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**New South Wales Auditor-General's Report**  
Performance Audit

**Community Housing**

Department of Family and Community Services

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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 **Community Housing: Department of Family and Community Services**.

A handwritten signature in black ink, reading 'A. T. Whitfield'.

**A T Whitfield PSM**  
Acting Auditor-General  
16 September 2015

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# Executive summary

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Since the mid-1990s, the Department of Family and Community Services (the Department) has been progressively transferring the management of public housing to the community housing sector. In recent years it has also transferred title, or ownership, of public housing properties to community housing providers.

The aim of this audit was to assess whether the Department has developed the community housing sector and managed the transfer of public housing to community housing providers in a way that is sustainable and has achieved its desired outcomes for tenants. To help us answer this, we asked the following questions:

- has the Department identified what it wants to achieve from the community housing sector and developed the sector to achieve those goals?
- how well has the Department implemented the transfer of title and property management to community housing providers and has it achieved its desired outcomes for tenants?

## Conclusion

The Department has worked collaboratively with community housing providers and industry groups to develop the sector over the past eight years. Although there have been some delays, it has managed the transfer of public housing to the community housing sector reasonably well and has improved the sustainability of the sector.

Community housing tenants report being more satisfied with their landlord than public housing tenants, which is a positive result. However, it is unclear whether the Department has achieved its desired outcomes for tenants. For example, the Department wanted more flexible, tailored services for tenants and more resilient communities but it did not determine how it would measure these outcomes.

### Targets and high level outcomes were identified

In 2007, the Department set a target of 30,000 homes managed by community housing providers by 2016–17. It also set a number of high level objectives for the community housing sector, including the following outcomes for tenants:

- diverse and flexible responses to meet individual and local needs
- support individuals and communities to be more sustainable, self-sufficient and resilient
- build the capacity of community housing to ensure quality tenant outcomes.

### Target to increase homes managed by community housing providers almost met

The Department is close to achieving its target of 30,000 homes managed by the community housing sector by 2016–17. The number of homes managed by the sector has almost doubled since 2006. At 1 June 2015, community housing providers managed:

- 28,353 properties, up from 15,624 at 30 June 2007
- 6,008 properties that were transferred from government ownership to community housing ownership to enable them to borrow money to build more homes
- 20 per cent of the New South Wales social housing portfolio.

At December 2014, community housing providers had also delivered 260 of 1,224 homes that are required to be built as a condition of ownership transfers.

### Unclear whether outcomes for tenants have been achieved

The Department did not determine how its other high level outcomes would be measured when it was planning the transfer of housing to community housing providers. This means that we cannot determine whether it has achieved its desired outcomes for tenants. However, tenant satisfaction surveys indicate that community housing tenants are more satisfied than public housing tenants. Community housing providers also deliver a range of innovative services for tenants.

### Social housing policy not yet finalised

The Department has not had a strategy for the community housing sector for a number of years, despite previous reviews recommending that a strategy be put in place. A new social housing policy is currently being developed, which the Department says will set a clear direction for the community housing sector and set outcomes for tenants. It is important that it also develops performance measures for these outcomes. This will enable it to monitor progress against its goals and determine whether the community housing sector is delivering value for money.

### Community housing sector now more sophisticated and sustainable

The Department has worked collaboratively with the community housing industry to enhance the professionalism of the sector. The community housing sector is now well established and more sustainable than it was in 2007. Key capacity building initiatives included:

- identifying community housing providers that had potential to manage more properties
- developing an industry development framework
- funding peak organisations to provide training and other support
- introducing a regulatory code to set minimum standards for providers.

The sustainability of the community housing model in New South Wales relies on the availability of Commonwealth Rent Assistance, which community housing tenants receive to help them pay rent to their community housing provider. In addition, while providers are responsible for maintaining the homes they lease from government, the Department bears the cost of replacing these houses when they reach the end of their life cycle. If these policies change, the Department would need to review how the sector currently operates.

### Sound contract management but contract lengths must support desired outcomes

The Department has designed contracts for community housing that are clear and easy to understand. While there were some gaps in the adequacy of information given to providers about the properties they received and there were some delays, the Department has managed the transfer of public housing to community housing providers reasonably well. It has built a good relationship with the community housing sector.

In future, the Department should ensure that the length of its contracts with community housing providers align with the outcomes it sets in the social housing policy. Contracts for the management of government-owned community housing properties currently run for three years. Longer leases would make it easier for providers to obtain loans and give them an incentive to invest in the properties they manage, which may help community housing providers to better deliver the Department's goals.

### New asset portfolio framework not yet publicly released

The Department has recently developed an asset portfolio framework, which it will use to make decisions about which social housing properties should be redeveloped or replaced. This framework should be publicly released. This will give the public confidence that the Department has a strategy for managing its social housing portfolio. It will also enable community housing providers to align any ideas they have about redeveloping properties with the Department's strategy.

## Recommendations

The Department of Family and Community Services should:

by December 2015:

1. finalise its social housing policy and ensure that the social housing policy:
  - a. sets a clear direction for the community housing sector
  - b. clearly defines the outcomes it wants to achieve for tenants in community housing
  - c. sets measurable targets in relation to those outcomes
2. publicly release its asset portfolio framework so that community housing providers can better align their asset management plans with the Department's strategy for its social housing portfolio

by December 2016:

3. ensure that contracts include performance measures that are clearly linked to the outcomes it sets in the social housing policy
4. ensure that its contracts are for a long enough period to enable community housing providers to deliver the outcomes it sets in the social housing policy
5. ensure that it monitors the performance of providers against the outcomes set in the social housing policy.



