

# VAGO

Victorian Auditor-General's Office

## Planning Social Housing

June 2024

Independent assurance report to Parliament  
2023–24:18



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ISBN 978-1-921060-81-6

# Planning Social Housing

Independent assurance report to Parliament

Published by order, or under the authority,  
of the Parliament of Victoria

June 2024



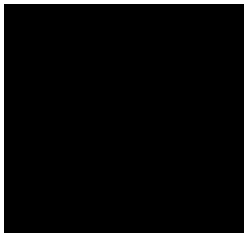
The Hon Shaun Leane MLC  
President  
Legislative Council  
Parliament House  
Melbourne

The Hon Maree Edwards MP  
Speaker  
Legislative Assembly  
Parliament House  
Melbourne

Dear Presiding Officers

Under the provisions of the *Audit Act 1994*, I transmit my report *Planning Social Housing*.

Yours faithfully



Andrew Greaves  
Auditor-General  
19 June 2024

The Victorian Auditor-General's Office (VAGO) acknowledges the Traditional Custodians of the lands and waters throughout Victoria. We pay our respects to Aboriginal and Torres Strait Islander communities, their continuing culture, and to Elders past and present.

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# Audit snapshot

## What we examined

We assessed if Homes Victoria plans for and delivers social housing to meet the needs of vulnerable Victorians. We examined Homes Victoria, which is part of the Department of Families, Fairness and Housing, and the Department of Treasury and Finance.

## Why this is important

Social housing provides safe and suitable homes to people on low incomes. This includes vulnerable people, such as people who have recently experienced homelessness or family violence.

The Big Housing Build (BHB) is the biggest social housing project the state has undertaken. The government has invested \$5.3 billion to build more than 12,000 new homes.

Victorians need to know if Homes Victoria, which is the agency that manages social housing, is effectively planning for and delivering these homes.

## What we concluded

Homes Victoria is on track to deliver more than 12,000 new homes under the BHB. It is due to finish around 80 per cent of homes on time and expects to complete the rest 3 years behind schedule.

Homes Victoria is on track to deliver the BHB within budget. But it has achieved this by increasing the number of homes that community housing providers are building and managing.

Homes Victoria understands its assets, financial position and the demand for social housing. But it does not have a plan to:

- target new housing in areas with the highest demand
- improve its financial sustainability.

These actions would help Homes Victoria address the housing needs of the most vulnerable people in our community.

## What we recommended

We made 4 recommendations to Homes Victoria to improve its strategic and financial planning.

[→ Full recommendations](#)

## Key facts



**60,564** Victorian households on the social housing waiting list



**\$5.3 billion** invested in the BHB

The BHB will build **12,949** new homes



**72%** of homes already started or completed

Note: Waiting list numbers as at December 2023. BHB status as at March 2024. Source: VAGO, based on information from Homes Victoria.

# Our recommendations

We made 4 recommendations to address 2 issues. Homes Victoria has accepted these.

Key issues and corresponding recommendations		Agency response
<b>Issue: Homes Victoria understands the gap between social housing supply and demand. While it has a strategy to guide its future work, it needs clear long term goals to measure if it is achieving its objectives</b>		
Homes Victoria	<b>1</b> Develop and report on specific, measurable targets for its objectives in its Social and Affordable Housing Portfolio Strategy: 2024–29 (see Section 1).	Accepted
	<b>2</b> Brief the government on options for the future growth of the social housing portfolio (see Section 1).	Accepted
	<b>3</b> Develop a procedure to make sure staff consider data from its portfolio optimisation model to inform all future site selection and project development decisions (see Section 1).	Accepted
<b>Issue: Homes Victoria understands the financial challenges it faces. While it has briefed the government on options to improve its financial sustainability, it does not have a financial sustainability plan</b>		
Homes Victoria	<b>4</b> Report back to the government by the end of 2024 on plans to improve its financial sustainability as an organisation and the public housing sector more broadly, including: <ul style="list-style-type: none"> <li>outlining the funding and operational requirements to meet the government’s existing housing policy commitments</li> <li>undertaking detailed modelling to understand the cost of different potential projects</li> <li>timelines for implementing actions to improve the sustainability of public housing (see Section 1).</li> </ul>	Accepted

# What we found

This section summarises our key findings. The numbered sections detail our complete findings, including supporting evidence.

When reaching our conclusions, we consulted with the audited agencies and considered their views. The agencies' full responses are in Appendix A.

**Why we did this audit** Housing is a basic human need. Without safe and stable housing, it is difficult for a person to fully participate in society.

Social housing aims to provide housing to people on low incomes. In Victoria this includes:

- public housing, which Homes Victoria owns and manages
- community housing, which not-for-profit community housing providers own and/or manage.

The number of social housing dwellings in Victoria has largely remained steady from 86,418 in June 2017 to 88,189 in June 2023.

But the demand for social housing is growing. There are currently around 50,732 applications from people seeking a new home on the Victorian Housing Register, which is the waiting list for social housing.

It is important that Homes Victoria is planning for and delivering housing that helps reduce this demand.

We also looked at the Big Housing Build (BHB), which is the biggest Victorian Government investment in social housing ever.

It is important that Homes Victoria manages this project well and is on track to achieve its objectives.

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**Our key findings** Our findings fall into 3 key areas:

- |   |   |
|---|---|
| 1 | Homes Victoria understands the gap between social housing supply and demand. While it has a strategy to guide its future work, it needs clear long term goals to measure if it is achieving its objectives. |
| 2 | Homes Victoria understands the financial challenges it faces. While it has briefed the government on options to improve its financial sustainability, it does not have a financial sustainability plan.     |
| 3 | Homes Victoria is delivering the BHB within budget. It is on track to finish around 80 per cent of homes on time and expects to complete the rest 3 years behind schedule.                                  |
-



## Key finding 1: Homes Victoria understands the gap between social housing supply and demand. While it has a strategy to guide its future work, it needs clear long-term goals to measure if it is achieving its objectives

### Understanding demand and existing assets

Homes Victoria needs a strong evidence base to effectively plan and deliver social housing.

Homes Victoria has a comprehensive, data-driven understanding of demand for social housing and the condition of its existing assets. It knows that demand for housing outstrips supply and this gap is likely to grow due to:

- population increases
- decreasing affordability of private housing.

Homes Victoria has developed a useful data model, which is called the portfolio optimisation model, to forecast the expected level of future demand in specific local government areas (LGA).

As of 2023, 3 per cent of all dwellings in Victoria were social housing. Homes Victoria estimates that to maintain this percentage, replace ageing homes and keep pace with population growth, the state needs to build an additional 22,000 social housing homes by 2036.

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### Homes Victoria's strategic planning

The Department of Treasury and Finance's (DTF) *Resource Management Framework* says agencies should plan their work and set short, medium and long-term goals to help them achieve their objectives.

In March 2024, Homes Victoria's chief executive officer approved the internal Social and Affordable Housing Portfolio Strategy: 2024–2029 (the strategy).

The strategy has 6 high-level strategic objectives, including objectives to:

- 'grow public and community housing'
- 'locate housing in the right areas'.

However, the strategy only has 2 specific, measurable goals to help Homes Victoria monitor if it is achieving its 6 objectives.

Homes Victoria told us it is preparing a supply and delivery plan to accompany the strategy. It said the plan, which is due mid-2024, will have more detail on how it will deliver its objectives.

Homes Victoria has also developed an implementation and embedding plan to align its business processes and activities with the strategy's objectives. For example, it outlines how Homes Victoria will align its future planning work with statewide objectives and considers how to develop building targets.

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### Identifying where to build future homes

There is demand for social housing throughout Victoria.

However, Homes Victoria's portfolio optimisation model shows that the level of demand varies significantly across LGAs.

