



**Family &  
Community Services**  
Land & Housing Corporation

## **Statement of Business Intent**

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**2014-15**



## 2 Objectives

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LAHC is a Public Trading Enterprise within the NSW Department of Family and Community Services (FACS) cluster and is responsible for managing the NSW Government's public housing portfolio in support of the FACS Strategic Statement and specifically leveraging social housing assistance.

LAHC operates in the context of the broader FACS objectives that are outlined in the FACS Strategic Statement which aims to use public housing assistance to break the cycle of disadvantage by:

- improving the economic and social outcomes of people in public housing and using other forms of social housing.
- reducing the rate of people experiencing homelessness
- improving the financial position of the social housing portfolio.

LAHC's objective is to sustainably manage the Government's public housing assets to deliver the maximum number of public housing dwellings that meet the needs of tenants in terms of the condition of dwellings and their suitability for tenant needs (including in terms of their location to services, configuration and accessibility).

To do this, LAHC:

- Efficiently manages its property portfolio assets by:
  - o Maintaining and upgrading existing properties
  - o Acquiring, planning and developing land and properties
  - o Disposing of land and properties.
- Supports the government in optimising its public housing portfolio through financially sustainable asset management
- Procures efficient tenancy management services
- Collaborates with government and non-government to influence policy and implement initiatives in support of the FACS Strategic Statement.



An overview of LAHC's 2015-17 business plan is provided in the table below:

| LAHC BUSINESS PLAN 2015 - 2017                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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| <b>Our Purpose</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | LAHC is responsible for owning and managing the NSW Government's public housing assets                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Our Goal</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Sustainably manage the Government's public housing assets                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Our Objectives                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Our Success Indicators                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Our Priorities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                  | Our Commitments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <ul style="list-style-type: none"> <li>Efficiently manage land and housing assets by:               <ul style="list-style-type: none"> <li>maintaining and upgrading existing properties;</li> <li>planning and developing properties; and</li> <li>acquiring and disposing of properties.</li> </ul> </li> <li>Support the Government in optimising its public housing portfolio through financially sustainable asset management.</li> <li>Procure efficient tenancy management services.</li> <li>Collaborate with government and non-government agencies to implement policies and initiatives to support the Government's social housing properties.</li> </ul> | <ul style="list-style-type: none"> <li>Portfolio asset strategy as the core driver of asset decisions.</li> <li>Reduced deterioration and unplanned loss of properties.</li> <li>Improved financial sustainability.</li> <li>Improved cost efficiencies in maintenance.</li> <li>Increased staff engagement and capabilities.</li> <li>Upgraded financial and information management systems.</li> <li>Increased collaboration with stakeholders and partners.</li> <li>Awareness of increased safety.</li> </ul> | <ul style="list-style-type: none"> <li>Build a financially sustainable business that minimises housing loss and maintains assets 'fit for purpose'.</li> <li>Roll-out a new maintenance delivery system in a market environment.</li> <li>Procure accountable and responsive tenancy management services through a contestable mode.</li> <li>Focus on safety in all areas of its work.</li> <li>Streamline its business systems and practices to improve its efficiency and effectiveness.</li> <li>Engage its workforce in responding to changing demands.</li> <li>Collaborate with other parts of FACS and Government to implement social housing reforms.</li> <li>Grow its relationships with non-government and industry sectors to effectively deliver its reform agenda.</li> </ul> |                  | <p><b>Tenants &amp; Clients:</b></p> <ul style="list-style-type: none"> <li>Meet its obligations and treat its tenants with respect.</li> <li>Our decisions balance the needs of tenants in its properties with those on waiting lists.</li> </ul> <p><b>Colleagues:</b></p> <ul style="list-style-type: none"> <li>A safe workplace is a top priority.</li> <li>We strive to be open and fair and support people to be successful and reach their potential.</li> <li>We take pride in its work and take personal responsibility for its decisions.</li> </ul> <p><b>Performance:</b></p> <ul style="list-style-type: none"> <li>We strive to make the best use of the assets and resources we have.</li> <li>Our decision-making is evidence-based and focused on long-term financial sustainability.</li> <li>We measure and report on its performance in an open way.</li> <li>We adopt sensible risk taking.</li> </ul> <p><b>Stakeholders:</b></p> <ul style="list-style-type: none"> <li>We foster frank, open and productive relationships with its stakeholders.</li> <li>Our partnerships are focused on solutions.</li> <li>Our dialogue is informed by professional and open exchanges of information.</li> </ul> |
| <b>Our Values</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>Service</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>Accountability</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>Integrity</b> | <b>Trust</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |



