The 1999 Commonwealth State Housing Agreement financial accounting framework

1 Background

The Commonwealth Government provides almost $1 billion per year to states and territories for housing assistance through the Commonwealth State Housing Agreement (CSHA) (Commonwealth of Australia 1999). The funds are used by state housing authorities (SHAs) in accordance with conditions set out in the CSHA, being primarily for:

- the acquisition and upgrade of assets used to support the provision of housing assistance;
- the provision of funds to non-government organisations for the purposes of providing housing assistance;
- the retiring of debt that has been used to fund housing assistance;
- the provision of subsidies for consumers who receive housing assistance; and
- research, advocacy, consumer participation, information dissemination activities and other such activities.

The CSHA requires that states and territories provide information to the Commonwealth to show that they have properly acquitted the government funds. Two types of information are collected, being:

- financial information using a nationally consistent reporting framework; and
- information used to monitor operating performance (performance indicators).

The legislation relevant to the CSHA is the *Housing Assistance Act 1996*. This legislation requires that housing assistance 'be implemented through common-form agreements between the Commonwealth and States'. The form of agreement is to 'include provisions relating to the reporting by a State of its operations under such an agreement'.

The financial reporting requirements implemented under the CSHA require states to 'provide to the Commonwealth within six months of the end of the financial year audited reports of housing operations under this Agreement and agree they will use nationally consistent financial reporting frameworks and accounting practices'.

In addition, the CSHA requires the chief executive officer (CEO) to certify that 'funds have been used only for allowable purposes' and that 'assets have been used only to provide housing assistance in accordance with the Agreement'.

The specific format and quantity of reporting developed to satisfy accountability requirements is described in the subsidiary agreement to the 1999 CSHA, known as the National Housing Data Agreement.

2 The CSHA National Financial Accounting Framework

The financial framework that was developed and used under the 1996 CSHA for public housing proved unworkable, as it was totally unrelated to the ways that SHAs operate. This led to considerable work rebuilding financial statements, and undermined the integrity and validity of the financial reporting.

In addition the financial framework used for the 1996 CSHA was not consistent with the outcomes and objectives of the 1999 CSHA. The Commonwealth commissioned a consultant's report on alternative financial reporting frameworks which would meet 1999 CSHA requirements.

A new financial reporting framework was endorsed by Housing CEOs in October 1999 to be implemented for 1999–2000 by a financial technical working group under the auspices of the National Housing Data Agreement (FaCS 2001). The framework was based on a consultant's report titled The Commonwealth State Housing Agreement: the design of a new financial reporting framework (1999), referred to as the 'Allen report' which is attached.

Minor refinements and updates have been made to this framework on an annual basis involving further refinement and alignment with changes to Australian Accounting Standards.

The new financial reporting framework developed for the 1999 CSHA was based on the Allen report and the work of the financial technical working group. This framework is based on consolidated operating statement, balance sheet and cashflow statement. In this framework the statements would be standard, but jurisdictions could indicate regional variations in the notes.

The 1999 framework addressed the difficulties with the previous framework through:

- a closer alignment with jurisdictional reporting requirements;
- closer linkage with reporting from the community housing sector;
- compliance with the timing of reporting (six months after the end of the financial year; and
- meeting the Commonwealth's accountability requirements.

It was found that the provision of the financial statements used for jurisdictional purposes was not entirely suitable for Commonwealth purposes, but that a consolidated report would meet the Commonwealth's requirements. As the 1999 framework is the consolidated version, jurisdictions have some additional work to meet the requirements. However, as the consolidated statements are based directly on the jurisdiction's financial statements, there would be minimal extra work by the auditor, if they were auditing both sets of statements.

In order to meet Commonwealth requirements, the Commonwealth funding component needs to be reported in the operating statement and the cashflow statement, but only at the consolidated level for :

- public housing;
- community housing;
- the Crisis Accommodation Program;
- Indigenous housing (i.e. state-owned and -managed Indigenous housing formerly known as the Aboriginal Rental Housing Program); and

- home purchase assistance.

The framework developed addresses the key objectives of the CSHA financial reporting framework to:

- be able to assess the financial viability of SHAs for risk management reasons;
- be able to meaningfully compare the results and financial positions of SHAs; and
- reduce the reporting burden on the states and territories.

The Allen report and the Financial Technical Working Group noted that the consolidated approach should be used for high-level review purposes, with additional information being requested from the states and territories where problem areas are identified by the Commonwealth. This should help to simplify and focus the Commonwealth's review procedures, giving it a more meaningful and risk-focused approach.

The Financial Technical Working Group also examined the issue of differences in accounting policies and business practices. It was agreed that there were no material differences across jurisdictions which would require amendments. Any minor variations could be addressed in notes to the financial statements. The Financial Technical Working Group also agreed to definitions related to the finance-based national performance indicators, and has recommended these to the NHDA Data Development Committee.

3 Analysis of the CSHA National Financial Accounting Framework

3.1 Policy differences

In examining the new CSHA National Financial Accounting Framework the Financial Technical Working Group identified a number of other issues that will affect the analysis of CSHA funding and requirements in the future. In particular:

- Waiting lists are now being more strategically targeted, so that assistance is given to those in most need of assistance. Consequently rental income, which is primarily based on client incomes, is likely to decrease in the future.
- Some services are being contracted to specialised private sector companies where special needs have been identified that cannot be appropriately addressed within the SHAs. Due to the specialised nature of the services provided, higher service costs may be experienced but a better outcome for clients is achieved.
- There is a greater concentration on special needs clients, resulting in a higher proportion of modified houses. The additional requirements for these houses can add to the costs of construction. This is a community service obligation, not a commercial consideration.
- Property acquisitions are being focused towards areas where housing is most in need. This tends to be in more central locations close to facilities and clients' work places, rather than in cheaper, more remote areas. Consequently SHAs are experiencing higher costs when purchasing land. Costs to build houses/acquire land needs to be viewed in light of the policy decisions of that particular state or territory.

These issues arise mainly due to the policy direction of the SHAs, and should be taken into account during any analysis of the financial information.

3.2 Operational differences

It was also noted in the Allen report that any analysis of the financial information must be made with a detailed understanding of the operations of each SHA. Each of the SHAs operates in separate geographic and economic environments which will have a material impact on the financial results. Some of the differences identified include:

- different population densities;
- different tenant demographics (e.g. higher Aboriginal population, more special care tenants);
- rapid deterioration of properties in some states and territories due to severe climates;
- different housing stock compositions and age of housing stock; and
- different mix of programs.

These factors should be taken into account when analysing financial information and comparing one SHA to another. In this way meaningful and informed conclusions can be made about financial aspects of the SHAs.

3.3 Different accounting policies

Analysis needs to consider the underlying differences between the accounting numbers due to the adoption of different accounting policies by SHAs. The results of the SHAs could be materially affected by the use of one accounting policy over another. Table 1 shows the significant account balances affected by different accounting policies.

Table 1: Assessment of different accounting treatments

Account	Different accounting treatments possible	Impact on financial statements
Valuation of assets	Different methods of valuation used (e.g. deprival vs market value) Different periods between valuations	Highly material
Depreciation	Different methods of depreciation used (e.g. straight line vs reducing balance) Different assessments of 'useful life', resulting in different depreciation rates	Highly material
Capitalisation of assets	Different ways of determining which costs can be capitalised when assets are constructed (e.g. interest on specific loans to finance development, allocation of indirect costs) Different capitalisation limits (i.e. costs below a set limit are expensed)	Potentially material
Costs beyond control of SHAs (e.g. rates and other taxes)	Costs may not be fully levied on housing activities in some SHAs The calculation method of some costs varies between SHAs (e.g. different charges for rates)	Potentially material
Tax equivalent	Some states and territories might be operating under a tax equivalent regime	Potentially material
Inventories	Some SHAs may disclose land held for resale as inventories rather than property or fixed assets	Not highly significant given the low levels of inventory at 30 June 1998
Outsourced operations	Where a function has been contracted out, all the costs and revenues associated with that function are reduced to a single payment	Not highly significant given the low level of contracted services at present
Employee costs and entitlements	Superannuation, fringe benefits tax, payroll tax—different rates apply across Australia, and some SHAs will not include any costs	Should not be significant for housing

Source: Commonwealth State Housing Agreement: the design of a new financial reporting framework 1999.

3.4 Methods of analysis

Also when analysing financial information the Allen report noted that it is important to consider the risks applicable to SHA operations. Some financial viability risks identified during the review include: government grants not covering net cash outlays; value of properties decreasing; significant restoration costs required on properties; and the impact of external factors (e.g. GST).

Appendix C of the Allen report contains a list of recommended financial performance indicators which can be used to analyse the SHAs' financial information. These ratios are designed to highlight relationships between various items in the financial statements and can be used to put individual numbers in financial statements in context. Financial ratios can be used for:

- comparison of financial operations from year to year;
- comparison between SHAs (note the comments below about comparability issues that should be considered);
- comparison with set and agreed targets.

The analysis of these ratios performs a number of functions, including:

- providing some meaning to the information received by the SHAs, which cannot be identified using the raw data due to the relative differences in size of the various operations;
- highlighting issues associated with certain SHAs—these can then be investigated with the help of the SHA and, where appropriate, solutions discussed and agreed on;
- raising questions which can be discussed with the states and territories to achieve a good understanding of their operations; and
- a high-level audit of the information received.

