ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

MEDIA RELEASE **27 June 2017**

Public Housing Renewal Program

ACT Auditor-General, Dr Maxine Cooper, today presented a performance audit report on the **Public Housing Renewal Program** to the Speaker, for tabling in the ACT Legislative Assembly.

Dr Cooper says 'The two key risks for the Public Housing Renewal Program that are particularly challenging are delivering the program by 30 June 2019 to allow the ACT Government to receive all the anticipated Asset Recycling Initiative payments from the Australian Government; and achieving the estimated sales revenue from the sale of the public housing sites'.

'There are significant challenges associated with the identification and delivery of replacement public housing dwellings, which may limit the relocation of tenants in a timely manner to allow existing sites to be sold to achieve the 30 June 2019 deadline' said Dr Cooper.

The audit found that initial assumptions associated with expected sales revenue were overly optimistic. Thirty percent was added to property valuations, for the purpose of estimating sales revenue for a financial model used to inform Business Cases that were prepared up to February 2016 to inform decision-making. Overall, revenue from the sale of public housing assets to date has been lower than anticipated, although the recent sale of one precinct has been higher than anticipated.

Dr Cooper calls for estimated sales to be based on professional property valuations and supported by sensitivity analysis instead of simply adding a percentage to valuations.

'There is also a risk that if properties are sold in a compressed timeframe this will affect the sales returns achieved' said Dr Cooper.

While risks have been identified in the audit that will be challenging, it was also found that governance and administrative arrangements for the Public Housing Renewal Program are sound and the program is being effectively managed.

Dr Cooper says 'tenants' relocation needs and preferences have been effectively recognised and managed by Housing ACT. The relocation process has been welcomed by some tenants but not others, with some tenants finding it problematic while others have not.'

The Summary of the **Public Housing Renewal Program** audit, with audit conclusions, key findings and the three recommendations is attached to this media release.

Copies of **Public Housing Renewal Program: Report No. 7/2017**, are available from the ACT Audit Office's website www.audit.act.gov.au . If you need assistance accessing the report please phone 6207 0833 or go to 11 Moore Street, Canberra City.

EXTRACT OF SUMMARY CHAPTER

Overall conclusion

Governance and administrative arrangements for the Public Housing Renewal Program are sound and the program is being effectively managed by the Public Housing Renewal Taskforce. However, there are two key risks that are particularly challenging: delivering the program by 30 June 2019 to allow the ACT Government to receive all the anticipated Asset Recycling Initiative payments from the Australian Government; and achieving the estimated sales revenue from the sale of the public housing sites.

There are significant challenges associated with the identification and delivery of replacement public housing dwellings which may limit the relocation of tenants in a timely manner to allow existing sites to be sold to achieve the 30 June 2019 deadline. There is also a risk that if properties are sold in a compressed timeframe this will affect the sales returns achieved. Overall, revenue from the sale of public housing assets to date has been lower than anticipated, although the recent sale of one precinct has been higher than anticipated.

Acknowledging the challenges of estimating sales revenue, it would be prudent to rely on professional valuation advice and undertake a sensitivity analysis so that a range of estimates can be provided to decision-makers, rather than adding a percentage to valuations, which has been done to date by the Public Housing Renewal Taskforce. Providing a range of values would likely reinforce the challenging nature of making estimates.

With respect to tenants' relocation needs and preferences, these have been effectively recognised and managed by Housing ACT. It is noted that the relocation process has been experienced differently by tenants; some have welcomed it while others have not, some have found it problematic while others have not.

Chapter conclusions

GOVERNANCE AND ADMINISTRATIVE ARRANGEMENTS

Conclusion

Sound governance and administrative arrangements have been established for the Public Housing Renewal Program. However, supporting Benefits Management could be improved by the ACT Government identifying and reporting how benefits are being managed, tracked and monitored.

Chapter Summary

Effective oversight of the program is provided by the Public Housing Renewal Steering Committee, which involves representation by a range of ACT Government executives and managers. The management of the program is supported by clearly defined roles and responsibilities. There is regular reporting to the Public Housing Renewal Steering Committee and other stakeholders, including Cabinet and the Minister.

The Public Housing Renewal Taskforce has committed to a Benefits Management approach and identified the high-level benefits expected from the program in its Program Plan – Public Housing Renewal Program. However, there is a need to outline how benefits are being managed, tracked and monitored.

IMPLEMENTATION OF THE PUBLIC HOUSING RENEWAL PROGRAM

Conclusion

The identification of potential public housing assets for sale as part of the Public Housing Renewal Program was sound and accorded with a policy intention of the ACT Government, expressed since 2012, to sell and redevelop multi-unit public housing properties in the Northbourne Avenue corridor and other parts of Canberra.

Initial assumptions associated with expected sales revenue of the properties have been overly-optimistic. Thirty percent was added to property valuations, for the purpose of estimating sales revenue for a financial model used to inform decision-making, as part of Business Cases prepared up to February 2016. Total revenue from the sale of public housing properties to date has been less than what was identified in Business Cases, although the March 2017 sale of the 'Lyneham on Northbourne' site exceeded revised estimates identified as part of a December 2016 review of the financial model, in which twenty percent was added to property value estimates.

As the calculation of expected sales revenue is a challenge, this needs to be clearly reflected in information to decision-makers. Instead of simply adding a percentage to professional property valuations, it may be better to use the valuation and undertake sensitivity analysis and present a possible range of expected sales revenues as part of Business Cases.

Chapter Summary

Selling the multi-unit public housing properties in the Northbourne Avenue corridor and Civic to achieve urban intensification coincided with the 2012 policy decision to implement the Capital Metro light rail along Northbourne Avenue. Later, the 2014 National Partnership Agreement with the Australian Government offered the potential to secure a 15 percent Australian Government contribution based on asset sales, if these properties were sold prior to 30 June 2019.

