
NSW LAND AND HOUSING CORPORATION

AUDIT OPINION

The audits of the Corporation and its controlled entity's financial reports for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

KEY ISSUES

Transfer of functions to the Department of Human Services

On 27 July 2009, the 'Public Sector Employment and Management (Departmental Amalgamations) Order 2009' transferred the functions of the former Department of Housing to the Department of Human Services. The Department of Housing was abolished.

The Corporation prepared separate financial statements for the first time. The Corporation's activities were previously combined with the former Department of Housing.

Social Housing Implementation Plan

During the year ended 30 June 2010, the Corporation received \$1.3 billion under the Social Housing Implementation Plan (the Plan). In the same period, it spent \$37.2 million on repairs and maintenance and \$1.1 billion on new construction. The Plan is part of the Commonwealth Government's Nation Building Economic Stimulus Plan (NBESP). Under the Plan, the Corporation will build approximately 6,000 dwellings expected to be completed in 2011-12, in addition to its existing plans to build around 3,000 dwellings.

On completion of the Plan, some or all of the properties might transfer to not-for-profit community housing providers. In May 2009, the Government approved the transfer of title of up to 6,500 properties and up to 500 existing properties under community housing management to community housing providers subject to a number of conditions. These conditions have not yet been met. The proposed transfers will occur for nil consideration. The value of the assets at 30 June 2010 was \$1.2 billion (including work-in-progress of \$879 million).

The table below details the cash received and the spending across the three components of the Plan:

Year Ended 30 June 2010	Cash received	Actual Expenditure	Accrued Expenditure for Completed and Work in Progress	Total
	\$m	\$m	\$m	\$m
Repairs and maintenance	65.2	36.1	1.1	37.2
Stage 1	206.0	178.7	7.4	186.1
Stage 2	1,055.5	641.4	305.1	946.5
Total expenditure	1,326.7	856.2	313.6	1,169.8

Source: NSW Land and Housing Corporation (unaudited).

At 30 June 2010, the Corporation advised that, on Stage 1, it incurred \$186 million and completed approximately 99.8 per cent of stage 1 of the Plan. This stage will see approximately \$226 million deliver 860 dwellings through 121 projects. Stage 1 brought forward previously planned and approved construction for social housing dwellings.

The Corporation incurred \$947 million on Stage 2 of the Plan by 30 June 2010. This stage involves new construction costs, including the spot purchase of house and land packages for use in social housing. The Corporation's financial statements show an increase in current liabilities at 30 June 2010, which is mostly due to Stage 2 activity.

The program model adopted by the Corporation involves the outsourcing of project work to a number of major development/project management firms and Landcom.

The breakdown of approved funding under Stage 1 and Stage 2 by area is detailed below:

Region	Stage 1		Stage 2		Total	
	No. of Dwellings	\$m	No. of Dwellings	\$m	No. of Dwellings	\$m
Central Sydney	112	33.5	836	239.8	948	273.3
Greater Western Sydney	294	80.7	1,937	585.6	2,231	666.3
Northern Division	360	90.9	1,035	315.5	1,395	406.4
Southern and Western Division	94	20.5	1,664	507.0	1,758	527.4
Total	860	225.6	5,472	1,647.8	6,332	1,873.4

Source: NSW Land and Housing Corporation (unaudited).

Funding allocations from the Australian Government, compared with other jurisdictions are detailed below. Since 30 June, the Australian Government amended New South Wales' funding for Stage 2 to \$1.7 billion. This funding includes State funded contributions via GST input tax credit claims of \$128 million.

	Repairs and maintenance \$m	Stage 1 \$m	Stage 2 \$m	Total \$m
NSW	130.4	225.6	1,725.2	2,081.2
Vic	99.2	171.5	1,313.0	1,583.7
Qld	80.0	138.6	1,062.2	1,280.8
WA	40.0	70.0	538.1	648.1
SA	32.1	51.9	395.3	479.3
Tas	9.3	16.1	122.6	148.0
ACT	6.5	11.2	85.2	102.9
NT	2.5	7.1	54.4	64.0
Total	400.0	692.0	5,296.0	6,388.0

Source: Commonwealth Government Nation Building Economic Stimulus Plan (unaudited).

