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Andrew Barr MLA

DEPUTY CHIEF MINISTER

TREASURER

MINISTER FOR ECONOMIC DEVELOPMENT

MINISTER FOR HOUSING

MINISTER FOR TOURISM AND EVENTS

MEMBER FOR MOLONGLO



Mr Brendan Smyth MLA
 Chair of the Standing Committee on Public Accounts
 ACT Legislative Assembly
 London Circuit
 CANBERRA ACT 2601

Dear Mr Smyth *Brendan*

Thank you for enquiries about the financial impacts of the Loose Fill Asbestos Insulation Eradication Scheme (the Scheme), including your request for the Standing Committee on Public Accounts to be provided with a copy of the financial model prepared by Treasury.

In interpreting the information contained in the financial model, I ask that you note that it is based on a range of assumptions and that the actual costs will depend on multiple factors including the cost of purchasing houses, the cost of demolition and remediation and the proceeds from the resale of land.

In addition, the timing of the actual impacts on cash and the Headline Net Operating Balance (HNOB) will depend on the take-up rate (both timing and proportion) of affected homeowners who accept the Government's offer. The scenario modelled assumes 100 per cent take-up and settlement of affected properties by 30 June 2015. To the extent that settlement extends beyond 30 June 2015, the cash and Headline Net Operating Balance (HNOB) impacts will vary.

The financial modelling indicates that the scheme is expected to have a net cash cost to the Government of approximately \$366 million (not including the interest costs on the loan from the Commonwealth). Under the Scheme, the Government expects to spend around \$897 million purchasing and remediating properties and undertaking the administrative tasks associated with the Scheme. This amount is expected to be partly offset by the proceeds from the resale of remediated land, which is forecast to generate around \$531 million in revenue.

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As shown in the modelling, there are also differences in the timing of cash and HNOB impacts. For example, when the Territory purchases properties, a constructive obligation is recognised in respect of their demolition and remediation. The constructive obligation is treated as a HNOB expense when it is created (ie upon purchase of the properties) but the cash impacts of these works do not occur until they are physically undertaken and invoiced at a later date.

In relation to the HNOB impact of the Scheme, the modeling indicates that this would be a cost of approximately \$462 million over the term of the Scheme (excluding interest costs and contingency). This is approximately \$96 million higher than the cash cost of the Scheme because increases in land value due to unit titling or subdivision of large blocks are other economic flows and therefore not counted as HNOB revenue.

As mentioned earlier, the actual HNOB impact of the Scheme is dependent on the take-up of the Scheme. While the total HNOB impact would not be greatly affected by changes in the timing of the take-up of the Scheme, there could be significant differences in relation to HNOB impacts in individual financial years. For example, if half the take-up is settled in 2015-16 rather than in 2014-15 as assumed in this scenario, the HNOB impact will, in broad terms, fall equally in 2014-15 and 2015-16.

The offer from the Commonwealth for a loan of \$1 billion with a term of 10 years to finance the demolition and remediation of Mr Fluffy houses will reduce the ACT's cost of financing for the Scheme. Under this offer, the ACT Government will still incur the full net cost of undertaking the works and interest costs on the Commonwealth loan. The Government expects to draw \$750 million in 2014-15 and \$250 million in 2015-16 and is currently discussing final details with the Commonwealth Government.

Accordingly, the *Appropriation (Loose-fill Asbestos Insulation Eradication) Bill 2014-2015* provides \$750 million for the gross cost of purchasing the houses, demolition and remediation works and the task force operating expenses in 2014-15 and \$12 million for interest payments on the loan from the Commonwealth. The total appropriation of \$762 million in 2014-15 does not take into account the proceeds from land sales or costs that do not need to be appropriated (such as forgone stamp duty).

I trust the information provided in the model and explanation of assumptions is of assistance to the Standing Committee on Public Accounts in considering the *Appropriation (Loose-fill Asbestos Insulation Eradication) Bill 2014-2015*.

Yours sincerely



Andrew Barr MLA
Treasurer

27 NOV 2014

Asbestos Remediation/Buyback - Financial Modelling: Central Scenario; full take-up in 2014-15

Attachment B

The timing of the actual impacts on cash and the Headline Net Operating Balance (HNOB) will depend on the take-up rate (both timing and proportion) of affected homeowners who accept the government's offer. For example, if half the take-up is settled in 2015-16 rather than in 2014-15 as assumed in this scenario, the HNOB impact will, in broad terms, fall equally in 2014-15 and 2015-16. This analysis excludes the impact of financing costs (interest).