Thirteen public housing properties were selected for inclusion in the Public Housing Renewal Program, most being within the Northbourne Avenue corridor and Civic. Cabinet decision-making on whether to proceed with the sale of properties was based in part on a financial model which presented financial cash flows associated with two options: retain (involving the refurbishment and ongoing management and maintenance of the properties) and renewal (involving the sale of the properties and purchase of replacement properties elsewhere in the ACT).

The original financial model (May 2015) identified that the cash inflows associated with the renewal option would be $24.8 million (present value, May 2015) and the cash outflows associated with the retain option would be $181.5 million (present value, May 2015); a difference of $206.3 million (present value, May 2015) in favour of the renewal option. While the financial model was updated for subsequent Business Cases for different public housing sites and information based on this presented to Cabinet, expected sales revenue for the public housing sites was based on professional valuation advice that was inflated by thirty percent. The residual values of public housing properties were also included in the financial model as cash flows. While the inclusion of the residual values after 40 years did not make a significant contribution to the present value of cash flows, it is considered better practice to report cash flows and residual values separately.

DELIVERY OF THE PUBLIC HOUSING RENEWAL PROGRAM

Conclusion

While the Public Housing Renewal Taskforce plans to manage the sale of remaining housing renewal properties and the acquisition of new properties to achieve the June 2019 deadline to fulfil requirements of the National Partnership Agreement, there is a risk that this will not be achieved due to challenges associated with the identification and delivery of replacement public housing dwellings.

Chapter Summary

The sale of public housing properties by June 2019 is contingent on the identification of suitable replacement public housing properties and the relocation of public housing tenants. As at April 2017 the Public Housing Renewal Taskforce has identified the supply of land for up to 1,335 potential replacement dwellings, but there is a high risk associated with 339 of these dwellings (25.4 percent of 1,335) and a medium risk for 146 (10.9 percent).

As at April 2017 the Public Housing Renewal Taskforce reported that it had transferred 293 replacement public housing dwellings to Housing ACT and that there were a further 797 in the pipeline for transfer to Housing ACT. For 378 of the dwellings in the pipeline (47.4 percent of 797) the Taskforce reported that action had not yet commenced. There is a risk that sufficient replacement public housing dwellings will not be identified and transferred to Housing ACT in time to facilitate the sale of the remaining public housing properties by 30 June 2019.

The initial expectation of the Public Housing Renewal Program was that replacement public housing properties would be sourced through Public Housing Renewal Taskforce procurement of builders and developers to design and construct replacement dwellings on Territory-supplied land, either greenfield, in-fill or community facility land. The original financial model (May 2015) was predicated on all replacement public housing dwellings being procured this way.

In early 2015, however, the Public Housing Renewal Taskforce identified that there was an insufficient supply of Territory-owned land to achieve 1,288 replacement dwellings using the design and construction approach. To manage this, the Taskforce explored a number of mechanisms. This resulted in three additional approaches being pursued: the reimbursement of Housing ACT for properties it was in the process of developing as part of its ongoing program; the purchase of dwellings from private suppliers through Expressions of Interest; and spot purchasing in the market.

The Public Housing Renewal Taskforce has advised that it has achieved efficiencies in the design and construction approach for replacement public housing dwellings on Territory land. In a revised financial model (December 2016), it identified that 352 designed and constructed dwellings are expected to be delivered for $241,000 (excluding GST) and 403 designed and constructed dwellings are expected to be delivered for $335,000 (excluding GST). If this is achieved this will be at a lower cost compared to the initial estimates of $292,600 (including GST) for single dwellings and $362,000 (including GST) for multi-unit dwellings.

As part of the revised financial model (December 2016) the direct purchase of replacement public housing dwellings has been estimated at $400,000 (including GST) for 402 dwellings and $450,000 (including GST) for 131 dwellings. Further, the April 2017 Business Case for the purchase of 72 replacement public housing dwellings for Gowrie Court (Narrabundah) has identified ‘an average price of $474,000 per dwelling’. The replacement of public housing dwellings through purchasing in the market has come at a higher cost on a per dwelling basis than the design and construction of dwellings on Territory land. Any changes to the mix of replacement public housing dwellings in the future, in response to risks in the supply of designed and constructed dwellings, could result in higher costs.

The revised financial model (December 2016) recognised there was a deterioration in the cash flows for the renewal scenario (due to the lower than initially expected sales revenue) of approximately $94.4 million ($67.8 million in lower sales revenue, $18.8 million in flow-on below-the-line impacts due to lower sales revenue and $7.8 million less in Asset Recycling Initiative payments from the Australian Government). However, this deterioration was almost directly offset by a range of other ‘parameter updates’ and ‘structural changes’ to the model, which resulted in a reduction of only $0.8 million against the original financial model (May 2015) (although the present value of the difference in the cash flows reduced from $219.8 million to $140.1 million). The justification for the revised assumptions that offset the $94.4 million deterioration are not apparent, including approximately $44.2 million associated with changes in residual land values flowing from the inclusion of potential heritage impacts in the retain scenario, Territory Plan Variation impacts in the renewal scenario and changes in the nature of replacement sites.

MANAGEMENT OF PUBLIC HOUSING TENANTS

Conclusion

Housing ACT has undertaken considerable work to identify tenants' relocation needs and preferences and there is evidence to indicate that these are being taken into account. There has also been engagement by Housing ACT with a number of community organisations to support affected tenants.

Chapter Summary

Discussions with public housing tenants affected by the Public Housing Renewal Program and community organisations involved shows that the relocation process 'can be stressful, frustrating, uncertain and confusing as well as bringing with it much grief, dislocation and trauma' but that the 'relocation can often have a positive effect on tenant mental health and well-being generally'. While public housing tenants identified some frustrations with the process itself there is evidence of satisfaction with relocated properties.

Public housing tenants have been supported through the relocation process. ACT Housing has undertaken pre-relocation engagement to identify tenants' needs and preferences and post-relocation engagement to monitor that tenants' needs continue to be met.