Repairs and maintenance work costing \$130 million was expected to be completed over two years ending in June 2010. The Corporation advised it completed the maintenance work six months early in December 2009. An amount of \$30.0 million was transferred to a separate project to improve 300 bedsitter dwellings by June 2011.

The Corporation is receiving funding for Stages 1 and 2 between 2008-09 to 2011-12. It exceeded its target to complete 752 dwellings by 30 June 2010 by completing 844 dwellings. The Australian Government expects the Corporation to complete 75 per cent of the dwellings under Stage 1 and Stage 2 by no later than 31 December 2010.

Aspects of the Corporation's Governance over the Plan Project

Project Acceptance

I reviewed a sample of the Plan's projects and found that the projects complied with the Corporation's criteria for project acceptance. The Corporation developed criteria for project acceptance. Some of the criteria included access to public transport, schools, shops and hospitals.

In some instances, initial assessments, completed at a local level, were revised by the Plan's Steering Committee. The basis for the Plan's Steering Committee final decisions appeared reasonable.

Planning approvals

I reviewed some of the NBSEP developments and found that the Corporation complied with the State Environmental Planning Policy (Affordable Rental Housing) 2009 (State Environmental Planning Policy). When the Corporation approves a development it must, amongst other requirements:

- give written notice of the intention to carry out the development to the council for the area in which the land is located and to the occupiers of adjoining land, and
- take into account any response to the notice that is received within 21 days after the notice is given.

A point of difference between developments approved by the Corporation and developments approved by Councils is notification of residents. Councils tend to communicate development proposals wider than the occupiers of adjoining land.

I have been advised the time taken for the NBESP planning approvals was less than for previous approvals for similar projects. The NBESP planning approval process appears to have benefited from the State Environmental Planning Policy (Affordable Rental Housing) 2009 (State Environmental Planning Policy). This State Environmental Planning Policy removed the approval process from local government for certain developments.

Payment Acquittals under the NBESP

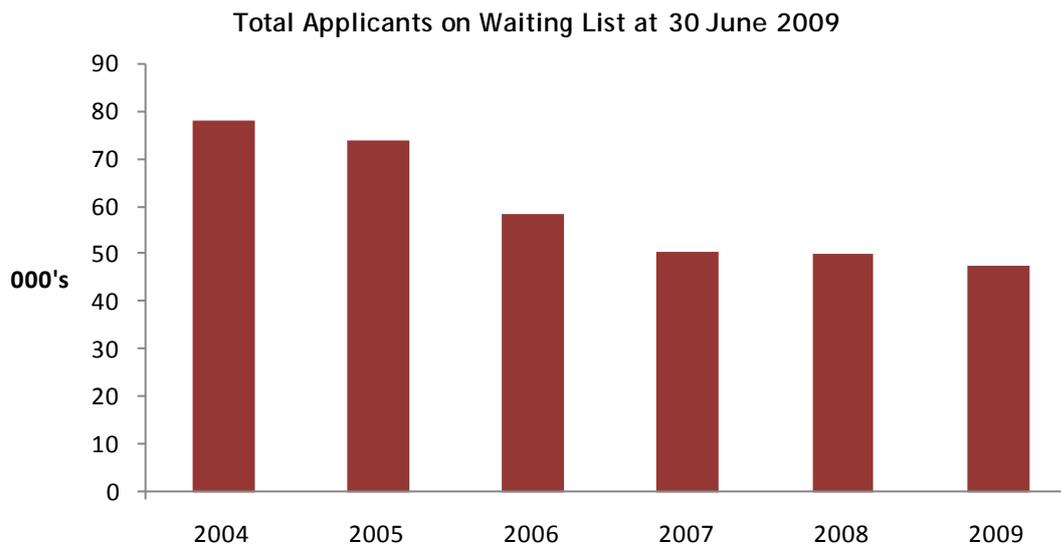
The Corporation pays its contractors after receiving statutory declarations from them indicating that the value of works equal to the claim were complete and they owed no amounts to their sub-contractors. However, it is possible there may have been sub-contractor invoices issued but not yet due and payable.

The Corporation contracted with a large number of contractors to deliver the Plan on time and within budget. Many of these contractors further sub-contracted the work. To help ensure contractors paid their sub-contractors on time, the Corporation required contractors to provide statutory declarations indicating they had no amounts owing to their sub-contractors.