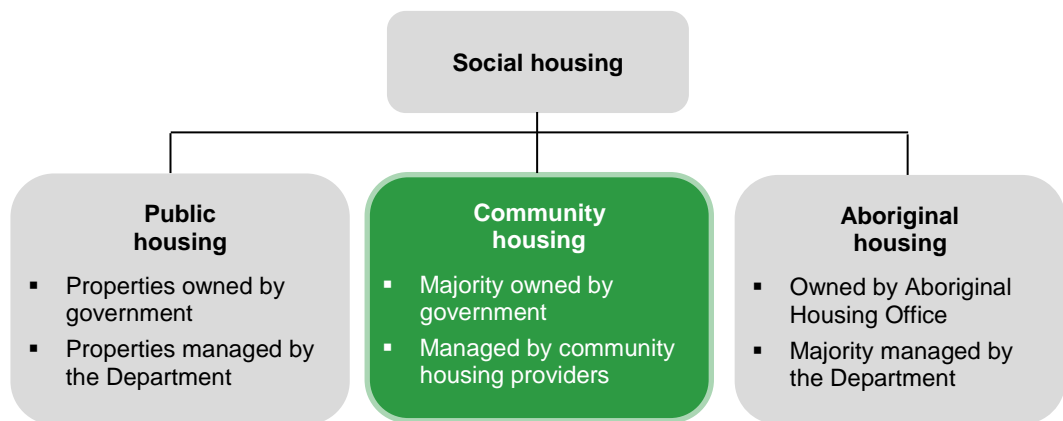
# Introduction

## 1. Community housing

### 1.1 The community housing sector in New South Wales

Community housing offers secure, affordable, long-term rental housing for people on low to moderate incomes with a housing need. Community housing properties are managed by non-government organisations, which are known as community housing providers. It is one of three ways in which social housing is provided in New South Wales.

**Exhibit 1: Social housing framework**



Source: Department of Family and Community Services

The NSW Registrar of Community Housing is responsible for regulating community housing providers in New South Wales. Since 2009, providers have been required to comply with a regulatory code. The regulatory code sets performance standards in a number of areas, including:

- tenant and housing services
- financial viability
- governance.

In order to receive assistance from the Department of Family and Community Services (the Department) community housing providers must be registered under the regulatory code. According to the NSW Registrar of Community Housing, there are currently 203 community housing providers registered nationally. Of these, 128 operate primarily in New South Wales.

Around 90 per cent of community housing in New South Wales is managed by 30 large community housing providers. The remaining ten per cent is managed by a range of smaller providers. Roughly two-thirds of community housing is in metropolitan areas. One-third is located in regional centres, small towns and remote areas.

### 1.2 The government's role in community housing

The Department is responsible for developing social housing policy, which includes community housing. It also manages the government's contracts with community housing providers. The NSW Land and Housing Corporation, which is part of the Department, owns the government's social housing assets.

The Commonwealth Government also plays a role in the community housing sector. It has funded affordable housing programs and currently provides Commonwealth Rent Assistance (CRA) to eligible community housing tenants. CRA is an income supplement paid through Centrelink that helps community housing tenants pay rent.

Over the past 20 years, governments in New South Wales and other Australian States and Territories have transferred public housing to the community housing sector. There are two ways in which transfers have occurred:

- management transfers
- ownership or title transfers.

Most transfers have been management transfers. Under this arrangement, the government retains ownership of the properties and community housing providers manage them. For example, providers manage tenants and maintain properties to required standards.

Some States, including New South Wales, have also transferred ownership of public housing properties to community housing providers at no cost. As a condition of these transfers, community housing providers must build new social and affordable housing. In the event that a provider ceases to operate, the properties would either be transferred to another provider or returned to the government.

In addition to management and ownership transfers, community housing providers also receive money from governments to lease houses from the private rental market.

Government decisions to transfer housing to the community housing sector have been based on the following reasons:

- providers can use their local knowledge, experience and connections to provide flexible and responsive services to tenants
- providers can access a mix of private, government and other sources of finance to build new social and affordable housing
- providers have additional sources of revenue through their tenants, who are able to access Commonwealth Rent Assistance.

### 1.3 What this audit is about

This audit assessed whether the Department has developed the community housing sector and managed the transfer of public housing to community housing providers in a way that is sustainable and has achieved its desired outcomes for tenants. To help us do this, the audit answered the following questions:

- has the Department identified what it wants to achieve from the community housing sector and developed the sector to achieve those goals?
- how well has the Department implemented the transfer of title and property management to community housing providers and has it achieved its desired outcomes for tenants?

We focused on the period from 2007 onwards, as the community housing sector in New South Wales has grown rapidly during this time. We did not examine Aboriginal community housing, as the Aboriginal community housing sector operates under different policy settings. The audit also did not examine community housing properties that are leased from the private rental market.

The Department's response to the audit report is at Appendix 1. Further information on the audit scope and criteria is at Appendix 2.



# Key findings

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## 2. Defining outcomes and developing the community housing sector

In 2007, the Department defined the outcomes it wanted from community housing. However, it did not specify how these outcomes would be measured. As a result, it is difficult for the Department to demonstrate whether they are being achieved.

The Department set a target to increase the number of homes managed by community housing providers to 30,000 by 2016–17. The Department worked well with the community housing industry to develop the community housing sector in order to achieve this goal. It selected a small number of community housing providers that had the potential to grow quickly and partnered with industry peak bodies to build the capacity of the sector.

Since 2013, the Department has not had a strategy for community housing. Without a clear direction for the sector, there is a risk that providers will not deliver the outcomes that government wants. A new social housing policy is being developed, which the Department advises will be completed by the end of 2015.

### **Recommendation**

By December 2015, the Department of Family and Community Services should finalise its social housing policy and ensure that the social housing policy:

- sets a clear direction for the community housing sector
- clearly defines the outcomes it wants to achieve for tenants in community housing
- sets measurable targets in relation to those outcomes.

### 2.1 Setting a clear strategy for community housing

The Department should develop strategies that clearly define the outcomes a program or policy is meant to achieve and how success will be measured, otherwise it will not know whether those outcomes are being met.

#### **A clear growth target was set**

The Department had a strategy for community housing from 2007–08 to 2012–13, which was called *Planning for the Future: New directions for community housing in New South Wales*. The strategy set a target to increase the number of social housing dwellings managed by community housing providers from 13,000 to 30,000 by 2016–17.

We found that *Planning for the Future* was developed in a transparent and collaborative manner. The Department consulted the community housing industry, including peak bodies and community housing providers. A Community Housing Advisory Group was established to advise the Minister and the Department, which included members with policy, service delivery, and technical expertise.

*Planning for the Future* was a high level strategy which discussed options for meeting its growth target. It also stated that the Department would set transfer targets and review them annually. This meant that the Department could adjust its approach over the strategy period. Initially, the goal was to transfer the management of 3,000 public housing dwellings to community housing providers by the end of 2010. Targets were also set for later years. This enabled the Department to measure progress towards its overall growth target.

## Exhibit 2: Management transfer targets

Jan 2009 – Dec 2010	Jan – June 2011	July 2012 – June 2013	July 2013 – June 2014	July 2014 – June 2015	July 2015 – June 2016
3,000	500	1,500	1,500	1,500	1,500

Source: Department of Family and Community Services.

