

# **National Rental Affordability Scheme—Administration of Allocations and Incentives**

Department of Social Services

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Canberra ACT  
7 November 2016

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Social Services titled *National Rental Affordability Scheme—Administration of Allocations and Incentives*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely



Grant Hehir  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

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# Summary and recommendations

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## Background

1. The National Rental Affordability Scheme (NRAS or the Scheme) is an Australian Government initiative aimed at encouraging investment in newly constructed rental dwellings and improving the affordability of rental accommodation for low and moderate income households. The Scheme commenced in 2008 and is expected to continue to operate until 2026–27. The Scheme is administered by the Department of Social Services (the department).
2. The Government established an initial target of 50 000 new affordable rental dwellings to be available by the end of 2011–12. The initial target was reduced to 38 000 dwellings as part of the 2014–15 Budget, with the revised target expected to be achieved by 30 June 2016. By the end of 2015–16, 31 367 dwellings had been delivered.
3. To participate in the Scheme, applicants applied for dwelling allocations through a series of application rounds. Successful applicants were offered allocations where a dwelling was available for rent or a reserved allocation where a dwelling was to be constructed in a future period. Allocations under the Scheme are held by 140 approved participants.
4. The Scheme is premised on:
  - NRAS dwellings being rented at a rate that is less than or equal to 80 per cent of the market rent value at all times during the NRAS year (1 May to 30 April);
  - NRAS dwellings being rented to eligible tenants; and
  - vacancy periods for NRAS dwellings not exceeding the limits set out in the Regulations.
5. Where the conditions of allocation continue to be met, approved participants are eligible to receive an annual indexed incentive for up to 10 years. In 2015–16 the maximum value of the annual indexed NRAS incentive was \$8187. The total value of incentives paid to the end of 2015–16 was \$818 million. The whole of life cost of the Scheme has been estimated by the department to be in the order of \$3.3 billion, with the final incentive payments to be made in 2027–28.

## Audit objective and criteria

6. This is the second of two Australian National Audit Office (ANAO) audits of the Scheme. The first audit report, ANAO Report No.8 2015–16, *Administration of the National Rental Affordability Scheme*, was presented to the Parliament in November 2015 and focused on the assessment of applications for allocations and management of reserved allocations. The ANAO concluded that the administration of the application and assessment process and management of reserved allocations for NRAS had not been effective. The report also highlighted the need for effective planning and sound administration if Government programs are to be successfully implemented and are to achieve their objectives and expected outcomes.
7. The objective of this audit was to examine the effectiveness of the Department of Social Services' administration of NRAS allocations; processing of market rent valuations, statements of compliance and incentive payments; and the supporting business systems and processes. To form a conclusion against the audit objective, the ANAO's high level audit criterion was whether the department had implemented processes for managing the allocation of NRAS incentives and

a risk-based approach for processing the payment of incentives to approved participants in accordance with the *National Rental Affordability Scheme Regulations 2008* (the Regulations). The audit has principally focused on the processing of incentive claims and payments made for the 2013–14 and 2014–15 NRAS years.

## Conclusion

8. The effectiveness of the Department's administration of NRAS allocations and incentive claims has been mixed. The regulatory framework governing the administration of the National Rental Affordability Scheme could be reviewed to clarify the operation of aspects of the Regulations. To more effectively manage Scheme risks, the department should develop a risk management framework and a targeted risk-based compliance program, informed by a comprehensive assessment of Scheme risks. The supporting information technology system could also be further developed to streamline approved participants' submission of required information and to aid in the better identification of potentially non-compliant or higher-risk incentive claims that require review prior to payment. The department has processed allocation requests, market rent valuations and incentive claims in accordance with the requirements of the Regulations, based on the information submitted by approved participants. However, there is no consistently applied method for verifying the reliability of the information provided.

## Supporting findings

9. The *National Rental Affordability Scheme Act 2008* (the Act) and the Regulations establish the framework for implementation and ongoing administration of the Scheme. The continual amendment of the Regulations to address issues as they have arisen has resulted in a complex regulatory framework. The Regulations could be reviewed with the aim of simplifying and clarifying aspects of their operation.

10. The department did not have a current NRAS risk management plan or risk management framework in place, at the time of the audit. In 2015 the department developed a regulator performance framework to support the administration of the Scheme. This includes a commitment to publish an overall NRAS risk framework.

11. The effectiveness of the department's relationships with key stakeholders is improving. Initiatives have been implemented to enhance information dissemination to and engagement with approved participants, including the development of a stakeholder management plan to assist with implementing a more coordinated approach to stakeholder engagement and communication.

12. The NRAS Portal does not facilitate the effective provision of required information from approved participants. The design and functionality of the NRAS Portal has created a significant administrative burden for approved participants, which has been compounded by slow response times and stability issues. Further development is required for the system to fully meet the department's business needs.

13. The department has processed requests for allocation from approved participants in accordance with the Regulations.



14. A substantial number of market rent valuations have been submitted later than required and on review were found by the department to be non-compliant, necessitating resubmission. Approved participants are generally not advised whether a market rent valuation is compliant until the incentive claim for the dwelling has been lodged and assessed. This can be months after the market rent valuation was submitted to the department.

15. The department has processed incentive claims and made payments based on the information supplied by approved participants. The time required by the department to process incentive claims has been lengthy, mainly resulting from the largely manual processes and the resubmission of required information by approved participant to correct errors. To provide a higher level of assurance that payments are only made for compliant dwellings a consistently applied risk-based method for testing the reliability of the information provided by approved participants is required.

16. The department released the NRAS Internal Review Guidelines in November 2015. Internal review requests have been processed in accordance with the Guidelines.

## Recommendations

**Recommendation No.1**  
**Paragraph 2.26** The department develops a risk management framework and implements a targeted risk-based compliance program, informed by a robust assessment of Scheme risks.

**Department of Social Services' response:** Agreed.

**Recommendation No.2**  
**Paragraph 2.49** The NRAS component of FOFMS and NRAS Portal be further developed to:

- (a) streamline the input of required information by approved participants, including that information, where correct, is only required to be provided once; and
- (b) enhance the business rules and system controls to better identify potentially non-compliant or higher-risk incentive claims that require review prior to payment.

**Department of Social Services' response:** Agreed.

**Recommendation No.3**  
**Paragraph 3.50** The department implements a process to verify the reliability of information submitted by approved participants, as part of a risk-based approach to managing compliance.

**Department of Social Services' response:** Agreed.

## Summary of the Department of Social Services' response

17. The Department welcomes identification by the Australian National Audit Office (ANAO) that the Department has made significant progress in improving the administration of the National Rental Affordability Scheme (NRAS). These include implementing a regulator performance framework and fraud risk management strategies; improvements in stakeholder management and engagement; implementing an operational strategy to improve the efficiency of the processing and issuing of incentive claims, and regulatory amendments to address key risks.

18. The report also notes that the ANAO acknowledged that NRAS allocation requests, market rent valuations, incentive claims and internal reviews have been processed in accordance with the *National Rental Affordability Scheme Regulations 2008* and Guidelines.

19. The Department accepts all three recommendations identified in the report and acknowledges the supporting findings. The Department has completed or commenced work to implement reforms to address each of the recommendations including the development of an overall risk management framework, improving its capability in program management, information and document management and regulation amendments.

20. These reforms will address all of the recommendations and supporting findings, support the delivery and compliance of NRAS dwellings, and form an important part of future regulatory amendments and improvements to the NRAS Portal.

## **Audit Findings**



# 1. Introduction

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## About the National Rental Affordability Scheme

1.1 The National Rental Affordability Scheme (NRAS or the Scheme) is an Australian Government initiative aimed at encouraging investment in newly constructed rental dwellings and improving the affordability of rental accommodation for low and moderate income households. The Scheme commenced in 2008 and is expected to continue to operate until 2026–27. The *National Rental Affordability Scheme Act 2008* (the Act) and the *National Rental Affordability Scheme Regulations 2008* (the Regulations) establish the framework for implementation and ongoing administration of the Scheme. The Scheme is administered by the Department of Social Services (the department).<sup>1</sup>

1.2 The Government established an initial target of 50 000 new affordable rental dwellings to be available by the end of 2011–12. The initial target was reduced to 38 000 dwellings as part of the 2014–15 Budget, with the revised target expected to be achieved by 30 June 2016. When announcing the decision the Government stated that no further dwelling allocations would be offered as the Scheme was poorly designed, had fallen well short of expectations and had failed to deliver for low and moderate income Australians.<sup>2</sup> By the end of 2015–16, 31 367 dwellings had been delivered against the Government’s revised target of 38 000 dwelling.

1.3 To participate in the Scheme, applicants applied for dwelling allocations through a series of application rounds. The administering departments assessed applications received and subsequently made offers of allocations or reserved allocations to successful applicants. Applicants were offered allocations where a dwelling was available for rent or a reserved allocation where a dwelling was to be constructed in a future period. On accepting an offer of an allocation or reserved allocation the applicants became approved participants.<sup>3</sup> Allocations under the Scheme are held by 140 approved participants.

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1 Between 2008 and September 2013 the Scheme was largely administered by the Department of Families, Housing, Community Services and Indigenous Affairs. The Department of Sustainability, Environment, Water, Population and Communities administered the Scheme between September 2010 and December 2011.

2 Media release by the Hon Kevin Andrews MP, *Round 5 of flawed National Rental Affordability Scheme not proceeding*, 13 May 2014.

3 A person or entity can also become an approved participant following the transfer of an allocation. The delegate can transfer an allocation to another person or entity on receiving a relevant request from an approved participant or person acting on behalf of an approved participant.