PERFORMANCE INFORMATION

Waiting Lists

The Corporation's public housing waiting lists, including transfer applicants, have decreased over the past five years from 77,984 in 2004 to 47,410 in 2009, an average reduction of 7.8 per cent per annum or 39.2 per cent over the five years. About 13,300 applicants were housed annually in this period. The Corporation advised the reduction in waiting lists is attributable to housing applicants as indicated above as well as from improved management of the housing registers, including regular surveys of applicants to determine their ongoing eligibility and needs.



Source: Productivity Commission Report on Government Services, 2010

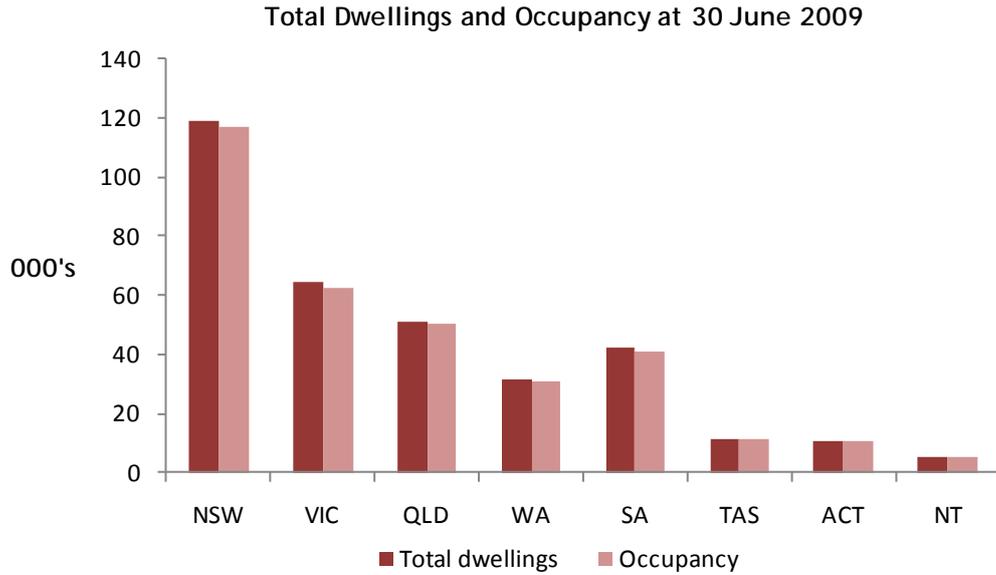
Provision of Social Housing

During 2009-10 the Corporation assisted 339,400 (341,400) people through the provision of social housing. The New South Wales Government's RentStart Program helped approximately 35,022 (32,649) households into the private rental market.

Private Rental Assistance provided was \$41.4 million (\$32.4 million). This includes payment of rental arrears to salvage existing tenancies and assistance in bonds and advance rent.

Number of Public Housing Properties and Occupancy Rates

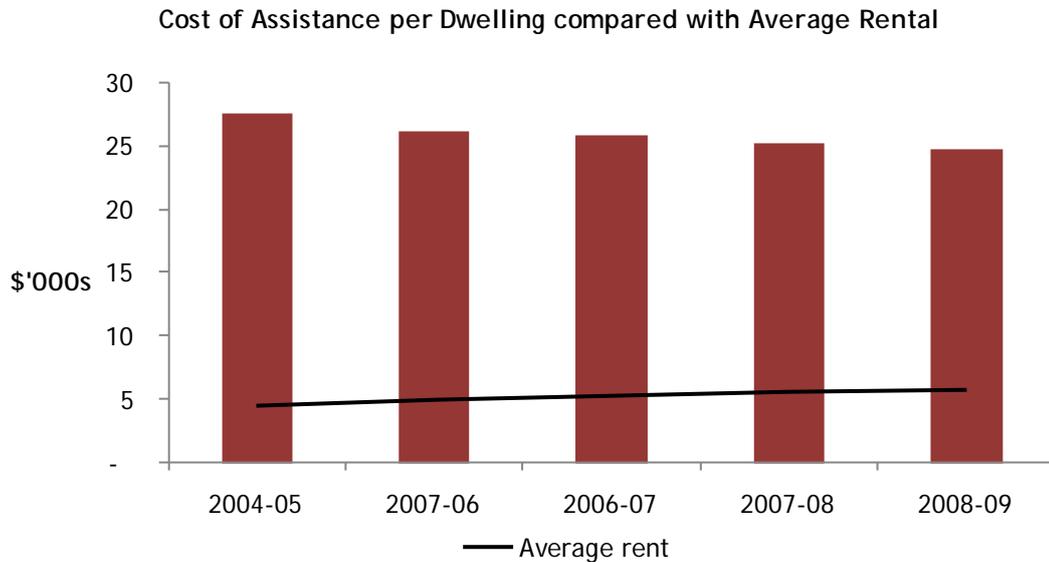
At 30 June 2009, New South Wales had the greatest number of public housing properties in Australia. Queensland had the highest occupancy rate at 98.9 per cent (99.1 per cent). New South Wales had an occupancy rate of 98.6 per cent (99 per cent) ranking it second in Australia and higher than the national average of 97.3 per cent (98 per cent).



