

The Auditor-General

Audit Report No.17 1999–2000

Performance Audit

The Commonwealth–State Housing Agreement

Department of Family and Community Services

Australian National Audit Office

ERRATUM

Following printing of ANAO Report No.17 of 1999–2000 *The Commonwealth-State Housing Agreement*, the Australian National Audit Office obtained figures for the 1998–99 financial year on Commonwealth allocations and outlays under the Commonwealth-State Housing Agreement (CSHA) and the Rent Assistance program. As a result, the following changes in the audit report should be noted.

Footnote 3

In 1998–99, the Commonwealth allocated \$967.3 million in grant funding and States, as a minimum, were required to allocate \$378.2 million.

Footnote 5

In 1998–99, estimated Commonwealth outlays on Rent Assistance were \$1.505 billion.

Paragraph 1.10

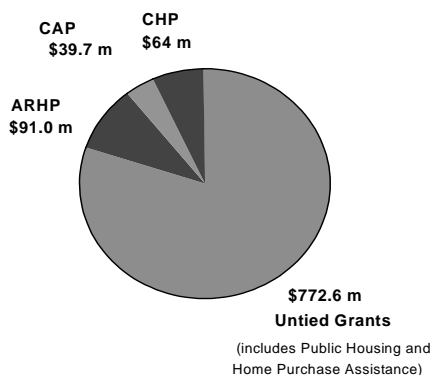
Commonwealth funding for housing assistance allocated under the CSHA amounted to \$975 million in 1997–98 and \$967.3 million in 1998–99.

Footnote 12

While Commonwealth allocations fell in 1998–99 compared to 1997–98, actual outlays increased by nearly nine per cent from \$825.4 million in 1997–98 to \$898.4 million in 1998–99. This is a result of States reducing the amount of CSHA grants nominated as a source of funds to offset fiscal contributions to the Commonwealth as part of its deficit reduction program agreed at the 1996 Premier's conference.

Figure 1.2

CSHA Programs 1998–99



Source: Unpublished FaCS data

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Canberra ACT
15 November 1999

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Family and Community Services in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *The Commonwealth-State Housing Agreement*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—
<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations/Glossary

| | |
|-------|---|
| ABS | Australian Bureau of Statistics |
| ACOSS | Australian Council of Social Services |
| AHRC | Australian Housing Research Council |
| AHRF | Australian Housing Research Fund |
| AHURI | Australian Housing and Urban Research Institute |
| AIHW | Australian Institute of Health and Welfare |
| ANAO | Australian National Audit Office |
| ARHP | Aboriginal Rental Housing Program |
| ATSIC | Aboriginal and Torres Strait Islander Commission |
| CAD | Coordination and Development Committee |
| CAP | Crisis Accommodation Program |
| CHIP | Community and Housing Infrastructure Program |
| CHP | Community Housing Program |
| COAG | Council of Australian Governments |
| CSHA | Commonwealth-State Housing Agreement |
| DHFS | Department of Health and Family Services |
| DSS | Department of Social Security |
| FaCS | Department of Family and Community Services |
| HPA | Home Purchase Assistance |
| HRF | Housing Reform Fund |
| JCPA | Joint Committee of Public Accounts |
| JCPAA | Joint Committee of Public Accounts and Audit |
| MRAP | Mortgage and Rent Assistance Program |
| NHRF | National Housing Research Fund |
| NHS | National Housing Strategy |
| OECD | Organisation for Economic Cooperation and Development |
| RAC | Research Advisory Committee |
| SAAP | Supported Accommodation Assistance Program |
| SCARC | Senate Community Affairs References Committee |
| SHA | State Housing Authority |
| SPP | Specific Purpose Payment |

Summary and Recommendations

Audit Summary

Introduction

1. Shelter is an essential of life, and the quality of housing has a major bearing on the quality of life of its residents. Housing is seen as having an important relationship to health, poverty and general living standards.

2. In Australia, housing is a major component of the economy accounting for four to six per cent of Gross Domestic Product (GDP) and around 20 per cent of gross investment per annum. It is also one of the largest single items of household expenditure.

3. The delivery of housing assistance programs has, for many years, represented a small but not insignificant proportion of Australian social welfare provisions. While housing is the sole responsibility of the States and Territories (hereinafter, the States) under the Constitution, the Commonwealth plays a large role in housing, both through direct housing assistance and indirectly through the tax system¹. The direct assistance includes:²

- the Commonwealth-State Housing Agreement (CSHA)—which is a joint arrangement between the Commonwealth and the States under which both the Commonwealth and the States contribute funding in the form of grants³, which is used by State Housing Authorities to provide a variety of housing assistance programs to households on low incomes and those with special needs⁴; and

¹ For example, exemptions from capital gains tax and depreciation for investment purposes.

² Other direct forms of assistance include the Supported Accommodation Assistance Program (SAAP), for families and individuals facing homelessness or the risk of homelessness, and the Community Housing and Infrastructure Program (CHIP), which provides community and infrastructure to Aboriginal and Torres Strait Islander (ATSI) residents in need of assistance.

³ In 1997–98, the Commonwealth allocated around \$1 billion in grant funding and States as a minimum were required to allocate just under \$400 million.

⁴ The major program elements of the 1996 CSHA include:

- public rental housing delivered by State Housing Authorities;
- the Community Housing Program which aims to encourage community groups and local government to participate in the provision of housing;
- the Aboriginal Rental Housing Program which aims to achieve more effective indigenous housing outcomes;
- the Crisis Accommodation Program which provides funding for crisis accommodation services;
- private rental assistance to assist low-income households experiencing difficulty in securing and maintaining private rental accommodation; and
- Home Purchase Assistance to assist low to middle income earners access home ownership.

- the Rent Assistance program—which is administered and funded by the Commonwealth through the social security system⁵ and provides assistance directly to income support recipients and low income families who are renting privately⁶.

4. The combined effect of Commonwealth Rent Assistance and CSHA assistance is to enable low income households to access more appropriate and affordable housing than they could otherwise obtain, thereby providing choice and helping reduce poverty levels.⁷

5. The particular focus of the audit was on FaCS' administration of the 1996 CSHA.

6. Over recent years some significant studies into housing assistance arrangements have highlighted the need for major changes to the delivery of housing assistance by governments. As a result of these reviews, the Council of Australian Governments (COAG) directed Commonwealth and State Housing Ministers to review the respective roles and responsibilities of the Commonwealth and the States for the provision of housing assistance. Subsequently, in April 1995 COAG agreed to fundamental reforms in the delivery of housing assistance.

7. The first step in implementing the reforms was the enactment of the *Housing Assistance Act 1996* (the 1996 Act). Under this Act, the 1996 Commonwealth-State Housing Agreement (the 1996 CSHA) was entered into between the Commonwealth and the States, effective from 1 July 1996. The aim of the 1996 CSHA was to provide housing assistance to '*... persons on low incomes and other persons who are unable to access or maintain adequate and appropriate housing*'.

8. The intention of that 1996 CSHA was to enable the Commonwealth to take a national strategic approach to meeting housing needs in partnership with State governments. It was performance based and structured to let the States get on with the job of delivering quality housing programs while enabling the Commonwealth to clearly monitor and report to Parliament on State performance against agreed outcomes. In this regard, the Agreement represented a significant shift from prior agreements and was the first CSHA that focussed on the achievement of outcomes.

⁵ In 1997–98, Commonwealth outlays were estimated at \$1.5 billion.

⁶ Since 1989 Commonwealth outlays have increased fourfold and in 1997–98 around \$1.5 billion was provided to assist more than one million people.

⁷ SCRCSSP (Steering Committee for the Review of Commonwealth/State Service Provision) 1999, *Report on Government Services 1999*, AusInfo, Canberra at p. 1073.

9. The agreement was intended to be of an interim nature for a period of up to three years. During this time, it was anticipated that more far reaching housing policy reforms would be introduced. To reflect this, the Federal Government guaranteed funding for only the first year. The reforms did not eventuate and funding was subsequently guaranteed for a further two years. The Commonwealth has now committed funding for a further four years under the 1999 CSHA.⁸

Audit objective

10. The overall objective of the audit was to assess and report to Parliament on how effectively the Department of Family and Community Services (FaCS—formerly the Department of Social Security) administers the CSHA and to identify any areas where improvements could be made.

11. The ANAO developed a methodology for analysing the approach taken by FaCS to administer the 1996 CSHA that consisted of examining:

- the framework for measuring performance against the 1996 CSHA objectives and national priorities to determine if it provided reliable data to assess achievements against the desired results;
- the financial accountability framework to determine whether the full costs of housing assistance provided under the 1996 CSHA were recorded and the use of funds was transparent;
- the arrangements implemented to ensure that housing assistance was provided in line with housing need; and
- the planning arrangements implemented by FaCS to determine whether they contributed to effective management and ongoing development of the CSHA.

12. The ANAO provided ongoing feedback to FaCS, during the audit fieldwork, on a number of aspects of FaCS' management of the CSHA. This was to allow FaCS the opportunity to address any issues identified during the negotiation process for the 1999 CSHA.

⁸ The Housing Assistance (Form of Agreement) Determination 1999 made under the *Housing Assistance Act 1996* was gazetted on 1 July 1999.

Overall audit conclusion

13. Due to significant improvements in its structure and content, the 1996 CSHA reflected a shift towards a performance driven regime with an emphasis on the achievement of outcomes. This was supported by the development of a system of performance indicators, agreed between the Commonwealth and the States, to measure performance and by improved financial reporting arrangements aimed at identifying the full costs of providing housing assistance under the CSHA and making the use of funding more transparent. This performance based framework was not in place under previous CSHAs and was, in itself, a significant improvement on prior agreements.

14. However, there were problems with the quality and reliability of performance and financial information provided by the States which limited the usefulness of that information for measuring and/or assessing performance against required results. Consequently, this information requires considerable improvement before it can contribute more meaningfully to analysis as to whether CSHA program objectives have been met efficiently and effectively.

15. In reaching these conclusions, the ANAO recognised that FaCS' contribution to the development of the 1996 CSHA had significantly improved the **potential** effectiveness of the administration of Commonwealth funding for housing assistance provided under the CSHA. In particular, the performance indicators and the financial information reporting contained in the Agreement were new and innovative measures that provided a sound basis for addressing the complex task of developing indicators for a broad social program such as housing assistance. FaCS, in partnership with key stakeholders, also endeavoured to improve systems and processes associated with performance management during the term of the Agreement.

16. The ANAO also recognised that FaCS fostered a level of goodwill among the States and, in conjunction with the States, achieved significant progress on public housing reforms under the 1996 CSHA. This had occurred despite the uncertainty surrounding the 1996 CSHA as an interim agreement.

17. As funding for a new CSHA has been committed by the Commonwealth for a further four years under the 1999 CSHA, there is an opportunity to address these issues and ensure that the CSHA provides a sound basis for a comprehensive housing assistance program that facilitates the effective delivery of housing assistance to households most in need.

18. The ANAO considers that systems and processes that have been or are currently being developed by FaCS, in partnership with the States and other key stakeholders, have the **potential** to achieve the improvements necessary to enable adequate comparison of the performance of housing delivery in each jurisdiction and support sound strategic planning and effective decision making in the future. The challenge for FaCS will be to ensure that these systems and processes are successfully implemented during the term of the new Agreement in order to overcome current limitations in performance monitoring.

FaCS' response

19. FaCS agreed with the ANAO recommendations. FaCS notes that the audit took place soon after the first full reports on the 1996 CSHA had been received and issues still outstanding were being first identified. The areas identified as needing further development are being addressed in the current CSHA.

Key Findings and Conclusions

Measuring performance outcomes

20. Prior to the 1996 CSHA, there was no systematic approach to performance measurement for public housing assistance. The aim of the reforms introduced in the 1996 CSHA was to change the focus from reporting of inputs and outputs to measuring the achievement of outcomes against the objectives of the agreement. It was the first CSHA that focused specifically on housing outcomes. To assist with the monitoring of outcomes, a system of performance indicators, agreed between the Commonwealth and the States, was developed. These indicators were one of the means available to the Commonwealth to monitor and assess State delivery of housing assistance under the 1996 CSHA.

Structure of the CSHA performance indicator framework

21. The ANAO found that performance indicators had been developed, collected and reported for public rental housing and community housing. The structure of the performance indicator framework for these two program elements of the 1996 CSHA provided a sound basis for measuring and assessing performance and achievements against the objectives and outcome requirements of this Agreement. In line with good business practice, these indicators continue to be developed and refined on an ongoing basis.

22. However, while performance indicators had been developed for the other program elements of the 1996 CSHA (except the CAP) they had not been reported against. Therefore, it has not been possible to compare the relative effectiveness of the different program elements of the CSHA. These difficulties have limited the ability of FaCS to fully compare on a national basis the achievement of the Government's objectives across different program types and to identify and promote better practices that are being applied in particular jurisdictions.

23. The ANAO considers that a current review of the performance indicators provides an opportunity to address current weaknesses and lead to a more robust framework for measuring performance achievement across all key elements of the CSHA.

Measures of effectiveness and efficiency for public housing

24. As the best developed performance indicators were for public housing, the ANAO examined their usefulness in measuring performance against agreed objectives. Performance in meeting the housing needs of the community through public housing is measured through effectiveness indicators. Efficiency indicators measure the operational performance of SHAs in delivering public housing. The ANAO found that this approach to measuring the achievement of outcomes has the potential to contribute to an improved understanding of housing assistance delivered through public housing and provide information necessary to support decision-making.

25. However, the current performance indicators for public housing have been less than successful in measuring achievements for several reasons. These include a lack of quality and reliability of the performance indicators and performance benchmarks and targets that are not adequate to encourage performance improvement and better practice. Consequently, while this information has been of some use in assessing the performance of individual States over time, it has not been used to assist policy review or planning at the national level. The effectiveness of the Commonwealth's monitoring of public housing assistance activity is to that extent compromised and is unlikely to adequately inform the policy development process.

26. The ANAO found that there is considerable scope to improve:

- data collection standards and quality assurance processes to improve the accuracy, reliability, consistency and compatibility of the data used for performance information; and
- development of performance benchmarks and targets to ensure a common understanding of performance level requirements and as a basis for sound performance assessment.

27. The ANAO considers that the increased involvement of the AIHW and the development of the National Housing Data Agreement under the 1999 CSHA (to, among other things, ensure that a specified level of funding is allocated by States for data management and other data related issues) will assist in improving the consistency, completeness and comparability of data underpinning performance indicators for the 1999 CSHA. Improved data quality will, enable the development of more meaningful benchmarks and targets that will ensure a common understanding of performance level requirements; allow the Commonwealth to assess performance achievement of individual States; and encourage improved performance and better practices.

Commonwealth/State bodies for developing performance indicators

28. There were a number of Commonwealth/State arrangements in place for the development and refinement of performance information. However, the ANAO found that the overarching coordination of performance indicator development work could be improved by clearly defining the separate roles, responsibilities and priorities of the different working groups through a more explicit strategic framework and planning process. Such a framework would also enable an evaluation of the progress of these various workgroups against milestones.

Performance reporting

29. The ANAO concluded that the effectiveness of performance reporting in assisting performance monitoring and accountability was significantly reduced because of inconsistent definitions across performance reports and a lack of timeliness in reporting. As a result, there has only been limited use made of the information by FaCS.

Analysing financial aspects of the CSHA

30. To promote financial accountability, a framework designed to record the full costs of housing provision under the 1996 CSHA was developed and implemented. The aim of this framework was to provide regular and timely assurance that the CSHA funding provided by the Commonwealth is used in accordance with CSHA requirements.

Certification on the use of funds

31. The 1996 CSHA required the responsible CEO of each SHA to provide financial certification on the use of CSHA funds and assets. The ANAO found that FaCS had appropriate measures in place to ensure that CEOs provide the necessary certification required under the CSHA in a timely manner.

Financial reporting

32. The ANAO concluded that financial reports provided by the States, using an agreed, nationally consistent financial reporting framework, form a sound basis for improving financial accountability under the CSHA.

33. From its analysis of financial reports submitted by the States to FaCS, the ANAO found that the management benefits of having a nationally consistent financial reporting framework are worth pursuing. Information based on consistent accounting policies and practices makes funding and financial practices more transparent and can permit the operations of SHAs to be meaningfully compared. For example, such

information can be used to assess the operating performance and financial position of SHAs and would allow benchmarking between SHAs.

34. However, there were problems with the quality and timeliness of the financial reports provided by SHAs under the national framework that was in place for the 1996 CSHA. These problems were primarily due to the level of disaggregation of the accounts into reporting segments, which did not always reflect the SHAs own reporting structures. As a result, the usefulness of this financial information for comparative analysis of SHA performance and for benchmarking was diminished.

35. FaCS advised that it was seeking to review the national reporting framework with the aim of simplifying reporting requirements for the States without compromising the Commonwealth's financial responsibilities under the CSHA. As financial reporting was a new initiative introduced under the 1996 CSHA, such a review is timely. If this review addresses the issues identified in this report regarding financial reporting and appropriate changes are implemented to the national framework, more meaningful financial information will be available to FaCS on whether CSHA funds are being used efficiently and effectively by SHAs.

Cash management

36. Cash management practices implemented by FaCS complied with the requirements of the 1996 CSHA. In particular, there were appropriate mechanisms to ensure that payments to the States were accurate and timely. However, the ANAO concluded that FaCS should review the appropriateness of the funding approach prescribed in the 1996 Agreement. The ANAO noted that the 1999 CSHA prescribes that Commonwealth payments are to be made fortnightly in advance.

Determining priorities

37. A major focus of the reforms introduced in the 1996 CSHA was the targeting of public housing to those most in need, such as people receiving social security benefits and people experiencing difficulty in the private rental market. The basis of the new approach advocated by the 1996 CSHA was a joint planning process that required each State and the Commonwealth to agree on the most appropriate forms of housing assistance for each jurisdiction and articulate these in a strategic plan. These plans should outline State needs, the broad strategic directions for housing service delivery and program and policy development to meet those needs and be clearly linked to national priorities and objectives.

Needs identification

38. Significant work has been undertaken, at the Commonwealth and State level, in examining housing needs concepts and data. This has improved understanding of housing needs and other factors associated with needs and needs measurement, such as the linkage to targets and the management of housing programs by States over time. This, in turn, has improved the ability of the Commonwealth and the States to prioritise housing needs and better target housing assistance to people most in need.

39. Notwithstanding this work, needs models remain highly sensitive to particular inputs and assumptions. Account of these, including cyclical and other factors, as well as specific databases used, must be taken in interpreting results and determining appropriate targets.

Bilateral strategic planning process

40. The ANAO found that the planning arrangements under the 1996 CSHA, together with the quality assurance processes that were implemented by FaCS, provided assurance to the Commonwealth that the direction of housing assistance accorded with national priorities and objectives.

41. However, State strategies in bilateral strategic plans were not well articulated thus inhibiting the assessment of the effectiveness of these strategies. Improvement in this area is necessary so that FaCS can better integrate information provided through the CSHA performance indicators, analysis of State financial returns and measures on the nature and extent of housing need in the community.

42. State housing assistance strategies will be articulated in bilateral agreements under the 1999 CSHA. This is one of the means that should assist FaCS to ensure that they have a clearer basis for assessing State strategies and their effectiveness.

Refining the CSHA

43. Strategic planning is an integral component of sound corporate governance. It is the means by which government policy directions are given effect. It helps to define the objectives of a program and strategies to achieve them and, therefore, provides the basis for assessing performance.

The 1996 CSHA as an ‘ideal’ SPP Agreement

44. In order to assess the output from policy development work undertaken by FaCS on the CSHA, the ANAO compared the coverage of issues within the 1996 CSHA with the features of the ‘ideal’ SPP as set out in the JCPAA’s Report No.362 *General and Specific Purpose Payments to the States*. The ANAO found that the structure and content of the 1996 CSHA was broadly aligned with the ‘ideal’ SPP endorsed by the JCPAA. The 1999 CSHA is also consistent with the JCPAA principles. The ANAO therefore, concluded that FaCS’ policy development and negotiation of the CSHA was sound and consistent with better practice.

Risk management

45. A robust risk management framework will promote a systematic and structured approach to the identification and analysis of trends and forces for change in housing assistance and the consideration of strategies applicable to address these. While FaCS identifies specific risk as part of policy advice to government, it has not undertaken a formal and systematic approach to the management of risks to the CSHA. Governance arrangements for housing assistance could, therefore, be strengthened by a more formalised and systematic approach to risk management of that program.

Coordination across related Commonwealth programs

46. Meeting housing outcomes under the CSHA should not be seen as an overall end in itself. The ANAO found that close links currently exists between programs delivered through the CSHA and other related government programs and support services such as SAAP and indigenous housing assistance and infrastructure assistance provided by ATSIC. These links generally ensure that the development of the CSHA is not considered in isolation and that the broader social outcomes associated with the delivery of housing assistance are considered during policy development and planning.

47. However, linkages are not well understood in all instances. This means that there continue to be questions regarding the best way of achieving synergy between housing and housing related programs in a way that impacts positively on outcomes. Focussing on key practical interactions (such as between CSHA housing programs and homelessness), promoting an understanding of the broader social outcomes to be associated with public housing and facilitating local targeted coordination efforts are measures that can assist FaCS to achieve a more holistic housing assistance program under the CSHA. This will be a key focus of the bilateral agreements under the 1999 CSHA.

Consultation and communication

48. In principle, housing assistance under the CSHA is delivered through a partnership between the Commonwealth and the States and, to a lesser extent, with the community sector. This partnership approach can be instrumental in ensuring that the CSHA is developed in a responsive and relevant manner to achieve the desired results.

49. At the operational level, consultation and coordination by FaCS with its State counterparts is effective. In particular, FaCS has fostered a level of goodwill among the States and, in partnership with the States, has achieved significant progress on public housing reforms. However, at the strategic level, consultation and coordination were limited by the lack of suitable governance arrangements for the Housing CEOs forum such as no clear articulation of the forum's role, responsibilities and meeting frequency. The ANAO considers that there is an opportunity for FaCS to facilitate the development of such arrangements with the new Agreement.

50. FaCS could also assess its approach to consultation and communication with key non-government stakeholders on an on-going basis to ensure that it continues to foster effective partnerships with these organisations and promotes meaningful and informed community debate.

Housing research

51. Commonwealth funding for housing research represents a small proportion of CSHA funding. Planning and project management of housing research is undertaken jointly by the Commonwealth and States. Taking into account the parameters within which the Commonwealth must work under this arrangement, housing research is planned and managed effectively. However, there is no comprehensive approach for evaluating whether research arrangements represent value for money and contribute to effective policy development for the delivery of housing assistance. The ANAO concluded that it might be appropriate to undertake a comprehensive review of the research arrangements to assess their effectiveness.

Evaluation

52. The ANAO concluded that the level of evaluation for the 1996 CSHA was not sufficient to provide information that would form a sound basis for assessing the success of the Agreement. As opportunities for evaluation were limited due to the uncertain operating environment of the 1996 CSHA, FaCS advised that it would seek to implement arrangements to evaluate the operation of the 1999 CSHA. Evaluation has been included as an integral part of the 1999 CSHA.

Effective management arrangements to support CSHA development

53. Given the nature of the Commonwealth's responsibilities in relation to the CSHA, an effective management culture aligned with better practice criteria is necessary to facilitate efficient and effective performance by FaCS for the management and ongoing development of the CSHA.

54. The ANAO found that FaCS administration of the CSHA is relatively cost effective when compared to administrative costs associated with other SPPs. Many of the aspects that the ANAO examined indicated that the management environment in FaCS is aligned with better practice. Where shortfalls are evident, FaCS is undertaking a number of initiatives that should assist it to move towards better practice in those areas.

Recommendations

Recommendation No.1
Para. 2.55 The ANAO recommends that FaCS, in cooperation with key stakeholders, implement a suitable plan to progress and coordinate performance information development through Commonwealth-State bodies by the end of 1999.

FaCS' response: Agree

Recommendation No.2
Para. 3.36 The ANAO recommends that, to provide the requisite assurance to management, the Government and the Parliament on the use of CSHA funds, FaCS ensure that processes to improve the consistency and comparability of financial information provided in State financial returns are developed, and implemented, before SHAs are required to provide the first financial returns under the 1999 CSHA.

FaCS' response: Agree

Recommendation No.3
Para. 4.21 The ANAO recommends that FaCS, in partnership with the States, refine needs identification methodologies to support further targeting of housing assistance to those most in need and enable the relative effectiveness of different housing strategies to be measured and/or assessed.

FaCS' response: Agree

Recommendation No. 4
Para. 5.16 The ANAO recommends that FaCS, in consultation with key stakeholders, undertake a comprehensive risk assessment as part of the policy development and strategic planning for the overall management of the CSHA and develop a management plan which addresses the key risks.

FaCS' response: Agree

Audit Findings and Conclusions

1. Introduction

This chapter provides a brief overview of the nature of housing assistance in Australia with a particular emphasis on the Commonwealth-State Housing Agreement (CSHA) and recent reforms aimed at improving the delivery of housing assistance under the CSHA. The chapter also sets out the audit objectives, focus, scope and methodology.