## NRAS incentives and eligibility

1.4 The Scheme is premised on:

- NRAS dwellings being rented at a rate that is less than or equal to 80 per cent of the market rent value at all times during the NRAS year (1 May to 30 April);
- NRAS dwellings being rented to eligible tenants<sup>4</sup>; and
- vacancy periods for NRAS dwellings not exceeding the limits set out in the Regulations.<sup>5</sup>

1.5 Where conditions of allocation continue to be met, approved participants are eligible to receive an annual indexed incentive for up to 10 years. The incentives are made available as a refundable tax offset if the approved participant is an entity to which Division 380 of the *Income Tax Assessment Act 1997* applies<sup>6</sup> and/or a cash payment if the approved participant is an endorsed charitable institution.<sup>7</sup>

1.6 In determining eligibility to receive an incentive for a dwelling, the department assesses whether the dwelling has been managed in accordance with the regulatory requirements of the Scheme based on information submitted by approved participants. When a dwelling first becomes available for rent under the Scheme and at the end of the fourth and seventh years of the incentive period for the dwelling, the approved participant lodges with the department a market rent valuation. This is used in determining the maximum value of rent that can be charged for the dwelling. At the conclusion of each NRAS year, approved participants also lodge an incentive claim for each dwelling. The incentive claim includes a statement of compliance, covering:

- whether the dwelling has at all times complied with the requirements of the Scheme and where non-compliant, details of the reason for the non-compliance;
- whether rent charged over the NRAS year has at all times been equal to or less than 80 per cent of the market rent value;
- tenancy arrangements, tenant income and tenant personal details<sup>8</sup>; and
- vacancy and unavailable periods.

1.7 Following the assessment of the information supplied, the department determines whether an approved participant should receive the full value of the incentive, a proportionally reduced incentive, or nil incentive. Where a dwelling has been found to be non-compliant, in certain circumstances the allocation can be revoked or, if an incentive has already been made available, the department can seek to recover the overpayment.<sup>9</sup>

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4 An eligible tenant is a person or persons with a household income less than the eligibility limits set out in the Regulations.

5 A dwelling can be vacant for up to 13 weeks in an NRAS year. This can be either a cumulative or continuous period.

6 This includes individuals, corporate tax entities, superannuation funds, partnerships and trustees.

7 An endorsed charitable institution can also elect to receive the incentive as a refundable tax offset.

8 The provision of tenant personal details is voluntary.

9 Allocations and provisional allocations can be revoked where the conditions of allocation have not been met and/or where the application for the allocation included false or misleading information or any advertisement relating to a provisional allocation misrepresents the Scheme.

## NRAS Funding

1.8 In 2014–15 the value of the annual indexed NRAS incentive was \$7995 rising to \$8187 in 2015–2016. The total value of incentives paid to the end of 2015–16 was \$818 million. The whole of life cost of the Scheme has been estimated by the department to be in the order of \$3.3 billion, with the final incentive payments to be made in 2027–28.

1.9 The Scheme is based on a model whereby the state or territory governments provide an additional incentive to approved participants for eligible dwellings. The value of the state and territory incentive commenced at \$2000 in 2008 and is indexed annually in accordance with movements in the housing group of the consumer price index, similar to the Australian Government's NRAS incentive. In 2015–16 the value of the state and territory incentive was \$2729. Payment of the incentive is a responsibility of the state and territory governments and the incentive can be provided in the form of a financial benefit or in-kind support.

### *Cost of administering the Scheme*

1.10 To support the administration of the Scheme the department has a permanent workforce of 26 full time equivalent officers. Of these officers, nine are dedicated to processing incentive claims and two officers process dwelling allocation requests.<sup>10</sup> The permanent workforce is supplemented by officers contracted in to assist with the processing of incentive claims. The cost of administering the Scheme was around \$4 million in both 2014–15 and 2015–16.

## Audit objective and criteria

1.11 This is the second of two Australian National Audit Office (ANAO) audits of the Scheme. The first audit report, ANAO Report No.8 2015–16, *Administration of the National Rental Affordability Scheme*, was presented to the Parliament in November 2015 and focused on the assessment of applications for allocations and management of reserved allocations. The ANAO concluded that the administration of the application and assessment process and management of reserved allocations for NRAS had not been effective. The report also highlighted the need for effective planning and sound administration if Government programs are to be successfully implemented and are to achieve their objectives and expected outcomes.

1.12 The objective of this audit was to examine the effectiveness of the Department of Social Services' administration of NRAS allocations; processing of market rent valuations, statements of compliance and incentive payments; and the supporting business systems and processes. To form a conclusion against the audit objective, the ANAO's high level audit criterion was whether the department had implemented processes for managing the allocation of NRAS incentives and a risk-based approach for processing the payment of incentives to approved participants in accordance with the Regulations. The audit has principally focused on the processing of incentive claims and payments made for the 2013–14 and 2014–15 NRAS years.

1.13 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of approximately \$434 000.

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10 These officers are also supported by the Helpdesk team that assists with the allocation process. In particular, communication between the department and approved participants.





## 2. Frameworks and systems

### Areas examined

The ANAO examined whether the department had developed frameworks and systems to support the effective and efficient administration of the National Rental Affordability Scheme.

### Conclusion

The regulatory framework governing the administration of the National Rental Affordability Scheme could be reviewed to clarify the operation of aspects of the Regulations. To more effectively manage Scheme risks, the department should develop a risk management framework and a targeted risk-based compliance program, informed by a comprehensive assessment of Scheme risks. The supporting information technology system could also be further developed to streamline approved participants' submission of required information and to aid in the better identification of potentially non-compliant or higher-risk incentive claims that require review prior to payment.

### Areas for improvement

The ANAO has made two recommendations focused on the department implementing a risk-based compliance program and enhancing the supporting information technology system.

## Does the regulatory framework support the effective administration of the Scheme?

The continual amendment of the Regulations to address issues as they have arisen has resulted in a complex regulatory framework. The Regulations could be reviewed with the aim of simplifying and clarifying aspects of their operation.

### Regulatory framework

2.1 The *National Rental Affordability Scheme Act 2008* (the Act) and the *National Rental Affordability Scheme Regulations 2008* (the Regulations) provide the framework against which the National Rental Affordability Scheme (NRAS or the Scheme) is administered. The Act is brief, establishes the Scheme in law and provides for the creation of the Regulations. There have been eight sets of amendments to the Regulations since 2009. Key changes are outlined in Table 2.1.

**Table 2.1: Changes to the NRAS Regulations**

Date <sup>a</sup>	Summary of key changes
28 November 2008 Effective from 1 July 2008	Regulations were created with retrospective effect from 1 July 2008.
24 June 2009 Effective from 1 July 2008	Additional sets of assessment criteria added to support calls for applications. Introduction of indexation for income limits and a methodology for calculating income limits where additional adults or children are members of a household. Provisions added to allow for the merits review of decisions of the delegate. Amendments to facilitate the issuing of tax offset certificates in the name of a joint venture and for replacement certificates to be issued. Amendments to address issues that may arise where an allocation is made with a retrospective date of operation—within a prior NRAS year.
6 May 2010	Amendments to: <ul style="list-style-type: none"> <li>• provide endorsed charitable institutions with the option to elect to receive a tax offset certificate rather than a payment; and</li> <li>• expand the circumstance in which a reserved allocation can be withdrawn, including for misleading advertising by an approved participant.</li> </ul> Introduction of two new sets of assessment criteria.
16 June 2011 Effective from 1 May 2010	Amendments to clarify the operation of annual indexation arrangements, including the introduction of cumulative indexation of income limits and incentive values. The Scheme was administered as if cumulative indexation had applied.
6 December 2012	Amendments to address an error in the published household income limits and to ensure that approved participants are not ineligible to receive incentives as a result of their reliance upon the previously published household income limits.
3 July 2013	Amendments to provide greater flexibility to endorsed charitable institutions around when they can elect to receive the NRAS incentive as a tax offset certificate.
23 September 2014	Introduction of provisional allocations in order to accelerate the delivery of affordable rental housing under the Scheme. Amendments to restrict the ability of approved participants to lodge multiple requests to change the type, size, location and other characteristics of reserved allocations, including the agreed rental availability date. Introduction of provisions for the payment of proportional incentives where the conditions of allocation have not been met for the full NRAS year. Amendment to apply indexation to the NRAS incentive amount of \$6000 from 1 May 2009.
4 November 2014	Amendments to improve the alignment between the Regulations and existing administrative practice and to reduce burdensome and inefficient compliance requirements. This included removing limits on rent increases, providing that the rent charged remains below the required level; extending the period for the submissions of market rent valuations; and allowing the delegate discretion to extend the period for the submission of market rent valuations and statements of compliance.
2 June 2015	Amendments to repeal conditions of allocation relating to rent reviews, removing restrictions on the frequency with which the rent charged for an approved rental dwelling can be reviewed and increased, subject to the approved participant meeting the other conditions of allocation.

Note a: Unless otherwise specified, the date of effect for the amendments is the date of ascent as reflected in the table.

Source: ANAO analysis of NRAS Regulations and supporting explanatory statements.

2.2 Through these amendments the responsible departments have aimed to enhance administration of the Scheme, including better aligning the Regulations with the policy intent and administrative practice. As a result of the continual changes to the Regulations, administration of the Scheme is difficult. Some examples of where operation of the Regulations could be streamlined or clarified include the different application of indexation of the market rent values and the date of effect for rent reductions where a market rent value has decreased.

2.3 Market rent valuations are used to determine the maximum permissible rent that can be charged by an approved participant for an NRAS dwelling. Market rent valuations must be lodged when a dwelling is allocated or first available for rent under the Scheme, whichever is the latter, and at the end of the fourth and seventh years of the 10 year incentive period.

2.4 Indexation is applied to market rent values in the years where approved participants are not required to submit independent market rent valuations. For dwellings other than those that have been provisionally allocated, the indexed market rent value has effect from the anniversary of the first available for rent date of the dwelling. From this date, the approved participant may adjust the rent charged in line with the indexed market rent value. For provisionally allocated dwellings, indexation applies from the anniversary of the first available for rent date for years two, three and four of the incentive period. After this period, the market rent valuation normalises to having effect from the anniversary of the date when the incentive period commenced.

