rigorous and documented processes should improve the operation of the committees and working groups and minimise the risks associated with different expectations and understanding of the purpose and processes of the groups amongst agency representatives. This may need further communication and clarification to group members and participants.

### **Recommendation 2**

LAPS should disseminate relevant information associated with various inter-agency governance committees and working groups to agencies to increase awareness of the roles of these groups. This could include:

- (a) articulating clear processes on how the groups should work together and coordinate issues for review, consideration and decision; and
- (b) clarifying the authority, if any, of the committees to make decisions on various land development and planning matters.

## **DEVELOPMENT OF THE RESIDENTIAL INDICATIVE LAND RELEASE PROGRAM**

- 2.50 Each year the ACT Government prepares Indicative Land Release Programs (ILRPs) for residential, commercial and industrial land releases. The programs identify the planned land releases for the subsequent four years, in accordance with the ACT Government Budget cycle. LAPS is responsible for preparing the programs in consultation with key ACT Government agencies, including Treasury, CMD, ACTPLA and the LDA. Until the establishment of LAPS in December 2009, CMD was responsible for preparing the ILRPs.
- 2.51 The ACT Government notes that the programs are indicative and may be subject to change 'as market conditions alter or as Government priorities are adjusted.' For the purpose of this performance audit, Audit did not review the commercial or industrial ILRPs.
- 2.52 The residential ILRPs examined by Audit included details such as:
- the number of dwelling sites to be released for a four-year period;
  - the proposed location / estate for dwelling sites; and

- the method of land release, eg LDA estate, joint venture or englobo.

2.53 Appendix B to the report includes the 2010-11 ILRP, demonstrating planned releases for the following four years.

### **ACT Government Land Supply Strategy**

2.54 A key initiative identified in the 2007 Affordable Housing Action Plan was that the ACT Government should adopt the principles identified in the ACT Government Land Supply Strategy 2006-07 to 2010-11 as a means to address housing affordability.

<b>Number</b>	<b>AHAP Initiative</b>
1	Adopt the principles of the Land Supply Strategy 2006-07 to 2010-11 as the foundation for addressing housing affordability.

2.55 The 2006-07 Land Supply Strategy was a public document, which provided a range of information to the public including guiding principles for land supply and development and an overview of key demographic, social and economic drivers for land supply and development in the ACT. Audit found that the principles identified in the first Land Supply Strategy, with some minor amendments, had continued to form the basis for land supply and development and were consistently referred to in various planning documents.

2.56 According to the 2010-11 ILRP, the key principles underlying the ILRP and land supply were:

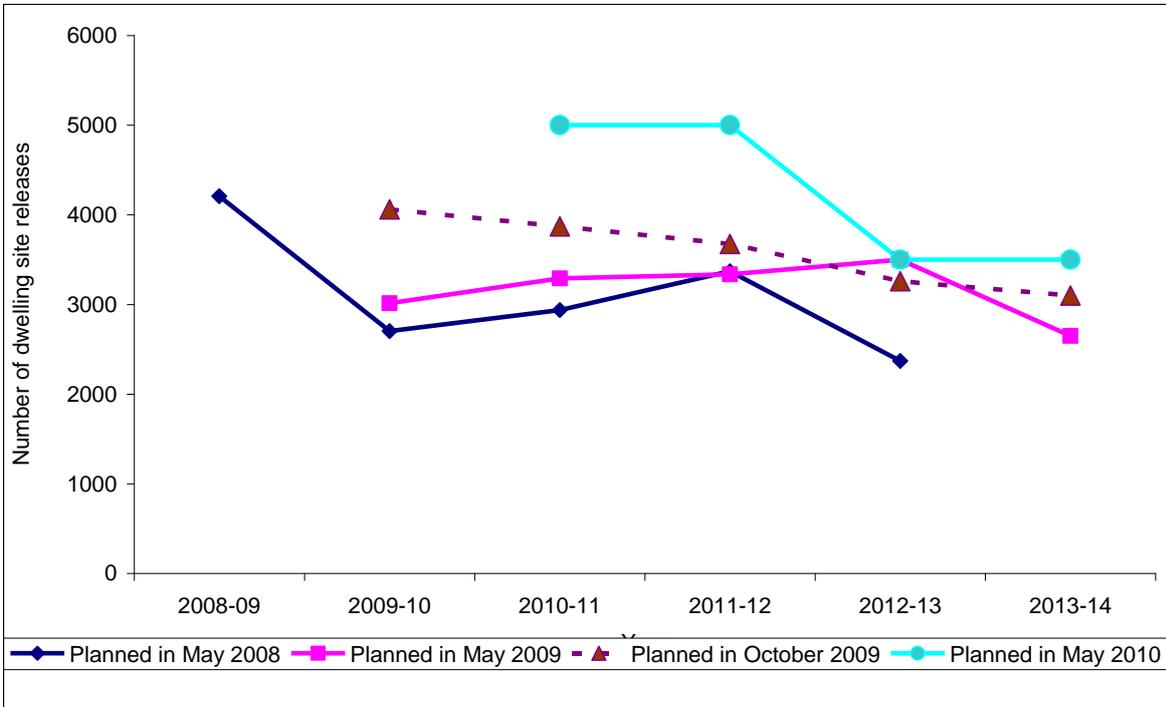
- promoting the economic and social development of the Territory, including contributing to the vision set out in the Canberra Plan of a city representing the best in Australian creativity, community living and sustainable development;
- meeting the on-going strong demand for residential land in the Territory, generated particularly by increased levels of migration into the ACT;
- establishing an appropriate inventory of serviced land;
- maintaining the flexibility of land releases to ensure they reflect market conditions and do not contribute to rapid land price changes;
- providing a mix of land and housing options;
- facilitating the provision of affordable housing;
- addressing the locational objectives set out in key Government documents such as the Territory Plan and the Spatial Plan;
- achieving satisfactory returns to the Territory from the sale of unleased Territory land; and
- assisting the operation of a competitive private sector land development market.

Variations to the Indicative Land Release Program

2.57 Audit examined submission documents relating to the development of the ILRP from 2008-09 onwards. Audit notes that, since the May 2008 Budget, ILRP residential dwelling releases were continuously revised upwards. The following graph demonstrates the variations to the ACT Government’s ILRP targets since May 2008. Each line in the graph represents the planned future land releases articulated in the following documents:

- May 2008 Budget;
- May 2009 Budget;
- October 2009 – revision to the ILRP targets; and
- May 2010 Budget.

Figure 2.2: Indicative Land Release Targets (Residential)



Source: Audit Office, based on LAPS information

2.58 The graph demonstrates:

- in May 2008, the ACT Government anticipated that there would be a release of 4 208 dwelling sites in 2008-09, after which there would be a 36 percent reduction in land releases for 2009-10 to 2 702. This would be followed by two years of gradual increases before a further reduction to 2 300 in 2012-13;
- in May 2009, the ACT Government’s estimates were revised upwards for 2009-10 (additional 312) and 2010-11 (additional 352), followed by two gradual increases to 2012-13;

- in October 2009, the ACT Government's planned release for 2009-10 was increased by a further 1 047 dwelling sites (35 percent) from the May 2009 forecast, with additional increases for 2010-11 and 2011-12 also anticipated; and
  - in May 2010, the 2010-11 release figure was further increased by 1 130 (29 percent) and the 2011-12 release figure was increased by 1 325 (36 percent) from the October 2009 forecast.
- 2.59 The diagram demonstrates that in the space of a two-year period between May 2008 and May 2010, there have been continuous significant upward revisions to planned land releases.
- 2.60 As some activities in the land development and release process require significant lead time to forward plan, the significant and frequent revisions to the land release programs placed increased pressure on agencies involved in land supply and development. The program revisions also required a significant escalation of land development activities, and bringing forward of future planned releases.
- 2.61 ACT Government agencies have advised that the upward revisions to the land release targets reflect a dynamic environment and a range of unanticipated factors that have impacted on housing demand including the global financial crisis of 2008, the boost to the First Home Owners Grant, the introduction of the National Rental Affordability Scheme, unprecedented levels of net migration, significant increases in Commonwealth employment and a significant underestimation of population growth by the Australian Bureau of Statistics.

### **Factors in developing the Indicative Land Release Program (ILRP)**

- 2.62 Audit sought to identify the factors that had been taken into account for the purpose of developing the ILRP. Audit examined a range of documents relating to residential land releases from 2006-07 onwards, including Cabinet submission documents from 2008-09 onwards.
- 2.63 Audit noted that the ACT Government's Land Supply Strategy document had been produced and updated in 2006-07 and 2007-08, but had not been produced since then. Audit considers that this document provided a useful context for the residential land release program, in a single easily-referenced location, which included factors for consideration and assumptions for future land release figures.
- 2.64 These past documents provided detailed information on:
- ACT Government principles for land supply;
  - demand drivers and assumptions for future land supply and release, including detailed analysis and discussion;
  - planning, development and building pipeline targets and actual results; and
  - future land release targets.
- 2.65 From 2008-09 onwards there has not been a comparable, publicly-available document for use and reference by agency staff and public stakeholders such as

developers and builders. The Indicative Land Release Program, which is the current publicly available document, does not address the above issues in detail.

- 2.66 To enhance the transparency of land supply and development processes, including the consideration of the assumptions that underpin them, LAPS should produce a detailed document with relevant information. Such a document would facilitate a more informed public debate. Doing so is also likely to meet industry stakeholders' needs and expectations for greater understanding and certainty about Government processes that leads to decisions on land supply and release

### **Recommendation 3**

LAPS should publish detailed information on the ACT Government land development and supply strategy, including the factors considered and assumptions made in developing future land release programs. Such information should lead to better understanding by ACT Government agencies and public stakeholders, such as the community, developers and builders, of the decision making process.

- 2.67 Audit found that three categories of factors influencing land supply were generally, but not explicitly, recognised in the ILRP documents, namely:
- underlying residential dwelling demand – primarily based on long term population projections for the ACT and household formation trends;
  - unmet / pent-up demand – in recent years, there was an ongoing recognition that there was a level of unmet demand within the ACT; and
  - additional demand determinants – this includes additional factors influencing demand and may include potentially short-term or unforeseen factors, e.g. changes in Commonwealth public service employment.
- 2.68 A review of the various documents identified that a range of factors had been recognised for the purpose of developing the residential ILRP targets, including:
- general economic climate, including employment levels;
  - ACT population projections, including interstate migration and overseas migration;
  - Commonwealth public service employment;
  - current rental vacancy rates;
  - dwellings in the builders and developers pipeline (up to 2008-09);
  - increase in overall demand caused by the introduction of the Affordable Housing Action Plan and its facilitation of additional entrants to the market;
  - increasing residential property prices; and
  - levels of pent-up and unmet demand.
- 2.69 Supporting documentation for the four land release programs reviewed does not consistently consider and analyse these factors. In short, there was no rigorous, consistently used model for identifying residential dwelling demand, including

identifying and analysing relevant factors and their potential impact or influence on future land release figures.

- 2.70 In a number of instances, the underlying factors identified above were only recognised subsequent to their realisation. Instead of considering and incorporating these factors into the planning and developing process, relevant agencies identified these factors afterwards to explain the apparent continuing under-estimation of the demand for residential land.
- 2.71 The identification and development of an appropriate and consistently applied model for the development of the ILRP, including factors for consideration and associated assumptions, would be used as a starting point, together with other considerations to assist in identifying appropriate levels of residential land release in future years.
- 2.72 LAPS is of the view that the outcome of any model will still require a ‘judgement call’. LAPS further advises that it takes into account of a range of economic, demographic and property market data when assessing land release targets, and much of the economic information is provided to Cabinet with the annual land program and that this data meets the needs of LAPS.

### **Recommendation 4**

LAPS should develop a more rigorous model to assist in assessing future residential land release targets under the Indicative Land Release Program. The model should identify the underlying factors impacting demand and supply of residential land, compiling and analysing relevant data to better inform the decision-making process.

## **DEVELOPERS’ AND BUILDERS’ PIPELINES**

- 2.73 In this audit, the developers’ pipeline refers to development work that is to occur for land that had already been released, while the builders’ pipeline refers to building work that is to occur for land that has been developed. Developed land has had civil contracting works undertaken, including the placement of roads and infrastructure such as water, sewerage, gas and electricity connections.
- 2.74 Developing and monitoring the pipelines should assist in identifying the quantity and timing of supply of actual dwellings to the market, i.e. units, townhouses and houses that are capable of being occupied. The pipelines should also be used as an additional consideration when determining future releases of land, since they reflect at least in part, the capacity of the industry to act on land releases.
- 2.75 Audit’s discussions with industry representatives highlighted industry stakeholders’ desire for a clearer understanding of the amount and extent of ‘shovel-ready’ land for building activity. While the Indicative Land Release Program provides information on future land releases up to four years in advance, industry stakeholders identified that land release does not necessarily equate to the availability of land for building. Better identification and recognition of development and building activity in the pipeline will assist industry stakeholders to plan for future work activity.

2.76 This issue was recognised in the Report of the Affordable Housing Steering Group (March 2007), which noted that there was a ‘need to improve the measurement, monitoring and management of the land development and house building pipeline as a means of enhancing the land supply process.’ This report made four key recommendations with respect to developers’ and builders’ pipelines, which were incorporated into the AHAP, as follows:

Number	AHAP Initiative
8	Develop more robust mechanisms for calculating and monitoring the developers’ and builders’ pipeline and distinguish between the greenfields and the redevelopment pipelines.
9	In addition to the planning pipeline, adopt a four-year builders’ and developers’ pipeline (one year builders’ and three years developers’) maintaining inventory on the shelf at each stage of the pipeline to improve responsiveness.
10	Add additional inventory to the pipeline of approved Estate Development Plans (EDPs) accounting for 8 to 12 months of current demand.
11	Progress with implementation and status of the pipeline be reported twice a year.

2.77 It has been five years since the recommendations were made, and ACT Government agencies are yet to achieve these initiatives. Some slow progress has been made with ACT Government agencies agreeing and documenting terminology for what constitutes each of the pipelines. The pipelines that are to be monitored include:

- the planning pipeline – records the number of possible future greenfield land and redevelopment proposals;
- the land servicing pipeline (developers pipeline) – records the number of dwelling sites that are undergoing the process of land servicing;
- the vacant land pipeline (builders pipeline) – records the number of serviced dwelling sites where dwelling construction has not commenced;
- the dwelling construction pipeline (builders pipeline) – records the number of dwelling that are undergoing construction; and
- the availability pipeline – records the number of dwelling sites (either land, house and land or multiunit dwellings), which are available for purchase.

2.78 Audit notes that LAPS plans to commence publishing, on a quarterly basis, a residential property market report. At the time of the audit, data for the December 2010 quarter was being collected.

2.79 With respect to the establishment of a one-year builders’ pipeline and three year developers’ pipeline, as well as inventory of approved Estate Development Plans (EDPs), Audit notes that the nature of accelerated land supply (since the AHAP was implemented) meant that land had been supplied and developed as quickly as possible, without specific reference to maintaining pipelines or inventory for future supply. Accordingly, it is apparent that one of the principles of the Land

Supply Strategy and subsequent ILRPs, 'establishing an appropriate inventory of serviced land', had not been achieved.

2.80 LAPS advised that:

Establishing an inventory of serviced land is a priority for LAPS and the LDA, however, the shortage of 'planning ready' land is preventing this from being achieved. An inventory of serviced land will not occur until all unmet demand is absorbed by the accelerated land releases and land offered to the market is not sold.

2.81 The establishment of the Land Supply Pipeline Working Group in early 2010 (as noted above) facilitates inter-agency discussion on this issue.

### **Recommendation 5**

In accordance with Affordable Housing Action Plan, LAPS in conjunction with ACTPLA, should develop more robust mechanisms for compiling and monitoring the developers' and builders' pipelines.

## **CONCLUSION**

2.82 A number of ACT Government agencies are involved in the land supply and development process and there are concerns raised by agency staff and industry representatives of a lack of clarity with respect to agency roles and responsibilities. The accelerated land release program in recent years has placed significant pressure on existing agency resources and at times caused tension in relationships.