Characteristics of the Australian housing sector

1.1 Shelter is an essential of life, and the quality of housing has a major bearing on the quality of life of its residents.⁹

1.2 The housing sector is a major component of the Australian economy and accounts for four to six per cent of Gross Domestic Product (GDP) and around 20 per cent of gross investment per annum. It is also one of the largest single items of household expenditure.¹⁰

1.3 There are four major forms of housing tenure. Table 1.1 shows that Australia is primarily a nation of home owners with approximately 70 per cent of all households living in owner occupied homes (made up of 42 per cent owners and 28 per cent purchasers). About 25 per cent of all households occupy rented accommodation with 19 per cent in private rental and 6.2 per cent in public rental housing.

Table 1.1

Household tenure in Australia 1996

| <i>Tenure Type</i> | <i>All Households (%)</i> | <i>Low Income Households (%)</i> |
|---|---------------------------|----------------------------------|
| Owner | 41.8 | 48.2 |
| Purchaser | 28.3 | 14.4 |
| Private Rental | 19.0 | 19.1 |
| Public Rental | 6.2 | 13.0 |
| Other (including Community Housing, Employer Housing, Rent Free and Not Stated) | 4.6 | 5.3 |

Source: ABS 1996 Census of Population and Housing; 1994 Australian Housing Survey: Definition of low income from AIHW (1997): *Australia's Welfare 1997*.

⁹ In its 1995 World Health Report, the World Health Organisation stated that appropriate housing promotes physical and mental health and provides people with the psychological security, physical ties with their community and culture and a means of expressing their individuality.

¹⁰ Commonwealth (1992) *National Housing Strategy: agenda for change*, AGPS, Canberra.

Commonwealth contributions to housing

1.4 The delivery of housing assistance programs has, for many years, represented a small but not insignificant proportion of Australian social welfare provisions. These programs aim to provide choice for low-income individuals and families and to assist those who are unable to access the private rental market for reasons such as discrimination or special needs.

1.5 Responsibilities for the provision of housing assistance are divided between the Commonwealth and the State governments. While the provision of housing is the responsibility of the States under the Constitution, the Commonwealth contributes to housing assistance through the following mechanisms:

- Specific Purpose Payment (SPP) funding of States under the Commonwealth-State Housing Agreement (CSHA);
- the Rent Assistance (RA) program delivered by Centrelink in conjunction with social income support;
- the Supported Accommodation Assistance Program (SAAP) for families and individuals facing homelessness or the risk of homelessness;
- the Community Housing and Infrastructure Program (CHIP) which provides community and infrastructure to Aboriginal and Torres Strait Islander (ATSI) residents in need of assistance; and
- indirect assistance through the tax system and infrastructure support.

1.6 The CSHA is described in detail below. An overview of the other forms of assistance is provided in Appendix 1, which also provides a comparative assessment of the assistance provided under the CSHA and the rent assistance program.

The Commonwealth-State Housing Agreement

1.7 The CSHA is a joint arrangement between the Commonwealth and each State and Territory government that has been in place for more than 50 years, although the purpose and objectives of the Agreements have changed over time. The first CSHA was signed in 1945, in response to the housing supply shortage after World War II. It has moved from being a support for post-war reconstruction through a period of promoting home ownership to the present day where it is targeted toward people on low incomes or at a disadvantage, such as the homeless, people with disabilities and those who face discrimination in the private market, and who are receiving social security benefits. A historical summary of the CSHA is provided at Appendix 2.

1.8 Under the 1996 CSHA the Commonwealth provided annual grants to the States for the provision of housing assistance and was responsible for monitoring, assessing and reporting to the Parliament on State performance against agreed outcomes. States were also required to provide funds from their own resources under the Agreement and, through their State Housing Authorities (SHAs), were responsible for administering and implementing housing programs in line with agreed national objectives.

1.9 The major program elements under the 1996 CSHA included:

- *Public Housing*: Public rental housing is the major form of assistance provided under the CSHA and is delivered by State Housing Authorities (SHAs). It is primarily funded through capital grants from both the Commonwealth and States.
- *Community Housing Program (CHP)*: Provides funding primarily for capital purposes to encourage participation by community groups, such as churches and welfare organisations, and local government in the provision of housing for people on low income levels, and who may have special needs.
- *Aboriginal Rental Housing Program (ARHP)*: The primary aim of the ARHP is to achieve more effective indigenous housing outcomes. Recent priorities for ARHP funding have included a focus on providing housing in rural and remote areas; provisions for maintenance and upgrades; and training for community housing providers in the indigenous housing sector.
- *Crisis Accommodation Program (CAP)*: Under this program capital funding is primarily provided for crisis accommodation services funded under the Supported Accommodation Assistance Program (SAAP), including youth and women's refuges and services for the homeless.
- *Home Purchase Assistance (HPA)*: HPA provides funds to assist home owners on low to middle incomes to enable them access to home ownership where private sector finance is unavailable. Recent years have seen a downward trend in the provision of HPA funding.¹¹
- *Private Rental Assistance*: Provides assistance for low-income households experiencing difficulty in securing and maintaining private rental accommodation.

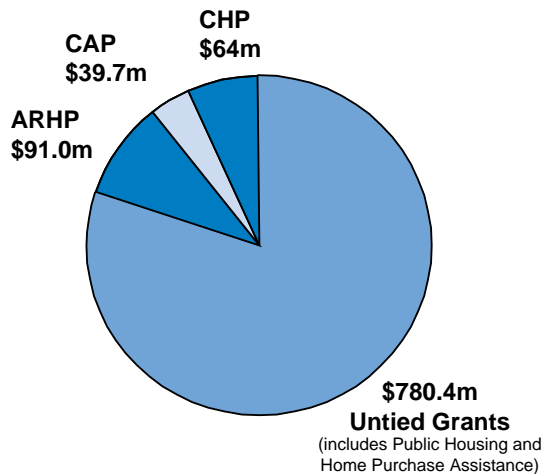
¹¹ This is due to factors such as high levels of competition in home lending markets and the potential for an increase in funding risk associated with reduced lending rates.

Funding under the CSHA

1.10 Commonwealth funding for housing assistance allocated under the CSHA amounted to approximately \$1068 million in 1996–97 and \$975 million in 1997–98.¹² CSHA funding is also subject to an efficiency dividend which is imposed on most SPPs.¹³ Major funding elements for 1997–98 are shown at Figure 1.2.

Figure 1.2

CSHA programs 1997–98¹⁴



1.11 Base Commonwealth funding allocations (in the form of untied grants) were distributed on a modified per capita basis under the 1996 CSHA. The first \$146 million was distributed on a per capita basis, but so that no State was allocated less than \$7.3 million. This initial allocation was then adjusted by redistributing funds from States allocated more to States allocated less than \$7.3 million. The remaining base funding was then distributed on a straight per capita basis. Identified program funding for the CHP and the CAP was distributed on a straight per capita basis.¹⁵

¹² Several States nominated CSHA grants as a source of funds to offset fiscal contributions to the Commonwealth as part of its deficit reduction program agreed at the 1996 Premier's conference. As a result CSHA outlays fell from \$926 million in 1996–97 to \$825.4 million in 1997–98.

¹³ As part of a 1996–97 Budget measure, SPPs are subject to an ongoing reduction. For the CSHA this was four per cent in 1997–98, with a further one per cent reduction per annum, commencing from 1998–99.

¹⁴ Source: DSS *Annual Report 1997–98*.

¹⁵ Housing Assistance Act 1996; *Annual Report 1996–97*, p. 3.

Reforming housing assistance

1.12 Over recent years some significant studies into housing assistance arrangements have highlighted the need for major changes to the delivery of housing assistance by governments.¹⁶ Major themes for reform have included:

- a clarification of Commonwealth and State responsibilities;
- a focus on consumer outcomes rather than maximising the quantity of public housing stock;
- greater equity in subsidies received by public and private low income renters; and
- a reliable basis for measuring and reporting against performance.

1.13 In April 1995, the Council of Australian Governments (COAG) agreed to a fundamental shift in the roles and responsibilities of the Commonwealth and State governments involving:

- the Commonwealth accepting responsibility for housing subsidies and the affordability of housing; and
- the States taking responsibility for the management and delivery of public housing services.

1.14 All parties accepted a two stage process for reform involving short-term funding arrangements between the Commonwealth and the States under a 'transitional' CSHA, effective from 1 July 1996, followed by the implementation, as soon as possible, of fundamental longer term reforms.

1.15 The first step in implementing the reforms was the enactment of the *Housing Assistance Act 1996*. This Act provides the basis for the delivery of housing assistance and the creation of agreements between the Commonwealth and the State and Territory governments. The primary aim of the Act is to '*provide housing assistance by which people can obtain affordable, secure and appropriate housing*'. This was to be achieved by:

- targeting assistance to those most in need;
- making available to the community a choice between different forms of housing assistance and different providers of that assistance; and
- ensuring that an appropriate mix of housing is provided with particular attention to type, size and location.

¹⁶ These include the 1992 report of the National Housing Strategy; the 1993 Industry Commission Inquiry into Public Housing; and the 1997 Inquiry into Public Housing by the Senate Community Affairs References Committee (SCARC).

1.16 The 1996 CSHA, which was entered into pursuant to the 1996 legislation, was described as a performance based agreement. It set out a range of objectives in relation to the effectiveness and the efficiency of housing assistance, reflecting the principles of the reform process that were agreed by all governments. These were:

- a nationally consistent approach to the assessment of housing needs;
- clear objectives and specific outcomes for the provision of housing assistance in accord with need;¹⁷
- a clearer delineation of Commonwealth and State roles and responsibilities;
- a credible framework for consumer rights and responsibilities;
- a framework for the accountability for and the transparency of the costs and outcomes of assistance, including consistent financial reporting; and
- flexibility of assistance arrangements for States, in accordance with strategic directions for housing assistance, agreed bilaterally.

1.17 In effect, the changes in the 1996 CSHA were designed to allow the Commonwealth to monitor outcomes and agree on strategic directions while giving the States maximum freedom over the provision of housing assistance.¹⁸ It therefore specified national housing objectives and was aimed at facilitating the evaluation of performance and outcomes in accordance with agreed performance measures.

1.18 To provide a basis for assessing the performance of the CSHA, the scope of the 1996 CSHA was made narrower than its predecessor, the 1989 CSHA. Therefore, while the 1989 Agreement incorporated a broad social vision of housing justice and the alleviation of housing related poverty, the vision for the 1996 CSHA was more measured. That is, its aim was to assist persons on low incomes and those unable to access or maintain adequate and appropriate housing. In principle, this aim was both achievable and measurable.¹⁹ Recently, public housing has become more tightly targeted to social security recipients and those who cannot be housed in the private rental market and those who face discrimination in the private market such as the homeless and people with disabilities.

¹⁷ This reflects the Agreement's focus on the achievement of outcomes for consumers.

¹⁸ This approach recognises that State Governments are best placed to assess local needs, and to coordinate welfare services, including public housing provision.

¹⁹ McNelis, S., *Performance Monitoring and Housing Assistance in Victoria*, Victorian Council of Social Service (VCOSS), 1996; pp. 10–11.

1.19 During the audit, stakeholders commented that, due to the ongoing housing reform process, the 1996 CSHA had operated in a difficult and uncertain environment where there had generally been no clearly defined direction for Commonwealth housing policy and consequently a lack of longer term funding certainty for the States. Therefore, they consider that the 1996 Agreement did not have the opportunity to achieve its full potential as an integrated housing assistance program that aimed to facilitate the effective delivery of housing assistance.²⁰

1.20 FaCS advised that the agreement was intended to be of an interim nature for a period of up to three years. During this time, it was anticipated that more far reaching housing policy reforms were to be introduced. To reflect this, the Federal Government guaranteed funding for only the first year. The reforms did not progress and funding was subsequently guaranteed for a further two years, until 1999. The Commonwealth has now committed funding for a further four years under the 1999 CSHA.²¹

Conduct of the audit

Audit objectives, focus and scope

1.21 The overall objective of the audit was to assess and report to Parliament on how effectively the Department of Family and Community Services (FaCS—formerly the Department of Social Security) administers the CSHA and to identify areas where improvements could be made.

1.22 As the 1996 CSHA was intended to be performance based and directed to the achievement of outcomes the audit focussed primarily on the performance management and accountability framework underpinning the 1996 CSHA. In particular, the audit examined the use made by FaCS of performance information and financial accountability measures introduced in the 1996 CSHA in measuring achievements under the agreement and developing future directions for housing assistance under the agreement. The audit also reviewed planning arrangements that have been implemented by FaCS to determine whether they facilitate the development of appropriate responses to the housing needs of the community.

²⁰ In its Report on Housing Assistance, the Senate Community Affairs Reference Committee (SCARC) was comfortable with the broad framework of the 1996 CSHA and stated that it did not consider that the evidence put before it supported the argument for major changes to the current arrangements within the 1996 CSHA; p. 24

²¹ The Housing Assistance (Form of Agreement) Determination 1999 made under the *Housing Assistance Act 1996* was gazetted on 1 July 1999.

Audit methodology

1.23 The ANAO developed a methodology for analysing the approach taken by FaCS to administer the 1996 CSHA that consisted of examining:

- the framework for measuring performance against the 1996 CSHA objectives to determine if it provided reliable data to assess achievements against the desired results;
- the financial accountability framework to determine whether the full costs of housing assistance provided under the 1996 CSHA were recorded and the use of funds was transparent;
- the arrangements implemented to ensure that housing assistance was provided in line with housing need; and
- the planning arrangements implemented by FaCS to determine whether they contributed to effective management and ongoing development of the CSHA.

1.24 The ANAO provided ongoing feedback to FaCS, during the audit fieldwork, on a number of aspects of FaCS' management of the CSHA. This was to allow FaCS the opportunity to address any issues identified during the negotiation process for the 1999 CSHA.

1.25 The audit fieldwork was conducted between September and November 1998. Fieldwork included discussions with key departmental staff and examination of an extensive range of documentation, including legislation, plans, reports, correspondence and other documents related to the Commonwealth's management of housing assistance.

1.26 During the course of the audit the ANAO consulted the then Department of Health and Family Services (DHFS) and the Aboriginal and Torres Strait Islander Commission (ATSIC) regarding housing assistance programs that they administered. The ANAO also held discussions with representatives of a number of State Housing Authorities and housing peak bodies.

1.27 The audit was conducted in accordance with ANAO auditing standards at a cost of \$310 000.

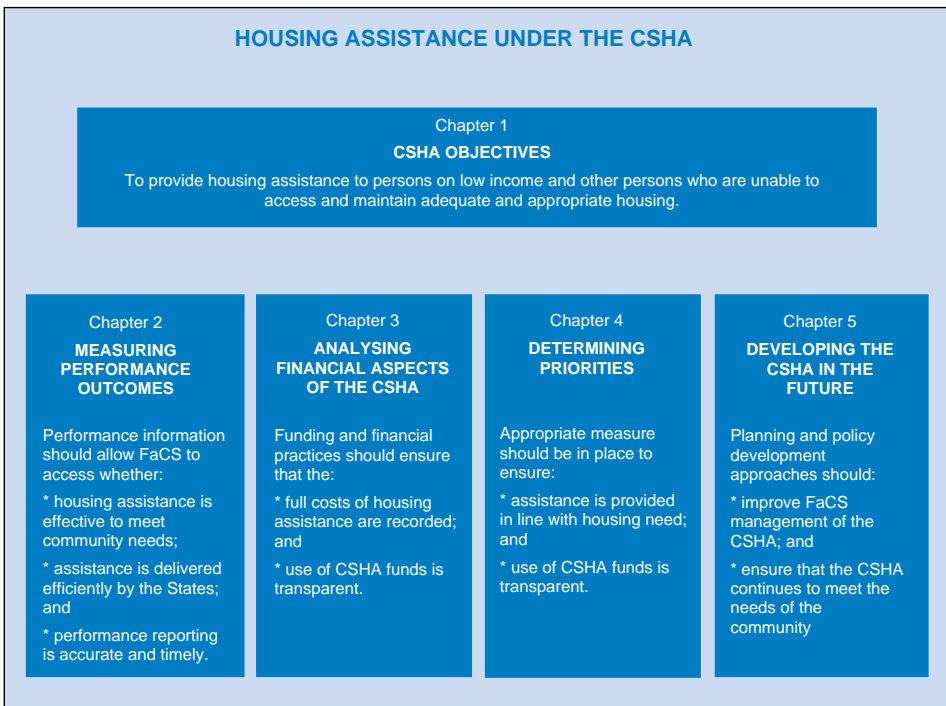
Acknowledgments

1.28 The ANAO wishes to express its appreciation for the time, effort and expertise contributed by staff of Housing Branch during the conduct of the audit. We are also grateful for the cooperation and input of other staff of FaCS, representatives from other Commonwealth and State Agencies and community and industry representatives.

Report structure

1.29 In line with the audit objectives, the audit findings in this Report are set out in accordance with the structure shown in Figure 1.2. Chapter 1 provides an overview of the CSHA. Chapter 2 reviews the performance information framework to determine whether it enables housing outcomes to be measured. Chapter 3 examines the financial accountability arrangements in place under the CSHA to ensure transparency of funding provided under the CSHA while Chapter 4 reviews activities aimed at ensuring that housing assistance is provided in line with housing need and that the achievement of results is appropriately reported. Chapter 5 covers the administrative arrangements implemented by FaCS to manage and develop the CSHA.

Figure 1.2
Housing assistance report structure



2. Measuring Performance Outcomes

This chapter examines some of the key elements of the performance information framework that were developed to measure the achievement of outcomes under the 1996 CSHA. Overall, the ANAO found that the framework provided the potential for the Commonwealth to measure performance and assess achievement against agreed objectives. However, due to a the lack of quality and comparability of data underpinning the performance measures, the ANAO considers that there could be significant improvement in the information provided to give assurance to management, the Government and the Parliament that the Commonwealth's objectives had been met in an efficient and effective manner.

Introduction

2.1 Prior to the 1996 CSHA, there was no systematic approach to performance measurement for public housing assistance. The aim of the reforms introduced in the 1996 CSHA was to change the focus from reporting of inputs and outputs to measuring the achievement of outcomes against the objectives of the agreement. It was the first CSHA that focused specifically on housing outcomes. To assist with the monitoring of outcomes, a system of performance indicators, agreed between the Commonwealth and the States, was developed.

2.2 The introduction of a suite of performance indicators that focussed on the achievement of outcomes was an important addition to the performance management framework underpinning the 1996 CSHA. Other important elements of the performance management framework such as financial accountability arrangements and bilateral strategic planning are discussed in the following chapters of this report.

Audit criteria

2.3 The ANAO reviewed the performance measurement framework to assess whether its design and implementation was adequate to allow the achievement of desired results to be measured and assessed. In particular, each of the following matters essential for measuring outcomes was examined:

- the structure of the performance indicator framework;
- the measures of effectiveness and efficiency to determine whether they comprehensively measured the outcomes required from the 1996 CSHA objectives;

- data standards and quality assurance processes to determine whether they assisted in the collection of consistent, reliable and comparable data;
- performance benchmarks and/or targets used as a basis for assessment;
- the structures in place between relevant jurisdictions to facilitate the development and refinement of performance information; and
- the adequacy of performance reporting by States against performance indicators.

2.4 Findings against each of these criteria are provided below.

Structure of the CSHA performance indicator framework

2.5 The 1996 CSHA required States to report against a core set of nationally consistent outcome measures that identified specific results to be achieved under the Agreement, on an annual basis.²² These outcome measures related to aspects of the quality of housing services, the level of provision of housing assistance, the efficiency of service delivery and customer satisfaction. For each of these outcomes, performance information was collected and reported annually, against a set of agreed performance indicators, to measure progress in achieving the stated outcomes. These indicators were one of the means available to the Commonwealth to monitor and assess State delivery of housing assistance under the 1996 CSHA.

2.6 Figure 2.1 outlines the performance indicator framework for one of the program elements of the CSHA, public housing, against which States are required to report annually. The public housing performance indicators are the most developed and are used as the basis for performance indicators in the other program areas of the CSHA. In line with good business practice, these performance indicators for public housing continue to be developed and refined on an ongoing basis.

2.7 The performance measurement framework for community housing²³, another element of the CSHA, is comparable to that for public

²² The nine core outcome measures are detailed in clause 4(4) of the CSHA. In addition to the nine core measures a set of performance measures relating to the operational aspects of housing assistance delivery were also developed as part of the Review of Commonwealth-State Service Provision which was established in 1993.

²³ Community housing is delivered, primarily, under the Community Housing Program (CHP) which is an element of the CSHA.

housing.²⁴ However, FaCS reported that an accurate assessment could not as yet be made on the achievement of objectives in relation to community housing due to the quality of the information that is received. This is attributed to the variety of funding and asset management models that operate across the various jurisdictions²⁵; difficulties in adapting the public housing performance indicators to community housing; and costs of data collection by community-based organisations receiving funding.

2.8 Performance indicators for the other program elements of the CSHA, except the CAP, have only recently been developed even though they were considered leading up to the development of the 1996 CSHA, and CEOs endorsed a workplan aimed at finalising performance indicators and benchmarks for all programs by the end of 1997. Due to the delays in developing performance indicators for these other program elements of the CSHA it has, to date, not been possible to assess the relative effectiveness of these different programs in meeting agreed outcomes. It is proposed that these indicators will be reported against for the first time in the HAA 1996 *Annual Report 1997–98*, which is intended for release in 1999–2000.²⁶

2.9 Measures to support comparisons of the relative efficiency and effectiveness of alternative options to increase the supply of housing such as headleasing, other than through the predominant approach of constructing and/or purchasing additional housing, have not been developed as part of the performance indicator framework. Rather, analysis of the viability of such options has been undertaken at the State level. Where SHAs have found alternative options to be measurably cost effective for their particular markets, they have implemented such programs.

Review of the performance indicator framework

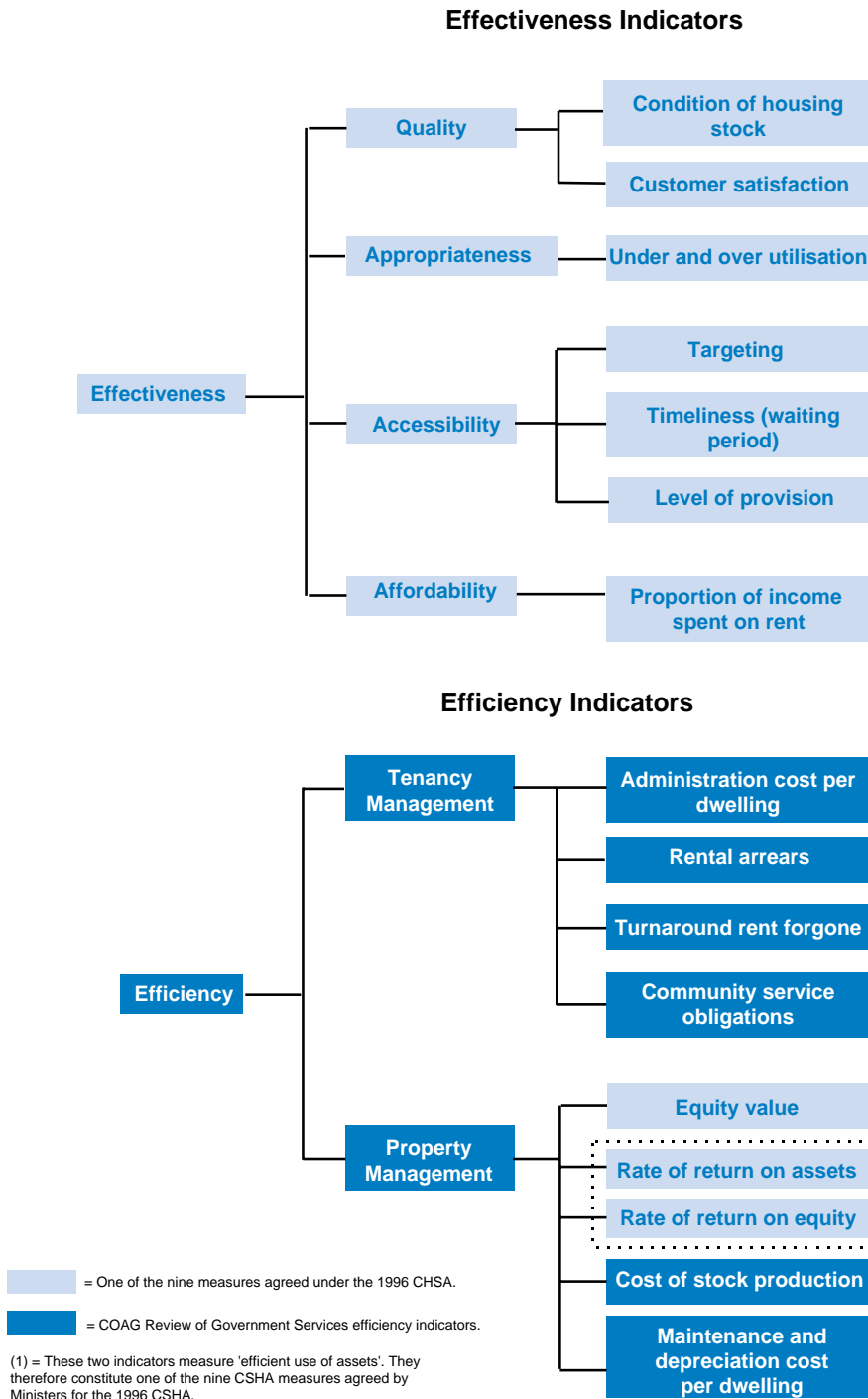
2.10 FaCS recognises that a robust and comparable performance information framework is an important and necessary part of an accountable CSHA that can assist in improving the achievement of consumer outcomes. Therefore, as part of the negotiation process for the 1999 CSHA, the Housing Assistance Working Group and the CSHA Performance Indicator Project Team (refer to figure 2.2) undertook a review of national performance indicators.

