Final Report

Operating deficits and public housing: policy options for reversing the trend

authored by

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EXECUTIVE SUMMARY

Public housing represents the key component of the various ways in which affordable housing is provided in Australia, yet at the beginning of the new Millennium the supply of new government assisted or sponsored public and affordable housing has fallen substantially compared to late 1980's levels. Furthermore, current research indicates that there has been a significant absolute decline in the total owned stock of government and not for profit provided social housing.

Our earlier research project, "Risk Management and Efficient Housing Assistance Provision: A New Methodology" (Hall and Berry, 2002) found that in the cities where the demand for affordable housing is most acute, namely, Melbourne and Sydney, public housing has been easily the most efficient method of providing housing assistance, being 17 and 20 times more efficient (respectively). than paying cash subsidies to households privately renting. Therefore, the future of public housing as a method of providing social housing is a major concern of contemporary housing policy debate.

In simple terms, a key constraint for mainstream public housing in Australia is that the net incomes after rebates should at least pay for operational costs (net of interest paid or received). If this is not the case any addition to stock expands the additional funding requirement to pay for the growing deficit. In these circumstances the only option for reducing or freezing the additional funding requirement is to sell stock and therefore reduce the number of households provided with longer-term assistance (Donald, 2001).

The continued growth of operating deficits will eventually bump up against political constraints at both State and Federal levels in regard to funding. Therefore, the rate at which these deficits are growing, and the timing of when they will outstrip current real levels of grant funding is of critical policy concern.

Free cash flow is the lifeblood of any healthy business entity. Conversely, without substantial changes to current funding arrangements a prolonged period of increasing negative real cash flows can only result in the selling down of the stock, and the repatriation of public tenants to the private market.

These developments may result in an increasingly inefficient and inequitable housing assistance system, particularly in the larger urban environments.

Clearly, continuation of the current trends may carry with it a possible forced withdrawal to private rental subsidies as the only method of continuing housing assistance. Under current arrangements this would mean a major shift in the distribution of the costs of the housing assistance system from the States to the Commonwealth.

Research Aims and Objectives

This project seeks to examine the trends in the financial performance of the eight State and Territory Housing Authorities and Housing New Zealand Corporation, over the period 1990/91 to 2000/01, and to explore the factors influencing revenue and expenditure streams responsible for those trends.

Aims

The aims of the project are to:

- clarify the impact of public housing operating deficits on the development of comprehensive and expansive housing assistance policies;
- develop suitable policy options for returning public housing to operational surpluses; and by so doing;
- provide a context for more comprehensive and expansive housing assistance policies.

Objectives

Related objectives are to:

- discuss, document, and define what are public housing operating deficits;
- quantify trends in, and current levels of, the component line items which make up these deficits;
- elaborate on the reasons for the development of these deficits;

This report sets out:

- A rationale for, and an explicit set of working definitions for the cost and revenue components to be used to assess operational surpluses/deficits for mainstream public housing authorities;
- Quantitative analysis of the trends in the main components of these deficits and the rate at which the various components are increasing or decreasing;
- Identification of the reasons for the development of these deficits and whether or not they are long term structural outcomes or medium term results which may revert at some point in the future.

Key Developments in Public Housing

Currently, public housing receives operating income from only four main sources:

- rents;
- grants and subsidies;
- interest on investments; and
- fees and charges and sundries

Grants and subsidies now represent the second largest source of operating income after rents received from tenants.

Under the Commonwealth State Housing Agreement (CSHA), one of the key drivers of change in the public housing system has been the quantum of funds provided, and the purposes for which funds can be used.

The 1996 CSHA marked a significant shift in a number of areas that directly and indirectly impacted on the financial situation of the State Housing Authorities (SHAs). Although the 1996 CSHA was an interim agreement, it represented a major shift from previous arrangements, introducing, tighter targeting, greater flexibility, increased accountability, new planning requirements and a greater focus on client outcomes.

Many controls which had characterised previous CSHAs were removed. The 1996 CSHA offered the States and Territories more flexibility in using funds to address housing needs as part of their key responsibility for managing housing assets and delivering services.

Some Commonwealth controls over State expenditure and activities contained in the 1989 CSHA were removed. Arrangements for the identified programs were also simplified.

The 1996 CSHA permitted funds to be used for a broader array of allowable uses than was the case in the 1989 CSHA. This meant that, subject to agreement through the Commonwealth-State planning process, States had more flexibility to allocate funds between capital and recurrent purposes and for non-capital expansion such as headleasing.

Performance indicators were established for the first time, and national measures of performance in relation to the achievement of consumer and administrative efficiency outcomes were agreed. Customer focus was given more prominence and the interim agreement required each State and Territory to develop a code of practice about housing assistance funded under the CSHA.

According to the Commonwealth Department of Family and Community Services, 1997, this code of practice covers, customer rights to:

- a high level of service …
- information, in appropriate formats, about housing assistance
- be consulted in relation to the planning, management and delivery of housing assistance;
- access effective mechanisms for the investigation and resolution of complaints, and
- the need for providers to specify, monitor and report against service standards and guarantees.

To summarize, the 1996 Interim Agreement effectively eliminated the separation between capital and recurrent purposes to which the grants could be applied, and focused on , tighter targeting, greater accountability in regard to the quality, timeliness and appropriateness of the service provided and provided explicit measures of consumer satisfaction and client rights.

The 1999 and 2003 Agreements perpetuated the direction set out in the 1996 Interim Agreement, except for some a very limited requirement to use private capital funds for public housing output.

There have also been major shifts in housing policy across the Tasman. In 1992, Housing New Zealand Corporation was split into two entities: Housing Corporation of New Zealand and Housing New Zealand (HNZ), with the Housing Corporation of New Zealand responsible for a portfolio of residential loans and the management of the Government's surplus land assets, and HNZ, the Government's rental stock.

A full market rent regime was introduced by HNZ and income related rents dispensed with. From 1993 to 2001 both public and private tenants meeting appropriate eligibility criteria received an accommodation supplement, provided as a cash payment by the equivalent of Centrelink. When compared to an income related rent payment of 25% of income, this supplement only provided a partial subsidy, and during this time, a large proportion of public tenants were paying more than 50% of their incomes in rent.

In this period Housing New Zealand was treated strictly as a trading entity. It produced significant operating profits and paid off its debt, paid tax and produced large dividends or repatriations of equity to the New Zealand Treasury. In addition Housing New Zealand sold off to the public some 10,000 dwelling units (from 70,000 to 60,000), or 15% of the stock. At the time of its dissolution HNZ still had a range of options before it to further reduce stock numbers by varying amounts.

While Housing New Zealand was in sell down mode for most of its life and dwellings earmarked for sale generally received limited maintenance, there was a once-off capital injection (Graph 39) to address a deferred maintenance liability of about $NZ300m which was inherited from its predecessor. In turn, the restructured authority, Housing New Zealand Corporation, faced an even more daunting assets backlog in the form of older stock in need of refurbishment and modernisation.

In June 2001, the New Zealand Government passed new legislation, the Housing Restructuring Amendment Act 2001, establishing Housing New Zealand Corporation. Related legislation prescribed new rules for the setting of income related rents. This abolished the payment of an accommodation supplement to public tenants and replaced it with a means-test income related rent set at 25% of net (after tax) income. Coupled with these new rent policy arrangements, the government established a procedure to fully fund HNZC for the difference between the income related rent charged to tenants and the market rent.

Also, HNZ was required to pay a dividend from its operating account to government. This amounted to several hundred million dollars annually during the second half of the 1990s, representing a combination of the capital gains realised following the property boom in 1996-97 and the proceeds from house sales. Since 1999, under Labour, the dividend has been renegotiated annually via the Statement of Intent within the range $NZ25-35m.

Public Housing Trends

Over the decade 1990/1 to 2000/1 (the period for this study) total real capital funding for public housing in Australia fell by 25 per cent. Distinguishing between the levels of government, real funding provided by the Commonwealth fell by 22 per cent and by the States and territories by 32 per cent.

The total stock of public and community sector housing in Australia rose to a peak of around 380,000 dwellings (net of headleasing and intra-governmental transfers) in 1996/7, thereafter declining to around 375,000 dwellings in 2000/1. The situation in New Zealand was more dramatic.

The total public housing stock fell from about 70,000 dwellings in the mid-1990s to 58,000 in 2000/1, reflecting (as argued above) large scale sales in the wake of a move towards market related rents and reliance on housing allowances, policies that were replaced in the last two years.

With the introduction of the 1995/96 CSHA the Commonwealth Government placed considerably greater priority on ensuring that new public and community housing allocations were targeted to those most in need, i.e. experiencing the lowest incomes or in dire or emergency situations and/or both. Many State Housing Authorities responded by introducing segmented waiting lists whereby ‘priority applicants’ received first call on available allocations. In consequence, over the 1990s in Australia:

- the proportion of public tenancies on rebated rents rose from 78 to 88 per cent
- the proportion of new tenancies allocated to priority recipients rose from 17 to 49 per cent of new tenancies

Throughout most of the 1990’s HNZ, the public housing agency, operated a priority allocation system whilst charging full market rents. Public and private tenants were then paid an Accommodation supplement to partially off-set the shift to market rents. For these reasons there are no relevant comparative figures, as the concept of rebated tenant is irrelevant in a fully market rent regime, and segmented waiting lists have only developed with the introduction of the income related rent policy which was first applied less than two years ago.

The Research Process

This Study uses the published financial statements of all State and Territory Housing Authorities and the Housing New Zealand Corporation as the commencing point of the analysis. A detailed rolling process of consultation was undertaken by the researchers with the senior officials of each of the nine housing authorities in order to clarify concepts and the common basis on which the financial data sought from each authority was accessed and analysed. The details of this process are described in chapter 3. The financial data obtained was supplemented by a questionnaire-based interview with the CEO or chief financial officer (or both) in each of the housing authorities.

After obtaining all relevant information and making all the necessary adjustments, the actual amounts received and spent for the core income and expenditure items were calculated for each year for each housing authority. The relevant number of dwellings was also incorporated. These amounts were then divided by the relevant dwelling number to obtain the per unit outcome.

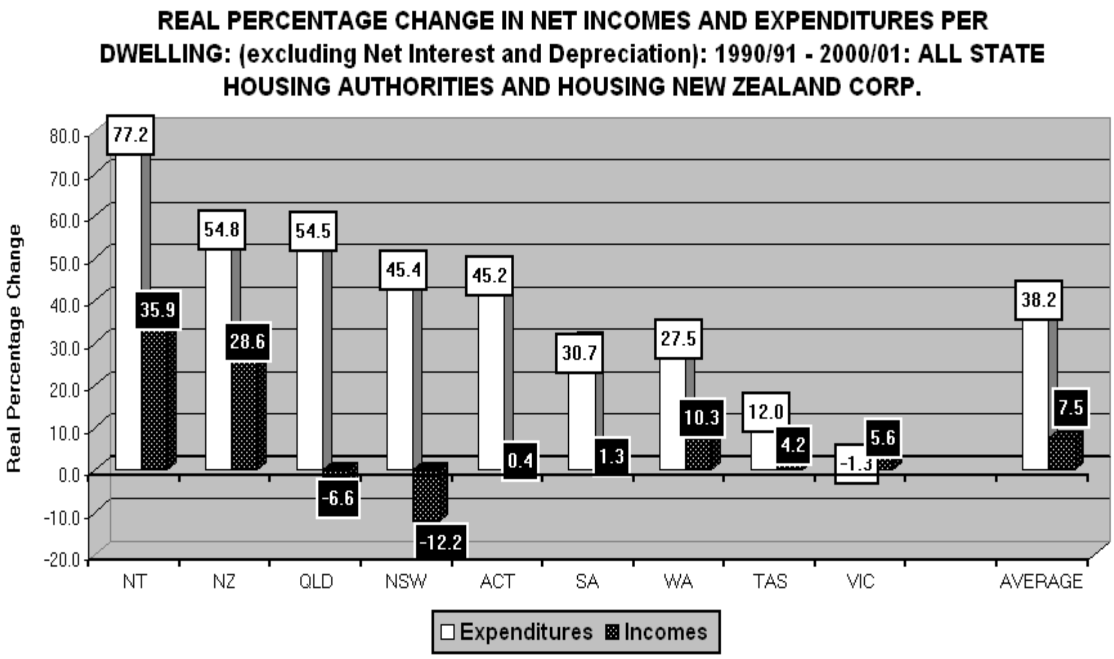
In the case of Housing New Zealand Corporation the numbers derived for each year were converted to Australian dollars at the Interbank rate prevailing as at the 30th June each year.

All the per unit outcomes were then adjusted by the average Consumer Price Index for all capital cities for Australia. Attachment 3 contains a copy of the spreadsheet analysis for a Housing Authority, to demonstrate the process.

Key Research Findings

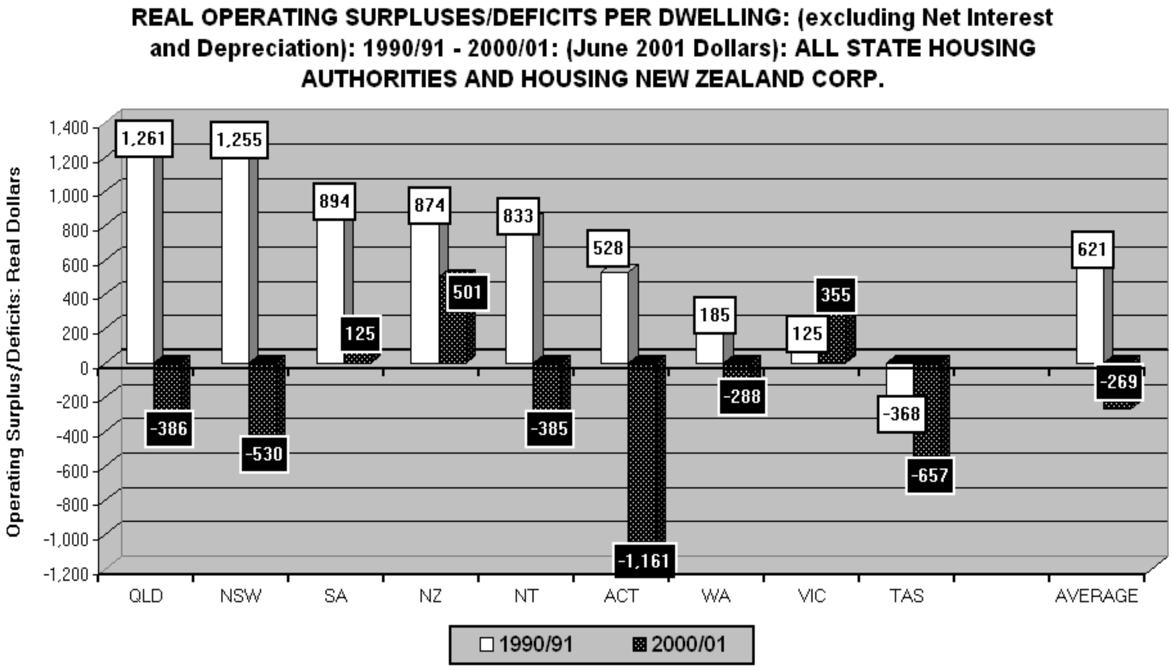
In general, the 1990s saw all the housing authorities move from small or moderate operating surpluses into deficits. Real rental, and total income, per dwelling remained either flat or declined for six of the nine housing authorities, and the rate of growth of real income for the remaining three authorities has been significantly slower than the rate of growth of real net expenditure.

Figure 1: Real Percentage Change In Net Incomes And Expenditures Per Dwelling 1990/91 to 2000/01: All State Housing Authorities and New Zealand Housing Corp.



Real net expenditure per dwelling unit grew rapidly for all authorities except Tasmania and Victoria, and by an average of 3.8% real per annum. As a result, operating outcomes declined markedly.

Figure 2: Real Operating Surpluses/Deficits Per Dwelling: 1990/91 to 2000/01: (June 2001 Dollars): All State Housing Authorities and Housing new Zealand Corp.



In 1990/1 all SHA's except one were in surplus. However, ten years later, only, New Zealand, Victoria and S.A. were in that position Overall, the (weighted) average operating result fell from $621 surplus at the beginning of the decade to -$269 deficit at the end.

What are the Drivers?

Targeting And Income Growth

On the income side, the weakening position appears to be due mainly to the effects of policy changes resulting in tighter targeting of public stock on low-income households and those with multiple support needs.

Australian public housing authorities are experiencing very low levels of Net Income growth. If New Zealand and the Northern Territory are removed from the analysis then the weighted average outcome for the remaining authorities will be less than a third of 1% per annum.

For the remaining authorities there is an almost perfect correlation between the rate of Net Income growth experienced by a Housing Authority and the rate of growth in the proportion of its tenants who are rebated and/or receiving priority allocations.

The potential reduction in Net Income was mitigated to some extent by the number of authorities who changed their rent charging policy and moved from less than 25% of assessable income paid in rent, to 25% of assessable income.

All of the indicators on household composition indicate that a substantial movement from two to one income public tenant households is underway and will continue for some time. This will contribute to falling incomes per dwelling.

Finally, as only two authorities have 90% or more rebated tenants and only three are in the situation where priority allocations make up more than 50% of new lettings the process of tighter targeting has yet to fully run its course.

Based on these three factors, it is likely that the reduction in Net Income per dwelling unit will accelerate for the foreseeable future.

Tighter targeting also impacted on the operating cost side, reinforced by the post-1996 requirements to improve customer service standards and the greater flexibility allowed housing authorities in managing their dwelling assets.

Rapid Growth In Operating Costs

More specifically, operating costs were driven up by:

- *Real expenditure on depreciation* rose, on average, by 54 per cent over the period. Under Commonwealth requirements Housing Authorities are required to revalue their portfolio at least every two years. Revaluations combined with asset restructuring and improvement are rapidly increasing the provision required for depreciation under the 2% 'straight line' method employed by most Housing Authorities.
- Five authorities – NSW, New Zealand, NT, SA and Qld. – have had depreciation charges increase by more than 100 per cent.
- *Real expenditure on maintenance* rose, on average, by 39 per cent per dwelling over the period. Real Maintenance expenditure grew faster than the CPI for building materials for all Authorities other than the ACT, Tasmania and Victoria. Much of the increase in the Northern Territory can be attributed to the unique circumstances applying in that location and the difficulties of obtaining a competitive tender market for building repairs. In addition, until 2001, Maintenance expenditures were under the control of another Government organisation.

However, the rapid increase in Maintenance expenditures can also be attributed to Housing Authorities assuming a more pro-active and information rich role in asset management and the development of 'stock audits' throughout Australia. These processes revealed the extent of maintenance backlogs currently existing and quantified the additional expenditures which are required to bring the portfolios up to acceptable standards. Furthermore, housing authorities concentrated on the introduction of processes designed to ensure rapid responses to responsive maintenance queries and to ensure minimal 'down' time between tenancies.

All of these processes have, of course, added to costs being experienced.

As the majority of stock reaches acceptable standards it can be anticipated that the rate of growth in average maintenance spend per dwelling will decline. However, for four of the Housing Authorities this is not likely to be achieved in the next half a decade.

- *Salary, administrative and related costs*. These overheads rose by 57 per cent on average per dwelling in real terms between 1990/91 and 2000/1. Growth in this expenditure item was greatest in the ACT and NSW. Overhead expenditure is the fastest growing and now one of the largest components of Housing Authority Total Operating Expenditure, exceeding Maintenance expenditure in five Authorities and exceeding Rates expenditure in eight out of the nine Authorities examined.

Given that Wages and Salaries generally tend to grow at just below 1% real over the long term (see Australian Bureau of Statistics Average Weekly Earnings Series), a 10% increase over a decade implies no real growth, and anything less an actual real reduction.

With the exception of Victoria, however, expenditure growth for these components far outstrips the 'no growth' scenario. There is no doubt that a substantial part of the cost increases is due to the drive by Housing Authorities to improve the quality and responsiveness of customer services.

There is also no doubt that, whilst it has not been possible to quantify, Housing Authorities now provide considerable supporting services of a 'non housing' related nature. In addition, some component of the increase can be attributed to investment in systems and processes focused on asset management and stock auditing and assessment.

By limiting a large part of the application of funding to capital, earlier CSHA's imposed a discipline on the way in which Housing Authorities approached Operating Expenditures. Effectively, this discipline has now been removed.

- Conversely, the impact of borrowing costs has not been a cost driver. The interest cost paid per dwelling fell, on average, by 44 per cent during the period. Only in WA did this expenditure item increase.

It is clear that greater flexibility and more active asset management regimes introduced by the housing authorities during the 1990s have~~s~~ resulted in the gradual selling off or restructuring of public housing stock. Asset sales have helped bridge the increasing operating deficit for those authorities in the short run. However, this is not a sustainable strategy for the longer term. As long as the underlying drivers are resulting in continuing falls in real income and continuing rises in real expenditures, as the graph above demonstrates, eventually housing authorities will run out of dwellings to sell to bridge the growing financial gap.

An Option for Reversing the Trend

An obvious alternative to the slow cannibalisation of the public housing stock, as dwellings are sold off to shore up a weak financial position, is for the community service obligation to be recognised and separately funded by government (as is now the case in New Zealand).

In all other corporatised government services the difference between the commercial price and the amount paid by the recipient of a concession is recognised as a Community Service Obligation (CSO) and, is fully funded. For example, for electricity and water supply, the difference between the price per unit of consumption and the amount charged to concessional consumers is treated as a CSO and is normally provided as a Treasury payment to the authority concerned.

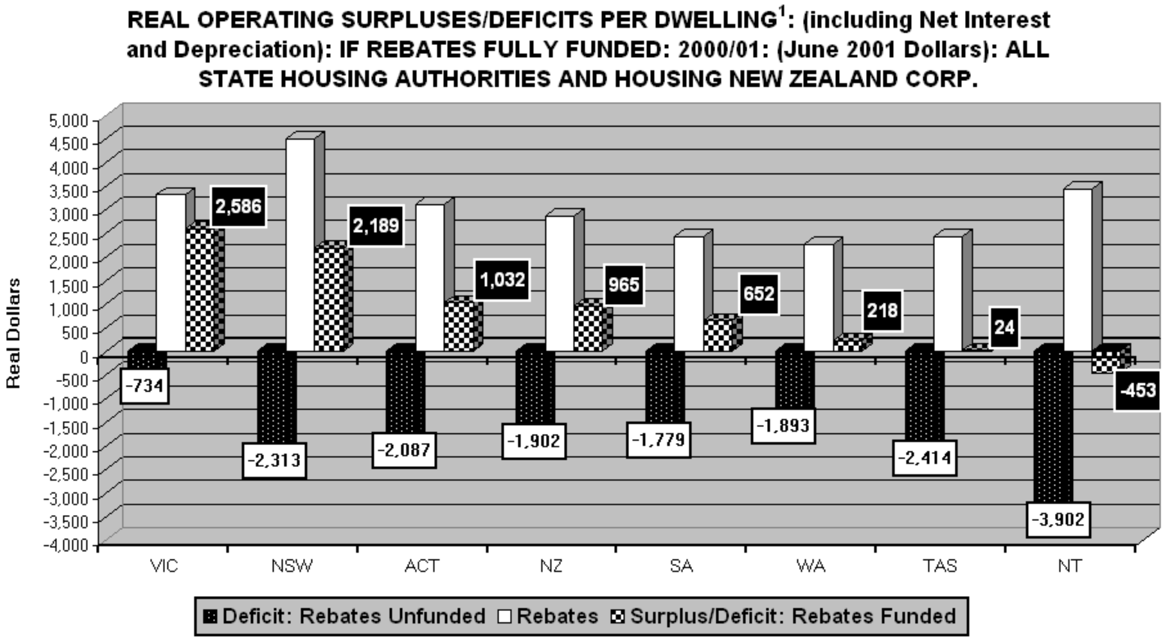
For public housing, the commercial or market price is market rent and the concessional price is the income related rent paid by the tenant. The Community Service Obligation per tenancy is the cost of the difference, i.e. the rental rebate.

There is, in principle, no distinguishing or special reason why the principle applying to Community Service Obligations in other corporatised government organisations should not be applied to public housing authorities and the CSO (rebates) fully funded by government.

If this was done, the financial situation of the housing authorities would be placed on a commercially sound basis, as the graph below demonstrates. *Not only would funding the rebate eliminate deficits in all Authorities, except the Northern Territory, it would also provide a basis for longer-term financial stability for Housing Authorities.*

From the advice of a number of Housing Authorities approximately 50% of all public housing expenditure is either Salaries or has a substantial component which is salary related (for example labour costs account for over 60% of maintenance expenditure in some Authorities). As outlined earlier, Average Weekly Ordinary Time Earnings (a proxy for Salaries and Wages growth) has increased over the last twenty years at slightly less than 1% real. Consequently, even if Housing Authorities were to freeze all costs at today's outlays, expenditures must grow in real terms, i.e. by a proportion greater than the Consumer Price Index. Yet for the next half a decade at least the prognosis is that Net Incomes are going to at best match Inflation and at worst fall substantially in real terms.

Figure 3: Real Operating Surpluses/Deficits Per Dwelling (including Net Interest and Depreciation): If Rebates Fully Funded: 2000/01 (June 2001 Dollars): All State Housing Authorities and Housing New Zealand Corp.



Consequently, it will not be sufficient for Housing Authorities to eliminate current Deficits. If Deficits are not to worsen Housing Authorities must also achieve some real Net Income growth.

Our analysis of rebate growth indicates that for almost all Housing Authorities market rents grow in real terms at about the same rate as AWE (i.e. at around or just less than 1% above Inflation). It can be anticipated that a financial solution based upon fully funding the rebate will enable Net Incomes to at least keep pace with efficiently managed cost structures.

Characteristics of Financially Successful Social Housing Services

Some useful general lessons can be learnt from considering the situations of financially successful social housing services in Europe.

There appear to be three main characteristics that distinguish these services from Australian public housing authorities. These characteristics all relate to the Income side of operations, viz:

- central governments fully recognise the Community Service Obligation inherent in providing affordability outcomes, and the principal form of financial support is recurrent subsidies based on the difference between market or cost and income related rents;
- social housing authorities are assured that their Net Rents per household will grow in real terms because the sector is not rigidly targeted to the very lowest incomes. Many portfolios include a tenant population with a range of incomes, with a substantial proportion of the tenant population in employment, whose incomes grow in real terms. This enables housing authorities to be confident that real cost increases will be able to be met through revenues, notwithstanding additions to the housing stock.

Combined with central government support, it enables social housing providers to grow their portfolios and so maintain their income mix whilst attending to those in greatest need.

- the real incomes of pension and beneficiary social housing recipients is considerably higher than in Australia because the base level of pensions and benefits is a greater proportion of average weekly earnings.

Some System Options

We conclude that, on the analysis in this study, if the current policy focus is maintained, Australian public housing will not remain viable.

In the future if affordability benchmarks of 25% of assessable income in rent are maintained, changes to rent charging will not be an available tool to relieve growing deficits. Maintenance of tight targeting will ensure the decline in real Net Rents per unit experienced by some housing authorities will become more widespread and accelerate. In addition, for many of the Operating Expenditure items, continuing to seek improvements in housing stock and continuous improvements in client services cannot be achieved without the acceleration of the trend to real cost increases. In a context where:

(a) the funding of public housing is divorced from its community service obligations;

(b) affordability benchmarks of 25% of assessable income are maintained;

(c) tight targeting continues; and

(d) the emphasis on continuous service improvement is enforced;

then incomes per unit will fall, real expenditures per unit will increase and operating deficits will continue to grow.

This suggests that the focus must be on firstly eliminating deficits and then assuring real Income growth per household. If there is no policy change it is not a question of benchmarking services to best-practice standards but of what quality of services can public housing authorities afford, and who should pay for them?

In New Zealand it is clear that the full impact of the move to income related rents has yet to run its course. Furthermore, as full rationing and targeting takes hold it can be anticipated that Net Rents per dwelling will decline. Whilst New Zealand is protected from this situation by its recurrent subsidy and by its significant operating surplus, real costs per unit are also growing rapidly and to avoid future Operating Deficits care will need to be exercised to contain cost increases arising from improvements to services. For New Zealand then the question is essentially the same, within its constraints, what quality of services can it afford, and how will it be paid for?

Future Directions

On the basis of the study findings, summarised above, the following implications for policy are suggested;

1. A Working Party of Commonwealth and State Housing Officials be established to:
    - examine ways in which the Community Service Obligation experienced by Australian Housing Authorities can be fully funded (i.e. the difference between market and income related rents), including changes to current funding arrangements;
    - prepare detailed forecasts of the likely Net Income of all Australian Housing Authorities given no change to targeting policy;
    - examine other options by which Net Incomes for Housing Authorities can grow in real terms, including;

- relaxation of affordability benchmarks and abolition of current Productivity Commission targeting indicators;
- abandonment of current targeting policies;
- growing the housing stock to diversify the income base;
- other relevant options:

2. A similar mechanism could be used to examine in detail the current Productivity Commission efficiency indicators with a view to developing a financial reporting system which makes more transparent the trends in the operations of public housing authorities, building upon the method and definitions used in this study.
3. In the absence of any changes to Commonwealth policy, Australian State Housing Authorities could establish an in-depth investigation of the quality and extent of services that existing public housing authorities can afford and, if necessary, seek abolition of the Productivity Commission continuous improvement indicators and replacement by independent service standards;
4. For many expenditure items there was great variability between Housing Authorities. A more detailed analysis of the lowest cost authorities could be instituted to establish how these positive outcomes have been achieved and how the other authorities could benefit from the resulting efficiencies.
5. A working party of Commonwealth and State Chief Financial Officers and State Treasury Officials could examine and develop alternatives to the current treatment of Depreciation in Public Housing Authorities.

1 INTRODUCTION

1.1 Background

As our earlier work on affordable housing has indicated:

> "Since the beginning of the 1990s access to secure, appropriate, and affordable housing has consistently declined for low to moderate income Australian households. Whilst the supply of low cost private rental housing and access to home ownership participation was falling the demand for affordable public and social rental housing was clearly increasing. Trends in affordability have been very adverse. In metropolitan locations low-income tenants have extremely limited affordable housing choices, both by location and dwelling type (Berry and Hall, 2001). Rising housing prices and rents concentrated in the inner and middle suburbs of the capital cities intensified housing stress – i.e. housing related financial hardship – for lower income households. For many households locked into the lower half or two-fifths of the income distribution, average housing prices and rents increased faster than disposable incomes. The progressive decline in the stock of low cost rental dwellings further intensified the housing and related problems faced by this section of the population" (Berry and Hall 2001).

Conversely demand for affordable housing, as reflected in statistics on housing stress, increased substantially for low income privately renting tenants over the 1991-2001 period. As a proportion of all households, financially stressed renter households are growing much more rapidly than total renter households.

These trends in lower cost housing supply, affordability and housing stress have occurred against a background of significant change in Government housing assistance policies.

Public housing represents the key component of the various ways in which affordable housing is provided in Australia, yet at the beginning of the new Millennium the supply of new government assisted or sponsored public and affordable housing has fallen substantially when compared to late 1980's levels. Furthermore, this current research indicates that there has been a significant absolute decline in the total owned stock of government and not for profit provided social housing.

Our earlier research project, "Risk Management and Efficient Housing Assistance Provision: A New Methodology" (Hall and Berry, 2002) found that in the cities where the demand for affordable housing is most acute, namely, Melbourne and Sydney, public housing has been easily the most efficient method of providing housing assistance, being 17 and 20 times more efficient (respectively.) than paying cash subsidies to households privately renting. Therefore, the future of public housing as a method of providing social housing is a major concern of contemporary housing policy debate.

In simple terms, a key constraint for mainstream public housing in Australia is that the net revenues after rebates should at least pay for operational costs (net of interest paid or received). If this is not the case any addition to stock expands the additional funding requirement to pay for the growing deficit. In these circumstances the only option for reducing or freezing the additional funding requirement is to sell stock and therefore reduce the number of households provided with longer-term assistance (Donald, 2001).

The continued growth of operating deficits will eventually bump up against political constraints at both State and Federal levels in regard to funding. In this case, sale and lease back and use of the capital for servicing lease payment costs defers the potential relocation of public tenants to the private rental market, but would be seen as fiscally irresponsible. Therefore, the rate at which these deficits are growing, and the timing of when they will outstrip current real levels of grant funding is of critical policy concern.

Free cash flow is the lifeblood of any healthy business entity. Conversely, without substantial changes to current funding arrangements a prolonged period of increasing negative cash flows can only result in the selling down of the stock, and the repatriation of public tenants to the private market.

These developments may result in an increasingly inefficient and inequitable housing assistance system, particularly in the larger urban environments.

Clearly, continuation of the current trends may carry with it a possible forced withdrawal to private rental subsidies as the only method of continuing housing assistance. Under current arrangements this would mean a major shift in the distribution of the costs of the housing assistance system from the States to the Commonwealth.

This work relates directly to two AHURI Research Themes (1.2), Housing Assistance and Housing Management, and (1.3) Evaluation Methods. It will help to both identify and evaluate the performance of public housing managers by contributing to the body of research on the most efficient and effective ways of achieving desirable housing outcomes. It directly addresses issues pertaining to both the CSHA and broader housing policy concerns raised in AHURI's document, *The Next CSHA – Messages From The Housing Policy Project 2001*.

1.2 Research Aims and Objectives

This project seeks to examine the trends in the financial performance of the eight State and Territory Housing Authorities and Housing New Zealand Corporation, over the period 1990/91 to 2000/01, and to explore the factors influencing revenue and expenditure streams responsible for those trends.

1.2.1 Aims

The aims of the project are to:

- clarify the impact of public housing operating deficits on the development of comprehensive and expansive housing assistance policies;
- develop suitable policy options for returning public housing to operational surpluses; and by so doing;
- provide a context for more comprehensive and expansive housing assistance policies.

1.2.2 Objectives

Related objectives are to:

- discuss, document, and define what are public housing operating deficits;
- quantify trends in, and current levels of, the component line items which make up these deficits;
- elaborate on the reasons for the development of these deficits;

1.3 Scope of the Work and Structure of this Report

This report sets out:

- A rationale for, and an explicit set of working definitions for the cost and revenue components to be used to assess operational surpluses/deficits for mainstream public housing authorities;
- Quantitative analysis of the trends in the main components of these deficits and the rate at which the various components are increasing or decreasing;
- Identification of the reasons for the development of these deficits and whether or not they are long term structural outcomes or medium term results which may revert at some point in the future.

Section 2 discusses some key developments and elements of the national policy context focusing on:

- the supply of and demand for affordable housing;
- the efficiency of using public housing to provide affordable and social housing;
- key developments in the public housing sector in the last decade with particular emphasis on funding, targeting and asset retention (i.e. stock levels).

Section 3 discusses the process established for the research and the scope of the deficit analysis. It then sets out a detailed presentation of the methodology used for the research including:

- Deficit method;
- Deficit process;
- Public housing financial data;
- Clarification and unification;
- Questionnaire support.

Section 4 discusses the analysis results by State and Territory.

Section 5 draws out the principal conclusions and observations arising from the analysis and outlines possible directions that would, in the light of the detailed research findings, reverse current (or prospective) trends towards growing operating deficits across the jurisdictions.

2 NATIONAL POLICY CONTEXT

2.1 The Supply of and Demand for Affordable Social Housing

One of the most pressing issues facing housing policy makers is how to increase the number of new low to moderate income households provided with appropriate and affordable housing in the face of clear evidence of declining supply and burgeoning demand.

The supply of low cost private rental housing declined by a significant 18% over the period 1986-1996 at a time when the private rental market grew by 34% (Wulff and Yates, 2001). This decline in the low rent stock was widespread throughout Australia, although the loss of stock was most severe in the Sydney metropolitan region. In 1986, at an Australia wide level, there were almost two low rent dwellings for every low-income household in the private rental market. By 1996, there were less than 4 low rent dwellings for every 5 low-income households and an overall shortage of rental dwellings affordable for low-income households of 50,000 dwellings (Wulff and Yates, p. 63).

Berry and Hall (2001) found that nominal mortgage interest rates had fallen progressively through the 1990s and real rates are also down to below 5% per cent in the current year:

- the real prices and rents of units and houses increased faster than real incomes in the inner locations of Melbourne, Sydney and Adelaide (except rents in inner Melbourne);
- real mortgage payments rose by between 20 and 40 per cent in the two inter-censal periods, 1986-91 and 1991-96, with the largest increases in Adelaide and Sydney in the later period;
- the proportion of households renting privately increased significantly during the 1986-96 period in all three cities. This occurred fastest when and where dwelling prices were rising quickest.

Whilst the supply of low cost private rental housing and access to home ownership participation was clearly declining for these households, the demand for affordable public and social rental housing was just as clearly increasing (Berry and Hall, 2001, p. 10).

Berry and Hall also found that low-income tenants have extremely limited affordable housing choices, both by location and dwelling type. Moreover, where a small degree of choice appears to exist – viz. renting a one-bedroom unit on the fringe of metropolitan areas – this ignores the question of appropriateness. Clearly, this only represents a real choice for small households.

Currently, housing affordability as measured by the Commonwealth Bank's/HIA Affordability Index is at its lowest level for 25 years.

It is not surprising that housing stress increased substantially for low-income households, especially tenants, over the 1986-96 period (Berry and Hall, 2001)

Berry and Hall's main conclusions regarding housing stress in the bottom two income quintile households are as follows.

In June 2000:

- no household could affordably buy an average priced three bedroom house in any metropolitan location in Sydney, Melbourne or Adelaide;
- 39% of Adelaide's and 15% of Melbourne's salient households could afford to buy an average one bedroom unit in North Adelaide and South East Melbourne (resp.) but nowhere else, with no households in Sydney being able to affordably purchase any such dwelling in any metropolitan location;

- only 9% of Adelaide's and 3% of Sydney's salient households could afford to rent an average three bedroom house in South East Melbourne and Outer Western Sydney (resp.) but nowhere else, with no households being able to rent the average three bedroom house in any Melbourne location.
- over 50% of salient households from each capital city could afford to rent an average one bedroom unit in the outer locations (North Adelaide, South Eastern Melbourne and Outer Western Sydney);
- a very small proportion of households were able to afford to rent an average one bedroom unit in inner Melbourne or Sydney locations (5%, Inner Melbourne only); and 38% of households could afford the rent of a one bedroom unit in Eastern Adelaide (Berry and Hall, 2001, p. 11).

Moreover, housing stress increased substantially in most of the capital cities for low-income tenants over the 1986-96 period:

- Adelaide: up from 63.4% to 76.1%
- Melbourne: up from 60.5% to 74%
- Sydney: up from 67.3% to 80.7%
- Brisbane: up from 63.7% to 64.3%
- Hobart: up from 57.7% to 62.4%

The numbers of low-income tenants in housing stress increased over the period by 7,400 (Adelaide), 22,600 (Melbourne) and 28,600 (Sydney). The total increase for the seven capital cities was 90,000, so that by 1996, 227,480 low-income tenant households were experiencing housing stress, as defined above.

> 'Some higher income households will choose to commit a higher proportion of their incomes to housing and be able to afford it. However, other higher income tenants may be struggling and reasonably said to be suffering housing stress. This suggests that housing affordability problems may be climbing the income ladder, affecting not only unemployed and under-employed people but those who have been described as the 'working poor' and, even middle income households' (Berry and Hall, 2001, pp. 65-6).

In Melbourne and Sydney where demand for affordable housing is greatest, public housing represents the principal means by which housing affordability is provided to those households with incomes in the bottom two income quintiles. Whilst rent assistance may significantly improve affordability in the other capital cities of Australia, it has very limited effectiveness in Melbourne and Sydney because of the dwelling price and rent characteristics of these housing markets, (see Berry and Hall, 2001). In the immediate future, supply side measures such as public housing are likely to remain the most effective means of providing affordable housing to very low income households.

2.2 The Efficiency of Public Housing

The question must be asked as to whether there are more inherently efficient ways of providing housing affordability to very low-income households than public housing

The way in which housing assistance can be delivered fall into two main categories.

Demand side assistance is targeted directly at the low-income housing consumer and takes the form of either the provision of a cash payment or a 'voucher' (to buy housing services) in the hands of the housing consumer. The common argument is that, given markets are efficient, then the provision of allowances will bring about an increase in the supply of low cost housing at the most competitive price (subsidy). It is also that this form of assistance permits closer and tighter targeting and removes the inequities associated with the differential levels of assistance available to public tenants viz a viz private tenants.

Supply side assistance is targeted initially at increasing the stock of dwellings available for either assisted purchase or rental.

Funds are made available for capital acquisition and construction (public rental housing), subsidisation of the return on dwellings owned in the private sector but managed in the public sector (public rental housing, community housing programs), subsidisation of the mortgage repayment, deposit costs or risks (Government home loan schemes) and in the case of shared equity, subsidisation of the rent or mortgage repayment (or both).

Equitable targeting is achieved by the development of income related eligibility criteria and in some, but not all programs, regular income reviews.

Proponents of supply side programs argue that demand side assistance is inefficient and that the number of households supported will never be able to be maintained or increased (because of rising real rents). They also argue that demand side assistance cannot provide the same quality of housing support, because the standard of housing provided cannot be effectively guaranteed and security of tenure assured.

To summarise, notwithstanding special financing arrangements, the mains forms of assistance comprise the following (or variations thereof):

- direct assistance to private and public renters via untied (cash, rent assistance) or tied payments (vouchers)
- on budget grant funded public housing (and within public housing, community, pensioner, and aboriginal housing, including subsidised but publicly or community non profit managed housing)
- off-budget (debt or equity funded) public housing (and within public housing, community, pensioner, and aboriginal housing, including subsidised but publicly or community non profit managed housing)
- directly and indirectly subsidised home loans (including mortgage assistance and up-front grants); whether in part (shared equity) or as a whole.

Each of these forms of assistance is subject to a range of systematic risks. These are

- dwelling price growth or contraction;
- rental yield - 'real rents';
- income growth/loss, vacancy rates and defaults and therefore reduced payments;
- inflation;
- interest rates; and
- cost escalation.

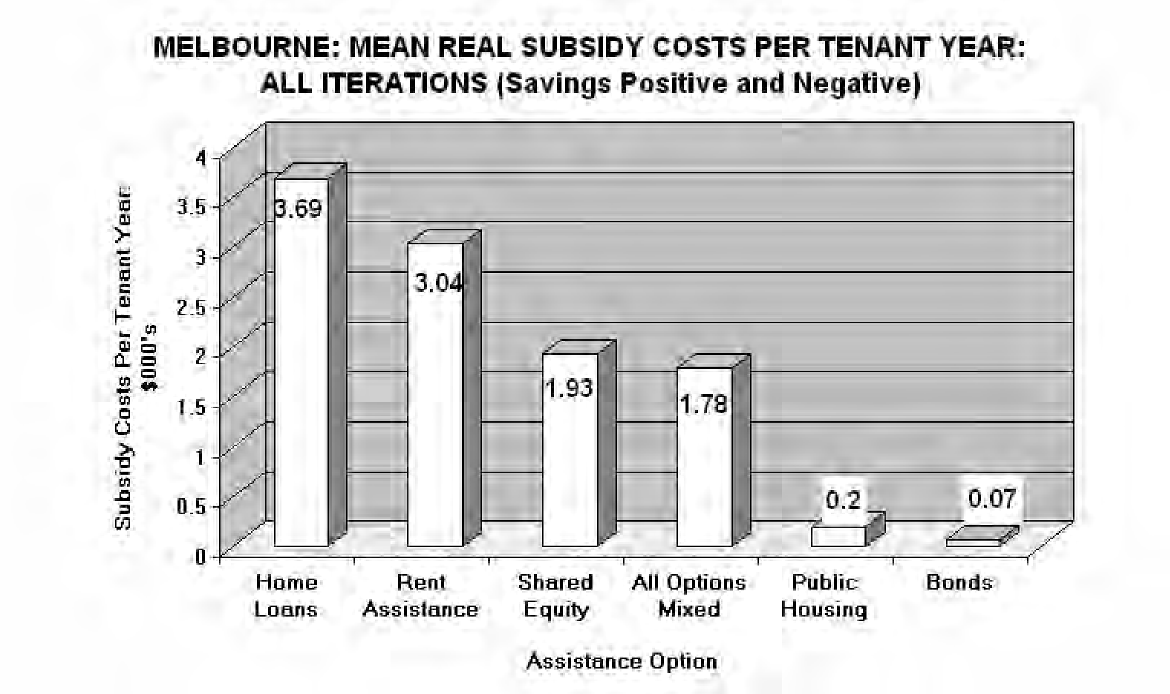
Hall and Berry (2002) conducted a major study which examined the financial efficiency of providing housing assistance under each of the different options in Adelaide, Melbourne and Sydney.

The analysis involved:

- obtaining detailed documentation of the data for the systematic risk variables applying in each city over the last twenty years;
- documenting the housing cost structure applying to the State Housing Authorities in each of the three States;
- conducting probability simulation modelling for this risk data so that the range of possible past outcomes was reflected in the 100 cases tested for each city;
- developing a sophisticated financial model for each of the assistance options;
- modelling and analysing the subsidy results for the 100 cases tested in each city.

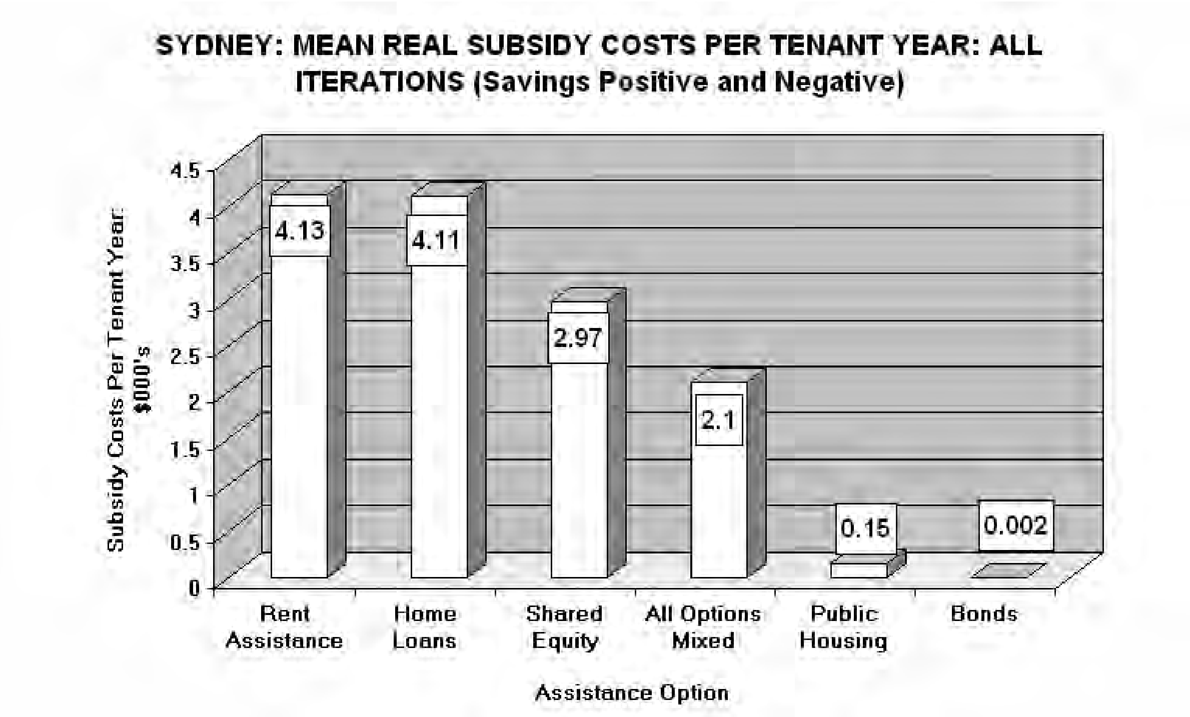
Graph 1 sets out the mean real subsidy costs per year for each assistance option for Melbourne whilst Graph 2 sets out these results for Sydney.

GRAPH 1: Melbourne: Mean Real Subsidy Costs Per Tenant Year: All Iterations (Savings Positive and Negative)



Source: Hall and Berry: Oct 2002: Risk Management And Efficient Housing Assistance Provision, AHURI, (Pg 41)

GRAPH 2: Sydney: Mean Real Subsidy Costs Per Tenant Year: All Iterations (Savings Positive and Negative)



Source: Hall and Berry: Oct 2002: Risk Management And Efficient Housing Assistance Provision, AHURI, (Pg 42)

Clearly in Melbourne and Sydney where the demand for affordable housing is greatest, and if the economic circumstances of the past are reflected in the immediate future, then grant funded public housing is up to 20 and 24 times more efficient than using rent assistance to improve affordability, and in the current climate is more financially efficient than all options with the exception of using debt to fund public housing.

It follows from the research that supply side assistance options such as public housing and bond funded social housing will always be much more efficient than rent assistance in circumstances where real capital gains are expected to be 0.5% p.a. or more.

Conversely, in other capital cities and regions of Australia, such as Adelaide, where real capital losses are the long-term norm, then rent assistance will tend to be more efficient than supply side options[1].

2.3 Key Developments in Public Housing

Currently, public housing receives operating income from only four main sources:

- rents;
- grants and subsidies;
- interest on investments; and
- fees and charges and sundries (small amounts), (published Financial Statements of all nine Housing Authorities);

Grants and subsidies now represent the second largest source of operating income after rents received from tenants.

Consequently, one of the key drivers of change in the public housing system has been the Commonwealth State Housing Agreement and the quantum of funds provided, and the purposes for which funds can be used.

2.3.1 Changes in the Focus of the Commonwealth State Housing Agreement (CSHA)

The 1984 CSHA introduced five identified program areas that quarantined resources for specific housing needs.

- Rental Housing Assistance Program for Aboriginals;
- Rental Housing Assistance Program for Pensioners;
- Mortgage and Rent Relief Program;
- Crisis Accommodation Program; and
- Local Government and Community Housing Program.

These identified programs were retained in the 1989 Agreement.

According to the Housing Assistance Act 1996 Annual Report a major policy shift in thinking on housing assistance occurred in the final years of the 1989 CSHA. Discussions centred on longer-term reform proposals, in which the Commonwealth would take responsibility for providing cash subsidies for private and public tenants, and State Governments would be responsible for managing and funding public housing at market rents.

Discussions were, however, not finalised before the 1989 CSHA was replaced.

These themes were taken up in a report by officials in a report to the Council of Australian Governments (COAG) on the 14th of June 1996.

The report noted that:

> ‘The existing CSHA, and the transitional CSHA to apply from July 1996, imposes three key conditions:
>
> (a) Public housing assets must be used to provide housing assistance:

---

[1] The authors are in the process of completing Stage 2 of this project, which extends the three city analysis summarised above to all eight capital cities: Melbourne, Sydney, Adelaide, Perth, Darwin, Hobart, Brisbane and Canberra. For details see: J. Hall and M. Berry (2003) *Risk Management and Efficient Housing Assistance Provision, Stage 2*, Volumes 1 and 2, Final Report, AHURI, Melbourne, December.

(b) Public housing assets cannot be diverted to other uses, for example, if a public house is sold, the proceeds must be used to acquire or upgrade other public housing.

(c) CSHA funds that are not required to fund recurrent expenses or subsidies must be used to fund investment in public housing.

In practice this means that around $900 million per year is being invested in the upgrade (about $300 million per annum.) and expansion (about $600 million per annum) of public housing that will provide a future stream of subsidies to public housing clients.

COAG suggested that a number of key problems existed viz:

‘(a) The lack of a clear delineation of roles and responsibilities.

Both the Commonwealth and States provide housing subsidies.

(ii) While the States have a clear role in the day to day management of the housing stock, the Commonwealth also exercises a strategic role through conditions on payments under the CSHA and planning arrangements.

(b) The inequity between the level of assistance for persons in public and private tenure and within public housing.

(c) The lack of transparency and commercial incentives in the system that inhibit the cost-effective delivery of public housing.

(d) Public Housing Authorities have been insulated, by the CSHA, from normal commercial and budgetary disciplines.’

The report to COAG suggested some directions for reform:

‘(a) Clarifying roles and responsibilities by the Commonwealth taking responsibility for recurrent funding of income support (rental) subsidies:

(i) the States would have flexibility in managing housing assets and with the private sector would be responsible for providing housing; and

(ii) Commonwealth responsibility for directly funding clients would be consistent with its income security responsibilities.

(b) Aiming to narrow the difference between the level of assistance for public and private tenants preferably with a common rent assistance payment for public and private tenants in order to simplify administration and improve client choice, thereby reducing the waiting lists and pressures on public housing.

(c) Moving toward market rents for public housing to put housing authorities on a commercial basis and provide pricing signals for consumers.

Consistent with those broad directions for reform, it is proposed that, with the exception of the Aboriginal Rental Housing Programme:

the Commonwealth discontinue capital grants to the States under the CSHA;

the Commonwealth would extend eligibility for rent assistance at a higher than current level to public tenants, which in turn would boost the cash flow of State Housing Authorities; and

existing State and Territory funding requirements and restrictions would be removed.’

When, however, the 1996 CSHA Agreement was finalised only the third condition was adopted with the Commonwealth withdrawing from a commitment to important condition 2.

Although the 1996 CSHA was an interim agreement, it represented a major shift from previous arrangements, introducing greater flexibility, increased accountability, new planning requirements and a greater focus on client outcomes.

Many controls which had characterised previous CSHAs were removed. The 1996 CSHA offered the States and Territories more flexibility in using funds to address housing needs as part of their key responsibility for managing housing assets and delivering services.

Some Commonwealth controls over State expenditure and activities contained in the 1989 CSHA were removed. Arrangements for the identified programs were also simplified.

The 1996 CSHA permitted funds to be used for a broader array of allowable uses than was the case in the 1989 CSHA. This meant that, subject to agreement through the Commonwealth-State planning process, States had more flexibility to allocate funds between capital and recurrent purposes and for non-capital expansion such as headleasing.

Performance indicators were established for the first time, and national measures of performance in relation to the achievement of consumer and administrative efficiency outcomes were agreed. Customer focus was given more prominence and the interim agreement required each State and Territory to develop a code of practice about housing assistance funded under the CSHA.

According to the Commonwealth Department of Family and Community Services, 1997, this code of practice covers, customer rights to:

- ‘a high level of service
- information, in appropriate formats, about housing assistance,…
- be consulted in relation to the planning, management and delivery of housing assistance;
- access effective mechanisms for the investigation and resolution of complaints, and
- the need for providers to specify, monitor and report against service standards and guarantees.’

To summarize, the 1996 Interim Agreement effectively eliminated the separation between capital and recurrent purposes to which the grants could be applied, and focused on greater accountability in regard to the quality, timeliness and appropriateness of the service provided and provided explicit measures of consumer satisfaction and client rights.

The 1999 and 2003 Agreements perpetuated the direction set out in the 1996 Interim Agreement except for some a very limited requirement to use private capital funds for public housing output.

2.3.2 Developments in Social Housing in New Zealand

In 1992, the then Housing Corporation New Zealand was split into two entities: Housing Corporation of New Zealand and Housing New Zealand (HNZ), with the Housing Corporation of New Zealand responsible for a portfolio of residential loans and the management of the Governments surplus land assets, and HNZ, the Government’s rental stock.

A full market rent regime was introduced by HNZ and income related rents dispensed with. From 1993 to 2001 both public and private tenants meeting appropriate eligibility criteria received an accommodation supplement, provided as a cash payment by the equivalent of Centrelink. When compared to an income related rent payment of 25% of income, this supplement only provided a partial subsidy, and during this time, a large proportion of public tenants were paying more than 50% of their incomes in rent.

In this period While Housing New Zealand was in sell down mode for most of its life and dwellings earmarked for sale generally received limited maintenance, there was a once-off capital injection (Graph 39) to address a deferred maintenance liability of about $NZ300m which was inherited from its predecessor. In turn, the restructured authority Housing New Zealand Corporation faced an even more daunting assets backlog in the form of older stock in need of refurbishment and modernisation.

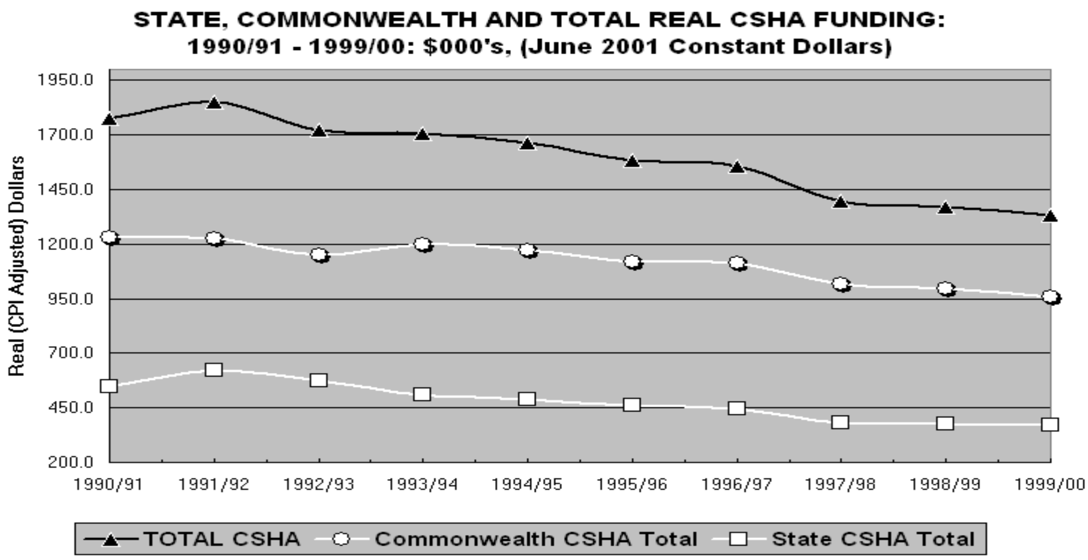
In June 2001, the New Zealand Government passed new legislation, the Housing Restructuring Amendment Act 2001, establishing Housing New Zealand Corporation. Related legislation prescribed new rules for the setting of income related rents. This abolished the payment of an accommodation supplement to public tenants and replaced it with a means-test income related rent set at 25% of net (after tax) income. Coupled with these new rent policy arrangements the government established a procedure to fully fund HNZC for the difference between the income related rent charged to tenants and the market rent.

Also, HNZ was required to pay a dividend from its operating account to government. This amounted to several hundred million dollars annually during the second half of the 1990s, representing a combination of the capital gains realised following the property boom in 1996-97 and the proceeds from house sales. Since 1999, under Labour, the dividend has been renegotiated annually via the Statement of Intent within the range $NZ25-35m.

2.3.3 Funding Trends Under the CSHA

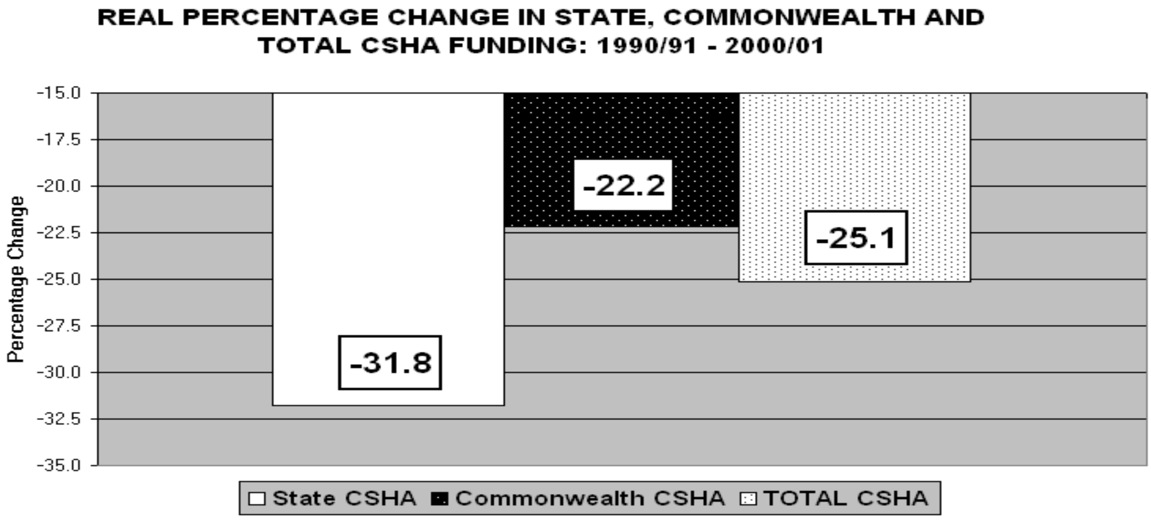
Graphs 3 and 4 set out the real value of the total CHSA funds (both tied and untied) applied to housing in the period 1990/91 to 1999/00.

GRAPH 3: State, Commonwealth and Total Real CSHA Funding: 1990/91 – 1999/00: $000's, (June 2001 Constant Dollars)



Source: AHURI, Australian Housing Policy Project, Facts Sheet 3: Housing Assistance Funding Trends

GRAPH 4: Real Percentage Change in State, Commonwealth and Total CSHA Funding: 1990/91 – 2000/01



Source: AHURI, Australian Housing Policy Project, Facts Sheet 3: Housing Assistance Funding Trends

Graph 4 shows that the overall application of funds for public housing have fallen by at least one quarter in real terms and probably more when the increasing allocation to tied programs is taken into account.

2.3.4 Funding in New Zealand

In the 2001/2002 financial year, the New Zealand Government paid HNZC NZ$208m (from the 11th November), for recurrent income related rent subsidies, and HNZC also received approximately $NZ50m from accommodation supplements (before 11th November).

This equates to a subsidy payment of approximately $4,200 per annum per household.

Further capital funding was established, comprising NZ$237m for stock acquisition and upgrading, bringing direct government assistance to Housing New Zealand Corporation to NZ$495m for that year.

Due to the now dated condition of housing built in the 1960s and 1970s, Housing New Zealand Corporation has estimated that it should spend approximately NZ$1 billion modernizing some 50% of its portfolio. In addition, HNZC forecast that it would probably need an additional 13,000, (after disposals), dwellings over a nine year period to house priority applicants on the waiting list, at approximately 1,600 per annum. Cabinet support for separate capital funding would need to be obtained to meet these requirements.

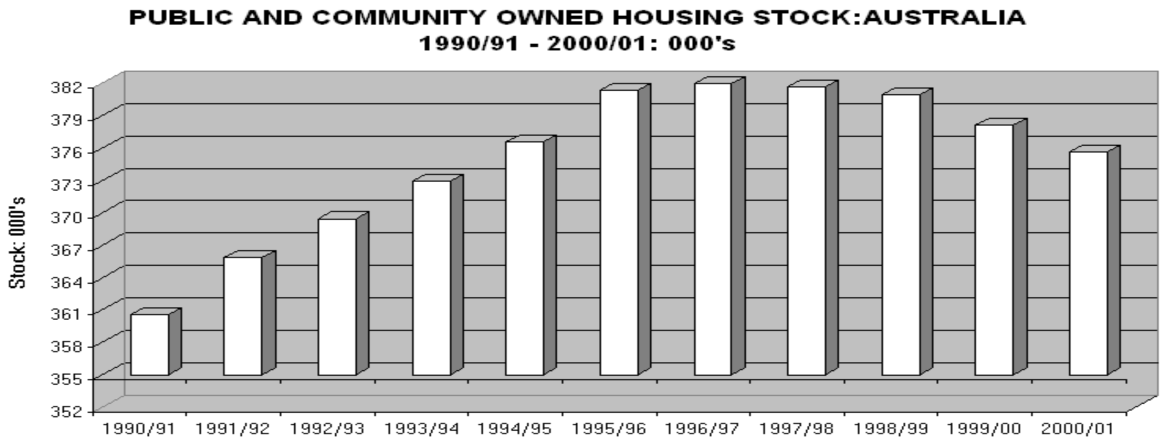
Funding developments and arrangements have had the greatest impact in two key and related areas of public housing in and New Zealand, as in Australia:

- dwelling supply; and
- client targeting and client support.

2.3.5 The Provision of Public Housing Stock 1990/91 – 2000/01

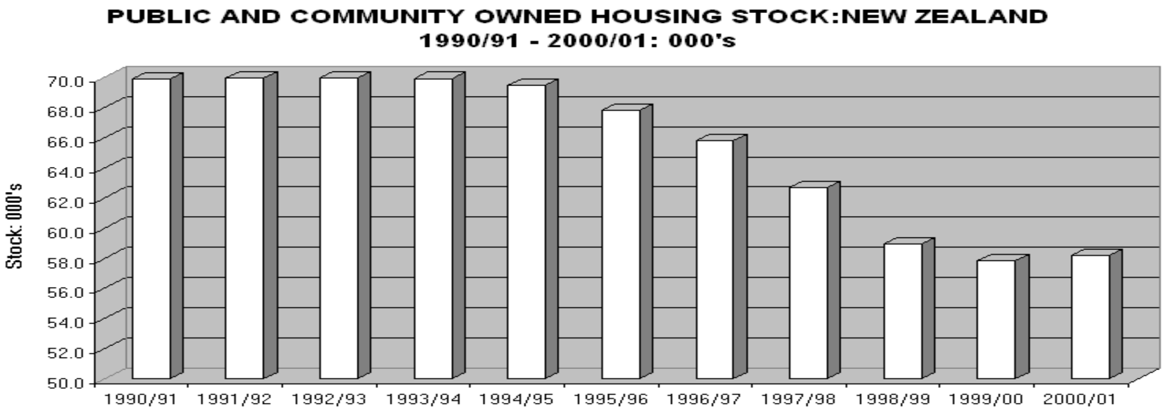
Graph 5 sets out the owned (net of headleasing and net of intra-governmental transfers), public and community housing stock in Australia per the period 1990/91–2000/01. Graph 6 sets out the same comparison for New Zealand.