The flexible nature of Planning for the Future also allowed the Department to take advantage of growth opportunities that did not exist when the strategy was written. For example, in 2009 the Australian Government announced that it would fund the construction of around 6,000 new social housing dwellings in New South Wales under the Nation Building Economic Stimulus Plan. In 2011, the NSW Government agreed to transfer ownership of these dwellings to community housing providers.

## Exhibit 3: Ownership transfer targets

Non-Nation Building transfers	500
Nation Building Stage 1	852
Nation Building Stage 2	4,700

Source: Department of Family and Community Services.

Note: The timetable for these transfers is unclear.

Community housing providers are required to use these properties to build new social and affordable housing. In total, providers are required to build an additional 1,224 properties over 10 years.

We discuss whether these targets were achieved in section 3.3.

## Other outcomes were set but it was unclear how they would be measured

Planning for the Future also set five 'themes for action' or high level outcomes. These outcomes either related to the capacity of the community housing sector or the delivery of housing services to tenants and communities.

## Exhibit 4: High level outcomes

1	<b>Growth</b>	Facilitate growth and continued innovation in the community housing sector to assist more people in need.
2	<b>Diverse and flexible responses</b>	Support diverse and flexible responses to meet individual and local needs using local opportunities.
3	<b>Stronger communities</b>	Support individuals and their local communities to become more sustainable, self-sufficient and resilient.
4	<b>Capacity and confidence</b>	Build the capacity of and confidence in community housing to ensure sector growth and the delivery of quality tenant outcomes.
5	<b>Viability and sustainability</b>	Put in place financing and structural arrangements that achieve long-term business sustainability for community housing providers.

Source: Planning for the Future: New directions for community housing in New South Wales, 2007.

Apart from the 30,000 growth target, the Department did not specify how it would measure whether these outcomes had been achieved. A range of actions were listed under each outcome, but no performance measures were developed. For example, under the theme 'stronger communities', actions included:

- increase tenants' independence and engagement through micro-enterprises or community activities and leadership
- increase social and economic participation of tenants through improved access to training and employment.

However, the Department did not specify the increases it was seeking or how it would measure them. As a result, it is hard for the Department to demonstrate the link between these activities and the impact it wanted to achieve.

Measuring outcomes in social housing is not straightforward, but evaluation methods and tools do exist. For example, Housing Tasmania is currently using a Social Return on Investment (SROI) methodology to measure whether community housing providers are achieving its desired outcomes. SROI is an analytic tool that measures social, economic and environmental factors as well as traditional costs.

#### **Exhibit 5: Measuring success – Social Return on Investment (SROI), Housing Tasmania**

In October 2011, the Tasmanian Government committed to transferring the management of 4,000 public housing properties to the community housing sector by June 2014. The transfers are intended to regenerate suburbs and provide more integrated services to tenants. In order to measure whether these outcomes are being achieved, Housing Tasmania has built SROI processes into its contracts. Community housing providers are required to:

- prepare a 'Master Plan' that sets out options to improve the liveability of the suburb that is being managed
- set targets against which to measure whether those outcomes are being achieved
- prepare an independent report that forecasts the project's impact
- submit a progress report to Housing Tasmania every two years.

The regeneration projects being undertaken by community housing providers in Tasmania are expected to take up to ten years. It is therefore too early to tell whether Housing Tasmania's desired outcomes are being achieved. However, the fact that a methodology is in place will enable it to monitor progress towards its goals.

Source: Housing Tasmania.

The Department acknowledges the importance of setting measurable outcomes in future. It advises that it is developing an outcomes framework as part of the social housing policy. We support this approach. Until clearly defined and measurable outcomes are set, the Department will be limited in its ability to measure progress against its goals.

#### **There is no current strategy for community housing**

Planning for the Future expired in 2012–13. Since then, the Department has not had a strategy for community housing. It is currently developing a social housing policy which will clarify its objectives for community housing.

In our 2013 report *Making the best use of public housing*, we recommended that the Department develop a social housing policy by December 2013. The Department released a discussion paper in December 2014 and a summary of feedback in May 2015. It advises that the social housing policy will be finalised by the end of 2015.

It is critical that the social housing policy be finalised as soon as possible and that a clear direction is set for the community housing sector. Without a strategy, there is a risk that providers will not deliver the outcomes that government wants. It can also make it difficult for community housing providers to make long-term decisions about whether to grow their businesses in New South Wales. This can lead community housing providers to pursue growth opportunities in other States, which could limit future opportunities to grow the sector in New South Wales.

## 2.2 Assessing the capacity of the community housing sector

Once the Department has identified the outcomes or goals it wants to achieve, it is important that it assesses whether the sector is capable of delivering those goals.

### **Growth areas were identified**

We found that the Department first selected areas of New South Wales where it wanted community housing to play a greater role. It did this by identifying areas where demand for affordable housing was high. The specified areas were:

- Far North Coast
- Mid North Coast
- Hunter/Central Coast
- Sydney Metro
- Illawarra/Shoalhaven.

By identifying where it wanted to grow the community housing sector, the Department was able to make specific plans for those areas. In some areas it undertook 'whole of location' transfers where all public housing in an area was transferred to community housing. The Department also adjusted its plans over time. For example, it later transferred public housing properties to community housing providers in other areas of New South Wales.

### **Community housing providers that could grow quickly were selected**

In 2008, there were about 400 community housing providers operating in New South Wales. Initially, the Department selected seven community housing providers to participate in a 'growth' program and receive management transfers. The Department invited providers to apply for the growth program that:

- could demonstrate high standards of financial stability, service quality and governance
- already managed at least 200 social housing properties.

Later, another ten community housing providers were selected to receive management transfers. This enabled the Department to identify providers that operated, or were willing to operate, in all of its nominated growth areas.

The Department adopted a more competitive process for most ownership transfers. For example, any not-for-profit organisations could apply to receive 5,000 of the properties constructed under the Nation Building and Economic Stimulus Plan. To be successful, applicants needed to show that they could:

- build new social housing
- manage social housing tenancies and improve tenant outcomes.

The decision to focus on a small number of providers meant that many did not get an opportunity to grow. However, this approach was understandable given the Department was seeking providers that could handle rapid growth. There are now 128 providers that primarily operate in New South Wales. To maximise contestability in future, the Department may wish to consider other procurement options. This will depend on the role the government wants community housing providers to play in the housing sector and the range of services it wants them to provide.

