

SPECIAL AUDIT

RENTAL AND MANAGEMENT ASPECTS OF PUBLIC SERVANT HOUSING

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Key Findings

- Of the seven government agencies reviewed, only three agencies had fully implemented government policy of charging full market value rent for public sector staff housing.
- While the Teacher Housing Authority has adopted a process of averaging the current rent and a valuer's recommended market value rent (rather than charging full market rent), the impact of this approach has been to reduce revenue by around \$380,000 per annum.
- Certain agencies have expressed concern that the requirement to obtain market valuations annually (by a registered real estate valuer) is proving costly. Also the policy of annual valuations is seen to be inflexible.
- Where the special nature of duties performed or the conditions of employment required continuation of a housing subsidy, the subsidy has been determined and approved by the Industrial Authority in accordance with laid down policy.
- At the time of the review there were no procedures in place to monitor implementation of government policy across the spectrum of government agencies.
- Agencies had procedures in place which planned and assessed housing needs in line with existing and future requirements.
- Maintenance is performed on a needs rather than a systematic basis.
- All organisations have management reporting information in one form or another. Certain organisations however, need to improve the quality of management reporting particularly in the area of performance measurement. Special purpose information does exist but is not arranged so as to provide an efficient review of performance.
- Certain agencies do not maintain a reliable data bank of information on housing stock, for example maintenance costs and rental details are not held for individual properties. The agencies in question have called for tenders for the supply of management information systems as part of a broader management improvement program.
- Further progress is required to finalise objectives, policies and procedures affecting staff housing issues into a manual (or chapter of an existing manual).

Recommendations

It is recommended that:

- Consideration be given as to whether or not there is a need for a regulatory mechanism to be introduced requiring agencies to disclose in their Annual Report whether or not they have complied with Government policy and any instances of non compliance including exemptions approved by the Industrial Authority.
- Consideration be given to the self funding of government departments' maintenance through the utilisation of rental receipts. Any excess funds could be channelled back to Consolidated Fund.
- All agencies develop and adopt a maintenance policy which reasonably preserves the asset in a timely and cost effective manner.
- The requirement to obtain valuations annually might be re-examined. The introduction of a more flexible approach might be considered.
- Staff housing manuals (or chapters of existing manuals) be developed/finalised which will provide a framework for day to day decision making. Manuals should include policy statements and advice on the following aspects of housing.
 - * government policy;
 - * eligibility guidelines;
 - * assessment of rent;
 - * rental reviews;
 - * tenancy agreements;
 - * tenancing to members of the public;
 - * rental bonds;
 - * vacancy/movement of staff tenants;
 - * salary deductions of rentals;
 - * rent receipts/re-evaluation;
 - * rates;
 - * rate rebates;
 - * advice to councils;
 - * excess water;
 - * repairs and maintenance;
 - * capital improvements;
 - * fringe benefits tax;
 - * purchase/disposal of houses;

- The quality of management reporting be improved by providing additional specific management information some of which should be directed at performance measurement. Examples of desirable management information, some of which is already in use, are:
 - * properties managed by the organisation;
 - * type, location and condition of each property;
 - * occupancy status;
 - * rental details including arrears;
 - * acquisition cost, market value and depreciation;
 - * maintenance and modernisation expenditure – actual and estimates for month and year to date;
 - * houses leased by agents and leased direct;
 - * vacant houses committed to be occupied;
 - * total vacancies not committed or leased;
 - * vacant houses under repair;
 - * houses in process of sale;
 - * houses sold in month and for year to date.

Examples of possible performance related management measures are actual/budgeted monthly, year to date or current and previous year's annual figures showing:

- * gross return on investment measured by rent as a percentage of total market value of the properties available for renting;
- * net return on investment measured by the sum of rent less expenditure as a percentage of total market value of the properties available for renting;
- * value of rent revenue compared to budget;
- * rent outstanding as a percentage of total monthly rent revenue;
- * vacancies as a percentage of tenantable properties compared to industry vacancy statistics;
- * number of rent reviews per year;
- * percentage increase in value of reviewed rents;
- * time taken to find new tenants;
- * cash flow details;
- * percentage of rent received by due date;
- * recovery of rents outstanding for more than one month;
- * gross revenue per staff member and cost per staff member.