In addition to these indicators, further high-level analysis needs to be performed including such measures as:

- identifying which SHAs are operating in deficit;
- identifying which SHAs are financing deficit operations through external borrowings; and
- comparing changes in the size of operations of SHAs.

Attachment 1: The Allen report (excludes section 1: executive summary)

2 Background

2.1 The Commonwealth State Housing Agreement

The Commonwealth provides almost $1 billion per year to states and territories for housing assistance through the Commonwealth State Housing Agreement (CSHA). The funds are used by State Housing Authorities (SHAs) in accordance with conditions set out in the CSHA, being primarily for:

- the acquisition and upgrade of assets used to support the provision of housing assistance;
- the provision of funds to non-government organisations for the purposes of providing housing assistance;
- the retiring of debt that has been used to fund housing assistance; and
- the provision of subsidies for consumers who receive housing assistance;
- research, advocacy, consumer participation, information dissemination activities and other like activities.

2.2 Scope

The CSHA requires that states and territories provide information to the Commonwealth to show that they have properly acquitted the government funds. Two types of information are collected, being:

- financial information using a nationally consistent reporting framework;
- information used to monitor operating performance (performance indicators).

The Allen Consulting Group and PricewaterhouseCoopers were engaged to investigate the financial information requirements of the CSHA and to examine alternative financial reporting frameworks.

Information required for performance indicators is being separately reviewed by the Department, and will be incorporated in the multilateral and bilateral agreements with each SHA. Additional information is also required by the Productivity Commission for its Review of Commonwealth/State Service Provision publications, however a review of their requirements is beyond the scope of this review.

2.3 Our approach

Our approach to this consultancy was based on a high-level assessment of needs and consultation with key stakeholders to determine the alternative reporting frameworks considered. It was performed using the following four-stage process:

Stage 1: Understanding the policy framework

Stage 2: Consulting with stakeholders

Stage 3: Development of a proposed reporting framework

Stage 4: Preparation of a comprehensive report.

Stage 1 Understanding the policy framework

The first stage of the study was to undertake a review of the overall policy framework which governs the CSHA. The review involved discussions with staff from the Department, as well as desktop analysis of the following:

- Commonwealth State Housing Agreement
- 1997–98 State Housing Annual Reports (all states and territories)
- existing financial reporting framework
- existing state and territory reporting
- results of previous consultancies.

Stage 2 Consultation with stakeholders

After reviewing the policy framework, we conducted interviews with key stakeholders in order to ensure that we understood all the relevant issues and to incorporate an element of ownership in the process. Given constraints on time and funding, it was not feasible to involve all stakeholders. With the approval of the Commonwealth a focused list of consultations were conducted. Interviews and talks were conducted with the following stakeholders:

- state housing authorities (Queensland, New South Wales, Victoria and South Australia (by phone))
- the Department of Family and Community Services
- the Productivity Commission
- Australia National Audit Office (by phone).

Stage 3 Development of a proposed reporting framework

Using the information and the Commonwealth's requirements identified in the first two stages, options for the design of a new reporting framework were devised. The reporting framework attempts to satisfy as many of the goals and requirements of the stakeholders as possible, without overcomplicating the reporting or compromising the integrity of the information.

Stage 4 Preparation of a comprehensive report

This report summarises the issues examined, alternative approaches to the current method and our recommended approach, including a pro forma of a recommended reporting format. It also recommends an approach for the analysis of SHA financial information, including recommended tools and a discussion about comparability issues.

3 Assessment of goals/needs

3.1 Commonwealth goals/needs

Financial reporting

The Commonwealth has a wide range of responsibilities regarding the CSHA and consequently has many needs from the financial reporting system that is in place. Based on consultations and other inputs, the consultants have identified the following key goals held by the Commonwealth.

Table 1: Summary of Commonwealth goals from CSHA financial reporting

Goals	Comments
Probity	It is a fundamental requirement that the states and territories meet Commonwealth funding acquittal and accountability requirements in order for the Commonwealth to be accountable itself.
Effectiveness	Obtain data which permits costs and outputs to be related to show what is being achieved with the level of funding provided.
Efficiency	Allow benchmarking and a better understanding of contestability through comparable data.
Risk management	Sufficient information to demonstrate the financial situation of the SHAs.
National perspective	Collect data to assess achievements throughout Australia as a whole.
Simplicity	Seek an optimal balance between the value of the information collected and the difficulty and cost in collecting and maintaining it.

While the Commonwealth regards each of the goals identified above as important, emphasis was placed on three in particular. Officials impressed upon the consultants the relative priority of the following aims which are noted in their order of importance:

- to be able to assess the financial viability of SHAs for risk management reasons;
- to be able to meaningfully compare the results and financial positions of SHAs;
- to reduce the reporting burden on the states and territories.

Adequate information about the financial situation of the SHAs is central to management of risks borne by the Commonwealth. Tracking the financial viability of SHAs is the main means available for the Commonwealth to ameliorate this risk.

Comparison of the results and financial position of the SHAs is important in order to facilitate the most efficient use of resources. By comparing results against predetermined benchmarks and against other SHAs, management can identify the strengths and weaknesses of their SHA. Where appropriate they can take remedial action where performance is below that of the other SHAs or below the agreed targets.

Obtaining a balance between the costs and benefits of collecting information is also important to make the system workable and useful. It is important to ensure that all information requirements above the minimum required by legislation are achievable with minimum manipulation of existing data and must be useful to the Commonwealth.

Performance indicators

The Commonwealth has an interest in ensuring that the operations of the SHAs are efficient. By doing this, it ensures that funding under the CSHA is being used for the provision of housing assistance to those in need and not to finance inefficient operations. Monitoring of agreed performance indicators encourages SHAs to focus on those outcomes desired by the Commonwealth.

Financial information and performance indicators are highly related and it would be best to avoid analysis in isolation. The performance indicators required by the CSHA (and for the Productivity Commission) are being separately reviewed by other teams within the Department.

3.2 States' views/needs

During our meetings with officers of the nominated SHAs, a number of comments were made about the information requirements of the Commonwealth as part of the CSHA. The most significant issues have been summarised below.

While the SHAs visited recognise that they have a reporting responsibility to the Commonwealth, they are particularly interested in reducing the administrative burden. In some states preparation of the CSHA reporting required two SHA members of staff two months to compile after finalisation of the annual report. In another territory information was still not received by the Commonwealth until over six months after the finalisation of the annual report.

In addition, as detailed in Section 4.2 of this report it was found that the financial information required by the Commonwealth was not representative of the financial reporting already being prepared by the states for management purposes. This comment was also relevant for the information requirements for the performance indicators, which were often difficult to compile. There was some concern that the costs of collecting the information outweighed the benefits.

A number of solutions were put forward as to how the Commonwealth can assist the states and territories, including:

- ensuring that the required format of financial reporting aligns with SHAs' internal reporting formats so that manipulation of information is kept to a minimum;
- ensuring that definitions used within the reporting framework are unambiguous and reflect the operations of the SHAs.

It was also apparent from talks with some states that they would like to be able to benchmark their operations against those of the other SHAs. The current perception is that meaningful comparisons of SHA results are not possible as financial and other information is not compiled in a consistent way. Consequently, it is difficult for the SHAs to judge their performance and there is no real incentive to improve operations. This is being addressed by the implementation of national and bilateral agreements.

During our review, the states identified a number of other issues that will affect their funding requirements in the future. These issues arise mainly due to the policy direction of the SHAs, and should be taken into account during any analysis of the information. In particular, the following was highlighted:

- Waiting lists are now being more strategically targeted, so that assistance is given to those in most need of assistance. Consequently rental income, which is primarily based on client incomes, is likely to decrease in the future.
- Some services are being contracted to specialised private sector companies where special needs have been identified that cannot be appropriately addressed within the SHAs. Due to the specialised nature of the services provided, higher service costs may be experienced but a better outcome for clients is achieved.
- There is a greater concentration on special need clients, resulting in a higher proportion of modified houses. The additional requirements for these houses can add to the costs of construction. This is a community service obligation, not a commercial consideration.
- Property acquisitions are being focused towards areas where housing is most in need. This tends to be in more central locations close to facilities and clients' work places, rather than in cheaper, more remote areas. Consequently SHAs are experiencing higher

costs when purchasing land. Costs to build houses/acquire land need to be viewed in light of the policy decisions of that particular state or territory.

4 Possible financial reporting frameworks

4.1 Background

The legislation relevant to the CSHA is the *Housing Assistance Act 1996*. This legislation requires that housing assistance provided under the act 'be implemented through common-form agreements between the Commonwealth and States'. The form of agreement is to 'include provisions relating to the reporting by a State of its operations under such an agreement'.

The financial reporting requirements implemented under the CSHA require that 'States will provide to the Commonwealth within six months of the end of the financial year audited reports of housing operations under this Agreement and agree they will use nationally consistent financial reporting frameworks and accounting practices'.

In addition, the CSHA requires the chief executive officer (CEO) to certify that 'funds have been used only for allowable purposes' and that 'assets have been used only to provide housing assistance in accordance with the Agreement'.

The specific format and quantity of reporting developed to satisfy accountability requirements will be described in a subsidiary agreement to the 1999 CSHA, known as the National Housing Data Agreement.

4.2 The current financial reporting framework

The financial reporting framework adopted for the 1995–96 to 1997–98 years divides SHA operations into the following segments:

- Policy and Governance
- Property Manager
- Tenancy Manager
- Community Housing
- Home Ownership
- Other Activities.