2.83 Given the current shortage of land supply, the LDA was not able to maintain an appropriate inventory of serviced land.

2.84 In addition, existing governance and administrative mechanisms need to be further improved for efficient coordination between ACT Government agencies and transparency in the decision-making process.

2.85 Identified residential land releases have been consistently and significantly revised upwards in recent years to respond to unmet demand, which also reflected the unanticipated external factors. The lack of a robust model for identifying residential dwelling demand within the ACT may also have impaired ACT Government agencies' ability to identify and quantify appropriate and sustainable residential land release targets.



### **3. MANAGING THE SUPPLY AND RELEASE OF RESIDENTIAL LAND**

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#### **INTRODUCTION**

3.1 This chapter describes the LDA's management of the supply and release of land for residential purposes. It includes:

- an overview of the LDA's processes for supplying and releasing residential land, including the LDA's own development activities; and
- discussion of the LDA's achievements against the Indicative Land Release Program.

#### **KEY FINDINGS**

- There was a comparatively low level of residential land released in 2004-05 and 2005-06 (468 and 780 dwelling sites respectively), before land releases were significantly escalated in subsequent years. In 2009-10, land for 4 297 dwelling sites was released.
- The LDA has exceeded its land release targets since 2007-08, but there is a lack of clarity and transparency in land release figures. The LDA data on land release does not necessarily equate to the release of shovel-ready blocks. Better defined targets and measures would provide more accurate information on the status of land release and supply of 'shovel-ready' land for building activity. This would also be consistent with the intention of the land release programs to achieve an inventory of serviced land.
- The LDA is supplying blocks from LDA estates where development and civil works are yet to be completed. Settlement periods for land supplied through these estates may be as long as 18 months. While there are advantages for some buyers arising from the long lead time between the purchase of blocks and settlement of sale contracts, there are various risks associated with this process, particularly from the ACT's Land Rent Scheme, which has seen a significant increase in its take-up.
- There were significant concerns raised by industry stakeholders regarding the lack of 'shovel-ready' land and the long lead times to access the land for construction.
- Due to levels of pent-up demand and the need to supply land as quickly as possible, the LDA has not established quarterly targets for over-the-counter sales, nor does it conduct regular over-the-counter sales for blocks from LDA estates, as required under the Affordable Housing Action Plan.

#### **BACKGROUND**

3.2 The LDA is the ACT Government agency responsible for delivering the ACT Government's commitments for the supply and release of land. Following the determination of the annual ILRP, it is the LDA's responsibility to ensure that the program is delivered and the land is released.

- 3.3 The Land Release Program specifies the method of land release through three different processes. Each of these methods of release involves different activities and input from the LDA and offers different levels of financial return to the ACT Government.

### LAND RELEASE METHODS

- 3.4 The LDA may release land through three different methods:

- LDA estates;
- joint ventures; and
- englobo / private sector development.

#### LDA estates

- 3.5 For the LDA's own estates, the LDA, as developer, has responsibility for designing the residential area, via the Estate Development Plan, seeking development approval, and undertaking infrastructure and associated development activities. It is also responsible for selling parcels of land to potential purchasers. Examples of LDA estate developments are Bonner in Gungahlin and Wright in the new Molonglo Valley area.

#### Joint ventures

- 3.6 Similar to LDA estates, for joint venture estates, the LDA is involved in the development process from master plan stage through to selling parcels of land to potential purchasers. A key difference is that the LDA does this through a joint venture arrangement with one or more private sector entities.
- 3.7 A joint venture agreement is signed between the LDA and private sector entities and identifies the respective roles and responsibilities of the parties. The joint venture agreement also identifies the nature of contributions to be made by the different parties as well as the way in which expenditure, revenues and profits are to be divided.
- 3.8 There are three joint venture arrangements currently in place: Forde and Crace in Gungahlin and Woden Green in Woden. Audit notes that no new joint venture agreements have been entered into since 2008.

#### Englobo / private sector development

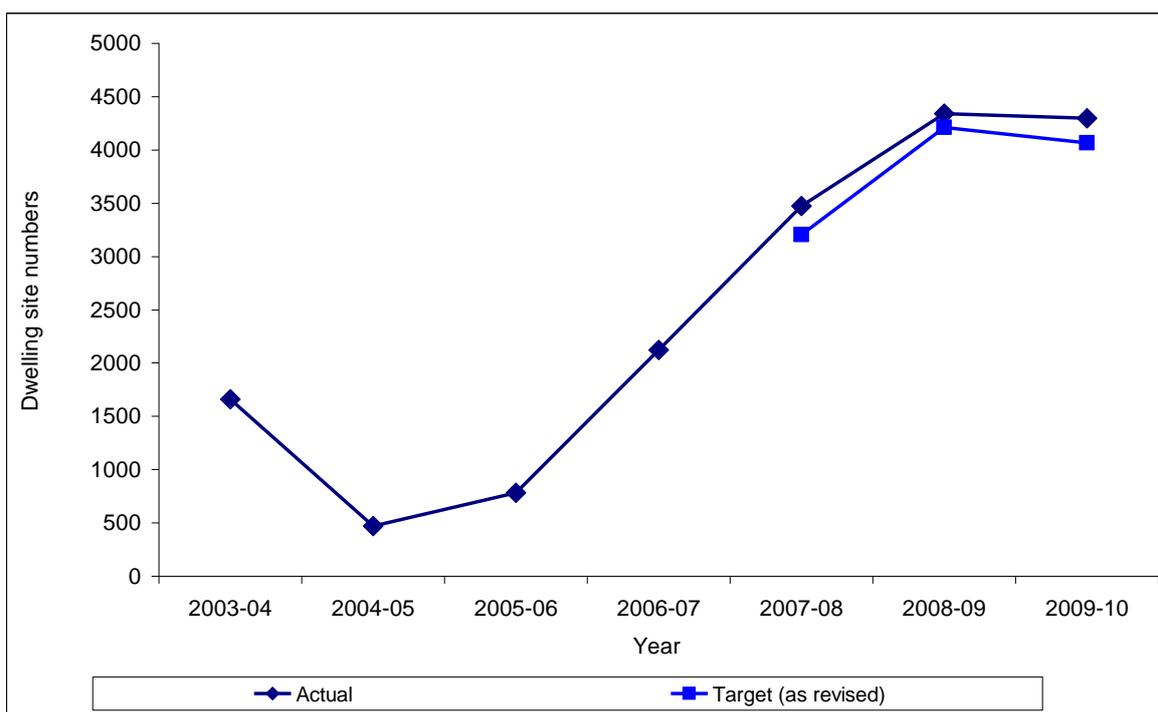
- 3.9 The LDA also conducts englobo sales of land to private developers, where the land is sold ready for development to be undertaken by the private sector developer. A Deed of Agreement accompanies the sale of the land, which sets out planning requirements for the land, including the number of dwellings, community facilities and green corridor requirements.
- 3.10 The private sector developer is responsible for preparing the Estate Development Plan in accordance with the Deed of Agreement and for seeking development approval and undertaking infrastructure and associated development activities. The private sector developer typically then sells house and land packages to

purchasers. Examples of englobo developments are North Weston in Weston Creek, West Macgregor in Belconnen and Casey in Gungahlin.

**LAND RELEASE ACHIEVEMENTS**

3.11 The graph below demonstrates actual residential dwelling releases by the LDA since its formation in 2003. The graph also demonstrates achievements against identified ILRP targets since 2007-08.

**Figure 3.1: Actual residential dwelling site releases from 2003-04 to 2009-10 and targets for 2007-08 to 2009-10**



Source: Audit Office, based on LAPS information

3.12 The graph shows that the LDA has exceeded its land release targets (as revised) for the three years between 2007-08 and 2009-10. The graph also shows that between 2003-04 and 2005-06, there were comparatively low numbers of land released. Stakeholders have advised Audit that the comparatively low residential dwelling releases in these earlier years have contributed to the apparent pent-up demand for residential land within the ACT, which was recognised in subsequent ILRP planning documents.

3.13 From 2006-07 onwards, the volume of residential land released has increased substantially. As noted in Chapter 2, it is projected that residential land releases for 2010-11 and 2011-12 will be 5 000 per year, after which it is expected to drop to 3 500 per year.

### LAND RELEASE DEFINITION

- 3.14 The LDA reports land release achievements as one of its KPIs. Land is considered released by the LDA ‘when the land has been offered to the market, irrespective of whether it is actually sold.’<sup>2</sup> For example:
- auction – land is considered released on the day of the auction;
  - ballot – land is considered released on the day of the ballot;
  - over-the-counter sales – land is considered released on the day the site is available for purchase over the counter;
  - direct sale – land is considered released when an offer of land has been made to the proponent; and
  - tender / expression of interest – land is considered released when the tender documents have been made publicly available.

### LDA estates and joint venture estate releases

- 3.15 Releases from LDA estates or joint venture estates may be made through a variety of means including auction, ballot or over-the-counter sales.
- 3.16 There can be a significant delay between when land is released and the settlement date (i.e. the time when all of the parties involved in the sale meet together to exchange documents and complete the matter).
- 3.17 The following table demonstrates estimated settlement periods for land released through LDA estates and joint ventures in 2009-10. These dwelling sites were counted as released in 2009-10, although Audit notes that settlement may not occur for some dwelling sites in some estates until June or October 2012.
- 3.18 The table shows that a significant number of LDA estate dwelling site releases, particularly in the greenfield estates of Bonner and Wright have settlement periods that extend into 2011.

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<sup>2</sup> LAPS Land Release definition, May 2009.

**Table 3.1: Estimated settlement periods for 2009-10 LDA dwelling site releases**

Development Estate	Number of dwelling sites released by LDA in 2009-10	Actual or estimated settlement period
<b>LDA estates</b>		
Kingston Foreshore 2a	264	24 June 2010
Kingston Foreshore 18	88	28 June 2010
Kingston Foreshore 19	130	16 July 2010
Bonner 1a	20	4 September 2009 to 30 June 2010
Bonner 1b	185	10 June 2010 to September 2010
Bonner 2	404	December 2010 to June 2011
Bonner 3	334	April 2011 to June 2011
Flemington Road (Harrison)	505	11 June 2010 to 10 December 2010
Wright	459	May 2011 to October 2012
<b>Joint venture estates</b>		
Forde	391	March 2010 to June 2011
Crace	223	July 2010 to June 2011
Woden East	179	June 2012

Source: Audit Office, based on LDA information

### Englobo land releases

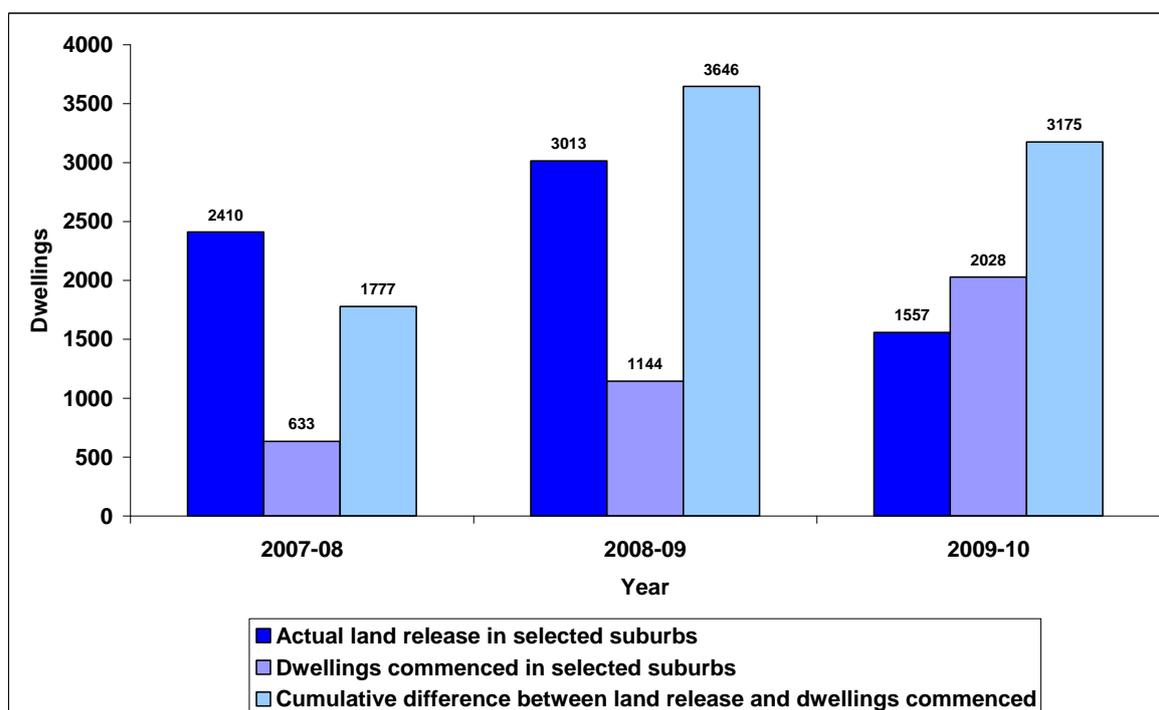
- 3.19 With respect to englobo sales to private sector developers, the land is considered released when it is made available to potential purchasers (in this case the private sector developers), irrespective of when potential residents may take possession or commence building and construction.
- 3.20 Once the land is released for englobo sale, there is limited capacity for ACT Government agencies, including the LDA, to identify settlement dates for individual purchasers.
- 3.21 By way of example, Casey 2 was counted as released in September 2008, with a total number of 1 100 dwelling sites. ACTPLA building commencement figures indicate that 36 dwellings were commenced in 2008-09 and 348 dwellings commenced in 2009-10. By June 2010, 18 months after their release, 65 percent of the total dwelling sites released in Casey had not commenced construction.
- 3.22 Casey 2 is not unique with respect to englobo land releases and is included as an example to demonstrate that englobo land release does not equate to the supply of dwelling sites ready for construction.
- 3.23 The potential for misrepresentation between englobo land release figures and actual supply of dwellings is also demonstrated by a situation that occurred in 2008-09, whereby 2 135 dwelling site releases (49 percent of the total of 4 338 for that year) were made through a series of englobo sales in the final fifteen days of

the financial year. This suggests that the current land supply process was not well managed to be delivered at regular intervals throughout the year for more consistent supply to the market. Audit notes that these dwelling sites would not be available for supply to potential purchasers for a considerable period of time after this.

### Land release and building commencements in greenfield areas

- 3.24 One of the key principles underpinning the ILRP was to ‘meet the on-going strong demand for residential land in the Territory.’
- 3.25 Accordingly, Audit sought to identify the volume of land release in recent years and how that had translated into actual supply of dwellings to the market to meet demand. This was a difficult exercise and, as noted previously, ACT Government agencies have not produced pipeline reports to date, but are planning on doing so in the future.
- 3.26 In the absence of relevant data, Audit instead compares land release data (maintained by the LDA) with dwelling commencement data (maintained by ACTPLA). Figure 3.2 shows land releases and dwelling commencements in greenfield development areas for selected suburbs over a three-year period between 2007-08 and 2009-10. The graph includes greenfield releases through all three methods: LDA estates, joint venture developments and englobo land releases.
- 3.27 The selected greenfield suburbs are Dunlop, Macgregor, Bonner, Casey, Crace, Forde, Franklin and Harrison.
- 3.28 The graph demonstrates that, of 6 980 dwelling sites released in these greenfield suburbs over the three-year period to 2009-10, construction had not commenced on 3 175 sites. This represents 45 percent of total land releases over the three-year period. Audit notes these figures do not recognise when dwellings are actually completed, which takes additional time after this. Audit also notes that 964 dwelling sites were released in Wright and Flemington Road in 2009-10, which also adds to the cumulative total of dwellings that are yet to be commenced.