Key findings

GOVERNANCE AND ADMINISTRATIVE ARRANGEMENTS

	Paragraph
Roles and responsibilities for the administration of the Public Housing Renewal Program are well established and documented. The respective roles and responsibilities of the Public Housing Renewal Taskforce (within Chief Minister, Treasury and Economic Development Directorate) and Housing ACT (within Community Services Directorate) are overseen by a director-general level Public Housing Renewal Steering Committee and are governed by a *Memorandum of Understanding* between the two directorates. The *Memorandum of Understanding* also provides for dispute resolution mechanisms to be applied in the event of disagreement between the directorates.	2.8
The *Program Plan - Public Housing Renewal Program* was endorsed by the Public Housing Renewal Steering Committee in June 2015 and reviewed in October 2015	2.22

and November 2016. It is an important means of coordinating through specifying milestones and deliverables/outputs associated with the Public Housing Renewal Program and assigning roles for these milestones and deliverables/outputs, including responsibility and accountability for action and delivery. The *Program Plan - Public Housing Renewal Program* also includes project Gantt charts, which show detailed breakdowns of work activities and associated timeframes.

A *Risk Management Plan* and associated Risk Register have been developed for the Public Housing Renewal Program. The *Risk Management Plan* identifies four strategic risks associated with the program and the associated Risk Register identifies ten risks (one Extreme, four High and five Medium). In accordance with ACT Insurance Authority guidance, the Risk Register identifies the sources for the risk, the owner of the risk, existing controls for the risk and further actions to be taken to control the risk, and a rating for each risk before and after existing controls and further action to be taken. The Risk Register also identifies monitoring and reviewing activities and responsibilities for the risks. An October 2015 review of the Public Housing Renewal Taskforce's risk management activities (*ACT Public Housing Renewal Taskforce Review*) identified that the development of 'a more mature risk management strategy' should be a high priority and identified a three month timeframe for its implementation. The Taskforce amended its *Risk Management Plan* and associated Risk Register in response to the review. 2.37

Progress on the implementation of the Public Housing Renewal Program is reported through a number of different fora, including regular reporting to the Public Housing Renewal Steering Committee, six monthly reporting to Cabinet and fortnightly reporting to the relevant Minister. The frequency and coverage of the reporting provides tailored information to relevant stakeholders on the implementation of the program. 2.50

The Public Housing Renewal Steering Committee has endorsed a program of internal audits to provide assurance on the implementation of the Public Housing Renewal Program. In October 2015 a major review of the governance and administrative arrangements associated with the Public Housing Renewal Taskforce was undertaken by PWC, which identified that 'the Taskforce has established many of the elements of a governance framework which supports program and project management activities appropriately'. 2.55

The *ACT Public Housing Renewal Taskforce Review* (October 2015) recommended the development and implementation of a Benefits Realisation Plan as part of a broader Benefits Realisation Strategy. The Public Housing Renewal Taskforce identified that it agreed to the recommendation and had already addressed the recommendation, through the incorporation of benefits in the *Program Plan - Public Housing Renewal Program*. However, detailed information is needed in 2.67

relation to how these benefits are being managed, tracked and monitored.

IMPLEMENTATION OF THE PUBLIC HOUSING RENEWAL PROGRAM

Paragraph

In January 2012 Housing ACT released the *Public Housing Asset Management Strategy 2012-2017*. The strategy identified Housing ACT's intention to dispose of its multi-unit properties, including properties in and around Civic and the Northbourne Avenue corridor. This indicates that there was an intention, since at least 2012, to dispose of Housing ACT's multi-unit properties. 3.10

In 2012 the ACT Government made a policy decision to establish the Capital Metro Agency and undertake 'the necessary design studies, preparatory works, financing, procurement and tendering arrangements' for the Capital Metro light rail between Civic and Gungahlin. A significant proportion of the total expected benefits of the Capital Metro light rail are expected to derive from 'land use benefits' and 'wider economic impacts', which are predicated on changes in land use along the light rail route. The redevelopment of both public housing and other ACT Government properties along the Northbourne Avenue corridor was expected to 'reinforce the Government's policy objective to focus urban intensification along major public transport routes and provide the financing necessary to begin construction of light rail'. 3.15

Between May 2014 and June 2014 advice was provided to Cabinet for the purpose of identifying and furthering a program for the redevelopment of public housing stock. Properties in and around Civic and the Northbourne Avenue corridor were identified and discussed for the purpose of the advice. The 'sale and redevelopment of public housing assets on Northbourne Avenue' for the purpose of contributing to 'government priorities and Capital Metro' identified a range of expected outcomes and benefits for the Territory including generating a net revenue gain, which was expected to be returned to the Territory budget, and 'maximising commercial and residential potential of the Capital Metro corridor, increasing the patronage and viability of light rail'. 3.18

In November 2014, advice was provided to Cabinet which identified the public assets, including public housing assets, for inclusion in the ACT's application for participation under the Asset Recycling Initiative. The identification of multi-unit public housing properties for inclusion in the Asset Recycling Initiative aligned with earlier advice provided to Cabinet between May 2014 and June 2014, which proposed a program for the redevelopment of public housing stock, including multi-unit properties. 3.22

As at May 2015, financial modelling associated with the Public Housing Renewal Program indicated that the program would deliver net positive cash flows. Financial 3.28

model analysis of cashflows for the renew and retain options shows:

- retaining the public housing, which involved the refurbishment and continued management and maintenance of the existing public housing, would have had a net negative cash flow of $181.5 million (present value);
- renewing the public housing, which involved the sale of the existing sites and the construction and subsequent management and maintenance of replacement dwellings would have had a net positive cash flow of $24.8 million; and
- the difference between the retain and renew scenarios for the public housing was $206.3 million (present value), indicating that it would be financially advantageous for the Territory to pursue the renew option.