### **Growth providers were assessed to identify gaps and areas for improvement**

The Department assessed whether ten of the community housing providers it chose as growth providers could deliver its goal of increasing the number of homes managed by the sector. These providers were chosen as they were expected to increase their housing portfolios by up to 25 per cent.

The Department hired a consultant to identify areas where providers needed to strengthen skills or management processes. Recommendations included:

- hiring staff with skills in asset management, client services or housing operations
- developing strategies for client services, risk management, assets, and portfolio management
- purchasing more advanced asset management software
- forming strategic partnerships with other service providers.

Engaging a consultant to identify gaps ensured that the Department knew where providers needed to enhance their skills. The Department also put business plans and implementation plans in place to make sure suggested actions were completed.

### **The Department has modelled high level growth scenarios**

As mentioned above, the Department is currently developing a social housing policy that will set objectives for the community housing sector. The Department has modelled the possible financial implications of transferring more public housing to community housing management to inform the social housing policy. It advises that more detailed work will occur once the government decides on the particular role it wants the community housing sector to play in the delivery of social housing in future.

## **2.3 Building the capacity of the community housing sector**

It is important that, in addition to identifying gaps, the Department also takes steps to address those gaps. This will enable it to build the capacity of the sector to ensure that it is sustainable.

### **The Department helped strengthen individual community housing providers**

We found in section 2.2 above that the Department had a clear understanding of where selected growth providers needed to enhance their skills or management processes. To address these gaps, the Department entered into capacity building agreements with identified growth providers. Individual work plans and timeframes were developed in consultation with providers.

In some cases, community housing providers received grants to purchase new software or hire new staff. In other cases, providers advised the Department that they were able to implement the required actions without assistance. Providers reported back to the Department to confirm that agreed actions had been completed.

The Department also funded community housing providers to deliver housing initiatives as part of agreements with the Commonwealth on social housing. This resulted in the construction of 679 new homes.

### **Peak bodies were engaged for capacity building initiatives**

In addition to building the capacity of individual community housing providers, we found that the Department worked with peak bodies to build the capacity of the broader community housing sector. It developed a Community Housing Industry Development Framework in 2010. The framework helped the Department build a better understanding of the sector's capacity and clarified the role the Department, community housing providers, and industry partners would play in industry development.

The Department partnered with industry peak bodies, including the NSW Federation of Housing Associations, Shelter NSW, and Churches Housing, to deliver key initiatives. For example, since 2010 the NSW Federation of Housing Associations has delivered a range of programs and activities, including:

- professional development seminars
- intensive workshops and tailored training
- data collection on industry performance.

In 2013, the Department released a Community Housing Industry Development Strategy for 2013–14 – 2015–16 to support a national development framework for the sector. The strategy is a joint initiative of the Department and the NSW Federation of Housing Associations and aims to continue developing industry capacity. The strategy sets out capacity building activities to be undertaken in each year.

#### **Exhibit 6: Examples of NSW Federation of Housing Associations 2014–15 projects**

##### **Managing strategic risk**

This project aims to improve the capacity of community housing providers to identify and manage strategic risk. Key themes include strategic planning, financial viability, diversification, property development, and partnerships.

##### **Data comparison platform**

This project will support the implementation of a data comparison framework, which will allow community housing providers to compare their performance against other providers.

##### **Tenant access to employment, training and education**

This project will research the different ways that community housing providers support tenants to find employment and training opportunities. It will collect case studies and other material to encourage innovation and promote good practice across different providers.

Source: NSW Community Housing Industry Development Strategy 2013–14 – 2015–16.

#### **The regulatory system was a key capacity building initiative**

The introduction of the NSW Regulatory Code for Community Housing in 2009 was an important capacity building initiative. The community housing providers we spoke to told us that the regulatory code helped to professionalise the community housing sector and enhance the skills of providers. It set requirements for the performance of community housing providers in relation to:

- governance
- probity
- financial performance
- asset management
- tenancy management.

The NSW Regulatory Code was designed to ensure that community housing providers had knowledge and skills comparable to the number of houses they managed. It also gave the Department confidence that providers had appropriate business processes in place. Providers were required to maintain their registration status in order to receive support from the Department.

Following the introduction of the NSW Regulatory Code, the number of providers in New South Wales reduced by around 40 per cent. There were 411 providers when registration under the NSW Regulatory Code commenced in 2009. When the process concluded in 2011, 235 providers were registered. Some providers voluntarily exited the sector. Some merged with other providers. The regulatory code helped to improve the governance, skills and financial viability of the sector.

The NSW Regulatory Code has since been replaced by the National Regulatory System for Community Housing. The National Regulatory System is largely based on the former NSW Regulatory Code and requires providers to meet similar standards. The number of providers in the sector has reduced further since the National Regulatory System commenced. According to the NSW Registrar of Community Housing, at 30 June 2015 there were 203 providers registered nationally, of which 128 primarily operate in New South Wales.



## The community housing sector is reliant on Commonwealth Rent Assistance

We found that the community housing sector in New South Wales is now well established and more sophisticated than when Planning for the Future commenced in 2007. The NSW Registrar of Community Housing checks that community housing providers have:

- sufficient revenue to meet operating costs
- sound financial and governance arrangements
- strong risk management processes.

Community housing providers must be financially viable at all times to remain registered under the regulatory code. The NSW Registrar of Community Housing publishes information about the sector's financial sustainability on an annual basis.

The community housing providers we spoke to advised us that they have capacity to increase the number of properties they manage. We consider that this can be attributed to the work the Department and the community housing industry has done to build the capacity of the sector.

Community housing providers receive a number of subsidies, payments and other support from both the New South Wales and Australian governments that reduces their operating costs and helps them to remain financially viable, including GST and other tax exemptions. The sustainability of the current community housing model relies on two key features:

- in relation to management transfers, the Department continues to bear the cost of major structural repairs and replacing houses when they reach the end of their life cycle
- the availability of Commonwealth Rent Assistance, which community housing tenants receive to help them pay rent to their community housing provider.

### Exhibit 7: Commonwealth Rent Assistance (CRA)

Commonwealth Rent Assistance (CRA) is an income supplement paid to eligible people who receive a Centrelink payment and rent in the private rental or community housing markets. It is not available to public housing tenants.

