
New South Wales Auditor-General's Report

Performance Audit

Making the best use of public housing

Housing NSW

NSW Land and Housing Corporation



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The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Making the best use of public housing: Housing NSW and NSW Land and Housing Corporation.**

A handwritten signature in black ink that reads "Peter Achterstraat".

Peter Achterstraat
Auditor-General
30 July 2013

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Executive summary

Background

This audit examined:

- New South Wales' capacity to meet changing public housing need
- how well Housing NSW (HNSW), a division of the Department of Family and Community Services (FACS), acts to relocate tenancies where an individual's needs or circumstances change
- how well the NSW Land and Housing Corporation (LAHC) a part of the Department of Finance and Services (DFS), plans to ensure the asset base reflects the requirements of those most in need.

This audit focuses on public housing, that is dwellings owned and operated by government.

New South Wales has the largest social housing portfolio in Australia, comprising over 150,000 dwellings. LAHC owns the bulk of these with about 134,000 dwellings valued at around \$32 billion. The vast majority of LAHC's dwellings are public housing, for which HNSW provides tenancy management services.

About 214,000 people are currently living in public housing. There are a further 55,000 eligible households (representing about 120,000 people) on the waiting list for such accommodation.

New South Wales is facing significant challenges in providing access to public housing now and into the future. These include a growing demand for housing by single person households with very low income and complex needs; and ageing and inappropriate dwellings.

The imbalance between the supply and demand for public housing makes it crucial that appropriate procedures and controls are applied to make the best use of public housing, in accordance with the legislative objectives in the *Housing Act 2001*.

This audit looks at HNSW's and LAHC's provision of public housing to eligible households now and into the future. It draws upon our 2005 follow up audit Maintenance of Public Housing.

Conclusion

It is estimated that all social housing only meets 44 per cent of need in New South Wales. The constraints in the current portfolio and funding arrangements do not enable HNSW and LAHC to meet the changing public housing need.

Public housing is ageing and increasingly not fit for purpose. It is declining as a proportion of overall New South Wales housing.

There is an increasing shortfall between the supply of and demand for public housing.

There is no clear direction for managing the shortfall between need and demand for public housing, although HNSW and LAHC are working towards one. Currently, FACS is developing a Social Housing Policy for proposed endorsement by Government, LAHC is developing an Asset Portfolio Strategy, and they are jointly developing an Estates Strategy.

With constraints on rental and grant funding, and existing assets requiring increasing maintenance expenditure, LAHC advises that modelling it has undertaken indicates that it has a continuing funding gap in what is needed to maintain the current stock numbers of properties at reasonable standards over the long-term. It projects that if the current arrangement continues the housing portfolio will decline in terms of dwelling numbers and standard.

There are tenants living in public housing that does not match their household size or needs. Over 30 per cent of households do not match the size of their dwellings. Many of these properties are under-occupied. There are also over 8,000 existing tenants waiting for relocation as their current housing is not suitable.

HNSW could do better in responding to changes in tenant's needs and circumstances. HNSW has policies and procedures for relocating and terminating tenancies where an individual's needs or circumstances change. However there are constraints on the implementation of these policies which reduce their effectiveness. They include:

- the focus on the urgent needs of priority clients
- tenants refuse to move
- not enough suitable properties to relocate today's tenants into
- not systematically identifying tenants who may no longer be suitable for a property.

In the absence of a clear direction for managing the shortfall between need and demand for public housing, HNSW's and LAHC's tenant and asset management activities have sometimes been inconsistent and short-term.

Supporting findings

Does the current situation enable Housing NSW and the NSW Land and Housing Corporation to meet the changing public housing need?

The current portfolio and funding arrangement do not enable HNSW and LAHC to meet the changing public housing need.

Public housing is ageing and increasingly not fit for purpose. It is declining as a proportion of overall New South Wales housing. There is an increasing shortfall between the supply of and demand for public housing. Changing tenants' needs and ageing stock are issues arising across Australian social housing systems.

Much of the public housing stock consists of larger properties while the greatest demand (and rising) is for smaller and accessible dwellings.

There have been initiatives and resources directed towards re-shaping the public housing asset base to better reflect the needs of today's tenants, but not enough to keep pace with the changing client profile.

Public housing is now supporting fewer people than ten years ago, and its use is becoming less efficient with 30 per cent of three or more bedroom public housing properties occupied by a single person or a couple.

With constraints on rental and grant funding and existing assets requiring increasing maintenance expenditure, LAHC advised that to continue to operate within its means, it has implemented measures such as selling properties and delaying some capital and maintenance expenditure. This will impact the condition and level of stock, and is not financially sustainable long-term.

Are plans developed to ensure the mix of public housing reflects the requirements of those most in need?

Neither HNSW/FACS nor LAHC have as yet articulated long-term strategies or plans to address the challenges for the provision of public housing to those most in need. In the absence of such a clear direction, HNSW's and LAHC's tenant and asset management activities have sometimes been inconsistent and short-term.

Currently, FACS is developing a Social Housing Policy for proposed endorsement by government, LAHC is developing an Asset Portfolio Strategy, and they are jointly developing an Estates Strategy.

The existing documented arrangements that support dual responsibilities between HNSW and LAHC such as the Housing Assistance Resourcing Plan (HARP) and Annual Funding Agreement have not provided certainty of future directions and funding beyond 2013.

Are objectives, policies and procedures set to ensure the available supply of public housing is shared in accordance with legislation?

The New South Wales social housing system has multiple broadly-stated legislative objectives set out in the *Housing Act 2001*. These cover equity, social and financial sustainability.

HNSW's and LAHC's internal objectives have not achieved a balance between the objects of the *Housing Act 2001*.

HNSW's and LAHC's internal objectives, indicators and measures only show a limited picture of each agency's performance. None demonstrate how the agency is delivering on objectives to achieve social sustainability, or allow an assessment against the objects of the *Housing Act 2001* in total.

The application of some HNSW policies focus on the urgent needs of priority clients, elevating the achievement of one legislative objective. This limits the achievement of others such as social mix and maintaining efficient housing administration.

HNSW also has policies that could be used to maximise the use of the existing asset base. However some constraints on the allocation, relocation and termination of tenancies contribute to public housing supporting fewer people, and its use becoming less efficient.

Are identified control activities appropriately applied?

Recommendations made in reviews in 2008, and more recently, have not been fully implemented. The reliability of the existing housing allocation function could be at risk without improved management monitoring and quality assurance procedures over allocations being implemented.

LAHC has adopted the Property Disposal Procedures developed by HNSW in 2007. There has been no subsequent review of the adequacy of these controls to protect the asset base from financial leakage during transactions.

Is the information on tenant needs and circumstances obtained and reviewed on a timely basis?

HNSW primarily relies on public housing tenants and applicants on the waiting list to advise HNSW if their situation changes. HNSW does not conduct a regular review of changes in circumstances once an applicant has made the waiting list or once a tenant has moved into public housing.

Without additional review points, there is increased risk of dwellings not being occupied by those most in need. However, it seems that until there are suitable dwellings for people to move to, this risk cannot be addressed.

Do reports show performance in dealing with the changing needs of tenants relative to established objectives?

HNSW's and LAHC's reporting is not sufficient to clearly assess performance in achieving the objects of the *Housing Act 2001*, particularly those that would show understanding and management of existing and future tenants needs. Much of the information is available in some form within HNSW and LAHC, but it is not collated or published in a form that is easy for parliament and the public to understand.

Recommendations

1. The government should:
 - a) develop a clear direction for a sustainable social housing sector that can function within the available funding such that:
 - the current challenges facing public housing and the fundamental question of what the role of public housing is are addressed. The direction should identify who is to be housed, and how funding and asset ownership will achieve a sustainable social housing sector, for the longer-term
 - clear strategic objectives are set to implement the direction agreed
 - the roles, responsibilities and relationship between LAHC and HNSW, and their accountability towards achieving their objectives, are clearly understood (page 23)
 - b) review housing funding arrangements and flows such that:
 - LAHC can make long-term decisions on its ownership and management within the public housing portfolio
 - HNSW can make long-term decisions on how best to meet its social and economic objectives (page 23)
2. FACS/HNSW and DFS/LAHC should, by January 2014, agree on the objects of the *Housing Act 2001* against which they should be reporting (page 42)
3. FACS/HNSW should, by December 2013, complete a social housing policy that aligns tenant management with emerging client need. The strategy should include short-term and long-term targets, and forecasts to enable effective monitoring and reporting on progress (page 26)
4. HNSW should:
 - a) by June 2014 continue current initiatives and promote proposals to make the best use of existing public housing. They include:
 - aligning housing allocation with housing stock better, for example as is currently being implemented, by giving higher priority to rehousing tenants under-occupying
 - introducing financial incentives and disincentives for people occupying properties larger than they need, taking into account the characteristics of the client group
 - considering how local allocation strategies may be used to support the development of successful and sustainable communities
 - reducing vacancy turnaround times
 - consistently implementing policies for relocation and ensuring they are monitored and reported
 - identifying and addressing current policies and practices that may act as disincentives to tenants to seek work
 - considering other rent setting models (page 35)
 - b) by December 2014, implement the recommendations from ICAC and the internal HNSW review as part of a monitoring program (page 39)

5. LAHC should:
 - a) by December 2013, complete and release an asset portfolio strategy that delivers housing at an appropriate standard and shows how future new supply housing will align with emerging client need. The strategy should include short-term and long-term targets to enable effective monitoring and reporting on progress (page 26)
 - b) by June 2014, audit the property disposal procedures as part of a regular internal audit and review process (page 39)

6. LAHC in consultation with HNSW by December 2013, finalise the government's long-term strategy for managing public housing estates to deliver a sustainable reduction in disadvantage on estates (page 35)

7. FACS/HNSW and LAHC emerging policies and strategies should be based upon evidence of the cost effectiveness of asset and non-asset interventions to meet the specific needs of public housing tenants (page 26)

8. HNSW and LAHC should:
 - a) by June 2014, develop organisational plans that are clearly linked to their social housing policy, asset portfolio strategy and estate strategy including:
 - gap analysis
 - objectives
 - targets
 - funding
 - performance measures and progress reporting (page 26)
 - b) by June 2014, ensure that their multiple legislative objectives translate into clearly defined, balanced and sustainable internal objectives that are feasible within available funding. Where government policy dictates the elevation of a specific objective, this should be acknowledged and clearly reflected in internal objectives (page 35)
 - c) by June 2014, agree a review process to assess the impact of policies and procedures to identify those that limit the achievement of objectives (page 35)
 - d) by June 2014, routinely assess and report, both publicly and internally, on their performance in achieving the objects of the relevant legislation, using appropriate measures and performance targets (page 42)
 - e) by June 2014, include in their reporting the efficient and effective use of the available supply of public housing. This should include property utilisation and property alignment to tenant needs (page 42).

Response from Housing NSW



Family &
Community Services

EFACS13/418
HOCE13/605

Mr Peter Achterstraat
Auditor-General
Audit Office of New South Wales
GPO Box 12
SYDNEY NSW 2001

Dear Mr Achterstraat

Thank you for providing the revised NSW Auditor General's final report on the performance audit - *Making the Best Use of Public Housing* and inviting a management response.

This report is welcome because it makes clear a number of deep and systemic challenges facing the public housing system in NSW, challenges the Department of Family and Community Services (FACS) is aware of and working hard to address. The system is failing to break disadvantage and improve the lives of vulnerable families and citizens, at an unacceptable cost to those families and NSW taxpayers via the NSW Government.

The challenges experienced in the provision of housing assistance in NSW extend well beyond the important issues canvassed in the report. Current approaches deliver poor social outcomes, as they do not offer integrated solutions to the range of problems experienced by vulnerable people. They perpetuate dependence on welfare assistance, managing disadvantage, rather than breaking it.

FACS welcomes and supports the report's recommendations. The NSW Government is considering a social housing policy with the support of FACS and central agencies, which will not only address the recommendations in this report but outline how housing assistance can break disadvantage by increasing clients' personal responsibility, better integrating services and working more effectively with our non-Government partners.

The report notes that funding certainty has been provided to the NSW Land and Housing Corporation until 2013. Funding certainty has now been provided to 2014.

FACS appreciates the time and effort made by the Audit Office reviewers to understand and reflect the complexity of the public housing system, as well as the collaborative manner in which the performance audit was conducted.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Jim Longley'.

Jim Longley
Acting Director-General

18/7/13

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Response from the NSW Land and Housing Corporation



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Mr Peter Achterstraat
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Dear ^{Peter} Mr Achterstraat

Thank you for providing the revised copy of the final report on the *Making the best use of public housing* performance audit and the opportunity to provide a response prior to it being tabled in parliament.

I support the findings and recommendations in the report. They are consistent with the Land and Housing Corporation's review of its business since the change in administrative arrangements in June 2011, when that agency became the responsibility of the Minister for Finance and Services.

I strongly support evidence-based decision making. In relation to social housing that includes:

- a comprehensive comparison of public housing funding against other forms of housing assistance allocations
- a comparison of value for money between programs
- a full analysis of the overhead costs of operating various programs including historical analysis.

This information is critical to inform future government decision-making and assist in setting strategic goals for the social housing system. I would note that the data referred to in Appendix 3 of the report are currently available forecast data and as such may change.

Since June 2011, the Land and Housing Corporation has commenced and, in some cases completed, a range of initiatives. These include the development of strategies, reviews and plans for:

- the portfolio
- estates (jointly developed with Housing NSW)
- better use of assets
- maintenance
- financial performance improvement.

I appreciate that this is a complex area of investigation. I thank the Audit Office staff for the consultative manner in which they have conducted this work.

Yours sincerely

Michael Coutts-Trotter
Director-General

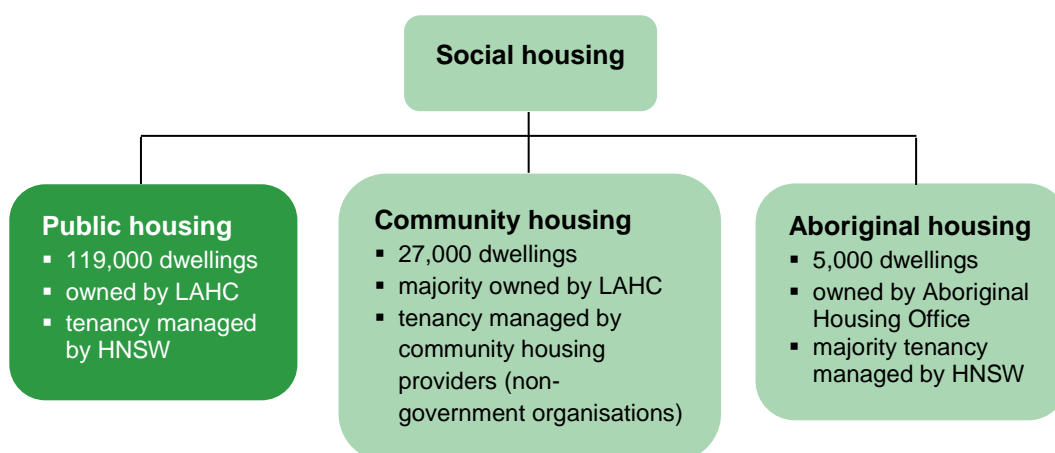
19 JUL 2013

Introduction

1.1 Public housing in New South Wales

New South Wales has the largest social housing portfolio in Australia, comprising over 150,000 dwellings.

There are three ways social housing is provided in New South Wales, they are public housing, community housing and Aboriginal housing. The majority of social housing stock is public housing (approximately 79 per cent or 119,000 dwellings). The remaining stock is community housing (approximately 18 per cent or 27,000 dwellings) and Aboriginal housing (approximately 3 per cent or 5,000 dwellings). Aboriginal housing provides assistance specifically to Aboriginal and Torres Strait Islander people. Social housing provides secure, affordable housing for people on low incomes with a housing need.



This audit focuses on the public housing component of social housing, that is dwellings owned and operated by government. Throughout the report the term 'public housing' refers specifically to this component. References to social housing include all forms of social housing.

In New South Wales, public housing is delivered by two government agencies. The primary role of LAHC is to provide the houses to be let to people who cannot meet their own housing needs. It is responsible for planning and building, selling and modifying public housing residences. LAHC owns and manages the asset base of NSW Government public housing dwellings and most of the community housing stock. It sees its focus as using its asset base to deliver the most dwellings it can at an appropriate standard.

The role of HNSW is to provide housing solutions for people in need. Its responsibilities include addressing homelessness and funding; and regulating the provision of community housing and crisis accommodation. It provides tenancy management for public housing through a fee for service arrangement with LAHC, including assessing applications for housing and assisting eligible households to live in the private rental market.

Until October 2011, HNSW and LAHC were both part of the Department of Family and Community Services (FACS). LAHC was transferred to the Department of Finance and Services (DFS). The transfer resulted in LAHC's property portfolio and accompanying asset-related functions (and FACS staff principally involved in this function) being transferred to DFS. The tenancy management function remained within HNSW in FACS.

The separation was to allow LAHC/DFS to pursue efficiencies and rationalisation of asset operations, while allowing HNSW/FACS to focus on social and affordable housing policy and direction, and to enhance service delivery and community outcomes.

HNSW and LAHC operate under the *Housing Act 2001*. According to the Act, LAHC and HNSW are, to the maximum extent possible, to act in a complementary manner, to achieve a unified administration of this Act. Responsibility for the Act is shared between the Minister for Family and Community Services and the Minister for Finance and Services.

1.2 Audit objective and scope

This audit examined New South Wales' capacity to meet changing public housing need, including how well HNSW acts to relocate tenancies where an individual's needs or circumstances change, and how well the LAHC plans to ensure the asset base reflects the requirements of those most in need.

Chapters 2 and 3 of the report examine the current state and future direction of public housing.

Chapter 4, 5, and 6 look at the management of housing for those 'most in need' particularly when tenants needs and circumstances change.

The public housing system focuses on housing people who are 'most in need'.