**Figure 3.2: Comparison of dwelling site releases and commencements in selected greenfield suburbs**



Source: Audit Office, based on LDA information for dwelling site release and ACTPLA information for dwellings commencement

### Transparency in public reporting of land release

- 3.29 Audit notes that the difference in land release and building commencements are due to a variety of different factors, including factors that may be outside the control of the ACT Government, e.g. industry capacity. Audit also notes that the capacity for ACT Government agencies to influence private sector developers' activities is also limited.
- 3.30 Nevertheless, a key issue that emerged during the audit was a lack of understanding as to the extent and availability of shovel-ready land, i.e. land that was available and ready for construction activity, which could meet the increasing demand for housing in the ACT. Industry stakeholders strongly expressed their views that there was a need to better understand what land was available and that the supply of 'shovel-ready' land was a more useful indicator for dealing with demand than 'land released.'
- 3.31 Accordingly, constant reference to land released (rather than land ready for construction) has the potential to mislead the public with respect to the achievements of the ILRP in 'meeting the on-going strong demand for residential land in the Territory'.
- 3.32 Audit notes that the LDA has the capacity to report on 'shovel-ready' land for LDA estates and JV estates, although it does not have the capacity to report on 'shovel-ready' land for englobo estates. Accordingly, in addition to the current practice of reporting on land releases 'when the land has been offered to the

market', additional measures should also be identified and reported against for LDA estates and JV estates, which recognise expected settlement periods for the purchase.

- 3.33 More transparent recognition of release and settlement figures for LDA estates and JV estates, together with Recommendation 5 which addresses the need to better monitor the developers' and builders' pipelines, will provide a stronger basis on which to understand forthcoming development activity and building activity within the ACT. This will also provide a stronger basis on which to plan and develop future land release programs.

### **Recommendation 6**

The LDA should identify and report against better defined and additional measures for land release, which include the supply of shovel-ready blocks within LDA and joint venture estates.

## **ENGLOBO SALES**

- 3.34 The AHAP identifies one initiative associated with englobo sales as follows:

<b>Number</b>	<b>AHAP Initiative</b>
5	To limit speculation in the land market, announce a program of regular englobo land releases, targeting two land sales annually with at least one third of the program released by this means.

- 3.35 The target to have two land sales annually has been achieved, with the following land releases:

- in 2007-08, englobo sales occurred for Casey 1, Fraser Court, Kingston Foreshore and West Macgregor 1a (totalling 1 615 dwelling sites);
- in 2008-09, seven englobo sales occurred for Casey 2, Casey 3, North Weston, Macgregor West 2, North Weston 2 (land swap with Defence Housing Australia), Franklin and Flemington Road (totalling 3 235 dwelling sites); and
- in 2009-10, three englobo sales occurred for city blocks, Bruce and various DHCS sites for supportive housing (totalling 1 093 dwelling sites).

- 3.36 The target to have at least one third of land released via englobo sales annually has had mixed results. In 2007-08 englobo land releases represented 46 percent of total land released and in 2008-09 englobo land releases represented 74 percent of total land released (although as noted previously a significant proportion of this occurred in the final two weeks of the year). In 2009-10 englobo sales represented 25 percent of all land released.

- 3.37 Over the three years analysed, the average volume of dwelling sites released by englobo was 47 percent, well above the target of 33 percent. The LDA advises that the 33 percent target was exceeded due to the need to respond quickly to increases in housing demand and the limited resourcing and capacity of the LDA to develop the land itself.

## THE LDA'S SUPPLY OF LAND IN GREENFIELD SITES

- 3.38 LDA estate blocks are considered released when made available to potential purchasers.
- 3.39 However, the LDA's current practice is to release land in LDA estates before the completion of development and infrastructure activity including siteworks, excavation and placement of infrastructure such as roads and sewerage. Audit notes that this is now occurring within Bonner and Franklin in Gungahlin and Wright in the Molonglo Valley. The non-completion of such development activity is the reason for the extended settlement dates for these suburbs identified in Table 3.1.
- 3.40 The LDA advises that there are significant benefits to releasing land prior to servicing, including:
- providing additional time for purchasers to save for the deposits, to obtain finance or plan for house construction;
  - reducing financial risks to the ACT Government as it guarantees income prior to committing to civil works contracts;
  - allowing better cash flow management for LDA, by allowing customer deposits to fund land servicing costs; and
  - providing certainty to the building sector with respect to forthcoming land supply, allowing the industry to retain staff and contractors.
- 3.41 Audit noted that the advantages as stated by LDA above did not apply to a significant number of blocks under Land Rent contracts, as there is no guaranteed income and there are no deposits from buyers for these sales.
- 3.42 Further, contrary to LDA's views of advantages offered to the building sector, a majority of ACT builders surveyed by the ACT Master Builders Association (MBA) expressed strong concerns about the significant time taken for government agencies to get land ready for building from the point of sale, and the adverse impacts on their business.
- 3.43 Direct comments from surveyed builders include:
- There is currently little or no land you can buy today that will be ready to build on in the next 6-9 months that you are not paying a premium price on.*
- There isn't a suitable mix of 'ready to build land.'*
- Land sold with access to the land for construction in 12 months, 18 months and 2 years from contract exchange is absurd.*
- Having to price contract home 6 to 12 months in advance is totally unacceptable.*
- The situation is that we are releasing land at full speed ahead, but none of it is ready to build on until some time in the future.*
- If we do not win contract on other people's land, we would soon be out of business as we cannot get blocks to even build on to make a business.*
- Small and middle builders can't buy any land now. There is not enough land.*

*How can anyone do this [managing a building business] when land is balloted and, when a chance arises, settlement is more than a year?<sup>3</sup>*

- 3.44 Audit notes that there are also several budget implications and risks for the LDA in this land release process, which may arise from:
- purchasers' circumstances changing during the long settlement period, in which case they may seek to rescind the purchase;
  - unforeseen problems and issues arising during the development process, which may cause delays to the settlement period or have an impact on the size and nature of already-purchased blocks; and
  - lots being sold prior to survey being completed, which might result in boundary adjustments or block yield changes. This puts pressure on ACTPLA to approve plans that might not always satisfy other requirements, particularly those of the Surveyor-General.
- 3.45 A potential example of unforeseen problems arising during the development process relates to the construction of roads or sewerage works. When undertaking this work on-site, there may be a topographical or other imperative to vary the design in response to the composition of the terrain or the discovery of unexpected material.
- 3.46 The LDA advises that there are well-established procedures to allow the purchaser to rescind their purchase should there be significant changes to the blocks that they have purchased. This however may not be a satisfactory outcome for buyers who may have missed the opportunity to consider and buy another suitable block.
- 3.47 There are also additional risks for this process of releasing land with long settlement periods, which derive from the introduction of the Land Rent Scheme on 1 July 2008. Aspects of the Land Rent Scheme are discussed in more detail in Chapter 5 of the report.

### THE LDA'S SALES METHODS

- 3.48 The LDA has six methods of selling residential land. These are:
- auction;
  - restricted auction;
  - ballot;
  - restricted ballot;
  - tender; and
  - over-the-counter sales.

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<sup>3</sup> MBA Residential Member Survey – Land Issues - 2009, 2010 (Unpublished)

## Over-the-counter sales

3.49 The AHAP seeks to facilitate the provision of affordable housing through over-the-counter sales conducted by the LDA. The Report of the Affordable Housing Steering Group stated:

At present a land ballot has been the mechanism for delivering affordable land for moderate-income households. This process has not met the demand for affordable housing. Introducing over the counter sales will increase certainty, meet community need for reasonably priced land and demonstrate that an adequate supply of land is being provided.

3.50 The AHAP identifies two initiatives associated with over-the-counter sales as follows:

AHAP Number	AHAP Initiative
3	Introduce over-the-counter sales of land at a range of block sizes and prices, with particular emphasis on the release of land (prices from \$60 000 to \$120 000) that provides for dwellings in the price range of \$200 000 to \$300 000. Transitional arrangements should apply in the short term, but be in place for no more than six months.
4	Establish quarterly targets for over-the-counter sales, and implement monitoring systems to ensure performance against those targets.

3.51 Initiative 3 from the original 2007 AHAP has since been amended to allow for indexing of the purchase amounts which fall within the affordable price range.

3.52 At present, the identified price ranges are \$219 000 to \$328 000 for house and land packages. This revision took place in September 2010 in recognition of the difficulties in equitably achieving this initiative in an environment of continuously increasing house and land prices. There is also an intention to index this price range on a six-monthly basis

3.53 The above initiatives (3 and 4) have not been implemented. The LDA has not established quarterly targets for over-the-counter sales, and over-the-counter sales do not occur on a regular and ongoing basis. Although there have been some over-the-counter sales, these have primarily occurred for land that had previously been sold by the LDA under alternative methods (e.g. auction or ballot) and returned to the LDA because the original purchaser did not wish to proceed.

3.54 The LDA advises that it intends to introduce over-the-counter sales when it has developed an inventory of serviced land. As there are current levels of unmet demand, the LDA indicates that over-the-counter sales may be less equitable and less transparent compared to ballots or auctions.

## CONCLUSION

3.55 There is a significant disconnect between publicly reported information on land release and the actual supply of 'shovel-ready' land for building and construction. More effective reporting requirements, in addition to current reporting on release figures would provide a more accurate assessment of the actual supply of

residential land in the ACT. This would also assist in more effective monitoring of developers' and builders' pipelines.

- 3.56 The LDA is currently supplying residential land from its own estates prior to the completion of civil works and infrastructure, which leads to risks and budget implications, including those associated with blocks not meeting purchasers' expectations, or purchasers, for a variety of reasons, not wishing to follow-through with their purchases. For land purchased under the Land Rent Scheme, which was introduced by the Government to improve housing affordability, risks are currently borne by the LDA and the Territory, as the buyers have no obligation to finalise the purchases.
- 3.57 Land development and supply policy and programs in recent years have not been effective to meet the demand, and industry representatives have expressed significant concerns about the shortage of land ready for building and the continued lack of affordable land prices.

## 4. MEETING FINANCIAL OBJECTIVES OF RESIDENTIAL LAND SUPPLY AND RELEASE

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### INTRODUCTION

4.1 In examining financial outcomes of the supply and release of residential land, Audit focused on the LDA's operation, as it is the key agency delivering land revenue to the Government. This chapter describes the LDA's financial management and monitoring processes for the supply and release of land for residential purposes. It includes discussion of:

- the LDA's organisational and project-specific financial objectives and achievements; and
- the LDA's activities to review and benchmark its land development costs.

### KEY FINDINGS

- The LDA's organisational objectives and key priorities, as articulated in its annual Statement of Intent, are supported by overall financial-related KPIs. However, the financial KPIs are not adequate to assess the LDA's specific performance and achievements for a range of its land development activities and methods of deliveries, namely the LDA's own estates, joint ventures or englobo land sales.
- In 2009-10 the LDA met or exceeded its identified financial-related KPIs. However, as a commercial operation, the LDA was not subject to normal commercial risks. For example:
  - the LDA is not required to pay TAMS for the land until individual blocks are settled with end-purchasers and is therefore able to minimise any borrowing or finance costs;
  - organisational overheads and administrative costs are not attributed to projects; and
  - the LDA itself determines the cost of land payable to TAMS, which does not always reflect independent valuations.
- The LDA's capacity to determine the cost of land payable to TAMS, which allows the LDA to achieve a guaranteed profit of 20 percent on its non-LDA developed land, including englobos and direct sales, can reduce incentives to control its costs to achieve efficiency.
- LAPS has not sought to independently benchmark the LDA's development costs, as required by the Affordable Housing Action Plan. Doing so would provide the Government with greater assurance that the LDA's key businesses are efficiently managed, and would provide a stronger and transparent basis for Government to make strategic decisions about future land releases.
- There is a lack of comparative analysis of the results of the different methods of delivery of land release, including their merits and shortcomings in meeting competing financial, social and environmental objectives. Consequently, there is no robust process for LAPS to inform the Government's decision on an

appropriate mix of land releases by different delivery methods, or any trade-off required to deliver competing government priorities.

## BACKGROUND

4.2 Land revenue is a significant source of revenue to the ACT Government. At a consolidated level, land revenue's contribution to the ACT financial results is shown below.

**Table 4.1: Contribution of Land Revenue to the Territory's financial results**

	2009-10 \$ m	2008-09 \$ m	2007-08 \$ m
Land revenue (value-add component)	166	88	229
Land revenue (Market gains on land sales)	39	41	131
Net land revenue (undeveloped land value)	86	98	113
<b>Total</b>	<b>291</b>	<b>227</b>	<b>473</b>

Source: Audited financial statements for the Territory

4.3 The LDA pays dividends to the ACT Government and pays TAMS for the acquisition of land that is developed for release through various methods.

**Table 4.2: Dividends and other payments paid by LDA to the Territory budgets**

	2009-10 \$ m	2008-09 \$ m	2007-08 \$ m
Dividends paid	77	51	152
Income tax equivalents	35	21	65
Payments for land acquisitions	113	87	152
Stamp duty and interest on borrowing	-	-	8
<b>Total returns to the Territory</b>	<b>225</b>	<b>159</b>	<b>377</b>

Source: LDA annual reports

## THE LDA'S KEY PRIORITIES AND KEY PERFORMANCE INDICATORS

4.4 The LDA's 2010-11 Statement of Intent identifies that the organisation 'operates at the boundary of commercial and public sector activities.' In this respect, although the LDA is a government agency, it is expected to operate on a commercial basis and provide a commercial return to the ACT Government.

4.5 In doing so, it is important that the LDA has an appropriate financial management framework and supporting practices to recognise and account for its financial achievements. The LDA's organisational objectives and key performance indicators are articulated in its annual Statement of Intent. The Statement of Intent is reviewed and updated each year and signed off by the Chair of the LDA

Board and the ACT Treasurer. The LDA’s objectives and key performance indicators for 2010-11 are included at Appendix C.

4.6 The Statement of Intent identifies nine objectives, one of which is financial-related: ‘provide a commercial return to the Territory on its investment in the Agency and its business activities.’ The Statement of Intent also states that ‘in the discharge of its responsibilities, LDA is a significant source of funding to the ACT Budget.’

4.7 In support of its 2010-11 objectives, the Statement of Intent identifies seven key priorities, one of which is ‘paying dividends to the ACT Government at 100 percent of the operating profit after tax.’

**Key Performance Indicators**

4.8 The LDA has identified the following KPIs in its 2010-11 Statement of Intent:

**Table 4.3: The LDA’s 2010-11 Key Performance Indicators**

Profitability	Target	Liquidity	Target	Financial Stability	Target
Profit before tax (million)	\$77	Current ratio	1.9	Equity Ratio	36.0
Profit after tax (million)	\$54	Acid Test Ratio	0.6	Debt to Equity Ratio	31.7
Dividend (million)	\$54	Cash Flow Indicator	-0.5	Interest Coverage	53.3
Return on Assets (%)	22.7				
Return on Equity (%)	60.8				
Gross Profit Margin on Land Sales (%)	25.7				

Source: LDA Statement of Intent 2010-11

**THE LDA’S FINANCIAL RESULTS**

4.9 Table 4.4 on the following page demonstrates the LDA’s achievements against financial-related 2009-10 KPIs.

4.10 The table demonstrates that the LDA either met or exceeded its financial indicators for 2009-10. The table also demonstrates that the LDA’s performance against most indicators was significantly higher than anticipated. However, there are issues relating to LDA financial targets and results and these are discussed later in this Chapter.

4.11 The reasons provided by the LDA for its improved performance include:

- before-tax profit and after-tax profit were almost double the initial target target. The LDA notes that ‘the increase in profit and the dividend was due to the higher than expected operating result as the consequences of higher land sales prices, higher interest revenue together with lower than budgeted Cost of Land Sold during 2009-10’; and

- the LDA's interest coverage was significantly higher than anticipated. This is due to the LDA not incurring finance and borrowing costs on its operations.