GRAPH 5: Public and Community Owned Housing Stock: Australia 1990/91 –2000/01: 000's



Source: Chief Financial Officers Of State Housing Authorities Questionnaire Returns to the Operating Deficits Project

GRAPH 6: Public and Community Owned Housing Stock: New Zealand 1990/91 –2000/01: 000's



Source: Chief Financial Officers Of State Housing Authorities Questionnaire Returns to the Operating Deficits Project

Between 1990/91 and 1996/97 owned public and community housing stock in Australia grew by 21,850 or 6.1%. By contrast between 1996/97 and 2000/01 stock numbers fell by 6,700 or –1.7%.

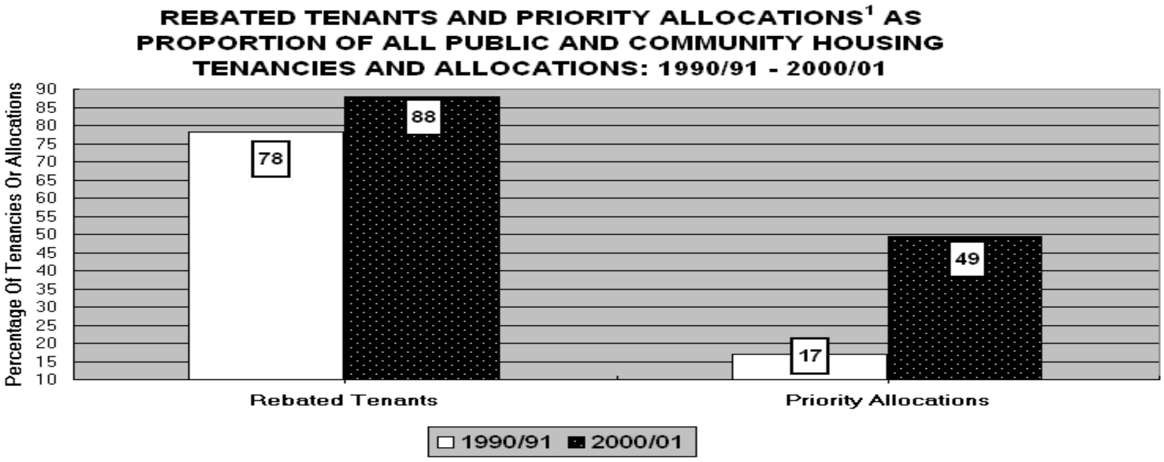
In New Zealand between 1990/91 and 1996/97 stock numbers fell by 4,100 or –5.9%. Between 1996/97 and 2000/01 stock numbers fell again by some 7,600 or -11.5%.

2.3.6 Client Targeting

With the introduction of the 1995/96 CSHA the Commonwealth Government placed considerably greater priority on ensuring that new public and community housing allocations were targeted to those most in need, i.e. experiencing the lowest incomes or in dire or emergency situations and/or both. Many State Housing Authorities responded by introducing segmented waiting lists whereby 'priority applicants' received first call on available allocations.

These priority applicants are normally households with dire financial and housing needs, i.e. for example with no money, and/or living on the street and/or in some kind of emergency or transient housing situation. Graph 7 sets out the proportion of tenancies which were rebated in 1990/91 compared to 2000/01 and the proportion of total allocations provided to 'priority allocations' for the same two years. In regard to the latter, it should be noted that the Northern Territory and Queensland were unable to provide information on priority applicants for 1990/91 and so have been excluded from the analysis, whilst the figure for NSW for 1990/91 had to based on a later years figure so is probably slightly overstated for that year.

GRAPH 7: Rebated Tenants and Priority Allocations as Proportion of All Public and Community Housing Tenancies and Allocations: 1990/91 – 2000/01



Source: Returned Questionnaires Of State Housing Authorities to the Operating Deficits Project

Note 1: Priority Allocations analysis excludes the Northern Territory and Queensland (unable to supply), which have been left out of the weighted average derived.

The increasing focus on targeting to those in greatest need is clearly reflected in the increasing proportion of tenants who are in receipt of some kind of rebate and the rapid escalation of the allocations to emergency, crisis and dire situation households. There are three key consequences of the targeting outcomes:

- because of the acceleration of the targeting of allocations to those on the very lowest incomes (almost all of these households depend almost entirely on pension and benefit payments) and even with changes in rent charging policies, it is likely that the medium term real rent received per tenancy will fall or at the very best remain flat;
- whilst the trend to priority allocations has been rapid there is still considerable room for a substantial increase in the proportion of total new allocations provided to these classes of tenants. Therefore it is possible that the average real rent received per tenant could decline in the immediate future.
- Increasingly, households receiving priority allocations have non-housing related problems which require service support, adding to the average real costs per household of providing the relevant services to these clients. This trend is likely to continue in the foreseeable future.

Throughout most of the 1990’s there was no rationing system for the allocation of public housing in New Zealand as full market rents were charged, and the accommodation supplement paid to households was the same amount for private and public tenants alike. For these reasons there are no relevant comparative figures, as the concept of rebated tenant is irrelevant in a fully market rent regime, and segmented waiting lists have only developed with the introduction of the income related rent policy which was first applied less than two years ago.

3 RESEARCH PROCESS AND METHOD

3.1 Research Control and Management

This project encompasses the Commonwealth Government, all Australian States and Territories and the Housing Corporation of New Zealand. As a result a Steering Committee was established with representatives of the Australian Government Department of Family and Community Services, the State and Territory Housing Authorities of the Australian Capital Territory, New South Wales, Northern Territory, Queensland, South Australia, Tasmania, Victoria, Western Australia, and the Housing New Zealand Corporation. The Committee has:

- determined the appropriate definitions for establishing operating deficits (upon receipt of the discussion paper produced by the researchers);
- clarified and finalised the component research questions;
- assisted with the provision of the last 10 years copies of annual reports and published annual financial statements;
- assisted in the clarification of any particular relevant components of particular line items in the published accounts;
- reviewed the questionnaire which has been used for the Chief Financial Officer (CFO's) interviews: and will;
- review and comment upon the final report's policy options discussion

3.2 Analysis Process

A discussion paper was circulated to all Steering Committee members discussing how operating deficits should be defined and analysed. A copy of this paper is set out in Attachment 1 along with the relevant comments of Housing Authorities.

The Study uses the published financial statements of all State and Territory Housing Authorities and the Housing New Zealand Corporation as the commencing point of the analysis.

The discussion paper sought agreement to:

- the basis of the construct for the analysis;
- the principles to be applied to the analysis;
- the unit of measurement to be applied to the line item analysis;
- the definitions and 'core line items to be included in the analysis; and
- the line items that would be added back into the analysis.

3.3 Analysis Method and Deficits Defined

Attachment 2 contains a list of the key definitions for the line items agreed to.

All Housing Authorities unanimously agreed with all except three of the recommendations contained in the Scoping Paper in Attachment 1. A summary of the agreed method is set out below with a comment where a Housing Authority disagreed.

3.3.1 Accrual or Cash

It was agreed by all respondents, as far as is possible an accrual approach be applied to the analysis but wherever possible historical actual outcomes be the primary source data (i.e. the previous years audited statements).

3.3.2 Analysis Principles

It was agreed by all respondents that the following principles apply to the deficit analysis

1. supplemental revenue or costs such as;
   - consolidated allocations;
   - grants or subsidies received or paid;

   should not be recognised.
2. the results should be adjusted so that the effect of an authority's debt structure does not overwhelm the result;
3. no receipts or payments in the nature of capital should be recognised in the analysis, i.e. such as;
   - gains or losses on the sale of assets;
   - expenses which extend the useful life of the assets or adds attributes which were not previously part of the asset;
   - assets demolished; and
   - assets written off.
4. one off's should be excised, these excisions to include;
   - revenue or costs recognised on transfer of loans; and
   - one off superannuation surplus or deficit adjustments.
5. both the receipts and payments and assets and liabilities associated with housing authority residential headleasing from private landlords should be excised;
6. a layering approach be used so that core results can be added to and the effect of particular marginal or potential distorting items can be assessed.

3.3.3 Unit Revenue and Cost Analysis

In order to produce a comparable analysis for all housing authorities it will be necessary to reduce the outcomes for each line item to a per unit analysis (per dwelling or per person housed).

It was agreed by all except the New South Wales Department of Housing (NSWDOH) that the units of measurement to be applied to the line items be tenantable dwellings owned by housing authorities and persons occupying tenantable dwellings, subject to the revenues and costs of any leasing arrangements being excised from the analysis.

NSWDOH indicated they would have difficulty excising headleased dwellings.

3.3.4 Revised Core Items

It was agreed by all except the Tasmanian Office of Housing that:

the items in Table 1 below the line items would be included in the core analysis.

Table 1: Housing Authorities: Income and Expenditure Statements: Revised Core Items

Revenues	Expenditures
Core Items	
1. Rents	4. Property and Residential Tenancy
2. Management Fees	5. Employee Related
3. Sundry Income	6. Administrative and Working
	7. Doubtful Debts

Tasmania indicated that it believed interest income and grants paid to community organisations and community housing groups should form part of the core items

3.3.5 Revised 'Add Backs'

It was agreed by all except the Tasmanian Office of Housing that the items in Table 2 should be added back 1 by 1 to provide a layering analysis.

Table 2: Housing Authorities: Income and Expenditure Statements: Revised 'Add Back' Items

Revenues	Expenditures
'Add Back' Items	
	3. Rental Rebates
1. Grants and Subsidies received (i.e. Consolidated Fund Allocations etc)	4. Grants and Subsidies paid
2. Interest Earned	5. Borrowing Costs and Interest Paid
	6. Depreciation

The Commonwealth suggested that the Aboriginal Housing Program form part of the grants and subsidies received. The approach that has been taken is that where aboriginal housing stock and housing management are part of the mainstream public housing activities then these grants are included in both income and expenditures. Where aboriginal housing is the responsibility of an organisation completely separate from mainstream public housing then the grants and subsidies received and paid are excluded.

As noted before, Tasmania indicated that interest should form part of the core items. The difficulty with this suggestion is that the debt profiles of housing authorities are very different and, as a consequence, the importance of interest received and paid to the net position may be very different from housing authority to housing authority and may have the potential to distort the result and eliminate the prospect of completely common comparisons. For this reason interest was kept in the second layer of analysis.

3.4 Public Housing Financial Data

All State Housing Authorities in Australia and Housing New Zealand Corporation provided copies of the published financial statements for the years 1990/91 to 2000/01 inclusive.

3.5 Clarification and Unification

These statements were the subject of a comprehensive review and then each housing authority was requested to provide answers to a set of questions arising from the financial statements to enable all abnormals, capital, non public housing, and other ambiguities to be removed and the actual amounts of revenue and expenditure for each year to be identified in accordance with the principles, definitions, core items and add back items agreed to. In this respect the clarification of community housing and its treatment for all authorities was agreed to.

Where community housing is completely off budget, and only supported by a grant or subsidy, then both the dwellings and revenues and costs have been removed from the analysis. Where any part of community housing is on budget both the dwellings and revenues and expenditures have been included and subjected to any necessary pro-rata adjustment.

As far as headleased properties are concerned, the dwellings have been removed from the unit of measurement analysis and the revenues and costs have been excluded.

Housing Authorities were also requested to provide details of the number of tenantable dwellings and all dwellings owned and headleased for the years 1990/91 to 2000/01. Whilst authorities were able to provide tenantable dwellings for later years, many were unable to provide such information for the early part of the analysis period. For this reason we are using stock owned and operated but excluding any headleased dwellings for each year from 1990/91 to 2000/01.

3.6 Quantification Process.

After obtaining all this information and making all the relevant adjustments the actual amounts received and spent for the core items were calculated for each year for each housing authority. The relevant number of dwellings was also incorporated. These amounts were then divided by the relevant dwelling number to obtain the per unit outcome.

In the case of Housing New Zealand Corporation the numbers derived for each year were converted to Australian dollars at the Interbank rate prevailing as at the 30th June each year.

All the per unit outcomes were then adjusted by the average Consumer Price Index for all capital cities for Australia. Attachment 3 contains a copy of the spreadsheet analysis for a Housing Authority.

3.7 Questionnaire Support

These quantitative outcomes were supported by face to face interviews with either the Chief Executive or Chief Financial Officer for all housing authorities in Australia and New Zealand.

A copy of the agreed questionnaire is contained in Attachment 4.

4 ANALYSIS OF RESULTS

In this chapter we set out the detailed, decade long, financial analysis for each Australian State Housing Authority and Housing New Zealand Corporation.

In the first instance we examine trends in real Net Rents and Net Incomes, and discuss quantitative factors which may be affecting Net Incomes. Next we examine expenditure priorities and expenditure trends. We look at the proportion of real Operating Expenditure absorbed by each functional item in 1990/91 and 2000/01. As a final part of the expenditure analysis we trace the real percentage change in the main recurrent expenditure items over the decade.

In the subsequent sub-section we document quantitative trends in Operating Surpluses/Deficits and look at the real percentage change in real Operating Incomes, Expenditures and Surpluses/Deficits. Subsequent parts of the analysis examine the impact of:

- Net Interest and Depreciation; and
- Rebates and Grants.

The final part of the quantitative analysis looks at some key comparisons between the housing authority in question and other housing authorities.

The next two parts of the analysis discuss qualitative issues emerging from responses to our questionnaire, comments made by the housing authority to the Productivity Commission, and comments on some results of Productivity Commission quality of service indicator, findings. At the end of this process we discuss our conclusions in respect of the housing authorities recurrent financial situation and the issues arising. This format is followed for each housing authority.

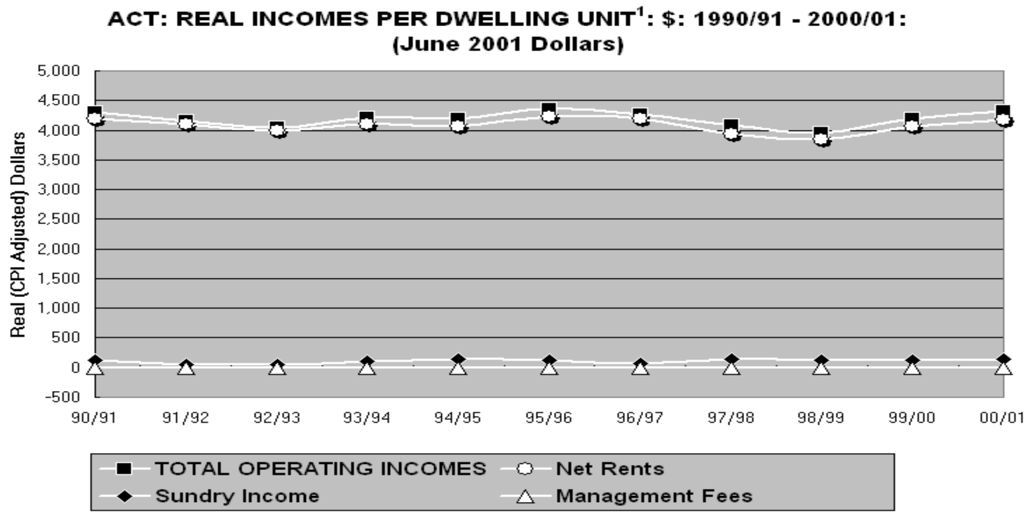
4.1 Australian Capital Territory, (ACT)

4.1.1 Quantitative

Changes in Net Incomes

Graph 8 traces real Net Income per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 8: ACT: Real Incomes Per Dwelling Unit : $: 1990/91 – 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of ACT Housing, Department Of Urban Services and Financial Questions Return From ACT Housing To Operating Deficits Project

1 Includes Public, Community and Aboriginal Housing owned and operated by the ACT but excludes any dwellings headleased or leased from third parties.

Over the study period (1990/91 – 2001/2001), operating incomes only increased in real terms from $4,311 to $4,330 or by less than $20 per dwelling. Net Rents per dwelling fell by 0.3%. Net Real Incomes per Dwelling fell from $4,311 in 1990/91 to $3,958 in 98/99 and then increased slightly. Real Rents constituted more than 96% of annual Operating Incomes throughout the decade.

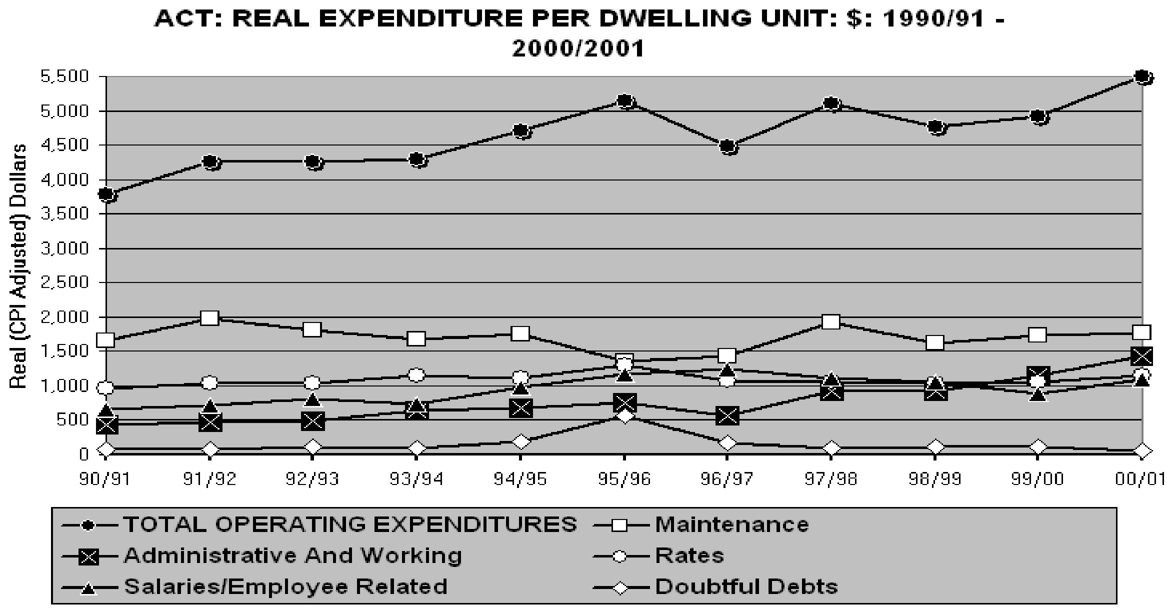
Quantitative Factors Affecting Operating Incomes

Over the study period rebated tenants increased from 78% to 83% but far more importantly priority crisis and emergency allocations increased from 35% of all new allocations to 80%, the second highest of all Australian States. These households rely almost entirely on pension and benefit payments. In addition, although only available for a short period, the Productivity Commission (2002) data returns on public housing suggest that there is a discernable trend to a greater proportion of single income households which will reduce the average net rent payable per dwelling.

Expenditures and Expenditure Priorities

Graph 9 sets real net expenditure per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 9: ACT: Real Expenditure Per Dwelling Unit: $: 1990/91 – 2000/2001

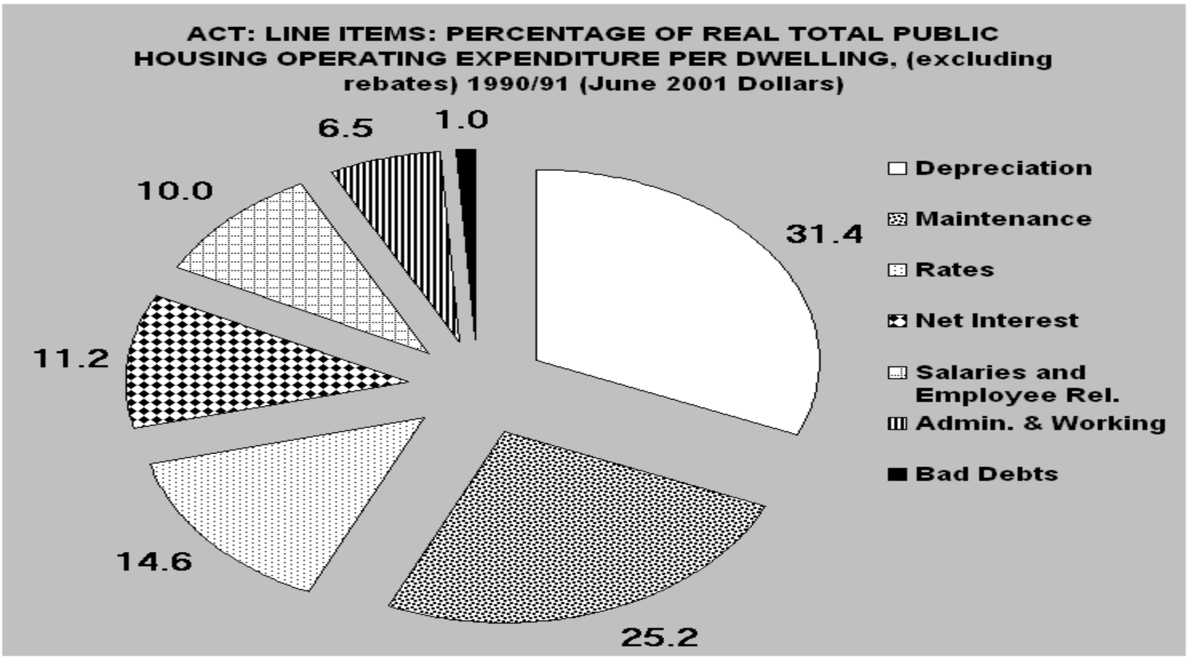


Source: Financial Statements 1990/91 – 2000/2001 Of ACT Housing, Department Of Urban Services and Financial Questions Return From ACT Housing To Operating Deficits Project.

The graph shows that real operating expenditures per dwelling have increased from $3,782 in 1990/91 to $5,491 in 2000/01. Real increases in Maintenance and Rates outgoings has been moderate with Maintenance expenditure per dwelling increasing from $1,660 to $1,763, (6.2%), and Rates from $965 to $1,151, (19.3%). By far the most significant real increases in expenditure occurred in the Salaries and Employee Related and Administrative and Working items with the former increasing from $660 per dwelling to $1,095, (or by 65.9%), and the latter from $429 to $1,423, (or by 232%). Total overhead increased in real terms from $1,089 to $2,518 or by approximately 58%.

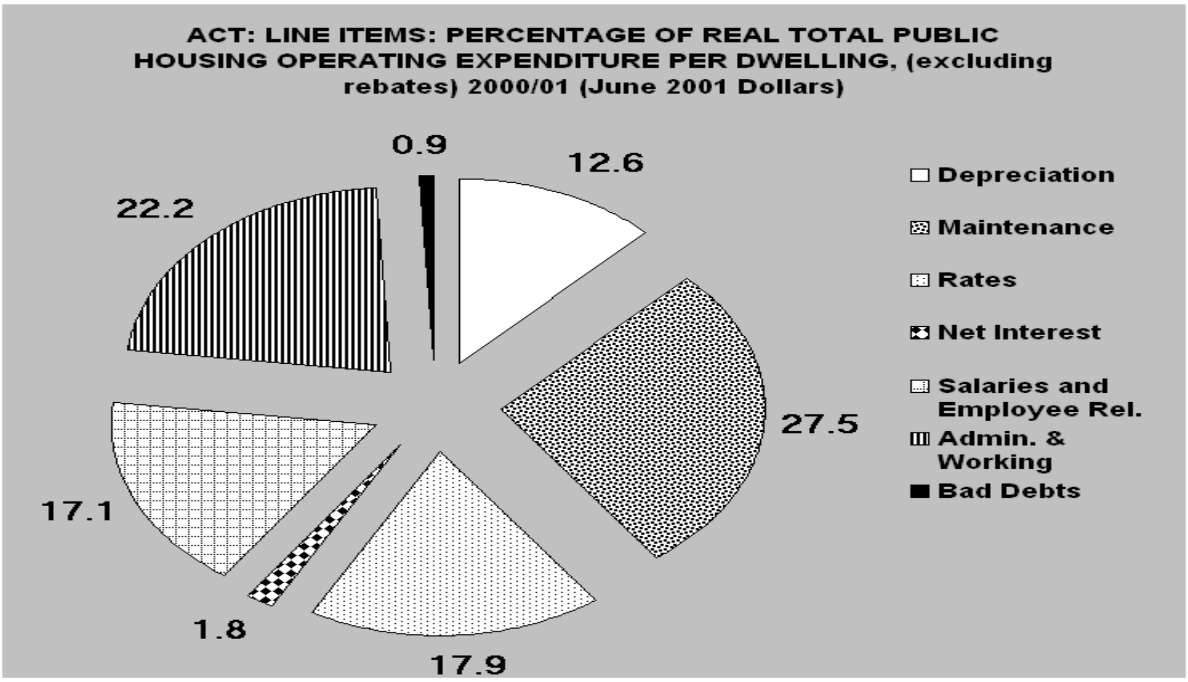
Reflecting these real changes in expenditure items, Graphs 10 and 11 set out the proportion of total operating expenditure occupied by each of the core expenditure items for the years 1990/91 and 2000/2001.

GRAPH 10: ACT : Line Items : Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) : 1990/91 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of ACT Housing, Department Of Urban Services and Financial Questions Return From ACT Housing To Operating Deficits Project.

GRAPH 11: ACT : Line Items : Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) : 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of ACT Housing, Department Of Urban Services and Financial Questions Return From ACT Housing To Operating Deficits Project.

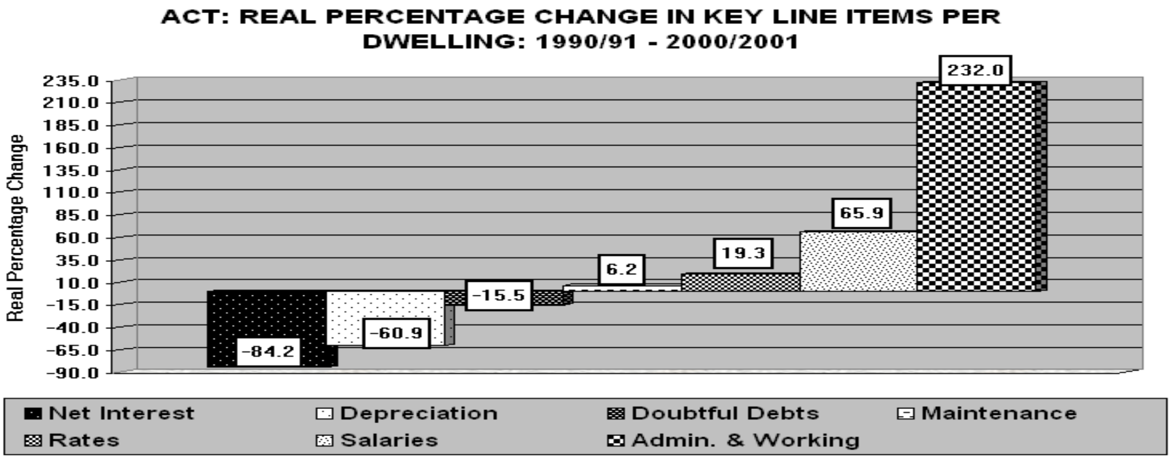
The graphs show how the proportion of the ACT's total expenditure per dwelling for each item (including Depreciation and Net Interest, the latter being interest received less interest paid) has changed over the decade.

The proportion of total expenditure absorbed by both Depreciation (down from 31.4% to 12.6%) and Net Interest, (down from 11.2% to 1.8%), has declined dramatically.

Maintenance and Rates expenditure have both increased slightly as a proportion of total expenditures per dwelling, with the former increasing from 25.2% to 27.5% and the latter from 14.6% to 17.9%, for a combined total change increasing from 39.8% to 44.4%.

As outlined in the analysis of expenditure item growth, by far the greatest change in proportions has occurred in Salaries and Salary Related expenses and Administrative and Working Items, with the former increasing from 10% to 17.1% of total operating expenditures, and the later increasing from 6.5% to 22.2%, for a combined overhead increase from 16.5% to 39.3%. The ACT spends more on Administrative and Working Items than on rates, with total overhead absorbing just slightly less than the combined expenditures of maintenance and rates. Graph 12 sets out the real percentage change in the costs of key line items.

GRAPH 12: ACT : Real Percentage Change in Key Line Items Per Dwelling : 1990/91 – 2000/01



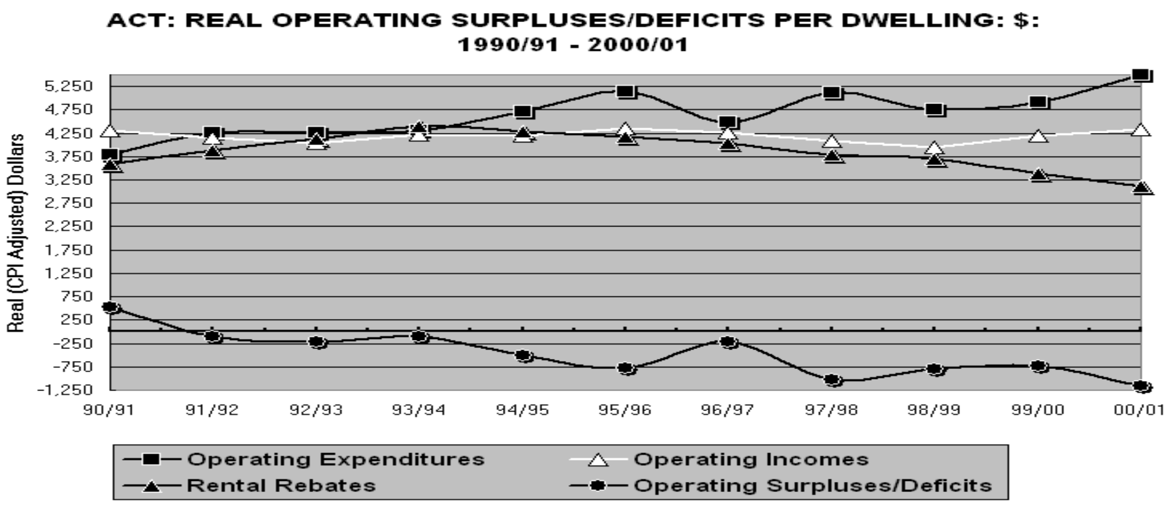
Source: Financial Statements 1990/91 – 2000/2001 Of ACT Housing, Department Of Urban Services and Financial Questions Return From ACT Housing To Operating Deficits Project.

The graph reflects the findings outlined earlier; i.e. very significant real declines in the cost per dwelling for Net Interest and Depreciation, moderate changes in Doubtful Debts, Maintenance and Rates and major real percentage increases in Salaries etc, and Administration and Working.

Operating Income, Expenditure and Surplus/Deficits

Graph 13 sets out the trends in Operating Surpluses/Deficits excluding Net Interest and Depreciation.

GRAPH 13: ACT: Real Operating Surpluses/Deficits Per Dwelling: $: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of ACT Housing, Department Of Urban Services and Financial Questions Return From ACT Housing To Operating Deficits Project.

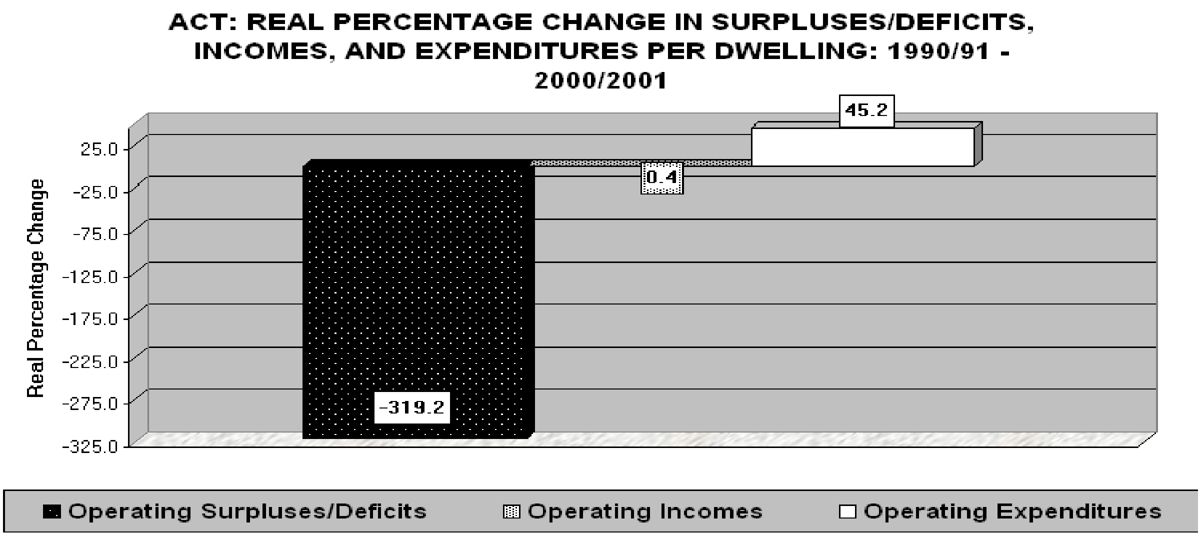
In 1990/91 the ACT produced a real surplus per dwelling (excluding Net Interest and Depreciation), of $528, and between 1991/92 and 1993/94 some very small deficits were recorded. However, in 1994/95 operating deficits increased dramatically, primarily as a result of real expenditures per dwelling increasing from $4,300 to $4,700, approximately, with Deficits increasing by a slightly greater margin from -$92 to -$504 per dwelling.

Thereafter, until 1997/98, real expenditures increased only moderately (from $4,706 to $5,113) and incomes per dwelling fell from $4,202 to $4,080, producing a real deficit in 1997/98 of $1,033.

Due to some slight reductions in real expenditures per dwelling and a similar increase in real incomes, in both 1998/99 and 1999/2000 the real deficit per dwelling fell back to $728 per dwelling. However in the last year (2000/01) the real deficit has again increased by considerably more than 30% to $1,161.

Graph 14 sets out the real percentage change in Operating Incomes, Expenditures and Deficits.

GRAPH 14: ACT: Real Percentage Change in Surpluses/Deficits, Incomes and Expenditures Per Dwelling: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of ACT Housing, Department Of Urban Services and Financial Questions Return From ACT Housing To Operating Deficits Project.

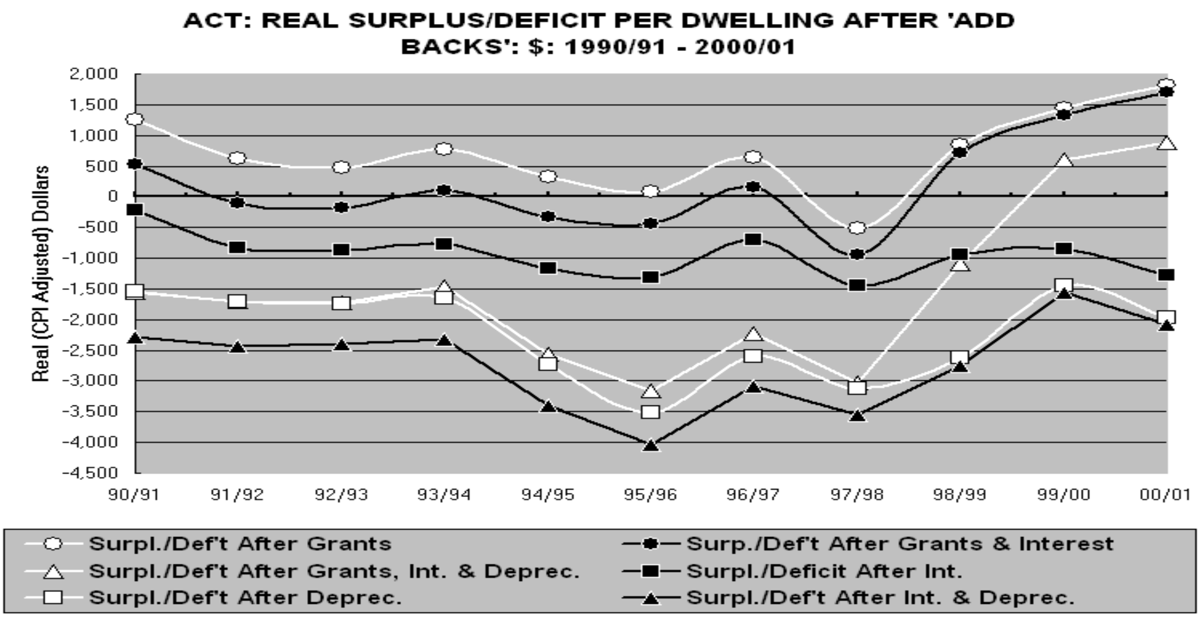
To summarize, over the decade, real Operating Incomes (net of grants and interest earned), only increased by less than one half of 1% whilst real Operating Expenditures grew by 45% resulting an deficit growth of 319%.

Impact of Net Interest And Depreciation

Graph 15 sets out the impact of Net Interest and Depreciation on the Operating Surplus/Deficit.

It is clear from Graph 15 that the impact of Interest Costs and Depreciation have declined substantially over the decade. In 1990/91 Net Interest moved the real operating result from surplus to deficit by approximately $700 per dwelling. Depreciation added a further –$2,071 to the deficit increasing it after interest from -$212 to -$2,283 per dwelling. In 2000/2001 however, Net Interest only added $117 to the expenditure line, and Depreciation some $809, increasing the Operating Deficit from -$1,161 to -$2,087 or by less than half that which occurred a decade earlier. Both Salaries etc, and Administration and Working Items have more than 10 times the impact of Net Interest and a minimum of 25% more than Depreciation on the bottom line.

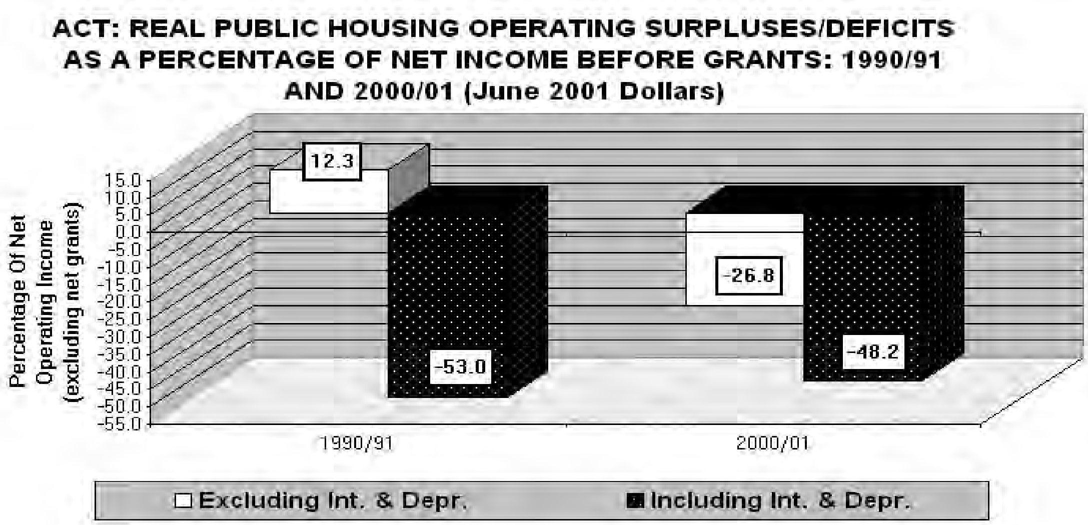
GRAPH 15: ACT : Real Surplus/Deficit Per Dwelling After 'Add backs' : $: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of ACT Housing, Department Of Urban Services and Financial Questions Return From ACT Housing To Operating Deficits Project.

Graph 16 sets out the operating deficits as a proportion of net income 'before' and 'after' Net Interest and Depreciation.

GRAPH 16: ACT : Real Public Housing Operating Surpluses/Deficits as a Percentage of Net Income Before Grants : 1990/91 and 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of ACT Housing, Department Of Urban Services and Financial Questions Return From ACT Housing To Operating Deficits Project.

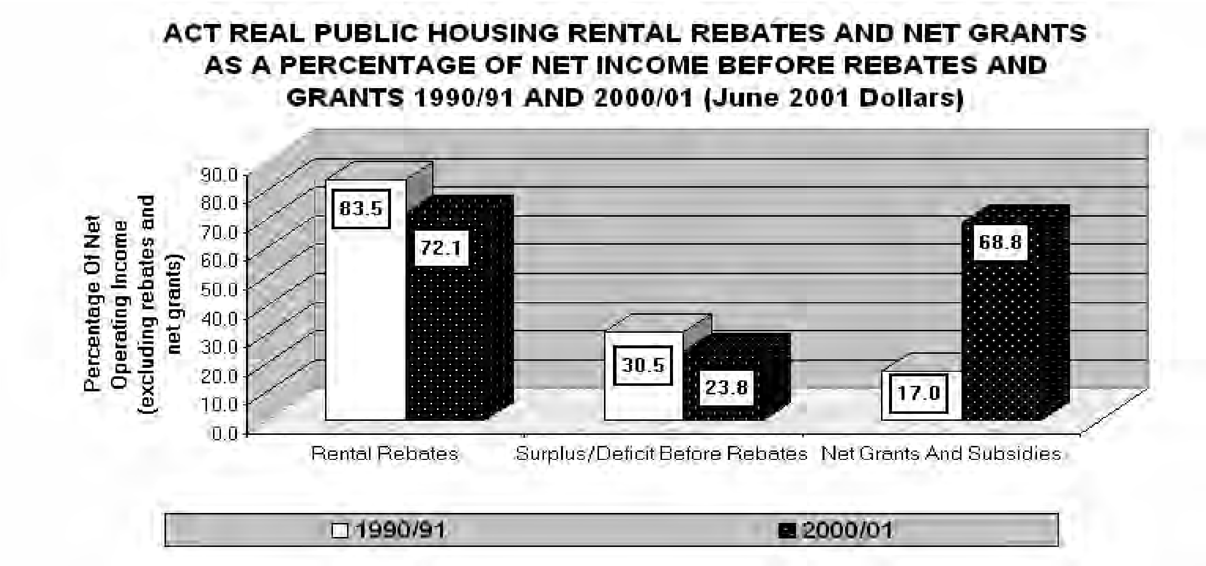
These results reinforce the earlier comments on the impact of Net Interest and Depreciation. Whilst these expenditure components are still important they had a four fold impact on the Operating Deficit in 1990/91, whilst in 2000/2001 they 'merely' added about 80% to the Deficit as a percentage of net income.

The Importance of Rebates and Grants

Real average Rental Rebates per dwelling have actually declined significantly from $3,598 in 1990/91 to $3,120 in 2000/01, whilst conversely Net Grants applied to public housing have increased very rapidly, from just over $700 to almost $3,000 ($2,978) per annum.

Graph 17 sets out Rental Rebates and Grants as a proportion of Net Income before Grants.

GRAPH 17: ACT Real Public Housing Rental Rebates and Net Grants as a Percentage of Net Income Before Rebates and Grants (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of ACT Housing, Department of Urban Services and Financial Questions Return From ACT Housing to Operating Deficits Project.

Whilst the graph clearly shows that the impact of Rental Rebates relative to Net Incomes before Rebates has declined they still remain very significant. Of most importance is that if the ACT received a commercial return based on market rents it would be financially robust and provide an appropriate operating rental return of about 3% net per annum. Combined with the capital gain, this would provide a respectable double digit annual rate of return.

In the case of the ACT, recognising the real cost of the Community Service Obligation and providing a cash payment for rebates, would ensure the continued viability of the sector.

Of greater concern, however, is that in 1990/91 Net Grants and Subsidies represented only 17% of the Net Income (before grants), whilst in 2000/01 this figure had climbed to 68.8% almost equal to the cost of Rental Rebates.

Key Comparators 2000/01: The ACT Compared to Other States.

There are three main ways that line item financial information on each jurisdiction can be compared between States:

- by absolute amounts;
- as a percentage of either Net Income or Operating Expenditure (including Net Interest and Depreciation); and
- by the real percentage change by item.

Table 3 sets the rankings of ACT Housing, by each line item and indicator. A ranking of 1 represents the largest amount, or the greatest percentage, or the greatest percentage change from 1990/91 to 2001 for the ACT compared to the other State Housing Authorities and HNZC. For Operating Surplus/Deficits, 1 represents the ‘best’ result per dwelling, i.e. the highest surplus, the best percentage improvement, whilst 9 represents the ‘worst’ deficit, the largest negative proportion of Net Income, or the largest percentage decline or deterioration.

Table 3: Financial Rankings: Real Income/Expenditure Per Dwelling: ACT Housing

Item	Rankings		
	Absolute Amounts: 2000/01	Percentage (Of Net Income Or Expenditure): 2000/01	Percentage Change 1990/91 –2000/01
1 Net Rents	2	7	6
2 Net Grants	1	3	1
3 Maintenance	3	1	7
4 Rates	3	5	4
5 Salaries & Employment Related	4	5	5
6 Administration & Working	***1***	***1***	***2***
7 Total Overhead (5 & 6)	***1***	***1***	***1***
8 Bad Debts	4	6	***8***
9 Net Interest	7	7	***8***
10 Depreciation	***9***	***9***	***9***
	Major Components		
11 Net Incomes	2	-	7
12 Operating Expenditures	2	-	5
13 Operating Surpluses/Deficits[1]	***9***	***9***	***9***
14 Rental Rebates	4	4	8

Source: Financial Statements 1990/91 – 2000/2001 Of ACT Housing, Department Of Urban Services and Financial Questions Return From ACT Housing To Operating Deficits Project.

1 Excludes Net Interest, Depreciation, Net Grants and Rental Rebates.

Four important conclusions emerge from this analysis, viz ACT Housing has;

- the highest cost, greatest percentage of total expenditure and second fastest growing Administration and Working expenditure item of all States and the Housing New Zealand Corporation;
- the highest cost, greatest percentage of total expenditure and fastest growing Total Overhead expenditure item of all States and the Housing New Zealand Corporation;
- the highest cost, greatest percentage of Net Income and fastest growing Operating Deficit of all States and the Housing New Zealand Corporation;
- the lowest cost, lowest percentage of total expenditure and fastest reducing Depreciation expenditure item of all States and the Housing New Zealand Corporation.

4.1.2 Qualitative

Key Responses from the Operational Deficits Questionnaire

The ACT respondent was unequivocal that tighter targeting and changes in household composition were leading to a steady decline in the real net rent received per dwelling as higher income, and multiple income households moved out and are replaced by lower income and more numerous single income households. It was anticipated, however that as a result of the changes to the rent setting policy in 2000/2001 and an increase in rent payable as a proportion of income to 25% (up from 20% in 1992), the erosion of actual income from rents received may be halted for a short while.

The number and scale of older multi-unit properties built in the 1950s to 1970's to house public servants, and the lack of previous proper planned maintenance now means there are considerable maintenance backlogs (yet to be fully costed). The ACT has embarked on a substantial program of asset reconstruction and asset improvement, but the scope of the program was still being assessed in March 2003.

The long term failure to adequately maintain the properties means that, in many cases, the most economic option is for redevelopment, rather than upgrade-refurbishment.

The de-instutionalisation of many in society with mental and physical disabilities has meant that many of the costs of housing these people have fallen on housing authorities and the dwellings housing these households have required substantial modification and have high repair needs.

Rates are seen as a very significant cost which is increasing rapidly in both nominal and real terms.

The call upon resources to fund more intensive tenancy management has continued to grow and increased targeting to those most in need with multiple and complex problems has meant that more effort is being devoted to ensure linkages with appropriate support services. To this end, five specialist housing managers have been employed at an additional cost of $0.6M per annum and an additional $500,000 linkages funding has been provided. There have, however, been no significant increases in salary and wages costs in the last decade.

Because of the smaller scale of the ACT overhead costs such as IT, finance, and policy are spread across a smaller property base and therefore, on a per dwelling basis, absorb a much higher proportion of the costs.

ACT Housing is of the view that a more holistic approach to tenancy management and the increasing number of clients requiring non-housing related assistance is the major contributor to the growth in administration costs.

It is anticipated that the operating deficits will continue to increase if the trend to fund external providers, grants for community linkages, and payments for other support services such as crisis call centres continues to grow.

ACT Housing's Key Comments to the Productivity Commission

ACT Housing's comments to the Productivity Commission in 1996/97 and 1997/98 reflect the increasing priority being given to improving the quality of service and the range of support measures available.

In 1996/97 ACT Housing established client service teams in regional offices, began introducing service standards, and measuring client satisfaction through tenant surveys.

In 1997/98 ACT Housing commented that:

> "ACT Housing has implemented a range of measures to improve customer service and a more integrated approach to service delivery… there have been reductions in turnaround times for vacant dwellings, improved responses to tenant requests and a major effort to train staff….a number of improved asset management measures have been introduced to ensure that the supply of properties matched demand, thereby meeting customer needs".

Productivity Commission: Quality of Service Indicators: Tenant Satisfaction and Rating of Housing Stock

A review of the Productivity Commission Effectiveness Indicators suggests that ACT Housing's efforts to improve its quality of services is at least being perceived by its tenants as improving, in some cases significantly. On the two main indicators, tenant satisfaction and tenants' rating of housing stock condition, the proportion of tenants very satisfied increased by 28% between 1996 and 2000, whilst those dissatisfied fell by 12.5%. However, ACT still has the lowest satisfaction ratings of all Housing Authorities.

In addition, on three of the five tenants ratings of housing stock, improvements were achieved, with an improvement in the 'good' rating of 6.5% for external structure, 23.3% for security and 43.2% for surrounds, perhaps reflecting the effectiveness of asset restructuring already having taken place.

4.1.3 ACT Housing: Conclusions

In the last decade ACT Housing has embraced tighter targeting through the introduction of segmented waiting lists, engaged in a simultaneous effort to restructure its portfolio of dwellings and to improve its services to its clients, and has focused on reducing debt servicing required by the organisation.

These priorities have been reflected in:

- a long term decline in real rents per dwelling and hence Net Income per dwelling. Whilst this decline was recently arrested by changes to rent policy it can be expected to resume until such time as any trend to smaller households is completed and the proportion of rebated tenants and priority allocations reach saturation;
- almost stable real maintenance per dwelling; although it is now estimated that ACT Housing has a maintenance backlog of somewhere between $80million and $120million (the final liability will be determined after the current asset analysis);
- a rapid reduction in the amount of depreciation provisioning required per dwelling as asset restructuring and market developments act to reduce the average value per dwelling unit;
- significant improvements in tenants ranking of both their satisfaction with the service provided and the quality of their dwelling;
- a major increase in the real cost of managing the ACT Housing Stock to the point where the total overhead cost per dwelling is greater than the expenditure on either maintenance or rates and is the highest in Australia and New Zealand;
- near elimination of any debt servicing burden, to the point where the debt/servicing ratio (Net Interest to Net Income) has fallen to 2.7%.

Notwithstanding the above, it would appear that the majority of any cost savings which can be accrued from asset restructuring (through lower maintenance) and debt reduction have already been achieved. With the likely future trends in Net Income, the anticipated maintenance backlog, and the current trends in overhead costs, it is probable that without any change to the distribution of tenant incomes, funding parameters and processes, the business will soon reach a point where untied grants will not be sufficient to fund operating deficits. Either additional funding will need to be provided or ACT Housing will have to 'cannibalise' (i.e. sell a proportion of) its dwellings to fund its operating shortfalls.

It is clear that were the ACT able to achieve the average Overhead cost for all authorities it would almost eliminate the existing Operating Deficit (under $100 per dwelling would remain).

It is also clear however, that if the full cost of the ACT's community service obligation (i.e. the difference between market rents and income related rents was fully funded) was fully recognised, ACT Housing's Operating Deficit would become an equivalent surplus. If funding was maintained on that basis, ACT Housing would likely operate at a profit for the foreseeable future.

4.2 New South Wales

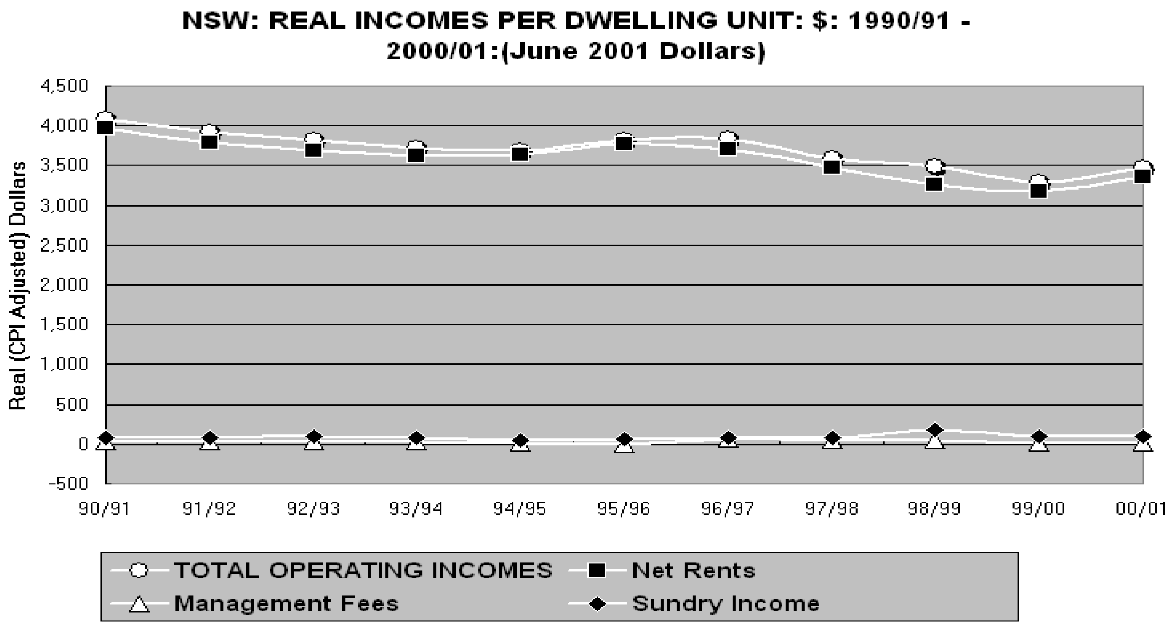
4.2.1 Quantitative

Changes in Net Incomes

Graph 18 traces real Net Income per dwelling unit over the period 1990/91 to 2000/2001.

Over the study period (1990/91 – 2001/2001), operating incomes fell in real terms by the greatest proportions of all Housing Authorities from $4,079 to $3,479 or by $600 per dwelling. Net Rents per dwelling fell by 15.2%. Net Real Incomes Per Dwelling fell from $4,079 in 1990/91 to a low of $3,299 in 99/20 and then increased by about $180 per dwelling. With the exception of 19987/99, (93%), Real Rents constituted more than 97% of annual Operating Incomes throughout the decade.

GRAPH 18: NSW : Real Incomes Per Dwelling Unit : $: 1990/91 – 2000/01: (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of New South Wales, (NSW), Department Of Housing and Financial Questions Return From NSW Housing To Operating Deficits Project

1 Includes Public, Community and Aboriginal Housing owned and operated by NSW but excludes any dwellings headleased or leased from third parties.

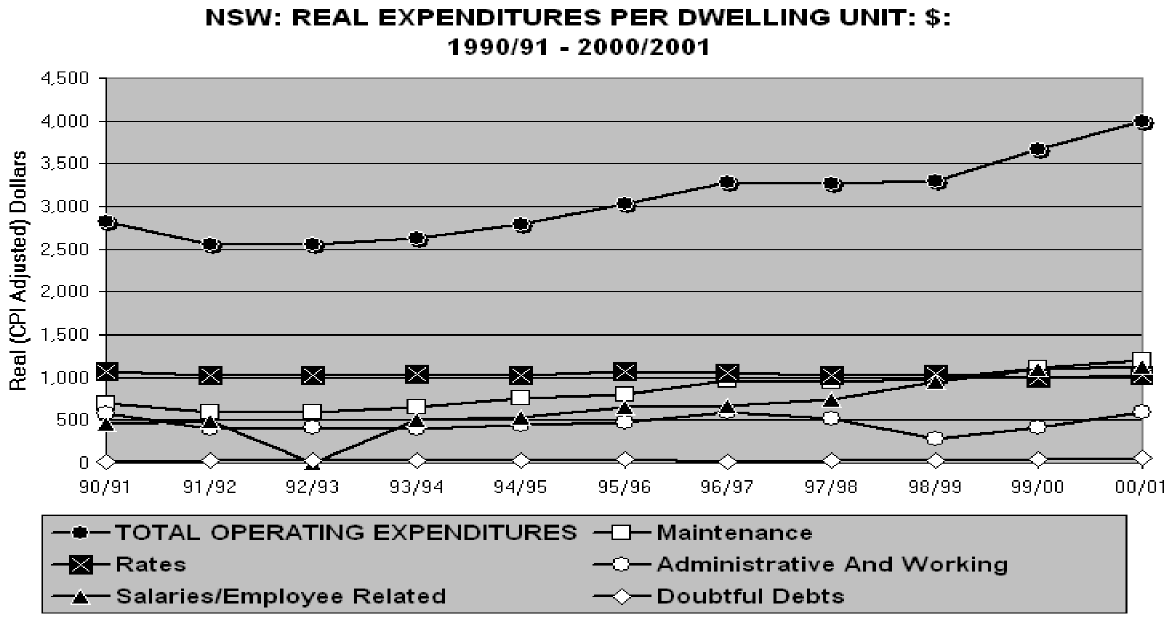
Quantitative Factors Affecting Operating Incomes

Over the study period rebated tenants increased from 85% to 90% but (more importantly) priority crisis and emergency allocations increased from 20% of all new allocations to 40%. The Productivity Commission (2002) returns on public housing suggest that there is a discernable trend to a greater proportion of single income households which, if it continues, will reduce the average net rent payable per dwelling.

Expenditures and Expenditure Priorities

Graph 19 sets real net expenditure per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 19: NSW : Real Expenditures Per Dwelling Unit: $: 1990/91 – 2000/01

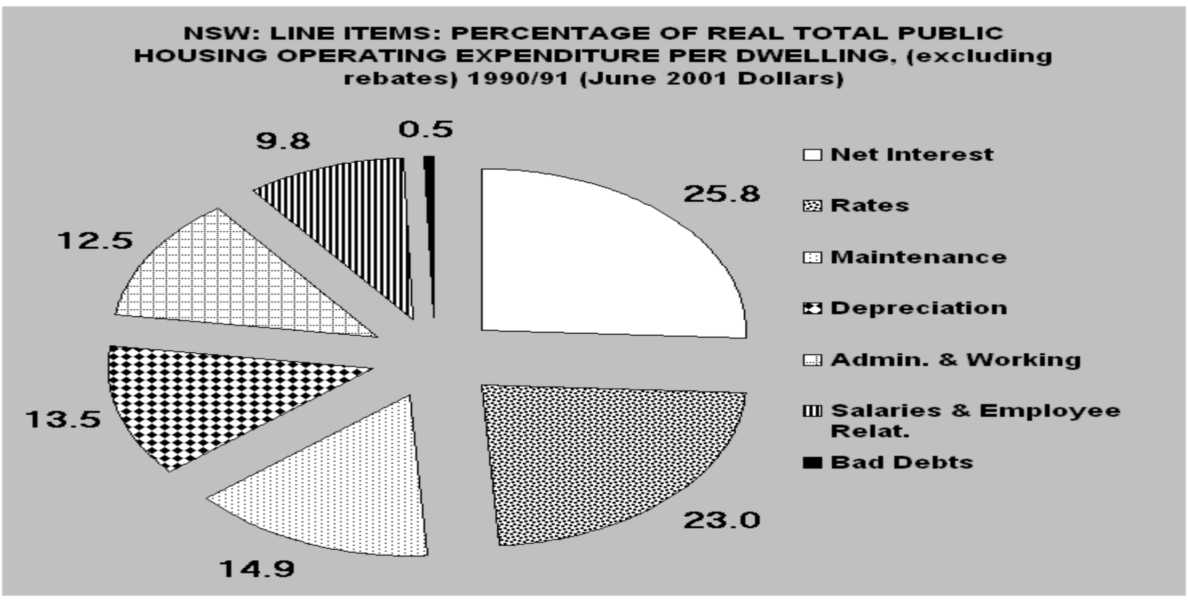


Source: Financial Statements 1990/91 – 2000/2001 Of NSW Department Of Housing and Financial Questions Return From NSW Housing To Operating Deficits Project

The graph shows that real operating expenditures per dwelling have increased from $2,824 in 1990/91 to $3,994 in 2000/01. Real Net Interest payments have fallen substantially from $1,201 in 1990/91 to $402 in 2000/01 (-66.5%), whilst Real Rates have fallen marginally from $1,070 to $1,027. Real Administration and Working Expenses have remained almost flat increasing from $582 in 90/91 to $587 (or by just $5), in 2000/01. Leaving aside Doubtful Debts, (because they are such a small proportion of expenditure), all other items increased dramatically, with Real Maintenance increasing from $695 to $1,196, Depreciation from $626 to $1,331 and Salaries from $456 to $1,129. Total overhead increased in real terms from $1,038 to $1,716 or by approximately 65%.

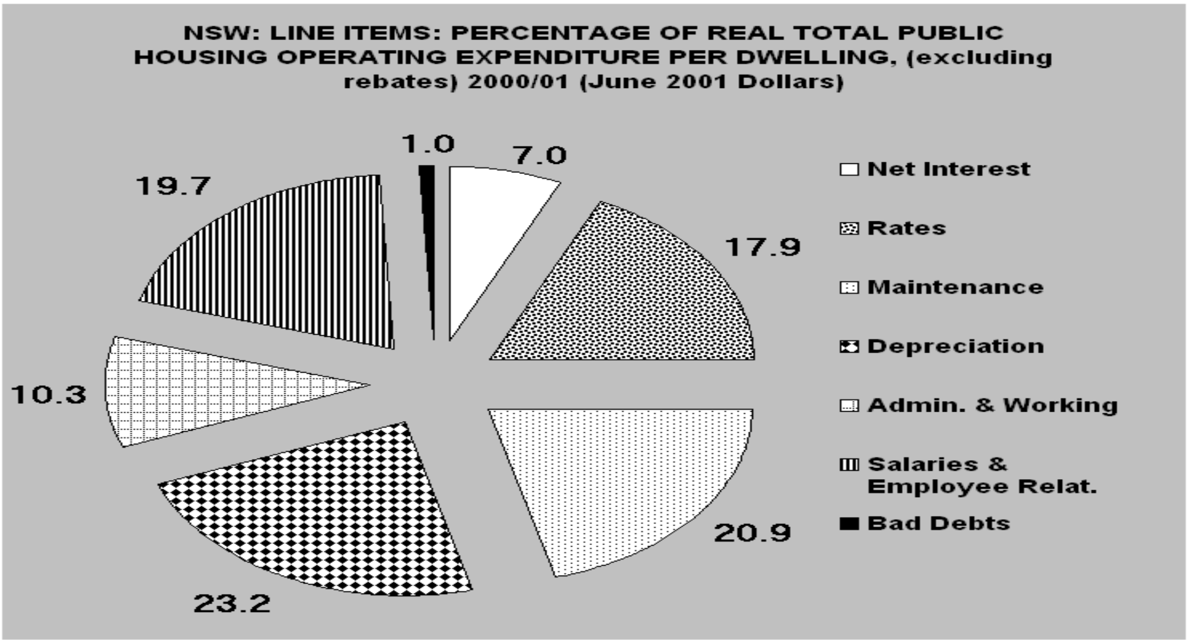
Reflecting these real changes in expenditure items, Graphs 20 and 21 set out the proportion of total operating expenditure occupied by each of the core expenditure items for the years 1990/91 and 2000/2001.

GRAPH 20: NSW : Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 1990/91 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of NSW Department Of Housing and Financial Questions Return From NSW Housing To Operating Deficits Project

GRAPH 21: NSW : Line Items: Percentage of Real Total Public Housing Operating Expenditures Per Dwelling (excluding rebates) 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of NSW Department Of Housing and Financial Questions Return From NSW Housing To Operating Deficits Project

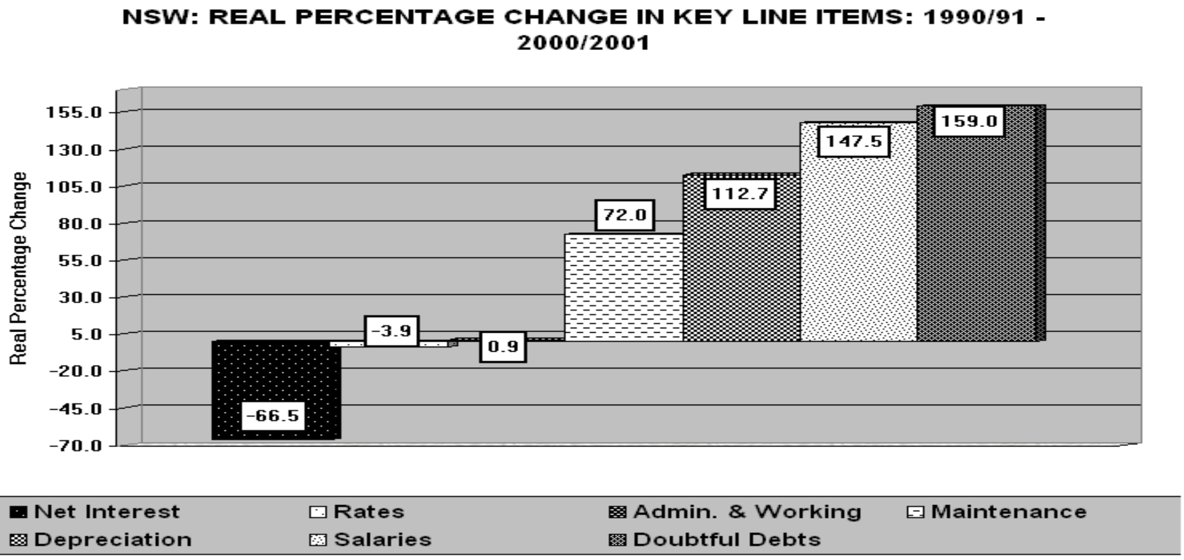
The graphs show how the proportion of NSW's total expenditure per dwelling for each item (including Depreciation and Net Interest) has changed over the decade.

