



Fair
Trading

Annual Report 2010/11

Rental Bond Board



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The Hon Anthony Roberts, MP
Minister for Fair Trading
Level 36, Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Dear Minister,

I am pleased to present the Annual Report of the Rental Bond Board for the year ending 30 June 2011.

The report has been prepared for presentation to the Parliament of NSW in accordance with the requirements of the *Annual Reports (Statutory Bodies) Act 1984* and fulfils the statutory reporting requirements set out in the *Residential Tenancies Act 2010*.

Yours sincerely,



Rod Stowe
Commissioner

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Access

The Rental Bond Board is the independent custodian of rental bonds paid by tenants to landlords for residential tenancies. Landlords must lodge tenants' bond money with the Board. Fair Trading's Renting Services Branch administers the day to day functions of the Board, providing rental bond lodgement, custody, refund and information services.

Persons can obtain access to the Rental Bond Board and its services via any Fair Trading Centre, by phoning the Fair Trading Information Centre on 13 32 20 or the Fair Trading website, www.fairtrading.nsw.gov.au. The public access offices are located at 24 locations around NSW, including 18 in regional and rural areas, and are open between 8:30am and 5:00pm.

Renting Services Branch
Locked Bag 19, Darlinghurst NSW 1300
Phone: 13 32 20

Secretariat functions of the Board are carried out by NSW Fair Trading at:
Level 22, 2-24 Rawson Place
Sydney NSW 2000
PO Box 972, Parramatta, NSW 2124
email: secretariat@services.nsw.gov.au
Fax: 9338 8970

Production costs

No external costs have been incurred in the writing, preparation or printing of this annual report.

Availability

This annual report is available electronically through the NSW Fair Trading web site.

Overview

The Rental Bond Board is a statutory body established in 1977 to act as an independent and impartial custodian of rental bonds on private residential tenancies in New South Wales. The powers and functions of the Board are set out in the *Residential Tenancies Act 2010* and its associated regulation.

Prior to the establishment of the Board, landlords in New South Wales held rental bonds in trust. The Act was introduced to address concerns that tenants often had difficulties in contesting the refund of their bond at the end of the tenancy. The Board provides a fair and equitable system in which tenants and landlords have equal access to claiming the bond. Any dispute over the payment of bond money can be resolved effectively and cheaply through the NSW Consumer, Trader and Tenancy Tribunal. Meanwhile the Board retains custody of the funds pending resolution of the matter.

In performing its role, the Board is subject to the control and direction of the Minister for Fair Trading.

The Board is a self-funding corporation - deriving its income from the investment of rental bond trust funds and from retained earnings prior to distribution.

Although the Board is a statutory authority in its own right, the Act allows it to employ the facilities or services of any government authority to perform its functions. NSW Fair Trading serves the Rental Bond Board by undertaking the rental bond lodgement, custody and refund functions, as well as providing tenancy and bond information to customers. Fair Trading also provides policy and legislative support while the broader umbrella organisation of the Department of Finance and Services provides financial administration, corporate and general business support. Information on the management, human resources, business systems and financial administration of the board is found in the NSW Department of Finance and Services Annual Report 2010/11.

A vital secondary role for the Board is the financial support it provides to other programs which encourage a fair tenancy marketplace in NSW. Funding for the community-based Tenants' Advice & Advocacy Program (TAAP); for the Government's own tenancy information services; and for the tenancy functions of the independent Consumer, Trader and Tenancy Tribunal, was also at a record level this year. The Board also contributes to the funding of Fair Trading's grants programs for credit counselling and the No Interest Loans Scheme.

Highlights

- The new Rental Bond System was successfully launched in November 2010. The new system refreshed the information technology platform supporting NSW residential and retail bond programs replacing an older legacy system.
- Record 662,756 rental bonds valued at \$902.6 million were held in custody by the Board at 30 June 2011.
- The Rental Bond Board provided approximately \$4.4 million to the Tenants Advice and Advocacy Program (TAAP), a program which is jointly funded by the Board and Fair Trading.
- Use of the Rental Bond Internet Service (RBIS) continues to grow with the online rental bond self-service channel for real estate property managers now handling 13% of refund claims and 49.5% of rental bond enquiries.

Board membership

The Board is comprised of the Director General of the Department of Finance and Services, as Chairperson, representatives of the Director General of Housing NSW and the Secretary of the Treasury, and two persons with experience in real estate or tenancy matters appointed by the Minister for Fair Trading.

The Board is responsible for providing advice to the Minister, defining policy, considering applications for funding and monitoring and reviewing the performance of the custodial services, investments and funded programs. The Board is required to meet at least once each quarter.