HNSW has developed an assessment process to assess all housing applicants against criteria to establish eligibility. They are:

- clients on low income that need support to help them live independently, and
- clients on low income that have problems finding affordable housing in the private market that is suited to their needs.

The audit is mindful of the multiple aims of the Act. The audit does not seek to:

- examine the effectiveness of efforts to prevent tenant fraud and corruption
- examine community housing or Aboriginal housing
- question the merits of government policy objectives.

Whilst this report necessarily focuses on the actions of government agencies, it is important to recognise that the final decision-making in relation to public housing policies, the public housing system and funding model rests with the NSW Government and the New South Wales Parliament.

It is also important to note that the Australian Government has a role in relation to funding and setting national policies through the National Affordable Housing Agreement.

Key findings

2. Current state of public housing

Does the current situation enable HNSW and LAHC to meet the changing public housing need?

Findings: The current portfolio and funding arrangement does not enable HNSW and LAHC to meet the changing public housing need.

Public housing is ageing and increasingly not fit for purpose. It is declining as a proportion of overall New South Wales housing. There is an increasing shortfall between the supply of and demand for public housing. Changing tenants' needs and ageing stock are issues arising across Australian social housing systems.

Much of the public housing stock consists of larger properties while the greatest demand (and rising) is for smaller and accessible dwellings.

There have been initiatives and resources directed towards reshaping the public housing asset base to better reflect the needs of today's tenants, but not enough to keep pace with the changing client profile.

Public housing is now supporting fewer people than ten years ago, and its use is becoming less efficient with 30 per cent of three or more bedroom public housing properties occupied by a single person or a couple.

With constraints on rental and grant funding and existing assets requiring increasing maintenance expenditure, LAHC advised that to continue to operate within its means, it has implemented measures such as selling properties and delaying some capital and maintenance expenditure. This will impact the condition and level of stock, and is not financially sustainable long-term.

2.1 Current housing portfolio situation

Slow growth in social housing dwellings

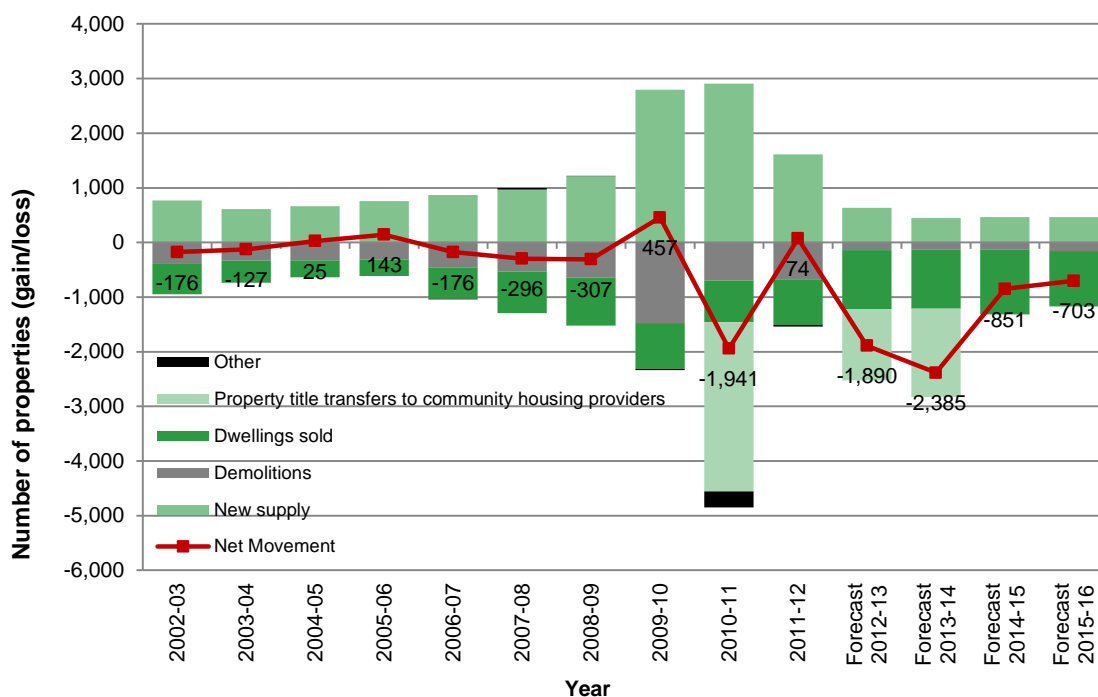
From 1945 to 1995 social housing dwelling numbers increased steadily. Since then social housing numbers have levelled out. See Appendix 1, Figure 1 for details. There has been an increased role for community housing providers in the ownership and management of some of these dwellings.

Over the past ten years, social housing as a proportion of overall New South Wales housing has declined.

LAHC has been disposing of more properties than it has added in recent years (except during the National Economic Stimulus Building years 2009 to 2012). LAHC projects that it will be disposing of more than double the number of properties it builds over the next four years.

Social housing as a proportion of overall NSW housing has declined

Exhibit 1: LAHC owned housing stock movement (including properties managed by community housing providers) between 2002–03 to 2015–16



Source: LAHC March 2013

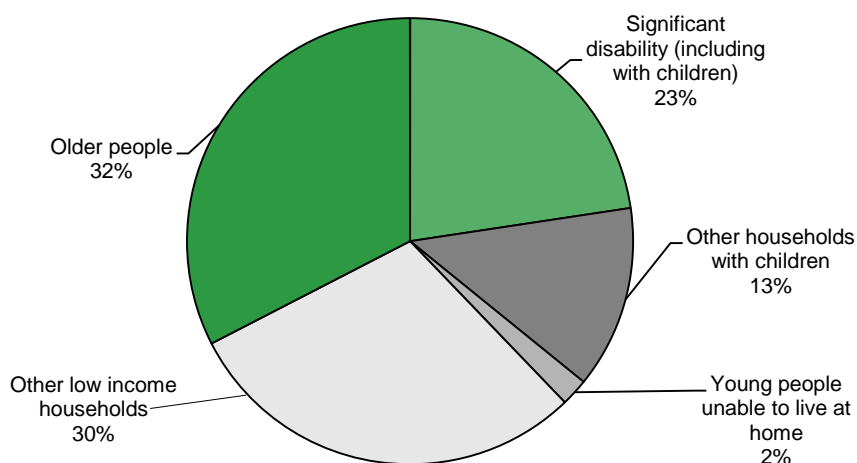
Note: Excludes LAHC properties used for short-term 'crisis' accommodation.

Changing needs profile of public housing tenants

The characteristics of people requiring public housing have changed. Over the past decade there has been a significant increase in single person households, tenants with significant disabilities, and elderly tenants. See Appendix 1, Figures 2a and 2b.

HNSW has projected that by 2021 over 50 per cent of all social housing need will be by older people and those with a significant disability.

Exhibit 2: Projection of all social housing need – client types (2021)



Source: HNSW March 2012 (modelled in 2008)

Public housing is a scarce resource in high demand

At 30 June 2012, there were over 55,000 applicants on the waiting list for a social housing placement by HNSW or a community housing provider. This represents about 120,000 household members. New South Wales has 247 areas and towns where social housing is available. In over 20 per cent of these areas, applicants can expect to wait more than ten years for social housing.

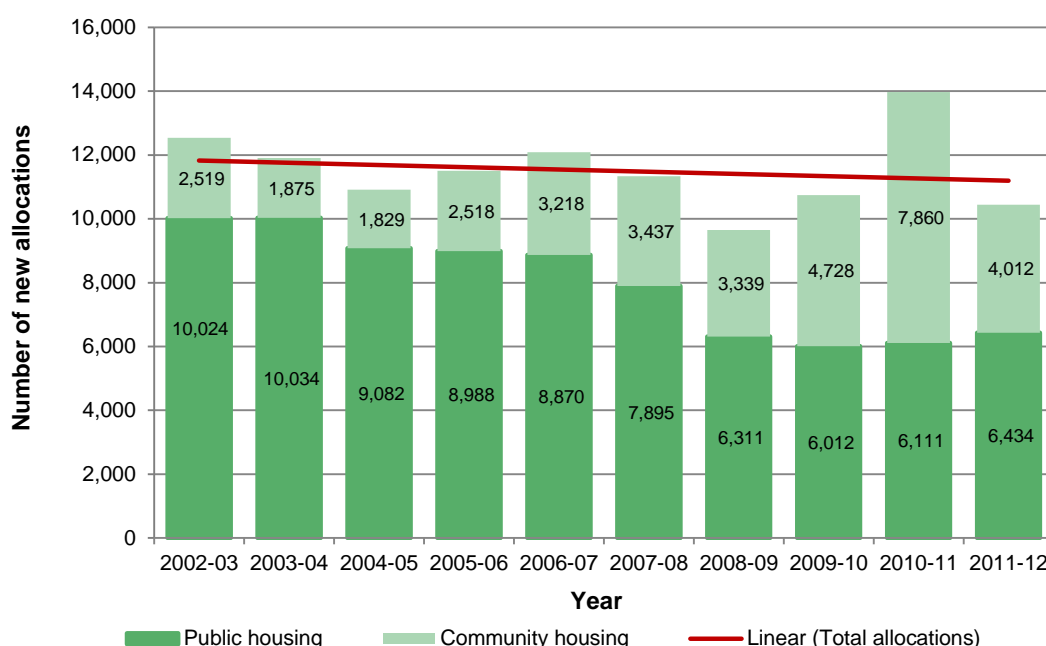
Exhibit 3: Social housing applicants on waiting list by region as at 30 June 2012

Region	Applicants on waiting list
Central Sydney	12,838
Greater Western Sydney	22,317
Northern New South Wales	12,141
Southern and Western New South Wales	8,183
Total	55,479

Source: HNSW November 2012

Over the last decade, the overall number of public housing applicants newly housed each year has almost halved, from 10,024 in 2002-03 to 6,434 in 2011-12. During this period the public housing stock fell by about seven per cent, partly due to transfers of management and stock to community housing providers. This transfer allowed the number of tenants moving into community housing to increase, but there is still an overall decrease in the number of tenants housed each year.

Exhibit 4: Newly housed public and community housing tenants 2002-03 to 2011-12



Source: HNSW September 2012

Note: The numbers of newly housed community housing tenants also include transfers between community housing dwellings, which may slightly inflate these numbers.

Decrease in the number of tenants newly housed over the past decade

There are fewer public housing tenancies today due to reduced public housing stock levels, and the reduction in the number of people per household. Now single households comprise almost 60 per cent of all tenancies. Refer to Appendix 1, Figure 3 for details on tenancies and people in tenancies by regional division over the last decade.

While the housing stock reduces, the number of potential tenants increases. The waiting list is projected to grow by 60 per cent, to more than 86,000 by 2016. However, there are also many households eligible for social housing that are not on the waiting list. By 2016, it is estimated that 132,000 households will be in this position. See Appendix 1, Figure 4 for details.

Overall, HNSW estimates that all social housing meets about 44 per cent of need.

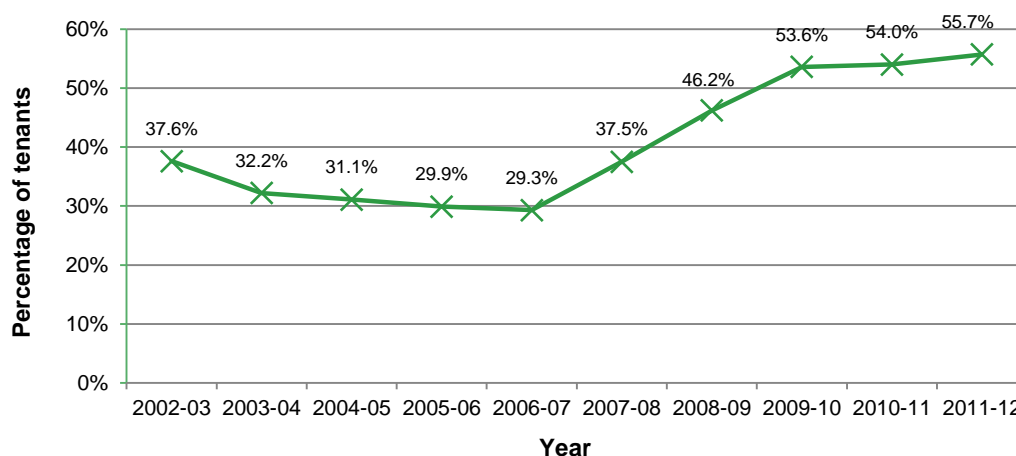
Of those applicants on the waiting list, almost 5,000 are classified as 'priority' applicants whose need for housing is more urgent because they are:

- experiencing unstable housing circumstances, or
- at risk of harm, or
- currently living in accommodation that is inappropriate for their basic housing requirements.

Need is not the only criteria that determines allocation but high needs clients have been targeted in accordance with a number of government policy directions. From 1995-96 the Australian Government gave greater priority to ensuring that new public housing allocations were targeted to those most in need. The 2005 Reshaping Housing reforms by the NSW Government confirmed and extended this approach.

Implementing this policy position has meant that over the past decade, the percentage of public housing allocated to priority applicants has steadily increased, from 37.6 per cent in 2002-03 to 55.7 per cent in 2011-12.

Exhibit 5: Percentage of applicants housed who are priority applicants, 2002-03 to 2011-12



Source: HNSW October 2012

Additional housing assistance for those not placed in public housing

With fewer applicants on the waiting list being allocated to public housing, HNSW offers private rental assistance to applicants who meet the eligibility criteria for that product.

Private rental assistance products help people to access and maintain a tenancy in the private rental market. These include Tenancy Facilitation, Private Rental Brokerage Service, Tenancy Guarantee, and Rentstart (Bond Loan, Advance Rent, Temporary Accommodation and Tenancy Assistance).

The number of people housed as a result of private rental assistance products has averaged around 34,000 a year over the past decade.

Existing public housing stock not meeting public housing need

The existing housing stock profile was developed when the majority of public housing tenants were working families. It consists of many larger properties (3+ bedrooms), and approximately 25 per cent of it is over 40 years old. There is now a disparity between the type of public housing stock that exists and the type of stock that would best match tenants' needs. There are fewer one or two bedroom properties than required, areas of demand have moved, and many homes require modification to meet existing tenants' needs. Changing tenants' needs and ageing stock are issues arising across Australian social housing systems.

Exhibit 6 provides an insight into the mismatch of dwelling to household size for public housing households. Only 67.6 per cent of public housing households match the size of the dwelling.

Exhibit 6: Comparison of bedroom entitlement with actual dwelling size, June 2012

		Size of dwelling required by tenants			
		Two bedrooms	Three bedrooms	Four bedrooms	Five or more bedrooms
Size of dwelling tenants are living in	One or two bedrooms*	52,772	6,230	700	101
	Three bedrooms	13,460	13,516	6,243	1,681
	Four bedrooms	1,155	1,457	1,927	1,686
	Five or more bedrooms	9	36	63	190

Key: [] overcrowded dwellings [] under-occupied dwellings [] dwelling size matches tenant requirements.

Source: HNSW March 2013

Note: Depicts 'rebated households' in public housing as at 30 June 2012. The 'size of dwelling required' applies HNSW's standard bedroom entitlement (equivalent to the Canadian Occupancy Standard (CNOS) plus one extra bedroom). * Bedsitters are included in one or two bedrooms.

The locations of social housing stock across New South Wales are set out in Appendix 1, Figure 5.

See Appendix 1, Figure 6 for details of the existing mismatch of public housing stock to need.

Some larger dwellings are occupied by smaller households because:

- smaller 'priority' households are being placed in dwellings that are larger than their standard entitlement, for example when smaller dwellings are not available in the area and there may be low demand from larger families for that location
- larger households have dropped in size but remained in the same dwelling.

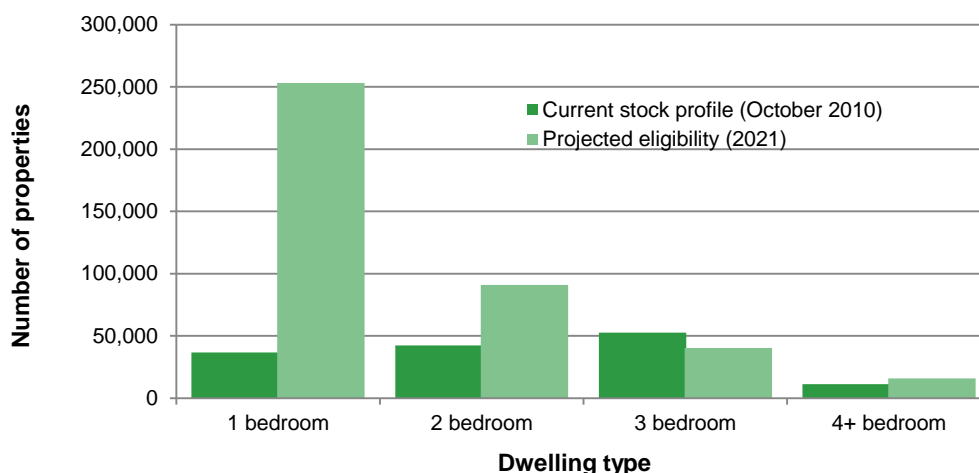
There are larger families on the waiting list that could fill the larger dwellings, but with priority status rather than household size as the key allocation factor, dwellings are under-occupied. The impact of this issue is not known as HNSW do not currently collect data on the extent to which new allocations are to larger properties than required.

HNSW advise that prioritising the allocation of housing on the basis of household size would require a change of policy, and could mean that some people in more urgent need of housing (for example high priority applicants) will miss out because they are often smaller households. This in turn could generate additional costs such as the use of temporary accommodation to meet their housing needs to reduce their risk of homelessness. On the other hand, more people may be housed over time, and rental income may follow.

The types of dwellings needed to meet demand into the future is significantly different to the current stock profile. Current and projected eligibility for social housing exceeds current stock capacity in all housing locations.