2.5 Where a market rent valuation is due, approved participants are required to lodge the valuations within 91 days of the prescribed date. In effect, this is a 182 day period, as lodgement can be prior to or after the prescribed date. Where an approved participant has lodged a market rent valuation after the end of the fourth and seventh years of the 10 year incentive period and the valuation has decreased, the maximum rent that can be charged will reduce. The date of effect for the reduced rent amount is the first day of the fifth or eighth years of the incentive period. This is despite the approved participant only being required to lodge a market rent valuation within 91 days of this date. If the rent charged during the intervening period has been in excess of the reduced rent amount, based on the new market rent valuation, then one of the conditions of allocation for the dwelling has not been met. Where a condition of allocation for a dwelling is not met the department applies a penalty; in this instance, a proportionally reduced incentive.

2.6 In 2014 the department sought legal advice about the circumstances in which an incentive payable can be proportionally reduced. The initial advice received from the Australian Government Solicitor stated that the Regulation relating to proportional reductions *only applies to excess vacancy periods*. This opinion was later affirmed in internal legal advice, sought in relation to proportionally reducing the value of an incentive payable *where excess rent had been charged*. This second advice was sought in response to a specific matter—an internal review request from an approved participant who had been paid a proportionally reduced incentive for the 2013–14 NRAS year. The advice stated that this would result in failure to satisfy a condition of allocation and that the *approved participant would not be entitled to receive an incentive payment for the dwelling*. On the receipt of another internal review request relating to the payment of proportionally reduced incentives, where excess rent had been charged, the department sought advice from MinterEllison to support the internal review delegate's deliberations. This third legal advice stated that paying a proportionally reduced incentive, *where rent had been overcharged, would not be inconsistent with the requirements and purpose*

of the NRAS Act. Based on this legal advice, the department adopted the policy position that a proportionally reduced incentive was payable where the excess rent had been charged. This position was not consistent with the advice received from the Australian Government Solicitor.

2.7 The department's administration of the Scheme could be enhanced by the delegate having greater flexibility in applying penalties for non-compliance. Once the delegate has decided that a penalty is to be applied, there is no discretionary power to apply the penalty in a graduated manner. The structure of the Regulations is such that, in most instances the penalty that would apply where an approved participant has not met a condition of allocation is either non-payment of the incentive or payment of a proportionally reduced incentive. While this is an active deterrent mechanism to encourage approved participants to comply with the Regulations, including the conditions of allocation, it does not reflect risk-based regulatory administration. A regulator's response to non-compliance should be proportionate to the risk, and take into consideration past compliance behaviour, an entity's capacity to comply and motivations.<sup>11</sup>

2.8 To support more effective administration of the Scheme, further amendments could be made to the Regulations to remove competing conditions and increase the delegate's discretion in imposing penalties for non-compliance. In mid-2016, the department consulted with approved participants about administration of the Scheme and is planning to release a discussion paper about regulatory reform. The department expects that feedback from these processes will inform further amendments to the Regulations and will assist with implementing a 'stronger framework for managing the scheme in the future'.<sup>12</sup>

## Has a risk-based approach been applied in administering the Scheme?

The department did not have a current NRAS risk management plan or risk management framework in place, at the time of the audit. In 2015 the department developed a regulator performance framework to support the administration of the Scheme. This includes a commitment to publish an overall NRAS risk framework.

### Risk management framework

2.9 During 2015–16, the department developed the NRAS Regulator and Performance Framework, in accordance with Government requirements.<sup>13</sup> The Framework includes a key performance indicator relating to managing regulatory risks and outlines measures to be implemented. The risk management component of the Framework is presented in Table 2.2.

11 Australian National Audit Office, *Better Practice Guide, Administering Regulation—Achieving the Right Balance*, Canberra, 2014, pp. 45–52.

12 Department of Social Services' internal briefing paper: Overview of history and size of NRAS and recent operational issues and sensitivities, p.4, undated.

13 Australian Government entities responsible for administering regulation are required to develop a regulator performance framework specific to their regulatory activities. The framework has been designed to assist with reducing unnecessary or inefficient regulation.

**Table 2.2: Key performance indicators for managing risk—NRAS Regulator Performance Framework**

<b>KPI 3: Actions undertaken by regulators are proportionate to the regulatory risk being managed</b>	
<b>Measure</b>	<b>Evidence of the measure</b>
The Department applies a risk-based proportionate approach to compliance obligations, engagement and regulatory enforcement actions.	<p>The Department demonstrates that staff are aware of the regulatory risks relating to NRAS compliance activities and that standardised procedures have been developed and are implemented to manage identified risks.</p> <p>The Department's overall risk framework on NRAS is current and publicly available. When the risk framework is reviewed, stakeholder input is sought prior to publication.</p> <p>Opportunities are made available, with assistance from the sector, for Departmental staff to gain greater understanding of industry systems and processes.</p>
The Department's preferred approach to regulatory risk is regularly reassessed. Strategies, activities and enforcement actions are amended to reflect changing priorities that result from new and evolving regulatory issues.	<p>The Department conducts scans of the operating environment and revises its risk profiling of NRAS where appropriate.</p> <p>The Department tests its tolerance for risk by considering proportionality in its compliance regime, and this is done annually via the risk framework and the Statements of Compliance processing review.</p>
NRAS Regulation and compliance actions are contextual to current and emerging risks and are updated as appropriate.	<p>NRAS Regulations are updated in a way which demonstrates continuous improvement in respect to balancing policy outcomes with approved participant compliance impacts.</p> <p>The Department consults with stakeholders on future regulatory amendments. To provide transparency over this process, a log of regulatory reform items and outcomes achieved is maintained.</p> <p>The Department demonstrates that it considers and implements or substantiates the rejection of key recommendations from internal and external reviews of NRAS.</p>

Source: Department of Social Services—NRAS and the Regulator Performance Framework.

2.10 The department's progress in implementing the risk component of the NRAS Regulator Performance Framework has been slow, with little progress made during 2015–16. Despite committing to developing and publishing an overall NRAS risk framework, at the time of the audit, the department did not have a current NRAS risk management plan or risk management framework in place.

2.11 During the earlier years of the Scheme, several risk assessments and risk management plans were developed. The risk assessments, while identifying a number of risks, did not reflect an understanding of the underlying causes of the risks or provide a framework for effectively responding to or mitigating the risks.

2.12 Towards the end of 2015–16 the department conducted a series of consultation forums with approved participants about the operation of the Scheme. The information gathered through this process should assist the department to better understand the operating environment and inform the development of an overall risk framework and risk-based compliance program for the Scheme.

## Payment related compliance risks

2.13 A key risk for the department in administering the Scheme is the payment of incentives for ineligible dwellings—dwellings where the conditions of allocation have not been met. In mid-2014 the department examined a sample of 100 incentive claims out of nearly 14 000 claims paid for the 2012–13 NRAS year and identified that 70 per cent of incentive claims were potentially non-compliant with the requirements of the Regulations. This was largely due to errors in submitted market rent valuations.

2.14 In response, the department developed a plan to process the 2013–14 incentive claims. This included a suite of regulatory amendments to normalise pre-existing administrative practice and the review of all incentive claims and supporting information as submitted by approved participants, in advance of payments being made. This contributed to the increased time taken to process and pay incentive claims for the 2013–14 NRAS year.

2.15 In processing claims for the 2014–15 NRAS year, the department initially examined all incentive claims, later changing its approach following the processing of around one third of the claims. The department advised that the approach is more targeted to focus on identified problem areas and to realise efficiencies in the process. The revised approach involves the department manually assessing:

- all incentive claims where:
  - the system controls have identified that the rent charged has exceeded 80 per cent of the market rate;
  - a market rent valuation was due;
  - a vacancy or unavailable period has been recorded by the approved participant;
  - the system controls have identified a potential anomaly in the tenant demographic assessment data; and
- 20 per cent of other incentive claims.

2.16 A similar model has been adopted for the processing of 2015–16 incentive claims, with the department planning to examine around 70 per cent of incentive claims and related information prior to payment. This has been an operational strategy to support the processing of incentive claims and payment of incentives, but is not a risk-based approach to managing non-compliance and payment related risks.

2.17 In transitioning from a narrowly focused compliance regime to a risk-based approach to administering the Scheme, the department should consider:

- the required level of assurance, residual risk and the need to maintain stakeholder confidence in the Scheme;
- the reliability of the information supplied by approved participants;
- the timeliness of the allocation process and payment of incentives; and
- flexibility and/or the ability to respond to emerging risks.

2.18 In addition, the department should make greater use of the vast quantity of data collected from approved participants. Analysing this data would assist with identifying patterns and trends that may indicate non-compliant behaviour and the prevalence of risk. Further

research and analysis of specific issues would help the department to understand the level and nature of non-compliance and to develop strategies to address the underlying risks. Some of the insights that can be developed through the analysis of the NRAS data are discussed in Chapter 3 (paragraphs 3.40 and 3.41).

2.19 The recovery or writing-off of any overpayments made during the 2012–13 NRAS year has not been a priority for the department in recent years. The department's focus has been on processing incentive claims for compliant dwellings. At the time of the audit, the department had not decided on how overpayments should be addressed. In August 2016, the department advised that the overpayment issue was under consideration and that the Minister will be briefed on this matter. The department did not advise when the Minister will be briefed or the timeframe for resolving this matter. In order for the department to take action to resolve this matter, the value of any overpayments made needs to be quantified. If seeking to write off the overpayments the department will need to consider the Government's requirements and the appropriate accounting treatment in relation to these matters.

#### *Risk of over claiming of NRAS incentives paid as refund tax offsets*

2.20 Around 74 per cent of NRAS incentives were paid as refundable tax offsets. Endorsed charitable institutions receive the incentive as a cash payment unless they elect to receive the incentive as a refundable tax offset. Refundable tax offset certificates are issued by the department to approved participants. The value of the refundable tax offset for an individual dwelling can be transferred from the approved participant to the dwelling owner/investor and subsequently be claimed through the tax system. The Scheme design of transferable tax offset certificates rather than cash payments has increased the risk that the value of refundable tax offsets claimed may exceed the value of the certificates issued by the department.