Rental Bond Board Members	Term of appointment	Meetings attended
Mr Michael Coutts-Trotter, Director General, Department of Finance and Services Chairperson (March 2011 – 30 June 2011)	Ex officio	0 meetings
Mr Peter Duncan, Director General, Department of Services, Technology and Administration - Chairperson (1 July 2010 to March 2011)	Ex officio	1 meeting
Ms Helen O'Loughlin, Delegate of Director General of Housing NSW	Ex officio	0 meetings
Ms Lacy Barron representing Ms O'Loughlin,		3 meetings
Mr Ranit Ram, Delegate of Secretary of the Treasury	Ex officio	3 meetings
Ms Ruth De Costa Simon Tenants' Union of NSW	Ministerial appointment to 30/06/11	3 meetings
Ms Sandra McGee Real Estate Institute of NSW	Ministerial re-appointment to 30/06/11	4 meetings

Legislative change

Residential tenancy

After an extensive review of the previous tenancy laws, the *Residential Tenancies Act 2010* commenced on 31 January 2011, introducing over 100 reforms.

The changes aim to strike a fair balance between the rights and obligations of tenants and landlords. For example, tenants must now have at least one fee-free way to pay their rent, they are not required to pay more than two weeks rent in advance and can now make reasonable requests to make minor changes to premises or to sub-lease a spare room. Landlords will find it faster to evict a tenant who has stopped paying rent or to deal with goods left behind by a former tenant.

The new Act aims to reduce the level of disputes by providing greater clarity and certainty for tenants, landlords and agents. Fair Trading implemented a multi-faceted communication campaign to raise awareness about the new laws and provide information about the changes.

Service arrangements

A realignment of NSW Government services in 2010-2011 led to the establishment of the Department of Finance and Services and NSW Fair Trading was incorporated within that broader agency, while retaining its original role and responsibilities to the people of NSW.

As a division of the Department of Finance and Services, Fair Trading does not produce a separate annual report.

A review of the Rental Bond Board's constitution, rental bond custodial operations, funded activities and the financial statements is provided in this Rental Bond Board Annual Report 2010/11.

Information on the management, human resources, business systems and financial administration of Fair Trading's custodial role is found in the NSW Department of Finance and Services Annual Report 2010/11.

Rental bond custodial service

Objective: Community able to access independent custodial function for rental bonds

This is the first of the two high-level Rental Bond Board programs that contribute to the development and maintenance of a fair marketplace in the area of residential tenancy.

A rental bond is money paid by the tenant as security for the landlord against breaches of the tenancy agreement, and is intended to be refunded to the tenant at the end of the tenancy unless there is rent owing or damage to the property. The existence of arrangements to hold bond monies independently of both parties ensures tenants can be certain their bond is available for refund, while allowing landlords to recover funds where appropriate.

Performance measures

	06/07	07/08	08/09	09/10	10/11	Target**
% of rental bond lodgements receipted and banked within published service standards	97%	97%	98%	97%	94%	90%
% agreed direct deposit refunds banked within two working days	99%	99%	99%	99%	98%	90%
% agreed mail refund cheques posted within four working days	98%	99%	98%	98%	98%	90%
% Notices of Claim issued to one party - paid within twenty working days	98%	98%	98%	98%	97%	90%
RBB investment returns match (M) or exceed (E) industry benchmark	*	M	E	E	E	≥M
Financial Statements unqualified (U) qualified (Q)	U	U	U	U	U	U

* The investment return for 2006/07 was 3.90%. This was slightly lower than the benchmark of 3.99% that resulted from the sale of bonds in the wider market that delivered higher yields for comparable bonds prior to the maturation of the bonds purchased for RBB.

** Percentage of rental bond services meeting published Guarantee of Service standards

Comment/interpretation

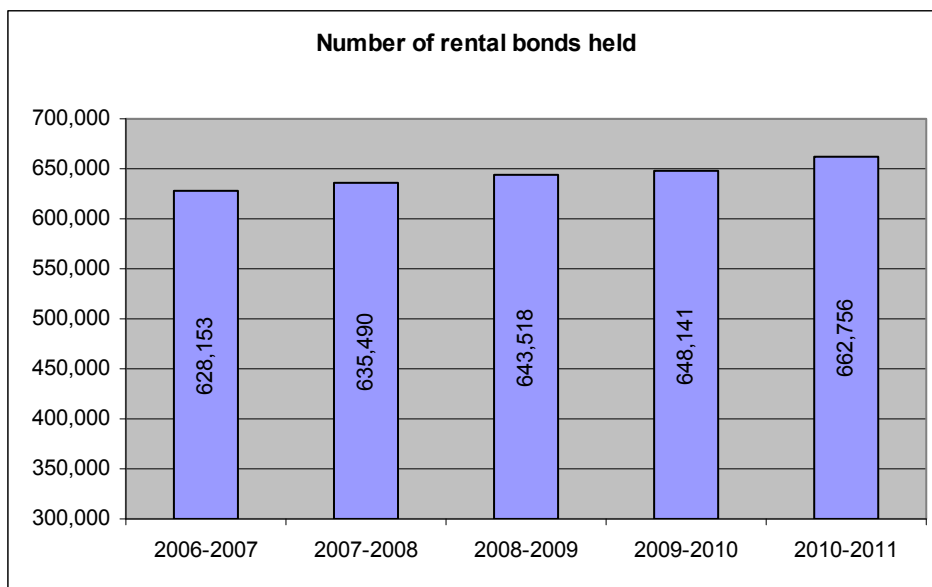
The independent custodial function requires arrangements to accept and invest bond monies paid by tenants, and refund them at the end of a tenancy. The lodgement/refund service is provided by Fair Trading. Rental bonds are invested primarily in fixed interest securities with a proportion in cash. The Board has discretion on investment management and currently outsources this function to the NSW Treasury Corporation (TCorp), where the majority of funds are directly managed in a fixed interest portfolio (the Rental Bond Board Facility). The balance is held in TCorp's Cash Facility. The performance measures relate to: prompt refunds (an important aspect of quality customer service), prompt banking (this affects the interest earned, impacting both customers and funds management), return on investment and the achievement of unqualified financial statements.

