

**MEDIA RELEASE****27 May 2016**

## **Management of the financial arrangements for the delivery of the Loose-fill Asbestos (Mr Fluffy) Insulation Eradication Scheme**

ACT Auditor-General, Dr Maxine Cooper, today presented a performance audit report on the **Management of the financial arrangements for the delivery of the Loose-fill Asbestos (Mr Fluffy) Insulation Eradication Scheme** to the Speaker, for tabling in the ACT Legislative Assembly.

Dr Cooper says: ‘There has been effective planning for and management of the financial arrangements for the implementation of the Loose-fill Asbestos (Mr Fluffy) Insulation Eradication Scheme.’

‘The estimated \$1 billion outlay is equivalent to 10 per cent of the ACT Government’s annual budget. Current financial modelling indicates that between \$300-\$500 million of the cost will not be recouped from sales.’ said Dr Cooper

Dr Cooper says: ‘The audit report documents the history of loose-fill asbestos insulation in housing in the ACT. This provides the context for the audit which relates to a most unusual situation, Canberra’s Mr Fluffy, which has had such a profound impact on many Canberrans.’

‘This is the first of several audits on the Loose fill Asbestos Insulation Eradication Scheme. The next audit is likely to focus on the the Asbestos Response Taskforce’s management of the personal support, buy-back and demolition phases of the Scheme. An important part of this will be the Asbestos Response Taskforce’s engagement with affected parties.’ said Dr Cooper.

The Summary of the **Management of the financial arrangements for the delivery of the Loose-fill Asbestos (Mr Fluffy) Insulation Eradication Scheme : Report No. 4/2016**, with audit conclusions, key findings and recommendations is attached to this media release.

Copies of the **Management of the financial arrangements for the delivery of the Loose-fill Asbestos (Mr Fluffy) Insulation Eradication Scheme: Report No. 4/2016**, are available from the ACT Audit Office’s website [www.audit.act.gov.au](http://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:

### Conclusion

#### PLANNING AND FINANCING THE SCHEME

Initially, the ACT Government anticipated a cost sharing arrangement with the Commonwealth Government, on the basis of the 1991 Memorandum of Understanding (MoU) between the two governments for the 1988-1993 asbestos removal program. That MoU set out a funding formula for apportioning costs of the initial asbestos removal and any future remediation work. In September 2014, the ACT Government made a submission to the Commonwealth for funding support to implement the Scheme. In that letter the ACT Government sought to rely on the undertakings set out in the 1991 MoU and requested the Commonwealth Government to agree to fund two thirds of the overall net cost of the proposed buyback and demolition program.

However, the Commonwealth Government decided to provide assistance in a form that did not incur any net cost to the Commonwealth, by providing the ACT Government with a loan at a concessional rate of interest which did not satisfy the ACT Government's funding request. The ACT Government therefore assumed full financial responsibility for the eradication of asbestos from ACT domestic housing.

The Asbestos Response Taskforce and ACT Treasury successfully negotiated terms and conditions for the loan which benefited the ACT. The concessional loan arrangement provided modest interest savings and the negotiated loan arrangements enabled the ACT to put in place appropriate financial arrangements.

The early months of the Taskforce operations in 2014 had the characteristics of an emergency situation. At this time, the assumptions underpinning the modelling, although imperfect, were developed and agreed with the ACT Treasury. The financial estimates have been revised as new information became available. Acknowledging the uncertainty associated with the various phases of the Scheme, the Taskforce produced a range of estimates and scenarios to support the development of the costings for the Scheme. Differences in the scenarios could have been better explained.

The total cost of the Scheme is still uncertain. As at mid April 2016, the estimated total cost of the buyback program is just over \$700 million. The demolition program has resulted in 152 houses being demolished to date, and the costs of demolishing the houses have exceeded the target budget, but are within the appropriations for the demolition phase and are within the modelling estimates. The sales program commenced in April 2016, with 10 blocks being offered to the public. When a more representative number of blocks has been sold, land values and sales

revenue will be able to be more accurately estimated.

The cost of borrowings for the Scheme is not included with reporting on the costs of the Scheme. To provide stakeholders and the public with a complete picture of the financial impact of the Scheme, particularly given its potential impact on the financial results of the ACT Government, whole-of-life reporting on the revenue and costs (including borrowing costs) of the Scheme (i.e. from its inception to completion) should be provided on an annual basis through the published budget papers.

## GOVERNANCE AND RISK MANAGEMENT

The Taskforce governance arrangements, including the reporting framework and risk management arrangements, underpin its ability to deliver its project outcomes effectively and within budget. The Royal Commission Report into the Home Insulation Program (HIP) and the subsequent Shergold report, *Learning from Failure*, both emphasise the desirability of creating positive risk cultures. The Taskforce was mindful of the findings in the HIP report in the development of the Taskforce and the implementation of its mandate. The report of the Shergold inquiry, established in December 2014 to review government processes for implementing large programs and projects following the findings of the HIP Royal Commission, was released in February 2016. This report reinforces the desirability of providing robust advice, creating a positive risk culture, enhancing program management and embracing adaptive management. All of these the Taskforce has managed.