**Table 4.4: The LDA's achievements against financial measures for 2009-10**

LDA 2009-10 financial measures		Target	Actual
Profitability	Profit before tax (\$ million)	57	113
	Profit after tax (\$ million)	40	77
	Dividend (\$ million)	40	77
	Return on Assets (%)	17.1	32.7
	Return on Equity (%)	45.4	89.3
	Gross profit margin on Land Sales (%)	21.3	36.2
Liquidity	Current ratio	1.5	1.5
	Acid test ratio	0.5	1.12
	Cash flow indicator	0.0	0.54
Financial stability	Equity ratio (%)	39.1	36.4
	Debt to equity ratio (%)	32.1	0
	Interest coverage	38	7 037

Source: LDA 2009-10 Statement of Performance (Financial)

4.12 There are shortcomings in the LDA's recognition of and reporting on its financial performance and achievements. Key shortcomings are:

- the financial indicators and results do not adequately distinguish between the LDA's different responsibilities, including its commercially-driven land development role and its broader government responsibilities, including supporting its portfolio department or the ACT Government more broadly;
- the financial indicators and results do not adequately distinguish between the LDA's residential, commercial and industrial land release and development activities, for which there are different activities and cost drivers; and
- the financial indicators were not developed and reported separately for each method of residential land supply delivery, namely LDA estates, joint ventures and englobo land sales.

4.13 Audit notes that a range of additional indicators are in use in relation to land supply and urban development in other jurisdictions and land development entities. Using these indicators could provide a more accurate indication of the LDA's performance in undertaking its land development activities. These indicators include:

- cost and yield indicators – which recognise per unit costs of development;
- broadacre and infill development indicators – which recognise the inherent difference between greenfield developments and urban infill developments;

- development cost indicators – which could recognise the different costs associated with land preparation, earthworks, roads and drainage, landscaping costs and sewer-related costs; and
- non-development cost indicators – which could recognise other costs such as sales and marketing, project management and oversight costs.

4.14 The LDA advised that some of these indicators are used internally, and may not be appropriate for public reporting due to commercial confidentiality, especially in the case of joint ventures.

4.15 On the basis of current publicly-reported KPIs, and the method of calculating them, it is not possible to assess whether the LDA operates efficiently, and costs or returns are comparable to similar commercial government operations. It is difficult to determine whether the LDA has maximised financial returns to the ACT. Similarly, there was little transparency in any financial trade-off required to meet other Government's non-financial outcomes.

### **Recommendation 7**

The LDA should include additional financial indicators in its Statement of Intent, to improve accountability regarding the various methods of delivery for land releases. Financial indicators should be developed and reported separately for LDA estates, joint ventures and englobo sales.

## **LAND VALUATIONS**

4.16 Since 1 July 2005, the LDA has been required to pay TAMS for the value of the land it sells, irrespective of whether the land is sold englobo or through LDA estates or joint ventures. These payments to TAMS are recognised as an expense to the LDA and are reported as a component of *Cost of Land Sold* in the LDA's financial statements.

4.17 The LDA manages the land valuation process and subsequently advises TAMS of the value of the land. It makes a payment to TAMS, which goes directly to consolidated revenue.

4.18 Audit notes that this is a unique process, whereby the LDA, as a purchaser, is responsible for determining the cost of its purchase. Audit also notes that this gives rise to conflicts of interest on the part of the LDA, as it can manage the valuation process to identify as low a price as possible for the value of the land payable to the ACT Government, and hence can report better profits.

4.19 The valuation process generally proceeds as follows:

- LDA estates:
  - the LDA obtains a valuation for the greenfield land 'as is' in order for the LDA to pay TAMS for the land. Generally two independent valuers are used, who independently determine and assess the value of the land, before coming together to agree on a land value; and

- a second valuation is generally required after due diligence has been done for the land and it is ‘development ready’.
- non LDA estates, e.g. commercial sites or englobo developments:
  - a gross profit margin of 20 percent is used to calculate the amount that the LDA pays to TAMS for the land.
- joint ventures:
  - it has been the practice for the LDA to pay the Territory 50 percent of the deemed land value, which effectively equates to the capital contribution paid by the private sector joint venturer to LDA to acquire half of the equity in the joint venture.

4.20 Key issues associated with the valuation process from the case studies are identified as follows.

### *Woden Green valuation*

4.21 Three separate valuations (from two valuers) were obtained for Woden Green between April 2006 and October 2006. The valuations were conducted based on seven blocks being used for 300 residential sites with a three storey limit, and with one block being ten storeys with mixed residential, commercial and retail uses. These valuations varied significantly, one at \$7.6 million and the other at \$17.8 million.

4.22 The two valuers subsequently discussed the valuations to determine that \$8.2 million should be paid to TAMS.

4.23 Publicity material relating to Woden Green from 2008 has since promoted the development as having up to 700 residential apartments, a retirement community and retail and community spaces. In October 2010, the joint venture signalled that it wished to seek a Territory Plan Variation to increase the number of dwelling sites to approximately 1 700.

4.24 These changes in expected yields are yet to be supported by variations to the land valuations and hence there is no information on estimated payments of change of use charges.

### *North Weston valuation*

4.25 Valuations, the land sale process and the amount paid to TAMS for North Weston were as follows:

- in June 2009 three independent valuations were obtained for the North Weston englobo site, ranging from \$10.6 million to \$12 million.
- in June 2009 the land was auctioned for \$11.7 million.
- in July 2009, subsequent to the sale of land via auction, an agreed land value of \$9.5 million was determined.

- the actual payment to TAMS was determined by subtracting direct costs (\$1.2 million) and a gross margin of 20 percent (\$2.4 million) from the sales price and infrastructure revenue of \$11.9 million.
- 4.26 This resulted in a payment to TAMS of \$8.3 million, instead of \$9.5 million, which was the amount identified in the value of the land done after the land was sold.
- 4.27 Audit was informed that the valuations were obtained as North Weston was going to be a LDA estate development. However, it was subsequently sold as an englobo parcel of land.
- 4.28 LDA also advised that the current processes to determine land costs payable by LDA were in accordance with ACT Treasury's policy and directions.

### *Gross margin on land sales*

- 4.29 The practice of using the 20 percent gross margin derives from an accounting policy that was introduced by the LDA in July 2008. The policy recognises that the LDA is required to obtain valuations for all of the land that is acquired from the ACT Government for development and / or sale, but notes that this has given rise to a number of difficulties, including:
- valuations that have exceeded the sales prices, and the subsequent need to go back to valuers and seek an amended valuation;
  - valuations that are not low enough to provide an appropriate commercial return to the LDA, which is one of its key objectives;
  - valuers having difficulty in understanding the specific reason and concept underpinning the requirement for an 'as is' valuation, specifically for the purpose of paying the ACT Government for the land; and
  - sourcing and receiving valuation services in a timely manner in order to comply with deadlines.
- 4.30 As a result, the policy enables the LDA to avoid seeking a valuation for land sales that do not form a significant component of the LDA revenue stream, but to identify the cost of the land as a fixed ratio of 80 percent of the GST exclusive amount that is realised from the sale. The LDA suggests that this is a simpler and more effective means of determining the cost of land to be acquired from the ACT Government, at least for less significant revenue streams i.e commercial auctions and direct sales.
- 4.31 The application of the policy to the North Weston englobo sale has resulted in the cost of the land being about \$1 million less than the valuation that was agreed in July 2009 (and even less than the three valuations conducted in June 2009).

### *Impact on project financial achievements*

- 4.32 In two of the six case studies examined, Audit identified that the payments to TAMS were below the average of the independent valuations. In the case of the englobo sale of North Weston, the practice of factoring in a gross margin cost (in

addition to already-identified direct costs) resulted in an even lower payment to TAMS.

- 4.33 Overall, these practices have reduced the LDA's expenditure and increased its overall profits, but do not relate to any better performance of the LDA.
- 4.34 As a result, the LDA is not operating on a strictly commercial basis as it is not subject to normal commercial risk. Furthermore, allowing the LDA to subsequently determine the cost of the land sold, after conducting the sale of the land, may reduce commercial incentives for the LDA to operate as efficiently as possible. This was demonstrated in the North Weston englobo sale, where the 20 percent gross margin was deducted even after direct costs were deducted from the sales price.
- 4.35 Applying this practice to future land sales, Audit notes that should the LDA be unable to control its direct costs efficiently and effectively, the LDA will still achieve a guaranteed profit of 20 percent on englobo sales. This process could impact the reliability of the LDA's financial statements and reported profits and financial achievements.
- 4.36 Audit considers that for transparency, another Government agency (e.g. LAPS or Treasury or ACTPLA) should be responsible for seeking valuations for land that the LDA pays to TAMS. Audit also notes that there is no agency currently takes on the whole-of-government responsibilities for land valuations. Various agencies seek their own land valuation for different purposes. ACTPLA regularly undertakes valuation of land, particularly for Change of Use Charge; ACT Revenue Office has valuations for rates, land tax and stamp duties purposes; and DHCS also values its public housing properties and other community facilities.

### **Recommendation 8**

LAPS should advise the Government on an appropriate agency to assume responsibility for managing the valuation process and determining the appropriate value of land that is supplied to the LDA, to increase transparency in financial achievements reported by the LDA.

## **FINANCIAL RESULTS OF LDA DEVELOPMENT PROJECTS**

- 4.37 Audit reviewed the financial results specific to LDA development projects, as an indicator of LDA's operational efficiency in undertaking residential land development.
- 4.38 Audit noted that the LDA has established a financial management framework to facilitate the financial management of its development projects, that has the following key features:
- project financial budgets – budgets are established at the commencement of the project and include information on project assumptions including dwelling yields, revenue and expenditure information and timeframes;

- budget analysis reviews – budget analysis reviews are a comprehensive exercise to take stock of revenue and expenditure to date and progress against project objectives and timeframes; and
- monthly financial reports – monthly financial reports provide information on monthly revenues and expenditure.

4.39 The LDA’s project financial framework is facilitated by project-specific financial codes, which allows tracking of revenue and expenditure against specific projects.

### **Project financial achievements**

4.40 LDA projects identify key financial objectives, as follows:

- profit – the difference between total project revenues and total project expenses; and
- project development margin – the proportion of project profit over project revenue (an additional indicator that has also been used is the proportion of project profit over project expense).

4.41 The total revenue and expenses of projects necessarily vary considerably across the various projects, according to the size and nature of the project and its total yield (the number of dwelling sites identified for release). A more appropriate and comparable (but by no means comprehensive) indicator of a project’s financial achievements is the project development margin.

4.42 By way of example, the project development margins and achievements for two of the LDA’s most recent estates is identified in the following table:

**Table 4.5: LDA project development margins**

<b>Estate</b>	<b>Target</b>	<b>Achievement to Date</b>
Bonner (LDA estate)	19.64% (margin on revenue)	21.1%
Forde (joint venture)	26.5% (margin on revenue)	27.8%

Source: LDA budget analysis reviews for Bonner and Forde

### ***LDA estate project financial achievements***

4.43 When reviewing processes for recognising and accounting for project costs for LDA estate developments, Audit identified the following issues with respect to the financial management framework and assumptions that underpin the project costs:

- the LDA’s staffing, administrative and overhead costs are not attributed to project-specific budgets; and
- the LDA is not required to pay TAMS for the land until individual blocks are settled with end-purchasers and is therefore able to minimise any borrowing or finance costs.

- 4.44 By not allocating staffing, administrative and overhead costs to project budgets the true costs of projects are not identified, thereby potentially inflating the profit and associated development margin and internal rate of return of the projects.
- 4.45 Similarly, by not being subject to normal commercial arrangements, the LDA operates at a considerable comparative advantage to other developers. Although borrowing and finance costs are anticipated in the LDA's Statement of Intent, through the use of an *interest coverage* performance indicator, the LDA does not often require borrowing or incur finance costs. On a commercial basis, Audit notes there should be opportunity costs for the use of equity funding.
- 4.46 Better recognition and allocation of all costs to project-specific budgets will mean that the LDA will operate on a more commercial basis. It will also facilitate a more accurate assessment of the financial viability of LDA estate developments.

### BENCHMARKING DEVELOPMENT COSTS

- 4.47 The 2007 AHAP recognises the importance of development costs for land projects and their potential impact on the provision of affordable housing, and identified a requirement to benchmark land development costs every two years. The Report of the Affordable Housing Steering Group stated:

The ACT Government, in its 2006-07 Budget, noted that the Land Development Agency's costs were higher than the industry average and directed both the implementation of immediate savings and the initiation of a benchmarking study to guide future cost setting.

Number	AHAP Initiative
7	Benchmark land development costs every two years through independent analysis.

- 4.48 The LDA has not sought to benchmark land development costs every two years through independent analysis. The last benchmarking study which sought to compare LDA costs with private sector developers and other state agencies with a similar role and responsibilities to the LDA was conducted in May 2007.

### LDA estate and joint venture comparisons

- 4.49 Audit recognises the difficulty in benchmarking development costs, particularly with respect to the availability of data from private sector developers and the comparability of different developments, which are likely to vary in their design features, the type and nature of the dwelling mix and the infrastructure needed. However, by undertaking such a benchmarking exercise and even with limitations of benchmarking, the LDA would be in a stronger position to:
- understand its own performance in developing LDA estates;
  - understand whether it is obtaining value for money in its joint venture developments; and
  - inform the ACT Government in its consideration of competing priorities and its future decisions on land supply policies.

- 4.50 In this respect, Audit examined the most recent budget analysis reviews of the Bonner LDA estate and the Forde joint venture, and found that the budget analysis reviews did not seek to compare project-specific costs with other projects or industry benchmarks. Accordingly, the LDA did not have sufficient information to assess cost-efficiency across projects or the whole program.
- 4.51 Audit found that there are significant variations in cost items across the two projects, including:
- the Bonner development identified an initial project contingency of 5.2 percent of total estimated costs (\$16.9 million), while the Forde development identified an initial project contingency of 2.8 percent (\$4.0 million) of project costs;
  - the most recent budget analysis review for the Forde development identified \$6.7 million for consultant fees and \$9.1 million for project management fees (collectively approximately 9.9 percent of total project fees), while the most recent Bonner budget analysis review identified \$10.7 million for professional fees (approximately 3.7 percent of total project fees);
  - the Forde budget analysis review identifies an amount of \$7.3 million for design and administrative expenses (approximately 4.6 percent of total project fees) for which there is no equivalent line item in the Bonner budget; and
  - the Forde budget analysis review identifies an amount of \$4.5 million for project marketing costs (2.8 percent of total project costs) while the Bonner budget identifies the same amount for advertising and marketing and sales costs (1.4 percent of total project costs).
- 4.52 Audit also notes that the Forde Budget identifies \$73.1 million for *infrastructure* costs (45.7 percent of total project costs) and the Bonner Budget identifies \$143.9 million for *construction* costs (46.5 per cent of total project costs). Comparison of these percentages suggests that actual development costs are comparable across these two projects.
- 4.53 Given its significant operations, Audit expects that the LDA should regularly analyse the costs of its land releases, and benchmark these costs across different projects, between LDA estate developments and joint ventures, in which the LDA has an interest. At present the LDA has not developed a robust model, with identified better practice industry standards, by which to do so.
- 4.54 While recognising the inherent limitations of benchmarking, by not seeking to benchmark land development costs, the LDA's capacity to accurately determine and identify relative merits and potential returns to the ACT Government, specifically across the three development methods, is diminished.
- 4.55 Furthermore, in the absence of regular and ongoing monitoring and review of development costs, the LDA and the ACT Government's ability to make strategic decisions and an informed choice as to the methods for land supply and development (i.e. LDA estate, joint venture, englobo), or an appropriate mix of these, to achieve government financial and non-financial objectives, is also compromised.

**Recommendation 9**

In accordance with the Affordable Housing Action Plan, LAPS in conjunction with the LDA, should seek to independently benchmark the LDA's land development costs on a regular and ongoing basis.

**CONCLUSION**

- 4.56 The LDA has in place a financial management and monitoring framework, which includes project-specific financial codes, monthly financial reports and budget analysis reviews. This provides support for the LDA's activities and its objectives to maximise returns to the ACT Government.
- 4.57 However, the LDA can improve its public accountability on its financial achievements by reporting on additional KPIs for specific key activities. There is also an opportunity to recognise actual and full costs for the LDA's projects, which should apportion organisational overheads, administrative and any relevant costs.
- 4.58 Better recognition of project-specific costs, as well as ongoing benchmarking of its development costs, will provide a stronger basis on which to assess the LDA's financial achievements and inform government decisions on land supply and development policies.

