



Auditor-General for the Northern Territory  
Auditing for Parliament

Strategic Indigenous Housing and  
Infrastructure Program  
June 2010 Report  
to the Legislative Assembly



ORDERED TO BE  
PRINTED BY THE  
LEGISLATIVE ASSEMBLY  
OF THE  
NORTHERN TERRITORY

**ISSN 1323-7128**



**Auditor-General for the Northern Territory**

*Auditing for Parliament*

# **Strategic Indigenous Housing and Infrastructure Program**

**June 2010 Report  
to the Legislative Assembly**

This page deliberately left blank.

# Contents

	Page
<b>Contents</b>	<b>3</b>
<b>Transmittal letter to the Speaker</b>	<b>5</b>
<b>Overview</b>	<b>7</b>
<b>Background to this audit</b>	<b>9</b>
<b>Overview of SIHIP</b>	<b>11</b>
<b>The project scope</b>	<b>12</b>
<b>What was planned to be delivered?</b>	<b>16</b>
<b>The original timetable</b>	<b>19</b>
<b>The revised timetable</b>	<b>21</b>
<b>What factors led to the problems experienced in 2009?</b>	<b>22</b>
<b>Department of Local Government and Housing - end of year review 2009</b>	<b>30</b>
<b>The 2009 August review</b>	<b>32</b>
<b>The March 2010 post review assessment</b>	<b>35</b>
<b>Funding of SIHIP</b>	<b>36</b>
<b>How has that money been applied</b>	<b>38</b>
<b>SIHIP management control systems</b>	<b>42</b>
<b>SIHIP achievements to date</b>	<b>44</b>
<b>Conclusions</b>	<b>47</b>
<b>Response provided by DHLGRS and FaHCSIA</b>	<b>48</b>
<b>Appendix 1: Status of leases per community</b>	<b>53</b>
<b>Appendix 2: Abbreviations</b>	<b>57</b>

This page deliberately left blank.



# Northern Territory Auditor-General's Office

Auditing for Parliament

The Honourable the Speaker of the Legislative  
Assembly of the Northern Territory  
Parliament House  
Darwin NT 0800

8 June 2010

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from a recent audit of the Strategic Indigenous Housing and Infrastructure Program.

I request that you table the report today in the Legislative Assembly.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'F. McGuinness'.

F McGuinness  
Auditor-General for the Northern Territory

This page deliberately left blank.



# Overview

This audit was undertaken pursuant to sections 13 and 15 of the *Audit Act* with the objective of examining selected facets of the Strategic Indigenous Housing and Infrastructure Program (SIHIP) and the adequacy of the Department of Housing, Local Government and Regional Services' performance management systems that are intended to support the SIHIP Joint Steering Committee and Departmental managers in the delivery of SIHIP outcomes.

Bearing in mind the constraints imposed by the *Audit Act*, the audit has been confined to an examination of the activities that were within the control of the former Department of Local Government and Housing and its successor, the Department of Housing, Local Government and Regional Services.

SIHIP has been the subject of considerable public comment since its inception; was the subject of two external reviews in 2009 and, more recently, was the subject of attention by the Legislative Assembly's Council for Territory Cooperation.

SIHIP was beset by a number of problems at the early stage of its life. These included:

- unreliable initial estimates of the cost of building new houses and refurbishing existing houses. Those estimates have since been revised.
- delays in developing information systems, policies and processes that are essential if the Joint Steering Committee and others are to discharge their responsibilities;
- an absence of key staff within the then Department Local Government and Housing that, in turn, led to weaknesses in control over capital works expenditure;
- weaknesses in the SIHIP governance model; and
- delays in commencing capital works as a result of delays in completing key planning documents. At the time of the audit, packages for the construction of 127 new houses and 957 rebuilds or refurbishments were still to be allocated.

Issues raised by the external reviews of SIHIP that were conducted during 2009 led to changes to the SIHIP management team and this has led to progress being made towards rectifying the weaknesses identified during this audit.

Changes made in the wake of the 2009 reviews have also seen the substitution of public service staff for consultants, with an accompanying decline in project overhead costs, while at the same time strengthening the line of accountability to the Minister.

## Overview cont...

Public comments made during 2009 suggested that 150 new houses and 1000 refurbishments would be completed during 2010. At the point at which this audit ceased, 7 new houses had been completed while a further 81 were under construction. At the same time, 186 refurbishments or rebuilds had been completed while a further 111 had commenced. While the target for new houses is considered to be achievable, that for refurbishments may prove to be challenging.

## Background to this audit

At the end of the 2008-09 year I conducted a review of the former Department of Local Government and Housing as part of the audit of the Treasurer's Annual Financial Statements. In a subsequent report to the Department I commented that *"Corporate Governance issues over the Strategic Indigenous Housing and Infrastructure Program need to be addressed"* and that *"poor corporate governance practices could lead to inadequate monitoring and controls over SIHIP activities"*.

Since then the Strategic Indigenous Housing and Infrastructure Program (SIHIP) has attracted considerable publicity, been the subject of two external reviews and seen significant changes to both its management structure and its senior management personnel.

In some ways the problems besetting SIHIP may not have been of its making, but might be seen as an attempt to meet an externally imposed set of objectives in a timeframe that, in hindsight, was going to be difficult to achieve. SIHIP embarked upon a journey that was intended originally to deliver a significant number of new houses in indigenous communities, together with refurbishments of a large number of houses in circumstances where fundamental issues such as land tenure had not been resolved. As the Productivity Council noted in its 2004 report titled *First Home Ownership*, *"Even in a best-practice supply chain, it can take several years to bring new land on-stream, to provide the associated infrastructure and to construct new dwellings"*.

The logistical complexity required to secure land tenure, to liaise with a significant number of Indigenous communities and to engage firms with expertise for the task at hand may not have been appreciated at the time of the signing of the agreement between the Commonwealth and Territory Governments and which was intended to improve the state of Indigenous housing in the Territory.

The task of trying to implement the wishes of two Governments fell to the then Department of Local Government and Housing, which may not have been adequately resourced for the task. The functions previously carried out by that Department were assumed by the Department of Housing, Local Government and Regional Services in late 2009.

## Background to this audit cont...

From an audit perspective, the experience of SIHIP to date can be viewed as a project in two parts. The first part was characterised by the difficulties in putting into place a large project with outputs that are expected to be delivered over an extensive geographical area, coupled with the need for extensive consultation with a diverse group of stakeholders and the attendant problems associated with managing a delivery model that has been not been used previously in the Northern Territory. Compounding the difficulties in managing a project of this nature was the relatively short time in which the first new houses were expected to be delivered or existing houses refurbished. This compressed the amount of time available for the planning of the project thus heightening the risks. Public comment at the time led to reviews during 2009 of the structure and progress of the project. The second part of the project reflects the improvements made in the wake of those reviews and the improvements to systems and processes that have been implemented since mid-2009 and which have seen significant changes to SIHIP management structure.

The new managers of the program were confronted with a Sisyphean task: they were charged with achieving the objectives of two governments within a tight timeframe and at the same time they were also required to address a range of issues associated with the governance and management of the program that should have been completed prior to the program commencing. Significant progress has been made in this area and as a result of this audit I am confident that earlier shortcomings have been largely overcome and the ability of the program to deliver what was expected at the outset has been improved.

This audit was not intended to cover the same ground as the August 2009 review and December 2009 Post Review Assessment that are discussed elsewhere in this report. The focus of this audit was upon the extent to which system, financial management or governance issues identified may have affected the ability of the Joint Steering Committee to discharge its responsibilities. Like any audit, it benefits from the advantage of hindsight. The findings are not intended to be critical of individuals who have sought to achieve the objectives laid down back in 2007 when the Commonwealth and the Territory initiated the program intended to redress significant shortcomings in the state of Indigenous housing. Instead the report is intended to set out for Members of the Legislative Assembly the background to SIHIP, the factors that have affected it during the early stages of its life and work been done to ensure that the program remains on track.

# Overview of SIHIP

SIHIP falls under the aegis of the Council of Australian Governments' National Partnership Agreement on Remote Indigenous Housing. It is a jointly funded program of the Commonwealth and Northern Territory Governments, with an amount \$672 million proposed to be invested over five years in Indigenous communities across the Northern Territory. It is the largest investment undertaken by the Commonwealth and Northern Territory Governments in Indigenous housing and is to be delivered by 2013.