Source: Productivity Commission Report on Government Services, 2010

Cost of Providing Assistance per Dwelling compared with Average Rental

There has been a slight increase in average rent over time. When compared, over the same period, the cost of providing assistance per dwelling has declined. The Corporation attributes this to a declining cost of capital offset by rent increases.

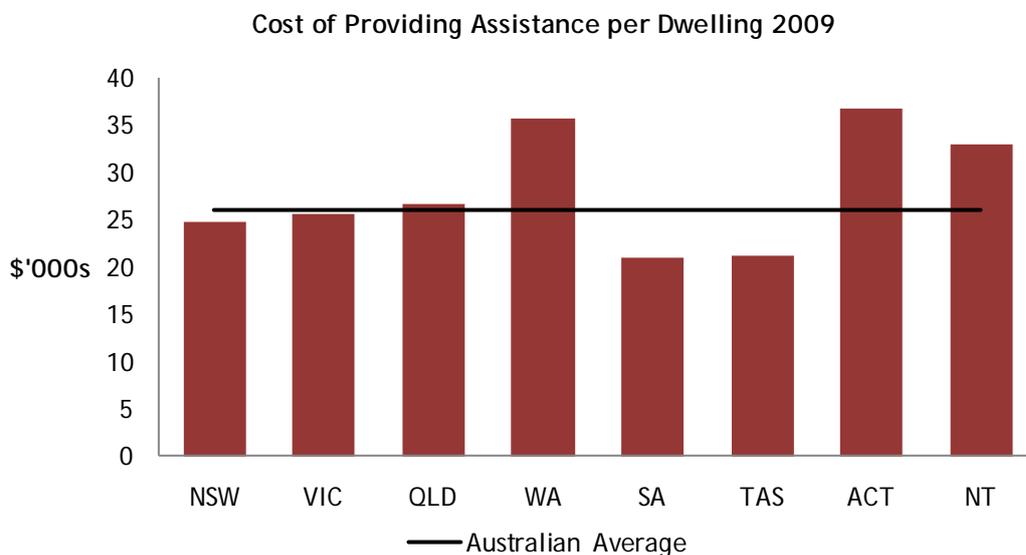


Source: Compiled by the Audit Office of New South Wales, based on information in the Productivity Commission Report on Government Services, 2010

*Cost of providing assistance per dwelling includes the cost of capital.

Cost of Providing Assistance per Dwelling

In 2008-09, New South Wales had the sixth (fifth) highest cost of providing assistance (including the cost of capital) per dwelling at \$24,653 (\$23,938), 5.4 per cent lower (3.2 per cent higher) than the national average.