Rental bond custody

At 30 June 2011 the Board held 662,756 rental bonds in trust. These were valued at \$902.6 million which, on average, amounted to \$1,362 for each rental bond. The total number of bonds held increased by 2.3% over the number held at 30 June 2010.

During the year, 260,693 new rental bonds were lodged with the Board - a decrease of 1.6% from the previous financial year. The number of bonds refunded decreased this year by 4.0% to 246,079 reflecting the tight rental market in NSW during the year.

Interest accrues on bonds held by the Board and is paid to customers with their bond refund. Interest is credited to the bond amount each month - based on the minimum balance held during the month. The interest is compounded each June and December. The rate of interest payable on rental bonds is prescribed in Residential Tenancies Regulation 2010 and is equivalent to the rate payable by the Commonwealth Bank of Australia on an Everyday Access Account balance of \$1000.00.



Rental statistical information

Of the 2.47 million occupied private dwellings counted in New South Wales at the 2006 Census approximately 590,000 dwellings, or nearly 24% of the total, served as private rental accommodation (Australian Bureau of Statistics: 2006 Census QuickStats: New South Wales 27/6/2007).

The requirement for landlords in NSW to lodge all residential rental bonds with the Board presents an excellent opportunity for the collection of accurate statistical information on the private rental market.

This has the advantage of providing the real estate industry and the public with comprehensive rental information to replace any anecdotal opinion which may circulate regarding the market.

The Rental Bond Lodgement form includes a statistical section requesting information on:

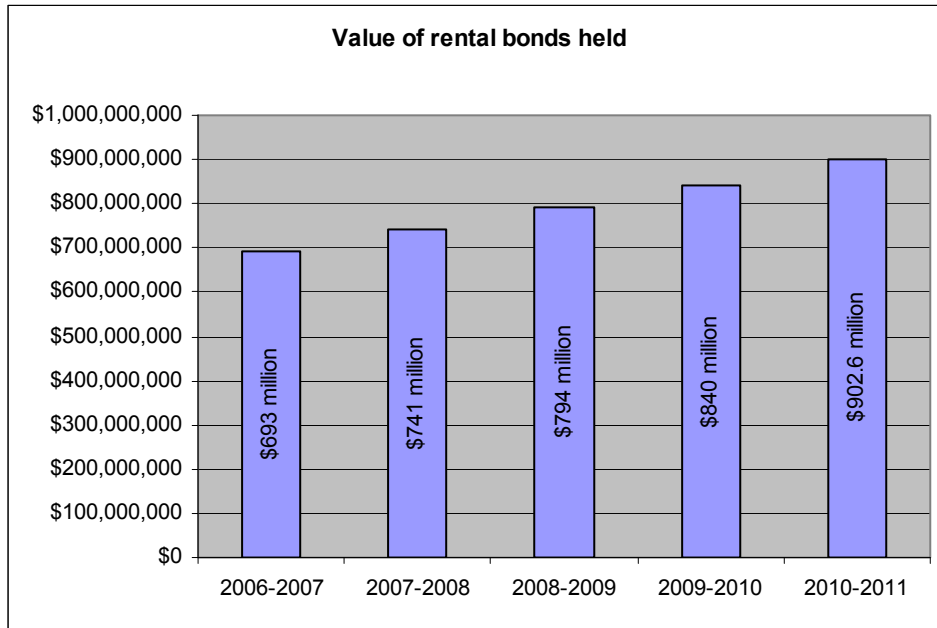
- dwelling type
- number of bedrooms
- weekly rent
- date the tenancy commenced
- date the previous tenancy of the dwelling ended.