Overview

An audit has been concluded on compliance with government policy in regard to public sector owned staff housing and management aspects thereof. In brief, government policy requires that public servants occupying government owned housing be charged market value rents.

Government restructure of the administration of public sector staff housing in 1989 had as its purpose the establishment of:

- the principle of full market rent as the basis of future rental determination for public sector staff housing;
- a consistent approach to the review and application of housing subsidies where these are necessary.

Premier's Memorandum 89/52 formalised the principles set by the government for the attention of Ministers.

The audit objective was to form an opinion on the adequacy of:

- compliance by agencies with government policy in regard to the charging of market value rents for government housing tenanted by public servants;
- property maintenance;
- procedures to minimise rental arrears;
- the efficient, effective and economical management of properties;
- the recording of properties for reasons of identification, valuation purposes and financial recording;
- rent earnings and the minimising of vacant properties available for rent.

The audit objectives and conclusions are discussed in greater detail later in this report.

References to the Industrial Authority in this report are a reference to the Department of Industrial Relations, Employment, Training and Further Education.

Agency Responses

Agency responses to the audit observations are set out in the appendix to this report. Departments and authorities have without exception responded in a positive manner to the audit findings. Where particular agencies are considered not to have complied with government policy explanations have been provided by the agency concerned.

Scope of the Review

Government agencies reviewed comprised:

- *Teacher Housing Authority
- Department of Health
- Department of Courts Administration
- Roads and Traffic Authority
- State Rail Authority (rent review only)
- Electricity Commission of NSW (rent review only)
- Department of Water Resources (rent review only)

There are no current figures available on the total number of government owned staff dwellings on an agency wide basis. A survey undertaken in 1988 identified some 7,800 public sector residences. However, it should be noted that the total number of residences has significantly declined since that review as a result of an extensive asset rationalisation program.

It is considered the abovementioned organisations held in the order of over 50% of public servant housing at the time of the review.

During the review 350 residences were examined in terms of the basic audit objectives.

*The Teacher Housing Authority is not a specified organisation listed under the Public Sector Management Act 1988 and is not required to forward a submission to the Industrial Authority for cases where less than market rent is proposed. Nevertheless, it is expected to comply with government policy.

Audit Objectives

The basic audit objectives were to confirm:

- *compliance by agencies with government policy in regard to the charging of market value rents for government housing tenanted by public servants; and*
- *the qualitative aspects of certain management functions in regard to public housing.*

The objective of confirming compliance with government policy was not achieved. The result of the review of management aspects of public sector housing was satisfactory but improvement is required to the quality of management information.

The detailed audit objectives were:

Objective 1

To ensure:

- *properties are properly recorded for reasons of identification, valuation purposes and inclusion in the agency's financial statements.*

Finding:

Asset records were found to be in existence and satisfactory for all organisations reviewed.

Objective 2

To ensure:

- *agency properties are adequately maintained.*

Finding:

Maintenance is performed on a needs basis rather than on the basis of a cyclic maintenance policy. However, during the course of the review certain agencies were in the process of reviewing overall maintenance needs as a prelude to the development of a maintenance policy.

Further, audit is aware that one government department (which was not covered in this review and which provides housing subject to award conditions) would like to see maintenance on public sector housing become self funded through the utilisation of rental receipts.

Objective 3

To ensure:

- *vacant properties available for lease are kept to a minimum in order to maximise rent income.*

Finding:

All agencies exhibited adequate procedures to fill vacancies in order to maximise rent income.

Objective 4

To ensure:

- *government housing, where occupied by public servants, is rented on terms consistent with government policy;*
- *rent arrears are pursued in a timely manner.*

Finding:

Three only of seven organisations reviewed had fully implemented government policy on rent charges.

Two only of the five agencies originally selected for review had adhered to government policy in charging market rent. Due to this unsatisfactory result, my officers extended their review to incorporate the Electricity Commission of NSW and the Department of Water Resources in terms of complying with government policy only.

A satisfactory result was achieved at the Electricity Commission, but the Department of Water Resources did not comply with government policy in that rents for properties are not being reviewed annually.