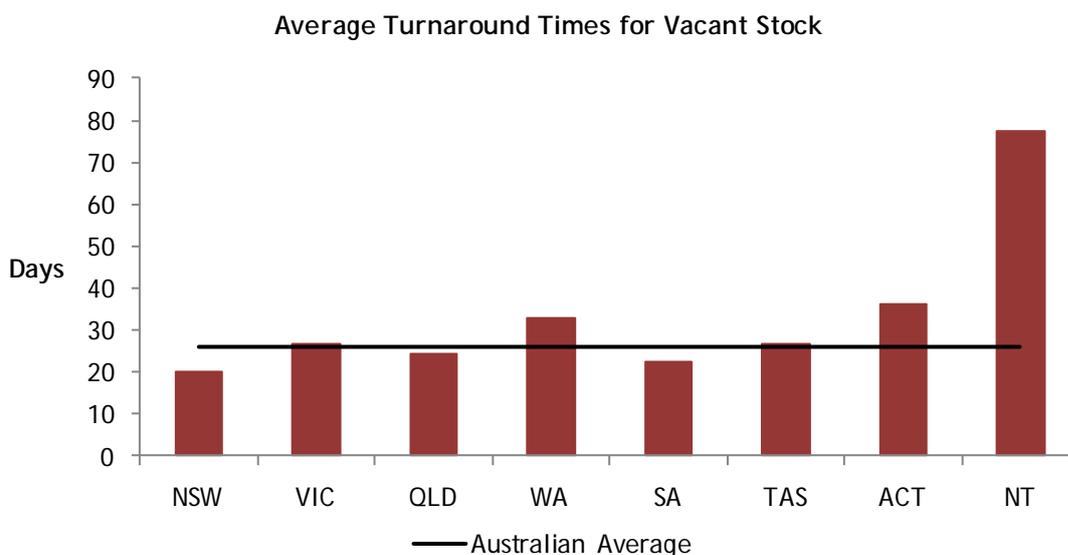
Source: Productivity Commission Report on Government Services, 2010

Issues on the comparability of the cost data across jurisdictions include consistency of data collection, completeness of data and the possibility of double counting of items by some jurisdictions.

Average Turnaround Time

In 2008-09, New South Wales' public housing turnaround time of 20.2 days (22.2 days) was lower than the Australian average of 26.2 days (25.2 days) ranking it first in Australia.

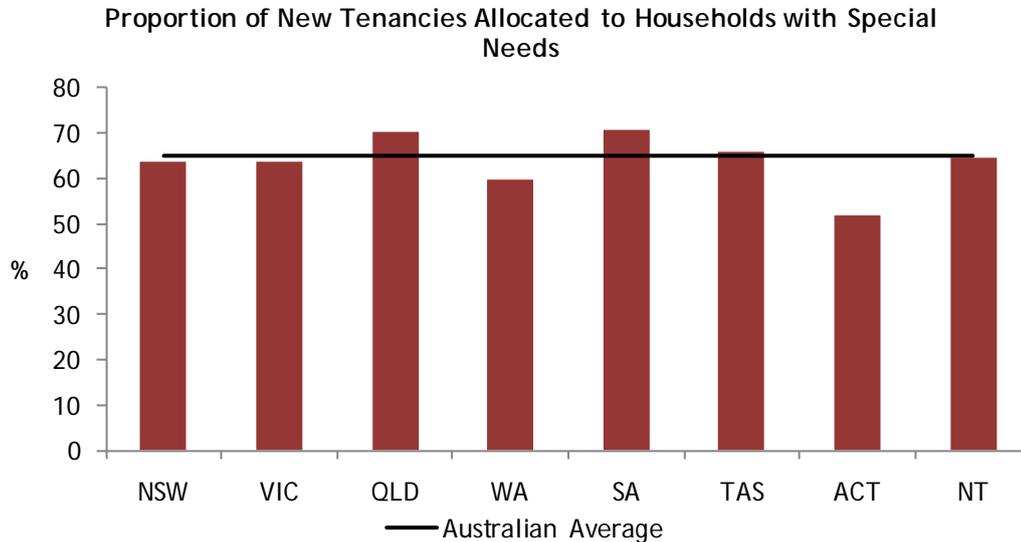
Turnaround time indicates how quickly jurisdictions rent out housing stock after being vacated or acquired.



Source: Productivity Commission Report on Government Services, 2010

Proportion of New Tenancies to Households with Special Needs

The Australian average of new tenancies allocated to 'special needs' households in 2008-09 was 64.8 per cent (59.5 per cent). At 63.4 per cent (59.5 per cent), New South Wales was lower than the national average.



Source: Productivity Commission Report on Government Services, 2010

OTHER MATTERS

We identified opportunities to improve accounting and internal control procedures and reported them to management.

Bonnyrigg Project

The Corporation expects the new estate to be constructed in 18 stages over 14 years.

Stage 1 of the project, which commenced in February 2009, was completed in June 2010. It comprises 67 private dwellings, 39 social dwellings and some resident amenities.

Stage 2 of the project has commenced and is scheduled for completion in December 2011. Stage 3 will be completed in phases. The first phase will commence with the demolition of existing dwellings in November 2010. Stage 3 construction should commence in June 2011.