## 5. MEETING SOCIAL OBJECTIVES OF RESIDENTIAL LAND SUPPLY AND RELEASE

### INTRODUCTION

5.1 This chapter assesses the delivery of ACT Government social objectives for land supply and development. It includes discussion of selected initiatives within the Affordable Housing Action Plan (AHAP) that specifically relate to the supply and development of residential land. Selected aspects of the Land Rent Scheme, relating to the supply and development of land, have also been examined.

### KEY FINDINGS

- The 2007 Affordable Housing Action Plan (AHAP) sets out social objectives and outcomes in relation to land supply and development, and has been a key influence on activities of various ACT Government agencies. AHAP initiatives were principle-based, and hence were phrased generally, with an expectation that these would be articulated into clear and measurable targets and indicators within Statements of Intent of the LDA and Statements of Performance of ACTPLA and other agencies. This did not occur for many AHAP initiatives.
- There were some good results achieved for the supply of affordable blocks. Between the introduction of the AHAP and June 2010, 238 blocks supplied through LDA estates have been settled for less than the affordable housing threshold of \$120 000. In 2009-10, 135 blocks were settled for less than \$120 000, which exceeded the then 10 percent target for land supplied in LDA estates within the affordable housing range. Most blocks supplied within this threshold are OwnPlace Program blocks.
- The LDA has implemented affordable housing targets in the Deeds of Agreement for englobo land releases, requiring private sector developers to provide 15 percent of their dwelling blocks for affordable house and land packages. These requirements are enforced by ACTPLA. Since 2007, the LDA has also incorporating affordable housing targets into its LDA estate releases. Due to timing differences between release and settlement (discussed in Chapter 3) not all of these releases have been translated into the actual supply of affordable house and land packages to the market. Over the two years since the introduction of the OwnPlace Program and June 2010, 247 OwnPlace blocks have been sold to builders, and only 112 of these blocks have since been released to eligible purchasers.
- The Land Rent Scheme, introduced in July 2008, allows buyers/lessees to make lease payments for LDA estate blocks over the term of the lease rather than as a upfront capital payment, (4 percent annually on the value of the land, or a discount 2 percent for eligible buyers), thus aiming to improve housing affordability.
- Under the current Government policy, all buyers of LDA land (regardless of income) can access the Land Rent scheme. Purchasers, including owner-occupiers, builders and investors, can hold multiple blocks (maximum 5 blocks),

and can unilaterally rescind the sale contract without any penalty or conditions prior to settlements.

- At the time of the audit, there has been a cancellation rate of 12.4 percent on these Land Rent contracts. There has also been an increasing proportion of LDA land releases being sold under this scheme, and in November 2010, the value of unsettled land rent block was about \$133 million, which is subject to potential contract cancellations.
- The current rate of contract cancellations, combined with the LDA practice of supplying blocks within its estates with long settlement periods creates a number of risks to the land development and supply process, and has financial and budget implications, including:
  - no certainty for the LDA when entering into Land Rent contracts in terms of sales and revenue;
  - the difficulty to re-sell these blocks, if this happens at a time when a range of other estates are beginning to come on line and sell blocks;
  - considerable administrative inefficiency as the LDA needs to re-sell these blocks possibly multiple times, incurring additional costs such as marketing and legal registration of their Land Rent leases;
  - increased compliance and enforcement costs to ensure individuals and companies comply with the Scheme; and
  - increased uncertainty with respect to forecasting revenue for the ACT Government.
- As at January 2011, the ACT Revenue Office administered 54 Land Rent leases at a standard rate, and 34 leases at a discount rate to eligible low income lessees.

### **BACKGROUND**

- 5.2 The supply and development of land by government is a key means by which social outcomes can be achieved for the community.
- 5.3 Affordable housing has been an important social objective of the ACT Government. The ACT Government's Affordable Housing Action Plan issued in 2007 has therefore been a key driver of ACT Government land supply and development activity in recent years.
- 5.4 Sustainability objectives may also be identified as social objectives for the supply and development of land, and these are considered in Chapter 6 of the report.

### **AFFORDABLE HOUSING ACTION PLAN**

- 5.5 In August 2006, the Chief Minister announced the establishment of the Affordable Housing Steering Group 'to advise the Government on initiatives to increase the supply of affordable housing in the ACT.' The Steering Group was chaired by the Chief Minister's Department, with participation from the ACT Department of Treasury, and the Department of Disability, Housing and Community Services.

- 5.6 In March 2007, the Report of the Affordable Housing Steering Group was released. The ACT Government agreed to all 62 recommendations of the report.
- 5.7 In April 2007, the ACT Government released the AHAP. The AHAP aimed to ‘support the supply of affordable housing and to ensure that all individuals, irrespective of circumstances, are able to access accommodation suitable to their needs.’ The AHAP was announced as a ‘far-reaching, innovative and comprehensive plan that provides options and solutions for those seeking to buy a home, for those renting in the private market, for those who use public and community housing and for those who require emergency accommodation.’
- 5.8 The AHAP identified a range of different initiatives to address housing affordability, at different stages of the housing continuum, namely:
- Home Ownership;
  - Private Rental;
  - Community and Not For Profit Housing;
  - Public Housing; and
  - Supported Accommodation, including Emergency Housing.

#### Clarity of AHAP initiatives

- 5.9 Audit examined the implementation by government agencies of selected initiatives of the AHAP. Audit focused on initiatives identified within the *Actions on Home Ownership* section of the AHAP, which are relevant to the scope of this Audit, namely on residential land supply and development.
- 5.10 Audit found that:
- the nature and descriptive details of the different AHAP initiatives varied considerably, and they did not provide sufficient details on the purpose of some measures;
  - a range of initiatives lacked measurable and identifiable targets associated with their implementation, although it was expected that these would be developed by agencies; and
  - the AHAP lacked detail on responsibilities and accountabilities for specific initiatives.
- 5.11 With respect to the latter, however, Audit notes that the AHAP was supported by the original report of the Affordable Housing Steering Group, which contained more detail on the genesis of the initiatives and recommendations, and an implementation team was immediately established.
- 5.12 Audit notes that many of the initiatives identified within the AHAP cut across different agencies’ roles and responsibilities. A good example of this is the Land Rent Scheme, whereby the policy planning and design of the scheme was undertaken by ACT Treasury, while the practical implementation was the responsibility of the LDA. The recent introduction of LAPS has added an additional agency with policy oversight responsibility. Accordingly, it is

imperative that inter-agency coordination and communication, as discussed in Chapter 2, is effective.

**Translation of AHAP initiatives into measurable objectives and targets**

5.13 Initiative 13 and Initiative 14 of the AHAP require relevant agencies to incorporate principles from the Land Release Strategy and the Affordable Housing Steering Group report into agency Statements of Intent. Initiative 13 specifically notes that key activities ‘should include clear, quantitative measures for delivering affordable housing outcomes.’

Number	AHAP Initiative
13	Incorporate principles from the Land Release Strategy and Affordable Housing Steering Group report into the Statements of Intent for both ACTPLA and Land Development Agency. In particular, key activities for 2007-08 to 2010-11 should include clear, quantitative measures for delivering affordable housing outcomes.
14	Incorporate into the work plans of other agencies relevant elements of the land release Strategy and the Affordable Housing Steering Group Report

5.14 Audit found that Initiative 13 and Initiative 14, including the articulation of clear, quantitative measures, was poorly implemented.

5.15 As noted previously, the LDA’s 2010-11 Statement of Intent includes only financial measures associated with profitability, liquidity and financial stability and the ILRP targets. No performance measures or outcomes are identified with respect to ACT Government social objectives, including specific AHAP initiatives in the LDA’s Statement of Intent to be reported against.

5.16 As LAPS came into existence in December 2009, it did not have any accountability indicators identified as part of 2009-10 budget papers. As part of the 2010-11 budget papers, LAPS has identified two accountability indicators as ‘implement the Affordable Housing Action Plan’ and ‘develop and implement a land supply strategy’. There is no further detail, or clear, quantitative measures identified for the AHAP initiatives.

5.17 In 2009-10 ACTPLA identified a single deliverable towards the AHAP as ‘investigate 10 percent of vacant leased single residential land in greenfield areas identified as being in breach of development covenants as required under the *Planning and Development Act 2007*’. There is no further detail, or clear, quantitative measures identified for other AHAP initiatives.

5.18 The absence of clear and measurable targets and indicators of AHAP initiatives, in agency Statements of Performance, is a contributing factor to the shortcomings in the implementation of specific AHAP initiatives reviewed as part of the Audit.

5.19 Appropriate incorporation of the AHAP initiatives into agency Statements of Performance is also likely to help define specific agency roles and responsibilities and be a means by which agencies are appropriately held to account for their performance and achievements.

**Recommendation 10**

ACT Government agencies should translate AHAP initiatives, which are principle-based into specific, clear and measurable targets within agencies' Statements of Performance or equivalent, and report against these on an annual basis.

**SUPPLY OF AFFORDABLE LAND AND HOUSING**

5.20 The AHAP includes a series of initiatives aimed at delivering affordable house and land products for purchase.

5.21 Three key initiatives are currently identified as follows:

Number	AHAP Initiative
17	Increase diversity in the market by introducing a new affordable house and land product.
18	Ensure that the land released each year provides a range of appropriately priced block sizes in diverse locations.
19	Require 20 percent of the blocks released each year target house and land packages within the Affordable Housing requirement range.

5.22 Initiative 17 has been implemented through the introduction of the LDA's OwnPlace initiative. This is discussed in more detail later in this chapter.

5.23 Activities in relation to Initiative 18 and Initiative 19 are discussed in the following sections of the report.

**Supply of a range of appropriately priced block sizes in diverse locations**

5.24 Initiative 18 requires that 'the land released each year provides a range of appropriately priced block sizes in diverse locations'. There is no associated measure and there are no clear standards of performance against which to assess its success or otherwise.

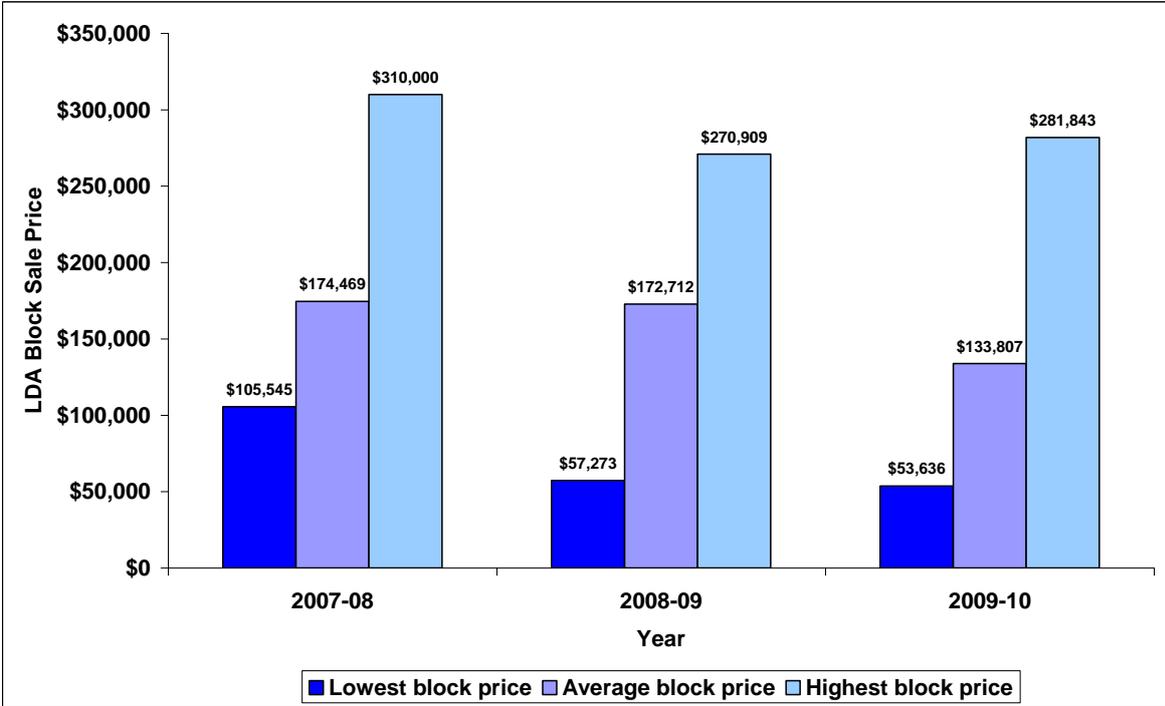
5.25 Audit examined the LDA's sales data for the three-year period between 2007-08 and 2009-10, in order to identify the value of blocks that have been settled. Audit notes that this analysis does not provide a strict measure of performance against this requirement because:

- release periods do not necessarily equate to sale and settlement periods – the LDA maintains sales data on the basis of settlement periods, which may occur in subsequent years to the time of release; and
- the data maintained by the LDA relates to sales of blocks in LDA estates and joint ventures, and does not include sales figures for private sector / englobo land releases.

5.26 Nevertheless, Audit considers that analysis of this data provides some useful information, on which to make an assessment on outcomes that are being achieved for the ACT community.

5.27 The following graph demonstrates the value of settled blocks of land from LDA estates between 2007-08 and 2009-10.

**Figure 5.1: LDA greenfield block sale prices (based on settlement figures)**



Source: Audit Office, based on LDA information

5.28 The graph demonstrates:

- there was a significant reduction in the value of the lowest priced block settled within LDA estates between 2007-08 and 2008-09, from just over \$100 000 to just over \$50 000; and
- the average price of blocks settled within LDA estates has decreased between 2008-09 and 2009-10.

5.29 The reduction in LDA estate block prices is contributing to the achievement of affordable housing initiatives. Audit recognises, however, that lower block prices are being achieved through reductions in the overall size of blocks. For example in the Bonner LDA estate approximately 77 per cent of all blocks will have a nominal size of 450 square metres or less. Affordable housing blocks in the Bonner estate are approximately 250 square metres.

5.30 Industry stakeholders have advised Audit of the increasing difficulties associated with undertaking building activity on smaller blocks. Industry stakeholders have also suggested to Audit that there are increasingly fewer choices available for potential purchasers who wish to obtain a larger block of land to meet their needs or for lifestyle choices. On the other hand, other groups have welcomed the reductions in block sizes as a means by which to achieve environmental and sustainability objectives.

### Supply of blocks of land within Affordable Housing pricing range

- 5.31 Initiative 19 requires that ‘20 percent of the blocks released each year target house and land packages within the Affordable Housing requirement range’.
- 5.32 This initiative (and associated targets) has been revised from the original initiative identified in the April 2007 AHAP. Initiative 19 was originally described as: ‘require 15 percent of the blocks released each year target house and land packages within the \$200 000 to \$300 000 price range; (10 percent for \$60 000-\$120 000 land).’
- 5.33 Audit notes that the following key changes have been made to the original initiative:
- the target has been revised upwards from 15 percent to 20 percent;
  - there is no longer an identified target for the supply of land only;
  - the dollar value for housing packages is subject to ongoing indexation; and
  - the initiative is no longer restricted to house and land packages only, but now includes the provision of multi-unit dwellings, i.e. units and townhouses.
- 5.34 Audit notes that the original value for housing packages (\$200 000 to \$300 000) is to be indexed on a six-monthly basis against the *ABS Producer Price Index: House Construction Index for the ACT*. At the time of audit fieldwork in October 2010, the identified price range was \$219 000 to \$328 000 for house and land packages.
- 5.35 The initiative was reviewed and the targets revised in response to the apparent difficulty in achieving this initiative in an environment of continuously increasing input prices, i.e. land, development and building costs.
- 5.36 The LDA commenced incorporating affordable housing targets into all of its forthcoming estates from the introduction of the AHAP in 2007.
- 5.37 Audit examined the LDA’s sales data (i.e. settlement figures) for the three-year period between 2007-08 and 2009-10, to identify the actual proportion of affordable housing that had been supplied to the market. In the first instance, Audit sought to identify the proportion of land that had been sold for between \$60 000 and \$120 000. Consideration of the provision of house and land packages within the \$200 000 to \$300 000 price range is included in the section of the report that discusses the LDA’s OwnPlace Program.
- 5.38 The following table demonstrates the proportion of land settled from LDA estates, which was below the threshold of \$120 000 for the three-year period between 2007-08 and 2009-10.