Over 30 per cent of households do not match their dwelling size

Exhibit 7: Comparison of social housing dwellings (2010) with projected eligibility for social housing (2021)



Source: HNSW April 2011 (modelled in 2008)

See Appendix 1, Figure 7 for regional comparisons.

The NSW Government has recognised for some time that the property configuration does not match the demand profile of applicants. There have been initiatives and resources directed toward reconfiguring some housing stock to address the mismatch, but not enough to keep pace with the changing client profile.

Prior to the separation of HNSW and LAHC, HNSW projected that for social housing to continue to meet the same level of need (i.e. 44 per cent of need) in 2021 it would:

- require an additional 2,500 social housing dwellings per annum
- cost more than \$9 billion over 10 years.

Although different circumstances prevailed when this projection was made, it is indicative of the scale of future portfolio and funding requirements.

Tenants live in public housing for a long time

The 2010 National Social Housing Survey of nearly 10,000 public housing tenants showed that in New South Wales public housing tenants were more likely to have lived in public housing for more than ten years, with over one-third for more than 20 years.

The number of exits from public housing has declined over the last five years. Contributing factors include:

- an increasing proportion of public housing tenants are vulnerable clients for whom the private market presents extreme challenges
- an increasing shortage of affordable housing options in the private market.

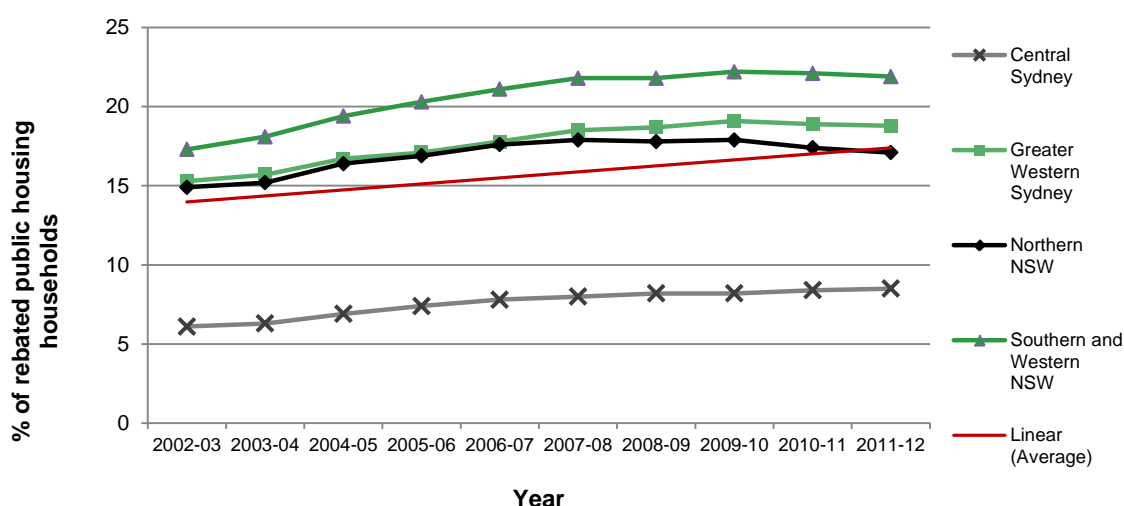
Since 23 October 2006, new tenants entering public housing are offered a fixed-term lease of two, five or ten years. Prior to this, tenants lived in public housing under continuous leases, when this was government policy. Tenants on continuous leases can remain in public housing 'for life' subject to meeting their obligations under the Residential Tenancy Agreement. The majority of public housing tenants (69.2 per cent) are still on continuous leases. See Appendix 1, Figure 8.

Not all public housing is fully occupied

Over the last decade, the proportion of public housing households under-occupying public housing has risen from 13 per cent in 2002-03 to approximately 16 per cent in 2011-12.

The Central Sydney region has the lowest level of underutilised properties as its stock profile has a greater proportion of smaller properties. In comparison, the stock profiles of Greater Western Sydney, Northern and Southern/Western regions are characterised by larger properties.

Exhibit 8: Percentage of rebated households under-occupying public housing by region, 2002-03 to 2011-12

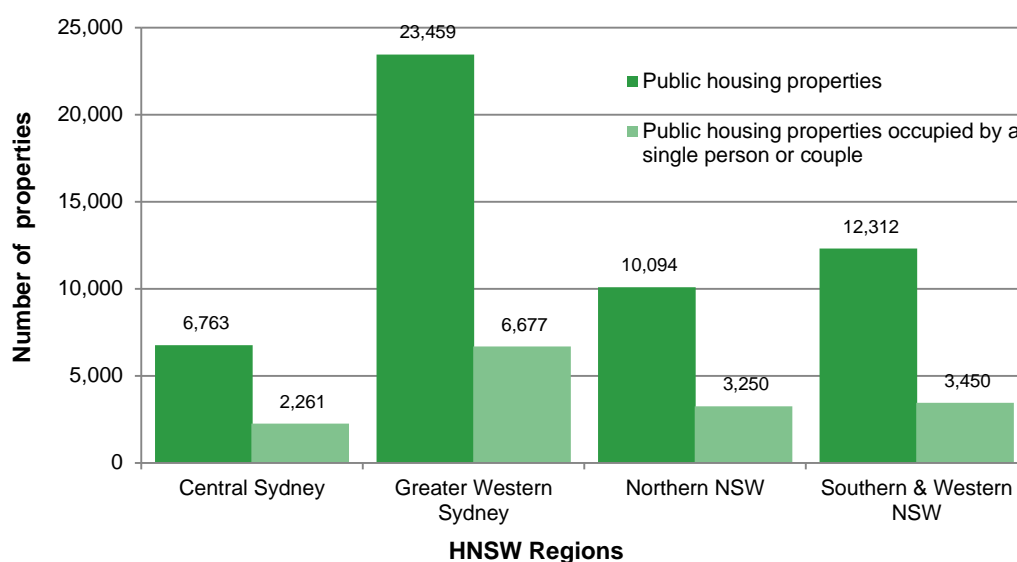


Source: HNSW October 2012

Note: Underutilisation is defined using the Canadian National Occupancy Standard (CNOS). If the household is occupying a dwelling with two or more bedrooms than required then the dwelling is deemed underutilised.

At February 2013, 30 per cent (around 15,600) of three or more bedroom public housing properties were occupied by a single person or a couple.

Exhibit 9: 3+ bedroom properties occupied by a single person or a couple, February 2013



Source: HNSW April 2013

Under-occupancy results in a drop in public housing rent revenue. For example, the average weekly rent received in 2011-12 for a fully occupied four bedroom public housing dwelling was \$159. Had it been occupied by one or two people only, the average weekly rent would be \$128 or about 80 per cent of the potential public housing rental income.

Under-occupancy results in a drop of rent revenue

HNSW advised that about 16,180 dwellings (housing those who do not pay market rent), were under-occupied across New South Wales at 30 June 2012. HNSW estimates a theoretical rent loss of \$25.6 million per year from this under-occupancy. This estimate does not represent an amount of additional rent that could be collected. Rather, it is a dollar representation of how the existing public housing stock is not meeting public housing need:

- there are insufficient small dwellings for the number of tenants requiring them
- this shortfall has been addressed by prioritising the placement of those in urgent need of housing irrespective of household size.

HNSW have advised that the costs incurred in rehousing large numbers of tenants quickly would be very high. These include:

- the cost of relocating people
- the cost of providing other forms of housing assistance to those on the waiting list who could not be housed
- the indirect cost of moving vulnerable people away from their networks of informal support (family and neighbours) and formal support (medical facilities and non-government support providers).

HNSW have suggested that these costs might exceed any gain in rent.

LAHC have also advised that taking action to realign the existing portfolio to reflect demand for smaller dwellings is not supported by the cost/benefit analysis of such action.

While the current stock profile and allocation process remain unchanged under-occupancy is likely to continue its upward trend.

2.2 Current public housing financial situation

LAHC's revenue primarily comes from collected tenancy rental payments and grants paid by FACS/HNSW. The LAHC also receives funding from the sale of properties. The budgeted 2012-13 amounts are:

- tenancy rental payments \$700 million
- grants towards the capital program \$65 million
- net asset sales \$165 million.

Rental income typically covers operational costs while grant funding and sales support asset programs including capital maintenance and upgrading of existing assets.

Rental income and grant funding are constrained, and LAHC report that the existing assets require increasing maintenance expenditure. New construction costs are higher than funding received from the majority of individual asset sales, although some properties in desirable areas do have a high value.

LAHC reports its key challenge as managing a housing portfolio to meet government's policy objectives within current funding arrangements.

LAHC advises that the current operating model of maintaining dwelling numbers and property condition standards under current funding is not achievable. In 2012-13, LAHC reported it was about \$330 million short of maintaining the current number of properties at a reasonable standard.

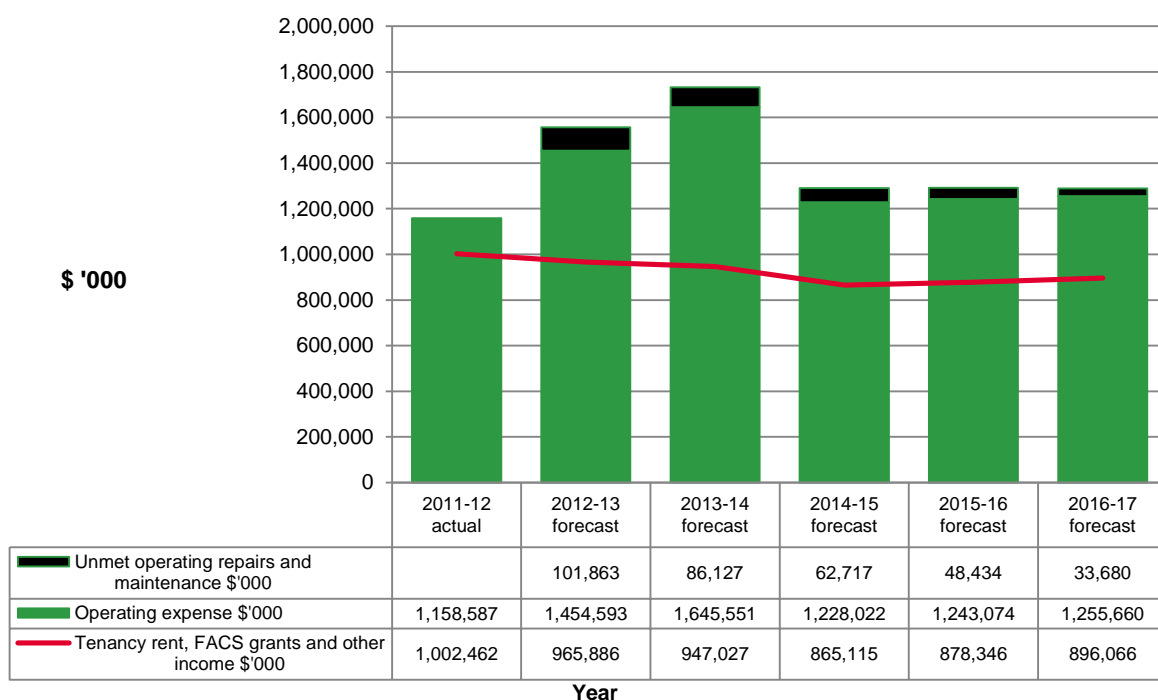
LAHC advises that to prevent the shortfall and continue to operate within its means in 2012-13, it is balancing its budget by:

- reducing maintenance and upgrading of existing properties and capital programs
- selling properties.

This approach is not financially sustainable.

At May 2013, LAHC's forecast was that the operating cost of providing housing would exceed revenue, with LAHC expected to be in deficit by about \$490 million in 2012-13. If an additional amount is added to cover the estimated shortfall to maintain dwellings at an appropriate standard, the deficit widens by another \$100 million. Exhibit 10 illustrates that LAHC's forecast operating expenditure will exceed its anticipated revenue over the next five years.

Exhibit 10: LAHC's projected financial operating result, 2011-12 to 2016-17



Source: LAHC May 2013.

Note:

- Projected grant income for 2014-15 to 2016-17 does not include FACS grants for LAHC's capital program as these have not yet been determined. In 2013-14 that grant is estimated to be \$57 million
- LAHC's operating expenses include non-cash items. See Appendix 1, Figure 9 for the financial summary of Exhibit 10.

In addition to the LAHC's financial challenge in meeting its operating expenses, LAHC's capacity to upgrade its existing supply of housing and invest in its new supply program is limited. Exhibit 11 shows LAHC's most recent forecast of capital expenditure for the next five years.

Exhibit 11: LAHC's projected capital expenditure, 2011-12 to 2016-17

	2012 actual	2013 forecast	2014 forecast	2015 forecast	2016 forecast	2017 forecast
New Supply and upgrading (business as usual) \$'000	344,539	239,085	276,237	228,964	224,875	208,972
New supply and upgrading (nation building) \$'000	44,626	18,970	1,200	0	0	0
Administration assets \$'000	1,082	3,600	2,600	752	876	876
Total capital expenditure \$'000	390,247	261,655	280,037	229,716	225,751	209,848

Source: LAHC May 2013

LAHC reports that a continuation of current strategies will see the portfolio decline over time in terms of dwelling numbers and standard. This will have a negative impact it suggests by increasing the level of complaints about the standard of public housing.

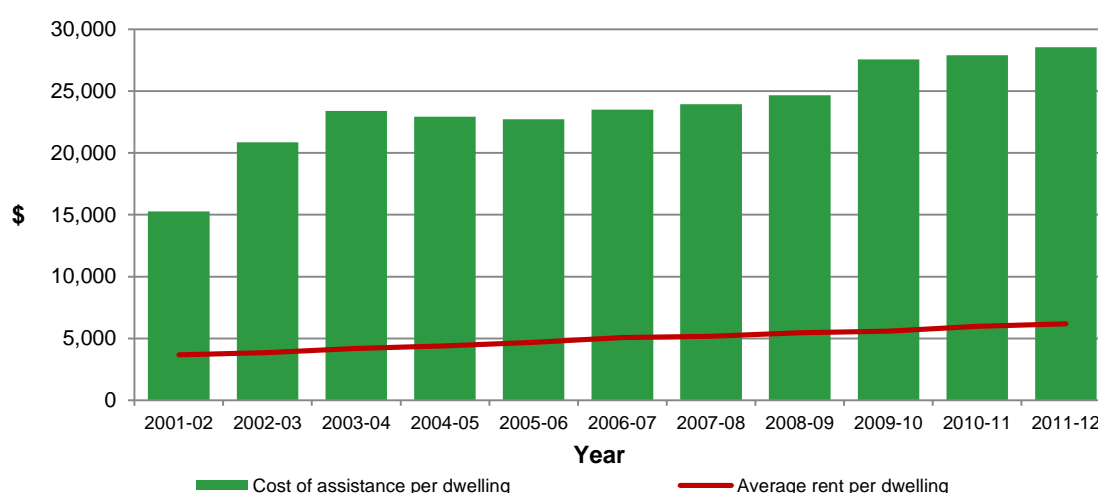
Without change, it is likely that public housing will either run down or be sold off.

Rental income is not keeping pace with the increasing cost of providing public housing

The total cost of public housing per dwelling is now almost 50 per cent higher than in 2001-02. Data from the annual Commonwealth Reports on Government Services show the gap has widened between rental income and total costs of providing assistance.

Public housing cost has risen by almost 50 per cent per dwelling

Exhibit 12: Cost of assistance per dwelling compared to average rent, 2001–02 to 2011–12



Source: Compiled by the Audit Office of New South Wales based on information in the Report on Government Services (2013, 2012, 2009 and 2007).

Note: The cost of providing public housing assistance includes user cost of capital, depreciation, repairs and maintenance, employee expenses, council and water rates, and other operating expenses. It does not include expenditure incurred on purchases (such as new building).

With the majority of tenants reliant on government for their income, rental income can only grow if there is an increase in the pension or benefit itself, for example by indexation or specific supplements.

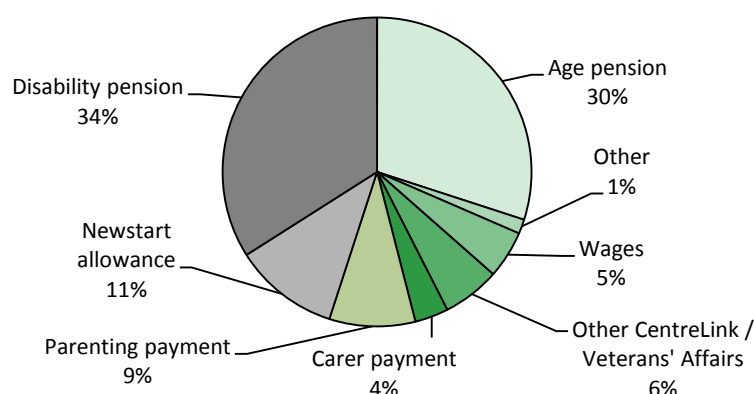
Gap between market rent and rent charged to public housing tenants is widening

LAHC's public housing portfolio was worth approximately \$32 billion in 2012, and could have notionally generated market rent income of around \$1.5 billion. However, nearly \$860 million was forgone to fund rental rebates to public housing tenants. Almost 90 per cent of public housing tenants receive a rent subsidy by way of paying less than market rent.

The current allocation process of giving public housing to those of highest priority has increased the percentage of tenants who are unemployed, and receive government benefits, and therefore pay the lowest rents. As a consequence, revenue growth is minimal.

Public housing rents are pegged to between 25 to 30 per cent of the income levels of their tenants, most of whom receive benefit payments through Centrelink. At June 2011, 94 per cent of public housing subsidised tenants received a Centrelink benefit as their main income, with only five per cent receiving wages as their main income source.