The financial model treats the residual values of existing and replacement sites as cash inflows ($164.8 million and $84.8 million respectively after 40 years). The Audit Office considers that the residual values are balance sheet items and not cash inflows, unless it is assumed that all sites are sold and are not replaced. In the absence of a stated assumption to this effect, the residual values should not have been included as cash flows in the financial model. While the inclusion of the residual values after 40 years did not make a significant contribution to the present value of cash flows, it is considered better practice to report cash flows and residual values separately and this would have provided a clearer and more accurate picture of the two scenarios. 3.48

A re-calculation of the cash flows associated with the renew and retain options in the original financial model (May 2015) by the Audit Office's subject matter expert, Resolution Consulting Services, to remove the 30 percent escalation of the sales revenue and to not treat the residual values of existing and replacement sites as capital inflows, indicates that: 3.58

- the difference in the net present value of the retain scenario over the renew scenario is reduced from $206.3 million under the original model to $101.3 million under the adjusted model;
- there is a negative cash flow under both the retain and renew scenarios under the adjusted model, unlike the original model which reported a positive net cash flow of $24.8 million for the renew scenario; and
- the negative residual value for the renew scenario reflects the way in which the Public Housing Renewal Taskforce's model calculated this value and emphasises that market values would have been a more appropriate way of calculating these values for both the retain and renew scenarios.

While the renew scenario would still be the preferred option based on the re-calculations, the results indicate that the effect of inflating sales estimates by 30 percent above the valuations and including residual values in the cash flows had a 3.59

material impact on the reported figures.

In July 2015 the Public Housing Renewal Steering Committee decided to combine the Currong Apartments (Braddon) and Stuart Flats (Griffith) in a single Business Case in order to 'reduce the pressure on the business case for the replacement of the 212 units which are required to be replaced through the sale of the Currong Apartments'. A single consolidated Business Case was prepared for Currong Apartments (Braddon) and Stuart Flats (Griffith) and aggregate figures were included. 3.78

Analysis of the financial model calculations underpinning the Business Cases for the renewal of the public housing sites shows for the majority of public housing sites the net cash flows associated with the renewal option (i.e. the sale of existing properties and the development of alternative replacement properties) were expected to exceed the net cash flows for the retain scenario (i.e. the retention and refurbishment of the property). In a number of instances net cash flows associated with both options were expected to be negative, meaning that undertaking either of the scenarios was expected to cost the ACT Government money, but for the majority of public housing sites the net cash flows associated with the renewal option were expected to exceed the net cash flows for the retain scenario. Three exceptions are: 3.86

- Allawah Court (Braddon);
- Currong Apartments (Braddon); and
- Gowrie Court (Narrabundah).

For these sites the financial model identified that the renewal option was expected to lead to greater negative cash flows. In the case of Allawah Court (Braddon) the difference between the net present value of the negative cash flows was \$2.05 million (present value), in the case of Currong Apartments (Braddon) the difference was \$3.63 million (present value) and in the case of Gowrie Court (Narrabundah) the Business Case identified the difference was \$5.08 million (present value). The Public Housing Renewal Taskforce advised 'advice to Cabinet, prepared through business cases and six monthly reports, consistently documented that for some properties, the retain scenario would be financially advantageous, but at a whole-of-program level, the renew scenario was better. The financial performance of the sale of the multi-unit properties is one of many factors considered by Cabinet and the model does not monetise social impacts, such as the benefits of reducing concentrations of disadvantage or improving the quality and sustainability of new homes'. 3.87

DELIVERY OF THE PUBLIC HOUSING RENEWAL PROGRAM

Paragraph

Analysis of progress on the sale of properties under the Public Housing Renewal 4.7

Program shows:

- six of the 13 public housing sites identified in the National Partnership Agreement have been sold (Dickson Flats, Garden Flats - Dickson (Karuah), Currong and Allawah Apartments (Braddon), Lyneham & De Burgh (North and South) and Owen Flats (Lyneham)). This equates to the sale of 495 public housing dwellings (although the 21 dwellings in the Dickson Flats do not contribute to the total number of 1,288 public housing dwellings in the program as a whole);
- Dickson Flats and Owen Flats (Lyneham) were sold later than anticipated, Garden Flats - Karuah (Dickson) was sold according to schedule and Currong and Allawah Apartments (Braddon) and Lyneham and De Burgh (North and South) (Lyneham) were sold earlier than anticipated; and
- the sale of Bega Court (Braddon) and Red Hill Flats (Red Hill) has not occurred in accordance with anticipated timeframes.

Notwithstanding delays to the sale of some of the public housing assets, the Office of the Coordinator-General Urban Renewal and the Land Development Agency have advised that they expect to sell all of the remaining properties by 30 June 2019 (equating to approximately 814 public housing dwellings to be sold). In doing so it will also be selling other ACT Government properties identified for participation in the Asset Recycling Initiative (i.e. ACT Government-owned office buildings). Selling the properties in a compressed timeframe increases the risk that the ACT Government will not achieve the highest possible return on its sale, as there is a risk of oversupplying the ACT market. Any delays to the sale of properties and any further compression of time will also increase the risk of not selling the properties in time to receive Asset Recycling Initiative payments from the Australian Government. 4.8

Analysis of the proceeds of the sales of public housing assets shows that, for two of the three public housing precincts sold to date, sales revenue has been less than that anticipated in the Business Cases. In this respect: 4.23

- the ‘Dickson on Northbourne’ precinct, including the Dickson Flats, Karuah Flats (Dickson) and the Dickson Visitor Centre was sold for a total of $37.38 million (excluding GST, which is payable at a rate of 7 percent) with a further $5.6 million in Asset Recycling Initiative bonus payments expected to be received from the Australian Government. In the March 2015 Business Case the sale of the Karuah Flats (Dickson) alone was expected to achieve $33.63 million (plus $5.04 million in Asset Recycling Initiative bonus payments). (A Business Case was not developed for the Dickson Flats);
- the Currong and Allawah Apartments (Braddon) sold at auction for $47.00 million (no GST would be payable on the sale as it was to be sold as an input taxed supply) with a further $7.050 million in Asset Recycling Initiative bonus payments expected to be received from the Australian Government. The March 2015 Business Case for Allawah