The proportion of total expenditure absorbed by Net Interest has declined dramatically (down from 25.8% to 7.0%).

Both Rates and Administration and Working Items have declined moderately as a proportion of total Operating Expenditure with the former falling from 23% in 1990/91 to 17.9% in 2000/01 and the latter from 12.5% to 10.3% over the same period.

As outlined in the analysis of expenditure item growth, by far the greatest change in proportions has occurred in Maintenance, Depreciation and Salaries and Related expenses , with Maintenance increasing from 14.9% to 20.9% of total operating expenditures, Depreciation almost doubling, increasing from 13.5% to 23.2%, and Salaries and Related expenses more than doubling, increasing from 9.8% to 19.7%. NSW spends more on Salaries etc. than on rates, with total overhead absorbing just 7% less than the combined expenditures of maintenance and rates. Graph 22 sets out the real percentage change in the costs of key line items.

GRAPH 22: NSW : Real Percentage Change in Key Line Items: 1990/91 – 2000/01



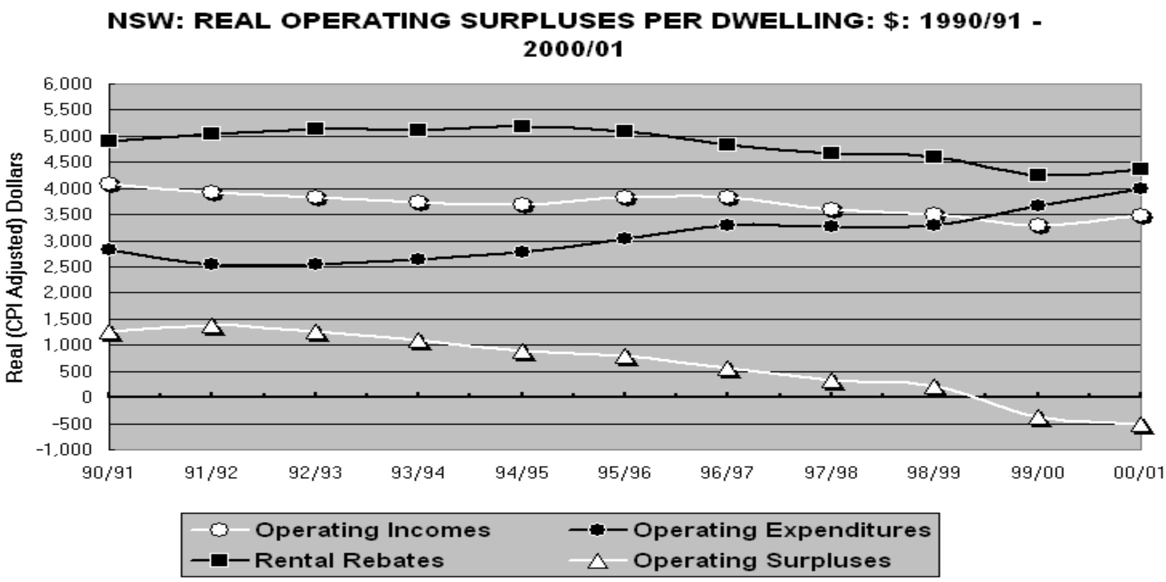
Source: Financial Statements 1990/91 – 2000/2001 Of NSW Department Of Housing and Financial Questions Return From NSW Housing To Operating Deficits Project

The graph reflects the findings outlined earlier, a very significant real decline in the cost per dwelling for Net Interest, a small decline in Rates, a minor change in Administration and Working Items, and major real increases in Maintenance, Depreciation, and Salaries and Related expenses.

Operating Income, Expenditure and Surplus/Deficits

Graph 23 sets out the trends in Operating Surpluses/Deficits excluding Net Interest and Depreciation.

GRAPH 23: NSW : Real Operating Surpluses Per Dwelling: $: 1990/91 – 2000/01

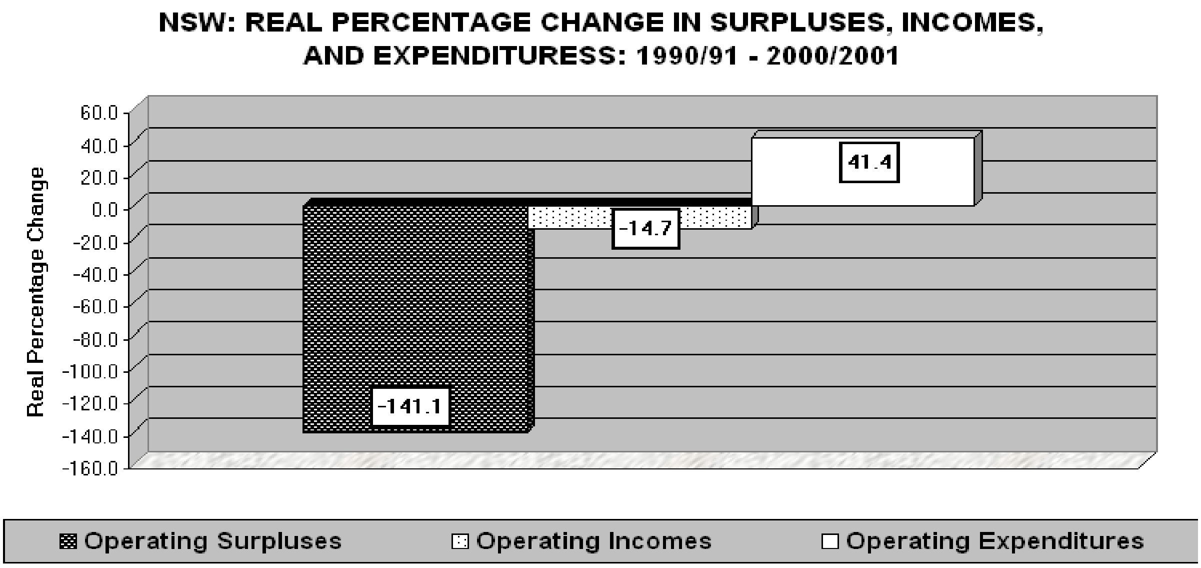


Source: Financial Statements 1990/91 – 2000/2001 Of NSW Department Of Housing and Financial Questions Return From NSW Housing To Operating Deficits Project

In 1990/91 the NSW produced a real surplus per dwelling (excluding Net Interest and Depreciation) of $1,255, the second largest of all the Housing Authorities. Thereafter, the surplus steadily declined until 1998/99 when a small surplus of $205 per dwelling was recorded. After 1998/99 the deficit grew rapidly from -$368 in 1999/00 to -$515 in 2000/01. Real Operating Incomes fell consistently through the decade, until 1999/00 but fell sharply from 1996/97 ($3,839) to 1999/00 ($3,299) by almost $500 per dwelling in three years. Real Expenditures actually fell from 1990/91 ($2,824) to 1994/95 ($2,787) and thereafter increased by more than $1,200 per dwelling in six years or by 7% real per annum.

Graph 24 sets out the real percentage change in Operating Incomes, Expenditures and Deficits.

GRAPH 24: NSW : Real Percentage Change in Surpluses, Incomes and Expenditures: 1990/91 – 2000/01



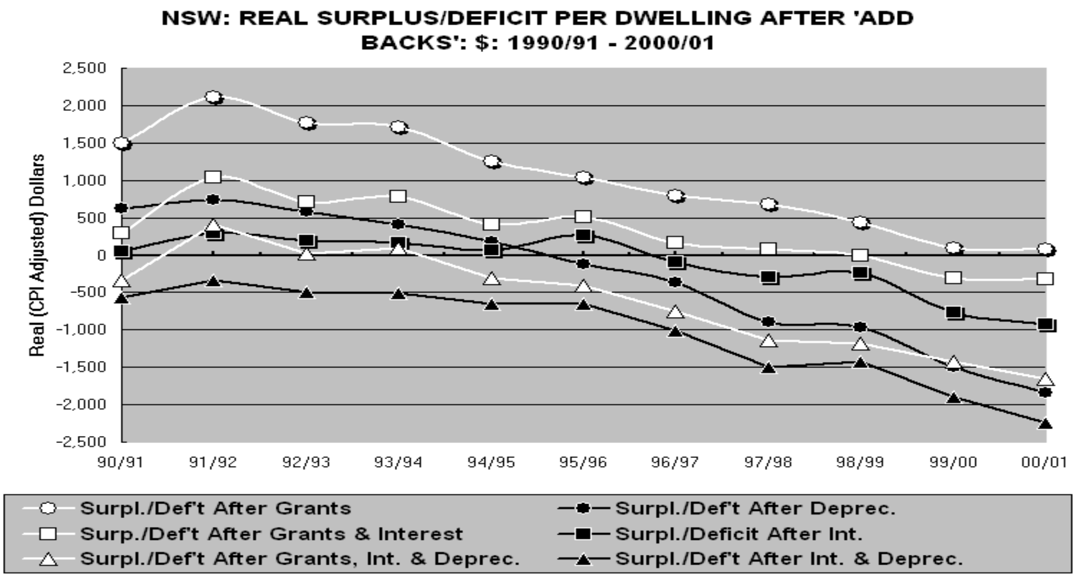
Source: Financial Statements 1990/91 – 2000/2001 Of NSW Department Of Housing and Financial Questions Return From NSW Housing To Operating Deficits Project

To summarize, real Operating Incomes (net of grants and interest earned) fell by 14% whilst real Operating Expenditures grew by 41%, resulting an deficit growth of 141% over the period in question.

Impact of Net Interest and Depreciation

Graph 25 sets the impact of Net Interest and Depreciation on the Operating Surplus/Deficit.

GRAPH 25: NSW: Real Surplus/Deficit Per Dwelling After 'Add backs' : $: 1990/91 – 2000/01

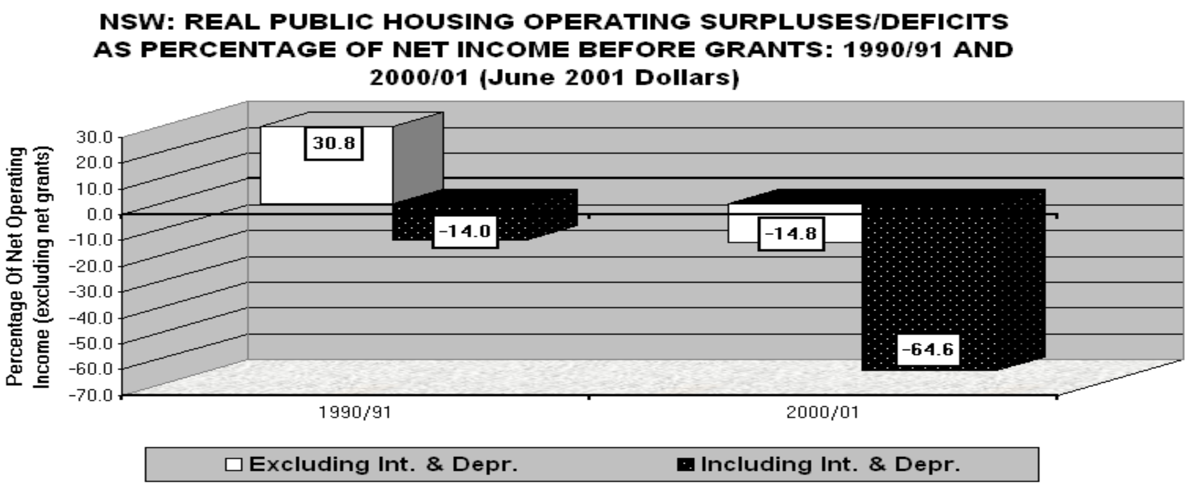


Source: Financial Statements 1990/91 – 2000/2001 Of NSW Department Of Housing and Financial Questions Return From NSW Housing To Operating Deficits Project

It is clear from the Graph 25 that the impact of Net Interest and Depreciation in absolute terms has only declined very slightly from approximately -$1,800 per dwelling to -$1,700. However, as Net Incomes have fallen the relative impact has increased with Net Interest and Depreciation moving the Operating Surplus to a Deficit of -$571 in 1990/91 but increasing the Deficit from -$515 to -$2,248 in 2000/01.

Graph 26 sets out the operating deficits as a proportion of Net Income 'before' and 'after' Net Interest and Depreciation.

GRAPH 26: NSW : Real Public Housing Operating Surpluses/Deficits as a Percentage of Net Income before Grants: 1990/91 and 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of NSW Department Of Housing and Financial Questions Return From NSW Housing To Operating Deficits Project

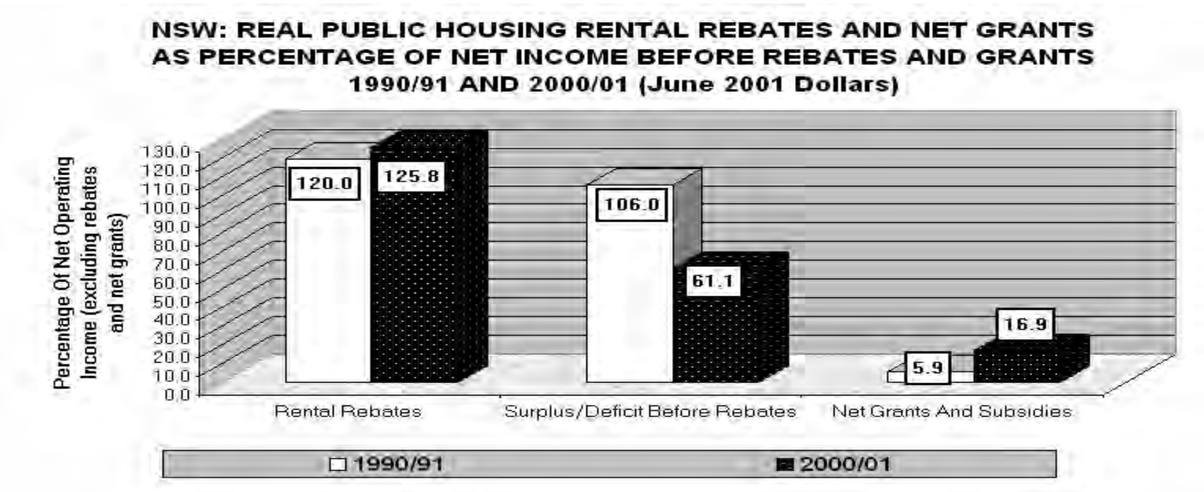
These results reinforce the earlier comments on the impact of Net Interest and Depreciation. These expenditure components had a three fold impact on the Operating Deficit in 1990/91 whilst in 2000/2001 the impact was slightly greater at 3.3 fold, as a percentage of net income.

The Importance of Rebates and Grants

Real average Rental Rebates per dwelling have actually declined significantly from $4,894 in 1990/91 to $4,375 in 2000/01, whilst conversely Net Grants applied to public housing have increased substantially, from $240 to almost $600 ($589) per annum.

Graph 27 sets out Rental Rebates and Grants as a proportion of Net Income before Grants.

GRAPH 27: NSW: Real Public Housing Rental Rebates and Net Grants as a Percentage of Net Income Before Rebates and Grants 1990/91 and 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of NSW Department Of Housing and Financial Questions Return From NSW Housing To Operating Deficits Project

Whilst the graph clearly shows that the impact of Rental Rebates relative to Net Incomes before Rebates has increased slightly and remain very significant. Of most importance is that if NSW Housing received a commercial return based on market rents it would be financially robust and provide an appropriate operating rental return net per annum. Combined with the capital gain, this would provide a respectable double digit annual rate of return.

In the case of NSW, recognising the real cost of the Community Service Obligation and providing a cash payment for rebates, would ensure the continued viability of the sector.

In 1990/91 Net Grants and Subsidies represented only 5.9% of the Net Income (before grants), whilst in 2000/01 this figure had climbed to approximately 17%.

Key Comparators 2000/01: NSW Compared to Other States.

Table 4 sets the rankings of NSW Housing, by each line item and indicator.

Four important conclusions emerge from this analysis, viz NSW Housing has;

- The fastest falling Net Rents per dwelling of all States and the Housing New Zealand Corporation;
- The fastest falling Net Incomes of all States and the Housing New Zealand Corporation;
- The third highest Operating Expenditures of all States and the Housing New Zealand Corporation;
- The third highest Operating Deficit of all States and the Housing New Zealand Corporation;
- the highest cost, highest percentage of total expenditure and third fastest reducing Rebate expenditure item of all States and the Housing New Zealand Corporation.

Table 4: Financial Rankings: Real Income/Expenditure Per Dwelling: NSW Housing

Item	Rankings		
	Absolute Amounts: 2000/01	Percentage (Of Net Income Or Expenditure): 2000/01	Percentage Change 1990/91 –2000/01
1 Net Rents	***5***	***6***	***9***
2 Net Grants	7	7	7
3 Maintenance	6	7	2
4 Rates	5	6	7
5 Salaries & Employment Related	2	4	1
6 Administration & Working	5	5	8
7 Total Overhead (4+5)	3	4	2
8 Bad Debts	5	5	2
9 Net Interest	6	6	7
10 Depreciation	3	3	3
	Major Components		
11 Net Incomes	***5***	***-***	***9***
12 Operating Expenditures	3	-	4
13 Operating Surpluses/Deficits[1]	7	3	5
14 Rental Rebates	***1***	***1***	***7***

Source: Financial Statements 1990/91 – 2000/2001 Of NSW Department Of Housing and Financial Questions Return From NSW Housing To Operating Deficits Project

1 Excludes Net Interest, Depreciation, Net Grants and Rental Rebates.

4.2.2 Qualitative

Key Responses from the Operational Deficits Questionnaire

The NSW respondent, in spite of the quantitative evidence, was equivocal about the impact of tighter targeting on Net Rent Income, and was unsure about the impact of changes to income growth on Net Rents.

There have been significant changes to rent setting policies in the last three years. With regards to rents charged, the policy has moved from charging 20% of household income to 25% for tenants on a subsidy.

The rate of 25% applies to all new tenants who entered public housing after April 2000, while rents for existing tenancies (as at April 2000) have increased by 1% a year and are currently charged at 24% (these annual increases will stop at 25% in 2004).

The diversity and dispersed nature of the property portfolio has meant that maintenance costs are higher than would be the case if the portfolio was a single concentrated entity of a homogenous type and construction. Premiums are paid for maintenance on country or more complex building type properties.

Recent initiatives under a maintenance improvement project have moved the Department from using single trade contractors to multi-trade contractors. This is partly in response to increasing occupational health and safety requirements and the desire to deliver a total, seamless maintenance service to our customers without the Department becoming a building contractor coordinating single trades. This has been associated with cost increases. The maintenance backlog is currently estimated at over $600m, although large segments of the portfolio (70%) approach the ‘maintained benchmark’. The backlog has been reduced by some $150m in the last few years.

Non planned maintenance has increased substantially in the last few years. Reasons for the continued growth in responsive maintenance expenditure includes:

- the introduction of a call centre in the late 1990s helped clients more easily register maintenance concerns, particularly those requiring an immediate or priority response; and
- increasing community and client expectations.

The Department is currently investigating ways of re-invigorating the portfolio to better align with service needs and reduce overheads such as maintenance costs. This includes looking to alliances and partnerships with private capital investment funds to transform the portfolio and eliminate the stigma associated with many areas of public housing.

Council and Water Rates are a very significant cost and in 2003 represented 30.5% of Net Rental Income.

Salaries and salary related costs have increased very significantly in the last decade.

In 1999/00 the Department transferred $250m of debt to the NSW Treasury.

The Department estimated on its accounting method a Deficit of $245m in 2000/01. Based on the analysis method agreed to in this analysis the Deficit would be about $300m for the same year.

NSW Housing's Key Comments to the Productivity Commission

NSW Housing's comments to the Productivity Commission in 1996/97 and 1997/98 reflect the increasing priority being given to improving the quality and effectiveness of its service, waiting list and asset management.

In 1996/97 NSW Housing established an integrated management system, and began a process to assess the condition of its housing stock.

In 1997/98 NSW Housing commented that:

> "The focus of social housing in NSW during 1996/97 was to develop a broader social housing system and significantly improve the quality and appropriateness of housing and support services… NSW has actively implemented strategies to improve client satisfaction… these include encouraging greater tenant participation, more effective methods for dealing with maintenance issues with clients, extensive training of client support staff…."

Productivity Commission: Quality Of Service Indicators: Tenant Satisfaction and Rating of Housing Stock

A review of the Productivity Commission Effectiveness Indicators suggests that NSW Housing's efforts to improve its quality of services are at least being perceived by its tenants as succeeding, in some cases significantly. On the two main indicators, tenant satisfaction and tenants rating of housing stock condition, the proportion of tenants very satisfied increased by 13% between 1996 and 2000, whilst those dissatisfied fell by 24%.

In addition, on all five tenants ratings of housing stock, improvements were achieved, with an improvement in the 'good' rating of 19% for external structure, 23% for internal structure, 15% for appliances, 23% for security and 39% for surrounds, perhaps reflecting the effectiveness of increasing expenditure on maintenance and improvements.

4.2.3 NSW Housing: Conclusions

In the last decade NSW Housing has embraced tighter targeting through the introduction of segmented waiting lists, focused heavily on improving the quality of its estates and its asset management; and sought to more closely align its portfolio with the types of households requiring assistance. It has also sought to substantially improve the overall quality of service and support provided to its clients. NSW was, however, very late to institute changes to rent charging policies that other States had introduced much earlier.

These priorities have been reflected in:

- a long term decline in real rents per dwelling and hence Net Income per dwelling. Whilst this decline was recently arrested by changes to rent policy, an analysis of the 2001/02 accounts indicates that the changes to rent charging instituted in 2001, will fall well short of eliminating the 'core' (before Net Interest and Depreciation) Operating Deficit. Furthermore NSW is not, as yet, near saturation when it comes to Priority Allocations. Until such time as any trend to smaller households is completed and the proportion of rebated tenants and priority allocations reach saturation, the downward movement in Net Rents per dwelling can be expected to resume after 2004;
- a major reduction in the impact of Net Interest, as the debt reduction and restructuring initiatives take effect;
- rapidly rising real maintenance per dwelling, although NSW Housing estimates it has a maintenance backlog of something in excess of $600million;
- a very rapid increase in the impact of Depreciation on the operating result, as the effect of the rapid rise in Sydney values finds it's way to the bottom line;
- very high increases in Salaries and Related Expenditures as the additional and improved services add to the cost base;
- because of the Sydney housing market NSW is the State where Rebates have their greatest effect and are the greatest burden on the Operating result;
- significant improvements in tenants' ranking of both their satisfaction with the service provided and the quality of their dwelling;

It needs to be noted that NSW has moved from being the Housing Authority with the second largest Operating Surplus in 1990/91, to one where the Operating Deficit is now the third worst in the group examined. Whilst Operating Expenditure growth was just above the average of 38% real for all Authorities it has occurred in a context where Net Income has been the second hardest hit.

Notwithstanding the above, it would appear that the majority of any cost savings which can be accrued from debt reduction has already been achieved. With the anticipated maintenance backlog it is difficult to forecast how any significant cost savings will accrue from this core function in the immediate future. The same is true of Rates. With the likely future trends in Net Income, the anticipated maintenance backlog, and the current trends in overhead costs, it is probable without any change to the distribution of tenant incomes, funding parameters and cost structures, the business will soon reach a point where untied grants will not be sufficient to fund future operating deficits.

Either additional funding will need to be provided or NSW Housing will have to progressively 'cannibalise' or sell off its assets in order to fund its operating shortfalls.

It is also clear, however, that if the full cost of the NSW's community service obligation was fully recognised (i.e. the difference between market rents and income related rents was fully paid for), NSW Housing would be a very profitable business and the rate of return would exceed that obtained by many purely for profit businesses.

4.3 Housing Business Services: North Territory Department of Community Development, Sport and Cultural Affairs, (NTCDSCA).

4.3.1 Quantitative

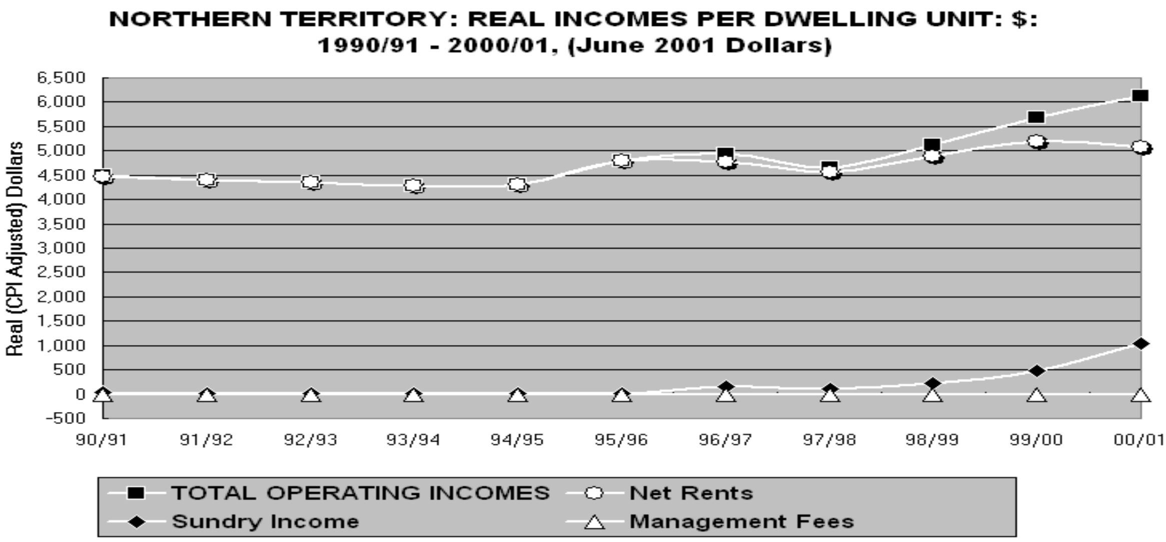
Changes in Net Incomes

Graph 28 traces real Net Income per dwelling unit over the period 1990/91 to 2000/2001.

Over the study period (1990/91 – 2001/2001), operating incomes increased in real terms from $4,503 to $6,119 or by 35%.

However, Net Rents per dwelling only increased by 13.5%, which was still substantially greater than the average for all authorities of 4.96% or less than one half of 1% per annum. The large majority of the increase was due to a substantial rise in Sundry Incomes which, whilst a recurrent item, in the case of Northern Territory Housing includes receipts from excess water use, transfer fees, valuations, processing settlement fees and gifts. The extent of future revenue from this source is therefore highly uncertain. Net Real Income Per Dwelling fell from $4,503 in 1990/91 to $4,314 in 94/95 and then increased steadily to $6,119 in 2000/01. Real Rents constituted more than 95% of annual Operating Incomes up until 1999/2000 where they fell to 83% due to the impact of the rapid growth of sundry incomes.

GRAPH 28: NT : Real Incomes Per Dwelling Unit : $: 1990/91 – 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of NT Housing Business Services, Department of Community Development, Sport and Cultural Affairs, and Financial Questions Return From NT Housing Business Services To Operating Deficits Project.

1 Includes Public, and Community and for part of the period Aboriginal Housing owned and operated by the NT Housing Business Services but excludes any dwellings headleased or leased from third parties.

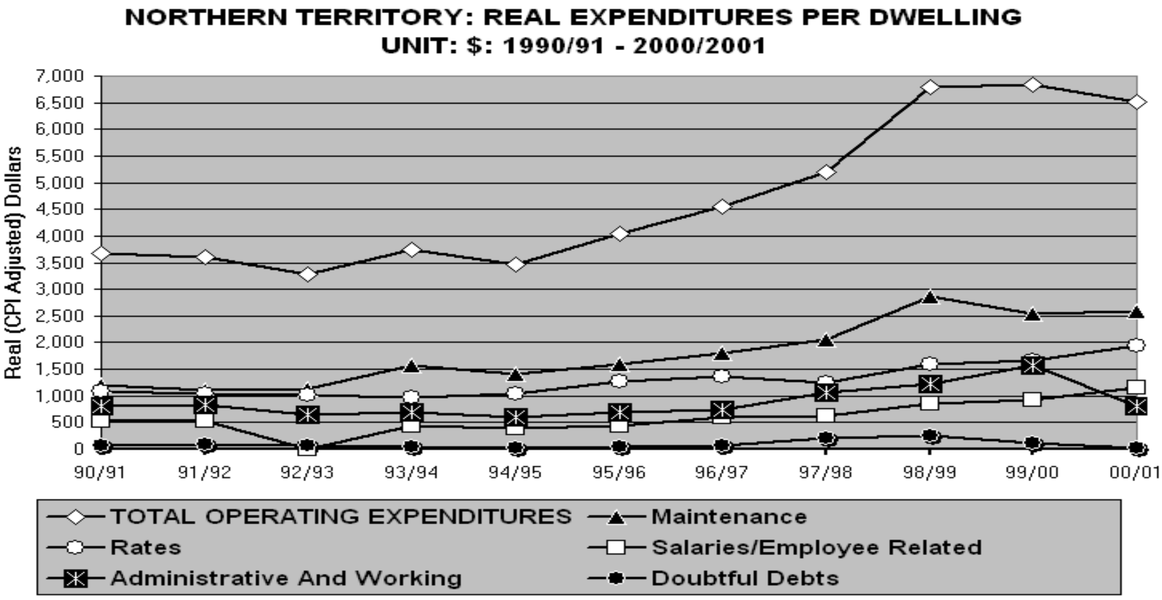
Quantitative Factors Affecting Operating Incomes

Over the study period rebated tenants increased from 43% to 80% of the total and priority crisis and emergency allocations increased from 10% of all new allocations to 47%, the third highest of all Australian States. These households rely almost entirely on pension and benefit payments. The Productivity Commission (2002) data returns on public housing suggest that there is a discernable trend to a greater proportion of both old and young single income households which will tend to reduce further the average net rent payable per dwelling.

Expenditures and Expenditure Priorities

Graph 29 sets real net expenditure per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 29: NT : Real Expenditures Per Dwelling Unit : $: 1990/91 – 2000/01

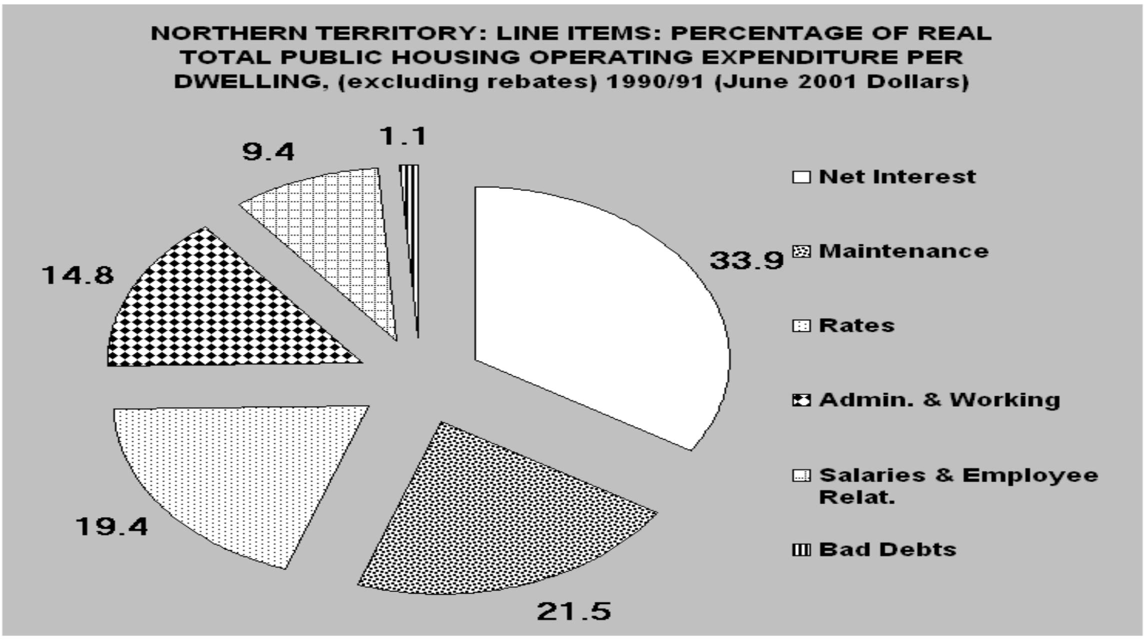


Source: Source: Financial Statements 1990/91 – 2000/2001 Of NT Housing Business Services, Department of Community Development, Sport and Cultural Affairs, and Financial Questions Return From NT Housing Business Services To Operating Deficits Project.

The graph shows that real operating expenditures per dwelling have increased from $3,670 in 1990/91 to $6,503 in 2000/01. Real increases in Maintenance and Rates outgoings has been severe, with Maintenance expenditure per dwelling increasing from $1,192 to $2,595 (117%), and Rates from $1,076 to $1,931 (79.5%). The most significant real increases in expenditure occurred in the Salaries and Employee Related item increasing from $523 per dwelling to $1,154 (or by 121%). Total overhead increased in real terms from $1,342 to $1,960 or by approximately 46%, 10% less than ACT Housing for example.

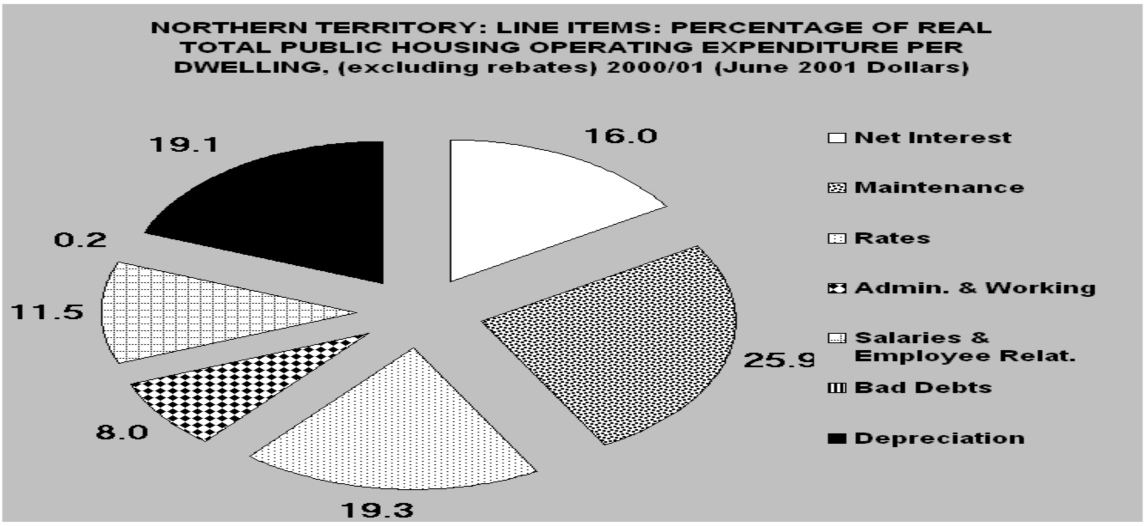
Reflecting these real changes in expenditure items, Graphs 30 and 31 set out the proportion of total operating expenditure occupied by each of the core expenditure items for the years 1990/91 and 2000/2001.

GRAPH 30: NT : Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates): 1990/91 (June 2001 Dollars)



Source: Source: Financial Statements 1990/91 – 2000/2001 Of NT Housing Business Services, Department of Community Development, Sport and Cultural Affairs, and Financial Questions Return From NT Housing Business Services To Operating Deficits Project.

GRAPH 31: NT : Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 2000/01 (June 2001 Dollars)



Source: Source: Financial Statements 1990/91 – 2000/2001 Of NT Housing Business Services, Department of Community Development, Sport and Cultural Affairs, and Financial Questions Return From NT Housing Business Services To Operating Deficits Project.

The graphs show how the proportion of the Northern Territory housing's authority's total expenditure per dwelling for each item (including Depreciation and Net Interest) has changed over the decade. It should be noted that NT Housing has only been provisioning for depreciation since the financial year 2000/2001 so the results are somewhat distorted by this factor.

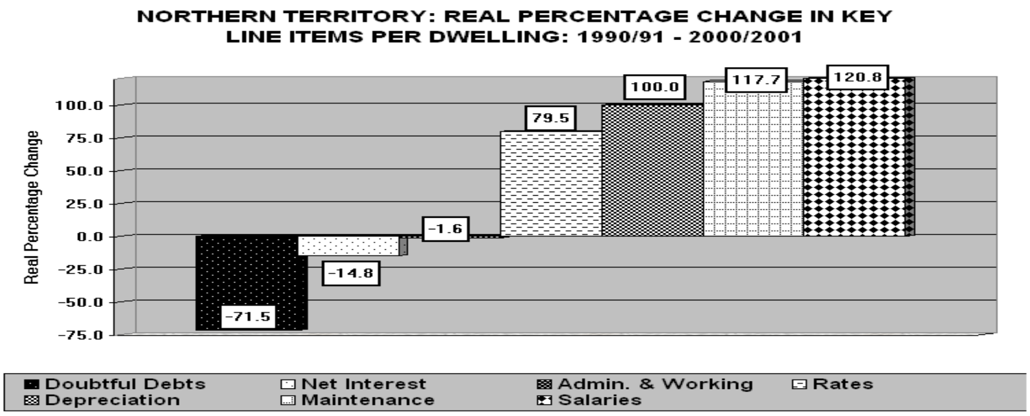
The proportions of total expenditure absorbed by Net Interest (down from 33.9% to 16%) and Administration and Working Items (down from 14.8% to 8.0%) have declined dramatically. This is also true of bad debts which have fallen from 1.1% to 0.2% of total expenditure.

Most other items have remained relatively constant as a proportion of total expenditure, although the real amount per dwelling spent on most items (with the exception of Administration and Working Items) has grown rapidly.

The Rates proportion has declined slightly from 19.4% to 19.3%, whilst Salaries and Employee Related expenses has increased from 9.4% to 11.5% of the total.

By far the greatest change in proportions has occurred in Maintenance which has increased from 21.5% to 25.9% of total operating expenditures. The Northern Territory spends more on maintenance than on any single item of expenditure, and spends more than a third more on this item than on the next largest item, Rates.

GRAPH 32: NT : Real Percentage Change in Key Line Items Per Dwelling: 1990/91 – 2000/01



Source: Source: Financial Statements 1990/91 – 2000/2001 and Financial Questions Return to Operating Deficits Project of NT Housing Business Services, Department of Community Development, Sport and Cultural Affairs

Graph 32 reflects the findings outlined earlier, viz. very significant real declines in the cost per dwelling for Doubtful Debts and Interest, and major real percentage increases in Maintenance, Rates and Salaries etc.

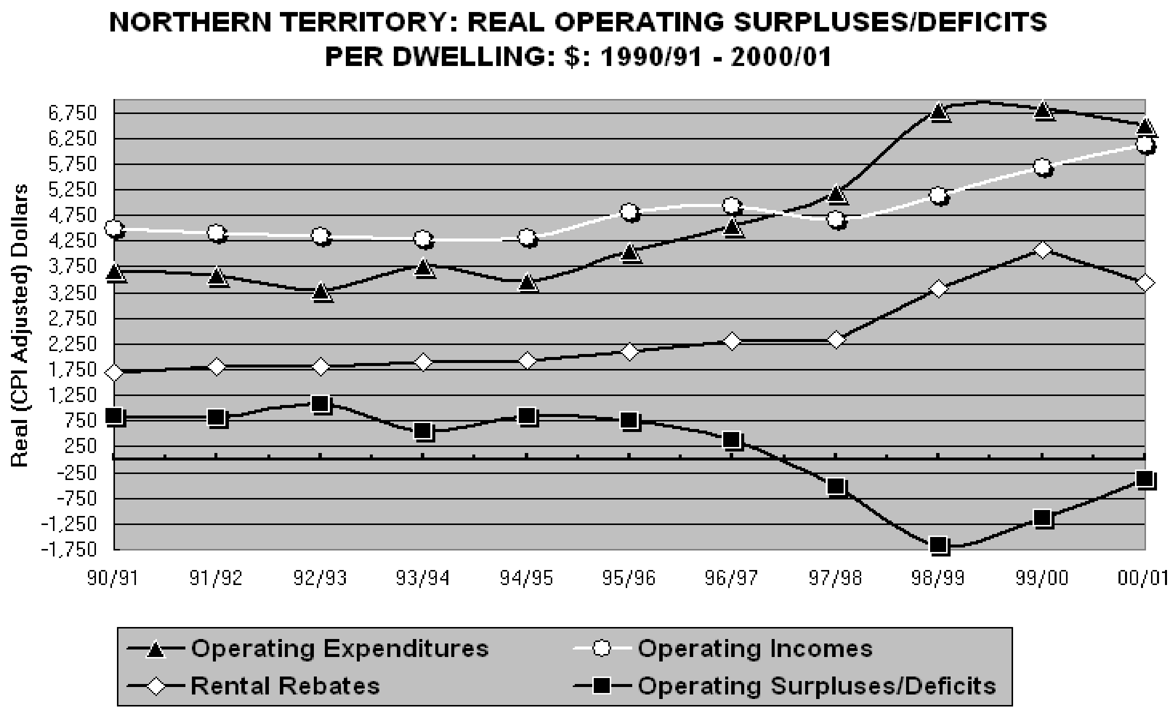
Operating Income, Expenditure and Surplus/Deficits

Graph 33 sets out the trends in Operating Surpluses/Deficits excluding Net Interest and Depreciation.

In 1990/91 the Northern Territory produced a real surplus per dwelling (excluding Net Interest and Depreciation) of $833, and between 1990/91 and 1992/93 this increased to $1,069. From 1992/93 these surpluses declined until in 1996/97 the last recent recorded surplus of $368 occurred. In 1997/98 and 1998/99 real Expenditures increased rapidly (from $4,559 in 1996/97 to $6,795 in 1998/99), whilst Real Incomes only increased slightly (from $4,927 to $5121) and the operating deficit blew out to $1,674 per dwelling.

Due to some slight reductions in real expenditures per dwelling and a substantial increase in real incomes, in both 1998/99 and 1999/2000 the real deficit per dwelling fell back to $385 per dwelling in 2000/2001.

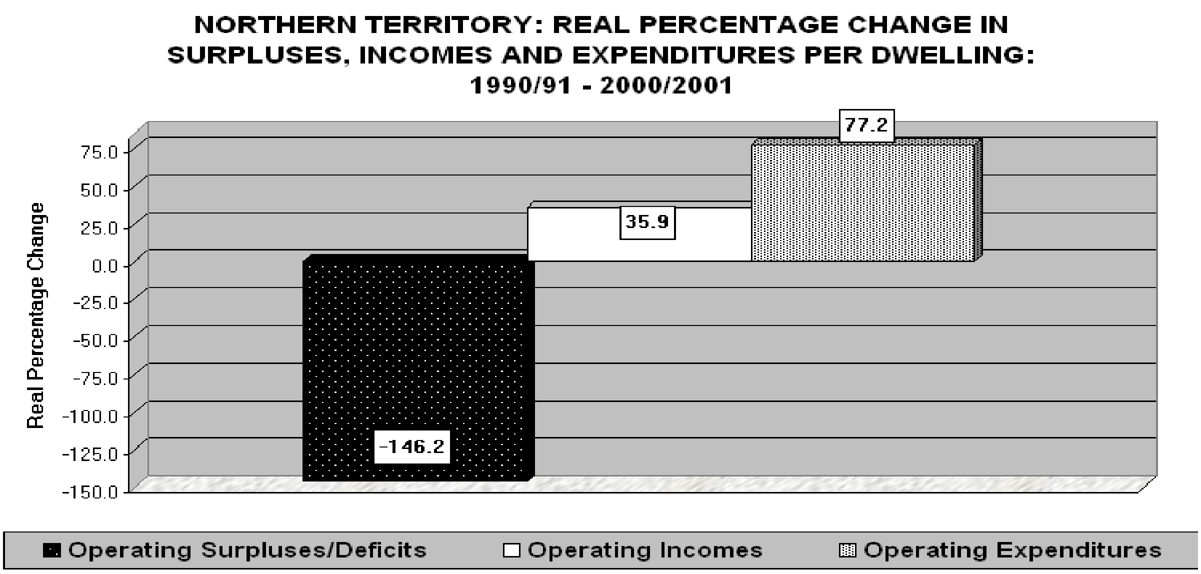
GRAPH 33: NT : Real Operating Surpluses/Deficits Per Dwelling: $: 1990/91 – 2000/01



Source: Source: Financial Statements 1990/91 – 2000/2001 Of NT Housing Business Services, Department of Community Development, Sport and Cultural Affairs, and Financial Questions Return From NT Housing Business Services To Operating Deficits Project.

Graph 34 sets out the real percentage change in Operating Incomes, Expenditures and Deficits.

GRAPH 34: NT : Real Percentage Change in Surpluses, Incomes and Expenditures Per Dwelling: 1990/91 – 2000/01



Source: Source: Financial Statements 1990/91 – 2000/2001 Of NT Housing Business Services, Department of Community Development, Sport and Cultural Affairs, and Financial Questions Return From NT Housing Business Services To Operating Deficits Project.

To summarize, real Operating Incomes (net of grants and interest earned) increased by a substantial 35% or approximately 3.5% per annum, but real Operating Expenditures grew by more than double that amount (77%), resulting in deficit growth of 146% over the full period.

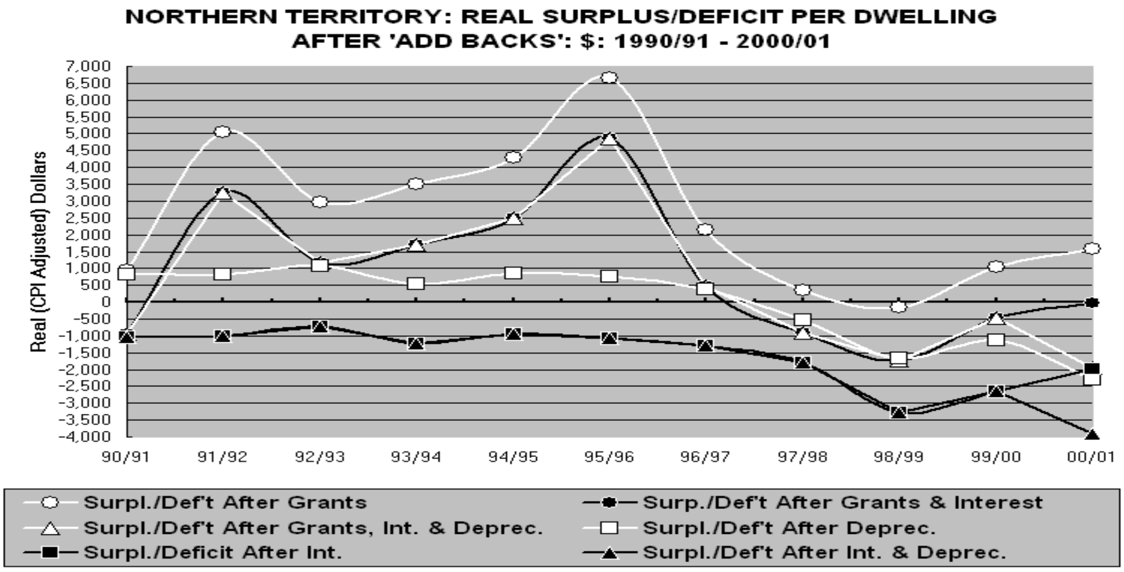
Impact of Net Interest and Depreciation

Graph 35 sets out the impact of Net Interest and Depreciation on the Operating Surplus/Deficit, with Depreciation only being provisioned in 2000/2001.

If the impact of Depreciation is left out of the analysis it is clear from the Graph 35 that the impact of interest costs have declined moderately over the decade. In 1990/91 Net Interest moved the real operating result from surplus to deficit by nearly $2,000 per dwelling.

In 2000/2001 however, Net Interest added $1,604 to the expenditure line increasing the Operating Deficit from -$385 to -$1,989 or by 15% of the shift that occurred a decade earlier.

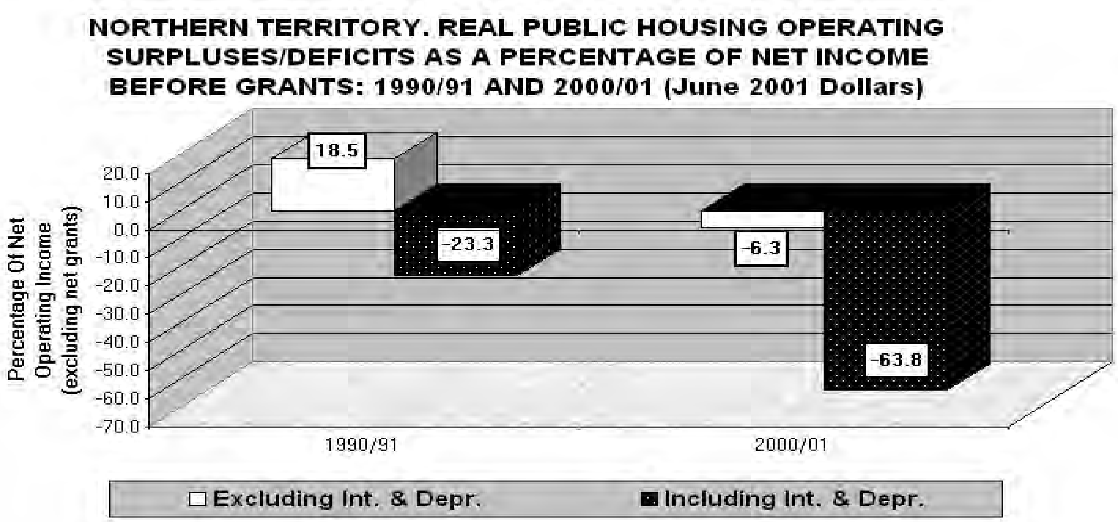
GRAPH 35: NT : Real Surplus/Deficit Per Dwelling After 'Add Backs' : $: 1990/91 – 2000/01



Source: Source: Financial Statements 1990/91 – 2000/2001 Of NT Housing Business Services, Department of Community Development, Sport and Cultural Affairs, and Financial Questions Return From NT Housing Business Services To Operating Deficits Project.

Graph 36 sets out the operating deficits as a proportion of net income 'before' and 'after' Net Interest and Depreciation.

GRAPH 36: NT : Real Public Housing Operating Surpluses/Deficits as a Percentage of Net Income Before Grants: 1990/91 and 2000/01 (June 2001 Dollars)



Source: Source: Financial Statements 1990/91 – 2000/2001 Of NT Housing Business Services, Department of Community Development, Sport and Cultural Affairs, and Financial Questions Return From NT Housing Business Services To Operating Deficits Project.

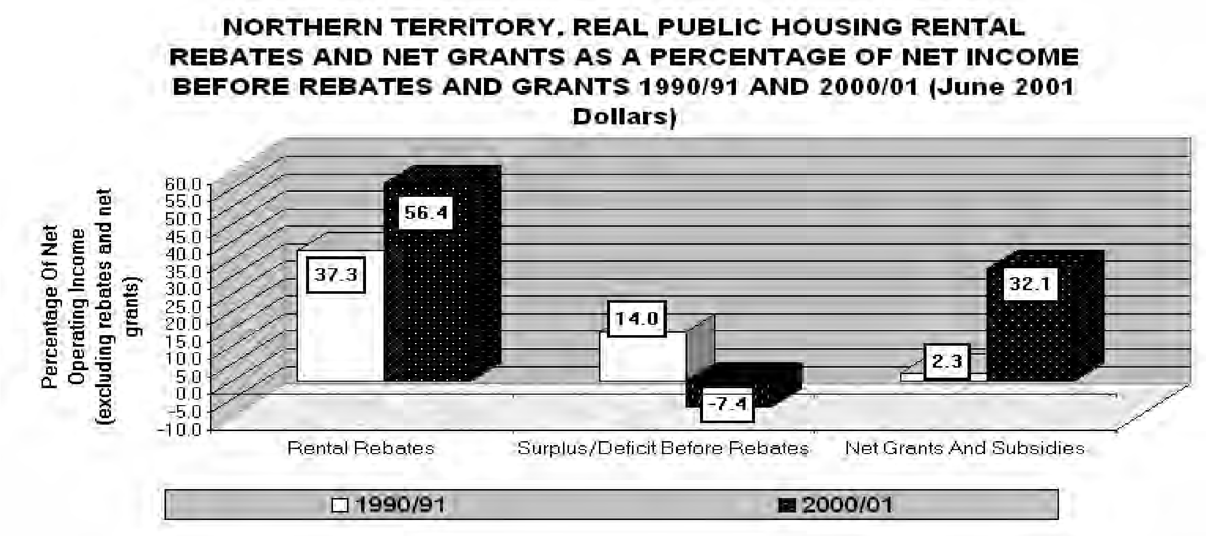
Once Depreciation is recognised, the impact of Net Interest and Depreciation is very significant, being almost three times that which occurred in 1990/91.

The Importance of Rebates and Grants

Contrary to the ACT, real average Rental Rebates per dwelling have grown significantly from $1,679 in 1990/91 to $3,449 in 2000/01. Similarly, Net Grants applied to public housing have increased very rapidly, from just over $100 to almost $2,000 ($1,965) per annum, although this is still substantially less than for Rebates.

Graph 37 sets out Rental Rebates and Grants as a proportion of Net Income before Grants.

GRAPH 37: NT : Real Public Housing Rental Rebates and Net Grants as a Percentage of Net Income Before Rebates and Grants 1990/91 and 2000/01 (June 2001 Dollars)



Source: Source: Financial Statements 1990/91 – 2000/2001 Of NT Housing Business Services, Department of Community Development, Sport and Cultural Affairs, and Financial Questions Return From NT Housing Business Services To Operating Deficits Project.

The graph clearly shows that the impact of Rental Rebates has increased substantially and is now equivalent to more than 50% of Net Incomes. Even after adding back Net Interest and with the recent introduction of depreciation, if rebates were received as a cash payment, Northern Territory housing would be left with an operating deficit similar to that which applies before interest and Depreciation.

In the case of the Northern Territory, recognising the real cost of the Community Service Obligation, plus reducing the Net Interest cost by about 50%, would ensure the continued viability of the sector.

In 1990/91, Net Grants and Subsidies represented only 2.3% of the Net Income (before grants), whilst in 2000/01 this figure had climbed to 32.1%.

Key Comparators 2000/01: the Northern Territory Compared to Other States.

Table 5 sets out the rankings of NT Housing Business Services, by each line item and indicator.

Six important conclusions emerge from this analysis, viz NT Housing Business Services has;

- the highest cost and fastest growing Maintenance expenditure item of all States and the Housing New Zealand Corporation;
- the highest cost and fastest growing Rates expenditure item of all States and the Housing New Zealand Corporation;
- the highest cost Depreciation expenditure item of all States and the Housing New Zealand Corporation;

- the highest and fastest growing Net Income of all States and the Housing New Zealand Corporation;
- the highest cost and fastest growing Operating Expenditure of all States and the Housing New Zealand Corporation;
- the second smallest percentage and third slowest growing Overhead expenditure of all States and the Housing New Zealand Corporation;
- the lowest cost, lowest percentage of total expenditure and fastest reducing Bad Debts expenditure item of all States and the Housing New Zealand Corporation.

Table 5: Financial Rankings: Real Income/Expenditure Per Dwelling: NT Housing Business Services

Item	Rankings		
	Absolute Amounts: 2000/01	**Percentage (Of Net Income Or Expenditure): 2000/01**	**Percentage Change 1990/91 –2000/01**
1 Net Rents	1	9	2
2 Net Grants	6	6	6
3 Maintenance	***1***	***4***	***1***
4 Rates	***1***	***2***	***1***
5 Salaries & Employment Related	3	8	2
6 Administration & Working	2	8	9
7 Total Overhead (4+5)	***2***	***9***	***7***
8 Bad Debts	***9***	***9***	***9***
9 Net Interest	1	3	2
10 Depreciation	1	6	5
	Major Components		
11 Net Incomes	***1***	***-***	***1***
12 Operating Expenditures	***1***	***-***	***1***
13 Operating Surpluses/Deficits[1]	5	5	3
14 Rental Rebates	2	8	1

Source: Source: Financial Statements 1990/91 – 2000/2001 Of NT Housing Business Services, Department of Community Development, Sport and Cultural Affairs, and Financial Questions Return From NT Housing Business Services To Operating Deficits Project.

1 Excludes Net Interest, Depreciation, Net Grants and Rental Rebates.

4.3.2 Qualitative

Key Responses from the Operational Deficits Questionnaire

The Northern Territory respondent indicated that the Territory did not move to a strict targeted based approach until the later part of the decade (1998). This was primarily due to NT Housing's role in providing accommodation for public servants. However, the respondent indicated average household incomes had declined in recent years and that aged and single households were increasing rapidly, thereby reducing the net rents received.

The Territory has been through two major changes to rent setting policies in the decade each of which progressively moved tenants towards paying 25% of their income in rent. These changes coincided with the significant rise in net rents from 1998/99 on.

NT Housing is intent on restructuring both geographically and by dwelling type the asset base to more closely reflect the changes in demand patterns which have emerged.

From 1998 on, Maintenance requirements were outsourced to the Northern Territory Department of Transport and Works and NT Housing had no effective control of expenditure for this item until the end of 2001 when the function was returned. The difficulty of obtaining skilled contractors in many areas and the high cost of obtaining materials means a strong competitive tender process for maintenance work is almost impossible to achieve, with the consequent impact on maintenance costs. Because a large part of the stock was completely rebuilt after the hurricane in 1975, only responsive maintenance was conducted for much of the 1990s. Cyclical maintenance programs have only been reintroduced in recent times.

Rates are seen as a very significant cost which is increasing rapidly in both nominal and real terms.

Of great concern to the Territory respondents was the continuing burden of Net Interest payments, which in 2000/2001 approximated 26.3% of Net Income. At the time of the interview in March 2003, officers were engaged in an extensive exercise examining options for restructuring the debt.

The call upon resources to fund more intensive tenancy management has continued to grow and increased targeting to those most in need has meant that more effort is being devoted to ensure linkages with appropriate support services. In the last decade there has been significant increases in Salary and Related expenses, and Administration and Working costs.

It is anticipated that whilst the Territory has arrested the rise in Operational Deficits through recent changes in rent charging policy if real rates of cost growth continue, these deficits will grow substantially in the foreseeable future.

NT Housing Business Service's Key Comments to the Productivity Commission

NT Housing Business Service's comments to the Productivity Commission in 1996/97 and 1997/98 reflect the impact of diversity on costs, with the geographically dispersed population, the absence of a private rental market in many areas, low home ownership rates and a high public housing presence all applying additional pressure to expenditures.

In 1996/97 NT Housing Business Services commented that:

> "It is encouraging to note the continual monitoring and improvements in tenancy and maintenance management has meant that administration costs per dwelling are below the national average… and The Report shows good turnaround times, low rental arrears…

Productivity Commission: Quality of Service Indicators: Tenant Satisfaction and Rating of Housing Stock

A review of the Productivity Commission Effectiveness Indicators suggests that NT Housing Business Service's efforts to improve its quality of services is at least being perceived by its tenants as successful. On the main indicator, tenant satisfaction, the proportion of tenants very satisfied increased by 15% between 1996 and 2000, whilst those dissatisfied fell by 23.5%.

In addition on all of the tenants ratings of housing stock improvements were achieved, with an improvement in the 'good' rating of 14.6% for external structure, 61.3% for internal structure, 31.3% for appliances, 8.5% for security and 55.1% for surrounds, perhaps reflecting the effectiveness of the asset restructuring undertaken.

4.3.3 NT Housing Business Services: Conclusions

Similar to the ACT, in the last decade NT Housing Business Services has embraced tighter targeting through the introduction of segmented waiting lists, engaged in a simultaneous effort to restructure its portfolio of dwellings and to improve its services to its clients, and has focused on reducing debt servicing required by the organisation. One substantial difference is the focus on rent charging policy in the last five years. These priorities have been reflected in the following outcomes:

- there has been a substantial real increase in Net Rents received per dwelling with almost all of the 13.5% real increase occurring in the last three years since the major change to rent charging policy;
- similar to the ACT, however, the decline in Net Rents per dwelling can be expected to resume until such time as any trend to smaller households is completed and the proportion of rebated tenants and priority allocations reach saturation;
- an increase has occurred in Sundry Income, and it is uncertain if the income from the individual items which make up Sundry Income can be maintained in the future;
- as a consequence, it is very probable that the rate of growth of NT Housing's Net Incomes (currently the fastest in Australia) will slow considerably over the next five years;
- whilst the very high and rapidly growing Maintenance expenditure per dwelling is partially due to the special geographic, labour market, and demand characteristics in the Northern Territory, it may also be partially due to the outsourcing arrangement that persisted until the end of 2001, and since this arrangement has been reversed, it is possible that the rate of Maintenance expenditure per dwelling may not grow in the future as rapidly as the recent past;
- significant improvements have occurred in tenants' ranking of both their satisfaction with the service provided and the quality of their dwelling;
- whilst Total Overhead costs are not growing as rapidly as in many other Housing Authorities, they have been expanding off a very high base, and currently are the second highest in Australia and New Zealand;
- the combination of the fastest growing Maintenance and Rates costs per dwelling and the second largest Total Overhead, means that real Operating Expenditures per dwelling are growing faster than in any other Housing Authority and twice as fast as Real Incomes;
- whilst the relative importance of interest payments as a component of expenditure has halved in the last decade, it still represents a very substantial cost.

With the likely future trends in Net Income, current trends in Maintenance, Rates and Overhead similar to the ACT, it is probable without any change to the distribution of tenant incomes, funding parameters and cost structures, the business will soon reach a point where untied grants will not be sufficient to fund operating deficits. Either additional funding will need to be provided or NT Housing Business Services will have to sell stock ('cannibalise' its assets) to fund its operating shortfalls.

Two developments would ensure the longer term viability of NT Housing. If the full cost of the Territory Housing's community service obligation was fully recognised (i.e. the difference between market rents and income related rents was fully funded), and the Net Interest bill was reduced by about 35%, NT Housing Business Service's Operating Deficit would become an equivalent surplus. If funding was maintained on that basis, Northern Territory Housing would likely operate at a profit for the foreseeable future.

4.4 Housing New Zealand Corporation (HNZC).

It should be noted that the results obtained for the Housing New Zealand Corporation should be treated with caution for two reasons:

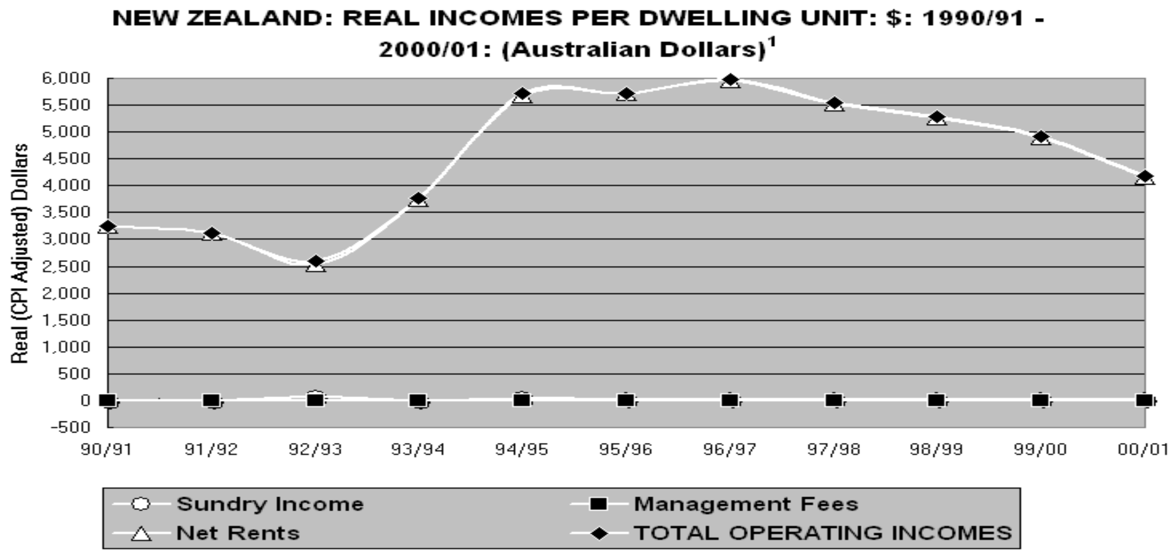
- in the last decade the Corporation has been through three major stages and two restructurings, moving from a social housing provider to a purely commercial entity and then back to a social housing provider, and;
- the currency conversion adjustment to Australian dollars has tended to slightly distort the developing trends.