The information was presented in a format which included a statement of income and expenditure, a balance sheet and a statement of cashflows, with detailed notes supporting major balances.

The benefit of dividing results into these segments was that it provided the Commonwealth with a level of detail about the operations of the SHAs which was not achievable from a consolidated report. This provided potentially useful information which could be used to relate inputs and outputs, one of the key requirements of the Commonwealth. In addition, by maintaining nationally consistent segment categories, it was envisaged that a comparison of SHA operations could be made.

While these ideas are conceptually very sound and should result in a significant amount of useful information for the Commonwealth, it was found that the reporting framework did not work in practice.

SHAs operate using very different legal structures, such as through the use of trusts for specific operations. Reporting is done separately for each legal entity (trusts, etc.) with a consolidation of housing operations only being performed once a year for the annual report. As the operations are not all reported using the segments noted above, a significant amount of manipulation of data was required to comply with CSHA reporting requirements.

In particular, there were problems allocating costs and income between the Property Management and Tenancy Manager categories, as well as with the definition of 'Other Activities'. In addition, some SHAs did not distinguish between public housing assets and community housing assets in their asset management systems, making it difficult to allocate costs between the two.

Because of the problems experienced, SHAs were forced to make arbitrary allocation decisions, and without any clear guidance as to how this should be done, there were inconsistencies between the treatments by each state and territory. Some examples of the types of allocations required included:

- the allocation of public housing income and expenses between Property Manager and Tenancy Manager;
- the creation of a notional 'tenancy management fee' between Property Manager and Tenancy Manager;
- allocation of overheads to segments;
- notional allocation of property assets (and associated incomes and expenditures) from Property Manager to Community Housing.

As a result of these factors, the integrity of the allocations to the operational segments were not able to be relied upon, and comparisons between SHAs were not made.

In addition, due to the difficulties of compiling the required information, some SHAs were not reporting within the six-month period required by the CSHA and some reports were not being audited. These factors seriously compromised both the usefulness and reliability of the information.

4.3 Considerations when selecting alternative reporting frameworks

When considering the alternative financial framework alternatives, the following factors should be taken into account.

Measuring financial viability and assessing risks

The Commonwealth has a responsibility to ensure that the financial situation of the SHAs is stable and that they are self-sustaining with the current level of funding. To enable it to achieve this the Commonwealth must collect sufficient information so as to make meaningful conclusions about SHA operations. It must also have a methodology when analysing information to ensure that significant issues are identified.

These issues have been covered in more detail in Section 6 of this report.

Reporting on outputs

The Commonwealth has an interest in relating costs and outputs to show what is being achieved with the levels of funding. This objective is achieved through a number of means, including:

- financial reporting, by segment and by type of expenditure;

- analysis of information provided by performance indicators.

The financial framework should ensure that enough information is provided to enable a reasonable understanding of how the SHAs have made use of their funding.

Financial accountability

The financial framework selected should contain sufficient information to enable the Commonwealth to meet the acquittal and accountability requirements imposed by legislation. This is the primary reason for reporting and will dictate the minimum level of reporting. A judgment will need to be made by the Commonwealth as to the amount of information that will meet the requirement for 'reports of housing operations'.

Benchmarking

Another key objective of the Commonwealth is to allow benchmarking and a better understanding of contestability. To achieve this objective, information reported by SHAs must be prepared using consistent allocation methods and accounting policies. It is only when information is reliable that SHAs' results can be meaningfully compared.

Managing the reporting burden for the states

Reporting by SHAs under the CSHA does not add any value to SHA operations and hence should be kept to the most basic level of information that will allow the Commonwealth to satisfy its requirements. In addition, the format of information should be consistent with information already prepared by the SHAs to avoid duplication of effort.

4.4 The alternatives

Whichever financial reporting format is selected, it should contain a profit and loss statement, balance sheet and a statement of cashflows that are self-reconciling, i.e. key information from each of the statements reconciles to information in the other statements. This will enable a high-level overview of the SHAs' operations and financial position, and will highlight any potential issues which might not be apparent through a review of each of the statements in isolation.

A number of alternative financial reporting frameworks have been identified and are detailed below. The alternatives use the same basic format, however, vary according to the level of disaggregation of information required. This ranges from consolidated numbers in the first option to a detailed breakdown in the third option. The decision as to how much information is required is a matter of judgment.

Consolidated approach

- Consolidated results of SHA operations are disclosed in a single column of numbers.
- Information provided should reconcile back to audited financial statements contained in the annual report.
- Information would be broken down into sufficient detail to allow a meaningful analysis of the results and financial position.
- Information about identified program funding would be separately disclosed to ensure that it has been appropriately acquitted in accordance with requirements in the CSHA. Note that these figures would already be included in the consolidated figures returned.

- An example of this reporting format is included at Appendix A, using the 1997–98 information for Victoria as an example. In addition, proposed definitions of account balances which should be used in conjunction with this framework are included at Appendix B.

Reporting of outputs using this approach would not be as direct as reporting by segments. Adequate information is provided, however, to provide a good understanding of what has been achieved with the funding. As described in Section 4.3, this would be achieved through a review of the individual items in the financial statements, a review of the information in the identified program information attached, as well as a review of information provided for the performance indicators.

The preparation of reports in this format would not require much additional work from that already performed for the preparation of financial information in the annual report. The most significant difference will be the need to allocate revenue and expenses into the categories required under the proposed format, although this should not cause significant amounts of extra work.

Even with a complex reporting structure we estimate that the information required for the proposed format could be compiled within a week.

Consolidated approach plus breakup

- Information would be provided on a consolidated basis as described above.
- Additional information would be provided by the states and territories breaking up the operations into their program areas. This would be in the reporting format that the SHAs use for internal purposes.

The information currently prepared by each state and territory for management reporting varies slightly, however there are basic consistencies in its preparation. Each state examined broke down its operations into key program areas, with varying levels of financial information provided for each.

An appropriate level of information should include at a minimum a profit and loss report for each key program area, providing details of key items of income and expense. Where possible a cashflow and balance sheet should also be obtained.

Segmented approach

- This would be similar to the current reporting requirements.
- Categories required would be changed to:
  –Public housing
  –Home ownership
  –Community housing
  –Aboriginal housing assistance
  –Crisis Accommodation Program
  –Other.
- Consolidated total would reconcile back to audited annual report financial statements.

While the actual segments used by states and territories vary, a number of common segments exist. The segments selected for the third option have been taken based on program areas for the states visited. The main difference between these segments and the segments in the existing framework are:

- the combination of Property Manager and Tenancy Manager into Public Housing. Allocation between these two notional segments seemed to cause the most problems;
- the inclusion of identified program segments;
- the reduction of the Policy and Guidance segment which would be included in 'Other'.

A number of other segments were identified from states' management reporting, however these were not considered material enough to warrant an individual segment. Examples included Private Housing Assistance and Housing Commercial Services.

4.5 Assessment of alternatives

An analysis has been prepared of each of the alternative reporting frameworks in Table 2. The analysis has been performed based on the perceived satisfaction of the goals and needs of the Commonwealth and states/territories, as well as highlighting any potential problems associated with that alternative.

Table 2: Assessment of alternatives

Alternatives	Satisfaction of goals/needs	Potential issues
Consolidated reporting	Simple for SHAs to prepare Removes comparability issues re allocation between activities All significant financial viability issues can be addressed from information provided Encourages more refined analysis process	May not contain sufficient information to make meaningful comments on results/viability Does not fully address reporting on outputs
Consolidated reporting —with break-up of operations in SHAs' format	Simple for SHAs to prepare, as detailed information is provided in their normal reporting format Further analysis can easily be made where issues arise Gives scope to review SHAs' results using the new outputs framework	It is not clear that supporting information is needed by the Commonwealth No mechanism for comparing supporting information between SHAs due to different formats Outputs framework not yet implemented by the states and territories
Segmented reporting	Provides a break-up of results into key program areas Removes some of the problems associated with the current reporting framework Enables analysis of problems in individual areas	Does not remove comparability problem relating to allocation of costs between activities High administrative burden for the states and territories

4.6 Recommended financial reporting format

Based on the importance the Commonwealth placed on assessment of SHA financial viability, the emphasis placed by the states on the ability to compare results and the need to reduce the reporting burden, we recommend that the first alternative, a consolidated approach, be adopted as the national reporting framework. This method particularly satisfies the second and third objectives, and provides enough information about the SHAs' results and financial positions to make comments about financial viability and other related issues.

The consolidated approach should be used for high-level review purposes, with additional information being requested from the states and territories where problem areas are identified by the Commonwealth. This should help to simplify and focus the Commonwealth's review procedures, giving it a more meaningful and risk-focused approach.

The remaining alternatives suggested provide additional information about the composition of the SHAs' operations, however this does not appear to be needed to make the high-level analysis that is required by the Commonwealth. Any further break-up of the information from a consolidated level will increase the reporting burden on the states and territories, and will reduce the integrity, and consequently the usefulness, of the information provided. This has been the main problem experienced with the current financial reporting framework.

It should be noted that any analysis of the information must be made with a detailed understanding of the operations of each SHA, and in consultation with the SHA management. Each of the SHAs operates in separate geographic and economic environments which will have a material impact on the financial results. Some of the differences identified include:

- different population densities;
- different tenant demographics (e.g. higher Indigenous population, more special care tenants);
- rapid deterioration of properties in some states and territories due to severe climates;
- different housing stock compositions and age of housing stock;
- different mix of programs.