The model shows that as of 2021, the LGAs with the highest demand were the City of Casey, Wyndham City, Shire of Mornington Peninsula, City of Boroondara and City of Melbourne.

The data predicts that by 2036 the greatest demand will be in the City of Casey, City of Melbourne, City of Wyndham, City of Whittlesea and Melton City Council.

The strategy acknowledges that demand varies across the state. But it does not rank or prioritise LGAs by their level of demand.

Homes Victoria told us the strategy does not rank or prioritise LGAs because it is a high-level strategic document. It also told us it is developing a supply and delivery plan and local area asset plans that will include more detailed information on local building priorities.

However, until this work is finalised there is a risk that Homes Victoria may not be using a statewide view of housing demand to inform and prioritise its local decision-making.

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## Key finding 2: Homes Victoria understands the financial challenges it faces. While it has briefed the government on options to improve its financial sustainability, it does not have a financial sustainability plan

### Financial challenges

Homes Victoria understands the financial challenges it faces as the state's public housing owner and manager. These challenges include:

- limited rental income
- growing maintenance costs
- the need to replace homes nearing the end of their useful life.

Homes Victoria has the following costs to manage the state's public housing:

- operating expenses of around \$710 million, including costs for day-to-day maintenance and managing tenancies
- capital expenses of around \$350 million (based on asset depreciation estimates), including costs to upgrade and replace end-of-life assets.

Homes Victoria gets around \$75 million each year from the government for capital expenses. This leaves a renewal gap of approximately \$275 million.

Homes Victoria does not get ongoing funding from the government for operational expenses.

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### Initiatives to address financial challenges

Homes Victoria has explored a range of options to improve the financial sustainability of public housing.

These options include:

- exempting Homes Victoria from paying local government rates on social homes in metropolitan Melbourne and the regional cities of Geelong, Ballarat and Greater Bendigo
- changing how it assesses tenants' income to make sure all tenants pay the same percentage of their household income in rent.

The government has approved only one initiative to date, which requires tenants living in homes with bulk water meters to contribute to the cost of their water.

Homes Victoria estimates it will receive an additional \$6.1 million per year through this initiative.

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### Homes Victoria's financial position

It is important that Homes Victoria has a plan to make sure it is financially sustainable as an organisation so it can continue to deliver social housing.

In June 2020 the government announced Homes Victoria as a new entity to manage public housing. At the same time it announced funding for the BHB. It also laid out a reform package to build Homes Victoria's governance and organisational capacity.

Homes Victoria has completed or is working on many of these reforms.

It has done an external forensic audit and improved its corporate governance and oversight processes. However, it has not developed a financial sustainability plan, which the government required as part of the reform package.

Homes Victoria told us it is working with DTF and the Department of Premier and Cabinet on a 'report back' to the government that provides clear, evidence-based advice on the full cost of providing public housing and the options available to address current challenges.

Homes Victoria plans to submit a report on the current financial state of the public housing sector by mid-2024. It then plans to report an analysis of potential options to improve financial sustainability by December 2024.

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### Key finding 3: Homes Victoria is delivering the BHB within budget. It is on track to finish around 80 per cent of homes on time and expects to complete the rest 3 years behind schedule

#### BHB's completion schedule

Homes Victoria has either started or finished building more than 72 per cent of the 12,949 homes under the BHB. As at March 2024, this includes:

- 5,310 homes under construction (41 per cent of planned homes)
- 4,049 completed homes (31 per cent of planned homes).

Homes Victoria is on track to complete around 80 per cent of homes by 31 December 2026. The remaining homes are due to be finished by 2028–29.

There are several reasons for the delay, including:

- town planning issues
  - labour and construction material shortages
  - COVID-19 pandemic impacts, such as lockdowns, supply chain disruptions and the uncertain position of builders and subcontractors.
- 

#### Progress against the budget

Despite rising cost pressure, Homes Victoria is on track to deliver the BHB within the original budget of \$5.3 billion.

In October 2022, Homes Victoria advised the government that the BHB was facing cost pressures, including:

- unexpectedly high inflation
- strong post-pandemic demand for labour and building materials.

In April 2023, Homes Victoria developed 2 options on how to complete the BHB project.

Option 1, which Homes Victoria did not recommend, was to deliver the BHB as originally planned, at an estimated additional cost of \$806 million.

Option 2 recommended an alternative delivery approach that would provide the same overall number of homes but:

- increase the number of homes that community housing providers would build and manage
- reduce the number of projects on land owned by Homes Victoria and other government agencies.

The Victorian Government approved option 2, which means that while the BHB will deliver the same overall number of homes as intended, Homes Victoria will now build and own fewer public housing homes than it planned while using all its original budget.

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## Selecting BHB sites

Selecting sites for the BHB is an ongoing progress.

To date, Homes Victoria has used sound criteria to decide if a site is suitable for the BHB. It has also followed a well-documented, consistent assessment process.

Homes Victoria's criteria for BHB sites includes:

- Location: is a site close to education and health services, transport, shops, and employment opportunities?
- Demand: is a site in an area where Victorian Housing Register data shows strong demand for social housing?
- Bedrooms: can the site be used to build homes with the number of bedrooms housing applicants need?

These criteria help Homes Victoria make sure sites address existing demand and provide homes in locations where people can easily fulfil most of their everyday needs.

Some BHB delivery channels have additional criteria to meet the needs of specific community groups.

For example, Homes Victoria is delivering projects that focus on regional areas, Aboriginal and Torres Strait Islander peoples, young people and people living with mental illness.

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## Using site selection criteria

We examined 31 BHB sites to test if Homes Victoria (and DTF for some projects) consistently used its criteria to select them.

We found that Homes Victoria and DTF fairly and consistently applied the criteria for all the sites we tested.

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## Cohort targets

In addition to the overall homes target, the BHB has targets for specific cohorts, such as homes for Aboriginal and Torres Strait Islander peoples and homes in regional areas.

Homes Victoria is on track to meet these targets, except one target for homes for people living with mental illness.

The 2021 Royal Commission into Victoria's Mental Health System recommended that Homes Victoria deliver the 2,000 BHB homes allocated for people living with mental illness as supported housing.

Supported housing includes a home as well as access to individually tailored mental health treatment and support services.

The 2021–22 Budget committed \$38.513 million over 4 years to provide the support services to go with these 2,000 homes. Homes Victoria told us that this funding has yet to be distributed.

In December 2023 the Minister for Housing approved Homes Victoria's plan to fulfil the Royal Commission recommendation for 2,000 homes for people living with mental illness through a mix of new and existing social housing dwellings.

The Minister for Housing is responsible for delivering the housing component of this commitment. The Minister for Mental Health is responsible for delivering the support services. The Minister for Mental Health has not approved the approach yet.

Homes Victoria is preparing to deliver the supported homes. This has included setting up a new priority category in the Victorian Housing Register called 'mental health with support' to identify existing social housing tenants who are suitable to transfer into the supported housing program.

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### Government-endorsed objectives

In August 2021, the government endorsed the following high-level objectives for the BHB:

- 'improved confidence, economic growth and recovery for Victoria'
- 'improved access to social and affordable housing for Victorians who need it'
- 'improved community connectedness, wellbeing and independence for vulnerable and low-to-moderate income Victorians'.

Homes Victoria is evaluating the BHB against these objectives in staged reports from 2022 to 2027.

In 2023 Homes Victoria noted in an internal report that so far the BHB has increased the number of social and affordable housing dwellings in the state and generated economic value through construction work.

Homes Victoria plans to do further work to quantify the BHB's impact on employment and Victoria's economy. It is too early to tell if the BHB has improved social housing tenants' wellbeing.

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### Locating sites in priority areas

When Homes Victoria started the BHB in 2020 it was using the 2019 Housing Asset Strategy – growth and demand (the 2019 strategy) to guide its work.