### 3 Business Overview and Strategic Summary

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The objective of assisting those in need means public housing dwellings are rented at prices that are linked to tenant income. The principal source of income for the majority of public housing tenants is income support received from the Federal Government. At approximately 45% of equivalent market rents, the rents received by LAHC are well below the rent for equivalent properties in the private residential market.

In this environment, LAHC's primary avenue for financial and service improvement is to more effectively manage its asset base. In 2013, LAHC developed an asset portfolio strategy based on a full review of its portfolio including reinvestment opportunities to support financial sustainability.

#### Asset Portfolio Strategy

The Asset Portfolio Strategy is designed to deliver more housing that better meets the needs of the community. By delivering increased funds for maintenance and providing new housing the Portfolio Strategy is supporting the financial sustainability of public housing.

The Asset Portfolio Strategy comprises two core elements:

- making sure public housing is fit for purpose in terms of its condition, location and suitability; and
- identifying opportunities where higher land values or redevelopment uplift can be accessed with all proceeds of sales reinvested back into the portfolio as required by the *Housing Act 2001*.

The portfolio strategy will guide asset decisions, aligning sales, re-developments, maintenance and acquisition programs. The portfolio strategy will be progressively aligned with the Social Housing Policy being developed by the NSW Government.

LAHC is implementing the strategy through:

- redeveloping at a lower net cost on sites where development uplift can reduce or offset the net cost of new public housing construction;
- building new housing in locations that have good access to services, shopping, community facilities, transport, education and employment;



- ensuring that new housing is not over-concentrated in locations and that opportunities are taken to reduce existing concentrations of public housing;
- assessing the maintenance requirements for every property in the portfolio and targeting maintenance programs; and
- adopting a more selective approach to asset sales to reduce the number of properties being sold with a preference to sell those which support the cost of replacements.

The portfolio strategy is designed to support the financial sustainability of the portfolio by delivering increased funds for maintenance and to renew the stock of public housing through new supply.

The budgeted expenditure on maintenance in 2014-15 is 21.5% higher than in 2013-14 and 50.4% higher than in 2012-13. New housing construction commencements in the 2014-15 budget totals 759 social housing dwellings, compared to actual of 371 in 2013-14 and 361 in 2012-13.

This means that for the first time in over a decade, discounting the effect of vesting properties to the community housing sector, the public housing portfolio is projected to add more properties than it loses, stemming the historical stock less trend, and also improving the level of maintenance.

### *Fit For Purpose Assessment*

'Fit for purpose' is the LAHC measure of an asset's suitability for public housing. It incorporates an assessment of the physical and location characteristics of the property.

#### **The Fit for Purpose assessment considers a number of criteria:**

##### **The Physical characteristic**

assessment evaluates the asset and the extent to which it offers an appropriate, functional and safe living environment with the capability to adapt to evolving client needs.

##### **Includes:**

- Asset Standard (current condition, historic lifecycle maintenance costs and age).
- Suitability (level access, modifications for access by tenants with mobility issues, current compliance to standards)

##### **The Location characteristic**

assessment evaluates the extent to which the geographical location of the asset provides an appropriate level of accessibility which meets the need of social housing clients.

##### **Includes:**

- Access (proximity to major centres, transport and local/town centres).
- Concentration (for both estate and non-estate properties).
- Capital Value (trends in locality).
- Geographic characteristics (topography, bushfire and flood ratings)



The output of the assessment is then classified against its results for the physical and location characteristics and can be used to provide an assessment of the portfolio and to prioritise investment decisions.

During 2013-14, the Property Assessment Surveys were concluded to assess the condition of all dwellings in the public housing portfolio. This information is being reviewed and will form a core input to the overall assessment of the property and the portfolio.