Although the statistical information is voluntary, there is a high rate of completion. The question on weekly rent is answered by landlords or their agents in about 95% of lodgements. The collected rental data is collated and analysed, under agreement, by the Housing Analysis and Research Unit of Housing NSW. This information is available to the public in summary form in the Rent & Sales Report on the Housing website: www.housing.nsw.gov.au.

Summary tables of Bonds Held and Median Rentals are included in this Report on pages 17 and 18.

It should be noted that, in accordance with NSW privacy legislation, no information on individual rental bonds or tenancies or individual rented premises is released to members of the public who are not a party to the rental bond.

The Board's statistics indicate that in the 2010/11 financial year 89% of metropolitan bonds and 88% of outer metropolitan and regional bonds were lodged by professional real estate agents or self-managing landlords owning 10 or more rental properties. This level of professional management has remained fairly constant, varying by only 2-3% over the years of the Board's operation.



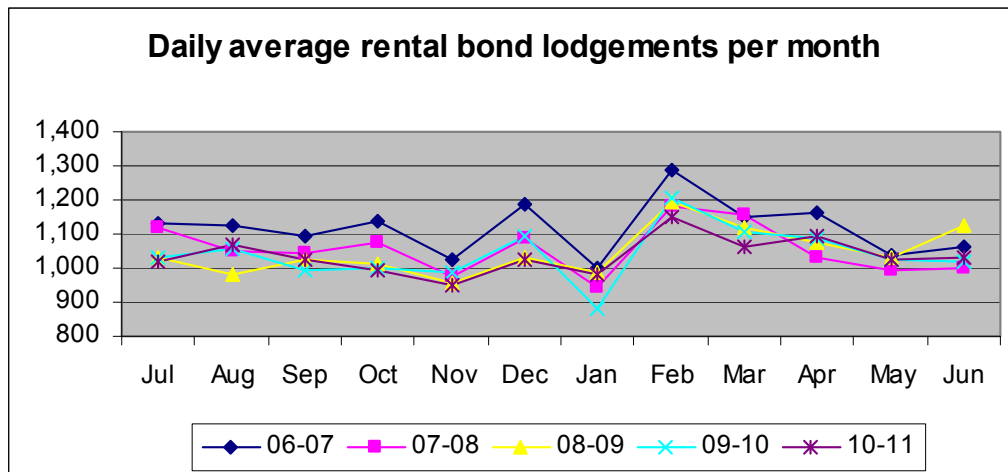
Rental bond lodgements

During the year, 260,693 new rental bond lodgements and 12,753 additional bonds (where a bond is paid by instalments) were received by the Board.

This represented an average of 1,085 transactions processed by staff each working day. As in previous years, the vast majority of bond lodgements, together with their accompanying cheque or money order, were received by post.

The total value of bonds receipted was \$431.9 million. 94% of all bond lodgements were receipted and banked the day they were received.

The Board received only 65 enquiries regarding non-lodgement of rental bonds in 2010/11. This represented just 0.02% of the total number of bonds lodged during the year demonstrating a very high level of compliance with rental bond legislation by NSW landlords.



Rental bond refunds

246,079 rental bonds were refunded in 2010/11 through 349,705 individual payments. This represented an average of 977 claims processed by staff each working day.

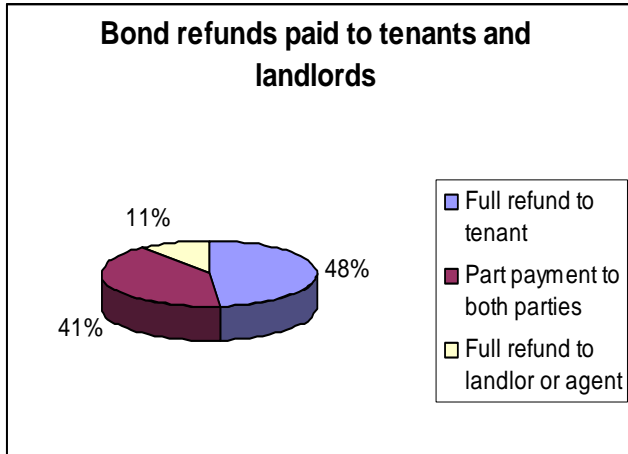
The year saw a continuation of the long term trend toward the use of electronic services by our customers in preference to the traditional mail and face-to-face services. About 83% of bond refund claims from real estate agents, landlords and tenants were received by facsimile, compared with just over 4% by mail.

The Rental Bond Internet Service (RBIS) continued to grow in popularity with 31,937 claims submitted by real estate property managers in 2010/11. As a percentage of all refunds, RBIS claims have increased from 6.6% in 2004-2005 to 13.0% in 2010/11.