Under SIHIP, 73 remote indigenous communities and a number of community living areas (town camps) in the Northern Territory are to receive improved housing and related infrastructure by 2013.

SIHIP is being delivered through a Program Alliance contracting methodology. The alliances consisted initially of three construction company consortia who were engaged to deliver the program.

The three alliances were:

- Earth Connect Alliance;
- New Future Alliance; and
- Territory Alliance.

The Alliance Participation Agreement with Earth Connect Alliance was brought to an end in March 2010 following concerns identified by the Territory and Commonwealth Governments regarding the quality and capacity of Earth Connect's management. These deficiencies had manifested themselves in areas such as site preparation for new housing, the quality of construction and the quality of construction materials used.

The process by which the relationship with Alliance Participation Agreement with Earth Connect was ended by mutual agreement, and which culminated in the execution of a Transition Agreement between the affected parties, was examined during the course of the audit. In my view the approach adopted was sound and defensible.

There was, for a time, an arrangement that was described as a fourth alliance, which was also known as the Program Management Alliance and which consisted of only one member. The Program Management Alliance was ended August 2009 as concerns mounted about the high level of consulting costs being incurred by the program and the issues that accompanied the use of consultants, rather than public servants, in areas that required direct accountability to Ministers.

## The project scope

SIHIP is a part of the Remote Housing NT program designed to help reduce the gap of Indigenous disadvantage across the Northern Territory.

A Memorandum of Understanding (MOU) between the Commonwealth and the Northern Territory Governments in September 2007 can be viewed as an important document in that it signalled an intention on the part of the Commonwealth to step back from the delivery of Indigenous housing and related services. For example the MOU included the following statements:

*“On the 17 September 2007 representatives of the Commonwealth Government and the Northern Territory Government signed the “Memorandum of Understanding between the Australian Government and the Northern Territory Government Indigenous Housing, Accommodation and Related Services September 2007”. The offer of \$793 million was made on the basis that the Northern Territory Government would:*

- *take over responsibility for the delivery of services to outstations*
- *take on responsibility for the provision of services to town camps”*

and

*...“the Australian Government would have no further responsibility for the delivery of Indigenous housing, municipal, essential and infrastructure services in the Northern Territory from 1 July 2008.”*

Events that have unfolded in the period since then have resulted in the Commonwealth taking a role in the provision of Indigenous housing that is somewhat greater than it might have envisaged at the time.

The MOU referred to above committed \$793 million funding (including \$672 for SIHIP) over four years for the delivery of Indigenous housing, accommodation and related services in the Northern Territory using funds provided under the Community Housing and Infrastructure Program (CHIP), and the Australian Remote Indigenous Accommodation Program (ARIA). Of that amount, \$279 million represented existing commitments. The remaining \$514 million represented “new funds”.

The MOU that is referred to here has since been subsumed into the *National Partnership Agreement on Remote Indigenous Housing* and while reference is made to the MOU throughout this report when dealing the financing of SIHIP, it should be borne in mind that the MOU itself is no longer effective.

## The project scope cont...

It should be noted that no provision has been made for inflation in the amounts committed to SIHIP. It was anticipated at the commencement of the program that the potential for economies of scale and the ability of the alliance partners to move quickly up the “learning curve” would offset any decline in the real value of funding over the life of the program. However, the expected efficiencies should not be assumed and if they should not be achieved the ability of the program to achieve what is expected of it may be compromised.

SIHIP is an ambitious program under which, seventy three communities and a number of community living areas (town camps) will receive improved housing and infrastructure services. The focus of the program is upon:

- main urban centres (including town camps);
- larger/strategically placed growth communities; and
- the balance of the 73 emergency response communities.

The MOU set out the Commonwealth Government’s position which was “*that ARIA funding not yet committed is to be applied to the following priorities (and will seek to have these priorities reflected in funding agreements):*”

- *First Order Priority – main urban centres and larger/strategically placed growth communities – repairs and upgrades of existing stock to NT RTA standard and new housing to meet existing demand and future growth.*
- *Second Order Priority – smaller communities – repairs and upgrades to acceptable standards. New housing to be negotiated and agreed on a case-by-case basis.*
- *Third Order Priority – other communities (including outstations/ homelands). These communities will have access to Housing on Indigenous Land (HOIL) program funds. No Australian Government funding is to be provided to construct housing on outstations/homelands.”*

Prior to the signing of the Memorandum of Understanding in September 2007, the Commonwealth and Northern Territory Governments commissioned an engineering consulting firm to develop a program delivery strategy to assist in the establishment of SIHP and to enable it to deliver the significant housing construction and upgrade program that was required. That firm was also required to prepare a contracting methodology.

## The project scope cont...

A working group, consisting of the Commonwealth and Northern Territory Government representatives, a consulting firm specialising in indigenous issues and the consulting firm referred to above was established to consider the various procurement methodologies and to select a preferred approach to achieve the housing and upgrade outcomes.

A range of methodologies was considered, together with the advantages and disadvantages of each. The methodologies considered included:

- traditional/fully documented lump sum;
- design and construct / lump sum;
- management contractor;
- construction management;
- alliancing (partnering);
- design, build, operate and maintain;
- public private partnership; and
- framework contracting.

The alliance model was selected as the preferred contracting methodology following a detailed assessment process, with the advice to the Commonwealth being that the consultant *“and the members of the working group representing FaCSIA and the Northern Territory Government unanimously consider that the Alliance Panel is the contracting methodology that gives the Program the opportunity to deliver the Program Objectives for the Strategic Interventions Housing Program”*.

The alliance approach was approved by both the Commonwealth and Territory Governments in 2007, prior to the signing of the Memorandum of Understanding.



## The project scope cont...

The alliance model has not been used by the Northern Territory Government previously and that would suggest particular care was required to ensure that alliancing was the approach most likely to achieve the desired program outcomes while also ensuring that value for money was achieved. An examination of the experience in other jurisdictions where alliancing has been used suggests that the alliance model can avoid disputes, improve non-cost outcomes and lead to projects commencing earlier than do other, more traditional, methods. At the same time that experience also suggests that cost estimates at the business case stage of a project tend to be less reliable than is the case for other approaches. Finally, it is clear that effective governance is a critical factor in ensuring successful project outcomes and while alliancing is regarded as a mature approach, there appears to be no agreement on the most effective approach to the governance of projects that use the alliance approach. The subjects of cost estimates and governance are discussed later in this report.

# What was planned to be delivered?

## **New houses**

Sixteen communities were identified in which 750 new houses would be built. These communities included Angurugu, Galiwinku, Gapuwiyak, Gunbalanya, Hermannsburg, Lajamanu, Maningrida, Milingimbi, Milyakburra, Nguiu, Ngukurr, Numbulwar, Umbakumba, Wadeye, Yuendumu and Yirrkala.

In accordance with the costing assumptions that underpinned the Memorandum of Understanding, the cost to build a new house was expected to be \$300,000, plus land servicing costs which ranged between \$60,000 and \$100,000.

The \$672 million funds for SIHIP did not include external yard work costs as these had not been provided on a consistent basis in previous years and it was agreed that the costs of yard works would be met using funds available from within the broader National Partnership Agreement.

## **Refurbishments**

Fifty seven communities were identified as requiring refurbishment work to their existing stocks of housing.

In accordance with the original costing assumptions under the Memorandum of Understanding, the costs for refurbishment work ranged from \$20,000 for minor works to \$63,000 for major upgrades.

The actual number of refurbishments for each community will depend on the condition and functionality of the houses as assessed by the Department in conjunction with alliance partners' staff. It is likely that refurbishment work will concentrate on the following key areas:

- making the houses safe. For example, carrying out repairs to electrical and plumbing components of the house and restoring functionality;
- ensuring that there is a place for tenants to wash and bathe;
- ensuring there are facilities to wash clothes and bedding;
- ensure that tenants are able to remove waste from the house safely; and
- ensure there are facilities available for tenants to store, prepare and cook food.

## What was planned to be delivered? cont...

### Rebuilds

A rebuild is intended to return a house to its original level of amenity. It may also include increasing the amenity of a house for example, by adding on a bathroom, toilet or another room. SIHIP is expected to deliver 230 rebuilds to the 16 communities listed above under the heading "New Houses".

The indicative number of new houses, refurbishments and rebuilds, by community is summarised below.

