Public Accounts

Committee

Parliament of New South Wales

Report on Brief Review of the Macarthur Growth Area

Report Number 16 July 1985

1984-85
Parliament of New South Wales

Public Accounts Committee of the Forty-eighth Parliament

Sixteenth Report

Inquiry pursuant to section 57 (1) of the Public Finance and Audit Act, 1983, concerning certain matters relating to the statutory body entitled the Director, Macarthur Growth Area.

(Transcripts of Evidence tabled together with this Report)

July, 1985

Secretariat

Frank Sartor, B.E., B.Comm.(Hons), Director

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Sandra Vine, Secretary/Word Processor Operator

Consultants for the Inquiry

McIver Associates Pty. Ltd.

Dr. Rhonda McIver, B.Sc., Ph.D. (Chem. Eng.)., M.B.A.

Committee Members. From left: Phillip Smiles, John Murray (Vice-Chairman), Andrew Refshauge, John Aquilina (Chairman), Colin Fisher

CHAIRMAN'S FOREWORD

This report was foreshadowed in the Committee's Report on matters examined in relation to the 1982-83 Report of the Auditor-General (Report Number 12). In that Report it was stated that, in respect of the Director, Macarthur Growth Area, a number of issues were being further examined and included:

- valuation of property holdings
- development and marketing activities
- investments

The Macarthur Growth Area has had a chequered administrative history since it was first announced in 1972. Starting as a joint Commonwealth/State project, it became solely a State operation in 1978 when the Commonwealth withdrew its financial support. The early emphasis was on planning, under the Department of Environment and Planning. In recent years it has come under the Department of Industrial Development and Decentralisation.

On information available to the Committee, this project was established without a rigorous financial analysis to estimate future capital and recurrent costs. Resources were made available by both the Commonwealth and State Governments, but ownership and repayment issues were not sufficiently clarified. Specific objectives, targets, and success criteria were not set, making effective and efficient management extremely difficult.

The thrust of this short report is to point to the need for these basics; even at this late stage of the project. It is essentially an overview of the problems that have arisen and indicates the broad steps necessary to overcome them. The Committee has not attempted, in this brief review, to conduct a detailed examination of the organisation's problems.

I would like to thank the former Deputy Director, Ruth Tait, for her contribution to this report.

I also wish to thank my fellow Committee members for their work on this inquiry. Last, I thank the Director, Frank Sartor, and Advisor, Bob Pritchard, for their valuable contributions and the Committee's stenographers, Sandra Vine and Christina Assargiotis for their work in getting out this report.

John J. Aquilina,
<u>Chairman</u>

REPORT ON THE MACARTHUR GROWTH AREA

CONTENTS

Macarthur Growth Area

Section 1: Summary and Recommendations

The major concern of the Committee centred around a perception that the role of the Macarthur Growth Area (MGA) had changed (from a primary focus on planning to a co-ordination and marketing role) and that this change had not been adequately recognised by the organisation in its operations.

The Committee makes the following recommendations:

1. That the current role of Macarthur Growth Area be clarified as a first step towards establishing appropriate objectives, performance measures and organisational arrangements.

2. That an appropriate date be established for the completion of the Macarthur project to assist the determination of objectives and the planning of the handover period.

3. That clear and realistic objectives be established for MGA which reflect its changing role and the expected life of the project.

4. That performance measures be identified and targets set for the long and short term.

5. That a formal mechanism be adopted to ensure that objectives, targets and performance measures are regularly reviewed and updated.

6. That the administrative arrangements for the MGA be reviewed to ensure that responsibility for achievement of MGA objectives is delegated to an office which is realistically able to discharge this function.

7. That the relationships between the Minister, the Macarthur Development Board, the Director, MGA, and the MGA unit located in Macarthur be reviewed in the light of recent changes and that clear role and responsibilities be established.

8. That the organisation and staffing of the MGA unit be reviewed when new objectives have been established.

9. That the question of the repayment of the debts to the State and Commonwealth Governments be resolved as quickly as possible to enable the MGA's financial accounts to reflect the actual losses that have been accepted.

The Committee would like to thank the Director, Macarthur Growth Area and his staff for their assistance and co-operation with this inquiry.

Section 2: Introduction

The Public Accounts Committee expressed interest in the activities of the Macarthur Growth Area (MGA) following the reports of the NSW Auditor-General for both 1981-82 and 1982-83.

The following issues were raised:-

(i) Valuation of land holdings. In 1982-83, the Auditor-General was concerned that the balance sheet of Macarthur Growth Area include all land under the control of the Director, that real estate holdings be subject to independent valuations and that cognizance be taken of such valuations in the financial statements.

(ii) Accumulated deficiency. The accumulated deficiency at 30 June, 1983 was $6,599,887.

(iii) Capitalisation of certain expenditures. In 1982-83, expenses amounting to $10,886,000 were transferred to specific assets. The Committee sought confirmation that this was in accord with generally acceptable accounting practices.

(iv) Efficiency and effectiveness of MGA. To assist this review, the Committee requested a statement of the objectives of the organisation and the programs by which those objectives were to be achieved.

(v) Investments. At 30 June, 1983, the MGA held investments and interest bearing deposits valued at $6,902,000. The Committee requested a detailed breakdown of these investments, plus rates of return earned in order to assess the effectiveness of these activities.

The above issues were explored with the Director through correspondence and at a public hearing before the Committee. During this process, a number of issues of interest to the Committee, in particular those related to the valuation of land holdings, and the capitalisation of certain expenditures, were resolved. The question of statutory authorities generally have since been dealt with in the Committee's Report Number 14.

Other issues have not been satisfactorily answered and are the subject of this brief report. They relate to:-

- the current and future role of the MGA
- its objectives and performance.
- organisation and staffing issues including the role of the Macarthur Development Board.
- the accumulated deficiency of the growth area.

In view of other examinations of the Macarthur Growth Area, the Committee decided to limit its inquiries, in the main, to published reports, the reports of the Auditor-General and information provided to the Committee by the Director. This has been supplemented by some informal interviews carried out by officers assisting the Committee.

The Committee has however gained an overview and was sufficiently concerned about its findings to prepare this report.

Section 3: Relevant Background to Macarthur Growth Area

The Macarthur Development Board was established in 1975 by agreement between the Commonwealth and State Governments to manage the planning and implementation of large scale urban growth in the Macarthur area to the south west of Sydney; an area covering Campbelltown, Camden and Appin. The Board had the power to acquire and subdivide land and construct residential, commercial and industrial buildings for sale or lease.

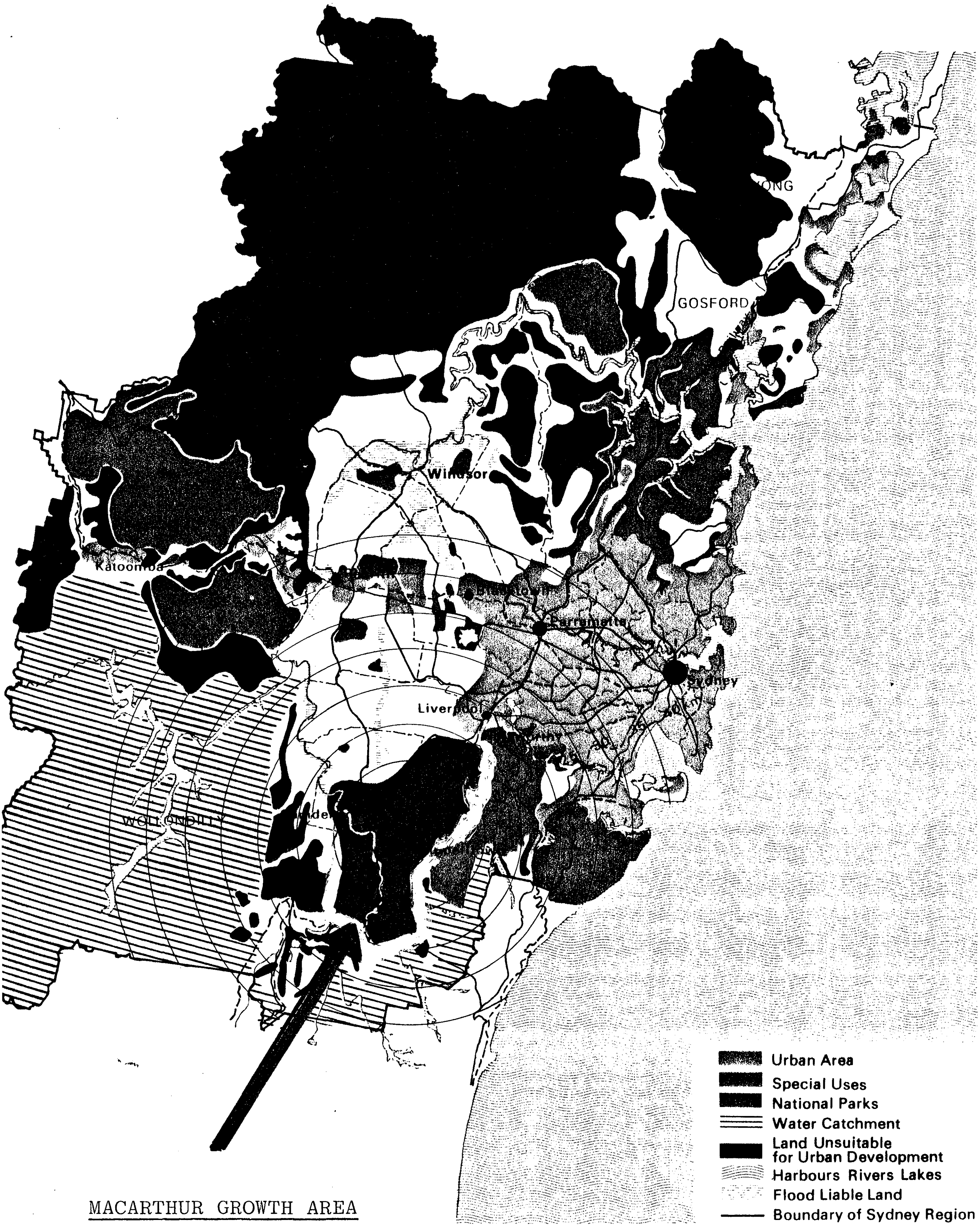
The Board administered the Macarthur Division of the State Planning Authority (later the Department of Environment and Planning) and both Commonwealth and State Governments contributed funds and land to establish the MDB as a relatively well-funded development corporation.