²⁴ The only exception is that the timeliness indicator, reported for public housing, is replaced in the community housing framework with an indicator which measures housing choice. Community housing data was collected for the first time for the 1998 Report on Government Services and only a subset of indicators was reported.

²⁵ 1998 Report on Government Services, Vol. 2, p. 894.

²⁶ Issues on the lack of timeliness of performance reporting are discussed later in this chapter.

Figure 2.1
Performance indicator framework for public housing.²⁷



²⁷ Source: *Report on Government Services (1998)*, Volume 12. p. 893.

2.11 The aim of this review was to assess the appropriateness and usefulness of the performance indicators in measuring achievements under the 1996 CSHA and to look at future directions and developments with social housing performance indicators. Given the rapidly changing operating environment for the CSHA, with an increased focus on targeting to meet the needs of households, it was recognised that it was necessary to ensure a dynamic process in which the information needs and the type of indicators required to provide the appropriate information are assessed on a frequent basis.

ANAO conclusion

2.12 Performance indicators had been developed and reported for two program elements of the CSHA, namely public rental housing and community housing. The structure of the performance indicator framework for these two program elements of the CSHA provides a sound basis for measuring and assessing performance and achievements against objectives and outcome requirements once complete and reliable information is collected. Issues concerning the quality of data are discussed in the next section.

2.13 However, while performance indicators had been developed for the other program elements of the CSHA (except the CAP) they had not been reported against. Therefore, it has not been possible to compare the relative effectiveness of the different program elements of the CSHA. These difficulties have limited the ability of FaCS to fully compare on a national basis the achievement of the Government's objectives across different program types and to identify and promote better practices that are being applied in particular jurisdictions.

2.14 The ANAO considers that the current review of National Performance Indicators is timely given the rapidly changing operating environment and provides the potential to address current weaknesses and lead to a more robust framework for measuring performance achievement across all elements of the CSHA.

Measures of effectiveness and efficiency for public housing

2.15 Good performance information allows program managers, the Government and other stakeholders, including Parliament, to determine whether the program resources are being directed towards the achievement of the desired outcomes efficiently and effectively. Program managers then have a sound basis for making informed decisions about the allocation, priority and use of program resources and for providing sound advice on the appropriateness, success, shortcomings and future

directions of programs. Performance indicators need to focus on the outcomes required from objectives.

2.16 The previous section described the structure of the performance indicator framework and identified that public and community housing performance is assessed in terms of effectiveness and efficiency. As service provision can often involve a tradeoff between effectiveness and efficiency, performance assessment should consider both effectiveness and efficiency indicators.²⁸ The effectiveness indicators measure the achievement of housing assistance programs under the CSHA to meet consumer needs and desired outcomes while the efficiency indicators measure the performance of SHAs.²⁹ There is a concern shared by Audit Offices to establish credible and consistent performance indicators across Commonwealth/State programs for the benefit of all stakeholders. Such a framework is also conducive to sound benchmarking analysis and performance improvement.

2.17 This section examines the usefulness of the measures of efficiency and effectiveness, including whether there are appropriate measures in place to ensure an adequate level of consistency, reliability and comparability in data. In particular, the ANAO sought to determine whether these measures enable the achievement of desired results from program objectives and associated strategies to be measured and assessed.

2.18 In undertaking its analysis, the ANAO focussed on the performance indicators for public housing as they were the most developed measures of performance and were used as a basis for performance indicators for the other program elements of the CSHA.

Effectiveness indicators

2.19 Even though links between the public housing performance indicators and the CSHA objectives and outcome measures could be established (refer to Appendix 3), the ANAO found deficiencies in some of the effectiveness performance indicators, including:

- the 'timeliness' indicator did not actually measure the intended outcomes specified in the CSHA;³⁰

²⁸ For example, a change in service delivery may increase the level of resources per unit of output (a decrease in measured efficiency) but lead to better outcomes for clients. Alternatively, a less costly service may be less effective in meeting the specific needs of a client. (Source: SCRCSSP, *Report on Government Services 1999*; p. 10).

²⁹ This approach to measuring efficiency and effectiveness is consistent with the general framework developed by the Steering Committee for the Review of Commonwealth/State Service Provision and reported in the Report on Government Services which is produced annually by the Steering Committee.

³⁰ Refer to Appendix 4 for more details.

- the ‘affordability’ indicator tends to oversimplify the complex needs of households, thereby distorting the results achieved under the CSHA;³¹
- a number of indicators are directly affected by State policies, resulting in some disparity in measured performance;³²
- the ‘level of provision’ indicator, which compares the actual number of new households to the planned number of new households, as it is currently calculated, may in fact be a measure of how accurately a jurisdiction estimates the number of households to be assisted rather than a measure of the level of provision;³³ and
- the ‘targeting’ indicator, as it is currently reported, does not adequately measure the fact that public housing assistance has recently become more tightly targeted to those who cannot be housed in the private rental market such as the homeless, people with disabilities and those who face discrimination in the private market.

2.20 However, the ANAO notes that the overall structure of the effectiveness performance indicators reflects a positive approach to measuring consumer needs with a recognition that it is not appropriate for only one indicator to measure the effectiveness in meeting the complex needs of households. The framework attempts to acknowledge this issue of equality of outcomes through a range of qualitative measures such as access, appropriateness and affordability. For example, some households may choose to spend more on their housing to obtain certain amenities that they rank higher, or as a trade off against other costs, such as transportation, that are part of non-housing costs.

Efficiency indicators

2.21 Efficiency indicators relate more closely to the internal operations of the SHAs, as opposed to program outcomes for consumers, and can assist SHAs benchmark their own operations.³⁴ A number of changes

³¹ Refer to Appendix 4 for more details.

³² For example, the definition of assessable income varies between jurisdictions. Also, the proportion of income spent on rent is directly related to State rental policy.

³³ This measure is based on an estimate of the number of new households to be assisted. However, it is unclear whether estimates provided by States are well-founded. Therefore, a jurisdiction that underestimates the number of new households to be assisted can appear to have achieved a ‘better’ performance by exceeding predictions. This could also have flow-on effects to other measures, such as the average cost of provision.

³⁴ The ANAO notes that the performance indicators were developed in the context of the housing reform agenda which was, among other things, concerned with service delivery and increased transparency and accountability for the use of funds by the SHAs. As such, the reforms were intended, in part, to increase efficiency of SHA operations. Therefore, these efficiency indicators reflect expected outcomes from the housing reform process.

have been introduced over recent years to improve the asset management function of SHAs, including the separation of the property management and tenancy management role.

2.22 Measures of efficiency are comprehensively addressed in most instances, by a range of indicators. For example, multiple performance indicators are used to ascertain the ‘efficient use of resources’ from a number of different operational perspectives.³⁵

2.23 A comprehensive range of efficiency indicators can also be derived from the audited financial reports that SHAs are required to provide to the Commonwealth at the end of each financial year.³⁶ As FaCS had not, at the time of the audit fieldwork, analysed the State financial returns in detail³⁷ the ANAO undertook an examination of these reports with a view to, among other things, deriving a set of efficiency indicators.

2.24 Table 2.1 compares State performance against a range of efficiency indicators that have been derived, by the ANAO, from the State financial returns for 1996–97 and 1997–98. However, due to limitations in the quality and comparability of data (which is discussed at paragraphs 2.27–2.34), the figures provided should only be viewed as indicators of the relative performance of State jurisdictions, and not as definitive results.³⁸ For example, SHAs use different definitions for some of the categories of information that are reported.³⁹ Therefore, comparisons could only be relied upon if supported by a detailed investigation of the types of functions and costs covered in the different categories by the States.

2.25 The efficiency indicators derived from the financial returns can, however, be used as a basis for identifying matters that require further analysis and investigation. For example, the rate of return on equity for

³⁵ These include:

- rate of return on assets and rate of return on equity that measure the benefits derived from the investment in housing; and
- administration costs per dwelling that measure the internal efficiency of the SHAs.

³⁶ The State financial reports are discussed in more detail in the next chapter.

³⁷ The next chapter discusses in more detail the reasons why FaCS had not analysed the financial returns at the time of the audit fieldwork.

³⁸ State representatives advised that for some categories of information provided in the reports, SHAs use various different definitions for items such as the value of housing stock, administration costs and maintenance costs. As the ANAO did not test the data provided by the States in their financial returns, as this is beyond its mandate, it cannot attest to the accuracy or the reliability of this information.

³⁹ This is of particular concern, especially since a standard financial reporting framework, which outlines standardised accounting policies, was introduced. The standard reporting framework and matters affecting its usefulness and reliability, such as the level of analysis of the reports undertaken by FaCS, are discussed in more detail in Chapter 4.

the ACT and South Australia, in 1996–97 is lower than the national average. Analysis of the relevant returns shows that both the ACT and SA incurred significant cost of disposals (\$27.5 million and \$62 million respectively) representing nearly 85 per cent of the costs incurred by all the States combined. If the costs incurred by these two States on disposals were closer to the national average, the rate of return on equity would increase to around 2.5 per cent for the ACT and 3.7 per cent for SA. Further analysis would be needed to assess the reasons for the significant costs for these two States, including past trends, and whether significant costs are expected to be incurred in the future.

2.26 The average administration cost per dwelling is another figure that should be treated with caution. For example, differences in administration costs across jurisdictions may reflect different reporting rules or the fact that jurisdictions have different client mixes (for example, clients with complex needs) which demand different levels of administration.

Consistency and reliability of data

2.27 For the measures of efficiency and effectiveness to be useful in encouraging improved performance and providing information on the overall achievement against program objectives they need to be based on compatible and reliable data across States.

2.28 The ANAO found that the performance indicators are not based on comparable data collection methodologies between the States. As a result, for many indicators, States report performance information using differing definitions or assumptions (for example, refer to paragraphs 2.19 and 2.24) leading to variations between jurisdictions, and variations over time within jurisdictions, in the data collected.⁴⁰ Where such variations exist, comparability of data is greatly degraded and casts doubt on whether the data can be used for national performance indicators.

⁴⁰ For example, in the 1996–97 data collection, 'average administration cost' for the Northern Territory excluded personnel and IT costs, Western Australian data included some community housing and NSW data included some community housing and aboriginal housing.

Table 2.1

State comparisons of selected efficiency indicators for the 1996–97 and 1997–98 financial years [a], [b]

| | Vic | | Tas [c] | | Qld [d] | | NSW | | SA | | WA | | ACT | | NT | | Australia | |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|---------|
| | 1996–97 | 1997–98 | 1996–97 | 1997–98 | 1996–97 | 1997–98 | 1996–97 | 1997–98 | 1996–97 | 1997–98 | 1996–97 | 1997–98 | 1996–97 | 1997–98 | 1996–97 | 1997–98 | 1996–97 | 1997–98 |
| Rate return on equity (net surplus/net assets) | 2.67% | 1.73% | 5.56% | 5.38% | 5.40% | 5.51% | -0.81% | -1.88% | 0.96% | -3.57% | 2.18% | 2.53% | 0.01% | -0.68% | 2.48% | -2.93% | 1.29% | 0.18% |
| Rate of Return before subsidies (potential rent/mkt value dwellings) | 7.94% | 7.81% | 11.07% | 11.96% | 13.61% | 13.93% | 7.85% | 7.54% | 9.56% | 9.33% | 7.84% | 8.06% | 8.23% | 7.86% | 9.68% | 8.64% | 8.68% | 8.68% |
| Rate of Return after subsidies (rent received/mkt value dwellings) | 4.24% | 3.95% | 5.70% | 6.29% | 6.63% | 6.82% | 3.28% | 3.15% | 5.58% | 5.68% | 3.97% | 4.10% | 4.07% | 3.81% | 4.44% | 4.33% | 4.16% | 4.16% |
| Repairs (repairs+improvements/number of dwellings) | \$702 | \$744 | \$1083 | \$1176 | \$991 | \$998 | \$841 | \$868 | \$811 | \$934 | \$1189 | \$942 | \$798 | \$1840 | \$1949 | \$2275 | \$895 | \$952 |
| Admin costs (admin [PM+TM]/number dwellings) | \$697 | \$682 | \$915 | \$711 | \$722 | \$815 | \$904 | \$1007 | \$817 | \$1126 | \$874 | \$878 | \$279 | \$341 | \$507 | \$801 | \$796 | \$892 |
| Vacancy losses (rents lost through vacancy/potential rent) | 1.69% | 2.00% | 5.44% | 7.02% | 0.00% | 0.00% | 1.79% | 1.55% | 1.65% | 1.79% | 4.07% | 2.42% | 2.92% | 3.37% | 1.18% | 0.00% | 1.86% | 1.72% |
| Accounts receivable (overdue accounts/potential rent) | 1.66% | 1.53% | 1.84% | 1.00% | 1.65% | 1.63% | 2.61% | 0.00% | 0.50% | 4.04% | 3.85% | 4.12% | 4.06% | 2.46% | 3.34% | 2.20% | 2.25% | 1.47% |
| Tenancy Management fee (as % potential rent) | 7.57% | 7.37% | 0.00% | 0.00% | 9.88% | 10.50% | 2.89% | 2.95% | 7.77% | 6.78% | 8.15% | 7.81% | 7.57% | 7.54% | 7.15% | 7.98% | 5.73% | 5.71% |
| Tenancy Management fee (per unit of stock) | \$378 | \$391 | \$- | \$- | \$569 | \$602 | \$222 | \$222 | \$400 | \$328 | \$467 | \$451 | \$594 | \$576 | \$797 | \$786 | \$364 | \$358 |
| Average value of subsidy per unit of stock (total subsidy/number dwellings) | \$2237 | \$2318 | \$2431 | \$2258 | \$2957 | \$2929 | \$4196 | \$4264 | \$2084 | \$1802 | \$2589 | \$2704 | \$3744 | \$3620 | \$5905 | \$4883 | \$3151 | \$3122 |

Notes [a] Figures derived from State financial returns and State reports against Strategic Plans submitted to FaCS.

[b] Figures relate to the Property Manager function in the financial accounts unless otherwise stated.

[c] Tasmania does not have a tenancy management fee between its property management and tenancy management operations.

[d] Rental figures for Queensland (to calculate average rate of return figures) have been derived from sources external to the financial returns.

2.29 The issue of poor data quality in housing assistance is not new.⁴¹ Nevertheless, some problems persist. In its response to the review of national housing assistance performance indicators, FaCS acknowledged that there are some considerable variations in the consistency and reliability of data underpinning performance information collected under current arrangements:

*The greatest barrier to the success and usefulness of the Performance Indicators has been the lack of comparable data...the lack of comparable or appropriate data has resulted in a poor reporting outcome. This is demonstrated most starkly with the efficiency indicators, which are generally based on widely used measures (administrative efficiency, rate of return and rental arrears) but have been compromised through technical inadequacies.*⁴²

2.30 FaCS advised the ANAO that data quality problems had primarily resulted from the 'top-down' approach to the early development of performance indicators. Indicators were agreed by Housing CEOs without appropriate feedback from technical personnel responsible for the State management information systems and a sufficiently detailed analysis of whether these information systems were capable of providing relevant data in the desired form. As a result, limitations in the capacity of information systems mean that a number of indicators are not based on comparable data between States.

2.31 The extent of the problem can be gauged from the number of qualifying notes that accompany many of the tables presented in the HAA Annual Reports and the Productivity Commission report. For example, the 1997 Report on Government Service Provision concludes that the data for affordability, accessibility and appropriateness is not considered as comprising a set of national comparable performance information. While noting that refinements in data definitions from the previous year improved the comparability of public housing indicators, the 1998 Report on Government Service Provision still recommends that the interpretation of results should take account of any qualifications and notes.

⁴¹ In 1997 the Senate Inquiry into Housing Assistance noted that there is still room for improvement in the quality of housing data currently being collected. In particular, those bodies involved in the collection of housing data need to ensure that they reach agreement on the methodology to be adopted. The AIHW had noted in its submission to the Inquiry that much of the reported performance information on affordability, accessibility and appropriateness was all qualified between the jurisdictions, and based on different assumptions. As part of this submission, the AIHW had also identified a range of other issues relating to data quality and standards.

⁴² *National Performance Indicator Review—Commonwealth Response to Questionnaire* p.1.

2.32 To address the problems with data quality a number of initiatives have been implemented or are in the process of being developed. For example, until recently there was no consistent framework for valuing housing stock as different accounting practices and asset valuation methodologies were being used by SHAs and for some assets there was no market value. In response, a consultancy was commissioned by FaCS in 1996 to develop a common policy framework for valuing assets and establishing rents. Based on recommendations from this consultancy a strategy for achieving a common asset valuation and market rent setting framework was implemented. Standard financial accounts, which are discussed in the next chapter, were also introduced in 1996–97 to overcome the lack of common accounting practices and provide a framework for State reporting of financial information.

2.33 Given its expertise in data standards and quality⁴³, the AIHW became more involved, at the national level, in managing the development of data standards and quality assurance processes for housing assistance information.⁴⁴ For example, the Institute has produced a range of products including data manuals⁴⁵ for public and community housing and the ARHP; undertaken the data collation of performance information for the 1997–98 public and community housing data collections; and was involved in a project to standardise housing data provided by four SHAs as part of a data swap program with FaCS⁴⁶. It is also coordinating the development of national minimum data set as part of the review of national performance indicators. The purpose of this minimum data set is to identify the core units of data that are required for any future performance information framework and to reduce the reporting burden on the States. This should, in turn, improve the quality and timeliness of performance information provided by the States. Each of these initiatives has the potential to improve the usefulness of data provided to the Commonwealth.

⁴³ The AIHW has been active in improving health and community service statistics. It has taken the role of 'honest broker' between the Commonwealth, States and other stakeholders in ensuring nationally consistent information is developed, collated and disseminated.

⁴⁴ Since 1997, FaCS has involved the AIHW in collection, collation, development and analysis of CSHA performance information, including resourcing a position within AIHW to undertake this. Recently, discussions with the AIHW have focused on moving towards a more structured approach to developing national housing assistance information.

⁴⁵ These data manuals provide the basis for data collection as part of the 1996 CSHA and for reporting required by the Review of Government Service Provision.

⁴⁶ As part of the data swap project, the AIHW developed a program that 'cleanses' raw data after it has been downloaded by the States.

2.34 Data collection standards also need to be supported by initiatives to overcome difficulties for States, and more importantly private sector providers like community housing groups, transferring and sharing data. Difficulties may include diverse, sometimes incompatible formats and systems of hardware and software. Therefore, while considerable effort may be put into developing a standard set of performance indicators, differences in the way States collect, record and store data may mean that States are not able to uniformly report against the indicators. During the audit, FaCS advised that this issue is being considered as part of the negotiation of the new agreement with a proposal to allocate dedicated CSHA funding to information technology improvements.

2.35 The increased involvement of the AIHW and the work being undertaken to develop data manuals and a minimum data set should assist in improving consistency and compatibility of data underpinning performance indicators for the 1999 CSHA. In addition, data quality could be further improved through quality assurance processes designed to test the systems and processes used to collect, record and store the data. A means by which this has been achieved in the area of health has been the National Health Information Agreement,⁴⁷ which provides a model on which housing can build. This health agreement demonstrates that, with support, it is possible to have a more structured and integrated approach to the development and management of housing information and provide much of the data infrastructure needed to provide good quality national housing data.

2.36 The ANAO noted that the 1999 CSHA requires the States and the Commonwealth to agree to a National Housing Data Agreement, which will be a subsidiary agreement to the CSHA.⁴⁸ This agreement requires States to provide data according to specific standards and to provide a specified level of funding for data management and other data related purposes.

Performance Benchmarks and Targets

2.37 In order to ensure common understanding of performance expectations and a basis for performance assessment, benchmarks and targets are required. These need to be set at a realistic level. It is these benchmarks which provide the basis for identifying and introducing better practice into performance.

⁴⁷ The National Health information Agreement was signed by the Commonwealth and State health authorities, the ABS and the AIHW in May 1993, to improve the quality of and the cooperation in the development of national health information. Elements of the agreement include the National Health Data Dictionary of established definitions and data standards, the National Health Data Collection and Reporting Guidelines, national minimum standard edits and data policy guidelines.

⁴⁸ Sub-clauses 3(2) and 3(3).

2.38 The 1996 CSHA required outcomes and the associated indicators and benchmarks to be specified in bilateral strategic plans for housing assistance.⁴⁹ Benchmarks to assess the adequacy of performance were, therefore, considered for public and community housing leading up to the development of the 1996 CSHA. However, performance benchmarks have not been uniformly included in the State Strategic Plans. Appendix 5 outlines the benchmarks that were considered for each of the nine specific outcomes of the 1996 CSHA, leading up to the implementation of the agreement and the benchmarks that are currently applied for reporting the achievement of housing outcomes.

2.39 The ANAO also noted that the Queensland Government initiated the establishment of Capital Works Benchmarks, which aim to test the effectiveness of public housing capital works delivery.⁵⁰ A report provided to the Queensland Department of Housing and Local Government showed that the benchmarking of the construction of public dwellings in Queensland saved eight per cent or approximately \$8 million in the first year of operation.⁵¹

2.40 The ANAO has noted the progress in benchmarking, but considers that benchmarks comprising national averages do not promote better practice among jurisdictions and do not provide incentives for those states that are currently above the national average to further improve their performance. Adopting benchmarks based on the best performance among SHAs in a given year may also not be appropriate due to a range of State based factors such as local market forces or the level of remote housing in a given State.

2.41 In recognition of the importance of benchmarks for assessing and improving performance, FaCS initiated a consultancy in early 1998 to develop a methodology for determining benchmarks. This consultancy provided a final report in May 1999. The final report highlighted, among other things, the difficulties associated with developing benchmarks for housing and the need to look beyond SHAs for defining appropriate benchmarks.⁵² FaCS is currently considering the findings and recommendations of this consultancy.

⁴⁹ Sub-clause 4(7).

⁵⁰ Queensland Commonwealth/State Housing Agreement Strategic Plan, 1996–1999.

⁵¹ Earl, G., *Benchmarking Public and Private Rental Housing Property Management*, (1997) Report to Queensland Department of Housing and Local Government.

⁵² The final report indicated that appropriate benchmarking partners may include other housing providers in Australia and the private rental sector; housing authorities and housing providers in other countries; and different industries (for example, construction benchmark standards may be set by the private sector).

2.42 The ability to set benchmarks and targets which are both achievable and provide incentives for performance improvement is, however, dependent on the quality of data underpinning the performance indicators and States collecting and reporting against particular performance indicators consistently and accurately. The ANAO considers that until these issues are addressed, the ability to set national benchmarks and targets or for the Commonwealth to have assurance that agreed targets within bilateral agreements are being met, is limited.

ANAO conclusion

2.43 Measuring the achievement of desired results is a complex task that requires judgment based on a range of measures. By developing a range of performance indicators to measure the efficiency and effectiveness of the delivery of public housing under the CSHA, the parties to the CSHA have taken a positive approach to address this complexity and ensure that all aspects of performance are measured. These indicators can contribute to improved understanding of housing assistance delivered through public housing and provide information necessary to support decision-making.

2.44 However, despite the development of a performance indicator framework and notwithstanding considerable efforts by working groups to improve the quality of data through initiatives such as data manuals, the analysis undertaken by the ANAO indicated shortfalls in the framework's implementation which have limited the usefulness of the performance measures. These include:

- the fact that some of the effectiveness indicators either oversimplify the complex needs of households or do not measure the intended outcomes specified in the CSHA;
- a lack of consistency and comparability of data between the States; and
- performance benchmarks and targets were not adequate to encourage performance improvement and better practices.