While these factors should not be used as an excuse for poor performance, they should be taken into account when analysing financial information and comparing one SHA to another. In this way meaningful, informed conclusions can be made about the performance of the SHAs.

5 Other financial reporting framework issues

5.1 Timing of reporting

One of the uses of information received by the Commonwealth is to assess financial viability of each SHA from a risk management point of view. Information is also used to detect any areas of concern so that these may be raised with the SHA and addressed where appropriate.

The CSHA requires financial information to be provided to the Commonwealth within six months of year-end. Given the uses of the information by the Commonwealth, it appears that receiving information at such a late stage makes it difficult to address any problems that are identified in a timely manner.

Consequently, we recommend that the SHAs be encouraged to submit their information as soon as possible after year-end. If the recommended reporting framework is adopted, the work to be performed by the SHAs will be significantly reduced and we do not believe there will be any reason why the financial reporting could not be performed at the same time as financial statement preparation for the annual reports.

In addition, if the recommended financial reports are easily prepared by the states and territories, we recommend that an interim reporting strategy by adopted. This would involve

SHAs reporting to the Commonwealth on a six-monthly basis rather than annually. This would enable the Commonwealth to identify emerging issues more quickly and to address potential problems in a more timely manner. The fact that it has not been built into the current CSHA raises some challenges. This may not present an insurmountable barrier if the states and territories agree to a change on the basis that the more regular reporting of a more manageable data requirement is preferable to the existing arrangements.

5.2 Certification by chief executive officer (CEO)

Irrespective of which financial reporting framework is selected, the CEO of each SHA shall continue to be required to certify to the Commonwealth that the CSHA funds have been spent for the purposes outlined in the CSHA. This is a key feature of the acquittal requirements. We understand that the format of this certification is currently being reviewed and we recommend that a standard format be adopted.

5.3 Audit of financial reports

It was noted during the review that some SHAs did not have the CSHA financial reports audited due to the complexity of their production.

As it is a requirement under the CSHA, all SHAs should be required to have their reports audited. This process would be significantly simplified with a consolidated reporting format and could be completed at the same time as the SHA financial statements are audited.

5.4 Financial information used in performance indicators

As much as possible, financial information used to calculate performance indicators should reconcile back to the financial reports. In the past, differences have been noted between the financial information used in performance indicators and information in the financial reports due to financial reports being submitted up to two months after performance indicators have been completed.

With a simpler reporting framework, it should be possible to provide information for both reports at the same time, allowing an easier cross reference of numbers and consequently more accurate performance indicators.

5.5 Comparability issues if the reporting format is changed

If a change to the reporting framework is made, thought will need to be given to the treatment of comparative information. If the recommended consolidated approach is adopted then this should not be an issue as consolidated figures were provided in previous years.

Any other changes to the format, including a revision to the segments selected for analysis, would either require prior year figures to be recalculated or for no comparisons to be shown in the first year of implementation.

5.6 Source of housing assets

Certain assets owned by the SHAs were purchased using non-CSHA funding. Some SHAs have been keeping separate records of assets based on their original funding source. It should be made clear to SHAs that reporting under the CSHA should include all housing activities of the SHA and not just those initially funded by the CSHA. This will ensure that the Commonwealth gets a full understanding of SHAs' operations, rather than those simply tied to CSHA funding. We understand that reporting total operations will be simpler for the SHAs rather than trying to split between CSHA-funded operations and other operations.

5.7 Reporting on outputs

The outputs framework being implemented by both Commonwealth and state government organisations attempts to identify the cost of each program being run by that organisation. In the case of Housing this would involve full costing of programs such as Public Housing and Community Housing. Reporting under the outputs framework has not yet been fully implemented by the states and territories. Some states have made considerable progress down this path with implementation to be made for the first time in the 1999–2000 financial year, while others are still assessing the approach they are going to take for this new form of reporting.

SHAs are developing the outputs framework in consultation with their own state treasuries and consequently there is no consistency between the outputs that are being selected by each state and territory. As it is not possible for the Commonwealth to require the states and territories to use a nationally consistent outputs framework, it is difficult to incorporate the outputs reporting into a pro forma CSHA reporting framework without some SHAs requiring considerable amounts of recalculation.

Consequently, we recommend that the second reporting alternative noted at Section 4.4 be considered once the outputs framework has been fully implemented by most SHAs. This would involve the SHAs providing an analysis of their results using the outputs they have selected without the requirement to reformat this information into nationally consistent formats.

5.8 Verifying funds have been correctly spent

The Commonwealth must be able to ensure that CSHA funds, particularly non-housing funds, have been properly spent in accordance with the CSHA. This is not easily achieved given that the Commonwealth has consciously removed itself from involvement with the day-to-day decisions of the SHAs. To attempt to satisfy the Commonwealth's obligations we have recommended the following:

- certification from CEO;
- audit certificate from SHA auditor;
- specific information requirements for identified program funding.

These procedures have not changed from the previous reporting framework and we would not recommend any further checks, such as appointing a national auditor to review all SHAs, as they would not be cost effective and would not provide much more comfort than is already provided.

5.9 Issues for future consideration

Goods and Services Tax (GST)

The financial reporting format recommended in this report has not taken into account the impact of the proposed Goods and Services Tax (GST) on the operations. We recommend that the impact of the GST be built into the financial reporting framework when its implications on the financial results of the SHAs has been determined.

Tax equivalent regime

Some states are reporting under a tax equivalent regime, whereby a notional tax expense has been created on any profits generated. As this has not been adopted by all states and territories we have not built it into the recommended format. In this way, we ensure that financial results will be consistent.

If the majority of states and territories adopt the tax equivalent regime, then this element could be adjusted in whichever model is agreed upon.

Capital user charge

The capital user charge is being used by both Commonwealth and state government organisations to attempt to attribute a notional cost of the assets which it controls. The Productivity Commission is currently investigating the implications of a capital user charge for Housing. We recommend that the results of their review be considered for the selected reporting framework.

6 Analysis of financial information

6.1 Financial analysis framework

The Commonwealth has a responsibility to ensure that the financial situation of the SHAs is stable and that they are self-sustaining with the current level of funding. The Commonwealth needs to ensure that it is aware of all financial circumstances of each SHA, particularly those which may affect their long-term viability.

Consequently, it is important that the Commonwealth collects sufficient relevant information about the operations of the SHAs to make meaningful conclusions about their operations. In addition to collecting the information, it should have in place a financial analysis framework which includes tools that can be used to detect significant areas of concern.

With this in mind it should be noted that the financial viability of an SHA is not able to be determined through ratio analysis or high-level reviews. Conclusions about financial viability can only be made based on a full, in-depth analysis of individual SHA operations and financial results. This is a considerable exercise and has not been covered as part of this review. The steps shown in this chapter are designed as a tool for desk-top reviews in order to highlight emerging trends or areas of concern.

6.2 State Housing Authority risks

When analysing financial information it is important to consider the risks applicable to SHA operations. Some financial viability risks identified during the review include:

Government grants do not cover net cash outlays

If government grants do not cover net cash outlays, the SHAs will be forced to borrow to fund the deficit. Consistent cash deficits will result in growing debts and higher interest bills in future years. This may lead to a debt spiral, with interest expense in future years reducing the ability of SHAs to provide key services to clients.

Value of properties decreases

Reduction in the value of properties will reduce the SHAs' ability to raise funds through the sale of existing assets. Property values may be reduced by a number of factors, including insufficient annual maintenance, ageing of properties, and/or locating properties in difficult to rent areas.

Significant restoration costs required on properties

Significant costs may be required in the future to bring properties back to a state where they can be re-let or sold. This is particularly important for SHAs with ageing properties or where climatic or other factors may have a heavy impact on property conditions.

Impact of external factors (e.g. GST)

States will need to evaluate any changes to their risk profiles which could result from the introduction of the GST. The implications of the GST also need to be considered in relation to the development of any revised financial framework.

6.3 Methods of evaluating financial performance

We have attached at Appendix C a list of recommended financial performance indicators which can be used to analyse the SHAs' financial information. These ratios are designed to highlight relationships between various items in the financial statements and can be used to put individual numbers in financial statements in context. Financial ratios can be used for:

- comparison of financial operations from year to year;
- comparison between SHAs (note the comments below about comparability issues that should be considered);
- comparison with set and agreed targets.

The analysis of these ratios performs a number of functions, including:

- providing some meaning to the information received by the SHAs, which cannot be identified using the raw data due to the relative differences in size of the various operations;
- highlighting issues associated with certain SHAs. These can then be investigated with the help of the SHA and where appropriate solutions discussed and agreed on;
- raising questions which can be discussed with the states and territories to achieve a good understanding of their operations; and
- a high-level 'audit' of the information received.

At Appendix D we have applied our recommended ratios to the 1997–98 financial information to demonstrate how they would be used in practice.

In addition to these indicators, further high-level analysis needs to be performed including such measures as:

- identifying which SHAs are operating in deficit;
- identifying which SHAs are financing deficit operations through external borrowings;
- comparing changes in the size of operations of SHAs.

6.4 Knowledge of individual SHA circumstances

When performing any analysis on financial information, it is extremely important to have a detailed knowledge of each SHA.

To achieve maximum benefit from a review of results, detailed discussions should be held with each SHA and results from those discussions and conclusions drawn should be documented in an appropriate format. This will ensure that there is some continuity in the review process, particularly if states and territories are attempting to achieve benchmarks set by the Commonwealth.