Agencies exhibited effective procedures in controlling/pursuing rent arrears.

Objective 5

To ensure:

- *that the management of properties is carried out effectively, economically and efficiently.*

Finding:

The audit indicated that public servant housing was generally being effectively managed. Areas of key importance were considered to be: minimising the incidence of untenanted properties and containing rent arrears. The audit indicated that vacant properties were within tolerable limits and rent arrears were satisfactorily controlled.

Areas requiring improvement, and referred to earlier in this report, are the development of: more meaningful management information reports, property maintenance policies, and policy and procedures manuals. Generally the organisations reviewed were addressing these issues.

Statement of Government Policy

- the basis of rental determination is the full market value of rents subject to existing awards or agreements (rent levels are to be reviewed and where necessary adjusted every twelve months in accordance with advice obtained from the Valuer General, Department of Housing or other registered real estate valuer);
 - except where provided in awards or agreements Chief Executive Officers may approve the provision of staff residential accommodation only for the following cases:
 - * assistance is essential to the continued provision of priority government services;
 - * where the employee is unable to obtain private residential accommodation of a reasonable standard, location and rent;
- where the special duties of a position make it necessary for an employee to reside in a vested residence or other specifically acquired property an exemption to the above may be applied:
- any staged rental increase program to implement full market value rentals is to be approved by the Industrial Authority;
 - the continuation or approval of a housing subsidy or allowance is to be determined by the Industrial Authority.

In those cases where an organisation considers that the special nature of the duties or conditions of employment require that less than market rent should be charged or an allowance be paid, the relevant Chief Executive Officer should forward a submission to the Industrial Authority for determination. The submission should detail the circumstances that exist, the full rationale for charging less than market rent or payment of an allowance together with an appropriate recommendation.

Monitoring Compliance with Government Policy

At the time of the review there were no procedures or controls to verify implementation of the policy for charging market value rents. The responsibility for the implementation of government policy resides with individual agencies. It was established, however, that the Industrial Authority would approve any staged rental increase program and/or the continuation or approval of a housing subsidy or allowance.

The Industrial Authority, in its Bulletin No 14 of 22 June 1992, has since enquired of agencies as to whether they are charging full market rates, or, if not, whether a lower rate was approved by the Authority.

My officers have undertaken sample testing of government agencies in terms of compliance with the government policy identified above. At this stage there are no plans to undertake further testing.

Cost of Annual Rent Reviews

In order to determine rent on the basis of full market value, rent levels are to be reviewed and where necessary adjusted every twelve months in accordance with advice obtained from the Valuer General, Department of Housing or other registered real estate valuer.

Limited feedback from agencies is that the cost of annual valuations by registered valuers is proving expensive. To illustrate the point, the nature, condition and location of certain residences do not lend themselves to regular and significant increases in rent. Consequently, the dollar margin from rent increases may not justify the cost of annual valuations in certain instances. In my opinion consideration should be given to applying some other method of rent adjustment other than relying on annual valuations by registered valuers.

A cost benefit analysis (of revenue generation as compared to costs of valuations) has not been undertaken by audit or by agencies reviewed.

Particular Agency Findings

The review established that certain agencies have not implemented, or fully implemented, Government policy. Those agencies, the extent of, and reasons for, non compliance are discussed in the attached appendix.



APPENDIX

TEACHER HOUSING AUTHORITY

Market Rents

The Authority engaged an independent valuer to assess market rents for residential properties under the Authority's control. It was ascertained that market rents were not always being charged.

As a result the Authority adopted the following approach to rent to be charged:

New Tenants

- where an increase in rent for a property has been proposed, the rent is to be assessed by
* averaging the recommended rent and the current rent;
- where a decrease in rent for a property has been proposed, the recommended rent is to be adopted as the new rent.

Existing Tenants

- where an increase in rent for a property has been proposed, the increase is to be assessed by averaging the recommended rent and the current rent to a level not exceeding an amount equivalent to the movement in the Consumer Price Index;
- where a decrease in rent for a property has been proposed, the recommended rent is to be adopted as the new rent.

*The Authority has used the terms "averaging" and, later in its response to the audit observations, "equalisation" to describe the approach adopted to rent levels.