**Table 5.1: Number of blocks settled for less than \$120 000**

	2007-08	2008-09	2009-10
Residential land settled for less than \$120 000	44	73	135
Total of residential land settled	646	683	874
Percentage of land settled for less than \$120 000, as a proportion of residential land settled	6.8%	10.6%	15.4%

Source: Audit Office, based on LDA information

- 5.39 The table indicates that the 10 percent target for the supply of blocks for sale for less than \$120 000 has been met for 2008-09 and 2009-10. However, these figures only relate to sales from LDA estates, and the settlement number of 135 dwelling sites for less than \$120 000 in 2009-10 was very small compared to on-going strong demand for affordable land.
- 5.40 Since 2008-09, most of the land supplied by the LDA for less than \$120 000 has been supplied through the OwnPlace Program (80 percent in 2008-09 and 85 percent in 2009-10). Since 2008-09 only 27 blocks under \$120 000 had been made available to the market through LDA estates outside the OwnPlace Program.
- 5.41 The implementation of Recommendation 6 associated with the reporting of better defined and more transparent data for land release, should facilitate more accountability for the actual supply of affordable housing products to the market.

### **OWNPLACE PROGRAM**

- 5.42 The OwnPlace Program was introduced in June 2008. Through the program, buyers may obtain affordable house and land packages in LDA estates within the Affordable Housing pricing range (currently \$219 000 to \$328 000).
- 5.43 Potential purchasers of OwnPlace house and land packages must meet eligibility criteria, identified in the Home Buyer Concession Scheme (HBCS) administered by the ACT Revenue Office. Potential purchasers must:
- have a combined household income up to a total of \$120 000 (with additional allowance if there are dependent children);
  - be 18 years old or over;
  - satisfy a current and previous property ownership test; and
  - reside in the property as the principal place of residence for a continuous period of six months starting within one year of completion of the Land Contract.
- 5.44 The LDA contracted with six builders to supply OwnPlace packages. These contracts require builders to provide the OwnPlace packages within the Affordable Housing range.
- 5.45 The process for supplying OwnPlace packages is as follows:

- through a contract the LDA supplies appropriate blocks of land to the contracted builders;
- the builders design an appropriate dwelling for the block and identify an appropriate price for the house and land package;
- potential purchasers register their interest for participation in the Ownplace Program;
- through a restricted ballot process (for eligible participants), the LDA identifies potential purchasers who have the chance to purchase a block;
- potential purchasers are invited to attend a Builders Expo/information session, whereby they have an opportunity to view potential house and land package options from the different participating builders;
- potential purchasers subsequently attend an OwnPlace Selection Day, whereby they select house and land packages that they wish to obtain; and
- the purchasers subsequently sign separate contracts with the LDA for the supply of the land and the builder for the supply of the building.

5.46 Between June 2008 and June 2010, the LDA has supplied 247 OwnPlace blocks<sup>4</sup> to builders. At the time of audit fieldwork in October 2010, however, only 112 OwnPlace blocks had been supplied to eligible purchasers.

### Non LDA estates

5.47 In addition to the LDA estates there have been five englobos and two joint ventures that have been bound by Deeds of Agreement to meet the fifteen percent affordable housing target. Of the 3 263 total land releases in these estates, it is only possible to verify that 105 affordable houses have been delivered. These are from Casey 1, which has been completed. The ACT Government will not know whether affordability targets in the other developments have been met until they are 80 percent complete, and this is yet to happen for these estates.

5.48 ACTPLA is responsible for managing the Deed of Agreement and ensuring that affordable housing targets that are incorporated within the Deed of Agreement have been met. To do so, ACTPLA withholds 20 percent of the leases until the developer establishes that the affordable housing component requirements have been met. Audit was informed that, since the implementation of the targets, conditions in the Deed of Agreements have been different, evolving over time to the 20 percent target that now includes multi-unit dwellings.

### Affordable housing achievements

5.49 As noted previously, there is a general lack of performance indicators and targets associated with specific AHAP initiatives, including the delivery of OwnPlace dwellings to the market. Furthermore, as noted in Chapter 4, there is a strong and

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<sup>4</sup> At the time this report was published, February 2011, a further 157 OwnPlace blocks had been released, bringing the total to 404.

continuing focus on achieving financial indicators and targets, which are regularly monitored and reported against through monthly Board reports.

- 5.50 Going forwards, the current revision of the target to enable the supply of affordable housing packages through multi-unit developments should facilitate LDA achievements against this initiative for future land releases. However, a more rigorous setting of objectives and indicators, including identifying targets for the actual supply of dwelling sites to the market and timeframes for achievement, should provide a stronger basis on which actual supply and delivery of affordable housing can be monitored and reported against and enhance the accountability for service delivery.
- 5.51 Audit considers that the implementation of Recommendation 10, which relates to the identification and articulation of specific performance indicators and targets for AHAP initiatives, will assist in more effective achievements for affordable housing and transparency in reporting.
- 5.52 ACT Government agencies have advised Audit that since the introduction of AHAP in 2007, of the 84 objectives, 52 have been implemented, eleven have been partially implemented and 21 are not yet implemented.
- 5.53 Audit notes that it was not within the scope of this Audit to have a full review of the AHAP, rather the Audit discussed selected initiatives relevant to the land development and supply.

### LAND RENT SCHEME

- 5.54 The introduction of a Land Rent Scheme was also an initiative of the 2007 AHAP.

Number	AHAP Initiative
28	Introduce a Land Rent Scheme.

- 5.55 The ACT Land Rent Scheme was introduced on 1 July 2008. Under the Scheme, purchasers of a single dwelling residential block (previously unleased land) sold by the LDA have the option of applying for the Crown Lease to be issued as a Land Rent lease.
- 5.56 ACT Government documents state that there is an advantage for the purchasers, in that they will not be required to borrow for capital payment on the Crown Lease, and will only need to fund the purchase or construction of a home on the Land Rent block. The scheme aims to reduce the up-front costs associated with owning a house, and improve housing affordability.
- 5.57 All blocks of land released by the LDA via ballot or over-the-counter sale are available for Land Rent, including land available under the OwnPlace initiative. Land Rent blocks are not available for sale through auction.
- 5.58 Land purchased under a Land Rent lease is subject to payment of an annual Land Rent charge. The standard Land Rent rate is 4 percent of the unimproved value of the leased land. This is not means-tested and any purchaser can opt for the Land Rent Scheme at the standard Land Rent rate. A discounted Land Rent rate is

available to eligible purchasers, which is 2 percent of the unimproved value of the leased land. This is means-tested and access to the discounted Land Rent rate is restricted to the following eligibility criteria:

- the total annual income of all lessees must not exceed \$83 000, increasing by \$3 330 per child up to a maximum of \$99 650 for five or more children;
- lessees cannot own any other real property; and
- at least one of the lessees must reside in the property once a Certificate of Occupancy has been issued.

### Design features of the Land Rent Scheme

5.59 There are a number of key design features of the Land Rent Scheme that provide benefits to buyers, including:

- no deposit, financial or administrative fees are payable by purchasers when they purchase the block (unless the purchaser takes multiple blocks, in which case there is no fee payable on the first block, but they are required to pay \$1 000 for each additional block);
- purchasers have the right to rescind the contract for sale at any time prior to settlement; and
- purchasers have the right to convert the land rent contract to the normal Crown Lease and pay the full unimproved land value.

5.60 There are also benefits offered to the lenders who provide finance to the land rent lessees for house construction, including the ACT Government sharing some potential financial risks in the events of mortgage defaults.

### Implementation of the Land Rent Scheme

5.61 At the time of audit fieldwork in November 2010, 686 Land Rent contracts had been entered into. Almost 50 percent of Wright over-the-counter sales in June 2010 were through the Land Rent Scheme, and Land Rent Scheme blocks have represented more than two-thirds of some Bonner releases.

5.62 Most of the LDA estate blocks sold through the Land Rent Scheme were yet to be settled at the time of the audit and the value of unsettled Land Rent blocks in November 2010 was almost \$133 million. The increasing access to the Land Rent Scheme combined with continuing land releases from LDA estates into 2011 indicates that this figure is likely to increase. Any delays to development activity in Bonner, Franklin and Wright mean that settlement of blocks in these estates will get pushed out even further, hence the overall value of unsettled Land Rent blocks is unlikely to be reduced.

5.63 There have also been implementation issues from the introduction of the Land Rent Scheme, which may have unintended outcomes, such as consortiums of purchasers obtaining multiple blocks, thereby restricting so-called 'ordinary' purchasers from obtaining land.

- 5.64 Audit reviewed the data on land rent contracts as at November 2010 and found that there are several individuals and companies hold multiple blocks under the Land Rent Scheme.

### **Actions to address risks of large holdings of land under the Land Rent Scheme**

- 5.65 The LDA has addressed some of the risks associated with individuals, companies, or groups of related parties holding a large collection of land blocks. LDA developed a policy document in August 2009 "*The ACT Land Rent Scheme Processes and Procedures for Administering the Scheme*" which allows purchasers to only take one block at a time during the ballot or over-the-counter process.
- 5.66 The LDA has also sought to restrict purchasers from obtaining more than five blocks at a time during each land release. Further, the LDA has sought to address the risk of purchasers paying other people to act on their behalf during the ballot process by requiring purported purchasers to sign a statutory declaration to the effect that they are acting for themselves and are not acting on anyone else's behalf.
- 5.67 It remains unclear as to whether these actions will be sufficient to address the identified risks under the Land Rent Scheme. Strong and on-going compliance activities would be required from ACT Government agencies, including ACTPLA, to prevent potential misuse of the Scheme.

### **Continuing risks of the Land Rent Scheme**

- 5.68 Audit acknowledges the primary purpose of the Scheme was to improve housing affordability by lowering the upfront capital cost of land purchases for buyers. Accordingly, many design features of the Land Rent Scheme aim to provide attractive conditions to buyers, (and to the financial institution), and this has reflected in the increasing take-up rate in LDA new estates.
- 5.69 It should be noted that it was not within the scope of this Audit to fully audit the Land Rent Scheme and analyse all the benefits, costs and risks associated with it. Rather, Audit limited its review to aspects of the Scheme relevant to land supply and development issues and the management of these risks.
- 5.70 There are risks and budget implications which primarily derive from the LDA's practice of selling estate blocks prior to the completion of civil and development works, which leads to increasingly delayed settlement periods. LDA land was sold where development and civil works were yet to be completed, with no potential for building activity for up to 18 months. The risks to the LDA and the ACT Government could arise from:
- changes in residential market conditions or changes in personal circumstances may cause purchasers who have entered into the contracts, to change their mind, subsequently deciding not to proceed with the purchase;
  - subsequent changes to site restrictions/conditions may lead to purchasers to cancel their purchase; and

- some purchasers take the advantages allowed by the Scheme to obtain multiple blocks, potentially biding their time before deciding whether to proceed with any purchase. This may have the unintended outcomes of reducing land available to other buyers, or reducing the LDA's ability to establish an on-going land inventory.
- 5.71 As noted earlier, under the current Government policy, all buyers of LDA land (regardless of income) can access the Land Rent Scheme and can unilaterally rescind the sale contract without any penalty or conditions prior to settlements. There has also been an increasing proportion of LDA land releases being sold under this Scheme, and in November 2010, the value of unsettled land rent block was about \$133 million, which is subject to potential contract cancellations.
- 5.72 At the time of Audit, there has been a cancellation rate of about 12.4 percent on the Land Rent contracts.
- 5.73 The current rate of cancellation of contracts, combined with the LDA practice of supplying blocks within its estates with long settlement periods creates a number of risks to the land development and supply process, and has financial and budget implications, including:
- no certainty for the LDA when entering into Land Rent contracts in terms of sales and revenue;
  - administrative inefficiency as the LDA needs to re-sell these blocks possibly multiple times, incurring additional costs such as marketing and legal registration of their Land Rent leases;
  - increased compliance and enforcement costs to ensure individuals and companies comply with the Scheme;
  - the difficulty to re-sell these blocks, if this happens at a time when a range of other estates are beginning to come on line and sell blocks; and
  - increased uncertainty with respect to forecasting revenue for the ACT Government.
- 5.74 Audit considers that there is scope for improvements to the Land Rent Scheme policy and implementation to address the identified risks, including those which could undermine the integrity of the Scheme, and compromise the Government objectives of increased home ownership, especially for low income groups.
- 5.75 In this respect, Audit notes that as at January 2011, the ACT Revenue Office was administering 54 Land Rent leases at a standard rate, and 34 leases at a discount rate to eligible low income lessees.
- 5.76 ACT Treasury commented that any costs or risks (whether public and private) should be weighted against the benefits for the target group of the program. Treasury also advised that a two-year post-implementation review of the Land Rent Scheme was being conducted and was close to completion.

### **Recommendation 11**

ACT Government agencies should, pending the outcomes of the Government review of the Land Rent Scheme, develop additional processes and procedures to address the identified risks.

### **CONCLUSION**

- 5.77 The 2007 AHAP has been a key influence on ACT Government agencies' activities in relation to social objectives and outcomes from land supply and development. There have been some good results in increased supply of affordable land, and affordable land-house packages, but the volume remains small relative to strong demand. The lack of identifiable outcomes and targets articulated for AHAP initiatives, including specific OwnPlace targets, has impaired public accountability for the delivery of initiatives and monitoring and reporting of achievements.
- 5.78 The implementation of the Land Rent Scheme has exposed the ACT Government to various risks which need to be addressed.

## 6. MEETING ENVIRONMENTAL OBJECTIVES OF RESIDENTIAL LAND SUPPLY AND RELEASE

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### INTRODUCTION

6.1 This chapter examines ACT Government agencies' processes for recognising and achieving environmental and sustainability objectives in the supply and development of land for residential purposes. It includes consideration of:

- ACT Government agencies' recognition of, and compliance with, environmental and sustainability legislation;
- the LDA's public reporting on environmental and sustainability issues; and
- the LDA's activities to incorporate environmental and sustainability objectives into specific projects and developments.

### KEY FINDINGS

- The ACT Government adopted a new approach to comply with the *Environment Protection and Biodiversity Conservation (EPBC) Act* for the Molonglo residential development, which involved a strategic assessment for the entire estate, rather than having an EPBC referral for each individual suburb development.
- There were significant delays to the completion of the EPBC strategic assessment, which was commenced by ACTPLA in September 2008, and was yet to be resolved. This has delayed land release and development processes in Molonglo and has impacted achievements against land release targets. To facilitate land releases, agencies took action to excise specific suburbs from the overall strategic assessment and separately pursued EPBC referrals for Wright and Coombs. However, continuing delays to the strategic assessment place at risk future land releases.
- The LDA has not identified measurable environment and sustainability indicators in its Statement of Intent to enhance its accountability for its environmental and sustainability performance. The LDA's current narrative and general discussion in its annual report about the application of ESD principles to their business activities can be improved with reporting against specific measures and targets.
- Unlike the financial matters, the LDA did not routinely monitor or report on project-specific environment and sustainability initiatives to the Board.
- The LDA has recently developed an Environmental and Sustainability Framework, which is comprehensive, but it is too early to review its application to the LDA's developments. Consistent application of the Framework to all LDA land development activities and key business processes should assist in contributing to achievement of the environment and sustainability objectives.