Exhibit 13: Public housing subsidised households at June 2011 – main source of income



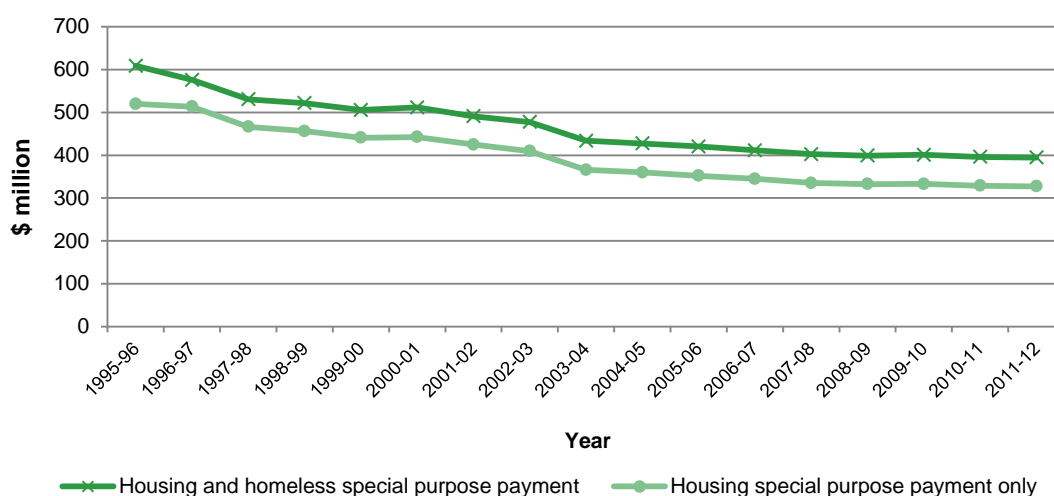
Source: HNSW September 2012

Only 42 per cent of market rent is expected to be recovered in 2012-13. This has declined from about 48 per cent five years ago. The gap between public housing rent and market rent is widening as market rents are increasing more quickly than the actual rent charged to public housing tenants. See Appendix 1, Figure 10 for details on housing rental income compared to market rental income.

Commonwealth grants are the lowest for a decade

Annual Commonwealth specific purpose payment funding for housing and homelessness has been declining over the last two decades.

Exhibit 14: Commonwealth real (2011-12 dollars) funding to New South Wales for housing and homelessness special purpose payments, 1995-96 to 2011-12



Source: HNSW March 2013. Note: Excludes State funding

On current projections, HNSW is expecting the Commonwealth funding to remain relatively stable over the next five years.

HNSW retain responsibility for receiving and allocating Commonwealth and State budget appropriations in the social housing sector. HNSW then devolve grant funding to LAHC. Since the separation of LAHC from HNSW, the funding to LAHC has declined. HNSW tell us:

- that decisions about the funding level of LAHC are policy decisions of government (not HNSW)
- the government makes policy decisions as to the apportionment of housing assistance funds to public housing via the LAHC and to other social housing programs (including private rental assistance, initiatives to reduce homelessness and measures to increase community and affordable housing).

LAHC advise that there has been no model established to date that compares the relative outcomes of the various funded programs. FACS/HNSW advise that it has carried out evaluations and program reviews of several initiatives and products, and is currently developing a cost effectiveness model to assist it to make more informed decisions about resource allocation based on the costs effectiveness of housing and homelessness assistances.

Funding arrangements between LAHC and HNSW are uncertain beyond 2013.

Increase in repairs and maintenance for ageing properties

The majority of dwellings (more than 60 per cent) in the social housing portfolio were constructed between 1970 and 2000. Over 36,000 dwellings (approximately 25 per cent of the portfolio) are over 40 years old, while just over ten per cent of the portfolio have been constructed since 2000. Refer to Appendix 1, Figure 11 for a breakdown of the age of dwellings.

The LAHC is responsible for repairs and maintenance of its assets at pre-determined standards.

Although there is an ageing portfolio with its associated increased need for repairs and maintenance, overall the annual maintenance expenditure has dropped over the last decade. See Appendix 1, Figure 12.

The annual maintenance requirement is the minimum amount needed each year to maintain the property portfolio at standard. Any shortfall adds to the ongoing maintenance requirement. At June 2011, this shortfall was estimated at \$302 million. LAHC has identified that at 2010-11 between 30 and 40 per cent of its properties are not at its "well-maintained" standard. LAHC is undertaking systematic property assessment surveys that will update the estimate of current maintenance requirements.

While LAHC attempts to maintain standards, because of the funding constraints it has delayed some maintenance, upgrading and capital programs. During 2012-13, approximately \$85 million of such works has been delayed.

LAHC sells public housing properties to meet operating cost shortfalls

LAHC dispose of properties each year. LAHC reported that from 2003-04 to 2011-2012 the sale of over 5,500 dwellings has raised \$1.2 billion.

For 2012-13 LAHC budgeted for revenue from net asset sales of about \$165 million, resulting in a portfolio reduction of over 500 properties.

Asset sales are reported by LAHC as a major source of funding to support its capital programs. It has advised that asset sales have also been used to support operating costs. LAHC explained that sales of properties are the balancing lever that it has and is using to cover the annual funding gap. LAHC advise its focus is to retain as many dwellings as possible under the current circumstances and minimise stock loss.

LAHC advises that the money recovered from individual asset sales is rarely sufficient to build new housing of the same capacity. For example, it could sell an existing fibro home for about \$120,000, it would need to sell three of these homes to be able to build a new dwelling.

Where possible, LAHC say, it looks to redevelop existing sites with increased capacity, for example, by replacing two three-bedroom homes with four two-bedroom townhouses. Redeveloped dwelling costs are about \$300,000 per residence.

About one
quarter of
public housing
dwellings are
over 40 years
old

Move toward community housing

New South Wales has been moving away from the traditional government-provided public housing model. Since 1996, New South Wales has been transferring some property management to community housing providers, and more recently, title transfers. This facilitates the growth of the community housing sector. This outsourcing trend follows similar directions in other Australian States and Territories, in line with the reform agenda set out in the National Affordable Housing Agreement.

In May 2009 the States and the Commonwealth agreed to develop a large scale community housing sector in Australia to own and/or manage up to 35 per cent of social housing stock by 2014. Under this agreement the States receive Commonwealth funding.

Community housing providers must manage their properties in accordance with relevant legislation, regulation and policies developed by HNSW, but they have some additional flexibility including income mix, and matching clients to properties.

In New South Wales, titles to 3,099 dwellings have been transferred to community housing providers for nil consideration. Title transfers to a further 2,921 properties are planned. The combined value of all these dwellings is reported to be almost \$1.5 billion. The New South Wales Commission of Audit reported in May 2012 that as part of the transfer the community housing provider sector has committed to deliver 1,200 new social and affordable housing properties over ten years. This will be financed by leveraging the housing assets against borrowings.

HNSW advise that community housing provider tenants have access to Commonwealth Rent Assistance that goes directly to the tenant and is recouped by the community housing provider, which helps them operate at a profit. This payment is not available to public housing tenants and so cannot be recouped.

Recommendations

- The government should develop a clear direction for a sustainable social housing sector that can function within the available funding such that:
 - the current challenges facing public housing and the fundamental question of what the role of public housing is are addressed. The direction should identify who is to be housed, and how funding and asset ownership will achieve a sustainable social housing sector, for the longer term
 - clear strategic objectives are set to implement the direction agreed
 - the roles, responsibilities and relationship between LAHC and HNSW, and their accountability towards achieving their objectives, are clearly understood
- The government should review housing funding arrangements and flows such that:
 - LAHC can make long-term decisions on its ownership and management within the public housing portfolio
 - HNSW can make long-term decisions on how best to meet its social and economic objectives.

3. Future of public housing

Are plans developed to ensure the mix of public housing reflects the requirements of those most in need?

Findings: Neither HNSW/FACS nor LAHC have as yet articulated long-term strategies or plans to address the challenges for the provision of public housing to those most in need. In the absence of such a clear direction, HNSW's and LAHC's tenant and asset management activities have sometimes been inconsistent and short-term.

Currently, FACS is developing a Social Housing Policy for proposed endorsement by Government, LAHC is developing an Asset Portfolio Strategy, and they are jointly developing an Estates Strategy.

The existing documented arrangements that support dual responsibilities between HNSW and LAHC such as the Housing Assistance Resourcing Plan (HARP) and Annual Funding Agreement have not provided certainty of future directions and funding beyond 2013.

Significant challenges face HNSW and LAHC including increasing demand for housing by single person households and those with complex needs, ageing and inappropriate dwellings, and maintenance costs. We looked to see whether plans and strategies were in place that addressed the challenges for the provision of public housing to those most in need.

Various strategies have been implemented over the past decade to address identified gaps in public housing. Some show efforts to match the asset base with the current and future needs of clients. These have included the:

- Reshaping Public Housing Reform
- New Directions in Social Housing for Older People
- 2007-2010 Building Stronger Communities initiative
- Planning for the Future: New Directions for Community Housing 2007-08 – 2012-13 strategy
- NSW Disability Action Plan 2009-2013.

At a Commonwealth level in 2009, the Nation Building Economic Stimulus Plan construction and maintenance program was developed. The Australian Government invested \$1.9 billion to build around 6,000 social housing homes in New South Wales by June 2012. These dwellings comprise a large parcel of those transferred to community housing providers.

These New South Wales initiatives have not been part of an overarching long-term plan to respond to the growing need. Nor has there been consistent monitoring and reporting on the effectiveness of interventions.

As HNSW and LAHC share responsibility for achieving the aims of the *Housing Act 2001*, planning for the future of public housing now falls to each of these agencies. Allocating the legislative housing responsibilities between the portfolios of DFS/LAHC and FACS/HNSW was intended to create new opportunities to improve housing services and asset outcomes for clients and government. These agencies must work closely to achieve the objectives of the legislation.

It is well understood by both agencies that public housing assets are increasingly mismatched with need (wrong size and wrong place), on estates and old. This situation is arising across social housing systems in Australia.

As separate agencies that must work closely, LAHC and HNSW have worked together to develop a number of documents reflecting their relationship and accountabilities. A Ministerial Charter was signed in October 2012. The charter sets out the respective roles and accountabilities for each minister in shaping housing assistance policy and delivering financially viable social housing in New South Wales.

There have been efforts to match the asset base with the needs of clients

A Working Together Protocol was released in December 2012. The protocol provides guidance to managers and staff about how LAHC and HNSW will work together at an operational level to deliver asset and tenancy management services to public housing. A Memorandum of Understanding which describes their respective roles and responsibilities has also recently been endorsed by HNSW/FACS and LAHC/DFS.

LAHC and HNSW are also developing a Service Level Agreement that will form an operational agreement which will be reviewed annually.

As a starting point for their dual responsibilities, LAHC and HNSW have developed the agreed key result of **ensuring people have access to affordable, safe and sustainable housing that contributes to social and economic participation**. To support this broad objective, a Housing Assistance Resourcing Plan (HARP) has been developed by HNSW. The HARP aims to inform funding decisions and align them to government policies, strategies and funding agreements.

The HARP is intended to be a ten-year assistance plan, although as yet it is only fully detailed for the year 2012-13, and partially completed up to 2015-16. It sets out broad investment levels and outcomes in both asset and non-asset housing assistance reflecting NSW Government commitments and strategies. The HARP includes indicative resource allocations to guide long-term departmental program development and incorporates strategies for program delivery. It also shows program outputs for HNSW and LAHC.

Although FACS/HNSW is responsible for funding to deliver on the HARP commitments, Annual Funding Agreements will be developed between HNSW and LAHC. These are to be approved by the responsible ministers.

Relocating LAHC into a separate department from HNSW was intended to bring more transparency in the allocation of funds, and rigorous examination of where the greater benefit lies in expenditure. But it must also deliver the certainty required to allow the long-term planning that the public housing sector needs in order to achieve sustainability.

We found that the arrangements between HNSW and LAHC have created uncertainty in negotiating the funding allocation. This may indicate that the current protocols and agreements are not clear enough.

Currently, they have no long-term funding agreement under which to plan their ongoing activities.

How the agreement under the HARP will flow into the day-to-day operations of the agencies, how it will impact on the mix of public housing, and when it will emerge as a ten-year plan is not clear.

While the key result for public housing is identified in the HARP and program responsibilities and budget are detailed for some periods, how that key result is to be achieved under the current public housing model is also unclear. There are fundamental questions about the future of public housing that need to be resolved so that appropriate, long-term strategic planning can be effective. These include:

- with demand outstripping supply to such an extent, what are the priorities for housing people while remaining sustainable both financially and socially?
- what is the appropriate model of ownership, LAHC or community housing providers or a mix, and if so, what is the best mix?
- with costs growing and revenue declining, can revenue be increased?

A range of options have been explored to address these public housing issues such as tightening the eligibility for social housing, increasing rent, selling existing stock, management and ownership transfer to the community housing sector. However, these have not yet been translated into a plan to address the underlying systemic and structural issues to ensure sufficient supply and a viable social housing system.

There is work towards developing a long-term plan to reform social housing

The LAHC has commenced work on an Asset Portfolio Strategy due at the end of 2013. This will include providing a number of scenarios aimed at improving the financial sustainability of the agency and develop the direction to take to achieve sustainable portfolio management. The final strategy is expected to deliver initiatives on estates renewal, targeted sales, maintenance of properties and new dwellings.

FACS is currently developing a Social Housing Policy for proposed endorsement by Government. The Policy will outline options to achieve long-term sustainable reform to the social housing system in New South Wales. FACS/HNSW tell us that FACS is considering options in terms of funding, assets, and current and future clients.

They are jointly developing an Estates Strategy.

The value of such strategies and policies will be enhanced by the comprehensive comparison of public housing funding against other forms of housing assistance, comparison of value for money between programs, and analysis of the overhead costs of operating various programs.

With such an evidence base and greater transparency, decisions can demonstrate that limited resources are being used cost effectively.

Recommendations

- LAHC should, by December 2013, complete and release an asset portfolio strategy that delivers housing at an appropriate standard and shows how future new supply housing will align with emerging client need. The strategy should include short-term and long-term targets to enable effective monitoring and reporting on progress
- FACS/HNSW should, by December 2013, complete a social housing policy that aligns tenant management with emerging client need. The strategy should include short-term and long-term targets, and forecasts to enable effective monitoring and reporting on progress
- FACS/HNSW and LAHC emerging policies and strategies should be based upon evidence of the cost effectiveness of asset and non-asset interventions to meet the specific needs of public housing tenants
- Once the policies and strategies are decided, these need to be translated into effective action. HNSW and LAHC should, by June 2014, develop organisational plans that are clearly linked to these including:
 - gap analysis
 - objectives
 - targets
 - funding
 - performance measures and progress reporting.

4. Public housing objectives and policies

Are objectives, policies and procedures set to ensure the available supply of public housing is shared in accordance with legislation?

Findings: The New South Wales social housing system has multiple broadly-stated legislative objectives set out in the *Housing Act 2001*. These cover equity, social and financial sustainability.

HNSW's and LAHC's internal objectives have not achieved a balance between the objects of the Act.

HNSW's and LAHC's internal objectives, indicators and measures only show a limited picture of each agency's performance. None demonstrate how the agency is delivering on objectives to achieve social sustainability, or allow an assessment against the objects of the Act in total.

The application of some HNSW policies focus on the urgent needs of priority clients, elevating the achievement of one legislative objective. This limits the achievement of others such as social mix and maintaining efficient housing administration.

HNSW also has policies that could be used to maximise the use of the existing asset base. However some constraints on the allocation, relocation and termination of tenancies contribute to public housing supporting fewer people, and its use becoming less efficient.

The objects of the *Housing Act 2001* address equity, social and financial sustainability

Social and financial sustainability and equity are the focus of the objectives of the *Housing Act 2001* which apply to HNSW and LAHC. In regard to equity, this focus is on housing people who are most in need, and ensuring that the available supply of public housing is shared. This aim is in the context of the needs of the State and available resources.

The objects of the Act are broad and varied, and include:

- to ensure that public housing is developed as a viable and diversified form of housing choice
- to ensure that public housing and community housing reflects the housing standards of the general community and is designed to cater for the ongoing needs of consumers
- to ensure that the public housing system focuses on housing people who are most in need
- to ensure that the available supply of public housing is shared equitably among people who are most in need
- to maintain an efficient housing administration to ensure the effective coordination and provision of all housing services
- to encourage social mix and the integration of different housing forms in existing and new communities
- to attract investment in public housing, including related activities such as tenant employment and the provision of integrated services.

While the Act does not give priority to one object over another, the implementation of government policy has.

We looked for a range of internal objectives within HNSW and LAHC that would address the aims of the Act by balancing efforts on such aspects as increasing property modification levels, integrating different housing forms, meeting the needs of target groups, developing sustainable tenancies, achieving social mix, and improving property utilisation. While we accept that the effort of each agency may not be directed at each specific objective, in combination the objects of the Act should be evident across their internal objectives.

Internal objectives have not achieved a balance between the objects of the *Housing Act 2001*

We have seen both LAHC and HNSW have separate internal strategic and business planning documents intended to meet their agency outcomes. HNSW has a set of outcomes (and internal measures) working towards its management of the housing portfolio and development of broader strategies including:

- leading reform in the allocation of social housing system
- reduce disadvantage on estates
- appropriate and accessible housing assistance, and effective tenancy management.

LAHC has set internal objectives to meet its role as the owner and manager of New South Wales public housing assets, with the aim of maximising financial and social outcomes within the agreed policy framework. The HNSW and LAHC objectives and measures are set out in Appendix 2.

While HNSW and LAHC have outcomes, internal objectives and measures of success, their linkage to the objects of the Act is unclear and there are gaps. For example there are no internal objectives related to:

- encouraging social mix, which we would expect to see in each agency's objectives
- giving opportunities for public housing tenants to be involved in the management of their housing and the development of policies, which we would expect to see in each agency's objectives
- promoting equity between levels of housing assistance, which may be more relevant for HNSW.

We have seen that HNSW have a range of policies and procedures which impact the achievement of legislative objectives. This includes but is not limited to the policies on:

- the allocation of public housing to applicants
- relocation of public housing tenants to an alternative property due to under-occupancy and/or changes in tenants circumstances
- rent policy
- renewing fixed-term leases for on-going eligibility of public housing tenants.