The Taskforce's approach to governance and risk management reflects better practice. Despite being established and becoming operational within a very short space of time, the Taskforce has mature and practical arrangements in place, to the extent that risk management is embedded into its daily processes. The Taskforce has actively reviewed its governance and risk management arrangements and continues to refine them, either through formal review processes or in one case, in response to an incident which prompted a review of risk management arrangements for demolition sites.

Reporting arrangements provide regular information on a range of Taskforce activity to stakeholders and governance bodies. Reports on each phase of the Scheme are provided to the primary governance body, the Eradication Scheme Steering Committee. Taskforce matters are a regular agenda item on the Chief Minister, Treasury and Economic Development (CMTEDD) Audit and Risk Committee and quarterly reports are tabled in the Legislative Assembly. From early July 2014, the Taskforce provided weekly briefs to the Chief Minister which gave a picture of events which had taken place in the past week, what was happening and what was imminent.

The risk management arrangements are detailed and targeted. Individual positions are identified with responsibilities under the scheme and risk mitigation strategies specified. As noted above

these are reviewed and amended, formally and when circumstances require it. The Taskforce is responsive to the emergence of risks and has assessed its risk management strategies in response to events.

#### MANAGEMENT OF FINANCE AND RISK FOR EACH PHASE OF THE SCHEME

Effective financial management arrangements have been implemented in the Taskforce for the delivery of the Scheme. The Taskforce has developed administrative processes to manage the delivery of the Scheme. The customised settlement process gave the Taskforce the ability to settle a large number of properties within a short space of time. This process as developed allowed the Taskforce to purchase the majority of the affected properties within a few months, fulfilling a major objective of the Scheme.

The phased approach of a pilot demolition program, incorporating a lessons learned exercise, is an effective means of implementing a program for which there was little previous experience. It enabled the better scoping of the asbestos removal and demolition process itself and the testing of contractors' abilities and capacity to undertake the necessary activities. This approach has meant that risks were being managed at both a strategic and operational level, although the cost of the demolition phase remains a risk.

The sales program is in its early stages with only 10 properties having been offered to the public. Land valuations of the remediated blocks are difficult to assess and estimates of revenue from sales remain uncertain.

The record keeping in the initial stages of its operation was inadequate. While records are being progressively transferred to Objective, the Taskforce's record keeping system, some historical records are yet to be captured. It is important that the Taskforce completes the migration of records to Objective expeditiously.

### Key findings

#### PLANNING AND FINANCING THE SCHEME

Paragraph

The ACT Government sought financial assistance from the Commonwealth Government, initially on the basis of the 1991 Memorandum of Understanding between the two governments, which set out a funding formula for the 1988-1993 asbestos removal program and which provided for the formula to be invoked should further work be required 'at any time'. Had the funding formula been applied, the Scheme costs would have been shared between the two governments in accordance with the formula.

2.18

The Commonwealth Government has limited its financial commitment to the implementation of the Scheme to the provision of a loan over a period of 10 years at a concessional interest rate, which comes at no cost to the Commonwealth. 2.19

Overall, the financial modelling for the Scheme was found to be adequate, in that it provided a prudent range of expected financial outcomes. However, it would have been an improvement if the audit trail of different versions of the model was clearer and the narrative around the explanation of the scenarios and underlying assumptions, and the results generated from the scenario analysis, had been better documented. 2.31

The contingency amount included in the cost estimates provided some scope to accommodate the recognised shortcomings of the initial assumptions in the model. However, the amount of the contingency funding appears to be a balancing item to align with the full amount of the \$1 billion loan and does not appear to have been informed by the scenario analysis. 2.32

The value of the loan arrangement to the ACT was enhanced by the ACT Treasury's negotiation of amended loan arrangements. These arrangements provided the ACT Treasury with flexibility in the application of the loan monies, a principal repayment schedule which was weighted towards the latter years (2018- 2024) of the loan, and a simple loan repayment arrangement which did not require the ACT Government to comply with onerous reporting requirements as originally specified in the draft loan agreement. 2.48

The loan is being managed as part of net government borrowings. To that extent, it will be managed in the context of the fiscal strategy of the ACT Government as reported in the annual budget statements. 2.57

The total cost of the Scheme needs to be provided to stakeholders and the public in a readily accessible manner. Accordingly, whole-of-life reporting on revenue and costs (including borrowing costs) from the Scheme's inception to completion needs to be presented in a publicly available document, for example, in the Chief Minister, Treasury and Economic Development Directorate annual budget papers. 2.61

## GOVERNANCE AND RISK MANAGEMENT

Paragraph

The Taskforce has developed and implemented appropriate governance and risk management frameworks. It has put into place governance arrangements which promote transparency and accountability and a risk management framework which 3.25

is actively managed and embedded in the day to day operations of the Taskforce.