The project will redevelop and renew 833 public housing properties into a mixed community of 1,631 private and 699 public housing homes through a 30-year public-private partnership. The project also involves the building or purchase of 143 dwellings offsite to help ensure the stock of 833 social houses is maintained. When the project is complete, private and public dwellings will be in the ratio of 70:30 across the whole project.

In October 2007, Bonnyrigg Partnerships, comprising Becton Property Group, Westpac Banking Corporation, St George Community Housing Association and the Spotless Group Limited, were selected by the New South Wales Government to undertake the \$733 million redevelopment of Bonnyrigg. The transfer of dwellings and tenants from the Corporation to Bonnyrigg Partnerships also occurred in October 2007, with St George Community Housing Association becoming the social housing landlord.

The project aims to improve the quality of public housing and community facilities and services provided to tenants and the local community. To encourage the achievement of these goals the Corporation has designed the payments to the private sector to be predominantly performance based. Key performance indicators have been agreed for most aspects of service delivery, including tenant's satisfaction with each broad category of service provision.

One Minto Project

The One Minto Project incorporates extensive deconcentration of the estate with redevelopment of the townhouse precincts, upgrading of the cottage precincts and refurbishment of the roads, parks and common areas across Minto. Management advised on completion of the development:

- there will be approximately 1,200 lots of land. The Corporation will own 30 per cent of the properties and the remaining 70 per cent will be private housing
- approximately 50 of the Corporation's properties will be refurbished for private sale
- 664 demolished properties at Minto will be replaced with properties in other areas of South Western Sydney with high demand for public housing.

Since sales commenced in late 2008, approximately 73 per cent of the lots released have been sold.

The One Minto Concept Plan (formerly Minto Renewal Project) was developed after extensive community consultation and was approved in June 2006. It is expected to be completed in 2015-16. The Corporation, Campbelltown City Council and Landcom are working together to redevelop the area. Landcom has been engaged as the development manager. The initial budget set for this project was \$226 million and the costs are within expectations.

Project Meridian

The objective of the project is to replace the Integrated Housing System (IHS) with a new IT system. This is a major project for the Corporation as IHS currently supports core business activities associated with the management of tenants, applicants and the property portfolio. Management has advised that the project will significantly improve service delivery through new enhancements in accessing client information and higher quality data.

Management has advised recent achievements and decisions include:

- finalising of user acceptance testing and system performance testing
- HOMES training rolled out to users
- testing on 70 predefined reports which are available for go-live.

The original budget for this project was \$42.4 million; however this increased to \$57.3 million as a result of the increased complexity of the project and to allow for additional system functionality.

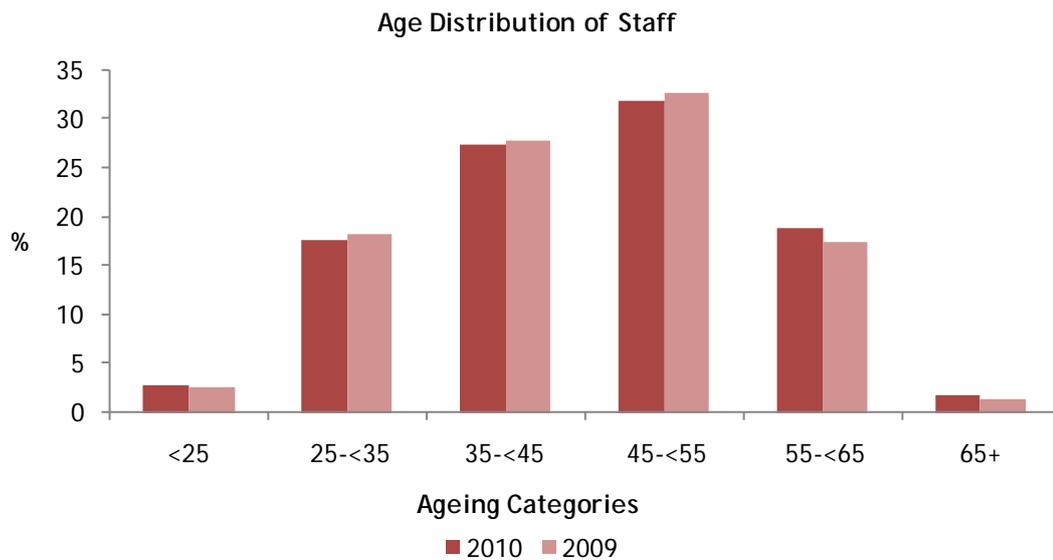
When implemented, Project Meridian will be renamed Homes. Management has advised it is on track for implementation by the end of 2010.