Community housing tenants use the CRA supplement to help them pay rent to their community housing provider. This allows providers to set rent higher than would otherwise be possible given tenants are on low incomes. The Community Housing Peaks Policy Network estimates that CRA can boost rental income by as much as 66 per cent for each tenant. CRA, along with other benefits, is an important factor that enables many community housing providers to run surpluses, which is then reinvested in social housing.

Source: Community Housing Peaks Policy Network, The Vital Subsidy, 2014.

Most of the community housing providers we spoke to told us that if CRA was removed, they would not be able to maintain the current scale of their operations. The Department has modelled the potential impact of changes in funding arrangements to inform negotiations with the Commonwealth about social housing. The Department should continue to monitor developments in this area.

### 3. Implementing transfers and achieving outcomes

We found that the Department is close to achieving the target it set in Planning for the Future to increase the number of homes managed by community housing providers from 13,000 to 30,000. However, the Department did not specify how the other outcomes it set in Planning for the Future would be measured. We are therefore unable to determine whether the Department has achieved its desired outcomes for tenants.

While some delays occurred in transferring properties to community housing providers, overall the Department has managed the transfer program reasonably well. We found that there were some gaps in the information given to providers about the properties they received. These issues have now been resolved.

The Department has designed contracts that are clear and easy for community housing providers to understand. The Department monitors providers to ensure compliance with contractual obligations. However, contracts with community housing providers are not clearly linked to the outcomes that were set in Planning for the Future. As a result, the Department does not monitor the performance of providers against those outcomes.

Government-owned properties are leased to community housing providers for three year terms. Community housing providers told us that three year terms can prevent them from borrowing money to invest in new social housing projects. We also found that while the Department has a framework to guide decisions about which of its properties should be redeveloped or sold, the framework has not been publicly released.

#### **Recommendations**

The Department of Family and Community Services should:

by December 2015:

- publicly release its asset portfolio framework so that community housing providers can better align their asset management plans with the Department's strategy for its social housing portfolio

by December 2016:

- ensure that contracts include performance measures that are clearly linked to the outcomes it sets in the social housing policy
- ensure that its contracts are for a long enough period to enable community housing providers to deliver the outcomes it sets in the social housing policy
- ensure that it monitors the performance of providers against the outcomes set in the social housing policy.

#### 3.1 Designing contracts for community housing

In order to support the achievement of the Department's desired goals and outcomes, contracts should incentivise providers to deliver those goals and outcomes.

##### **Contracts provide flexibility but are not linked to the Department's goals**

The Department has designed contracts that are clear and easy to understand. Contracts are also flexible about how community housing providers should deliver tenancy services. For example, contracts do not say that particular programs must be provided. This allows providers to tailor programs to meet the particular needs of their tenants.

However, we found that the Department's contracts are not clearly linked to the high level outcomes that were set in Planning for the Future. All community housing providers sign a common terms of agreement, which sets out obligations in relation to reporting, contract variations, defaults, and dispute resolution. Providers are also required to comply with various departmental policies, including community housing policies about:

- rent
- tenant eligibility
- asset ownership
- asset management.

In addition to the common terms of agreement, community housing providers also sign separate contracts depending on the particular assistance they receive from the Department. For example, providers that have received ownership of social housing properties sign asset vesting agreements. Providers that manage government-owned social housing properties sign general property lease agreements.

While these contracts set performance targets, they relate to activities and not outcomes. For example, contracts require community housing providers to meet targets regarding the number of properties that are untenanted and how long those properties have been vacant.

The Department is in the process of setting new goals and outcomes as part of the social housing policy. The Department should include performance targets in its contracts with community housing providers that relate to those goals and outcomes. This will allow the Department to monitor whether outcomes are being achieved.

### **Tripartite deeds were a good innovation**

The Department developed tripartite deeds to support ownership transfers to community housing providers. Providers are required to use these properties to build new social and affordable housing. For example, the properties can be used as security to borrow money from banks and other financial institutions.

Tripartite deeds set out the relationship between the Department, the community housing provider, and the financial institution that lends money to the provider. Providers told us that these deeds helped to give banks confidence to lend to the sector. This was an innovative way to support the Department's goal of building new social housing.

Most of the community housing providers we spoke to want the government to transfer the ownership of more public housing properties to the community housing sector, as this would enable them to build more properties. However, most providers agreed that long term management transfers would also allow them to do this. We discuss this further below.

### **Longer leases may help providers to better deliver the Department's goals**

The Department leases public housing properties to community housing providers for three year terms. In future, the Department should ensure that contracts are long enough to enable providers to deliver the outcomes set under the social housing policy.

Some community housing providers advised us that three year leases can make it difficult to get loans, as banks and other lenders want evidence that providers have a secure source of income for longer than three years. If providers cannot secure loans, they will be limited in their ability to redevelop or build new social housing. While there is no contractual requirement for providers to use the properties they lease from the Department to build new housing, many of the providers we spoke to told us they would like to do so. Growth was also a key objective of Planning for the Future.

Community housing providers also told us that three year leases do not provide them with an incentive to invest in the properties they manage. For example, if a lease is due to expire in six months then a provider may not spend money to fix non-urgent repairs or perform routine maintenance. They may only do the minimum required to meet maintenance standards.

The Department advises that leases are normally renewed every three years, which should give community housing providers confidence that they will manage properties in the longer-term. Nevertheless, the Department should consider longer-term leases in future. Other Australian States, such as Queensland and Tasmania, now lease public housing properties to community housing providers for ten to 20 year terms.

### Exhibit 8: The Logan Initiative, Brisbane

The Logan Renewal Initiative is a 20 year plan to deliver better housing options and build a stronger community in the suburb of Logan, which is near Brisbane. The initiative aims to provide residents with access to a range of affordable, appropriate and secure housing options. To achieve this, the Queensland Department of Housing and Public Works has entered into a 20 year contract with a community housing provider to:

- manage around 4,900 social housing properties
- renew and redevelop properties in the Logan area
- deliver a net increase of 800 social and affordable rental dwellings.

The community housing provider will provide a range of locally relevant services to tenants, including pathways to skills and employment. It will also redevelop the Logan social housing portfolio to reduce concentration, better align the portfolio with demand, and improve visual amenity. The 20 year lease term was entered into to optimise the delivery of these outcomes.

Source: Queensland Department of Housing and Public Works.