The Authority's approach to rent recognised those situations where a decrease in rent was warranted and also attempted to reduce the impact of increased rents on new and existing tenants. Authority management are of the view that this approach takes into account the spirit of the former Premier's statements (Memoranda 90/7 and TM 91/4 Freeze on Government Charges Affecting Families) in regard to increases in government rates and charges and at the same time recognises the market rent policy of the government.

Notwithstanding, had the valuations been adopted without change additional revenue (estimated by the Authority to be in the order of \$380,000 per annum) would have been earned. To this extent the practice of the Authority not applying market value rent in all cases in line with the independent valuations is not consistent with government policy.

The approach adopted by the Authority was approved by the Minister for School Education and Youth Affairs.

Agency Response

You have correctly noted that, for statutory reasons, the Teacher Housing Authority is not subject to direction by the Industrial Authority in the management of public sector housing. You will be aware that the Teacher Housing Authority has a separate charter and generally observes the requirements of public sector housing policy not specifically covered by the Teacher Housing Authority Act. With regard to rent charges, the Authority complies with directions made by the Treasurer in accordance with Section 5(3) of the Teacher Housing Authority Act 1975.

The Teacher Housing Authority reviews its rents on a regular basis by inspecting each dwelling every three years to establish a rental level comparable to that charged by private sector landlords for accommodation of a similar standard in the area. In the intervening years, an inspection of the property is not carried out but the assessed market rent is adjusted to reflect cost of living adjustments. Movements in the Consumer Price Index are used for this purpose.

Prior to 1989, rents for Authority properties were determined by the Department of Housing. In 1988, however, the Authority engaged the NSW Valuer-General to determine a market rental base for 1989 and the ensuing two year period. At that time, rental levels for Authority properties were set at 80% of the market rate. For 1990 and 1991 the base rentals were adjusted to reflect Consumer Price Index increases of 7.4% and 5.91% respectively and tenants were required to pay 100% of these amounts.

Following the 1989 Cabinet decision on public sector staff housing, the Teacher Housing Authority increased all rents to the full market rate effective from 1 March 1990. It is understood that the Authority was one of the first public sector organisations to fully implement the new market rental policy.

For the new rental "cycle" (which commenced in 1992), the Authority was interested in pursuing alternative valuation cost opportunities in the market place. This resulted from concern at the high cost of engaging the NSW Valuer-General in 1990 to provide rental assessments for approximately 600 vested residences managed by the Authority on behalf of the Department of School Education.

The Authority also wished to test the validity of the 1989 base rental assessment in the light of a number of justifiable complaints by teacher tenants concerning excessive rents in some areas. At the time, Authority members expressed concerns that the valuation process lacked precision and consistency. In fact there was a recognition that different valuers could recommend different "market" rentals for the same property.

These issues are particularly important for the Authority in view of the housing service being provided in isolated communities to support essential community education programs and the difficulty in establishing real market comparisons in these locations.

The decision to appoint the Australian Valuation Office (AVO) to carry out the 1992 rental review reflects, among other things, these concerns. Regrettably, the rentals recommended by the AVO lacked consistency when compared with previous rents in many areas. If the Authority was to use these assessments as its only source of change, the rents for a number of centres would have increased significantly (see attached list of rental variations by locality). In their broad judgement and experience, the Authority concluded that many of these assessments could not be substantiated in view of the isolated nature of the locality, the standard of facilities, possible economic hardship and the almost certain dislocation of educational services. In other words, the Authority was required to determine a market rate from a range of rental values.

Research undertaken by the Authority to substantiate the 1992 rental review has included check valuations on a number of properties. This has involved the engagement of either the Valuer-General or local valuers to undertake new inspections or a comparison of AVO valuations with the full rent assessments for public housing indicated in the "Dwelling and Approved Rentals Inventory" issued by the Department of Housing.

The results of the check valuation exercise confirm the view that rental recommendations by independent valuers on the same property are often inconsistent. By themselves, these opinions cannot always be regarded as reliable indicators of "market" rent, particularly in the more isolated communities where there is difficulty in obtaining real market comparisons.