Without a detailed understanding of each SHA, incorrect conclusions could be made about certain circumstances, resulting in significant financial viability issues not being detected or incorrect funding decisions in the future.

6.5 Comparability issues

One of the objectives of the Commonwealth is to 'allow benchmarking and a better understanding of contestability through comparable data'.

As a result of problems with the existing reporting format, information produced by the SHAs was not reliable and was consequently not used by the Commonwealth to either review the operations or to compare SHAs. Two areas in particular, which require resolution are allocation of revenue and expenses to segments, and different accounting policies.

Allocation of revenue and expenses to segments

When SHAs are required to allocate income and expenses to segments, information may be incomparable due to different methods of allocation between segments. This issue was covered briefly in Section 4.2. The problem can be avoided by removing the requirement to break up the consolidated results. This is the primary rationale behind our recommendation for consolidated reporting rather than segmented reporting.

Different accounting policies

The second issue relates to the underlying differences between the accounting numbers due to the adoption of different accounting policies by SHAs. The results of the SHAs could be materially affected by the use of one accounting policy over another. Table 3 shows the significant account balances affected by different accounting policies.

As much as possible, states and territories should be encouraged to use nationally consistent accounting policies. An attempt at this was made in March 1995 when Coopers & Lybrand (now PricewaterhouseCoopers) was commissioned to prepare standard accounting policies which were to be used by all SHAs. While these policies appear to have been adopted as much as possible, there are still cases where inconsistencies are experienced.

As the Commonwealth cannot enforce these policies, other procedures will need to be adopted to ensure that information is able to be compared against other SHAs and against benchmarks. Three possible solutions to this problem are as follows:

1. *Require SHAs to report under the CSHA using nationally consistent accounting policies.*

   This would require states and territories to adjust their financial information where their normal accounting policies vary from the nationally agreed framework. This would involve making changes to the audited figures reported by the states and territories in their annual return. Once again this requires the states and territories to make judgments and manipulations and may lead to questions about the reliability of the information. In addition it adds an extra administrative burden on the states and territories.

2. *Allow for the impact of different accounting policies when comparing information.*

   This would involve the Commonwealth being aware of the impact of different accounting policies, but not actually making any adjustments for them in the returns. This would be particularly relevant when comparing the results of the ratio analysis by state and territory.

3. *Adjust the financial information after it is received.*

   This would involve a quantification of the impact of the different accounting policies on the accounting results, and adjustments to the results prior to any comparison between SHAs. Although this approach will place an extra burden on the Commonwealth, it is the recommended approach and is examined in more detail below.

6.6 Adjusting financial information for different accounting policies

Quantification of differences

As noted above, the financial results of SHAs can be materially affected by adopting alternative accounting policies. A consequence of this is that information may not be meaningfully compared between SHAs where different accounting policies have been adopted.

The impact of the accounting policies listed below can be significant and should be quantified and adjusted before comparing SHAs against each other. We have not attempted to perform this task as it is beyond the scope of this review, however we recommend that it be performed prior to receiving the 1998–99 financial information.

The most significant differences have been summarised in Table 3, along with the expected impact on financial statements.

Table 3: Assessment of different accounting treatments

Account	Different accounting treatments possible	Impact on financial statements
Valuation of assets	Different methods of valuation used (e.g. deprival vs market value)	Highly material
	Different periods between valuations	
Depreciation	Different methods of depreciation used (e.g. straight line vs reducing balance)	Highly material
	Different assessments of 'useful life', resulting in different depreciation rates	
Capitalisation of assets	Different ways of determining which costs can be capitalised when assets are constructed (e.g. interest on specific loans to finance development, allocation of indirect costs)	Potentially material
	Different capitalisation limits (i.e. costs below a set limit are expensed)	
Costs beyond control of SHAs (e.g. rates and other taxes)	Costs may not be fully levied on housing activities in some SHAs	Potentially material
	The calculation method of some costs varies between SHAs (e.g. different charges for rates)	
Tax equivalent	Some states and territories might be operating under a tax equivalent regime	Potentially material
Inventories	Some SHAs may disclose land held for resale as inventories rather than property or fixed assets	Not highly significant given the low levels of inventory at 30 June 1998
Outsourced operations	Where a function has been contracted out, all the costs and revenues associated with that function are reduced to a single payment	Not highly significant given the low level of contracted services at present
Employee costs and entitlements	Superannuation, fringe benefits tax, payroll tax—different rates apply across Australia, and some SHAs will not include any costs	Should not be significant for housing

Some examples of differences noted between accounting policies in SHA annual reports include:

- valuations of rental properties—
  - –Queensland—revalues every three years with an 'interim' valuation in the intervening years. Valuations are performed on a deprival basis by an independent valuer
  - –South Australia—revalues every year using the Valuer-General's values
  - –Victoria—revalues every year based on capital improved values at the start of the year based on information from external valuer
  - –New South Wales—revalues using cyclical revaluation approach, using a representative sample as a basis. Valuation performed by Valuer-General.
- depreciation rates for properties. Residential properties in most states and territories are depreciated at 2%, except for Victoria (over useful lives) and Queensland (2% or useful lives). Depreciation on other properties varies and is often subject to interpretations of what constitutes a 'useful life'. Details of depreciation policies for selected states include:
  - –Tasmania—remaining economic life
  - –Queensland and Victoria—useful lives

- –South Australia—commercial property (2.5%) and administrative properties (1.3% to 5.5%)
  - –Western Australia—2% to 5%.
- property rates as a percentage of total Property Manager expenses, indicating different rates levied in different states:
  - –Queensland—20%
  - –South Australia—11%
  - –Victoria—15%
  - –NSW—19%.

Reviews are currently being performed by the Productivity Commission on a number of accounting issues in an attempt to make the Commission-published information more comparable. Accounting treatments currently being examined or recently examined include:

- depreciation costs
- superannuation
- payroll tax
- costs of capital.

Adjustment of differences once quantified

Once the differences between accounting treatments have been quantified the financial information should be adjusted for each SHA to ensure they are measured on a consistent basis. A decision will need to be made as to the most appropriate accounting treatment, probably the nationally agreed method, and any SHAs not in compliance with this treatment should be adjusted.

When differences are not quantifiable

Where it is not possible to quantify the difference, a number of steps could be taken, including:

- qualifying any judgment or decision when comparing results;
- where possible, removing the element of the financial information that is producing inconsistencies from all SHA results. This will negate its impact on any comparison. An example of this might be rates charged to SHAs, where rates as a percentage of total expenses range from 7% in some SHAs to 22% in others. By removing rates from total expenses, a more comparable picture is available;
- applying similar ratios across all SHAs. Using the rates example, rates expense could be adjusted in all SHAs to a figure of, say, 15%. This would make treatment consistent across all SHAs.

Note that any adjustments made to financial information should be made with due care and investigation, particularly if results are intended to be published. Final reports should be reconciled back to information provided by the SHAs to ensure an appropriate audit trail is maintained. It would also be worthwhile consulting with the states and territories about any proposed adjustments to ensure that no incorrect assumptions have been made.

7 Recommendations

7.1 Summary of recommendations

The significant recommendations raised in this report are as follows:

Consolidated reporting framework

We recommend that the nationally consistent format for financial reporting under the CSHA be comprised of a statement of profit and loss, a balance sheet and a statement of cashflows based on the consolidated results of the SHAs. Where additional information is required, this should be obtained from the SHA in the format used by them for normal internal reporting.

Analysis of financial reporting

A system should be developed to review the results of the SHAs which focuses on their risks and highlights issues relating to each particular SHA. This would include a high–level analysis using financial indicators and other tools to identify particular problems.

When comparing consolidated results, the impact of differing accounting policies should be quantified and adjusted.

Timing of reporting

With more manageable data requirements, SHAs should be encouraged to report as soon as possible after year-end. In addition, we recommend that financial reporting is performed on a six-monthly basis to enable a timely identification and remediation of emerging issues.

Certification by chief executive officer

Certification required by the CSHA should be received from CEOs using a standardised national format.

Other matters

The impact of a number of emerging operating and accounting issues should be examined in more detail. These issues include:

- the implications of the GST on SHA reporting;
- the impact of the tax equivalent regime on SHA results;
- the use of a capital user charge to attribute a notional cost to assets used by the SHAs.

Appendix A: Recommended reporting framework

Operating statement

The operating statement shows the income and expenditure of an entity for a given period. Items are classified period based on when the benefits are received (for income) and when costs are incurred (for expenses). Note that there is a distinction between cash receipts and payments (refer to Statement of cashflow below).

Balance sheet

The balance sheet shows the financial position of an entity at a point in time. It is broken into assets, liabilities and equity. Assets and liabilities are broken down further into current (less than 12 months) or non-current (more than 12 months).

The individual categories on the balance sheet are broken down further in the notes to the accounts (refer below).

Statement of cashflow

The statement of cashflow gives details of actual cash transactions for an entity during a period. Cashflows are split between operating activities (normal operations), financing activities (obtaining and repaying funding for operations—note that government funding is shown separately) and investing activities (cashflows from fixed assets and other investments).

Notes to and forming part of the reporting framework

These notes provide support for numbers in the balance sheet and operating statement.

Identified program funding

To satisfy the reporting requirements of the CSHA, information is required to show that tied funding provided under the CSHA for identified programs has been properly spent on those items. These statements detail the cashflows relating to the identified programs to show that cash payments have exceeded the tied funding received.

Use of 'other' category in financial reporting

Where an item does not fall into the specific categories suggested in the pro forma reporting format, the item can be classified as 'other'. Where the item is material, an explanation should be provided as to what it relates to.