Package Number	Package Name	Original Targets	
		New Builds	Refurbs/Rebuilds
1	Tiwi Islands	90	215
2	Tennant Creek	2	78
3A	Southern Regions Refurbishments	-	757
4	Groote Eylandt	80	75
5	Maningrida	109	173
6	Wadeye	105	154
7	Gunbalanya	62	97
8	Galiwinku	90	74
12	Alice Springs	85	150
<b>Sub Total</b>		<b>623</b>	<b>1,773</b>
<b>Unallocated</b>		<b>127</b>	<b>957</b>
<b>Totals</b>		<b>750</b>	<b>2,730</b>

The packages in respect of Gapuwiyak and Milingimbi, Yirrkala, Yuendumu and Hermannsburg, Ngukurr, Numbulwar, Lajamanu and Borroloola are not included in the above table as they were still to be allocated at the time of the audit.

## What was planned to be delivered? cont...

Although the above table provides an indication of the work to be undertaken, it should be noted that the actual work to be undertaken in connection with each of the packages will not be finalised until the completion of comprehensive assessments by the Department and the alliance partner working in each community. On that basis the data shown in the above table should be considered as indicative.

### **Indigenous employment**

A key element of SIHIP is indigenous employment and workforce development and a target of 20 per cent has been set for Indigenous employment across the program. Evidence was provided during the course of the audit that suggested that efforts are being made to achieve this target. Each Alliance is able to apply for Commonwealth funding to support the recruitment and employment of Indigenous workers and Territory funding is available to support training activities.

At the time of the audit approximately 200 Indigenous individuals were employed on SIHIP sites. This represented approximately 40 per cent of total on-site employment. The total number of Indigenous individuals who had been employed as part of SIHIP since the commencement of the program was approximately 420.

In addition, approximately 320 Indigenous individuals were enrolled in training courses at the time of the audit.

### **Land servicing**

The funding committed under the original Memorandum of Understanding included provision for land servicing for which indicative cost assumptions were \$60,000 to \$100,000 per house. However, in the light of revisions to estimated construction and refurbishment costs made since the commencement of the program, these costs are no longer to be funded from monies committed for SIHIP. The costs will now need to be met from the broader National Partnerships Agreement for Remote Indigenous Housing and NT Government sources.

## The original timetable

The size of the program and the relatively short period in which it was required to be delivered required a clear understanding by all concerned about the approach by which the program was to be managed. Accordingly, both Governments engaged a firm of engineering consultants to develop a Program Delivery Strategy.

Flowing from that original work, further work carried out by SIHIP staff resulted in a Master Program based upon the following timelines being developed and this is summarised below:

Package	Start date*	End date	Duration (months)
1 – Tiwi Island	Apr-08	Jul-11	39
2 – Tennant Creek	Jan-08	Jul-11	42
3 – Yuendumu and Hermannsburg	Sep-08	Jul-13	46
4 – Groote Eylandt	May-08	Jun-11	37
5 – Maningrida	Jun-08	Oct-12	52
6 – Wadeye	Jun-08	Oct-13	64
7 – Gunbalanya	Aug-09	Nov-13	51
8 – Galiwinku and Gapuwiyak	Jun-08	Apr-13	58
9 – Milimgimbi and Yirrkala	Oct-09	Mar-13	43
10 – Ngukurr	Aug-09	Jun-13	46
10a – Numbulwar	Oct-09	May-13	41
11 – Lajamanu	Mar-10	Jul-13	40
12 – Alice Springs and Borroloola	Oct-09	Apr-13	42

\*The start date shown here is the point of commencement of land tenure negotiations.

The SIHIP Joint Steering Committee minutes make it clear that the Master Program is intended to be a “live” document and thus subject to revision in the light of changing circumstances.

## The original timetable cont...

Prior to capital works commencing in the communities, the Commonwealth Government required secure land tenure to be in place to support the investment in new houses in the communities. The two types of leases considered satisfactory for the purpose are the whole-of-township leases, and the housing precinct leases. For the communities identified for minor capital works under SIHIP, the Commonwealth Government holds compulsory five-year leases in most of the communities which are considered sufficient security for the minor works to commence.

Current lease details by community are shown at Appendix A to this report.

## The revised timetable

The implementation plans for SIHIP now include milestones and deadlines that are shorter than those determined initially in that they now extend to late 2011. A summary of the start and end dates as reported in the October 2009 Master Program for SIHIP is shown in the table, below. The table also includes the original timeframe together with the gain or slippage in respect of each package.

Package	Revised Timeframe October 2009			Original Timeframe 1 January 2009			Difference (months)	
	Start date	End date	Duration (mths)	Start date	End date	Duration (mths)	Start date	End date
1 – Tiwi Island (Stage 1)	Jun-09	Dec 10	18	Apr-08	Jul-11	39	(14)	+7
2 – Tennant Creek	Apr 09	TBD	-	Jan-08	Jul-11	42	(15)	-
3A – Southern Region Refurbishments	Oct 09	Nov 11	25	Sep-08	Jul-13	46	(13)	+20
4 – Groote Eylandt	Apr 09	Aug 10	16	May-08	Jun-11	36	(11)	+10
5 – Maningrida	Nov 09	Nov 10	12	Jun-08	Oct-12	52	(17)	+23
6 – Wadeye (includes Nganmrriyanga and Peppemenarti)*	Nov 09	Dec 11	25	Jun-08	Oct-13	64	(17)	+22
7 – Gunbalanya (includes Acacia Larrakia and Belyuen)*	Sep 09	Mar 11	18	Aug-09	Nov-13	38	(1)	+33
8 – Galiwinku (includes Minjilang)	Nov 09	Dec-11	25	-	-	-	-	-

\* The packages in respect of these communities were under development at the time of the audit.

# What factors led to the problems experienced in 2009?

One of the objectives of this audit was the examination of issues that affected the program in the period after the signing of the Memorandum of Understanding in 2007 and its later announcement in April 2008. Several issues were identified, each of which resulted in problems that the program managers have been forced to deal with to enable the program to move forward.

## Incorrect costing assumptions

The Memorandum of Understanding allocated \$414.2 million towards new construction, repairs and upgrades. The cost assumptions that underpinned the Memorandum of Understanding were:

	Estimated Cost Per house
Minor repairs	\$20,000
Major upgrades	\$63,000
Replacements	\$300,000
Land Servicing	\$60,000 to \$100,000
New house	\$300,000 plus land servicing

It is important to bear in mind that figures used in this report in connection with the costs of construction and refurbishment of houses are average costs and that the actual costs associated with any individual house may be greater or less than the average.

Documents provided to me during the course of the audit suggest that the initial costing assumptions for the construction a new house were based upon costs that prevailed in the southern region in 2005. Thus those assumptions appear not to have taken into consideration price changes during the intervening period, the high costs associated with the transport of materials from the mainland to island locations, additional costs associated with the need for disability access for houses on Groote Eylandt or the increase in the sizes of the houses required in communities compared to those anticipated by the Commonwealth and Northern Territory Governments.

It became apparent to the program’s stakeholders in mid-2009 that the costing assumptions did not reflect the current costs of new constructions, repairs and upgrades.



## What factors led to the problems experienced in 2009? cont...

The assumptions were re-examined by officers of both the Commonwealth and the Northern Territory Governments, and by representatives from the alliance partners. The assessment of costs incurred as part of the first three packages also confirmed that the costs of construction of a new house, and the carrying out of repairs and upgrades were considerably higher than anticipated originally. As a result the costing assumptions for capital works were revised as follows:

	Average Unit Cost
New houses	\$450,000
Rebuilds	\$200,000
Refurbishments	\$75,000

The revised estimate of \$450,000 for a new house excludes:

- site preparation and the provision of power, water and sewerage to previously un-serviced blocks;
- the demolition of existing structures;
- yard works, for example fences, pathways, carports and; landscaping; and
- disabled access.

The costs of these components of the overall construction costs of new houses will be financed from funds allocated to the Northern Territory under the National Partnership Agreement on Remote Indigenous Housing, and other Northern Territory funding sources.

Both the Commonwealth and the Northern Territory Governments have reaffirmed that the original targets established at the beginning of the program will continue to be met with the same level of funding of \$672 million; that is 750 new houses will be constructed, and 230 rebuilds and 2,500 refurbishments will be completed notwithstanding the increase in the estimated cost per house. However this will mean that essential infrastructure services can no longer be funded from the \$672 million that was dedicated to SIHIP. As already indicated, any increases in cost will need to be met from other sources.