2.21 The department provides advice to the Australian Taxation Office about payments made to approved participants, where a refund tax offset has been issued. In late 2015 the Australian Taxation Office also requested from the department further information about payments to the 76 organisations issued with refundable tax offset certificates since the Scheme commenced. The information was provided to assist the Australian Taxation Office with data matching activities.

### **Fraud risks**

2.22 The department completed an NRAS fraud risk assessment in April 2015, which built on previous work undertaken in this area in 2013 and 2014. The assessment identified three risks relating to: the quality of dwellings being constructed; falsification of required documentation; and incentive payments being made for dwellings that do not meet the Scheme's eligibility requirements. The fraud risk management strategies were focused around verifying information, analysing data, improving communication, and referring relevant matters for investigation.

2.23 Since late 2014 the department has made a series of amendments to the Regulations, which has assisted with addressing some of the potential risks—largely, dwelling delivery and misrepresentation of the Scheme. The amendments limited changes to dwelling locations and delivery timeframes and introduced penalties for misrepresentation of the Scheme. The department is also more actively engaging with approved participants, which should assist it to better understand the operating environment.

2.24 The NRAS Branch has established an effective working relationship with the department's Investigations Branch. Between November 2010 and mid-March 2016, 32 NRAS related matters were referred to the Investigations Branch.<sup>14</sup> The department advised that these matters ranged from the alleged provision of false and misleading documents or information through to alleged probity issues involving approved participants. Subject to the outcome of a preliminary assessment, the matters may be: referred back to the NRAS Branch for compliance and/or administrative action; referred to another agency; closed as no further action is required; or progressed to an investigation and possible referral for prosecution. No matters referred had progressed to prosecution at the time of the audit.

2.25 Areas where the department's processes need to be improved are the more systematic verification of information supplied by approved participants and data analysis. In processing incentive claims, the department relies on information supplied by approved participants. The department also collects and retains a range of information about approved participants, dwellings and tenants, but does not use this data to identify Scheme compliance risks. Analysis of this data would assist with developing a risk-based approach to managing Scheme compliance. Recommendation No.3 (paragraph 3.50) addresses this issue.

### Recommendation No.1

2.26 The department develops a risk management framework and implements a targeted risk-based compliance program, informed by a robust assessment of Scheme risks.

#### **Department of Social Services' response:**

*2.27 The Department accepts the recommendation and notes that it has been taking steps towards the development of a risk management framework within the current financial year. This will incorporate a targeted risk-based compliance program, to be informed by a robust assessment of Scheme risks. Work has been undertaken to identify risks in incentive processing, as well as in the fraud risk area. The Department has undertaken several risk assessments—the most current was completed in October 2014. In late 2015 smaller scale risk assessments were undertaken to support project plans for communication, end of year processing and regulatory reform to identify risks specific to those projects. The annual incentive compliance checking process is also a significant measure to mitigate the risk of incentives being issued incorrectly. The Department has been checking submitted statements of compliance, which will establish the level of risk for each approved participant and assist with tailoring future compliance checking to the risk profile of approved participants. The Department has also developed a regulator performance framework to support the administration of the Scheme. This includes a commitment to publish an overall NRAS risk framework within the next reporting period (current financial year).*

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14 The department advised that it also maintains an NRAS Investigations Referrals and Scam Register that is used to track allegations of fraud and non-compliance. Since December 2014, 37 records were added to the Register. Not all of these matters have been referred to the Investigations Branch.



## Have sound working relationships been established with key stakeholders?

The effectiveness of the department's relationships with key stakeholders is improving. Initiatives have been implemented to enhance information dissemination to and engagement with approved participants, including the development of a stakeholder management plan to assist with implementing a more coordinated approach to stakeholder engagement and communication.

### Engaging with NRAS stakeholders

2.28 The department used several mechanisms to disseminate information to and interact with approved participants and other stakeholders. This has included publishing information on the department's website, engagement activities and operation of the NRAS Helpdesk.

#### *Approved participants*

2.29 Between September 2014 and May 2015, 41 NRAS factsheets and other documents were published on the department's website. Approved participants consulted during the audit generally considered the fact sheets and other information useful, although some approved participants advised that they found the information difficult to understand. Approved participants also expressed interest in the department reissuing the NRAS Policy Guidelines to assist with better understanding the Regulations and their operation.

2.30 The NRAS Policy Guidelines in place from the early years of the Scheme were withdrawn by the department in August 2014 in response to Regulatory changes at that time. The department developed an NRAS Explanatory Guide, which was released to approved participants on 18 August 2016 and made available from the department's website the following day. While this is two years after the NRAS Policy Guidelines were withdrawn, the department advised that during the intervening period approved participants have been able to access advice through the NRAS Helpdesk. The department is also releasing 'information sheets' that will provide approved participants with more detail on particular issues, including practical examples of how the Regulations are applied. The first information sheet was released in early September 2016.

2.31 In line with the Government's commitment to reducing red tape, the department has established a formal stakeholder consultation mechanism with National Affordable Housing Providers Limited. This organisation has 20 members across Australia that collectively hold around 42 per cent of all NRAS allocations. While this is a useful stakeholder engagement mechanism, 85 per cent of approved participants are not members of National Affordable Housing Providers Limited.

2.32 The ANAO was advised in August 2016 that the department had recently engaged with the Community Housing Industry Association (the Association), which represents the community housing sector. Membership of the Association includes 23 NRAS approved participants. The Association has agreed to participate in the department's ongoing consultation forums. The first meeting involving National Affordable Housing Providers Limited, the Association and the department has been scheduled for October 2016.

### *State territory government departments*

2.33 The department has an ongoing relationship with the state and territory governments, which provide a co-contribution to approved participants. The state and territory departments consulted during the audit considered that there is now an appropriate level of engagement with the department.

2.34 The ability to generate reports directly from the system was raised by some state and territory departments as a potential area for improvement. Currently the state and territory departments rely on the Department of Social Services to generate and email reports. Others were satisfied with the existing arrangements and advised that their business processes had been developed to effectively utilise the information provided in its current form.

### *The NRAS Helpdesk*

2.35 The NRAS Helpdesk is available to approved participants and other stakeholders. Enquiries received relating to the Federal Online Funding Management System (FOFMS) or the NRAS Portal<sup>15</sup> are referred to the department's IT Helpdesk, while all other general enquiries are referred within the NRAS Branch. In 2015, the NRAS Helpdesk received in excess of 7500 enquiries, or an average of 29 enquires each week day (Monday to Friday). Of these enquiries, 5161 or 69 per cent were from approved participants, with the balance from investors, property managers and other stakeholders.

2.36 The majority of approved participants consulted during the audit were dissatisfied with the timeliness of responses from the NRAS Helpdesk. While the majority of general enquires received from approved participants were resolved within 30 days, where enquiries are not resolved quickly, the elapsed time to resolution was lengthy. The reason for delays in resolving enquiries was not apparent in the data captured by the NRAS Helpdesk. Analysis of the department's NRAS Helpdesk data is presented in Table 2.3.

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15 FOFMS is the system used by the department to administer the Scheme. The NRAS Portal is the interface between the department and approved participants.

**Table 2.3: Status of approved participant Helpdesk enquiries—2015**

Timeframe (days)	Resolved		Unresolved/open as at 31 December 2015		Total
	NRAS Helpdesk	IT Helpdesk	NRAS Helpdesk	IT Helpdesk	
0 to 7	1443	888	3	-	<b>2334</b>
8 to 30	846	241	84	-	<b>1171</b>
31 to 90	617	46	184	-	<b>847</b>
91 to 180 <sup>a</sup>	155	5	342	2	<b>504</b>
180 to 365 <sup>a</sup>	15	1	289	-	<b>305</b>
<b>Total</b>	<b>3076</b>	<b>1181</b>	<b>902</b>	<b>2</b>	<b>5161</b>

Note a: The department advised that these records include enquiries that have been resolved but not recorded as closed, and repetitious enquiries.

Source: ANAO analysis of Department of Social Services Helpdesk data—status as recorded by the department at the end of December 2015.

2.37 Monitoring the elapsed time of NRAS Helpdesk enquiries should assist the department to progress enquiries that have been open for an extended period. The department advised that Microsoft Service Manager was implemented for the NRAS Helpdesk in June 2016 to assist with the recording and tracking of enquires.

### Ongoing relationship management

2.38 Recognising that approved participants are a key partner in delivering the outcomes of the Scheme, in late 2015 the department developed an NRAS Communication and Stakeholder Management Plan. The Plan is designed to assist with implementing a more coordinated approach to stakeholder engagement and communication, and in particular engagement with approved participants. By mid-2016, implementation of the plan was well progressed. The department:

- had completed a series of NRAS stakeholder information forums with approved participants in all jurisdictions;
- was progressing the redevelopment of the NRAS section of the department's website; and
- had engaged two officers to fill the newly created role of relationship manager. These officers will be a direct point of contact between the department and approved participants.

## Have systems been implemented to support the collection of required data and administration of the Scheme?

The NRAS Portal does not facilitate the effective provision of required information from approved participants. The design and functionality of the NRAS Portal has created a significant administrative burden for approved participants, which has been compounded by slow response times and stability issues. Further development is required for the system to fully meet the department's business needs.

### The NRAS Portal

2.39 NRAS is administered using an information technology system residing on FOFMS. Data is entered into the system by approved participants through the NRAS Portal, which was designed as a user interface for approved participants and to automate the processing of incentive claims. The NRAS Portal was upgraded in December 2014 and March 2015 to reflect changes to the Regulations and changes in administration of the Scheme.