The 2019 strategy listed 30 LGAs to prioritise over the next 5 years. It also listed redeveloping inner-Melbourne's high-rise public housing towers as a priority.

Of the 10,088 sites Homes Victoria has planned and completed as at February 2024, around half (5,024) are in these 30 priority LGAs.

The BHB is redeveloping another 999 homes in existing inner-Melbourne public housing estates. While these homes are not in priority LGAs, this work aligns with the 2019 strategy's focus on redeveloping public housing estates.

This means that around 60 per cent of BHB sites planned and started align with the priorities in the 2019 strategy.

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# 1.

## Social housing planning and strategy

Homes Victoria has a good understanding of its existing assets and demand for social housing. But its strategy does not clearly prioritise building new homes in locations with the highest need. It also lacks specific goals to measure its progress in reducing the gap between supply and demand.

Homes Victoria knows that social housing faces significant financial challenges. Homes Victoria has some initiatives to improve its finances. But it is yet to develop a financial sustainability plan that will help it to continue to grow social housing.

### Social housing in Victoria

#### What is social housing?

Social housing includes:

- public housing, which Homes Victoria owns and manages
- community housing, which not-for-profit community housing providers own and/or manage.

Victoria has approximately 88,189 social homes. This includes:

- 73,156 homes owned or leased by Homes Victoria (64,993 of these are public housing)
- 15,033 homes owned by not-for-profit community housing providers.

DTF's Registrar of Housing oversees the community housing providers.

Homes Victoria also provides some affordable housing to people on low-to-moderate incomes for below market value rent.

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### Understanding demand for social housing and existing assets

#### Evidence base for making decisions

To effectively plan and deliver social housing Homes Victoria needs to understand:

- its existing assets
- demand for social housing
- the gap between housing supply and demand.

Homes Victoria has a strong evidence base to guide its decisions. It has also developed a useful data model to forecast future demand.

Homes Victoria's data shows that:

- demand for housing outstrips supply
  - despite the BHB, this gap is likely to continue to grow.
-

### Data on housing demand

Homes Victoria has a comprehensive understanding of current demand for social housing.

The Victorian Housing Register is its major source of information about demand for social housing. It records applications from people seeking social housing and includes their preferred location and number of bedrooms. The Victorian Housing Register shows that demand for housing outstrips supply.

The number of social housing dwellings in Victoria has remained broadly steady from 2017 to 2023 at between 86,418 and 88,189.

As at December 2023 there were:

- 50,732 applications from people seeking a new social housing dwelling
- 9,832 applications from people already living in social housing seeking to move to another social housing dwelling (which are known as transfer applications).

Homes Victoria also uses other data sources to understand and forecast demand. These sources include Australian Bureau of Statistics data on population growth, geographical information on the socioeconomic status of different locations and rental affordability statistics.

Homes Victoria expects that demand for housing will continue to grow due to:

- population increases
  - decreasing affordability of private housing.
- 

### Data on existing housing assets

Homes Victoria has a good understanding of its existing assets and their condition.

It assigns a property condition index to each property, which it records in its asset register, so it can understand current and future maintenance needs.

The Department of Families, Fairness and Housing (DFFH) is currently doing an internal audit on Homes Victoria's preventative maintenance program.

Homes Victoria's asset register also records an 'intent' for each property, which signals its future plan for a site. An asset's intent may include 'keep and maintain', 'keep and improve', 'redevelop' or 'sell'.

Homes Victoria periodically updates its asset intent data. Staff in its local offices can also refer a site for reassessment when it becomes vacant, aged or damaged.

Homes Victoria then does an asset intent assessment that considers a site's future based on:

- information from its asset register
  - data on current and projected housing supply within the LGA
  - Victorian Housing Register demand data.
- 

### Forecasting future demand

In 2022 Homes Victoria developed the portfolio optimisation model to help it forecast future housing demand.

The model integrates several data sources, including data from the Victorian Housing Register, Homes Victoria's asset register and the Australian Bureau of Statistics, and uses weighted criteria to identify which LGAs are a priority for future social housing sites.

The model is not a live tool; its main output is several spreadsheets that rank LGAs in order of demand across several years. This means the model is designed to be an input into Homes Victoria's decision-making process, rather than a tool that can pinpoint specific sites where Homes Victoria should build.

Homes Victoria plans to annually update the model's data to capture changes in demand and demographic or economic trends.

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### Growing gap between housing supply and demand

As of 2023, 3 per cent of all dwellings in Victoria are social housing.

Homes Victoria estimates that to maintain this percentage and keep pace with population growth, the state needs to build an additional 22,000 social housing homes by 2036.

Homes Victoria based this estimate on:

- its data on current and future housing demand
- its asset register, which estimates that over 13,700 existing homes will reach the end of their useful life by 2036.

In *Victoria's infrastructure strategy 2021–2051* Infrastructure Victoria recommends that the government increases the state's social housing supply to keep up with the national average of 4.5 per cent of all dwellings being social housing.

It set a baseline target to achieve this figure by 2031.

The government supported the intent of the recommendation but said it needed to further investigate the timeframe for meeting the goal.

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## Homes Victoria's strategic plan for social housing

### Importance of strategic planning

DTF's *Resource Management Framework* guides public sector agencies on budgeting, planning and financial management. It notes that planning:

- helps agencies prepare for future opportunities and challenges
- can help improve service delivery
- ensures an agency's work is aligned to the government's priorities
- should include short, medium and long-term goals.

Without a clear plan for how it will use its resources, an agency risks not meeting its objectives.

The strategy reflects a strong understanding of the gap between housing supply and demand.

However, the strategy only has 2 specific, measurable goals.

Without specific, measurable goals for all its objectives, Homes Victoria cannot assess if its work is meeting demand or addressing the housing needs of the most vulnerable in our community.

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### Social and Affordable Housing Portfolio Strategy: 2024–2029

In March 2024 Homes Victoria's chief executive officer approved the strategy.

The strategy outlines the principles Homes Victoria will use to guide its future decisions on growing and reshaping the social housing portfolio.

The strategy has 6 strategic objectives:

- grow public and community housing
- foster affordable housing
- locate housing in the right areas
- reshape the housing portfolio
- maintain a resilient and fit-for-purpose housing portfolio
- embed self-determination of Aboriginal and Torres Strait Islander housing outcomes.

Homes Victoria has developed an implementation and embedding plan to go with the strategy. This plan is designed to embed the strategy's objectives into Homes Victoria's business processes and activities.

The implementation and embedding plan also includes a commitment for Homes Victoria to review the strategy's objectives against other government priorities and plans. This includes the

Plan for Victoria, which the Department of Transport and Planning is developing to guide long-term housing development across the state.

**Measurable goals to achieve the strategy's objectives**

The strategy includes 22 'directions' that outline how it plans to achieve its 6 objectives. However, only 2 of these directions have a specific and measurable goal or target. These are:

- deliver 13,000 new social and affordable homes over the next 5 years
- build 300 social and affordable dwellings per year to address growing demand and incorporate an ongoing allocation of 10 per cent to Aboriginal and Torres Strait Islander housing.

Homes Victoria is on track to deliver both of these targets under the BHB.

The strategy's other 20 directions do not have specific actions for how Homes Victoria will achieve the related objective or measure success.

<b>For example, the strategy includes a direction to ...</b>	<b>But it does not ...</b>
reduce the number of applicants on the Victorian Housing Register	specify an amount or target it aims to reduce demand by.
grow and prioritise housing supply in locations close to jobs, services, public transport and amenities to support access and participation	identify any locations that have a greater need than others.
respond to the housing needs of communities in regional and rural Victoria	identify those needs and assess if they are greater than needs in metropolitan areas.