Court (Braddon) identified expected sales proceeds of $30.90 million (plus $4.64 million in Asset Recycling Initiative bonus payments). The December 2015 Business Case for Currong Apartments (Braddon) identified expected sales proceeds of $19.11 million (plus $2.87 million in Asset Recycling Initiative bonus payments); and

- the 'Lyneham on Northbourne' site, including Owen Flats (Lyneham) and Lyneham and DeBurgh (North and South) was sold for a total of $42.1 million (excluding GST, which is payable at a rate of 7 percent) (with a further $6.32 million in Asset Recycling Initiative bonus payments to be received from the Australian Government. The February 2016 Business Case for Lyneham and DeBurgh (North and South) (Lyneham), which reflected changed assumptions with expected sale proceeds that were apparent in early 2016, identified expected sales proceeds of $25.99 million (plus $3.90 million in Asset Recycling Initiative bonus payments) and the December 2014 Business Case for Owen Flats identified expected sales proceeds of $10.26 million (plus $1.54 million in Asset Recycling Initiative bonus payments). The sale also exceeded revised sales revenue estimates of $10.85 million and $27.89 million identified as part of a revised financial model (December 2016).

The revenue from the sale of the assets is offset by the practice of reimbursing purchasers for the costs of demolishing and remediating the sites and the significant costs associated with demolishing the Currong Apartments (Braddon). The reimbursement of purchasers contrasts with the Business Cases for the sales of the public housing sites, which identified that the Territory would incur costs associated with 'the cost of preparing the sites for sales. The costs include sales and marketing, demolition and site management costs'. Notwithstanding the Business Cases' intentions for the Land Development Agency to undertake demolition and remediation of the sites prior to their sale, sales agreements for the other sites have since made this the responsibility of the purchaser. Although it is now the responsibility of the purchaser to undertake demolition and remediation, however, the Land Development Agency will contribute: 4.24

- up to $1.635 million (GST inclusive) for the cost of demolition of the 'Dickson on Northbourne' precinct, including the Dickson Flats, Garden Flats - Karuah (Dickson) and the Dickson Visitor Centre;
- 'up to $1.4 million + GST' for the cost of demolition of the Allawah Apartments; and
- up to $1.543 million (GST inclusive) for the cost of demolition of the 'Lyneham on Northbourne' site, including Owen Flats (Lyneham) and Lyneham & DeBurgh (North and South).

One exception to the revised practice relates to Currong Apartments (Braddon), for which the Territory will retain responsibility for the demolition and remediation. The Land Development Agency has budgeted an amount of $20.75 million for the cost of disposing of the property. This is due to the discovery of asbestos within the Currong Apartments and includes expected contractor costs of approximately 4.25

$14.1 million and tip fees of $4.0 million. The original financial model (May 2015) identified a total of $4.4 million for all site disposal costs for the Currong Apartments.

A Colliers International Discussion Paper (December 2014) identified risks to the Public Housing Renewal Program of the potential oversupply of properties to the market that might be exacerbated by the sale of the public housing properties. The Discussion Paper identified a series of key factors for consideration and advised 'if these influences are not taken into account, future land releases and the prices achieved could be negatively impacted and affect Territory revenue'. A key concern raised in the Discussion Paper was past experience associated with the excessive release of dwellings that created an oversupply for the market and a resulting decrease in value. The Discussion Paper identified a timeframe of five to seven years over which the public housing properties should be released to the market noting that 'if sites are released in a location that exceeds demand it will result in either a decline in the value achieved, or a requirement of generous settlement terms for the developer to hold the sites until market conditions improve' and 'excessive release of sites in the one location has the potential to see sales revenue to be less than the benefit from the [Asset Recycling Initiative] if not carefully managed'. 4.42

An October 2015 MacroPlan Dimasi report identified an estimated yield of 3,500 apartments across the ACT Government's Northbourne Avenue assets included in the Asset Recycling Initiative, including public housing sites and other ACT Government sites. The MacroPlan Dimasi report recommended the bundling of ACT Government assets into precincts for sale as '[the] value is more likely to be unlocked through the sale of lots as a single or dual bundle, which allow for the creation of distinct precincts along Northbourne Avenue'. The MacroPlan Dimasi report identified that, following consultation with a number of developers, 'a mixed response was received from the set of interviews, although the positive responses outweighed the negative views. Overall, the interviews revealed some depth of interest in the proposition of a bundle sale for the ACT [Asset Recycling Initiative] sites, such that a competitive process is likely to ensure from an expression of interest campaign'. 4.43

In relation to risks associated with lower than expected sales revenue, the Audit Office was advised in correspondence from the Under-Treasurer, Director-General of the Community Services Directorate and Director-General of the Environment, Planning and Sustainable Development Directorate 'there is continual monitoring of sales results, by the [Land Development Agency] and through the provision of regular reporting to the Steering Committee and six monthly reports to Cabinet. Should there be evidence of over-supply or underperformance of sales results, the Steering Committee would consider this and provide advice to Cabinet. This may include a recommendation to delay the sale of properties, noting that receipt of 4.44

[Asset Recycling Initiative] revenue is likely to be jeopardised as a result'.

As at April 2017, the Public Housing Renewal Taskforce identified that the availability and supply of land means 'there are potential 1,335 dwellings available for the public housing renewal program'. A potential supply of 1,335 dwellings exceeds the number of 1,288 dwellings required under the Public Housing Renewal Program. However, in relation to the supply of land for a potential 1,335 replacement dwellings, the Taskforce has also identified: 4.45

- 769 dwellings are considered 'secure' as they are 'completed, under construction, or purchases with contracts exchanged or offers accepted';
- 81 dwellings are considered 'low risk' as they are 'expected to be available and able to be delivered within program timeframe';
- 146 dwellings are considered 'medium risk' as they 'remain a probable source of land supply but has risk factors including timing'; and
- 339 dwellings are considered 'high risk' as they 'continue to be considered however has significant risk factors, particularly timing or community reaction'.