The proportion of customers requesting a direct credit of their bond refund into their bank or credit union account also continues to show a steady increase: up from 55% in 2006/07; 58% in 2007/08; 63% in 2008/09; 66% in 2009/10 and 69% this year. By contrast, the number of bonds refunded over the counter continues to decline. In 2010/11, only 0.3% of customers sought a refund in person, down from 0.7% in 2009/10.

Claims for rental bond refunds are classified in two main categories in accordance with Part 8, Division 3 Release of rental bonds s167 and s168 of the *Residential Tenancies Act 2010*

- Agreed claims where both parties have indicated their acceptance of the amount/s to be refunded to each party, and
- 'Notice' claims where one of the parties has not given consent to the refund and a statutory notice of claim is issued allowing them 14 days to apply to the Consumer, Trader and Tenancy Tribunal if they wish to dispute the claim.

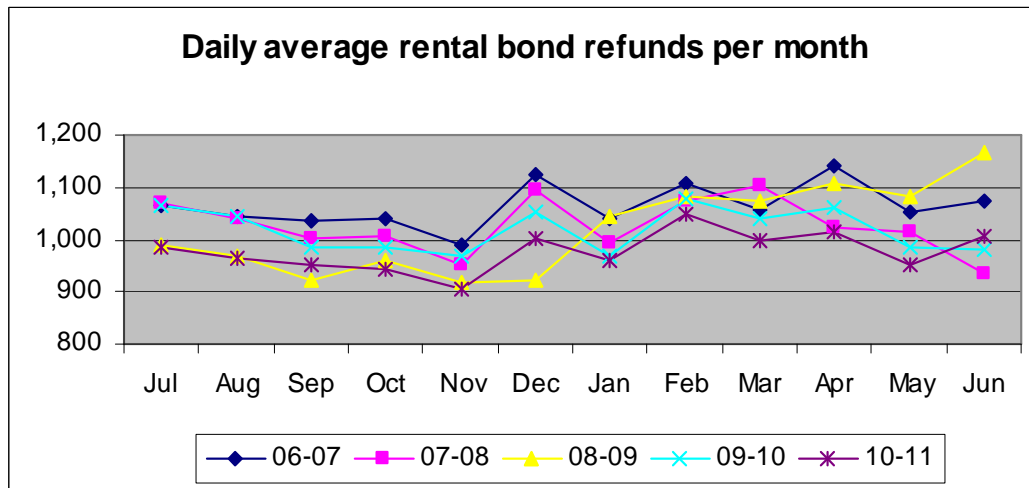


The size of the proportional split between parties - which may be expected to fluctuate slightly over time with the circumstances of individual tenancies - is less important than the fact that the split exists. In many cases, tenants and landlords are able to agree on how the bond should be distributed, but in disputed cases the Consumer, Trader and Tenancy Tribunal resolves the matter. The independence of the custodial function ensures the money is then available to be refunded to either party, which might not be the case if monies were not held at arm's length from both.

During 2010/11, 73.2% of all refunds were agreed by the parties while in 24.1% of cases a notice of claim was issued but no dispute proceeded to the Tribunal. 2.2% of the year's bond refunds were the result of an order by the Tribunal following a dispute over the bond refund with a further 0.5% refunded after a Tribunal application was withdrawn prior to hearing.

In accordance with Fair Trading's Guarantee of Service to its customers, Renting Services processed 98% of all direct credit refunds into customers' bank accounts within two days of receiving an agreed rental bond claim.