2.40 System stability has been an ongoing issue for the department. To reduce demand on the Portal in peak periods, the department advised that it has been encouraging approved participants to enter data throughout the NRAS year. The department also advised that the system access issue was not unique to the NRAS Portal and affected other systems operating on the same platform, and that it was working with the software vendor and approved participants to understand and resolve the performance issues.

2.41 Approved participants advised the ANAO that the availability, access, stability and slow operating speed of the Portal have impacted on their ability to submit required information. For example, approved participants reported that the time taken to enter a tenant demographic assessment increases significantly during periods when the operation of the Portal is slow. The ANAO was also advised by approved participants that during the peak period for the submission of data for the 2015–16 NRAS year they had experienced difficulty accessing the NRAS Portal.

2.42 To understand the extent of the system access issues, the ANAO requested the department to provide details of unique users accessing the system. This information was requested to quantify and better understand the frequency with which users are logging onto, or attempting to log onto, the NRAS Portal within a given 24 hour period. In response the department advised that '[w]ith regards to the access logs, we do not record that level of detail. We have some monitoring software which records the number of sessions per day. These sessions could be across a number of users and not 1 session per user'.<sup>16</sup> In effect, the department is not able to quantify the extent of system access issues.

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16 Email from the Department of Social Services to the ANAO dated 29 April 2016.

### *Functionality and user impacts*

2.43 Each NRAS year approved participants are required to submit tenancy demographic and occupancy data, and complete a statement of compliance for each dwelling allocation.<sup>17</sup> For the 2013–14 and 2014–15 NRAS years, around 116 000 tenancy demographic assessments were submitted. In the same period about 48 500 statements of compliance were submitted.

2.44 The design, functionality and slow response time of the NRAS Portal had created a significant administrative burden for approved participants. This is demonstrated by:

- the need for tenant demographic assessments to be entered in the correct chronological order—where a tenant demographic assessment is missed during data entry, all subsequent assessments for the dwelling must be withdrawn, the missing data entered and the withdrawn assessment(s) re-entered;
- the inability to easily correct minor data entry errors in tenant demographic assessments—to correct an error the relevant tenant demographic assessment and any subsequent assessment(s) must be withdrawn and re-entered; and
- occupancy and tenancy information not being recognised across more than one NRAS year—where a lease agreement extends across more than one NRAS year, a tenant demographic assessment is required to be entered for each NRAS year. The information does not carry forward from the previous year.

### **The supporting information technology system—FOFMS**

2.45 FOFMS uses a series of business rules to assess whether information input by approved participants is compliant with the Regulations, and to calculate the value of the NRAS incentives. The department has placed limited reliance on the system controls, as the system was initially built to reflect existing administrative practice, rather than the requirements of the Regulations. Despite subsequent enhancements made to the system and changes to the Regulations, the department has continued to assess the majority of incentive claims outside of the system.

2.46 The ANAO's analysis of incentive claims and payments relating to the 2013–14 and 2014–15 NRAS years confirmed that, in the main, the system controls are operating as designed, although further development is required for the system to fully meet the department's business needs. For example, the system effectively identifies where the reported combined gross household income for a dwelling exceeds the NRAS household income limit, but does not identify data anomalies including where very low values have been entered. The department has also identified that the system does not correctly calculate vacancies across two NRAS years. Approved participants can also withdraw submitted tenant demographic assessments, without a record of this information being retained. This is information that the department may have relied upon in processing a dwelling incentive claim.

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17 Tenancy demographic assessments include data about tenants' income, employment details, dependents and other personal details.

2.47 Improvements to the system would assist with automating, within system capabilities, the processing of incentive claims and payment of incentives. During the audit the department commenced a project focused on:

- identifying gaps between the Scheme's business and system processes;
- developing business requirements for system enhancements; and
- assessing the completeness of user documentation and guidance.<sup>18</sup>

2.48 In addition, the lack of formal governance arrangements between the NRAS Branch and the Information Management and Technology Group has impacted on the resolution of system issues. The department advised that the system was implemented without all functionality being adequately tested in advance of release and that resolving issues has been delayed. In April 2016, a business relationship manager from the Information Management and Technology Group was assigned to work with the NRAS Branch to identify and address outstanding issues.

## Recommendation No.2

2.49 The NRAS component of FOFMS and NRAS Portal be further developed to:

- (a) streamline the input of required information by approved participants, including that information, where correct, is only required to be provided once; and
- (b) enhance the business rules and system controls to better identify potentially non-compliant or higher-risk incentive claims that require review prior to payment.

### Department of Social Services' response:

2.50 *The Department accepts the recommendation and notes that it has been redeveloping the two systems to improve usability and better align the IT systems with business processes. Work is underway to identify improvements to:*

- (a) *the functionality and usability of the system and the ability of the system to accurately assess and calculate incentive claims to allow for a greater level of automation; and*
- (b) *review compliance processes and general system support.*

*The Department has also engaged with approved participants to identify the issues of concern.*

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18 The project was scheduled to be completed by the end of June 2016, but was ongoing as at 15 August 2016.

### 3. Allocations, market rent valuations and the processing of incentive payments

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#### Areas examined

The ANAO examined whether the department has administered the allocation process, market rent valuations and the processing of incentives in accordance with the Regulations.

#### Conclusion

The department has processed allocation requests, market rent valuations and incentive claims in accordance with the requirements of the Regulations, based on the information submitted by approved participants. However, there is no consistently applied method for verifying the reliability of the information provided.

#### Areas for improvement

To complement the earlier recommendation about strengthening risk and compliance management, the ANAO has recommended that the department implement a process to systematically verify the reliability of information submitted by approved participants.

#### Have incentives been allocated to dwellings and administered in accordance with the Regulations?

The department has processed requests for allocation from approved participants in accordance with the Regulations.

#### Number of allocations made

3.1 Allocations or reserved allocations were offered to applicants following the assessment of applications received through six open rounds undertaken between July 2008 and August 2013. Allocations were offered to applicants where dwellings were available for rent or reserved where the dwelling was to be constructed and delivered at a later date. A third category, provisional allocation, was introduced in amendments made to the Regulations on 23 September 2014.<sup>19</sup> By the end of June 2016, 31 368 dwellings had been delivered into the Scheme.

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19 Provisional allocations are discussed in paragraphs 3.7 to 3.8.

**Table 3.1: Number of NRAS allocations by type—30 June 2016**

Type of allocation	Number of allocations
Allocated <sup>a</sup>	30 230
Provisional—dwelling available for tenancy	1 138
Provisional—dwelling to be constructed and/or to enter the Scheme	1 901
Reserved—to be transitioned to a provisional allocation	3 863
<b>Total</b>	<b>37 132</b>

Note a: One reserved allocation has a dwelling status of active. This dwelling has been included in the total for allocated.

Source: ANAO analysis of Department of Social Services data.

### The allocation process

3.2 Approved participants submit to the department requests to allocate a dwelling, along with supporting information. This includes a certificate of occupancy or its equivalent, to show that the dwelling is complete and is available for rent. Submitted allocations are assessed in accordance with the department's documented procedures. In 2013–14 and 2014–15 the department allocated a total of 15 238 dwellings into the Scheme.

3.3 Following allocation, the dwelling record is updated in the supporting system to allow the approved participant to lodge an incentive claim for the dwelling. Incentive claims are only payable for dwellings that have been allocated or provisionally allocated and have a dwelling status record of active. Current system controls do not prevent an active status being assigned to a dwelling that has not been allocated. The ANAO's analysis identified that one dwelling categorised as reserved had a dwelling status record of active. This dwelling had been submitted for allocation, but the dwelling record in the system had not been correctly updated.

3.4 The allocation process utilised by the department meets the requirements of the Regulations. In addition, the department requiring the submission of a market rent valuation at that time. The submission of a market rent valuation is not a condition that must be met for an allocation to be made. The first market rent valuation is to be lodged within 91 days of the dwelling being first available for rent or a later period with the agreement of the delegate.

3.5 The ANAO's review of a sample of dwellings allocated during 2013–14 and 2014–15 shows that the timeliness of the allocation process could be improved. In 2013–14 the median elapsed time for the department's processing of dwelling allocation requests was seven days, extending to a median elapsed time of 75 days in 2014–15. The requirement for approved participants to submit a valid market rent valuation as part of a request for allocation and to address any anomalies identified, contributed to the time taken to allocate dwellings into the Scheme.

3.6 The department advised that requiring approved participants to submit a market rent valuation as part of the allocation process is a risk mitigation strategy. The process is designed to ensure that dwellings are compliant with the conditions of reservation in advance of an allocation being made. It is a regulatory requirement that the delegate only makes an allocation where the conditions of reservation have been satisfied. There is a risk that an allocation would be revoked if a dwelling was subsequently found to not meet the conditions of reservation.



## Provisional allocations

3.7 Provisional allocations were introduced to accelerate the delivery of dwellings. From 23 December 2014, where a dwelling is not delivered by the agreed date, the reserved allocation is to be transitioned to a provisional allocation.<sup>20</sup> The effect of a provisional allocation is that the 10 year incentive period commences, with payment of the incentive only beginning once the dwelling is available for rent and all other conditions of reservation have been met.

3.8 Departmental records show that 3046 dwellings had been provisionally allocated as at 30 June 2016. Of these dwellings, only 1138 have been delivered. By the end of June 2016, 31 367 dwellings had been entered into the Scheme, which is well short the Government's revised target of 38 000 dwellings by this time. In Report No.8 2015–16, *Administration of the National Rental Affordability Scheme*, the ANAO noted that if the revised target of around 38 000 dwellings was to be achieved by 30 June 2016, a significant acceleration in the construction of eligible dwellings was required.

## Have market rent valuations been submitted and processed in a timely manner?

A substantial number of market rent valuations have been submitted later than required and on review were found by the department to be non-compliant, necessitating resubmission. Approved participants are generally not advised whether a market rent valuation is compliant until the incentive claim for the dwelling has been lodged and assessed. This can be months after the market rent valuation was submitted to the department.