Analysis of progress in relation to the transfer of replacement public housing dwellings to Housing ACT for those that are due to be lost due to the sale of existing public housing assets shows: 4.48

- as at April 2017 a total of 1,090 actual and potential replacement dwellings have been identified for the 1,288 public housing dwellings expected to be sold under the Public Housing Renewal Program; and
- early tranches of activity under the Public Housing Renewal Program identified an expected increase in the number of replacement public housing properties, while later tranches of activity have identified a shortfall in the number of replacement public housing properties. This shows the difficulties faced by the Public Housing Renewal Taskforce in identifying sufficient number of replacement public housing properties.

Analysis of replacement public housing dwellings that have been transferred to Housing ACT shows that, as at April 2017, 293 out of a total of 1,090 identified dwellings (26.9 percent) have been transferred to Housing ACT. This represents 22.7 percent of the total number of 1,288 dwellings expected to be sold for the purpose of the Public Housing Renewal Program. 4.50

Analysis of the timing of the transfer of dwellings to Housing ACT under the Public Housing Renewal Program shows a significant number of dwellings are expected to be transferred in later stages of the program, including 264 dwellings in 2017-18 and 286 dwellings in 2018-19 (all of these are expected to be transferred between July and December 2018). Of the 286 dwellings expected to be transferred in 2018-19, 235 dwellings are expected to be transferred in December 2018. This is likely to place pressure on the Public Housing Renewal Taskforce and Housing ACT's 4.52

administrative processes in the concluding stages of the program.

An analysis of reporting to the Public Housing Renewal Steering Committee on progress for the transfer of replacement public housing dwellings to Housing ACT shows there are significant risks to the implementation of the Public Housing Renewal Program through the achievement of the replacement of public housing dwellings. In addition to the 293 reported as having been transferred: 4.54

- action on 378 replacement dwellings is reported as not having started (47.4 percent of the remaining 797 identified);
- action on 23 replacement properties is reported as being at risk (5-10 percent variance to schedule) (2.89 percent of the remaining 797 identified); and
- action on 396 properties is reported as not being at risk (<5 percent variance to schedule) (49.69 percent of the remaining 797 identified).

The June 2014 Cabinet submission associated with the Public Housing Renewal Program recommended that 'replacement public housing properties should be established within 800 metres of the Capital Metro Corridor, in other areas in the inner north and in other areas of Canberra on existing [Housing ACT], [Economic Development Directorate] and community facility land'. Analysis of the location of replacement public housing dwellings shows the majority of replacement public housing dwellings are expected to be located in new land developments in outer areas of Canberra. In this respect: 4.58

- approximately 202 replacement public housing dwellings are expected to be 'established within 800 metres of the Capital Metro Corridor'. This includes replacement dwellings identified in the Inner North, Gungahlin and Franklin;
- the Inner North, Inner South and Woden areas, in which the 1,288 public housing dwellings were located, are expected to account for 177 of the replacement public housing dwellings; and
- the majority of replacement public housing properties are expected to be located in Gungahlin (452 of a total of 1,090), with the new suburbs of Moncrieff, Throsby and Taylor accounting for up to 302 replacement properties.

Analysis of the different delivery mechanisms for the replacement public housing properties shows: 4.61

- 629 dwellings are intended to be delivered through the design and construction on greenfield sites. The delivery of 56 of these dwellings are identified as high risk;
- 66 dwellings are intended to be delivered through design and construction on infill sites. The delivery of 54 of these dwellings are identified as high risk;
- 138 dwellings are intended to be delivered through design and

construction on community facility-zoned land. The delivery of all of these dwellings are identified as high risk;

- 412 dwellings are intended to be delivered through acquisition from the market through expressions of interest. The delivery of 78 of these dwellings are identified as high risk;
- 84 dwellings are intended to be delivered through the purchase of Housing ACT replacement public housing dwellings. The delivery of 13 of these dwellings are identified as high risk; and
- 6 dwellings are intended to be delivered through strategic acquisition.

Business Cases for the renewal of public housing properties have identified a number of different options for replacement dwellings for the sale of existing public housing properties, including Housing ACT's construction of replacement dwellings on suitably identified land, the purchase of replacement properties, the leasing of properties from private landowners and Housing ACT's purchase of units in private developments in the construction pipeline. The original financial model (May 2015) was prepared on the basis that the replacement of public housing dwellings would be achieved through design and construction on Territory-owned land at a cost of $292,600 (including GST) for single dwellings and $362,000 (including GST) for multi-unit dwellings. The design and construction of replacement dwellings was approved for the first and second tranches in December 2014 and March 2015. 4.71

As early as April 2015 the Public Housing Renewal Steering Committee identified risks to the implementation of the Public Housing Renewal Program associated with the design and construction of replacement public housing dwellings. It was apparent that there were fewer options available for the construction of replacement public housing dwellings due to the limited availability of land. As a risk mitigation measure, the Public Housing Renewal Taskforce began consideration of other options for the delivery of replacement public housing dwellings, including the purchase of dwellings from private suppliers. 4.88

Two Expression of Interest processes have been progressed since 2015, which have sought to purchase replacement public housing dwellings from the private market. As at April 2017 up to 412 dwellings have been identified as being potentially purchased through this process. On a per dwelling basis to date, the direct purchase of properties from the market through expressions of interest has cost more than the design and construction of replacement properties by the Public Housing Renewal Taskforce. Representatives of Housing ACT are involved in the evaluation and selection of proposals received through expressions of interest and this provides assurance that the purchased dwellings will meet the requirements of Housing ACT into the future. 4.89

The Public Housing Renewal Taskforce reimbursed Housing ACT for 38 properties 4.93

that it was constructing as part of its ongoing renewal program. These properties were located in the Inner North area and the Taskforce advised of a desire to have public housing dwellings within the local area available early in the program for tenants to move into. As the supply of potential land for replacement dwellings is limited and at risk as the program continues, the Taskforce has further considered this option and is working with Housing ACT to identify other potential dwellings for which Housing ACT may be reimbursed. As these properties have been initially identified and commissioned by Housing ACT the risk is low that the purchased dwellings will not meet the requirements of Housing ACT into the future.