4.4.1 Quantitative

Changes in Net Incomes

Graph 38 traces real Net Income per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 38: NZ: Real Incomes Per Dwelling Unit: $: 1990/91 – 2000/01 (Australian Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Housing New Zealand Corporation to Operating Deficits Project.

Reserve Bank of New Zealand web site, http://rbnz.govt.nz/statistics/exandint/index.html

Includes Public and Community Housing owned and operated by Housing New Zealand Corporation but excludes any dwellings headleased or leased from third parties.

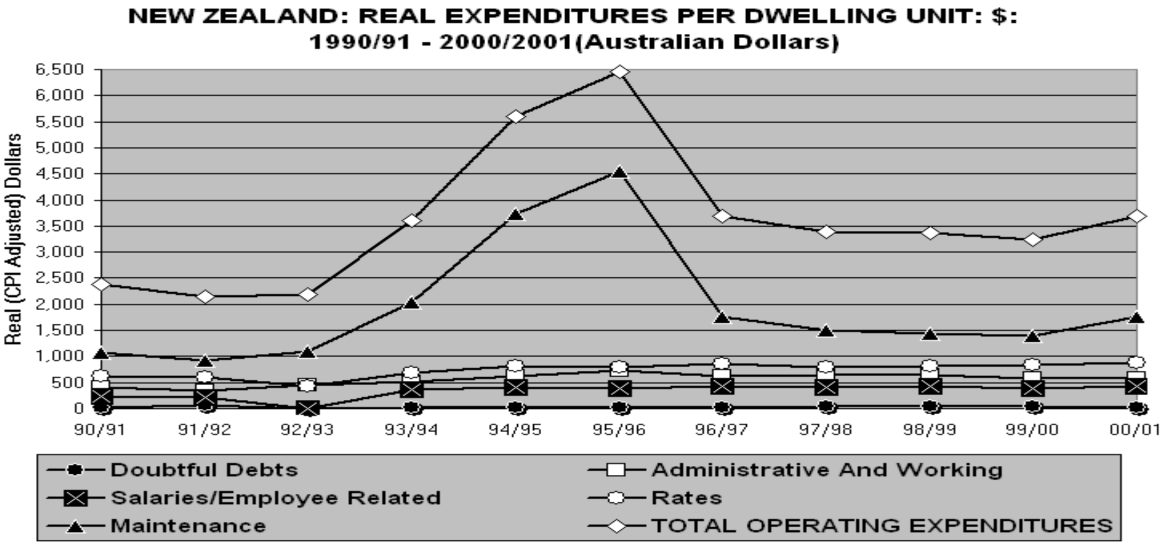
The per dwelling cost derived from the Financial Accounts for each year has been converted to Australian Dollars at the prevailing daily exchange rate applying at 11am on the 30th June each year. The amounts so adjusted have been then adjusted by the same CPI factor as has been applied to the rest of the Australian Housing Authorities figures.

HNZC'S Operating Incomes are almost entirely the result of net rents with Sundries and Management Fees only contributing very small amounts. Whilst the Corporation (or its predecessor) was primarily a social housing provider in the early years of the decade, real Net Rents fell from, $3,251 per dwelling in 1990/91 to 2,528 in 1992/93. With the move to a commercial entity and the charging of full market rents, Net Rents received increased rapidly to 1996/97 where they levelled off at almost $6,000 per dwelling. From 1997/98 real Net Rents began to gradually decline, and the last year of the study period when income related rents were reintroduced, fell by nearly 15% to $4,180.

Expenditures and Expenditure Priorities

Graph 39 sets out real net expenditure per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 39: NZ: Real Expenditures Per Dwelling Unit : $: 1990/91 – 2000/01 (Australian Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Housing New Zealand Corporation to Operating Deficits Project

1 Includes Public and Community Housing owned and operated by the Housing New Zealand Corporation but excludes any dwellings headleased or leased from third parties.

The graph shows that real operating expenditures per dwelling have increased from $2,376 in 1990/91 to $3,679 in 2000/01. Leaving aside Depreciation, by far the most significant real increases in expenditure occurred in Salaries and Employee Related expenses and Maintenance, with the former increasing from $243 per dwelling to $435 (or by 79%) and the latter from $1,079 to $1,766 (or by 63.7%). Two factors should be noted, however. First, there was a very large increase in Maintenance expenditure in the middle of the decade, which subsequently fell sharply. Whilst officers of HNZC could not clarify that this was expenditure in the nature of upgrading and improvements it is probable that this is the case. Secondly, whilst the growth in expenditure in Salaries and Related expenses is substantial, it is off the lowest base of all the Housing Authorities.

Notwithstanding the above, there was also substantial additional real growth in the cost per dwelling for both Administration and Working and Rates with the former increasing from $407 per dwelling to $580 and the latter from $628 to $871.

Expenditure on Net Interest fell dramatically, but off the highest level of all Housing Authorities, from $2,485 to $1,443 per dwelling. Reflecting these real changes in expenditure items, Graphs 40 and 41 set out the proportion of total operating expenditure occupied by each of the core expenditure items for the years 1990/91 and 2000/2001.

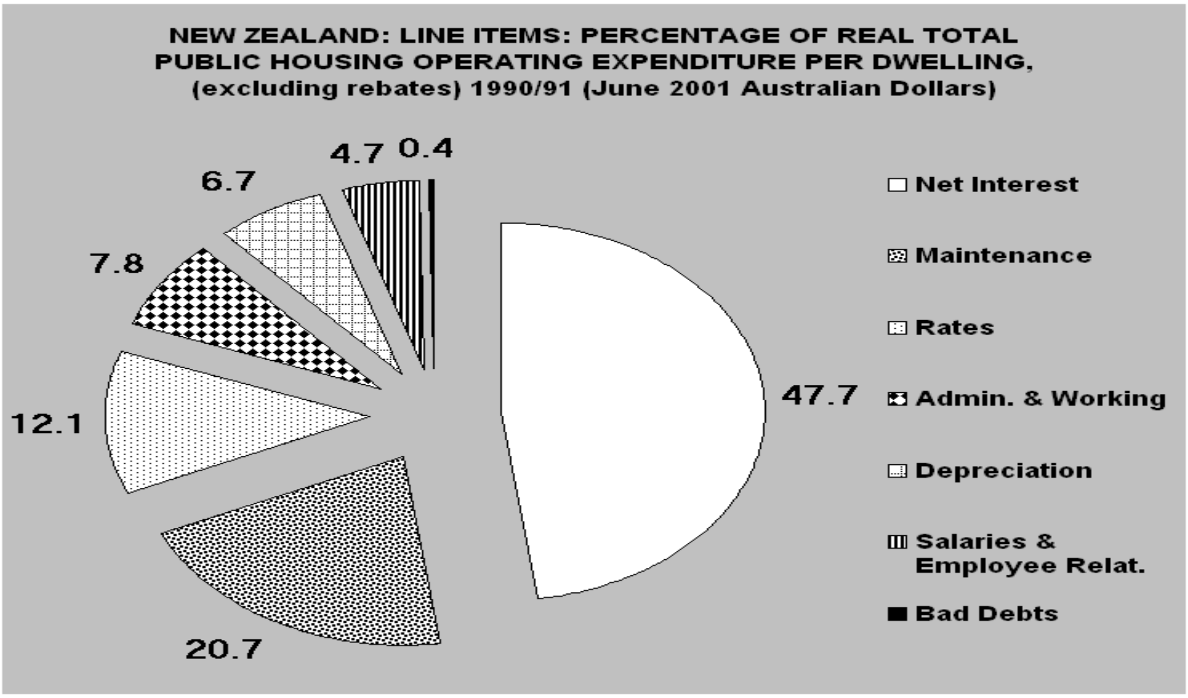
The graphs show how the proportion of the HNZC's total expenditure per dwelling for each item (including Depreciation and Net Interest) has changed over the decade.

The proportion of total expenditure absorbed by Net Interest (down from 47.7% to 22.1%), has declined dramatically but is still the largest proportion of total expenditure for all Housing Authorities.

Maintenance expenditure has increased significantly as a proportion of total expenditures per dwelling, increasing from 20.7% to 27.1%, with Rates growing modestly, from 12.1% to 13.4%.

As outlined in the analysis of expenditure item growth, by far the greatest change in proportions has occurred in Salaries and Salary Related expenses and Depreciation, with the former increasing from 4.7% to 13.4% of total operating expenditures, and the later increasing from 6.7% to 14.7%. HNZC spends as much on Salaries etc. as on Rates.

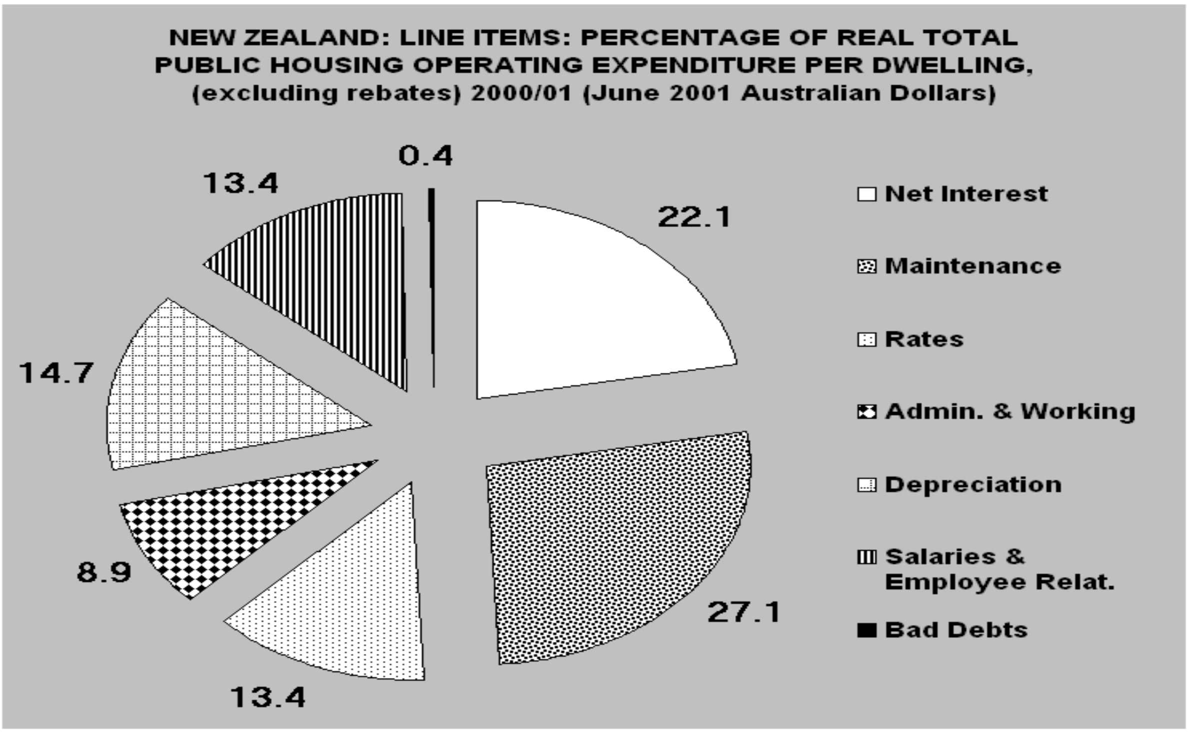
GRAPH 40: NZ: Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 1990/91 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Housing New Zealand Corporation to Operating Deficits Project

1 Includes Public and Community Housing owned and operated by the Housing New Zealand Corporation but excludes any dwellings headleased or leased from third parties.

GRAPH 41: NZ: Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 2000/01 (June 2001 Australian Dollars)

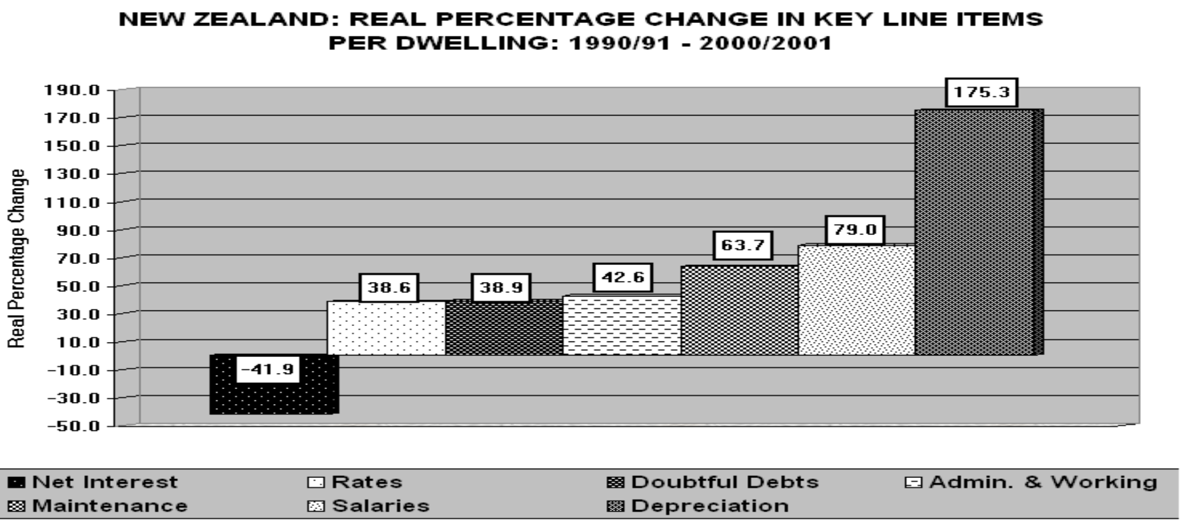


Source: Financial Statements 1990/91 – 2000/2001 Of Housing New Zealand Corporation to Operating Deficits Project

1 Includes Public and Community Housing owned and operated by the Housing New Zealand Corporation but excludes any dwellings headleased or leased from third parties.

Graph 42 sets out the real percentage change in the costs of key line items.

GRAPH 42: NZ: Real Percentage Change in Key Line Items Per Dwelling: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of Housing New Zealand Corporation to Operating Deficits Project

1 Includes Public and Community Housing owned and operated by the Housing New Zealand Corporation but excludes any dwellings headleased or leased from third parties.

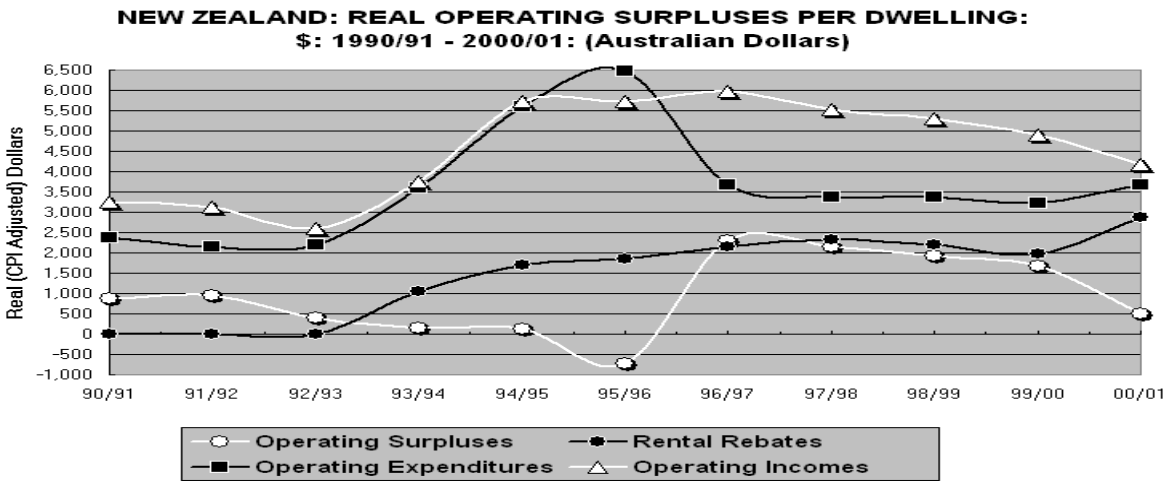
The graph reflects the findings outlined earlier, viz. very significant real declines in the cost per dwelling for Net Interest, still significant changes in Rates, Doubtful Debts and Administration and Working Items and major real percentage increases in Maintenance, Salaries etc. and Depreciation.

Operating Income, Expenditure and Surplus/Deficits

Graph 43 sets out the trends in Operating Surpluses/Deficits, excluding Net Interest and Depreciation.

In 1990/91, HNZC produced a real surplus per dwelling (excluding Net Interest and Depreciation) of $874, which steadily declined until 1995/96 when an Operating Deficit of -$737 per dwelling was recorded, probably due to the very large maintenance expenditures during that time. From that time, surpluses increased substantially, peaking at $2,294 per dwelling in the very next year. Thereafter, surpluses have declined, and fell by two thirds in the last year, to $501, due to the move to the Income Related Rent policy. Real Expenditures have increased substantially over the study period (from $2,376 to $3,679) and incomes per dwelling have also grown significantly, to $4,180, although given the profound financial impact of the various policy changes not a great deal can be concluded about the future financial health of the organisation on the basis of past financial trends.

GRAPH 43: NZ: Real Operating Surpluses Per Dwelling: $: 1990/91 – 2000/01: (Australian Dollars)

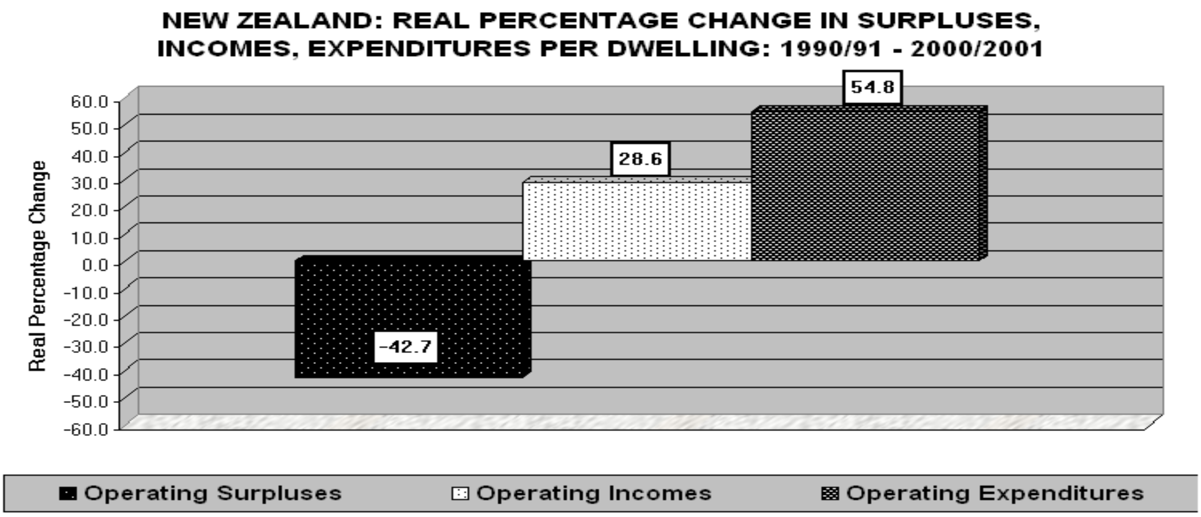


Source: Financial Statements 1990/91 – 2000/2001 Of Housing New Zealand Corporation to Operating Deficits Project

1 Includes Public and Community Housing owned and operated by the Housing New Zealand Corporation but excludes any dwellings headleased or leased from third parties.

Graph 44 sets out the real percentage change in Operating Incomes, Expenditures and Deficits.

GRAPH 44: NZ: Real Percentage Change in Surpluses, Incomes, Expenditures Per Dwelling: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of Housing New Zealand Corporation to Operating Deficits Project

1 Includes Public and Community Housing owned and operated by the Housing New Zealand Corporation but excludes any dwellings headleased or leased from third parties.

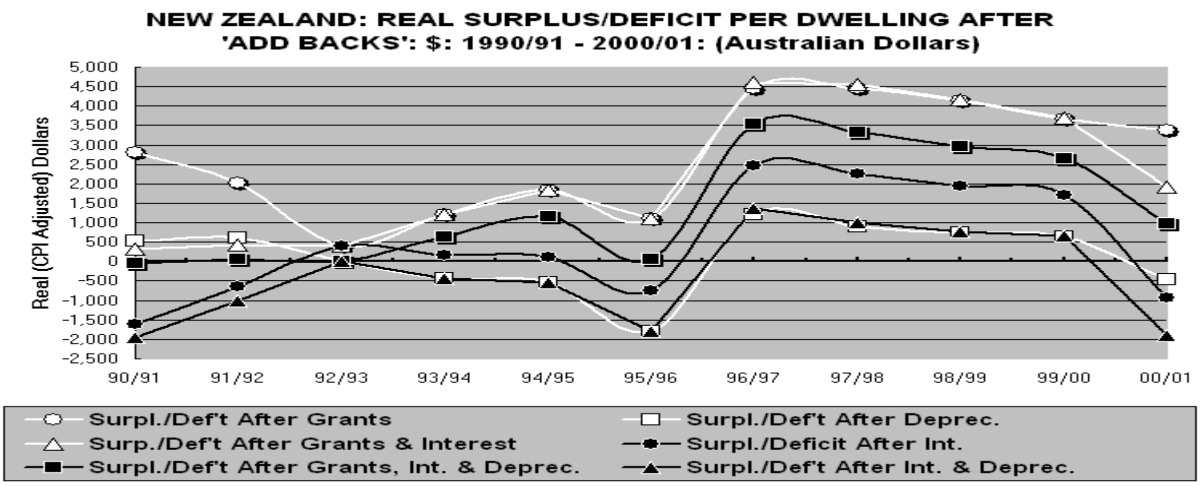
To summarize, real Operating Incomes (net of grants and interest earned) increased by 28%, whilst real Operating Expenditures grew by approximately 55% or nearly double, resulting in a reduction of the surplus of –42.7%.

Impact of Net Interest and Depreciation

Graph 45 sets out the impact of Net Interest and Depreciation on the Operating Surplus/Deficit.

It is clear from the Graph 45 that the impact of interest costs and Depreciation have declined significantly over the decade. In 1990/91, Net Interest moved the real operating result from a Surplus of $874 to a deficit by approximately -$1,600 per dwelling. Depreciation added a further –$350 to the deficit, increasing it after interest from -$1,611 to -$1,959 per dwelling. In 2000/2001, however, Net Interest added $1,443 to the expenditure line, and Depreciation some $960 moving the smaller Operating Surplus of $501 to a Deficit of -$942. However, the more than two thirds growth in Depreciation means that the Real Deficit was similar to 1990/91 at -$1,902.

GRAPH 45: NZ: Real Surplus/Deficit Per Dwelling After 'Add backs' : $: 1990/91 – 2000/01 (Australian Dollars)

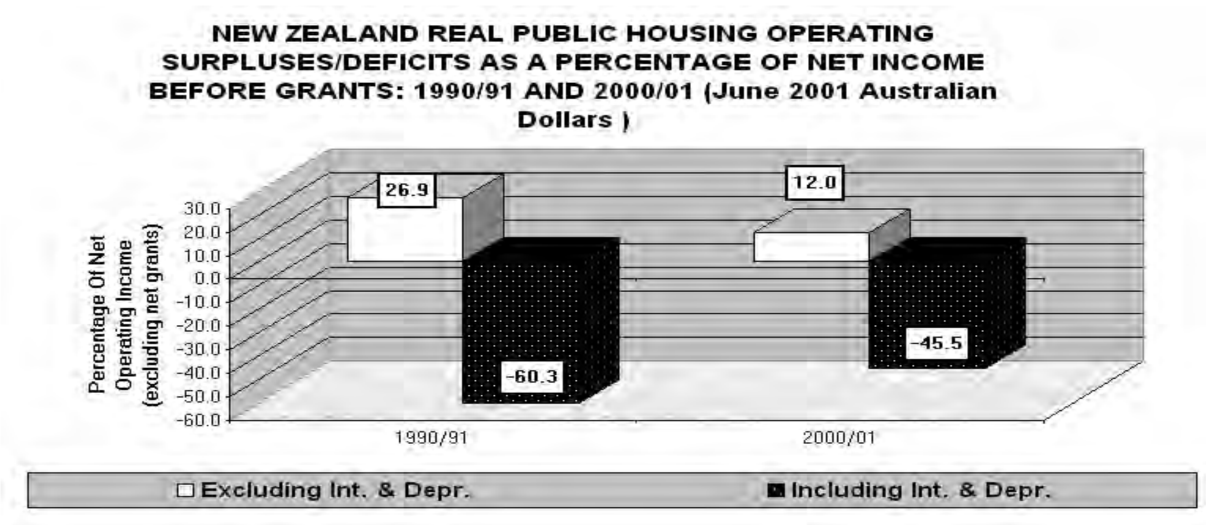


Source: Financial Statements 1990/91 – 2000/2001 Of Housing New Zealand Corporation to Operating Deficits Project

1 Includes Public and Community Housing owned and operated by the Housing New Zealand Corporation but excludes any dwellings headleased or leased from third parties.

Graph 46 sets out the operating deficits as a proportion of net income 'before' and 'after' Net Interest and Depreciation in the two years.

GRAPH 46: NZ Real Public Housing Operating Surpluses/Deficits as a Percentage of net Income Before Grants: 1990/91 and 2000/01 (June 2001 Australian Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Housing New Zealand Corporation to Operating Deficits Project

1 Includes Public and Community Housing owned and operated by the Housing New Zealand Corporation but excludes any dwellings headleased or leased from third parties.

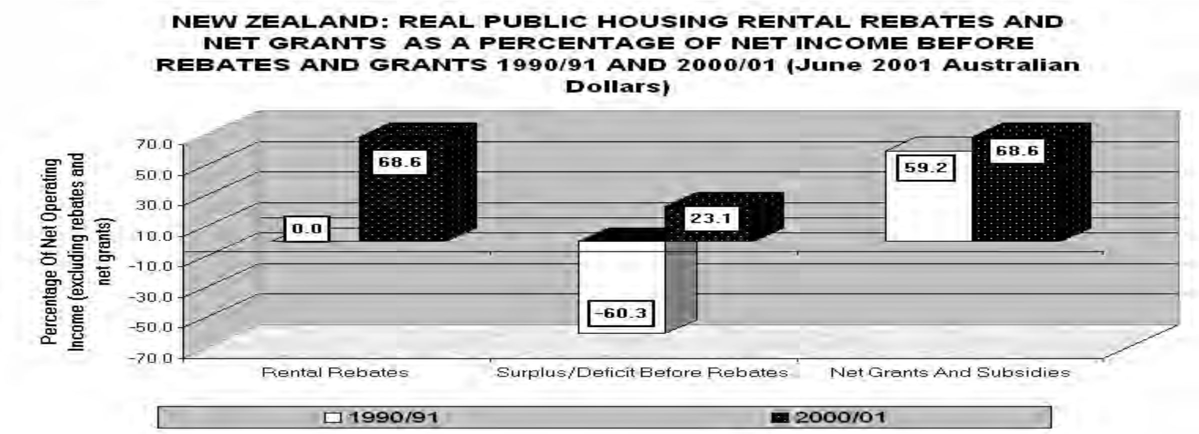
These results reinforce the earlier comments on the impact of Net Interest and Depreciation. These latter expenditure components are still important – however, while they had nearly a 90% impact on the Operating Deficit in 1990/91, in 2000/2001, they 'merely' added about 60% to the Deficit as a percentage of net income.

The Importance of Rebates and Grants

The issue of Rebate growth is difficult to assess because of the market rent regime that persisted for much of the decade. To ensure consistency in the analysis the Accommodation Supplements received by public tenants and paid to HNZC have been treated as rebates, and in years where both some portion of Accommodation Supplements and actual Rebates were available to tenants the total of the two have been treated as Rebates. Similarly, the only significant grant that HNZC receives is the cash payment for the amount of the Rebate. Therefore, in 2000/01 Net Grants and Rebates are the same. On this basis Real average Rental Rebates per dwelling have actually increased significantly from $1,061 in 1993/94 to $2,867 in 2000/01.

Graph 47 sets out Rental Rebates and Grants as a proportion of Net Income before Grants.

GRAPH 47: NZ: Real Public Housing Rental Rebates and Net Grants as a Percentage of Net Income before Rebates and Grants 1990/91 and 2000/01 (June 2001 Australian Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Housing New Zealand Corporation to Operating Deficits Project

1 Includes Public and Community Housing owned and operated by the Housing New Zealand Corporation but excludes any dwellings headleased or leased from third parties.

It can be seen that the cash payment of the difference between market rents and income related rents ensures that HNZC generates a healthy Operating Surplus of almost $1,000 per dwelling that would be regarded as a very satisfactory return on capital. Combined with the capital gain in the main geographic areas where HNZC operates, this would provide a respectable double digit annual rate of return.

Key Comparators 2000/01: HNZC Compared to Other Australian Housing Authorities.

Table 6 sets the rankings of HNZC, by each line item and indicator.

Table 6: Financial Rankings: Real Income/Expenditure Per Dwelling: Housing New Zealand Corporation

Item	Rankings		
	Absolute Amounts: 2000/01	Percentage (Of Net Income Or Expenditure): 2000/01	Percentage Change 1990/91 –2000/01
1 Net Rents	3	1	1
2 Net Grants	2	4	2
3 Maintenance	2	2	4
4 Rates	7	9	2
5 Salaries & Employment Related	9	7	3
6 Administration & Working	6	7	6
7 Total Overhead (4+5)	***9***	***6***	***5***
8 Bad Debts	8	8	7
9 Net Interest	2	1	5
10 Depreciation	7	7	2
	Major Components		
11 Net Incomes	3	-	2
12 Operating Expenditures	6	-	2
13 Operating Surpluses/Deficits[1]	***1***	***1***	***2***
14 Rental Rebates	5	5	1

Source: Financial Statements 1990/91 – 2000/2001 Of Housing New Zealand Corporation to Operating Deficits Project

1 Includes Public and Community Housing owned and operated by the Housing New Zealand Corporation but excludes any dwellings headleased or leased from third parties.

1 Excludes Net Interest, Depreciation, Net Grants and Rental Rebates.

Four important conclusions emerge from this analysis, viz HNZC has;

- the largest Operating Surplus, the largest Surplus as a proportion of Net Income, and the second fastest growing Operating Surplus;
- the second largest cost, greatest percentage of total expenditure and fifth fastest growing Net Interest expenditure item of all Housing Authorities;
- the lowest cost Salaries etc. of all the Housing Authorities;
- the lowest cost, and third lowest percentage of total expenditure, Total Overhead expenditure item of all Housing Authorities.

4.4.2 Qualitative

Key Responses from the Operational Deficits Questionnaire

The Chief Executive Officer indicated that since the introduction of income related rents, HNZC had introduced a segmented waiting list of four needs classifications. HNZC was then in the process of moving from an unrationed system based on market rents to one where tight rationing was increasingly required.

At the time of the interview in March 2003, some 95% of applicants being housed were receiving some form of rebate. Of these 80% were crisis or priority cases, according to HNZC definitions.

Prior to the introduction of income related rents, some 60% of HNZC's tenants were paying more than 30% of their income in rent. The new rent policy is that every household is charged the lesser of market rents or 25% of household income, with all stock annually benchmarked to market rents. There I, however a maximum income, above which tenants cannot receive a rebate, i.e. they must pay market related rents.

Over the years of commercialisation a major mismatch emerged between the type and location of dwellings arising from the household type and location of applicants and the profile of HNZC's stock. As a consequence, HNZC was engaged in a significant program of asset restructuring.

In addition, HNZC Corporation has a three-year program of modernisation of bathrooms, painting and papering, and because very few dwellings in New Zealand are brick the painting bill is substantial. Housing New Zealand has estimated that it should spend approximately NZ$1billion modernizing some 50% of its portfolio. In 2002, HNZC purchased 1800 social housing units from Auckland City Council that were originally funded with subsidized finance in the 1960s and 1970s, and over the next five years will redevelop and modernise the stock. In addition, on the basis of demand forecasting undertaken in 2002, HNZC forecast that it would probably need an additional 13,000 (after disposals) dwellings over a nine year period to house priority applicants on the waiting list, at approximately 1,600 per annum. Cabinet support for separate capital funding would need to be obtained to meet these requirements.

Officers of HNZC have suggested that the upturn in real Operating Expenditures since 1999/00 (Graphs 43) is due to the additional functions (Policy, Research and Evaluation; Partnerships; Home Ownership and Lending; Development Planning) and new capital programmes (Community Renewal, Rural Housing, Healthy Housing) HNZC has established as part of its expanded social housing role. The Corporation goes on to suggest that these growth trends in overhead costs which have been experienced are entirely due to the expanded range of responsibilities that the Corporation has taken on, but we have been unable to determine from the analysis if any other factors may have contributed to the rate of cost growth.

The Corporation is engaged in a major restructuring of its debt portfolio where it is converting all external debt to Crown debt and will, with NZ Treasury's approval, swap some equity for debt in order to gear the acquisition program. This process can be supported because of the anticipated full cash flow from market related rents (i.e. the income related rents charged tenants supplemented by the government's subsidy that brings revenue up to market rent levels).

4.4.3 Housing New Zealand Corporation: Conclusions

In the last two years HNZC has embraced income related rents, tighter targeting through the introduction of segmented waiting lists, engaged in a simultaneous effort to restructure and improve its portfolio of dwellings, embarked on a significant acquisition program, improved its services to its clients and has focused on restructuring its debt.

With Executive Government support it is embarking on a major improvement and expansion of its dwelling stock, and with debt servicing underpinned by the NZ Government's commitment to fully fund the difference between market rents and income related rents, is gearing its activities to accelerate capital improvements and acquisitions.

Whilst the impacts of these changes have yet to be felt for its core business, HNZC has the best financial result before any grants and subsidies (not including Net Interest and Depreciation).

It is difficult to draw any major Income conclusions about the future from the past because the new funding and rent regime has only been in play for about two years. However, based on the evidence of the past, it can be anticipated that cash flows from market related rents, will not necessarily be steady in their progression, and may be somewhat volatile in the future, increasing rapidly at some times and falling in others. Such uncertainties will require careful management of the expenditure side of the operations.

Whilst it is difficult to estimate Income behaviour, the trends in costs are not encouraging with costs increasing by 54.8% real per dwelling over the last decade. These growth trends will need to be arrested if HNZC objectives for expansion and modernisation are to be met. Particular attention will need to be paid to Salaries and Wages, Maintenance and Administration and Working Items which are growing rapidly. That being said, HNZC has the lowest overhead of all authorities, which is less than 40% of the highest Overhead expenditure in the group.

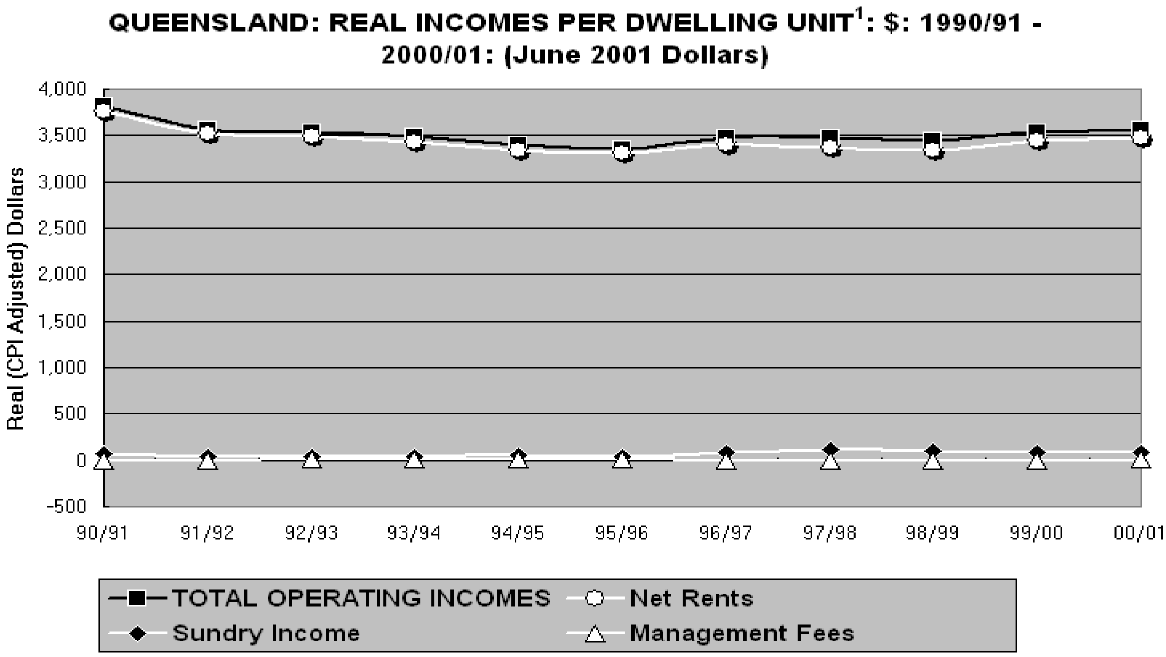
4.5 Queensland

4.5.1 Quantitative

Changes in Net Incomes

Graph 48 traces real Net Income per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 48: QLD: Real Incomes Per Dwelling Unit: 1990/91 – 2000/01: (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Queensland Department of Housing, (QDH), and Financial Questions Return From QDH To Operating Deficits Project

1 Includes Public and Aboriginal Housing owned and operated by the QDH but excludes any dwellings headleased or leased from third parties.

Over the study period (1990/91 – 2000/2001), operating incomes fell substantially in real terms from $3,820 to $3,569 or by approximately $250 per dwelling. Net Rents per dwelling fell by a significant 7.5%. Net Real Incomes Per Dwelling fell steadily for five years to $3,360 in 1995/96 and then increased steadily. Real Rents constituted approximately 98% of annual Operating Incomes throughout the decade.

Quantitative Factors Affecting Operating Incomes

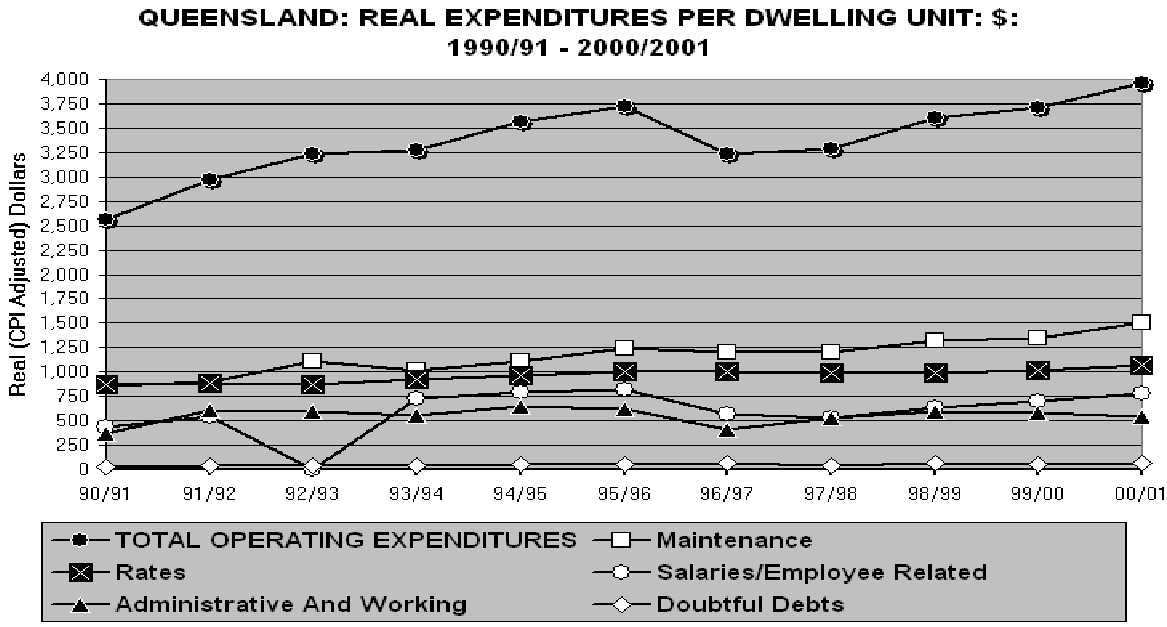
Before 1994/95 Queensland operated a rent charging policy that was based on 30% of income up to a maximum rent of $200 per week or market rent (if market rent less than $200). In 1994 Queensland introduced a new policy which required payments of 21.5% of income up to the first $300 income and then 26% of income up to market rent.

This had the effect of substantially reducing the rent paid in that year. Although no figures were kept on rebates prior to 1994, by 2000/01 Queensland had the highest proportion of tenants receiving rebates with 9 out 10 tenants obtaining this concession.

Expenditures and Expenditure Priorities

Graph 49 sets out real net expenditure per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 49: QLD: Real Expenditure Per Dwelling Unit: $: 1990/91 – 2000/01

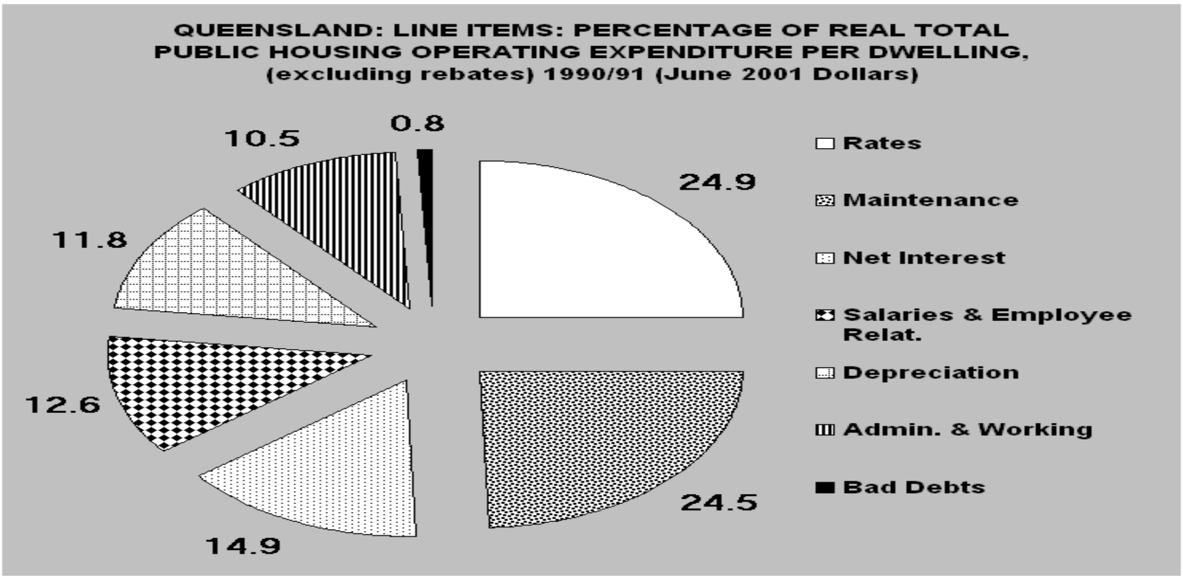


Source: Financial Statements 1990/91 – 2000/2001 Of Queensland Department of Housing, (QDH), and Financial Questions Return From QDH To Operating Deficits Project

The graph shows that real operating expenditures per dwelling have increased from $2,559 in 1990/91 to $3,955 in 2000/01. Real increases in Rates outgoings has been moderate with Rates expenditure per dwelling increasing from $870 to $1,068 (22.7%). For the larger items, by far the most significant real increases in expenditure occurred in the Depreciation, Salaries and Employee Related expenses and Maintenance items with Depreciation increasing from $410 per dwelling to $1,465 (or by 257%), Salaries etc., increasing from $441 to $781, or by 77.2% (although comparatively this was off a very low base figure). Maintenance increased from $855 to $1,501 (or by 75.6%). Total overhead increased in real terms from $807 to $1,324 or by approximately 64%.

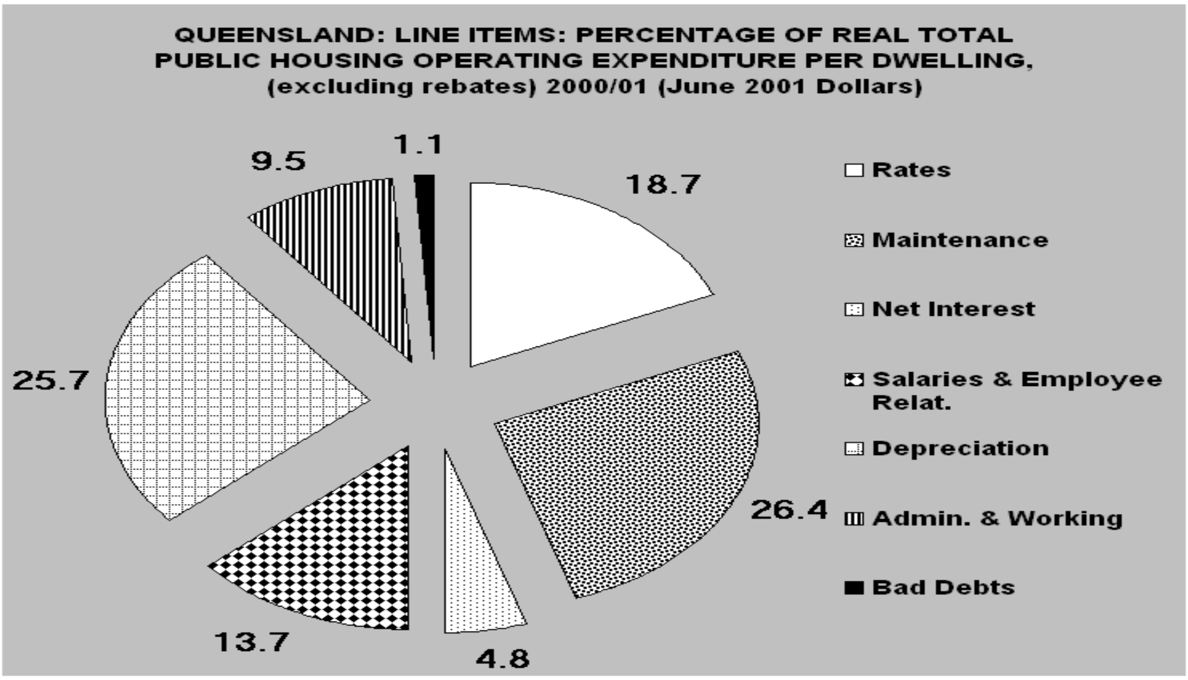
Reflecting these real changes in expenditure items, Graphs 50 and 51 set out the proportion of total operating expenditure accounted for by each of the core expenditure items for the years 1990/91 and 2000/2001.

GRAPH 50: QLD: Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 1990/91 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Queensland Department of Housing, (QDH), and Financial Questions Return From QDH To Operating Deficits Project

GRAPH 51: QLD : Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 2000/01 (June 2001 Dollars)



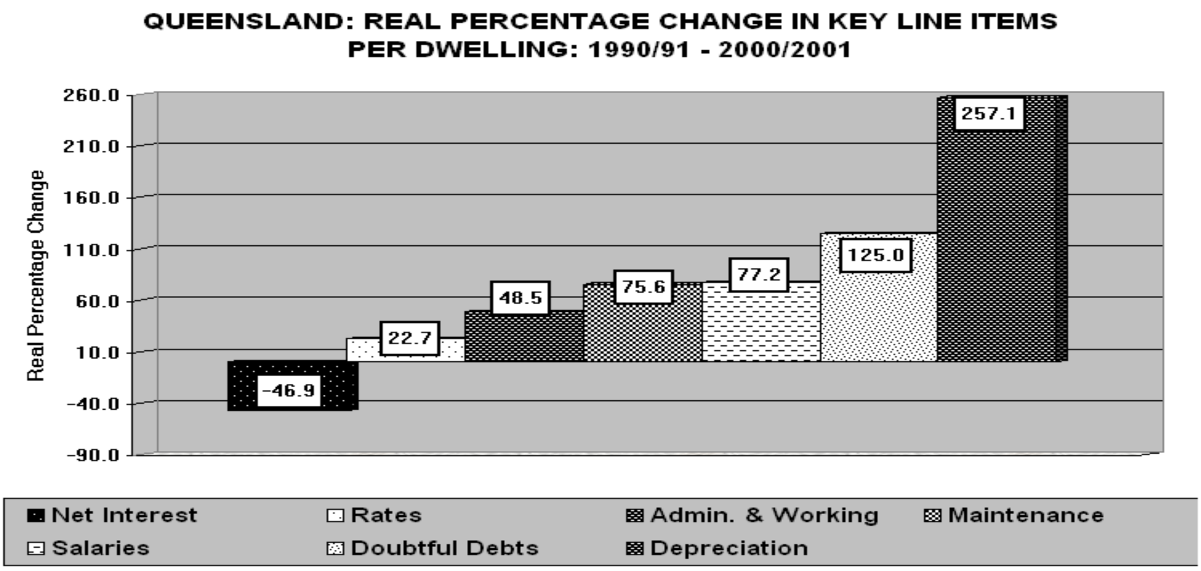
Source: Financial Statements 1990/91 – 2000/2001 Of Queensland Department of Housing, (QDH), and Financial Questions Return From QDH To Operating Deficits Project

The graphs show how the proportion of the QDoH's total expenditure per dwelling for each item (including Depreciation and Net Interest) has changed over the decade. The proportion of total expenditure absorbed by both Net Interest (down from 14.9% to 4.8%), and Rates (down from 24.9% to 18.7%) has declined dramatically.

Administration and Working Expenditure has declined slightly (from 10.5% to 9.5%), whilst Bad Debts has increased slightly in absolute terms but by 38%, (from 0.8% to 1.1%). As outlined in the analysis of expenditure item growth, by far the greatest change in proportions has occurred in Depreciation increasing from 11.8% to 25.7 of total operating expenditures. Salaries have only increased slightly in percentage terms from 12.6% to 13.7%. Maintenance now absorbs 27% of QDoH's total expenditure on public housing, having increased slightly from 24.5%.

Graph 52 sets out the real percentage change in the costs of key line items.

GRAPH 52: QLD: Real Percentage Change in Key Line Items Per Dwelling: 1990/91 – 2000/01



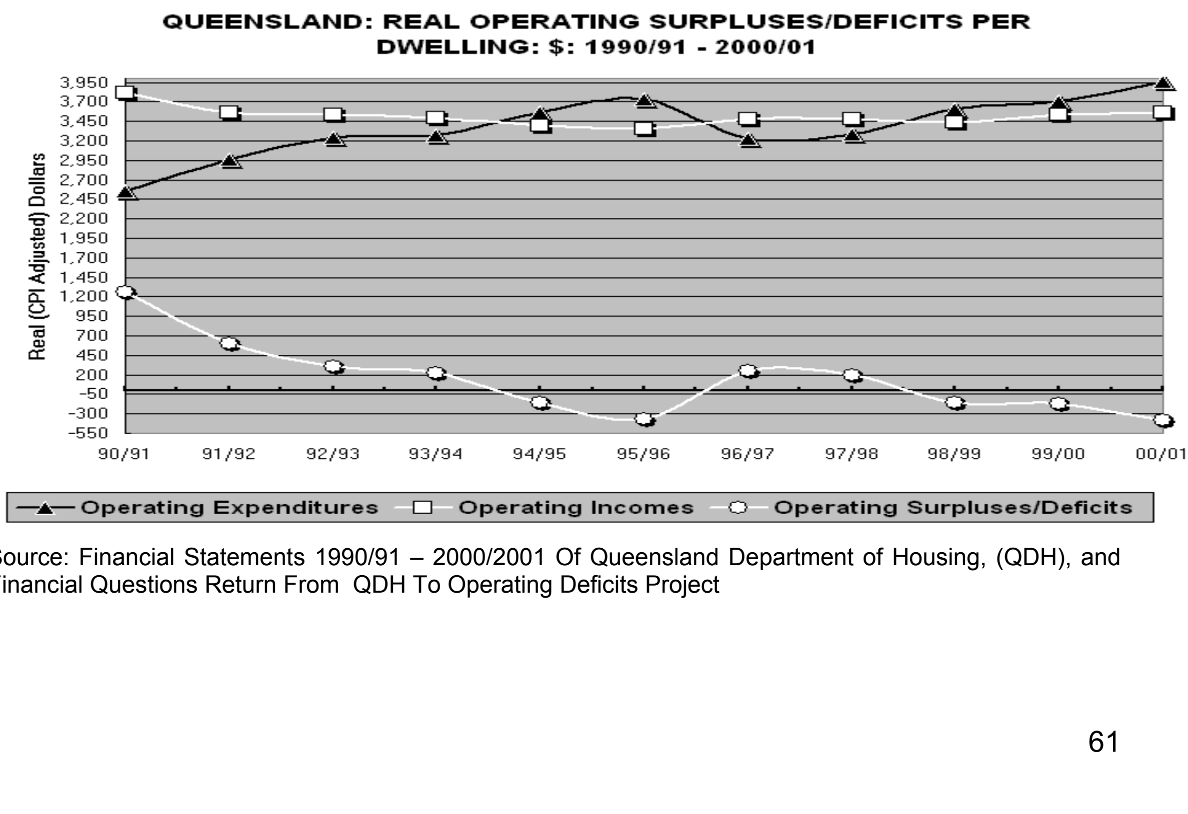
Source: Financial Statements 1990/91 – 2000/2001 Of Queensland Department of Housing, (QDH), and Financial Questions Return From QDH To Operating Deficits Project

The graph reflects the findings outlined earlier, viz. a very significant real decline in the cost per dwelling for Net Interest, moderate changes in Rates and Administration and Working Items, and major real percentage increases in Maintenance, Salaries and related expenses, and Depreciation.

Operating Income, Expenditure and Surplus/Deficits

Graph 53 sets out the trends in Operating Surpluses/Deficits excluding Net Interest and Depreciation.

GRAPH 53: QLD: Real Operating Surpluses/Deficits Per Dwelling: $: 1990/91 – 2000/01



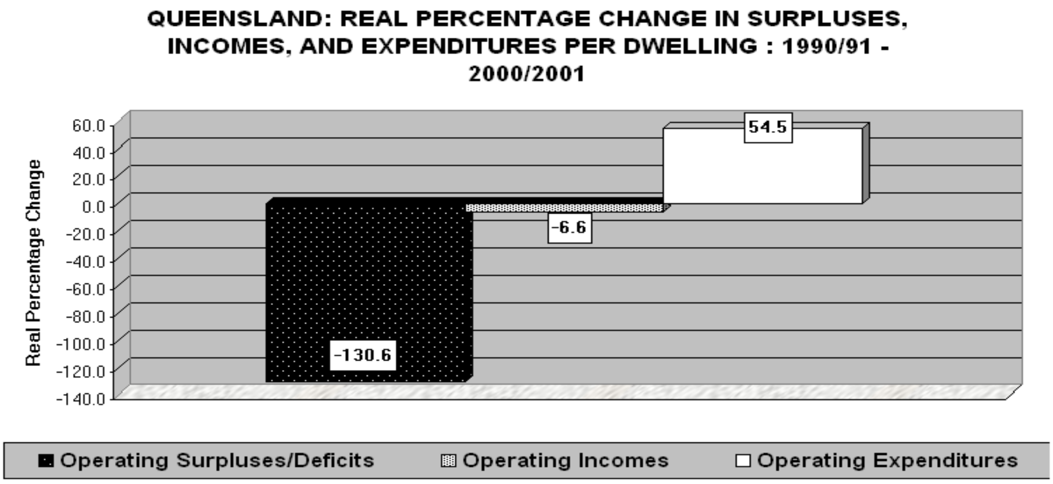
Source: Financial Statements 1990/91 – 2000/2001 Of Queensland Department of Housing, (QDH), and Financial Questions Return From QDH To Operating Deficits Project

In 1990/91 the QDoH produced a real surplus per dwelling (excluding Net Interest and Depreciation) of nearly $1,300, which fell steadily until 1994/95 when the first small deficit of -$161 was recorded. Thereafter, with the exception of 1996/97 and 1997/98 when surpluses were recorded, deficits have increased from -$160 to -$380 per dwelling.

Real Expenditures increased substantially (from $2,559 to $3,955) and Net Incomes per dwelling fell steadily from $3,820 to $3,569, which produced a deficit in 2000/01 of -$386.

Graph 54 sets out the real percentage change in Operating Incomes, Expenditures and Deficits.

GRAPH 54: QLD : Real Percentage Change in Surpluses, Incomes and Expenditures Per Dwelling: 1990/91 – 2000/01



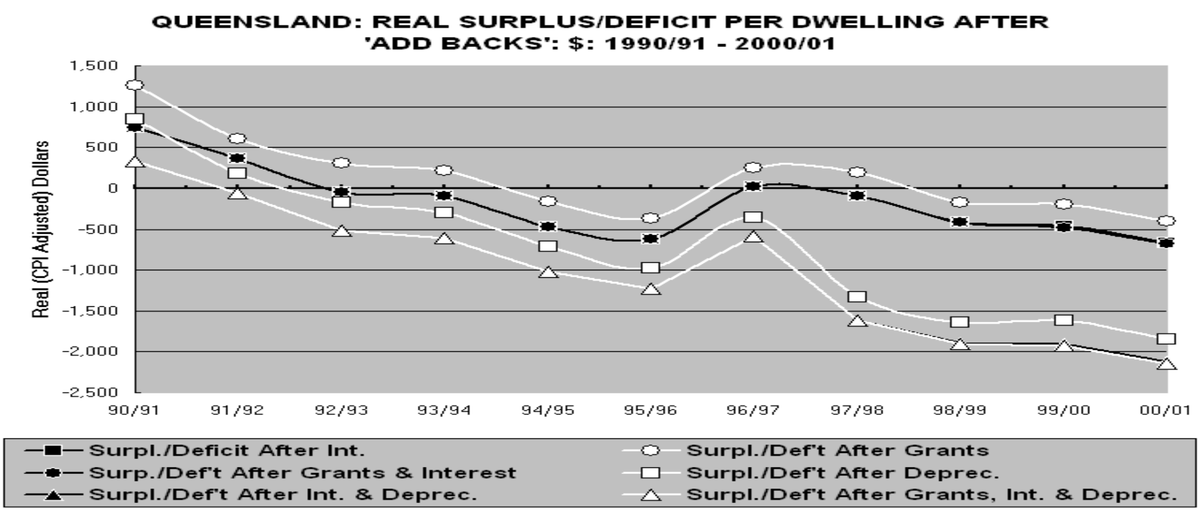
Source: Financial Statements 1990/91 – 2000/2001 Of Queensland Department of Housing, (QDH), and Financial Questions Return From QDH To Operating Deficits Project

To summarize, real Operating Incomes (net of grants and interest earned) decreased by –6.6%, whilst real Operating Expenditures grew by 54.5%, resulting in a deficit growth of 130%.

Impact of Net Interest and Depreciation

Graph 55 sets out the impact of Net Interest and Depreciation on the Operating Surplus/Deficit.

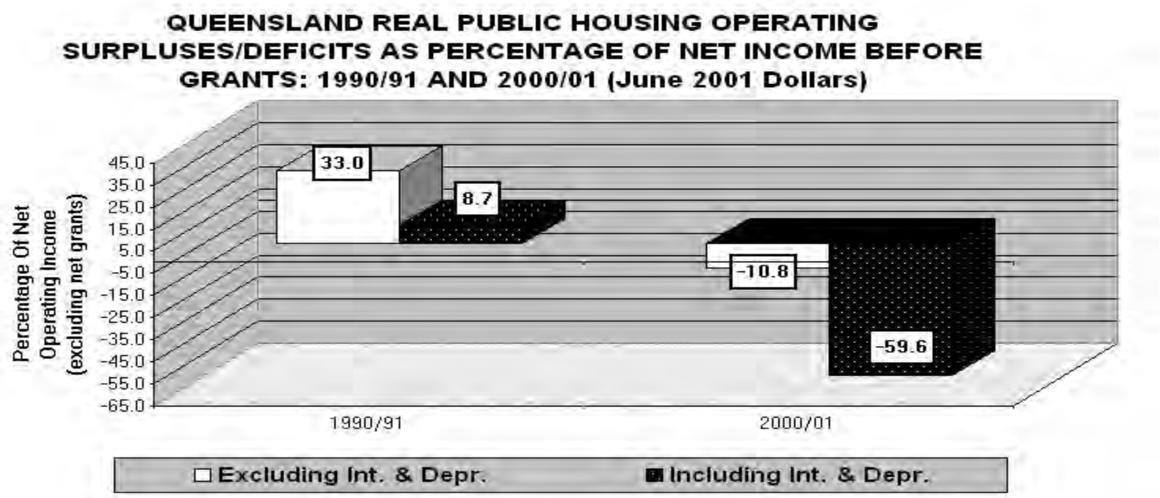
GRAPH 55: QLD: Real Surplus/Deficit Per Dwelling After 'Add backs' : $: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of Queensland Department of Housing, (QDH), and Financial Questions Return From QDH To Operating Deficits Project

It is clear from Graph 55 that whilst the impact of Net Interest costs has declined to small proportions, but Depreciation cost increases have more than offset the reduction in Net Interest. In 1990/91 Net Interest reduced the surplus by approximately $520 per dwelling. Depreciation reduced the surplus by a further $410 to $930. In 2000/2001 however, Net Interest only added $276 to the expenditure line, but Depreciation of some $1,465 increased the Operating Deficit from -$386 to -$2,127 or by approximately -$1,750. Graph 56 sets out the operating deficits as a proportion of Net Income 'before' and 'after' Net Interest and Depreciation.

GRAPH 56: QLD Real Public Housing Operating Surpluses/Deficits as a Percentage of Net Income Before Grants: 1990/91 and 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Queensland Department of Housing, (QDH), and Financial Questions Return From QDH To Operating Deficits Project

These results reinforce the earlier comments on the impact of Net Interest and Depreciation, which is increasing substantially primarily due to Depreciation. In 1990/91 these expenditure components reduced the surplus by in excess of 25% of net income, whilst in 2000/2001 they added about 50% to the Deficit as a percentage of net income.

The Importance of Rebates and Grants

Rental Rebates data was unavailable. Queensland has advised that Grant Income is not specifically applied to the Rental Housing Program to assist operating performance and as such has been excluded.

Key Comparators 2000/01: The QDoH Compared to Other States.

Table 7 sets the rankings of Queensland Housing, by each line item and indicator.

Table 7: Financial Rankings: Real Income/Expenditure Per Dwelling: Queensland Housing

Item	Rankings		
	Absolute Amounts: 2000/01	Percentage (Of Net Income Or Expenditure): 2000/01	Percentage Change 1990/91 –2000/01
1 Net Rents	***4***	***5***	***8***
2 Net Grants[1]	***-***	***-***	***-***
3 Maintenance	4	3	3
4 Rates	4	3	3
5 Salaries & Employ. Related	7	6	4
6 Administration & Working	7	6	4
7 Total Overhead (4+5)	7	7	3
8 Bad Debts	3	3	5
9 Net Interest	7	7	6
10 Depreciation	2	2	1
	Major Components		
11 Net Incomes	***6***	***-***	***8***
12 Operating Expenditures	4	-	3
13 Operating Surpluses/Deficits[2]	5	6	4
14 Rental Rebates	-		-

Source: Financial Statements 1990/91 – 2000/2001 Of Queensland Department of Housing, (QDH), and Financial Questions Return From QDH To Operating Deficits Project

Grants have been excluded from the analysis as they are not specifically applied to the Rental Housing Program.

Excludes Net Interest, Depreciation, Net Grants and Rental Rebates.

Three important conclusions emerge from this analysis, viz Queensland Housing has;

- the second fastest falling Net Rents Income item of all States and the Housing New Zealand Corporation;
- the second highest cost, second greatest percentage and fastest growing Depreciation expenditure item of all States and the Housing New Zealand Corporation;
- the third lowest revenue, and second fastest falling Net Incomes of all States and the Housing New Zealand Corporation.

4.5.2 Qualitative

Key Responses from the Operational Deficits Questionnaire

The QDoH respondent indicated that tighter targeting and changes in household composition was leading to a steady decline in the real net rent received per dwelling as higher income, and multiple income households moved out and are replaced by lower income and more numerous single income households.

During the decade there were two significant changes to rent setting policies. In 1994 a new policy was introduced where, for the first $300 of a tenants income rent was set at 21.5% of income and for any income in excess of $300, rent was set at 26%of the additional income up to market rent, (prior to this change rent was based on up to 30% of income until a maximum of $200 or market rent was reached). In 1997 maximum rent was set at a flat 25% of income for all new tenants after the date of the policy was introduced.

The geographic structure of Queensland, and its climatic influences demand a regionalised structure for the administration of the public housing portfolio, and this makes some expenditure items more expensive.

The Department has commenced a major upgrading program, whereby it is spending $90m in 2002/2003 plus a similar amount in 2003/2004. Due to a new system based on property inspections and comprehensive condition information responsive maintenance has declined but regular cyclical maintenance has increased. Rates represent a significant component of outgoings' and have grown at a rate faster than inflation.