**Supply and delivery plan**

Homes Victoria told us it is preparing a supply and delivery plan to accompany the strategy. It said the plan, which it expects to complete by mid-2024, will have more detail on how it will deliver its objectives over the next 5 years.

An August 2023 draft version of the plan proposed that Homes Victoria will develop local area asset management plans for each of DFFH's 17 geographical areas, which cover the whole of Victoria.

These plans will:

- outline Homes Victoria's long-term plan for each local area
- identify opportunities to build new homes, redevelop existing housing or sell surplus land/housing.

It is not clear if these plans will include targets for the number of new homes in each area.

The implementation and embedding plan notes that Homes Victoria plans to develop a process to make sure statewide objectives inform its local asset planning work. It also says that Homes Victoria is considering how to develop building targets.

**Identifying where to build future homes**

Homes Victoria has a good understanding of current and future demand for housing. But it does not always use this information to identify the areas with the highest need.

While there is demand for social housing throughout Victoria, Homes Victoria's data shows that the level of demand is not equal.

If Homes Victoria does not use this data when it selects where to build, it risks missing the areas with the greatest need.

The 2019 strategy listed 30 LGAs to prioritise over the next 5 years to help grow the social housing portfolio.

Homes Victoria's new strategy does not include location-based targets.

While the demand for social housing is higher than supply throughout the state, Homes Victoria's data shows that as of 2021, the LGAs with the highest demand are the City of Casey, Wyndham City, Shire of Mornington Peninsula, City of Boroondara and City of Melbourne.

The data predicts that by 2036 the greatest demand will be in City of Casey, City of Melbourne, City of Wyndham, City of Whittlesea and Melton City Council.

Homes Victoria told us the strategy does not rank or prioritise LGAs because it is a high-level strategic document.

It also told us it is developing the supply and delivery plan and local area asset plans that will include more detailed information on local building priorities.

However, until this work is finalised there is a risk that Homes Victoria may not be using a statewide view of housing demand to inform and prioritise its local decision-making.

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#### Using available data

Homes Victoria's portfolio optimisation model brings together a range of datasets to help it decide where to build. But Homes Victoria does not have a clear procedure for when and how staff should use it in their project assessments.

Homes Victoria told us that the team responsible for managing the model is often present in evaluation meetings to select future project sites, including sites for the BHB.

However, we did not see evidence of this when we tested how Homes Victoria selected BHB sites, which we discuss in Section 2. This is because Homes Victoria had already selected most of the BHB sites before it finished the model in 2023.

We have seen some documentation that shows staff planning new projects in 2024 are requesting information from the team responsible for the model to inform their decisions.

Homes Victoria plans to better integrate the model into its decision-making process, including developing dashboards to make the data more accessible for staff.

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#### 10-Year Strategy for Social and Affordable Housing

When the government announced the BHB in 2020 it also committed Homes Victoria to developing and releasing its 10-Year Strategy for Social and Affordable Housing in 2020. This strategy is in addition to Homes Victoria's internal strategy.

The 10-Year Strategy for Social and Affordable Housing was intended to:

- be a public document with input from community housing providers
- outline a broader vision for social and affordable housing in the state – beyond what Homes Victoria owns and funds.

Homes Victoria completed stakeholder consultation for the 10-year strategy and issued a discussion paper in 2021.

It told us it has paused its work on the 10-year strategy while it works with the Australian Government on its social housing commitments. It is not clear when Homes Victoria plans to finalise the 10-year strategy.

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## Financial sustainability of public housing

#### Public housing costs

Homes Victoria understands the financial challenges it faces as the state's public housing owner and manager. In particular, the growing gap between rental income and maintenance costs.



Its annual public housing costs include:

- operating expenses of around \$710 million, including costs for day-to-day maintenance and managing tenancies
- capital expenses of around \$350 million (based on asset depreciation), including costs to upgrade and replace end-of-life assets.

Homes Victoria gets around \$75 million each year from the Victorian Government for capital expenses. This leaves a renewal gap of approximately \$275 million.

In May 2023 Homes Victoria informed the government that it has been using its cash balance to pay for urgent upgrades.

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#### Funding sources for public housing

Homes Victoria receives limited funding for public housing operating expenses.

Its main funding sources are:

- rental income (about \$520 million per year)
- Australian Government funding through the *National Housing and Homelessness Agreement* (about \$190 million per year).

Homes Victoria gets no ongoing funding for public housing operating expenses from the Victorian Government.

Since 2008, Victorian public housing tenants pay rent of no more than 25 per cent of their total assessable household income.

However, some parts of a tenant's income are calculated at a lower rate or are not included in their income assessment. For example, carer allowance is not included.

In 2023, Homes Victoria advised that its maintenance costs:

- are growing at double the rate of its rental income growth
  - make up around 50 per cent of its total operating costs.
- 

#### Initiatives to improve financial sustainability

Homes Victoria has submitted several options to the government to improve the financial sustainability of public housing.

These options include:

- exempting Homes Victoria from paying local government rates on social homes in metropolitan Melbourne and the regional cities of Geelong, Ballarat and Greater Bendigo
- changing how tenant income is assessed to make sure all tenants pay the same percentage of their household income in rent.

However, the government has only approved one initiative to date, which requires tenants living in homes with bulk water meters to contribute to the cost of their water.

Homes Victoria estimates it will receive an additional \$6.1 million per year through this initiative.

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## Homes Victoria's financial position

#### Creating Homes Victoria

The government set up Homes Victoria in November 2020 as a new entity to manage public housing. At the same time, Homes Victoria was required to implement several reforms to strengthen its governance and financial management.

The aim of these reforms was to make sure Homes Victoria had the organisational capability to deliver the BHB on time and within budget.

Homes Victoria has now implemented or is working on many of these reforms, including:

- commissioning and implementing recommendations from an external forensic financial audit
  - a new Homes Victoria advisory board, which includes a financial sustainability and investment committee
  - starting regular financial and performance reports
  - improving its risk management processes.
- 

### Financial sustainability plan

In May 2023 the government directed Homes Victoria to develop a financial sustainability plan for it to consider in September 2023.

The government expected this plan to underpin Homes Victoria's future funding arrangements and present options to improve its financial position.

While Homes Victoria has improved its governance and financial reporting, which has improved its understanding of its financial position, it does not have a financial sustainability plan.

Homes Victoria told us it is working with DTF and the Department of Premier and Cabinet on a 'report back' to government that explores potential structural and policy reforms for the public housing sector.

Homes Victoria expects the outcome of this work will be clear, evidence-based advice on the full cost of providing public housing and the options available to address current challenges.

Homes Victoria has committed to advising the government on:

- the funding and operational requirements it needs to meet the government's existing policy commitments
- the costs of different potential projects and saving initiatives timelines for implementing actions to improve the sustainability of public housing.

Homes Victoria plans to submit a report on the current financial state of the public housing sector by mid-2024. It then plans to report an analysis of potential options to improve financial sustainability by December 2024.

---

# 2.

## Delivering the BHB

Despite rising cost pressure, Homes Victoria is on track to deliver the BHB within the original budget of \$5.3 billion.

Homes Victoria has started or finished more than 70 per cent of the project's 12,949 homes. But it is likely to complete the BHB 3 years behind schedule.

Selecting sites for the BHB is an ongoing process. Homes Victoria uses sound criteria to decide if a site is suitable for the BHB and follows a well-documented, consistent assessment process.

### Background

**Overview of the BHB** In June 2020 the Victorian Government announced the BHB as part of its efforts to support the state's economic growth and recovery during the COVID-19 pandemic.

In total, Homes Victoria has received \$5.3 billion in Victorian Government funding for the BHB. This is the state's largest investment in social and affordable housing to date.