In 1976, with the change of government, the Commonwealth withdrew its financial support and did not proceed with the transfer of further land.

Then in 1981, responsibility for the administration of the Macarthur Growth Area was transferred from the Minister for Environment and Planning to the Minister for Industrial Development and Decentralisation. At this time, the Director, Macarthur Growth Area (DMGA) was constituted as a corporation sole with the Macarthur Development Board as adviser to the Director.

To give an idea of the progress of the development, it is of interest to look at the proposed and actual growth of population in the Area. The objective is to provide for a population of 500,000 persons by the year 2015. In 1976 the Growth Area had a population of roundly 42,000 which increased to more than 130,000 as at 30 June, 1983. It is now estimated that by 1991, the population will increase to 186,500.

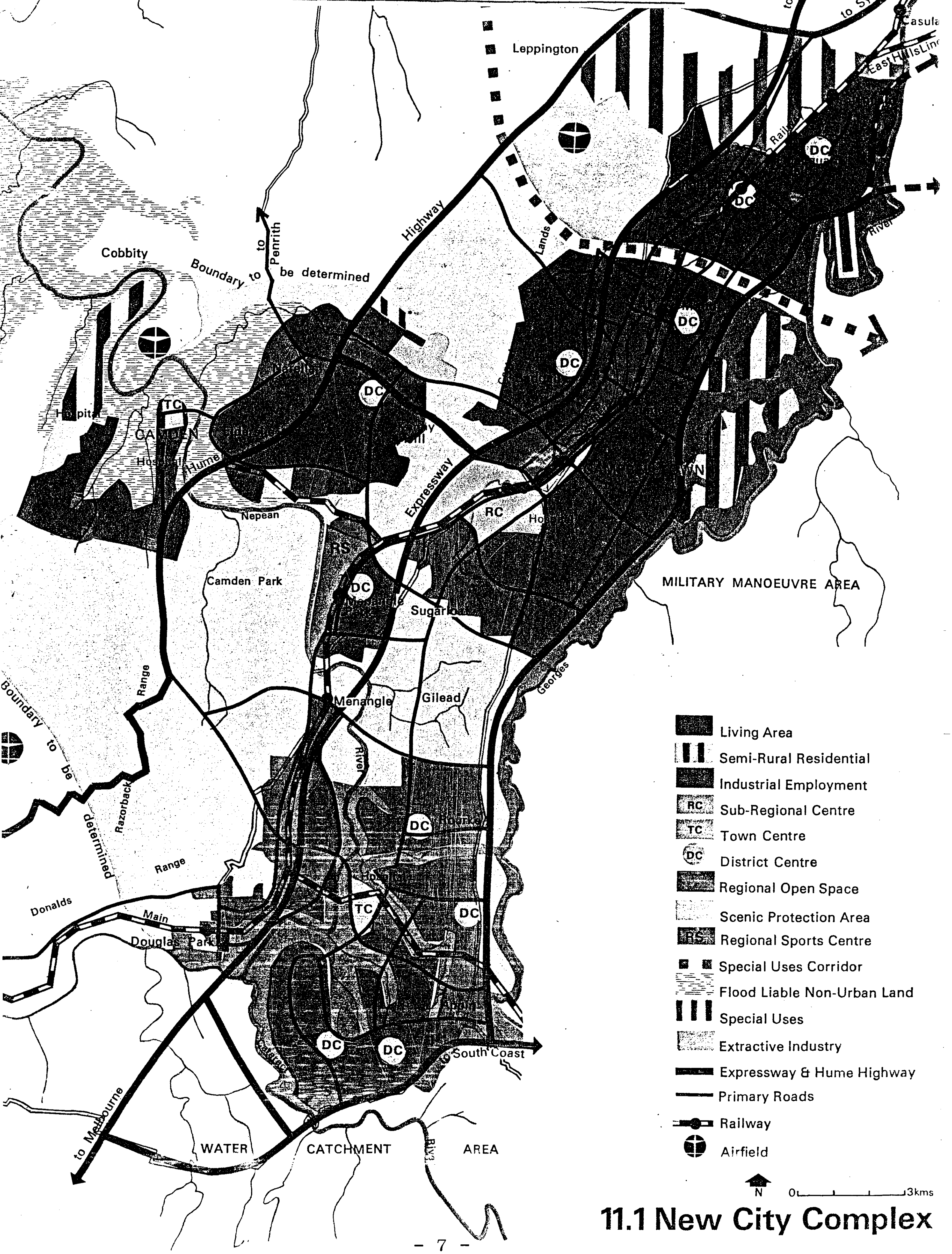
PROXIMITY OF MGA TO SYDNEY



MACARTHUR GROWTH AREA

Based on Sydney Region Outline Plan Constraints Map

2.1 Regional Context



11.1 New City Complex

Section 4: The Role of MGA

In examining the efficiency and effectiveness of the organisation of the Director, Macarthur Growth Area, the Committee soon realised that the role of the organisation had changed substantially from the role it performed when first established. This created difficulties in assessing effectiveness since the published objectives were no longer relevant.

The Committee has therefore addressed itself to the more basic issue of defining the current role of Macarthur Development Area.

When MGA was first established in 1975 its major task was planning; hence the organisation was appropriately located within the NSW State Planning Authority and staffed with a number of specialist planners.

Since then, its role has changed. With the establishment of the area, the need for planning has declined, and, indeed, it could be argued that the planning input that is needed could as well be provided by the regional office of the Department of Environment and Planning.

Essential roles now are overseeing the development of the area and marketing existing holdings.

Some recognition of this change in role has been provided by the transfer of the organisation from the Department of Environment and Planning (DOEP) to the Department of Industrial Development and Decentralisation (DIDD). Also, in evidence before the Committee and in correspondence, the Director recognised the changed situation of the Growth Area and the need to "effect a formal change in the published objectives of the DMGA". Overall however, the Committee believes that the change in primary role, from planning to co-ordination and marketing, has not been adequately recognised by the DMGA and reflected in appropriate objectives and organisational arrangements.

The Committee recommends that the current role of the Macarthur Growth Area be clarified as a first step towards establishing appropriate objectives, performance measures and organisational arrangements.

The question of the lifespan of the organisation is also relevant. When the Macarthur Growth Area was first established it was announced as the "Macarthur Project" implying a special effort over a finite period of time. At present, there are significant overlaps with local government, the Land Commission and the Department of the Environment and Planning.

When asked by the Committee about when he expected the work of the DMGA to be substantially complete, the Director replied: "In terms of the Three City Structure Plan adopted by Government it is envisaged that the MGA will be fully developed by about the turn of the century".

The Committee believes that the area organisations should operate as projects to achieve set objectives within an agreed timeframe. At the end of this period, the Growth Area would be an established community served by existing government organisations in the usual way.

The Committee recommends that an appropriate date be established for the completion of the Macarthur project to assist the determination of objectives and the planning of the handover period.

Section 5: Objectives and Performance

Since the Growth Area was established in 1975, the area has matured and now requires that a different role be performed by the DMGA, as discussed above. As well, the situation of the Growth Area as changed: as the Director said in evidence to the Committee, "whilst we set out to build a self-contained city, right now it is a suburb of Sydney".

Initially, the major objective of the Macarthur Development Board was:

To develop the Macarthur Growth Area of Campbelltown, Camden and Appin to provide for a population of 500,000 persons by the year 2015.

The New City Complex plan had two sets of basic objectives: those related to the Sydney Regional Outline Plan and those related to the design and development of the New City Complex itself as a place to live and work. More specifically, the New City objectives were:-

(a) To provide a self-contained city, with an attractive environment and a wide range of opportunities for work, education, recreation and community activity.

(b) To establish a strong commercial and administrative centre not only to serve local needs but also to perform some of the metropolitan centre's functions thus relieving some of the development pressures and movement problems of the latter.

(c) To encourage optimum use of public transport, especially to major workplaces and other centres of intensive activity.

(d) To bring about a close relationship between town and country.

(e) To balance growth needs with conservation of the special assets of history and landscape.

(f) To establish community identity for each of the three new cities proposed at Campbelltown, Camden and Appin and also in the more localised districts within the cities.

(g) To encourage the development of a strong, diverse community and, in particular, attempt to avert the social problems of integration which can occur in new town development undertaken in a short period of time.

The review of the Sydney Region Outline plan, published in 1979, noted many achievements for the Macarthur Area including land acquisitions, construction of dwellings, development of industrial land, a major retail centre, a technical college, a new district hospital, arterial roads, major flood mitigation works and so on. As well, a strong Campbelltown community identity had been fostered by the Local Government Council's support for a wide range of community groups.

The Review also identified a number of unforeseen difficulties which had affected the MGA. Firstly, there was a slowdown in the rate of State and Regional population growth. Secondly, there was slow growth in manufacturing and commercial activity in the areas resulting in low employment opportunities and a continued need for a significant percentage of the population to commute to work with consequent pressure on transport facilities.