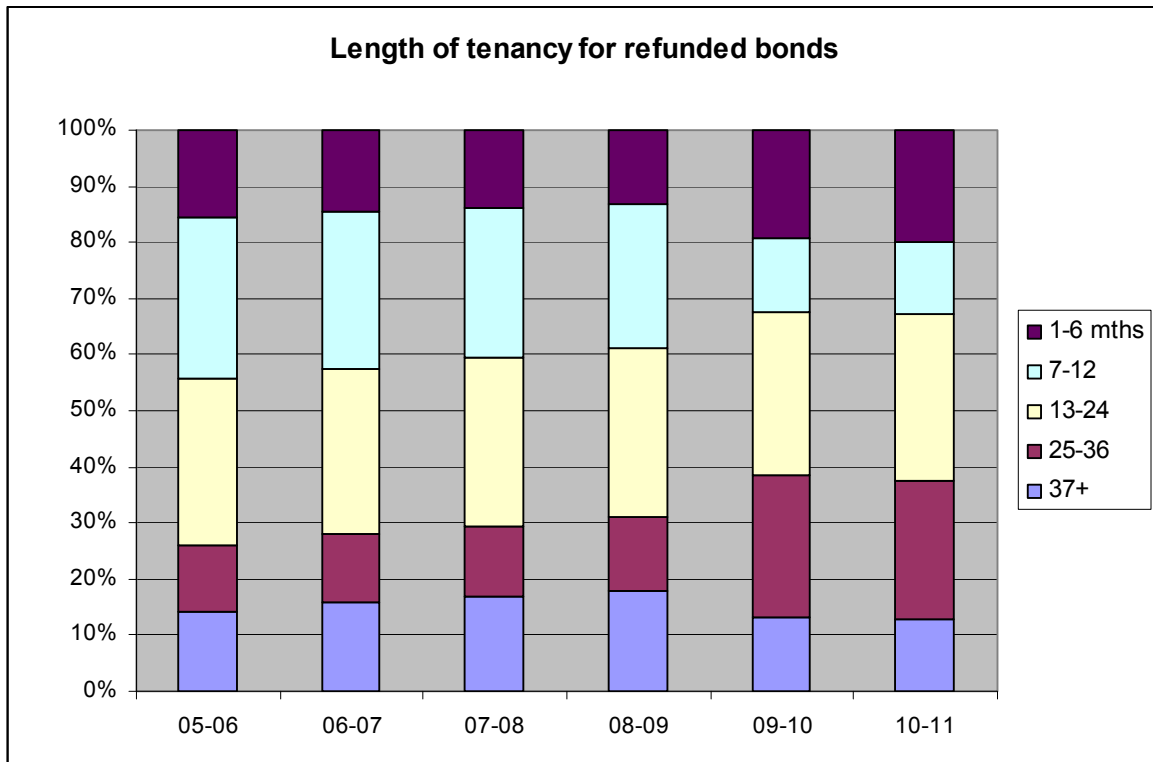
Over the year, \$20,771 was written off against income as a result of irrecoverable customer fraud and incorrect processing of refunds by staff. As a percentage, the amount written off represented just 0.006% of the total amount of \$369.1 million refunded during the year.



Length of tenancy

Analysis into the current financial year indicates that 63% of all bonds refunded during 2010/11 had been held by the Board for more than 12 months at the time of refund, with 32.8% of all bonds refunded being held for tenancies of greater than two years' duration. This compares with 2000/01, when only 50% of bonds remained with the Board for longer than 12 months, and just 23% for longer than two years.

This translates, over the last ten years, into increases of 8.5% in the proportion of tenancies lasting longer than three years and a 2.4% increase in tenancies of two to three years; with a corresponding decrease of 5.7% in the proportion of tenancies of less than six months' duration.



Information services

Fair Trading continued to provide the Board with a responsive rental bond customer information service in 2010/11 via the Fair Trading Information Centre (FTIC), local Fair Trading Centres located throughout NSW and the Rental Bond Internet Service (RBIS).

FTIC provides a single point of contact for customer telephone enquiries from across NSW on a broad range of fair trading issues. The technology employed by FTIC provides greater customer service flexibility and allows Fair Trading to respond quickly to issues that arise in the marketplace.

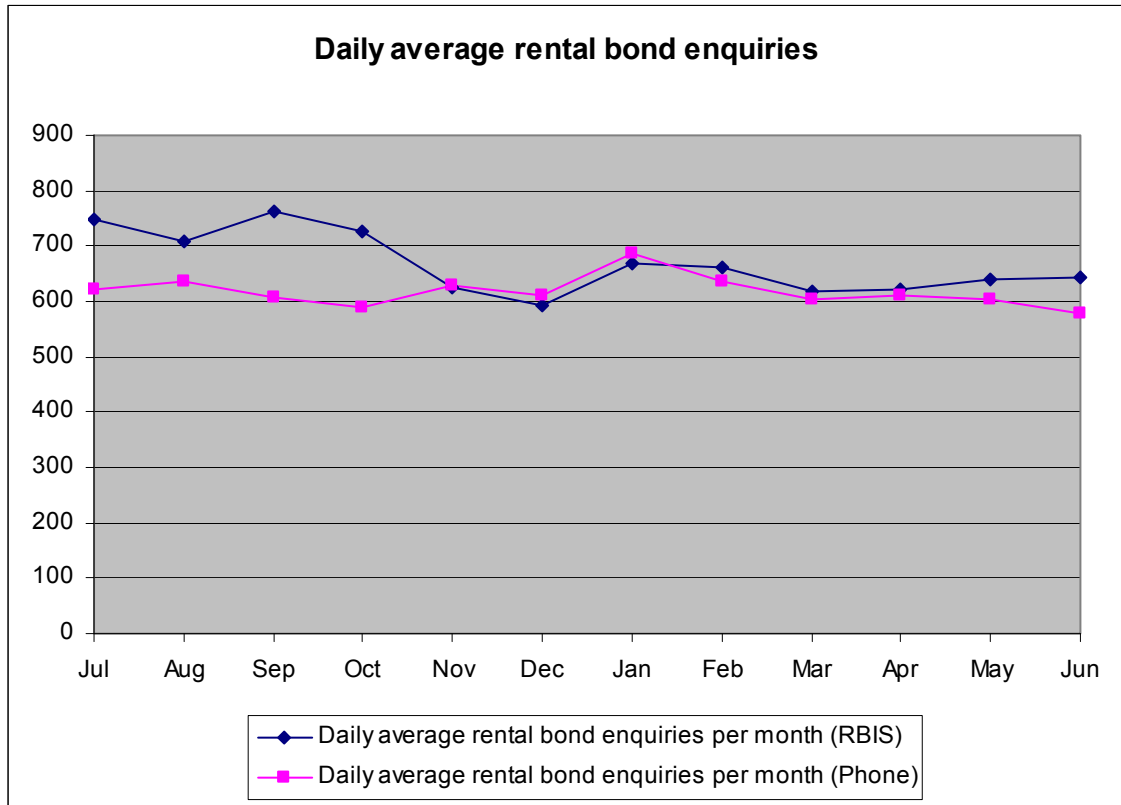
188,819 telephone enquiries on rental bonds were answered by Fair Trading staff during 2010/11, 96% of all incoming calls were answered and for these callers the average waiting time was 58 seconds.