Homes Victoria plans to deliver:

- 9,300 social housing homes, which includes replacing 1,100 public housing units
- 2,900 affordable and private homes.

As part of this, the BHB aims to:

- allocate 10 per cent of new social housing for Aboriginal and Torres Strait Islander peoples
- prioritise 2,000 homes for people living with mental illness
- deliver 1,000 homes for family violence victim survivors
- boost the state's social housing supply by 10 per cent
- support the creation of 10,000 new jobs per year over 4 years.

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### BHB delivery channels

The government approved a multi-channel delivery strategy for the BHB due to the project's scale and complexity.

The BHB's 4 delivery channels are:

- delivery channel 1: developments on land already owned by Homes Victoria
- delivery channel 2: developments on land owned by other government agencies
- delivery channel 3: developments built and managed by community housing providers
- delivery channel 4: spot purchases and partnerships on stalled developments.

Figure 1 shows the target number of homes for each delivery channel.

Figure 1: BHB homes targets by delivery channel

Delivery channel	Social housing	Affordable housing	Private housing	Total homes
1: Developments on land already owned by Homes Victoria	3,352	1,042	500	4,894
2: Developments on land owned by other government agencies	81	109	0	190
3: Developments built and managed by community housing providers	4,728	1,024	0	5,752
4: Spot purchases and partnerships on stalled developments	1,888	225	0	2,113
<b>Total</b>	<b>10,049</b>	<b>2,400</b>	<b>500</b>	<b>12,949*</b>

Note: \*Homes Victoria has an internal BHB target of 12,949 homes. The government's commitment is to deliver 'over 12,000' homes.

Source: VAGO, based on Homes Victoria's BHB completion plan 2023. These targets reflect Homes Victoria's alternative delivery approach for the BHB, which the government approved in May 2022.

## How Homes Victoria is tracking against the BHB's schedule

**Progress against timeframes** The BHB is around 3 years behind schedule.

Homes Victoria was originally due to finish building all homes by 31 December 2026. But the expected completion date is now 2028–29.

There are several reasons for the delay, including:

- town planning issues
- labour and material supply shortages.

Despite the delay, Homes Victoria has robust project monitoring to identify and address risks as they emerge.

As of December 2023, Homes Victoria's internal reporting shows that delivery channels 1 and 4 are on track. But delivery channels 2 and 3 have an amber rating, which means Homes Victoria is monitoring new risks that may affect their delivery timelines.

Homes Victoria told us the delay to delivery channel 2's main project at Rosanna railway station is due to a power utility provider doing expansion works. It said it is monitoring the project to minimise any further delays.

Homes Victoria told us it is working with community service providers to keep delivery channel 3 projects on schedule.

## How Homes Victoria is tracking against the BHB's budget

**Managing cost pressures** In June 2020 the Victorian Government allocated \$5 billion for the BHB.

In August 2021 it added the Building New Homes to Fight Homelessness project to the BHB, which already had \$209 million in funding.

In October 2022 Homes Victoria told the government the BHB was facing cost pressures, including:

- unexpectedly high inflation
- strong post-pandemic demand for labour and building materials.

For example, in a submission to the government Homes Victoria said the cost of constructing freestanding dwellings had increased by 0.8 per cent in the year to June 2020 compared to 19.8 per cent by June 2022.

In April 2023 Homes Victoria told the government it would not be able to deliver the BHB within the approved budget of \$5.3 billion. It said the Minister for Housing would report to the government in May 2023 with a plan to complete the BHB.

**Alternative delivery approach**

Homes Victoria has introduced an alternative project delivery approach for the BHB to address rising cost pressures and complete it within its original budget.

This approach means that Homes Victoria will own fewer social housing homes than originally planned. But the same number of homes will be built overall. As a result, Homes Victoria is now on track to deliver the project within the original budget.

In April 2023 Homes Victoria developed 2 options for the government to consider for completing the BHB.

Figure 2 shows that both options proposed keeping the same overall number of homes. But option 1 would exceed the original BHB budget that the government approved in June 2020.

Figure 2: Overall cost and number of homes for BHB options 1 and 2

Option	Social housing	Affordable housing	Private housing	Overall total homes	Cost (\$ million)
Option 1	10,049	2,400	500	12,949	6,016
Option 2	10,049	2,400	500	12,949	5,209

Note: The total costs include \$335 million for owners' costs. Homes Victoria has an internal BHB target of 12,949 homes. The government's commitment is to deliver 'over 12,000' homes.  
Source: VAGO, based on Homes Victoria's BHB completion plan 2023.

Both options proposed to deliver the same overall number of homes. But option 2 recommended changing the number of homes in each delivery channel. Option 2, which Homes Victoria recommended:

- increased the number of houses built and managed by community housing providers
- reduced the number of homes built on land owned by Homes Victoria and other government agencies
- increased the number of affordable homes.

Figure 3 shows the differences in the number of homes in each delivery channel for options 1 and 2.

Under option 2, Homes Victoria will deliver:

- 440 less homes in delivery channel 1
- 1,111 less homes in delivery channel 2
- 1,505 more homes in delivery channel 3
- 46 more homes in delivery channel 4.

In May 2023 the government approved option 2.

Homes in delivery channel 3 have a lower average cost to Homes Victoria because they do not need the same amount of state funding. This is because community housing providers can access other funding sources, including funding from philanthropists and the Australian Government.



Figure 3: Number of homes and costs per delivery channel for BHB options 1 and 2

	Social housing	Affordable housing	Private housing	Overall total homes	Cost (\$ million)
<b>Delivery channel 1</b>					
Option 1	3,470	1,364	500	5,334	2,389
Option 2	3,352	1,042	500	4,894	2,002
<b>Delivery channel 2</b>					
Option 1	703	598	0	1,301	773
Option 2	81	109	0	190	102
<b>Delivery channel 3</b>					
Option 1	4,247	0	0	4,247	1,609
Option 2	4,728	1,024	0	5,752	1,865
<b>Delivery channel 4</b>					
Option 1	1,629	438	0	2,067	910
Option 2	1,888	225	0	2,113	905

Source: VAGO, based on Homes Victoria's BHB completion plan 2023.

**Challenges facing delivery channel 2**

Homes Victoria has significantly reduced the number of homes in delivery channel 2. However, it is still exploring options to build homes on land owned by other government agencies either as part of the BHB or other future projects.

For example, the Department of Transport and Planning is leading the strategic government land development opportunities pilot program. This program aims to identify underused government land in precincts and regional centres that can be used for social and affordable housing.

**Progress against the BHB budget**

As of November 2023, Homes Victoria had spent 42 per cent (\$2.2 billion) of the BHB's total \$5.3 billion budget.

Delivery channels 2 and 4 are within budget and Homes Victoria does not expect this to change.

Delivery channels 1 and 3 are experiencing some cost pressures. However, Homes Victoria is monitoring and reporting these risks to its internal governance committees. It told us it is also managing cost pressures through its existing contingency allocations.

## Selecting sites to include in the BHB

### Homes Victoria's criteria for selecting BHB sites

Homes Victoria has sound criteria to decide if a site is suitable for the BHB, including:

- location: is a site close to education and health services, transport, shops and employment opportunities?
- demand: is a site in an area where Victorian Housing Register data shows there is strong demand for social housing?
- bedrooms: can the site be used to build homes with the number of bedrooms housing applicants need?

These criteria help Homes Victoria:

- address local demand for social housing
- select locations where people can easily fulfil most of their everyday needs.

But Homes Victoria assesses sites on a case-by-case basis, which means it does not always:

- assess sites in the context of statewide demand
- consider if other areas have a higher need for housing.

Some BHB delivery channels have additional criteria to meet the needs of specific community groups.

