



Teacher  
Housing

## Statement of Business Intent

2014-15

Philip Shelley | General Manager  
Teacher Housing Authority of NSW  
NSW Office of Finance & Services  
Treasury and Finance Cluster  
T 02 9260 2000  
F 02 9260 2060  
E [Philip.Shelley@tha.nsw.gov.au](mailto:Philip.Shelley@tha.nsw.gov.au)



## Table of Contents

---

<b>SHAREHOLDER AGREEMENT .....</b>	<b>1</b>
<b>1 OBJECTIVES .....</b>	<b>2</b>
<b>2 BUSINESS OVERVIEW .....</b>	<b>3</b>
<b>3 STRATEGIC SUMMARY.....</b>	<b>6</b>
<b>4 FINANCIAL PERFORMANCE TARGETS .....</b>	<b>8</b>
<b>5 NON FINANCIAL PERFORMANCE TARGETS .....</b>	<b>10</b>
<b>6 SOCIAL PROGRAMS, NON-COMMERCIAL ACTIVITIES .....</b>	<b>12</b>
<b>7 ACCOUNTING POLICY .....</b>	<b>13</b>
<b>8 REPORTING OBLIGATIONS.....</b>	<b>14</b>



## Teacher Housing Authority of NSW

### Statement of Business Intent

2014-15

## AGREEMENT

This **Statement of Business Intent** has been agreed between:

\_\_\_\_\_  
Brett Newman  
Chair  
Teacher Housing Authority of NSW

\_\_\_\_\_  
Philip Shelley  
General Manager  
Teacher Housing Authority of NSW

and

\_\_\_\_\_  
Chief Executive Officer of the  
Office of Finance and Services on  
behalf of The Hon. Dominic Francis  
Perrottet MP, Minister for Finance &  
Services

\_\_\_\_\_  
Secretary of NSW Treasury on behalf  
of The Hon. Andrew Constance MP  
Treasurer of NSW



## 1. Objectives

---

The Teacher Housing Authority of New South Wales (Teacher Housing) is a statutory corporation constituted under the *Teacher Housing Authority Act 1975* (Teacher Housing Authority Act). Under the Teacher Housing Authority Act Teacher Housing is subject to the control and direction of the Minister for Finance and Services.

Teacher Housing is a related entity of the NSW Office of Finance and Services (The Agency). The Teacher Housing Act provides for the Secretary of the Treasury and Finance cluster (or nominee) to be Teacher Housing's Chair.

The provision of accommodation is one of several incentives which assist the Department of Education and Communities (DEC) in attracting and retaining teachers in parts of the state which at times are considered to be 'hard to staff'.

Suitable accommodation is an essential factor a teacher considers prior to accepting a position in a rural and remote community. Teacher Housing supplies and maintains suitable and adequate housing for teachers and their families. To complement this Teacher Housing provides a responsive and reliable tenancy management service which liaises with local communities and administers residential leases.

Teacher Housing's vision, mission and goals are:-

### 1.1 VISION

To support the delivery of education services in rural and remote New South Wales by providing quality housing service for teachers.

### 1.2 MISSION

To deliver an economic, effective and efficient housing service to teachers in areas where the private rental market does not meet their needs.

### 1.3 GOALS

To provide:-

- a responsive, dependable, empathetic, consistent and competent service;
- a portfolio of maintained suitable housing;
- a relevant and efficient organisation covering all aspects of tenancy and asset management; and
- an organisation that engenders a learning and continuous improvement culture, with appropriate resourcing and informed decision making.



## 2 Business Overview

---

### 2.1 OBJECTIVES

Teacher Housing provides a portfolio of houses and furnished units in areas of the state which do not have a viable private rental market. These properties are maintained to an appropriate standard for teachers to occupy.

Consequently, Teacher Housing focuses on ensuring that the number, location and standard of its portfolio is appropriate and that it provides a reliable and competent tenancy service to teachers.