With the current Commonwealth policy settings, tight targeting and demand for improved quality of services, public housing is probably unsustainable if there is no change to the funding policies of the Commonwealth Government.

Queensland Housing's Key Comments to the Productivity Commission

Queensland Housing's comments to the Productivity Commission in 1996/97 and 1997/98 reflect the increasing focus on targeting, and on improving the quality of service and the range of support measures available.

In 1997 Queensland stated:

> "Queensland's results on the targeting indicators indicates Queensland's public housing is very well targeted with 95% of public housing tenants being defined as in need"…and, "Queensland is showing good performance in relation to turnaround times for vacant stock and proportion of tenants in arrears."

In 1998 Queensland reported that there had been major reforms in the way in which housing assistance programs are delivered, viz:

> "Changes have included a move to a purchaser/provider model for the delivery of housing assistance services, the adoption of commercialised operations and the implementation of output accrual budgeting"

Productivity Commission: Quality of Service Indicators: Tenant Satisfaction and Rating of Housing Stock

A review of the Productivity Commission Effectiveness Indicators suggests that Queensland Housing's efforts to improve its quality of services is being perceived by its tenants as resulting in slight improvements.

On the two main indicators, tenant satisfaction and tenants rating of housing stock condition, the proportion of tenants very satisfied increased by 3.7% between 1996 and 2000, whilst those dissatisfied fell by –7.7%.

In addition on three of the five tenants ratings of housing stock, improvements were achieved, with an improvement in the 'good' rating of 6.2% for Appliances, 19% for security and 17.3% for surrounds, perhaps reflecting the upgrading of stock and refurbishment of internal appliances which QDoH has been undertaking.

4.5.3 Queensland Housing: Conclusions

In the last decade Queensland Housing has been most affected by the focus on tighter targeting and has focused heavily on improving the quality and management of its stock and on eliminating any debt servicing requirement. These priorities have been reflected in:

- the greatest increase in the proportion of rebated tenants of all Housing Authorities and a rapid and long term decline in real rents per dwelling and hence Net Income per dwelling. This decline has partly been reinforced by rent policy changes which capped rents at market, which in many places where Queensland Housing operates is very low. This decline in Real Income per dwelling can be expected to continue until such time as any trend to smaller households is completed and the proportion of rebated tenants and priority allocations reach saturation;

- rapid increases in real Maintenance per dwelling, as a result of asset improvement and management systems being introduced, although it can be anticipated that these increases will cease at some point in the near future as the large majority of the stock reach quality and inclusion control benchmarks;
- a commensurate increase in the amount of depreciation provisioning required per dwelling as asset restructuring and market developments act to improve the average value per dwelling unit;
- relatively high growth in both the Salaries and related expenses and Maintenance components of expenditures, being reflected in Operating Expenditure growing by 75% over the period;
- some improvements in tenants' ranking of both their satisfaction with the service provided and the quality of their dwelling;
- elimination of a significant amount of the debt servicing burden, to the point where the debt/servicing ratio (Net Interest to Net Income) has fallen from 13.6 to 7.7%.

It would appear that the majority of any cost savings which can be accrued from debt reduction and asset restructuring (through lower maintenance), have been achieved.

It should be noted, however, that at 90% of rebated tenants Queensland cannot be far from the likely 'saturation point' for lower income entries and Net Rent can then be expected to stabilise.

With the likely future short-term trends in Net Income, and the current trends in some costs, it is probable that without any change to the distribution of tenant incomes and funding parameters, the business in the short term will continue to generate larger deficits. Either additional funding will need to be provided to Queensland Housing or some other solution will need to be found.

4.6 South Australia

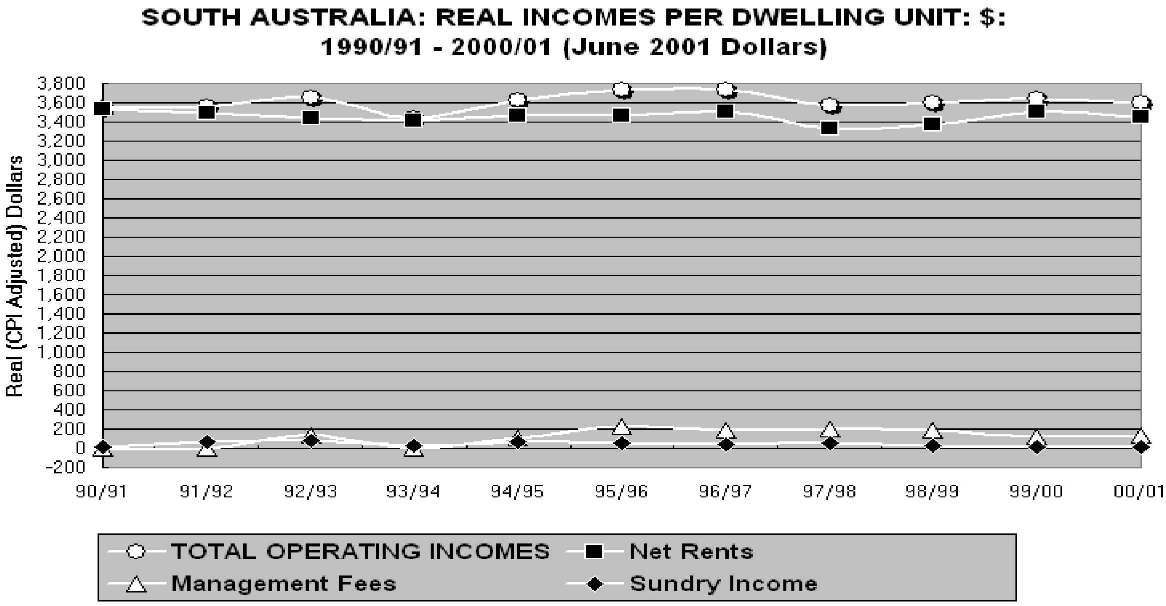
4.6.1 Quantitative

Changes in Net Incomes

Graph 57 traces real Net Income per dwelling unit over the period 1990/91 to 2000/2001.

Over the study period (1990/91 – 2001/2001) operating incomes only increased in real terms from $3,549 to $3,597 or by less than $50 per dwelling. Net Rents per dwelling fell by -2.5%. Net Real Incomes Per Dwelling rose from $3,549 in 1990/91 to $3,736 in 1996/97 and then steadily declined sharply to current levels which have remained relatively constant for the last three years. Real Rents constituted more than 93% of annual Operating Incomes throughout the decade.

GRAPH 57: SA : Real Incomes Per Dwelling Unit: $: 1990/91 – 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of South Australian Housing Trust, (SAHT), Questions Return From SAHT To Operating Deficits Project

1 Includes Public, Community and Aboriginal Housing owned and operated by SAHT but excludes any dwellings headleased or leased from third parties.

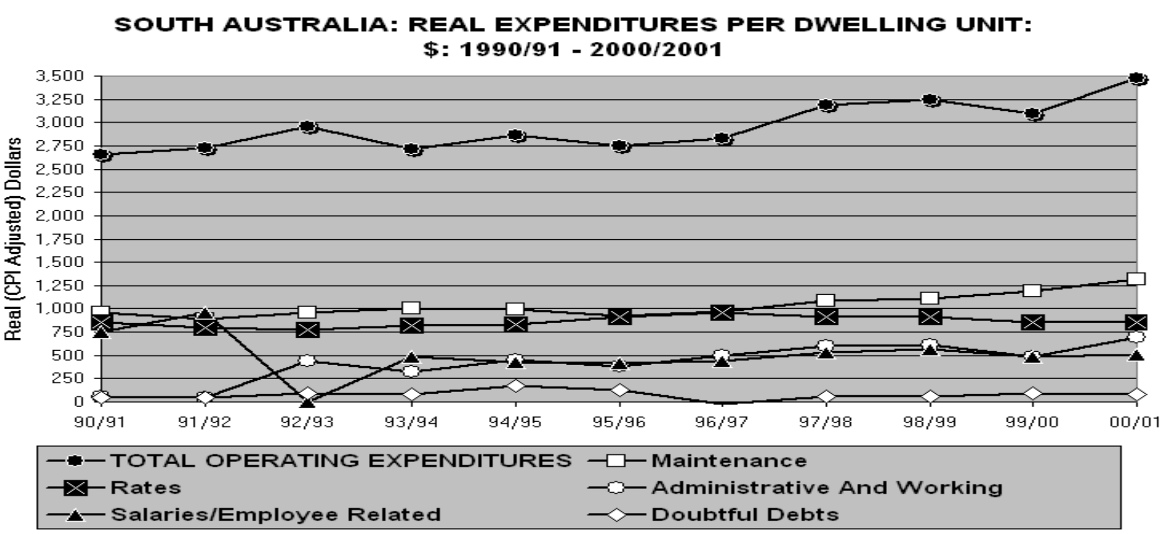
Quantitative Factors Affecting Operating Incomes

Over the study period rebated tenancies increased from 73% to 85% of the total and (more importantly) priority crisis and emergency allocations increased from 13% of all new allocations to 50%. Productivity Commission (2002) data returns on public housing suggest that there is a discernable trend to a greater proportion of single income households which, if continued, will reduce the average net rent payable per dwelling.

Expenditures and Expenditure Priorities

Graph 58 sets real net expenditure per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 58: SA: Real Expenditures Per Dwelling Unit: $: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of South Australian Housing Trust, (SAHT), Questions Return From SAHT To Operating Deficits Project

The graph shows that real operating expenditures per dwelling have increased from $2,655 in 1990/91 to $3,471 in 2000/01. There have been substantial real decreases in both Salaries and related expenses and Net Interest with the former declining from $756 in 1990/91 to $511 in 2000/01, whilst the latter fell from $1,224 to $876.

Real Rates Expenditures remained essentially flat throughout the decade whilst real increases in Maintenance outgoings has been significant with Maintenance expenditure per dwelling increasing from $953 to $1,316 (up 38%).

Leaving aside Bad Debts which are a very small absolute amount, by far the most significant real increases in expenditure occurred in the Depreciation and Administrative and Working Items, with the former increasing from $489 per dwelling to $1,028 (or by 110%) and the latter from $52 to $698 (or by 1,238%). Total overhead increased in real terms from $808 to $1,209 or by approximately 50% over the period.

Reflecting these real changes in expenditure items, Graphs 59 and 60 set out the proportion of total operating expenditure occupied by each of the core expenditure items for the years 1990/91 and 2000/2001.

The graphs show how the proportion of South Australian Housing Trust's (SAHT's) total expenditure per dwelling for each item (including Depreciation and Net Interest) has changed over the decade.

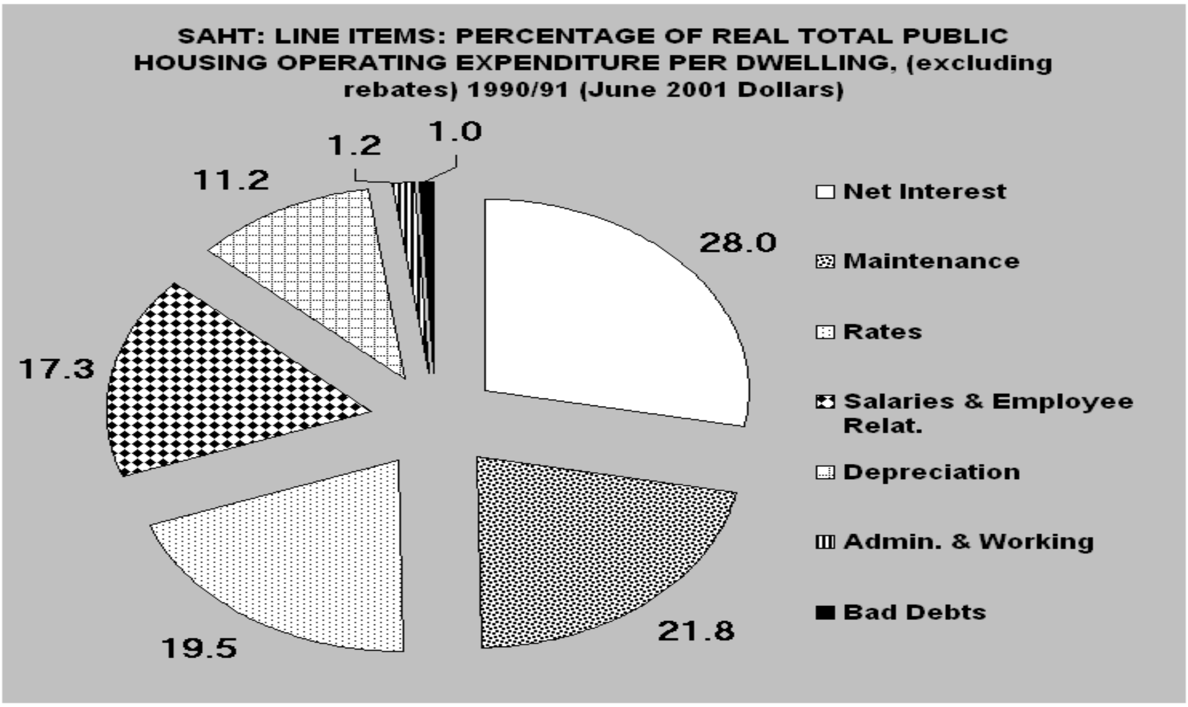
The proportion of total expenditure absorbed by Net Interest, (down from 28% to 16.3%), and Salaries and related expenses (down from 17.3% to 9.5%) has declined dramatically.

Rates expenditure has declined slightly whilst Maintenance expenditure has increased slightly as a proportion of total expenditures per dwelling, with the former decreasing from 19.5% to 16% and the latter increasing from 21.8% to 24.5%.

As outlined in the analysis of expenditure item growth, by far the greatest change in proportions has occurred in Depreciation and Administrative and Working Items, with the former increasing from 11.2% to 19.1% of total operating expenditures, and the later increasing from 1.2% to 13.0%.

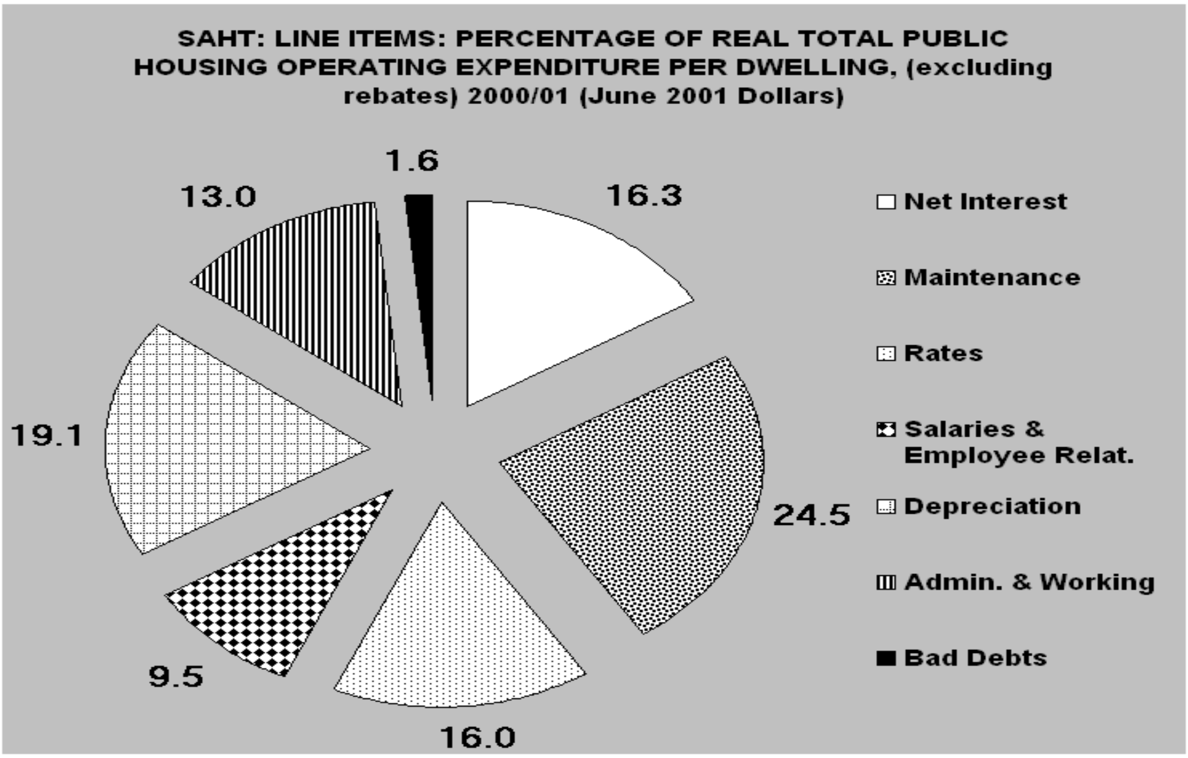
In reality, the fall in Salaries and increase in Administrative and Working Items may reflect a shift from in-house supply to outsourcing with fees replacing salaries.

GRAPH 59: SAHT: Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 1990/91 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of South Australian Housing Trust, (SAHT), Questions Return From SAHT To Operating Deficits Project

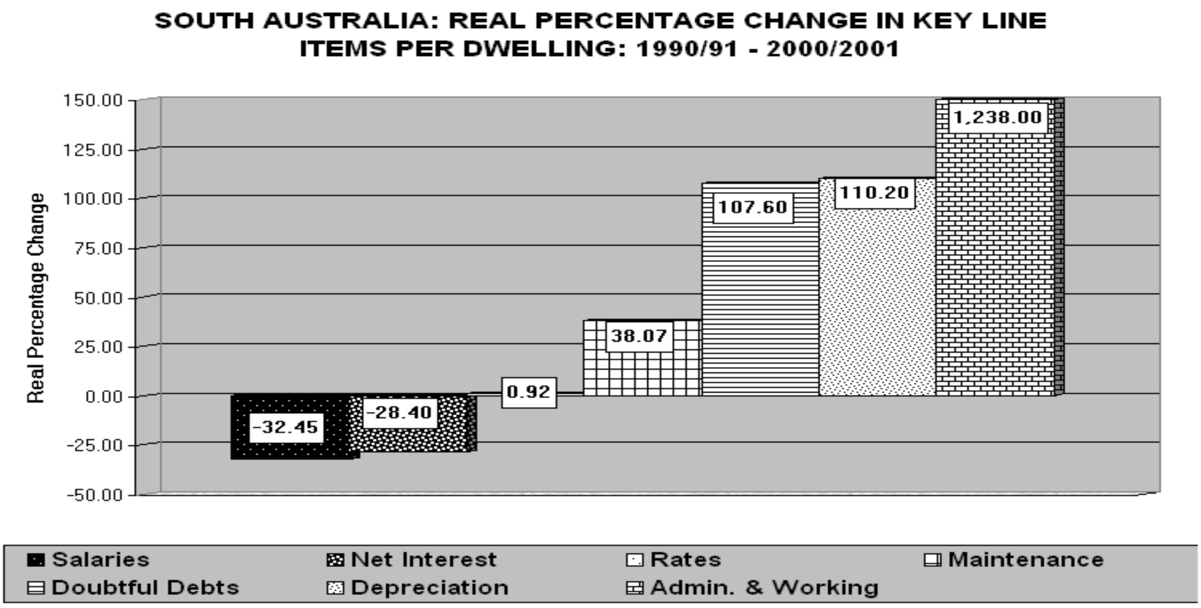
GRAPH 60: SAHT: Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of South Australian Housing Trust, (SAHT), Questions Return From SAHT To Operating Deficits Project

Graph 61 sets out the real percentage change in the costs of key line items.

GRAPH 61: SA: Real Percentage Change in Key Line Items Per Dwelling: 1990/91 – 2000/01



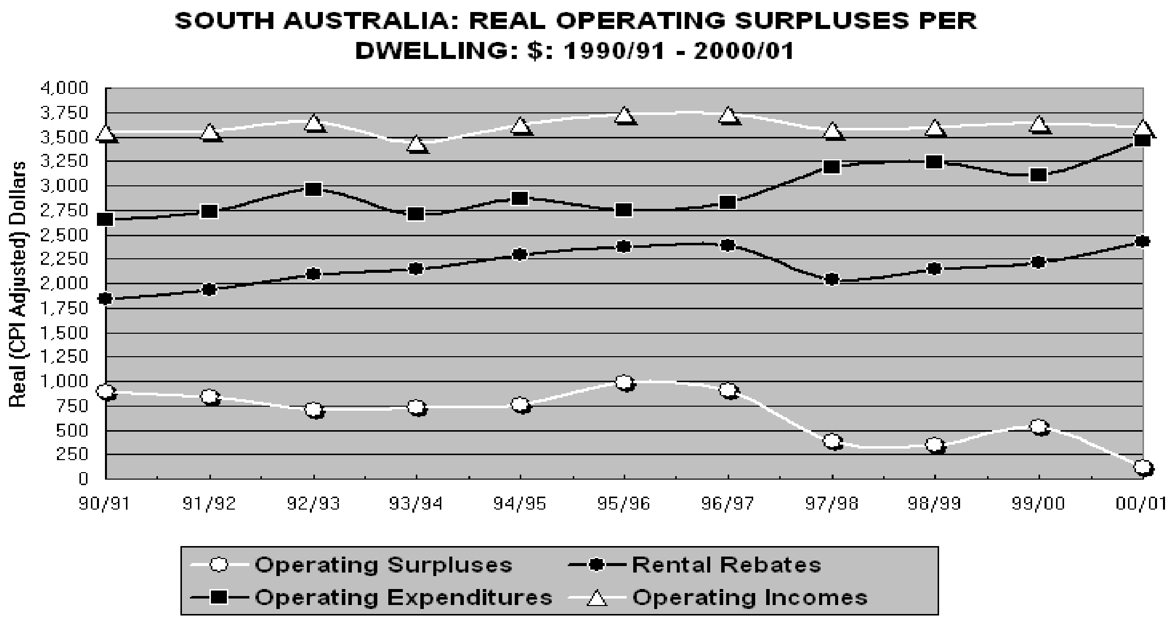
Source: Financial Statements 1990/91 – 2000/2001 Of South Australian Housing Trust, (SAHT), Questions Return From SAHT To Operating Deficits Project

The graph reflects the findings outlined earlier, viz. significant real declines in the cost per dwelling for Salaries etc, and Net Interest, significant changes in Maintenance and major real percentage increases in Doubtful Debts, Depreciation, and Administration and Working Items.

Operating Income, Expenditure and Surplus/Deficits

Graph 62 sets out the trends in Operating Surpluses/Deficits excluding Net Interest and Depreciation.

GRAPH 62: SA: Real Operating Surpluses Per Dwelling: $: 1990/91 – 2000/01



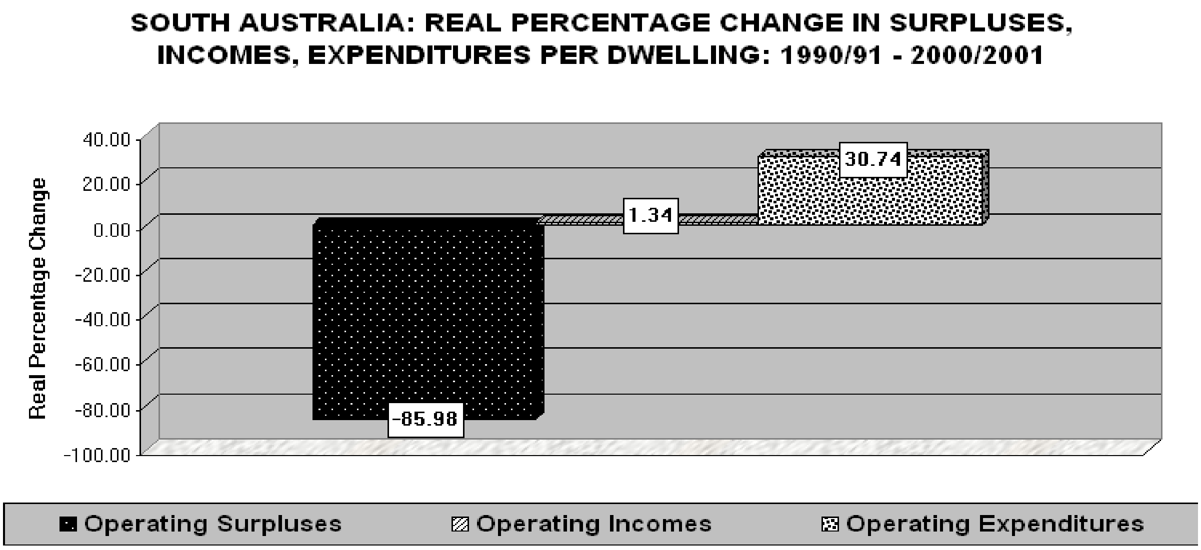
Source: Financial Statements 1990/91 – 2000/2001 Of South Australian Housing Trust, (SAHT), Questions Return From SAHT To Operating Deficits Project

In 1990/91 the SAHT produced a real surplus per dwelling (excluding Net Interest and Depreciation) of $894, and between 1991/92 and 1994/95 this declined steadily to $761. For 1995/96 and 1996/97 the surplus increased again due to slightly lower Expenditures and small increases in real Net Incomes, However, in 1997/98 the surplus decline sharply to $383 per dwelling, due to significant increases in costs and substantial falls in Net Incomes.

From 1997/98 on, these surpluses have continued to steadily erode until in 2000/01 the Operating Surplus stood at $125 per dwelling (or less than 3.5% of Net Incomes).

Graph 63 sets out the real percentage change in Operating Incomes, Expenditures and Deficits.

GRAPH 63: SA: Real Percentage Change in Surpluses, Incomes, Expenditures Per Dwelling: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of South Australian Housing Trust, (SAHT), Questions Return From SAHT To Operating Deficits Project

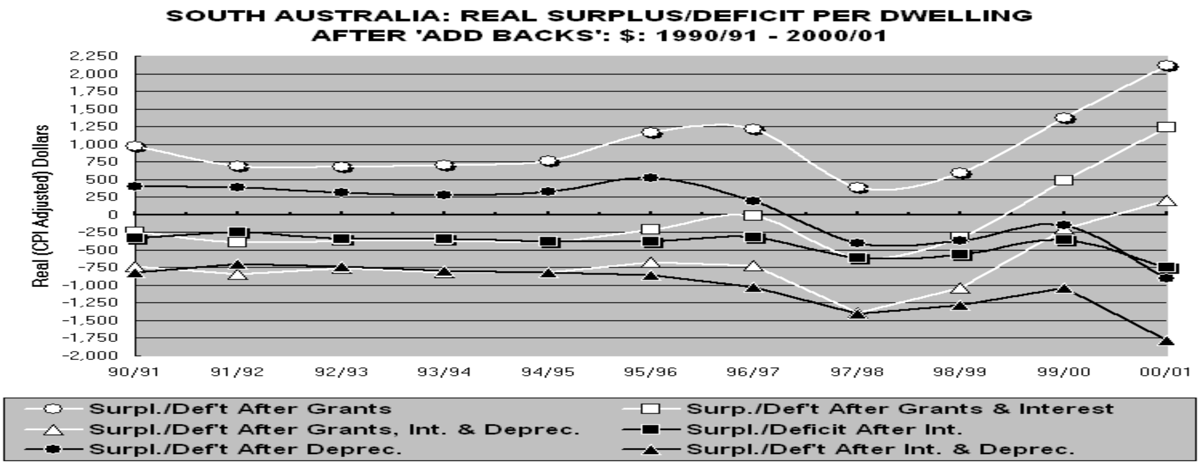
To summarize, real Operating Incomes (net of grants and interest earned) only increased by less than 1.3%, whilst real Operating Expenditures grew by 30.7%, resulting in a reduction of the Operating Surplus of approximately 86% over the period.

Impact of Net Interest and Depreciation

Graph 64 sets out the impact of Net Interest and Depreciation on the Operating Surplus/Deficit.

It is clear from Graph 64 that the impact of Net Interest costs and Depreciation have increases slightly over the decade. In 1990/91 Net Interest moved the real operating result from surplus to deficit by approximately -$330 per dwelling. Depreciation added a further –$439 to the deficit increasing it from -$330 to -$819 per dwelling. In 2000/2001 however, Net Interest added $876 to the expenditure line, and Depreciation some $1,028 turning the Operating Surplus from $125 to -$1,779 or about $100 per dwelling unit more than that which occurred a decade earlier.

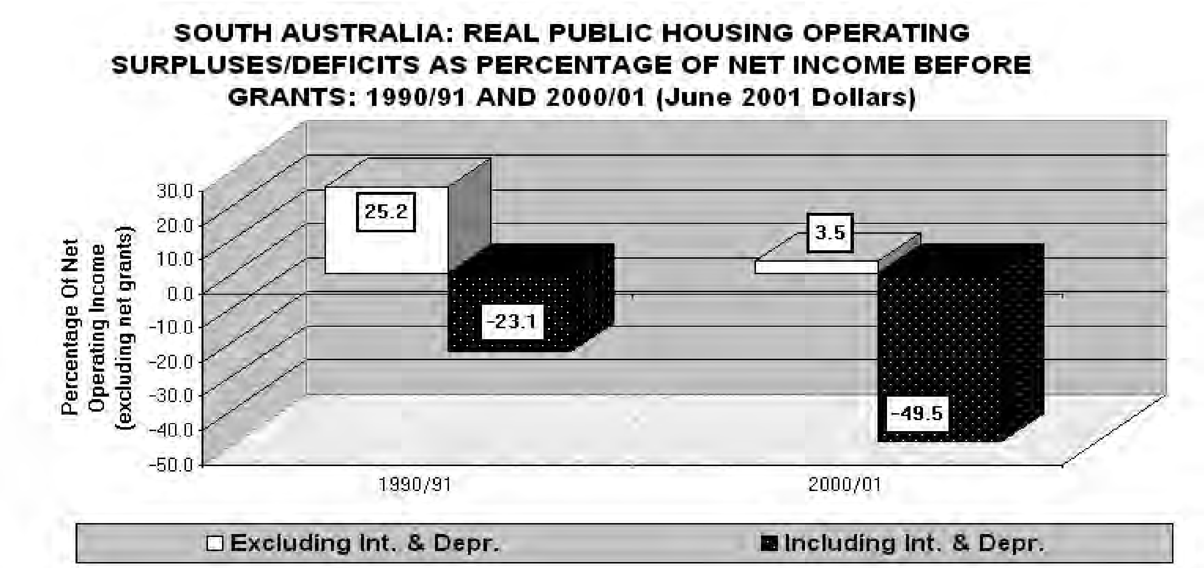
GRAPH 64: SA: Real Surplus/Deficit Per Dwelling After 'Add backs' : $: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of South Australian Housing Trust, (SAHT), Questions Return From SAHT To Operating Deficits Project

Graph 65 sets out the operating deficits as a proportion of Net Income 'before' and 'after' Net Interest and Depreciation.

GRAPH 65: SA: Real Public Housing Operating Surpluses/Deficits as a Percentage of Net Income Before Grants: 1990/91 and 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of South Australian Housing Trust, (SAHT), Questions Return From SAHT To Operating Deficits Project

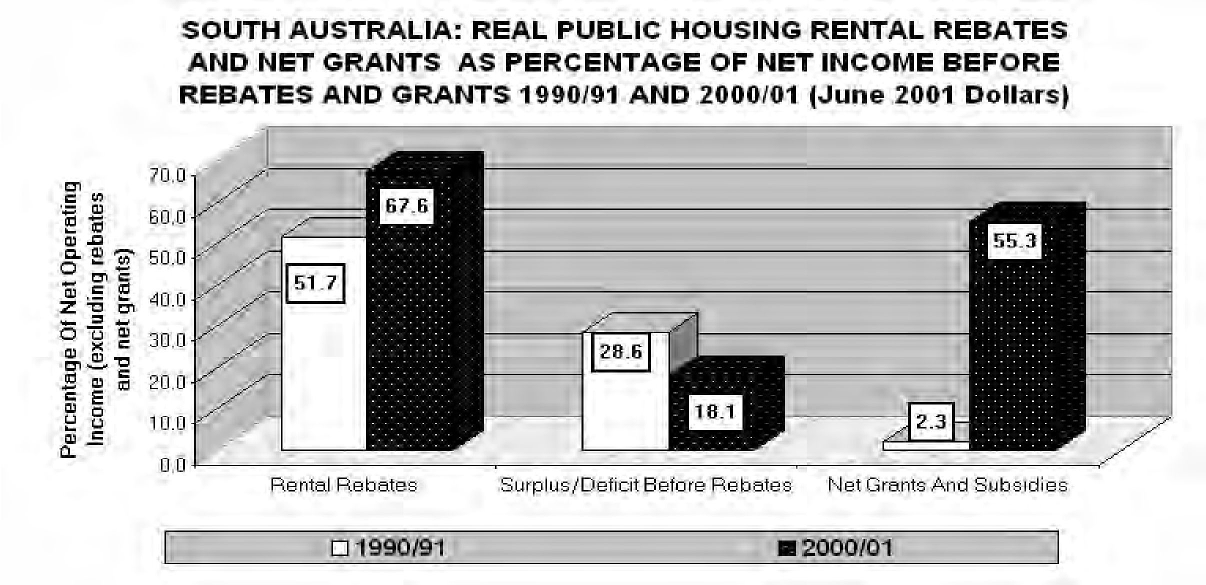
These results reinforce the earlier comments on the impact of Net Interest and Depreciation. These expenditure components are still impacting on the Operating Deficit in 2000/01 in about the same proportions of Net Income as in 1990/91.

The Importance of Rebates and Grants

Real average Rental Rebates per dwelling have actually increased significantly from $1,833 in 1990/91 to $2,431 in 2000/01, and Net Grants applied to public housing have increased very rapidly, from just over $80 to almost $2,000 ($1,988) per annum.

Graph 66 sets out Rental Rebates and Grants as a proportion of Net Income before Grants.

GRAPH 66: SA: Real Public Housing Rental Rebates and Net Grants as a Percentage of Net Income Before Rebates and Grants 1990/91 and 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of South Australian Housing Trust, (SAHT), Questions Return From SAHT To Operating Deficits Project

The graph clearly shows that the impact of Rental Rebates relative to Net Incomes before Rebates has increased by about 30%. Of even more importance is the contribution of Net Grants and subsidies to the Operating result which have grown to 55.3% of Net Income and represent almost 82% of the Rebate cost.

As with all States examined so far, with the exception the Northern Territory, if the SAHT received a commercial return based on market rents it would be financially robust and provide an appropriate operating rental return of about 18% net per annum. Combined with the capital gain, this would provide a very good double digit annual rate of return.

In the case of the SAHT, recognising the real cost of the Community Service Obligation and providing a cash payment for rebates, would ensure the continued viability of the sector.

Key Comparators 2000/01: the SAHT Compared to Other States.

Table 8 sets out the rankings of SAHT, by each line item and indicator. A ranking of 1 represents the largest amount, or the greatest percentage, or the greatest percentage change 1990/91 to 2001 for each State compared to the other State Housing Authorities and Housing NZ. For Operating Surplus/Deficits 1 represents the 'best' result per dwelling, i.e. the highest surplus, the best percentage improvement whilst 9 represents the 'worst' deficit the largest negative proportion of Net Income, or the largest percentage decline or deterioration.

Table 8: Financial Rankings: Real Income/Expenditure Per Dwelling: South Australian Housing Trust

Item	Rankings		
	Absolute Amounts: 2000/01	Percentage (Of Net Income Or Expenditure): 2000/01	Percentage Change 1990/91 –2000/01
1 Net Rents	7	8	7
2 Net Grants	5	5	5
3 Maintenance	5	6	5
4 Rates	8	7	6
5 Salaries & Employment Related	8	9	9
6 Administration & Working	3	2	1
7 Total Overhead (4+5)	8	8	6
8 Bad Debts	2	2	3
9 Net Interest	3	2	3
10 Depreciation	6	5	4
	Major Components		
11 Net Incomes	4	-	6
12 Operating Expenditures	8	-	6
13 Operating Surpluses/Deficits[1]	7	3	4
14 Rental Rebates	7	6	3

Source: Financial Statements 1990/91 – 2000/2001 Of South Australian Housing Trust, (SAHT), Questions Return From SAHT To Operating Deficits Project

1 Excludes Net Interest, Depreciation, Net Grants and Rental Rebates.

Four important conclusions emerge from this analysis, viz SAHT has;

- the third highest cost, second greatest percentage of total expenditure and fastest growing Administration and Working expenditure item of all States and the Housing New Zealand Corporation;
- the second lowest cost, lowest percentage of total expenditure and fastest reducing Salaries etc. expenditure item of all States and the Housing New Zealand Corporation;
- the second lowest cost, and third slowest growing Operating Expenditure item of all States and the Housing New Zealand Corporation;
- only Victoria and New Zealand have lower cost structures yet South Australia reached deficits (before Net Interest and Depreciation) in 2001/2002.

4.6.2 Qualitative

Key Responses from the Operational Deficits Questionnaire

The South Australian respondent made the following comments.

Whilst average rents charged to tenants have dropped minimally, the proportion of total households being single person households (and hence single versus double incomes and therefore much lower rents) has grown steadily from 46% in June 1996 to 66% in January 2003.

The rent charging policy has changed several times in the last decade, moving from a sliding scale to a flat 25% of household income for all the different types of households, with the exception of under 21's and the elderly.

The Trust has embarked on a process of debt restructuring and reduction by using the proceeds of asset sales to pay off all commercial loans. At the beginning of the decade these totalled $367m outstanding but had been fully prepaid by December 1999.

Maintenance backlogs have increased slightly over the years, but an asset restoration program has been ramped up during the last ten years, and over the last two years there has been a heavier focus on improving the amenity level of dwellings.

Salaries and Overhead costs have been reduced due to organisational restructurings.

Customer debt has increased slightly after March 2000 but new strategies to reduce evictions due to debt have been effective. The nature and extent of demand for Trust services by people with complex and multiple needs has impacted on tenancy management. The Trusts strategic directions of successful tenancies and sustainable communities underpin the service provided to customers. The Trust therefore places strong importance on early intervention to support customers at risk.

Operating deficits, (including Net Interest and Depreciation), effectively prevent the Trust from expanding and have doubled between 1999/00 and 20001/02. At the time of the interview a plan was being prepared for Cabinet setting out options to eliminate deficits.

SAHT's Key Comments to the Productivity Commission

SAHT's comments to the Productivity Commission in 1996/97 and 1997/98 reflect the increasing targeting, the establishment of a priority system and the need for asset restructuring due to an oversupply of inappropriately located three bedroom houses in outer areas of Adelaide, which has produced a focus on asset sales and redevelopment. In 1997/98 SAHT commented that:

> "The history combined with few restrictions on access has contributed… to below average proportions of households in need generally in SA… and the existence of a large waiting list…the priority system provides earlier access to households in acute need..

The historical focus on the provision of housing for working families has left the State with large estates of three bedroom housing… there is often a mismatch between household type and dwelling size resulting in higher rates of underutilisation than other States. This is currently being addressed through a range of measures including active sales and redevelopment programs"

Productivity Commission: Quality of Service Indicators: Tenant Satisfaction and Rating of Housing Stock

A review of the Productivity Commission Effectiveness Indicators suggests that SAHT's efforts to improve its quality of services is being perceived by its tenants as succeeding, in some cases significantly. On the two main indicators, tenant satisfaction and tenants rating of housing stock condition, the proportion of tenants very satisfied increased by 22% between 1996 and 2000, whilst those dissatisfied fell by 44%.

In addition on five of the five tenants ratings of housing stock, improvements were achieved, with an improvement in the 'good' rating of 14% for external structure, 12.2% for Internal Structure, 8.8% for Appliances, 22.5% for security and 25% for surrounds, perhaps reflecting the effectiveness of asset restructuring already having taken place.

4.6.3 South Australian Housing Trust: Conclusions

South Australia is probably the most advanced of all the States engaged in asset reconstruction and debt minimisation.

In the last decade SAHT has sold over 10,000 dwellings, and has restructured the remaining portfolio, simultaneously engaging in a backlog maintenance program, embraced tighter targeting through the introduction of segmented waiting lists, provided significant tangible improvements to its services to its clients, and has focused on reducing debt servicing required by the organisation.

These priorities have been reflected in:

- a long term decline in real rents per dwelling and hence Net Income per dwelling. This decline was recently arrested by changes to rent policy, but because of comparatively low proportions of rebated tenants and priority allocations it can be expected to resume until such time as any trend to smaller households is completed and the proportion of rebated tenants and priority allocations reach saturation. In South Australia's case some considerable time may elapse before these conditions are reached;
- a significant reduction in the cost of Salaries and Net Interest over the decade;
- one of the lowest cost structures in Australia and New Zealand;
- significant improvements in tenants' ranking of both their satisfaction with the service provided and the quality of their dwelling;

Notwithstanding the above, it would appear that the majority of any cost savings which can be accrued from asset restructuring (through lower maintenance) and debt reduction have already been achieved. With the likely future trends in Net Income, and the current trends in costs, it is probable that without any change the business will require greater funding than that provided by untied grants. Either additional funding will need to be provided or SAHT will have to sell down or 'cannibalise' its assets in order to fund its operating shortfalls.

What is most disturbing about the trends for SAHT is that they give the lie to the theory that focusing on asset management and reconstruction, minimising your debt servicing obligations and bearing down on the cost structure will be sufficient to maintain viability. Clearly it will not.

It is also clear, however, that if the full cost of SAHT's community service obligation was correctly recognised (i.e. if the difference between market rents and income related rents was fully funded) SAHT's Operating Deficit would become an equivalent surplus. As with most other public housing authorities, if funding was maintained on that basis, SAHT would likely operate at a profit for the foreseeable future.

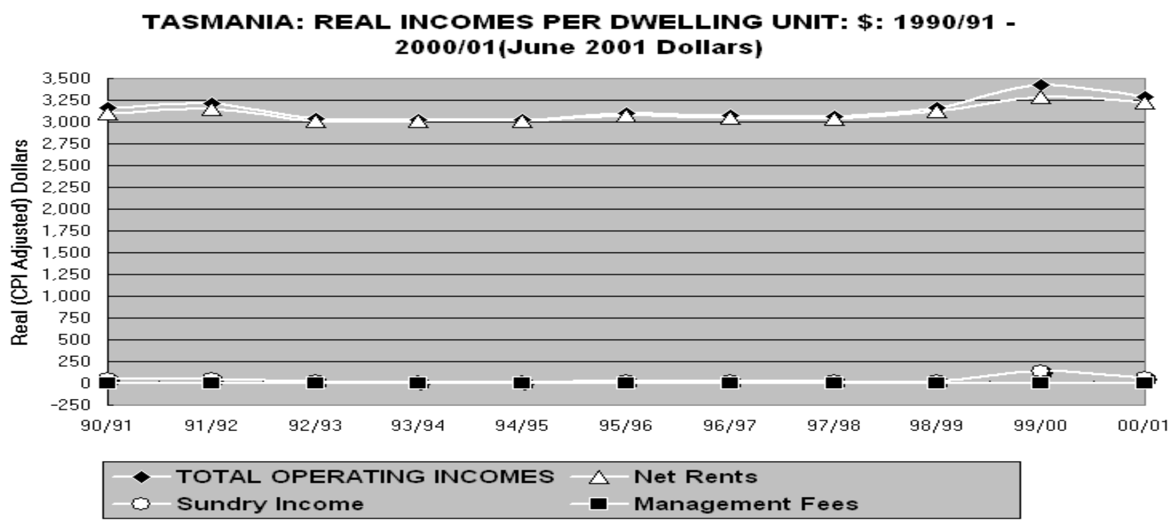
4.7 Tasmania

4.7.1 Quantitative

Changes In Net Incomes

Graph 67 traces real Net Income per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 67: TAS: Real Incomes Per Dwelling Unit: $: 1990/91 – 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Housing Tasmania, Tasmanian Department Of Health and Human Services. Questions Return From Housing Tasmania To Operating Deficits Project.

1 Includes Public, Community and Aboriginal Housing owned and operated by the Housing Tasmania but excludes any dwellings headleased or leased from third parties.

Over the study period (1990/91 – 2001/2001), operating incomes only increased in real terms from $3,158 to $3,290 or by about $130 per dwelling. Net Rents per dwelling increased by just 3.9%. Net Real Incomes Per Dwelling fell from $3,158 in 1990/91 to $3,027 in 1994/95 and then increased significantly to $3,420 in 1999/00, and fell again in 2000/01. Apart from 1999/00 (96%), Real Rents constituted more than 98% of annual Operating Incomes throughout the decade.

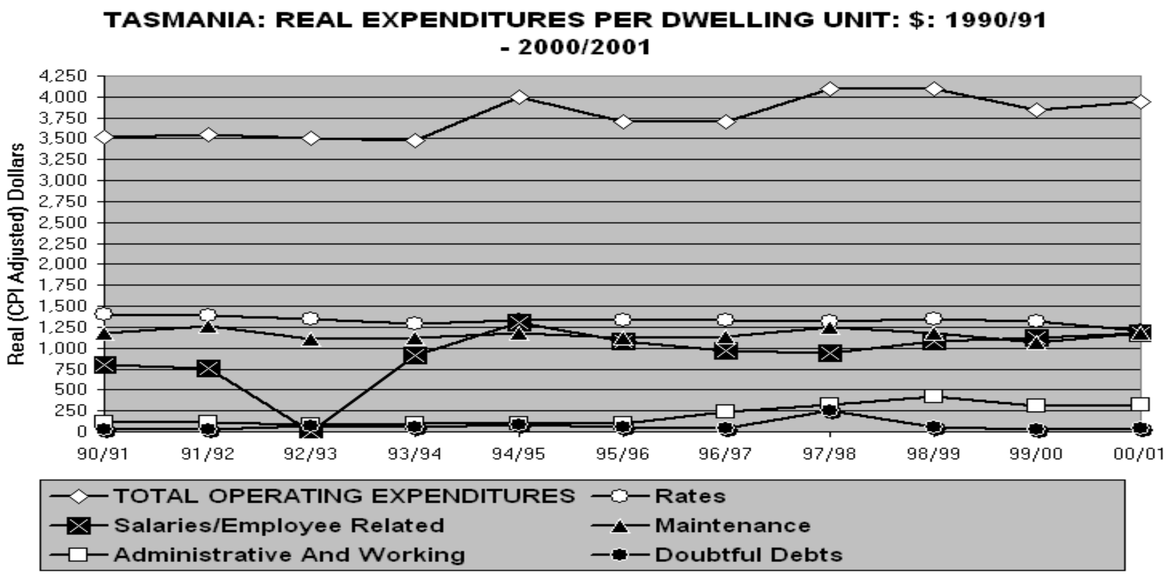
Quantitative Factors Affecting Operating Incomes

Whilst rebated tenants remained the same proportionately throughout the decade (85% of tenancies), priority crisis and emergency allocations increased from 35% of all new allocations to 100%, the highest of all Australian States. The Productivity Commission (2002) data returns on public housing suggest that there is a discernable trend to a greater proportion of single income households which, if continued, will reduce the average net rent payable per dwelling. Changes to rent policy have partially offset the negative financial impact of increasing priority allocations.

Expenditures and Expenditure Priorities

Graph 68 sets out real net expenditure per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 68: TAS: Real Expenditures Per Dwelling Unit: $: 1990/91 – 2000/01



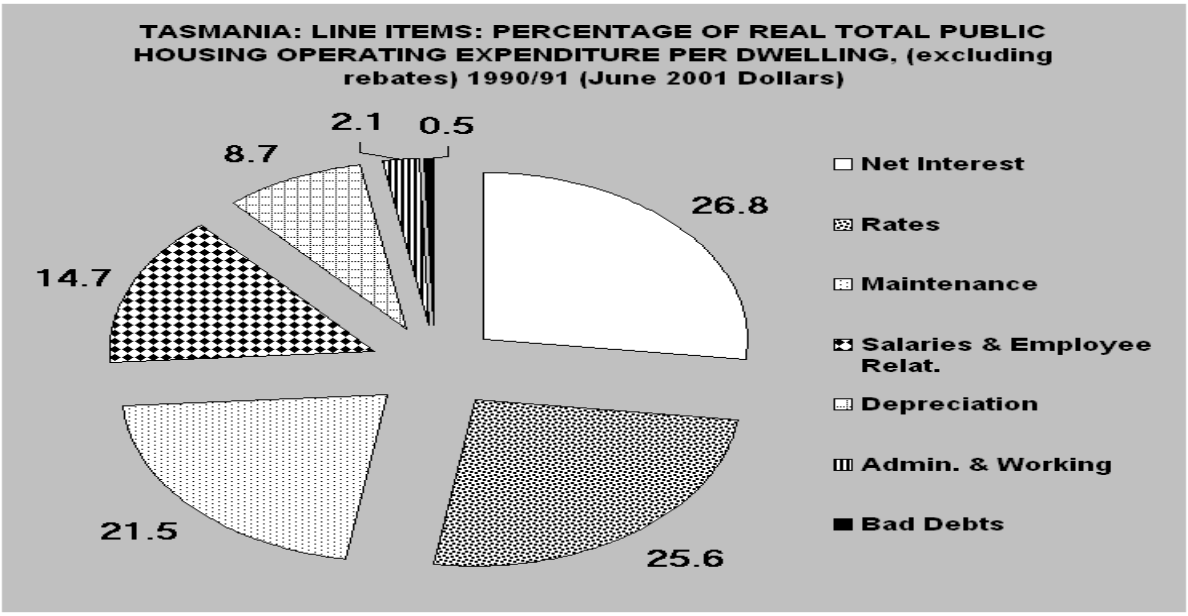
Source: Financial Statements 1990/91 – 2000/2001 Of Housing Tasmania, Tasmanian Department Of Health and Human Services. Questions Return From Housing Tasmania To Operating Deficits Project

The graph shows that real operating expenditures per dwelling have increased from $3,526 in 1990/91 to $3,947 in 2000/01. There have been significant real falls in both Net Interest and Rates, the former decreasing from $1,468 per dwelling in 1990/91 to $867 in 2000/01, and the latter falling from $1,401 to $1,212.

Maintenance expenditure per dwelling has remained essentially unchanged, whilst Salaries and related expenses has increased substantially from $805 to $1,185. Leaving aside Doubtful Debts (because of the very small size of the amounts), the largest increases have occurred with respect to Depreciation and Administration and Working Items, the former increasing from $476 to $891, and the latter from $118 to $323. Total Overhead costs increased dramatically (albeit off a small base), from $923 to $1,508.

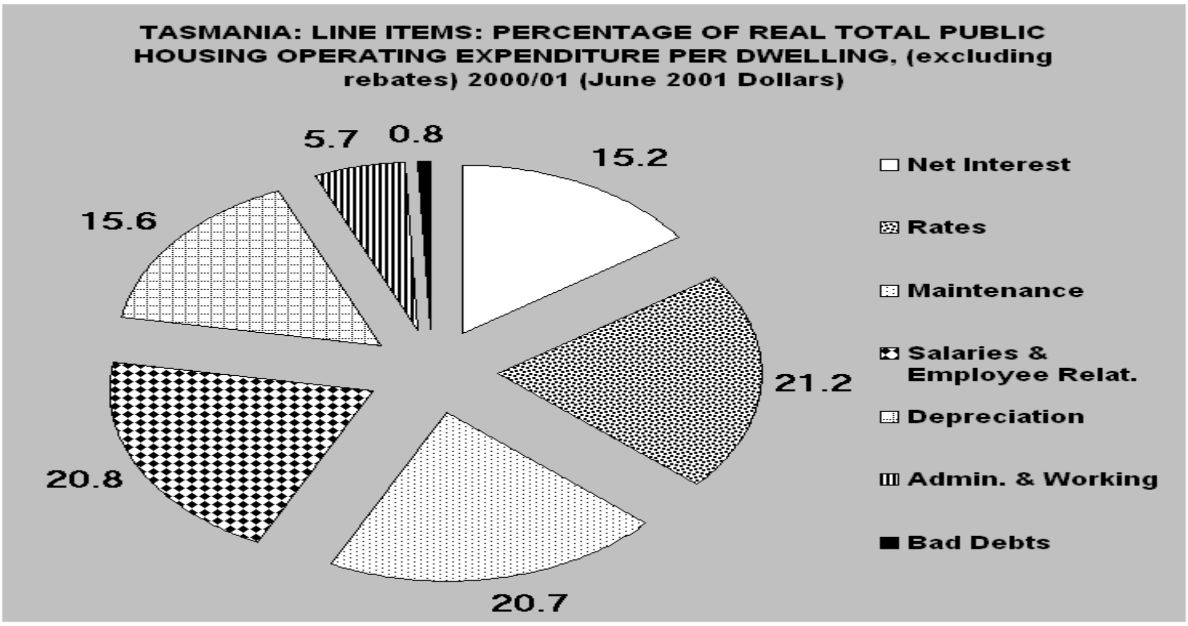
Reflecting these real changes in expenditure items, Graphs 69 and 70 set out the proportion of total operating expenditure occupied by each of the core expenditure items for the years 1990/91 and 2000/2001.

GRAPH 69: TAS: Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 1990/91 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Housing Tasmania, Tasmanian Department Of Health and Human Services. Questions Return From Housing Tasmania To Operating Deficits Project

GRAPH 70: TAS : Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Housing Tasmania, Tasmanian Department Of Health and Human Services. Questions Return From Housing Tasmania To Operating Deficits Project

The graphs show how the proportion of Housing Tasmania's (HT) total expenditure per dwelling for each item (including Depreciation and Net Interest) has changed over the decade.

The proportions of total expenditure absorbed by both Net Interest (down from 26.8% to 15.2%) and Rates (down from 25.6% to 21.2%) have declined dramatically.

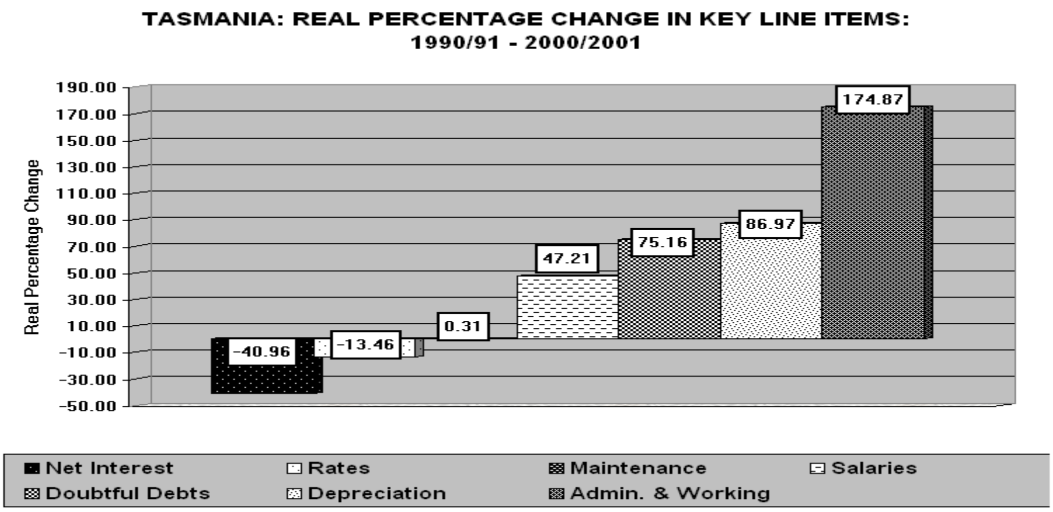
Maintenance expenditure has remained almost the same as a proportion of total expenditures, falling only slightly (21.5% to 20.7%).

As outlined in the analysis of expenditure item growth, by far the greatest change in proportions has occurred in Salaries and Salary Related expenses, Depreciation and Administrative and Working Items, with the first increasing from 14.7% to 20.8% of total operating expenditures, the second increasing from 8.7% to 15.6%, and the third from 2.1% to 5.7%.

Total Overhead increased from 16.8% to 26.5%. Housing Tasmania spends more on Overheads than either Maintenance or Rates.

Graph 71 sets out the real percentage change in the costs of key line items.

GRAPH 71: TAS: Real Percentage Change in Key Line Items: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of Housing Tasmania, Tasmanian Department Of Health and Human Services. Questions Return From Housing Tasmania To Operating Deficits Project

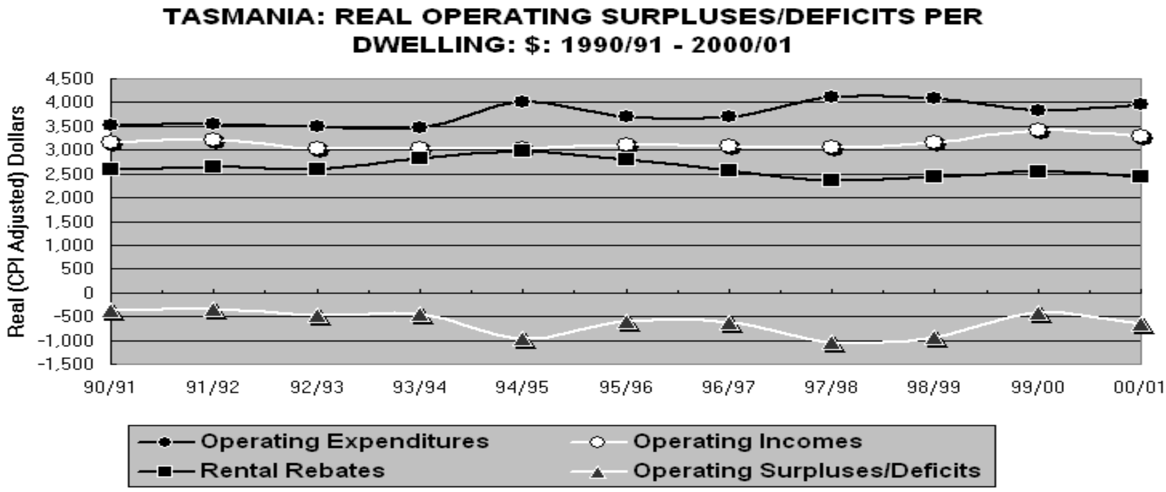
The graph reflects the findings outlined earlier, viz. very significant real declines in the cost per dwelling for Net Interest and Rates, no significant change in Maintenance and Rates and major real percentage increases in Salaries etc, Depreciation and Administration and Working.

Operating Income, Expenditure and Surplus/Deficits

Graph 72 sets out the trends in Operating Surpluses/Deficits excluding Net Interest and Depreciation.

In 1990/91 Housing Tasmania produced a real deficit per dwelling (excluding Net Interest and Depreciation) of -$368 and this increased steadily until 1997/98 where it peaked at $1,039. Thereafter, until 2000/01, real Expenditures increased declined slightly (from $4,103 to $3.947) and incomes per dwelling rose from $3,063 to $3,290, producing a real deficit in 2000/01 of -$657.

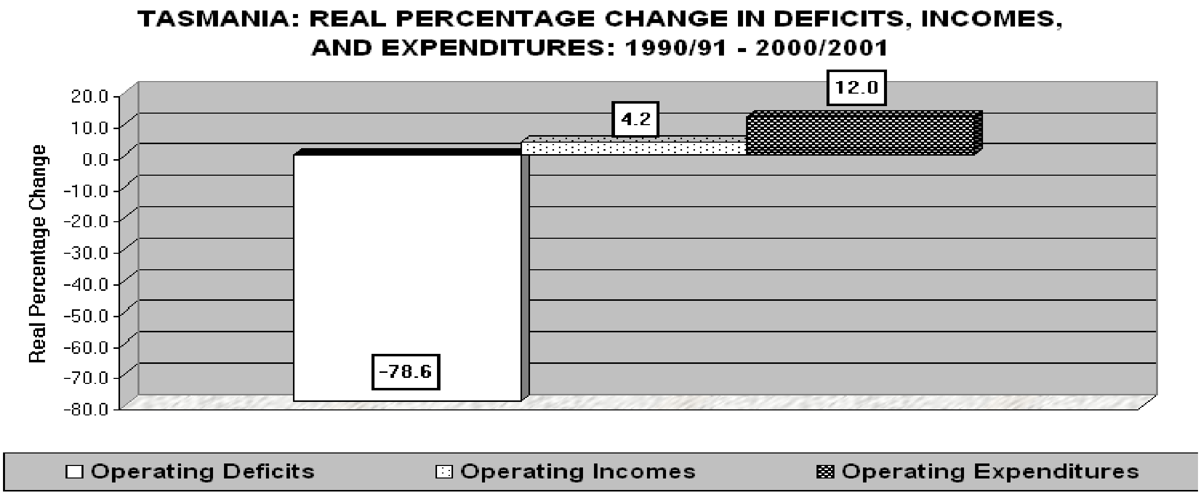
GRAPH 72: TAS: Real Operating Surpluses/Deficits Per Dwelling: $: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of Housing Tasmania, Tasmanian Department Of Health and Human Services. Questions Return From Housing Tasmania To Operating Deficits Project

Graph 73 sets out the real percentage change in Operating Incomes, Expenditures and Deficits.

GRAPH 73: TAS: Real Percentage Change in Deficits, Incomes and Expenditures: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of Housing Tasmania, Tasmanian Department Of Health and Human Services. Questions Return From Housing Tasmania To Operating Deficits Project

To summarize, real Operating Incomes (net of grants and interest earned) only increased by less than 4% whilst real Operating Expenditures grew by 12%, resulting in deficit growth of 78.6%.

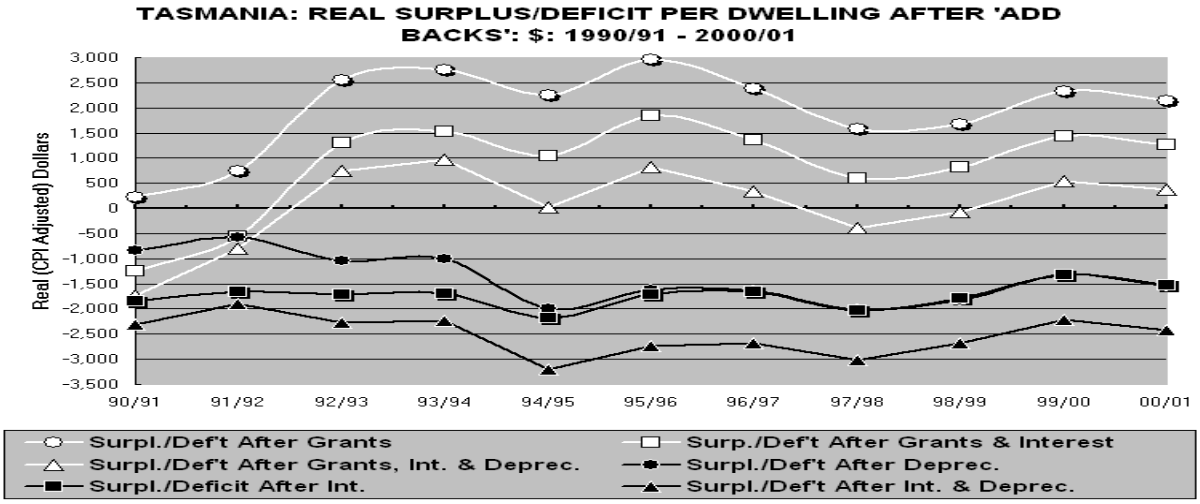
Impact of Net Interest and Depreciation

Graph 74 sets the impact of Net Interest and Depreciation on the Operating Surplus/Deficit.

It is clear from the Graph 74 that the impact of Net Interest costs and Depreciation has declined slightly over the decade, with the decline in Net Interest being offset by the increase in Depreciation. In 1990/91 Net Interest increased the deficit by approximately -$1,500 per dwelling. Depreciation added a further –$476 to the deficit, increasing it after interest from

-$1,836 to -$2,312 per dwelling. In 2000/2001 however, Net Interest only added $867 to the expenditure line, and Depreciation some $891, increasing the Operating Deficit from -$657 to -$2,414 or by slightly more than a decade earlier.

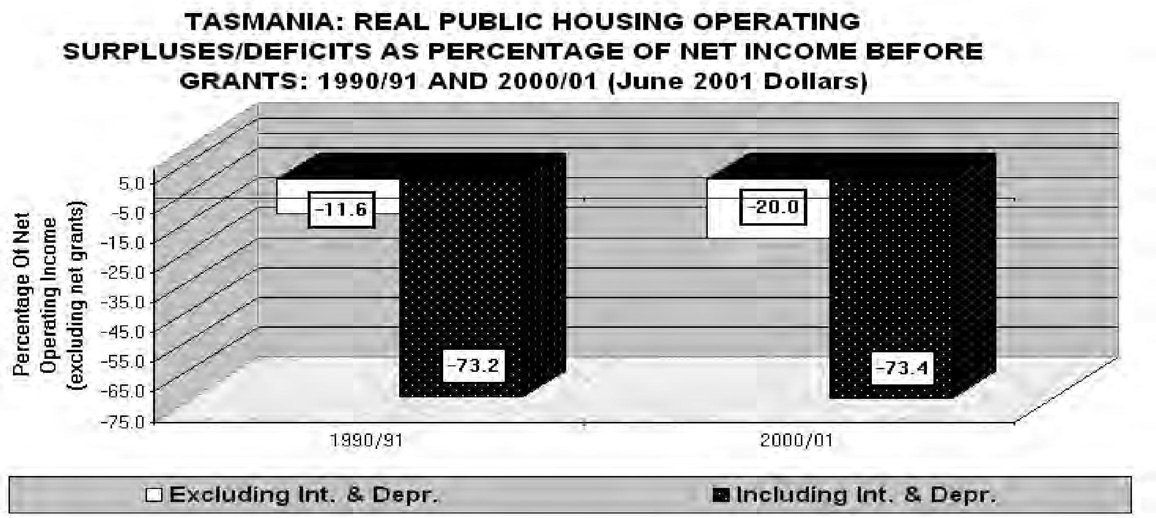
GRAPH 74: TAS: Real Surplus/Deficit Per Dwelling After 'Add backs': $: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of Housing Tasmania, Tasmanian Department Of Health and Human Services. Questions Return From Housing Tasmania To Operating Deficits Project

Graph 75 sets out the operating deficits as a proportion of net income 'before' and 'after' Net Interest and Depreciation.