2.45 These weaknesses have limited the ability of the Commonwealth to compare the overall performance of States, the performance of housing programs within each State and the performance of housing programs between States. The effectiveness of the Commonwealth's monitoring of housing assistance activity is to that extent compromised and is unlikely to adequately inform the policy development process.⁵³ FaCS advised that

⁵³ Given the limitations in the performance indicators discussed above such as the poor specification of some performance indicators and a lack of confidence in the data, only limited use has been made of them for policy review or planning by FaCS.

the underlying data for performance measures has, however, been used to inform development of bilateral strategic plans under the 1996 CSHA and bilateral agreements under the 1999 CSHA.

2.46 The ANAO considers that the increased involvement of the AIHW to undertake an information management role and the development of the National Housing Data Agreement under the 1999 CSHA to, among other things, ensure that a specified level of funding is allocated by States for data management and other data related issues will assist in further improving the consistency, completeness and comparability of data underpinning performance indicators for the 1999 CSHA. The review of performance indicators discussed at paragraphs 2.10–2.11 has the potential to contribute to improvements in performance indicators as well.

2.47 Improved data quality will, in turn, enable the development of more meaningful benchmarks and targets that will ensure a common understanding of performance level requirements; allow the Commonwealth to assess performance achievement of individual States; and encourage improved performance and better practices.

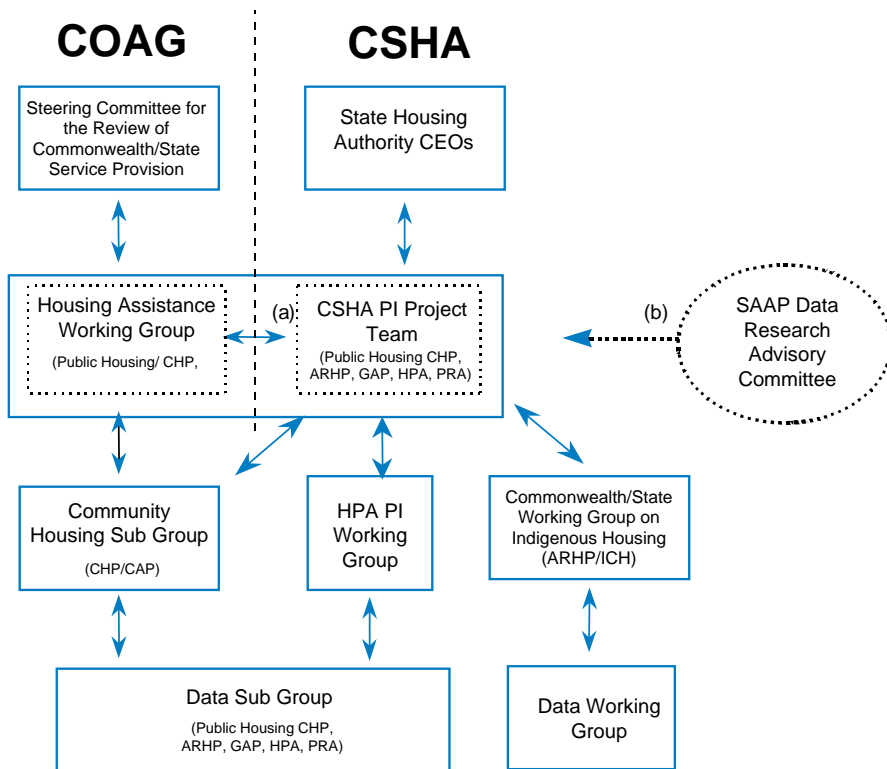
Coordination of performance information development work

2.48 For significant Commonwealth-State programs, it is unrealistic to expect that an effective performance management system can be developed and implemented without requiring significant improvements to be made over time. This was clearly recognised by Commonwealth and State representatives in the early development of the performance information framework. From discussions with other Commonwealth program managers responsible for SPP administration, the ANAO concluded that it may take a number of years to develop a framework to the point where it begins to provide effective and useful performance information.

2.49 With this in mind, the ANAO reviewed whether there are appropriate and sufficient structures and processes in place to ensure effective communication and cooperation between relevant jurisdictions to enable the further development and refinement of performance information.

2.50 The ANAO found that there were a number of Commonwealth/State arrangements in place for the development and refinement of performance information. Discussions with key stakeholders revealed that the Commonwealth has succeeded in maintaining good working relationships through these fora. Figure 3.1 shows the relationships and reporting lines of these structures.

Figure 3.1
Commonwealth/State housing assistance working groups



ARHP = Aboriginal Rental Housing Program
 CAP = Crisis Accommodation Program
 CHP = Community Housing Program
 ICH = Indigenous Community Housing
 HPA = Home Purchase Assistance
 PRA = Private Rental Assistance
 SHA = State Housing Authority

(a) The Commonwealth and State Housing Authority representatives are the same for each group. The HAWG is chaired by the Productivity Commission. The CSHA PI Project Team is chaired by the Commonwealth.
 (b) With the new administrative arrangements of November 1998, the Supported Accommodation Assistance Scheme (SAAP) was resubordinated to FaCS. This linkage indicates the input which the SAAP national data collection will have to the process of developing housing performance information.

2.51 However, there appears to be no formal coordination or effective mechanism for determining objectives and priorities across data development projects or evaluating the progress of relevant working groups. At the time of the audit fieldwork the ANAO found no evidence of any overarching coordination of the range of activity in this area in the form of any clearly defined and explicit strategic framework to effectively coordinate and prioritise work between the various working groups.

2.52 With the incorporation of the Supported Accommodation Assistance Program (SAAP)⁵⁴ and its associated data collection processes

⁵⁴ For an outline of the relationship of SAAP to the Crisis Accommodation Program (CAP) and housing assistance arrangements, see Appendix 1.

into FaCS, there is a greater need for definition of roles, relationships and work priorities through a more explicit framework and planning process. The ANAO considers that there is scope for FaCS to assume a stronger leadership role in achieving this, but recognises that this would need to be done in close cooperation with the Productivity Commission and AIHW.

2.53 Given the limited resources available at both Commonwealth and State level to address these issues, the development by FaCS, in collaboration with the States and AIHW, of a strategy for the development of performance information could be of benefit. Such a strategy would help coordinate and prioritise the work of these groups, and enable an evaluation of their progress. Milestones and evaluation arrangements associated with such a strategy would also assist in reinforcing the high level of commitment to the process by all parties.

ANAO Conclusion

2.54 The ANAO concluded that these working groups provide the potential to facilitate effective communication and cooperation to further progress the development of the performance information framework. However, the ANAO found that the overarching coordination of performance indicator development work could be improved by clearly defining the separate roles, responsibilities and priorities of the different working groups through a more explicit strategic framework and planning process. The ANAO considers that there is scope for FaCS to assume a stronger leadership role in achieving this, in partnership with the Productivity Commission and AIHW.

Recommendation No.1

2.55 The ANAO recommends that FaCS, in cooperation with key stakeholders, implement a suitable plan to progress and coordinate performance information development through Commonwealth-State bodies by the end of 1999.

FaCS' response

2.56 *Agree.* The absence of an overall strategic framework will be remedied with the proposed performance information practices to be developed around the 1999 CSHA.

Performance reporting

2.57 Performance reporting should assist performance accountability and performance monitoring. The ANAO reviewed the reports required to be submitted by the States to the Commonwealth under the CSHA to assess whether they provide an appropriate level of accountability to management, the Government and the Parliament that the delivery of housing assistance is efficient and effective.

2.58 For performance reports to assist performance monitoring and accountability they should be accurate, reliable and timely. An effective reporting regime allows all stakeholders access to important performance information and, therefore, contributes towards continuous improvement of service delivery as well as transparency and accountability. In Report 362, the JCPAA noted that:

the accountability of Commonwealth departments and other parties to SPP agreements for the use of SPP funds and the performance of SPP programs is enhanced by the ready access of Parliament and the public to reliable and up to date information about SPP programs and their performance results.⁵⁵

2.59 Performance information on housing assistance is reported publicly through a number of annual reports, including the following:

- the *Housing Assistance Act Annual Report* (HAA Annual Report) prepared by FaCS;
- the *Report on Government Services* which is coordinated by the Productivity Commission;⁵⁶
- the FaCS Annual Report⁵⁷; and
- relevant State Housing Authority Annual Reports.

Consistency and reliability in reporting

2.60 A comparison of the information contained in the different reports found a number of inconsistencies. The ANAO was advised that the primary reason for these inconsistencies is definitional variations in the counting bases between the different reports. For example, reconciling the ‘total number of households assisted’ figures provided in the different reports, probably one of the more fundamental measures of performance, is not a straightforward task due to the types of dwellings that are included in the counting base by different States for different reports.

⁵⁵ Report 362; p. 49

⁵⁶ The report is the product of the Steering Committee for the Review of Commonwealth State Service Provision which operates under the auspices of the Council of Australian Governments (COAG).

⁵⁷ Prior to the 1998–99 financial year this was referred to as the DSS Annual Report.

2.61 FaCS advised that reconciliations, which explain the variations between definitions, are provided by the States and are used for internal reporting purposes. FaCS, therefore, has some assurance on the basis for these inconsistencies. However, the ANAO considers that the usefulness of the reports to external stakeholders is compromised due to these inconsistencies. To overcome this deficiency the ANAO notes that, wherever possible, explanations for any differences in similar information reported in public housing assistance reports is provided to enable readers to understand the basis for these differences. This approach has been adopted in the recently released HAA 1996 *Annual Report 1996–97*.

2.62 In the longer term, the ANAO considers that, in the course of its facilitation of the development of performance information, FaCS may need to take a stronger leadership role in ensuring that differences in reporting are appropriately addressed with the aim of promoting greater consistency between different reports.

Timeliness in reporting

2.63 Section 14 of the *Housing Assistance Act 1996* requires that

as soon as practicable after the end of each assistance year, the Minister must cause to be laid before each House of Parliament an annual report on the operation of inter-governmental housing agreements....

The ANAO, therefore, examined the timeliness of reporting to determine if it accorded with the timing requirements prescribed in the Act.

2.64 The ANAO found that there have been considerable delays in the preparation of Annual reports required for the purposes of the Act. The *Housing Assistance Act 1989* Annual Report for 1995–1996 was not tabled in Parliament until 28 October 1997.⁵⁸ The annual report for 1996–97 was tabled in April 1999, 22 months after the end of the reporting period.⁵⁹

2.65 Delays in reporting are not new. A preliminary study by the ANAO in 1993–94 into the CSHA Agreement noted delays of between 49 and 75 weeks in the elapsed time for reporting between 1984–85 and 1990–91.⁶⁰ The preliminary study made a number of recommendations on improving the reporting process.⁶¹

⁵⁸ This represents an elapsed time of 67 weeks from the end of the reporting period.

⁵⁹ This was the first HAA Annual Report under the 1996 CSHA and the format and information contained in the report was a significant variation from that which was reported in previous Annual Reports.

⁶⁰ ANAO Report No.1 1993–94, paragraph 1.40.

⁶¹ The Departmental response to this previous report indicated that improvements in this area would extend to more timely action in seeking data from States, and following up missing and anomalous information.

2.66 FaCS advised that the delays in reporting were primarily due to delays in States submitting reports against their strategic plans. For example, some States did not submit their reports for the 1996–97 financial year until some five months after the required date specified in the Agreement.⁶² In addition to these delays, many of the returns from the States did not contain all the necessary information in the first instance and required follow-up by FaCS. Further compounding the problem of State lags in reporting, the ANAO noted delays in formal follow up of the missing/incomplete information by FaCS. The combination of all these factors has resulted in complete information not being received from the States until at least eight months after the date specified in the Agreement, or about 60 weeks after the end of the reporting period.

2.67 The ANAO recognises that there will always be some delays associated with the collection and reporting of data by States caused by factors such as:

- annual reporting requirements to State legislatures tend to take priority over reporting to the Commonwealth on the CSHA; and
- in the case of the community housing and crisis accommodation programs, the need to deal directly with a large number of housing providers.

2.68 FaCS has recently implemented a number of measures that are likely to improve the Department’s management of State reporting. These measures include the development of a case management system, whereby contact officers within FaCS are appointed for each State to manage returns. FaCS officers are responsible for examining draft returns from States prior to their submission and, where necessary, advise of any omissions or errors.

ANAO conclusion

2.69 The ANAO concluded that the effectiveness of performance reporting in assisting performance monitoring and accountability was significantly reduced because of inconsistent definitions across performance reports and a lack of timeliness in reporting. As a result, there has only been limited use made of the information by FaCS. Recent initiatives implemented by FaCS are likely to improve the reporting process and lead to more comparable and timely performance information.

⁶² Sub-clauses 5(31)—5(35) requires States to provide specified reports to the Commonwealth within six months of the end of the financial year (namely 31 December).

3. Analysing Financial Aspects of the CSHA

This chapter examines the key financial elements of the CSHA, namely funding acquittals, financial reporting by States to the Commonwealth and cash management practices. The ANAO found that the financial accountability framework underpinning the 1996 CSHA was a significant improvement from previous agreements. In particular, the funding and financial practices encouraged by the standard reporting framework and accounting practices provide the potential to assess the full cost of housing provision. However, transparency and accountability was still clouded due, primarily, to the quality of the information provided in the State financial returns.

Introduction

3.1 The Industry Commission concluded, in its report on public housing, that the funding and financial practices encouraged by the CSHA clouded transparency and accountability and made it difficult to trace the use of funds and evaluate how well funds were spent.⁶³

3.2 The ANAO has also previously commented on the inadequacy of financial reporting arrangements under the CSHA. In its preliminary study of the CSHA in 1993 the ANAO observed that:

*the types of data sought had changed little in recent years and the compilation of that data occurred without much Departmental analysis.....The true levels of subsidies and other Community Service Obligations were not readily determinable from the data currently supplied to the Commonwealth by the States.*⁶⁴

Audit criteria

3.3 As the effective use of financial information is a critical component of a robust performance management framework, the ANAO sought to establish whether financial arrangements in the 1996 CSHA were adequate to promote financial accountability and transparency. As part of the this process the ANAO examined whether:

- certification by the relevant housing CEOs on the use of funds is provided in a timely manner;

⁶³ Vol.1, p.34.

⁶⁴ ANAO Report No.1, 1993, p.12.

- financial reporting by States, provides the necessary information required by the Commonwealth to assess the full costs of housing assistance provided under the CSHA; and
- Commonwealth funds are provided to the States by FaCS consistent with better practice principles for cash management.

Certification on the use of funds

3.4 Annual financial acquittals provide the means by which the Commonwealth receives assurance that funding it provides to the States is spent in accordance with the requirements prescribed in the CSHA. The 1996 CSHA required States to provide, to the Commonwealth, certification by the responsible Chief Executive Officer (CEO), on an annual basis, that the available funds and assets have been used for the purpose of providing housing assistance under the CSHA.⁶⁵ The ANAO found that FaCS had implemented appropriate measures to ensure that these certification requirements are complied with, including appropriate and timely follow-up where required.

3.5 However, the ANAO noted that sub-clause 5(35) of the Agreement required certification by the responsible CEO on the use of assets within 12 months of the end of the financial year. In the 1994–95 report on the funding of SPP's⁶⁶, after examining 1992–93 acquittals, the ANAO recommended that where statements and certificates of expenditure are required they should be provided within six months of the end of the financial year.

3.6 The ANAO suggested to FaCS during the audit that a six month timeframe allows sufficient time to prepare statements and certificates while still providing relevant and timely financial information to the Commonwealth to manage SPPs. This would also allow for more timely financial analysis by FaCS within the accrual framework. This certification should also be provided in conjunction with the audited financial reports (these audited reports are discussed in the next section).

ANAO conclusion

3.7 FaCS had appropriate measures in place to ensure that CEOs provided the necessary certification required under the CSHA in a timely manner. However, in line with its previous recommendation, the ANAO suggested that FaCS give priority to amending sub-clause 5(35) in the

⁶⁵ Sub-clauses 5(34) and 5(35).

⁶⁶ ANAO, Audit Report No. 21 1994–95, *Specific Purpose Payments to and through the States*, February 1995.

next agreement, to require certification by the responsible CEO on the use of assets within six months of the end of the financial year instead of 12 months. The ANAO has noted that the relevant clause in the 1999 CSHA has been amended to require certification on the use of assets by the responsible CEO within six months of the end of the financial year.

Financial reporting

3.8 The 1996 CSHA required that States provide within six months of the end of each financial year audited financial reports of housing operations to the Commonwealth using a nationally consistent financial reporting framework and accounting practices.⁶⁷

3.9 In addition, the Commonwealth and the States agreed that a report on progress achieved on benchmarks and targets set in State strategic plans would be required to be provided within six months of the end of each financial year. To promote national consistency these reports were also to be provided in an agreed format. The ANAO examined the financial reporting framework to assess whether it provided adequate assurance to the Commonwealth that funds were used efficiently by the States.

National financial reporting framework

3.10 The lack of uniform accounting policies has in the past caused problems in, among other things, deriving an accurate estimate of the capital value of public housing stock and, therefore, has resulted in this value and depreciation costs being excluded from the Housing Assistance Act annual reports.⁶⁸ It has also affected the comparability of data provided by States for items such as maintenance expenditure and the value of rent rebates. In addition to adversely impacting on inter-State comparisons, changing practices have also limited intra-State trend comparisons over time.

⁶⁷ Sub-clause 5(31)(a).

⁶⁸ Because of the problem in deriving accurate estimates of the capital value of public housing stock, houses have in the past been reported by the number of dwellings only—no value has been given. However, the estimation of, among other things, the capital value of public housing is improving and new methodologies and standardisation of definitions were in place for the 1997–98 returns. The *Housing Assistance Act 1996* Annual Report 1996–1997 is the first report to provide figures on total market value of public housing stock (table B6).

3.11 To overcome the lack of uniform policies a nationally consistent accounting policy and reporting framework was developed and adopted in 1995 for the purposes of financial reporting in accordance with the requirements prescribed in the 1996 CSHA.⁶⁹ This framework was designed to ensure a common approach to the reporting of SHAs performance and financial outcomes and requires a standardisation of accounting policies. The 1996–97 financial returns were the first submissions of audited financial reports according to this agreed framework.⁷⁰

3.12 The ANAO noted that, among other things, the agreed reporting framework required the disaggregation of the accounts into reporting segments.⁷¹ In particular, there was a separation of the tenancy and property management functions of the SHAs, which was a critical recommendation of the Industry Commission in its 1993 Report.⁷² The separation of the tenancy and property management functions is an integral aspect of the CSHA as a performance based agreement.⁷³ The intended benefit of this segmentation was that it could provide the Commonwealth with a level of detail about the operations of SHAs that was not available from a consolidated report.

⁶⁹ A steering committee, consisting of Commonwealth and State representatives, was formed to oversee the development of the consistent accounting and reporting framework. The final framework was unanimously endorsed by the committee. State CEOs were also supportive of the framework.

⁷⁰ The standard format was trialed by all States for the 1995–96 year. This trial indicated a high degree of non-conformity with the standard framework. While most States provided aggregate data, many did not provide segmented information. Nevertheless, following the trial, States agreed to adhere to the segmentation for the 1996–97 financial year.

⁷¹ The framework has the following segment grouping:

- policy and governance;
- property manager;
- tenancy manager;
- community housing;
- home ownership; and
- other activities.

⁷² The main focus of the work undertaken by the consultant was on public housing and in particular the separation of the property and tenancy manager transactions. Other segments were broadly considered but not looked at in detail.

⁷³ The separation of the property and tenancy manager functions is intended to make the costs associated with the provision of public housing more transparent and encourage a commercial culture for the property manager and a client focus for the tenancy manager (that is, to make sure people who need housing services receive assistance).

3.13 In discussions with the audit team, most State representatives expressed a dissatisfaction with the national financial reporting framework (which they proposed and to which they have previously agreed), especially in relation to the level of disaggregation of the accounts into reporting segments. In particular, State representatives commented that the segmentation structure adopted in the accounts did not always reflect the SHA's own reporting structures and that this resulted in a notional allocation of a number of joint costs and functions across segments.⁷⁴ Consequently, a significant amount of work was required by States to produce the necessary information required under the national framework resulting in some States not providing the Commonwealth with their financial returns within the six month timeframe. These factors compromised the usefulness of the financial information.

3.14 A consultancy, commissioned by FaCS in 1996, which reviewed the financial reporting framework found that the standard reporting framework was generally sound in structure, being in accordance with accepted accounting principles, and broadly reflected standard business statements which most of the SHAs report against. However, the consultancy acknowledged that the level of segmentation created a difficulty and this, in turn, affected the reliability of some of the information contained in the reports. The consultancy suggested that this difficulty could be overcome by better standardisation of definitions and segments in the reporting framework.

3.15 The ANAO has noted that such notional allocations are not necessarily inconsistent with the practices under the accrual framework in the Commonwealth. The key issue when analysing the financial information is to recognise that notional allocations occur and to achieve consistency in such allocations over time.

Analysis of financial information

3.16 The effective use of financial information is a critical component of a robust performance management framework. When used in combination with non-financial performance measures, financial information can provide highly useful indicators of the overall performance of a program. An integrated performance management framework, which incorporates both financial and other performance information, can support strategic planning and decision making as well

⁷⁴ The ANAO has noted that such notional allocations are not necessarily inconsistent with the practices under the accrual framework in the Commonwealth. The key issue when analysing the financial information is to recognise that notional allocations occur and to achieve consistency in such allocations over time.

as provide a better basis for measuring and/or assessing the efficiency and effectiveness of the delivery of housing assistance under the CSHA.⁷⁵

3.17 At the time of the audit fieldwork, FaCS had advised the ANAO that they had not undertaken a detailed analysis of the State financial returns submitted for the first year of the 1996 CSHA as they did not have access to the necessary skills required for such an analysis. However, given that these returns were the first to be submitted under the national framework, FaCS had established processes to verify the information provided in State returns and assess the reasonableness and accuracy of that information.

3.18 Subsequently, FaCS put in place arrangements to ensure that financial returns were appropriately analysed.⁷⁶ For these arrangements to be effective they need to be continued in the long term and any results derived from the analysis should be used on an ongoing basis.

3.19 As FaCS had not, at the time of the audit fieldwork, undertaken a detailed analysis of the financial reports provided by States, the ANAO undertook an indicative analysis of the financial returns provided to FaCS by the States. The aim of this analysis was to highlight the type of information that can be obtained from the State financial returns and to demonstrate that a strong financial analysis, coupled with accurate and reliable performance indicators, can provide important performance management information to support sound strategic planning and effective decision making for the CSHA.

3.20 In order to undertake its analysis the ANAO took account of the differences in reporting by the States and devised a data set that allowed a valid assessment to be made. However, the ANAO did not assess the reasonableness and accuracy of the information provided in the State reports as this was outside the ANAO's mandate.

3.21 The information on which the ANAO's analysis is based is set out in tables 3.1 and 3.2. For the purpose of its analysis, the ANAO focussed on the property management and tenancy management segments of the State financial returns and also on the consolidated results, for total housing operations. The ANAO analysis relates to the operating

⁷⁵ A detailed discussion of the benefits of having an integrated performance management framework, comprising both financial and non-financial performance information, is provided in ANAO Report No. 2 1999–2000, *Use of Financial Information in Management Reports*.

⁷⁶ FaCS advised that it has done extensive modelling of financial returns for the first two years of the 1996 CSHA in comparing and investigating the performance and ongoing viability of each jurisdiction. In addition, a consultancy was commissioned by FaCS in 1998 to assess State Housing Authority financial performance and more recently a consultancy was engaged to investigate the existing financial reporting framework.

performance and financial position of SHAs, at the national level, for the 1996–97 and 1997–98 financial years.⁷⁷

3.22 Table 3.1 treats Commonwealth and State grants and payments as revenue to the SHAs. The net operating surplus/benefit provides an indication of the amount of funding that may be available to the States to fund, among other things, capital works programs and the repayment of loans. Even though the overall surplus was reduced between 1996–97 and 1997–98, the operating performance of the SHAs at the national level is sound, based on continued Commonwealth funding. If depreciation is added back in for capital replacement, the overall surplus available to SHAs exceeded \$1 billion for both 1996–97 and 1997–98.

3.23 The operating performance of individual States will, however, vary based on their individual circumstances. For example, the net operating surplus of States for their ‘total housing operations’ for 1997–98 ranged from a net loss of \$62 million to a net surplus of \$268 million. Such differences can have a significant impact on the long-term viability of individual SHAs.

3.24 It is essential to understand the underlying reasons for individual differences between States and their impact on housing assistance operations. For example, it is apparent that depreciation policies can have a significant bearing on the operating performance of individual SHAs. These reasons should be taken into account in any financial analysis and as background to inform policy development and funding arrangements in the future.

⁷⁷ The ANAOs analysis is aggregated and focussed at the national level. Information has been derived from the individual returns submitted by SHAs. Analysis at the State level can provide information about the financial circumstances of individual SHAs, such as income streams and debt levels, and allow comparisons between their operations and financial positions. This information, when coupled with other State indicators, could, therefore, provide an important input to decision-making.