### BACKGROUND

- 6.2 Land development is an activity that has an inherently high impact on the environment. This is particularly the case for greenfield land development, which involves the modification of a landscape and the installation of infrastructure and a built environment, although the environment impact also occurs on modified landscape (e.g. pastoral). The ACT has a natural bush setting and this highlights the importance of environmental and sustainability issues and the risks to the environment from land development activities.
- 6.3 The recognition of environmental and sustainability issues for the land development process is not solely a matter of legislative compliance, but also a matter of recognising better environmental and sustainability practice and incorporating those within business and development practices.

### ENVIRONMENT AND SUSTAINABILITY DUE DILIGENCE

- 6.4 During the initial Concept Plan stage of the land supply and development process, a range of environmental assessments and due diligence processes should be performed. These processes influence where, what and how development will occur on that site:
- Environmental Impact Statement (EIS);
  - bushfire assessments;
  - heritage assessments;
  - tree assessments;
  - contamination assessments; and
  - Commonwealth *Environment Protection and Biodiversity Conservation Act* (EPBC) considerations.
- 6.5 ACTPLA has primary carriage of the Concept Plan stage of urban development and ensuring that these processes have been met.

### Environmental Impact Statements (EIS)

- 6.6 For developments that fall within the Impact Tract of the Territory, a requirement of the PD Act is that, prior to any Development Application, an Environment Impact Statement (EIS) needs to be either applied for and approved, or an exemption obtained.
- 6.7 An EIS details the anticipated environmental effects of a development to the environment. The aim of the EIS process is to reduce, offset or prevent significant negative environmental impacts of a development. Once the EIS has been prepared, it has to be presented to ACTPLA for assessment. Some of the things an EIS might have to consider include the effects of the development on wildlife and potential pollution or contamination issues.

### Bushfire Assessments

- 6.8 Bushfire assessments look at potential fire risk to future land development in accordance with the requirements of *Planning for Bushfire Risk Mitigation* prepared by ACTPLA and the *Strategic Bushfire Management Plan for the ACT*, administered by TAMS and the Emergency Services Agency. Bushfire assessments are prepared in accordance with the requirements of the *Australian Standard for Risk Management, AS/NZ 4360: 2004*.
- 6.9 The risk assessment quantifies the level of bushfire risk prior to the implementation of mitigation measures and provides recommendations on potential mitigation measures to the preferred Structure Plan to reduce the level of risk. Potential mitigation measures include allowing for larger corridors between bushland and residential houses to minimise risk to property.

### Heritage Assessments

- 6.10 Heritage assessments are undertaken in accordance with requirements of the PD Act. Heritage assessments may be desktop reviews or may involve a detailed assessment of the site, involving fieldwork. Fieldwork may involve scanning the designated bounds of the study area followed by the implementation of sub-surface test pitting within selected locations in the study area.
- 6.11 The findings of these assessments are presented in a Heritage Assessment Report, which may present a series of site specific mitigation strategies for previously recorded Aboriginal and non-Aboriginal heritage sites identified within the designated bounds of the study area.

### Contamination Assessments

- 6.12 The Environment Protection Authority, in accordance with the *Contaminated Sites Environment Protection Policy November 2009*, reviews contamination reports done by a suitably qualified environmental consultant to check that the area is suitable for its intended residential development.
- 6.13 If the Environment Protection Authority is satisfied that any required work has been completed, a letter of endorsement will be issued.

### Tree Assessments

- 6.14 A requirement of the *Tree Protection Act 2005* is that all trees must be assessed, in accordance with relevant and TAMS guidelines and a Tree Management Plan must be produced. The Tree Management Plan and accompanying report must include recommendations for:
- tree removals, tree impacts, impact mitigation measures, tree retention and protection; and
  - protection of trees to be retained including mitigation measures to offset proposed impacts.

- 6.15 A report identifying existing tree health, risk assessment of trees, justification for tree removals and impacts on trees must accompany the Tree Management Plan. The Tree Management Plan must accurately identify the existing tree canopies and clearly number each tree.

### COMMONWEALTH EPBC ACT

- 6.16 The *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) is a Commonwealth Act that contains an extensive range of legislative initiatives relating to environment protection and biodiversity conservation.

- 6.17 Specifically, the Act provides for the referral, assessment and approval of actions likely to have a significant impact on six matters of national environmental significance:

- World Heritage properties;
- wetlands of international significance;
- listed threatened species and ecological communities;
- listed migratory species;
- the environment in Commonwealth marine areas; and
- the environment in relation to nuclear actions (including uranium mining).

- 6.18 By virtue of Chapter 2 of the EPBC Act, a person must not take an action that has, will have, or is likely to have, a significant impact on any of the matters of national environmental significance, without the approval of the Commonwealth Minister for Sustainability, Environment, Water, Population and Communities. An action may be a project, development, undertaking, activity or a series of activities, or an alteration of any of these things. This definition necessarily includes land development activities.

- 6.19 If a person wishes to undertake an action that may have a significant impact on a matter of national environmental significance, they may refer the action to the Commonwealth Minister for his/her review. The Minister may decide:

- the action is a controlled action, in which case further assessment and approval is required; or
- the action is not a controlled action, in which case the proposed activity may proceed as proposed.

- 6.20 The referral, assessment and approval process for the EPBC Act is administered by the Commonwealth Department of Sustainability, Environment, Water, Population and Communities.

- 6.21 Listed threatened species and ecological communities and listed migratory species are of particular relevance to land development within the ACT. The EPBC Act provides a mechanism for the identification and listing of these species. A range of different species have been identified as being present within the ACT region, although some of the more notable species include:

- pink-tailed worm lizard;
- swift parrot;
- superb parrot; and
- golden sun moth.

6.22 Accordingly, any action that is likely to have a significant impact on these and other listed threatened species and ecological communities and listed migratory species should be referred to the Commonwealth Minister for their consideration.

### **Referrals under the EPBC Act**

6.23 The LDA or others has made a series of referrals to the Commonwealth Minister for a range of developments in the following suburbs:

- Bonner;
- Dunlop;
- Franklin;
- Harrison;
- Kingston Foreshore;
- Lawson South;
- Narrabundah;
- Ngunnawal; and
- North Weston.

6.24 Referrals have also been made for the joint venture estates of Forde and Crace.

6.25 In most instances, the Commonwealth Minister's delegate determined that the development action was not a controlled action and could proceed as planned. In one instance (Narrabundah), the action was determined to be a controlled action, but it was decided that it could proceed, provided additional safeguards had been implemented.

6.26 In an additional instance (Bonner Stage 4), the action was initially determined to be a controlled action, but this decision was reconsidered and the action was identified as not a controlled action, following the submission of an updated request by the LDA.

### ***Responsibility for EPBC referrals***

6.27 The LDA or the LDA's joint venture partners have been responsible for making most of the EPBC referrals to date for land development activity.

6.28 ACTPLA has since been identified with responsibility for managing EPBC referrals. This follows a better recognition and articulation of agency roles and responsibilities in 2008, which sought to better define the boundaries of

responsibility between ACTPLA and the LDA. However, LAPS and LDA are also pursuing referrals in some suburbs in Gungahlin.

### **Molonglo and North Weston Strategic Assessment process**

- 6.29 The ACT Government has sought to undertake a new approach to the development of the Molonglo and North Weston area. Instead of doing an EPBC referral for each development stage, which has been the practice to date, the ACT Government has sought to do a strategic assessment for the entire Molonglo and North Weston development. The Molonglo and North Weston Strategic Assessment is one of only seven that are currently underway in Australia.
- 6.30 The strategic assessment initially involved the signing of an intergovernmental agreement on 16 September 2008. Under the strategic assessment agreement, the ACT Government is required to prepare a Molonglo Valley Plan for the Protection of Matters of National Environmental Significance (the NES Plan). The NES Plan is to address development in the Molonglo Valley and the management of the impacts of the development on matters of national environmental significance. A number of steps are involved in this process, including:
- the finalisation of terms of reference for the conduct of a strategic assessment on the impacts of actions under the NES Plan. This involves public consultation and agreement to the terms of reference from the Commonwealth Minister;
  - the preparation of a draft report that assesses the impacts of actions under the NES Plan, followed by public consultation on the findings of the report;
  - the preparation of a revised draft report, or supplementary draft report, taking into consideration any public comments received; and
  - the preparation of a final report, which includes the revised draft report (or supplementary draft report), the NES Plan, public comments received as part of the draft report consultation process and comments on how the public comments have been taken into account for the final report.

### ***Delays in the Strategic Assessment***

- 6.31 The strategic assessment process has proven to be time-consuming, and at the time of audit fieldwork in November 2010, the strategic assessment, which was commenced in September 2008, was yet to be resolved. Audit recognises that the process is highly dependent on Commonwealth agency administrative processes and to a certain extent, is out of the control of ACT Government agencies.
- 6.32 Nevertheless, the continuing delays to the resolution of the Strategic Assessment have significantly impacted the supply and development of land within Molonglo. Audit notes that the 2008-09 ILRP, initially developed in May 2008, had identified that englobo releases were to occur in 2008-09 and LDA estate and joint venture releases were to occur in 2009-10. Expectations of meeting these timeframes appear optimistic, in the light of the early stage of signing the strategic assessment agreement in September 2008.

- 6.33 Audit notes, however, that the LDA estate release for 2009-10 was achieved, with the release of Wright blocks via auction in June 2010. The Molonglo releases for Wright and Coombs were achieved because the ACT agencies excised Coombs and Wright from the strategic assessment process and sought separate EPBC referrals for these suburbs in August 2009. The proposed developments were determined to be not controlled actions in September 2009 and could proceed as planned.

### **THE LDA'S ENVIRONMENTAL AND SUSTAINABILITY REPORTING**

- 6.34 As noted in chapter 4, the LDA has articulated nine key organisational objectives. Two of the objectives relate to the environment and sustainability as follows:
- contribute to the delivery of the ACT Government's key priorities related to affordable housing, sustainability and climate change; and
  - deliver high quality urban development.
- 6.35 In support of its organisational objectives, the LDA has identified seven key priorities in its 2010-11 Statement of Intent. One of these relates to the environment and sustainability, as follows:
- pursuing initiatives to enhance the sustainability of developments undertaken by the LDA and demonstrating both leadership and achievement in the sustainability challenges for land development.
- 6.36 Audit notes that there are no environmental or sustainability-related KPIs identified in the LDA's 2010-11 Statement of Intent. The lack of clear and measurable indicators relating to the environment and sustainability means that the LDA activities are not being measured for accountability and performance purposes. It also impairs the accuracy and relevance of the LDA's reporting of its achievements.

### **Triple Bottom Line reporting**

- 6.37 Although there are no organisational environmental and sustainability KPIs against which the LDA reports, the LDA does produce a Triple Bottom Line (TBL) report as part of its annual report.
- 6.38 TBL reporting is intended to supplement financial reporting, by identifying and also reporting against environmental and social measures.
- 6.39 As part of the environment and sustainability component of its TBL report, in the 2009-10 Annual Report, the LDA reported achievements against the following headings:
- transport;
  - energy use;
  - greenhouse emissions;
  - water consumption; and
  - resource efficiency and waste.

- 6.40 Audit noted that:
- all of the indicators reported against related to the LDA's office activities, use or consumption;
  - there are no additional indicators directly relating to its land development activity, such as energy use, greenhouse emissions, resource efficiency or initiatives relating to conservation measures or waste management during the development process; and
  - the LDA provides narrative information in its annual report on various environment and sustainability initiatives pursued during the year.
- 6.41 Audit considers that there has been a missed opportunity to more effectively recognise the inherently high impact that land development has on the natural environment and to incorporate this within TBL reporting.
- 6.42 Additional environmental and sustainability issues that are not addressed in the LDA's environmental and sustainability reporting include its consideration and application of the inter-generational equity principle and the precautionary principle in its development activities.
- 6.43 Audit recognises that the LDA has recently undertaken some work to develop a sound and comprehensive Environmental and Sustainability Framework, which should facilitate more transparent and accountable reporting in the future. This is discussed further in the following sections.

### **Recommendation 12**

The LDA should develop appropriate performance indicators for its environment and sustainability objectives and priorities in accordance with the LDA's Environmental and Sustainability Framework. These indicators should be specific and measurable, and should be incorporated within its Statement of Intent.

## **PROJECT-SPECIFIC ENVIRONMENTAL AND SUSTAINABILITY OBJECTIVES**

- 6.44 Audit examined the LDA's activities that related to LDA's monitoring and reporting on its project-specific environmental and sustainability achievements.
- 6.45 Project-specific environmental and sustainability initiatives are outlined in individual project business plans. The following section discusses issues associated with the LDA's Bonner estate, which involves the delivery of approximately 2 200 dwelling sites in Gungahlin.

### **Bonner environmental commitments**

- 6.46 The Bonner business plan states that a key objective for the development is 'to deliver Bonner showcasing innovative approaches to sustainable communities.' The business plan also notes that Bonner will also assist in the delivery of key objectives from the following ACT Government policies:

- ACT Climate Strategy Weathering the Change;
- ACT Policy Think Water Act Water;
- ACT Broadband Action Plan.

6.47 Environmental and sustainability activities and initiatives were identified in the business plan as follows:

- Water Sensitive Urban Design (WSUD) measures proposed for the estate will enhance the water quality through the use of grassed swales, gross pollutant traps and water quality control ponds. Water from the ponds will be used for stormwater harvesting and irrigation of the neighbourhood oval. This approach will ensure improved open space amenity is maintained during periods of dry weather and water restrictions, supporting the aspirations of identified target markets. A specific commitment relating to this initiative was:
  - to provide stormwater harvesting and irrigation budget of \$500 000.
- the designed street grid providing a layout that allows the orientation of blocks within the estate to maximise solar access to dwellings and thereby reduce energy consumption; and
- residents at Bonner being able to reduce greenhouse gases emissions by accessing a solar incentives program. A specific commitment relating to this initiative was:
  - to undertake the solar incentives programs budget of \$9.1 million, representing a rebate of around \$4 000 per dwelling over the estate.

6.48 Audit examined progress against these activities and initiatives, and has summarised the results in the following table:

**Table 6.1: Summary of environmental and sustainability commitments from the Bonner Business Plan**

	<b>Storm water harvesting and irrigation \$0.5m</b>	<b>Street grid design to maximise solar access – to reduce energy consumption</b>	<b>Solar Incentives program with \$4 000 budgeted subsidies per house costing \$9.1m</b>
Audit Findings	The design was in progress.	Provision of 75 percent of blocks with at least a 3-star energy rating was part of Regulation 59 of the 'Future Urban Areas Residential Subdivision Development Code'.	The \$4 000 budgeted subsidy was reduced to \$2 500/house for a renewable energy hot water system. LDA advises that there was little take-up of this initiative.
Result	Not yet achieved.	Achieved.	Partly achieved.
Audit Comment	There was no explanation for the delay.	The 75 percent 3-star rating is already obligatory in the building code.	The total budgeted commitment was reduced by \$3.3m, as a result of the reduction in subsidies offered.

Source: Audit Office

### Ongoing monitoring and reporting of project-specific environmental and sustainability initiatives

- 6.49 Audit examined the processes for the ongoing monitoring and reporting of project-specific environmental and sustainability initiatives. Audit notes that the general lack of specific, measurable indicators and targets has made it difficult to translate the identified initiatives into ongoing monitoring and reporting processes and to hold project managers accountable for their delivery and achievement.
- 6.50 Audit identified the following issues with respect to monitoring and reporting of environmental and sustainability initiatives for the Bonner development:
- monthly Board reports do not have a specific section that recognises and reports on environmental and sustainability initiatives as a matter of course; and
  - budget analysis reviews do not include any information or reporting against the environmental and sustainability activities and initiatives identified.
- 6.51 There was no evidence in monthly Board reports or budget analysis reviews that the environment and sustainability objectives planned for the Bonner estate were routinely considered and actioned.
- 6.52 By way of contrast, Audit notes that financial indicators and information, including sales data, was clearly and regularly reported and monitored in the monthly Board reports and budget analysis reviews.
- 6.53 The LDA has given apparent priority to financial indicators, but has less focus on environmental and sustainability commitments, and non-financial targets are not given appropriate consideration.