During 2010/11 agents made 151,956 individual bond enquiries via RBIS – representing 49.5% of total bond enquiries. The use of this customer self-service option by the real estate industry for access to basic bond information allows Fair Trading to concentrate its staff resources on responding to the more complex rental bond and tenancy enquiries.

Rental Bond Internet Service

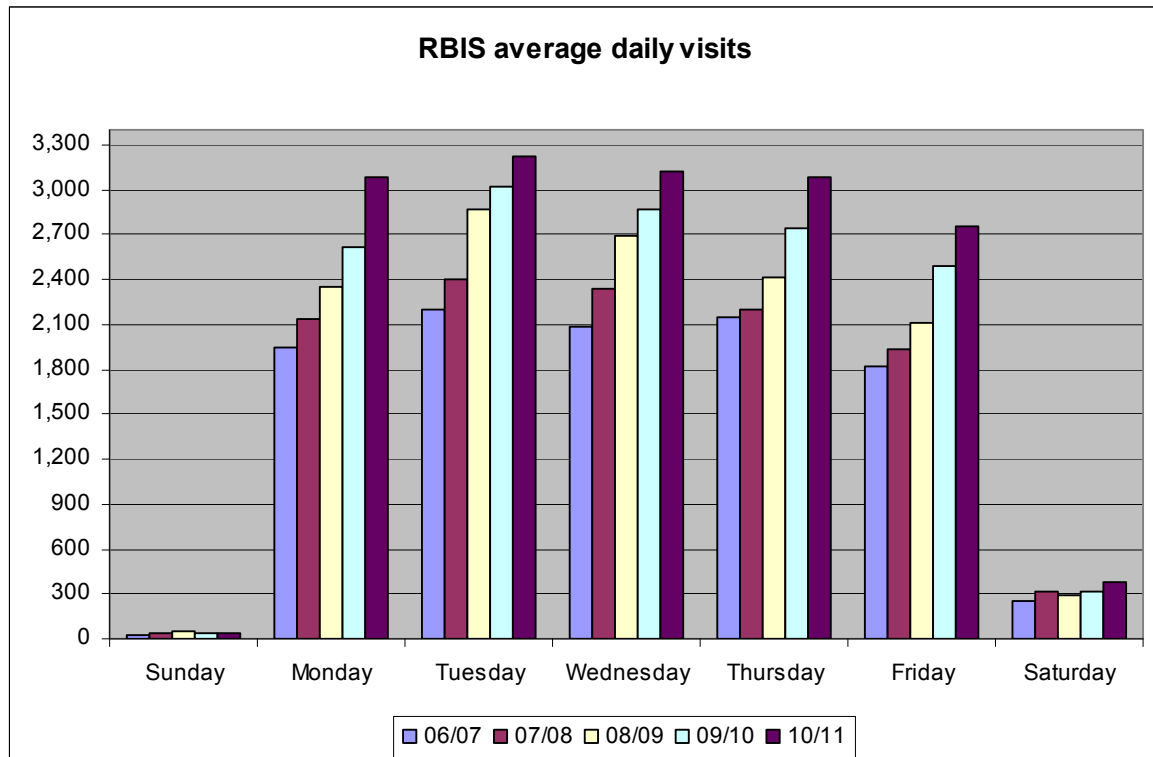
The Rental Bond Internet Service (RBIS) provides direct access to detailed information, claim for refund and reporting facilities on rental bonds, through the convenience of the Internet - 24 hours a day, 7 days a week. Using RBIS, property managers can authorise the payment of rental bond monies to their tenants by interfacing directly with Fair Trading's core rental bond business systems. RBIS is a highly secure system which enables property managers to access only those rental bond records for tenancies managed by their agency.

The real estate industry continued to provide strong support for RBIS with a further 127 property managers joining up to the Service during the year.