In addition to measuring the overall 'fit for purpose', the underlying land value of each asset is being assessed and considered. This then informs decisions about whether the asset could provide a reinvestment opportunity, either as a redevelopment site or as a sale. It also then guides maintenance investment program priorities.

### Vesting

LAHC has been implementing Government commitments to vest (transfer ownership) properties to the Community Housing Providers (CHPs) from which these CHPs can leverage to invest in further social housing dwellings. In 2013-14, a total of 2,721 dwellings were transferred to CHPs with a further vesting of 456 dwellings anticipated in 2014-15 being the balance of 200 dwellings under the Nation Building Economic Stimulus Program (NBESP) and 256 NRAS (National Rental Assistance Scheme) dwellings, and additional 153 dwellings proposed to be vested under NRAS in 2016-17.

### Maintenance Contracts

LAHC is also focused on streamlining the delivery of maintenance services. The strategic maintenance review set out to develop a contract that would deliver lower costs and increased tenant satisfaction. The new arrangements will alter the delivery of both the responsive works program and the planned works program.

A pilot was undertaken to test the principles of a new maintenance contract model, which highlighted the cost per work order for responsive work was lower than business as usual and that quoted prices for planned work were lower. Tenant satisfaction trended upwards which confirmed the intent of the new contract. As the pilot was undertaken in a test environment the full extent of any benefits will not be known until the new contract goes live which is proposed for mid 2015.

Currently, maintenance services are contracted on a 'schedule of rates' basis for responsive works and a pre-priced item approach for planned works. Under the new maintenance contract,



maintenance will be contracted on a 'lump sum benchmark' for responsive works and a quoted basis for planned maintenance.

The new maintenance contract will move more responsibility towards the contractor, together with shared financial incentives to minimise responsive work costs. Savings that LAHC realise from efficiency gains will be used to support the maintenance program further.

LAHC currently outsources 100% of the delivery of its maintenance services to the private market and post implementation of the new maintenance contract in 2015, will review options to further outsource activities giving due consideration to the costs, benefits and associated risks.

In relation to new supply program delivery, LAHC currently outsources greater than 90% of the program cost, including all construction costs. LAHC will as part of its future direction review further opportunities for outsourcing services.

In addition to continuing to implement the portfolio strategy and implement the new maintenance contract, LAHC will pursue the following additional priorities during the 2015-2017 financial years:

- Review the cost effectiveness of current tenancy management services and explore the potential to implement new arrangements to procure accountable and responsive tenancy management services including through contestable procurement;
- Collaborate with other parts of FACS and Government to implement social housing assistance including any new initiatives or changes in focus that may emerge from a review of the Social Housing Policy; and
- Grow its relationships with non-government and industry sectors to effectively deliver its reform agenda.



## 4 Financial Performance Targets

| NSW Land and Housing Corporation<br>Statement of Business Intent                   | 2014-15<br>Forecast | 2015-16<br>Forecast | 2016-17<br>Forecast | 2017-18<br>Forecast |
|------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Financial Performance targets                                                      | \$ million          | \$ million          | \$ million          | \$ million          |
| Revenue                                                                            | \$994.7             | \$1,020.8           | \$1,048.6           | \$1,055.5           |
| EBITDA <sup>1</sup>                                                                | \$87.3              | \$143.4             | \$92.2              | \$152.4             |
| EBIT <sup>2</sup>                                                                  | -\$238.4            | -\$195.4            | -\$258.3            | -\$209.4            |
| Operating Profit before tax                                                        | -\$316.2            | -\$269.8            | -\$332.1            | -\$280.5            |
| NPAT <sup>3</sup>                                                                  | -\$316.2            | -\$269.8            | -\$332.1            | -\$280.5            |
| NPAT (adjusted for vesting)                                                        | -\$267.8            | -\$269.8            | -\$272.0            | -\$280.5            |
| Dividend/Distribution payout ratio                                                 | n/a                 | n/a                 | n/a                 | n/a                 |
| Return on Assets / Return on Equity                                                | n/a                 | n/a                 | n/a                 | n/a                 |
| <sup>1</sup> EBITDA - Earnings before interest, tax, depreciation and amortisation |                     |                     |                     |                     |
| <sup>2</sup> EBIT - Earnings before interest and tax                               |                     |                     |                     |                     |
| <sup>3</sup> NPAT - Net profit after tax                                           |                     |                     |                     |                     |

