



MEDIA RELEASE

PA 2011/2

24 February 2011

Performance Audit Report

Residential Land Supply and Development

The ACT Auditor-General, Mrs Tu Pham, has today presented a Performance Audit report titled **'Residential Land Supply and Development'**, to the Speaker for tabling in the ACT Legislative Assembly.

The audit examined the effectiveness of processes for supplying and developing land for residential purposes adopted by ACT Government agencies. 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.

As part of this audit, Audit examined selected housing affordability initiatives including relevant aspects of the Land Rent Scheme, to the extent that they affect land planning and releases. This audit on land supply and development was not intended to examine fully the ACT Government Housing Affordable Action Plan or the Land Rent Scheme. These Government initiatives may be subject to full performance audits at a later date.

The primary focus of the audit was on the Land Development Agency (LDA), Department of Land and Property Services (LAPS) and the ACT Planning and Land Authority (ACTPLA).

Audit Conclusions and Key Findings

The audit acknowledges that residential land supply and development within the ACT is a complex activity, involving several ACT Government agencies and methods of land supply.

The audit found that the land supply and release process and programs to date have not been effective in achieving the ACT 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 was also a need for clear reporting by ACT Government agencies on the supply of 'shovel-ready' land to the market, to provide more certainty to stakeholders in the industry and to the ACT community.

Key findings included:

- Inter-agency coordination has improved in recent years and 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.

- ACT Government agencies have not used a robust model in assessing residential dwelling demand, including comprehensively analysing key underlying factors and their potential impact on the Indicative Land Release Program (ILRP). 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.
- There is a lack of comparative analysis of the results of the different methods of delivery of land release, including their relative merits in meeting Government financial, social and environmental objectives. Consequently, there is no robust process for LAPS or LDA to inform the Government's strategic decisions on an appropriate mix of land releases by different delivery methods, or any trade-off required to deliver competing government priorities.
- 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. The LDA has released blocks from its 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. This land release process can create various risks to the LDA and the ACT Government, particularly when combined with the ACT's Land Rent Scheme.
- The Land Rent Scheme was introduced in July 2008 as an initiative of the Affordable Housing Action Plan, to allow 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 reduce upfront costs to buyers and improve housing affordability.
- 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 prior to settlement without any penalty or conditions.
- As at November 2010, 686 Land Rent contracts had been entered into, most of them were yet to be settled and the value of unsettled Land Rent blocks was almost \$133 million. Several individuals and companies including investors and builders, hold multiple blocks under the Land Rent Scheme. As at January 2011, the ACT Revenue Office was administering a total of 88 Land Rent leases (54 at the standard rate and 34 at the discount rate to eligible low income lessees).
- The current rate of land rent contract cancellations (12.4 per cent), 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.

- 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.
- There were some good results achieved for the supply of affordable blocks. 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.
- Since 2007, the LDA has incorporated affordable housing targets into its LDA estate releases. However, due to the long lead time between release and settlement, not all of these releases have been translated into the actual supply of affordable house and land packages to the market. Since the introduction of the OwnPlace, 247 OwnPlace blocks have been sold to builders, but only 112 of these blocks have been released to eligible purchasers.
- In 2009-10 the LDA met or exceeded its stated financial-related Key Performance Indicators (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.
- LAPS has not sought to independently benchmark the LDA's development costs. To do so would provide greater assurance that the LDA's key businesses are efficiently managed, and to provide a stronger and transparent basis for Government to make strategic decisions about 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.
- 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.

Recommendations

The audit made thirteen recommendations to address the issues raised. The LDA, LAPS, ACTPLA have agreed to the recommendations, either in full or in principle.

Further Information

For further information, please contact Rod Nicholas, Director, Performance Audits and Corporate Services on 6207 0827. Copies of the report are available from the ACT Auditor-General's Office (Level 4, 11 Moore Street, Canberra City) and from its website, www.audit.act.gov.au.