#### **Recommendation 13**

The LDA should, as part of its ongoing monitoring and reporting process, such as monthly Board reports and budget analysis reviews, routinely consider and report on achievements against non-financial indicators, including environmental and sustainability initiatives and objectives.

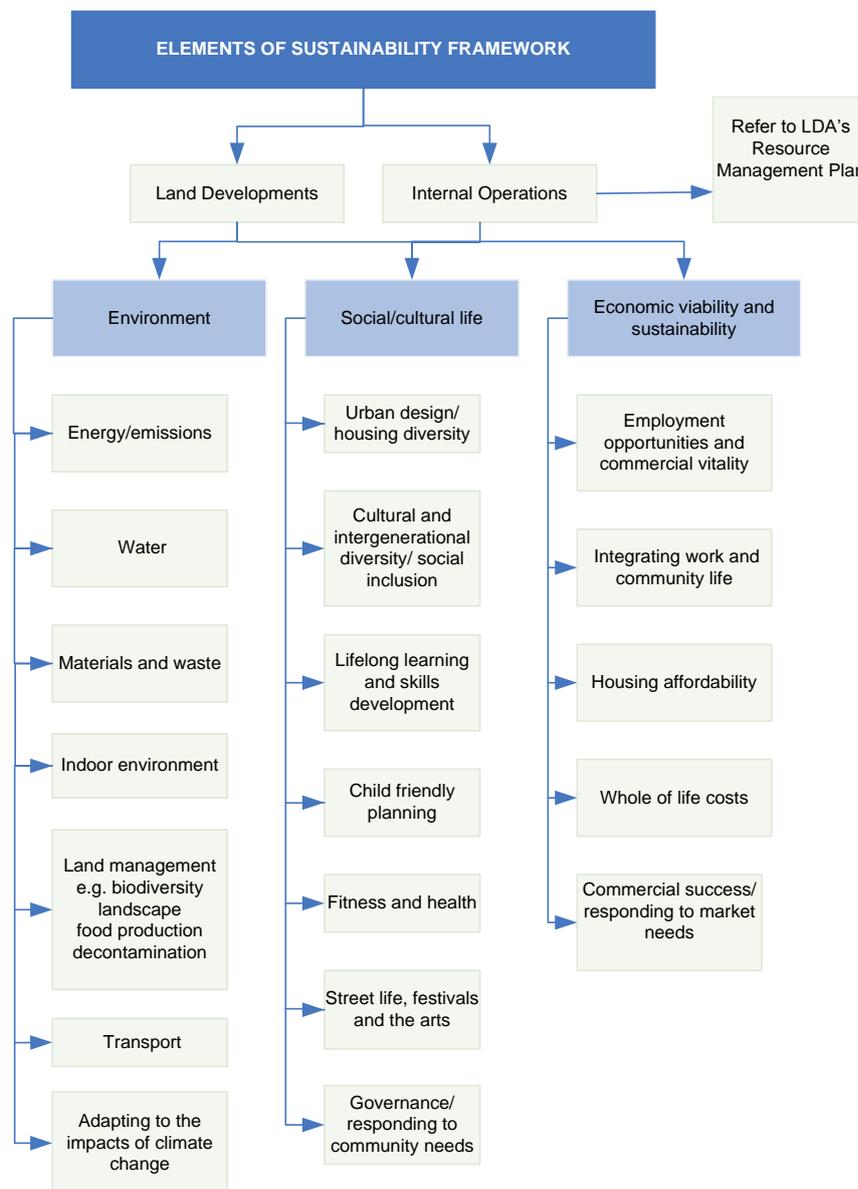
### THE LDA'S ENVIRONMENTAL AND SUSTAINABILITY FRAMEWORK

- 6.54 In 2009 the LDA developed a draft Sustainability and Innovation Framework. The Framework recognises that there is a growing awareness and consciousness of the need to deliver more sustainable developments and that there will be an increasing expectation on the LDA to demonstrate its achievements in this area.
- 6.55 The Framework states that:
- ...at present there is no coordinated approach within the agency to selecting and applying processes or mechanisms that would improve our performance as a sustainable land developer. The agency needs a decision framework to help guide staff to the right responses from among the myriad of actions that it could take.

6.56 Accordingly, the Framework is intended to provide information and decision support to staff on how to incorporate sustainability into the key business processes of the LDA. The Framework includes a compendium of measures that links directly to a conceptual matrix of environment and sustainability issues. It is intended that various measures could be selected for development projects depending on the particular circumstances. This checklist is tied to social, economic, and environmental aspects of development, and at present includes examples that already exist within LDA estates or elsewhere, as well as supporting performance indicators to assist in monitoring and reporting. It is intended to support sustainability benchmarking for future developments and other reporting requirements.

6.57 The following diagram demonstrates the LDA’s Sustainability and Innovation Framework:

**Figure 6.1: LDA Environmental and Sustainability Framework**



Source: LDA

## Implementation of the Framework

- 6.58 The Framework was endorsed by the Board in June 2010.
- 6.59 The LDA's 2009-10 Annual Report states that the LDA has now moved to incorporate the Framework into 'project specific business plans', including Harrison 4 and Wright, two of the most recent development projects that have been initiated.

### *Harrison 4 Business Plan*

- 6.60 The Harrison 4 Business Plan was approved in June 2009. A key objective of the plan is 'to demonstrate environmental leadership in management of the natural environment and efficient use of resources'. In support of this objective, a range of activities and commitments were identified, including initiatives relating to:
- designing a street grid that will allow the orientation of blocks to maximise solar access to dwellings;
  - requiring all households to install solar hot water heating. In support of this, the LDA intends to subsidise the installation of solar hot water systems in OwnPlace blocks at a total cost of \$220,000;
  - to provide solar powered light poles in public open space areas and explore the viability of on site ponds to reduce potable water use within the estate at a cost of \$220,000; and
  - installing Water Sensitive Urban Design (WSUD) measures throughout the estate, through the use of grassed swales, gross pollutant traps and 'if appropriate, water quality control ponds'.
- 6.61 There is minimal evidence to suggest that the Framework was appropriately recognised and fully utilised in the Harrison 4 business plan in June 2009. A whole range of additional potential indicators identified in the Framework were not recognised or implemented in the Harrison 4 Business Plan. Audit also notes that the activities identified above are phrased generally and, with some exceptions, do not represent real commitments for delivery of measurable outputs and outcomes. For example, some of the activities discuss the need to 'explore the viability of on site ponds' and install water quality control ponds 'if appropriate'.

### *Wright Business Plan*

- 6.62 The October 2010 business plan for Wright states that an objective of the development is 'to provide a new benchmark in environmental leadership in the ACT'. A range of initiatives have been identified, including:
- committing to an overarching sustainability strategy for the Molonglo district;
  - gaining accreditation for the Wright development through the UDIA Envirodevelop rating tool;

- committing to the incorporation of Water Sensitive Urban Design principles into the suburb.
- 6.63 The LDA asserts that the identified environmental and sustainability initiatives are ‘the most comprehensive range of sustainability initiatives the LDA has ever committed to, and the implementation of these initiatives will ensure the LDA continues to demonstrate and deliver environmental leadership in the ACT.’
- 6.64 Audit found that the Wright business plan has articulated more effectively project-specific environmental and sustainability initiatives than other business plans to date, including Harrison 4. However, a range of initiatives identified in the Framework had not been incorporated within the identified initiatives.
- 6.65 Audit also notes that there is a continuing lack of specificity with respect to some of these activities, which does not promote accountability and transparency for ongoing measuring and reporting. The LDA should give greater attention to how it sets its targets and commitments, if it is going to be able to assure itself that it can adequately report a measureable progress.

## CONCLUSION

- 6.66 To date, there has been inadequate accountability by the LDA for its performance against its environmental and sustainability initiatives. The LDA did not have a coordinated approach to selecting and identifying measurable environment and sustainability indicators against which to report and monitor progress. The lack of organisation-wide indicators for reporting and monitoring, has also impaired the benefits of annual reporting to date, including TBL reporting.
- 6.67 The implementation of the LDA’s Environmental and Sustainability Framework should facilitate monitoring and reporting on these issues and provide a stronger basis on which to identify and monitor project-specific environment and sustainability outcomes. More effective recognition of environment and sustainability issues in internal reporting, including monthly Board reports and Budget Analysis Reviews, should also improve environmental and sustainability outcomes.



# APPENDIX A: AUDIT CRITERIA, APPROACH AND METHODOLOGY

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## Audit Criteria

### *Developing the Indicative Residential Land Release Program*

The effectiveness of ACT Government agencies in developing the Indicative Residential Land Release Program was assessed against the following criteria:

- there are clearly identified financial, social and environmental objectives for planning activities associated with residential land development and release activities;
- the development and delivery of the Indicative Land Release Program, including volume and location of dwelling site releases, are undertaken in accordance with stated financial, social and environmental objectives;
- there are appropriate governance arrangements in place to plan for residential land development and release activities including;
  - clearly identified roles and responsibilities for the different ACT Government agencies; and
  - evidence of effective communication and consultation amongst ACT Government agencies in planning for residential land development and release activities.

### *Delivering the Indicative Residential Land Release Program*

The effectiveness of the LDA in managing residential land development was assessed against the following criteria:

- the LDA has achieved the ACT Government's targets for the Indicative Land Release Program;
- the LDA regularly monitors its achievement of the targets identified in the Indicative Land Release Program;
- variations in the achievement of the Indicative Land Release Program are recognised and reported.

### *Achieving Financial, Social and Environmental Objectives*

- there are clearly identified financial, social and environmental objectives for the LDA's delivery of land supply programs and for the three different land development and release mechanisms, including;
  - clear documentation and articulation of objectives;
  - alignment and consistency of LDA objectives with Government objectives for land development and release activities;
  - financial, social and environmental objectives for planning activities align with better practice developments in other jurisdictions;

- there are robust processes in place to review agencies' land development and release activities against Government's financial, social and environmental objectives;
- LDA has processes to review and compare its achievement of financial, social and environmental objectives for the three different land development and release mechanisms, namely LDA own estates, englobo sales and joint ventures;
- there is regular Board and management review and reporting on the achievement of financial, social and environmental objectives across the three different land development and release mechanisms.

### AUDIT APPROACH AND METHODOLOGY

The audit approach and methodology consisted of:

- discussions with management and key personnel within the ACT Government agencies, including LAPS, the LDA, ACTPLA;
- consultations with stakeholders with an interest in residential land development and release including the Housing Industry Association, Master Builders Association of the ACT and private industry representatives;
- identification and understanding of key legislative requirements for the land development and release;
- an examination of key documentation and records maintained within the relevant ACT Government agencies, including policies, procedural and administrative guidance and other relevant governance and administrative documentation; and
- examination of the LDA's management and administrative activities to manage and monitor the delivery of the Indicative Land Release Program and achieve relevant financial, social and environmental objectives.

# APPENDIX B: INDICATIVE LAND RELEASE PROGRAM

## INDICATIVE 2010-11 to 2013-14 RESIDENTIAL LAND RELEASE PROGRAM

		2010-11	2011-12	2012-13	2013-14
<b>Englobo / Private Sector</b>	Aged Care Units	100	150	150	150
	Block 17 Section 15 Phillip *	120			
	Block 18 Section 15 Phillip *	120			
	Block 45 Section 100 Narrabundah	150			
	Blk 5 Section 91 Bruce *	150			
	Ngunnawal 2c	475			
	Casey 4	500			
	Molonglo suburb 3		1,500		
	Part Block 2 Section 5 Campbell *		600		
	Block 1 Section 151 Belconnen *			250	
	Block 3 Section 57 Greenway *			200	
	Block 1 Section 58 Greenway *				200
<b>Total Englobo</b>		<b>1615</b>	<b>2250</b>	<b>600</b>	<b>350</b>
<b>Joint Venture</b>	Forde	100			
	Crace	250	250	250	250
	Woden East *	100	100	100	100
	Forde 2	150	150		
	<b>Total JV</b>	<b>600</b>	<b>500</b>	<b>350</b>	<b>350</b>
<b>LDA Estate</b>	Site 13 G Kingston Foreshore*	164			
	Site 13 H Kingston Foreshore*	66			
	Site 13 I Kingston Foreshore*	70			
	Site 14 Kingston Foreshore*	60			
	Oaks Estate	10			
	Bonner 1a	20			
	Bonner 3	531			
	Bonner 4	352			
	Harrison 4	419			
	Flemington Road	230	275		
	Wright	413	200	100	100
	Coombs	400	400	200	100
	Lawson	50	600	500	240
	East Lake **		100	200	200
	Site 3B Kingston *		86		
	Site 10 Kingston Foreshore *		16		
	Site 20 Kingston Foreshore *		123		
	Moncrieff		250	500	200
	Jacka		200		
	Molonglo Suburb 3			500	900
	Kenny			50	200
	Site 12 Kingston Foreshore *				60
Site 11 Kingston Foreshore *				300	
<b>Total LDA Estates</b>		<b>2785</b>	<b>2250</b>	<b>2050</b>	<b>2300</b>
<b>Multi Unit Infill Sites</b>				<b>500</b>	<b>500</b>
<b>Total Gov't Releases</b>		<b>5000</b>	<b>5000</b>	<b>3500</b>	<b>3500</b>
<b>Est. Private Sector Redevelopments</b>		<b>1000</b>	<b>1000</b>	<b>1000</b>	<b>1000</b>
<b>Total ACT Dwelling Supply</b>		<b>6000</b>	<b>6000</b>	<b>4500</b>	<b>4500</b>
<b>Release Ready</b>		<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
	Jacka		400	400	400
	Moncrieff		400	400	400
	Kenny			800	800
<b>Release Ready</b>		<b>0</b>	<b>800</b>	<b>1600</b>	<b>1600</b>

\* These are mixed use sites. Also refer to the 2010-11 to 2013-14 Commercial Land Release Program.

\*\* Governance and delivery method to be finalised.

Release figures indicate the indicative number of dwellings sites planned to be offered for sale by the ACT Government.

**Englobo** release figures refer to the sale of unserviced land to the private sector for servicing and sale. Individual serviced dwelling sites released by englobo release will become available for purchase over subsequent years.

**LDA & Joint Venture Release** figures refer to the release of individual dwelling or multi unit sites.

**Release Ready Sites** are available in the following year to replace any site if it becomes unavailable for release.

Some releases are subject to the outcome of planning studies, variations to the Territory Plan and amendments to the National Capital Plan.

Source: LAPS

## **APPENDIX C: THE LDA'S OBJECTIVES**

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The LDA's 2010-11 Statement of Intent identifies its objectives are to:

- deliver the Government's agreed ILRP in the residential, commercial, industrial and community sectors;
- contribute to the delivery of the ACT Government's key priorities related to affordable housing, sustainability and climate change;
- provide advice to the Government on the delivery of capital works and infrastructure supporting the land release program;
- provide a commercial return to the Territory on its investment in the Agency;
- continuously improve the LDA's role as an informed source of advice to the Government and other agencies on land development related issues;
- deliver high quality urban development;
- support the continuing development of town centres;
- strengthen relationships with stakeholders, including other ACT Government agencies, developers, builders, industry associations and the Canberra and regional community; and
- develop the LDA's capability and the expertise of staff to enable the delivery of the LDA's objectives.

In support of the LDA's organisational objectives, the LDA identified annual key priorities and key performance indicators. The LDA's key priorities for 2010-11 are:

- implementing the Government's agreed Indicative Land Release Programs;
- working with other departments and agencies to ensure the availability of land to support the Indicative Land Release Programs;
- paying dividends to the ACT Government at 100 percent of the operating profit after tax;
- working with other agencies, and in partnership with industry, to deliver the Government's affordable housing policies;
- pursuing initiatives to enhance the sustainability of developments undertaken by the LDA and demonstrating both leadership and achievement in the sustainability challenges for land development;
- contributing to the establishment of new communities in the Territory; and
- working with the LDA's partners to successfully achieve business outcomes for the Forde, Crace and Woden East joint ventures.

Source: LDA

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