So while the initial intention was to build a relatively self-contained city, this had not occurred and the Macarthur Area really became part of the greater metropolitan area of Sydney.

The Committee notes that the objectives of the MGA were not revised during this period to take into account these changing circumstances, nor were the objectives reviewed in 1981 when the administration of the MGA was transferred to the Minister for Industrial Development and Decentralisation.

In evidence to the Committee, the Director indicated that the situation had changed since the objectives were set, but could refer in only the most general terms to the current functions of the organisation: it appeared that the corporation lacked direction.

This was not satisfactory and the committee pursued the matter further. In a subsequent letter, the Director was provided a clear and concise statement of priorities for 1984-85, although no specific targets had been established at that time.

In light of the receipt of the statement of priorities, the Committee accepts the Director's plan to defer any action to effect a formal change in the published objectives of the DGMA pending receipt of the report of the Management and Strategy Review then underway. The Committee is concerned, however, that the objectives had remained unchanged for so long, when they were clearly no longer relevant.

The Committee also noted that no targets had been set and emphasises the importance of determining appropriate performance measures.

The Committee recommends that:

(i) Clear and realistic objectives be established for MGA which reflect its changing role and the expected life of the project.

(ii) That performance measures be identified and targets set for the long and short term.

(iii) That a formal mechanism be adopted to ensure that objectives, targets and performance measures are regularly reviewed and updated.

Section 6: Organisation and Staffing

On the area of organisation and staffing, the Committee has the following concerns:-

(i) The role of the Macarthur Development Board.
(ii) The degree of autonomy of the General Manager of the MGA Unit, and
(iii) The staffing of the MGA Unit in the light of its changing role.

The current administrative arrangements for the Macarthur Growth Area are shown in Figure 1.

The Act, as amended, constitutes the Director, MGA as a corporation sole. It also provides that the Director, DIDD, "means" the Director, MGA, and provides for the establishment of an advisory committee (Macarthur Development Board) by the corporation sole.

The Committee was impressed with the information provided by Director, DIDD, about the issues facing his Department as a whole. The difficulties of combining this position with the position of Director, MGA, were also appreciated; particularly the fact that the Director is located in Macquarie Street, Sydney at some distance from Macarthur and the MGA Unit at Campbelltown (although this seems to conflict with the government's policy to decentralise the management arm of government services).

A solution to this problem might be the delegation of responsibility for the achievement of MGA objectives and targets to an officer able to devote appropriate time to the job, such as the head of the MGA Unit in Campbelltown, the General Manager.

The Committee recommends that the administrative arrangements for the MGA be reviewed to ensure that responsibility for achievement of MGA objectives is delegated to an office which is realistically able to discharge this function.

The Macarthur Development Board (MDB) is an advisory body to the Director, MGA. The majority of the members of the current MDB, including the Chairman, were appointed by the Minister of Industrial Development and Decentralisation in May 1984. The positions are part-time and, in general, the Board members have been drawn from the Macarthur Area.

The difficulty for the Board is that its role is unclear and it provides advice to the Director who is remote and not closely involved in the work of the MGA. The Board does not have a formal role in advising the Minister at providing direction to the work of the staff.

Obviously this difficulty would be resolved in part if the administrative arrangements for the MGA are reviewed.

The committee believes that if a Board, such as the MDB, is appointed it must have a real role to play. Such a role might be the provision of advice to the officer responsible for the achievement of MGA objectives (this responsibility may be delegated) with the right to approach the Director and the Minister if this advice is repeatedly ignored.

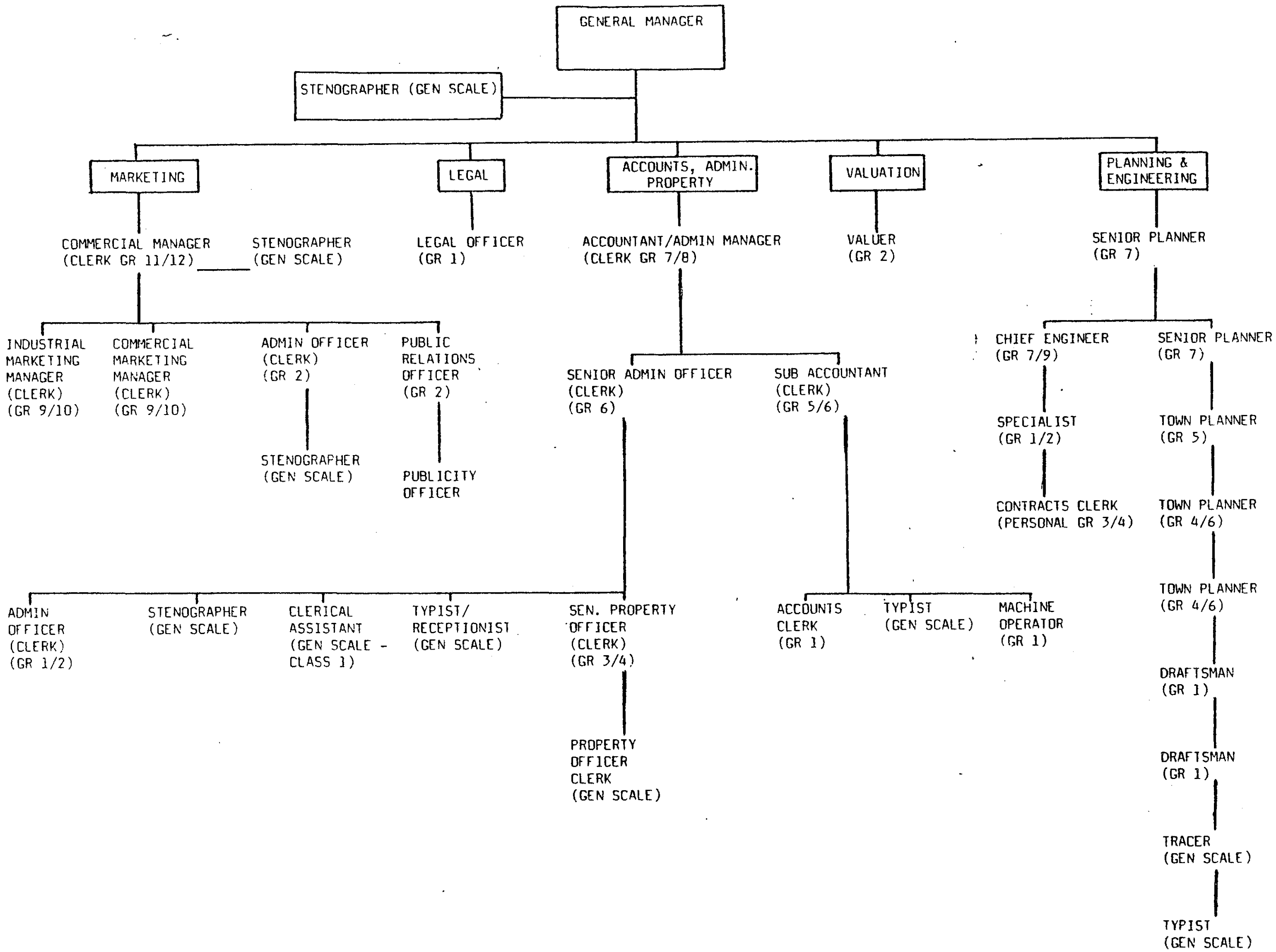
The Committee recommends that the relationship between the Minister, the Macarthur Development Board, the Director, MGA, and the MGA Unit located in Macarthur be reviewed in the light of recent changes and that clear role and responsibilities be established.

Concerning the MGA Unit located at Macarthur, an organisation chart provided by the Director, MGA is attached (Figure 1).

The organisation and staffing of the unit focus heavily on the planning function and the question arises as to whether this is still appropriate given the changing role of the MGA, in recent years, towards marketing co-ordination.

The Committee recommends that the organisation and staffing of the MGA Unit be reviewed when new objectives have been established.

FIGURE 1 MACARTHUR GROWTH AREA - ORGANISATIONAL CHART



Section 7: Current Financial Position of the DMGA

In 1983-84, the total accumulated deficiency for the Growth area increased to $91 million after including writedowns for capitalised expenditures.

The Auditor-General commented:

> "The balance sheet clearly shows that a realisation of all net assets at book values would not produce enough to pay all debts. As the private debts are covered by Government guarantee, losses will inevitably fall on the State and/or Federal Governments. In this context it is important to appreciate that the lost capital is not a trading loss. Rather it must be assessed in the light of sunk costs, incurred as a contribution to the general development of the Macarthur Region."

The balance sheet as at 30 June, 1984, indicated major debts as follows:

State Government	$59.4 million
Commonwealth Government	$64.5 million
Private Loans	$48.4 million
N.S.W. Treasury Corporation	$7.8 million

At the time of the Growth Centre's inception both the State and Commonwealth Governments contributed lands, regarded to be of a similar value. However, it was not determined whether such contributions were to be treated as either capital or long term loans.

After the Macarthur project was announced in 1972 it came into being as the South-West Sector Board in 1974. It was a joint government decision between the Commonwealth and State Governments. The contribution of the State Government, in the form of a land bank, was land previously acquired up to 1974 by the Commonwealth Development Fund. Now referred to as the "pre-1974" land.

The Commonwealth Government, as part of the structure plan, included the Holsworthy Village, and the Commonwealth's contribution was land held under Commonwealth ownership and the Holsworthy Village was part of the Macarthur project.

The debt to the State Government ($59,433,428) is for the land referred to above and was calculated by taking the 1974 value of the land ($23,578,966) and adding interest ($35,854,462).