For example, Homes Victoria is delivering BHB projects to build homes:

- in regional areas
- for Aboriginal and Torres Strait Islander peoples
- for young people
- for people living with mental illness.

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### Assessing Homes Victoria's approach to selecting sites

We examined 31 sites to assess if Homes Victoria (and DTF for delivery channel 3) consistently uses its criteria to decide if a site is suitable for the BHB.

We found that Homes Victoria and DTF fairly and consistently applied its criteria for all the sites we tested.

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## Delivery channels 1 and 2: Developments on land owned by Homes Victoria and other government agencies

### Delivery channel 1's initial criteria

Homes Victoria developed the BHB as an economic stimulus project during the pandemic, so it initially prioritised sites that were 'delivery ready'.

For the first wave of sites it selected in 2020, Homes Victoria focused on homes it could build quickly. For example, it focused on redeveloping existing social housing estates, which it had already prepared plans for.

While its initial work focused on delivery-ready projects, Homes Victoria still selected sites in areas where Victorian Housing Register data showed high demand for social housing.

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### Project development framework

In 2021 Homes Victoria developed a project development framework for the BHB, which includes more comprehensive criteria for selecting sites.

The framework sets out clear processes for Homes Victoria to develop projects in delivery channels 1 and 2. This includes processes for selecting sites, developing business cases and planning procurement.

Under the framework, Homes Victoria selected projects that aimed to:

- reduce the Victorian Housing Register waiting list
- address the current and projected gap between housing supply and demand
- replace outdated homes
- address gaps in social housing supply in different LGAs
- provide homes within 20 minutes of public transport and/or shops.

To assess demand Homes Victoria uses Victorian Housing Register data to understand the number of social housing applications in an area. It gives each location a demand ranking of high, medium or low. It considers this ranking when assessing a proposed site to include in the BHB.

Homes Victoria also assess a site's liveability using benchmarks, such as distance to public transport and shops.

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## Delivery channel 3: Developments built and managed by community housing providers

### Delivery channel 3 and the Social Housing Growth Fund

Homes Victoria and DTF jointly manage the selection process for homes in delivery channel 3 that are built and managed by community housing providers. This is because Homes Victoria and DTF were already working with community housing providers to deliver social housing as part of the Social Housing Growth Fund (the fund).

The Victorian Government set up the fund in 2017 to invest money and use the returns to finance community housing providers to build new social housing.

In 2020 the government added \$1.38 billion to the fund for community housing providers to build BHB homes.

To meet this target, Homes Victoria and DTF run funding rounds for community housing providers to submit applications to build homes. This includes rounds for homes for specific community groups, such as Aboriginal and Torres Strait Islander peoples and young people.

In 2020 Homes Victoria and DTF set up the fund's steering committee to set funding criteria and approve projects for the BHB. These criteria assess:

- a project's need, which includes assessing if a planned project would reduce the Victorian Housing Register waiting list and provide housing close to essential services
- the applicant's capability to deliver the project
- the likelihood of the planned development receiving council planning approval
- the project's cost to the government
- the project's alignment with BHB's overall objectives and cohort targets.

In the sample of sites we tested, Homes Victoria and DTF fairly assessed delivery channel 3 sites against the criteria and followed a well-documented, consistent selection process.

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## Delivery channel 4: Spot purchases and partnerships with developers

### Delivery channel 4: Spot purchases and partnerships with developers

Homes Victoria has a consistent process for selecting delivery channel 4 sites.

Delivery channel 4 aims to provide social housing in locations with good access to services by buying ready to build and already built homes.

Homes Victoria set up an independent advisory panel to approve partnerships with the private sector to fund stalled developments. Homes Victoria also has a pre-existing spot purchase policy that it uses for these projects.

The independent advisory panel considers a range of criteria to select sites, including:

- social housing demand in the site's location
- a site's proximity to employment, transport and services
- if the proposed development meets Homes Victoria's design standards
- the builder or developer's experience and capability
- the cost to the government.

In the sample of sites we tested, Homes Victoria fairly applied its assessment criteria to all 11 delivery channel 4 sites.

## How Homes Victoria is tracking against the BHB's homes targets

**Homes targets** Homes Victoria is on track to meet the BHB's commitment to deliver over 12,000 homes. Homes Victoria is working towards an internal target of 12,949 homes.

As at March 2024, more than 72 per cent of homes have either started or finished construction.

As Figure 4 shows, this includes 5,310 homes under construction (41 per cent of the target) and 4,049 completed homes (31 per cent of the target).

Figure 4: Gross number of homes by delivery channel and status as at March 2024

Homes summary	Finished	Started	Not yet started	Total	Target
Delivery channel 1	2,149	2,006	721	4,876	4,850
Delivery channel 2	0	0	45	45	45
Delivery channel 3	923	2,532	2,442	5,897	5,897
Delivery channel 4	977	772	164	1,913	1,913
Other	0	0	244	244	244
<b>Total</b>	<b>4,049</b>	<b>5,310</b>	<b>3,616</b>	<b>12,975</b>	<b>12,949</b>

Source: VAGO, based on Homes Victoria's April 2024 monthly report.

**Cohort targets** In addition to the overall homes target, the BHB has targets for specific cohorts, including Aboriginal and Torres Strait Islander peoples and people living with mental illness.

As Figure 5 shows, Homes Victoria is making good progress towards most of its cohort targets.

However, it still has work to do to achieve its mental health housing target.

Figure 5: Summary of Homes Victoria's progress towards its cohort targets as at March 2024

Commitment	Target	Delivery status	Number of homes the BHB is expected to deliver	Homes Victoria's status
Mental health-supported housing program	1,500 homes	30 homes	70–500	Monitoring
Purpose-built homes for people living with mental illness	500 homes	509 homes contracted	500	Exceeded
Minimum investment guarantee for regional LGAs*	\$1.25 billion across 18 LGAs	13 LGAs exceeded investment target	N/A	Monitoring
Homes for family violence victim survivors	1,000 homes	636 households housed	1,000	On track
Homes for Aboriginal and Torres Strait Islander peoples	820	479 households housed	820	On track

Note: \*Minimum investment guarantee for regional LGAs is \$1.25 billion of BHB funding committed to building homes in 18 regional LGAs.

N/A means not applicable.

Source: VAGO, based on Homes Victoria's BHB December 2023 and April 2024 monthly reports.

### Homes for people living with mental illness

Homes Victoria is on track to meet these targets, except the target for homes for people living with mental illness.

The 2021 Royal Commission into Victoria's Mental Health System recommended that Homes Victoria deliver the 2,000 BHB homes set aside for people living with mental illness as supported housing.

Supported housing includes a home as well as individually tailored mental health treatment and support services.

The 2021–22 Budget committed \$38.513 million over 4 years to provide the support to go with these 2,000 homes. Homes Victoria told us that this funding has yet to be distributed.

In December 2023 the Minister for Housing approved Homes Victoria's plan to fulfil the Royal Commission recommendation for 2,000 homes for people living with mental illness through a mix of new and existing social housing dwellings.

The Minister for Housing is responsible for delivering the housing component of this commitment. The Minister for Mental Health is responsible for delivering the support services. The Minister for Mental Health has not approved the approach yet.

Homes Victoria is preparing to deliver the supported homes. This has included setting up a new priority category in the Victorian Housing Register called 'mental health with support' to identify existing social housing tenants who are suitable to transfer into the supported housing program.

## Measuring progress against the BHB's objectives

### Government-endorsed objectives

In August 2021 the government endorsed the following high-level objectives for the BHB:

- 'improved confidence, economic growth and recovery for Victoria'
- 'improved access to social and affordable housing for Victorians who need it'
- 'improved community connectedness, wellbeing and independence for vulnerable and low-to-moderate income Victorians'.

Homes Victoria has a clear plan to evaluate the BHB in stages from 2022 to 2027.