While there is a gross annual revenue difference of some \$500,000 between the old (1991) rents and those recommended by the AVO, this amount must be adjusted by the effect of the 1992 rental review. Although the Authority's determination was not based simply on financial considerations, the difference in revenue between the rates currently paid by the Teacher Housing Authority tenants and the AVO recommendations is in the order of \$380,000 per annum.

While any loss of revenue is of concern to the Authority, the 1992 rental determination was an appropriate response to a complex administrative and social problem. In determining the 1992 rents, the Authority considered the recommendations by the AVO as well as the social and industrial factors which held to ensure the delivery of a viable housing service for teachers required to serve in the more isolated and remote areas of the State.

In view of the above, and the fact that the measurement of "market" rent is open to interpretations, the equalisation approach adopted by the Authority for 1992 is responsible, appropriate and accords with Government policy. The arrangement also recognises the statutory requirement of the Authority "... to provide ... suitable and adequate housing accommodation for teachers ..." in the more isolated areas of the State.

Audit Comment

As indicated in the audit observations and in the agency's response to those observations, the Teacher Housing Authority has adopted an averaging or "equalisation" approach to the charging of market rent for public sector housing. The Authority's equalisation approach is, in part, a response to what it describes as "social and industrial factors" and "a complex administrative and social problem".

While audit has no reason to believe the Authority has not acted reasonably and justifiably, it is not within the purview of this review to examine the Authority's decision making processes but rather to examine compliance with government policy in regard to the rent value the Authority has placed on properties it controls.

To the extent that the Authority has used an equalisation approach which in part, is based on social and industrial factors, **the audit opinion is that it has not complied with government policy of 100% of market value rent.**

On this same point the government policy is unequivocal and is supported by circular from the Premier's Department requiring that:

in order to determine rental charges on the basis of 100% of market values, rent levels are to be reviewed and where necessary adjusted every twelve (12) months and prior to the commencement of new tenancies in accordance with advice obtained from the Valuer General, Department of Housing or other registered real estate valuer.

Conversely, where an equalisation approach has as its only component market valuations, it is considered reasonable that the Authority apply that approach when there is uncertainty as to the most appropriate rent valuation, for example, two differing valuations of the same property undertaken by different registered real estate valuers.

This report includes as a Key Finding and Recommendation that, in effect, the government consider a more flexible approach to assessing market rents as a result of concerns expressed by agencies in regard to cost of annual valuations and other practical difficulties.

The effect of non-compliance (and based on the Authority's figures) is a revenue difference of some \$380,000.

While the approach adopted by the Authority was approved by the Minister for School Education and Youth Affairs, it had not been ratified by the executive government at the time of the audit or by the Treasurer in accordance with Section 5(3) of the Teacher Housing Authority Act 1975.

Performance Indicators

The Authority is taking action to ensure that its properties are managed in a cost effective manner. However, monthly management reports as constituted at present do not facilitate measurement of performance. It is understood that the type and extent of performance indicators to be used by the Authority have yet to be determined.

The Authority has called tenders for the supply of a Finance, Rental and Operations Management System. The specifications of that system provide for the collection of considerable management information. As a matter of record, audit has suggested that management confirm that the type of information to be recorded in, and the flexibility of, the planned management system are sufficient to provide meaningful reports directed at measuring performance.

Agency Response

It is recognised that there is an opportunity to review and implement a range of performance indicators to complement the Authority's new property and financial management system. This review is proceeding as part of the system enhancement arrangements and the process will be monitored to ensure that the database provides meaningful performance information for use by the Authority.

Property Management Manual

Updating and further development of the manual has been halted while the Authority's systems are being modernised. Completion of the manual as soon as possible is considered a priority.

Agency Response

A revised property management manual is being developed as part of the system enhancement program. The time frame for completion of this document is November 1992.

Systems Development

The positive steps taken by the Authority in improving a number of management information systems (such as details of housing stock and maintenance of housing stock) as part of a broader management improvement program are noted.

ROADS AND TRAFFIC AUTHORITY

Rent charged by the Authority for properties occupied by staff were last adjusted in June 1990. In this respect the Government's requirement that rental reviews be reviewed annually has not been complied with. The Authority has alerted its regional managers of the need to undertake regular rent reviews of properties within their regions and has included the requirement to comply with government policy in its Property Management Policy and Procedures Manual.