### 2.2 CUSTOMERS AND STAKEHOLDERS

Teacher Housing's customers are members of the Teaching Service (and their families) who live in, or have applied to live in, Teacher Housing accommodation.

Stakeholders include the Minister for Finance and Services, Secretary of the Treasury (head of the Treasury and Finance Cluster), the Minister for Education, the Treasurer, the DEC, local members of parliament, NSW Treasury, Department of Premier and Cabinet, Office of Finance and Services (The Agency), Board Members, employees at Teacher Housing, students, parents and the wider community associated with schools in locations where Teacher Housing provides housing.

### 2.3 HOUSING SERVICE DELIVERY

The Teacher Housing comprises three teams: Tenancy Services, Asset Management and Financial and Strategic Management.

Teacher Housing uses local managing agents to provide a responsive local management service to tenants on behalf of the THA.

Managing Agents receive an annual property management fee for each THA property they manage and their role includes: holding keys, arranging maintenance and conducting property inspections.

The THA oversees a network of Local Housing Representatives who provide their time on a voluntarily basis. Elected by the teachers in their community Local Housing Representatives play an important role, communicating with Teacher Housing, recommending tenancy allocations, and in particular, providing support to teachers who may be new to a rural community.

## Statement of Business Intent 2014-15



Maintenance programs, new supply and disposals ensure the housing portfolio meets the needs of teachers. .

Capital and refurbishment projects are outsourced to qualified project and construction managers that provide design, documentation and supervision services.

### 2.4 FINANCIAL POSITION (FY2014-15 BUDGET)

#### Income

The primary areas of income and the amounts budgeted for FY2014-15 are:

- **Rental Income (\$10.8m):** Teacher Housing receives market rent for occupied properties. Market rents are assessed annually by independent valuers. The impact of the 2014 rental assessment (applied 30 June 2014) represents an average increase of 2.74% on the prior year. The disposal program has a negative impact on rental income of 0.43%. As such rental income in 2014-15 is forecast to increase by 2.31%.
- **State Government Contribution (\$5.7m) and DEC Grant (\$0.6m):** So as to meet its social obligations (section 6) Teacher Housing receives a state government contribution of \$5.7m. The DEC provides an annual grant of \$600k for the refurbishments of DEC owned school residences.

#### Expenses

The primary areas of expenditure and the amounts budgeted for FY14-15 are:

- **Property Maintenance (\$7.0m)** - consists of responsive maintenance generally arranged by Managing Agents and refurbishment costs that have not been capitalised.
- **Depreciation (\$5.7m)** – applies to the building value of properties in the portfolio.
- **Administration (\$2.6m)** – includes fees paid to managing agents and other administrative expenses.
- **Personnel services expenses (\$2.4m)** – direct costs associated with the staff and management at Teacher Housing.
- **Property Rates (\$2.1m)** – council, electricity, water and gas rates on properties



### 2014-15 EBITDA Forecast





## 3 Strategic Summary

---

Teacher Housing's strategic direction is developed by the Board and reflects its core business objective; to provide accommodation in areas where the needs of teachers cannot be met by the private rental market.

Accordingly, the business strategy is focused upon the delivery of:

- capital programs (acquisition and disposal):
- maintenance programs that are cost effective and aligned to Teacher Housing's mission, goals and objectives; and
- a reliable and responsive service that exceeds customer and stakeholder expectations.

### 3.1 STRATEGIC ASSET PLAN

In 2012 Ernst & Young conducted a review to determine the adequacy of the private rental market in locations where Teacher Housing owns residential assets. This review deemed 117 residences to be surplus to Teacher Housing's needs in regard to meeting its objectives.

These residences had a combined book value of \$19.1 million and 83 of them (71%) were occupied by teachers.

The Minister accepted the report and approved their sale noting Teacher Housing would retain the proceeds from their disposal. The Minister also noted that asset sales would be conducted: with sensitivity to matters affecting local communities and Teacher Housing's cash position.