Between 1974 and 1978 the Commonwealth provided loan funding of $28,099,778 with interest of $36,384,283 being capitalised over a ten year period. These sums, totalling $64,484,061 are to be repaid to the Commonwealth in 40 equal six-monthly instalments commencing from 15 June, 1985.

After the Commonwealth withdrew its financial support in 1978 the State Government had sole responsibility for providing funds for the project. This was done by the Government approving private loan allocations, which totalled $48,424,067 at 30 June, 1984. In addition, $7,800,000 was borrowed from the N.S.W. Treasury Corporation.

The NSW Treasury has been negotiating with the Commonwealth Government for several years in respect of loans made to NSW Growth Centres and the NSW Land Commission. Agreement has been reached in respect of the Land Commission and the Albury-Wodonga Growth Centre. Negotiations are continuing in respect of the Bathurst Orange Centre and the DMGA. Concerning the DMGA, the first payment in terms of the agreements between the Commonwealth and the State fell due on the 15 June, 1985 and the State Government was pressing for revised arrangements to be finalised before that date.

In respect to the debt owed to the State Government, agreement was needed between Treasury, the Department of Environment and Planning and the Department of Industrial Development and Decentralisation on the transfer of the land, the exact amount of the debt and the benefit that would go back to the councils that contributed to the original scheme. In respect to the latter, the Auditor-General commented that NSW Treasury would meet some of the loan servicing charges of the previous owner, the Sydney Region Development Fund. The extent of this assistance was not specified.

The Corporation is pressing for the waiver or conversion to equity of the debt owing to the Commonwealth and State Governments.

At 30 June, 1984, the Capital Debt of the MGA was $181.1 million, of which $123.9 was owed to the State and Commonwealth Governments, as detailed above. Against this debt, net assets (i.e. assets minus liabilities) were $98.8 million, a shortfall of $82.3 million. Thus, even if the Commonwealth does forgo the $64.5 million owing to it and the State does not waive its own debt, the State will lose at least $17.8 million.

The Committee recommends that the question of the repayment of the debts to the State and Commonwealth Governments be resolved as quickly as possible to enable the MGA's financial accounts to reflect the actual losses that have been accepted.

Examination of the current financial position of the DMGA raises the broader issue of the establishment and funding of growth areas.

In the case of Macarthur a project was established but on information available to the Committee, a rigorous financial analysis to estimate future capital and recurrent costs was not carried out. Resources were made available, but ownership and payment issues were not clarified. Specific objectives, targets, and success criteria were not set. Effective and efficient management under these circumstances is extremely difficult.

The thrust of this short report is to point to the need for these basics; even at this late stage of the project.

Section 8: Issues resolved during the Committee's Inquiries

8.1. Valuation of land holdings

As noted above, the Committee was concerned that the balance sheet of Macarthur Growth Area should include all land under the control of the Director, that real estate holdings be subject to independent valuations and that cognizance be taken of such valuations in the financial statements.

Land not included in the 1982-83 balance sheet was the so-called "pre-1974" land: land which was acquired prior to 1974 by the Sydney Region Development Fund and which remained with the Minister for Environment and Planning when MGA was transferred to DIDD in 1981.

However in the 1983-84 accounts, final agreement on the transfer of the titles was anticipated, and the land and the debt which would accompany the transfer was included in the accounts.

The 1983-84 accounts thus represent a real attempt to accurately reflect the financial status of the DMGA.

Also in the period July-December, 1983, a valuation of the growth area land holdings had been carried out by the qualified valuer on the staff of the DMGA. These valuations were referred to the Auditor-General's office. In line with normal practice in such circumstances, the Auditor-General referred a sample of in-house valuations to the Valuer-General for verification prior to completing his audit. This check proved to be satisfactory. A further internal valuation was conducted on one third of the land at 30 June, 1984. These valuations allowed the adjustment of the book value of the acquired land and property in the 1983-84 accounts to the lower of cost and net realisable value in accordance with Australian Accounting Standards.

8.2. Other Issues

Other issues, listed in the introduction to this report, which were resolved during the Committee's inquiries included the following:

Capitalisation of certain expenditures

The Committee was satisfied that the capitalisation of certain expenses in the 1982-83 accounts was in accord with generally acceptable accounting practices.

Investments

The question of the effectiveness of the investment practices of MGA was not examined in detail. The Committee has separately examined the investment practices of all NSW government organisations (see Report Number 14).

TRANSCRIPT OF EVIDENCE

DAVID MURRAY EASSON, Director, Department of Industrial Development and Decentralisation, of [redacted],

GEOFFREY FREDERICK FINALL, Commercial Manager, Macarthur Development Board, of [redacted],

BRIAN ALBERT MORLEY, Assistant Director, Department of Industrial Development and Decentralisation, of [redacted], and

GAVIN FRANCIS THOMSON, Sub-Accountant, Macarthur Development Board, of [redacted], sworn and examined:

CHAIRMAN: Did you receive a summons issued under my hand to attend before this Committee?---A. (All witnesses) Yes, I did.

Q. We have received a submission from the Department of Industrial Development and Decentralisation. Mr Easson, is it your wish that the submission be included as part of your sworn evidence? I am referring to the letter to the Committee of 18 January, 1984.---A. (Mr Easson) Yes, it is. The submission reads:

tr

New South Wales Government

Department of Industrial Development and Decentralisation

139 Macquarie Street
Sydney, N.S.W. 2000
Box 4169, G.P.O., Sydney, N.S.W. 2001

Telegrams: Dido Sydney
Telex: AA20972

Our reference:

Your reference:

Telephone: 27 2741 27 4836

Mr. M. Egan, B.A., M.P.,
Chairman,
Public Accounts Committee,
Parliament House,
SYDNEY. N.S.W. 2000. 00

18 JAN 1984

Dear Mr. Egan,

I have set out below my response to the questions raised by the Public Accounts Committee referred to in your letter of 20th December, 1983. I draw to your attention the note in the preliminary accounts included in the Auditor General's Report in which it is mentioned that the Balance Sheet is incomplete in that it does not include all of the land under my control or the cost of that land.

1. Valuation of Property Holdings

The valuation of the Growth Areas land holdings by the qualified valuer on the staff of the Director, Macarthur Growth Area has now been completed. His detailed valuations have been referred to the Auditor General's Office. I understand that it is the practice of the Auditor General in such circumstances to refer a sample of in-house valuations to the Valuer General for verification prior to completing his audit.

2. Capitalisation of 1982/83 Expenditure

I confirm that the capitalisation of expenses has been carried out in accordance with accountancy standards. In particular I refer to A.A.S. 9 issued jointly by the Institute of Chartered Accountants in Australia and the Australian Society of Accountants wherein at para 9 it is recommended that expenditure should be carried forward at balance date provided that, inter alia "it can be clearly identified as contributing to the revenue-earning capability of the business in the future" and "it is reasonably expected that the business will obtain future revenue sufficient to absorb the expense carried".

I am conscious that I will have to consider the appropriateness of such capitalisation when the valuations which have just come to hand have been test checked by the Valuer General. In so doing it would of course be necessary for me to consider what further holding costs may be incurred prior to sale and what prices are likely to apply at the time of sale.

3. Objectives

The major objective of the organisation is to develop the Macarthur Growth Area of Campbelltown, Camden and Appin to provide for a population of 500,000 persons by the year 2015. The New City Complex plan has two sets of basic objectives: those related to the Sydney Regional Outline Plan and those related to the design and development of the New City Complex itself as a place to live and work. More specifically the New City objectives are:

(a) To provide a self-contained city, with an attractive environment and a wide range of opportunities for work, education, recreation and community activity.

(b) To establish a strong commercial and administrative centre not only to serve local needs but also to perform some of the metropolitan centre's functions thus relieving some of the development pressures and movement problems of the latter.

(c) To encourage optimum use of public transport, especially to major workplaces and other centres of intensive activity.

(d) To bring about a close relationship between town and country.

(e) To balance growth needs with conservation of the special assets of history and landscape.

(f) To establish communty identity for each of the three new cities proposed at Campbelltown, Camden and Appin and also in the more localized districts within the cities.

(g) To encourage the development of a strong, diverse community and, in particular, attempt to avert the social problems of integration which can occur in new town development undertaken in a short period of time.

The various programmes undertaken by the Macarthur Growth Area since its inception in 1974 include -

- the development of two large commercial retail areas i.e. Macarthur Square and Minto District Centre,
- the development of two large industrial estates at Minto and Ingleburn (a total of 1,358 acres/550 hectares), and
- the release of large tracts of residential englobo lands for both Landcom and the private sector at Elderslie/Narellan.

4. Investments

RESERVE FOR LOAN REPAYMENT
INVESTMENTS ON HAND 30/6/83

INVESTED WITH	AMOUNT	TYPE	RATE (%)	BALANCE 30/6/83	FUNCTION
* Commonwealth Trading Bank	1,308,841	I.B.D.	13.0	1,320,961	LOAN REPAYMENT RESERVE
N.S.W. Treasury	664,844	Term Deposit	13.3	674,050	" " "
* State Bank	311,405	I.B.D.	14.6	313,398	" " "
* A.N.Z. Bank	211,925	I.B.D.	13.3	212,157	" " "
* A.N.Z. Bank	725,000	I.B.D.	13.25	725,263	" " "
State Bank	220,606	I.B.D.	15.5	228,570	" " "
** D.M.G.A.	2,450,000	Internal Loan	17.3	2,450,000	" " "
* A.N.Z. Bank	820,554	I.B.D.	13.0	821,138	" " "
	6,713,175			6,745,537	" " "
State Bank	154,926	I.B.D.	13.0	156,250	Long Service Leave
	6,868,101			6,901,787	

** Director, Macarthur Growth Area

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I will be pleased to answer any questions the Committee may have.