Agency Response

Since the Government announced the changes relating to the administration of staff housing, the Authority has actively pursued a program aimed at:

- * achieving full market rentals; and*
- * disposing of all non-essential housing.*

Staged rental increases of \$35 per week were first applied in June 1990. The increase to full market rentals based on Valuer General's valuations required up to three staged six monthly increases to complete.

Because of the considerable activity generated by the rental increases and the consequent staff tenant vacations associated with the sale of 180 non-essential houses, it was inappropriate to undertake fresh rental reviews until the position stabilised. Other considerations influencing this decision were:

- * *most staff tenants had experienced three staged increases during the previous 12 months;*
- * *having regard to the country locations and market conditions expectations were that increases in rental, if any, would be marginal only;*
- * *possible changes in organisational and staff requirements arising from Regional reviews being undertaken or planned.*

Accordingly, rent review action was deferred until March 1992 when Regional Directors were requested to undertake further reviews. For consistency, this decision was applied to tenants of houses classified as essential and non-essential. The completed rent reviews have resulted in no change for 20% of tenancies and increases ranging from \$5 to \$10 per week for the remainder.

The Government's requirement that rental reviews be undertaken annually has been included in the Authority's Property Management Manual.

The Special Audit Report includes a recommendation that the requirement for annual reviews be re-examined because of cost. I am informed that the Authority supports this proposal. Apart from cost considerations the Authority considers the timing of reviews should be based on market related criteria.

STATE RAIL AUTHORITY

A sample review of staff residences (the review excluded residences nominated for sale) indicated that rent reviews had not been conducted on public sector houses for a period varying from 18 months to four and one half years. Furthermore, the results of a rent valuation by the Valuer General's Department in June 1991 on the Authority's Chullora Housing Estate has yet to be implemented.

Agency Response

Consequent upon a decision by the Board of State Rail in June 1990 to rationalise residential property holdings and the Government policy direction to increase rentals to reflect market levels, there has been significant employee and union resistance encountered by the Authority.

As a result of actioning the preceding directions, a substantial focus has been aimed at reducing Authority housing stocks and altering the status and availability of residences once reserved for occupation by Authority employees. I note the review of residences excluded residences nominated for sale, but would point out that a significant proportion of staff resources have been channelled in that direction coupled with carrying out reviews on residences occupied by employees to whom a rent concession previously applied and on whose behalf there have been constant union representation.

Some of the inferior condition dwellings have been leased at an agreed rate reflecting the poor standard and in these cases, it is considered to have been in the best financial interest to allow the present arrangement to continue with the primary objective of selling the dwelling to the occupant at market value and thus avoid the expense of substantial costly upgrading.

With this exception other rentals have been increased across the board by CPI regardless of the condition of the residence. Consequently it can be expected that some market rentals will reduce the rents charged. In this context the valuations are a significant cost certain. (sic)

For those tenants to whom a concession was previously extended, a process of 6 monthly increases of up to \$35 per week has been initiated with the objective of bringing the rental return to the required level. With the successful disposal of the majority of surplus housing stock and in concert with the 6 monthly reviews of rents for concessional employee tenants, a programme has been implemented to monitor rentals generally for the balance of Authority residences so as to comply fully with government policy.

In relation to the Chullora Housing Estate, it has been the desire of the Authority to dispose in due course of these units once a number of commercial difficulties are overcome and in the meantime, rental reviews will be conducted as with other properties.

DEPARTMENT OF COURTS ADMINISTRATION

The Department conformed with the government policy of charging full market rents.

The acquisition and management of public sector owned housing is a recent development and my officers have been generally impressed with the attention given to the level of accounting and control introduced in the short time since acquisition.

It is noted that further enhancements are planned. As a matter of record, I suggest that consideration be given to the following issues to the extent that they do not fall within the Department's current improvement program.

Maintenance

The development of an asset maintenance policy and program is recommended once inspections of all properties are finalised.