TABLE 3.1
Operating performance of SHAs

| | <i>Public Housing (a)</i> | | | <i>Total Housing Operations</i> | | |
|--------------------------------------|---------------------------|------------------|---------------|---------------------------------|------------------|---------------|
| | <i>1996–97</i> | <i>1997–98</i> | <i>%</i> | <i>1996–97</i> | <i>1997–98</i> | <i>%</i> |
| | <i>(\$'000)</i> | <i>(\$'000)</i> | <i>change</i> | <i>(\$'000)</i> | <i>(\$'000)</i> | <i>change</i> |
| Revenue | | | | | | |
| <u>Fund available to the states</u> | | | | | | |
| Federal-grant under CSHA | 835 548 | 652 471 | -21.9% | 926 029 | 824 348 | -11.0% |
| State-matching grants (b) | 206 727 | 266 038 | 28.7% | 427 381 | 381 999 | -10.6% |
| State-other new capital | 3421 | 3908 | 13.9% | 87 431 | 92 708 | 6.0% |
| Sale of assets | 285 189 | 363 766 | 27.6% | 406 274 | 554 408 | 36.5% |
| Unspecified/Other | 8262 | | | 8262 | | |
| Sub-total | 1 339 157 | 1 286 183 | -4.0% | 1 855 377 | 1 853 463 | -0.1% |
| <u>Income from rental operations</u> | | | | | | |
| Rent income received | 1 186 849 | 1 181 601 | -0.4% | 1 187 191 | 1 182 624 | -0.4% |
| Interest income | 121 192 | 113 186 | -6.6% | 406 100 | 257 477 | -36.6% |
| Recoveries | 234 | – | -100.0% | 234 | | -100.0% |
| Sundries | 12 192 | 49 947 | 309.7% | 49 053 | 82 980 | 69.2% |
| Sub-total | 1 320 467 | 1 344 734 | 1.8% | 1 642 578 | 1 523 081 | -7.3% |
| Total revenue | 2 659 624 | 2 630 917 | -1.1% | 3 497 955 | 3 376 544 | -3.5% |
| Expenditure | | | | | | |
| Management | 328 688 | 370 963 | 12.9% | 403 575 | 452 221 | 12.1% |
| Repairs and maintenance | 337 067 | 376 912 | 11.8% | 347 915 | 387 007 | 11.2% |
| Rates and charges | 330 621 | 332 874 | 0.7% | 339 453 | 344 368 | 1.4% |
| Depreciation | 328 737 | 410 718 | 24.9% | 348 903 | 432 041 | 23.8% |
| Bad and doubtful debts | 9928 | 25 062 | 152.4% | 36 975 | 32 028 | -13.4% |
| Grants and subsidies | 62 218 | 56 177 | -9.7% | 172 224 | 219 771 | 27.6% |
| Cost of disposals | 109 769 | 190 037 | 73.1% | 111 316 | 190 037 | 70.7% |
| Services | 42 666 | 39 159 | -8.2% | 43 681 | 39 916 | -8.6% |
| Interest expenses | 248 333 | 305 867 | 23.2% | 490 224 | 444 147 | -9.4% |
| Other | 186 258 | 118 572 | -36.3% | 264 855 | 165 484 | -37.5% |
| Total expenditure | 1 984 265 | 2 226 341 | 12.2% | 2 559 121 | 2 707 020 | 5.8% |
| Net operating surplus/benefit | 675 359 | 404 576 | -40.1% | 938 834 | 669 524 | -28.7% |

Source: ANAO data set derived from State financial reports, State returns against strategic plans and internal FaCS data.

Notes:

- (a) It is assumed for the purpose of this analysis that the property and tenancy management functions broadly represent the provision of public rental housing by the SHAs.
- (b) Figures for 'Total Housing Operations' represent the minimum level of matching required of the States under the CSHA.

Table 3.2
Financial position of SHAs (a)

| | <i>Public Housing</i> | | | <i>Total Housing Operations</i> | | |
|--------------------------------|-----------------------|-------------------|---------------|---------------------------------|-------------------|---------------|
| | <i>1996–97</i> | <i>1997–98</i> | <i>%</i> | <i>1996–97</i> | <i>1997–98</i> | <i>%</i> |
| | <i>(\$'000)</i> | <i>(\$'000)</i> | <i>change</i> | <i>(\$'000)</i> | <i>(\$'000)</i> | <i>change</i> |
| Current assets | | | | | | |
| Cash and short-term deposits | 200 209 | 298 962 | 49.3% | 1 127 990 | 896 886 | -20.5% |
| Receivable | 132 262 | 97 057 | -26.6% | 405 827 | 321 394 | -20.8% |
| Investments | 53 | 18 | -66.0% | 165 477 | 165 665 | 0.1% |
| Non-current assets | | | | | | |
| Investments | 14 666 | 10 174 | -30.6% | 2 847 937 | 3 015 224 | 5.9% |
| Receivable | 28 526 | 20 102 | -29.5% | 1 485 532 | 1 256 216 | -15.4% |
| Property, plant and equipment | 31 273 957 | 31 347 188 | 0.2% | 33 462 534 | 33 651 773 | 0.6% |
| Total assets | 31 788 226 | 31 902 156 | 0.4% | 39 743 453 | 39 574 700 | -0.4% |
| Current liabilities | | | | | | |
| Short-term borrowings | 90 918 | 73 926 | -18.7% | 902 512 | 1 252 267 | 38.8% |
| Non-current liabilities | | | | | | |
| Long-term borrowings | 5 143 072 | 3 874 754 | -24.7% | 9 149 952 | 6 996 332 | -23.5% |
| Total liabilities | 5 625 381 | 4 374 438 | -22.2% | 10 644 234 | 8 905 503 | -16.3% |
| Net assets | 26 162 845 | 27 527 718 | 5.2% | 29 099 221 | 30 680 893 | 5.4% |
| Equity | | | | | | |
| Reserves | 15 179 951 | 15 111 406 | -0.5% | 15 852 450 | 15 607 554 | -1.5% |
| Accumulated surpluses/losses | 11 084 840 | 12 617 693 | 13.8% | 13 246 770 | 15 066 340 | 13.7% |
| Total equity (b) | 26 264 791 | 27 729 099 | 5.6% | 29 099 220 | 30 673 894 | 5.4% |

Source: ANAO data set derived from State financial reports.

Notes:

- (a) Figures will not add as all categories are not shown.
 (b) Total equity figures do not balance with net assets due to differences in State financial reports.

3.25 Table 3.2 shows that the CSHA has assisted in building a substantial asset base (over \$39 billion), which the SHAs are responsible for managing. SHAs also have substantial loans to service (approximately \$8.9 billion in 1997–98).

3.26 An analysis of the information presented in Table 3.2 reveals that the average debt to equity ratio for total housing operations fell from 37 per cent in 1996–97 to 29 per cent in 1997–98⁷⁸ (down from 21 per cent

⁷⁸ The main reason for this drop can be attributed to one State, where the level of long term borrowings shown in the balance sheet fell by over \$1 billion. Further analysis would be required to follow-up on this issue.

to 16 per cent for public housing in the corresponding period).⁷⁹ The level of debt, however, varies between State jurisdictions. For example, in 1997–98 the level of debt for each State ranged from 11 per cent to 92 per cent of equity. The level of debt can have a significant impact on the operations of an SHA and on the long-term funding requirements of a particular SHA. This is another matter FaCS should take into account in their financial analysis and as background to inform policy development and funding arrangements in the future.

3.27 Analysis of this kind demonstrates the potential benefits of a standard reporting framework. In particular, information derived from State financial returns that are based on a common framework allow meaningful comparisons of the operations and financial positions of SHAs; allow benchmarking and a better understanding of contestability; provide the potential to identify the full costs of housing provision under the CSHSA; and significantly improve the accountability and transparency of CSHA funding. As a minimum a strong financial analysis could highlight areas of financial strength and weakness which can be used as background to policy development, strategic planning and funding decisions in the future.

3.28 Consistent with the views of stakeholders regarding the difficulties associated with the level of disaggregation of the accounts, the ANAO found that the consolidated results⁸⁰ provided more reliable information to compare the operating performance and financial position of SHAs than the segmented data. FaCS advised that, due to the problems associated with segmentation of the financial reports, it was seeking to review the financial reporting framework with the aim of simplifying reporting requirements for the States. Any changes to the reporting framework would need to ensure that the Commonwealth's financial responsibilities under the CSHA were not compromised and that it could determine whether CSHA funding was being used efficiently and effectively to achieve desired outcomes.

3.29 Any results derived from a financial analysis should not, however, be considered in isolation. The potential for real benefits arises where the financial information is viewed holistically within the context of other housing indicators, such as the performance indicators for the CSHA (discussed in Chapter 2), measures of housing need (discussed in Chapter 4) and broader housing statistics. Understanding the interrelationships

⁷⁹ By way of comparison, the debt to equity ratio reported by the DHA in its 1998 Annual Report was 24 per cent in 1996–97 and 13 per cent in 1997–98.

⁸⁰ These are the results shown as 'total housing operations' in the tables 3.1 and 3.2.

between different measures of performance will provide the Commonwealth with a more comprehensive view of the efficiency and effectiveness of the delivery of housing assistance under the CSHA.

Auditing of the financial reports

3.30 During its analysis of the financial reports, the ANAO noted that the issue of who should audit the financial reports is not specified in the CSHA. The 1996 CSHA only stipulated that the reports should be audited.⁸¹ During the audit, the ANAO advised FaCS that the CSHA should expressly identify that an independent auditor should audit the reports. This would provide assurance to the Commonwealth on the robustness of the auditing process and may also help to overcome some of the anomalies that were detected by the ANAO during its analysis. The ANAO noted that the 1999 CSHA requires States to provide financial reports to the Commonwealth that have been independently audited.

State Reports against Strategic Plans

3.31 In addition to the nationally consistent reporting framework, States are required to report progress against benchmarks and targets set in strategic plans. Again a standard format for reporting has been developed in order to achieve greater consistency between States in the information provided and to ensure reasons are provided for any significant variations between targets and outcomes.

3.32 Under the agreed format, where there are variations (more than five per cent) from the targets set in State strategic plans, reasons are required to be documented. The ANAO found that these reports contain some useful information that, if analysed, can complement the information provided by the States in their financial returns.

ANAO conclusion

3.33 From its analysis of financial reports submitted by the States to FaCS, the ANAO found that the management benefits of having a nationally consistent financial reporting framework are worth pursuing. Information based on consistent accounting policies and practices makes funding and financial practices more transparent and can permit the operations of SHAs to be meaningfully compared. For example, such information can be used to assess the operating performance and financial position of SHAs and would allow benchmarking between SHAs.

⁸¹ Clause 5(31)(a).

3.34 However, there were problems with the quality and timeliness of the financial reports provided by SHAs under the national framework that was in place for the 1996 CSHA. These problems were primarily due to the level of disaggregation of the accounts into reporting segments, which did not always reflect the SHAs own reporting structures. As a result, the usefulness of this financial information for comparative analysis of SHA performance and for benchmarking was diminished.

3.35 FaCS advised that it was seeking to review the national reporting framework with the aim of simplifying reporting requirements for the States without compromising the Commonwealth's financial responsibilities under the CSHA. As financial reporting was a new initiative introduced under the 1996 CSHA, such a review is timely. If this review addresses the issues identified in this report regarding financial reporting and appropriate changes are implemented to the national framework, more meaningful financial information will be available to FaCS on whether CSHA funds are being used efficiently and effectively by SHAs.

Recommendation No.2

3.36 The ANAO recommends that, to provide the requisite assurance to management, the Government and the Parliament on the use of CSHA funds, FaCS ensure that processes to improve the consistency and comparability of financial information provided in State financial returns are developed, and implemented, before SHAs are required to provide the first financial returns under the 1999 CSHA.

FaCS' response:

3.37 Agree.

Cash management

3.38 The Easson Task Force found that, for good cash management, the level of transparency of SPP payments to States needs to be improved.⁸² The Task Force recommended that States should be accountable for Commonwealth monies received in the form of SPP funding throughout the year and be required to report to the Commonwealth all receipts, expenditure and unspent balances of SPP moneys throughout the year and as at year end. The importance of good

⁸² Department of Finance task Force on Payments to Statutory Authorities and Specific Purpose payments to the States (1996) *Report on Cash Management Issues Concerning Commonwealth Payments to Statutory Authorities and Specific Purpose Payments to the States* ('the Easson Report'); p.41.

cash management has also been recently endorsed in JCPAA Report 362. The ANAO, therefore, examined cash management practices implemented by FaCS for the CSHA to determine whether they are consistent with better practice in cash management.

Management of payments to States

3.39 CSHA payments to the States are made under the *Housing Assistance Act 1996*. The 1996 CSHA specified that the Commonwealth would provide funds to the States on a pro-rata basis, monthly in advance, provided that the relevant State strategic plans for housing assistance had been agreed by Ministers.⁸³

3.40 The ANAO reviewed FaCS's procedural guidelines and systems supporting State payment arrangements. These cover the calculation and processing of payments, and informing the SHAs. Calculations are by means of a series of spreadsheets for each program. These spreadsheets:

- generate a schedule of the monthly pro rata CSHA payments, including payment approval by program for the current financial year;
- produce payment approval forms for the relevant month (signed by process officer and counter signed by a senior officer), which are then used to process payments through after release by the delegated officer; and
- produce a monthly payment advice which advises the SHAs of the amount of funds being transferred.

3.41 These spreadsheets with associated controls, ensure that payments are only authorised once the strategic housing assistance plan for a particular State has been approved. If the strategic plan has not been approved, then no payment will be made.⁸⁴ Once the plan has been agreed, a lump sum back payment is made. The ANAO also found that the spreadsheets have adequate controls, such as protected calculation cells, to ensure that payments to the States and reconciliations are accurate.

3.42 The ANAO considers that the procedural guidelines and systems for the management of payments provide an appropriate level of detailed guidance for staff to ensure that payments are approved at the appropriate level, are timely and accurate. Discussions with State representatives during the audit also indicated that the administration of payments is effectively managed by FaCS.

⁸³ Clauses 5(28) and 5(29).

⁸⁴ In the case of the Aboriginal Rental Housing Program, calculations are dependent on whether the tied program strategic plan has been approved.

Forecasting of payments

3.43 To manage the Commonwealth's cash balances, the Treasury must know when expenditure is likely to occur. To facilitate Treasury's management of borrowings, departments and agencies are required to provide long-term SPP forecasts to Treasury at the start of each financial year, indicating the timing and size of payments. As well, departments are expected to maintain less formal contact with Treasury to identify any variations to these long-term forecasts.

3.44 Estimates of the timing and size of housing assistance payments are made to the Treasury on an annual basis. The evidence noted by the ANAO indicates that these are timely and accurate, and that appropriate liaison is maintained for the purposes of short-term forecasting. The ANAO, therefore, concluded that FaCS' payment forecasting against this framework is effective.

Managing cash flows

3.45 Effective cash management is based on the principle of balancing the cash flow needs of efficient and effective program delivery with the need to minimise borrowing costs to the Commonwealth of meeting those cashflows.⁸⁵ To achieve this, payments made in advance must be made in sufficient time to meet program needs, but not significantly in advance of the essential cashflow requirements.⁸⁶

3.46 As required under the 1996 CSHA, payments were made to the States monthly in-advance. However, these monthly payments were made on a pro-rata basis, rather than on the basis of State program requirements.⁸⁷ As States were not required to provide monthly cash expenditure forecasts to the Commonwealth, FaCS had no way of understanding State spending patterns,⁸⁸ including whether State matching occurred throughout the year or whether States were accumulating surplus cash at a cost to the Commonwealth.⁸⁹ States were however, required to acquit the total level of Commonwealth and State matching funding received and spent by the State at the end of the financial year.

⁸⁵ Department of Finance (1997) *Estimates Memorandum 1997/47—Cash Management of Payments to Statutory Authorities and to the States via Specific Purpose Payments*, p.1.

⁸⁶ Cash management in relation to SPPs is dealt with more fully in ANAO Report No.31 of 1998–99, *The Management of Performance Information for Specific Purpose Payments—The State of Play*.

⁸⁷ Clause 5(28).

⁸⁸ States were required to provide cash expenditure forecasts under the 1989 CSHA. However, feedback received during the audit indicated that this was a difficult process to manage and the value-add was minimal.

⁸⁹ Funding provided in advance of need allows the States to earn interest and as a result the Commonwealth foregoes interest income due to the impact on its daily cash balances.

3.47 Where SPP funding is paid in-advance, as it was under the 1996 CSHA, the ANAO recognises that there will be times when the States possess unspent funds. The challenge for FaCS is to minimise the level of these unspent funds. The JCPAA has recently reinforced the view that SPP funds should not be released earlier than necessary to meet the immediate funding needs of States.⁹⁰

3.48 During the audit, the ANAO suggested that, as an alternative to monthly pro-rata payments in advance, FaCS could examine alternative payment options, such as increasing the frequency of Commonwealth payments, during its discussion with the States in relation to the next CSHA (for example, moving from monthly payments to fortnightly payments).⁹¹ The administrative effort of moving to more frequent payments would be insignificant due to, among other things, improvements in electronic commerce.⁹² The ANAO has noted that the 1999 CSHA prescribes that Commonwealth financial assistance as well as State contributions are to be made fortnightly in advance.

ANAO conclusion

3.49 Cash management practices implemented by FaCS comply with the requirements of the CSHA. In particular, there are appropriate mechanisms to ensure that payments to the States are accurate and timely. However, FaCS should review the appropriateness of the funding approach stipulated in the Agreement. The ANAO noted that the 1999 CSHA prescribes that Commonwealth payments are to be made fortnightly in advance.

⁹⁰ Report 362; p.42.

⁹¹ This suggestion was consistent with findings presented in ANAO Report No.31 of 1998–99, *The Management of Performance Information for Specific Purpose Payments—The State of Play*. In the case of the CSHA, Report No.31 suggested that moving from monthly to fortnightly payments could potentially save the Commonwealth nearly \$1 million.

⁹² For a detailed discussion of increasing the frequency of payments refer to ANAO Report No.31 of 1998–99, *The Management of Performance Information for Specific Purpose Payments—The State of Play*.

4. Determining Priorities

This chapter outlines the ANAO's assessment of activities aimed at ensuring that housing assistance is provided in line with housing need. The audit found that the bilateral planning arrangements were adequate to ensure that State priorities were consistent with national objectives. However, needs identification processes could be refined to support targeting of housing assistance to areas of highest need.

Introduction

4.1 The introduction of the 1996 CSHA signalled a significant shift in policy underpinning the provision of housing assistance. A major focus of the reforms introduced in the 1996 CSHA was the targeting of public housing to those most in need, such as people receiving social security benefits and people experiencing difficulty in the private rental market.

4.2 The basis of the new approach advocated by the 1996 CSHA was a joint planning process that required each State and the Commonwealth to agree on the most appropriate forms of housing assistance for each jurisdiction and articulate these in a strategic plan. These plans should outline State needs, the broad strategic directions for housing service delivery and program and policy development to meet those needs and be clearly linked to national priorities and objectives.⁹³

Audit criteria

4.3 To form an opinion on the effectiveness of planning arrangements, the ANAO examined the following elements which are necessary for determining priorities:

- the role of housing needs identification in determining program objectives and measuring the achievement of outcomes; and
- the bilateral Commonwealth/State strategic planning process

⁹³ As a minimum, State housing plans were required to contain information on:

- assessed need for various forms of housing assistance in the State and agreed priorities within the assessed need;
- available funds for the period of the Strategic Plan, being Commonwealth and State funding contributions and any net income earned from the use of assets, including net proceeds of any asset sales and other asset realisations; and
- agreed targets and strategies for the use of assets and available funds in relation to the objectives and stated outcomes of the CSHA.

4.4 Housing research is another important tool which can inform the planning process and provide program managers with an understanding of, among other things, housing needs. However, as housing research is also an important input to help develop an understanding of delivery issues and policy options affecting decision making for the development of future Agreements, it is discussed in detail in the next chapter.

Needs identification

4.5 The Department of Finance and Administration (DoFA) describes community needs identification as the primary input in determining program priorities and shaping both objectives and outcomes.⁹⁴ In order to get uniform understanding of what outcomes are required by program objectives there should be consensus by stakeholders of what need the Government intends to be addressed and how to assess that need. Such needs information would also be necessary to determine the effectiveness of government assistance policies and for identifying areas for priority attention. The ANAO, therefore, examined whether there was a robust needs identification framework that underpins the development of CSHA objectives and the assessment of achievements against objectives.

4.6 In its 1997 *Report on Housing Assistance*, the Senate Community Affairs Reference Committee (SCARC) concluded that one of the reasons why it has proved difficult in the past to agree on outcomes and objectives for housing assistance is because the different levels of government involved in policy development '*have yet to reach agreement on what constitutes housing need, let alone how best to meet that need*'.⁹⁵

4.7 Estimates of the level of need for assistance are fundamental to decisions on the magnitude and structure of housing assistance programs. Initially, at the Commonwealth level, estimates of the level of need for assistance can assist to inform decisions on the level and nature of Commonwealth housing assistance. This includes decisions on priorities for resource allocation as well as the type of program response, including the balance of supply and demand side responses which are appropriate.

4.8 Estimates of the level of need can also be used within the CSHA for planning and performance measurement. For example, estimates can inform the establishment of performance benchmarks and targets which can then be used for planning and evaluation purposes.

⁹⁴ DoF (1994) *Doing Evaluation: A Practical Guide* (AGPS, Canberra); pp. 7–8

⁹⁵ SCARC, pp. 10–11

4.9 The outcome focus of the 1996 CSHA placed an imperative on the clear identification of quantitative targets for the program. These must operate in a range of capacities so as provide:

- an overall perspective on the role and magnitude of the task that the program seeks to address; and
- guidance on the extent to which existing programs have addressed these goals and subsequently in the establishment of further priorities.

4.10 Considerable work was, therefore, undertaken by housing officials on the development of an estimate of housing needs leading up to the implementation of the 1996 CSHA. The ANAO found that a conceptual approach to measure national housing need and guide resource allocation and supply target planning was agreed to, in principle, by Housing Ministers in February 1995.⁹⁶ Leading up to the implementation of the 1996 CSHA, the Commonwealth had derived a level of need at the macro level, under a nationally consistent model based on this conceptual approach.⁹⁷ Work on this model not only clarified the conceptual basis of a measure of housing need but also highlighted some of the problems associated with developing a housing needs measure. These problems included value judgements as to what appropriate housing is for a particular household and how to take account of changes in, among other things, demography and income distribution.

4.11 Complementing this conceptual model, the ANAO also found that States undertake their own housing need analysis to inform strategic planning for both mainstream and targeted housing assistance under the CSHA. The approach adopted by the States is to use a range of indicators of housing stress and housing need to set broad targets for housing assistance relevant to their particular jurisdictions and, therefore, assist planning and resource allocation decisions.⁹⁸ This analysis is intended to ensure that local priorities are identified and responded to. Estimates

⁹⁶ The underlying concept of the model was to test the capacity of households to purchase adequate and appropriate housing and hence identify the number of households who lack such a capacity and may require a supply side response.

⁹⁷ The model was sensitive to particular inputs and assumptions, such as rent levels, which needed to be taken into account when interpreting results. It was intended that future tasks would include a detailed analysis of the model's results and identifying the relationship between housing need and possible supply side responses.

⁹⁸ These measures are used to complement a national CSHA needs model which considers whether or not a household has the capacity to rent a house appropriate to their need. States tend to use this national model to provide an indication of the number of households in housing need. It is based on the number of households spending in excess of 30 per cent of their income on housing costs in order to access adequate and appropriate housing. However, it does not take into account supply side issues and does not provide information regarding the needs of people who have special requirements, such as the homeless and people with disabilities.

derived from this analysis are then used by SHAs to set appropriate public housing supply and funding targets so that those households that are likely to require public housing in a particular region can be catered for. The analysis, therefore, assists States to establish appropriate eligibility criteria and determine priority areas of need in their jurisdictions.

4.12 The State data on housing needs is supplemented by FaCS administrative data on rent assistance recipients. This data provides additional information about potential demand for housing services in each jurisdiction and is increasingly being used by States to identify and assess trends and develop appropriate responses in their planning to those trends.

4.13 To date, there has been a considerable amount of research undertaken on the nature and extent of housing needs in Australia⁹⁹, at both the Commonwealth and State levels, and overseas¹⁰⁰. FaCS also undertakes a range of work to improve its understanding of housing need. This includes the critical examination of Australian and international practices in assessing and valuing housing need and detailed analysis of the data that is available on departmental databases and other information sources such as the Australian Housing Survey which is used for, among other things, identifying trends in need.¹⁰¹ This is supplemented by survey work to identify the situation of particular groups.

4.14 The research highlights that definitions of housing need are unclear.¹⁰² Determining the population in housing need is a complex task and there are a range of measures which could be used to identify and quantify the level of housing need. Indicators of housing need include expressed demand, levels of homelessness, levels of overcrowding and

⁹⁹ The NHS undertook an extensive analysis of housing needs, as part of its examination into ways of maximising the availability of affordable and quality housing. The Industry Commission also attempted to develop a consistent approach to measuring the macro level of housing need. Finally, the AIHW attempted to develop a comprehensive model of housing need which was reported in its biennial report *Australia's Welfare 1995: Services and Assistance*.