Yours faithfully,

N.P. Hanckel

N.P. Hanckel
<u>Director</u>

14 December, 1983.

Ref: AG 83/45

Mr N.P. Hanckel,
Director,
(Macarthur Development Board),
Department of Industry, Development
and Decentralisation,
139 Macquarie Street,
Sydney. 2000.

Dear Mr Hanckel,

The Public Accounts Committee is currently examining the 1982-83 Report of the New South Wales Auditor General.

The Committee has already raised a number of matters with you in relation to the Auditor General's Report for 1981-82. One of the issues raised then, in relation to the valuation of land holdings, has again been commented upon by the Auditor General.

In his latest Report the Auditor General stated:

> "It is considered most desirable that the real estate holdings is subject to independent valuation and that cognizance be taken of these valuations in the financial statements".

The Committee would appreciate your comments as to progress that has been achieved in revaluing property holdings.

The Committee also noted that the accumulated deficiency for the Macarthur Growth Area has increased to $6,599,887 as at 30 June, 1983. The deficiency for 1982-83 was $1,017,000 which was arrived at after transferring expenses to specific assets amounting to $10,886,000. The Committee seeks an explanation as to whether the capitalisation of this expenditure is in accord with generally acceptable accounting principles.

To assist the Committee in its review of the efficiency and effectiveness of your organisation it would be appreciated if you could provide a statement of the objectives of your organisation and the programmes by which those objectives are to be achieved.

Finally the Committee would like to have a detailed breakdown of the investments and interest bearing deposits of $6,902,000 held by your organisation as at 30 June, 1983, and the rates of return being earned on those investments.

The Committee would appreciate the above information by 18 January, 1984, and, if considered desirable, may seek further information at a later date.

Yours faithfully,

Michael Egan, B.A., M.P.,
Chairman.

CHAIRMAN: Do you wish to add to, or to elaborate upon, your submission?---A. In answer to questions.

Q. You do not wish to say anything now?---A. No.

Q. Mr Easson, the balance-sheet of the Macarthur Growth Area as at 30 June, 1983, shows land valued at $96.4 million. How was that amount calculated?---A. It refers to landholdings before 1974 and after 1974. As to the method of calculation, could I ask Mr Morley?

(Mr Morley) The $96 million includes the purchase price of land held after 1974 plus the development works on the post-1974 land and pre-1974 land. It does not include the cost of the pre-1974 land.

Q. Is the capitalized interest of $30 million part of that?---A. Yes, most of it is. There is a small amount of interest not included in that which is expensed each year.

Q. In your letter to the Committee of 18 January, 1984, it was stated that a qualified valuer on the staff had valued the growth area's landholdings. How did his results compare with the value shown in the balance-sheet?---A. The figures have not yet been verified by the Valuer-General. They were referred to the Auditor General from July to December, but the Auditor General still has these figures with the Valuer-General, so that it is not really practical to make comment until the figures have been verified.

Q. When were they completed?---A. The final sheets were completed in December. They were done progressively.

Q. Why was not the value of the land in the balance-sheet written down to these values?---A. The valuation was as at December last year. The figures that the Auditor General showed were published in August of 1983, so the valuations were not available at that time.

Q. When do you expect the Valuer-General's material to become available?---A. I understand from the Auditor General that it could be some time yet before the Valuer-General verifies the figures of the in-house valuations.

Q. What objection is there to you telling us the result of your own valuation?---A. Primarily the valuations are in-house valuations. The valuations, I should mention, relate to two lots of land, pre-1974 and post-1974. The valuations may not be accepted by the Valuer-General, in which case any comments that are made may be misleading. Second, there is the problem with the pre-1974 land that I referred to before. The pre-1974 land is not in the books. Therefore, it is not possible to make any comparison until a price is set on that land, which is the subject of negotiation between the Department of Environment and Planning, the Treasury and the Director of the Macarthur Growth Area.

Mr MURRAY: Could I ask you to explain the percentage of land that is pre-1974 and the percentage of land that is post-1974 in your whole portfolio?---A. (Mr Finall) In quantity terms or in dollar terms?

Q. You can tell us if you are having trouble with the dollar terms.---A. We can give you a ratio. The ratio would be about fifty-fifty, 50 per cent pre-1974, which was acquired previously through the County of Cumberland Scheme, and post-1974, which was land acquired under the Growth Centres Act, and that is the land that is currently shown in the balance-sheet that the Chairman referred to.

Q. Is there any difference in the quality of the land?---A. It is hard to measure quality of land. It depends on the ultimate purpose. We have two large industrial estates in the area of Minto and Ingleburn. The majority of lands in that area was acquired pre-1974; probably 20 per cent was acquired post-1974. Therefore, there is no quality in the sense that the land is the same. It is just the date of acquisition.

Q. Is the pre-1974 land closest to the CBD, or closer to the railway station, or would the development costs of the pre-1974 peripheral land be greater in that area? Those are the sorts of things I would like to know.---A. One would have to understand the history of the Macarthur project prior to 1974. It was acquired as part of the Sydney Region Outline Plan and part of the Campbelltown project by the then Department of Environment and Planning, the State Planning Authority, as it was then.

The land was acquired for a totally different purpose from what it is now being used for. Part of the land had begun to be converted to industrial land. Other lands were required for open recreation space; other lands were required for special use corridors; other lands were required under Part 12A of the Local Government Act to facilitate the Department of Main Roads - the F4 southern freeway. So there was a whole host of different purposes, and it is difficult to categorize that. There was a whole host of different infrastructures required on different parts of the land. Some is required for recreation; some for industrial, and, ultimately, for residential.

Q. What I am trying to elicit from you is the value of that land in terms of some calculation.---A. (Mr Morley) Perhaps I could answer that. In broad terms at the moment - and, of course, there is a time factor in this - the pre-1974 land is worth approximately double the post-1974 land in terms of market value.

Mr COLLINS: In your letter of 18 January this year to the Committee you have listed the corporation's objectives. Would you like to comment to what extent those objectives have been achieved and maybe comment on the objectives you have been unable to achieve, and perhaps give some reasons?---A. (Mr Easson) The first objective stated was to provide a self-contained city with an attractive environment and a wide range of opportunities for work, eduction, recreation and community activity.

One of the problems in measuring against these objectives is that the situation has changed since the objectives were set. For instance, you might say that, whilst we set out to build a self-contained city, right now it is a suburb of Sydney. Other aspects have come into it.. Really it is part of Sydney, and what we are looking at now is a strengthening of various other factors in building up a suburb which is part of the greater metropolitan area of Sydney. In regard to the attractive environment and wide range of opportunities for work, education, recreation and community activity, again most of those have been met, but circumstances have changed some of the original objectives. For instance, in education there was originally going to be a university there, but that was refused. Then, only recently has that objective been approached again, and there will be a Macarthur Institute of Higher Eduction. So some of these other aspects are falling into place, and there is a TAFE facility there also.

Q. You are saying that the area has been caught up in the great urban sprawl; that there was no clear separation between the centre and the Sydney metropolitan area?---A. There was then, but as time has gone by it has merged.

Q. What about objectives you have been unable to achieve? Are there any major obstacles that have been standing in your way?---A. When we started to answer the questionnaire we did write that one major obstacle has been the Government's policy of the 1-in-100 year flood plain level. That has been a bit of a problem in the sense that it brought into question the adequacy of the drainage channel built to service the industrial land.

Having spent $12 million, or in excess of $12 million, in flood mitigation work it was found that it did not meet the new standard. So there was a problem with industrial land sales; they were adversely affected, and it is only now that a more realistic approach has been adopted that firms are beginning to come back.

(Mr Finall) Certainly part of the land is still flood-liable because of the change in policy, but with the Campbelltown Council and the Macarthur Development Board's attitude to the residential development and attention-based systems with the aid of Landcom and other commercial developers, the channel itself is being upgraded and should accommodate the Government's 1-in-100 year flood policy.

Q. I know we are skirting the edges of the policy discussion, but there have been some recent Government announcements. I take it from what you are saying that they will largely accommodate the expenditure you have already incurred on flood mitigation and provide you with an effective development, will they?---A. There is major work contemplated before the total problem is eased. The problem is not only at Macarthur. The problem, of course, is in further areas of Sydney, such as Liverpool and Fairfield.

(Mr Easson) There is another area, of course. Our first priority that we must settle is the accounting problems between our department and the Department of Environment and Planning, which has, in some ways, hindered us.

Q. Does the corporation have accurate and comprehensive records of its landholdings and the current use of the land?---A. Yes.

Q. How do you determine the efficiency of your land use and also what land is surplus to your needs and requirements?---A. (Mr Finall) Land use is ultimately determined by zoning which is part of the structure plan of the new cities of Campbelltown, Camden and Appin. As I have mentioned earlier, primarily our function relates to industrial and commercial development, and we monitor our performance against those two areas. We are also in globo landholders of large parcels of residential land which we will be selling and transferring to Landcom. The board itself has also undertaken joint developments with Camden Council.

Q. I take it you are aware of the provisions of the Annual Reports Act. Do you see any difficulties on the part of your organization in complying with the Annual Reports Act, especially the provisions relating to performance?---A. (Mr Morley) Performance indicators. Obviously there will be the need to reconcile the valuations, which will be resolved in the near future. After that there will not be any problems.

Mr AQUILINA: In answer to a question from Mr Murray it was stated that it was estimated the valuation of the land purchased prior to 1974 was roughly double that of post-1974 land. Why would that be so?---A. Because the land bought prior to 1974 was bought in the area, basically, of Campbelltown. That is the land that has been developed now. The post-1974 land is in Camden, and particularly in Appin, which is yet undeveloped. Therefore, you are looking at land the optimum use of which is many years ahead, and its current market value is much less.