4.1 Allocation of public housing to applicants

The current allocation process impacts upon social and economic outcomes.

Priority housing applicants now make up the majority of allocations. This elevates the achievement of one legislative objective - focusing on people who are most in need - and limits the achievement of others such as encouraging social mix and maintaining efficient housing administration. The application of the current housing allocation process can result in:

- highly concentrated areas of social disadvantage (does not encourage social mix and does not address efficiency). This has:
 - exacerbated the waiting list with people wanting relocations
 - had social costs with increases in crime
 - had monetary costs for repair or demolition and relocation
 - increased the number of properties in areas perceived as undesirable that are difficult to let
- reduced net rental income (does not address efficiency)
- underutilisation (does not address efficiency or some aspects of equity)
- development of a dual waiting list – 'priority' applicants and general 'wait-turn' applicants (does not address some aspects of equity).

Increases in the proportion of priority housing applicants have contributed to the concentration of disadvantaged households in public housing, compounding social problems associated with some large public housing estates. A June 2012 consultant's report for HNSW found that the cost impact to government for imprisonment and community correction for estates is more than twice the cost impact for the general New South Wales population. It is estimated at around \$80 million a year. More than one third of social housing dwellings are on estates. Refer to Appendix 1, Figure 5.

A number of renewal projects are in progress to reduce the concentrations of disadvantage within estates. LAHC reports show there are challenges with implementation of some including:

- increased development costs and tender prices
- public housing projects that have been planned have not been funded
- limited market sector interest
- approval issues.

A new Estates Strategy is being developed jointly with FACS.

The existing allocation process also results in housing more single person households over couple households and families. Exhibit 15 shows that 44 per cent of new applicants on the waiting list are single, and 36 per cent are families with children. This balance is not reflected in the proportion of people housed. In 2011-12 more single applicants were housed (60 per cent) and fewer couples and families. HNSW tell us that this reflects the fact that single people have more difficulty in paying private market rents.

Exhibit 15: Proportion of new public housing tenants during the year and waiting list by household type

Household type	Newly housed 2011-12	Waiting list 30 June 2012
Single	59.8%	44.0%
Couple	5.3%	8.3%
Single/Couple parents with children (under 18 years)	27.5%	35.5%
Other – are the remaining group households including extended families with children, households with older or no children.	7.2%	12.1%
Total newly housed tenants (excluding existing tenants rehoused) and waiting list applicants	6,434	55,479

Source: HNSW September 2012

Local allocation strategies

There are times when HNSW develops an allocation strategy for a particular area. A local allocation strategy allows staff allocating housing to take into account the characteristics of an area, the needs and circumstances of applicants and existing tenants, and the dynamics of existing communities. Under a local allocation strategy, the successful applicant may not be the next person on the waiting list. These strategies are intended to provide a more flexible approach to allocations to support the development of successful and sustainable communities.

Our review of the local allocation strategy sample provided by HNSW suggests that most local allocation strategies are implemented to respond to major nuisances or public disorder issues. Associated problems include public housing transfer applications increasing, properties remaining vacant or hard to let, and social problems (for example high crime rates).

Local allocation strategies have been used to address local issues

Exhibit 16: Case study – metropolitan local allocation strategy

This local allocation strategy was implemented because it was found that the allocation process was exacerbating the social issues in the buildings, with an increasing proportion of allocations to applicants with complex needs. At the time, 72 per cent of allocations to the buildings came from the priority housing waiting list and 57 per cent of allocations were to homeless people. These buildings and the immediate surrounds were of particular concern with regard to anti-social behaviour, nuisance and annoyance and violent crime.

Source: HNSW October 2012

People’s needs are often complex, and in considering different allocation approaches, HNSW says that setting statewide allocation targets or quotas based on tenant characteristics is impossible due to the number of variables within the allocation process. However, a ‘local’ allocation strategy provides a more flexible approach to allocations that could support the development of successful and sustainable communities.

These local allocation strategies can apply quotas to house particular types of tenants. Quotas could be developed based on individual need, different housing target groups or the characteristics of the local community.

Bedroom entitlements

Under HNSW’s bedroom entitlements policy, a single person may be entitled to a studio or a one or two bedroom property, a couple to one or two bedrooms. HNSW will also match a household to a larger property than their standard entitlement if there is no exact match, and a larger property is available in that allocation area. This approach is more generous than other States and community housing providers.

For example, a large community housing provider’s policy states that in order to maximise the utilisation of scarce housing resources and optimise rental income to ensure financial viability, properties are allocated according to minimum entitlement where suited to the applicant’s household composition.

Exhibit 17: Comparison of bedroom entitlement policies

Household type	HNSW standard bedroom entitlement	A community housing provider’s standard bedroom entitlement - minimum
Single people	Studio, one or two bedrooms	Studio
Couples	One or two bedrooms	One bedroom
Single people or couples with one other household member	Two or three bedrooms	Two bedrooms
Single people or couples with two other household members	Two or three bedrooms	Two bedrooms
Single people or couples with three other household members	Three or four bedrooms	Three bedrooms
Single people or couples with four other household members	Three or four bedrooms	Three bedrooms
Single people or couples with five or more other household members	Four bedroom or, if available, five or more bedrooms.	Four bedrooms

Source: Audit Office research

HNSW advise that:

- housing allocation areas often have low or no applicants waiting for larger homes. It says that allocating above standard bedroom entitlements was implemented in order to manage stock supply and demand imbalances
- some tenants may be allocated an additional bedroom so that it allows them to remain in place as their support needs increase and carers can stay. It can relieve the need to relocate them when they can least handle a move to other accommodation and reduces operating costs through relocation.

The HNSW bedroom entitlement policy contributes to the under-utilisation of public housing.

4.2 Relocation of public housing tenants to an alternative property due to under-occupancy and/or changes in tenants circumstances

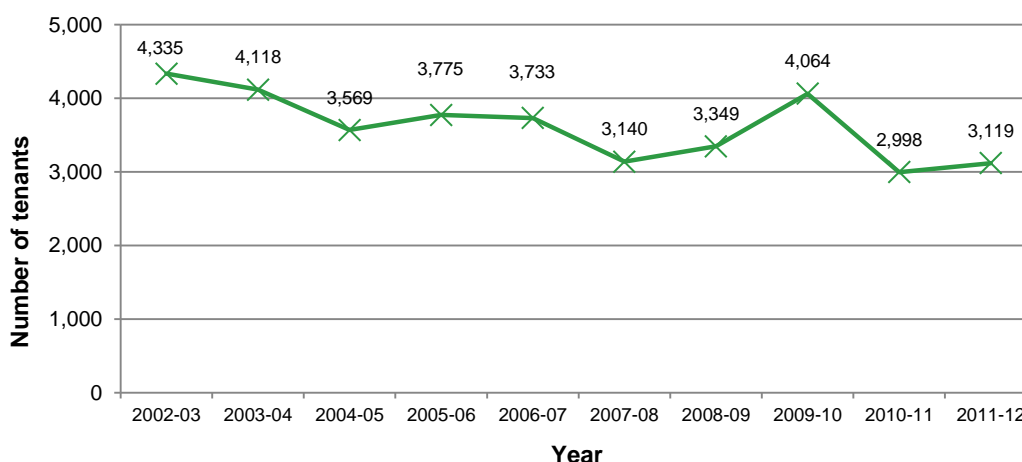
The relocation process should enable HNSW to respond to changing tenant needs and to efficiently use its available supply.

HNSW can relocate a tenant for a number of reasons under its tenancy policy, including:

- under-occupancy – the property is too large for the tenant's household, for example, due to changing circumstances such as children leaving home
- overcrowding – too many people living in the property
- to reinvigorate housing estates and complexes
- the property has features, such as modifications for people with a disability that are no longer needed by the people living in the property
- the property or its location is unsuitable for the tenant and their capacity to sustain the tenancy is threatened
- the Mutual Exchange Program – allows tenants to initiate relocation.

There are not enough properties within LAHC's portfolio to suit the needs of today's tenants. At 31 August 2012, 8,443 public housing tenants were waiting for relocation to an alternative property due to change of circumstances. Just over 50 per cent of existing tenants waiting for relocation are seeking it for medical reasons. There has been a consistent decline in the number of relocations since 2002-03. If a suitable property is not available HNSW also has the option to modify the existing property or consider head-leasing a suitable property.

Exhibit 18: Public housing tenants rehoused during the year, 2002-03 to 2011-12



Source: HNSW September 2012

HNSW has the means to relocate tenants to different properties as their needs change to maximise the use of the existing asset base. If necessary, HNSW can enforce this right through the Consumer, Trader and Tenancy Tribunal (CTTT).

Although the option to take tenants to the CTTT was introduced in 2005, this provision has not been widely used. HNSW advise that it can make use of the right to transfer tenants to an alternative property when given a clear mandate to do so. For example notices of termination were issued to a number of households under an Estate Transformation Strategy that started in 2006. No cases went to the CTTT as the tenants agreed to move once they received the notices.

In the last year, there has only been one application lodged to the CTTT on the basis of section 151 of the *Residential Tenancies Act 2010*, to terminate where the landlord has offered alternative premises to the tenant.

Without a general mandate to use the available tools to address under-occupancy, HNSW's overall strategy has been to encourage tenants to move to a smaller property where available and where they are willing to do so. There are limitations on the scale to which this can be achieved.

Exhibit 19: Case study – 2011-12 HNSW relocation project to address under-occupancy

To make some progress in addressing under-occupancy, in mid 2011, HNSW focused their efforts on the largest under-occupied properties (i.e. four bedroom properties occupied by a single person or couple). Of the 925 identified properties, approximately 200 tenants were relocated. In the same period additional four bedroom properties dropped to single occupation. Overall, under-occupancy of four bedroom properties by single people was reduced by a net number of 96 properties out of the 925 (a ten per cent reduction).

Source: HNSW July 2012

HNSW says that to achieve even this reduction was time-consuming and involved repeat visits to clients to encourage them to move. This was then followed by a long process of identifying a property which was attractive enough to persuade the clients to accept the move.

HNSW can offer tenants relatively little incentive to move. Many refuse to move.

More needs to be done in this area, including considering financial incentives and disincentives for under-occupiers.

Since the audit commenced, HNSW is implementing an initiative to reduce under-occupancy by changing the current allocation process to raise the ranking of under-occupiers to be equivalent to the ranking of priority applicants. The justification for this change is that more actual people will be housed over time, although it may result in homeless people waiting on the Housing Register longer. As demand outstrips supply this remains an ongoing tension for allocation staff and HNSW generally.

HNSW also propose to apply a financial disincentive to those tenants who are under-occupying public housing properties and have rejected two reasonable offers of alternative accommodation.

In 2010, an internal HNSW report identified recommendations to improve relocation practices. It included:

- ownership at the highest level - continue or increase the clear messages from the top down
- a formalised and agreed approach to planning, monitoring and reporting at the start of the work with senior management
- a centralised coordination role to oversee relocations to ensure greater consistency
- centralised reporting and monitoring tools for reporting on relocations with set targets to be met.

**HNSW
propose
initiatives to
reduce under-
occupancy**

To improve the take-up of relocation offers, the 2011-12 Statewide relocation project would have benefited from adopting these recommendations. We support these recommendations for future relocations across HNSW.

In March 2013, changes to the current 'Succession of Tenancy' policy were introduced. The change aims to free up properties occupied by people with lesser housing need and offering them to approved priority applicants on the waiting list. It aims to remove the ease of allowing adult children and other household members to inherit the public housing tenancy. Instead they will be required to prove they meet the criteria for priority housing.

4.3 Rent policy

The rent paid for public housing dwellings is solely based on the tenant's household income. Public housing tenants pay between 25 per cent and 30 per cent of their household income as rent. The maximum that can be charged is the market rate for the property. This means the higher the income of the household, the more rent paid.

Tenants with the same income pay the same rent regardless of the size, location, condition or general amenity of the dwelling they occupy. At present, the person with a three bedroom house pays the same amount as the person in a studio if they have the same household income.

The 1993 report by the Industry Commission identified that this can lead to inequity when public housing tenants in similar circumstances are allocated houses of significantly different amenity. Also tenants have little incentive to change their housing circumstances as their income or family composition change.

Over time other rental models have been suggested, for example, when an applicant is accepted onto the waiting list, they nominate a housing zone where they would like to reside. For more desirable dwellings or locations, rents may be higher. This approach would allow the tenant to make an informed decision of whether they prefer to locate in one area over another at an additional cost, or if they prefer to pay less rent.

The 2009 Commonwealth Report Australia's Future Tax System – Report to the Treasurer also identified issues including:

- public housing tenants currently receive a higher average level of assistance than private tenants, with assistance poorly targeted to need
- the use of queues to ration public housing discourages workforce participation
- public housing rent-setting reduces incentives to work and can also contribute to inter-generational poverty traps
- setting rents with reference to tenant income means there are no effective price signals governing the allocation of public housing.

HNSW has implemented a number of initiatives to increase rental income since 2000 which it estimates increased rental income by \$160 million per year. However, increases in rent must also be balanced by considering social sustainability.

HNSW's analysis of the impact of rental increases shows that each one per cent increase in the percentage of assessable income charged as rent would increase rental revenue by approximately \$20.5 million. This analysis shows that increasing rent to 30 per cent of the income of a single tenant on a pension would leave the tenant only \$43 above the poverty line. It also shows that single tenants on Newstart are already below the poverty line at the current rent rate of 25 per cent, so any further rent increase would worsen their circumstances.

4.4 Renewing fixed-term leases for on-going eligibility of public housing tenants

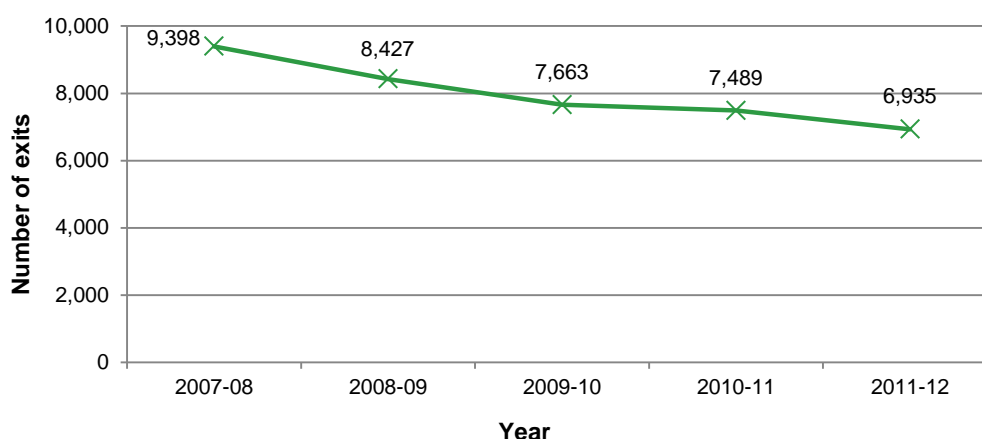
Since a change in legislation in 2005, HNSW issues two, five and ten year leases instead of continuous leases. The Reshaping Public Housing reform that introduced this change was to provide for eligibility for public housing to be based on the concept of housing need, rather than the traditional measure of income level as the primary eligibility criterion.

If a tenant no longer has the housing need and could be accommodated in the private rental market, it is the public responsibility of the social housing landlord to ensure that the tenancy is not renewed in order to make room for someone in greater housing need.

Source: NSW Legislative Council Hansard and Papers 19 October 2005, Residential Tenancies Amendment (Social Housing) Bill.

Tenants on fixed-term leases sign Residential Tenancy Agreements with HNSW. The agreement sets out the legal rights and responsibilities between a tenant and HNSW. Tenants and HNSW also have to comply with *the Residential Tenancies Act 2010*. Tenants on fixed-term leases are required to exit if the eligibility review towards the end of their lease finds they no longer meet the requirements. This process is primarily focused on income levels and assets. This policy change has had little impact in freeing more housing for those most in need. HNSW data shows that there are very few exits.

Exhibit 20: Exits from public housing, 2007-08 to 2011-12



Source: HNSW September 2012

An analysis by HNSW of the two year fixed-term leases found that only around two per cent of tenants who had their two year lease reviewed were found to be ineligible and so left public housing. HNSW tell us this is because these households continue to be in housing need. This result suggests the use of this mechanism as an aid to balancing the allocation of public housing to those most in need is not as effective as intended.

Fewer than seven per cent of public housing tenants are on a ten year lease, almost 17 per cent are on five year leases and less than six per cent are on a two year lease.

The remaining 69.2 per cent (or 77,205) of public housing tenants are on continuous leases which are a carryover from the pre-2005 arrangements. This figure is decreasing at a rate of around three to three and a half per cent per annum.

While fixed-term renewable leases have applied to all new tenants since July 2005, this has had little impact on people moving on from public housing.

Almost 70 per cent of tenants are on continuous leases

Recommendations

- In developing organisational strategies, HNSW and LAHC should, by June 2014, ensure that their multiple legislative objectives translate into clearly defined, balanced and sustainable internal objectives that are feasible within available funding. Where government policy dictates the elevation of a specific objective, this should be acknowledged and clearly reflected in internal objectives
- HNSW and LAHC should, by June 2014, agree a review process to assess the impact of policies and procedures to identify those that limit the achievement of objectives
- HNSW should, by June 2014, continue current initiatives and promote proposals to make the best use of existing public housing. They include:
 - aligning housing allocation with housing stock better, for example as is currently under consideration, by giving higher priority to rehousing tenants under-occupying
 - introducing financial incentives and disincentives for people occupying properties larger than they need, taking into account the characteristics of the client group
 - considering how local allocation strategies may be used to support the development of successful and sustainable communities
 - reducing vacancy turnaround times
 - consistently implementing policies for relocation and ensuring they are monitored and reported
 - identifying and addressing current policies and practices that may act as disincentives to tenants to seek work
 - considering other rent setting models
- LAHC in consultation with HNSW by December 2013, finalise the government's long-term strategy for managing public housing estates to deliver a sustainable reduction in disadvantage on estates.