## What factors led to the problems experienced in 2009? cont...

### **Lack of management information systems**

The systems and processes, and associated guidelines and process manuals that can be viewed as essential if the program was to have been managed properly were not in place during the early life of the program and were being developed at the time of the audit. From discussions with management and review of various reports provided by management it was found that management tasks in relation to the day-to-day operations were being performed in an *ad hoc* manner until such time as formal system development was completed. For a program of this size, complexity and importance, systems and processes were required at the outset of the program or shortly afterwards to ensure that the objectives and strategies of the Joint Steering Committee and other stakeholders are achieved satisfactorily.

A reporting framework developed by officers of both Governments during December 2008 and January 2009 had not been properly implemented at the time of the audit and it was noted that there was a delay of almost 15 months after the initiation of the project until attention was given to the management reporting framework, the corporate governance structure and development of a master program. The completion of these tasks has fallen to the new managers, with the risk that attention will be diverted from important contemporary issues to dealing with issues inherited from an earlier period. Progress in developing and improving the necessary systems was noted during the life of this audit. That work will need to continue as inadequate or incomplete systems will make ongoing management of the program more difficult.

# What factors led to the problems experienced in 2009? cont...

## Weaknesses in SIHIP governance

In January 2009 the governance structure and arrangements for SIHIP were reviewed by the Commonwealth and Northern Territory Governments. As outlined in the *August 2009 report Strategic Indigenous Housing and Infrastructure Program - Review of Program Performance* (the August 2009 review):

- low level management issues were being brought before the Joint Steering Committee for decisions to be made. As the Joint Steering Committee met only once a month, this led to delays in decisions being made on operational matters which, in turn, led to delays being experienced in the day-to-day operations. This was also accompanied by a reduction of the Joint Steering Committee's ability to address higher order strategic matters; and
- the Commonwealth Government representatives had "*limited visibility of key issues and risks*" in the program.

Presumably that extended also to the Northern Territory Government representatives to the point that the Committee as a whole was unable to monitor the program adequately.

The Terms of Reference of the Joint Steering Committee stated that the purpose of the Committee was to:

- provide leadership and set long-term strategic direction for the program to ensure achievement of the program outcomes;
- provide high level advice and direction to the Joint Management Team; and
- approve key decisions and funding agreements, authorise financial expenditure, and where appropriate, make recommendations to respective governments.

## What factors led to the problems experienced in 2009? cont...

The Committee was to be comprised of three representatives from the Commonwealth Government and four from the Northern Territory Government. It was further noted that the Chair of the meeting was to be rotated between both governments on a six monthly basis. The meetings were to occur on a set day of each month. From review of the minutes kept for the committee meetings held, the following matters were noted:

- the meetings were not held consistently each month with meetings being as much as six weeks apart. Meetings not being held as scheduled may have affected the operation of the program and resulted in delays in making key decisions, thus causing delays in the program;
- the number of attendees from both the Commonwealth and the Northern Territory Governments who frequently attended the Joint Steering Committee meetings exceeded, by a significant number, the seven member requirement set out in the Terms of Reference. From review of the records of meetings it was found that there were, on average 14 attendees, with numbers ranging from 10 attendees to 22 attendees. The high number of attendees present at Joint Steering Committee meetings carried with it the risk of significant delays in dealing with important matters in a timely manner; and
- the Joint Steering Committee terms of reference stated that the role of Chair was to be rotated between the two governments on a six monthly basis with the Commonwealth Government chairing the meetings for the period of September to February and the Northern Territory Government from March to August. In April 2008 the Joint Steering Committee resolved that the Commonwealth Government and Northern Territory Government would chair alternate meetings. The constant shifting of responsibility was unlikely to provide a stable environment in which executive decisions were required to be made.

The governance structure that emerged from a review undertaken in early January 2009 resulted in a six-layer structure and key positions within that structure were filled by external consultants rather than internally by Northern Territory Government staff who had direct accountability to the Minister. At the same time, the Commonwealth Government had no involvement in the day-to-day operations of the program, limiting its role to one of general oversight.

## What factors led to the problems experienced in 2009? cont...

Flowing from the issues identified above, the Joint Steering Committee, as constituted originally, did not function as intended by its Terms of Reference. The Memorandum of Understanding required the establishment of the Joint Steering Committee, whose responsibilities included the program delivery strategy, and approving and monitoring key deliverables, including the number of new houses, repairs and upgrades to be constructed and the management of program costs. Based on the review of the monthly minutes of the Joint Steering Committee, the level of management control over SIHIP that was required was not being exerted by the Committee. Instead the Committee's minutes suggest that it often found itself enmeshed in discussion about wider social issues and Indigenous programs other than SIHIP. There was also no 'standard meeting agenda item list' to ensure important issues were covered at each meeting. Instead the agenda appeared to be ad hoc.

The audit led to conclusion that there was:

- a lack of direction during the early life of the program as the Memorandum of Understanding and the National Partnership Agreement did not provide sufficient guidance around the objectives for SIHIP that might have permitted an effective and efficient implementation strategy; and
- an absence of a key project management processes as strategies were not developed in a timely manner at the beginning of the program leading to further inefficiencies in the way the program was delivered in its early stages.

As a result of the August 2009 review the governance structure was revised and is now a simpler structure of three layers as follows:

- a Joint Steering Committee for the National Partnership Agreement on Remote Indigenous Housing;
- a Commonwealth Government / Northern Territory Government Program Management Team; and
- the Alliance Leadership Teams, being, Territory Alliance and New Future Alliance (Earth Connect ceased to be involved during the course of the audit).

## What factors led to the problems experienced in 2009? cont...

In addition to the above positions in the revised governance structure there is a Senior Alliance Leadership Team (SALT) and external consultants (Probity Advisor, Financial Auditor, and Independent Estimator). These positions are directly responsible to the Commonwealth and Northern Territory Government Program Management team that is referred to above.

The governance structure now in place recognises both the Commonwealth and the Northern Territory Governments as being jointly responsible, accountable and in direct control of program management and direction.

Key positions formerly held by external consultants are now filled by Northern Territory Government officers with consultants' staff having been removed from all the affected positions.

### **Delays in commencing capital works in communities**

The Agreement For Preparatory Work In Implementing The Reforms Of Indigenous And Government Service Delivery In Selected Remote Communities (interim agreement), which preceded the MOU and the National Partnership Agreement required several key documents to be developed by October 2007. The main requirements within the interim agreement were for the following documents to be produced by October 2007:

- Strategic Intervention Program Delivery Strategy;
- Public Housing Implementation Plan for agreed communities; and
- Master Plan to be developed in conjunction with the Commonwealth.

The Strategic Interventions Program Delivery Strategy was developed and completed by October 2007, within the timeline specified in the CHIP Agreement. The Public Housing Implementation Plan was still incomplete in 2010. The Master Plan was developed as part of a Program and Reporting Framework in January 2009, some 16 months after the original deadline. As these were planning documents that might be viewed as being central to the commencement of physical works, any delays in planning were reflected in delays in commencing site preparation and building.

## What factors led to the problems experienced in 2009? cont...

In response to queries raised during the course of the audit about the extent of delays in commencing works in communities, the Department of Housing, Local Government and Regional Services advised that there have no significant delays in the delivery of SIHIP as *“SIHIP is a new way of delivering housing in remote communities and we need to get the model right. Time and funding has been invested in ensuring that the fundamental components of the model are robust and will deliver the desired outcomes. It was always anticipated that the establishment of the Program and scoping of the initial packages of SIHIP would take approximately 18 months.”*

The program has been the subject of some criticism because of its seemingly slow progress. SIHIP is a five year program and this audit has been undertaken approximately less than half-way through the program's life. Some capital works were initially set to be completed by November 2008. However, what are referred to as Package Development Reports for the relevant packages were not approved by the Joint Steering Committee until October 2008. Initial consultation with community members was performed in respect of those packages in November 2008 and capital works scheduled to be undertaken within the communities in these packages had not been completed as at October 2009, almost one year past the initial scheduled completion date.

At the end of April 2010, the point at which audit field work ceased, seven houses had been completed, construction had commenced on a further 81 houses and 186 refurbishments/rebuilds had been completed with a further 111 underway.

