Submission to the Public Accounts Committee, ACT Legislative Assembly Inquiry into Appropriation (Loose-full Asbestos Insulation Eradication) Bill 2014-2015

To the Committee Secretariat.
We are grateful that the ACT Government (with bipartisan support from the Opposition) has understood the Fluffy Loose Fill health disaster and has decided to act to fix this problem once and for all. We also recognise that the ACT community has to carry the entire burden after the Commonwealth Government refused to accept its share of the costs as outlined in the Memorandum of Understanding and left the ACT with a difficult budget problem. The ACT Government's general approach is very welcome. We do however believe the program proposed could be improved without additional overall cost to the taxpayer.

The ACT Government's Preferred Way Forward on Loose Fill Asbestos report outlined the guiding objectives of the scheme:

1. **Eliminate, by demolishing all known affected houses, the ongoing risk of exposure to loose fill asbestos insulation for homeowners, tenants, tradespeople and the wider community.**
2. **Provide a fair outcome for owners of affected homes.**
3. **Provide, so far as is possible and reasonable, flexibility and options for informed choices to be made by owners of affected homes.**
4. **Miinimise overall net costs to the Canberra community and the ACT Government (thereby minimising the flow-on impact to other government policy and program delivery areas).**

The program is obviously going to achieve the first objective and possibly the fourth. The other two objectives, particularly the third, are not being achieved. Three issues that stand out are the valuation date, the short period the scheme runs for and the lack of flexibility over demolition timing and most importantly no <u>realistic</u> opportunity to rebuild.

KNOCK DOWN AND REBUILD

We are particularly devastated that we are not being offered the chance to rebuild on our block. We have spent years establishing neighbourhood connections, our children have grown up here and we have little prospect of replacing this block with one that would suit us as well. We have been involved in many community organisations including our . The Association's AGM is next month and we have just had to give notice that we can't act as President and Secretary again next year as we won't be able to be residents. We have just sent out our last Christmas street party invitations.

There are many intangible valuable aspects to where we live that can't be replaced. This is part of the social capital that binds a community and should be valued and considered in any Government program. We have almost come to terms with the health and financial consequences of the asbestos but it had never occurred to us that we wouldn't be rebuilding. If the Government is really serious about the 3rd guideline then allowing owners to rebuild should be properly considered. There are ways for this to happen without increasing the projected cost. Two aspects of this in particular do not sit well with us. The first is that the Government is essentially compulsorily acquiring land not because the land is needed for a public project but to fix a building problem. The acquisition of the land is not needed to achieve this. The second aspect is that some owners are being treated differently to the rest. There are number of owners who are being allowed to retain their blocks and to rebuild while still being included in the Scheme. It is only equitable that this be offered to all owners. This is especially so given the informal advice from the taskforce staff and CERG members to wait for the Government announcement of the Scheme before taking any action.

The option of rebuilding is not one that owners would be taking lightly. This is not like a house fire and rebuilding with insurance money. The market value will be a long way short of what will be needed to rebuild in almost all cases and will probably not be affordable for most. In addition the owner will need to rent for between one to two years while the rebuilding occurs. This also is not covered as it would be if it were an insurance claim. It is likely that the number of people who choose and are able to rebuild in these circumstances would be quite small (perhaps less than a quarter if that). The fact that owners would be prepared to rebuild at great personal cost demonstrates how much they value living in their neighbourhood. And this should be taken into account and accommodated under objective 3.

ALTERNATIVE COST RECOVERY OPTIONS

The rebuilding option has not been offered has only been offered to some owners because the Government believes that it can recover more of the cost of the program by splitting the blocks and then reselling them on the market. This is undoubtedly true but at the cost to the owners of the intangible value they have by living on their block. The Government can still achieve the reduction of costs (objective 4) by using these powers but over different blocks. The Government is uniquely positioned as the only body in the ACT that can terminate and reissue new leases on land. It has a monopoly. If the Government believes that it is good town planning to split land randomly in Canberra (as is the case in the Fluffy house distribution) then it can do it for any block that it owns.

The Government owns 11,800 public housing residences and has a regular divestment and acquisition program. In our street alone there have been four sales of single stand alone houses in the last five years. The last two were sold in 2012, were next to each other and had a combined land area 2,361square metres. They have now had the original houses knocked down and new ones built. These blocks could have easily have been split into 4 or 5 new blocks and had new leases issued. The original blocks did not have owners who wanted to stay there and rebuild. The Government could partially offset the program costs by splitting suitable public house blocks before sale instead of Mr Fluffy houses.

Another possible use of the Government's monopoly power over leases is in the private market. Last Saturday a house two streets away was auctioned). The block is 1,726 square metres and sold for $1,387,000 as an RZ1 block. The house is original. The Government could have purchased the block and used its lease powers to split it into 2, 3 or even 4 reasonable size blocks and then on sold the blocks for up to $2,400,000. It would face no competition. There are many opportunities with suitable blocks coming on sale every week.

