



**LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL
TERRITORY**

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: [Inquiry into Auditor-General's Report: 4/2020 – residential land supply and release](#))

Members:

**MRS E KIKKERT (Chair)
MR M PETERSSON (Deputy Chair)
MR A BRADDOCK**

TRANSCRIPT OF EVIDENCE

CANBERRA

THURSDAY, 12 MAY 2022

**Secretary to the committee:
Mr S Thompson (Ph: 620 50435)**

By authority of the Legislative Assembly for the Australian Capital Territory

Submissions, answers to questions on notice and other documents, including requests for clarification of the transcript of evidence, relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Legislative Assembly website.

WITNESSES

HARRIS, MR MICHAEL, ACT Auditor-General, ACT Audit Office**54**
STANTON, MR BRETT, Assistant Auditor-General, Performance Audits,
ACT Audit Office**54**

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Amended 20 May 2013

The committee met at 9.33 am.

HARRIS, MR MICHAEL, ACT Auditor-General, ACT Audit Office

STANTON, MR BRETT, Assistant Auditor-General, Performance Audits, ACT Audit Office

THE CHAIR: Good morning. Welcome to the public hearing of the Standing Committee on Public Accounts for the inquiry into Auditor-General's report No 4 of 2020: *Residential Land Supply and Release*. Today the committee will be hearing evidence from the ACT Audit Office.

Before we begin, on behalf of the committee, I would like to acknowledge that we meet today on the land of the Ngunnawal people. We respect their continuing culture and the contribution they make to the life of this city and this region.

Please be aware that the proceedings today are being recorded and transcribed by Hansard and will be published. The proceedings are also being broadcast and webstreamed live. When taking a question on notice, it would be useful if witnesses used these words: "I will take that as a question taken on notice." This will help the committee and witnesses to confirm questions taken on notice from the transcript.

Welcome, Mr Harris and Mr Stanton. Thank you so much for being here. Would you like to make an opening statement?

Mr Harris: I have read the privilege statement and I understand it. I am happy to go to initial comments, Chair, if that is your wish. This audit was completed almost two years ago now, so the first comment I would make is that, with the effluxion of time, a number of things have occurred—whether in response to our recommendations or not, I cannot say; nevertheless, they have occurred—that deal with some of the issues that we have spoken about in the report. One in particular is the land supply report itself, which I will come to in a minute. So I would just like to put on the record that there have been some positive moves as far as activity related to the recommendations that we made is concerned.

However, for the record, this audit in particular reviewed the processes used to develop the government's indicative land release program and the delivery of that program against agreed targets and time frames. We had a couple of findings and conclusions in relation to that, and they were mixed, I suppose. On the one hand, as the report indicates, in several areas there had been good cooperation; a lot of good work had been done. Governance arrangements, for example, for the development and delivery of the program were good, and the cross-agency working groups and the procedural guidance were reasonable and effective.

However, in a number of areas there were deficiencies. For example, the majority of the policy and procedural guidance that was meant to underpin those processes at the time of the audit was still in draft form. The evaluation mechanisms, in particular, explicitly identified in the draft guidance, had not been implemented. So, on the one hand, if I categorise that, the agencies were working pretty well together in order to deliver the program. But, as I have said on a number of occasions, they were working a little bit in a vacuum because the draft policy, the draft procedures and the draft

guidelines were still just that. So there were no formal processes in place.

In terms of the land release program itself, the area that we were critical of related to the reports, the ACT land and property reports. Our criticisms essentially related to two areas: first, the timeliness of those reports. They were annual reports, but they were released more than six months after the time of data collection. So the relevance of that information was questionable, considering the amount of time that had passed between collection and the publication of those reports. They did not provide, in our opinion, useful information on forecasts or projections, and they were not particularly effective in informing the community on issues associated with land release and development in the ACT. That, as I understand it, is one area that has improved. My understanding is that those reports are now more informative and more timely. That is a good outcome in terms of transparency from the community's point of view.