# Department of Local Government and Housing - end of year review 2009

My end-of-year review of the former Department of Local Government and Housing that was conducted as part of the audit of the Treasurer's Annual Financial Statements for the 2008-09 year highlighted several issues in relation to the control systems and processes in place for SIHIP.

The first concerned a cost controller position to review and validate progress payment claims made by the Alliance Partners for SIHIP. There was a lack of evidence to support the assertion that progress payment claims were being reviewed and approved prior to payment being made.

The second was in relation to a lack of appropriate performance/monitoring reports being available to reflect the progress of SIHIP. During the review I requested a matrix or some other comparable reports to show the budget versus actual status of houses built, or refurbished/rebuilt compared to the budget, but none could be provided. Inadequate reporting upon the physical progress of the program carries with it the risk of the program not achieving its stated outcomes of 750 new houses, 230 rebuild and 2,500 refurbishments.

For a project of this size and complexity I believe that sound systems and processes should have been established and documented at the outset of the program to provide the tools for management and the Joint Steering Committee to monitor, manage and report against key success criteria. Without those systems there was, and remains, a risk that management information about the progress of the program may not be reliable and that decisions may be made upon incorrect or incomplete information.

During the audit that is the subject of this report it was found that there were, and continue to be, insufficient systems, processes, associated guidelines and procedure manuals to assist management and the Joint Steering Committee to perform their responsibilities in relation to the capturing, storing, monitoring, management and reporting of the progress of SIHIP. This has the potential to affect the overall management of the program and can be seen as a contributory factor in the issues that have been encountered since the commencement of the program.



## Department of Local Government and Housing - end of year review 2009 cont...

The end-of-year review of the Department also identified several breaches of process and a lack of supporting documentation in respect of costs being claimed. The issues that were raised with the Department included:

- Progress payment claims did not have a statutory declaration for each progress claim made by the Alliance Partners in respect to SIHIP as required by the Alliance Participation Agreement and the *Construction Contract (Security of Payments) Act*. In addition payments were made to the Alliance Partners without receiving the appropriate/sufficient documentation, resulting in non-compliance with the Alliance Participation Agreement and the *Construction Contract (Security of Payments) Act*.
- Discrepancies were noted in the Financial Auditor's review process of progress payment claims made by the Alliance Partners as there was no formal review for the progress claim calculation.
- A cost controller position had not been formally established to review and validate progress payment claims made by Alliance Partners in respect of SIHIP during the audit.
- Appropriate performance and monitoring reports were unavailable in order to gauge the progress of SIHIP.
- Corporate governance issues in relation to SIHIP needed to be addressed.
- The Alliance Management Plan did not appear to exist, resulting in non-compliance with the SIHIP Agreement. The Alliance Management Plan and audit reports to auditors required under the Plan were requested. Those documents were not provided, leading me to the conclusion that the documents in question may not have existed.

The results of that review led me to recommend to the Department that the issues identified should be addressed as soon as practicable.

## The 2009 August review

The August 2009 review was commissioned by the Commonwealth Minister for Families, Housing, Community Services and Indigenous Affairs, and the Chief Minister of the Northern Territory to examine ways to improve SIHIP and was conducted by senior officers of the Commonwealth and the Northern Territory Governments.

Issues raised by the Review included:

- the slow delivery of housing by the program;
- the governance of the program being overly bureaucratic; and
- the program costs being too high, including the costs of houses and administration costs.

The Review determined that the overall program design was sound, but it did identify key areas for improvement as follows:

- **SIHIP Timetable**

The review identified a three month delay in construction in connection with the delivery of the first three SIHIP packages, with the delay due to the underestimation of time required to complete the initial Package Development Reports. Preparation of Package Development Reports is the trigger for construction activity to commence.

- **Program parameters and governance**

There was a lack of effective oversight of the program at the delivery level and that a review of the program governance and management arrangements was required.

There was an imbalance between project objectives. For example the objectives relating to design and community engagement were elevated to the detriment of achieving unit cost targets.

The program structure did not provide for the intervention by Commonwealth Government officials in delivery by the Northern Territory Government. Involvement by the Commonwealth Government was at high level forums rather than the operational level. The review recommended a greater involvement by the Commonwealth Government.

There were unresolved leadership and capacity issues within the program resulting in activities that should have been the responsibility of the Northern Territory Government being performed to external consultants.

## The 2009 August review cont...

- **Administrative costs**

Administrative costs represented 11.4 per cent of the program budget as assessed by the programs cost auditor. SIHIP management advised that it is now confident that the administrative costs can be reduced to 8 per cent of the program budget by substituting some consultants' and contractors' staff with Departmental staff. The most recent information made available to me indicated that administrative expenses (comprising salaries, consultants' expenses and operational expenses) had declined below the 8 per cent target giving some credence to management's assertions in this regard.

- **Total costs**

Management costs were found to be unavoidably higher during the critical establishment phase of the program. SIHIP representatives have advised that while the program and management costs were considered high during the early stage of program, it is expected that they will decline in relative terms as the level of capital works increases to the budgeted level.

- **Infrastructure**

Essential services infrastructure costs will be financed initially from funds provided under the National Partnership Agreement and the Northern Territory Government programs and will no longer be met within the \$672 million SIHIP funding.

### **External yard works**

- Costs associated with the additional works such as fencing, driveways, carports and landscaping of yards will be financed by funds committed under the National Partnership Agreement and not from the \$672 million SIHIP funds.
- The review also provided the following recommendations for further improvements in the delivery of SIHIP housing outcomes:
- The Commonwealth Government take a stronger leadership role in the delivery of the program and that an assessment of the revised arrangements be made by the end of 2009.
- The Commonwealth Government take on a leadership role in community engagement in conjunction with the Northern Territory Government to ensure that program parameters consistent with the delivery of public housing are in place to meet the targets.

## The 2009 August review cont...

- Work be undertaken to complete an analysis of the lessons learnt from the first round of Progress Development Report's and that these be implemented for future Progress Development Report development.
- To increase visibility and public accountability targets and timelines be made publicly available.
- Governments direct appropriate resources to transitioning Indigenous employees under SIHIP into ongoing employment.
- Governments direct appropriate resources to ensuring robust and effective property and tenancy management to underpin the investment and achieve sustainable housing outcomes for Indigenous people.

# The March 2010 post review assessment

In the wake of the August 2009 Review, a second review titled *Strategic Indigenous Housing Infrastructure Program (SIHIP) Post Review Assessment (PRA)* was commissioned to assess the extent to which recommendations of the August 2009 had been implemented. The PRA was carried out by Dr Owen Donald and Ms Julia Canty Waldron. Broadly the PRA found that the:

- Commonwealth Government had increased its leadership role;
- package Development Report process had been simplified;
- SIHIP governance structure had been simplified;
- program costs had declined;
- visible and accountable SIHIP targets had been developed;
- Governments' roles in community engagement and communication had been improved;
- Indigenous employment and workforce development was progressing; and
- property and tenancy management framework development was in progress.

Observations made during the course of the audit are consistent with the findings of the PRA.

## Funding of SIHIP

The Memorandum of Understanding encompassed funding and delivery of Indigenous housing, accommodation and related services using funds provided under the Community Housing and Infrastructure Program (CHIP) and the Australian Remote Indigenous Accommodation (ARIA) Program. The CHIP and ARIA program funding was \$793 million covering 2007-08, 2008-09, 2009-10 and 2010-011. The \$793 million included \$279.2 million in existing commitments and \$513.8 million in new funding. As indicated previously, these arrangements have since been absorbed by *the National Partnership Agreement on Remote Indigenous Housing*.

As mentioned previously, a total of \$572 million has been committed to SIHIP by the Commonwealth. That amount comprises:

	\$ million
Existing commitments:	
Strategic Intervention Agreement	93.5
Tennant Creek Town Camp Initiative	20.0
New funding:	
New construction, repair and upgrade	414.2
<b>Funding as Per the Memorandum of Understanding</b>	<b>527.7</b>
Add: additional funding provided subsequent to MOU	
Southern Shires	20.0
Tennant Creek funding: 28 October 2008	6.5
Nguiu funding 16 December 2008	8.5
Groote Eylandt funding 16 December 2008	10.0
	<b>572.7</b>

In addition to the funding provided by the Commonwealth Government, \$100 million is to be provided by the Northern Territory Government bringing the total funding for SIHIP to \$672 million.