These two alternative methods to raising funds to offset the asbestos program are not very different to the purchasing of Mr Fluffy blocks and splitting and reselling them. The main difference is that the sellers are willing and happy to sell.

The other significant area to save costs is by not purchasing every house up front and holding it for up to five years. The interest cost will be enormous and will probably be greater than the costs of demolition. If $1 billion is borrowed and the whole loan is progressively paid off over 5 years (which it won't as there will be $300 million left) then the interest cost will be over $100 million. This interest cost can be reduced by allowing greater flexibility in the timing of the buyback and by allowing owners to rebuild if they wish. In the case of owners rebuilding the Government doesn't have to pay out the value of the land (which in most cases will be the largest part of the payout). In addition the Government will not have the cost of security and maintenance and will continue to receive rates.

VALUATIONS

The package calls for houses to be valued at market value as if loose fill asbestos was never installed. The valuation for all houses is to be in the market that existed on 28 October 2014 irrespective of when the buyback occurs. The offer is open for 8 months. Onerous conditions are to be imposed if homes are occupied after 30 June 2015.

The unexpected tight window has meant there will inevitably be a significant housing price bubble as owners scramble to find a new home. There are 245 days between 28 October 2014 and 30 June 2015. This means there will be more than 4 sales each and every day if every owner was able to buy a new home in this period. This is just not possible.

Ron Bell head of the ACT Real Estate Institute and a member of the Asbestos Community and Expert Reference Group has been quoted in the press a number of times:

Canberra Times 16/9/14

"The impact of 1000 buyers looking for new homes would have a huge impact on the local real-estate market, he said, with only 2400 houses on the market at the moment, 1000 fewer than this time last year. The demand could push up prices."

Canberra Times 29/10/14

The Real Estate Institute of the ACT has warned of an artificial price boom, with hundreds of Mr Fluffy families looking for new homes following confirmation of a buy-back scheme.

ACT chief executive officer Ron Bell said the decision would have an impact on the housing market. "If we didn't have a good stockpile of properties to purchase, and we don't, and all of a sudden you had 200 families looking for a property ... you could have an artificial boom," Mr Bell said.

ABC 666 29/10/14

"It's a five-year program, or they want to try to clean it up within five years," Mr Bell said. "If the taskforce can meet its target of something like 200 [houses] per year, that's a sizeable impact on the market."

Mr Bell is of course right. It is elementary economic theory that increased demand for a fixed supply will lead to a rise in prices. This is already being manifested even though the buyback money is yet to be paid.

The Government buyback of over 1,000 houses in an 8 month period will materially increase demand and therefore increase prices in the pool of housing available. They are however choosing to buy the Fluffy houses in a different lower market. The Government obviously has the whip hand in these "negotiations" but it is hardly a fair offer. This does not meet the 2nd objective of the program which is to "provide a fair outcome for owners of affected homes". A fair offer would be to value the houses in the same market as exists at the time the houses are bought back.

FLEXIBILITY

Loose asbestos indisputably presents a risk to occupants, visitors and tradesmen who visit affected houses. The Government is keen to eliminate this risk without unnecessary delay. The package allows for the current situation to continue until 30 June after which there will be onerous restrictions and requirements that will make continuing occupation very uncomfortable and expensive.

This is not providing flexibility or options for owners nor is it recognising that there is a wide spectrum of contamination. Some homes are uninhabitable while others are lightly affected. In our case the house was almost completely demolished after the 1988/92 clearance program and completely rebuilt. The three short sections of wall and small area of subfloor that remained were completely exposed to the elements during the rebuild process. We have had asbestos testing which found no traces in the house, subfloor or in the roof. We suspect that others are in a similar position. We recognize that the house needs to be demolished but the urgency is not the same as for those that are badly affected.

If the Government is serious in its 3rd objective of providing "so far as is possible and reasonable, flexibility and options" then it should be able accommodate sensible and reasonable options for staying beyond the arbitrary 30 June deadline for those properties that are suitable. The onerous building modifications should not be required if owners have an asbestos assessment every 6 months.

This would spread out the time for owners to find new accommodation in what will be a very difficult market and will save the Government interest, security and maintenance costs while still earning rates.

SUMMARY

In summary we ask that the Government make some changes to the Program to better meet the Program's 4 objectives. Importantly these changes can be made at **no additional overall cost** and may even reduce the outlay. These changes are:

- Trea all owners equally and offer the same opportunity to keep blocks as has already been offered to a group of owners. Please consider the alternative process that allows the Government to recoup outlays from splitting blocks of sellers who do not want to stay.
- Offer a fair date of valuation
- Allow more practical and tailored flexibility after 30 June for continued occupation until demolition.

Parsons