LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

REVIEW OF AUDITOR-GENERAL'S REPORT NUMBER 4, 1996

Land Joint Ventures

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Report Number 17

August 1996

RESOLUTION OF APPOINTMENT

The Standing Committee on Public Accounts was appointed by the Legislative Assembly on 9 March 1995 with the following terms of reference:

(a) examine:

(i) the accounts of the receipts and expenditure of the Australian Capital Territory;

(ii) the financial affairs of authorities of the Australian Capital Territory; and

(iii) all reports of the Auditor-General which have been laid before the Assembly;

(b) report to the Assembly, with such comments as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Assembly should be directed;

(c) inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question; and

(d) inquire into and report on the implementation of the *Public Sector Management Act 1994* with particular reference to:

(i) the public interest; and

(ii) any other related matter.

MEMBERSHIP OF THE COMMITTEE

Mr Bill Wood MLA (From 26 March 1996. Elected Committee Chair 3 April 1996)

Mr Trevor Kaine MLA (Deputy Committee Chair)

Ms Lucy Horodny MLA

Ms Rosemary Follett MLA (To 26 March 1996. Former Committee Chair)

Secretary: Bill Symington

1. INTRODUCTION

Background

1.1. Auditor-General's Report No 4, 1996 was presented to the Assembly on 28 March 1996.

1.2. This performance audit, done between May and December 1995, forms and independent opinion as to whether two joint venturers, Harcourt Hill Estate and Dunlop Hills Estate, were being managed effectively and that the ACT's financial interests were protected.[1] It should be noted that at the time of the audit, nine joint venture land developments were either in progress or were in the process of being executed.[2]

1.3. Harcourt Hill is a land and facility development involving expenditure of more than $100m while Dunlop Hills was considered by the Auditor-General as typical of broadacre developments involving the Government.

1.4. The audit sought to determine whether the selection of joint venture partners was done appropriately in accordance with principles of fair and open competition; whether the operations of joint ventures have or will produce anticipated financial returns and provide for equitable sharing of returns, losses and risks; and whether accounting and external reporting satisfies public accountability requirements.

1.5. The audit reviewed financial facility agreements and a consultancy agreement between Harcourt Hill Pty Ltd and Rider Hunt Sydney Pty Ltd, examined working files held by the Land Development Branch, and examined audited finical statements, monthly progress reports to the estate committees of management and quarterly reports to the Minister.[3]

2. AUDIT FINDINGS

2.1. The overall audit finding was that the joint venture arrangements are being managed effectively and that the financial interests of the ACT are appropriately protected. However, the audit concluded that public reporting and accountability should be improved.[4]

Harcourt Hill Estate

2.2. Harcourt Hill is a prestige residential estate some 12km north of the central business district and adjacent tot the Gold Creek area. Begun in 1993, it will comprise about 1560 dwellings a golf course, clubhouse and 250 room hotel. At January 1996 a display village had been completed, 298 residential blocks developed and the golf course almost completed.

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[1] Audit report, p2
[2] ibid,following p75
[3] ibid, p3
[4] ibid, p4

2.3. With regard to the detail, the audit noted that competition on the basis of financial return was not part of the selection process, although Government's financial position and anticipated return were protected. The audit found that the selection process was not inappropriate having regard to the nature and complexity of the project.[5]

2.4. The audit was not able to conclude whether the anticipated returns to the ACT from the project will be achieved but advised that the Audit Office will review progress with marketing of the golf course, clubhouse and hotel site of the project annually and report to the Legislative Assembly.[6]

2.5. The audit found that the Government had taken reasonable steps to protect itself from loss and that the apportionment of 50% of joint venture profits is equitable having regard to risk of loss involved.[7] The audit also found that the project management arrangements are satisfactory.[8]

2.6. **Arising from the audit, the audit report recommended that the Committee of Management of the Estate continue to retain specialist consultant services for cost management and project cost auditing through to completion of the project.[9]**

Dunlop Hills Estate

2.7. Dunlop Hills is in West Belconnen, north west of Charnwood. The project is to be developed in three stages with 250 dwellings intended to cater for mainly first home buyers. Development began in 1994 and by September 1995 all blocks were substantially complete, with deposits taken on all but 19.

2.8. The audit concluded that the general processes for selecting the joint venture partner were appropriate.[10]

2.9. The audit found that the projected final profit share for the Government is 25% below the estimated $1.6m when he joint venture was planned, but that this was a reasonable return in view of the deterioration in the market. The profit share to the Government estimated at about 60% was considered to be equitable. The audit also found that the project management arrangements are satisfactory.[11]

Public Reporting

2.10. Public reporting of the activities of the joint ventures is contained in departmental annual reports and the audit found that data provided in annual reports is extremely general,

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[5] ibid, pp4,21-28
[6] ibid,pp5, 12, 35-40
[7] ibid, pp6, 41-45
[8] ibid, pp7, 29-34
[9] ibid, p40
[10] ibid, pp 7, 48-55
[11] ibid, pp7, 56-63

providing little or no specific information on whether joint ventures individually or in total are achieving good financial or other results.[12]

2.11. The audit noted also that apart from the annual reports, quarterly financial and monthly progress reports to the Committee of Management, departments provide quarterly progress reports to the Minister on joint ventures. While these Ministerial reports are voluntary, the audit concluded that such reports represent a critical point in the reporting process such that they should enhance timely and effective decision making having regard to profit receipts and debt obligations.[13]

2.12. Arising from this aspect of the audit the audit report has made four recommendations. These are:[14]

(i) that quarterly progress reports to the Minister include:

> **(a) the current net cash position of the joint venture and projections for monthly cash position balances, 12 months in advance;**
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> **(b) a comparison of the last three months' net cash position with previous monthly projections: and**
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> **(c) explanations of material differences in the above comparisons;**

(ii) that comments [on joint ventures] prepared for the 1995-96 annual report [by relevant departments] should be significantly expanded to provide greater and more useful detail

(ii) that an additional operating statement should be prepared and published which covers the period from the commencement of the joint venture through to the reporting date; and

(iii) that the Auditor-General should be appointed as auditor of all land development joint ventures.

3. COMMITTEE APPROACH

3.1. The committee sought comment from the Minister for Urban Services who advised that, with one qualification, the Government would implement all the audit recommendations.

3.2. The qualification was that the appointment of the Auditor-General as auditor for the existing joint ventures will depend upon agreement with the joint venture partners. The Minister advised that he was confident that most of the joint venture partners would agree and

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[12] ibid, p9

[13] ibid, pp66,67,69

[14] ibid, pp9,10,69

that the change over of auditor can occur in the next few months so as to allow the Auditor-General to be the auditor for the 1996-97 financial year. [15]

4. CONCLUSION AND RECOMMENDATION

4.1. The committee supports, and notes that the Government has accepted the audit recommendations as set out in paragraphs 2.6 and 2.12 above - subject to agreement with joint venture partners on the appointment of the Auditor-General as auditor of joint venture arrangements.

4.2. Noting that the Government is consulting with its joint venture partners on the appointment of the Auditor-General, and is confident of achieving the agreement of most of them, **the committee recommends that the Government inform the Assembly on progress in achieving agreement, including which joint venture partners have agreed, which have not and the reasons for any non-agreement.**

Bill Wood

Bill Wood MLA
Chair
26.8.96

[15] Minister for Urban Sertvices, letter dated 11 June 1996