## Funding of SIHIP cont...

As at the end of April 2010, the following revenue had been received by the Department in respect of SIHIP:

	C'wealth \$'000s	NT \$'000s	\$'000s
2006-07	2,800	-	2,800
2007-08	20,750	20,000	40,750
2008-09	43,596	20,000	63,596
2009-10	52,421	16,667	69,088
	<b>119,567</b>	<b>56,667</b>	<b>176,234</b>

## How has that money been applied?

### Expenditure incurred to April 2010

Total expenditure incurred on the program as at April 2010 was \$203.7 million, which was incurred on:

	2007-08	2008-09	2009-10	Total	% of total rev/exp
Personnel wages/salaries	863	1,884	1,999	4,746	2.3%
Consultants' fees	3,216	10,934	5,457	19,607	9.6%
Operational expenditure (excluding consultants)	402	902	587	1,891	0.9%
Territory Housing expenditure	5,000	-	-	5,000	2.5%
Capital works	-	22,266	150,186	172,452	84.7%
<b>Total expenditure</b>	<b>9,481</b>	<b>35,986</b>	<b>158,229</b>	<b>203,696</b>	<b>100%</b>

As shown above, capital works constituted 84.7% of the total expenditure as at 30 April 2010, with the following amounts having been incurred in respect of the Alliances and other entities:

- \$65.7 million or 32% to New Future Alliance;
- \$71.7 million or 35% to Territory Alliance;
- \$31.7 million or 16% to Earth Connect Alliance; and
- \$3.35 million paid to other entities.

It is important to put forward a *caveat* at this point. The amounts paid to the alliance partners are not confined to the direct costs of constructing or renovating houses, but also include the costs incurred in establishing workforces in remote locations, the costs of travel and accommodating those workforces, the costs of freight incurred in transporting materials to sites, and all the attendant costs that are incurred in operating any business. Thus references to an average cost of \$450,000 to build a new house or \$70,000 to refurbish an existing house must be interpreted in the context of the total costs incurred in undertaking the task, including indirect costs that are unavoidable.



## How has that money been applied? cont...

SIHIP commenced in the 2007-08 financial year with the end date being 2012-13. As at April 2010 the program was some two years into its planned life with an equal period remaining. In that light, \$203.7 million or 30 per cent of the \$672 million program budget had been spent.

Of the \$618.2 million budget allocated to the communities, \$172.5 million or 28 per cent of the allocated funds had been spent.

The \$5 million that is shown as Territory Housing expenditure reflects costs incurred as at April 2010 in connection with the supply of generators to the SIHIP communities by Indigenous Essential Services Pty Ltd.

Of the total expenditure incurred to date, \$19.6 million, or 9.6 per cent, represented costs associated with consultants' fees. Of that amount, \$13.6 million was paid to the Program Manager, with \$13.36 million spent on the Program Management Consultant position.

The total fees incurred in connection with the independent cost and design coordinator was \$2.7 million and a further \$1.25 million was incurred for specific consultation on designs for the communities in which capital works have commenced. The remaining costs relate to audit fees of \$1.4 million and legal fees of \$529,000.

# How has that money been applied? cont...

## **Review of capital works expenditure**

Capital works constituted 84.7 per cent of the total expenditure committed as at April 2010 with \$172.5 million having been outlaid at that date. Of that amount, \$169.1 million (98 per cent of the total) comprised amounts paid to the three alliance partners.

The Department of Housing, Local Government and Regional Services has engaged a prominent accounting firm to fill the role of Alliance Financial Auditor for SIHIP. A review of the Auditor's reports highlighted the issues in respect of progress payment claims submitted by and paid to, all three Alliance Partners. These included:

- an absence of formal policies or guidelines for the allocation of Alliance Management Activity costs to individual packages. The Financial Auditor was informed that cost overruns were being incurred on the Alliance Management Activity budget;
- failures to ensure that documentation in support of invoices and payroll rates were provided in a timely manner prior to the auditor's opinion being released;
- incorrect calculation of payroll due to incorrect inclusion of on-costs;
- incorrect calculation of expenditure and the absence of adequate supporting documentation;
- lack of proper approval for expenditure incurred;
- work on the Tennant Creek package being undertaken prior to the finalisation of the Package Alliance Agreement, with the accompanying risk that progress claims made by Alliances did not comply with the terms of the Package Alliance Agreement for this package; and
- lack of supporting documents to enable an audit to be completed, while some invoices submitted as part of a claim differed from invoices held on the Alliance Partner's files.

The issues identified had resulted in some overpayments being claimed by the Alliances. All overpayments have recovered by the Department.

## How has that money been applied? cont...

A review of the Alliance financial Auditor's reports in respect of each of the three Alliance Partners identified a number of issues with respect to the absence of policies and guidelines, and the lack of adherence to those policies that were in place. These issues are outlined below:

- Several instances were identified in relation to support for expenditure not being provided, correct approval not being obtained and incorrect calculations that resulted in overpayments to all the alliances.
- There were "no formal policies or guidelines for the allocation of Alliance Management Activity costs to individual packages". The Alliance Financial Auditor advised that "cost overruns are being incurred on the Alliance Management Activity budget" for Earth Connect Alliance and the New Future Alliance.
- There were no formal processes or guidelines in place for the payment of fees to non-owner participants (payments to non-members of the alliances) for Earth Connect Alliance. As a result the audit identified that a proportion of the fee paid varied across non-owner participants.
- The Earth Connect Alliance and Territory Alliance were "yet to develop a Discretionary Spending Policy for the treatment of Disbursements".

### **Goods and Services Tax**

Since the commencement of SIHIP in 2007-08, the Department of Local Government and Housing (and its successor, the Department of Housing, Local Government and Regional Services) has claimed GST input credits in respect of expenditure incurred as part of the program. Some uncertainty exists as to whether all amounts claimed are consistent with the provisions of the *A New Tax System (Goods and Services Tax) Act 1999*.

At the time of the audit the Department was well advanced in the drafting of a request for a private ruling from the Australian Taxation Office. The classification and treatment of the costs in relation to GST input tax credits is crucial to the costing of the project and compliance by the Northern Territory Government with its obligations.

# SIHIP management control systems

At the commencement of this audit, one of the first areas to be considered was “What systems and processes are in place to monitor and manage the Program”? SIHIP management responded to that question with the comment that systems and processes, and associated guidelines and manuals had not yet been established, but were currently being developed and during the life of the audit progress that led to the completion of housing parameters and design guidelines, and infrastructure design guidelines was noted. Management advised that it is their intention to finalise remaining policies and guidelines as soon as possible.

## **Development of a master program**

The Master Program is a schedule that is intended to show the status of all program activities including critical tasks for the entire program as well as for the different program streams. As discussed in a previous section within this report the Master Program shows all the key activities from start to finish for each package of works. The Master Program was not presented to the management committee until January 2009, approximately 15 months after the Memorandum of Understanding was signed and was not endorsed by the Joint Steering Committee until a further five months had elapsed.

A copy of the current Master Program together with the Master Program that was endorsed by the Joint Management Team in June 2009 and presented to the Joint Steering Committee in the same month was requested during the course of the audit, but could not be provided prior to the cessation of audit field work. Without a properly maintained and regularly reviewed Master Program that is approved by the Joint Steering Committee, management may have difficulty in managing the roll-out of the program to the communities.

Changes to the timing of activities for packages set out in the Master Program appear to be made as and when required. Discussions with SIHIP management during the course of the audit indicated that any changes made to the timing of activities for packages in the Master Program had not been communicated and advised to the Joint Steering Committee. At the same time, evidence of approval by the Joint Steering Committee in support of any changes to the Master Program being was not sighted during the audit.

# SIHIP Management Control Systems cont...

Finally, the Master Program was not being compared to the actual progress of SIHIP, with an accompanying lack of analysis of reasons for deviations from the timelines set. Without this key control mechanism in place there is an increased likelihood of key activities not being commenced and/or completed within the scheduled timeframe, increasing the risk that the program will not meet its objectives and/or target completion dates.

## **Improvements in the quality of management reporting**

Considerable recent work has been undertaken by SIHIP staff to develop a Reporting and a Risk Management Framework. These frameworks are intended to be used by the Program Management Office to monitor progress and report on the Remote NT Housing program.

