2024 Election Commitment – Canberra Liberals

Name of Commitment:	**Housing – Community Housing**
	Reference Number: LIB067
Request Submitted by:	Elizabeth Lee MLA, Canberra Liberals
Date Request Received:	11-Oct-24
Additional Information Requested (details and date)	N/A
Additional Information Received (details and date)	N/A

Financial Implications

Impact On:	**2024-25 $'000**	**2025-26 $'000**	**2026-27 $'000**	**2027-28 $'000**	**TOTAL $'000**
Revenues [(a)]	0.0	12.5	12.5	12.5	**37.5**
- Other Revenue - peppercorn lease rent receivable (non-cash)	0.0	12.5	12.5	12.5	**37.5**
- Revenue Forgone	0.0	0.0	0.0	0.0	**0.0**
Expenses [(a)(b)]	0.0	-1,974.9	-2,108.9	-2,250.9	**-6,334.7**
- Employee Expenses	0.0	0.0	0.0	0.0	**0.0**
- Other Expenses - derecognition of serviced dwelling sites (non-cash)	0.0	-1,894.4	-1,941.7	-1,990.3	**-5,826.4**
- Cost of Financing	0.0	-80.5	-167.2	-260.6	**-508.3**
Depreciation	0.0	0.0	0.0	0.0	**0.0**
Net Operating Balance	**0.0**	**-1,962.4**	**-2,096.4**	**-2,238.4**	**-6,297.2**
Capital Requirement	0.0	-1,533.3	-1,571.6	-1,610.9	**-4,715.8**
Cash Surplus/Deficit	0.0	-1,613.8	-1,738.8	-1,871.5	**-5,224.1**

(a) A negative number indicates a decrease in revenue or an increase in expenses.
(b) Excludes depreciation

Other Information

Costing Methodology Used:
- Costing Technique:

The costing has been completed using a price by quantity methodology, based on 50 dwellings sites per financial year over four years from 2025-26 to 2028-29 (i.e. a total of 200 dwelling sites) and recent raw land value and development costs incurred by the Suburban Land Agency (SLA) for the release of Community Facility Zoned sites, indexed by the Consumer Price Index (CPI). Raw land value and development costs are generally less than market value.

- Proposal Parameters:

The costing assumes:

- land identified for the 200 dwelling sites to have no current or alternative use so there is no revenue forgone;
- there is suitable land for 200 dwelling sites and that this would predominantly comprise medium-density development opportunities (e.g. 8 blocks with an average yield of 25 properties rather than 200 standalone blocks);
- site servicing works (including any planning and offsite works requirements) would be undertaken by the SLA;
- the first leases would be signed in the second half of 2025 (2025-26) and all leases would be commenced by the end of 2028-29;
- full take-up of 200 dwelling sites by Community Housing Providers (CHPs);
- that given the long useful/economic life of housing developments (generally 40-80 years), the leases would include the right for CHPs to extend the peppercorn leases in perpetuity and CHPs would have control of the sites. On this basis, the costing assumes the leases would be considered finance leases under AASB 16 'Leases' and there would be no asset acquisition, site remediation or demolition costs for Government at the end of the 25-year lease period;
- CHPs would be required to pay any costs associated with the design, construction, operations, repairs, maintenance or make-good at the end of the lease period(s) on the land;
- no changes to rates or other government own-source revenue estimates arise as a result of the proposed arrangements, and providers may be eligible for existing duty and land tax exemptions; and
- any administrative expenses associated with policy development, site selection and administration of the program would be absorbed by SLA, the Environment, Planning and Sustainable Development Directorate (EPSDD) and the Chief Minister, Treasury and Economic Development Directorate (CMTEDD).

Caveats or qualifications to the costing:

- Treasury has not sought to identify sites suitable for this program, and cannot confirm if sites for 200 properties would be available.
- Sites that do not have a current or alternative use would require site preparation and connection costs to make suitable for residential housing. As the policy announcement refers to supplying CHPs with suitable land "with no upfront costs [so that CHPs] only have to fund construction costs of the property", this costing assumes that the SLA would undertake site servicing works. The cost is estimated at approximately $31,000 per dwelling site in 2025-26, indexed by the Consumer Price Index (CPI), and reflected as a capital outflow, but actual costs can vary significantly based on site-specific requirements.
- Under AASB 16 'Leases', at commencement of a finance lease the lessor (the Territory) must derecognise the asset and recognise a receivable for the net investment in the lease. The derecognition of the assets (i.e. the serviced dwelling sites) would be a non-cash expense for the Territory. As the leases are proposed to be on a peppercorn basis, the derecognition expense would significantly outweigh the value of the 25-year stream of peppercorn rent. For modelling purposes, $10 per annum per dwelling site (indexed by CPI) has been assumed as the peppercorn rent payable by CHPs. Under AASB 16 'Leases', each year of the 25-year lease the receivable would be reduced by the amount of the rent received. As the financial impact of this transaction is immaterial, for simplicity this has not been included in the costing.
- The costing assumes that the leases would be accounted for as finance leases but there are two alternative approaches that would have different policy and financial impacts:

i. the Territory is a lessor in an operating lease arrangement. Under an operating lease model, there would not be an option for CHPs to extend the peppercorn leases in perpetuity. The cash impact of this model would be the same as in this costing but there would be a minimal impact on the Headline Net Operating Balance for the Territory in the short-term as the Territory would not derecognise the assets. However, this model is not considered likely due to the long asset life of properties to be constructed on the land and the expected need for CHPs to have control of the land and longer-term financial and operation surety to leverage financing for the construction and/or operational costs of the dwellings. Under an operating lease model, the Territory may need to consider funding to compensate CHPs for assets and/or demolition/make-good costs at the end of the 25-year lease period; and

ii. as a sale of land at no/minimal consideration in accordance with AASB 116 ‘Property, Plant and Equipment’. The financial impacts of this approach would be substantially the same for the Territory as those outlined in this costing (i.e. under a finance lease arrangement).

- Treasury considers that the SLA, EPSDD and/or CMTEDD may have to reduce or reprioritise existing services to cover the associated administration costs.

Other Comments:

• The financial impacts of the proposal over its full term (the four years from 2025-26 to 2028-29 inclusive) are:
- Net Operating Balance: -$8.686 million;
- Capital Requirement: -$6.367 million; and
- Cash Surplus/Deficit: -$7.236 million.

• Treasury's costing differs from that submitted due to the quantification of financial impacts in accordance with the expected accounting of the arrangements as financial leases under AASB16 'Leases'.

- Statistical Data Used:

Treasury estimates.
Recent raw land value and development costs incurred by the Suburban Land Agency (SLA) for the release of Community Facility Zoned sites were used to inform the costing, noting though that costs can vary significantly based on site-specific requirements.

Stuart Hocking PSM
Under Treasurer
17 October 2024