The Public Housing Renewal Taskforce, with approval by the Evaluation Team formed to evaluate Expressions of Interest, which also included a representative from Housing ACT, purchased 11 townhouse dwellings in a complex of 17. Subsequent complaints from the private owners in the complex led to the purchase of the remaining six units by the Taskforce. Housing ACT has since advised it is 'currently working to a number of principles in terms of purchasing in units plans' and in doing so, it takes a range of factors into account, including body corporate fees, alignment with broader housing need and waitlist demand and the 'salt and pepper' approach to public housing. 4.100

As the supply of potential land for replacement dwellings is limited and at risk as the program continues, as a risk mitigation measure the Public Housing Renewal Taskforce has sought approval for Housing ACT to undertake spot purchasing of dwellings in the market and for the Taskforce to reimburse Housing ACT for these purchases. Up to 50 properties may be purchased biannually through this mechanism in an effort not to distort the market, although as at April 2017, no properties have been purchased through this mechanism.[1] As potential spot purchases are intended to be initially identified and commissioned by Housing ACT there is a low risk that the purchased dwellings will not meet the requirements of Housing ACT into the future. 4.104

A November 2016 'mid-term review' of the financial model undertaken by the Public Housing Renewal Taskforce resulted in a number of changes to the assumptions underpinning the financial model. The revised assumptions included an acknowledgement of the lower than expected sales revenue of the public housing sites, which resulted in a 'deterioration' in the financial model of $94.4 million ($67.8 million in lower sales revenue, $18.8 million in flow on below-the-line impacts of the lower sales revenue and $7.8 million less in Asset Recycling Initiative bonus payments). The revised assumptions also included an 'improvement' in the financial model due to a range of other assumption changes. The net result of the changes to the assumptions is a $0.8 million reduction in the 4.110

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[1] As at 21 June 2017, ACT Government agencies advised that 14 properties had been purchased through this mechanism.

difference between the net cash flows of the scenarios (previously it was $219.8 million and now it is $219.1 million). Notwithstanding the minimal difference in the net cash flows associated with the two scenarios, the net present value of the difference in the net cash flows decreased to $140.1 million (a decrease of $66.2 million compared to the original estimate of $206.3 million).

The revised financial model (December 2016) identified that the residual value of replacement sites under the renew scenario would be $96.08 million ($11.28 million higher than the figure of $84.80 million in the original financial model (May 2015)). This is predicated on an assumption that 30 percent of the replacement properties under the renewal scenario will be located in 'existing commercial centres (town, group centres) and within the 800m wide Northbourne Avenue transport corridor' and an expectation that future Territory Plan Variations would contribute to an increase in the value of these properties of 20 percent. This had the effect of making the cash flows associated with the renew scenario greater. Apart from the November 2016 instruction to the consultant responsible for the financial model to alter the model, the Public Housing Renewal Taskforce has not provided evidence to support its assumptions on this matter. 4.124

MANAGEMENT OF PUBLIC HOUSING TENANTS

Paragraph

A February 2015 report to the Public Housing Renewal Steering Committee identified that, as at 6 February 2015 in the 1,288 public housing dwellings affected by the Public Housing Renewal Program, there was a total of 1,044 tenancies and 1,363 public housing residents. This number does not include any tenancies (or residents) in the Dickson Flats (Dickson), who had been relocated through a discrete project prior to the Public Housing Renewal Program tenancy relocation activities, or Currong Apartments (Braddon), which had previously been tenanted by students through a community housing provider, all of whom were relocated following the conclusion of the 2014 academic year.[2] 5.7

To assist in the relocation of public housing tenants affected by the Public Housing Renewal Program, two key governance and oversight groups have been established; the Linking In to New Communities Taskforce and Transforming Communities Partnership. The Linking In to New Communities Taskforce is intended to oversee the implementation of the Tenant Relocation Strategy and the activities of the Transforming Communities Partnership, which has a more practical focus on the needs and delivery of support to public housing tenants. Membership of the governance and oversight groups consist of representatives from Housing ACT and several not-for-profit community organisations. The Linking In to New Communities Taskforce and Transforming Communities Partnership groups provide an effective mechanism for the oversight of the implementation of tenant 5.25

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[2] These are point-in-time figures, which reflect the number of tenants as at 6 February 2015.

relocation activities.

A *Tenant Relocation Project Plan* was developed to inform Housing ACT's activities for the relocation of tenants affected as part of the Public Housing Renewal Program. The *Tenant Relocation Project Plan* was agreed and endorsed in January 2016 and has since been revised and re-issued in October 2016. The *Tenant Relocation Project Plan* provides a comprehensive framework and overview for the management of the relocation of tenants affected by the Public Housing Renewal Program. The revised October 2016 *Tenant Relocation Project Plan* provides greater detail and guidance on deliverables associated with each phase of the relocation process. 5.32

The revised October 2016 *Tenant Relocation Project Plan* does not have references to individual, site-specific project planning and management for the relocation of tenants, as were in the initial version. The revised Project Plan has since characterised the entire tenant relocation activities as a single project and does not envisage the preparation and production of site-specific project management documentation. This is a reasonable approach, as the preparation of site-specific project management document was likely to be onerous and time-consuming. 5.44

Housing ACT has sought to identify Housing ACT tenants' preferences and needs for relocated properties through *Tenant Relocation Forms*. Early relocation processes identified tenants' relocation preferences with a high degree of specificity (i.e. down to a suburb-by-suburb location) although later processes did not go into this level of detail. Tenants' needs and preferences have been taken into account when relocating tenants to replacement dwellings. 5.64