The review also identified:

- a further 229 residences for review due to their age, condition, poor amenity or low teacher utilisation rate;
- unmet demand for 201 new residences in locations where the private rental market was inadequate or partly-inadequate;
- the adequacy, standard and cost of new asset supply is appropriate, as is the approach to arranging maintenance; and
- a need for long term asset planning to: address asset disposals; assess replacing those in poor locations or at the end of their economic lives and to meet a portion of the unmet demand.

Teacher Housing are developing strategies that address the findings from the review and expects to finalise these in October 2014.



These strategies remain work in progress and have not been considered in the financial projections. Notwithstanding this, they may have an impact after the 2014-15 financial year.

### 3.2 SUPPORTING GOVERNMENT AGENCIES

Teacher Housing provides advice to the Office of Finance and Services (OFS) in regard to exploring opportunities whereby OFS can provide and manage residential accommodation for government employees beyond teachers.

The management of portfolios beyond Teacher Housing's portfolio will be funded and reported on separately to Teacher Housing.

### 3.3 OPERATING MODEL REVIEW

Teacher Housing is reviewing the business model of other government agencies that provide employee accommodation and share similar operating environments. The review, currently work-in-progress, is fundamentally a gap analysis that explores these agencies business models.

The purpose is to consider alternative funding opportunities for Teacher Housing so as to reduce the financial reliance on the government.

The review compares Teacher Housing's asset portfolio, market characteristics and funding opportunities against Australian Defence Force Housing (DHA), Western Australia Government Regional Officer Housing (GROH) and the NSW Police Force (NSWPF).

The NSWPF shares similar geographic challenges to Teacher Housing but retains a large degree of internalised management, with core functions performed by a property services provider.

DHA and GROH share similar features with Teacher Housing. In particular, the separation service delivery and rental subsidy arrangements from the employing agency.

DHA's model provides an opportunity for property development arbitrage and a sale-and-lease back product that attracts private investors. DHA has consistently met its operational and financial objectives.

GROH charges the employing agency 'market rent' or 'cost rent' (whichever is the greater). Cost rent is the depreciated replacement cost of the asset. Over time cost rent will sit below the 'market rent'. GROH has, over time, achieved its operational financial targets. However, it has continually needed to rely on additional support from WA government agencies to fund new supply.



## 4 Financial Performance Targets

The following tables indicate financial performance targets for the next five years and quarterly revenue and expense performance targets for the 2014-15 financial year. Statements of Financial Position, Cash Flow and Operating Result for a ten-year period are provided in the Business Plan appendices.

### 4.1 PERFORMANCE TARGETS

Annual Financial Performance Targets	Actuals 12-13 \$'000	Actuals 13-14 \$'000	Forecast 14-15 \$'000	Forecast 15-16 \$'000	Forecast 16-17 \$'000	Forecast 17-18 \$'000
Rental Income	10,674	10,570	10,814	10,922	11,031	11,142
Maintenance Expense	6,772	7,500	7,040	5,800	5,800	5,800
Total Expenses	19,290	21,023	20,326	19,597	19,415	19,829
Arrears %	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Average Debtors Periods - Days	30	30	30	30	30	30
Operating Surplus Before Interest	(1,709)	(3,684)	(2,887)	(2,093)	(1,637)	(1,944)
Operating Surplus Before Depreciation	3,921	1,866	2,763	3,572	4,033	3,736
<b>Financial Analysis</b>						
Current Ratio	1.76:1	3.37:1	3.84:1	3.79:1	3.87:1	4.96:1
Total Debt to Total Assets	0.0%	0.0%	0.2%	0.3%	0.1%	0.1%
Total Debt to Equity	0.0%	0.0%	0.3%	0.3%	0.1%	0.1%
Return on Assets	-2.5%	-1.8%	-1.3%	-1.1%	-1.3%	-0.9%
EBITDA to Rental Income	36.7%	17.7%	25.6%	32.7%	36.6%	33.5%
<b>Cost Efficiency Indicators</b>						
Maintenance as a % of Rental Income	63.4%	71.0%	65.1%	53.1%	52.6%	52.1%
Total Expenses as % of Rental Income	180.7%	198.9%	188.0%	179.4%	176.0%	178.0%

### COMMENTARY

- Changes in budget levels are generally only a reflection of escalation factors
- Rental Income will increase 2.74% on average across all properties for 2014-15, based on the yearly rent review conducted by an independent valuer. After allowing for disposals rent is forecast to increase by 2.31% in 2014-15. For the following years, a conservative estimate of 1% has been applied.