GRAPH 75: TAS: Real Public Housing Operating Surpluses/Deficits as a Percentage of Net Income Before Grants : 1990/91 and 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Housing Tasmania, Tasmanian Department Of Health and Human Services. Questions Return From Housing Tasmania To Operating Deficits Project

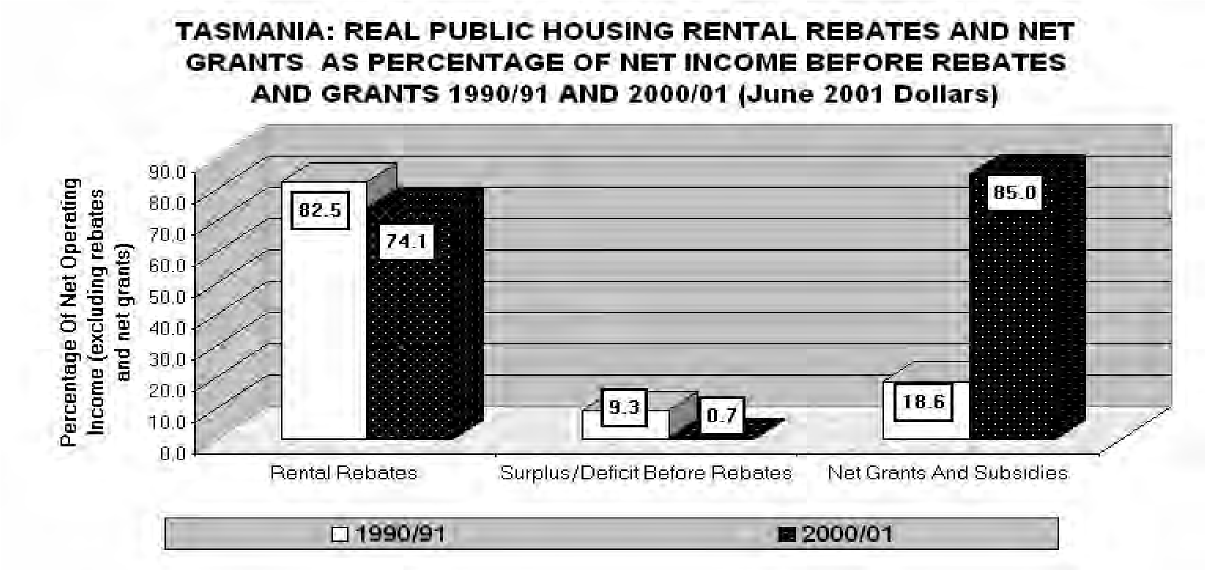
These results reinforce the earlier comments on the impact of Net Interest and Depreciation. In 1990/91 they increased the deficit by over 60% of Net Income, whilst in 2000/2001 they increased it by about 53% of Net Income.

The Importance of Rebates and Grants

Real average Rental Rebates per dwelling have actually declined slightly from $2,607 in 1990/91 to $2,439 in 2000/01, whilst conversely, Net Grants applied to public housing have increased very rapidly, from just over $589 to almost $2,800 ($2,796) per annum.

Graph 76 sets out Rental Rebates and Grants as a proportion of Net Income before Grants.

GRAPH 76: TAS: Real Public Housing Rental Rebates and Net Grants as a Percentage of Net Income before Rebates and Grants 1990/91 and 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Housing Tasmania, Tasmanian Department Of Health and Human Services. Questions Return From Housing Tasmania To Operating Deficits Project

Whilst the graph clearly shows that the impact of Rental Rebates relative to Net Incomes before Rebates has declined they still remain very significant. Of most importance is that if the Housing Tasmania received a commercial return based on market rents it would be just generating surpluses.

In the case of Housing Tasmania, recognising the real cost of the Community Service Obligation and providing a cash payment for rebates, could ensure the continued viability of the sector.

Of greater concern, however, is that in 1990/91 Net Grants and Subsidies represented only 18.6% of the Net Income (before grants), whilst in 2000/01 this figure had climbed to 85%, greater than the cost of Rental Rebates.

Key Comparators 2000/01: Housing Tasmania Compared To Other States.

Table 9 sets the rankings of Housing Tasmania, by each line item and indicator.

Four important conclusions emerge from this analysis, viz Housing Tasmania has;

- the lowest Net Rents of all States and the Housing New Zealand Corporation;
- the lowest Net Incomes all States and the Housing New Zealand Corporation;
- the highest cost, and the greatest percentage of the total Salaries expenditure item of all States and the Housing New Zealand Corporation;
- the second worst cost, and second greatest percentage of Net Income, Operating Deficit of all States and the Housing New Zealand Corporation.

Table 9: Financial Rankings: Real Income/Expenditure Per Dwelling: Housing Tasmania

Item	Rankings		
	Absolute Amounts: 2000/01	Percentage (Of Net Income Or Expenditure): 2000/01	Percentage Change 1990/91 –2000/01
1 Net Rents	9	3	5
2 Net Grants	3	1	3
3 Maintenance	7	8	8
4 Rates	2	1	8
5 Salaries & Employment Related	1	1	6
6 Administration & Working	9	9	3
7 Total Overhead (4+5)	5	5	4
8 Bad Debts	6	7	4
9 Net Interest	4	4	4
10 Depreciation	8	8	6
	Major Components		
11 Net Incomes	9	-	5
12 Operating Expenditures	5	-	8
13 Operating Surpluses/Deficits[1]	8	8	3
14 Rental Rebates	6	3	7

Source: Financial Statements 1990/91 – 2000/2001 Of Housing Tasmania, Tasmanian Department Of Health and Human Services. Questions Return From Housing Tasmania To Operating Deficits Project

1 Excludes Net Interest, Depreciation, Net Grants and Rental Rebates.

4.7.2 Qualitative

Key Responses from the Operational Deficits Questionnaire

The Tasmanian respondents were unequivocal that both tighter targeting and greater and greater proportions of single income households were having a depressive effect on Net Rental Income. Priority allocations now represent 100% of new tenancies and single person households represent 48% of existing tenancies and 66% of households on the waiting list.

The nature of the Tasmania housing market and distribution of a significant proportion of the stock into small towns and rural locations means stock outside Hobart has been expensive to maintain. There is some maintenance backlog but it is relatively small as the worst stock has been sold out as it is identified. However, the average age of the stock is 23 years and increasing and it can be anticipated therefore that real Maintenance costs will grow.

Housing Tasmania is undertaking a program of restructuring its asset base whereby 3,500 sales over three years have been earmarked. It is intended to buy some 1,000 dwellings and use the remaining proceeds for debt reduction. At the current time the only debt remaining is the 4.5% concessional loans from the Commonwealth.

About $13million is paid to the Department of Health and Human Services for additional tenant support services.

Housing Tasmania's Key Comments to the Productivity Commission

Housing Tasmania's comments to the Productivity Commission in 1996/97 and 1997/98 reflect the increasing priority being given to repositioning the asset base, improving the quality of service and the range of support measures available.

In 1996/97 Housing Tasmania focused on better services to clients and improved asset management.

New service centres which provide clients with access to housing assistance within their neighbourhood were opened. The Tasmanian Housing Information System which assists tenancy and property management was implemented.

In 1997/98 Housing Tasmania commented that:

> "… At the same time, the Division placed increased emphasis on enhanced customer services within the context of a commercially based operation".

Productivity Commission: Quality of Service Indicators: Tenant Satisfaction and Rating of Housing Stock

A review of the Productivity Commission Effectiveness Indicators suggests that Housing Tasmania's efforts to improve its quality of services is being perceived by its tenants as succeeding, in some cases significantly. On the two main indicators, tenant satisfaction and tenants' rating of housing stock condition, the proportion of tenants very satisfied increased by 30% between 1996 and 2000, whilst those dissatisfied fell by 33%.

In addition, on all five tenants ratings of housing stock, improvements were achieved, with an improvement in the 'good' rating of 11.7% for external structure, 8.3% for internal structure, 10.9% for appliances, 31.6% for security and 45.8% for surrounds, reflecting the asset management system improvements and the restructuring of the portfolio.

4.7.3 Housing Tasmania: Conclusions

Housing Tasmania's main priorities have been to restructure its assets and eliminate any commercial debt. In addition, it has focused upon improving the quality of the services it provides to its clients, and tighter targeting,

These priorities have been reflected in:

- almost flat Net Rents and hence Net Income per dwelling;
- substantial increases in both Salaries and Administration and Working expenditures as improvements in service quality and the extension of support services find their way into the bottom line;
- significant improvements in tenants, ranking of both their satisfaction with the service provided and the quality of their dwelling;
- a halving of any debt servicing burden, which remains at very substantial levels of 26% of Net Income and is to be further addressed via asset sales;
- the second lowest Net Incomes and the third highest Operating Expenditures resulting in the second worst operating deficit (after the ACT);

Currently, 85% of tenants are rebated with the 15% unrebated tenants mitigating further Net Rent decline.

However, with 100% of new allocations being Priority, it can be expected that rebated tenants and smaller households will continue to increase as a proportion of total tenancies until such time as the proportion of rebated tenants reach saturation and the trend to smaller households is completed.

Under these circumstances Real Net Rents per dwelling can be expected to decline in the near future.

However, whilst maintenance savings accruing from asset reconstruction may be small, elimination of the debt servicing would halve the existing deficit (before Depreciation) but it would still remain comparatively high. Whilst Overhead costs have grown strongly they are still around the average for the nine Housing Authorities. Similar to most of the other State Housing Authorities, with the likely future trends in

Net Income, and the current trends in overhead costs, it is probable that without any change to the distribution of tenant incomes, funding parameters, and cost structures the Deficit may continue to deteriorate.

Either additional funding will need to be provided or Housing Tasmania will have find other solutions.

It is also clear, however, that if the full cost of Housing Tasmania's community service obligation was fully recognised (i.e. if the difference between market rents and income related rents was fully funded), Housing Tasmania's Operating Deficit would become a very small surplus. Combined with some reduction in debt servicing and if funding was maintained on that basis, Housing Tasmania would likely operate at a profit for the foreseeable future.

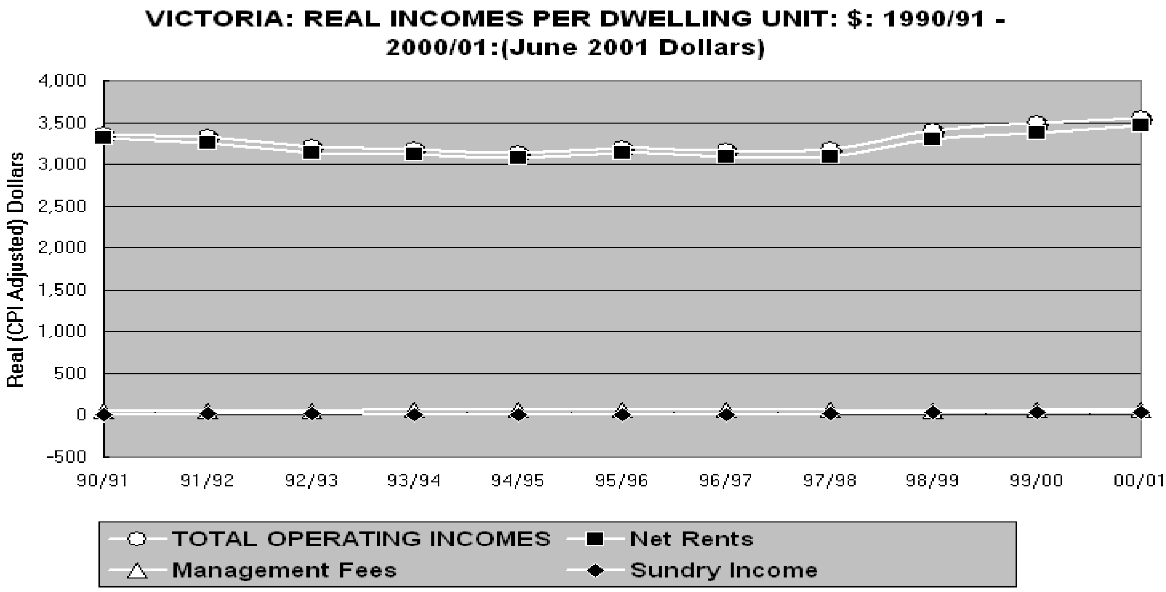
4.8 Victoria

4.8.1 Quantitative

Changes In Net Incomes

Graph 77 traces real Net Income per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 77: VIC: Real Incomes Per Dwelling Unit: $: 1990/91 – 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Office Of Housing Department Of Human Services and Financial Questions Return From Office Of Housing to Operating Deficits Project

1 Includes Public, Community and Aboriginal Housing owned and operated by the Office Of Housing but excludes any dwellings headleased or leased from third parties.

Over the study period (1990/91 – 2001/2001), operating incomes only increased in real terms from $3,364 to $3,553 or by about $190 per dwelling. Net Rents per dwelling rose by 4.5%. Net Real Incomes Per Dwelling fell from $3,364 in 1990/91 to a low point of $3,139 in 1994/95 and then increased steadily from 1997/98 to 2000/01. Real Rents constituted 97% or more of annual Operating Incomes throughout the decade.

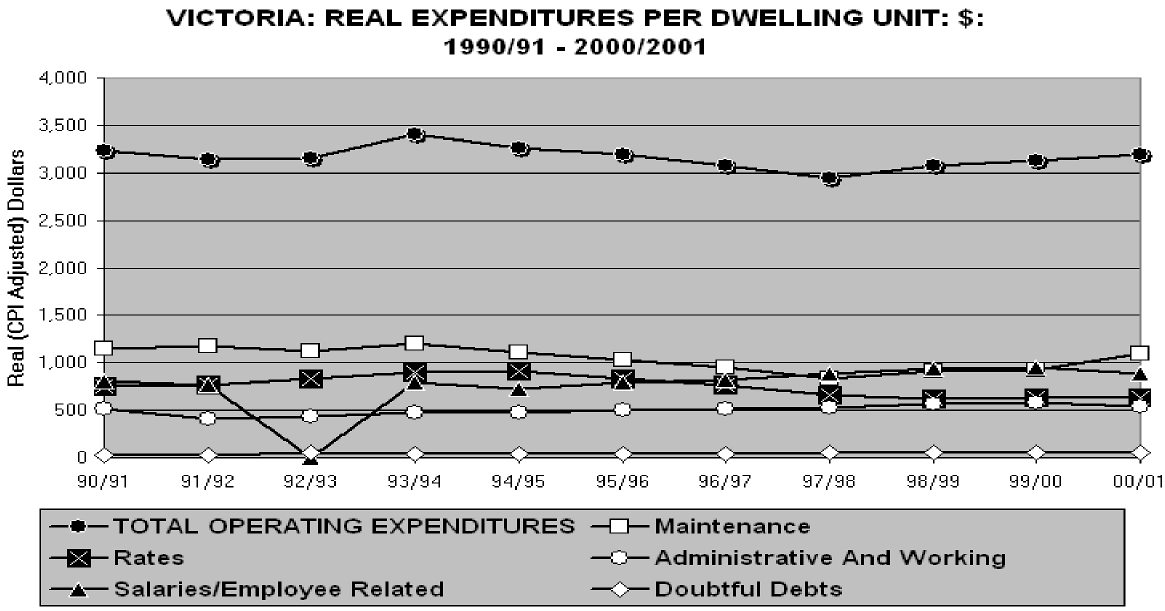
Quantitative Factors Affecting Operating Incomes

Over the study period rebated tenants increased from 85.5% to 89.1% and)more importantly) priority crisis and emergency allocations increased from 11.8% of all new allocations to 67%, the third highest of all Australian States. The Productivity Commission (2002) data returns on public housing suggest that there is a discernable trend to a greater proportion of single income households which, if continued, will reduce the average net rent payable per dwelling. However, Victoria had several rent charging policy changes throughout the decade, which will be commented upon later.

Expenditures and Expenditure Priorities

Graph 78 sets real net expenditure per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 78: VIC: Real Expenditures Per Dwelling Unit: $: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of Office Of Housing Department Of Human Services and Financial Questions Return From Office Of Housing to Operating Deficits Project

The graph shows that Victoria is the only State where real operating expenditures per dwelling have fallen; from $3,239 in 1990/91 to $3,198 in 2000/01. By far the most important factor is that Real Rate payments per dwelling fell by 15% as a result of Local Government reform and amalgamations of Victorian Local Government in the middle of the decade. Real Maintenance expenditure also fell slightly, from $1,143 to $1,098 or by $45 per dwelling.

Even where real increases in expenditure occurred, with the exception of Bad Debts (which is a very small absolute amount), increases did not exceed 1% real for any item.

Administration and Working Expenses only increased from $510 to $535 or by $25 (about ½ percent per annum) and Salaries, etc. from $807 to $885 or by $77 (about 1% per annum).

Reflecting these real changes in expenditure items, Graphs 79 and 80 set out the proportion of total operating expenditure occupied by each of the core expenditure items for the years 1990/91 and 2000/2001.

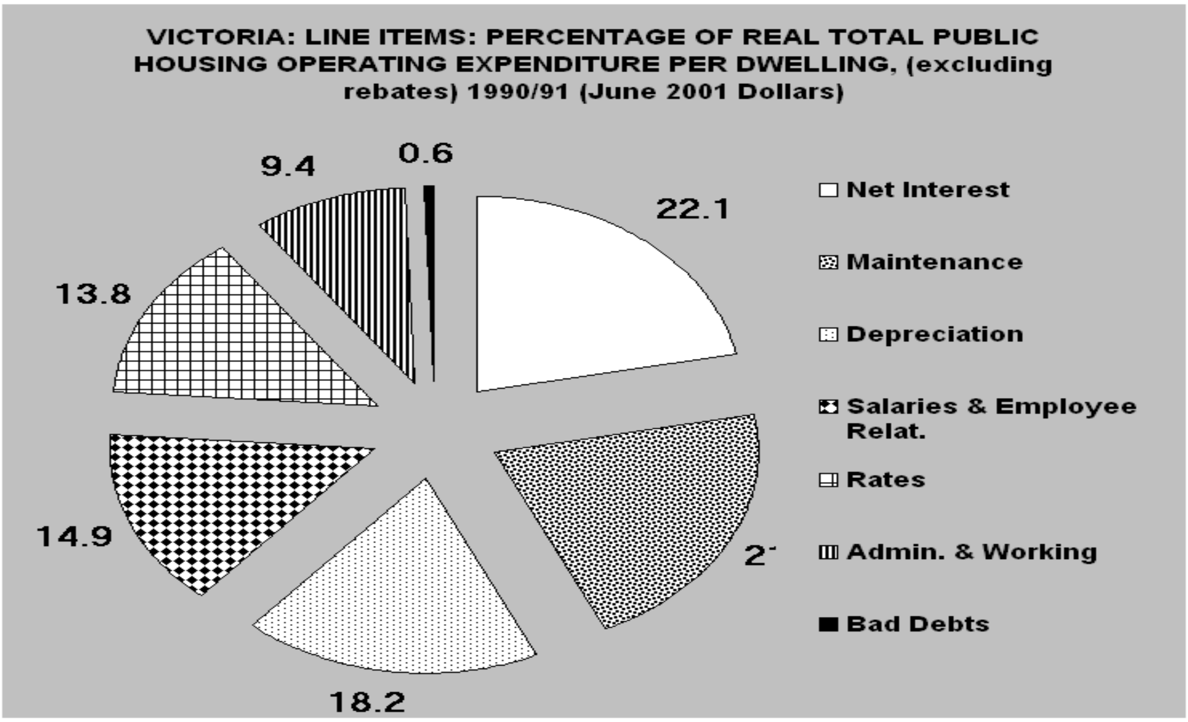
The graphs show how the proportion of the Victoria's total expenditure per dwelling for each item (including Depreciation and Net Interest) has changed over the decade.

As a result of the Victorian Treasury absorbing the Office of Housing's debt in 1996/97, Net Interest has moved from absorbing 22.1% of total Operating Expenditure to being positive, i.e. earning monies on funds invested. However it should be noted that the Office Of Housing must still make regular capital payments to Treasury.

Rates, Administration and Working and Maintenance expenditure have both increased by small amounts as a proportion of total expenditures per dwelling, with Rates increasing from 13.8% to 14.8%, Administration and Working from 9.4% to 12.5%, and Maintenance increasing from 21.1% to 25.6%.

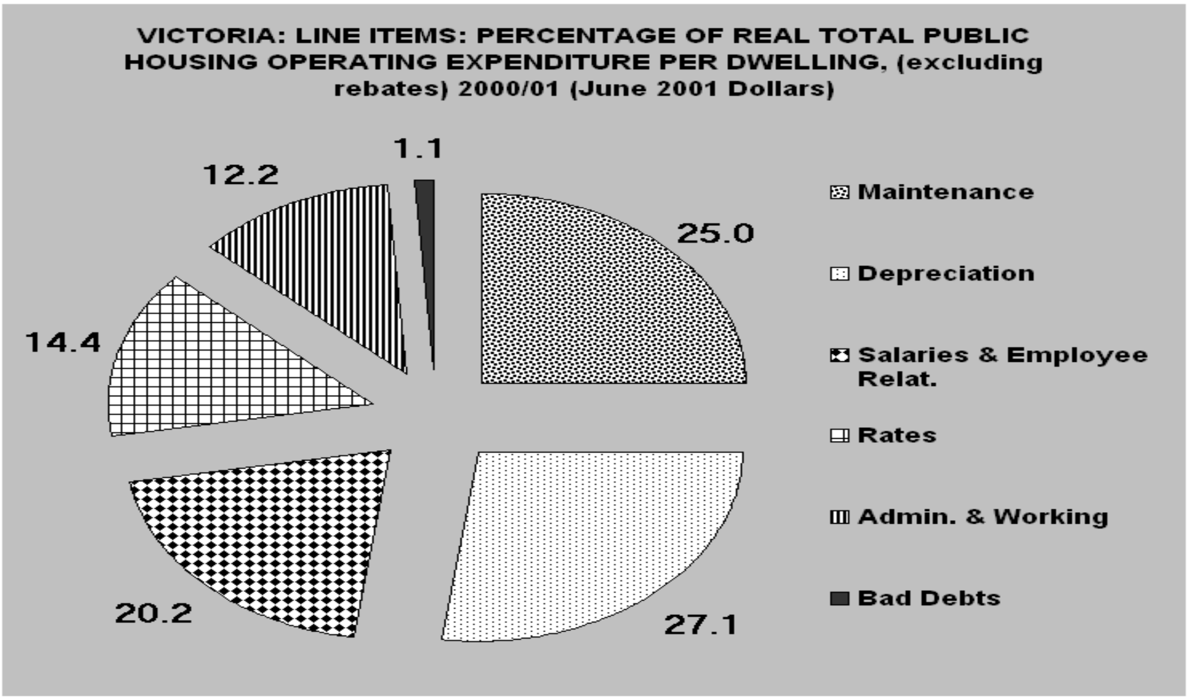
By far the greatest change in proportions has occurred in Salaries and Salary Related expenses and Depreciation, with the former increasing from 14.9% to 20.6% of total operating expenditures, and the later increasing from 18.2% to 27.7%. Victoria now spends more on Salaries than on rates.

GRAPH 79: VIC: Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 1990/91 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Office Of Housing Department Of Human Services and Financial Questions Return From Office Of Housing to Operating Deficits Project

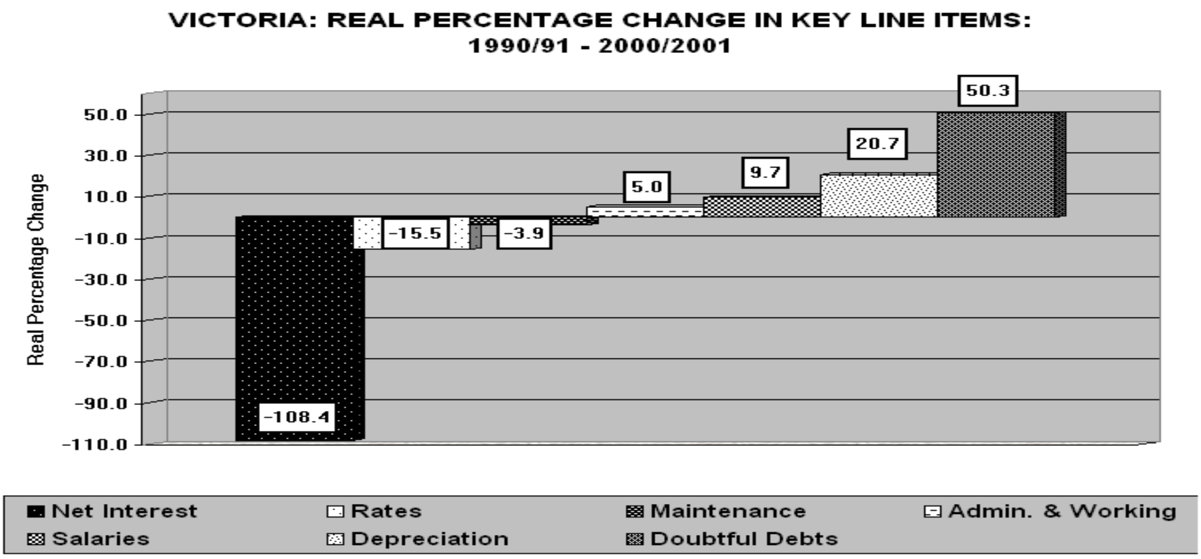
GRAPH 80: VIC: Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Office Of Housing Department Of Human Services and Financial Questions Return From Office Of Housing to Operating Deficits Project

Graph 81 sets out the real percentage change in the costs of key line items.

GRAPH 81: VIC: Real Percentage Change in Key Line Items: 1990/91 – 2000/01



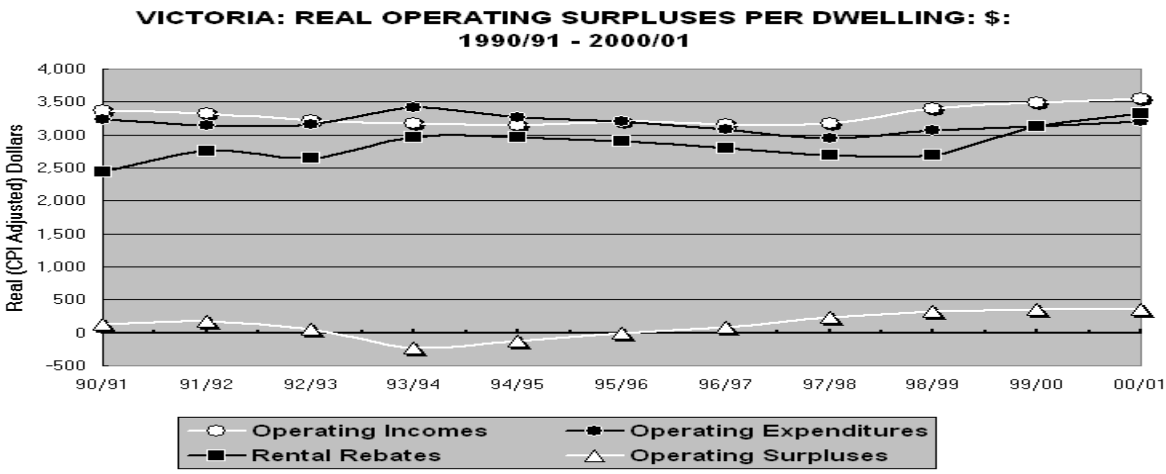
Source: Financial Statements 1990/91 – 2000/2001 Of Office Of Housing Department Of Human Services and Financial Questions Return From Office Of Housing to Operating Deficits Project

The graph reflects the findings outlined earlier, viz. very significant real declines in the cost per dwelling for Net Interest and Rates, small declines in Maintenance, small increases in Salaries etc, and Administration and Working and a moderate increase in Depreciation.

Operating Income, Expenditure and Surplus/Deficits

Graph 82 sets out the trends in Operating Surpluses/Deficits excluding Net Interest and Depreciation.

GRAPH 82: VIC: Real Operating Surpluses Per Dwelling: $: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001 Of Office Of Housing Department Of Human Services and Financial Questions Return From Office Of Housing to Operating Deficits Project

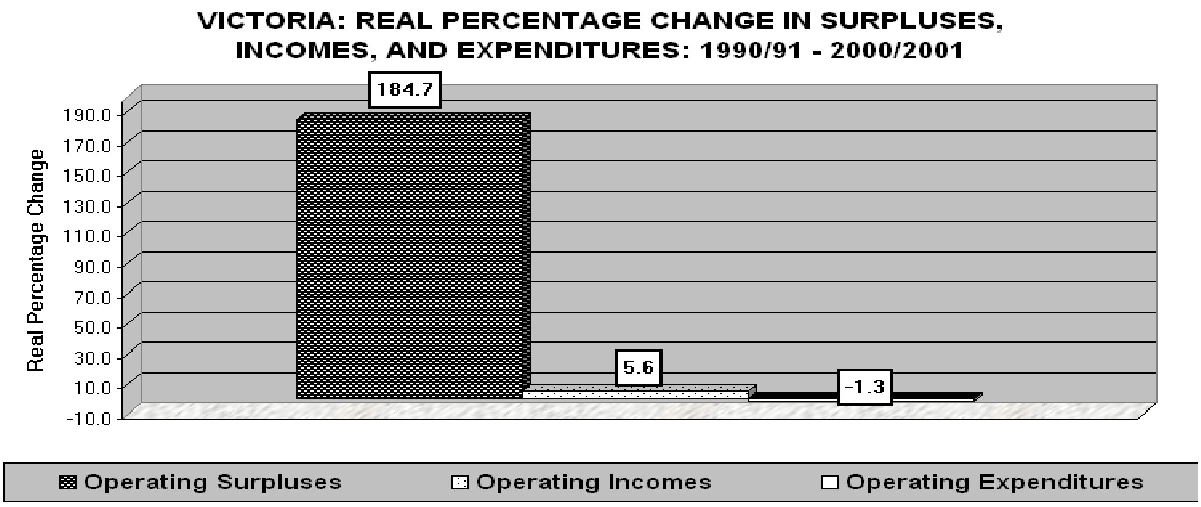
In 1990/91 Victoria produced a real surplus per dwelling (excluding Net Interest and Depreciation), of $125, which fell until in 1993/94 and 1994/95 two small deficits were recorded of -$231 and -$125, respectively. From 1994/95, however, Surpluses have continued to be recorded increasing from just $2 per dwelling in 1995/96 to $356 in 2000/01. Victoria is the only Housing Authority where the positive Operating position has continued to improve.

Up until 1993/94 Operating Expenditures had been increasing by about 1.5% Real per annum. Thereafter, Real Operating Expenditures have not increased, in fact falling by some $200 per dwelling or about 1% Real per annum.

In contrast Real Operating Incomes increased over the same period by approximately $470 per dwelling or by about 2.2% Real per annum.

Graph 83 sets out the real percentage change in Operating Incomes, Expenditures and Deficits.

GRAPH 83: VIC: Real Percentage Change in Surpluses, Incomes and Expenditures: 1990/91 – 2000/01



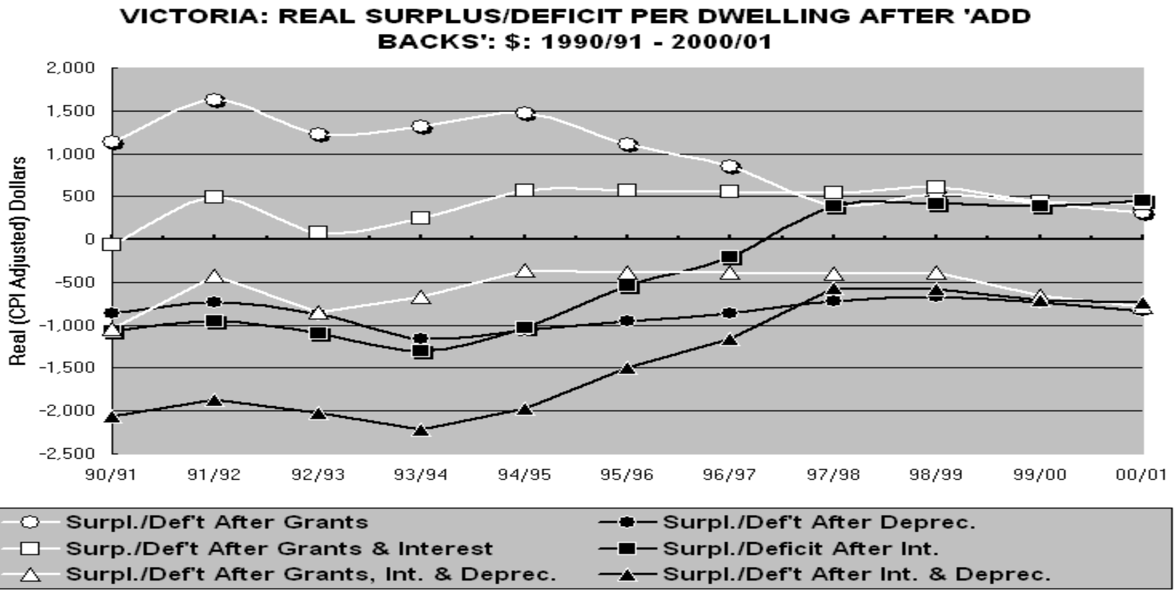
Source: Financial Statements 1990/91 – 2000/2001 Of Office Of Housing Department Of Human Services and Financial Questions Return From Office Of Housing to Operating Deficits Project

To summarize, real Operating Incomes (net of grants and interest earned) increased by one half of 1% whilst real Operating Expenditures fell by 1.3% resulting in a Surplus growth of 184.7% over the period.

Impact of Net Interest and Depreciation

Graph 84 sets out the impact of Net Interest and Depreciation on the Operating Surplus/Deficit.

GRAPH 84: VIC: Real Surplus/Deficit Per Dwelling after 'Add backs' : $: 1990/91 – 2000/01



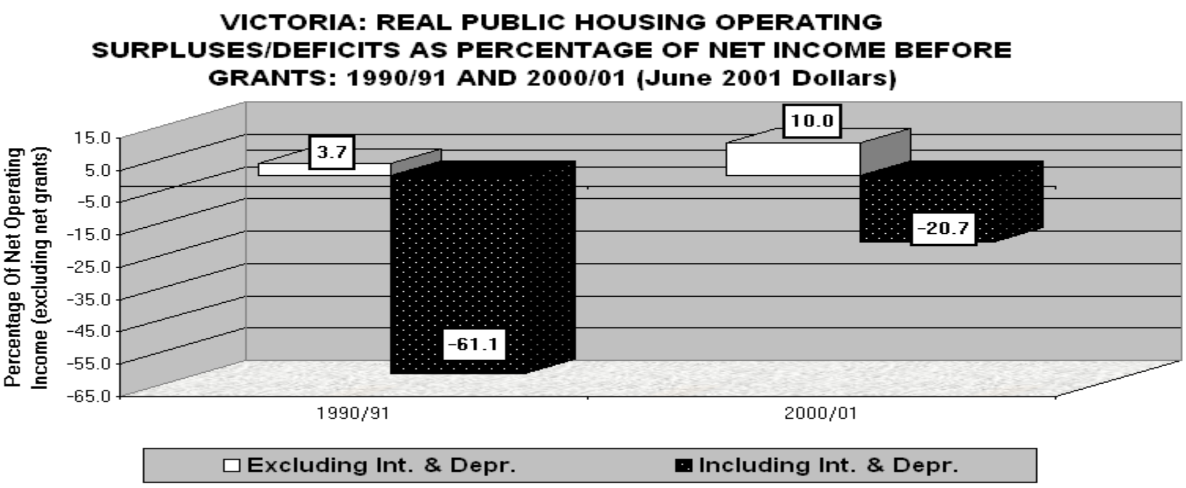
Source: Financial Statements 1990/91 – 2000/2001 Of Office Of Housing Department Of Human Services and Financial Questions Return From Office Of Housing to Operating Deficits Project

It is clear from the Graph 84 that the impact of Net Interest costs and Depreciation have declined substantially over the decade. In 1990/91 Net Interest moved the real operating result from surplus to deficit by approximately -$1,070 per dwelling. Depreciation added a further –$986 to the deficit, increasing it after interest from -$1,070 to -$2,056 per dwelling.

In 2000/2001, however, Net Interest added nothing to the expenditure line, and Depreciation some $1,190 turning the Operating Surplus from $455 after Interest to a Deficit of -$734 or by less than half the shift that occurred a decade earlier.

Graph 85 sets out the operating deficits as proportion of net income 'before' and 'after' Net Interest and Depreciation.

GRAPH 85: VIC: Real Public Housing Operating Surpluses/Deficits as a Percentage of Net Income Before Grants: 1990/91 and 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Office Of Housing Department Of Human Services and Financial Questions Return From Office Of Housing to Operating Deficits Project

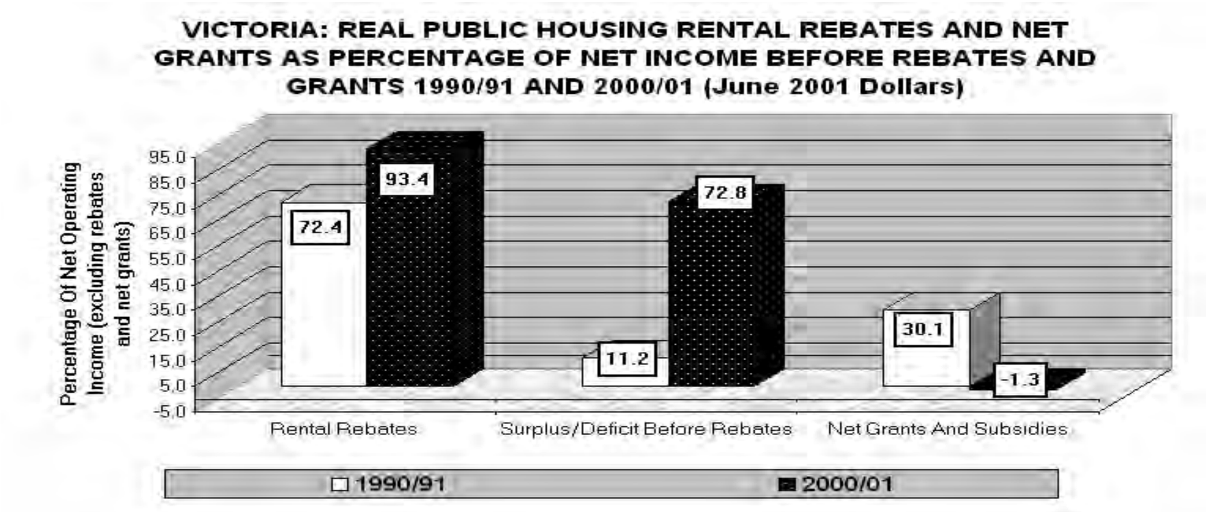
These results reinforce the earlier comments on the impact of Net Interest and Depreciation. Whilst these expenditure components are still important they had a 60% impact on the Operating Deficit as a percentage of Net Income in 1990/91, whilst in 2000/2001 they merely added about 30% to the Deficit as a percentage of net income. Consequently, the impact of these items has about halved in real terms over the decade.

The Importance of Rebates and Grants

Real average Rental Rebates per dwelling have actually increased significantly from $2,434 in 1990/91 to $3,320 in 2000/01, whilst conversely Net Grants applied to public housing have decreased rapidly, from just over $1000 to negative -$47 per annum (Victoria paid more grants than it applied to the Operations).

Graph 86 sets out Rental Rebates and Grants as a proportion of Net Income before Grants.

GRAPH 86: VIC: Real Public Housing Rental Rebates and Net Grants as a Percentage of Net Income Before Rebates and Grants 1990/91 and 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 Of Office Of Housing Department Of Human Services and Financial Questions Return From Office Of Housing to Operating Deficits Project

Whilst the graph clearly shows that the impact of Rental Rebates relative to Net Incomes before Rebates has declined they still remain very significant.

Of most importance is that if Victoria received a commercial return based on market rents it would be very viable financially and would provide double digit returns. Combined with the capital gain, this would provide a very good dividend to the State.

Key Comparators 2000/01: Victoria Compared to Other States.

Table 10 sets the rankings of Office of Housing, Victoria, by each line item and indicator.

Eight important conclusions emerge from this analysis; viz the Victorian Office of Housing has:

- The lowest amount, lowest percentage of total Operating Expenditure and fastest falling Net Grants item of all States and the Housing New Zealand Corporation;
- the second lowest cost, and fastest falling Maintenance expenditure item of all States and the Housing New Zealand Corporation;
- the lowest cost, second lowest percentage of total Operating Expenditure and fastest falling Rates expenditure item of all States and the Housing New Zealand Corporation;
- the second fastest falling Salaries etc expenditure item of all States and the Housing New Zealand Corporation;

- the fastest falling Overhead expenditure item of all States and the Housing New Zealand Corporation;
- the lowest cost (actual Income), lowest percentage of Operating Expenditure (nil), and fastest falling Net Interest expenditure item of all States and the Housing New Zealand Corporation;
- the lowest cost, and fastest falling Operating Expenditures of all States and the Housing New Zealand Corporation; and
- the second largest, second largest percentage of Income, and fastest growing Operating Surpluses of all States and the Housing New Zealand Corporation.

Table 10: Financial Rankings: Real Income/Expenditure Per Dwelling: Victoria: Office Of Housing

Item	Rankings		
	Absolute Amounts: 2000/01	Percentage (Of Net Income Or Expenditure): 2000/01	Percentage Change 1990/91 –2000/01
1 Net Rents	6	4	4
2 Net Grants	*8*	*8*	*8*
3 Maintenance	*8*	*5*	*9*
4 Rates	*9*	*8*	*9*
5 Salaries & Employment Related	6	2	*8*
6 Administration & Working	8	3	7
7 Total Overhead (4+5)	6	2	*9*
8 Bad Debts	7	4	6
9 Net Interest	*9*	*9*	*9*
10 Depreciation	4	1	8
	Major Components		
11 Net Incomes	7	-	4
12 Operating Expenditures	*9*	*-*	*9*
13 Operating Surpluses/Deficits[1]	*2*	*2*	*1*
14 Rental Rebates	3	2	2

Source: Financial Statements 1990/91 – 2000/2001 Of Office Of Housing Department Of Human Services and Financial Questions Return From Office Of Housing to Operating Deficits Project

1 Excludes Net Interest, Depreciation, Net Grants and Rental Rebates.

4.8.2 Qualitative

Key Responses from the Operational Deficits Questionnaire

The Victorian respondent indicated that tighter targeting would be exerting some downward pressure on average rents received, but that the trend to smaller households has probably had a greater affect on Net Rents. There have been a number of unrepeatable rent charging policy changes over the decade:

- in October 1995, rents for existing residents were increased from 10% to 15% of assessable income and from 15% to 20% in October 1996;
- in November 1997, rebated rents for new tenants were increased from 20% to 25% of gross household income; and
- in April 1998, the rent paid by rebated tenants was increased from 20% to 23% of gross household income.

A large amount of Victoria's stock is in large estates, and about 60% of stock is over twenty years old and is maintenance intensive. Victoria has increased its capital improvement expenditure from $43million in 1992/93 to $170million in 2002/03, whilst maintenance expenditure has increased significantly in recent years. Accrued maintenance reached $140million in 1998/99 but had declined to under $130million by June 2002. The respondent stated that according to a Commonwealth Scientific and Industrial Research Organisation (CSIRO) model prepared for the Office of Housing, about $180-$190million is required to bring all stock to appropriate standards.

Victoria applies a business attitude to managing the operation and has successfully engaged Victorian Treasury on both debt and recovering GST costs. Victoria's housing debt was taken over by the Victorian Treasury in 1996/97 and since then the amount paid to the Victorian Treasury each year has been by negotiation and relative to the State's Budget position and Housing program needs. Victoria attempts to breakeven on a cash basis with its Operating Income and Expenditure, but some grants are required to support Operations. Operating Deficits are simply one of a number of reasons preventing substantive additions to supply, including program priorities, client needs etc.

Victoria Office of Housing's Key Comments to the Productivity Commission

Victoria Office of Housing's comments to the Productivity Commission in 1996/97 and 1997/98 reflect the increased targeting, improved the quality of its assets and improved the value obtained from its service delivery.

In 1995/96 Victoria reformed its Community Housing sector, and introduced new initiatives to provide better services for clients and improvements in asset management. These initiatives were:

- the introduction of 55 neighbourhood teams operating from 39 locations providing housing assistance tenancy and maintenance services for clients from a single delivery point;
- the introduction of a direct debiting service for rental payments from the Department of Social Security, (DSS); and
- a comprehensive stock condition survey.

In 1997/98 Victoria gave greater impetus to tighter targeting by introducing broad banding, which had the effect of substantially increasing priority allocations by requiring applicants to nominate a wider area for their preferred housing location .

Productivity Commission: Quality of Service Indicators: Tenant Satisfaction and Rating of Housing Stock

A review of the Productivity Commission Effectiveness Indicators reveals that Victoria's tenants do not rank the services highly, with Victoria running second last on the proportion of tenants very satisfied, last on the proportion satisfied and third on the proportion dissatisfied, although it must be recognised that the tenants' rankings had improved for very satisfied by 10%, and 14% for satisfied.

In addition, on the five tenants' ratings of housing stock, Victoria ranked second, fifth, fourth and fifth, mid-range for the nine housing authorities. Small improvements were achieved, with an improvement in the 'good' rating of 5% for external structure, 2% for internal structure, and 3% for security.

4.8.3 Victorian Office of Housing: Conclusions

There are a number of particular circumstances which make Victoria unique. The Office of Housing's performance in the last decade is not likely to be replicated in future years.

Firstly, Victoria was first authority in beginning to change its rent charging policies and very quickly completed the movement from charging proportions lower than 25% of household income in rent to 25%. This had the effect of allowing the Net Rents received to grow slightly even when the trends to smaller households and lower income households were moving the Income trend in the opposite direction. These gains will not be able to be repeated in future years and it is more likely that as the tenant composition moves more completely to rebated tenancies, and allocations become almost exclusively priority, some decline will occur in the Net Rent received per dwelling.

Secondly, Victoria engaged in serious reform and amalgamation of Local Authorities in the mid 1990's which, in many locations, saw the rate in the dollar fall. This reform is primarily responsible for the 15% fall in rates per dwelling, although some shift to smaller (and lower value) dwellings may also have contributed. This Rate result will not be able to be repeated in the next decade.

Thirdly the assumption by the Victorian Treasury of all of the public housing debt eliminated a significant interest burden and these cost savings are now fully booked.

Fourthly, the structure of the portfolio and its concentration in major estates and high density housing will no doubt have provided some maintenance efficiencies not available to other Housing Authorities.

There is no doubt, however, that Victoria has exercised rigid discipline over its expenditures, as reflected in both its Salaries costs rising the second slowest of all Authorities and its Operating Expenditures actually falling in real terms (before Depreciation and Net Interest). It's aim to break-even on a cash basis has probably contributed to these outcomes.

In the interests of sound financial management Victoria has taken a careful approach to the provision of its client services, one necessitated by the adherence to a cash neutral outcome.

This of course raises the question as to whether Housing Authorities can expect to substantially improve the quality of their services to tenants without equivalent increases in costs. With flat or falling Incomes what quality of services can Housing Authorities afford? If rising service standards are a high priority, where are the additional funds necessary to support them to come from? These are important policy questions for Australia's housing authorities, in the light of the analysis in this report.

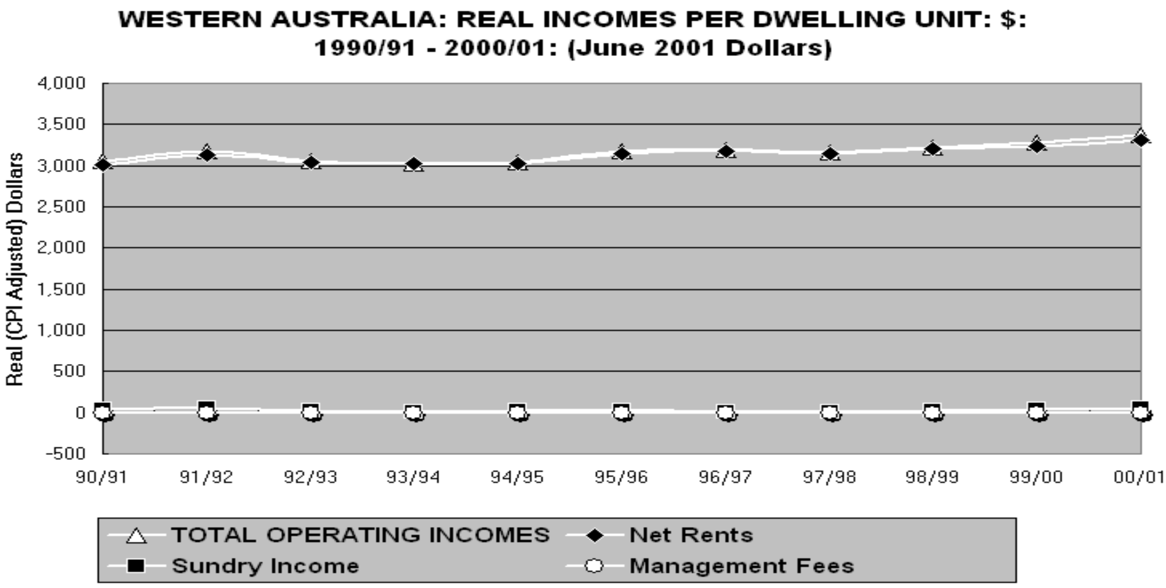
4.9 Western Australia: 'Homeswest'

4.9.1 Quantitative

Changes in Net Incomes

Graph 87 traces real Net Income per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 87: WA: Real Incomes Per Dwelling Unit: $: 1990/91 – 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001 of the State Housing Commission, (operating as 'Homeswest' and hereafter referred to as Homeswest) and Financial Questions Return From Homeswest to Operating Deficits Project

1 Includes Public, Community and Aboriginal Housing owned and operated by Homewest but excludes any dwellings headleased or leased from third parties.

Over the study period (1990/91 – 2001/2001), operating incomes increased in real terms from $3,055 to $3,370 or by about $300 per dwelling. Net Rents per dwelling rose by 9.8%. Net Real Incomes Per Dwelling stayed almost the same from 1990/91($3,055) to 1994/95, ($3,046) and then increased steadily to 2000/01. Real Rents constituted more than 98% of annual Operating Incomes throughout the decade.

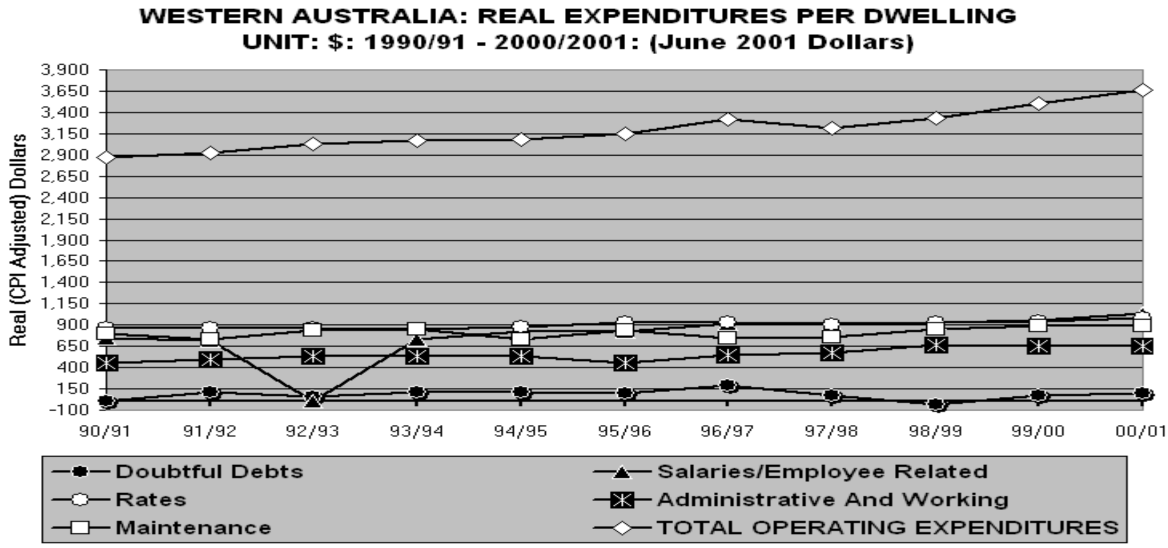
Quantitative Factors Affecting Operating Incomes

Over the study period rebated tenants only increased slightly from 78% to 84.7% of total tenancies and priority, crisis and emergency allocations only increased from 10% of all new allocations to 19%, the lowest of all Australian States. Tighter targeting has not had a significant impact in Western Australia.

Expenditures and Expenditure Priorities

Graph 88 sets real net expenditure per dwelling unit over the period 1990/91 to 2000/2001.

GRAPH 88: WA: Real Expenditures Per Dwelling Unit: $: 1990/91 – 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001, of Homeswest. Questions Return From Homeswest To Operating Deficits Project.

The graph shows that real operating expenditures per dwelling have increased from $2,870 in 1990/91 to $3,658 in 2000/01.

Real increases in Maintenance and Rates outgoings has been moderate with Maintenance expenditure per dwelling increasing from $801 to $894 (11.5%) and Rates from $868 to $977 (12.5%).

Significant real increases in expenditure occurred in the Administrative and Working and Salaries and Employee Related items with the former increasing from $457 per dwelling to $653 (or by 40%) and the latter from $742 to $1,040 (or by 43%). Total overhead increased in real terms from $1,199 to $1,694 or by approximately 41%.

By far the greatest real increase in expenditure occurred in Net Interest payments, increasing from -$112 to -$572 or by 412%.

Reflecting these real changes in expenditure items, Graphs 89 and 90 set out the proportion of total operating expenditure occupied by each of the core expenditure items for the years 1990/91 and 2000/2001.

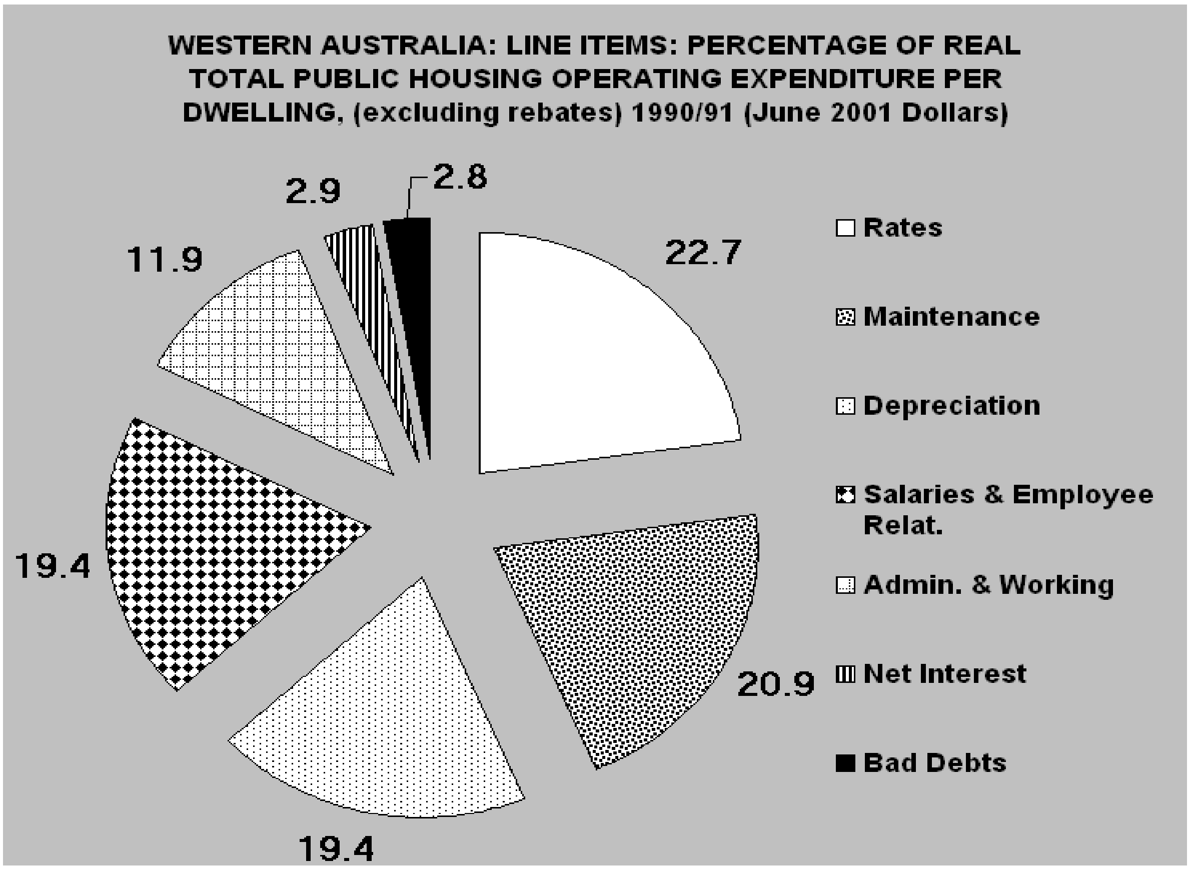
The graphs show how the proportion of Homeswest's total expenditure per dwelling for each item (including Depreciation and Net Interest) has changed over the decade.

The proportions of total expenditure absorbed by both Rates (down from 23.3% to 18.6%) and Maintenance (down from 21.5% to 17%) have declined substantially.

Depreciation has fallen slightly as a proportion of total expenditures per dwelling, from 20.0% to 19.6%, as has Salaries and Employee Related; from 19.9% to 19.8%; whilst Administration and Working Items has increased slightly, from 12.3% to 12.4%.

As outlined in the analysis of expenditure item growth, by far the greatest change in proportions has occurred in Net Interest, increasing from 3.4% to 10.6%.

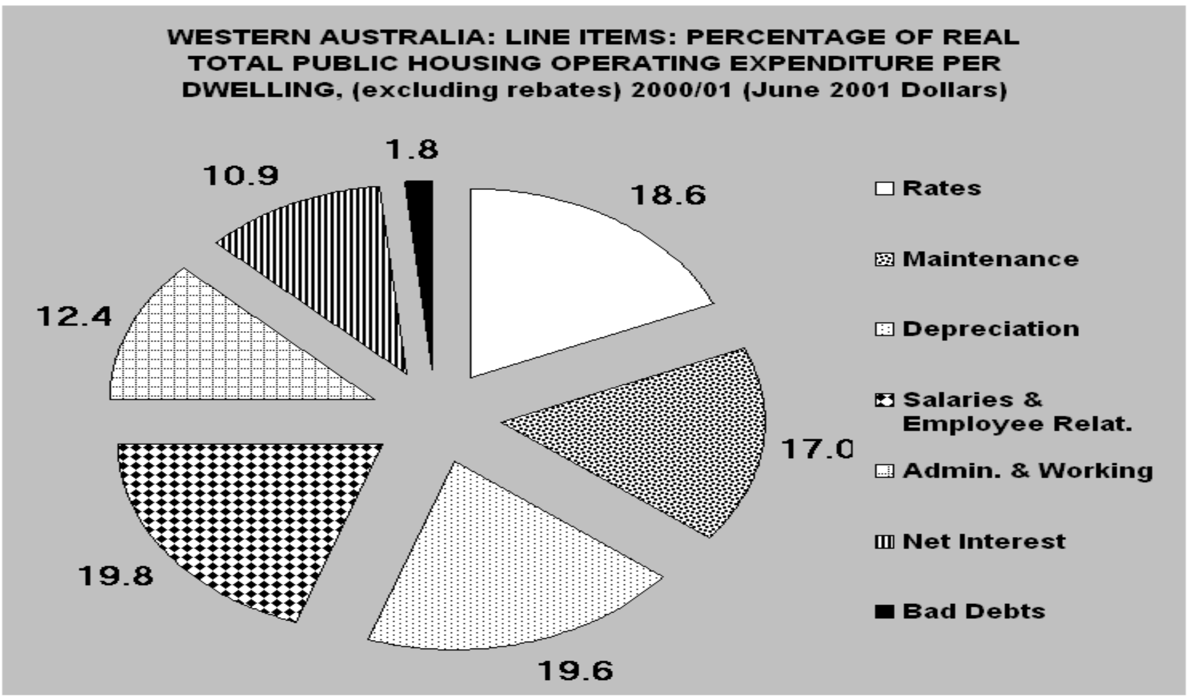
GRAPH 89: WA: Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 1990/91 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001, of Homeswest. Questions Return From Homeswest To Operating Deficits Project.

Note: Bad and Doubtful Debts Figure for 1991/92 has been used because of an anomaly with the 1990/91 figure.

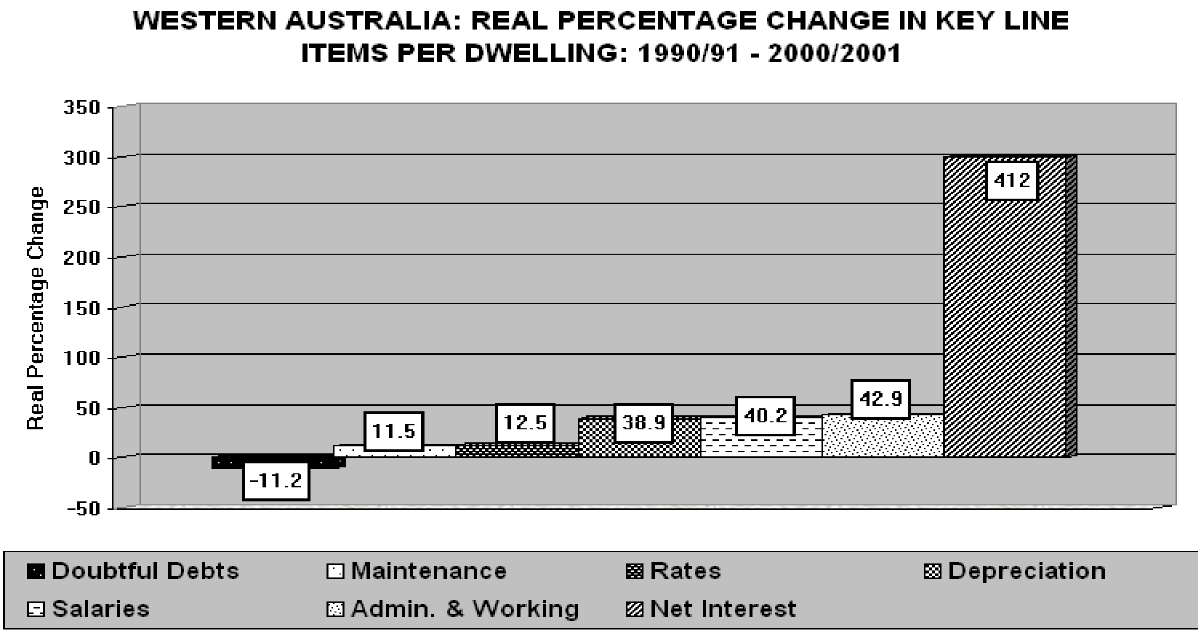
GRAPH 90: WA: Line Items: Percentage of Real Total Public Housing Operating Expenditure Per Dwelling (excluding rebates) 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001, of Homeswest. Questions Return From Homeswest To Operating Deficits Project.

Graph 91 sets out the real percentage change in the costs of key line items.

GRAPH 91: WA: Real Percentage Change in key Line Items Per Dwelling: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001, of Homeswest. Questions Return From Homeswest To Operating Deficits Project.