### The Department has recently developed an asset portfolio framework

Most community housing properties are management transfers. This means that the properties are owned by the Department and leased to community housing providers, which are responsible for repairs or work that needs to be done regularly such as painting, bathroom renovations or carpet replacement. The Department is responsible for making decisions about major structural changes and the replacement or sale of houses.

### Exhibit 9: Responsibility for leased government properties

Owner	General maintenance	Structural changes	Replacement / sale
The Department	Community housing provider	The Department	The Department

Source: NSW Community Housing Asset Management Policy, August 2014.

While it is the Department's role to decide if and how managed properties should be redeveloped, some providers told us that they had ideas for how these properties could be better used. For example, some providers told us that they wanted to knock down older houses and build new units in order to increase the number of people they can house. Yet they advised that it was difficult to get permission to do this.

Until recently, the Department did not have an overarching strategy to guide decisions about which social housing properties should be redeveloped or replaced. These decisions were made at the local level. However, it has done considerable work recently to develop an asset portfolio framework. The framework should assist the Department to make more strategic and commercially sound decisions about its social housing assets in future.

The Department has recently spoken to some community housing providers about the new asset portfolio framework. Nevertheless, many of the providers we spoke to during the audit did not know that the Department had a strategy in place. We consider that the framework should be publicly released and better communicated to the community housing sector. This will enable providers to align any ideas they have about redeveloping properties with the Department's broader strategy. It will also give the public confidence that the Department has a strategy for managing its social housing portfolio.

## 3.2 Managing contracts with community housing providers

In order to monitor whether outcomes are being achieved, the Department should ensure that its contract compliance and performance management framework measures the outcomes and benefits it is seeking to achieve.

### Compliance against contractual requirements is monitored

The Department has a contract compliance and performance management framework that enables it to monitor whether community housing providers are meeting their contractual obligations. The framework monitors provider performance in relation to:

- occupancy rates
- turnaround times for vacant dwellings
- property standards.

The Department regularly collects data and assesses performance against benchmarks. Standards are set in a simple traffic light system, which allows the Department to identify when a provider is at risk of breaching contractual requirements at an early stage.

### Exhibit 10: Performance management traffic light system

<b>GREEN</b>	The benchmark has been met.
<b>AMBER</b>	The benchmark has not been met but performance is within the acceptable range.
<b>RED</b>	The benchmark has not been met and performance is outside the acceptable range.

Source: Community Housing Contract Compliance and Performance Management Framework.

Reporting requirements are tailored to reflect the particular targets set in community housing contracts. Requirements are also designed to be proportionate to the number of properties a community housing provider manages.

### Some outcomes are not monitored

The contract compliance and performance management framework does not monitor progress against all outcomes that were set in Planning for the Future. This is because the Department's contracts do not set performance targets in relation to these outcomes. In section 3.1 above, we noted that the Department should include performance targets in its contracts that clearly link to the outcomes that are set in the social housing policy. It should also ensure that its performance management framework measures provider performance against those outcomes.

The Department will need to consider potential overlaps with information collected by the NSW Registrar of Community Housing to ensure that reporting requirements are not unduly onerous for community housing providers.

### A framework is in place to address underperformance

Under the contract compliance and performance management framework, the Department can take action if a community housing provider fails to comply with contractual obligations or is underperforming. We found that the Department's processes for remedial action are proportionate and clearly communicated to the sector. The Department can take a number of actions to address poor performance, including:

- reviewing information and discussing performance concerns with providers
- preparing a performance plan to remedy breaches
- monitoring provider actions to ensure breaches are remedied.

The Department works with community housing providers to address performance issues as a first measure. Only where a provider fails to implement a performance plan will non-compliance be treated as a breach of contract. Breaches can result in the termination of leases or the cancellation of other assistance. The Department may also refer providers to the Registrar for Community Housing, who may investigate the provider for non-compliance with the National Regulatory Code.

Overall, we found that the Department has built a constructive and collaborative relationship with the community housing sector. Most of the community housing providers we spoke to told us that questions and concerns about contractual issues are addressed in a timely manner.

### The switch to unit level data will enable more detailed analysis

The Department has recently started collecting unit or household level data from community housing providers in order to comply with Commonwealth reporting requirements. This means it now collects information on individual households, as well as high-level information on the overall number of houses managed and tenants assisted.

The Department told us that there have been some issues associated with implementing unit level reporting. For example, there have been a few problems with the way data is collected and interpreted. We understand that it is currently working with providers to correct this.

Despite these issues, the community housing providers we spoke to thought that the shift to unit level reporting is a positive reform. We agree with this position. In the longer-term, the collection of unit level data will give the Department a better understanding of community housing tenants and a better base from which to measure tenant outcomes. This should help the Department to monitor the outcomes it sets under the social housing policy.

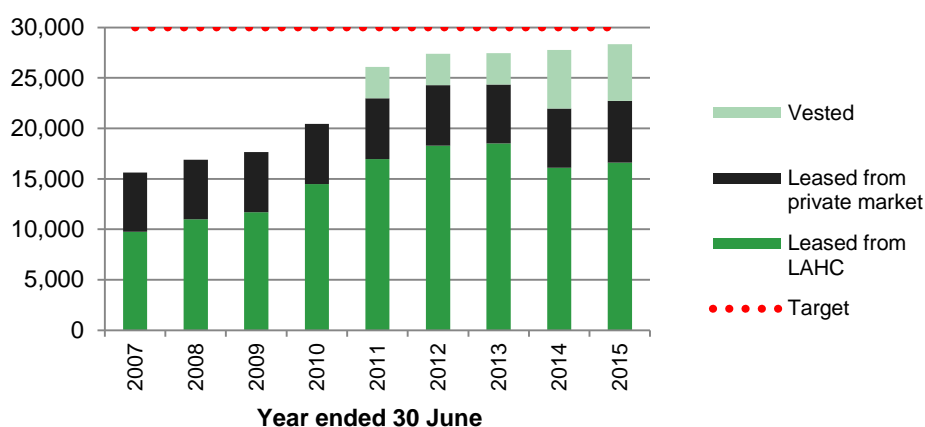
## 3.3 Monitoring outcomes for community housing tenants

It is critical that the Department monitor progress against its desired outcomes. This enables it to adjust its approach if targets are not being met. It also allows it to measure whether outcomes have been achieved.