Housing ACT has developed a *Public Housing Renewal Relocations Tenant Survey*, which is provided to relocated public housing tenants after their relocation. Although 302 public housing tenancies had been reported as being relocated as at March 2017, only 45 survey forms had been received from a total of 243 issued. This is a low response and indicates that a survey form may not be the most appropriate and conducive mechanism for feedback from some public housing clients. Housing ACT has recognised this and advised that it intends to use multiple sources of information to garner tenant feedback. 5.70

Based on discussions with representatives of community organisation involved in providing support to public housing tenants affected by the Public Housing Renewal Program Reilly Associates identified that 'the relocation process for public housing tenants can be stressful, frustrating, uncertain and confusing as well as bringing with it much grief, dislocation and trauma associated with the loss of community and history associated with the old residence'. Nevertheless, Reilly Associates also noted that 'relocation can often have a positive effect on tenant 5.82

mental health and well-being generally'.

Based on discussions with a number of public housing tenants affected by the Public Housing Renewal Program, Reilly Associates identified that, following advice from Housing ACT that they were to be relocated, but prior to their relocation, tenants raised a number of concerns: 5.91

- 'the lack of clear and definite information relating to move dates';
- 'the high levels of uncertainty and frustration tenants carry in not knowing when they will move, or to where'; and
- 'the run-down, unsafe and insecure living environments endured by remaining tenants in old high-density housing complexes a tenants begin moving out and other anti-social people move into the area'.

In relation to tenants that had been relocated, Reilly Associates reported that public housing tenants who had been relocated would have appreciated the opportunity to be able to select from more than one public housing property at a time, or be given more information about what they could expect to be offered. Nevertheless, following their move, Reilly Associates identified that: 5.92

- 'Post-relocation tenants were mostly effusive in their **praise for Housing's assistance and suppor**t during their move';
- 'Tenants also appreciated the **continuing contact** with Housing after relocation'; and
- 'Nearly all post-relocation tenants expressed being **happy with their new home'**.

Recommendations

RECOMMENDATION 1 BENEFITS MANAGEMENT

The Chief Minister, Treasury and Economic Development Directorate should identify and report how benefits outlined in the *Program Plan – Public Housing Renewal Program* are being managed, tracked and monitored.

RECOMMENDATION 2 INCLUSION OF RESIDUAL VALUES IN FINANCIAL MODEL

The Public Housing Renewal Taskforce should remove the residual value of public housing properties from its financial model cash flows and report these values separately.

RECOMMENDATION 3 FINANCIAL MODEL ASSUMPTIONS

The Public Housing Renewal Taskforce, for the purpose of ongoing monitoring and decision-making, should fully and precisely document the assumptions underpinning the financial model, including the basis on which inputs derived from the financial model are to be calculated.

Agency response

In accordance with subsection 18(2) of the *Auditor-General Act 1996*, the Chief Minister, Treasury and Economic Development Directorate, the Community Services Directorate and the Environment, Planning and Sustainable Development Directorate were provided with a:

- draft proposed report for comment. All comments were considered and required changes were reflected in the final proposed report; and
- final proposed report for further comments. As part of this process, the Directorates were offered the opportunity to provide a statement for inclusion in the Summary chapter.

Statement from the Chief Minister, Treasury and Economic Development Directorate, the Community Services Directorate and the Environment, Planning and Sustainable Development Directorate

The ACT Government thanks the Auditor-General for the opportunity to review and respond to the Final Proposed Report (the Report). Further comments are outlined below:

- *as noted in the Report, the development of revenue estimates is complex and there are risks associated with achieving the forecast revenue from the sale of multi-unit properties. The sales strategy continues to be carefully considered in this regard and changes have been made to the most recent version of the economic model to adjust the revenue estimates accordingly;*
- *as approximately half of the sales as part of the public housing renewal program have taken place, it is still too early to make a final assessment of sales performance. As expected, there have been some sales results above and some below the modelled outcomes. The actual sales results received to date, averaged across the six properties sold (Owen Flats, Dickson Flats, Currong Apartments, Karuah, Allawah Court and Lyneham and De Burgh) equate to valuation plus 23 per cent. This is consistent with the changes made to the June 2017 version of the economic model;*
- *while all business cases for the public housing renewal program have now been approved, the inclusion of sensitivity analysis in future business cases can be considered. A single recommendation about estimated revenue is still likely to be required as part of any business case process;*
- *it is noted that the ACT Audit Office has a view that residual values should be treated as balance sheet items and not included in the financial modelling. It is noted however that residual values are commonly used as an estimate of the cash inflow at the end of the evaluation period. As the ACT Audit Office was previously advised, this is highlighted as a requirement in the Australian National Audit Office's Better Practice Guide on the*

Strategic and Operational Management of Assets by Public Sector Entities[3] *which on page 79 states 'cash inflows are incremental income streams for each of the options expected to be generated…Additionally, they should include the release of capital generally through a sale (residual value)'. Not including residual values as a cash input in the financial modelling would not be as accurate a reflection of the value that would be available at that point in time. This allows comparability between the retain and the renewal scenarios;*

- *while there remain risks associated with the identification and delivery of replacement public housing dwellings by 30 June 2019, as noted in the Report a range of mitigation measures are being implemented;*

- *it is acknowledged that the evidence base could be stronger for the use of potential heritage or Territory Plan Variation impacts in the economic model. As such, the Public Housing Renewal Taskforce has not used these in the June 2017 version of the economic model, and will continue to refine the financial analysis based on the advice from the Auditor-General; and*

- *as noted in the Report, considerable work has been undertaken to identify the needs and preferences of public housing tenants relocating as part of the public housing renewal program. Work will continue with community organisations to support public housing tenants during the relocation process.*

[3] Australian National Audit Office, September 2010, https://www.anao.gov.au/sites/g/files/net616/f/2011_Strategic_and_operational_management_of_assets_by_public_sector_entities.pdf, accessed 15 June 2017