In the pro forma framework in this appendix we have used Victoria's 1997–98 financial results as an example. Because of lack of information we were unable to split many of the items and hence may have classed an entire classification as 'other'. This would be unlikely to occur in practice.

Appendix B: Reporting framework definitions

The classification of information into the format required by the pro forma reporting framework (at Appendix A) may result in inconsistent treatment due to some account balances being open to interpretation. To attempt to achieve a more nationally consistent approach Table 4 provides definitions for key account balance descriptions.

Definitions are provided only of account balances which may be subject to interpretation. Other account balances have not been explained.

Table 4: Definitions

Bad and doubtful debts	Movement in doubtful debt provision plus bad debts written off. Bad debts recovered should be disclosed as income
Commercial	Includes all borrowings sourced externally to Governments
Commonwealth	Includes all borrowings sourced from the Commonwealth
Completed developments	Commercial development projects
Construction in progress	Additions to rental dwellings stock under construction
Deferred revenue	Revenue which is being spread over a period of time
Interest income	Income received from mortgages and other investments
Interest subsidy	Subsidy paid to related entities which operate the home finance schemes or subsidy paid directly to mortgagees
Investments in partnerships	Includes investments which are accounted for as a partnership
Land for future developments	Land acquired and to be used in commercial developments
Loans	Monies lent by the SHA entity to house and land purchasers, housing cooperatives, clients for short-term second mortgages and other entities
Other debtor accounts	Other miscellaneous debtors
Other investments	Other investments should be separately disclosed
Other properties	Other types of properties leased to tenants such as commercial or industrial premises
Potential rental income	Market rental and assuming 100% occupancy of all tenantable properties
Rent collection expenses	Expense incurred in collecting rental income
Rental rebates and subsidy	The rebate or subsidy granted by the SHA to tenants
Rents lost through vacancy	Rents lost through vacancy as the dwelling was in need of repairs or was vacant due to time taken to turn around tenants
Repairs and maintenance	Costs incurred which restore an asset to its original condition. This includes: day-to-day maintenance, reflecting general wear and tear cyclical maintenance, which is maintenance performed as part of a planned maintenance program; and other maintenance. This would include repairs due to vandalism
Residential services	Includes components of public lighting, cleaning, gardening, security and any other communal area costs

(continued)

Table 4 (continued): Definitions

State and territories	Includes all borrowings sourced from the states and territories
Sundry creditors	Other creditors
Tenant rental accounts	Monies receivable from tenants for rent and related items. Amounts payable in respect of vacated premises should also be included in this category
Tenant revenue in advance	Tenant accounts paid in advance of year-end
Trade creditors	Accounts payable recorded in subsidiary ledger
Vacant land	Land purchased or held for construction of rental dwellings
Work-in-progress	Incomplete development projects

Appendix C: Financial performance indicators

Information presented in financial statements can be best analysed by the calculation and interpretation of financial ratios which show the relationships that exist between various items presented in those statements. Relationships may exist between various items in the one financial statement, for example between items presented in the balance sheet, or they may exist between items presented in several related financial statements such as the profit and loss account and the balance sheet.

Comparing ratios between states and territories or against benchmarks may indicate areas for further investigation. For example, assume the national average ratio for depreciation as a percentage of property values is 2% and one state only has a ratio of 1%. This might highlight that the state is not spending adequate amounts of resources on maintenance, which might lead to higher restoration costs in the future.

Any conclusions made when analysing ratios should be made in consultation with the state and with the context of the SHA operations in mind.

Table 5: Indicators and calculation methods

Financial performance indicator	Calculation method and what it measures
Net operating surplus/(loss) as a proportion of total revenue	$\frac{\text{Net operating surplus/(loss)}}{\text{Total revenue}}$ This shows the percentage profitability of the organisation. Modest profitability should be around 5–10% to repay debt/support growth.
Net CSHA funding as a proportion of rent received	$\frac{\text{Net CSHA funding}}{\text{Total rent received}}$ Indicates the SHA's reliance on CSHA funding to support operations where total rent is insufficient to meet the operating needs.
Percentage of CSHA funding used to fund operating deficits	$\frac{\text{Cash inflow/(outflow) from operations}}{\text{Net CSHA funding}}$ This shows how much of the government funding has been used to fund operating cash deficiencies.
Capital payments as a proportion of CSHA revenue	$\frac{\text{Net payments for FFE}}{\text{Net CSHA funding}}$ This shows how much of the CSHA funding has been used to fund capital acquisitions.

(continued)

Table 5 (continued): Indicators and calculation methods

Financial performance indicator	Calculation method and what it measures
Interest as a proportion of total operating expenses	$\frac{\text{Interest expense}}{\text{Total operating expenses}}$ This shows the proportion of total expenditure on servicing the SHA's debt.
Interest cover (the number of times the net surplus can cover the interest expense)	$\frac{\text{Net surplus/(cost of service)}}{\text{Interest expense}}$ This measures the SHA's ability to service its debt. For a private sector organisation, the net surplus should be between 9–16 times the interest expense.
Interest as a proportion of long-term borrowings	$\frac{\text{Interest expense}}{\text{Average non-current borrowings}}$ How much are the borrowings costing the organisation—is the average interest rate comparable with current market rates?
Non-current borrowings at year-end as a proportion of non-current borrowings at beginning of year	$\frac{\text{Non-current borrowings at year-end}}{\text{Non-current borrowings at beginning of year}}$ This shows the trend of loan reduction, indicating how long it will take to repay the non-current borrowings.
Interest received as a percentage of loans	$\frac{\text{Interest received}}{\text{Loans to customers}}$ This shows the average interest rate earned on SHA loans to customers—how does this compare to market rates?
Return on assets	$\frac{\text{Net operating surplus/(cost of service)}}{\text{Total assets}}$ This measures portfolio management and indicates how well the SHA's investment in property is performing.
Maintenance expense as a proportion of property, plant and equipment (PPE)	$\frac{\text{Repairs and maintenance}}{\text{Total PPE at cost/valuation}}$ This can indicate where an SHA is not fully maintaining its assets, or if there is a problem with ageing assets.
Depreciation expense as a proportion of property	$\frac{\text{Depreciation expense}}{\text{Total PPE at cost/valuation}}$ This can indicate where depreciation policies are unusual or where the mix of PPE is unusual.
Rent received as a proportion of potential rental income	$\frac{\text{Rent received}}{\text{Potential rental income}}$ This shows the level of subsidy given to tenants.

Appendix D: 2002–03 CSHA financial reporting framework

Table 6: Statement of cash flows for the year ended 30 June 2002

	2002 $'000	2001 $'000
Rent received		
Interest received		
Grants and other contributions		
Other		
Total inflows		
Employee costs		
Supplies and services		
Borrowing costs		
Grants and subsidies paid		
Other		
Total outflows		
Commonwealth government funding		
State/territory government funding		
Net cash flows from government		
Net cash flows from operating activities		
Inflows		
Proceeds from sale of land and buildings, plant and equipment and infrastructure systems		
Proceeds from sale of investments		
Loans and advances redeemed		
Outflows		
Purchases of land and buildings, plant and equipment and infrastructure systems		
Purchases of investments		
Loans and advances made		

(continued)

Table 6 (continued): Statement of cash flows for the year ended 30 June 2002

	2002	2001
	$'000	$'000
Net cash flows from investing activities		
Cash flows from financing activities		
Inflows		
Proceeds from borrowings and advances		
Other		
Outflows		
Repayment of borrowings and advances		
Other		
Net cash flows from financing activities		
Net increase (decrease) in cash		
Cash and cash equivalents at beginning of financial year		
Cash and cash equivalents at end of financial year		

Table 7: Statement of financial position as at 30 June 2002

	2002	2001
	$'000	$'000
Current assets		
Cash assets		
Receivables		
Inventories		
Other financial assets		
Other		
Total current assets		
Receivables		
Inventories		
Other financial assets		
Property, plant and equipment		
Intangible assets		
Other		
Total non-current assets		
Total assets		
Payables		
Interest-bearing liabilities		
Provisions		
Other		
Total current liabilities		
Payables		
Interest-bearing liabilities		
Provisions		
Other		
Total liabilities		
Net assets		
Contributed equity		
Reserves		
Accumulated surplus (deficit)		
Total equity		

Table 8: Statement of financial performance as at 30 June 2002

	2002	2001
	$'000	**$'000**
Revenues from ordinary activities		
Commonwealth government funding		
State/territory government funding		
Net rental revenue		
Interest income		
Grants and other contributions		
Other		
Total revenues from ordinary activities		
Employee expenses		
Supplies and services		
Housing maintenance		
Depreciation and amortisation		
Grants and subsidies		
Other		
Total expenses from ordinary activities excluding borrowing costs expense		
Borrowing costs		
Net surplus (deficit) from ordinary activities		
Extraordinary items		
Net surplus (deficit)		
Non-owner transaction changes in equity		
Net increase (decrease) in asset revaluation reserve		
Net amount of each revenue, expense, valuation or other adjustment not disclosed above recognised as a direct adjustment to equity		
Total revenues, expenses and valuation adjustments recognised directly in equity		
Total changes in equity other than those resulting from transactions with owners as owners		

4 References

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Measure of dwelling to household size in Commonwealth State Housing Agreement programs: a work in progress paper

1 Introduction

1.1 Purpose of this paper

This paper has been developed to stimulate discussion with Commonwealth, state and territory governments and explore issues in measuring the match of dwelling to household size. The paper examines current policies and relevant issues in this measure and proposes a national occupancy standard and levels of overcrowding and underutilisation in CSHA programs. It is expected that the national occupancy standard and measures of overcrowding and underutilisation will be incorporated into the *National Housing Assistance Data Dictionary* and will be used in Commonwealth State Housing Agreement (CSHA) data collections.