Policy and Procedures

A formal policies and procedures manual should be developed to cater for the administration of residential housing stock. A section covering public sector housing stock might be incorporated within the Property and Supply Branch manual which is currently under revision.

Management Reports

It is noted that management information is currently available but is not in a form which provides for an efficient review of significant management issues.

The Department is soon to develop a management information system including special purpose management reports and performance indicators to monitor and control the activities of public sector owned housing. The Department will need to carefully consider the type of reports, measuring the effectiveness of actual performance, it intends to implement.

Agency Response

The findings of Audit's report have been generally helpful in further enhancing the management procedures for departmental housing.

The Department's finalisation of property inspections and development of the maintenance program is nearing completion; administrative procedures are being developed for inclusion in the Branch manual; and monthly management reports in a simplified format on the status of the housing program have been implemented.

DEPARTMENT OF HEALTH

The review covered Head Office and the Central Sydney Area Health Service of the Department of Health.

Agency Response: General

In terms of Section 38C(2) of the Act, I (Acting Director-General) wish to advise that I am satisfied that the findings of the review as they relate to the Department are a fair account of the Department's compliance with Government policy. The matters raised by you as requiring attention are in the process of being implemented and I am satisfied that except where exemptions are warranted and as outlined in the guidelines issued by the Industrial Authority, market rents are being charged for all residential properties in the Health portfolio of properties.

Policy and Procedures Manual

Although the Department conforms with Government policy in the charging of market rents, in the context of this review, audit could not locate a Policy and Procedures Manual for public sector owned housing. It is suggested that a manual be developed for public sector housing or incorporated as a chapter within existing manuals.

Agency Response

The Department has Building and Equipment and Accounting Manuals which are issued to the Areas/Services. However, they require updating particularly in regard to sections covering public sector housing. Additionally, property guidelines for the Health Portfolio have been prepared and a further section on public sector housing matters is to be prepared prior to issue to relevant officers in the Health Services. The Asset Management Unit is liaising with the Audit and Industrial Relations Area of the Department to ensure consistency between the Manuals/Circulars and guidelines and government policy.

Maintenance

Audit enquiry indicated there was no formal maintenance policy on residential properties for the Central Sydney Area Health Service. My officers are aware of an active disposal program of assets within this Area Health Service. As such, properties not identified as surplus might be the subject of a cyclic program of maintenance.

Agency Response

Agreed. All government departments/authorities are required to prepare asset maintenance plans. Funds for maintenance of public sector housing compete on a priority basis re other maintenance needs relating to the core activities of the Health Service.

Inspections of properties in the Central Sydney Area Health Service are carried out by the Property Officer on a regular basis and as needed or when a property is vacated.

Asset Management System

The Central Sydney Area Health Service has called tenders for an Assets Management System. The tender documentation examined by audit was very brief and general in nature. As a matter of record, audit suggests that management confirm that the type of information to be recorded by, and the flexibility of, the planned management system is sufficient to provide meaningful management reports particularly in the area of performance measurement.

Agency Response

The auditor's comments in regard to the Assets Management System have been noted and conveyed to the consultants engaged to develop that system.

In general, it must be stated that with the introduction of accrual accounting a requirement exists for asset registers to be established and this fact alone will assist management to focus more readily on the maintenance and performance of its assets.

The Department also commented on the requirement to obtain annual valuations and stated that the cost of valuations annually in terms of added benefit in terms of increased rent is not warranted especially when the market is depressed or stable. It is suggested 3-year rent reviews be undertaken by the Valuer-General/Independent Valuer with annual CPI adjusted increases in the interim.

ELECTRICITY COMMISSION OF NSW

A satisfactory result was achieved by this agency in implementing government policy for market rent.

DEPARTMENT OF WATER RESOURCES

Departmental policy requires property rent reviews every three years. Valuations are conducted on an annual cyclic basis involving a third of the Department's public sector housing at any one review. The Department's approach however does not comply with government policy guidelines in that all properties are not being reviewed annually.

Agency Response

The department has not reviewed rentals annually because of the costs involved in relation to the resultant benefits to the State.

The majority of our houses are located in areas of NSW where there would be no significant annual increase in rents and the costs involved in obtaining annual valuations would be hard to justify.