- Revenue over the forward estimate period reflects expected increases in tenant charges due to forecast consumer price index changes.
- Grants from FACS averaging approximately \$61 million per annum over the 4-year forward estimates to 2017-18 to support capital programs have been agreed.
- EBITDA over the forward estimates are impacted by the carryover of vesting amounts from Nation Building Economic Stimulus (\$32 million in 2014-15) and National Rental Affordability Scheme (\$16.5 million in 2014-15 and \$60.1 million in 2016-17). The forward estimates do not reflect updates following actual vesting of properties in 2013-14 to Community Housing Providers.
- The forward estimate trend in NPAT reflects the peaks and troughs given the timing impact of the above vesting.

The key forecast highlights over the forward estimate period is summarised below:-

|                                       | Current<br>2014-15 to 2017-18 | Previous<br>2010-11 to 2013-14 | Variance                         |
|---------------------------------------|-------------------------------|--------------------------------|----------------------------------|
| Number of dwellings completed (units) | 2,535                         | 2,416 (excluding NBESP)        | +119<br>(5% increase)            |
| Maintenance (\$m)                     | \$1,991 million               | \$1,546 million                | +\$446 million<br>(29% increase) |



## 5 Non-Financial Performance Targets

LAHC plans to build on the 2013-14 key non financial performance indicators which still currently apply to LAHC's work as reflected below.

| 2013/14 Key Strategic Initiatives                                                                                                                                                                 | Target                                                                                                                                                                                                                                                                                                                                                                                                                                               | Status                                                                                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Develop and deliver the Portfolio Strategy</b><br>(orchestrate LAHC property sales, acquisitions and development programs to better meet public housing needs and reinvestment of LAHC assets) | <ul style="list-style-type: none"> <li>Strategic recommendations for Government approval in July 2013.</li> <li>Establishment of a modelling tool able to provide portfolio recommendations by December 2013.</li> <li>By June 2014, the 2014-15 portfolio program (sales, renewal and maintenance) will be developed based on information provided by the modelling tool, including relevant portfolio reinvestment program information.</li> </ul> | <ul style="list-style-type: none"> <li>Complete</li> <li>Complete</li> <li>In-progress. Portfolio Strategy included in current Business Plan</li> </ul> |
| <b>Develop new Tenancy Management "fee-for-service" arrangement</b>                                                                                                                               | <ul style="list-style-type: none"> <li>New tenancy management arrangement operational for 2013-14.</li> </ul>                                                                                                                                                                                                                                                                                                                                        | <ul style="list-style-type: none"> <li>Complete</li> </ul>                                                                                              |
| <b>Strategic Maintenance Review</b><br>(improve the effectiveness and efficiency of LAHC's maintenance of public housing properties)                                                              | <ul style="list-style-type: none"> <li>New maintenance system operational from mid 2015.</li> </ul>                                                                                                                                                                                                                                                                                                                                                  | <ul style="list-style-type: none"> <li>On target</li> </ul>                                                                                             |
| <b>Service Level Agreements with FACS</b><br>(improve the effectiveness and efficiency of service delivery with HNSW, AHO and CAPHM)                                                              | <ul style="list-style-type: none"> <li>Service Level Agreements prepared for implementation in 2013-14.</li> </ul>                                                                                                                                                                                                                                                                                                                                   | <ul style="list-style-type: none"> <li>Complete</li> </ul>                                                                                              |
| <b>Engage talent, build capability and effectively manage people</b>                                                                                                                              | <ul style="list-style-type: none"> <li>Improvements in People Matter Survey results in 2013-14.</li> </ul>                                                                                                                                                                                                                                                                                                                                           | <ul style="list-style-type: none"> <li>Improvements achieved</li> </ul>                                                                                 |
| <b>Implement and refine the Workplace Health and Safety (WHS) framework and safety culture in LAHC.</b>                                                                                           | <ul style="list-style-type: none"> <li>Implement WHS framework by October 2013.</li> </ul>                                                                                                                                                                                                                                                                                                                                                           | <ul style="list-style-type: none"> <li>Complete<br/>WHS framework launched via the LAHC intranet in April 2014</li> </ul>                               |