## Lodgement of market rent valuations

3.9 The lodgement of a market rent valuation with the department for each dwelling is a core requirement of the Scheme. As discussed in paragraph 2.3, market rent valuations are used to determine the maximum permissible rent that can be charged by an approved participant for an NRAS dwelling. Market rent valuations must be lodged when a dwelling is first allocated, or first available for rent under the Scheme, whichever is the later, and at the end of the fourth and seventh years of the 10 year incentive period.

3.10 The market rent valuation is to be provided in a written form and have been completed by a valuer who:

- is registered in the state or territory in which the dwelling is located;
- is registered with a professional organisation that has a code of conduct and adopts the professional practice standards of the Australian Property Institute; and
- has no commercial relationship with, or interest in, the dwelling or the registered owner or manager of the dwelling.

<sup>20</sup> The regulatory changes made in September 2014 also restricted the ability of approved participants to request changes to a dwelling's location, size, type and agreed rental availability date. The last agreed rental availability date for any dwellings is 30 June 2016. From this date all reserved allocations are to transition to provisional allocations.

3.11 Prior to 4 November 2014, approved participants were required to submit market rent valuations within 30 days of the actual first available for rent date, and the fourth and seventh year anniversaries of this date. In processing the 2013–14 incentive claims, the department identified that 53 per cent of market rent valuations due during that period had either not been submitted or were submitted outside of the prescribed period. To address this, the Regulations were amended to:

- extend the lodgement period to 182 days, 91 days either side of the first available for rent date or commencement of the incentive period<sup>21</sup>;
- allow approved participants to apply for extensions to the lodgement date; and
- allow approved participants to resubmit market rent valuations to correct any anomalies identified by the department in the processing of the submitted market rent valuations.

3.12 Without these regulatory amendments, a significant number of approved participants would have been ineligible to receive an incentive payment for the 2013–14 NRAS year and subsequent years.<sup>22</sup>

3.13 The ANAO examined a sample of 36 dwellings where a market rent valuation was due in the 2013–14 NRAS year. The analysis highlighted that the department accepted market rent valuations submitted after 30 April 2015, the extended lodgement date, without requiring the approved participant to lodge a formal request to extend.<sup>23</sup> This was not consistent with the Regulations as amended in November 2014.

3.14 In the 2014–15 NRAS year, the department granted extensions to the lodgement date for market rent valuations well after the due date. This was largely because approved participants did not lodge a request to extend until the department identified that a fifth or eighth year valuation had not been lodged, or was lodged late as part of the processing of incentive claims.

3.15 The Regulations do not expressly preclude the department from approving an extension of the market rent valuation lodgement date outside of the 182 day submission period as the approval of an extension is at the discretion of the delegate. Although, an extension is not to be granted unless the approved participant has a reasonable excuse for not being able to lodge within the permitted period.<sup>24</sup> The approach adopted by the department has assisted approved participants with meeting their regulatory obligations.

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21 This change aligned the Regulations with pre-existing administrative practice. Historically, the department advised approved participants that they had 60 days, or in some cases 90 days, to lodge a market rent valuation.

22 Lodgement of a market rent valuation that meets the prescribed requirements of the Scheme is a condition of allocation. Where certain conditions of allocation are not met, no incentive is payable.

23 In 2013–14 the department allowed approved participants to lodge market rent valuations outside of the permitted period, provided that they were submitted by 30 April 2015.

24 The ANAO reviewed 200 requests to extend the permitted valuation period and found that in the majority of cases the department and not the approved participant identified that an extension to the market rent valuation permitted period was required.

## Processing market rent valuations

3.16 In processing market rent valuations, the department has noted continual high rates of non-compliance with the requirements of the Regulations, necessitating the resubmission of market rent valuations by approved participants. Of the 8444 market rent valuations submitted in the 2014–15 NRAS year assessed by the department, 1471 or 17 per cent were non-compliant. The assessment outcome for a further 2414 or 29 per cent of dwellings was not recorded, and the remaining 4559 or 54 per cent of dwellings were assessed as compliant. The most common reasons for market rent valuations being assessed as non-compliant were that:

- the address or other details of the dwelling did not match the dwelling details as recorded in FOFMS;
- a valuation was not submitted, or submitted late; and
- the market rent quoted in the valuation was provided as a range and not a specific figure.

3.17 To assist approved participants to meet the regulatory requirements relating to market rent valuations, the department issued supplementary guidance in September, October and November 2014, and again in April, May, June and October 2015.

3.18 While market rent valuations are submitted throughout the NRAS year, approved participants are not advised of the outcome of the department's assessment until the associated dwelling incentive claim has been processed. This can be many months after the market rent valuation was due and submitted.

3.19 In processing market rent valuations, the department has focused on whether the information supplied meets the regulatory requirements of the Scheme and matches the particulars of the dwelling as recorded in FOFMS. The department has not systematically confirmed the independence of the valuer or the reasonableness of the reported market rent value. In this respect, the ANAO has recommended that the department implements a process to systematically verify the reliability of information submitted by approved participants as part of a risk-based approach to managing Scheme compliance (paragraph 3.50).

## Have incentive payments been paid in line with the Regulations?

The department has processed incentive claims and made payments based on the information supplied by approved participants. The time required by the department to process incentive claims has been lengthy, mainly resulting from the largely manual processes and the resubmission of required information by approved participant to correct errors. To provide a higher level of assurance that payments are only made for compliant dwellings a consistently applied risk-based method for testing the reliability of the information provided by approved participants is required.

## Processing incentive claims

3.20 After the end of each NRAS year, approved participants are able to lodge an incentive claim for each dwelling with an active allocation. This involves submitting, through the NRAS Portal, a statement of compliance and supporting information. The statement of compliance is a declaration that the dwelling has at all times complied with regulatory requirements of the scheme and/or details of any way in which the requirements were not met. Supporting

information includes: a record of occupancy for each dwelling; rent charged; and tenant demographic data. Approved participants lodged incentive claims in relation to 21 459 dwellings in 2013–14 and 28 980 dwellings in 2014–15.

3.21 The department assesses the information submitted by approved participants to determine eligibility to receive the NRAS incentive. The value of the incentive is reduced where the dwelling has been unavailable to rent; vacant for an excess period; or the rent charged has exceeded 80 per cent of the market rent value. In 2013–14 the department manually calculated the value of each incentive payable by re-entering information into a series of spreadsheet calculation tools.

3.22 Analysis of NRAS payment records indicates that the department reduced the value of incentives paid for 7816 dwellings (36 per cent) in 2013–14 and 3180 dwellings (16 per cent) in 2014–15. Around 90 per cent of these reductions were made as the dwelling was entered into the Scheme during the 2013–14 or 2014–15 NRAS years. The value of reductions ranged from the less than \$100 to in excess of \$7500, the full value of the incentive. The average reduction to the incentive amount was \$3832 in 2013–14 and \$2843 in 2014–15. Table 3.2 shows a breakdown of the number of dwellings where a reduced incentive was paid.

**Table 3.2: Dwellings where a reduced incentive has been paid**

2013–14			2014–15	
Value of the reduction (\$)	Reason for reduction and number of dwellings affected			
	Dwelling entered the Scheme during the NRAS year	Other reasons <sup>a</sup>	Dwelling entered the Scheme during the NRAS year	Other reasons <sup>a</sup>
1 to 1500	1339	306	892	233
1501 to 3000	1309	133	870	50
3001 to 4500	1029	67	376	27
4501 to 6000	2125	30	194	8
6001 to 7500	1385	19	434	21
Over 7500	69	5	72	1
<b>Total</b>	<b>7256</b>	<b>560</b>	<b>2838</b>	<b>340</b>

Note a: The other reasons for reductions include: excess vacancy periods; unavailable days; and excess rent being charged.

Source: ANAO analysis of Department of Social Services data.

3.23 In recent years the department has mitigated the risk of incorrect payment of NRAS incentives by amending the Regulations, enhancing the supporting information technology system and implementing offline manual review processes. This is providing the department with a level of assurance that incentive claims are only being paid in accordance with the regulatory requirements of the Scheme, based on the information supplied by approved participants. The vulnerability that continues to exist is that the department is relying on information supplied by approved participants, with limited verification of the reliability of the information provided. A risk-based approach is required to verifying the information submitted by approved participants to provide a higher level of assurance that payments are only made for compliant dwellings and for the correct amount, adjusted to reflect any reductions.

### *Timeliness of processing of incentive claims*

3.24 The department was criticised in the media by investors late in 2014 and early 2015 regarding delays in the payment of NRAS incentives. The timeframes for the processing and payment of incentives for the 2013–14 and 2014–15 NRAS years was lengthy, at an average of 140 days and 126 days respectively.<sup>25</sup>

3.25 The department's increased focus on compliance and ensuring that incentive claims were only paid for compliant dwellings was a necessary change in regulatory approach, but one that extended the time taken to complete the processing of incentive payments for the 2013–14 NRAS year. To support the payment of 2013–14 incentives the department amended the Regulations to normalise pre-existing administrative practice, which allowed approved participants to resubmit supporting materials.

3.26 Implementation of the changed approach to managing compliance could have been better managed though a more graduated implementation. The department has an ongoing relationship with approved participants and consideration could have been given to the recovery or offset of any overpayments in future NRAS years.

3.27 The department's approach to processing incentive claims is evolving, which is reducing the elapsed time for the processing of incentive claims. For the 2015–16 NRAS year, the department advised that it is processing compliant incentive claims first and then commencing a more detailed assessment of claims identified for further review. The time taken to process the incentive claims for a sample of 72 dwellings in 2013–14 and 2014–15 is presented in Table 3.3.

**Table 3.3: Time taken to assess incentive claims and approve payment**

	Elapsed time (days)			
	Statement of compliance due to incentive claim approved		Incentive claim submitted <sup>a</sup> to incentive claim approved	
	2013–2014	2014–15	2013–14	2014–15
Minimum	176	121	67	43
Average	258	185	140	126
Maximum	319	253	184	159

Note a: All required information received by the department.