Cash Analysis	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Purchase and Demolition / Remediation Costs ¹	-652,404	-36,115	-35,149	-34,183	-33,217	-24,369	-	-815,438
Stamp Duty Reimbursements (appropriated)	-2,180	-	-	-	-	-	-	-2,180
Stamp Duty Waivers (not appropriated)	-20,165	-	-	-	-	-	-	-20,165
Taskforce and Financial Assistance Costs	-24,472	-18,147	-4,302	-4,256	-4,362	-4,471	-	-60,010
Total Cash Costs Excluding Contingency	-699,221	-54,262	-39,451	-38,439	-37,579	-28,841	-	-897,794
TOTAL SALES ²	-	53,172	79,758	132,931	132,931	79,758	53,172	531,723
NET CASH INFLOW / OUTFLOW (Excl Contingency)	-699,221	-1,090	40,307	94,492	95,351	50,918	53,172	-366,071

HNOB Analysis	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Purchase and Demolition / Remediation Costs	-456,258	-3,623	-2,657	-1,691	-725	-	-	-464,953
Taskforce and Financial Assistance Costs	-24,072	-18,147	-4,302	-4,256	-4,362	-4,471	-	-59,610
Sales ³	-	6,280	9,420	15,700	15,700	9,420	6,280	62,798
TOTAL HNOB Impact (Excl Contingency)	-480,330	-15,490	2,461	9,753	10,613	4,948	6,280	-461,765

Appropriation Analysis	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
GPO								
Purchase and Demolition / Remediation Costs ¹	279,573	36,115	35,149	34,183	33,217	24,369	-	442,608
Stamp Duty Reimbursements (appropriated)	2,180	-	-	-	-	-	-	2,180
Taskforce and Financial Assistance Costs	24,072	18,147	4,302	4,256	4,362	4,471	-	59,610
TOTAL GPO FUNDING (Excl Contingency)	305,826	54,262	39,451	38,439	37,579	28,841	-	504,398
Contingency GPO	31,951	14,053	10,217	9,955	9,733	7,469	-	83,379
TOTAL GPO FUNDING (Incl Contingency)	337,777	68,315	49,668	48,394	47,312	36,310	-	587,777
CAPITAL								
Purchase Cost (Contaminated Land)	372,830	-	-	-	-	-	-	372,830
Capital Funded Fitout for Taskforce	400	-	-	-	-	-	-	400
TOTAL CAPITAL FUNDING (Excl Contingency)	373,230	-	-	-	-	-	-	373,230
Contingency Capital	38,993	-	-	-	-	-	-	38,993
TOTAL CAPITAL FUNDING (Incl Contingency)	412,223	-	-	-	-	-	-	412,223
Total Appropriation Excluding Contingency	679,056	54,262	39,451	38,439	37,579	28,841	-	877,629
Contingency	70,944	14,053	10,217	9,955	9,733	7,469	-	122,371
Total Appropriation Including Contingency	750,000	68,315	49,668	48,394	47,312	36,310	-	1,000,000

Notes:

1. Includes property maintenance costs

2. Includes stamp duty on sales

3. Includes the increase in the value of land due to remediation (ie the capitalised remediation costs)

Asbestos Remediation/Buyback - Assumptions: Central Scenario; full take-up in 2014-15

Attachment B

Number of Properties:	1,025							
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Properties Purchased	100%	-	-	-	-	-	-	100%
Properties Demolished / Remediated	5%	20%	20%	20%	20%	15%	-	100%
Properties Sold	-	10%	15%	25%	25%	15%	10%	100%

Taskforce Costs

Item	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Taskforce Administration Costs	8,621	7,894	4,302	4,256	4,362	4,471	-	33,905
Financial Assistance Packages	13,500	-	-	-	-	-	-	13,500
Asbestos Assessments	1,625	39	-	-	-	-	-	1,664
Medical Studies and Assistance	364	100	-	-	-	-	-	464
Worksafe ACT Resourcing	113	114	-	-	-	-	-	227
Asbestos Containment	250	10,000	-	-	-	-	-	10,250
Total	24,472	18,147	4,302	4,256	4,362	4,471	0	60,010

Average Costs and Revenues

Item	Assumptions
Expenses	
Purchase of Property (including stamp duty waiver)	\$641,800 Based on a weighted average of current house price sales data by suburb and stamp duty for a house of same value
Cost of Valuations and Inspections	\$1,428 Based on agreement with the Australian Property Institute (API)
Legal and Conveyance Fees	\$2,200 Based on assistance to be provided to homeowners (\$1,000) and costs to be incurred by Government (\$1,200)
Property Security	\$2,700 Based on professional advice
Demolition and Remediation Costs	\$158,500 Costs include contaminated material and soil disposal and procurement fees
Property Maintenance Costs	\$10,722 Based on professional advice. Assumes an average of 2.3 years of maintenance costs per property
Total Expenses	\$817,350
Revenues	
Value of Remediated Land	\$426,137 Based on actual unimproved land value data for affected properties
Uplift due to Unit Titling /Subdivision	\$93,750 Based on the assumption that 88% of properties can be unit titled or subdivided
less Selling Expenses (marketing, legal fees etc)	-\$13,398 Based on average commission of 2% plus advertising costs of \$2,000 and government legal fees of \$1,000
Stamp Duty on Sale of Remediated Blocks	\$12,264 Based on the stamp duty applicable on the indicative sale value of remediated and/or unit titled/subdivided blocks
Total Sales Revenue	\$518,754
Net Impact per Average House	-\$298,596