Ageing of the Workforce

The age distribution of the Corporation's workforce is not as significantly skewed towards employees approaching retirement age. As a result it does not face the challenges posed by the potential loss of large numbers of retiring staff and skills to the same degree as the rest of the sector. The Corporation is actively monitoring its workforce profile and has key strategies in place to address this risk.

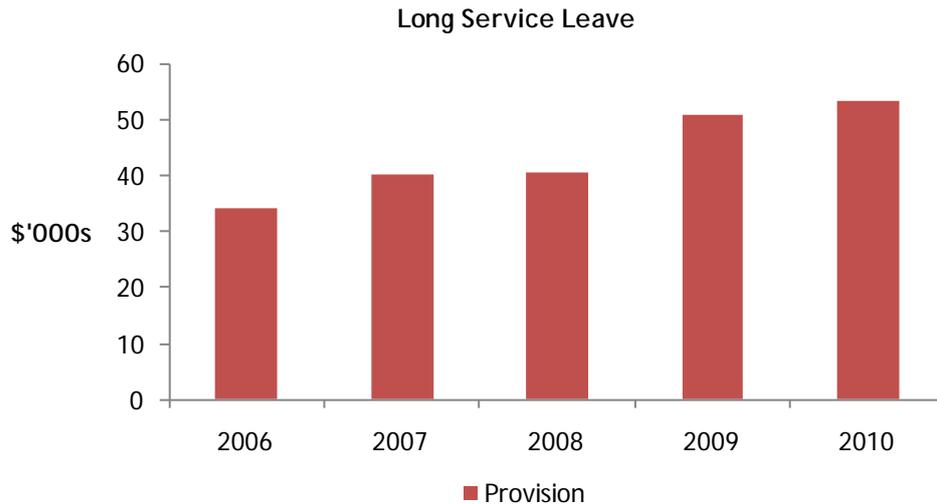
At 30 June Age Group	2010		2009	
	No. Of Staff (FTE)	%	No. Of Staff (FTE)	%
45 and younger	1,158.6	47.5	1,145.7	48.6
45 to less than 55	777.0	31.9	769.2	32.6
55 to less than 65	461.5	18.8	410.0	17.4
65 and over	44.5	1.8	32.1	1.4
Total	2,441.6	100	2,357	100

Source: NSW Land and Housing Corporation (unaudited)



Long Service Leave

Increasing long service leave liabilities may create a funding challenge for the Corporation. Long service leave liabilities have increased by approximately 56 per cent over the past five years.



Excessive Annual Leave

The Corporation effectively monitors and manages employee annual leave balances, containing the annual leave expense and related liability. At 30 June 2010, 62 (124) employees had accrued annual leave entitlements in excess of 40 days. This represents 2.4 per cent (4.7 per cent) of all employees. The accumulation of excessive annual leave entitlements results in increased financial costs to the Corporation because these entitlements will be paid out at higher salary rates in the future and may have occupational health and safety implications.

Overtime

The Corporation effectively manages overtime worked by its employees. The Corporation engages over 2,500 people and incurred \$212 million (\$229 million) on personnel services. Of this amount, approximately \$1.2 million (\$1.7 million) was paid as overtime. Only two employees (two) received overtime payments in the range of 10-20 per cent higher than their base salary. All other employees who worked overtime received less than 10 per cent of their base salary in overtime payments.

Employment of Contractors

I recommend the Corporation periodically review the roles and responsibilities of all its contractors to help ensure:

- its reliance on contractors is not excessive
- use of a contractor instead of a permanent employee is appropriate
- contractors do not become de facto employees by virtue of being with the Corporation for an extended period of time
- use of a contractor continues to represent good value for money.

The Corporation has employed some contractors for more than two years. The risk of engaging long term contractors is that they may become entitled to all the benefits associated with permanent employment.