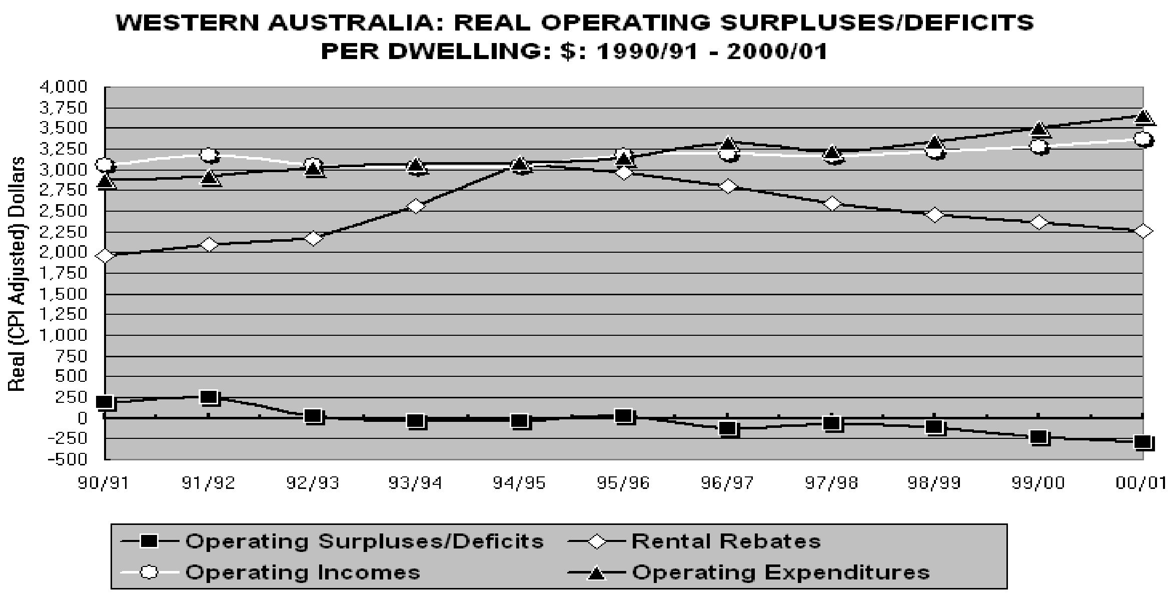
Note: Base year for Bad and Doubtful Debts is 1991/92 because of an anomaly with the 1990/91 figure.

The graph reflects the findings outlined earlier, viz. moderate changes in Maintenance and Rates, significant real percentage increases in Administration and Working Items, Salaries etc. and a major increase in Net Interest.

Operating Income, Expenditure and Surplus/Deficits

Graph 92 sets out the trends in Operating Surpluses/Deficits excluding Net Interest and Depreciation.

GRAPH 92: WA: Real Operating Surpluses/Deficits Per Dwelling: $: 1990/91 – 2000/01

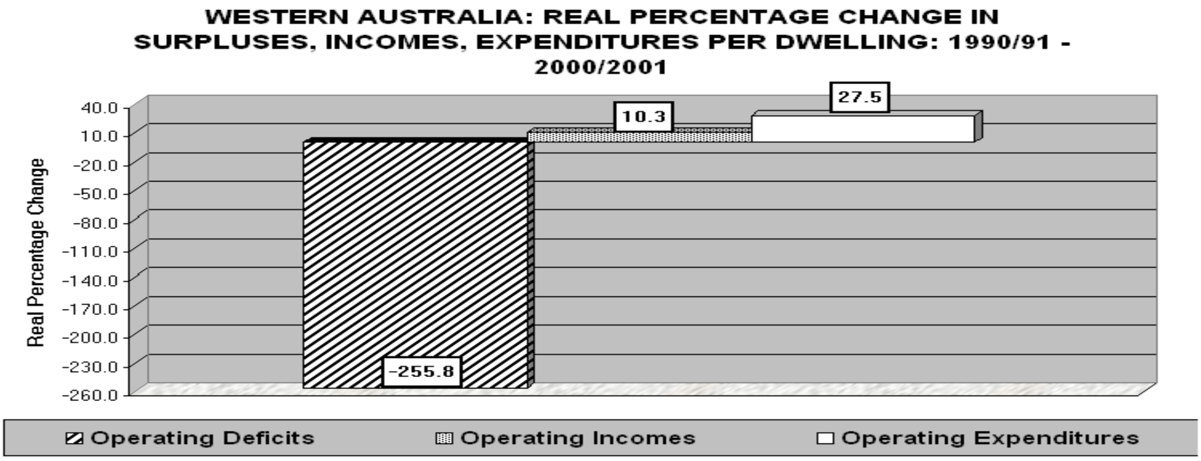


Source: Financial Statements 1990/91 – 2000/2001, of Homeswest. Questions Return From Homeswest To Operating Deficits Project.

In 1990/91 Homeswest produced a real surplus per dwelling (excluding Net Interest and Depreciation) of $185, which fell until 1996/97 when the a Deficit of -$132 per dwelling was recorded. After improving for two years, Deficits increased substantially in the last two years to -$288 per dwelling. As can be seen from the graph, Expenditures increased steadily from 1990/91 on, whilst Net Incomes remained relatively flat until 1994/95, whereby they also increased steadily until 2000/01.

Graph 93 sets out the real percentage change in Operating Incomes, Expenditures and Deficits.

GRAPH 93: WA: Real Percentage Change in Surpluses, Incomes, Expenditures Per Dwelling 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001, of Homeswest. Questions Return From Homeswest To Operating Deficits Project.

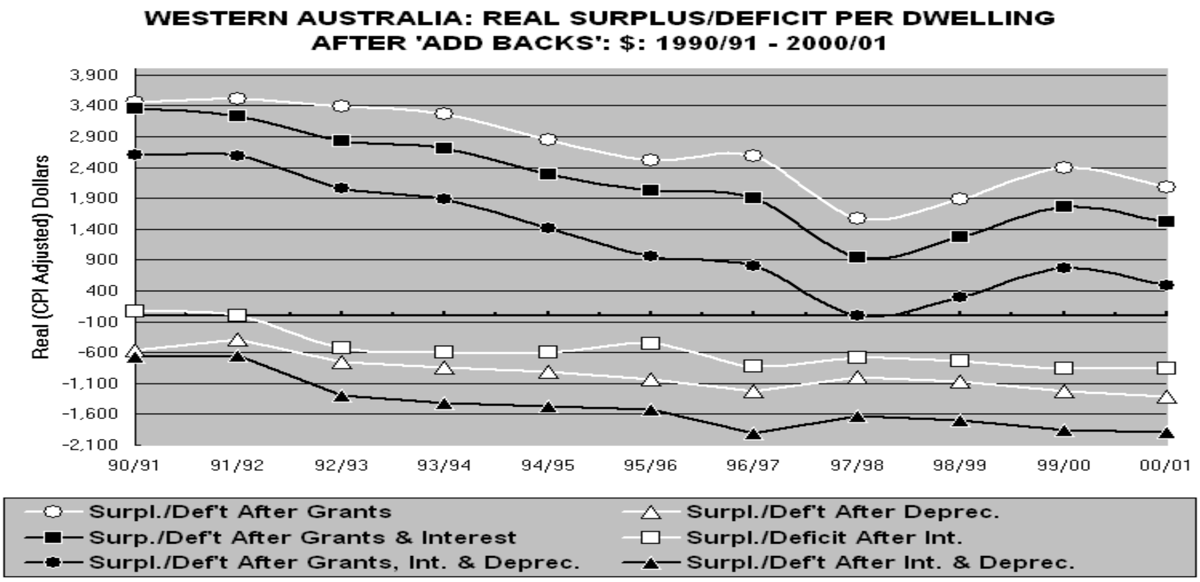
To summarize, real Operating Incomes (net of grants and interest earned), increased by about 1% per annum, whilst real Operating Expenditures grew by about 2.5% p.a. (or 27.5% over the decade), resulting in deficit growth of 256%.

Impact of Net Interest and Depreciation

Graph 94 sets out the impact of Net Interest and Depreciation on the Operating Surplus/Deficit. It is clear from Graph 94 that the impact of both Net Interest and Depreciation has increased substantially over the decade. In 1990/91 Net Interest reduced the Operating Surplus by approximately -$112 per dwelling.

Depreciation added a further –$744, moving the Surplus to a Deficit of -$671 per dwelling. In 2000/2001, however, Net Interest added $572 to the expenditure line, and Depreciation some $1,033 increasing the Operating Deficit from -$288 to -$1,893 or by about 1.5 times that which occurred a decade earlier.

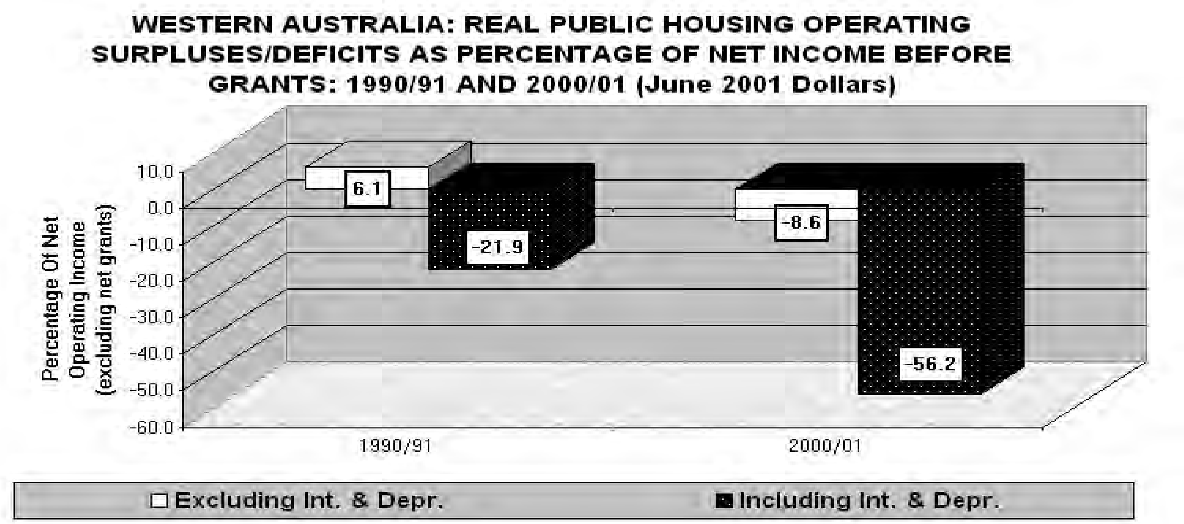
GRAPH 94: WA: Real Surplus/Deficit Per Dwelling After 'Add backs' : $: 1990/91 – 2000/01



Source: Financial Statements 1990/91 – 2000/2001, of Homeswest. Questions Return From Homeswest To Operating Deficits Project.

Graph 95 sets out the operating deficits as a proportion of net income 'before' and 'after' Net Interest and Depreciation.

GRAPH 95: WA : Real Public Housing Operating Surpluses/Deficits as a Percentage of Net Income Before Grants 1990/91 and 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001, of Homeswest. Questions Return From Homeswest To Operating Deficits Project.

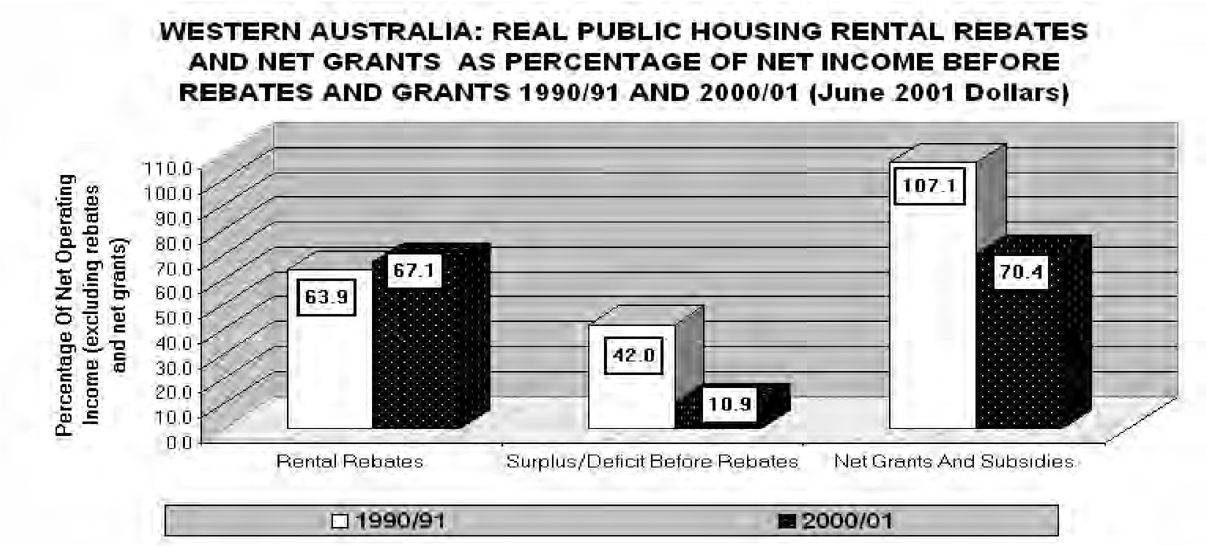
These results reinforce the earlier comments on the impact of Net Interest and Depreciation. The importance of these expenditure components are increasing rapidly; they had about 4 times the impact on the Operating Deficit in 1990/91, whilst in 2000/2001 they added about 7 times to the Deficit as a percentage of net income.

The Importance of Rebates and Grants

Real average Rental Rebates per dwelling have increased moderately from $1,953 in 1990/91 to $2,263 in 2000/01, whilst conversely, Net Grants applied to public housing have decreased, from $3, 273 to $2,372 per annum. It should be noted however that this may be due to Homeswest's accounting treatment of grants.

Graph 96 sets out Rental Rebates and Grants as a proportion of Net Income before Grants.

GRAPH 96: WA: Real Public Housing Rental Rebates and Net Grants and Net Grants as a Percentage of Net Income Before Rebates and Grants 1990/91 and 2000/01 (June 2001 Dollars)



Source: Financial Statements 1990/91 – 2000/2001, of Homeswest. Questions Return From Homeswest To Operating Deficits Project.

The graph clearly shows that the impact of Rental Rebates relative to Net Incomes before Rebates has increased slightly and still remains very significant. If Homeswest received a commercial return based on market rents it would be financially robust and provide an appropriate operating rental return. Combined with the capital gain, this would provide a respectable double digit annual rate of return.

In the case of Homeswest, recognising the real cost of the Community Service Obligation and providing a cash payment for rebates, would ensure the continued viability of the sector.

Whilst net grants support of public housing has declined over the decade it still remains very significant viz a viz rebates.

Key Comparators 2000/01: Homeswest Compared to Other States.

Table 11 sets the rankings of Homeswest Housing, by each line item and indicator.

Four important conclusions emerge from this analysis, viz Homeswest has;

- The lowest absolute cost, smallest percentage of total expenditure, and fourth slowest growing Maintenance expenditure item of all States and the Housing New Zealand Corporation;
- The second slowest growing total Overhead cost of all States and the Housing New Zealand Corporation;
- the fastest growing Net Interest expenditure item of all States and the Housing New Zealand Corporation;
- the second fastest growing Operating Deficit of all States and the Housing New Zealand Corporation.

Table 11: Financial Rankings: Real Income/Expenditure Per Dwelling: Homeswest

Item	Rankings		
	Absolute Amounts: 2000/01	**Percentage (Of Net Income Or Expenditure): 2000/01**	**Percentage Change 1990/91 –2000/01**
1 Net Rents	8	2	3
2 Net Grants	4	2	4
3 Maintenance	***9***	***9***	***6***
4 Rates	6	4	5
5 Salaries & Employment Related	5	3	7
6 Administration & Working	4	4	5
7 Total Overhead (4+5)	4	3	8
8 Bad Debts	***1***	***1***	***6***
9 Net Interest	5	5	***1***
10 Depreciation	5	4	7
	Major Components		
11 Net Incomes	8	-	3
12 Operating Expenditures	7	-	7
13 Operating Surpluses/Deficits[1]	4	5	***8***
14 Rental Rebates	8	7	4

Source: Financial Statements 1990/91 – 2000/2001, of Homeswest. Questions Return From Homeswest To Operating Deficits Project.

1 Excludes Net Interest, Depreciation, Net Grants and Rental Rebates.

4.9.2 Qualitative

Key Responses from the Operational Deficits Questionnaire

The Homeswest respondent indicated that whilst tighter targeting had occurred over the decade the effect on Homeswest had been muted and it was difficult to assess the impact on Net Rents. Similar views were expressed about changes to the household composition of the tenant portfolio.

During the second half of the decade Homeswest had moved from cost based rents to a mixed regional and market based rent to a full market based model. Rents are being progressively moved from 22.5% to 25% of assessable income.

Homeswest has managed to control maintenance expenditures which have remained relatively consistent over the period. A major urban renewal program has been undertaken and high density stock numbers have been reduced. This program will continue for the next five years.

The component of existing Administration costs allocated to non housing support services is minimal, however there is expenditure of this nature charged to rental expenses.

Some restructuring of high cost State debt has been undertaken. Low cost debt has not been targeted for restructure or early pay out. Interest payments are a significant burden.

The respondent indicated the operating position was deteriorating and grants were being increasingly applied.

Homeswest had a number of unique problems: i.e. the;

- geographical distance/isolation affecting the service provision and cost;
- boom bust townships;
- high level of indigenous population in public housing (18%).

The impact of growth in operating expenses, which are not covered by increased net rent revenue, is impacting on the deficit. With a fixed or reducing funding base and a large percentage of clients on rebated rents this situation will continue. Conversion of the Commonwealth debt to a grant would provide ongoing relief. Also important would be an increase in base funding to recognise the movement in the cost burden carried by the SHA's (including GST).

Homeswest Housing's Key Comments to the Productivity Commission

Homeswest's comments to the Productivity Commission in 1996/97 and 1997/98 reflect the increasing priority being given to the quality of Homeswest's housing, providing more attractive living environments and better tenancy management.

In 1996/97 Homeswest developed a 10 year financial plan, reduced rental arrears and introduced a direct debit scheme with the Department of Social Security.

In 1997/98 Homeswest continued with its commitment to dismantle its sixteen public housing estates and revalued its rental portfolio in line with uniform reporting requirements.

In 1997/98 Homeswest commented that:

> "The final year of the Corporate plan will see Homeswest focus on the major issues of management of assets by ensuring: that stock is well matched to the needs of customers in terms of location and amenity… the provision of housing services designed to achieve the best value for money… and continuous improvement in customer service".

Productivity Commission: Quality of Service Indicators: Tenant Satisfaction and Rating of Housing Stock

A review of the Productivity Commission Effectiveness Indicators suggests that Homeswest efforts to improve its quality of services is being perceived by its tenants as succeeding, in some cases significantly. On the two main indicators, tenant satisfaction and tenants rating of housing stock condition, the proportion of tenants very satisfied increased by 22% between 1996 and 2000, whilst those dissatisfied fell by 12.5%.

In addition on four of the five tenants ratings of housing stock, improvements were achieved, with an improvement in the 'good' rating of 4.8% for internal structure, 3.1% for appliances, 8.5% for security and 15% for surrounds, perhaps reflecting the effectiveness of asset restructuring already having taken place.

4.9.3 Homeswest: Conclusions

In the last decade Homeswest has embraced tighter targeting, introduced income improvements through changes to its rent charging policy, substantially completed a major asset and urban renewal program, and a reduction of high density stock, and restructured some component of its debt, controlled and contained its maintenance expenditure, and improved its services to its clients. Whilst targeting had increased the proportion of tenants who are rebated and the proportion of new allocations allocated to priority recipients, Homeswest, has the third lowest proportion of rebated tenants and the lowest proportion of priority allocations.

These priorities and characteristics have been reflected in the following outcomes:

- because of the slow increase in rebated tenants and priority allocations and the changes to rent charging policy Homewest enjoyed the second highest increase in Net Rents in Australia averaging a real 1% gain p.a. over the decade. These Rent trends were reflected in the increase in Net Incomes which also grew by approximately 1% per annum. Given the slow accretion in rebated tenants, the focus on moving public tenants into homeownership and the slow rate of growth of priority allocations it is likely that real Net Rent growth may persist for some time in the future;

- the lowest Maintenance cost, which is only increasing at about 1% per year;
- a significant increase in the burden imposed by Net Interest, probably as a result of the new debt absorbed in the redevelopment process;
- significant improvements in tenants' ranking of both their satisfaction with the service provided and the quality of their dwelling;

It would appear that Western Australia has the potential for some Net Income growth and also some additional cost savings from debt reduction. For example, if Net Interest per dwelling was reduced to the average for the group and Net Rents continue to grow at 1% real per annum it is possible that Western Australia could turn the current 'core' (before Net Interest and Depreciation) Deficit into a small surplus.

It is also clear that if the full cost of Homeswest's community service obligation was correctly recognised (i.e. if the difference between market rents and income related rents was fully paid for), Homeswest would generate small operating surpluses after both Net Interest and Depreciation, and with Income and capital growth would remain viable for the foreseeable future.

5 CONCLUSIONS

5.1 The 1996 Commonwealth State Housing Agreement and Commonwealth Public Housing Policy

This Agreement, and the public housing Performance Indicators developed at the same time, contained within them the seeds of the poor financial position the majority of State Housing Authorities now find themselves in.

The Agreement clearly established the framework for both tighter targeting of housing assistance and for greater accountability and transparency of the costs and outcomes of assistance, including consistent financial reporting.

The Agreement for the first time established criteria that:

- priority of assistance will be given to those with the highest needs; and
- 'assistance gives choice and meets consumer rights and consumer service principles including consumer participation.

The 1996 CSHA also established the process for the ongoing assessment of targeting and continuous improvement in the provision of public housing services by extending the development of

- nationally consistent performance indicators; and
- nationally consistent needs indicators.

Under Clause 4(3) the Agreement established that any housing provided under the Agreement needed to meet certain objectives:

- the price paid by the consumer was affordable – i.e. did not exceed agreed benchmarks related to income;
- the housing was secure, (subclause (a) (ii), appropriate to need, (subclause (a) (iii)), and, be located to give access to necessary services, (subclause (e) (i)).

In addition new conditions required that the housing assistance be co-ordinated with any support services that a household may require to live in the community (subclause (e) (I)) and; that rental housing be consistently improved to an agreed standard as necessary.

Clause 4 (4) reinforced the emphasis on targeting, efficiency and customer service by establishing a set of core outcomes and outcome measures which relate to amongst other things:

a) the targeting of assistance to those in need;

b) the standard of rental housing provided;

c) the level of overcrowding or underuse;

d) consumer satisfaction;

e) timeliness of assistance;

f) efficient use of asset.

Supported by the Productivity Commission performance indicators the 1996 Agreement and the subsequent 1999 Agreement clearly set the framework for public housing priorities for the last eight years. This required State Housing Authorities to focus upon;

- new segmented waiting lists and priority allocation procedures that ensured new households obtaining public housing have predominately lower incomes than the households voluntarily leaving public accommodation;

- stock improvement, improvements in dwelling and estate security; support services for clients; and faster and more responsive maintenance and general client queries; and
- (in some cases) substantial asset restructuring to obtain improvements in reported performance on crowding or underuse and housing condition indicators.

The philosophy behind the Agreement (and the subsequent performance indicators) was one of targeting to need combined with continuous improvement in service standards.

Apart from overcrowding, no independent standards were set, and Housing Authorities were expected to improve their performance according to, in some cases, subjective assessments (that is customer and stock satisfaction survey responses).

Finally, the Commonwealth completely removed the capital requirement for the application of CSHA grants; that is, apart from some small designated tied programs, all of the funds could be used to support recurrent operations.

5.2 Tight Targeting: the United States Experience

Vincent Lane (1995) in a seminal article which traces developments in US public housing from 1938 to 1995 identifies some key developments of relevance to this study. Lane points out that the National Housing Act of 1937 created the first public housing program in the United States. The Act had three goals for public housing: (1) job creation and economic development; (2) slum clearance; and (3) affordable housing production. The information quoted in this section is taken from this publication (Lane, 1995).

Public housing was first conceived of as transitional, allowing residents to control their housing costs while going to college or saving for a home.

During the 1940's operating expenses rose faster than incomes because families who achieved higher incomes moved out, only to be replaced by lower income families. During the years following World War II, tenant incomes fell from about 64% of the national median in 1950 to 25% in 1988. In 1995, in most large Public Housing Authorities (PHA's), approximately 80% of non-elderly households lived below the poverty level, and most households had incomes below 20% of the local median. Inevitably the incomes of those households who stayed or moved into public housing were *not sufficient to pay rents that covered operating costs.*

In 1969 Congress finally acknowledged that expenses had gone past the point where they could be covered by public housing's unique tenant population when it introduced *operating subsidies for public housing.*

A formula basis for allocating these operating subsidies, the Performance Funding System (PFS), was established in 1975. The National Association of Housing and Redevelopment Officers (NAHRO), reported that operating subsidies have increased dramatically over time and reflect a steady erosion in the ability of project residents to support the full cost of operations. Table 12 sets out the change in operating subsidies over the period 1966 to 1998.

Table 12: Changes in Income and Expenditures In Public Housing Authorities: average US$ per dwelling per year

Item	1966	1977	1988
		Operating Incomes	
Rent	527	772	1,308
Other	18	50	111
TOTAL INCOMES	**545**	**823**	**1,419**
		Operating Expenditures	
Administration	86	187	402
Resident Services	0	19	35
Ordinary Maintenance	168	376	673
Security	0	27	45
TOTAL EXPENDITURES*	**380**	**826**	**1,659**
OPERATING SUBSIDIES	***165***	***-3***	***-240***

* Total Includes some expenses not specifically listed. SOURCE: NAHRO, 1990

From this table the operating deficit increased approximately 145% over the 23 year period or approximately 6% per year.

As is clear from Table 12 the PFS formula did not adequately address operating subsidy needs with the result that maintenance deferral and asset deterioration has taken its toll.

Consequently, ***additional to the operating subsidies program,*** the Federal Government introduced ***modernization and upgrading programs,*** called the Comprehensive Improvement Assistance Program (CIAP). Funding for CIAP was found to be inadequate with the result that a new modernization program, the Comprehensive Grant Program, with a more generous formula and considerably greater funding resources were introduced in the early 1990's. In 1995 this was still deemed to be insufficient, with 15% of public housing requiring expenditures of US$20,000 or more. Thus, the estimates of capital needs for public housing revitalisation ranged from US$12.2 billion to $US 27.8 billion (US$21,400 per unit).

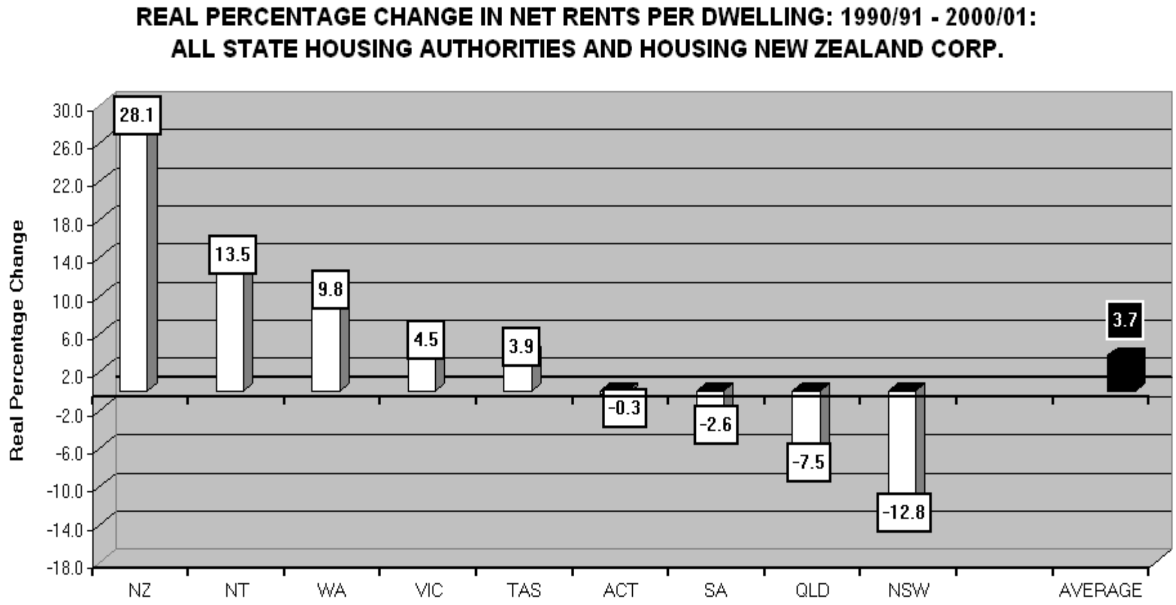
In the late 1970's further problems developed where drug use was accompanied by increasing violence in public housing estates with some 48% of Chicago Housing Authority (CHA), residents reporting the presence of drug dealers, and 42% the sound of gunfire at night. This has resulted in a situation where the CHA spent $US6 million on public safety in 1988 which had to be increased to $US70 million by 1993, or 38% of CHA's annual budget.

As a result of these pressures, in the mid 1990's, the Federal Department of Housing and Urban Development, in addition to the operating subsidies and the dwelling revitalisation programs, introduced *the Public Housing Drug Elimination Program designed to provide funds to prevent drug use and associated crime.*

5.3 The Implications of Targeting in the Australian Context

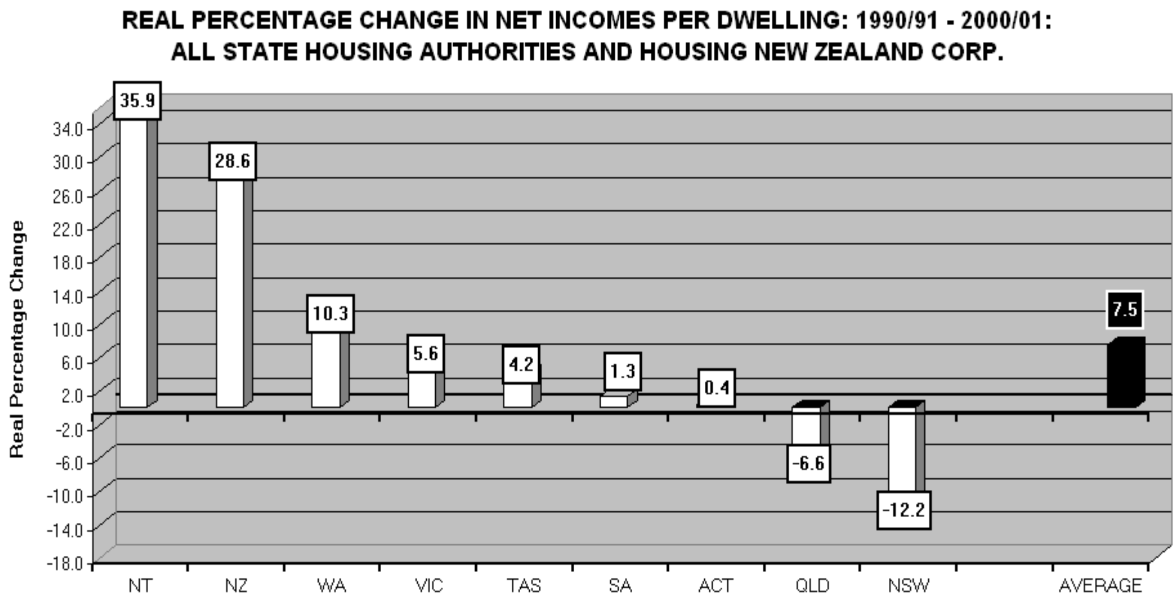
Graphs 97 and 98 set out the real percentage change in Net Rents and Net Incomes for each of the Australian State Housing Authorities and Housing New Zealand Corporation.

GRAPH 97: Real Percentage Change in Net Rents Per Dwelling: 1990/91 – 2000/01: All State Housing Authorities and Housing New Zealand Corp.



Source: Financial Statements Of All Housing Authorities: 1990/91- 2000/01

GRAPH 98: Real Percentage Change in Net Incomes Per Dwelling: 1990/91 – 2000/01: All State Housing Authorities and Housing New Zealand Corp.



Source: Financial Statements Of All Housing Authorities: 1990/91- 2000/01

The graphs demonstrate the very low level of Net Income growth being experienced by Australian public housing authorities. If New Zealand and the Northern Territory are removed from the analysis then the weighted average outcome for the remaining authorities will be less than a third of 1% per annum.

In New Zealand's case the result can be discounted by the fact that the Corporation has moved from being a social housing provider, to a commercial operator and then back again to a social housing provider. For the remaining authorities there is an almost perfect correlation between the rate of Net Income growth experienced by a Housing Authority and the rate of growth in the proportion of its tenants who are rebated and/or receiving priority allocations.

For example, in 2001, the Northern Territory had the lowest proportion of rebated tenants of all Australian Housing Authorities at 80% and Homewest has the third lowest proportion of rebated tenants and the lowest proportion of priority allocations. By contrast those two Authorities who now have the highest proportions of rebated tenants i.e. New South Wales and Queensland now have the highest proportions of rebated tenants of all Australian Authorities.

The potential reduction in Net Income was mitigated to some extent by the number of authorities who changed their rent charging policy and moved from less than 25% of assessable income paid in rent, to 25% of assessable income. This is particularly true of the Northern Territory, Western Australia, Victoria and New South Wales.

All of the indicators on household composition indicate that a substantial movement from two to one income public tenant households is underway and will continue for some time. This will contribute to falling incomes per dwelling.

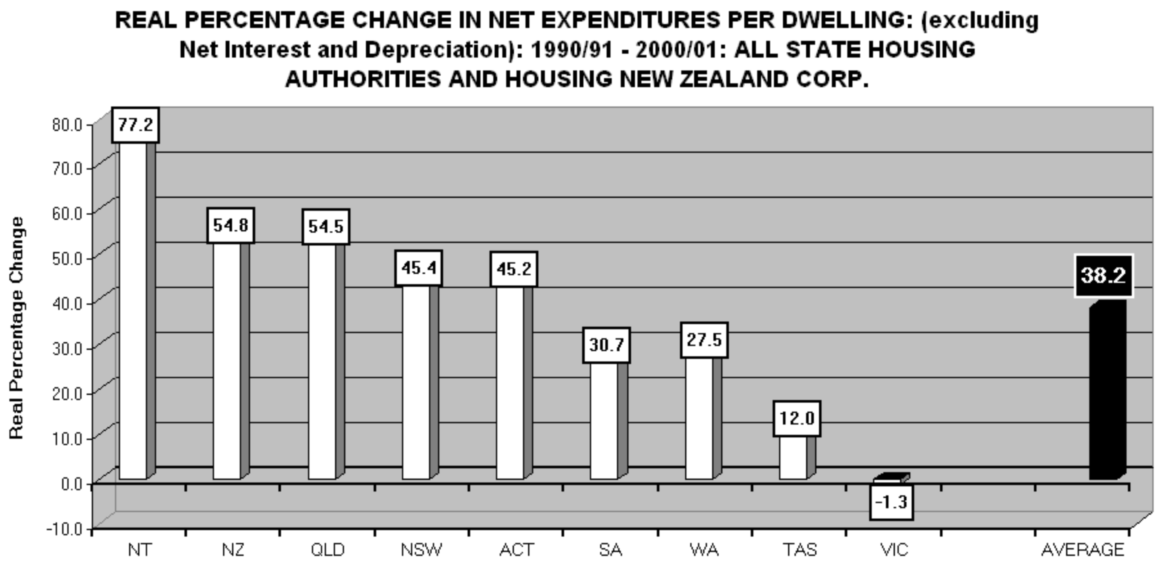
Finally, as only two authorities have 90% or more rebated tenants and only three are in the situation where priority allocations make up more than 50% of new lettings the process of tighter targeting has yet to fully run its course.

Based on these three factors, it is likely that the reduction in Net Income per dwelling unit will accelerate for the foreseeable future.

5.4 Mismatches in Incomes and Expenditure Growth: the Genesis of Deficits

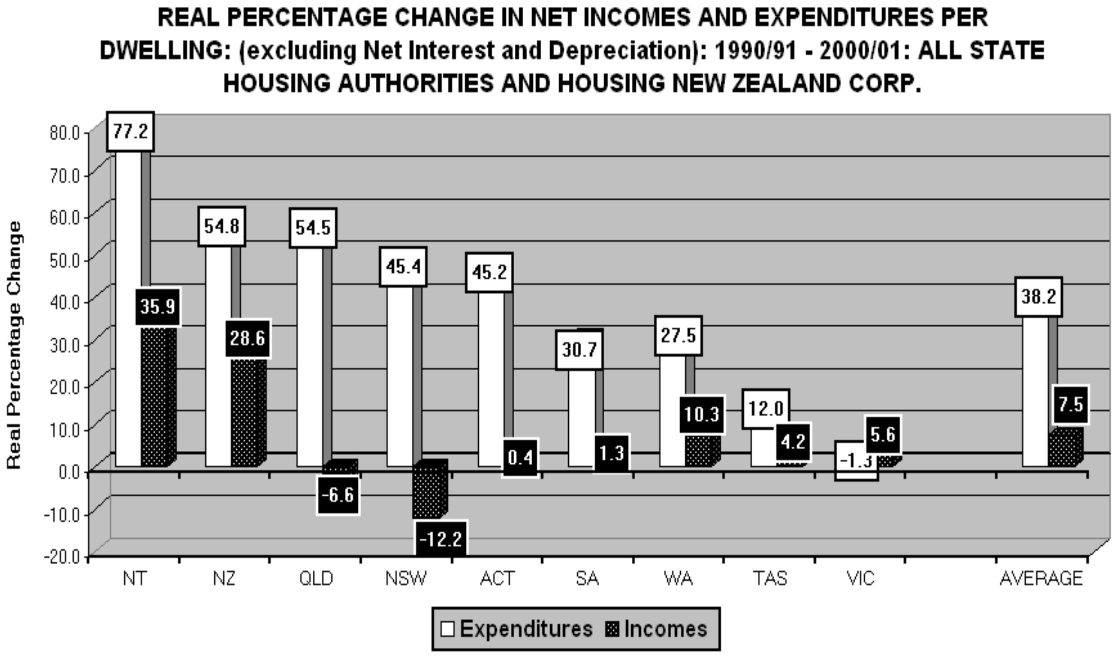
Graphs 99 and 100 set out the real percentage change in Net Expenditures and then compares these to the real percentage change in Net Incomes.

GRAPH 99: Real Percentage Change in Net Expenditures Per Dwelling: (excluding Net Interest and Depreciation): 1990/91 – 2000/01: All State Housing Authorities and Housing New Zealand Corp.



Source: Financial Statements Of All Housing Authorities: 1990/91- 2000/01

GRAPH 100: Real Percentage Change in Net Incomes and Expenditures Per Dwelling: (excluding Net Interest and Depreciation): 1990/91 – 2000/01: All State Housing Authorities and Housing New Zealand Corp.



Source: Financial Statements Of All Housing Authorities: 1990/91- 2000/01

These graphs adequately demonstrate the differential rate of real growth in Incomes and Expenditures with the weighted average Net Income per dwelling growing by 7.5% and Net Expenditures by 38.2%.

Inevitably these trends lead to the Surplus/Deficit outcomes outlined in Graph 101.

In 1990/91 eight of the nine Housing Authorities were generating real operating surpluses ranging in extent from $1,261[2] per dwelling unit in Queensland to $125 in Victoria. Only Tasmania was experiencing Operating Deficits of -$368. The weighted average result was an annual surplus of $621. Of the Australian Housing Authorities, by 2000/2001 only Victoria and South Australia were still in the black, with South Australia generating a small surplus of only $125, which has subsequently turned into a deficit in 2001/2002.

Deficits range from -$1,161 in the ACT to -$385 in the Northern Territory, with the weighted average result (including NZ), of almost -$270.

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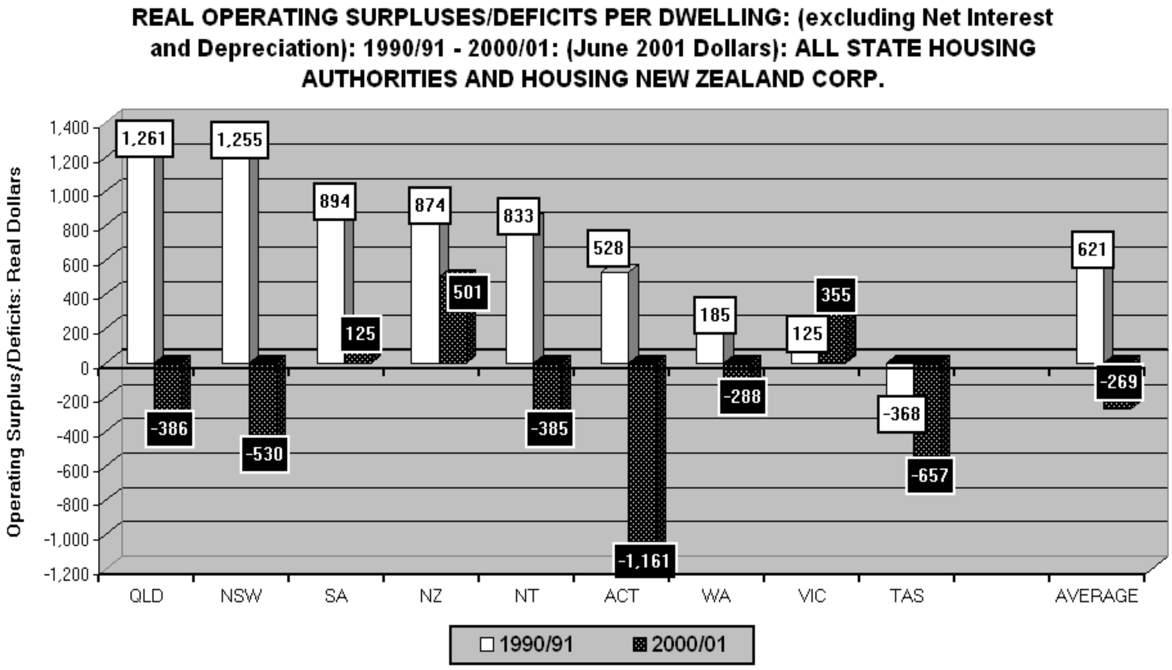
[2] All amounts subsequently referred to are per dwelling unit

GRAPH 101: Real Operating Surpluses/Deficits Per Dwelling: (excluding Net Interest and Depreciation): 1990/91 – 2000/01: (June 2001 Dollars): All State Housing Authorities and Housing New Zealand Corp.



Source: Financial Statements Of All Housing Authorities: 1990/91- 2000/01

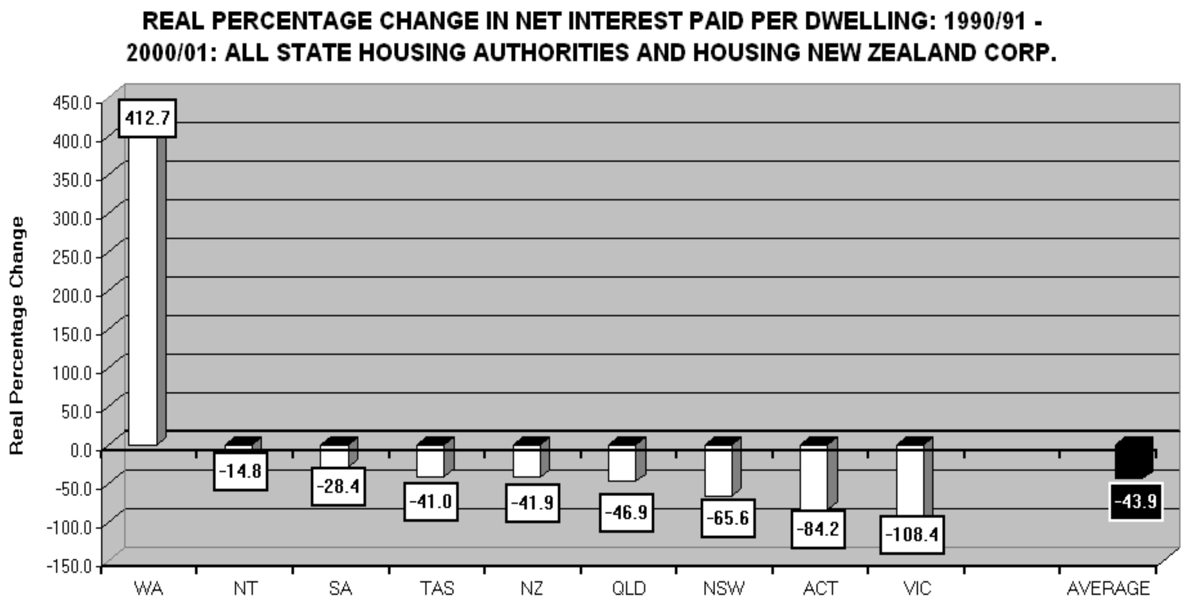
Because of very low cost structures New Zealand continues to enjoy the largest surpluses of $501, although this now is being eroded by the imbalance in the rate of growth of Net Expenditures and Net Incomes.

5.5 Where are the Expenditure Problems?

5.5.1 It Isn't Debt Servicing

Graph 102 sets out the real percentage change in Net Interest paid by all Housing Authorities.

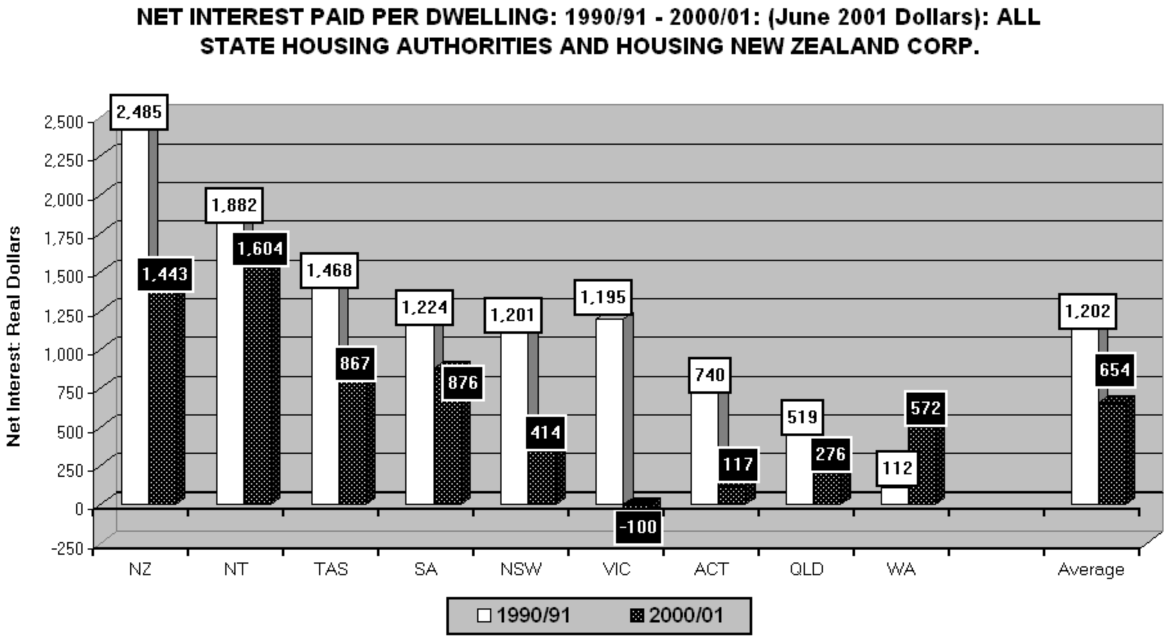
GRAPH 102: Real Percentage Change in Net Interest Paid Per Dwelling: 1990/91 – 2000/01: All State Housing Authorities and Housing New Zealand Corp.



Source: Financial Statements Of All Housing Authorities: 1990/91- 2000/01

Graph 103 shows the actual real amount paid per dwelling in 1990/91 and 2000/01.

GRAPH 103: Net Interest paid Per Dwelling: 1990/91 – 2000/01: (June 2001 Dollars): All State Housing Authorities and Housing New Zealand Corp.



Source: Financial Statements Of All Housing Authorities: 1990/91- 2000/01

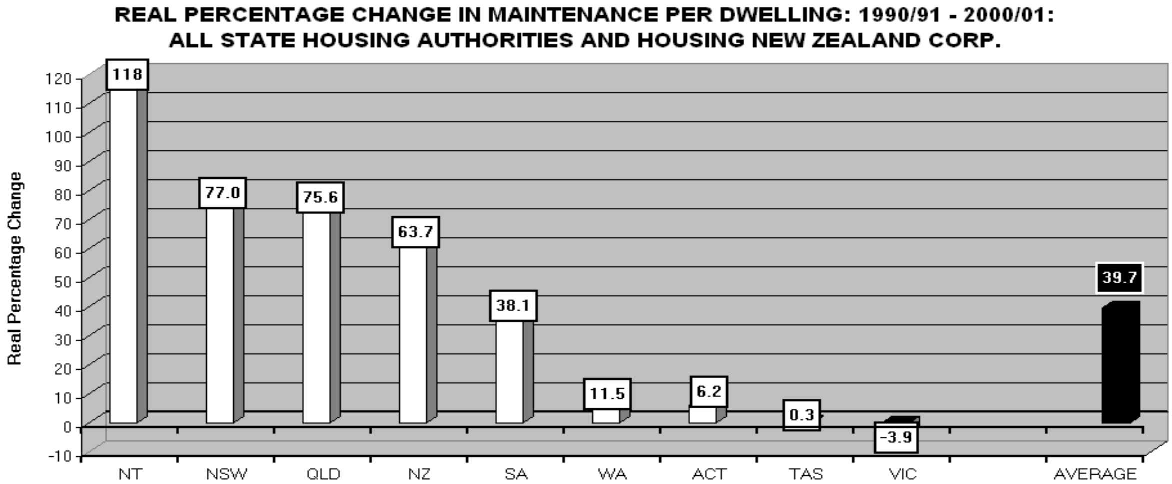
These graphs show that in the last decade (with the exception of Homeswest) all housing authorities have reduced their exposure to debt and substantially reduced their debt servicing payments, to the point where the weighted average is now almost half what it was a decade ago.

More pointedly, if Net Income does not fall any further and all debt servicing payments were eliminated three of the nine authorities would just eliminate their deficits and three would not. Given the trends in income it is unlikely that this measure would provide longer term relief except perhaps for the Northern Territory, Tasmania and South Australia. Such relief would need to be accompanied by either consistent revenue increases or a rapid reduction in the rate of growth of other costs.

5.5.2 Maintenance is Contributing But…

Graph 104 sets out the real percentage change in Maintenance expenditure for all housing authorities.

GRAPH 104: Real Percentage Change in Maintenance Per Dwelling: 1990/91 – 2000/01: All State Housing Authorities and Housing New Zealand Corp.



Source: Financial Statements Of All Housing Authorities: 1990/91- 2000/01

Real Maintenance expenditure grew faster than the CPI for building materials for all Authorities other than the ACT, Tasmania and Victoria. Much of the increase in the Northern Territory can be attributed to the unique circumstances applying in that location and the difficulties of obtaining a competitive tender market for building repairs. In addition, until 2001, Maintenance expenditures were under the control of another Government organisation.

However, the rapid increase in Maintenance expenditures can also be attributed to Housing Authorities assuming a more pro-active and information rich role in asset management and the development of ‘stock audits’ throughout Australia. These processes revealed the extent of maintenance backlogs currently existing and quantified the additional expenditures which are required to bring the portfolios up to acceptable standards. Furthermore, housing authorities concentrated on the introduction of processes designed to ensure rapid responses to responsive maintenance queries and to ensure minimal ‘down’ time between tenancies. All of these processes have, of course, added to costs being experienced.

As the majority of stock reaches acceptable standards it can be anticipated that the rate of growth in average maintenance spend per dwelling will decline. However, for four of the Housing Authorities this is not likely to be achieved in the next half a decade. Table 13 sets out the Maintenance backlog estimated to exist by the four housing authorities as at March 2003.

Table 13:Housing Authorities: Estimated Public Housing Maintenance Backlogs as at March 2003

State Or Territory	Backlog: $M’s
ACT	80 -120
NSW	600+
NZ	1 Billion (NZ Dollars)
Victoria	180-190

Source: Operational Deficits Questionnaire: Housing Authorities

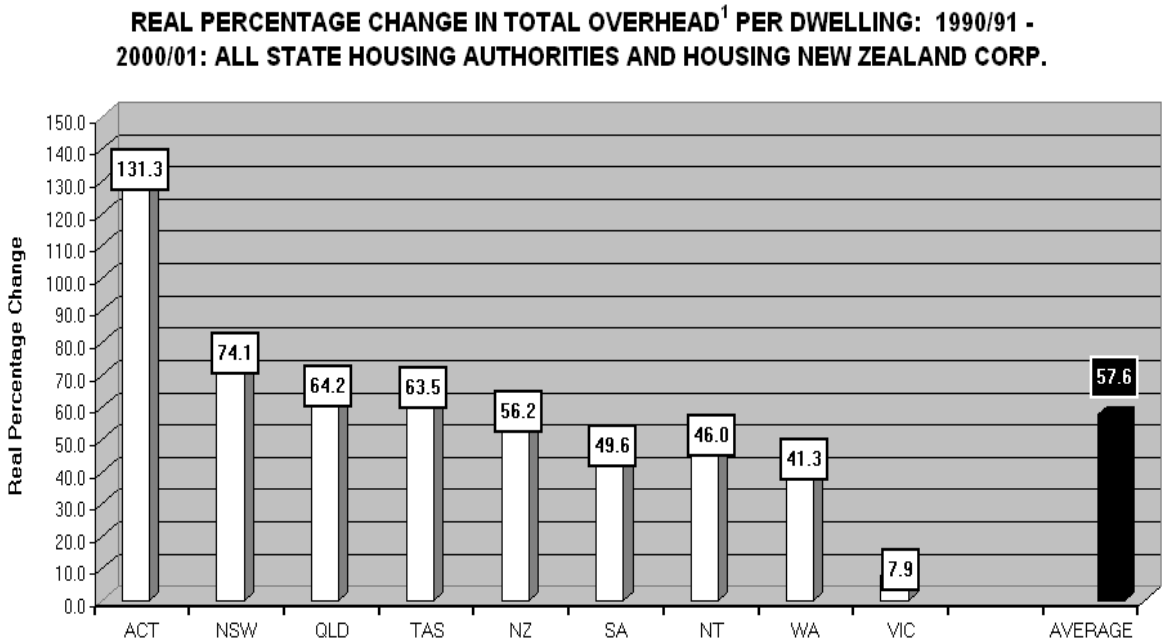
5.5.3 *Will Asset Restructuring Bring About Major Longer Term Operating Cost Savings?*

The South Australian Housing Trust was one of the first Housing Authorities to commence asset restructuring and is the most advanced in this process. The Trust has virtually restructured the majority of its portfolio in the last ten years, and sold off nearly 20% of the public housing stock. Whilst this has managed to contain the growth of maintenance expenditure to the lower middle end of the range (38.1%), and has assisted South Australia to reduce its debt servicing burden, such an extensive asset restructuring has not been able to prevent the Trust recently experiencing an Operating Deficit. Unless attention is paid to the rate of growth of other Operating Expenditure items it is probable that the savings achieved from such exercises will be insufficient to prevent deficits from increasing.

5.5.4 *Salaries and Administration Have Grown Much More Rapidly*

Graph 105 sets out the real percentage growth in Operating Overhead expenditure (the sum of Salaries and Related expenses and Administration and Working Items) per dwelling.

GRAPH 105: Real Percentage Change in Total Overhead Per Dwelling: 1990/91 – 2000/01: All State Housing Authorities and Housing New Zealand Corp.

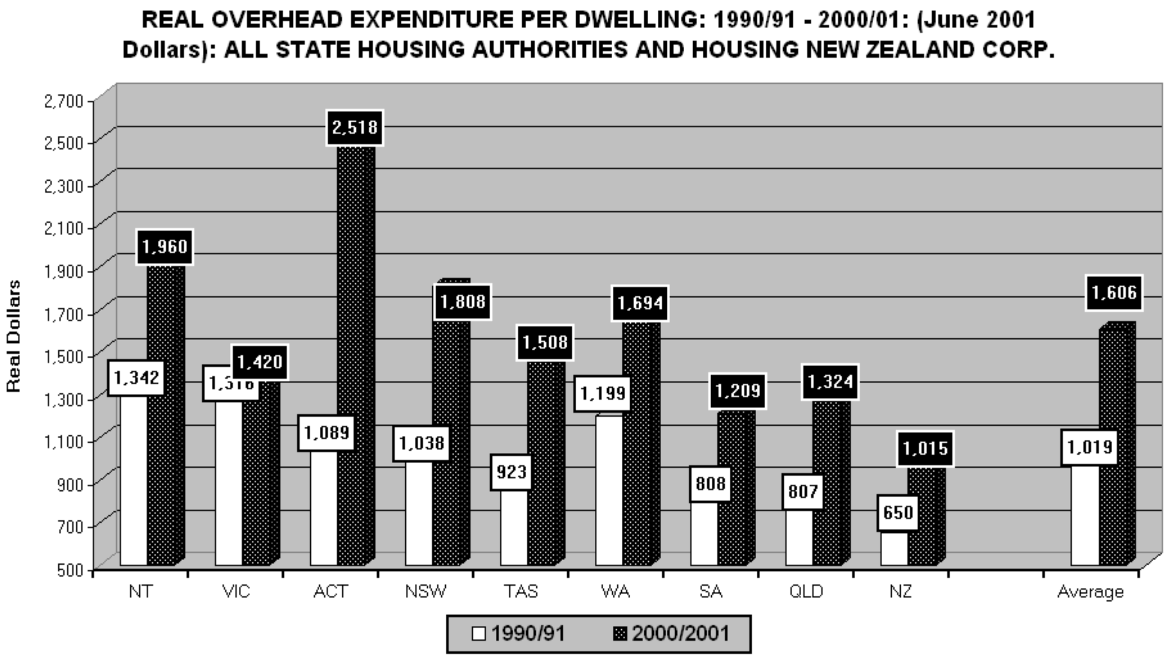


Source: Financial Statements Of All Housing Authorities: 1990/91- 2000/01

1 Includes all of the components of Salaries and Related Expenditures and Administration and Working Expenditures as defined in Attachment 2

Graph 106 sets out the actual average amount paid per dwelling for 1990/91 and 2000/01

GRAPH 106: Real Overhead Expenditure Per Dwelling: 1990/91 – 2000/01: (June 2001 Dollars)L All State Housing Authorities and Housing New Zealand Corp.



Source: Financial Statements Of All Housing Authorities: 1990/91- 2000/01

1 Includes all of the components of Salaries and Related Expenditures and Administration and Working Expenditures as defined in Attachment 2

Overhead expenditure is the fastest growing and now one of the largest components of Housing Authority Total Operating Expenditure, exceeding Maintenance expenditure in five Authorities and exceeding Rates expenditure in eight out of the nine Authorities examined.

Given that Wages and Salaries generally tend to grow at just below 1% real over the long term (see Australian Bureau of Statistics Average Weekly Earnings Series), a 10% increase over a decade implies no real growth, and anything less an actual real reduction.

With the exception of Victoria, however, expenditure growth for these components far outstrips the 'no growth' scenario. There is no doubt that a substantial part of the cost increases is due to the drive by Housing Authorities to improve the quality and responsiveness of customer services.

There is also no doubt that, whilst it has not been possible to quantify, Housing Authorities now provide considerable supporting services of a 'non housing' related nature. In addition some component of the increase can be attributed to investment in systems and processes focused on asset management and stock auditing and assessment.

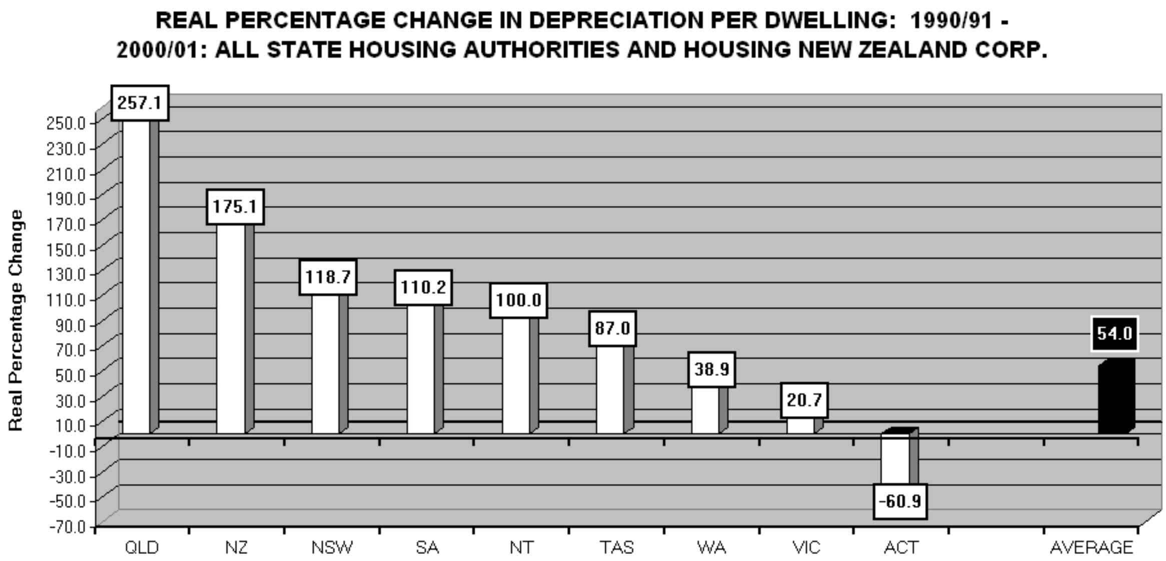
By limiting a large part of the application of funding to capital, earlier CSHA's imposed a discipline on the way in which Housing Authorities approached Operating Expenditures. Effectively, this discipline has now been removed.

A 30% reduction in Overhead would eliminate deficits (before Net Interest and Depreciation) in all but three of the Housing Authorities. When combined with modest reductions in Debt Servicing payments all Housing Authorities, (except the ACT), would return to surplus.

5.5.5 Depreciation Has Become a Major Issue

Graph 107 sets out the real percentage change in Depreciation expenditure per dwelling.

GRAPH 107: Real Percentage Change in Depreciation Per Dwelling: 1990/91 – 2000/01: All State Housing Authorities and Housing New Zealand Corp.



Source: Financial Statements Of All Housing Authorities: 1990/91- 2000/01

Under Commonwealth requirements Housing Authorities are required to revalue their portfolio at least every two years. Revaluations combined with asset restructuring and improvement are rapidly increasing the provision required for depreciation under the 2% ‘straight line’ method employed by most Housing Authorities. However, some authorities only undertake formal valuations every five years and perform interim valuations on an annual basis. Some also use a range of depreciation rates of between 2% and 4%.

Revaluation achieves the same balance sheet outcome as that provided by Depreciation and the approach to this expenditure item needs to be revisited.

5.6 Valuing the Community Service Obligation Correctly: Rebates and the Implications for Funding Policy

In all other corporatised government services the difference between the commercial price and the amount paid by the recipient of a concession is recognised as a Community Service Obligation (CSO) and, is fully funded.

For example, for electricity and water supply, the difference between the price per unit of consumption and the amount charged to concessional consumers is treated as a CSO and is normally provided as a Treasury payment to the authority concerned.

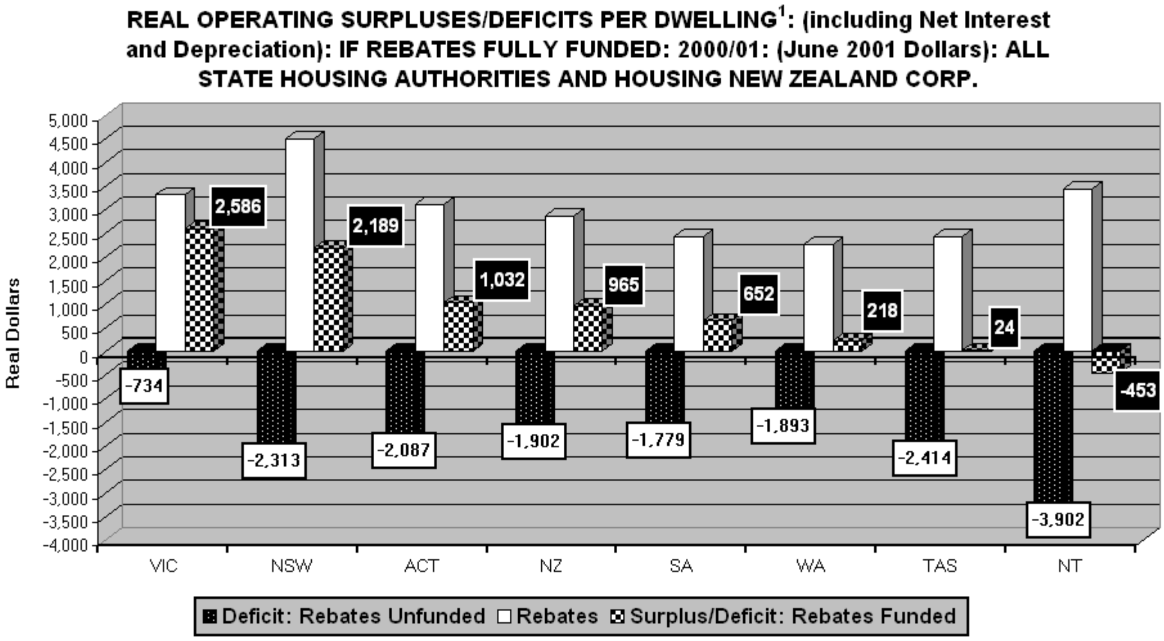
For public housing the commercial or market price is market rent and the concessional price is the income related rent paid by the tenant. The Community Service Obligation per tenancy is the cost of the difference, i.e. the rebate.

There is, in principle, no distinguishing or special reason why the principle applying to Community Service Obligations in other corporatised government organisations should not be applied to public housing authorities and the CSO (rebates) fully funded by government.