In 2023 an internal report found the BHB has:

- increased the number of social and affordable housing dwellings in Victoria
- generated economic value to the state through construction work
- created employment opportunities for people with disability, Aboriginal and Torres Strait Islander peoples and public housing tenants.

It is too early to assess if the BHB has improved social housing tenants' wellbeing.

The internal report noted inconsistencies in how Homes Victoria records data from contractors and suppliers. This makes it difficult to reliably measure the BHB's impact on employment and the state's economy.

Homes Victoria and DTF are looking for an appropriate methodology for future evaluation reports.

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## Meeting the aims of the 2019 strategy

### Locating sites in priority LGAs

When Homes Victoria started the BHB started in 2020 it was using the 2019 strategy to guide its work. But it has not reported against the 2019 strategy or considered how the BHB would contribute to its housing targets.

The 2019 strategy listed 30 LGAs to prioritise for new social housing over 5 years. It also listed redeveloping inner-Melbourne's high-rise public housing towers as a priority.

To assess if Homes Victoria is meeting its strategic objectives through the BHB, we analysed the number of BHB sites located in the 30 priority LGAs.

Of the 10,088 sites Homes Victoria has planned and completed as at February 2024, around half (5,024) are in these 30 priority LGAs.

The BHB is redeveloping another 999 homes in existing inner-Melbourne public housing estates. While these homes are not in priority LGAs, this work aligns with the 2019 strategy's focus on redeveloping public housing estates.

This means that around 60 per cent of BHB sites align with the priorities in the 2019 strategy.

While this result is positive, it is not due to Homes Victoria taking a statewide view of demand because it did not actively consider if BHB sites aligned with the 2019 strategy when it selected them.

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# Appendices

[Appendix A: Submissions and comments](#)

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[Appendix B: Abbreviations, acronyms and glossary](#)

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[Appendix C: Audit scope and method](#)

# Appendix A:

## Submissions and comments

We have consulted with Homes Victoria and DTF and we considered their views when reaching our audit conclusions. As required by the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions and comments.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

### Responses received

Agency	Page
DFFH	A-2
DTF	A-7

## Response provided by the Secretary, DFFH



Secretary

Department of Families, Fairness and Housing

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GPO Box 1774  
Melbourne Victoria 3001  
[www.dffh.vic.gov.au](http://www.dffh.vic.gov.au)

VAGO Ref. 34818 24

Andrew Greaves  
Auditor-General  
Victorian Auditor-General's Office  
Level 31,35 Collins Street  
Melbourne VIC 3000

Dear Andrew,

### Proposed Report – Planning Social Housing

Thank you for your letter of 17 May 2024 enclosing the proposed report for the *Planning Social Housing* performance audit. The Department of Families, Fairness and Housing (DFFH) is committed to ensuring all Victorians have stable, affordable and appropriate housing, and acknowledges the audit's focus on our role in managing the state's social housing portfolio and delivering the Big Housing Build (BHB), the state's largest investment in social and affordable housing projects to date.

DFFH accepts the four recommendations outlined within the report and has prepared responses to each recommendation which are enclosed within the action plan for your consideration. Actions against a number of these recommendations are well progressed.

It is important to note that Homes Victoria has a full suite of strategic and operational measures in place that are aligned to the delivery of the outcomes of the Portfolio Strategy. This includes annual housing commencement and completion profiles beyond the five years of the strategy (down to the specific site level in most instances) including consideration for housing stock that will be coming offline as part of redevelopments.

Homes Victoria also has detailed targets for the various programs including Big Housing Build, Regional Housing Fund and Public Housing Renewal Program that are overseen by central agencies through rigorous governance structures. This is in addition to annual measures including those detailed in the budget papers.

Further work is underway to expand longer term specific, measurable portfolio-wide targets to guide longer-term program target setting and delivery. These will be aligned to related government policy such as the emerging *Plan for Victoria*.

As the '*Plan for Victoria*' will guide long term housing development and growth across the state, it will be necessary to ensure that social and affordable housing targets are informed and aligned with the Government's strategic intentions and growth targets for housing in



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## Response provided by the Secretary, DFFH – continued

each LGA to ensure provision of social and affordable housing keeps pace with broader housing growth. Homes Victoria will be involved in briefing Government on these matters and will progress the development of housing growth targets for each Local Government Area (LGA), incorporating evidence-based targets for social and affordable housing.

The use of Homes Victoria's portfolio optimisation model (POM) will be embedded to support the reporting and development of new targets which will underpin briefings to government.

With respect to the proposed report's commentary regarding *Identifying where to build future homes* and the identification of specific LGAs in Homes Victoria's POM, it is important to note that forecast demand is not the only criteria used to determine future investment priorities. A range of factors, such as the needs of particular cohorts, including priority cohorts and those experiencing complex disadvantage, are used to inform priorities for investment.

The five LGAs identified as having the greatest demand by 2036 should also not be assumed to be the priorities for future portfolio investment and will continue to be assessed through established Homes Victoria processes.

DFFH will continue to use all levers to increase social and affordable housing supply and ensure a sustainable social and affordable housing sector.

DFFH acknowledges the challenges underpinning the sustainable operation of public housing, and has placed significant emphasis on uplifting financial management, governance and reporting. Work is underway to prepare a 'report back' to government on the financial sustainability of Homes Victoria, including funding and operational requirements to meet government's existing housing policy commitments and options to improve the sustainability of the public housing sector more broadly.

DFFH has appreciated the engagement with your office throughout the audit and would like to thank you for the opportunity to comment on the final report.

Yours sincerely



**Peta McCammon**  
Secretary  
Department of Families, Fairness and Housing

30/05/2024

**Attachment:**

1. DFFH Action Plan



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**Response provided by the Secretary, DFFH – *continued***

cc:

Kerry Lowe, Director, Enterprise & Portfolio Governance, Homes Victoria

Steve Vlahos, Chief Risk and Audit Officer, Executive Services

Andy Jin, Senior Project Officer, VAGO Liaison and Audit



**OFFICIAL**

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Department of Families, Fairness and Housing action plan to address recommendations from *Planning Social Housing*

No.	VAGO recommendation	Acceptance	DFFH Action	Due Date
1	Develop and report on specific, measurable targets for its objectives in its Social and Affordable Housing Portfolio Strategy: 2024–29	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	<p><b>Accepted.</b></p> <p>Finalise Supply and Delivery Plan to include specific, measurable targets to direct future investment where practical, incorporating the forecast impact on the supply of Homes Victoria's current investment program.</p> <p>Utilise data and insights to establish evidence based social and affordable housing targets at a local government level.</p> <p>Expand target oversight and governance framework for regular reporting on progress of delivery against endorsed targets.</p>	Mid 2025
2	Brief the government on options for the future growth of the social housing portfolio	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input type="checkbox"/> In principle	<p><b>Accepted.</b></p> <p>Continue to brief government on options for consideration based on different levels of investment and the resulting social housing supply across different programmatic responses within the Housing Statement targets.</p> <p>Input to briefing government on options for the future growth of social and affordable housing through contribution to the development of 'Plan for Victoria'.</p>	Mid 2025

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3	<p>Develop a procedure to make sure staff consider data from its portfolio optimisation model to inform all future site selection and project development decisions</p>	<p> <input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No  <input type="checkbox"/> In part  <input type="checkbox"/> In principle                 </p>	<p><b>Accepted.</b></p> <p>Enhance current procedures to ensure staff consider data from the portfolio optimisation model to inform all future site selection and project development decisions including consolidated pipeline of sites.</p>	End 2025
4	<p>Report back to the government by the end of 2024 on plans to improve its financial sustainability as an organisation and the public housing sector more broadly, including:</p> <ul style="list-style-type: none"> <li>• outlining the funding and operational requirements to meet the government's existing housing policy commitments</li> <li>• undertaking detailed modelling to understand the cost of different potential projects</li> <li>• timelines for implementing actions to improve the sustainability of public housing</li> </ul>	<p> <input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No  <input type="checkbox"/> In part  <input type="checkbox"/> In principle                 </p>	<p><b>Accepted</b></p> <p>Prepare a 'report back' to government on the financial sustainability of Homes Victoria, including funding and operational requirements to meet government's existing housing policy commitments and options to improve the sustainability of public housing.</p>	End 2024

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Department of Treasury and Finance

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D24/80030

Mr Andrew Greaves  
Auditor-General  
Level 31, 35 Collins Street  
MELBOURNE VIC 3000



Dear Auditor-General

**PROPOSED REPORT – PLANNING SOCIAL HOUSING**

Thank you for your letter dated 17 May 2024 providing the opportunity to comment on the proposed report on Planning Social Housing.