1.2 Background

The 1999 CSHA aims to facilitate access to affordable, appropriate and secure housing for people on low incomes and people with special needs. Under this CSHA a new national performance indicator framework was developed. Figure 1 outlines the 11 indicators under this new framework. Commonwealth, state and territory governments and the Australian Institute of Health and Welfare (AIHW) have collaboratively developed the specifications for the new performance indicator framework.

On 8–9 March 2000 a CSHA National Housing Data Agreement (NHDA) performance indicator public and community housing workshop was held in Canberra. At this meeting the specifications for the CSHA 1999–2000 data collection were discussed and community housing and public rental housing data manuals were developed.

At the CSHA NHDA workshop it was agreed that there was a need to explore the issues involved in measuring match of dwelling to household size and develop a national occupancy standard for measuring levels of overcrowding and underutilisation in CSHA programs. The AIHW agreed to undertake a review of standards used in Australia and overseas and propose an Australian occupancy standard for consideration by Commonwealth, state and territory governments. This discussion paper explores the issues associated with measuring overcrowding and underutilisation in CSHA programs and with developing a national occupancy standard. It also proposes a draft national measure of match of dwelling to household size.

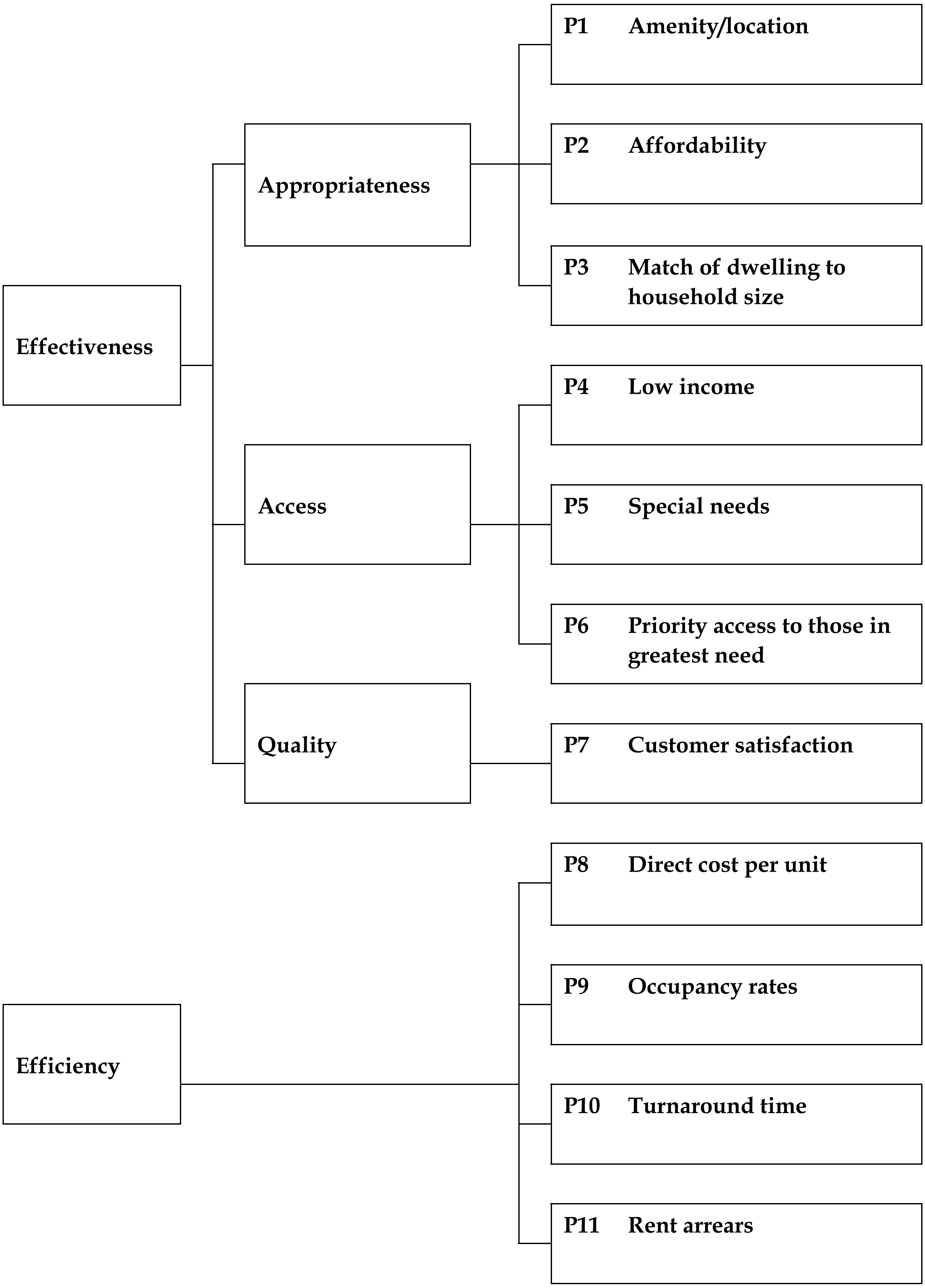

Figure 1: 1999 CSHA National Performance Indicator Framework

2 Match of dwelling to household size measure

A match of dwelling to household size measure can inform about whether housing stock is appropriately utilised and whether tenants are adequately housed, by measuring levels of underutilisation and overcrowding. This measure, in conjunction with any population and household size projections in CSHA programs, can assist with planning the development of housing stock. To effectively report about levels of underutilisation and overcrowding in CSHA programs it is necessary to develop a national occupancy standard.

2.1 Background

Previous CSHA collections used the Canadian occupancy standard when reporting underutilisation and overcrowding in housing stock. The Canadian standard however is not appropriate for use in the Australian performance framework as it does not reflect Australian state and territory government housing policies.

Using the Canadian occupancy standard in past collections resulted in some dwellings being reported as moderately overcrowded. However when compared to state and territory government policies the level of overcrowding was much less. Likewise, some dwellings were reported as high overcrowding according to the Canadian occupancy standard but when compared with state and territory policies they were only moderately overcrowded. To overcome the problem with the Canadian occupancy standard not reflecting Australian state and territory housing policies, an Australian occupancy standard is being developed for CSHA reporting.

3 Measurement issues

Literature reveals that generally measures of overcrowding and underutilisation vary along two lines:

- according to the measure of dwelling size that is used; and
- according to whether or not account is taken of household composition (Department of Housing and Regional Development 1994).

These issues will be explored in this section.

3.1 Measure of dwelling size

When measuring dwelling size, two main definitions are evident:

- the number of rooms; and
- the number of bedrooms (Department of Housing and Regional Development 1994).

It has been argued that measures of overcrowding and underutilisation should be based on the number of bedrooms rather than the number of rooms in a dwelling, as the number of bedrooms allows the number of rooms which provide appropriate privacy for sleeping, studying and other activities to be identified (Department of Housing and Regional Development 1994).

Kendig (1987) has argued that floor area is a better measure of the size of dwellings, as this takes into account changes over time such as the combining of living and dining rooms.

Extending the number of bedrooms measure to include floor area space could provide information about bedroom size, allowing judgments to be made about whether a bedroom could adequately accommodate more than one person.

While there would be advantages with this model, the availability of data about the floor area of bedrooms in CSHA dwellings is not currently recorded, thereby making this option not feasible at this time. However future improvement to the measure of dwelling could allow this option to be explored at a later date.

For the purpose of the CSHA data collection it is proposed that the number of bedrooms is the definition unit of measuring overcrowding and underutilisation.

A bedroom is defined as being:

> 'identified by the intended use for which a room was designed and also other rooms permanently modified and intended for use as bedrooms (e.g. sleep-out or built-in verandah' (AIHW 2000).

3.2 Household size and composition

In addition to the number of bedrooms, it is proposed that the household size and composition be considered in the measure of match of dwelling to household size. Factors such as age, gender and relationships of household members should be considered when assessing how many people can appropriately share bedrooms in a dwelling.

For the purpose of the CSHA data collection, the primary decisions in regard to the household size and composition are:

- What is the maximum number of people that can share a bedroom?
- Can children of different genders share a bedroom?
- At what age should a single person require a separate bedroom?

These issues are explored in this paper and considered when proposing the national occupancy standard.

4 Developing an Australian national occupancy standard

To measure the level of overcrowding and underutilisation in housing stock it is necessary to identify appropriate levels of occupancy for households of specified sizes and compositions. A national occupancy standard should reflect Australian values in regard to what is an acceptable standard for adequate housing. For example, when measuring overcrowding and underutilisation, the national standard should reflect societal values about what is an unacceptable degree of overcrowding or underutilisation. The following section explores issues with developing a national occupancy standard.

4.1 Australia as a culturally diverse society

The culturally diverse nature of Australia's society creates challenges for developing a national occupancy standard that reflects the values of all cultures. A national occupancy standard which reflects Australian values about the nuclear family unit may not accurately reflect the values of some cultures. For example, Indigenous and non-English-speaking cultures may have several generations residing in the one household. This type of housing arrangement may be considered an appropriate and adequate standard of living according to some cultures. Cultural issues influence the way people prefer to be housed and these issues should be considered when interpreting housing data.