Q. Those valuations, then, are current market valuations; not valuations at cost?---A. No. That is current market value.

Q. Could you give us a comparison of market values and book values for acquired properties by project area?---A. (Mr Finall) Land was acquired in the regional centre of Campbelltown pre-1974 at a price in the order of \$600 - \$700 per acre. Land now in a developed state in that area with changes in zoning and massive infrastructure cost is now, getting back to imperial measure, in the order of $8 per square foot, which is nearly $330,000 per acre. That was the last Valuer-General's valuation for rating purposes. A similar comparison in the Ingleburn Industrial Estate would show that land acquired there as flood-prone land prior to 1974 was acquired by the then State Planning Authority at values of $400 - $600 per acre. It is now valued in excess of $100,000 per acre in a finished state as fully-serviced industrial land.

Q. How are you valuing these - on their book values, or on their market values?---A. The example I gave you then of acquisition value at $600 per acre would have been market value as determined at the time by the acquiring authority, and the example of in excess of $100,000 per acre is current market value that the Macarthur Development Board is charging for industrial land in smaller parcels of up to, say, two-and-a-half-acre blocks, and that value is comparable to other prime industrial lands throughout the Sydney metropolitan area.

Q. What about residential land?---A. The Macarthur Development Board does not deal in residential land as such compared with commercial and industrial land. Residential land is large valued on an in globo basis. We acquired land five years ago per in globo block - that is the raw land content for a finished block of land - in the order of $800 - $1,000 per block. In globo land today is valued on the open market at between $4,500 and $5,500. That is not just Macarthur Development Board land; that is land that is zoned residential and is ready for development.

Q. When we talk about residential land, are there various categories of residential land - for example, townhouses, home units, single dwellings?---A. We are talking about land currently zoned 2A for detached residential dwellings.

Q. Are there any areas of land zoned for townhouses as such, or home units?---A. Not as such, no. There are commercial zonings within that large residential parcel. Macarthur Development Board will shortly be releasing through the aid of Landcom and the private sector some 3 300 blocks of land on to the Sydney residential market.

Q. Are the valuations of the commercial blocks included in the in globo valuation you have just given?---A. No. I am talking about an individual parcel of land for comparative purposes.

Q. We have been given to understand that for some years now your department has been negotiating to buy land from the Department of Environment and Planning. Have you got a market valuation for that land?---A. (Mr Morley) That is the pre-1974 land. The valuations, as I mentioned before, are subject to vetting by the Valuer-General.

Q. Those negotiations are still taking place, are they?---A. Yes.

Q. They are still subject to these valuations you are waiting on?---A. Yes.

(Mr Finall) If I might add, the church is also involved.

Q. How is the purchase of that land to be financed?---A. It is really a matter for Treasury to determine.

Q. The department has not got funds set aside?---A. One has to understand the history behind it. When the Macarthur project was first announced in 1972 it came into being as the South-West Sector Board in 1974. It was a joint government decision between the Commonwealth and State Governments. The contribution of the State Government in the form of a land bank was land previously acquired up to 1974 by the Comonwealth Development Fund. That is the pre-1974 land we have referred to.

The Commonwealth Government, as part of the structure plan, included the Holsworthy Village, and the Commonwealth's contribution was land held under Commonwealth ownership and the Holsworthy Village was part of the Macarthur project. In 1978 the Commonwealth Government withdrew its financial support to the growth centre, and from there on the State Government continued and supported the operation as it is now. The responsibility for the growth centre transferred from the Minister for Planning and Environment to the Minister for Industrial Development, and ultimately the land had to be transferred to the corporation, being the Director of the Macarthur Growth Area.

To formalize that transfer some value had to be determined for the transfer in the accounting records, so the value appearing in the books of the Department of Environment and Planning and the actual value on transfer will be two different things, because the land at 1974 had to have a value at that date for capital contribution, as did the Commonwealth Government's valuation. The valuation as at 1974 was determined, but the Commonwealth did not proceed.

Q. Could this acquisition now be made at 1984 valuation prices?---A. No. There has to be some amicable arrangement between the three parties, being the Department of Environment and Planning, our department and the Treasury, as to how that land will be transferred and what benefit will go back to the councils that contributed to the County of Cumberland Scheme.

Q. Who is going to arbitrate that?---A. It is almost reaching conclusion, I understand, in the Treasury.

(Mr Easson) It is a three-part negotiation between the Treasury, the Department of Environment and Planning and our department. Of course, the next step is to reach agreement with the Commonwealth in regard to it.

Mr MURRAY: I understand that you need to reach agreement by 30 June in terms of your interest repayments to the Commonwealth?---A. No, that is 30 June, 1985. That is why we hope to have everything concluded.

Q. Do you feel that it will be concluded to your satisfaction, or are you being led to a conclusion at the moment?---A. We have four negotiations virtually going on: Albury-Wodonga, Landcom, Bathurst-Orange and Macarthur is fourth on the list. The signs we have had from the Commonwealth and the reaction from Treasury in regard to the Landcom discussions indicate that we will get a satisfactory conclusion.

Q. And the Department of Environment and Planning?---A. That is in Government, anyway, and we will get a satisfactory conclusion there.

Mr FISHER: Do you not dispose of any land as it is developed to the developer? Is it only leased land?---A. (Mr Morley) It is Torrens Title.

(Mr Easson) Some is leased. I should let the experts answer that, but in regard to the Minto Shopping Centre, for instance, it was originally leased. Freehold is the order of the day regarding residential in globo blocks and commercial and industrial land.

Q. Your rentals are based on current values and they are upgraded annually?---A. (Mr Finall) So far as commercial leases are concerned there are no two leases quite the same, because they have different circumstances. To lease a major shopping centre is a different situation from leasing a fast food outlet. One is a major attraction in itself, and the small food outlets tend to feed off the population, if you like, using that loosely, that come to the centre. Therefore, the small fast food outlets - for example, McDonald's, and so forth - would have a far higher rent per square footage of space occupied, because it is a far more intense development than, say, a major shopping centre, which would have to provide major carparking facilities.

Q. Do the rentals you receive compare with similar outlets in other parts of the city?---A. Yes.

Q. Are you satisfied with the rentals received?---A. Yes.

Mr AQUILINA: How far away is the corporation from being financially self-sustaining?---A. (Mr Easson) When we have a meaningful set of accounts I will be able to answer that question. You have to appreciate also that the corporation was not set up originally to be self-sustaining in that sense, because built into it are so many social and community issues that are being supplied by the corporation and not by government departments and instrumentalities and so on. I am talking now of provision of open space, drainage channels, and massive infrastructure works go on to it. There is a question whether it would be self-sustaining, but we will know how much it is costing us. That is, perhaps, a better way of putting it.

Mr MURRAY: I wanted to follow up the interest payments owing to the federal Government. What is the quantum of those interest payments?---A. Again that depends what valuation we arrive at.

(Mr Thomson) At 30 June, 1983, it was $29.7 million in interest.

Q. According to your correspondence, which the Committee received on 18 January, you have listed Reserve for Loan Repayment, and you have $6,901.787. What do we do with the gap?---A. (Mr Morley) That reserve does not relate to the Commonwealth debt. That relates to the private loans.

Q. So you have made no provision for the Commonwealth debt?---A. (Mr Finall) That is to be repaid on a credit foncier basis after a ten-year rest period commencing in June 1985.

Q. So, in effect, you have raised private loans with corporations or private individuals?---A. (Mr Morley) Now it is through the Treasury Corporation and institutions.

Q. But prior to that?---A. Yes.

Q. What is the requirement in terms of funding those loans?---A. That is the sinking fund.

Q. Will this fund cover it?---A. (Mr Finall) That is an annual reserve called a sinking fund reserve. Some loans negotiated are credit foncier loans, which is the repayment of principal and interest over the life of the loan. Other loans are fixed term loans on which you are committed to pay interest payments only and you may pay a balloon payment at the end of the loan. It is for loans in that situation that you have to set a sinking fund aside in which to deposit funds which will self-accumulate interest in order to have that principal at the end of the term.

Q. But that is not your sinking fund, is it?---A. Yes.

Q. That is?---A. Yes.

Q. Can you just explain to me the internal loan to the Director, Macarthur Growth Area of $2,500,000 practically? Can you explain to me how that is financed?---A. The corporation solely in itself, whilst it is a body, has powers to invest in other approved investments. That is a loan borrowed from ourselves. We arranged appropriate security and we lodged a security. It is like buying debentures in your own company.

Q. I have lost my train of thought. You will have to start again.---A. The Director of the Macarthur Growth Area has to borrow a certain sum of money in order to finance its projects each year. As part of that loan portfolio for that year it chose to borrow from within its own resources. If you issued debentures in order to raise funds, it is an example of buying one's own debentures as security. Another authority, like Elcom, for example, would have funds set aside. Its statutory powers allow it to invest those reserves in other securities, such as buying debentures in Telecom, for example. Therefore, instead of investing in Telecom it may choose to buy its own debentures which would issue over its loan-raising programme. So it is a borrowing from oneself.

(Mr Morley) Each year the corporation approaches the Treasury under the capital works programme for a loan allocation, and the amounts that have been borrowed from the sinking fund have been amounts determined by the Treasury, not by the corporation itself. The Treasury says "You can have so much next year of which you will borrow so much from further private raisings and the balance you will take by borrowing from your own sinking fund".

Q. Who determines the 17.3 per cent rate of interest?---A. (Mr Finall) That rate is usually determined by the indicative rate as the long-term borrowing rate for semi-government authorities.