5. Control activities and information on tenant needs

Are identified controls appropriately applied?

Is information on tenant needs and circumstances obtained and reviewed on a timely basis?

Findings: Recommendations made in reviews in 2008, and more recently, have not been fully implemented. The reliability of the existing housing allocation function could be at risk without improved management monitoring and quality assurance procedures over allocations being implemented.

HNSW primarily relies on public housing tenants and applicants on the waiting list to advise HNSW if their situation changes. HNSW does not conduct a regular review of changes in circumstances once an applicant has made the waiting list or once a tenant has moved into public housing. Without additional review points, there is increased risk of dwellings not being occupied by those most in need. However, it seems that until there are suitable dwellings for people to move to, this risk cannot be addressed.

LAHC has adopted the Property Disposal Procedures developed by HNSW in 2007. There has been no subsequent review of the adequacy of these controls to protect the asset base from leakage during transactions.

5.1 Controls on public housing allocation and information on tenants

We looked to see if HNSW has controls that are effective in ensuring the available supply of public housing is allocated equitably among households most in need. To achieve this, we looked at the controls in place for:

- public housing allocations
 - establishing an applicant's eligibility for public housing
 - allocating available public housing property to eligible applicants
 - maintaining the waiting list (or 'Housing Register') for currency and accuracy.
- changing needs
 - monitoring the changes in circumstances of tenants for currency and accuracy
 - reviewing existing tenants circumstance for ongoing eligibility of public housing and suitability of their dwelling to their needs.

Public housing allocation

The allocation of public housing is one of the primary functions of HNSW. Client service officers in each region assess eligibility and approve or reject a Housing Register applicant in accordance with HNSW's Eligibility for Social Housing policy. Priority housing must be approved by a Team Leader but a client service officer has the delegation to recommend that the Team Leader approve an application.

Once on the waiting list, the process for matching eligible applicants with properties as they become available is outlined in HNSW's Matching and Offering a Property to a Client policy. This process is managed by letting officers who monitor vacant properties, identify suitable clients on the shortlist and process both shortlist and manual offers (non-standard allocations). HNSW's computerised HOMES system provides the automated function of generating the shortlist of applicants whose needs or characteristics match the elements of the vacant property. But ultimately, it is the letting officer who inputs the final allocation.

Agencies that control or manage public resources for allocation to applicants or clients have been shown to be susceptible to corruption when demand for them exceeds supply. The Independent Commission Against Corruption (ICAC) has identified a number of corruption risks in the allocation of resources to clients.

Corruption risks may be exacerbated when the applicants for these resources are particularly vulnerable or dependent. In 2008, ICAC identified some system failures within HNSW. ICAC made recommendations to HNSW to:

- develop formal procedures for allocation strategies
- subject the procedures to risk assessment and audit
- assess corruption risks in the process
- revise its 'Hard to Let' properties procedure
- systematise document verification procedures and
- improve training on reporting and handling of corrupt conduct.

HNSW has advised that following ICAC's investigations it adopted a number of strategies to mitigate risks. These include:

- developing the HNSW Code of Conduct and Ethics
- continuing to review policies and strategies on fraud and corruption control, including assessing clients that apply for social housing
- using the HOMES operating system for the application and assessment process, including assessing clients for priority housing
- setting clear evidentiary requirements to substantiate urgent and complex needs
- requiring a senior officer to review and approve priority housing recommendations
- introducing an electronic record keeping system.

However, risk still exists. In 2011-2012, an HNSW internal review reported potential risks in the misallocation or unauthorised allocation of public housing, as there is:

- unrestricted access to manually allocate any property to clients within the HOMES system
- no detective control to identify misallocations of social housing, and no verification checks that the appropriate approvals and documentation are in place post-allocation
- limited monitoring of allocations by management
- instances of inaccurate recording in the system of reasons for 'bypassing' clients where the applicant is not suitable for the property.

The recommendations made by the review included:

- improve management's level of review of allocations particularly improving the system reporting on the audit trail of allocations
- improve HOMES reporting functions
- introduce quality assurance procedures such as regular sample testing of allocations.

While HNSW has addressed some areas of risk, the reliability of the existing housing allocation function could be compromised if the recommendations for additional management monitoring and quality assurance procedures for allocations are not implemented. This is needed to ensure that housing allocations are only to eligible applicants.

Since HNSW became a division of FACS in 2011, the Governance and Assurance Directorate of FACS has assumed department wide risk management. HNSW is now responsible for delivering specific 'Results Areas' and managing associated risks.

Reliability of the existing housing allocation function could be at risk

Changes in tenant needs

Changes in the needs and circumstances of applicants on the waiting list and tenants living in public housing can include:

- increases in the size of a household, such as when children arrive
- reductions in household size, such as when children grow up and leave, or when a partner leaves or dies
- financial changes that might affect one's eligibility for public housing
- medical conditions
- changes in social needs or support needs.

HNSW collects information on public housing tenants' needs and circumstances at several points:

- at the point of application:
 - a thorough assessment of each applicants' needs and circumstances. An application may be for public housing or from an existing tenant seeking succession, transfer to an alternative property or mutual exchange with another tenant
- while on the waiting list (Housing Register):
 - HNSW sends applicants an SMS or postcard requesting they confirm their interest in waiting for social housing and remind them to advise HNSW if anything in their situation changes
 - prior to making an offer of housing to an applicant, their needs and circumstances are reconfirmed to make sure they remain eligible and suitable for that property
- while tenants:
 - HNSW conducts rent subsidy reviews for groups of tenants on a rolling basis throughout the year to determine the amount of rent to be paid. A tenant's rent subsidy is generally reviewed annually. If a tenant's income increases, for example because they have a job, HNSW will increase the amount of rent the tenant will be expected to contribute. This review may involve contacting the tenant and asking them to provide up to date income information for their household. Tenants may consent to have their income details sent to HSNW directly which allows for an automatic reassessment of rent subsidies on a regular basis
 - client visits are to be conducted:
 - within eight weeks of the start of any new tenancy
 - when a tenant over 60 has had no contact within the previous 12 months
 - when there is an issue occurring on the property that needs to be investigated
 - fixed-term leases are reviewed six months before their end date to determine whether the tenant remains eligible for public housing. This is conducted through a 'Lease Review Survey'. The factors considered include the household income, age of household members and any medical/disability requirements. Tenants receive the survey and they are to complete and return it to HNSW by a specified date. Where the tenant does not return the survey, the review will be conducted using the most current information on file.

HNSW relies on tenants to advise if their situation changes

HNSW primarily relies on public housing tenants and applicants on the waiting list to advise HNSW if their situation changes. HNSW has decided it is not cost effective to constantly check people's eligibility over the lengthy waiting time for public housing as the effort was better spent at allocation time, when their continued eligibility is crucial.

If a client reports a change of circumstances while in public housing, the suitability of their existing house is checked and if the change potentially affects their housing needs a re-assessment of eligibility is conducted.

HNSW encourage public housing tenants to report changes in circumstances. For example, from January to March 2013, HNSW set an amnesty to encourage public housing tenants to voluntarily report unauthorised occupants living in their homes. Tenants who did so would have their rent adjusted from the date of their declaration, but not be charged back rent and would be protected from prosecution. HNSW estimates that an extra \$6.5 million in rent will be received from the amnesty. At 26 March 2013, 3,370 additional occupants have been declared by public housing tenants. Over 2,491 suspected additional occupants have also been reported and these cases are to be investigated.

While HNSW conducts rent subsidy reviews, suitability for the actual public housing occupied by tenants is not systematically reviewed. It relies on tenants notifying HNSW if their needs change.

HNSW tell us that there is no efficacy in further review points, as even if HNSW actively identified tenants whose current housing is no longer suitable, it cannot address these where there are no suitable properties to move them to. There are currently over 8,000 existing tenants in this situation.

Without additional review points, there is increased risk of dwellings not being occupied by those most in need. However it seems that until there are suitable dwellings for people to move to, this risk cannot be addressed.

5.2 Controls on the sale of public housing

We also looked to see if LAHC has controls to ensure the asset base is protected during sales transactions.

LAHC needs to be alert to corruption risks. Given the volume of funds in real estate transactions each year from the sale of properties, LAHC needs to be particularly vigilant that the asset base is protected from leakage during transactions and subjects its procedures to risk assessment and audit.

In 2006, ICAC released a report on an investigation into the sale of surplus properties from two public housing schemes. ICAC found that there had been corrupt practices and made several corruption prevention recommendations to address weakness.

In 2007, HNSW did a complete revision of its Property Disposal Procedure. Since LAHC has been separated from HNSW, LAHC has adopted this procedure. There has been no subsequent review of the adequacy of these controls.

While LAHC was a part of FACS/HNSW, audit and risk processes were implemented by that department. Since 2011, responsibility for risk and internal audit within LAHC moved to DFS. LAHC utilises the resources of DFS in managing and planning internal audit.

Recommendations

- HNSW should, by December 2014, implement the recommendations from ICAC and the internal HNSW review as part of a monitoring program
- LAHC should, by June 2014, audit the property disposal procedures as part of a regular internal audit and review process.

Controls to protect the asset base have not been recently reviewed

6. Performance monitoring and reporting

Do reports show performance in dealing with the changing needs of tenants relative to established objectives?

Finding: HNSW's and LAHC's reporting is not sufficient to clearly assess performance in achieving the objects of the *Housing Act 2001*, particularly those that would show understanding and management of existing and future tenants needs.

Much of the information is available in some form within HNSW and LAHC, but it is not collated or published in a form that is easy for parliament and the public to understand.

To understand and track performance in responding to the changes in existing and future tenants' needs, HNSW and LAHC need to monitor and report information on their activities, the impacts they have on their target groups and their success in achieving legislative objectives. We looked for reporting that showed performance in achieving the objects of the relevant legislation, using appropriate measures and targets.

The Ministerial Charter developed after the separation of HNSW and LAHC established the joint administration of the *Housing Act 2001*. Under the charter both ministers are entitled to exercise the powers and functions to pay regard to the objects of the Act to the maximum extent possible, taking into account the needs of the State and available resources. However, the charter does not allocate either minister or agency responsibility for reporting against specific objects.

We examined the major internal and external reporting of each agency for such information:

- published annual reports to NSW Government and the Council of Australian Governments (ROGS)
- internal performance reporting (monthly and quarterly).

The results are summarised in Exhibit 21.

We found neither agency's reporting provides a clear assessment of their performance against each legislative objective, or the balance across all objectives. The major gaps were around the legislative objects of (e), (g), (i), (j), (p) and (q).

In relation to legislative objective (f), housing people most in need, the focus has been on homelessness and priority housing, not on under-occupancy or other measures of mismatch between need and supply.

HNSW collects and reports information annually for the housing volume of the Commonwealth Report on Government Services. This report publishes information on the equity, efficiency and cost effectiveness of social housing across Australia. It gives more performance information relevant to New South Wales legislative objectives than the HNSW annual report.

There are
gaps in
reporting

Exhibit 21: Summary of reporting against major legislative objectives

	Object of the <i>Housing Act 2001</i>	Major reporting channels				
		HNSW annual report	LAHC annual report	ROGS report	HNSW internal quarterly reporting	LAHC internal monthly reporting
(c)	to ensure that public housing is developed as a viable and diversified form of housing choice	x	✓	x	✓	✓
(d)	to ensure that public housing and community housing reflects the housing standards of the general community and is designed to cater for the ongoing needs of consumers	x	✓	✓	✓	✓
(e)	to maximise the opportunities for tenants of public and community housing programs to participate in the management of their housing and in the development of public and community housing policies	x	x	x	x	x
(f)	to ensure that the public housing system focuses on housing people who are most in need	✓	x	✓	✓	x
(f1)	to ensure that the available supply of public housing is shared equitably among people who are most in need	✓	✓	✓	x	x
(g)	to promote equity between levels of assistance provided to people living in public housing, community housing, private rental housing and those who own or are purchasing their homes	x	x	x	✓	x
(h)	to maintain an efficient housing administration to ensure the effective co-ordination and provision of all housing services	✓	✓	✓	x	✓
(i)	to encourage social mix and the integration of different housing forms in existing and new communities	x	x	x	x	x
(j)	to ensure that registered community housing is developed as a viable and diversified component of the New South Wales social housing sector	x	x	x	✓	x
(k)	to support the provision of registered community housing for people on a very low, low or moderate income	✓	x	x	✓	x
(p)	to ensure appropriate mechanisms and forums are established to allow input into housing policy by representative community organisations and non-government agencies involved in housing policy and provision	x	x	x	x	x
(q)	to attract investment in public housing, including related activities such as tenant employment and the provision of integrated services	x	x	x	x	x

Source: Audit Office research

Internal quarterly performance reports produced by HNSW are aligned with the HNSW Business Plan 2012-13. These reports establish measures for success against program outcomes and report performance against most of them. These reports would be improved if they were more explicit as to how the measures and outcomes relate to achievement of the legislative objectives, and reporting against each target was complete over time. There is also little performance reporting on aspects of the efficiency of the housing administration such as the cost per tenancy, utilisation and running/administration costs.

LAHC internal performance reporting is aligned with its Service Implementation Plan objectives, and includes a key performance indicator scorecard to report against set measures of success. These reports would also be improved if they demonstrated achievement towards the appropriate legislative objectives.

Under the Annual Funding Agreement between HNSW and LAHC that supports the HARP there is an obligation on each party to prepare and exchange quarterly program performance reports. LAHC is to provide detailed expenditure information, forecast program expenditure, information on achievement of agreed output measures, proposed program variations and issues management information. HNSW will report on tenancy management outcomes and outputs in accordance with agreed measures. The form of this reporting, including appropriate indicators and measures is still in development.

Overall, there is a lack of transparency in the reporting of performance that means that the public may not have a full picture of the existing pressures on public housing in New South Wales.

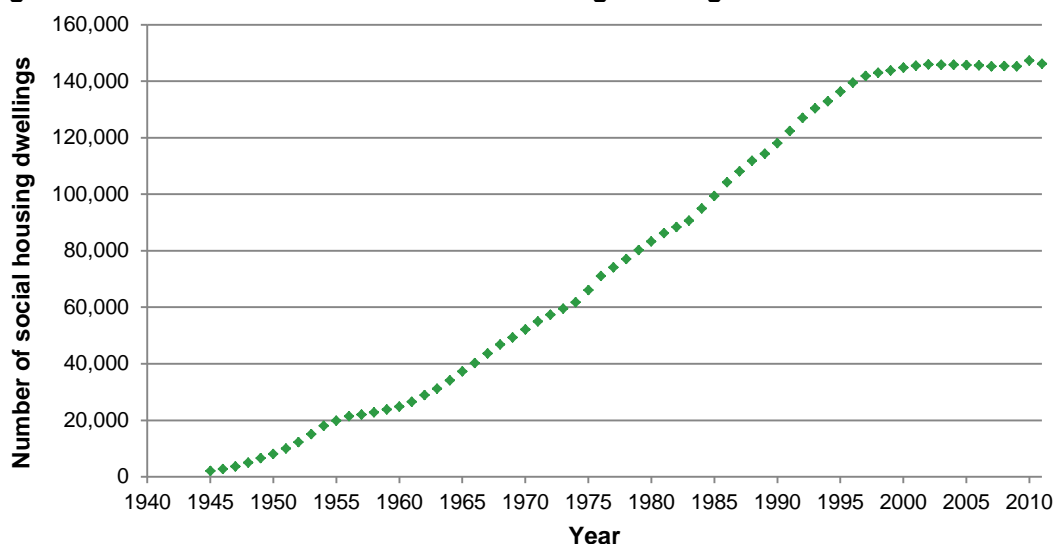
Recommendations

- FACS/HNSW and DFS/LAHC should, by January 2014, agree on the objects of the *Housing Act 2001* against which they should be reporting
- HNSW and LAHC should, by June 2014, routinely assess and report, both publicly and internally, on their performance in achieving the objects of the relevant legislation, using appropriate measures and performance targets
- HNSW and LAHC should, by June 2014, include in their reporting the efficient and effective use of the available supply of public housing. This should include property utilisation and property alignment to tenant needs.