¹⁰⁰ Uniform measures of housing need have been used for a number of years in the United Kingdom (for example, the Housing Needs Index and the Generalised Needs Index use a number of separate, readily quantifiable housing problems which are weighted and combined to produce a relative measure of need; EPIC 1994, p.18.), while Canada uses a concept of core housing need.

¹⁰¹ The last Housing Survey was conducted by the ABS in 1994. This survey provides data on private and public rental tenures such as housing conditions costs and amenities; consumer satisfaction measures; and access to services.

¹⁰² Defining a level at which need begins or becomes acute is inherently subjective. Furthermore, the amounts paid for housing can conceal trade-offs (such as lower travel costs) and preference. Through its research, the Department, continues to develop its understanding and analysis of housing need, including considering special needs groups and deriving comprehensive measures of need for possible use in deriving supply targets.

affordability benchmarks. Importantly, no one measure can be considered as 'the definitive measure' of housing need, as each has its limitations.

4.15 In addition, identification of housing need can only be taken as an indicator of a possible need for intervention. The derivation of appropriate program targets also requires consideration of a range of factors which are not amenable to simple quantitative analysis such as the relative appropriateness of supply and demand responses to particular types of need

4.16 Effective needs analysis would also need to encompass tenure types other than just the rental tenure. Separate analyses would, therefore, be required for other tenures and programs such as home ownership and the CAP.

4.17 Estimates on the level of need can also be significantly affected by the databases chosen (including the timing of the data). As a minimum, data underpinning a needs identification model should be comparable across all States, be timely and be able to be disaggregated in terms of regions and characteristics of target groups. The model developed leading up to the implementation of the 1996 CSHA used Census data. Due to recognised problems with census data (such as a lack of timeliness and incomplete records) other data sources such as microsimulation and synthetic data models,¹⁰³ and ABS surveys¹⁰⁴ have been, and continue to be, explored by FaCS to assist in assessing housing needs.

4.18 The ability to identify and understand housing need is an important element of a performance based CSHA. It can support targeting of housing assistance and the assessment of the effectiveness of State strategies. However, deriving an estimate of housing need is only the first step in the development of targets. Multilateral and bilateral consideration would need to be given to the level of supply side response to the need identified and strategies for meeting negotiated/agreed targets.

ANAO conclusion

4.19 Significant work has been undertaken, at the Commonwealth and State level, in examining housing needs concepts and data. This has improved understanding of housing needs and other factors associated

¹⁰³ These data sources include the NATSEM STINMOD database which takes a base population (generally using data from a survey or census) and 'ages' it to reflect changes in demography, income and other factors thereby overcoming issues of timeliness and incomplete data.

¹⁰⁴ These include the Australian Housing Survey, the Income Distribution Survey and the Housing Expenditure Survey

with needs and needs measurement, such as the linkage to targets and the management of housing programs by States over time. This has improved the ability of the Commonwealth and the States to prioritise housing needs and better target housing assistance to people most in need.

4.20 Notwithstanding this work, needs models remain highly sensitive to particular inputs and assumptions. Account of these, including cyclical and other factors, as well as specific databases used, must be taken in interpreting results and determining appropriate targets.

Recommendation No.3

4.21 The ANAO recommends that FaCS, in partnership with the States, refine needs identification methodologies to support further targeting of housing assistance to those most in need and enable the relative effectiveness of different housing strategies to be measured and/or assessed.

FaCS response:

4.22 *Agree*

Bilateral strategic planning process

4.23 An effective strategic planning process is the foundation of any performance management framework. Performance monitoring and evaluation is difficult without reference to clearly articulated objectives which communicate what is to be achieved and measured or assessed.

4.24 The 1996 CSHA advocated a joint planning process and required each State and the Commonwealth to agree on a three year strategic plan for the delivery of housing assistance under the Agreement. These planning arrangements aimed to provide assurance to the Commonwealth that both the direction of housing assistance accorded with national priorities and objectives and the investment in housing assistance over many decades was being used as effectively as possible. The bilateral strategic planning process was one of the most important features of the 1996 CSHA.¹⁰⁵

¹⁰⁵ In effect, the strategic planning process involves four steps. These are:

- development of Commonwealth strategic priorities;
- bilateral negotiation of strategic priorities;
- development of State strategic plans; and
- agreement to strategic plan.

4.25 The State strategic plans linked to and built on the 1996 CSHA. They outlined the broad strategic directions for program and policy development and housing service delivery and were to be clearly linked to national priorities and objectives.¹⁰⁶ These plans were, therefore, a key component of the accountability framework for the 1996 CSHA.¹⁰⁷

4.26 To form an opinion on the effectiveness of the strategic planning process, the ANAO examined FaCS' procedures for reviewing and clearing strategic housing assistance plans for Ministerial approval.¹⁰⁸ As part of this examination, the ANAO reviewed a sample of strategic plans to ensure they conformed to the requirements of the 1996 CSHA and addressed Commonwealth priorities. The scope of the audit did not include an assessment of the content or likely effectiveness of the strategic plans because the development of these aspects is a responsibility for the States.

4.27 The ANAO found that FaCS has implemented appropriate quality assurance processes to review and clear bilateral strategic plans. For example, FaCS has implemented a case management system where staff are assigned responsibility to individual States to provide assistance in the development and initial approval of State strategic plans. The sample of strategic plans reviewed by the ANAO did not identify any inconsistencies with the requirements of the CSHA. Commonwealth priorities and goals were also addressed in these plans.¹⁰⁹

4.28 In addition, the ANAO found that the strategic plans developed by States under the 1996 CSHA demonstrated a move towards a more performance driven regime, consistent with the outcome focus of the 1996 CSHA, with States providing details of forward plans, objectives and performance targets in their plans. These targets were agreed

¹⁰⁶ As a minimum, State housing plans are required to contain information on:

- assessed need for various forms of housing assistance in the State and agreed priorities within the assessed need;
- available funds for the period of the Strategic Plan, being Commonwealth and State funding contributions and any net income earned from the use of assets, including net proceeds of any asset sales and other asset realisations; and
- agreed targets and strategies for the use of assets and available funds in relation to the objectives and stated outcomes of the CSHA.

¹⁰⁷ Strategic plans enable the Commonwealth to monitor outcomes and agree on strategic directions to ensure that identified housing needs are catered for and that the investment in public housing is being used as efficiently and effectively as possible.

¹⁰⁸ Sub-clause 5(6) of the 1996 CSHA requires strategic plans to be agreed between the Minister and each State Minister.

¹⁰⁹ Commonwealth goals were articulated in a letter to the States prior to the development of strategic plans.

between the parties to the CSHA. This demonstrated the level of consensus that had been achieved between the Commonwealth and the States on the requirements for bilateral strategic plans to be performance based and focussed on the achievement of outcomes.

4.29 However, FaCS advised that State strategies included in bilateral strategic plans were often not well justified. This meant that FaCS had no clear basis for assessing State strategies and the effectiveness of State targeting in these cases. For example, it was difficult for FaCS to make an objective evaluation of whether upgrade tasks undertaken by SHAs were determined on a priority basis or whether such expenditure was in fact the most appropriate use of funding to meet housing needs.

4.30 Assessing the effectiveness of State strategies requires a detailed understanding of the operations of individual SHAs. As a minimum, this will require an appreciation of the interrelationships between the various measures of performance and the funding priorities of individual SHAs. For example, the prevailing market conditions of the particular jurisdiction can have a significant impact on desired results and their achievement.

4.31 Improvements to the quality and reliability of performance indicators and to the adequacy of benchmarks and targets (discussed in Chapter 2), a strong financial analysis by FaCS (discussed in Chapter 3) and more robust needs identification methodologies (discussed earlier in this chapter) will assist FaCS to address this issue in the 1999 CSHA.

Proposed planning arrangements under the 1999 Agreement

4.32 FaCS informed the ANAO that, as part of the negotiation of the 1999 CSHA, the strategic planning arrangements are being reviewed. In addition to the multilateral component, there will be bilateral agreements with the States.¹¹⁰ The bilateral agreements will identify national, State and regional priorities, and the linkages between these, for the term of the agreement, subject to an annual review process. This bilateral approach has the potential to preserve national consistency in housing outcomes and enhance FaCS's monitoring of the performance of the CSHA while providing flexibility in State delivery to reflect the particular circumstances and business needs of each jurisdiction. Bilateral agreements will recognise State differences and allow States to manage their housing assistance programs accordingly.

¹¹⁰ Bilateral agreements are a key element of the 1999 CSHA, for which the form of agreement was gazetted on 1 July 1999.

ANAO conclusion

4.33 The ANAO concluded that the strategic planning process for the 1996 CSHA was effective with the State plans addressing Commonwealth priorities and conforming to the requirements prescribed in the Agreement. Furthermore, the ANAO considers that due to the quality control mechanisms, which were implemented by FaCS to review and clear strategic plans, the Commonwealth had not been exposed to any unnecessary risks from the introduction of streamlined administrative arrangements for program elements of the CSHA.¹¹¹

4.34 However, State strategies in bilateral strategic plans were not well articulated thus inhibiting the assessment of the effectiveness of these strategies. Improvements in this area are necessary to ensure that FaCS can better integrate information provided through the CSHA performance indicators, analysis of State financial returns and measures on the nature and extent of housing need in the community.

4.35 State housing assistance strategies will be articulated in bilateral agreements under the 1999 CSHA. This is one means that should assist FaCS to ensure that they have a clearer basis for assessing State strategies and their effectiveness.

¹¹¹ Streamlined administrative arrangements were introduced for CAP under the 1996 CSHA removing the requirement for joint approval by Commonwealth and State Housing Ministers of a CAP strategic plan and of individual project level funding packages. Controls implemented by FaCS are adequate to ensure that assistance provided through CAP is effective and accords with agreed objectives.

5. Refining the CSHA

This chapter discusses key planning elements that are necessary for developing a performance based CSHA. Overall, the ANAO found that the 1996 CSHA reflected an effective approach to policy development and strategic planning. However, the ANAO found that the 1996 CSHA could have been further enhanced if its development was supported by a comprehensive risk assessment. Future CSHAs would also benefit from more effective partnership arrangements between the Commonwealth and key non-government stakeholders.

Introduction

5.1 Strategic planning is an integral component of effective management and sound corporate governance. It is the means by which government policy directions are given effect. The planning process provides a central element of program accountability. It helps to define the objectives of a program and strategies to achieve them and, therefore, provides the basis for assessing performance.

5.2 In its Report No.362, *General and Specific Purpose Payments to the States*, the JCPAA observed that SPPs¹¹² provide the means for the Commonwealth to pursue its policy objectives in areas where the States are the primary service providers. The Commonwealth is, therefore, primarily responsible for developing the broad policy and objectives for SPPs. The Commonwealth should also have primary responsibility for strategic planning associated with the attainment of SPP objectives.¹¹³ In addition, the JCPAA emphasised the importance of Commonwealth consultation with other parties to SPP agreements and relevant stakeholders in regard to program objectives and strategic planning.¹¹⁴

¹¹² SPP's are paid to State governments to fund activities in relation to specific policy purposes. Most SPP's are tied grants that are subject to conditions which reflect Commonwealth policy objectives or national policy objectives agreed between the Commonwealth and the States (JCPAA, Report 362; pp. 5–7).

¹¹³ Strategic planning includes such tasks as the development of national strategic plans, the specification and maintenance of national data collection systems and the commissioning and funding of research for policy development. (JCPA Report 342 p.31).

¹¹⁴ *ibid*, pp. 19–21.

Audit criteria

5.3 The ANAO examined key planning issues to determine whether the CSHA is effective in ensuring that Commonwealth housing policies and priorities are being implemented and that housing needs are being met. In particular, the ANAO examined whether:

- the 1996 CSHA was consistent with the 'ideal' Specific Purpose Payment (SPP) Agreement as a reflection of the policy development work undertaken by FaCS;
- strategic planning is underpinned by a risk management strategy that identifies, assesses and appropriately plans for key risks associated with the provision of housing assistance;
- policy development and the delivery of housing assistance is coordinated with other Commonwealth programs;
- there is effective consultation and communication with stakeholders to promote information sharing between the different spheres of government, facilitate participation from industry and community representatives, and provide appropriate information on housing outcomes;
- housing research and whether it informs the development of the CSHA;
- the CSHA is regularly evaluated to ensure that it is achieving desired results; and
- FaCS management practices are aligned with better practice to support the development and implementation of an effective CSHA.

The 1996 CSHA as an 'Ideal SPP' agreement

5.4 In order to assess the output from policy development work undertaken by FaCS on the CSHA, the ANAO compared the coverage of issues within the 1996 CSHA¹¹⁵ with the features of the 'ideal' SPP as set out in the JCPAA Report No.362. These are outlined in Appendix 6. Notwithstanding the interim nature of the 1996 CSHA, the ANAO examined its key features against the 'ideal' SPP to form an opinion on the effectiveness of the former DSS's¹¹⁶ policy development and management of the negotiation of the 1996 CSHA. The scope of the audit did not, however, include a detailed analysis of timeliness, quality or practicality of individual items of policy advice.

¹¹⁵ The ANAO notes that the 1996 CSHA is a reflection of the policy development and advice to government by the former Department of Housing and Regional Development and DSS in 1995–96. Housing was transferred to DSS in March 1996.

¹¹⁶ New Administrative Orders transformed the DSS to FaCS from 21 October 1998.

5.5 The ANAO's analysis of the 1996 CSHA found that, as a result of significant changes from the 1989 agreement, it broadly conformed to the JCPAA principles for sound SPP administration. This enhanced the management capability of the Commonwealth and flexibility for State delivery under the Agreement and provided the potential for the achievement of housing outcomes to be measured. Two key issues, which were found to align with the JCPAA principles, that of clarity of roles and responsibilities of the Commonwealth and the States and the clarity of program objectives, are described in Appendix 6 as examples of the analysis undertaken.

The 1999 CSHA

5.6 The 1999 CSHA was gazetted on 1 July 1999¹¹⁷. The recitals to the agreement specify that it is designed to provide strategic direction and funding certainty for the provision of housing assistance across Australia over the four years from 1 July 1999.

5.7 While unable to conduct a detailed analysis of the 1999 CSHA due to time constraints, the ANAO found that the new agreement is consistent with the JCPAA principles and provides the potential to improve the effectiveness of the administration of Commonwealth funding for housing assistance provided under the CSHA. Some points of note include:

- the new agreement is focused on outcomes;
- the provision of housing assistance is to be targeted to those whose needs can not be met by the private market, for the duration of their need;
- a recognition of the need for the Commonwealth and the States to better link CSHA housing programs with other relevant Commonwealth and State programs, including those related to income support, health and community services, in order to improve housing outcomes;
- the introduction of bilateral agreements between the Commonwealth and each State to recognise the different priorities of individual jurisdictions;
- the development of a National Housing Data Agreement as a subsidiary agreement to the CSHA to guide data management issues; and
- enhanced financial accountability arrangements.

¹¹⁷ The Housing Assistance (Form of Agreement) Determination 1999 made under the *Housing Assistance Act 1996* was gazetted on 1 July 1999.

ANAO conclusion

5.8 The structure and content of the 1996 CSHA was broadly aligned with the ‘ideal’ SPP agreement endorsed by the JCPAA. The 1999 CSHA is also consistent with the JCPAA principles. The ANAO therefore, concluded that FaCS’ policy development and negotiation of the CSHA was sound and consistent with better practice.

Risk management

5.9 Risk management has been defined as:

*the systematic application of management policies, procedures and practices to the tasks of identifying, analysing, assessing, treating and monitoring risk.*¹¹⁸

5.10 The ANAO examined the extent to which formal risk management processes have been implemented by FaCS to manage the risks associated with the CSHA consistent with good practice.¹¹⁹ In particular, the ANAO sought to determine the extent to which FaCS systematically identifies and analyses risks associated with the efficient and effective use of Commonwealth funds for housing assistance and potential risks to policy options.

5.11 At the departmental level, FaCS has a systematic approach to risk management and a strategic framework, approved by its Audit Committee, for integrating risk identification with business planning processes. However, the audit found that FaCS does not yet have a systematic or formally documented approach to risk identification and analysis in relation to either the policy development or to the strategic planning process for the CSHA. Such an appraisal may have identified the potential difficulties related to the latest HAA Annual Report as a result of changes introduced in the 1996 CSHA that resulted in the report being tabled in Parliament 22 months after the end of the 1996–97 financial year.

5.12 FaCS advised that identification and analysis of risk generally takes place as part of the process of developing Ministerial or Cabinet submissions. However, this is an issues based approach rather than an ongoing, comprehensive and systematic approach to risk management that would be able to embed risk management principles in the business culture and contribute to the effectiveness of CSHA policies and programs.

¹¹⁸ Standards Australia, Australian and New Zealand Standard Risk Management AS/NZ 4360: 1995, jointly published by Standards Australia and Standards New Zealand, Homebush, 1995.

¹¹⁹ MAB/MIAC (1996), *Guidelines for Managing Risk in the Australian Public Service*, Report No. 22, AGPS, Canberra.

5.13 In discussions during the audit, FaCS acknowledged the potential value of a more systematic approach to risk management and advised that work had commenced to address the issue. Given the recent organisational changes, the ANAO considers that the subsequent need to revise business planning arrangements across FaCS provides a key opportunity to integrate risk management principles into planning processes.

5.14 To inform its own risk management process FaCS could require States to identify and analyse risks to the efficient and effective use of Commonwealth funds and outline the controls to manage these risks in State strategic plans. This will provide further assurance on the effectiveness of State delivery of housing assistance.

ANAO conclusion

5.15 The ANAO concluded that FaCSs assessment of the risks to the effective planning and implementation of the 1996 CSHA was not adequate. While FaCS identifies specific risks as part of policy advice to government, it has not undertaken a formal and systematic approach to the management of risks to the 1996 CSHA. The ANAO considers that, consistent with better practice developments in the public and private sector, governance arrangements for housing assistance could be further strengthened by a more formalised approach to risk management, including a requirement for States to include risk assessment in their strategic plans.

Recommendation No.4

5.16 The ANAO recommends that FaCS, in consultation with key stakeholders, undertake a comprehensive risk assessment as part of the policy development and strategic planning for the overall management of the CSHA and develop a management plan which addresses the key risks.

FaCS' response:

5.17 *Agree.*

Coordination across related commonwealth programs

5.18 Effective strategic planning of housing assistance requires coordination across related Commonwealth programs. Improved links with other programs will enable the CSHA to better achieve its broader social and economic objectives and promote an understanding of the broader social outcomes associated with housing assistance. The ANAO

reviewed the current linkages in the planning process to determine the extent and effectiveness of coordination with other assistance programs at the Commonwealth level.

5.19 A holistic approach to housing policy is articulated in the 1996 CSHA. Under the agreement it is the Commonwealth's responsibility to ensure that the CSHA *'is part of a coherent overall housing policy and is supported by and responsive to the Commonwealth Government's overall policies.'* The theme of improved coordination, in the delivery of housing assistance, is also reflected in Objective (e) of the CSHA.¹²⁰

5.20 Close links exist between CSHA housing assistance programs and other government programs and support services, at the Commonwealth and State level. These include:

- the Supported Accommodation Assistance Program (SAAP) which provides accommodation and services for homeless people¹²¹;
- disability and aged care services (including the Home and Community Care program);
- indigenous housing and infrastructure assistance provided by the Aboriginal and Torres Strait Islander Commission and State and Territory Governments; and
- services delivered by the States such as accommodation support and community access services.¹²²

5.21 An area where there has been considerable progress in developing effective coordination mechanisms is in indigenous housing.¹²³ Indigenous housing is delivered through FaCS (ARHP) and ATSIC (under the Community Housing and Infrastructure Program—CHIP; National Aboriginal Health Strategy—NAHS; and Health Infrastructure Priority Projects—HIPP). In the past, the delivery of housing assistance under these programs has been affected by a number of inefficiencies, including a duplication of effort at the Commonwealth level, which has inhibited the achievement of outcomes.

¹²⁰ Objective 4(3)(e)(i) states, among other things, that rental housing provided to consumers will be located to give access to necessary services, facilities and employment opportunities in accordance with life cycles and be coordinated with any support services that a household may require to live in the community.

¹²¹ The ANAO considers that the transfer of SAAP from the Department of Health and Family Services (DHFS) into FaCS will provide opportunities to further enhance these linkages and thus improve administrative efficiency.

¹²² SCRCSSP, Report on Government Services 1999; p.1080.

¹²³ Bilateral agreements are also being negotiated to assist in establishing more cooperative and efficient program arrangements between the Commonwealth and States.

5.22 To address these shortcomings the Commonwealth/State Indigenous Housing Working Group (CSIHWG) was formed. This includes representatives from both FaCS and ATSIC. This working group has helped develop more simplified and coordinated ‘whole of government’ approaches to the delivery of housing and infrastructure programs for indigenous people.

5.23 However, the ANAO noted that the degree of integration necessary to ensure the best possible outcomes has not been achieved in all circumstances. For example, the interaction between housing and employment is currently not well understood. In addition, the ANAO noted that performance indicators and measures related to coordination and integration of housing assistance with other related areas and programs have not yet been considered. The lack of detailed understanding of the practical interactions in these instances means that there is potential for policy advice to government that is not integrated across programs and does not give due recognition to its potential impact on these related programs.

5.24 To address these concerns, FaCS advised that it will focus on developing its understanding of key linkages (for example, between CSHA housing programs and homelessness); promoting an understanding of the broader social outcomes to be associated with public housing; and facilitating local targeted coordination efforts at the State level. The ANAO noted that a key focus of the bilateral agreements under the 1999 CSHA is to identify and address ‘linkages with Commonwealth and State programs outside this Agreement which impact on housing outcomes’.¹²⁴

Links with rent assistance

5.25 All stakeholders consulted during the audit raised the issue of the linkages between the CSHA and rent assistance. The major issue concerns the disparity between the levels of assistance paid to private renters under rent assistance and the rental rebate to public renters on similar incomes (horizontal inequity). For example, studies conducted in the past by the Industry Commission in its Report on Public Housing and by the Senate Community Affairs Reference Committee have indicated that the subsidy available to public renters significantly exceeds the assistance provided to private renters in receipt of rent assistance. On average, public renters receive a subsidy of nearly \$3100 per year while rent assistance recipients receive a subsidy of approximately \$1600 per year.

¹²⁴ Clause 6(1)(c)(vi).

5.26 Other issues raised during the audit include a view that both forms of assistance help similar client groups, with considerable overlap,¹²⁵ and the impact that the level of rent assistance can have on the demand for public housing.

5.27 While the scope of the audit did not include a detailed analysis of the links between the two programs, comments from stakeholders indicate that FaCS should continue to examine the relationships between the two programs in the policy development process and keep stakeholders informed of any findings arising from this examination.

ANAO conclusion

5.28 Meeting housing outcomes under the CSHA should not be seen as an end in itself. Close links currently exists between programs delivered through the CSHA and other related government programs and support services such as SAAP and indigenous housing assistance and infrastructure assistance provided by ATSIC. These links generally ensure that the development of the CSHA is not considered in isolation and the broader social outcomes associated with the delivery of housing assistance are considered during policy development and planning.

5.29 However, linkages are not well understood in all instances. This means that there continue to be questions regarding the best way of achieving synergy between housing and housing related programs in a way that impacts positively on outcomes. Focussing on key practical interactions (such as between CSHA housing programs and homelessness), promoting an understanding of the broader social outcomes to be associated with public housing and facilitating local targeted coordination efforts are measures that can assist FaCS to achieve a more holistic assistance housing program under the CSHA. This will be a key focus of the bilateral agreements under the 1999 CSHA.

Consultation and communication

5.30 The JCPAA has emphasised the importance of Commonwealth consultation and communication with other parties to SPP agreements and other relevant stakeholders in relation to program objectives and strategic planning.¹²⁶ Effective consultation and communication will ensure that the key interests of all relevant stakeholders are addressed.

¹²⁵ A 1997–98 Budget initiative stops the payment of Rent Assistance to people who are living with, and paying rent to, primary tenants of government housing but not directly to the SHAs.

¹²⁶ Report 342, p.20–21.

5.31 Housing assistance under the CSHA is in effect delivered through a partnership between the Commonwealth and the States and, to a lesser extent, the community sector.¹²⁷ This partnership approach can be instrumental in ensuring that the CSHA is developed in a responsive and relevant manner. The audit, therefore, examined the processes and procedures implemented by FaCS to facilitate effective communication and consultation with government and non-government stakeholders.

Government stakeholders

5.32 At the operational level, government stakeholders (at both Commonwealth and State level) were satisfied with FaCS' approach to consultation and communication. The ANAO noted, in particular, that FaCS has fostered a level of goodwill among the States and, in partnership with the States, has achieved significant progress on public housing reforms.