Q. You have those constraints, do you?---A. Yes.

Q. Can I just follow one other question up? It relates back to the Auditor General's report for 1982-83. I notice that salaries and associated costs are shown as $1.024 million. Do all of the salaries and associated costs in that figure pertain to personnel employed by the Macarthur Growth Area, or are there some people funded by that salary who are also used by the Department of Industrial Development and Decentralisation?---A. (Mr Morley) No, it is totally for officers out at Macarthur. The only possible exception to that is the solicitor who functions in head office but mainly services the growth area. His salary comes out of that.

Q. So there is no relationship between the development authority and the department?---A. (Mr Finall) Financially, no.

(Mr Easson) Except that my salary comes from the department.

(Mr Morley) There is no allocation to the accounts of Macarthur for time spent by departmental officers in head office. There is no overhead charge made.

Q. But they do service some of your activities?---A. No.

Q. It acts as an entity by itself?---A. Yes. The only link is the solicitor, who happens to be located here because it is much more convenient. Occasionally he might discuss a departmental legal matter, but primarily his work is in the growth area.

Q. How many people work for the authority?---A. (Mr Finall) Thirty-two. That is not just salaries. That is overheads, rent, electricity and ongoing charges.

Q. No, how many people?---A. Thirty-two. But I mention that one point. It is not just salaries.

CHAIRMAN: If there is no objection I will invite the Director of the Committee to ask a question.

MR SARTOR: My question goes back to valuations as they compare with the values of property in the balance-sheet. You indicated earlier you were reluctant to speculate on the internal valuations because they were subject to confirmation by the Valuer-General. Our information in other places is that often the two numbers come out fairly similarly. We would be anxious to have some idea what effect the valuations would have on the balance-sheet if you go on the basis of lower of cost or net realizable value. Would a number in the order of $40 million or $50 million be about the order of the difference?---A. (Mr Morley) The $64 question is what debt is going to be struck for the pre-1974 land.

Q. Yes, if we are talking in terms of the adjustment on the balance-sheet. But if we are talking in terms of the valuations themselves in your balance-sheet you have $96 million.---A. That is right. That figure does not include the pre-1974 land. Let us pick a figure out of the air. Let us say they are going to put $100 million on the pre-1974 land. That would then become $196 million. We have in-house valuations that might total $100 million. Then you have a gap of $96 million.

Q. Do you have in-house valuations for all the land bar the pre-1974 land?---A. All the land. But you cannot really answer the question until you know what is going to be added. Bear in mind that $96 million is a composite figure, because it is post-1974 land, plus the expenditure on development of pre-1974 land as well as post-1974 land.

Mr AQUILINA: I take it at this stage, therefore, you are reluctant to release your figures for the valuation of the pre-1974 land?---A. Yes.

Mr SARTOR: Can you give us some idea when this matter will be cleared up?---A. (Mr Easson) We hope we will have it cleared up in a matter of months. We will have reached agreement with DP in about a month, and we have to have values agreed with Treasury.

Q. Through you, Mr Chairman, can I ask that when that information becomes available we be advised?---A. I will undertake to provide that information.

(The witnesses withdrew)

(The Committee adjourned at 3.10 p.m.)

tr

New South Wales Government

Department of Industrial Development and Decentralisation

Mr. R. Carr, M.P.,
Chairman,
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Dear Mr. Carr,

I refer again to your letter AG 83/45 of 24th July, 1984 seeking advice on certain sections of the verbal evidence given to your Committee by me and other officers of my Department on 13th June, 1984. My answers to your questions are set out below.

As advised in my interim letter of 2nd August, 1984 seeking further time to reply, the Macarthur Development Board is an advisory body to the Director, Macarthur Growth Area and has no statutory existence of its own. I have taken the liberty of assuming that each reference in your question to the Macarthur Development Board can be read as a reference to the Director, Macarthur Growth Area (DMGA).

1. "Objectives

On your written submission of January 18, 1984 you outlined the objectives of Macarthur Development Board (MDB); both the major objective of the organisation and the new city objectives. However, at the hearing, evidence was given that "the situation has changed since the objectives were set" and some explanation of this change of situation was provided.

(a) Q. What are the current objectives of the MDB and what are your priorities and targets for the next twelve months?"

A. The Department of Industrial Development and Decentralisation, including the DMGA, is currently undergoing a Management and Strategy Review. I have deferred any action to effect a formal change in the published objectives of the DMGA pending my receipt of the Consultant's report. The objectives for the time being remain as indicated in my submission to the Committee of the 18th January, 1984. I have nevertheless given considerable weight to the changed situation of the Growth Area, to which I referred briefly in my evidence before the Committee, in setting priorities. As requested the priorities for 1984/85 are set out below. No specific targets have yet been established.

(i) The enhancement of the employment opportunities available to persons settling in the Growth Area by:

- marketing the advantages of Macarthur as a Growth Area within the Sydney Region
- ensuring that a broad mix of fully serviced commercial and industrial land is available
- identifying and promoting business opportunities in the growth area
- promoting the Macarthur Regional Centre as both a commercial and administrative centre
- pressing for a greater share of the planned regionalisation of government offices both State and Federal to the Growth Area
- pressing for and facilating better access to the Growth Area via both public and private transport facilities

(ii) Establishing financial stability of the DMGA by:

- expediting the sale of industrial land and commercial land using the following strategies:
  - the collection and analysis of technical data with respect to the availability of comparable commercial and industrial land and sales made;
  - the preparation and implementation of a marketing strategy orientated to the emphasis of the superior executive life-style available within the Region;
  - the organisation of a well informed field marketing force of real estate agents through the Sydney metropolitan area;
  - the implementation of regular field days for influential groups of estate agents, developers, investment institutions and industry representatives and commercial leaders;
  - the re-allocation of staff and funds to the marketing function;
  - the sale of englobo residential land to other government, local government and private developers;
  - entering into joint ventures with local government and private developers where this will reduce the financial commitment of the DMGA and expedite revenue.
- pressing for the waiver or conversion to equity of the debt owing to the Commonwealth and State Governments.

(b) Q. "How do you ensure that the work of the Board is co-ordinated with other planning and developmental activities of Government?"

A. This is achieved by:

- reliance on the provisions of the Growth Centres Act and the powers, authorities, responsibilities, duties and functions as contained within the Act;

- the maintenance of a strong spirit of co-operation and co-ordination with Government, Local Government and other authorities;

- the representation of members and/or staff on external co-ordinating committees including the following committees -

  Urban Development Committee

  Macarthur Regional Extractive Industries Committee

  Macarthur Region Coal Planning Committee

  Primary and Secondary Schools Planning Committee for the Liverpool Region

  Corridor Sub-committee of the Technical Advisory Committee of the N.S.W. Transport Strategy Advisory Committee

  Campbelltown Chamber of Commerce

  Macarthur Country Tourist Association

  Building Owners and Managers Association

  Unemployment Working Team, Sub-Committee - Campbelltown City Council

  Elderslie/Narellan Management Committee

  Commercial and Industrial Chapter of N.S.W. Real Estate Institute

  Committee on Leasehold Strata Title

  Macarthur Institute of Higher Education

- the liaison with the four Local Government authorities within the Macarthur Growth Area provided by an elected member of each serving on the Macarthur Development Board;

- the wide experience and developed expertise of the staff of the DMGA in a wide range of diversified activities and keeping close contact with both the public and private sector; and

- the maintenance of a close relationship with Members of Parliament and community leaders.

/4.

(c) Q. "When do you expect that the work of the Macarthur Development Board will be substantially complete?"

A. In terms of the Three City Structure Plan adopted by Government it is envisaged that the Macarthur Growth Area will be fully developed by about the turn of the century.

(d) Q. How did you assess the performance of the Macarthur Development Board in 1982/83?

A. I became Director, Macarthur Growth Area on 20th February, 1984, and was not involved or associated with the activities of the DMGA prior to that date. I have been advised that although the DMGA performed below budget with respect to land sales in 1982/83 its performance compared favourably with the private sector in what were extremely depressed conditions. Statistics quoted to me in support of this claim are set out below:

- During the year ended 30th June, 1983, 23 sales of industrial land was made providing an additional 474 jobs with a potential to rise to 827.

- During the year 20 industrial development applications were approved for the Board's Industrial Estates at Campbelltown with the value of building being $4 million.

- During the year Campbelltown was the only Local Government area in the Metropolitan Water Sewerage and Drainage area of operations to record a real increase in the number of new dwellings erected, being 1715 at a cost of $60,204,541.

- Population growth of 10% during the year for Campbelltown was the highest of any New South Wales Local Government Area.

2. Organisation

(a) Q. "What is the organisation structure and staffing of the MDB?"

A. Attached is an organisation chart which indicates the various positions held within the Division.

(b) Q. "What is the relationship between the MDB and the Department of Industrial Development and Decentralisation:

- in terms of organisation and staffing?

- in other ways?"

/5.....

A. The enabling legislation, the Growth Centres (Development Corporations) Act 1974 as amended, established a corporation sole to be known as the Director, Macarthur Growth Area (DMGA). The DMGA is constituted as a corporation with powers and duties of a development corporation under the Act with specified responsibilities and powers. The Act provides that the DMGA "means" the Director of the Department of Industrial Development and Decentralisation. The Act provides for the establishment of an advisory committee by the corporation sole.

The majority of the members of the current Macarthur Development Board, including the Chairman, were appointed by the Minister for Industry and Decentralisation in May this year.

Officers employed within the Macarthur Project are employed as part of the Department of Industrial Development and Decentralisation's Administrative Unit. Salaries are met from the funds of the corporation sole and not consolidated revenue (see answer to Q.3).

3. Sources and Application of Funds

Q. "What were the major sources and application of funds of the MDB during 1981-82, 1982-83 and 1983-84?"

A. The following figures are based with the exception of the 1981/82 column on draft accounts which are subject to audit.