The proposed reporting frameworks address strategic objectives and funding requirements, and detailed accounts and measures for use by the Joint Management Team. It is considered that this development will go some considerable way to allaying audit concerns about the quality of reporting to management. Ideally, this work should have been completed prior to, or very shortly after, the commencement of the program.

During the review, a suite of reports which were being developed by SIHIP staff was examined. These reports are intended to be prepared and distributed on a regular basis to assist the Program Management team in performing their responsibilities. The reports being developed included:

- Package Budget Allocation December 2009;
- Expenditure Report December 2009;
- Cash flow Report December 2009;
- Financial Report December 2009 – including program management percentage comparisons;
- Earned Value Report December 2009; and
- Alliance Expenditure by AMA, PDR, capital works.

The availability of these reports should improve the quality of information provided to SIHIP management and hence the quality of management decision making.

# SIHIP achievements to date

## Leasing arrangements

Prior to any capital works commencing in the communities, appropriate land tenure arrangements were required to be put into place. Memorandum of Understanding envisaged that *“For the larger/strategically placed growth communities, the Australian Government will work to facilitate the establishment of Section 19A leases under the Commonwealth Aboriginal Land Rights Act (ALRA) and put in place 99 year leases.”*

At the time of the audit, secure land tenure was in place or was close to being finalised, in the following communities: Nguiu (Tiwi Islands), Groote Eylandt and Bickerton Island communities, Tennant Creek camps, Alice Springs Town camps, Gunbalanya, Maningrida, Wadeye, Galiwinku, Gapuwiyak, Hermannsburg, Ngukurr, Lajamanu and Milingimbi.

‘In Principle’ agreements had been reached for the following four communities:

- Numbulwar (40 year housing precinct lease);
- Milikapiti (99 year whole-of-township leases);
- Pirlangimpi (99 year whole-of-township leases) and
- Ranku (99 year whole-of-township leases).

Leasing negotiations were continuing in relation to the following seven communities: Yirrkala, Yuendumu, Mutitjulu, Kybrook Farm, Borroloola Town Camps, Finke, and Daly River.

For communities where Whole-of-Township leasing agreements or housing precinct leasing agreements are not in place, the Commonwealth Government holds statutory five year leases over 64 communities in the Northern Territory under section 31 of the *NT Emergency Response Act*. These leases are considered sufficient security for the Government to provide refurbishment work through SIHIP. The Commonwealth and Northern Territory Governments have indicated their intention to move from compulsorily acquired leases to longer term voluntary leases.

At the time of the audit negotiations between the Commonwealth and Northern Territory Governments were continuing in respect of the lease conditions that would apply to Northern Territory Government properties at a number of locations.

## SIHIP achievements to date cont...

### Progress of construction of new residential, rebuilds and refurbishments to date

It has been stated publicly in a number of forums that 150 new houses and 1000 refurbishments are to be completed by the end of 2010.

With respect to new houses, work was underway at twenty one communities across the Northern Territory and four new houses at Wadeye and three new houses at Nguiu were occupied by tenants at the end of April 2010, while a further eighty one new houses were underway at eight locations.

Two hundred and ninety seven refurbishments had either been completed or were underway, comprising 186 complete refurbishments and rebuilds, with 111 in progress at the end of April 2010.

A summary, package, by package, of the SIHIP capital works program completed to date compared to the original targets is as follows:

#	Package Name	Projected Targets		Work Completed / Commenced to end of April 2010			
		New Builds	Refurb/ Rebuilds	New Builds completed	New Builds Commenced	Refurb/Rebuild Completed	Refurb/builds Commenced
1	Tiwi Islands	90	215	3	14	44	36
2	Tennant Creek	2	78	-	-	20	3
3A	Southern Regions						
	Refurbishments	-	757	N/A	N/A	65	27
4	Groote Eylandt	80	75	-	17	31	8
5	Maningrida	109	173	-	9	2	13
6	Wadeye	105	154	4	13	6	-
7	Gunbalanya	62	97	-	11	18	13
8	Galiwinku	90	74	-	11	-	7
12	Alice Springs	85	150	-	6	-	4
	<b>Total</b>	<b>623</b>	<b>1,773</b>	<b>7</b>	<b>81</b>	<b>186</b>	<b>111</b>
	<b>Unallocated</b>	<b>127</b>	<b>957</b>				
	<b>Overall totals</b>	<b>750</b>	<b>2,730</b>		<b>88</b>	<b>297</b>	

## SIHIP achievements to date cont...

It is important to note that projected targets were still to be approved by the Joint Steering Committee at the time of the audit. As a consequence those may be subject to change as the Project Scoping Reports and Project Development Reports are approved.



# Conclusions

As I have suggested elsewhere in this report, SIHIP is an ambitious program and it should deliver most, if not all, that is expected by its stakeholders.

It seems clear, with hindsight, that the original timetable for the program posed a significant challenge and it is possible that the issues involved in establishing a development and construction program of the size that was necessary to achieve the SIHIP objectives may not have been appreciated fully at the time the program was instigated. I believe that there is now a clearer understanding by all involved of what is required.

The initial timetable that was set for the project resulted in key management control and governance issues being neglected in the early stages of the program as emphasis was placed on putting the operational elements into place. The absence of a proper management control system left the Joint Steering Committee, and others, in a position where they were unable to exert full control over the program, and lacking the information that would have permitted timely, corrective action to be taken. While management control systems are still incomplete, work is well advanced towards rectifying this matter. It is unfortunate that the burden of developing systems to permit proper management of the program must be borne by a management team that, at the same time, is required to move the project forward in an expeditious manner to meet established timetables.

Finally, financing constraints may present an impediment to achieving the SIHIP objectives. The significant increases in the estimated costs of constructing new houses and the estimated costs of refurbishments, when compared with the original estimates that formed a basis for determining amounts committed by the Commonwealth and Northern Territory Governments, pose a risk. Without an increase in financial commitments by both Governments, funds provided under the National Partnerships Agreement will need to be diverted from other purposes to meet the costs of essential infrastructure. Equally, the lack of indexation of funds committed for SIHIP may mean that the ability of the program to deliver all that is expected of it may be compromised. This again highlights the need for good information systems to enable the Joint Steering Committee to have available to it the information that it needs to manage the program within tight constraints and to avoid “last minute” crises that can emerge when it becomes apparent a gap has emerged between what remains to be completed and the resources that remain available to achieve the task.

# Response provided by DHLGRS and FaHCSIA

## **The Department of Housing, Local Government and Regional Services (NT)**

Thank you for the opportunity to comment on the audit report you have undertaken into the Strategic Indigenous Housing and Infrastructure Program (Program). Also attached for your information is a letter outlining Australian Government comments in relation to your report. The letter has been provided by Mr Jeff Harmer, Secretary of FaHCSIA.

The Program is the largest remote housing and infrastructure program to be undertaken in the Northern Territory and is jointly managed by the Australian and Northern Territory Governments within the National Partnership Agreement for Remote Indigenous Housing. The Program is in its early stages and significant design and construction works are continuing to accelerate in over 30 communities across the Territory, at the time of this response.

As detailed in the Auditor-General's Report, the Program has not been without its complexities and difficulties, however, Governments and Alliance Partners have actively responded to the demands of the Program and both Governments remain committed to ensuring the 750 new houses, 230 rebuilt houses and 2500 refurbished houses are delivered by 2013 within the allocated \$672 million. The Indigenous employment target of 20% across the Program is another key commitment, with an unprecedented 37% of the workforce the current Indigenous participation achievement to date.

Significant work has been completed since the August 2009 Review of the Program, including the replacement of external program managers with the appointment of Government officers to key positions (now within 8% allocated for program management costs across the life of the Program) and the streamlining of processes with Alliance partners to ensure housing commitments will be met within the set timeframes for the Program.

Whilst it is acknowledged that financing constraints will always be an important factor for any major project, it is anticipated efficiencies achieved through the large scale delivery of new houses will ensure external pressures, such as inflation, are mitigated. Funds are available for essential infrastructure works from the significant \$1.7 billion National Partnership Agreement and additional \$140 million commitment by the Northern Territory Government announced within the 2010-11 Budget.

## Response provided by DHLGRS and FaHCSIA cont...

Design guidelines and parameters for work have been set for the remainder of the Program and considerable housing and infrastructure designs for nominated Growth Towns have been detailed. Management systems to monitor progress and assist decision making are in place and continue to be refined and broader reporting frameworks in accordance with national reporting requirements are underway.