5.33 At the strategic level, the main mechanism for consultation and communication between Commonwealth and State government stakeholders is the Housing CEO's forum.¹²⁸ This forum, comprising State Housing CEOs and Senior Commonwealth officials, is usually convened to review progress and discuss future directions for housing assistance. Feedback received during the audit suggested that the forum is only convened on an ad-hoc basis to resolve major issues rather than on a consistent and on-going basis to facilitate review of program performance and continuous program development. In particular, with respect to the CEOs forum, the ANAO found that there was:

- no clear articulation of its roles and responsibilities; and
- no regular convening of the forum.

5.34 The ANAO found that the committee model adopted by the SAAP Coordination and Development Committee (CAD)¹²⁹ could provide the CEOs forum with a model that would address these issues and ensure the forum meets its governance responsibilities.

¹²⁷ For example, community housing is generally delivered by community housing organisations through purchaser-provider arrangements with the States.

¹²⁸ The CEOs forum is one of two major decision making bodies for the CSHA. The other is the Housing Ministers who determine the broad policies and objectives for housing assistance.

¹²⁹ The CAD is made up of senior program managers from the Commonwealth and each State. Its is responsible for the coordination of Commonwealth/State issues and ongoing program development. The CAD is also responsible for monitoring and reporting on the performance of SAAP and developing and updating the SAAP national strategic plan (a rolling three year national strategic plan, which is developed and updated annually, is a central feature of the SAAP. Annual updates of the SAAP Plan are an important input to decision making and the improved response to homelessness).

Conclusion—Government stakeholders

5.35 The ANAO concluded that the consultation and coordination by FaCS with its State counterparts was effective at the operational level for the CSHA. However, at the strategic level, consultation and coordination, were limited by the lack of suitable governance arrangements for the Housing CEOs forum such as no clear articulation of the forum's role, responsibilities and meeting frequency. The ANAO considers that there is an opportunity for FaCS to facilitate the development of such arrangements under the 1999 agreement. FaCS advised that the issue of effective governance, including a proposal to schedule regular meetings of Housing CEOs with a more strategic focus, has recently been placed on the agenda for the Housing CEO's forum to be held in October 1999.

Non-government stakeholders

5.36 At the community level the role of peak community organisations has been vital in the past in providing key links between issues of CSHA policy and grass roots service delivery. Peak organisations can be effective in providing ongoing advice on program issues and directions and ensuring that the views of clients are represented to government. This is an important input to the policy development process. They also play an important role in disseminating information and providing consumer education at the community level.

5.37 Among non-government stakeholders it is widely accepted that there was extensive consultation with industry and community representatives leading up to the development of the 1996 CSHA. In the ANAO's view, the nature and breadth of these consultations may have raised expectations regarding future consultative processes.

5.38 Most non-government stakeholders indicated, during the audit, that there could be considerable improvements in the way FaCS has communicated policy directions and consulted with relevant organisations recently. The ANAO acknowledges that some of these views may be coloured by the difficulties presented by the housing reform process; policy positions of different stakeholders; and perceptions of the Government decision to cut funding to National Shelter.¹³⁰

5.39 Given the previously high levels of consultation on the CSHA, the ANAO sought to establish whether FaCS had developed and implemented a strategy to manage partnerships with industry and

¹³⁰ National Shelter is a peak housing organisation. It was formerly funded by the Commonwealth through the Housing Organisation Support Fund 1996–97.

community representatives. The ANAO would expect that the main objectives of such a strategy would be to promote an understanding of the aims and objectives of the CSHA; explain current directions in housing assistance; and inform and receive feedback from key audiences of activities and outcomes of housing assistance.

5.40 FaCS discusses housing matters with key non-government stakeholders during critical periods. For example housing matters were raised and discussed with community groups as part of Budget consultations. In addition, the ANAO noted that in the year prior to the audit, senior officers from FaCS spoke with housing interest groups and their office bearers on many occasions. The Department also provides funding to several of these non-government stakeholders.¹³¹ Evidence provided in State strategic plans also indicated that community consultation is seen as an integral part of housing planning and policy development by the States.

5.41 However, based on feedback received during the audit, there may be scope for FaCS to better manage the on-going information provided on housing assistance to community organisations to make it more relevant, sufficient and timely to meet their needs. For example, providing information on policy decisions is essential for maintaining active involvement of the key stakeholders in networks. This, in turn, may assist in better managing stakeholder expectations and promoting meaningful and informed community debate.

5.42 Since the audit fieldwork, FaCS has sponsored and conducted structured workshops with ACOSS on housing matters. This type of approach demonstrates that FaCS is committed to facilitating community consultation.

5.43 FaCS was considering options to make better use of the internet and other on-line technology to improve communication and promote information sharing. While it was too early to form an opinion on the success of this initiative, the ANAO sees value in FaCS continuing to develop its capacity to communicate electronically.

Conclusion—Non-government stakeholders

5.44 The ANAO concluded that FaCS should assess its approaches to consultation and communication with key non-government stakeholders on an on-going basis to ensure that it continues to build effective partnerships; manage expectations; and promote meaningful and informed community debate.

¹³¹ FaCS advised that it funds ACOSS to provide advice on the full range of its activities, including the CSHA. It also funds the Community Housing Federation of Australia, the National Community Housing Forum and the Commonwealth Advisory Committee on Homelessness.

5.45 The ANAO considers that the development of a communication strategy would assist in guiding FaCS' approach to consultation and communication with all stakeholders, and in particular, non-government stakeholders. This may include identifying opportunities for increasing information flows, such as the publication of issues papers explaining current directions.

5.46 In developing a communication strategy, the ANAO considers that it would be helpful if FaCS conducted a survey to determine the expectations and information needs of different stakeholders. Such a strategy would also need to take into account any resource implications and the cost effectiveness of different communication approaches.

Housing research

5.47 Research is a vital tool through which program managers can develop a balanced understanding of housing need, delivery issues and policy options affecting decision making. The ANAO examined the Commonwealth's role, involvement in and funding of research into housing assistance. Although the funds applied to housing research are small in comparison with overall CSHA funding, and with research funding in other program areas such as health, research outputs provide much of the knowledge on which housing assistance policy is based. The audit reviewed the Commonwealth's role in the management of housing research to determine whether it is planned, managed and evaluated effectively.

5.48 Research into housing issues is undertaken on a collaborative basis between the Commonwealth and States through the following mechanisms:

- the Australian Housing Research Fund (AHRF) which facilitates the undertaking of housing research, focusing on social and economic problems associated with housing; and
- the Australian Housing and Urban Research Institute (AHURI) which focuses on the administration, development and evaluation of housing authority programs.

5.49 In addition, there is a separate Commonwealth Housing Reform Fund (HRF), established in 1996, whose primary focus is research related to housing reform issues, including the support of housing policy research and the development of community housing infrastructure. Descriptions of each of these elements are at Appendix 7.

5.50 The ANAO found that, given the differing purposes of each research program, the planning arrangements for each individual component are effective and ensure that differing stakeholder priorities and concerns are addressed. Furthermore, the involvement of the Research Advisory Committee (RAC)¹³² in prioritising projects assists to

ensure optimal outcomes from funding, including coordination across programs.

5.51 The ANAO also considers that overall research projects are managed effectively and include appropriate controls. In particular, the ANAO found that there were effective processes for selecting researchers; evaluating tender proposals; and entering research contracts.

5.52 In addition, the ANAO noted that FaCS have made improvements in the monitoring of research, leading to more timely projects, and the dissemination of research outputs.¹³³

5.53 In relation to monitoring of research, an analysis undertaken by the ANAO shows that, for a sample of AHRF projects starting between 1991 and 1996, all exceeded their schedule by between 11 and 43 months.¹³⁴ The ANAO found that since 1996 delays have reduced as a result of the implementation of improved project management procedures aimed at more closely controlling the approval of payments. This is depicted in Figure 5.1.

5.54 However, the ANAO found that there is currently no comprehensive approach for evaluating housing research. Therefore, the ANAO concludes that there is currently not an adequate means to provide assurance to management and the Government that research arrangements represent value for money and contribute to effective policy development for the delivery of housing assistance. As research is an important tool to assist management develop an understanding of housing and housing related issues, it may be appropriate to undertake a comprehensive review of the overall research arrangements.

ANAO conclusion

5.55 The ANAO found that FaCS was effective in the operational management of housing research projects. In particular, planning arrangements were adequate to ensure that priority research projects are funded. Improvements in monitoring arrangements also ensure that projects are commenced and finalised in a timely manner. However, there is no comprehensive approach for evaluating whether research arrangements represent value for money and contribute to effective policy

¹³² At the Housing Ministers' Conference in April 1995 it was proposed that Commonwealth and/or States and Territories would identify research needs associated with the development of the CSHA. Potential research projects would be referred to RAC members for consideration. RAC would undertake a coordination role to ensure project proposals met associated criteria' to endorse approved research; and to advise on a suitable means of undertaking projects.

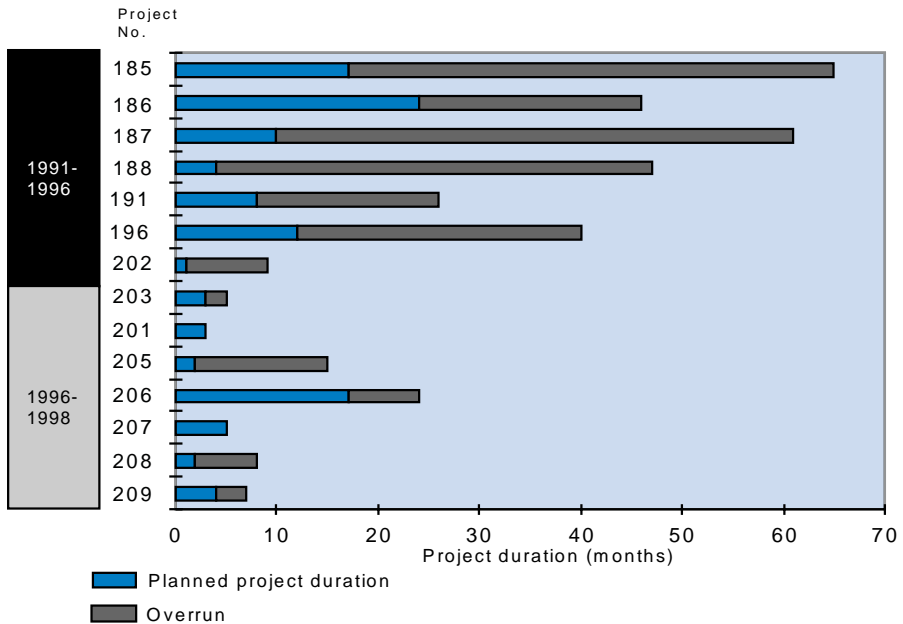
¹³³ To increase access to research, FaCS advised that work has been commenced, in conjunction with AHURI, to improve electronic access to research outputs, although at the time of the audit it was not possible to form an opinion on the extent of the work undertaken or its likely impact.

¹³⁴ A review of the AHRF in 1996 indicated that there had been significant delays in the commencement and completion of research projects.

development for the delivery of housing assistance. The ANAO concludes that it may be appropriate to undertake a comprehensive review of the research arrangements to assess their effectiveness.

Figure 5.1

AHRF research project overruns 1991–1998



Evaluation

5.56 Program evaluation is an essential part of effective program management and a key component of effective corporate governance.¹³⁵ It is one of the critical tools, along with performance information and management overview, available for reviewing the policy and administration of a program and for informing decision-making on improvements to a program. The ANAO reviewed arrangements for evaluation of housing assistance provided under the 1996 CSHA to assess whether they are adequate to inform the future development of the CSHA.¹³⁶

¹³⁵ The ANAO determined that quality evaluations can provide:

- the basis for establishing a quality performance information and monitoring regime;
- a focus on the measurement of results and the quantification or assessment of outputs and outcomes;
- a mechanism for establishing common ground and a common basis for collective action; and
- a firm basis for redesigning programs to maximise value for money from the future allocation of funds.

¹³⁶ Implementation of arrangements that provide for an appropriate and effective level of audit and evaluation coverage was one of the more common deficiencies identified in the ANAO's 1993–94 report on aspects of Commonwealth-State agreements. (ANAO Report No.6 1993–94 *An Audit Commentary On Aspects Of Commonwealth-State Agreements*).

5.57 Recognising the importance of program evaluation, the JCPAA has recommended that SPPs should be:

*evaluated by the Commonwealth at least every three to five years. SPPs with a Commonwealth contribution of more than \$1 billion per annum should be evaluated at least every three years.*¹³⁷

5.58 In the past, the CSHA and public housing has been the subject of numerous reviews. These the 1992 report of the National Housing Strategy; the 1993 Industry Commission Inquiry into Public Housing; and the 1997 Inquiry into Public Housing by the Senate Community Affairs References Committee (SCARC). In addition, the ANAO conducted a preliminary study into the CSHA in 1993–94¹³⁸ and performance audits of aspects of the delivery of housing assistance are undertaken from time to time by some State Auditors-General. Notable recent examples have been in Western Australian (1994), Victoria (1996) and the ACT (1998).¹³⁹ Each of these reviews has made a significant contribution to improving the delivery of housing assistance under the CSHA.

5.59 Section 5 of the *Housing Assistance Act* 1996, required the 1996 CSHA to include, among other things, ‘... *arrangements for the evaluation of the agreement*’. FaCS advised that, due to the ‘interim’ nature of the Agreement and the work undertaken as part of the housing reform process, no evaluation has been undertaken or planned. However, FaCS recognises the importance of evaluation and advised that arrangements for evaluation of housing delivery under the CSHA were being carefully considered in the negotiation of the new Agreement.

5.60 The ANAO considers that a collaborative approach between the Commonwealth, the States and other stakeholders where appropriate may provide the best value for money outcomes and commitment for improvements to program design and implementation from the evaluation.

¹³⁷ Report 342; p. 65

¹³⁸ ANAO, Audit Report No.1 1993–94, *Report on Ministerial Portfolio Budget Sitings 1993* (Volume 6).

¹³⁹ ACT Auditor-General's Report No.5 (1998), *Management of Housing Assistance*. Office of the Auditor-General, Western Australia, (1994), Report No.5, *Performance Examinations*. Auditor-General of Victoria Special Report No.46 (November 1996), *Public Housing: Responding to a fundamental community need*.

ANAO conclusion

5.61 The ANAO concluded that the level of evaluation for the 1996 CSHA was not sufficient to provide information that would form a key component for assessing the success of the Agreement. As opportunities for evaluation were limited due to the uncertain operating environment of the 1996 CSHA, FaCS advised that it would seek to implement arrangements to evaluate the operation of the 1999 CSHA. Evaluation has been included as an integral part of the 1999 CSHA.

Effective management arrangements to support CSHA development

5.62 Given the nature of the Commonwealth's responsibilities in relation to the CSHA, an effective and progressive management culture is necessary to facilitate efficient and effective performance by FaCS for the management and continued development of the CSHA.¹⁴⁰ The ANAO, therefore, examined whether the management environment within FaCS is cost effective and aligned with better practice management principles.

5.63 The ANAO found that the current management arrangements within FaCS provide a robust framework to manage and develop the CSHA in an effective manner. For example, FaCS has identified essential skills requirements needed to administer the CSHA and is undertaking positive initiatives in recruitment and training, including the development of a comprehensive training program for all staff, which are likely to contribute to effective management of the CSHA in the future. FaCS has also managed the negotiation of the 1999 CSHA effectively within the tight time constraints set by government.

¹⁴⁰ Better practice includes:

- competent leadership by the chief executive;
- recruitment, retention and training of sufficiently qualified and motivated staff;
- professional and well informed determination of the most cost effective use of resources;
- effective communication of objectives and priorities by the executive to all staff;
- an open/outward looking culture involving positive outside linkages rather than an inward looking approach;
- a democratic/participative management style which encourages objective and professional advice;
- clear guidelines on performance in terms of what constitutes success and failure, and feedback to staff and management on their performance; and
- integrity and the highest possible ethical standards.

[*Performance Assessment of Policy Work*: Report of a Working Group, Public Service Commission Occasional Paper No.1 September 1995, p. 8.]

5.64 In addition, FaCS administration of the CSHA has been relatively cost effective.¹⁴¹ In line with the Department's move to accrual budgeting, FaCS advised that it has recently introduced a time accounting system to track time and costs of all branch activities. The ANAO considers that this will be an important tool for the continued effective management of resources in the Branch as well as providing the information to conduct detailed and accurate analysis of resource usage.

5.65 The planning arrangements within FaCS also reflect a positive approach to leadership and management of the business culture through communicating with staff. The ANAO found that a Business Improvement Plan (BIP) has been developed for the Branch and each business unit within the Branch develops individual section plans. These plans define and communicate key objectives and priorities to staff. They also highlight key management issues and provide for feedback in a range of areas.

ANAO conclusion

5.66 The ANAO found that FaCS administration of the CSHA is relatively cost effective when compared to administrative costs associated with other SPPs. Many of the aspects that it examined indicated that the management environment of FaCS are aligned with better practice.



Canberra ACT
15 November 1999

P. J. Barrett
Auditor-General

¹⁴¹ The results reported in ANAO Audit Report No.31 of 1998–99, *The Management of Performance Information for Specific Purpose Payments—The State of Play*, which examined the costs of administering 71 SPPs across 14 agencies, found that the costs of administering SPPs in FaCS compares favourably with other agencies. This report estimated that the cost per ASL of administering the CSHA in 1996–97 was \$105 000, which is approximately 12.5 per cent less than the average for all SPPs of \$120 000.

Appendices

Appendix 1

Forms of Commonwealth housing assistance outside the CSHA

Rent Assistance (RA)

Rent assistance is administered and funded by the Commonwealth through the social security system. Its main aim is to provide additional income support for individuals and families in recognition of the housing costs they face in the private rental market. All pensioners, allowees, beneficiaries and those receiving more than the minimum rate of family allowance may be eligible for this assistance.

RA is paid to eligible clients who rent accommodation in the private market and pay rent above minimum threshold levels. The threshold levels vary according to household size and structure. RA is paid at a rate of 75 cents for each dollar of rent paid above the threshold up to specified maximum rates of assistance.

The Commonwealth is currently spending approximately \$1.5 billion per annum on RA, which is significantly higher than the \$466 million which was spent in 1986–87.

Figure 3A compares the level of government expenditure provided under the CSHA (both Commonwealth and State funding¹⁴²) and under the rent assistance program (Commonwealth funded¹⁴³). It shows that total government expenditure (Commonwealth and State) on CSHA assistance has fallen, in nominal terms, by about 35 per cent since 1986–87, while over the same period Commonwealth expenditure on rent assistance has increased by over 200 per cent.

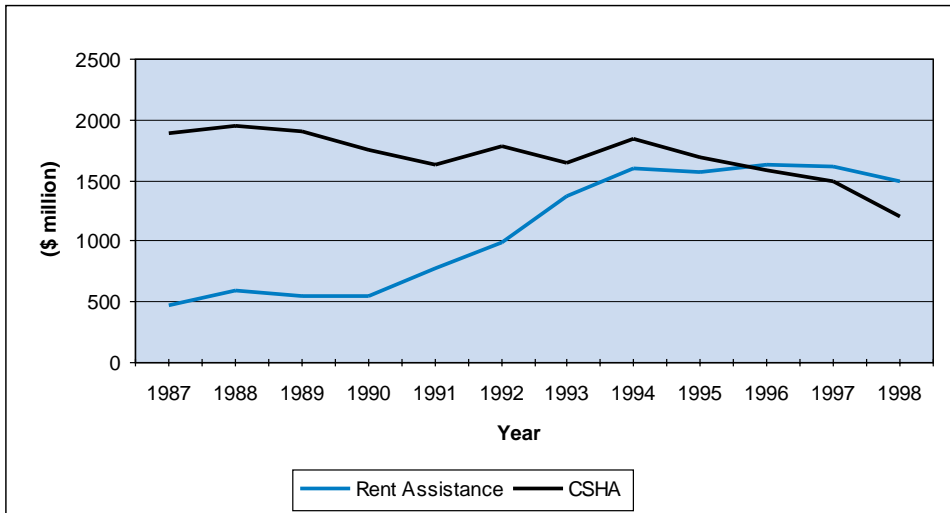
However, as is pointed out in the most recent Report on Government Services, care should be taken in interpreting data because Commonwealth Rent Assistance is a demand driven recurrent expenditure program, whereas CSHA expenditure includes a component for capital investment that has resulted in around \$34 billion of public housing assets that are continually used for housing assistance.¹⁴⁴

¹⁴² Figures as provided in the relevant Housing Assistance Act Annual Reports.

¹⁴³ Figures obtained from DSS Annual Reports.

¹⁴⁴ SCRCSSP (Steering Committee for the Review of Commonwealth/State Service Provision) 199, *Report on Government Services 1999*, AusInfo, Canberra.

Figure 3A
Government expenditure on the CSHA and RA



Note: Years are based on the end of the relevant financial year.

The increase in spending on RA is a result of substantial changes to the coverage, structure and adequacy of RA which have been made since 1986 to broaden the eligibility criteria for RA and reflect the increase in rental costs. Key decisions that have led to the increase in rent assistance expenditure include:

- the extension of RA to unemployment beneficiaries in 1986;
- the extension of RA to low income working families (those eligible for additional family allowance) in 1987;
- increases in the maximum rates of assistance in 1982, 1984, 1989 and 1990; and
- indexation of maximum rates of assistance in 1990.¹⁴⁵

As a result of these changes, rent assistance has become a more significant mechanism for providing housing assistance to low income households.

Indirect assistance

In addition to providing financial assistance the Commonwealth and governments assist home owners and investors through various subsidies that include:

- tax concessions (exemption from capital gains tax and from imputed rents and depreciation for investment purposes);

¹⁴⁵ Senate Community Affairs Reference Committee, Report on Housing Assistance, December 1997 at 37–38.

- exemptions from State and Territory stamp duty for first home buyers; and
- concessional housing loans and shared equity schemes.

Supported Accommodation Assistance Program (SAAP)¹⁴⁶

SAAP is governed by the *Supported Accommodation Assistance Act 1994*. It was established in 1985 and is a joint Commonwealth/State, recurrently funded and managed program.

The prime focus of the program is to facilitate the integration of people who are homeless into the community and increase access to, among other things, housing. Therefore, SAAP is closely linked to CAP. SAAP provides funds for community based accommodation and support services for the homeless, while CAP provides accommodation for use by SAAP services.

In 1997–98 total recurrent funding for SAAP in Australia totalled approximately \$224 million. Of this, \$213 million recurrent allocations were provided to SAAP agencies and \$11 million was allocated for purposes such as administration, training and research. From this funding, 110 000 clients were supported.

In 1997–98, 1200 non-government, community and local organisations were funded nationally to provide accommodation and support to a range of groups.

Community Housing and Infrastructure Program (CHIP)

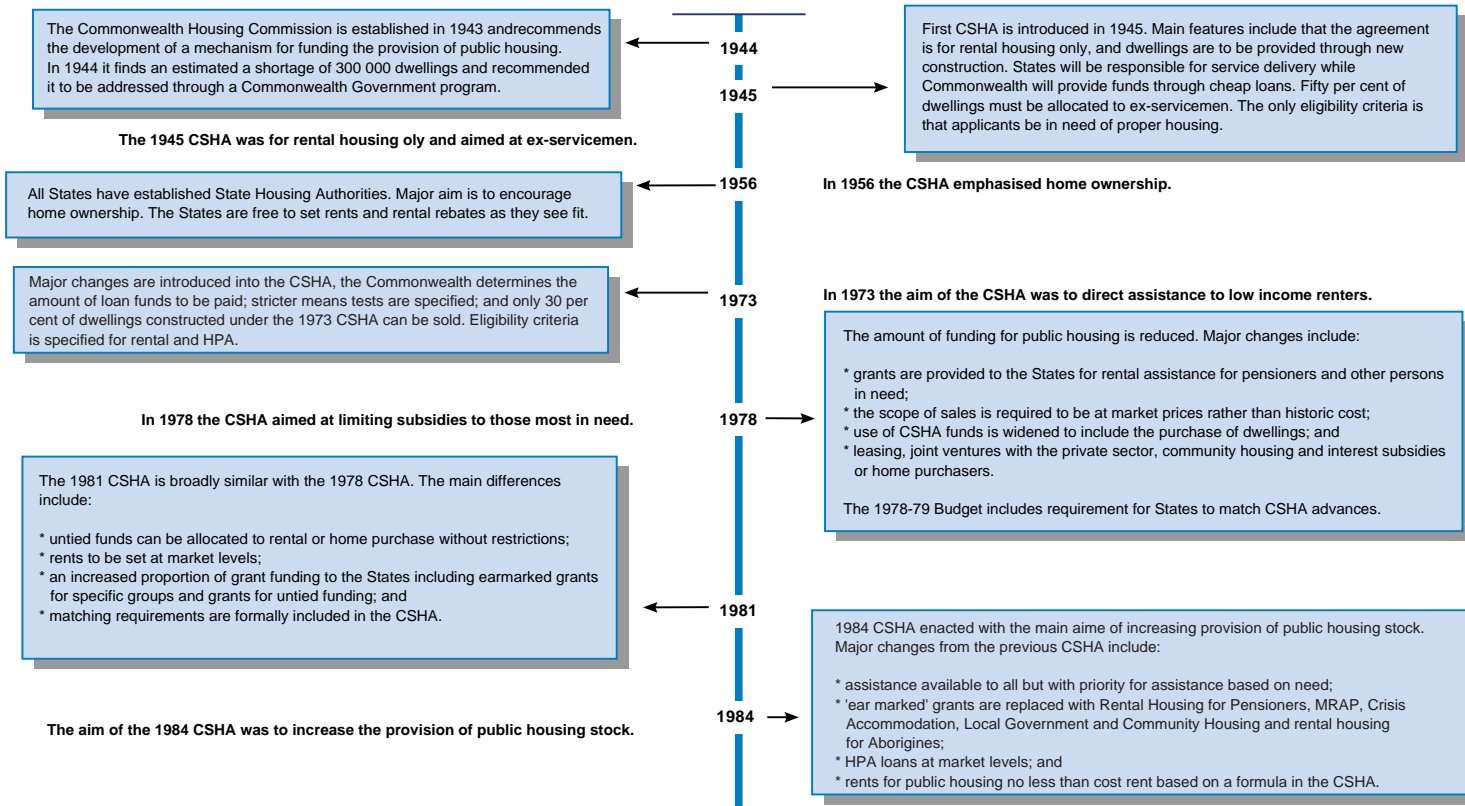
CHIP is administered by ATSIC and aims to improve the living standards of indigenous peoples by providing access to housing, infrastructure facilities and essential services, consistent with, and appropriate to their needs. By improving indigenous living standards ATSIC seeks to lessen the disparity between the living conditions of indigenous and non-indigenous Australians. CHIP funds only provide for community housing, which is then owned and managed by agents on behalf of, indigenous community housing organisations.