The issue is not whether this principle should be violated, but whether or not the current concessional price is appropriate to Government housing objectives. If the answer is ‘yes’, then the principle applying elsewhere should be applied to public housing. Housing Authorities should not have to deal with an ad-hoc and expedient approach to funding policy. The corollary is that a dividend might be demanded, as would be appropriate under the circumstances.

Graph 108 sets out the impact on Operating Deficits (including Net Interest and Depreciation) if rebates were fully funded.

GRAPH 108: Real Operating Surpluses/Deficits Per Dwelling: (including Net Interest and Depreciation): If Rebates Fully Funded: 2000/01: (June 2001 Dollars): All State Housing Authorities and Housing New Zealand Corp.



Source: Financial Statements Of All Housing Authorities: 1990/91- 2000/01

1 Excludes Queensland because rebate information was unavailable

Not only would funding the rebate eliminate deficits in all Authorities except the Northern Territory, it would also provide a basis for longer term financial stability for Housing Authorities.

From the advice of a number of Housing Authorities approximately 50% of all public housing expenditure is either Salaries or has a substantial component which is salary related (for example labour costs account for over 60% of maintenance expenditure in some Authorities). As outlined earlier, Average Weekly Ordinary Time Earnings (a proxy for Salaries and Wages growth) has increased over the last twenty years at slightly less than 1% real. Consequently, even if Housing Authorities were to freeze all costs at today's outlays, expenditures must grow in real terms, i.e. by a proportion greater than the Consumer Price Index. Yet for the next half a decade at least the prognosis is that Net Incomes are going to at best match Inflation and at worst fall substantially in real terms.

Consequently, it will not be sufficient for Housing Authorities to eliminate current Deficits. If Deficits are not to worsen Housing Authorities must also achieve some real Net Income growth.

Our analysis of rebate growth indicates that for almost all Housing Authorities market rents grow in real terms at about the same rate as AWE (i.e. at around or just less than 1% above Inflation). It can be anticipated that a financial solution based upon fully funding the rebate will enable Net Incomes to at least keep pace with efficiently managed cost structures.

5.7 Transparency Issues: Housing Authority Financial Statements and Productivity Commission Performance Indicators.

5.7.1 Housing Authority Income and Expenditure Statements

The analysis on which the conclusions above were based required substantial re-working and supplementation of the relevant housing authority financial statements in their current public form.

The published income and expenditure statements of most Housing Authorities do not reveal clearly how the Operating part of the business is actually functioning.

Firstly, the statements include many receipts and payments which are not recurrent but more in the nature of capital. The statements also show these receipts and payments are irregular, and variable in their amounts.

Such receipts and payments include:

- profits or losses on the sale of dwellings;
- project management fees calculated with reference to the capital value of redevelopment or asset restructuring projects; and
- premiums or discounts arising from the sale of investment instruments.

Secondly, whilst some housing authorities excise ‘abnormals’ from above the line calculations of income and expenditures, many do not. Because of the magnitude of some of these ‘abnormals’ they can have a material effect on the reported operating result.

Such abnormals include:

- adjustments for over or under provision of Superannuation and other employee entitlement liabilities; and
- adjustments to income or expenditure accruing from forgiven loan liabilities or increases in loan liabilities as a result of interest rate movements.

Thirdly, most authorities include grants being applied to public housing in the income statement and grant payments to third parties in the expenditure statement. In many cases the amounts are substantially different. Grant payments to third parties may not be related to public or community housing outcomes.

Finally, the costs associated with headleased dwellings are often treated differently to the costs associated with mainstream public housing. In the former, no income is normally bought to book, nor are the normal expenditure items of rates, maintenance etc. In some cases the subsidies payable re commercial headleased rents may be shown as lease payments above the line, in other cases, these subsidies may be included in grants made and be outside the standard expenditure outcome.

There is therefore a need to obtain regular financial performance reporting on an appropriate per unit basis (tenantable dwellings), which can more accurately reflect the short and longer term trends affecting the financial performance of public housing.

5.7.2 Productivity Commission Performance Indicators

The Productivity Commission produces a set of indicators which are used by the Commonwealth to assess the ongoing performance of public housing authorities.

These indicators have been designed to assess efficiency and effectiveness.

The Indicators which are of concern to this analysis fall into three main categories, indicators which are designed to assess:

- the efficiency of public housing authorities;
- the targeting of public housing authorities; and
- the quality and timeliness of the service of public housing authorities.

Efficiency

These indicators are set out in Table 15A17 of the Productivity Commission's Report On Government Services and attempt to quantify per unit (tenantable dwellings) outcomes for various aspects of recurrent and capital expenditure.

The recurrent indicators are inaccurate because:

- the gross recurrent expenditure figures suffer from the definitional problems and inaccuracies outlined above.
- the divisor, i.e. tenantable dwellings, makes no distinction between headleased or dwellings leased from a third party and owned stock. If headlease subsidies are stated as grants and subsidies paid and set below the bottom line then they could easily substantially discount the per unit cost calculated for the expenditure items. This is because headleased dwellings would be included in the number of dwellings used to divide the expenditure item to arrive at the cost per unit, yet no expenditures may be recorded for these dwellings in the expenditure component of the statement. Consequently components like average administration costs per dwelling etc., will be erroneous.

Targeting

There are two primary indicators relating to targeting and these are:

- proportion of households in need and who are in public housing; this measure assesses the proportion of total households both public and private in need (i.e. paying more than 25% income in average private rent payment required) who are in public housing; and
- proportion of those occupying public housing who are in need; i.e. this measures the proportion of public tenants who would be in need (i.e. experiencing housing stress) if they were having to obtain accommodation in the private rental market.

The assumption behind these indicators is that targeting to those most in need (which usually equates with the lowest household incomes) meets the vertical equity objectives of the CSHA.

However, given the clear evidence that tight targeting is instrumental in driving down the Net Incomes of public housing authorities (and probably contributes to higher per unit costs because of the additional support services that many new tenants require), it must be questioned as to whether, in conjunction with the other indicators, this is a sensible measure of public housing performance, under the current funding and regulatory settings.

Service Quality: Indicators Related to Continuous Improvement

The indicators which fit this category are:

- Overcrowding or underutilisation[3]; i.e. match of dwelling to household size;
- Average turnaround time (days)[4]
- Tenant satisfaction[5]; and
- Tenant assessments of housing stock condition[6].

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[3] PRODUCTIVITY COMMISSION, 2000, Report On Government Services, Table 15A.14 pg1431
[4] Ibid, Table 15A.23 pg 1436
[5] Ibid, Table 15A.12 pg1430
[6] Ibid, Table 15A.17 pg 1433

With the exception of overcrowding, these indicators do not rely upon an objective standard, but as stated earlier, on the notion of continuous improvement, and on comparing the performance of one Housing Authority to another.

There is no doubt that the relationship between the Commonwealths focus on improving the condition of the housing stock, the introduction of continuous improvement indicators, and the removal of the restrictions on the application of funds to recurrent expenditure has provided a major contribution to the growth in expenditure outcomes per dwelling unit identified in this report and highlighted in earlier sections of this chapter.

5.7.3 The Current Limitations and Inapplicability of Benchmarking

What the above considerations lead to is the conclusion that – given the current state of financial reporting across the housing authorities – it is not feasible or desirable to establish and apply either efficiency or effectiveness benchmarks to the operations of the authorities.

The major problem at the moment with respect to *efficiency benchmarking* is one of definition; there are no common approaches amongst Housing Authorities about what is below and what is above the line in regard to revenues and expenditures. The adjusted set of financial data developed in this report could provide the basis for developing such benchmarks -- but only when the assumptions on which they are based have been tested and accepted by all the authorities.

Similarly the review of international public housing benchmarking indicators also revealed that there would be an inconsistency between definitions in for example the United Kingdom and Australia.

With respect to developing a set of appropriate *effectiveness benchmarks*, the main problem is that the authorities (on our analysis) are not in a position to meet the current expected service standards, still less set more ambitious standards to achieve. The problem that our research has identified is that, first and foremost, Housing Authorities have a revenue problem, that is, Net Income can't cover current costs, and costs per unit have grown historically faster than Incomes. So developing benchmarks for continuous improvement on the effectiveness side rather misses the point; viz. current and likely future Net Incomes are incapable of sustaining such an approach. In such a situation, one needs to address Net Incomes and Real Income Growth *before* one addresses effectiveness benchmarks. Only when Housing Authorities have reliable indicators of future revenue growth and policies to achieve real Net Income growth per unit will it be relevant to turn one's attention to effectiveness benchmarks. If this cannot be achieved, effectiveness questions do not turn on continuous improvement benchmarks but on the standards to apply to the effectiveness and quality of the services Housing Authorities can afford to provide.

5.8 The Characteristics of Financially Successful Social Housing Services

Some useful general lessons can be learnt from considering the situations of financially successful social housing services in Europe.

There appear to be three main characteristics that distinguish these services from Australian public housing authorities. These characteristics all relate to the Income side of operations, viz:

- central governments fully recognise the Community Service Obligation inherent in providing affordability outcomes, and the principal form of financial support is recurrent subsidies based on the difference between market and cost or income related rents;
- social housing authorities are assured that their Net Rents per household will grow in real terms because the sector is not rigidly targeted to the very lowest incomes. Many portfolios include a tenant population with a range of incomes, with a

substantial proportion of the tenant population in employment, whose incomes grow in real terms. This enables housing authorities to be confident that real cost increases will be able to be met through revenues, notwithstanding additions to the housing stock.

- Combined with central government support, it enables social housing providers to grow their portfolios and so maintain their income mix whilst attending to those in greatest need.
- the real incomes of pension and beneficiary social housing recipients is considerably higher than in Australia because the base level of pensions and benefits is a greater proportion of average weekly earnings.

5.9 Some System Options

We conclude that, on the analysis in this study, if the current policy focus is maintained, Australian public housing will not remain viable.

In the last decade many housing authorities have increased the proportion of income charged to tenants and all housing authorities now charge a minimum of 25% of assessable income. Consequently, the decline that might have been experienced in real net rents was mitigated by these changes to rent charging. If affordability benchmarks of 25% of assessable income in rent are maintained, changes to rent charging will not be an available tool to relieve growing deficits. Maintenance of tight targeting will ensure the decline in real Net Rents per unit experienced by some housing authorities will become more widespread and accelerate. In addition, for many of the Operating Expenditure items, continuing to seek improvements in housing stock and continuous improvements in client services cannot be achieved without the acceleration of the trend to real cost increases. In a context where:

(a) the funding of public housing is divorced from its community service obligations;

(b) affordability benchmarks of 25% of assessable income are maintained;

(c) tight targeting continues; and

(d) the emphasis on continuous service improvement is enforced;

then incomes per unit will fall, real expenditures per unit will increase and operating deficits will continue to grow.

This suggests that the focus must be on firstly eliminating deficits and then assuring real Income growth per household. If there is no policy change it is not a question of benchmarking services to best-practice standards but of what quality of services can public housing authorities afford, and who should pay for them?

In New Zealand it is clear that the full impact of the move to income related rents has yet to run its course. Furthermore, as full rationing and targeting takes hold it can be anticipated that Net Rents per dwelling will decline. Whilst New Zealand is protected from this situation by its recurrent subsidy and by its significant operating surplus, real costs per unit are also growing rapidly and to avoid future Operating Deficits care will need to be exercised to contain cost increases arising from improvements to services. but from the expanded range of housing functions that HNZC now has responsibility for. For New Zealand then the question is essentially the same, within its constraints, what quality of services can it afford, and how will it be paid for?

5.9.1 Future Directions

On the basis of the study findings, summarised above, the following implications for policy are suggested;

A Working Party of Commonwealth and State Housing Officials be established to:

1. examine ways in which the Community Service Obligation experienced by Australian Housing Authorities can be fully funded (i.e. the difference between

market and income related rents), including changes to current funding arrangements;

2. prepare detailed forecasts of the likely Net Income of all Australian Housing Authorities given no change to targeting policy;
3. examine other options by which Net Incomes for Housing Authorities can grow in real terms, including;
   - relaxation of affordability benchmarks and abolition of current Productivity Commission targeting indicators;
   - abandonment of current targeting policies;
   - growing the housing stock to diversify the income base;
   - other relevant options.
4. A similar mechanism could be used to examine in detail the current Productivity Commission efficiency indicators with a view to developing a financial reporting system which makes more transparent the trends in the operations of public housing authorities, building upon the method and definitions used in this study.
5. In the absence of any changes to Commonwealth policy, Australian State Housing Authorities could establish an in-depth investigation of the quality and extent of services that existing public housing authorities can afford and, if necessary, seek abolition of the Productivity Commission continuous improvement indicators and replacement by independent service standards;
6. For many expenditure items there was great variability between Housing Authorities. A more detailed analysis of the lowest cost authorities could be instituted to establish how these positive outcomes have been achieved and how the other authorities could benefit from the resulting efficiencies.

A working party of Commonwealth and State Chief Financial Officers and State Treasury Officials could examine and develop alternatives to the current treatment of Depreciation in Public Housing Authorities.

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ATTACHMENT 1: DEFICIT SCOPING PAPER

CHAPTER 1 INTRODUCTION

Background

In simple terms, a key constraint for mainstream public housing in Australia is that the net revenues after rebates at least pay for operational costs (net of interest paid or received). If this is not the case any addition to stock expands the additional funding requirement to pay for the growing deficit. In these circumstances the only option for reducing or freezing the additional funding requirement is to sell stock and therefore reduce the number of households provided with longer term assistance (Donald, 2001).

The continued growth of operating deficits will eventually bump up against political constraints at both State and Federal levels in regard to funding. In this case, sale and lease back and use of the capital for servicing lease payment costs defers the potential relocation of public tenants to the private rental market, but would be seen as fiscally irresponsible. Therefore, the rate at which these deficits are growing, and the timing of when they will outstrip current real levels of grant funding is of critical policy concern.

Clearly, continuation of the current trends may carry with it the risk of a potential paralysis of housing assistance policy development, and a possible forced withdrawal to private rental subsidies as the only method of continuing housing assistance. Under current arrangements this would mean a major shift in the distribution of the costs of the housing assistance system from the States to the Commonwealth.

The above questions will identify possible directions for policy reform of components of public housing operations. For example, if tighter targeting has been responsible for a major reduction in per unit revenue and/or rapid growth in per unit administration and responsive maintenance costs, then new funds for expansion to permit wider targeting may be an appropriate option.

Conversely, if asset degradation and the growth of maintenance (including upgrading) costs is the primary cause of operating deficits then continuation of grant funding at current real levels should see average real per unit upgrading costs decline with the sector reverting to surpluses in the future.

This report is a scoping study to define the how the assessment of deficits will be conducted and to clarify the relevant research questions to be pursued.

5.10 Aims Of This Scoping Paper

One of the aims of this project are to:

- clarify the impact of public housing operating deficits on the development of comprehensive and expansive housing assistance policies;

5.11 Related Objective Of The Scoping Paper

A Related Objective of this scoping paper is to discuss, document, and define what are public housing operating deficits.

5.12 Key Research Question

This paper addresses the key research question of how operating deficits should be defined and focuses on the issue of whether the existing published accounts permit a ‘true’ analysis of operating outcomes and/or what is required to achieve such (Research Question 1)?

This question will be addressed by the process of the development of this discussion paper on definitions, line item discussion, and determination, the finalisation of the component research questions and the steering committees determination of the appropriate approach.

5.13 Outputs Of This Scoping Paper

This paper will:

1. provide a rationale for, and an explicit set of working definitions of, the cost and revenue components to be used to assess operational surpluses/deficits for mainstream public housing; and
2. clarify the key questions to be addressed in latter parts of the research program.

CHAPTER 2: ANALYSIS CONSTRUCT, PROCESS AND PRINCIPLES.

Analysis Construct

The first part of the project is focused upon understanding exactly which of the revenue and expenditure items have been critical in the development of public housing operational deficits. In this respect the initial quantitative analysis is not about applying an accountancy or performance based approach to the assessment of these deficits. Rather the focus is upon developing an accurate financial construct of the operating business of public housing authorities and through this construct developing some conclusions about the policy and environmental forces that have shaped bottom line outcomes.

In this respect it is intended to develop a financial analysis of the operations of public housing authorities primarily concerned with their continued operational viability, notwithstanding issues associated with the balance sheet.

Analysis Process

It is intended to use the income and expenditure statements of Housing Corporation New Zealand and State and Territory Housing Authorities as the commencing point for the analysis.

The following discussion outlines the principles to be applied and discusses each of the line items currently contained within most of the income and expenditure statements of Housing Authorities. The discussion canvasses definition, adherence to principles, and inclusion or exclusion (of the whole or components of the line items).

Furthermore it is suggested that we take a 'layering' approach to the analysis, that is we agree on the 'core' commencing line item data and then as appropriate we add back items one by one to precisely determine the relative impact of each. 'Add back' comments are also contained in the analysis, (for example with net interest outcomes and depreciation).

The aim is to as closely as possible understand the recurrent operating position of public housing authorities from the position of the recurrent income generated from the assets themselves, and the recurrent expenditures associated with the continued use and operation of these assets.

Each recommendation is followed by an Agree, Disagree and Comment box for your response.

It is intended to undertake the analysis in accordance with the views of the majority of members of the Steering Committee however subsequent reports will document all responses of Steering Committee representatives.

Accrual Or Cash

Before we can finalise the line item outcomes we must determine whether or not an accrual or cash construct should be used for the analysis.

Definitions

Accrual basis means the accounting basis where the *assets*, *liabilities*, *equity*, *revenues* and *expenses* are *recognised* in the *financial* years to which they relate, regardless of when *cash* is received or paid (Australian Accounting Standard, (AAS) 6).

Cash means cash on hand and cash equivalents

Cash equivalents means highly liquid *investments* with short periods to maturity which are readily convertible to *cash on hand* at the *investor's* option and are subject to an insignificant risk of changes in value, and borrowings which are integral to the cash management function and which are not subject to a term facility (AAS 28).

Discussion

Coopers and Lybrand,(1995) recommended an accrual approach be applied to the reporting framework for Australian State and Territory Housing Authorities and this has been adhered to in the returns provided to the Commonwealth in the years following this report.

However the financial statements for SHA's provide for both an estimate of the current years financial outcomes and provide an audited historical record of the previous years results. Because there may be occasions where the provisioning estimate departs significantly from the actual result it is recommended that:

Recommendation

As far as is possible an accrual approach be applied to the analysis but wherever possible historical actual outcomes be the primary source data (i.e. the previous years audited statements).

Please tick the appropriate box provided and add comments if required.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed unconditionally with the recommendation.

Analysis Principles

It is suggested that the following principles be used for the analysis.

Recommendation

It is recommended that:

1. supplemental revenue or costs such as;
   - consolidated allocations;
   - grants or subsidies received or paid;

should not be recognised.

2. the results should be adjusted so that the effect of an authorities debt structure does not overwhelm the result;
3. no receipts or payments in the nature of capital should be recognised in the analysis, i.e. such as;
   - gains or losses on the sale of assets;
   - expenses which extends the useful life of the assets or adds attributes which were not previously part of the asset;
   - assets demolished; and
   - assets written off.
4. one off's should be excised, these excisions to include;
   - revenue or costs recognised on transfer of loans; and
   - one off superannuation surplus or deficit adjustments.

5. both the receipts and payments and assets and liabilities associated with housing authority residential headleasing from private landlords should be excised;
6. a layering approach be used so that core results can be added to and the effect of particular marginal or potential distorting items can be assessed.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed with this recommendation but NSW commented that

> "NSW is able to meet this requirement, however capital expenditure is a significant outlay for the Department as we have a significant proportion of the portfolio that is not at an acceptable standard."

Core Line Items

The core line items present in most income and expenditure statements of State and Territory Housing Authorities are set out in Table 1 below. The treatment of the Housing Corporation of New Zealand's statements and the accommodation supplement payments will require further discussion with Housing New Zealand. The table also includes an example of a 'one off' gleaned from the New South Wales's Department of Housing accounts.

Table 1: Housing Authorities: Income and Expenditure Statements: Core Items

Revenues	Expenditures
Mainstream Items	
1. Rents	8. Rental Rebates
2. Grants And Subsidies received (i.e. Consolidated Fund Allocations etc)	9. Grants And Subsidies paid
3. Interest Earned	10. Borrowing Costs and Interest Paid
4. Management Fees	11. Property and Residential Tenancy
5. Net Gains On The Sale Of Assets	12. Assets Demolished and Assets Written Off
6. Sundry Income	13. Employee Related
	14. Administrative and Working
	15. Doubtful Debts
	16. Depreciation
'One Off' Items	
7. Superannuation Surplus Distribution etc	

Unit Revenue and Cost Analysis

In order to produce a comparable analysis for all housing authorities it will be necessary to reduce the outcomes for each line item to a per unit analysis (per dwelling or per person housed).

The approach taken by the Productivity Commission of Australia (1995) has been that only productive residential assets should be used in any per unit assessment, i.e. assets being written off, untenable because of upgradings, or being demolished should not be included, and that only tenantable dwellings owned by Housing Authorities should used as the unit of measurement. Of course this implies that if headleasing is being undertaken by Housing Authorities the revenues and costs associated with such headleasing should also be excluded from any analysis.

Recommendation

That the units of measurement to be applied to the line items be tenantable dwellings owned by housing authorities and persons occupying tenantable dwellings, subject to the revenues and costs of any leasing arrangements being excised from the analysis.

AGREE ☐ DISAGREE ☐

COMMENT

South Australia indicted we may need to consider some method to average tenantable dwellings.

NSW indicated that whilst it could meet this requirement, capital expenditure is a significant proportion of the portfolio that is not an acceptable standard.

CHAPTER 3: LINE ITEM DISCUSSION

Rents

Definition

Coopers and Lybrand, (1995) suggested that:

> "Potential rental income should be calculated by reference to the private sector based on 100% occupancy.

Potential rental income is the income receivable if no subsidies were paid to tenants. It should be calculated by reference to market rent as determined by the private sector and calculated on a 100% occupancy."

By contrast the definition of Rents in the Productivity Commission's report (2002), is:

> "Rent charged is the sum of what tenants were charged based on the actual rent they were expected to pay after any eligibility for community service type concessions had been included. The rent charged to the tenant might not have been received; this item also reflected the expected and not the actual rent paid because defaults and arrears might have reduced the amount received from the amount charged. The total rent charged was the aggregation of all rents charged to tenants for the year ending 30 June."

The latest NSW Department of Housing Annual Report (2001) says:

> "In accordance with the provisions of the Residential Tenancy Agreement, rent is charged one week in advance. An adjustment is made at the end of the reporting period to recognise rent earned at reporting date. The Corporation charges rent at current market rates, subject to individual limitations. However, tenants are only required to pay an amount equivalent to a pre-determined percentage of their household income. The difference between the rent charged and the rent collected is charged against operating results as rental subsidy."

Discussion

The actual effective rental income received by Housing Authorities based on accrual accounting principles is the rent charged after rebates, but before arrears and defaults written off and any adjustment for bad debt provisioning.

It is appropriate that this measure be used and rent rebates be deducted from gross rents to arrive at actual rent charged. Using this measure enables an assessment through time of the unit rents received per household and whether or not actual unit rent averages and hence average household incomes have increased or declined and if so by how much.

Adding Back

After the core analysis the examination would be advanced if rebates are added back to estimate the likely outcome were market rents charged.

Recommendation.

It is recommended that:

- rental income be defined as gross rents minus rental rebates but before arrears and defaults written off and/or provisioned for.
- rental rebates be added back after core analysis.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed with the recommendation but Victoria indicated "one must be careful about using market rents as they may be non-existent in particular locations".

Grants and Subsidies Received, (excluding rebates).

Definition

In Australia these grants and subsidies arise from two sources, the Commonwealth Government and State Treasuries for matching arrangements. In New Zealand grants would include any allocation from the New Zealand Treasury. The main grants and subsidies in Australia are:

- Commonwealth State Housing Agreement (CSHA), – General Assistance (Base funding)
- CSHA – Community Housing
- CSHA – Crisis Accommodation
- Grants – Interest Assistance
- State matching
- Other State funding

Discussion

To obtain a clearer picture of the actual operating outcomes grants and subsidies both received and paid by housing authorities should be excluded from the core analysis

Recommendation

It is recommended that:

grants and subsidies both received and paid by housing authorities be excluded from the core analysis.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities except Tasmania supported the recommendation. Tasmania suggested grants paid to community organisations and community housing groups form part of the core items. The Commonwealth said they thought Aboriginal Rental Housing Program should be included in the list as one of the main grants. These grants are in fact included in the add back analysis.

Interest Earned

Definition

Interest earned is simply any interest received by a housing authority for funds invested in the normal financial markets.

Discussion

Each authorities debt and liability structure is different. Including both interest earned and interest paid in the analysis would prevent any common comparison of operating conditions between agencies.

Recommendation

It is recommended that:

Both interest earned and interest paid be excised from the core analysis.

Adding Back

It would be useful in building up a comprehensive understanding if net interest outcomes are added back after core analysis.

Recommendation

It is recommended that:

interest earned and interest paid be excised from the core analysis, but be added back in the later layering examination.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities except Tasmania agreed with the recommendation, who suggested that interest forms part of the ordinary income and expenditure of State Housing Authorities

Management Fees

Definition

Housing Authorities often receive fees for managing dwellings on behalf of other governmental or non profit agencies.

Discussion

Where this does not involve a lease back situation it is appropriate that these incomes be included in the core analysis. Consistent with the need to avoid distortion in the unit analysis results any and all revenues and costs associated with leaseback arrangements or housing authorities receiving a headlease should be excised from the analysis.

Recommendation

It is recommended that:

except where housing authorities are leasing back housing or receiving a head lease management fees be included in the core analysis.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed unconditionally with the recommendation.

Net Gains On The Sale Of Assets

Definition

This includes proceeds from the sale of residential and commercial properties, land, motor vehicles, office furniture and equipment, minus the cost of sales, including the cost of acquiring the asset sold.

Discussion

Receipts of this kind are in the nature of capital raisings, not recurrent revenue, and can only be maintained by cannibalising the balance sheet.

Recommendation

It is recommended that:

net gains from asset sales be excluded from the core analysis.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed unconditionally with the recommendation.

Sundry Income

Definition

Sundry income usually incorporates the following items as reflected in the 2001 Department of Housing NSW Financial Statements:

- contributions from other government agencies;
- rental bonds recovered;
- insurance recovery;
- loan transfers to NSW Treasury;
- project management fees;
- bad debts recovered;
- contributions from community groups; and
- other, (unclaimed monies).

Discussion

As almost all of the items regularly contained within sundry income are recurrent, replicable receipts it is appropriate to include this item in the core analysis. However, in accordance with the principles outlined in Chapter 2 because of their non replicable nature, revenue recognition from events such as loan transfers to State Treasuries should be excised.

Recommendation

It is recommended that:

recurrent replicable receipts within Sundry Income be incorporated in the core analysis, but 'once off' non replicable events be excised.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed unconditionally with the recommendation.

Superannuation Surplus Distribution

Definition

For most housing authorities the calculation of the superannuation position at the end of each year uses actuarial assumptions. If the actuarial based analysis reports a surplus this is reported as revenue and if a deficit is reported the decrease is reported as additional employer's contribution to superannuation.

Discussion

These reported receipts or payments represent one-off adjustments and should be excluded from the core analysis

Recommendation

It is recommended that:

superannuation surplus or deficit positions reported be excluded from the core analysis

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed unconditionally with the recommendation.

Rental Rebates

Definition

Rental rebates are the difference between the gross market residential rents and actual rent charged.

Discussion

Consistent with the earlier discussion of rents, rebates should be excised from the core analysis but added back in the later layering review.

Recommendation

It is recommended that:

rental rebates be excised from the core analysis but added back in the later layering review.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed unconditionally with the recommendation.

Grants And Subsidies Paid

Definition

Most housing authorities provide a variety of grants and subsidies to third parties. These take the form of grants for short term rental assistance in the private market such as bonds, grants to non-profit organisations for the provision of social housing support, grants to organisations providing care which maintains frail or disabled persons in the family home, and headleasing or leaseback private rental subsidy payments for public housing tenants. The types of typical payments are listed below

Grants

- rental assistance;
- housing community assistance;
- housing grants;
- neighbourhood improvement (community);
- home and community care; and
- other.

Subsidies

- assistance towards housing initiatives;
- land tax;
- rental subsidy;
- leasing; and
- other

Discussion

Similar to the comments on grants and subsidies received these items are not in the nature of mainstream public housing recurrent payments. They should be excised from the core analysis.

Recommendation

It is recommended that:

grants and subsidies paid by public housing authorities be excised from the core analysis and the number of tenantable dwellings for the unit analysis be reduced by the number of dwellings under headleasing or leaseback arrangements to the housing authority (but not from it).

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed unconditionally with the recommendation.

Borrowing Costs and Interest Paid

Definition

Borrowing costs represents any costs associated with the raising of a loan, and interest paid the sum of the interest payments made for the variety of current concessional and non-concessional loan liabilities of the housing authority.

Discussion

Consistent with the commentary about interest receipts borrowings costs and interest paid be excluded from the core analysis.

Adding Back

Consistent with the commentary about interest receipts borrowing costs and interest paid be added back in subsequent layering analysis

Recommendation

It is recommended that:

borrowing costs and interest paid be excised from the core analysis, but be added back in the later layering examination.

AGREE ☐ DISAGREE ☐

COMMENT

Property and Residential Tenancy

Definition

Property and residential tenancy usually includes:

a) council and water rates;

b) repairs and maintenance;

c) lease expense; and

d) residential tenancy and other expenses.

Discussion

Whilst items a, c and d are relatively clear there is evidence to suggest that some housing authorities may have included items in repairs and maintenance which represent improvements or upgrading and redevelopment and therefore, if Coopers and Lybrand, (1995), and the Productivity Commission, (2001) suggestions are to be adhered these items should be capitalised.

Coopers and Lybrand's report states:

> "Expenditure which extends the useful life of the assets or adds attributes which were not previously part of the asset and is over a certain dollar threshold should be capitalised.

Examples of expenditure which should be capitalised are:

(a) a renewal or replacement of part of a property which goes beyond restoration to its original condition, i.e. improvement of efficiency in function;

(b) an addition of attributes which were not previously part of the asset;

(c) an improvement in the quality of an asset;

(d) a change in the nature of an asset to produce an increase in the future economic benefit of the asset;

(e) work on newly acquired dwellings to bring dwellings to an acceptable standard; or

(f) a renewal of items with materials of a superior quality which adds value to the asset."

The Productivity Commission, (2001), therefore suggests that maintenance costs are costs incurred to maintain the value of the asset or to restore an asset to its original condition. The definition includes: day-to-day maintenance reflecting general wear and tear; cyclical maintenance, performed as part of a planned maintenance program; and other maintenance, such as repairs as a result of vandalism.

Given the above an attempt should be made wherever possible to excise maintenance expenditures which could properly be classified as an upgrading, improvement or redevelopment.

Recommendation

It is recommended that:

(a) council and water rates;

(b) repairs and maintenance;

(c) lease expense; and

(d) residential tenancy and other expenses

be incorporated in the core analysis but that wherever possible maintenance expenditures which could properly be classified as an upgrading, improvement or redevelopment be excised.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed with this recommendation but NSW commented that 'whilst NSW can support this, a significant portion of our asset expenditure is on bringing properties with large backlog maintenance up to an appropriate standard'

Assets Demolished And Assets Written Off

Definition

Most housing authorities have a policy that where properties meet certain criteria they may be written down or demolished in order to provide appropriate housing facilities in a cost effective manner.

Discussion

Similar to the treatment of Net Gains On The Sale Of Assets as a capital receipt, it is appropriate to treat write downs and demolitions as a capital loss or payment and therefore they should be excised from the core analysis.

Recommendation

It is recommended that:

in accordance with the principles outlined in Chapter 2 assets demolished and assets written off be excluded from the core analysis.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed unconditionally with the recommendation.

Employee Related

Definition

Salaries, Annual Leave and On-Costs

Most housing authorities recognise liabilities for salaries, annual leave and annual leave loading at pay rates as at the reporting date. Amounts payable in respect of pay-roll tax, workers' compensation insurance premiums and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee entitlements to which they relate have been recognised.

Long Service Leave

Similarly the approach to long service leave entitlements is to normally recognise them at nominal amounts, based on pay rates as at reporting date for all employees with at least five years service. The estimated value of long service leave entitlements expected to be paid during the next twelve months is classified a current liability.

Discussion

Clearly all employee related expenses should be included in the core analysis

Recommendation

It is recommended that:

employee related expenses and payments be included in the core analysis

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed unconditionally with the recommendation.

Administrative and Working

Definition

The NSW Wales Department of Housing, (2001) defines this line item as the following;

- "rent;
- staff development;
- building maintenance and utilities;
- computer maintenance and software licences;
- printing, postage and stationery;
- motor vehicle expenses;
- auditors' remuneration;
- management and other fees;
- travel;
- telecommunication;
- consultants' fees; and
- other."

The Productivity Commissions, (2001), definition is:

> "Costs incurred for direct salaries; payroll and other taxes; superannuation; compensation; accrued leave; training; accommodation; vehicles; marketing; information systems; printing; stationery; postage; telephone expenses; uniforms; travel expenses; office expenses; office equipment; collection fees; management fees; rent; grants and subsidies; expenditure incurred by other government agencies on behalf of the public housing agency; contracted public housing management services; and overheads (corporate services/unallocated expenses). Accrual data are used wherever possible. Administration expenses should be allocated based on full absorption costing."

Discussion

With the exception of grants and subsidies, all of the payments represent replicable regular costs associated with the operations of public housing and should be included in the core analysis.

Recommendation

It is recommended that:

with the exception of grants and subsidies all other administrative and working expenses be included in the core analysis.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed unconditionally with the recommendation.

Doubtful Debts

Definition

Coopers and Lybrand, (1995) recommended that a general and specific provision for bad and doubtful debts should be raised based on past experience. The recommended policy excluding specific provisions which may be required, is

- For current tenants which are in arrears:
  - Nil –under two weeks in arrears;
  - 25% - 2 to 4 weeks in arrears;
  - 50% - 4 to 8 weeks in arrears; and
  - 95% to 100% - over 8 weeks in arrears.
- For vacated tenants which are in arrears – 95% to 100% of the balance outstanding.

Discussion

Each year debts are both written off and the budget estimate provision adjusted to reflect actual experience. It is appropriate that the historically rebalanced amount of bad and doubtful debts (excluding mortgages) be included in the core analysis.

Recommendation

It is recommended that:

the historically rebalanced item of bad and doubtful debts (less mortgages) be included in the core analysis.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed with recommendation but Western Australia suggested each jurisdiction should be allowed to apply their own provisioning percentages based on recovery practices and historical recovery information

Depreciation

Definition

For accounting purposes depreciation is defined as follows:

- Australian Accounting Standard 4 (AAS 4) defines depreciation expense as “an expense recognised systematically for the purpose of allocating the depreciable amount of a depreciable asset over its useful life”.
- Accounting Policy Statement No. 7 (APS 7) issued by the South Australian Treasury notes that depreciation is “a systematic charge which recognises the consumption of assets over their useful lives”.

Depreciation accounts for the USE of an economic resource which has a limited life. It is a process of allocation not valuation.

Useful Life:

AAS 4 defines useful life as:

> “the estimated period of time over which the future economic benefits embodied in a depreciable asset are expected to be consumed by the entity”.

Coopers and Lybrand, (1995) suggested that

> 'rental dwellings should be classified as fixed assets, not investment properties as the properties are not principally being held for the accretion of wealth. Accordingly depreciation should be calculated on a straight line basis at a rate which realistically represents the useful of the asset.
>
> Therefore depreciation should be calculated on a straight line basis at a rate which realistically represents the useful life of the asset. For consistency a useful life of 50 years be adopted.'

The Productivity Commission , (2001says:

> 'depreciation should be calculated on a straight-line basis at a rate which realistically represents the useful life of the asset'

The issue of depreciation is intimately connected to the question of asset revaluations as the later discussion will show.

Coopers and Lybrand, (1995) indicated:

> 'AAS10 requires:
>
> (a) All non current assets of the same class (same class means groups of assets disclosed at the same note level in the financial statements) to be revalued at the same time using a consistent basis;
>
> (b) After a revaluation of a class of non-current assets non individual asset within that class shall be revalued in excess of its recoverable amount; and
>
> (c) Where a non-current asset exceeds its recoverable amount it must be revalued downwards to its recoverable amount. This write down is required irrespective of whether a revaluation occurs.
>
> Recoverable amount is defined in the standard as the net cash amount that is expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal which does not necessarily equate to the market value.'

Table 2 reproduces table 16A.55 reproduced from the Productivity Commission's indicate the frequency by which housing authorities revalue their assets and the useful life used for the purposes of calculating the depreciation rate.

Table 2: Revaluations and Useful Lives, (Table 16A.55)

Asset Type	*NSW*	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT (a)*
				Revaluation method (b)				
Land	Market	Market	Market	Market	Market	Market	Market	
Buildings	Market	Market	Market	Market	Market	Market	Market	
Other Assets	His Cost	His Cost	His Cost	His Cost	His Cost	His Cost	His Cost	
				Frequency Of Revaluations				
Land Buildings	3yrs	1yr	1yr	1yr	1yr	1yr	1yr	
				Useful Asset Lives				
Res. Properties	50yrs	50yrs	50yrs	50yrs	50yrs	50yrs	50-80yrs	
Vehicles	2yrs			2yrs		2yrs		
Office Equip.	3yrs	10yrs	5yrs	10yrs	10yrs	5yrs	2-10yrs	
IT Equip.	3yrs	4yrs	2.5yrs	5yrs	3yrs	3yrs	7yrs	

Reports Under Cash Accounting

Market Value is the current (net) value market selling price or exchange value. Deprival value may either be the depreciated replacement cost of an asset of a similar service potential or the stream of its future economic benefits.

Discussion

Issues in Financial Accounting (Third edition) by Scott Henderson and Graham Peirson discusses depreciation as follows:

The word ‘depreciation’ has several different but related meanings which are occasionally confused. There are four principal interpretations of the word ‘depreciation’ when it is used in conjunction with long-term assets:

- Depreciation as a fall in price
- Depreciation as physical deterioration
- Depreciation as a fall in value
- Depreciation as an allocation of value or cost (pp2)

The first three interpretations are closely related and are concerned with the ‘value’ of an asset. For example, depreciation as a fall in price is illustrated when a vehicle ‘depreciates’ as soon as it is driven from the showroom. Depreciation as physical deterioration represents items such as tools that become rusty, furniture which is dilapidated, and buildings which are in a state of disrepair. Depreciation as a fall in value represents a fall in the value-in-use to the owner of the asset.

The fourth use of the word ‘depreciation’ concerns the allocation of the value of the asset. This is the accounting use of the term. It describes the accounting process where the value of an asset is allocated as an expense to the accounting periods in which the asset is available to earn revenue.

It can be argued that recording depreciation expense is not warranted because the consumption of the economic value of the assets is embodied in annual revaluation adjustments.

Frank McGuiness, Director, Accounting and Policy at the South Australian Treasury noted the following:

> ‘The traditional approach to depreciation is to regard it as an allocation of a prepaid expense. But, as Henderson and Pierson point out, ‘the revaluation of assets, of course, destroys any notion that they are prepayments’.

They also go on to point out that the approach set out in AAS10/AASB1010 seems to be inconsistent with SAC4 (Statement of Accounting Concepts) which applies the same recognition criteria to both revenues and expenses. I agree with them.

The table demonstrates that all housing authorities are revaluing assets very regularly and then depreciating at a 2% rate over 50 years. Of course where authorities have engaged in a rigorous and extensive upgrading and redevelopment program the revaluation may well trigger a substantial increase in the required depreciation provision.

Given the ambiguity regarding the treatment of this item it would seem appropriate to excise depreciation from the core analysis.

Adding Back

Depreciation be added back in the subsequent layering analysis at the uniform rate used by all housing authorities.

Recommendation

It is recommended that:

Depreciation be excised from the core analysis but be subsequently added back in the later layering examination at the uniform rate used by all housing authorities.

AGREE ☐ DISAGREE ☐

COMMENT

All Housing Authorities agreed unconditionally with the recommendation.

Revised Core Items

Table 3 over sets the suggested revised items to be included in the core analysis.

Table 3: Housing Authorities: Income and Expenditure Statements: Revised Core Items

Revenues	Expenditures
Mainstream Items	
2. Rents	5. Property and Residential Tenancy
3. Management Fees	6. Employee Related
4. Sundry Income	7. Administrative and Working
	8. Doubtful Debts

Revised 'Add Backs'

Table 4 sets the items which are suggested should be added back 1 by 1 to provide a layering analysis.

Table 4: Housing Authorities: Income and Expenditure Statements: Revised 'Add Back' Items

Revenues	Expenditures
Mainstream Items	
	4. Rental Rebates
2. Grants And Subsidies received (i.e. Consolidated Fund Allocations etc)	5. Grants And Subsidies paid
3. Interest Earned	6. Borrowing Costs and Interest Paid
	7. Depreciation

ATTACHMENT 2: DEFICIT DEFINITIONS

Accrual Or Cash

Accrual basis means the accounting basis where the *assets*, *liabilities*, *equity*, *revenues* and *expenses* are *recognised* in the *financial* years to which they relate, regardless of when *cash* is received or paid (Australian Accounting Standard, (AAS) 6).

Cash means cash on hand and cash equivalents

Cash equivalents means highly liquid *investments* with short periods to maturity which are readily convertible to *cash on hand* at the *investor's* option and are subject to an insignificant risk of changes in value, and borrowings which are integral to the cash management function and which are not subject to a term facility (AAS 28).

Unit Revenue and Cost Analysis

The unit of measurement to be applied to the line items was to be tenantable dwellings owned by housing authorities and persons occupying tenantable dwellings, subject to the revenues and costs of any leasing arrangements being excised from the analysis. However, a number of housing authorities could not provide tenantable dwellings for early years so total owned and operated stock, including all owned and operated community and aboriginal housing stock, minus all dwellings leased or headleased by the housing authority.

Rents

Rental income be defined as gross rents minus rental rebates but before arrears and defaults written off and/or provisioned for.

Grants and Subsidies Received, (excluding rebates).

In Australia these grants and subsidies arise from two sources, the Commonwealth Government and State Treasuries for matching arrangements. In New Zealand grants would include any allocation from the New Zealand Treasury. The main grants and subsidies in Australia are:

- Commonwealth State Housing Agreement (CSHA), – General Assistance (Base funding)
- CSHA – Community Housing
- CSHA – Crisis Accommodation
- Aboriginal Housing Program
- Grants – Interest Assistance
- State matching
- Other State funding

Interest Earned

Interest earned is simply any interest received by a housing authority for funds invested in the normal financial markets

Management Fees

Housing Authorities often receive fees for managing dwellings on behalf of other governmental or non profit agencies.

Net Gains On The Sale Of Assets

This includes proceeds from the sale of residential and commercial properties, land, motor vehicles, office furniture and equipment, minus the cost of sales, including the cost of acquiring the asset sold.

Sundry Income

Sundry income usually incorporates the following items as reflected in the 2001 Department of Housing NSW Financial Statements:

- contributions from other government agencies;
- rental bonds recovered;
- insurance recovery;
- loan transfers to NSW Treasury;
- project management fees;
- bad debts recovered;
- contributions from community groups; and
- other, (unclaimed monies).

Superannuation Surplus Distribution

For most housing authorities the calculation of the superannuation position at the end of each year uses actuarial assumptions. If the actuarial based analysis reports a surplus this is reported as revenue and if a deficit is reported the decrease is reported as additional employer's contribution to superannuation.

Net Income 1

Net income 1 is therefore the sum of Net Rents, Management Fees and Sundry Income, but excluding rebates, grants and any net interest earned.

Net Income 2

Net Income 2 includes all of the items in Net Income 1 any also any net interest earned (the net of interest earned and interest paid

Rental Rebates

Rental rebates are the difference between the gross market residential rents and actual rent charged.

Grants And Subsidies Paid

Most housing authorities provide a variety of grants and subsidies to third parties. These take the form of grants for short term rental assistance in the private market such as bonds, grants to non-profit organisations for the provision of social housing support, grants to organisations providing care which maintains frail or disabled persons in the family home, and headleasing or leaseback private rental subsidy payments for public housing tenants. The types of typical payments are listed below

Grants

- rental assistance;
- housing community assistance;
- housing grants;
- neighbourhood improvement (community);
- home and community care; and
- other.

Subsidies

- assistance towards housing initiatives;
- land tax;
- rental subsidy;
- leasing; and
- other

Borrowing Costs and Interest Paid

Borrowing costs represents any costs associated with the raising of a loan, and interest paid the sum of the interest payments made for the variety of current concessional and non-concessional loan liabilities of the housing authority.

Property and Residential Tenancy

Property and residential tenancy usually includes:

- council and water rates;
- repairs and maintenance;
- lease expense; and
- residential tenancy and other expenses.

but excludes expenditure which could properly be classified as an upgrading, improvement or redevelopment.

Assets Demolished And Assets Written Off

Most housing authorities have a policy that where properties meet certain criteria they may be written down or demolished in order to provide appropriate housing facilities in a cost effective manner.

Employee Related

Salaries, Annual Leave and On-Costs

Most housing authorities recognise liabilities for salaries, annual leave and annual leave loading at pay rates as at the reporting date. Amounts payable in respect of pay-roll tax, workers' compensation insurance premiums and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee entitlements to which they relate have been recognised.

Long Service Leave

Similarly the approach to long service leave entitlements is to normally recognise them at nominal amounts, based on pay rates as at reporting date for all employees with at least five years service. The estimated value of long service leave entitlements expected to be paid during the next twelve months is classified a current liability.

Administrative and Working

This line item is

- "rent;
- staff development;
- building maintenance and utilities;
- computer maintenance and software licences;
- printing, postage and stationery;
- motor vehicle expenses;
- auditors' remuneration;
- management and other fees;
- travel;
- telecommunication;
- consultants' fees; and
- other."

Doubtful Debts

Coopers and Lybrand, (1995) recommended that a general and specific provision for bad and doubtful debts should be raised based on past experience. The recommended policy excluding specific provisions which may be required, is

(a) For current tenants which are in arrears:

- Nil –under two weeks in arrears;
- 25% - 2 to 4 weeks in arrears;
- 50% - 4 to 8 weeks in arrears; and
- 95% to 100% - over 8 weeks in arrears.

(b) For vacated tenants which are in arrears – 95% to 100% of the balance outstanding.

Depreciation

For accounting purposes depreciation is defined as follows:

- Australian Accounting Standard 4 (AAS 4) defines depreciation expense as "an expense recognised systematically for the purpose of allocating the depreciable amount of a depreciable asset over its useful life".
- Accounting Policy Statement No. 7 (APS 7) issued by the South Australian Treasury notes that depreciation is "a systematic charge which recognises the consumption of assets over their useful lives".

Depreciation accounts for the USE of an economic resource which has a limited life. It is a process of allocation not valuation.

Useful Life:

AAS 4 defines useful life as:

> "the estimated period of time over which the future economic benefits embodied in a depreciable asset are expected to be consumed by the entity".

Coopers and Lybrand, (1995) suggested that

> 'rental dwellings should be classified as fixed assets, not investment properties as the properties are not principally being held for the accretion of wealth. Accordingly depreciation should be calculated on a straight line basis at a rate which realistically represents the useful of the asset.

Therefore depreciation should be calculated on a straight line basis at a rate which realistically represents the useful life of the asset. For consistency a useful life of 50 years be adopted.'

The Productivity Commission , (2001):

> 'depreciation should be calculated on a straight-line basis at a rate which realistically represents the useful life of the asset'

Net Expenditures 1

Net Expenditures include the sum of the items:

- Maintenance;
- Rates;
- Salaries and Employee Related;
- Administrative and Working; and
- Bad and Doubtful Debts;
- But excluding Rebates, Net Interest paid and Depreciation.

Net Expenditures 2

Net Expenditures 2 includes all of the above plus net interest paid and depreciation.

Operating Surpluses/ Deficits.

Operating Surpluses/ Deficits is the sum of Net Incomes 1 and Net Expenditures 1.

ATTACHMENT 3: SAMPLE SPREADSHEET FOR ANALYSIS

Page 1

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/2001
INCOME											
Net Rents	41,638,000	42,530,000	42,960,000	44,665,000	44,992,000	46,896,000	47,034,000	45,839,000	44,662,000	46,944,000	49,054,000
Management Fees	0	0	0	0	0	0	0	0	0	0	0
Sundry Income	1,150,789	485,000	513,000	1,244,000	1,468,000	1,470,000	817,000	1,670,000	1,355,000	1,460,000	1,707,000
TOTAL OPERATING REVENUE	**42,788,789**	**43,015,000**	**43,473,000**	**45,909,000**	**46,460,000**	**48,366,000**	**47,851,000**	**47,509,000**	**46,017,000**	**48,404,000**	**50,761,000**
EXPENDITURES											
Property and Residential Tenancy											
Maintenance	16,477,000	20,553,000	19,470,000	18,337,000	19,291,000	15,035,000	16,071,000	22,405,000	18,878,000	20,019,000	20,673,000
Rates	9,581,000	10,641,000	11,132,000	12,572,000	12,348,000	14,396,000	12,130,000	12,348,000	12,141,000	12,078,000	13,499,000
Total Property and Resid Tenancy	**26,058,000**	**31,194,000**	**30,602,000**	**30,909,000**	**31,639,000**	**29,431,000**	**28,201,000**	**34,753,000**	**31,019,000**	**32,097,000**	**34,172,000**
Employee Related	6,552,314	7,411,847	8,616,521	8,004,291	10,771,935	13,041,000	13,861,000	13,013,000	12,275,000	10,275,000	12,837,000
Adminstrative and Working	4,254,608	4,815,816	5,358,216	6,901,772	7,485,744	8,350,000	6,362,000	10,777,000	10,760,000	13,162,000	16,683,000
Total Administrative and Working	**10,806,922**	**12,227,663**	**13,974,737**	**14,906,063**	**18,257,679**	**21,391,000**	**20,223,000**	**23,790,000**	**23,035,000**	**23,437,000**	**29,520,000**
Doubtful Debts	682,000	685,000	1,139,000	1,095,000	2,136,000	6,225,000	1,915,000	988,000	1,343,000	1,264,000	681,000
TOTAL OPERATING COSTS	**37,546,922**	**44,106,663**	**45,715,737**	**46,910,063**	**52,032,679**	**57,047,000**	**50,339,000**	**59,531,000**	**55,397,000**	**56,798,000**	**64,373,000**
OPERATING SURPLUS/DEFICIT	**5,241,867**	**-1,091,663**	**-2,242,737**	**-1,001,063**	**-5,572,679**	**-8,681,000**	**-2,488,000**	**-12,022,000**	**-9,380,000**	**-8,394,000**	**-13,612,000**
ADD BACKS											
INCOME											
Grants and Subsidies Received	7,274,813	7,471,000	7,335,000	9,996,000	11,492,000	9,615,000	9,617,000	8,636,000	19,240,000	25,581,000	34,909,000
Interest Earned	333,871	345,000	270,000	200,000	343,000	2,187,000	2,113,000	1,654,000	1,096,000	1,325,000	1,185,000
TOTAL ADDITIONAL REVENUE	**7,608,684**	**7,816,000**	**7,605,000**	**10,196,000**	**11,835,000**	**11,802,000**	**11,730,000**	**10,290,000**	**20,336,000**	**26,906,000**	**36,094,000**
EXPENDITURES							0.41				
Rental Rebates	35,719,000	40,225,000	44,425,000	47,876,000	47,295,000	46,184,000	45,282,000	44,067,000	43,134,000	39,007,000	36,575,000
Grants and Subsidies Paid	0	0	0	567,000	2,240,000	0	0	2,628,000	33,000	622,000	0
Interest Paid	7,683,148	7,803,000	7,334,000	7,597,000	7,713,000	7,998,695	7,505,396	6,567,273	2,687,686	2,623,732	2,556,112
Depreciation	20,553,000	16,605,000	16,505,000	16,949,000	24,612,000	30,226,000	26,694,000	24,331,000	20,986,000	8,212,000	9,487,000
TOTAL ADDITIONAL EXPENDITURES	**28,236,148**	**24,408,000**	**23,839,000**	**25,113,000**	**34,565,000**	**38,224,695**	**34,199,396**	**33,526,273**	**23,706,686**	**11,457,732**	**12,043,112**
SURPLUS DEFICIT AFTER INTEREST	**-2,107,410**	**-8,549,663**	**-9,306,737**	**-8,398,063**	**-12,942,679**	**-14,492,695**	**-7,880,396**	**-16,935,273**	**-10,971,686**	**-9,692,732**	**-14,983,112**
SURPLUS DEFICIT AFTER GRANTS	**12,516,680**	**6,379,337**	**5,092,263**	**8,427,937**	**3,679,321**	**934,000**	**7,129,000**	**-6,014,000**	**9,827,000**	**16,565,000**	**21,297,000**
SURPLUS DEFICIT AFTER DEPRECIATION	**-15,311,133**	**-17,696,663**	**-18,747,737**	**-17,950,063**	**-30,184,679**	**-38,907,000**	**-29,182,000**	**-36,353,000**	**-30,366,000**	**-16,606,000**	**-23,099,000**
SURPLUS/DEFICIT AFTER GRANTS AND INTEREST	**5,167,403**	**-1,078,663**	**-1,971,737**	**1,030,937**	**-3,690,679**	**-4,877,695**	**1,736,604**	**-10,927,273**	**8,235,314**	**15,266,268**	**19,925,888**
SURPLUS/DEFICIT AFTER GRANTS, INTEREST AND DEPRECIATION	**-15,385,597**	**-17,683,663**	**-18,476,737**	**-15,918,063**	**-28,302,679**	**-35,103,695**	**-24,957,396**	**-35,258,273**	**-12,750,686**	**7,054,268**	**10,438,888**
SURPLUS/DEFICIT AFTER INTEREST AND DEPRECIATION	**-22,660,410**	**-25,154,663**	**-25,811,737**	**-25,347,063**	**-37,554,679**	**-44,718,695**	**-34,574,396**	**-41,266,273**	**-31,957,686**	**-17,904,732**	**-24,470,112**

Sample Spreadsheet Analysis: Page 2

TENANTABLE STOCK	**12,361**	**12,251**	**12,357**	**12,406**	**12,491**	**12,500**	**12,289**	**12,209**	**11,987**	**11,674**	**11,724**
TOTAL STOCK	**12,361**	**12,251**	**12,357**	**12,406**	**12,491**	**12,500**	**12,289**	**12,209**	**11,987**	**11,674**	**11,724**
PER UNIT											
	1990/91	**1991/92**	**1992/93**	**1993/94**	**1994/95**	**1995/96**	**1996/97**	**1997/98**	**1998/99**	**1999/2000**	**2000/2001**
INCOME											
Net Rents	3,368	3,472	3,477	3,600	3,602	3,752	3,827	3,755	3,726	4,021	4,184
Management Fees	0	0	0	0	0	0	0	0	0	0	0
Sundry Income	93	40	42	100	118	118	66	137	113	125	146
TOTAL OPERATING REVENUE	3,462	3,511	3,518	3,701	3,719	3,869	3,894	3,891	3,839	4,146	4,330
EXPENDITURES	32%										
Property and Residential Tenancy											
Maintenance	1,333	1,678	1,576	1,478	1,544	1,203	1,308	1,835	1,575	1,715	1,763
Rates	775	869	901	1,013	989	1,152	987	1,011	1,013	1,035	1,151
Total Property and Resid Tenancy	2,108	2,546	2,476	2,491	2,533	2,354	2,295	2,847	2,588	2,749	2,915
Employee Related	530	605	697	645	862	1,043	1,128	1,066	1,024	880	1,095
Adminstrative and Working	344	393	434	556	599	668	518	883	898	1,127	1,423
Total Admin & Working	874	998	1,131	1,202	1,462	1,711	1,646	1,949	1,922	2,008	2,518
Doubtful Debts	55	56	92	88	171	498	156	81	112	108	58
TOTAL OPERATING COSTS	3,038	3,600	3,700	3,781	4,166	4,564	4,096	4,876	4,621	4,865	5,491
OPERATING SURPLUS/DEFICIT	**424**	**-89**	**-181**	**-81**	**-446**	**-694**	**-202**	**-985**	**-783**	**-719**	**-1,161**
ADD BACKS											
INCOME											
Grants and Subsidies Received	589	610	594	806	920	769	783	707	1,605	2,191	2,978
Interest Earned	27	28	22	16	27	175	172	135	91	114	101
TOTAL ADDITIONAL REVENUE	616	638	615	822	947	944	955	843	1,697	2,305	3,079
EXPENDITURES											
Rental Rebates	2,890	3,283	3,595	3,859	3,786	3,695	3,685	3,609	3,598	3,341	3,120
Grants and Subsidies Paid	0	0	0	46	179	0	0	215	3	53	0
Interest Paid	622	637	594	612	617	640	611	538	224	225	218
Depreciation	1,663	1,355	1,336	1,366	1,970	2,418	2,172	1,993	1,751	703	809
TOTAL ADDITIONAL EXPENDITURES	2,284	1,992	1,929	2,024	2,767	3,058	2,783	2,746	1,978	981	1,027
SURPLUS DEFICIT AFTER INTEREST	-170	-698	-753	-677	-1,036	-1,159	-641	-1,387	-915	-830	-1,278
SURPLUS DEFICIT AFTER GRANTS	1,013	521	412	679	295	75	580	-493	820	1,419	1,817
SURPLUS DEFICIT AFTER DEPRECIATION	-1,239	-1,445	-1,517	-1,447	-2,417	-3,113	-2,375	-2,978	-2,533	-1,422	-1,970
SURPLUS/DEFICIT AFTER GRANTS AND INTEREST	418	-88	-160	83	-295	-390	141	-895	687	1,308	1,700
SURPLUS/DEFICIT AFTER GRANTS, INTEREST AND DEPRECIATION	-1,245	-1,443	-1,495	-1,283	-2,266	-2,808	-2,031	-2,888	-1,064	604	890
SURPLUS/DEFICIT AFTER INTEREST AND DEPRECIATION	-1,833	-2,053	-2,089	-2,043	-3,007	-3,577	-2,813	-3,380	-2,666	-1,534	-2,087

Sample Spreadsheet Analysis: Page 3

REAL PER UNIT											
CPI	*1.25*	*1.18*	*1.15*	*1.14*	*1.13*	*1.13*	*1.09*	*1.05*	*1.03*	*1.01*	*1.00*
	1990/91	**1991/92**	**1992/93**	**1993/94**	**1994/95**	**1995/96**	**1996/97**	**1997/98**	**1998/99**	**1999/2000**	**2000/2001**
INCOME											
Net Rents	4,195	4,108	3,997	4,096	4,070	4,227	4,188	3,937	3,841	4,071	4,184
Management Fees	0	0	0	0	0	0	0	0	0	0	0
Sundry Income	116	47	48	114	133	132	73	143	117	127	146
TOTAL OPERATING REVENUE	4,311	4,155	4,044	4,210	4,202	4,359	4,261	4,080	3,958	4,197	4,330
EXPENDITURES											
Property and Residential Tenancy											
Maintenance	1,660	1,985	1,811	1,681	1,745	1,355	1,431	1,924	1,624	1,736	1,763
Rates	965	1,028	1,036	1,153	1,117	1,297	1,080	1,061	1,044	1,047	1,151
Total Property and Resid Tenancy	2,625	3,013	2,847	2,834	2,862	2,653	2,511	2,985	2,668	2,783	2,915
Employee Related	660	716	802	734	974	1,175	1,234	1,118	1,056	891	1,095
Adminstrative and Working	429	465	498	633	677	753	567	926	925	1,141	1,423
Total Admin & Working	1,089	1,181	1,300	1,367	1,651	1,928	1,801	2,043	1,981	2,032	2,518
Doubtful Debts	69	66	106	100	193	561	171	85	116	110	58
TOTAL OPERATING COSTS	3,782	4,260	4,253	4,301	4,706	5,142	4,483	5,113	4,764	4,925	5,491
OPERATING SURPLUS/DEFICIT	**528**	**-105**	**-209**	**-92**	**-504**	**-782**	**-222**	**-1,033**	**-807**	**-728**	**-1,161**
ADD BACKS											
INCOME											
Grants and Subsidies Received	733	722	682	917	1,039	867	856	742	1,655	2,218	2,978
Interest Earned	34	33	25	18	31	197	188	142	94	115	101
TOTAL ADDITIONAL REVENUE	767	755	707	935	1,070	1,064	1,045	884	1,749	2,333	3,079
EXPENDITURES											
Rental Rebates	3,598	3,886	4,133	4,390	4,278	4,162	4,032	3,785	3,710	3,382	3,120
Grants and Subsidies Paid	0	0	0	52	203	0	0	226	3	54	0
Interest Paid	774	754	682	697	698	721	668	564	231	228	218
Depreciation	2,071	1,604	1,535	1,554	2,226	2,724	2,377	2,090	1,805	712	809
TOTAL ADDITIONAL EXPENDITURES	2,845	2,358	2,218	2,303	3,126	3,445	3,045	2,879	2,039	994	1,027
SURPLUS DEFICIT AFTER INTEREST	-212	-826	-866	-770	-1,171	-1,306	-702	-1,455	-944	-840	-1,278
SURPLUS DEFICIT AFTER GRANTS	1,261	616	474	773	333	84	635	-517	845	1,436	1,817
SURPLUS DEFICIT AFTER DEPRECIATION	-1,542	-1,709	-1,744	-1,646	-2,730	-3,507	-2,599	-3,122	-2,612	-1,440	-1,970
SURPLUS/DEFICIT AFTER GRANTS AND INTEREST	521	-104	-183	95	-334	-440	155	-939	708	1,324	1,700
SURPLUS/DEFICIT AFTER GRANTS, INTEREST AND DEPRECIATION	-1,550	-1,708	-1,719	-1,460	-2,560	-3,164	-2,222	-3,028	-1,097	612	890
SURPLUS/DEFICIT AFTER INTEREST AND DEPRECIATION	-2,283	-2,430	-2,401	-2,324	-3,397	-4,030	-3,079	-3,544	-2,749	-1,553	-2,087

ATTACHMENT 4: OPERATING DEFICITS: AGREED CEO/CFO QUESTIONNAIRE

1. ***Has tighter targeting reduced the average rent received per household and what is the extent of this effect?***

   COMMENT

2. ***Have there been any significant changes in the average rate of income growth per household and hence the rate of growth or decline of net rents?***

   COMMENT

3. ***Have changes in the mix of household types and incomes affected the ratio of persons to bedrooms, (or the number of smaller households being housed in larger dwellings), and the net rents being received?***

   COMMENT

4. ***What proportion of your tenancies would have been unrebated around 1990/91?***

   COMMENT

5. **What is the proportion unrebated now?**

   COMMENT

6. ***What proportion of your new lettings are priority and crisis allocations? What would it have been a decade ago?***

   COMMENT

7. ***What changes have occurred in your rent setting and charging policies in the last decade?***

   COMMENT

8. ***Have you been concentrating on restructuring and/or reducing your liabilities?***

COMMENT

9. ***What steps have been taken to pay down the principal owed on your existing debt?***

COMMENT

10. ***How have, and are you, financing your debt reduction strategy?***

COMMENT

11. ***To what extent are new grant funds being used to support existing operational deficits?***

COMMENT

12. ***What are the trends in rental delinquencies, rental arrears and evictions? To what extent has tighter targeting contributed to these outcomes over the past decade?***

COMMENT

13. ***Has the geographic distribution and structure of the property portfolio impacted on administration and maintenance costs?***

COMMENT

14. ***To what extent have maintenance backlogs and asset degradation contributed to the growth in maintenance expenditure or have you embarked on a major asset restoration program in the last ten years?***

COMMENT

15. ***If you have when do you think this program may be completed and how much more will cost?***

COMMENT

16. ***If you haven't do you believe you need to undertake a major asset restoration/restructure?***

COMMENT

17. ***What do you think the costs of this program might be and how long do you think it might take?***

COMMENT

18. ***What has happened to non planned maintenance expenditure and what are the causes of any significant expansion per household?***

COMMENT

19. ***How would you rate the overall condition of your housing stock, excellent, good fair or poor?***

COMMENT

20. ***Has your organisation transferred significant residential assets to community housing providers in the last decade?***

COMMENT

21. ***If yes has this had any appreciable impact on maintenance and administration costs?***

COMMENT

22. ***When compared to other cost components, are interest payments a substantial burden for SHAs?***

COMMENT

23. **How have rates payments to Local Authorities changed and how significant is this expenditure item?**

COMMENT

24. ***What component of existing administration costs is being allocated to non-housing related support services for tenants and has tighter targeting contributed to this outcome?***

COMMENT

25. ***Have there been any significant increases in salary and wage on-costs in the last decade? What are the main items contributing to these increases?***

COMMENT

26. ***How is your problems different to other State Housing Authorities?***

COMMENT

27. ***Are existing operating deficits effectively preventing State Housing Authorities (SHAs) from making substantive additions to the supply of new social housing?***

COMMENT

28. ***How fast are the operating deficits growing?***

COMMENT

29. What policy options are available to policy makers to reverse the current real underlying trend to growing operating deficits?

COMMENT

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