Source: ANAO analysis of Department of Social Services data.

3.28 The ANAO was advised by the department in early September 2016 that 60 approved participants have had 2015–16 incentives paid or approved for payment, for about 11 000 dwellings, with the remaining incentive claims at various stages of the assessment process.

25 Based on a sample of 72 incentive claims submitted for the 2013–14 and 2014–15 NRAS years. The elapsed time has been calculated from the date when the incentive claim was lodged (subject to any approved extensions, and the approved participant providing all required information as advised by the department) to the date the approved participant was advised of the final outcome of the assessment of their claim for incentive.

### *Skills, capability and procedural guidance materials*

3.29 In processing dwelling incentive claims, the department depends on a small number of experienced officers supported by a larger group of officers engaged on a non-ongoing basis. On engagement these officers participate in a training program and incentive claims processed by these officers are subject to quality review. To further support these officers the department has developed a series of task cards, checklists, spreadsheet based calculators, localised guidance documents and policy position papers. The department has informed the ANAO that it intends to draw these disparate materials together into an internal procedures manual as a single point of reference for officers processing incentive claims.

3.30 With a strongly task-based and process-oriented approach, assessing officers may not readily identify anomalies in the data and/or supporting information, submitted by approved participants, which may indicate the risk of non-compliance. Paragraphs 2.9 to 2.19, discussed that the department does not have a well-developed framework for identifying and assessing compliance risks.

### **Assessing rent charged over the year**

3.31 The first of the three core requirements of the Scheme is that dwellings are rented to eligible tenants at a rate that is less than or equal to 80 per cent of the market rate at all times during the NRAS year. Independent valuations sourced by approved participants establish a baseline rental amount in the first, fifth and eighth years of the incentive period. In establishing the maximum rent that can be charged in the intervening years, indexation is applied to the market rent valuation in accordance with the movement in the NRAS market index.

3.32 Through analysis of NRAS incentive claims and related data, the ANAO found that the system controls designed to identify where rent was charged at an amount greater than 80 per cent of market rent value were effective, except where an approved participant lodges a tenancy demographic assessment using the 'same lease' pathway.<sup>26</sup> When this occurs, the system compares the rent charged to the market rent outlined in the previous lease, not the indexed market rent amount. As a result, an approved participant may incorrectly be found to be non-compliant with the 80 per cent rule.<sup>27</sup> When this occurs the incentive claim is manually reviewed.

3.33 In the 2013–14 NRAS year, the system identified 110 dwellings where excess rent had been charged. Following review by the department, a full incentive was subsequently paid for 85 of these dwellings. A similar outcome ensued for the 2014–15 NRAS year. The system identified 511 dwellings where excess rent was charged, with the full value of the incentive, ultimately, being paid for 381 of these dwellings. A proportionally reduced incentive was paid for the balance of the dwellings.

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26 When submitting a tenancy demographic assessment, approved participants are to select one of three lease pathways: 'new lease new tenant'; 'new lease same tenant'; and 'same lease'. The lease pathway selected determines what market rent amount is used to compare the rent charged against. 'New lease new tenant' and 'new lease same tenant' pathways use the current indexed market rent. The 'same lease' pathway applies all conditions of the previous lease including the market rent.

27 For the 'same lease' pathway, where the previous tenancy demographic assessment was submitted before indexation was applied, the market rent value in the new tenancy demographic will refer to the previous value.

### *Indexation of market value rents*

3.34 The department's practice prior to November 2014 was to allow approved participants to adjust the market rent value of dwellings in accordance with movements in the rents component of the consumer price index. This was despite the Regulations in place at the time not allowing for any adjustments to market rent values outside of the fifth and eighth year valuations used to re-baseline the market rent amount. The department identified that this practice had resulted in incentive payments being made for non-compliant NRAS dwellings, as rent had been charged at a rate greater than 80 per cent of the NRAS market rent valuation. In response, the Regulations were amended in November 2014 to allow for adjustments to market rent valuations on an annual basis, normalising pre-existing administrative practice.

3.35 Indexation is applied to market rent values in the years where approved participants are not required to submit independent market rent valuations. For dwellings other than those that have been provisionally allocated, the indexed market rent value has effect from the anniversary of the first available for rent date of the dwelling. From this date, the approved participant may adjust the rent charged in line with the indexed market rent value. The movement in the index that is to be applied is calculated by the system, with the maximum permissible rent amount adjusted accordingly.

3.36 For provisionally allocated dwellings, indexation is applied differently for the first four years. Indexation is applied for these dwellings on the anniversary of the first available for rent date. From the fifth year indexation of the market rent valuations normalises to have effect from the anniversary of the date when the incentive period commenced.<sup>28</sup>

3.37 In addition, in circumstances where the market index has increased, the rent charged can only be increased where a new lease agreement is entered into; or an existing lease agreement is renewed.<sup>29</sup> Where the market index decreases the Department has taken the position that the decrease is to apply from the anniversary of the first available for rent date or the anniversary of the date of the commencement of the incentive period.<sup>30</sup>

### **Tenant eligibility**

3.38 Tenant eligibility is the second of the three core conditions on which the Scheme is premised, with tenant eligibility reflected in the Regulations as a condition of allocation. For a person or persons to be an eligible tenant(s), the combined gross household income must not exceed the income limits set out in the Regulations. Existing tenants are allowed to exceed the initial household income limits by up to 25 per cent for two consecutive years. After this period, if the gross household income continues to exceed the threshold by more than 25 per cent they are no longer eligible to tenant an NRAS dwelling. The gross household limits that applied during the 2013–14 and 2014–15 NRAS years are set out in Table 3.4.

28 For provisional allocations, the date that the incentive period commences is the agreed rental availability date.

29 This is in accordance with state and territory landlord and tenancy requirements. The Regulations require dwellings to be managed in accordance with these requirements.

30 For years one to four, movements in rent charged are linked to the first available for rent date. For all subsequent years movements in rent charged are linked to the anniversary of the commencement of the incentive period.

**Table 3.4: NRAS gross household limits—2013–14 and 2014–15**

Household composition	2013–14		2014–15	
	Initial household income limit (\$)	Existing household income limit (\$)	Initial household income limit (\$)	Existing household income limit (\$)
1 <sup>st</sup> adult	45 956	57 445	47 302	59 128
1 <sup>st</sup> adult—sole parent	48 336	60 420	49 752	62 190
Each additional adult	17 579	21 974	18 094	22 617
Each child	15 243	19 054	15 690	19 613

Source: Department of Social Services and ANAO analysis of departmental data.

3.39 To assist approved participants and tenants to understand the NRAS gross household limits, the department issued two fact sheets outlining the limits that apply across a number of common household compositions. The ANAO observed that approved participants consulted during the audit that were operating in the social and community housing sectors were generally comfortable with calculating the gross household income of potential and existing tenants, whereas other approved participants were less certain about the department's requirements.

3.40 Gross household income is required to be recorded by approved participants in FOFMS for each tenancy demographic assessment submitted. The system controls identify where the reported gross household income amount exceeds the allowable household income limit, but could be tailored to capture other anomalies. This could include where the reported gross household income is outside of a predetermined range, or is insufficient to cover the weekly rent of the dwelling. Analysis of tenant and household income data identified several anomalies, as presented in Table 3.5.

**Table 3.5: Anomalies in reported gross household income data**

Data anomalies <sup>a</sup>	Households	
	2013–14	2014–15
Reported gross household income is less than \$6000 per year (point of entry)	351	309
Reported gross household income is between \$6001 and \$12 000 per year (point of entry)	622	615
Reported income field is blank (point of entry—new tenant)	833	n/a <sup>b</sup>
No adult and/or independent minor was recorded as a tenant	65	67

Note a: Data analysis is based on gross household income as reported by approved participants in submitted tenancy demographic assessments.

Note b: The department advised that system enhancements resulted in income fields displaying a zero value for the 2014–15 NRAS year.

Source: ANAO analysis of Department of Social Services data.



3.41 The department has not analysed reported gross household income data to identify anomalies that could indicate non-compliant behaviour by approved participants. Other agencies use data matching as part of risk-based compliance program to confirm the reliability of reported information and the department could examine similar opportunities. The department's verification of reported income is, however, made more difficult by the calculation being based on gross household income, not taxable income, and the NRAS year and financial years not being aligned.

### **Dwelling occupancy**

3.42 Occupancy of a dwelling is the third core requirement of the Scheme. Approved participants' record, in FOFMS, tenant demographic and occupancy data, including any periods where the dwelling was vacant or unavailable during an NRAS year. The department uses this information to determine an approved participants' eligibility to receive an NRAS incentive for a dwelling and the value of the incentive payable.

3.43 An NRAS dwelling can be vacant for a period up to 91 days (13 weeks), cumulatively within a single NRAS year or continuously across two NRAS years, without incurring any financial penalty. For any vacancy in excess of this period, the value of the incentive payable is proportionally reduced. Where a dwelling is vacant for more than 182 days, no incentive is payable.<sup>31</sup>

3.44 FOFMS includes controls to identify where a dwelling has been vacant for more than 91 days. ANAO analysis of the NRAS data confirmed that the controls within the system are operating as designed, with the system flagging incentive claims with excess vacancy periods for review. The system also calculates a reduced incentive where a cumulative vacancy period exceeds 91 days within a single NRAS year. Where a vacancy crosses NRAS years, the system does not have the functionality to accurately calculate and apply a proportional reduction. To address this limitation, the department uses a spreadsheet based tool to calculate the excess days and any proportional reduction that applies. The results of the manual calculation are recorded in the system, and the incentive amount is then recalculated.