### COMMENTARY

- The quarterly estimates are based on an assumption of an equal split across the quarters for all items except borrowing costs, the State Government contribution and the DEC grant.



## 5 Non Financial Performance Targets

The Teacher Housing Business Plan provides a comprehensive table of benchmarks and performance indicators.

The tables below summarises the key performance indicators used by Teacher Housing to ensure that accommodation is appropriately located and meets customer's expectations.

### 5.1 ASSET PORTFOLIO \* as at 30 June 2014

Performance Indicator	Actual			Forecast		
	10-11	11-12	12-13	13-14	14-15	15-16
Number of THA residences*	1,278	1,259	1,224	1,186	1,164	1,114
Number of school residences (DEC)*	196	179	170	150	136	126
Vacant land/WIP*	45	46	44	44	60	60
Others (Head Leased, studio units)*	7	9	8	6	6	5
Total properties under management*	1,526	1,493	1,446	1,386	1,366	1,305
Percent of teachers in THA residences	75%	75%	77%	76%	79%	80%
Percent of teachers in school residences	59%	59%	62%	63%	65%	70%
Percent of teachers (all residences)	72%	72%	75%	78%	78%	80%
Percent of residences privately tenanted	15%	13%	14%	13%	11%	11%
Average Occupancy rate	87%	85%	88%	88%	89%	91%

### COMMENTARY

- The ongoing lower percentage of teacher utilisation on DEC (school) residences supports the strategy of continuing to hand back the DEC properties.
- The occupancy rate is influenced by factors such as:
  - the difficulty in attracting good tenants to school residences that are not required by teaching staff and are situated in isolated localities;
  - declining student enrolments in line with a decline in the population in some communities;
  - a high tenant turnover rate (40%), (if a two week turnover period was applied the impact on the vacancy rate is 1.5%);
  - a high vacancy rate during the summer holiday period;
  - the number of residences that are held vacant for teachers (sometimes for lengthy periods), following advice from a school that an appointment to a school in the locality is imminent; and
  - the need to leave some residences vacant pending disposal action.



### 5.2 CUSTOMER SATISFACTION INDICATORS

Index (out of ten)	Actual			Forecast		
	10-11	11-12	12-13	13-14	14-15	15-16
Established tenants satisfied with Teacher Housing	7.1	7.2	7.9	7.9	8	8
New tenants satisfied with Teacher Housing	8	7.9	7.8	7.8	7.9	8.1
Established tenants satisfied with the Managing Agent	7	6.7	7.7	7.7	7.8	7.8
New tenants satisfied with the Managing Agent	7.2	6.8	7	7	7.1	7.2

#### COMMENTARY

- Teacher Housing measures its customer service (scores are out of a possible 10).
- Teacher Housing implements strategies to improve customer service.
- In 2014-15 an online forum will be conducted. The purpose is to obtain customer insight.

### 5.3 CAPITAL PROJECT DELIVERY INDICATORS

Average capital project delivery period (of projects completed in the period)

	Actual			Forecast		
	10-11	11-12	12-13	13-14	14-15	15-16
Weeks to appoint a project manager	8	6	7	5	5	5
Weeks to appoint a contractor once a project manager has been appointed	29	20	26	15	15	15
Construction period (weeks)	30	38	56	45	45	45
Period of delivery since approval (weeks)	67	64	89	65	65	65

#### COMMENTARY

- One project in 2012-13 allowed for a 40 week construction period (projects generally allow for a 20 week construction period).
- Improvements in overall project delivery generally relate to the Project Manager's activities.