Incorporating cultural influences in the measure of match of dwelling to household size can be achieved by using more than one collection method to measure levels of overcrowding and underutilisation. Administration data alone should not be the only data source for measuring match of dwelling to household size. Literature suggests that the point of view of both the housing manager and the consumer should be considered when measuring underutilisation (and overcrowding) (Department of Housing and Regional Development 1994).

It is recommended that both administrative data and customer satisfaction data from the National Social Housing Survey should be the data collection methods for assessing levels of overcrowding and underutilisation in CSHA programs. Administrative data allow information about dwelling to household size to be analysed according to the CSHA occupancy standard. Customer satisfaction data from the National Social Housing Survey allow consumer values about the appropriateness of dwelling to household size to be collected, allowing cultural issues to be taken into account in the analysis.

4.2 Variation in government policies

CSHA programs are administered by state and territory governments which utilise a range of housing policies. Table 1 outlines state and territory government allocation policies for public rental housing programs. This variation creates problems for developing a national occupancy standard that can effectively report how well state and territory government departments are implementing their policies.

It is proposed that the national occupancy standard takes into account but does not mirror all jurisdictional policies. If jurisdictions wish to assess how effectively they implement policies when allocating housing, they can undertake jurisdiction-specific performance reporting. For example, New South Wales occupancy data could be compared with the New South Wales housing allocation policies. This would identify whether tenants are housed according to individual state and territory government policies.

A jurisdiction-specific reporting framework however does not provide comparative data between jurisdictions, except in regard to the percentage of tenants who are not appropriately housed (due to overcrowding or underutilisation) according to each jurisdiction's policies. Developing a national occupancy standard however can allow comparison of each jurisdiction's allocation of housing according to a nationally acceptable standard of what constitutes appropriate housing in CSHA programs.

Table 1: State and territory government allocation policies for public rental housing

	Number of bedrooms							
Household composition	**NSW**	**Vic**	**QLD**	**WA**	**SA**	**Tas**	**ACT**	**NT**
Single	1 or 2	1	1	. .	. .	1	1	1
Couple	1 or 2	1	1	1 or 2	. .	1	2	2
Single with 1 child	2 or 3	2	2	2	. .	2	2	2
Couple with 1 child	2 or 3	2	2	. .	. .	2	3	3
Single with 2 children	2 or 3	2 or 3	3	2 or 3	. .	2 or 3	3	3
Couple with 2 children	2 or 3	2 or 3	3	. .	. .	2 or 3	3	3
Single with 3 children	3 or 4	3	3	3	. .	3	3	3
Couple with 3 children	3 or 4	3	3	. .	. .	3	4	3
Single or couple with 4 children	3 or 4	3 or 4	3 or 4	. .	. .	3 or 4	4	3 or 4
Single or couple with 5 or more children	4 or 5	4	4 or 5 or more	. .	. .	4 or 5	5 or 6	4
Single or couple with 6 or more children	4 or 5+	4 or 5+	5 or more	. .	. .	. .	. .	. .
2 single adults	2	2	2	2	. .	2	2	2
	Additional factors							
	NSW	**Vic**	**QLD**	**WA**	**SA**	**Tas**	**ACT**	**NT**
Age at which a person is entitled to their own bedroom (years)	18	18	18	considerable age difference	. .	16	. .	. .
Siblings of different gender share bedroom	yes	no	. .	no	. .	yes	. .	yes
Age at which siblings of different gender are not required to share a bedroom (years)	10	. .	. .	. .	. .	6	. .	10
Age difference before siblings of same gender don't share a bedroom (years)	one aged over 10, with 4 yrs difference	. .	7	considerable age difference	. .	up to 16	5	. .
Max no. of children of same gender who can share a bedroom	2	. .	2	. .	. .	2	. .	. .
If childless and pregnant at time of allocation bedroom entitlement allows for newborn	yes	. .	yes	yes	. .	. .	. .	yes
Additional bedroom provided for special circumstances[(a)]	yes	yes	yes	yes	. .	. .	yes	yes

(a) Special circumstances include: special health or support needs; medical equipment; for a live-in carer or part-time household member; parent who has regular access to children; foster parents or 'shared care' families.

. . Not applicable.

4.3 Australian and international occupancy measures

Occupancy standards in use in Australia and overseas can provide useful insights when developing a national occupancy standard for CSHA programs. Table 2 outlines Australian and international occupancy measures and reveals there is considerable variation between standards. Some standards consider the gender and relationships of household members and other standards only consider the number of persons residing in a dwelling.

Table 2: Australian and international measures of overcrowding

Measures of overcrowding	
Australia	
ABS 1975 Family survey and Anderton and Lloyd	Where, after allocating one bedroom to the parent(s), there is, on average, more than 2 persons per bedroom.
Neutz 1977 and Department of Housing and Construction 1984	Households with 4 persons or less need one room per person and, thereafter, one bedroom for each 2 persons with two additional living rooms.
Burke et al. 1985	Where there are at least 4 persons resident in a four-room dwelling and 1 person for each additional room.
HALCS 1992	'High' overcrowding where there are more than 2 people per bedroom on average. 'Moderate' overcrowding where there are more than 1 and less than 2 people per bedroom.
Overseas	
UK Dept of Environment 1980	Conventionally, households living at more than 1.5 persons/room regarded as overcrowded. Some studies use more than 1 person/room as a criterion.
UK 'bedroom standard'	The bedroom standard compares the number of bedrooms a household has with the following allocation: Each married couple is given one bedroom. Any other persons aged 21 years and over are each given a bedroom. Persons aged 10 to 20 years inclusive of the same sex are paired off and a bedroom given to each pair. Any person aged 10 to 20 years left over after this pairing, is paired with a child under 10 years of the same sex. If no pairing of the latter kind is possible, such a person is given a separate bedroom. Any remaining children under 10 years are paired and a bedroom is given to each pair. Any remaining child is given an additional room.
Swedish Living Conditions reports	If there are more than 2 persons per room, excluding kitchen and sitting room.
Canadian National Occupancy Standard	A maximum of 2, and a minimum of 1, person per bedroom. Parents eligible for a separate bedroom. Household members aged 18 years or over are eligible for a separate bedroom unless married. Dependants under 18 years of opposite sex do not share a bedroom if they are aged 5 years or older.

Source: Department of Housing and Regional Development 1994.

5 Proposed national occupancy standard

After considering the literature, state and territory public housing allocation policies, and Australian and international occupancy standards, an Australian occupancy standard for CSHA programs is proposed as:

- maximum of 2 people per bedroom;
- single people aged 18 years or over require one bedroom;
- couple living alone requires two bedrooms;
- couple living with others requires one bedroom (in addition to bedroom allocation for children or other adults residing in the dwelling);
- related children of different gender aged 5 years or under can share a bedroom;
- related children of same gender aged 17 years or under can share a bedroom;
- parents 17 years of age or under require one bedroom (in addition to bedroom allocation for child/ren of this parent);
- households with special circumstances may have one extra bedroom. Special circumstances include: medical condition or disability which requires medical equipment or extensive medical aids; non-custodian parent with regular access to children; live-in carer; part-time household member; foster parent family; share care family.

5.1 Age at which persons require their own bedroom

Eighteen years has been chosen as the age for people receiving their own bedroom as this is consistent with allocation policies for the majority of state and territory governments, where a policy exists.

It could be argued that 16 years of age is a more appropriate age for people receiving their own bedroom as:

- this is consistent with the (P4) Low Income measure, being the age at which a person is identified as a separate income unit; and
- persons 16 years of age are either in receipt of an income (either via employment or government benefit) or are in the final two years of secondary school study and require privacy to effectively study.

For the purpose of the CSHA data collection 18 years is being proposed.

5.2 Couples with and without children treated differently

This paper proposes that a one-bedroom dwelling provides insufficient space for a couple without children. Couples with children are provided with less bedrooms in the national occupancy standard than couples without children as the former will be allocated extra bedrooms (and hence a larger overall dwelling) according to the number, age and gender of children.

5.3 Children sharing bedrooms

It is suggested that children of different genders aged 5 years or under can share a bedroom. This age is proposed as children commence school at 5 years of age and it is considered that from this age they should only share a bedroom with a child of the same gender.

Only children who are related (e.g. brother/sister/step-sibling/cousin) should share a bedroom.

5.4 Parents aged 17 years or under allocated own bedroom

It is proposed that persons aged 17 years or under who are parents should be allocated their own bedroom due to the responsibilities of parenthood. The child/ren of this person should be allocated bedroom entitlements according to the national occupancy standard (e.g. taking into account the age and gender of the child/ren).

5.5 Special circumstances

The national occupancy standard provides for a household to receive an extra bedroom for specified reasons, providing flexibility. Special circumstances include:

- medical condition or disability which requires medical equipment or extensive medical aids;
- non-custodian parent with regular access to children;
- live-in carer;
- part-time household member;
- foster parent family; or
- share care family.

6 Overcrowding and underutilisation measures

Identification of a national occupancy standard provides a benchmark against which levels of overcrowding and underutilisation can be measured. It is proposed that:

- moderate overcrowding exists where one additional bedroom is required to satisfy the national occupancy standard;
- high overcrowding exists where two or more additional bedrooms are required to satisfy the national occupancy standard; and
- underutilisation exists where there are two or more bedrooms additional to the number required to satisfy the national occupancy standard.

7 References

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