Appendices

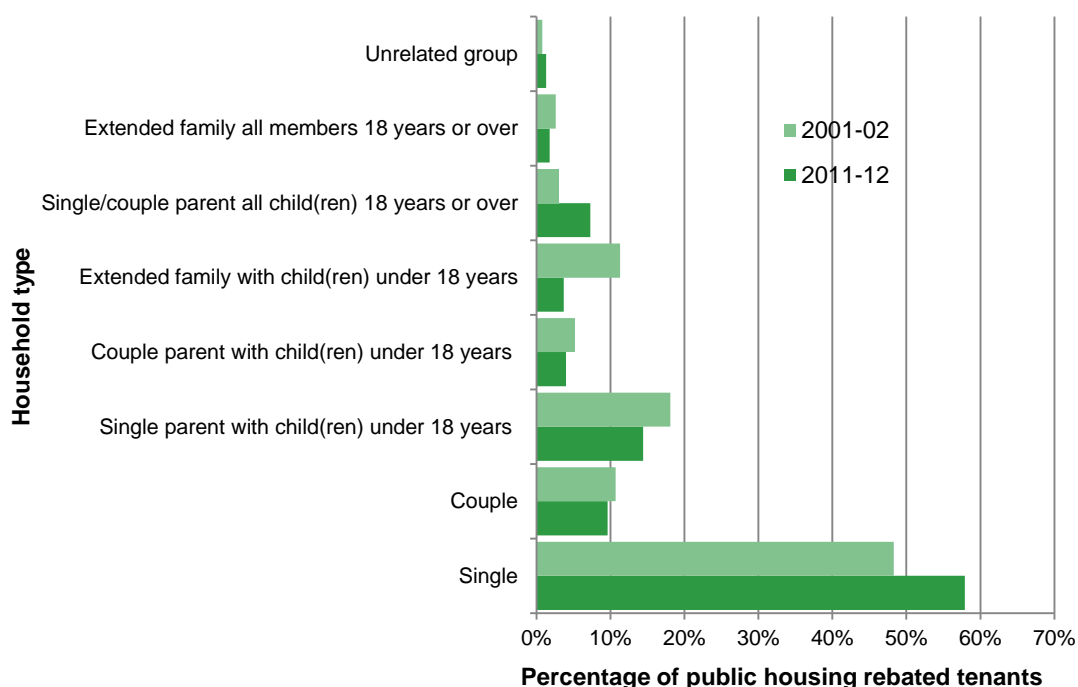
Appendix 1: Graphs – current state of public housing

Figure 1: Growth in the number of social housing dwellings



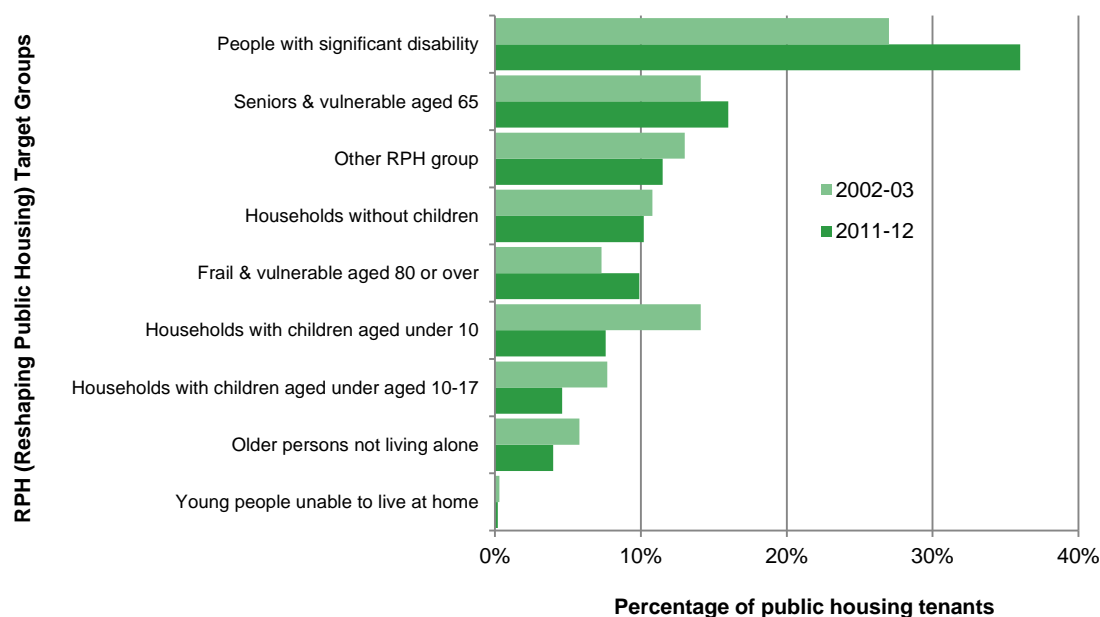
Source: HNSW May 2013

Figure 2a: Comparison 2001-02 and 2011-12 NSW public housing rebated tenants by household types



Source: HNSW September 2012

Figure 2b: Comparison 2002-03 and 2011-12 NSW public housing tenants by Reshaping Public Housing (RPH) target groups



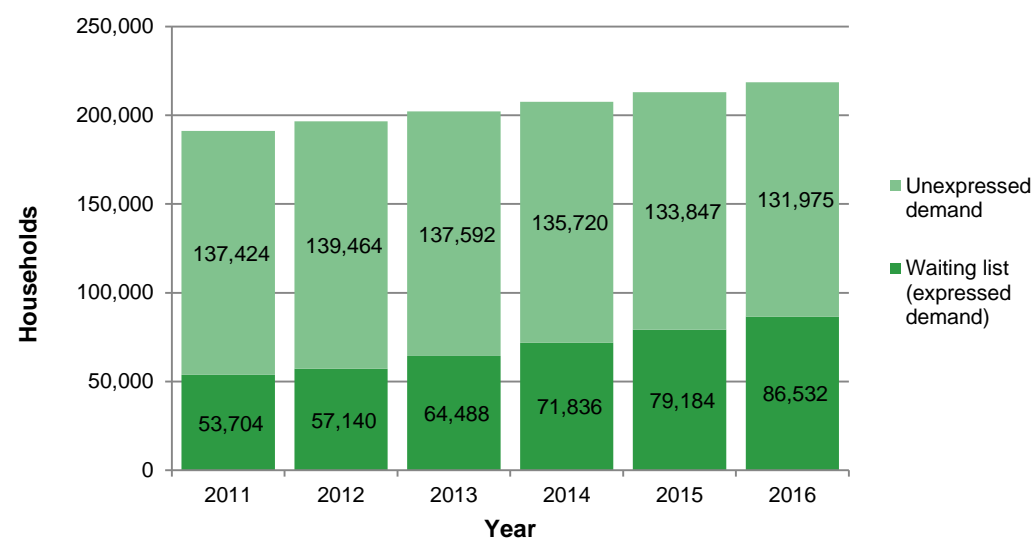
Source: HNSW September 2012

Figure 3: Total public housing tenancies and people in tenancies (at 30 June) by region, 2002-03 to 2011-12

Region	2002-03		2003-04		2004-05		2005-06		2006-07	
	No of tenancy	No of people in the tenancy	No of tenancy	No of people in the tenancy	No of tenancy	No of people in the tenancy	No of tenancy	No of people in the tenancy	No of tenancy	No of people in the tenancy
Central Sydney	30,984	52,860	31,253	52,417	31,238	51,274	31,043	50,269	31,050	49,660
Greater Western	45,882	108,227	45,748	107,165	45,912	105,594	45,762	103,944	45,126	101,399
Northern New South Wales	24,528	50,394	24,494	50,210	24,425	49,145	24,207	47,863	23,770	46,340
Southern and Western New South Wales	21,868	47,990	21,815	47,188	21,231	45,007	20,782	43,447	20,436	42,036
Total	123,262	259,471	123,310	256,980	122,806	251,020	121,794	245,523	120,382	239,435
Region	2007-08		2008-09		2009-10		2010-11		2011-12	
	No of tenancy	No of people in the tenancy	No of tenancy	No of people in the tenancy	No of tenancy	No of people in the tenancy	No of tenancy	No of people in the tenancy	No of tenancy	No of people in the tenancy
Central Sydney	30,944	48,908	30,803	48,391	30,372	47,176	29,736	45,840	29,938	45,782
Greater Western	44,650	99,423	43,885	97,712	42,899	94,611	41,748	91,985	42,285	92,022
Northern New South Wales	23,433	45,421	23,079	44,365	22,431	42,827	21,587	41,012	21,628	40,531
Southern and Western New South Wales	20,006	40,714	19,521	39,519	18,767	37,821	18,183	36,641	17,771	35,301
Total	119,033	234,466	117,288	229,987	114,469	222,435	111,254	215,478	111,622	213,636

Source: HNSW October 2012

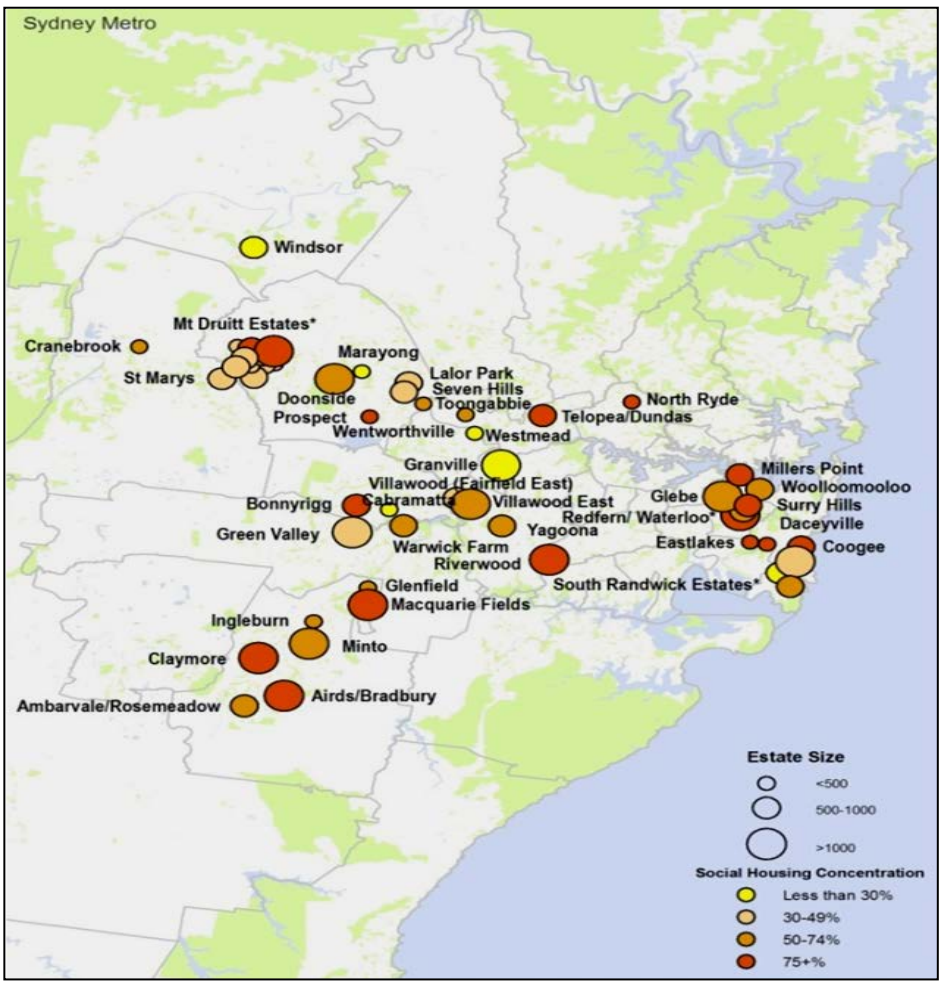
Figure 4: Social housing eligibility – expressed and unexpressed demand, 2011 to 2016

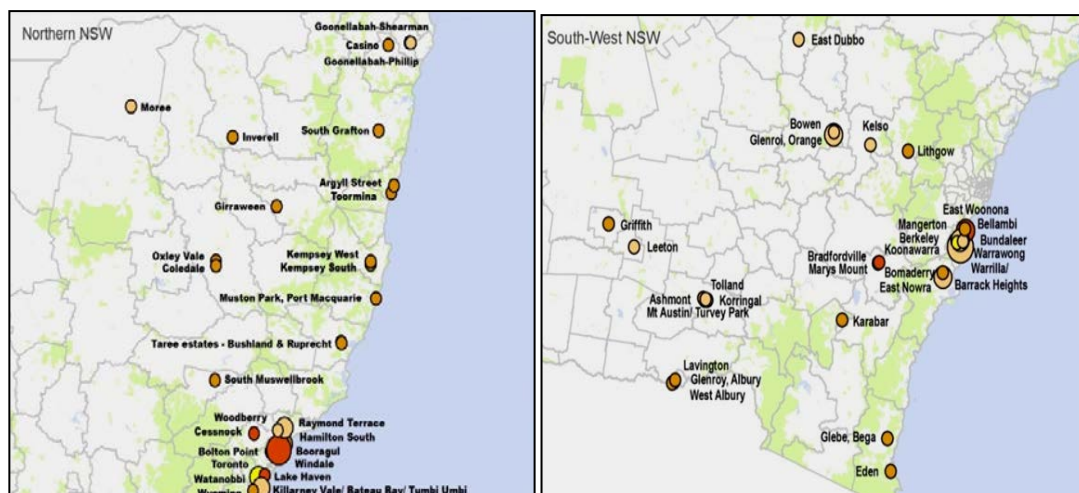


HNSW 2011 (modelled in 2008)

The level of social housing need is a combination of those on the waiting list (expressed demand) and those who would be eligible for social housing but are not on the waiting list (unexpressed demand). The waiting list is influenced by the location of, perceived quality of and waiting times for public housing. HNSW tell us that expressed demand alone is not a good indication of need.

Figure 5: Social housing stock concentration: estates across New South Wales

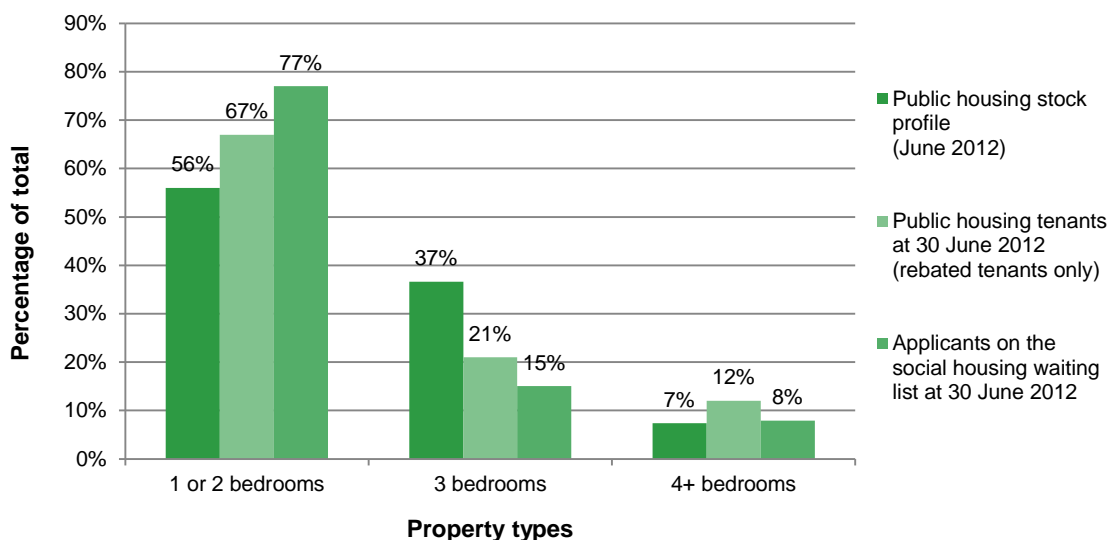




Source: HNSW August 2012

Note: Estates are areas with defined geographic boundaries with over 100 social housing properties

Figure 6: Public housing stock profile and bedroom entitlements of current tenants and applicants on the waiting list, 30 June 2012

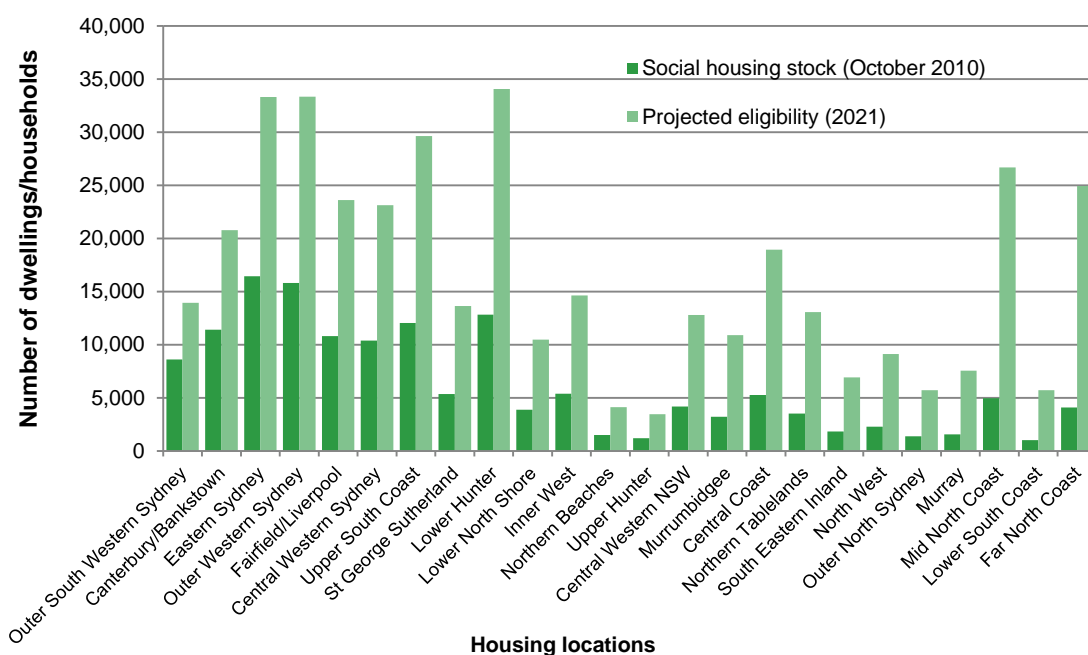


Source: HNSW May 2013

Note: The 'size of dwelling required' applies HNSW's standard bedroom entitlement (equivalent to the Canadian Occupancy Standard (CNOS) plus one extra bedroom).

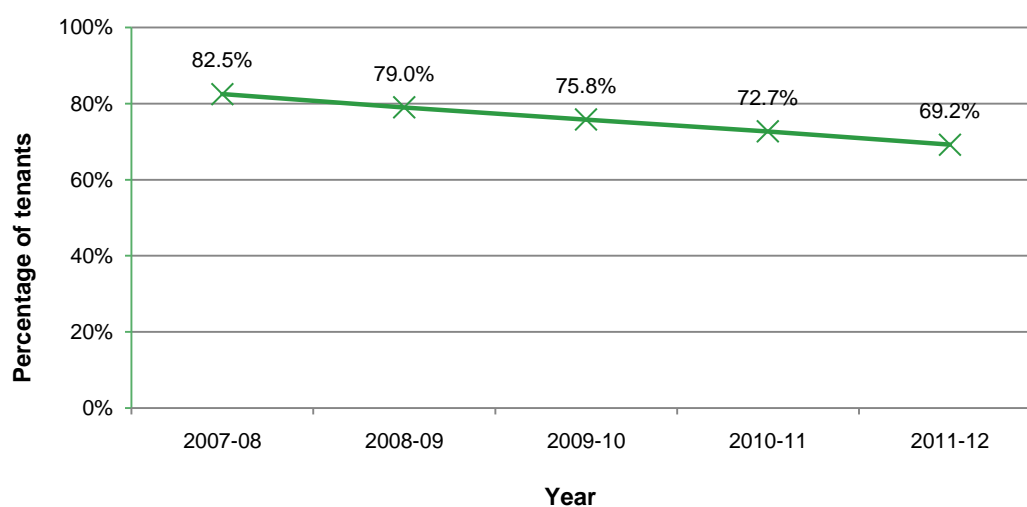
Approximately 67 per cent of tenants require a one or two bedroom property, yet only 56 per cent of public housing is one or two bedrooms. While 44 per cent of public housing is three bedrooms or larger, only 33 per cent of tenants require homes of that size.