### The Department has almost met its growth target

Planning for the Future set a target to increase the number of houses managed by the community housing sector from 13,000 to 30,000 homes by 2016–17. We found that the Department is close to achieving that goal. The Department’s data shows that, at 30 June 2007, the community housing sector managed 15,624 homes. At 30 June 2015, the sector managed 28,353 homes.

**Exhibit 11: Total number of homes managed by community housing providers**



Source: Department of Family and Community Services.

Note: These figures include crisis and transitional housing, which is used to support people who are homeless or at risk of homelessness.



Increases in the number of homes managed by the community housing sector were driven by two main transfer programs:

- management transfers
- ownership transfers.

Increases in the number of properties managed by community housing providers primarily occurred between 2009 and 2011. There has been limited growth since that time.

The community housing sector will continue to grow as community housing providers build new housing and add it to their portfolios. At December 2014, providers had built 260 of the 1,224 dwellings that are required to be delivered. The deadline for building these properties varies for each provider depending on when contracts were signed and most properties are not due for delivery until 2020–21. It is therefore too early to tell if the target will be achieved.

The Department advised that the new social housing policy will set new objectives and targets for the community housing sector.

### **It is unclear if desired outcomes for tenants have been achieved**

Planning for the Future included three high level outcomes that related to tenant outcomes, but it did not specify how it would measure whether these outcomes had been achieved. We therefore cannot determine whether the Department has achieved its outcomes for tenants.

This does not mean that progress has not been made. The Department has completed a number of actions that relate to these outcomes. For example, we found that the Department has implemented a number of programs or activities that contribute to the goal of stronger communities, such as:

- providing grants to community housing providers to support tenant participation activities
- partnering with the NSW Department of Education to award scholarships to young people living in community housing
- funding the NSW Federation of Housing Associations to produce key resources to assist community housing providers to develop communities.

We also found that community housing providers engage in a number of innovative tenant participation and community building activities that are designed to improve outcomes for tenants. For example, a number of providers have community engagement strategies, which include activities such as:

- education scholarships
- no interest loan schemes
- assisting tenants to establish small businesses
- employing tenants to perform local services such as lawn maintenance.

### **Exhibit 12: Bridge Housing ‘Building Bridges’ Strategy**

Building Bridges is a three year strategy for tenant and community engagement developed by Bridge Housing, a community housing provider based in the Sydney metropolitan area. The strategy was developed in partnership with tenants and community stakeholders and builds on Bridge Housing’s existing tenant participation activities. Work has commenced on a number of programs, including the:

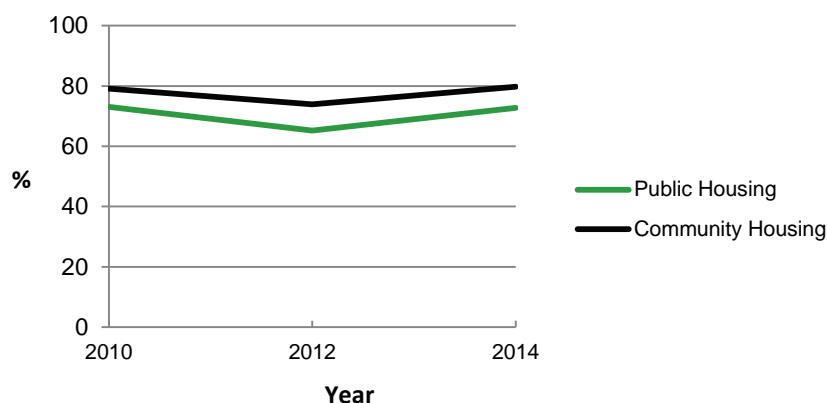
- ‘Local Links’ initiative, which connects isolated or new tenants to local services, programs and facilities
- ‘Tenants in Operations and Planning’, which enables tenants to have a say in strategic planning, attend housing conferences and seminars, and have input into staff interviews
- ‘Our Place Green Space’, which includes new protocols for tenant-led community garden projects and incorporates feedback from tenants into planning for new developments.

The purpose of the strategy is to strengthen communities by involving tenants in decision-making and improving ties between tenants and their local areas.

Source: Bridge Housing Annual Report 2014.

We also found that community housing tenants report higher levels of satisfaction than public housing tenants. We note that tenant satisfaction can be influenced by a number of factors, including the fact that a greater proportion of community housing properties are new or have recently been repaired or upgraded.

### Exhibit 13: Percentage of tenants satisfied with their landlord



Source: Productivity Commission Reports on Government Services.

The Department is developing outcomes for tenants as part of the social housing policy. This will enable the Department to determine whether the community housing sector is best placed to deliver housing on behalf of government in the longer-term.

### Progress against growth targets is monitored

We found that the Department monitors progress against growth targets. For example, it monitors progress against:

- the overall growth target of 30,000 homes managed by community housing providers
- targets for new homes to be built as a condition of ownership transfers.

This monitoring enables the Department to identify when targets are not being met and make adjustments to its strategy. It also enables it to identify where practice could be improved.

Overall, transfers to community housing providers were managed reasonably well. Contract management processes were sound and the Department worked well with the sector to ensure transfers occurred. However, community housing providers advised that there were some gaps in the information about the properties they received. This included information on property maintenance and tenant histories. This may not be an issue in future, as the Department is now collecting more detailed information about social housing.

We also found that delays occurred in the transfer of ownership to providers and some management transfers did not take place. For example, planned management transfers of 7,000 houses between 2011–12 and 2015–16 did not occur. The Department advises that these transfers were suspended in 2011 while the government revisited its social housing policy. Despite this, the Department will almost meet its overall target of 30,000 homes managed by the community housing sector.

# Appendices


## Appendix 1: Agency response



HOCE15/58

09 SEI

Mr A T Whitfield PSM  
Acting Auditor-General  
Audit Office of New South Wales  
GPO Box 12  
SYDNEY NSW 2001

Dear Mr  Whitfield

### Performance Audit – Community Housing

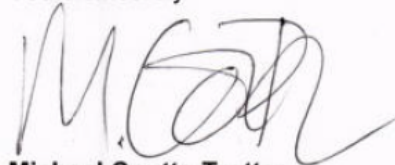
Thank you for your correspondence dated 20 August 2015 concerning the final report for the Performance Audit on Community Housing.

I note that the overall conclusion of the report is positive and reflects that the Department of Family and Community Services has worked collaboratively with community housing providers and industry groups to develop the sector over the past eight years and that the transfer of public housing to the community housing sector has been managed reasonably well and has improved the sustainability of the sector.