In terms of achievements, an area of criticism that we have is with the way in which land supposedly for release is categorised. It is categorised as released when it is put on the market, but it may not necessarily have been sold. So "release" means that, as the agency, I have now put it on the market for sale. But we discovered a number of areas where significant parcels of land that are classified as released remain unsold, for a variety of reasons. We believe that that terminology should be refined a little bit or at least clarified so that the community has a better understanding of the difference between released and sold.

There is nothing wrong with saying, "It has been released from our stewardship to the market." That is fine, but there is confusion in the terminology, in that the community could be led to believe that, just because it is released, it has been sold. I think there needs to be a step in between in the terminology to clarify the difference between released but still on the market and released and sold. It gives you better transparency, basically.

In terms of community housing, public housing, affordable housing, there remains a difficulty in all of those areas. In some years, to be fair, the targets in relation to those classifications of housing were met; 2018-19 is an example. In many other years, however, those targets were not met—indeed, probably in the majority of years. Certainly in the time frame that we looked at, there were more years when the targets were not met than there were years when the targets were met.

There are a number of factors behind that. It is a complicated area; there is no doubt about that. One of the particular difficulties seemed to be that, in the years that we looked at where the targets were not met, the type of facility that was being made available was not the type of facility that the client, the target market, was actually looking for.

There seemed to be a predominance of one and two-bedroom units, whereas the majority of people looking for this type of housing had larger families and required more than one or two bedrooms. Because they frequently would have had younger children, a unit probably was not the most suitable form of accommodation for them. A freestanding house with a small area of land would have been a more suitable type of accommodation. So there seemed to be a mismatch between the stock that was available and what the market wanted.

The same criticism—“criticism” is probably a harsh word—or the same commentary could be made in relation to blocks of land being released for sale. There were, during the time frame we looked at, quite large numbers of blocks of land in particular parts of Canberra that were released but not sold and had been unsold for quite some time. The market was clearly saying, “We do not want to buy that land, in that area, at that price.” There is a requirement to not sell below evaluation, yet the market, at particular points in time, was saying, “Your valuation is too high and we are not paying that price.” I think the same circumstance occurred with the City Services site on Northbourne Avenue, opposite the ABC, on the corner of Macarthur and Northbourne.

Mr Stanton: Macarthur House.

Mr Harris: Macarthur House; thank you. The valuation was such and such and the market would not come to valuation, so the property was not sold. I am not saying that you should sell in a fire sale, by any stretch of the imagination, but there seems to be a lack of flexibility in relation to the relationship between the policy requirements of not selling below valuation and what the market is telling you.

If the decision is: “Well, we are not going to go below that valuation. We will just sit on the property for however long it takes,” that is fine. That is a policy call. I am not questioning that. But in terms of public housing, there needs to be perhaps a more flexible approach, as opposed to commercial blocks of land like Macarthur House was. So that is an issue. I think that pretty much covers the key conclusions that we came to. I am happy to take questions.

THE CHAIR: Thank you, Mr Harris. When we had the government here, I was asking them questions about the 15 per cent target for community housing and affordable homes. You mentioned earlier that in some years they did reach that target; however, in the majority of years they did not. They said that one of the reasons is that they had possibly reached the target within two years, instead of one year, because they were waiting on that data to arrive from other agencies. Was that part of your research? Did you discover that that was one of the issues when they had not reached the 15 per cent target?

Mr Stanton: I do not quite know the specifics of that scenario or that explanation. This was a point in time, in terms of the audit being done in early 2020 or so. We did go back three years, so we are talking about 2016-17, 2018-19 and the like. The table in this report which shows whether the affordable and community housing targets were met, at that point, as we drafted this report, was largely a function of delays in a particular land development. As I recall, it might have been Strathnairn. They intended to put affordable or community housing in Strathnairn, or possibly Taylor. I am sure it is in this report. But any delays to those developments then meant that the provision of the 15 per cent community and affordable housing was at risk for that particular year.

THE CHAIR: Okay; right. That makes it more understandable. Thank you.

MR PETTERSSON: For the years before the audit, you state in the report that the amount of land released “has exceeded anticipated demand”. Did the government give a reason why they had done so?