## Statement of Business Intent 2014-15



The 2014-15 key performance indicators and measures are tabled below.

| NSW LAND AND HOUSING CORPORATION                                              | Measure                                                                                  | 2013-14<br>Actual | 2014-15<br>Measure    | 2015-16<br>Measure | 2016-17<br>Measure | 2017-18<br>Measure |
|-------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------|-----------------------|--------------------|--------------------|--------------------|
| <b>Key Performance Indicators (KPIs)</b>                                      |                                                                                          |                   |                       |                    |                    |                    |
| Number of commencements                                                       | Number of commencements                                                                  | 371               | 759                   | 1,306              | 620                | 620                |
| Average maintenance (capital & recurrent) spend per residential dwelling      | Total maintenance cost / no. of properties                                               | \$3,030           | \$3,895               | \$3,922            | \$3,975            | \$4,006            |
| % of responsive maintenance jobs completed on time                            | Maintenance jobs completed on time / total maintenance jobs                              | 84.1%             | 85.0%                 | 85.0%              | 85.0%              | 85.0%              |
| Rental arrears as % of revenue                                                | Forecast impairment of public housing tenant debt over annual net rent (excluding fraud) | 0.4%              | 0.5%                  | 0.5%               | 0.5%               | 0.5%               |
| Outstanding net tenant receivables (rent and non rent) as % of rent           | Tenant accounts receivable (net of impairment) / rent revenue                            | 0.6%              | available at year-end | tba                | tba                | tba                |
| <b>Other Metrics</b>                                                          |                                                                                          |                   |                       |                    |                    |                    |
| Number of properties where maintenance is undertaken                          | Number of properties that received recurrent maintenance                                 | 109,799           | available at year-end | 109,608            | 109,805            | 109,901            |
| Number of people housed in public housing properties (LAHC owned & leasehold) | No. of people                                                                            | available Sep'14  | available at year-end | tba                | tba                | tba                |
| Average capital value per residential property                                | Capital value / no. properties                                                           | \$272,553         | \$281,876             | \$291,462          | \$300,241          | \$309,650          |
| LAHC residential properties as % of housing stock in NSW                      | No. LAHC properties / Total housing properties in NSW                                    | 4.30%             | available at year-end | tba                | tba                | tba                |
| LAHC recurrent expenditure per residential dwelling                           | Average recurrent operating expenditure less vesting / No. Dwellings                     | \$9,484           | \$10,004              | \$10,246           | \$10,481           | \$10,596           |
| Rent received relative to market rent                                         | Rent received / market rent                                                              | 44.5%             | 44.6%                 | 44.7%              | 44.7%              | 44.8%              |
| Average age of property                                                       | Average of property age                                                                  | 35.6 years        | available at year-end | tba                | tba                | tba                |
| Number of dwellings under occupied                                            | Dwellings that are under occupied by 2 or more bedrooms                                  | 16,845            | available at year-end | tba                | tba                | tba                |

Note: tba = to be advised



## **6 Reporting Obligations**

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### **6.1 Accounting Policies**

LAHC reports monthly to Treasury and FACS and is required to produce an annual report.

The accounting policies adopted by LAHC are in accordance with applicable accounting standards, including Australian Equivalents to International Financial Reporting Standards (AEIFRS), the requirements of the Public Finance and Audit Act 1983 and the Public Finance and Audit Regulation 2005. Where there are inconsistencies between the accounting standards and the legislative requirements, the legislative provisions prevail.

### **6.2 Financial Asset and Liability Management**

The estimated total assets of LAHC as at 30 June 2014 are valued at \$35.6 billion and its debt level is \$0.6 billion which equates to a debt / assets ratio of 1.7%.

LAHC continues to focus on its balance sheet management as a means of ensuring that equity and assets are utilised to advantage and with regard to the associated risks and transparency required in decisions relating to government assets.

### **6.3 Risk Management and Control Overview**

LAHC continually reviews risks whereby each risk has a number of mitigating strategies which are monitored and reported on, as part of the business performance and review process. By integrating the risks into the business plan, LAHC has ensured that its primary business activities are completely focused on addressing its strategic risks and achieving its business objectives.