At 30 June	2010	2009
	No. of Contractors	No. of Contractors
Less than 1 year	268	245
Between 1 and 3 years	188	128
Between 3 and 5 years	29	9
Between 5 and 10 years	11	10
Total	496	392

The number of contractors engaged by the Corporation has increased over the past two years due to the Social Housing Implementation Plan and Project Meridan. The Corporation advised that contractor numbers will decline in future years as these projects are completed.

Affordable Housing Grants

The Corporation received grants in 2005-06 and 2006-07 totaling \$39.5 million from the Rental Bond Board (RBB) to establish the Affordable Housing Innovations Fund (AHIF) and for the St Mary's Development affordable housing project. The AHIF aims to provide grants to registered community housing providers for the development or acquisition of affordable rental dwellings. At the St Mary's Development, these funds will be allocated to a registered community housing provider and used in conjunction with land contributions, provided through a planning agreement between the Government and a private firm, to construct affordable rental housing on the site.

During 2009-10, the Corporation provided \$4.4 million (\$17.1 million) to community housing providers to deliver new affordable dwellings. The remaining funds, which now total \$23.0 million including interest earned, have been allocated and will be paid progressively to community housing providers. These funds will deliver around 326 new affordable dwellings.

The unspent grants are shown as restricted assets in the financial statements. In accordance with the RBB agreements, the \$23.0 million in unspent funds were invested in two New South Wales Treasury Corporation (TCorp) Hour-Glass cash facilities.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Rent and other tenant charges	694,920	688,312
Government grants	1,922,608	889,952
Interest income	26,469	24,839
Other income	35,315	32,404
TOTAL REVENUE	2,679,312	1,635,507
Repairs and maintenance	266,390	234,829
Council and water rates	189,164	180,106
Employee related expenses	212,503	229,218
Other operating expenses	145,261	125,294
Depreciation and amortisation	298,984	282,241
Grant expenses	296,571	191,969
Other expenses	195,933	176,139
TOTAL EXPENSES	1,604,806	1,419,796
SURPLUS FOR THE YEAR	1,074,506	215,711
OTHER COMPREHENSIVE INCOME		
Revaluation Increment/(Decrement)	2,907,995	(47,714)
Gain on sale of investments	276	--
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	2,908,271	(47,714)
TOTAL COMPREHENSIVE INCOME	3,982,777	167,997

Government grants increased largely due to funding of \$1.3 billion (\$85.0 million) received under the Nation Building Economic Stimulus Plan.

Repairs and maintenance increased due to accelerated maintenance funded by the Government and Social Housing Implementation Plan funding aimed specifically at maintenance.

Grant expenses increased by \$94.6 million during 2009-10. This increase is largely due to an increase of \$68.0 million in Social housing Growth Fund grants. These grants will provide capital funding to support a range of projects to increase supply of social housing. The Corporation also provided grants of \$23.3 million to the Aboriginal Housing Office to fund the Remote Indigenous Housing program.

Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	835,404	659,819
Non-current assets	32,033,388	28,170,421
TOTAL ASSETS	32,868,792	28,830,240
Current liabilities	701,609	491,107
Non-current liabilities	729,420	884,147
TOTAL LIABILITIES	1,431,029	1,375,254
NET ASSETS	31,437,763	27,454,986

Current assets increased by \$176 million. This increase is largely due to an increase in bank bills and deposits. These funds will be used to meet the funding requirements of the Social Housing Implementation Plan.

Non-current assets increased due to the completion of 851 dwellings and the partial construction of 1,752 dwellings and revaluation increments of \$2.6 billion.

The increase in current liabilities was mainly due to higher accrued capital expenditure of \$191 million due to spending to meet the Social Housing Implementation Plan.

The decline in non-current liabilities was mainly due to the repayment of borrowings.

THE CORPORATION'S ACTIVITIES

The Corporation's statutory functions are set out in the *Housing Act 2001*. Its role is to provide quality rental housing solutions for those whose needs cannot be met by the private market.

The Minister for Housing has the power to direct and control the Director-General of the Department of Human Services in respect of all the Corporation's operations. Management advised that no such Ministerial Directions occurred in 2009-10.

For further information on the Corporation, refer to www.housing.nsw.gov.au.

CONTROLLED ENTITY

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

For further financial and other information on this entity we have listed the entity's website.

Entity Name	Website
Rental Housing Assistance Fund	www.housing.nsw.gov.au