3.45 In calculating any vacant days, the department includes the period between a request for allocation being submitted and the date when a dwelling allocation is finalised. Examination of a sample of 36 dwellings allocated in 2014–15 NRAS year indicated that the median elapsed time for the department to process an allocation request was 75 days. If a dwelling is tenanted in advance of the date of effect of the allocation, the allocation can be revoked if the approved participant has not met the regulatory requirements of the Scheme. Approved participants may choose not to tenant the dwelling during this period, foregoing rental income. The value of the incentive payable may also be reduced if the dwelling is subsequently vacant and the cumulative period exceeds the allowable 91 days. This can also affect an approved participant's entitlement to receive an incentive in the next NRAS year if the vacancy has occurred across two NRAS years.

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31 This condition was incorporated into the Regulations in the September 2014 amendments.

### *Unavailable days*

3.46 Dwellings are considered to be unavailable where they are not available for tenancy. This can include when a dwelling is being renovated; undergoing major works; or has been damaged as a result of a natural disaster. A proportional reduction to the incentive amount is to be applied for any period that the dwelling is unavailable during the incentive period.<sup>32</sup>

3.47 The department reviews incentive claims where an unavailable period has been recorded by the approved participant. The system controls identify where a dwelling has been recorded as unavailable, flags the incentive claim for review and automatically reduces the value of the incentive payable. When reviewing the 2014–15 incentive claims, the department identified that unavailable days continues to be an area where approved participants are unclear about application of the Regulations.

3.48 The department advised that vacant days have been inaccurately recorded as unavailable days by approved participants, impacting on an approved participant's entitlement to receive an incentive payment. Where unavailable days have been incorrectly reported, the department amends the error and recalculates the value of the incentive payable. This would generally be to the benefit of approved participants.<sup>33</sup>

### **Department's reliance on information submitted by approved participants**

3.49 As discussed throughout this chapter, in the processing of dwelling allocation requests and incentive claims, the department relies on information provided by approved participants. This is an accepted approach to regulatory administration, but one that should be supported by a risk-based process for managing compliance. The Department's risk-management approach is not well developed and it does not apply a consistent method to testing the reliability of the information provided by approved participants.

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32 The Department informed the ANAO that it is considering amending the Regulations to allow a dwelling to be unavailable for rent without any financial penalty being imposed where a natural disaster has occurred.

33 The frequency of this occurring is not evident from the data collected by the department. The system override field is used for multiple purposes without the reason/s for the override being recorded in the system.

### Recommendation No.3

3.50 The department implements a process to verify the reliability of information submitted by approved participants, as part of a risk-based approach to managing compliance.

#### Department of Social Services' response:

3.51 *The Department accepts the recommendation and notes that it has been working to improve these processes over the past two years. The focus for the Department over the past two years has been to ensure incentives are issued pursuant to the Regulations. The ANAO audit report acknowledges that the current system does provide a level of assurance that incentive claims are being paid in accordance with the Regulations. The Department acknowledges that the compliance process relies on information supplied by approved participants and that a more systematic approach is required. An Infrastructure Communications and Technology Committee (ICTC) project is currently underway to review compliance processes and system support. The Department will also introduce an internal procedures manual to better support staff and ensure consistency in assessment.*

### Does the department have an NRAS internal review process?

The department released the NRAS Internal Review Guidelines in November 2015. Internal review requests have been processed in accordance with the Guidelines.

3.52 The NRAS Regulations specify that an approved participant can request an internal review of specific delegate decisions.<sup>34</sup> The process of applying for an internal review is set out in the NRAS Internal Review Guidelines, released by the department in November 2015.

3.53 Between March 2015 and May 2016 the department received 80 internal review requests from 12 approved participants. Of these requests:

- 77 related to a decision to reduce the value of an incentive;
- one related to a decision not to extend the lodgement date for an incentive claim;
- one related to the overpayment of an incentive brought to the attention of the department by the approved participant; and
- one related to the revocation of an allocation for a dwelling.

3.54 Of the 80 review requests received, 78 were completed by early May 2016. Table 3.6 details the outcomes of the 78 completed reviews.

<sup>34</sup> Decisions that can be reviewed internally include: where the delegate has determined that a reduction should be made to the value of an incentive; and where a decision was made not to make an offer of allocations or not to make an offer in relation to a particular dwelling. The delegate also has discretion to undertake an own motion review of other decision as appropriate.

**Table 3.6: Outcomes of NRAS internal reviews**

Outcome	Number of internal reviews
Original decision affirmed	54
New decision—extend the statement of compliance lodgement date	1
New decision—incentive re-issued for full amount	11
New decision—incentive re-issued for a higher amount	11
New decision—no incentive payable	1

Source: ANAO analysis of Department of Social Services data.

3.55 In relation to 23 of the 24 occasions where a new decision was made, the approved participant provided additional supporting material, which assisted the review delegate in reaching their decision. In examining a sample of 10 completed internal reviews, each from a different approved participant, the ANAO observed that the review delegate's decisions were consistent with the department's stated policy position, except for one instance. In this instance the review delegate determined that it was reasonable to accept a revised market rent valuation from an approved participant. The reasons for the decision included, that the second valuation was received prior to the dwelling being entered into the Scheme and that it was reasonable to accept that an administrative error had occurred.

3.56 This did not align with the department's position, at that time, that once a market rent valuation has been submitted and approved, no changes to the market rent valuation will be accepted until the next scheduled market rent valuation is due. The department advised in August 2016 that it will now accept a second market rent valuation in limited circumstances. It is important that administrative decisions be made consistently, particularly in circumstances where this can affect a person or entity's entitlement to receive a financial benefit. To support this position, the department's interpretation of the Regulations should be readily available to all regulated entities.



Grant Hehir  
Auditor-General

Canberra ACT  
7 November 2016

## **Appendices**



## Appendix 1 Department of Social Services' response



**Australian Government**  
**Department of Social Services**

Finn Pratt AO PSM  
Secretary

Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2600

**Letter of Reply to audit of the administration of the National Rental  
Affordability Scheme – Phase Two**

Dear Mr Hehir *Grant*

Thank you for the email of 19 September 2016, providing a copy of the Australian National Audit Office (ANAO) proposed audit report on the Administration of the National Rental Affordability Scheme (NRAS), issued under section 19 of the *Auditor-General Act 1997*.

The ANAO's high level audit criterion was whether the Department of Social Services (the Department) had implemented processes for managing the allocation of NRAS incentives and a risk-based approach for processing the payment of incentives to approved participants in accordance with the *National Rental Affordability Scheme Regulations 2008* (the NRAS Regulations).

The audit focused on the processing of incentive claims and payments made for the 2013-14 and 2014-15 NRAS years.

I welcome the ANAO's identification of areas where the Department has made significant progress in improving the administration of the Scheme. These include implementing a regulator performance framework and fraud risk management strategies; improvements in stakeholder management and engagement; an operational strategy to improve the efficiency of the processing and issuing of incentive claims; and regulatory amendments to address key risks.

I further note that the ANAO acknowledged that allocation requests, market rent valuations, incentive claims and internal reviews have been processed in accordance with the NRAS Regulations and Guidelines.

The Department accepts all three recommendations identified in the report and acknowledges the supporting findings.

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[www.dss.gov.au](http://www.dss.gov.au)

The Department has already commenced significant work to implement further reform of the administration of the NRAS, as well as implement reforms to improve its capability in program management, information and document management and regulation amendments.

These reforms will address the recommendations and supporting findings, support the delivery and compliance of NRAS dwellings, and form an important part of future regulatory amendments and improvements to the NRAS Portal.

Some of these reforms include:

- further amendments to the NRAS regulatory framework to simplify and clarify a number of aspects of the Scheme's administration (these amendments will be based on public consultation process)
- a joint project with the Department's information technology area to review compliance processes and system support
- the development of an overall risk management framework
- the investigation of options to address prior year payments.

The Department will continue to seek opportunities to improve the Scheme's administration, including working closely with the Department's legal services group to support well-based policy development, regulatory amendments and administrative decision making.

The Department acknowledges the professionalism of the ANAO team throughout the process. We appreciate the cooperative manner in which the audit team conducted the fieldwork, and the collegiate approach they have taken to working with the NRAS team.

If you would like further information on the Department's response, my contact is Stewart Thomas, Branch Manager, Housing Programs and Homelessness on 02 6146 7368, or [Stewart.Thomas@dss.gov.au](mailto:Stewart.Thomas@dss.gov.au).

Yours sincerely



Finn Pratt

14 October 2016



## Appendix 2 Glossary

Allocation	An allocation was made by the administering department where a dwelling was available for rent in accordance with the conditions of an offer made following an open call for applications.
Approved participant	An approved participant is a person or entity that has accepted an offer of allocations or reserved allocations, or a person or entity to which allocations have been transferred. The delegate can transfer an allocation to another person or entity on receiving a relevant request from an approved participant or person acting on behalf of an approved participant.
Dwelling or eligible dwelling	A property constructed and entered in the Scheme to which an allocation relates, or a property proposed to be constructed to which a reserved allocation has been made.
Eligible tenant	An eligible tenant is a person or persons with a household income less than the eligibility limits set-out in the Regulations. For the 2015–16 NRAS year the base income limit for a one person household is \$47 904; this amount increases to \$113 895 for a household made up of two adults and three children.
Federal Online Funding Management System (FOFMS)	FOFMS is the system used by the department to administer the Scheme.
Incentive	An incentive is the annual entitlement that becomes payable to an approved participant where the conditions of the Scheme have been met in relation to an eligible dwelling. Incentives can take the form of a refundable tax offset or a payment.
Investor	A third-party to which an NRAS eligible dwelling has been on-sold. Responsibility for reporting in relation to the dwelling and submission of the annual statement of compliance (claim for the NRAS incentive) rests with the approved participant. The approved participant may charge the investor a management fee for this service.
NRAS year	The NRAS year is from 1 May to 30 April.
Reserved allocation	A reserved allocation relates to a property proposed to be constructed. Once a dwelling is constructed and all conditions of reservation have been met, the reserved allocation converts to an allocation.