Figure 7: Social housing stock numbers in each housing location compared with projected eligibility for social housing



Source: HNSW April 2011 (modelled in 2008)

Figure 8: Percentage of public housing tenants on continuous leases, 2007-08 to 2011-12



Source: HNSW October 2012

Figure 9: Financial summary of LAHC's projected operating result 2011-12 to 2016-17

	2011-12 (actual)	2012-13 (forecast)	2013-14 (forecast)	2014-15 (forecast)	2015-16 (forecast)	2016-17 (forecast)
Rent and other tenant charges \$'000	727,059	763,966	779,978	792,834	805,845	819,012
Grant income \$'000	205,719	124,736	146,760	53,632	53,632	54,321
Other income \$'000	69,684	77,184	20,289	18,649	18,869	22,733
Total Revenue \$'000	1,002,462	965,886	947,027	865,115	878,346	896,066
Repairs and maintenance \$'000	221,158	212,316	218,406	235,377	243,247	251,666
Council and water rates \$'000	201,115	212,011	221,272	227,161	233,187	239,352
Personnel services expenses \$'000	51,335	54,497	54,804	56,700	56,900	58,733
Finance costs \$'000	75,928	70,724	72,700	72,300	71,400	69,900
Tenancy management charges \$'000	111,720	114,513	117,376	126,075	126,075	126,075
Depreciation and amortisation \$'000	296,347	320,315	325,513	323,239	320,350	317,556
Grants to community housing groups - vested properties \$'000	-	250,000	450,000	-	-	-
Loss on disposals \$'000	54,671	51,611	30,090	52,873	52,790	52,383
Other expenses \$'000	146,313	168,606	155,390	134,297	139,125	139,995
Total operating expenses \$'000	1,158,587	1,454,593	1,645,551	1,228,022	1,243,074	1,255,660

Source: LAHC May 2013

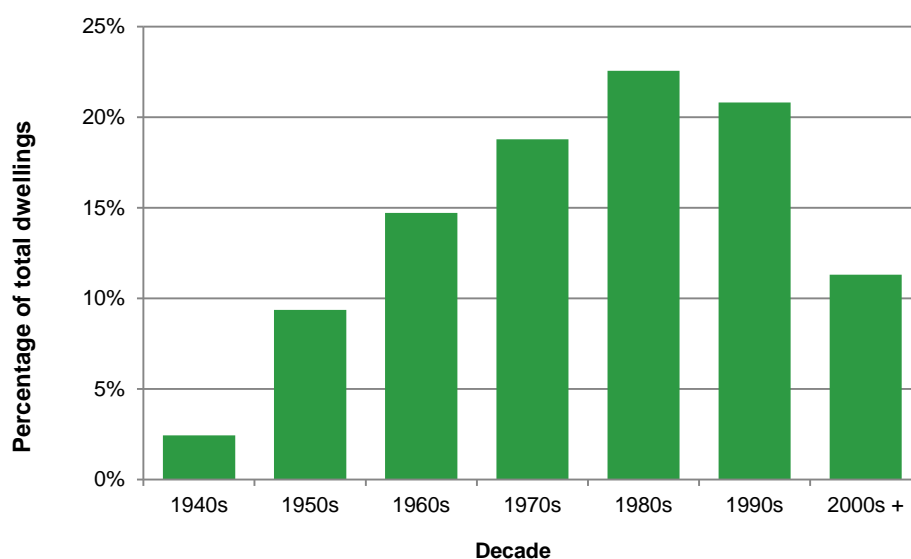
Note: Projected grant income for 2014-15 to 2016-17 does not include FACS grants for LAHC's capital program as these have not yet been determined. In 2013-14 that grant is estimated to be \$57 million.

Figure 10: Public housing rental income as a proportion of market rental income

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 (budget)
Market rent and other tenant charges \$'000	1,345,791	1,438,938	1,444,316	1,464,057	1,549,943	1,667,000
Less: rental subsidies to tenants \$'000	(706,769)	(777,724)	(780,848)	(797,072)	(856,904)	(967,000)
Rent actually charged \$'000	639,022	661,214	663,468	666,985	693,039	700,000
Market rent recovered %	47.5	46.0	45.9	45.6	44.7	42.0

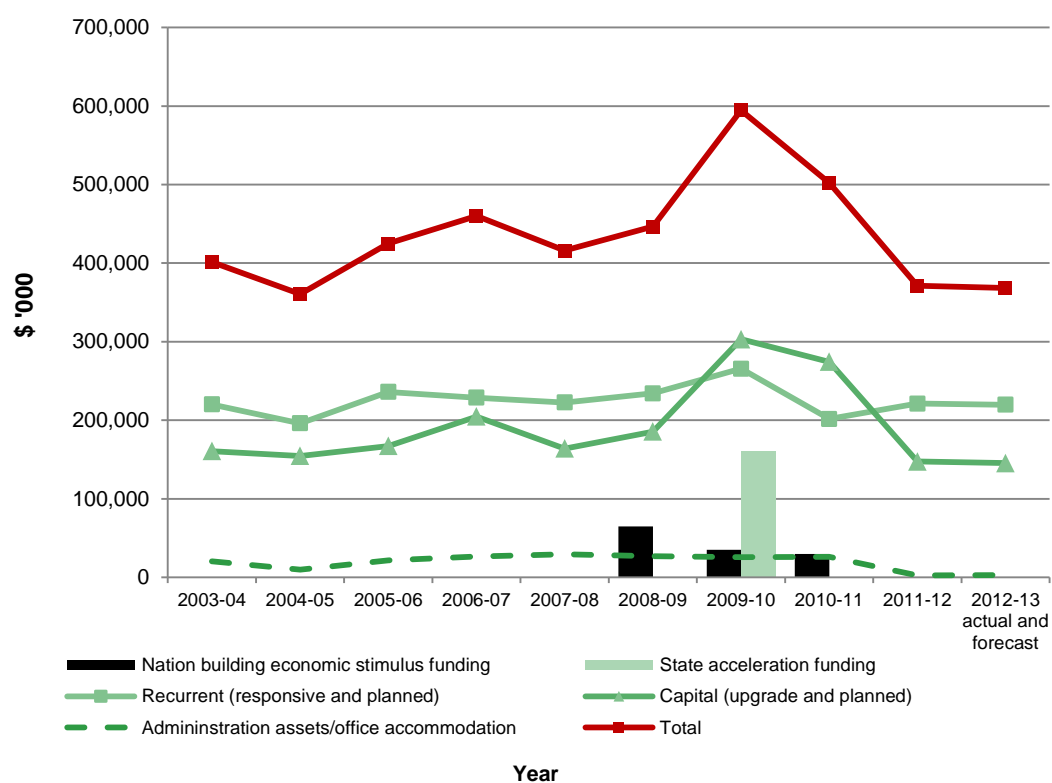
Source: LAHC financial statements 2011-12 and 2010-11, HNSW financial statement 2008-09, LAHC May 2013 for 2013 budget.

Figure 11: Proportion of dwellings in the social housing portfolio constructed in each decade at October 2010



Source: HNSW April 2011

Figure 12: Total annual (capital and recurrent) maintenance expenditure for the LAHC housing stock portfolio, 2003-2004 to 2012-13



Source: LAHC March 2013

Appendix 2: Extracts of HNSW and LAHC operational objectives and measures

In its management of the housing portfolio and development of broader strategies, HNSW has set a number of outcomes it is working towards. These are:

1. drive strategy, reform, planning and resource allocation for the housing system
2. have a service system effective at reducing and preventing homelessness
3. appropriate and accessible housing assistance, and effective tenancy management
4. grow affordable housing supply and non-government housing sector
5. build communities to reduce disadvantage on estates and at priority locations
6. to be a high performing division delivering effectively across FACS and with others.

Measures of success include:

- reduced public housing rent arrears
- reduced percentage of social housing tenants living in estates
- reduced percentage of social housing portfolio that is estate-based
- reduced rate of tenancy turnover on estates.

LAHC's purpose is to provide houses for people who cannot meet their own housing need. It specifies its role as being the owner and manager of New South Wales public housing assets, with the aim of maximising financial and social outcomes within the agreed policy framework.

LAHC's Service Implementation Plan objectives include:

1. to have safe workplaces and sites
2. to be a financially sustainable business
3. to be valued by its stakeholders
4. to develop the culture, capabilities and systems to deliver on its role successfully
5. to develop and deliver against the Housing Portfolio Strategy
6. to contribute to whole-of-government reform initiatives.

Measures of success include:

- reduced void turnaround time (time taken for vacant stock to be occupied)
- average cost per unit for new dwellings
- public housing rental arrears over annual net
- maintenance backlog liability held at target
- governance documents executed (Memorandum of Understanding, Service Level Agreement, Working Together Protocols with HNSW)
- achieve development and delivery milestones for Airds Bradbury (estate redevelopment)
- percentage of sales aligned with strategic drivers
- progress towards Portfolio Strategy
- Property Assessment Survey program implementation.

Appendix 3: About the audit

Audit objective

This audit examined New South Wales' capacity to meet changing public housing need, including how well HNSW acts to relocate tenancies where an individual's needs or circumstances change and how well the LAHC plans to ensure the asset base reflects the requirements of those most in need.

Audit lines of inquiry and criteria

In answering the audit objective, we addressed the following audit criteria:

1. the current situation enables HNSW and LAHC to meet the changing public housing need
2. plans are developed to ensure the mix of public housing reflects the requirements of those most in need
3. objectives are set to ensure that the available supply of public housing is shared equitably among people who are most in need
4. policies and procedures help ensure the attainment of objectives, consistent with legislation
5. identified control activities are appropriately applied
6. information on tenant needs and circumstances is obtained and reviewed on a timely basis
7. reports show performance in dealing with the changing needs of tenants relative to established objectives.

For the purposes of the report we have combined criteria three and four to aid readability and avoid duplication. The combined criteria in the report read, **are objectives, policies and procedures set to ensure the available supply of public housing is shared in accordance with legislation?**

Audit scope

For the purpose of the audit, 'those most in need' mean all applicants who are eligible for public housing in accordance with HNSW's eligibility criteria. They are:

- clients on low income that need support to help them live independently, and
- clients on low income that have problems finding affordable housing in the private market that is suited to their needs.

Audit exclusions

The audit does not seek to:

- examine the effectiveness of efforts to prevent tenant fraud and corruption
- examine community housing or Aboriginal housing
- question the merits of government policy objectives.

Audit approach

We acquired subject matter knowledge through:

- interviews and examination of relevant documents including guidelines, reports, studies and reviews
- analysis of data provided by HNSW and LAHC including forecast data
- discussions with relevant staff of HNSW and LAHC
- discussions with representatives of key stakeholders
- comparisons where appropriate with other States
- government and best practice guidelines relevant to the above.

Fieldwork visits

We had discussions with relevant officers in HNSW and LAHC, and met with regional management of HNSW in the:

- Greater Western Sydney region
- Southern and Western New South Wales region.

We visited three HNSW Housing Service areas around the State to better understand how areas work to allocate housing to applicants and existing tenants, and make the best use of the current public housing stock.

Audit selection

We use a strategic approach to selecting performance audits which balances our performance audit program to reflect issues of interest to parliament and the community. Details of our approach to selecting topics and our forward program are available on our website.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing, and to reflect current thinking on performance auditing practices. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by HNSW and LAHC. In particular we wish to thank our liaison officers, Paul Vevers and Kathy Roil and staff who participated in interviews and provided material relevant to the audit.

We were also assisted by discussions with people from a range of external bodies including:

- Consumer, Trader and Tenancy Tribunal
- Housing Appeals Committee
- Tenants Union of New South Wales
- NSW Federation of Housing Associations Inc
- NCOSS
- a representative from a large community housing provider.

Audit team

Chris Yates, Penelope Josey and Jasmina Munari conducted the performance audit. Sean Crumlin provided direction and quality assurance.

Audit cost

Including staff costs, printing costs and overheads, the estimated cost of the audit is \$338,000.

Performance Auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

Why do we conduct performance audits?

Performance audits provide independent assurance to parliament and the public.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, the public, agencies and Audit Office research.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant minister and the Treasurer are also provided with a copy of the final report. The report tabled in Parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

Do we check to see if recommendations have been implemented?

Following the tabling of the report in parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the parliamentary website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every four years. The review's report is tabled in parliament and available on its website.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100.

Performance audit reports

No	Agency or Issues Examined	Title of performance Audit Report or Publication	Date Tabled in Parliament or Published
234	Housing NSW NSW Land and Housing Corporation	<i>Making the best use of public housing</i>	30 July 2013
233	Ambulance Service of NSW NSW Ministry of Health	<i>Reducing ambulance turnaround time at hospitals</i>	24 July 2013
232	NSW Health	<i>Managing operating theatre efficiency for elective surgery</i>	17 July 2013
231	Ministry of Health NSW Treasury NSW Office of Environment and Heritage	<i>Building energy use in NSW public hospitals</i>	4 June 2013
230	Office of Environment and Heritage - National Parks and Wildlife Service	<i>Management of historic heritage in national parks and reserves</i>	29 May 2013
229	Department of Trade and Investment, Regional Infrastructure and Services – Office of Liquor, Gaming and Racing Independent Liquor and Gaming Authority	<i>Management of the ClubGRANTS scheme</i>	2 May 2013
228	Department of Planning and Infrastructure Environment Protection Authority Transport for NSW WorkCover Authority	<i>Managing gifts and benefits</i>	27 March 2013
227	NSW Police Force	<i>Managing drug exhibits and other high profile goods</i>	28 February 2013
226	Department of Education and Communities	<i>Impact of the raised school leaving age</i>	1 November 2012
225	Department of Premier and Cabinet Division of Local Government	<i>Monitoring Local Government</i>	26 September 2012
224	Department of Education and Communities	<i>Improving the literacy of Aboriginal students in NSW public schools</i>	8 August 2012
223	Rail Corporation NSW Roads and Maritime Services	<i>Managing overtime</i>	20 June 2012
222	Department of Education and Communities	<i>Physical activity in government primary schools</i>	13 June 2012
221	Community Relations Commission For a multicultural NSW Department of Premier and Cabinet	<i>Settling humanitarian entrants in NSW services to permanent residents who come to NSW through the humanitarian migration stream</i>	23 May 2012
220	Department of Finance and Services NSW Ministry of Health NSW Police Force	<i>Managing IT Services Contracts</i>	1 February 2012
219	NSW Health	<i>Visiting Medical Officers and Staff Specialists</i>	14 December 2011
218	Department of Family and Community Services Department of Attorney General and Justice Ministry of Health NSW Police Force	<i>Responding to Domestic and Family Violence</i>	8 November 2011
217	Roads and Traffic Authority	<i>Improving Road Safety: Young Drivers</i>	19 October 2011

No	Agency or Issues Examined	Title of performance Audit Report or Publication	Date Tabled in Parliament or Published
216	Department of Premier and Cabinet Department of Finance and Services	<i>Prequalification Scheme: Performance and Management Services</i>	25 September 2011
215	Roads and Traffic Authority	<i>Improving Road Safety: Speed Cameras</i>	27 July 2011
214	Barangaroo Delivery Authority Department of Transport NSW Treasury	<i>Government Expenditure and Transport Planning in relation to implementing Barangaroo</i>	15 June 2011
213	Aboriginal Affairs NSW Department of Premier and Cabinet	<i>Two Ways Together - NSW Aboriginal Affairs Plan</i>	18 May 2011
212	Office of Environment and Heritage WorkCover NSW	<i>Transport of Dangerous Goods</i>	10 May 2011
211	NSW Police Force NSW Health	<i>The Effectiveness of Cautioning for Minor Cannabis Offences</i>	7 April 2011
210	NSW Health	<i>Mental Health Workforce</i>	16 December 2010
209	Department of Premier and Cabinet	<i>Sick leave</i>	8 December 2010
208	Department of Industry and Investment	<i>Coal Mining Royalties</i>	30 November 2010
207	Whole of Government electronic information security	<i>Electronic Information Security</i>	20 October 2010
206	NSW Health NSW Ambulance Service	<i>Helicopter Emergency Medical Service Contract</i>	22 September 2010
205	Department of Environment, Climate Change and Water	<i>Protecting the Environment: Pollution Incidents</i>	15 September 2010
204	Corrective Services NSW	<i>Home Detention</i>	8 September 2010
203	Australian Museum	<i>Knowing the Collections</i>	1 September 2010
202	Industry & Investment NSW Homebush Motor Racing Authority Events NSW	<i>Government Investment in V8 Supercar Races at Sydney Olympic Park</i>	23 June 2010
201	Department of Premier and Cabinet	<i>Severance Payments to Special Temporary Employees</i>	16 June 2010
200	Department of Human Services - Ageing, Disability and Home Care	<i>Access to Overnight Centre-Based Disability Respite</i>	5 May 2010

Performance audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website www.audit.nsw.gov.au.

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proud of the work we do.

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To perform high quality independent audits
of government in New South Wales.

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Purpose – we have an impact, are
accountable, and work as a team.

People – we trust and respect others
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