Mr Stanton: That comment there was in relation to the demand modelling that the agencies went through. Every year they went through the process of identifying what they anticipated to be the demand for housing: X this year and Y that year. For some of those years they certainly did exceed it, in terms of the land released—not necessarily land availability but certainly land released. In the briefings that we saw and the advice that we saw, it was acknowledged that there was an intent to release additional land, or land for dwellings, as part of the policy agenda.

Mr Harris: Part of the issue here is that what we found was that the modelling, whilst it is comprehensive, relies more heavily on estimated information than actual information. There does not seem to be as much use of actual data in the modelling that they do; notwithstanding that the modelling is pretty complex. In our view, there could be more use of real time-data and actual data from the builders' pipelines and the construction companies' pipelines. It is data that is available, so we know what is there. They are not making as much use of that real data as they could and that may possibly be part of the answer to your question and part of the issue that Brett touched on.

MR PETTERSSON: What would the effects be of having a greater supply of land than the demand anticipated?

Mr Harris: The economic effect, presuming the land is in places that the market wants to buy and at prices that the markets wants to buy, would be to drop the prices. It is a very pure supply and demand model. Land supply is perhaps one of the purest supply and demand models in terms of the impact on price. If you have got piles of land, it is going to be cheaper.

There are a lot of other factors involved but, all other things being equal, more land on the market means the price should go down. But the emphasis here is the market. There will always be aberrations in price mechanisms, depending upon the market's perception of the particular amenity or value of a particular piece of land, compared to another piece of land, and a particular location compared to another location. For example, you could release hectares of land in Red Hill and it is probably still not going to be cheap. The same may not be the case in other places.

Mr Stanton: If I can just add to that? If we are talking about the land supply model, the residential supply and demand model, in talking purely about numbers and land availability for developing for dwellings you get into that question about the segmentation of the market, which Michael was talking about there: multi-unit developments, mid-range townhouse developments and then the greenfield freestanding houses on lots. That is the segmentation of the market, which is not necessarily picked up in broad discussion around dwelling release and modelling.

Mr Harris: Even greenfield sites are difficult because the style of development will impact on them. For example, new greenfield sites now, almost universally, have underground power. They always have had underground water, of course, but they also now have underground NBN connections, internet connections, and all sorts of services that are built into the subdivision before you even sell a block of land.

The provision of that servicing, the cost of the provision of that servicing, is very

dependent upon where the particular greenfield site is and also very dependent upon how close the existing services are. As an example, the best way to make a subdivision profitable is to put your services at the far end of the subdivision first and sell those blocks first, and then work your way back. The cheapest way to provide the services is to start here and incrementally push them out. If you start there and sell back, these blocks here become more valuable as time goes on, much more valuable. The marginal profit increases. So there are a huge number of nuances in greenfield sites that impact on the price of that piece of land.

MR PETTERSSON: Have the principles of land supply from the ACT government changed since this report?

Mr Harris: I do not know the answer to that question. I do not know whether Brett does.

Mr Stanton: I do not know the answer to that question. But when we did the audit, the principles were articulated in the ACT Housing Strategy 2018.

MR PETTERSSON: Cool. Thanks.

THE CHAIR: I have a follow-up question in terms of the modelling of housing supply. What is your view on the positive impact if the government had used actual data, rather than estimated data—talking about builders’ pipelines, developers’ pipelines, instead of using an estimation?

Mr Harris: It probably would have flattened out the variation that Mr Pettersson was talking about. You would get more accurate projections of what demand actually is and what supply actually is, and probably better matching as far as the government’s target markets are concerned, compared to other target markets.

Mr Stanton: This is about the land supply model, the residential supply and demand model. It is an Excel workbook. All sorts of inputs go into that. It has got all sorts of parameters or assumptions that you can change or tweak to test the flexibility of it or the variational tolerance of it. There were quite valid and rational inputs that went into that Excel model.

What we are talking about there is that there was just a blanket assumption—this was covered in paragraph 3.68—that land released through the ILRP would yield dwellings to the market in two years time. That is the assumption that was put into the model: “Land for 3,000 dwellings released this year. In two years time those dwellings will be on the market.” That is where we are looking for more specificity and granularity in terms of what is in the builders’ and developers’ pipelines. We are not sure about that assumption and whether it is valid.