Key roles and responsibilities of the respective entities are identified, including those of Taskforce staff involved in the delivery of the Scheme. The framework provides for regular reporting to the main governance bodies of CMTEDD's Audit and Risk Committee and the Eradication Scheme Steering Committee. 3.26

The Taskforce has reviewed its governance arrangements in response to the movement through the phases of the Scheme and changing priorities, as well as lessons learned processes. 3.27

Taskforce risk documentation is clear, comprehensive and provides a framework for managing risk in the context of the implementation of a complex program, containing a high degree of risk and uncertainty. Risks have been clearly identified and responsibility for risk management and mitigation strategies assigned to individuals. 3.34

The Taskforce consulted widely in the development of its risk register, both with industry and with ACT Government agencies. It was informed by key findings from the Royal Commission into the Home Insulation Program and industry workshops. There is an underlying work plan actioned by the Taskforce risk coordinator for the purpose of ensuring high level oversight of the risk register. 3.35

Review of risks and the management of risk have been embedded into Taskforce administrative processes. The Taskforce's operationalising of risk means that it has incorporated the identification of risks into its daily activities, providing a high level of awareness throughout the Taskforce of the importance of recognising, mitigating and managing risk. 3.36

The Taskforce actively reviews its risk management strategy and corresponding risk mitigation controls, as is evidenced by the prompt and decisive action taken to do so, after being advised of an electrical incident at a demolition site in February 2016. 3.39

The monthly reporting to the Eradication Scheme Steering Committee (ESSC) provides comprehensive information which enables the ESSC to perform its oversight functions. The quantum and format of the financial information are clear, making it possible for the ESSC to identify potential issues quickly. 3.48

The distribution of the monthly ESSC report to the Minister with responsibility for the Taskforce and appropriate senior executives facilitates transparency of 3.49

Taskforce processes and high level oversight of Taskforce activities.

The weekly briefings to the Chief Minister provide a wide-ranging guide to the progress of the Taskforce. In terms of the implementation of public policy, the briefings provide information on the policy options, key issues and decisions, including financial issues, immediate priorities, Taskforce communications, progress on practical matters, stakeholder concerns, and potential obstacles, which were the subject of political and administrative consideration. 3.54

The disclosures in the annual financial statements contribute to the transparency of the Scheme's financial commitments. In the interests of ongoing transparency, these disclosures should continue to be a feature of the financial statements for the duration of the Scheme. 3.56

The Taskforce has provided its stakeholders, including the Legislative Assembly, homeowners and occupiers of contaminated properties and the ACT community generally, with a range of opportunities and mechanisms for engagement with the Taskforce. 3.59

#### MANAGEMENT OF FINANCE AND RISK FOR EACH PHASE OF THE SCHEME

Paragraph

The immediate priorities for expenditure by the Taskforce were the personal support program and the buyback program. The financial management arrangements adopted for the personal assistance scheme/relocation assistance grant were effective in delivering a fast response within risk tolerances. 4.29

The Taskforce developed innovative administrative processes to manage the delivery of the buyback program effectively. The customised settlement process enabled the settlement of a large number of properties within a short space of time. 4.30

The Taskforce used a lessons learned workshop approach early in the demolitions program to contribute to the identification of risks for the demolitions phase. This is an effective mechanism for managing the risk of a program for which there exists little prior knowledge. The outcomes of the workshop helped to define the ongoing management of the demolition phase. 4.46

The demolition phase was one which contained a high degree of risk, both financial and operational. Costs were an unknown quantity and operational procedures were required to be developed. For these reasons, the Taskforce and Procurement and Capital Works developed a staged approach to the demolition program in 4.47

order to develop expertise in the program, gain better knowledge around costs and assess the skills and capacity of the industry.

The implementation of a graduated sales program continues the approach applied in the demolitions phase; that is, small numbers of properties are to be offered initially to assess the market and to provide better information to inform the development of subsequent sales programs.

4.61



The sales program is now in the early stages, having commenced in April 2016, and a total of between 30 to 50 sales is forecast to be undertaken by the end of financial year 2015-16. Following the first sale of properties, the Taskforce and the Land Development Agency (LDA) held a lessons learned workshop approach (similar to that held in the demolitions phase), in order to better manage future sales.

4.62

## Recommendations

### RECOMMENDATION 1 REPORTING OF THE TOTAL COST OF THE SCHEME

The Chief Minister, Treasury and Economic Development Directorate should provide information on the total costs of the Scheme by publicly reporting on the revenue and costs (including borrowing costs) of the Scheme from its inception to completion in the annual budget papers.

### RECOMMENDATION 2 DISCLOSURES IN FINANCIAL STATEMENTS

The Chief Minister, Treasury and Economic Development Directorate should continue to provide disclosures about the financial impact of the Loose-fill Asbestos Eradication Scheme in future financial statements.

### RECOMMENDATION 3 RECORDS MANAGEMENT

The Asbestos Response Taskforce should continue to migrate all relevant Taskforce records to the Objective system and complete this process by December 2016.