## 6 Social Programs, Non-Commercial Activities

---

The Teacher Housing Act requires in the provision of a housing service in those areas where the private market fails to provide adequate suitable rental accommodation. These areas experience low rental returns, expensive maintenance costs and require high capital outlay with negligible capital growth. In essence, Teacher Housing is required to make non-commercial investment decisions which require continued State Government support. Teacher Housing's activities therefore do not generate sufficient income to meet operational expenses and Teacher Housing will continue to rely on an annual contribution by the Government to meet the funding shortfall. The social program and non-commercial obligations of Teacher Housing mean it does not pay a dividend to Government.

Teacher Housing supports schools by meeting demand for new accommodation which is determined by the staffing levels at schools which fluctuates with socio-economic and demographic changes in local communities as well as the funding schools receive. These population changes can be driven by such factors such as new industries, declining industries, drought and temporary infrastructure projects.

From a profit perspective, Teacher Housing is required to ensure that dwellings are available for occupancy by teachers who are newly transferred to country locations. This means that Teacher Housing must give appropriate notice to private tenants, or leave dwellings vacant, in anticipation of new appointments to a school. The net result is a vacancy level significantly higher than the industry norm, which impacts on asset utilisation and in turn rental income.

Ongoing State Government support and DEC grants are required to recognise these social program obligations.



## **7 Accounting Policies**

---

### **7.1 GST TREATMENT**

Teacher Housing is classified as a fully input-taxed entity in terms of the Goods and Services Tax (GST) legislation as all core business revenues are generated from input-taxed suppliers. Accordingly, all expenses, assets and payables relating to these suppliers are recognised inclusive of GST.

### **7.2 FY14-15 CHANGE IN ACCOUNTING POLICY – CAPITALISATION OF REFURBISHMENT COSTS**

In FY2014/15 some expenditure on property refurbishment will where possible be capitalised. The impact of this change in accounting policy will be a reduction in maintenance expenditure and an increase in capital expenditure. Depreciation will rise due to increased asset values and it will also be impacted by any change in an asset's useful life resulting from the refurbishment.

There will be no impact on the cash position.



## 8 Reporting Obligations

---

### 8.1 TREASURY REPORTING

Teacher Housing provides annual financial and capital expenditure reports to Treasury based on its audited year end accounts. Forward estimates are also provided in November and April of each year.

### 8.2 BOARD REPORTING

In addition to its external reporting requirements, Teacher Housing also has a comprehensive management review system including:

- Comprehensive management, financial, capital and cash reserves reports are reviewed quarterly by the Board;
- Monthly financial and operational reports are provided to executive management;
- Key performance indicators are reviewed by executive management the Board periodically;
- Customer satisfaction is measured annually; and
- Project delivery, tenant allocations and occupancy levels are reviewed by the Board periodically.

### 8.3 RISK MANAGEMENT AND INTERNAL AUDIT FUNCTIONS

Teacher Housing has adopted the Agency's governance framework and appointed the Agency's Chief Auditor as its Chief Audit Executive.

Teacher Housing is compliance with Treasury circular TC 09/08.

Refer to the Business Plan for further information regarding risk management and internal audit functions.

### 8.4 CLUSTER REPORTING

Teacher Housing is part of the Office of Finance and Services (the Agency) in the Treasury and Finance cluster. Teacher Housing submits monthly reports to the Agency to enable cluster reporting to the Minister. The Minister is responsible for the budget allocation for Finance and Services and is required to report to the ERC and Cabinet for the whole cluster.



**Office of Finance & Services**

Teacher Housing Authority of NSW  
Level 23, McKell Building  
2-24 Rawson Place  
Sydney NSW 2000  
T 02 9260 2000  
F 02 9260 2060  
TTY 1300 137 343  
[www.tha.nsw.gov.au](http://www.tha.nsw.gov.au)