

APPENDIX B

ASBESTOS ERADICATION SCHEME

APPENDIX B: ASBESTOS ERADICATION SCHEME

On 28 October 2014, the Government announced the implementation of a buyback scheme for all ACT houses affected by loose-fill asbestos (Mr Fluffy) insulation. This decision was based on advice from the ACT Asbestos Response Taskforce that eradication of the ongoing risk of asbestos exposure through demolition of all such properties is the only enduring solution to the health risks affected homes pose to current and future residents, visitors and workers, and their associated social, financial and practical effects.

Under the Loose-fill Asbestos Insulation Eradication Scheme (the Scheme), the ACT Government will acquire, demolish and safely dispose of all affected homes, remediate affected blocks and then resell them to defray overall Scheme costs. That Scheme also includes the emergency financial assistance, asbestos assessment and hazard reduction program undertaken by the Asbestos Response Taskforce since it was formed in mid-2014, as well as the ongoing relocation assistance grants payable as affected homes are vacated.

The Commonwealth has agreed to provide the ACT with a \$1 billion loan for a 10 year term. The ACT Government will, however, incur the full net cost of the Asbestos Eradication Scheme as well as the interest costs on the Commonwealth loan. The Commonwealth reneged on a cost sharing arrangement which was set out in the 1991 Memorandum of Understanding between the two Governments on this matter. The Commonwealth is not contributing towards the cost of the Scheme.

The Asbestos Response Taskforce continues its work in providing a coordinated and compassionate response to the 'Mr Fluffy' loose fill asbestos insulation issue in the ACT. This includes supporting homeowners through the voluntary Buyback Program, which is part of the Scheme.

As at 21 May 2015, 90 per cent of the 1,021 affected houses were under offer through the Buyback Program with 916 homeowners having received offers to purchase from the ACT Government. Of these, 812 homeowners had accepted the offer and the ACT Government had taken possession of 479 of these properties. In total, 971 homeowners had 'opted in' to the Scheme.

Through the Buyback Program, homeowners receive two independent valuations of their properties (ignoring the continuing presence of loose fill asbestos contamination), and the Territory's offer to acquire the house is at the average of those valuations. Homeowners receive financial assistance to support relocation and a stamp duty concession to assist in the purchase of an equivalent property in the ACT. They can also request a first right of refusal (for owner occupation) on the repurchase of the block once remediated.

As the Buyback Program comes to a close on 30 June 2015, the Taskforce continues to support homeowners in participating in the Scheme in a way that suits their circumstances – including by agreeing to extended settlement times and early partial release of relocation assistance grants to assist homeowners' transition to other accommodation.

A key part of the Taskforce's work has been engaging with homeowners and the broader community through face to face meetings, information support, forums, linking to existing services and working closely with community councils. This work continues.

The Taskforce also continues to lead key regulatory change in the ACT to strengthen asbestos management and safety.

The Demolition and Remediation Phase

The Mr Fluffy issue affects 1,021 houses across 56 established suburbs and has a significant social, economic and community impact.

The demolition and remediation phase of the Scheme has now commenced, with the first demolitions scheduled to be completed by 30 June 2015. The Government is working closely with industry and relevant regulators to ensure affected properties are demolished and land is remediated safely, efficiently and effectively.

- Safety is the key overarching consideration, particularly in relation to the safety of the workers involved in the asbestos removal, demolition, site clearance, testing and disposal of rubble, as well as for the wider community.
- Demolitions will be scheduled in a coordinated and efficient way to reduce costs and community disruption (including through geographical grouping of properties). The impact of efficient scheduling on overall costs is a key consideration.
- Properties will be demolished in a way that permanently eradicates the issue of loose fill asbestos contamination from our community.

Land Sales

The sale of remediated land will allow the Government to defray some of the overall costs of the Scheme.

As foreshadowed in the ACT Government's response to this issue on 28 October 2014, modest planning changes will apply to surrendered blocks over 700m² in the RZ1 suburban zone. Under draft variation 343 to the Territory Plan, permission will be given for the unit titling of dual occupancy developments. This is anticipated to enhance the value of some blocks surrendered under the Scheme and assist in defraying the overall cost to the ACT community of the Scheme. Public consultation for the proposed changes closed on 25 May 2015.

Budget Update

The financial and cash impacts of the Scheme have been revised since the 2014-15 Budget Review. However, there are a range of assumptions, including the demolition/remediation costs, disposal costs and land sales forecasts, which should still be considered as indicative only as they are yet to be market tested. As the Scheme progresses and further information becomes available, the financial and cash estimates will be further refined.

The estimated net cash cost of the Scheme has increased slightly from \$363 million at Budget Review to \$370 million excluding contingency.

Accounting Policy

Since the development of estimates for the Scheme, the Government has commissioned accounting advice in relation to the treatment of associated transactions. This advice has not affected the cash cost of the Scheme, but has resulted in the following financial reporting impacts.

- An increase of \$98 million (\$96,100 per home) over the life of the program in Government Payment for Outputs and an equivalent decrease in Capital Injection reflecting that the difference between contaminated and non-contaminated land values should be the full cost of anticipated demolition and remediation expenses.
- Consequently, the \$162 million (\$158,500 per property) for remediation and demolition expenses will be funded from Capital Injection appropriation rather than from Government Payment for Outputs appropriation.
- The contingent liability of \$162 million (\$158,500 per property) has been removed. This liability was previously recognised as a Headline Net Operating Balance (HNOB) impact when properties were purchased.
- An onerous contract provision of \$390.7 million (\$382,693 per property) has instead been created to recognise the Government's commitment to compensate affected homeowners more than the fair value of their properties. This provision is recognised as an expense at the time when owners opt in to the Scheme. As the onerous contract provision occurs at an earlier stage than the previous contingent liability (opt-in rather than at settlement), these changes have resulted in the bring forward of HNOB expenses from 2015-16 to 2014-15, thereby reducing the HNOB impact of the Scheme in 2015-16.
 - There has been an \$83 million improvement in the HNOB impact (including contingency) in 2015-16. This is because the accounting advice has resulted in a bring forward of expenses from 2015-16 to 2014-15.
- The value of the increase in land as a result of remediation is no longer treated as a HNOB revenue. This was formerly booked at \$62,400 per home and is offset by remediation expenses now being capital funded.