The Department of Treasury and Finance is comfortable with the findings in the proposed report. I appreciate your work and the work of your office in delivering the proposed report.

I note that the proposed report includes a reference to depreciation as part of the calculation to determine a \$275 million annual funding shortfall to replace end of life public housing assets. While depreciation is one method of determining the shortfall, I consider measuring actual cost, asset condition and timing information would provide a better basis to inform Government of the cost of replacing these assets.

Thank you for the opportunity to comment.

Yours sincerely



Chris Barrett  
**Secretary**

29 May 2024

CC: Performance Audit



# Appendix B: Abbreviations, acronyms and glossary

**Abbreviations** We use the following abbreviations in this report:

## Abbreviation

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the fund	Social Housing Growth Fund
the strategy	Social and Affordable Housing Portfolio Strategy: 2024–2029
the 2019 strategy	Housing Asset Strategy – growth and demand

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**Acronyms** We use the following acronyms in this report:

## Acronym

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BHB	Big Housing Build
DFFH	Department of Families, Fairness and Housing
DTF	Department of Treasury and Finance
LGA	local government area
VAGO	Victorian Auditor-General's Office

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**Glossary** This glossary includes an explanation of the types of engagements we perform:

## Term

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Reasonable assurance	We achieve reasonable assurance by obtaining and verifying direct evidence from a variety of internal and external sources about an agency's performance. This enables us to express an opinion or draw a conclusion against an audit objective with a high level of assurance. We call these audit engagements. See our <a href="#">assurance services fact sheet</a> for more information.
Limited assurance	We obtain less assurance when we rely primarily on an agency's representations and other evidence generated by that agency. However, we aim to have enough confidence in our conclusion for it to be meaningful. We call these types of engagements assurance reviews and typically express our opinions in negative terms. For example, that nothing has come to our attention to indicate there is a problem. See our <a href="#">assurance services fact sheet</a> for more information.

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# Appendix C: Audit scope and method

## Scope of this audit

### Who we examined

We examined the following agencies:

Agency	Their key responsibilities
Homes Victoria	Homes Victoria is a public non-financial corporation that sits as a division within DFFH. It: <ul style="list-style-type: none"><li>owns Victoria's public housing and manages the social housing portfolio</li><li>is delivering the BHB</li><li>manages the Social Housing Growth Fund with DTF.</li></ul>
DTF	DTF is responsible for Victoria's finances, economic policies and strategies and manages the state Budget. DTF co-administers the Social Housing Growth Fund with Homes Victoria.

### Our audit objective

Does Homes Victoria plan for and deliver social housing to meet the needs of vulnerable Victorians?

### What we examined

We examined if Homes Victoria is:

- planning for social housing in Victoria
- delivering the BHB as planned.

## Conducting this audit

### Assessing performance

To form our conclusion against our objective we used the used the following lines of inquiry and associated evaluation criteria:

Line of inquiry	Criteria
1. Homes Victoria's strategy to deliver social housing in Victoria is evidence based and consistent with its objectives.	1.1 Homes Victoria has a good understanding of: <ul style="list-style-type: none"><li>its existing social housing assets</li><li>current and mid-term demand for social housing in Victoria</li><li>challenges to its financial sustainability.</li></ul>
	1.2 Homes Victoria regularly reviews and updates its strategy as required.
2. The BHB aligns with the strategy and is being delivered as planned.	2.1 The BHB fits within Homes Victoria's plans and goals for the social housing sector.
	2.2 Homes Victoria has soundly based criteria to determine: <ul style="list-style-type: none"><li>delivery models, such as the ground lease model</li><li>where BHB dwellings will be constructed</li><li>the number and mix of dwellings.</li></ul>
	2.3 Homes Victoria is delivering the BHB as planned.

### Our methods

As part of the audit we:

- reviewed relevant documents from Homes Victoria, DFFH and DTF
- interviewed staff from Homes Victoria, DFFH and DTF
- analysed available data, including data from Homes Victoria.

### Compliance

We conducted our audit in accordance with the *Audit Act 1994* and *ASAE 3500 Performance Engagements* to obtain reasonable assurance to provide a basis for our conclusion.

We complied with the independence and other relevant ethical requirements related to assurance engagements.

We also provided a copy of the report to the Department of Premier and Cabinet.

### Cost and time

The full cost of the audit and preparation of this report was \$790,000.

The duration of the audit was 10 months from initiation to tabling.

# Auditor-General's reports tabled during 2023–24

<b>Report title</b>	<b>Tabled</b>
<i>Cybersecurity: Cloud Computing Products (2023–24: 1)</i>	August 2023
<i>Responses to Performance Engagement Recommendations: Annual Status Update 2023 (2023–24: 2)</i>	August 2023
<i>Eloque: the Joint Venture Between DoT and Xerox (2023–24: 3)</i>	October 2023
<i>Domestic Building Oversight Part 1: Regulation (2023–24: 4)</i>	November 2023
<i>Employee Health and Wellbeing in Victorian Public Hospitals (2023–24: 5)</i>	November 2023
<i>Reducing the Illegal Disposal of Asbestos (2023–24: 6)</i>	November 2023
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2022–23 (2023–24: 7)</i>	November 2023
<i>Contractors and Consultants in the Victorian Public Service: Spending (2023–24: 8)</i>	November 2023
<i>Major Projects Performance Reporting 2023 (2023–24: 9)</i>	November 2023
<i>Fair Presentation of Service Delivery Performance 2023 (2023–24: 10)</i>	November 2023
<i>Reducing the Harm Caused by Drugs on Victorian Roads (2023–24: 11)</i>	December 2023
<i>Results of 2022–23 Audits: Local Government (2023–24: 12)</i>	March 2024
<i>Withdrawal from 2026 Commonwealth Games (2023–24: 13)</i>	March 2024
<i>Follow-up of Management of the Student Resource Package (2023–24: 14)</i>	May 2024
<i>Literacy and Numeracy Achievement Outcomes for Victorian Students (2023–24: 15)</i>	May 2024
<i>Guardianship and Decision-making for Vulnerable Adults (2023–24: 16)</i>	May 2024
<i>Domestic Building Oversight Part 2: Dispute Resolution (2023–24: 17)</i>	June 2024
<i>Planning Social Housing (2023–24: 18)</i>	June 2024
<i>Effectiveness of the Tutor Learning Initiative (2023–24: 19)</i>	June 2024

All reports are available for download in PDF and HTML format on our website at <https://www.audit.vic.gov.au>

# Our role and contact details

## The Auditor-General's role

For information about the Auditor-General's role and VAGO's work, please see our online fact sheet [About VAGO](#).

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## Our assurance services

Our online fact sheet [Our assurance services](#) details the nature and levels of assurance that we provide to Parliament and public sector agencies through our work program.

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## Contact details

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