At the time that we did this, COVID was impacting. It might have actually had a bigger impact than it did; there was a great deal of uncertainty. So we are looking for more specificity on what is in the builders’ and developers’ pipelines, to input that into the model. That then ties back to the land and property reports, because we were looking for more accuracy and more information to come through those land and property reports than was apparent in the ones that were being released at the time. So it is about

more information—more accurate, more timely information and data to decision-makers and then to the broader market as well.

THE CHAIR: Yes. I can imagine that this would be very helpful to the builders' market as well. We had them in, and one of their concerns was that they are not aware of their work in the next couple of months, six months, a year's time, and that is due to the housing modelling, release and supply.

Mr Stanton: Okay.

THE CHAIR: All right. Thank you.

MR PETTERSSON: What uncertainties are there for the government when they make an estimated guess that releasing land will result in houses in two years time?

Mr Harris: Multiple ones. It is a very uncertain area. It is a complex model. It is a complex spreadsheet; there is no doubt about that. These spreadsheets can always be improved and they are never going to be perfect. There are so many variables in land supply that impact the market that you do not know about when you do the modelling.

As Brett said, they are predicting three years out. As a classic example, suppose you had done your modelling prediction a month before COVID started. We have now had two and a half years of complete unpredictability. If you look at the site on the hill just around there, next to the court complex, that commercial building, that started life with a time frame attached to it and a building profile that was targeting student residential accommodation in its broadest sense. The majority of the building was apartments and accommodation related.

They took it off the market as a consequence of COVID and they have now changed the profile of the building to be more commercially orientated, rather than residentially orientated. None of the modelling would have predicted that. They are commercial operators. I am sure their modelling did not predict it either; hence the change. So we do acknowledge the uncertainties that exist as far as land release programs are concerned. I would venture to say that the territory's efforts in this area are probably as good as any jurisdiction around the country.

MR PETTERSSON: The point I was trying to head towards was that we heard evidence from an industry body that they have concerns about land speculation or land banking in the ACT. Would that have an impact on the ACT government's model?

Mr Stanton: That gets back to that earlier point about accuracy as to what is in the builders' and developers' pipelines. Again, the blanket assumption is that we have released land for 3,000 dwellings this year and in two years time all 3,000 of those dwellings are going to be made available or on the market. Land banking, if it occurs, clearly means that those dwellings are not on the market within that two-year period. That is where more accuracy and more information about what is in the builders' and developers' pipelines, trying to go away from that blanket assumption, will perhaps highlight very real and accurate examples of land banking or otherwise, or what is being held back from the market.

MR PETTERSSON: Thank you.

MR BRADDOCK: Recommendation 6 is the one that the government did not agree to or complete. I am trying to gain an understanding of the level of impact that arises from not having that information on whether it has been released and not sold in the ILRP.

Mr Stanton: That was the early point that Michael was making. We certainly think that, for transparency, it would be beneficial to (a) put in the information on what is being released, the land that has been released, and (b) highlight what has not been sold. At the time of the audit, in early 2020, we were aware that approximately 500 blocks in Taylor were so-called “on the counter” and available to be sold. So that was 500 there.

We talked earlier about Macarthur House. I think there are some figures in this report, and a table, about the number of dwellings that were anticipated to be released through the sale of the Macarthur House site. We are talking about quite a few hundred—maybe a thousand or more. To the extent that in the order of a thousand dwellings have been reported as released that are still on the shelf, or still available and not sold, we think that that is information that might be relevant and useful to the community.

MR BRADDOCK: So will that have an impact on market value or is it more a part of the transparency and oversight of the scheme?

Mr Stanton: It is primarily around transparency and oversight. But that would make the market, the community, more informed in their decisions as well—the individuals, households, builders and developers.

MR BRADDOCK: Encouraging them to negotiate harder with the government if there is an oversupply?

Mr Harris: Yes.

MR BRADDOCK: Thank you.

THE CHAIR: Thank you. On behalf of the committee, I thank the ACT Audit Office for their attendance today. If witnesses have taken any questions on notice, could you please provide answers to the committee secretary within five working days. The committee’s hearing for today is now adjourned.

The committee adjourned at 10.03 am.