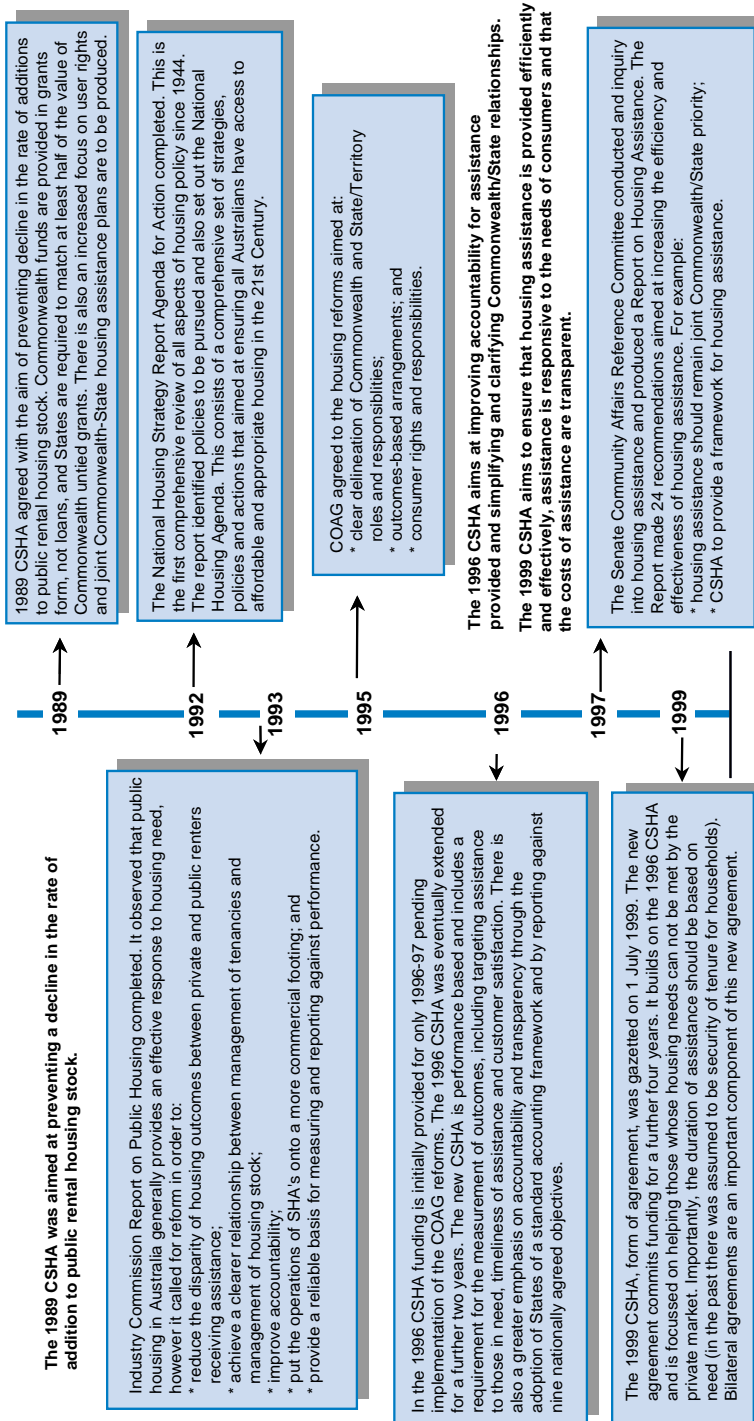
Commonwealth funding, which is available for capital and recurrent costs of housing, for CHIP is distributed directly, by ATSIC, to indigenous organisations. In 1997–98, ATSIC provided approximately \$116.2 million for housing, either through Regional Council Budgets to Indigenous organisations for local priorities or National Aboriginal Health Strategy (NAHS) grants for large capital projects targeted to improve environmental health.

¹⁴⁶ SAAP NDCA Report, SAAP National Data Collection, *Annual Report, 1996–97*.

Appendix 2

Historical summary of the Commonwealth–State Housing Agreement





Source: Senate Community Affairs Reference Committee, Report on Housing Assistance, 1997.
 National Housing Strategy, Report Agenda for Action, 1992.
 Industry Commission, Public Housing, Volume 1: Report, Report No: 34, 1993.
 Commonwealth Department of Social Security, Submission to the Senate Community Affairs Reference Committee, Inquiry into Housing Assistance, Volume 2, Attachments, 1997.

Appendix 3

Linkage of performance indicators to outcome measures

| <i>Outcome Measure</i> | <i>Performance Indicators</i> | <i>Type of Indicator</i> |
|--|--|--------------------------|
| | Effectiveness Indicators | |
| The standard of rental housing provided | Condition of housing stock | Output |
| Consumer satisfaction survey ¹⁴⁷ | Client satisfaction | Outcome |
| The levels of overcrowding and under-use of rental housing | Under and over utilisation | Process |
| The targeting of assistance to those in need | Targeting | Outcome |
| Timeliness of assistance | Timeliness (waiting period) | Process |
| The total amount of assistance provided | Level of provision | Outcome |
| The affordability of assistance provided | Proportion of income spent on rent | Outcome |
| | Efficiency Indicators | |
| Efficient use of resources | Administration cost per dwelling | Input |
| Efficient use of resources | Rental arrears | Process |
| Efficient use of resources | Turn around rent forgone | Process |
| The targeting of assistance to those in need/Efficient use of resources | Community service obligations | Process |
| The value of assets | Equity Value | Input |
| Efficient use of resources | Rate of return on assets | Process |
| Efficient use of resources | Rate of return on equity | Process |
| Efficient use of resources/The value of assets | Cost of stock production | Input |
| The total amount of assistance provided/Efficient use of resources/ The value of assets | Maintenance and depreciation cost per dwelling | Input |

¹⁴⁷ The client satisfaction survey is a process however the results of this, namely the level of client satisfaction, is an outcome.

Appendix 4

Examples of shortfalls in performance indicators

Example 1:

Performance indicator not measuring the intended outcome

An example of a performance indicator that does not actually measure the intended outcomes is the 'timeliness (waiting period)' performance indicator. This simple indicator is intended to measure the time taken by SHAs to allocate housing assistance to a household.

However, as it is currently reported, this measure is not completely reliable as waiting list data can be affected by a number of factors, including an applicants' willingness to wait for a public housing dwelling in an appropriate location; differing government allocation policies between jurisdictions, such as income eligibility criteria¹⁴⁸; and the frequency of maintenance of the waiting list.¹⁴⁹ The measure is also rudimentary because it provides no information on waiting times for different categories or segments of waiting list applicants (for example, special needs categories).¹⁵⁰ As a result, the information available to the Commonwealth on the effectiveness of State strategies to improve the timeliness of assistance provided to households should be interpreted with caution.

The ANAO notes that the 1996–97 HAA Annual Report, data in this report is sourced from the performance indicator data collection which is used to compile the Productivity Commission Report, acknowledges the shortfalls of this indicator. In particular, the report notes that the data does not take account of whether allocations are made on a priority basis. The report also recognises that other factors, such as changes in eligibility criteria and the introduction of new administrative systems, may have contributed to the reduction in waiting lists.

A more useful measure of timeliness may be the length of time applicants who have received housing had to wait to be housed, segmented into

¹⁴⁸ In the ACT Auditor-General Report No. 5 (1998), it is noted that, due to eligibility criteria in the ACT being more lenient than in other jurisdictions, '*many ACT residents who are eligible for ACT public housing, would not be eligible for public housing in other jurisdictions*'. (p.25) Therefore, if the eligibility criteria were relaxed in other jurisdictions, so they were consistent with those in the ACT, it may further increase the number of households on the waiting list in these jurisdictions. Alternatively, tightening ACT eligibility criteria would further reduce waiting lists in the ACT.

¹⁴⁹ If not frequently reviewed, waiting lists can quickly become out of date. This was highlighted in the ACT Auditor General's Report No.5 (1998), *Management of Housing Assistance*, which indicated that waiting list applicants have been reduced by approximately 4000 since 1995 with no verifiable reason other than the list has been better maintained.

¹⁵⁰ Many States are currently developing segmented waiting lists.

appropriate categories. This measure would be more closely linked to consumer outcomes. Furthermore, trend data on this measure will enable an assessment of the average length of time defined categories of applicants waited for housing and, therefore, whether housing is provided in a more timely manner to meet client needs, including on a priority basis.

Example 2:

Affordability indicator oversimplifies a complex need

Affordability is a key measure of the effectiveness of the effectiveness of housing assistance. It is based on the notion that housing costs should leave sufficient income to meet other needs such as food, clothing, transport, medical care and education.

However, there is no single broadly accepted measure of what constitutes affordable housing as expenditure by households goes beyond simply purchasing shelter. Therefore, affordable housing expenditure does not necessarily imply adequate outcomes, nor does spending in excess of this necessarily mean inadequate outcomes as some households may choose, for example, to spend more on their housing to obtain certain amenity which they rank highly.

Affordability indicators can provide, at best, a guide to the outcomes being sought. The ANAO noted that there is a range of affordability benchmarks in use in other countries. These tend to be in the range of 20 per cent to 30 per cent of income. The National Housing Strategy (NHS) proposed that low-income renters should not pay more than 25 per cent of their income in rent. Benchmarks applied in other countries are not, however, strictly comparable. For example, the benchmarks in the US and Canada incorporate energy costs, whereas the NHS benchmark only includes rent.

The affordability indicator, applied for the CSHA, currently measures the affordability of public housing using the proportion (25 per cent) of assessable income spent on rent. As at 30 June 1998, few households receiving rebates paid more than 25 per cent of their assessable income on rent in any jurisdiction.

However, the affordability indicator, as it is currently reported, does not take into account the special housing needs of particular special needs groups such as Aboriginal and Torres Strait Islander people, the homeless and people with disabilities. Furthermore, the spending of 25 per cent of income has different implications for someone on a low income as opposed to someone on a medium income.

Appendix 5

Performance benchmarks for CSHA outcome measures

| Performance Indicator | Proposed benchmark | Benchmark currently being applied |
|---|--|--|
| Level of Provision | > = 95% | 100% of the State bilateral target |
| Targeting | Needed further consideration | Indicator A – each States respective result from baseline (1995–96) data collection Indicator B – 95% of total rebated public housing tenants |
| Affordability | No household pays > 25% of income in rent | No household pays > 25% of income in rent |
| Housing Stock Amenity / Condition | Needed further Consideration | Housing stock condition index; Tenant assessment survey. |
| Match of Dwelling and Household Size ¹⁵¹ | < = 10%—moderate overcrowding; < = 1.5% high degree of overcrowding; < = 35%—moderate degree of under-utilisation; < = 12%—high degree of under-utilisation | The best result from the baseline data collection. |
| Timeliness | Needed to wait until baseline data was available | Each State's respective result from the baseline data collection for the proportion of applicants waiting less than 1 year |
| Customer Satisfaction | To be set once indexes had been developed | The best result from the baseline data collection |
| Rate of Return | Need further consideration | The best result from the baseline data collection |
| Equity Value | > = 95% | 100% of the State bilateral target. |

¹⁵¹ The proposed benchmarks were based on data presented by the AIHW in *Public Housing in Australia*, AGPS, 1994; pp. 89ff, 95ff. The benchmarks represent national averages adjusted slightly to allow more latitude.

Appendix 6

JCPAA principles for the management of SPP arrangements

Introduction

In 1998 the Joint Committee of Public Accounts and Audit (JCPAA) published its Report 362 on *General and Specific Purpose Payments to the States*. This followed Report 342 *The Administration of Specific Purpose Payments: A Focus on Outcomes*. Report 362 outlined 12 key principles for the sound administration of SPPs.¹⁵²

JCPAA Principles for sound administration of SPPs

The JCPAA identified the following key principles for the sound administration of SPPs:

- SPP arrangements should be administered under agreements between the parties or legislation where appropriate;
- the roles and responsibilities of parties should be clearly defined and communication and consultation arrangements should be adequately specified;
- there is appropriate recognition of the contribution of the Commonwealth and other parties to the provision of SPP funded services;
- SPP program objectives are specified in terms of clear, achievable and measurable outcomes;
- requirements concerning financial contributions of parties (input controls) should be phased out unless they are essential to the design and management of individual programs. In cases where input controls continue to be used they should be clearly identified and defined;
- SPP payments should be released no earlier than necessary to meet the identified immediate funding needs of parties;
- measurable performance indicators should be linked to program objectives and data collection requirements identified for each performance indicator;
- accountability requirements should be streamlined;
- there should be graduated sanctions for non-compliance with SPP program conditions;

¹⁵² The Parliament of the Commonwealth of Australia (1998), Joint Committee of Public Accounts and Audit, Report 362, *General and Specific Purpose Payments to the States*, p. 57.

- SPP programs should undergo periodic evaluation and review;
- the Parliament and public have ready access to reliable and up-to-date information about SPP programs and their performance results; and
- smaller SPP programs should be broadbanded in portfolio areas as far as practicable.

Examples of changes introduced in the 1996 CSHA to enhance its compliance with the JCPAA principles

Roles and Responsibilities

Clearly defined roles and responsibilities for all stakeholders are essential if program objectives and accountability standards are to be met. To minimise administrative inefficiencies, duplication and a lack of accountability the JCPAA recommended that, where the roles of the Commonwealth and the States are shared:

- the roles and responsibilities of each party to the agreement should be clearly identified; and
- consultation arrangements between parties to the agreement should be clear.¹⁵³

The ANAO found that an important aspect of the changes introduced in the 1996 CSHA was the clarification of the roles and responsibilities of the Commonwealth and the States. The respective roles and responsibilities of the Commonwealth and the States under the 1996 CSHA are outlined in Table 4.1.

Table 4.1

Commonwealth and State roles and responsibilities under the CSHA

| <i>Commonwealth</i> | <i>States</i> |
|--|---|
| ensure the agreement is part of a coherent overall housing policy specify the desired outcomes and strategic interests to achieve national objectives; and report to the Commonwealth Parliament on the performance of housing assistance against agreed outcomes and targets. | establish priorities having regard to Commonwealth policy objectives; develop and implement strategies and programs to achieve agreed outcomes; manage the delivery of housing services; report to enable performance assessment and benchmarking; and develop a Code of Practice in relation to consumer rights and responsibilities. |

¹⁵³ JCPA Report 342, p. 17–19

Program objectives

Clearly defined and achievable national housing policy objectives and priorities are a prerequisite to the efficient and effective delivery of housing assistance and the accountability framework underpinning the CSHA.¹⁵⁴ The ANAO reviewed the objectives specified in the 1996 CSHA to assess their clarity in defining what the CSHA is intended to achieve.

More clarity in the objectives of the 1996 CSHA was primarily achieved by describing the objectives in terms of desired and measurable outcomes. The primary objective of the 1996 CSHA was *'to provide housing assistance to persons on low incomes and other persons who are unable to access or maintain adequate and appropriate housing'*.¹⁵⁵ By focussing the delivery of housing assistance on what can be directly achieved through the provision of housing assistance to persons on low incomes, the 1996 Agreement provided a basis for assessing the provision of housing assistance under the CSHA.¹⁵⁶ To further clarify the objectives more specific outcome measures have also been defined in the agreement.¹⁵⁷

In addition, the Commonwealth also sought to refine the objectives of the 1996 CSHA, during the term of the agreement, by prescribing national priorities which were required to be addressed in State strategic plans.¹⁵⁸ While these priorities tended to be related to the ongoing housing reform

¹⁵⁴ Previous CSHAs have been criticised for the lack of clarity in the Commonwealth's objectives in housing assistance. Combined with the absence of clearly defined performance indicators, the ability of the Commonwealth and others to judge whether the objectives have been achieved has been inhibited in the past. For example, in its report on public housing, the Industry Commission criticised the CSHA because its objectives could not be operationalised and there was no way of showing whether the CSHA was achieving what it set out to achieve. (pp. 39–43).

¹⁵⁵ In addition, the CSHA (clause 4(3)) refers to the following broad-level objectives:

- housing assistance provided should achieve outcomes for clients that are affordable, secure and appropriate to their needs;
- housing assistance will be provided equitably in circumstances of housing need;
- housing assistance should be delivered efficiently and provide value for money for taxpayers; and
- as far as possible, each household eligible for assistance should have a choice between different forms of assistance, and between different providers of assistance.

¹⁵⁶ This represents a narrowing of the primary objective compared to its predecessor. The 1989 Agreement incorporated a broader social vision of housing justice and the alleviation of housing-related poverty. (McNeils. S., *Performance Monitoring and Housing Assistance in Victoria: A working paper*, 1996, VCOSS).

¹⁵⁷ Clause 4(4) identifies a core set of nine, nationally consistent outcomes measures that identify specific results to be achieved under the Agreement. These have been agreed between the Minister and State Ministers.

¹⁵⁸ National priorities were articulated in a letter from the Prime Minister to the States prior to the development of the strategic plans.

process, they clarified the objectives stated in the CSHA and were generally measurable.¹⁵⁹

Notwithstanding the improvements made in the 1996 CSHA, during the audit, many SHAs and other non-government stakeholders commented on the broad nature of the outcomes and objectives expressed in the CSHA. These stakeholders generally considered that there was scope for differing interpretations of those objectives, and that this made for difficulties in measuring and reporting performance. The ANAO recognises that these comments could more relate to a lack of agreement on the interpretation of outcomes required from the objectives, particularly given the problems in reaching agreement on the meaning of housing need (discussed in Chapter 3).

The ANAO considers that the approach to the 1999 CSHA, involving an overarching multilateral agreement covering national priorities for housing assistance and supported by more specific bilateral agreements with each State, will assist in clarifying the requirement from objectives on a bilateral basis. In turn, this should help to further improve performance management and accountability arrangements.

¹⁵⁹ For example, a major Commonwealth priority for 1997–99 was the development of a stronger community housing sector. This is consistent with the CSHA objective to offer eligible households a choice between different forms of assistance and between different providers of assistance and is measurable.

Appendix 7

Housing research arrangements

AHRF

Background

The Australian Housing Research Fund (AHRF) is a jointly funded Commonwealth/State research facility to undertake housing research. It has operated since 1994 and provides a collaborative and nationally consistent mechanism for housing research policy considerations relevant to both levels of government. It replaced the Australian Housing Research Council (AHRC) which had been established in 1974.

Funding

Annual funding of \$200 000 (not indexed) remained unchanged from 1978–79. \$100 000 may be directed to the Australian Housing and Urban Research Institute (AHURI) for an agreed program of research.

Objectives

The overall goal of the AHRF is to:

Facilitate the undertaking of housing research with an emphasis on social and economic problems in housing and on matters of particular concern to housing authorities, and facilitate the dissemination of the results of this research.¹⁶⁰

Review of AHRF

In 1996, a review of the AHRF addressed a number of issues including the priority and relevance of its research and the extent to which it provided value for money. The review also examined whether the AHRF was still needed, given the establishment of AHURI.

Key findings of the review included:

- concerns over priority setting, but there has been evidence of recent improvements;
- it is difficult to ensure relevance of research tasks given the wide range of stakeholders; varying focus of projects; limited funding and some delays in initiating or completing projects; and
- research projects have an average cost of \$22 000 and therefore represent value for money. There has been favourable responses to

¹⁶⁰ *ibid.*, page 8.

published reports, however less than 50 per cent of research reports have been published. The report notes that unpublished reports have also been made available to interested parties.

Research Advisory Committee (RAC) members agreed that the AHRF was providing a valuable function and should continue to initiate research.

Planning

The AHRF operates under an Agreement signed by the Commonwealth, States and Territories in 1994. This provides for a RAC, consisting of Commonwealth and State representatives, to draw up a research program and budget annually for submission to Housing Ministers.¹⁶¹

In 1994 the AHRF Secretariat developed a three year Research Strategy in response to:

- delays in the start and finish of research projects;
- limitations of previous annual research programs; and
- research needs and data gaps outlined in the 1992 Housing Strategy Agenda for Action.

In 1997, Housing Ministers agreed that the focus of AHRF research would be on issues associated with housing reform and indigenous housing (in mid-1998, AHRF research priorities identified by the RAC focussed on public housing estate redevelopment, homelessness, and a private rental market study).

AHURI

Background

The Australian Housing and Urban Research Institute (AHURI) was established in 1993, under an agreement between four consortium partners (RMIT, Monash University, Queensland University of Technology and CSIRO)¹⁶² and the nine Commonwealth, State and Territory housing ministers. The Institute comprises an Executive Board, a Management Committee and a Program Advisory Committee. The Executive Board considers the strategic directions and priorities of the Institute and monitors progress against the annual work plan and budget, but the Board has not been in place for over 12 months.

¹⁶¹ Housing Ministers' Conference 11 April 1995 Agenda Item.

¹⁶² *Australian Housing and Urban Research Institute Homepage*, [Online], Available: <http://www.ahuri.edu.au/AHURI/AHUIINF.html#Management>.

Objectives

It was agreed that AHRF projects would focus on the administration, development or evaluation of housing authority programs. The projects funded by AHRF were to be those where a broader approach to housing issues was required.¹⁶³ The 1996 AHRF review notes that this process appears to have led to considerable improvements in terms of determining priorities.

Funding

In 1996–97, the Commonwealth provided approximately \$320 000 to AHURI. However, this constitutes less than 10 per cent of total AHURI funding (approximately \$4 million in 1996–97, including in-kind resources).

Planning

The Board of AHURI develops their research program. The proposed annual research program relating to the allocation of AHRF funds is submitted to the AHRF, RAC for approval. More detailed individual research programs may subsequently be submitted to the RAC for approval.

Proposed review of AHURI

A review of AHURI was conducted in 1995. The review found that while AHURI was performing well, it needed to give greater attention to managing its government stakeholders. However, the review acknowledged that the Commonwealth received good value for money, and would be well served by continuing to support AHURI.

Housing Reform Fund (HRF)

Background

The Housing Reform Fund was established in October 1996 and is funded through the National Housing Priorities appropriation in the Federal Budget.¹⁶⁴

¹⁶³ Review of the Australian Housing Research Fund.

¹⁶⁴ Ministerial Submission—Housing Reform Funds—Use of Funds for 1997–98 .

Objectives

The HRF supports housing policy research and development of community housing infrastructure. It operates on the basis that FaCS identifies projects for Ministerial approval. Responsibility for the day to day management of the HRF rests with the FaCS.¹⁶⁵ The fund also provides for the National Community Housing Forum and the Community Housing Federation of Australia.

The HRF has also provided the Commonwealth with the means for:

- promoting healthy housing outcomes for indigenous Australians;
- promoting community housing as an alternative to public housing; and
- undertaking a major survey of community housing on customer satisfaction.

Funding

\$1.7 million has been made available to the Housing Reform Fund in 1999–00.

Planning

Research proposals for the HRF are developed by FaCS for the Minister's approval in accordance with the Minister's guidance on priorities.

¹⁶⁵ Ministerial Submission—Housing Reform Funds—Use of Funds for 1997–98.

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