Our responses to the report's recommendations are attached.

Should your officials wish to discuss the response further, please ask them to contact Mychelle Curran, Executive Director, Community, Homes and Place on 8753 8690 or email [Mychelle.Curran@facns.nsw.gov.au](mailto:Mychelle.Curran@facns.nsw.gov.au)

Yours sincerely



**Michael Coutts-Trotter**  
Secretary

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**Performance Audit – Community Housing**  
**Responses by the Department of Family and Community Services**  
**to Report Recommendations**

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**Recommendation 1:**

**By December 2015, the Department of Family and Community Services should:**

Finalise its social housing policy and ensure that the social housing policy:

- a. sets clear direction for the community housing sector
- b. clearly defines the outcomes it wants to achieve for tenants in community housing
- c. sets measurable targets in relation to those outcomes.

**RESPONSE:**

The Department of Family and Community Services (FACS) **agrees** with **Recommendation 1**.

The Minister for Social Housing has indicated that he will release a new social housing policy later this year.

The social housing policy will build on the Social Housing in NSW Discussion Paper released in November 2014 and a follow-up discussion forum held by the Minister in May 2015.

The new policy will set a clear direction for both the community housing sector and other non-government organisations in the provision of social housing. It will articulate high level outcomes and measurable targets to help measure FACS' success in delivering a better social housing experience for clients, including tenants living in community housing.

**Recommendation 2:**

**By December 2015, the Department of Family and Community Services should:**

- publicly release its assets portfolio framework so that community housing providers can better align their asset management plan with the Department's strategy for its social housing portfolio.

**RESPONSE:**

FACS **agrees** with **Recommendation 2**.

FACS' NSW Land and Housing Corporation (LAHC) acknowledges public release of the asset portfolio framework, in conjunction with announcement of social housing policy reforms, will assist community housing providers to align their asset management plans with FACS' strategy for its social housing portfolio.

LAHC has provided high level information about its asset portfolio framework to community housing providers through presentations and meetings over the past two years.

**Recommendation 3:**

***By December 2016, the Department of Family and Community Services should:***

ensure that contracts include performance measures that are clearly linked to the outcomes it sets in the social housing policy

**RESPONSE:**

**Recommendation 3 is agreed in principle.**

FACS agrees that, in future, contracts with community housing providers will include performance measures that are clearly linked to the outcomes of the social housing policy. However, the timeframe for implementing new contracts is subject to the timetable to implement a new social housing policy and associated outcomes and performance measures.

**Recommendation 4:**

***By December 2016, the Department of Family and Community Services should:***

ensure that its contracts are for a long enough period to enable community housing providers to deliver the outcomes it sets in the social housing policy.

**RESPONSE:**

FACS agrees with **Recommendation 4**, subject to timeframe matters noted above.

**Recommendation 5:**

***By December 2016, the Department of Family and Community Services should:***

ensure that it monitors the performance of providers against the outcomes set in the social housing policy.

**FACS RESPONSE:**

FACS agrees with **Recommendation 5**.

## Appendix 2: About the Audit

### Audit objective

This audit assessed whether the Department of Family and Community Services has developed the community housing sector and managed the transfer of public housing to community housing providers in a way that is sustainable and has achieved its desired outcomes for tenants.

### Audit scope and focus

The audit sought to answer the following questions:

- has the Department of Family and Community Services identified what it wants to achieve from the community housing sector and developed the sector to achieve those goals?
- has the Department of Family and Community Services implemented the transfer of title and property management to community housing providers and has it achieved its desired outcomes for tenants?

By transfer of title we mean properties that have been transferred from NSW Government ownership to community housing provider ownership. By transfer of property management, we mean properties that are owned by government but are managed by community housing providers.

### Audit exclusions

We did not specifically assess:

- the performance of individual community housing providers
- the operation of the National Regulatory System for Community Housing
- community housing properties that do not receive government funding or support
- other housing assistance options, such as private rental assistance, private rental subsidies, emergency/temporary accommodation, supported/crisis accommodation and affordable housing
- Aboriginal community housing providers.

### Audit approach

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing. The Standard requires the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

We acquired subject matter expertise by:

- interviewing departmental staff that are responsible for community housing
- interviewing other key stakeholders
- reviewing policies, procedures and other documents
- analysing relevant data
- examining approaches in other jurisdictions.

### Fieldwork visits

We spoke to ten community housing providers. We spoke to providers that:

- operate in regional areas
- operate in the metropolitan Sydney and greater metropolitan areas
- have received title transfers
- manage properties that are owned by the government
- manage more than 2,000 properties
- manage less than 500 properties.



## Exhibit 14: Community housing providers selected for fieldwork

Community housing provider	Number of properties (approx.)	Areas of operation
Argyle Community Housing	2,200	Various locations, including Campbelltown, Bowral, Young, Griffith, Wagga Wagga and Queanbeyan
Bridge Housing	1,700	Metropolitan Sydney
Compass Housing	3,500	Various locations, including the Central Coast, Upper Hunter, Newcastle and Broken Hill
Homes North	1,000	New England and North West NSW, including Armidale, Gunnedah, Tamworth and Moree
Metro Housing	350	Metropolitan Sydney
Mission Australia Housing	1,350	Metropolitan Sydney
Narrabri Community Housing Tenancy Scheme	65	Narrabri
Southern Cross Community Housing	1,150	Various locations, including Nowra, Cooma and Eurobodalla Shire
St George Community Housing	4,300	Metropolitan Sydney
Stretch A Family	2	Metropolitan Sydney

Source: Community housing provider websites and annual reports, Audit Office interviews.

We also spoke to other stakeholders, including the:

- NSW Federation of Housing Associations
- Tenants Union of NSW
- Community Housing Tenant Network.

### Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by the Department of Family and Community Services. In particular we wish to thank our liaison officers and staff who participated in interviews and provided material relevant to the audit.

We would also like to thank the community housing providers and other stakeholders that spoke to us during the audit.

### Audit team

Tiffany Blackett and Kellie Blakemore conducted the performance audit. Rod Longford acted as Engagement Reviewer.

### Audit cost

Including staff costs and overheads, the estimated cost of the audit was \$222,251.

# Performance auditing

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## **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](http://www.audit.nsw.gov.au) or contact us on 9275 7100.

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

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**People** – we trust and respect others and have a balanced approach to work.

**Professionalism** – we are recognised for our independence and integrity and the value we deliver.

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