The Department will continue to work closely with our Australian Government partners in the Program, along with remote community representatives and Alliance partners, to ensure the commitments to Indigenous Territorians for improved community housing and infrastructure will be met.

### **Department of Families, Housing, Community Services and Indigenous Affairs (Commonwealth)**

The Australian Government is determined to continue to improve on the delivery of Indigenous housing to remote communities in the Northern Territory (NT) and has taken a series of decisive actions over the last twelve months to ensure the integrity of the program.

Your June 2010 *Report to the Legislative Assembly* into the Strategic Indigenous Housing and Infrastructure Program (SIHIP), the first tranche of a \$1.7 billion investment in remote housing to the NT Government under the COAG National Partnership on Remote Indigenous Housing, acknowledges the actions taken by both governments to strengthen the governance of SIHIP and progress work on improved management systems and processes to support the program.

It is therefore disappointing that the Audit focuses so heavily on matters of mainly historical interest to SIHIP which were largely identified and resolved in the August 2009 SIHIP *Review of Program Performance* ("2009 Review"). In fact, a significant proportion of the Audit repeats background from the 2009 Review and canvasses program components which were decisively and extensively reset through the Review.

## Response provided by DHLGRS and FaHCSIA cont...

In particular, I note the following:

- Detailed references to and analysis of the 2007 Memorandum of Understanding between the former Federal Government and the Northern Territory Government reflect early arrangements in which the Northern Territory Government was to be solely responsible for the delivery of Indigenous housing in remote NT. These arrangements were substantially altered by the 2009 Review which necessitated the Australian Government taking strong action, including a more hands-on leadership role in the program.
- Program expenditure presented in the Report reflects the legacy of high expenditure on program management in the earliest stage of the program prior to direct action taken by the Australian Government. Program management expenditure has decreased from a high level prior to the 2009 Review and is now tracking at well below 8 per cent over the life of the program.
- The Audit makes only passing mention of the establishment of the Remote Housing NT Australian Government/NT Government joint program management arrangements. These have brought together functional areas responsible for all aspects of remote housing reform in the NT into a single administrative unit and are a key outcome of the 2009 Review.

These joint program management arrangements have addressed many of the governance and management issues identified by you in your analysis of the early stages of the program, including in relation to the role of the Joint Steering Committee and the nature and extent of management and reporting systems in the program.

- Despite assertions to the contrary in the Audit, a number of key management systems and processes have been established for SIHIP and are key tools in effective management of the program.

Detailed design guidelines and parameters for housing and infrastructure construction activity have been set and work is well advanced on infrastructure designs for communities in which major works will occur. Management systems to monitor progress are also in place and continue to be refined, along with reporting frameworks that align with national reporting requirements for the National Partnership on Remote Indigenous Housing.

## Response provided by DHLGRS and FaHCSIA cont...

In addition significant work has been undertaken on quality assurance and asset management frameworks, including the recent establishment of a new independent, expert quality assurance team to inspect and assess new houses and refurbishments delivered under SIHIP.

- As recently as March 2010 the independent SIHIP *Post Review Assessment* found that all of the changes and recommendations arising from the 2009 Review have been or are being implemented and that immediate improvements are visible as a result.

I have not attempted to address every point in your audit with which I disagree or have a different interpretation.

I appreciate the opportunity you have provided to comment on your Audit.

This page deliberately left blank.

## Appendix 1: Status of leases per community

#	Community	Package	Lease finalised	Lease Agreed in Principle	Lease under negotiation / consultation	Leases not commenced	Township Lease	Housing Precinct	Section 31 Leases
1	Nguiu	1	✓				✓		
2	Milikapiti	1		✓			✓		
3	Pirlangimpi	1		✓			✓		
4	Groote Eylandt*	4	✓				✓		
5	Tennant Creek	2	✓				✓		
6	Nganamariyanga/ Palumpa	6							✓
7	Peppimenarti	6							✓
8	Wadeye	6	✓					✓	
9	Maningrida	5	✓					✓	
10	Minjilang	5							✓
11	Warruwi	5							✓
12	Ali Gurung	3A							✓
13	Alpurrurulam	3A							✓
14	Ampilatwatja	3A							✓
15	Canteen Creek	3A							✓
16	Imangara	3A							✓
17	Tara	3A							✓
18	Wutunugurra	3A							✓
19	Engawala	3A							✓
20	Laramba	3A							✓
21	Nturiya	3A							✓
22	Nyirripi	3A							✓

## Appendix 1: Status of leases per community cont...

#	Community	Package	Lease finalised	Lease Agreed in Principle	Lease under negotiation / consultation	Leases not commenced	Township Lease	Housing Precinct	Section 31 Leases
23	Pmara jutunta	3A							✓
24	Willowra	3A							✓
25	Wilora	3A							✓
26	Yuelamu	3A							✓
27	Amoonguna	3A							✓
28	Areyonga	3A							✓
29	Atitjere	3A							✓
30	Finke	3A			✓			✓	
31	Hassts Bluff	3A							✓
32	Imanpa	3A							✓
33	Kaltukatjara	3A							✓
34	Kintore	3A							✓
35	Mount Liebeg	3A							✓
36	Mutitjulu	3A		✓					
37	Papunya	3A							✓
38	Santa Teresa	3A							✓
39	Titjikala	3A							✓
40	Wallace Rock Hole	3A							✓
41	Gunbalanya	7	✓					✓	
42	Acacia Larrakia	7							✓
43	Belyuen	7							✓
44	Galiwinku	8	✓					✓	



## Appendix 1: Status of leases per community cont...

#	Community	Package	Lease finalised	Lease Agreed in Principle	Lease under negotiation / consultation	Leases not commenced	Township Lease	Housing Precinct	Section 31 Leases
45	Alice Springs Town Camps	12	✓					✓	
46	Ngukurr	10		✓			✓	✓	
47	Barunga	10							✓
48	Beswick	10							✓
49	Bulman	10							✓
50	Eva Valley	10							✓
51	Jilkminggan	10							✓
52	Minyerri	10							✓
53	Rittarangu	10							✓
54	Weemol	10							✓
55	Numbulwar	10A		✓				✓	
56	Gapuwiyak	8A		✓				✓	
57	Milingimbi	8A		✓				✓	
58	Ramingining	8A							✓
59	Yirrkala	9							
60	Gunyagara	9							✓
61	Borroloola Town Camps	12A			✓			✓	
62	Robinson River	12A							✓
63	Yuendumu	3							✓
64	Hermannsburg	3		✓			✓	✓	

## Appendix 1: Status of leases per community cont...

#	Community	Package	Lease finalised	Lease Agreed in Principle	Lease under negotiation / consultation	Leases not commenced	Township Lease	Housing Precinct	Section 31 Leases
65	Lajamanu	11		✓			✓	✓	
66	Binjari	11							✓
67	Amanbidji	11							✓
68	Bulla	11							✓
69	Daguragu	11							✓
70	Kalkarindji	11							
71	Kybrook Farm	11	✓				✓	✓	
72	Naiyu	11			✓			✓	
73	Pigeon Hole	11							✓
74	Yarralin	11							✓
	<b>Total</b>		<b>13</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>19</b>		<b>51</b>

\* Groote Eylandt includes the communities Groote Eylandt, Angurugu, Milyakburra and Umbakumba.

## Appendix 2: Abbreviations

AFA	Alliance Finance Auditor
ALRA	<i>Aboriginal Land Rights Act</i>
ALT	Alliance Leadership Team
ARIA	Australian Remote Indigenous Accommodation Program
BCA	Building Code of Australia
CHIP	Community Housing and Infrastructure Program
COAG	Council of Australian Governments
DLGH	Department of Local Government and Housing
EHSRC-NT	Environmental Health Standards for Remote Communities – Northern Territory
GST	Goods and Services Tax
JMT	Joint Management Team
JSC	Joint Steering Committee
IPT	Integrated Program Team
KPI	Key Performance Indicators
MOU	Memorandum of Understanding
NPA	National Partnership Agreement
NT	Northern Territory
NTNER	Northern Territory National Emergency Response
NTG	Northern Territory Government
PDR	Project Development Report
PMO	Program Management Officer
PMT	Program Management Team
PSR	Project Scoping Report
SALT	Senior Alliance Leadership Team
SIHIP	Strategic Indigenous Housing and Infrastructure Program
WIP	Work in Progress

This page deliberately left blank.