SOURCE AND APPLICATION OF FUNDS STATEMENT ($"000")

	1981/82	1982/83	1983/84
Source			
Rent	932	1140	1141
Interest*	109	184	389
Land Sales	4626	2610	1080
Private Loans	2500	6600	7800
Sale of Fixed Asset		20	4
Loan Repayment Reserve	2450	-	3950
Miscellaneous	82	70	168
	10699	10624	14532

* does not include deferred interest

Application	1981/82	1982/83	1983/84
Land acquisition	511	124	2330
Development Works	2643	331	2022
Admin and Other			
- Salaries and overheads	917	1025	1029
- Other admin	302	230	494
- Loan repayment and interest	3952	5121	6447
- Property Management	306	242	360
- Loan Repayment Reserve	508	1547	1943
- Other including variations in cash at bank and investments	1560	2004	(93)
	10699	10624	14532

4. Relations with Commonwealth

Q. "It appears from the evidence that the actual amount of interest owed to the Commonwealth is dependent to some extent on land valuations and reference was made to Holsworthy Village. Could you explain the history and current status of negotiations between the MDB and the Commonwealth?"

A. History. At the time of the Commonwealth Government's involvement with the Macarthur Growth Area, it was intended that the Holsworthy lands including the Army Village, be brought to account as part of the Commonwealth's contribution towards the project.

In this context it is noted that the State Government had been progressively acquiring lands in the Campbelltown area, since 1968.

At the time of the Growth Centre's inception, the value of both the Commonwealth and State lands were regarded to be of a similar value and consequently each Government would have made comparative equity contributions. It was not determined whether such contributions were to be treated as either capital or long term loan.

The Commonwealth Government withdrew its support in 1978 and did not proceed with the transfer of the Holsworthy land. In order to establish the States contribution to the Growth Area, the State land has been now taken up in the accounts at its 1974 valuation plus interest and shown as a debt to the New South Wales Government.

Current Status. The New South Wales Treasury has been negotiating with the Commonwealth Government for several years in respect of loans made to New South Wales Growth Centres and the New South Wales Land Commission. Agreement has been reached in respect of the Land Commission and the Albury-Wodonga Growth Centre. Negotiations are continuing in respect of the Bathurst-Orange Centre and the DMGA - in that order of priority (at the suggestion of the Commonwealth). As the first payment in terms of the agreements between the Commonwealth and the State falls due on the 15th June, 1985, the State Government is pressing for revised arrangements to be finalised before that date.

/7...

5. Land Valuation

Q. You stated that a qualified valuer on the staff has valued the growth area's landholdings, completing work in December, 1983 and that these results are being verified by the Valuer-General. It was also stated that the organisation has current and comprehensive records of its land holdings and current usage.

It would assist the Committee if the following information was provided for each parcel of land held (both pre-1974 land and post-1974 land).

- description of parcel of land including location
- date acquired
- price paid for land
- capitalised interest on price of land
- cost of development
- capitalised interest on development cost
- current holder of title
- book value
- market value (date)
- valuation of Valuer-General (if available)
- area (hectares)
- state of development of land
- zoning
- current use

A. The details you have requested, subject to the following comments, are given on the attached schedules.

Comment

(i) 'Price paid for land' - shown on the schedule as 'acquisition cost'. Due to the fact that all properties were acquired by the Crown the prices paid often reflected the additional costs involved in compensating owners for their loss. As a standard practice, over and above the amount of compensation assessed by the Valuer General's Department, allowances were paid for legal fees on sale of the land as well as legal fees on the purchase elsewhere of a property for the same amount plus stamp duty. In addition vendors were able to claim for valuation fees if independent advice was sought and also for allowances where special circumstances of the purchase warranted special consideration. Such allowances might include compensation for disturbance to business or trade, removal allowances, hardship, purchase of quotas (milk, eggs), loss of income and so on.

(ii) 'Capitalised interest and cost of development' - A system whereby all development costs and interest costs will be apportioned on a cost recovery basis is currently being installed and should be in operation by the beginning of 1985. At present this information is not available.

/8..

(iii) 'State of Development of Land' - Since the majority of the DMGA land is still undeveloped, particularly in L.G.A.'s Camden and Wollondilly, most lands under this heading are shown as undeveloped or (U/D). Often the land may have buildings or improvements however still be regarded as 'undeveloped'. In this regard undeveloped is synonomous with underdeveloped. This is particularly true where the land is earmarked or even zoned for a future development and the "improvements" may or may not conform with proposed development but are seen from a practical valuation and future development role as not being the highest and best use of the land.

(iv) 'Current Use" - The land is categorised in the attached schedule as being leased, agisted (for grazing) or vacant.

6. Department of Environment and Planning

Further to your evidence concerning the negotiations between MDB and DOEP:

(a) Q. "How much land is involved?"

A. Total area is approximately 2137 ha.

(b) Q. "Who holds the title to this land now?"

A. As mentioned above in answer to Question 5, the Minister Administering the Environmental Planning

and Assessment Act, 1979 still holds the title of lands funded under Section 16 of State Planning and Assessment Act, known as the Cumberland Development Fund.

(c) Q. "What is the current market value of the land?"

A. Approximately $51 million.

"If the land is in more than one parcel, please answer questions (a) to (c) for each parcel."

Some 180 parcels are involved. The answers to Questions (a), (b) and (c) for each parcel can be found by reference to the parcels marked with an asterisk (*) in the schedules provided in answer to Question 5.

(d) Q. "The Auditor-General (P.246) refers to assets and liabilities, apart from titles of land. Could you explain this reference?"

A. The Auditor-General was referring to furniture and fittings acquired with Growth Area funds which have been retained by the Department of Environment and Planning and the private borrowings made in respect of the Growth Area's operations by the Minister for Planning and Environment which have not yet been transferred to the DMGA.

(e) Q. "What is the current status of the negotiations?"

A. Agreement has been reached on the land, to be transferred with exception of land purchased from Commonwealth and State Grants, known as Camden Park and land known as Central Hills land.

7. Developmental Activities

Concerning developmental activities in the Macarthur Growth Area:

(a) Q. How is a decision made to undertake a developmental activity? What criteria are important in making such a decision?

A. Regard is had to

(i) the objectives of the DMGA
(ii) the potential costs and benefits to the Growth Area and the DMGA and the financial risks involved.
(iii) the alternatives for achieving the development
(iv) the funds required for the development

(b) Q. How are priorities determined? How is the annual programme developed?

A. Regard is had to the factors referred to in (a) plus the stage in the development of the Growth Area reached. Draft programmes are developed by officers of the Macarthur Division and submitted to the Macarthur Development Board, the Director and Minister on a regular basis.

(c) Q. Who is involved in the decision making processes?

A. The annual programme is subject to the Minister's approval. Implementation of the programme is subject to the Director's approval usually after recommendations are received in the case of major issues, from the Macarthur Development Board.

(d) Q. How are developmental activities funded?

A. Revenue generated from the sale and/or lease of Commercial and Industrial lands. Over the life of the project additional expenditure is met from loan funds.

8. Marketing Activities

(a) Q. Describe the marketing strategy of the MDB?

A. The Market Strategy involves:

(i) Promotion through media, issue of publications of the investment opportunities available to those who relocate to Macarthur.

(ii) The involvement of real estate agents, government departments and overseas offices to cover as much of the market as possible.

(iii) More recently the DMGA has also become involved in land development and financial packaging with the DMGA promoting the land and the developer putting together development plans and financial feasibility studies and then ultimately building the premises.

(b) Q. "How successful has this been?"

A. (i) Up to 30th June, 1984 the DMGA has sold 118 industrial sites for prices totalling $12.46M and in the last 12 months period 8 sites were sold which when developed will employ between 123/190 people.

(ii) The DMGA has been able to encourage retail development in the Growth Area by leasing commercial sites to:-

- Lend Lease which constructed a major Regional Shopping complex - Macarthur Square
- Girvan Bros. which built a District Shopping Centre at Minto
- Various small retailers.

(iii) Residential development

Here the DMGA has been able to meet demand for -

(1) Housing and medium density sites at Camden (Camden Downs Estate)

(2) Low density 1 hectare sites at Denham Court.

(3) "Englobo" sites for residential development at Minto and Glenfield.

(iv) Office development

The DMGA is in the process of appointing a consultant to prepare details on sites for office development in the Regional Centre precinct and staff are meeting regularly with New South Wales and Federal Government bodies handling decentralisation of employees to outer Sydney metropolitan area.

(c) Q. "What has been the cost of marketing activities in each of the last three years?"

A. The direct cost of marketing for the years ended 1982/84 is estimated as follows:-

	1981/82	1982/83	1983/84
Promotion	$60,000	$60,000	140,000
Marketing Managers	2 persons	2 persons	3 persons
Admin. Assistants	1 person	1 person	2 persons
Stenographers/Typists	1 person	1 person	1 person
Total Direct Cost approx.	$160,000	$160,000	$300,000

9. Balance Sheet Item

Q. In the Balance Sheet as at 30th June, 1983, there is an item "Other Assets" valued at $5 million in both 1981-82 and 1982-83. What are these other assets?

A. The $5M "Other Asset" item, appeared in both the 1982 and 1983 Accounts. This amount represented the difference between the cost of the site and the price charged to the Ford Motor Company. This price was determined by the New South Wales Government on the basis that should the labour intensive development go ahead, the State Government would cover the difference. This matter has now been resolved as the DMGA has now repurchased the land from Ford "at cost" and the $5M has been absorbed in the value of finished land stocks.

Yours faithfully,

D.M. Easson
Director
Macarthur Growth Area