The number of rental bond claims submitted via RBIS had a slight decrease of 0.1% this year, and the number of RBIS enquiries decreased by 0.1%, when compared to 2009/10. Property managers also used the Service to access a range of financial reports on rental bonds managed by their agencies.

With a 27% increase in the total number of rental bonds managed by Fair Trading since the inception of RBIS, the Service has proven itself a cost-effective self-service delivery channel which has enabled us to manage increasing transaction volumes with no increase in staffing levels over the past decade.



Business systems

A dedicated Business Systems Unit within Fair Trading supports the specialised computer environment which makes up the Rental Bond System, which includes the rental bond financial database, document imaging database and the Rental Bond Internet Service (RBIS).

This unit monitors the systems and performs regular maintenance tasks to maximise performance and ensure high availability of the environment to enable rental bond processing by internal staff and RBIS users throughout New South Wales.

The new Rental Bond System was successfully launched on 8 November 2010. The Rental Bond Systems Upgrade Project has been a three year project to refresh the information technology platform supporting the NSW residential and retail bond programs. The new system has replaced a very old legacy system but importantly retained all the existing efficient business processes and financial controls. The new system is designed to provide high availability, confidentiality and integrity; and performance levels to meet the business needs of a high volume processing environment. The new system has been fully available to users for over 99% of the time since it commenced in November 2010.

Internal control

The rental bond custodial service is a high volume financial operation. The Board has therefore instituted a number of systems and procedures to support the integrity of, and accountability for, its business activities. A key feature of these systems is the segregation of duties.

In order to monitor the effectiveness of internal control and the quality of rental bond processing, the Business Development Unit, which supports the rental bond operational activities, undertakes an ongoing systems review program.

The Unit performed regular four weekly reviews of a random selection of rental bond refunds during 2010/11, as well as several special reviews of related processing functions. Review findings are discussed by the Renting Services Systems Review Committee, and may result in recommendations to management, additional staff training or procedural change to meet the Board's high quality performance requirements.

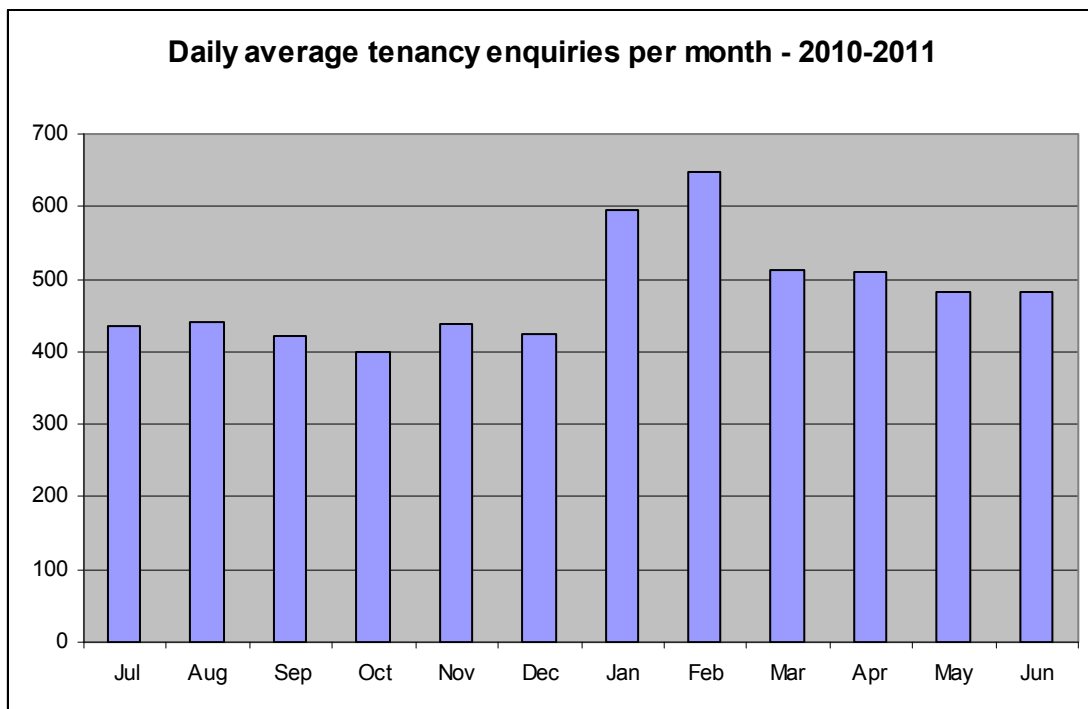
During the year the operational reviews did not identify any significant issues with an impact on the Board's service to our customers or the integrity of financial operations.

Tenancy services

The Rental Bond Board funds the provision of government tenancy information services through the Fair Trading Information Centre (FTIC) in accordance with Part 8, Rental bonds Division 6,s186 (2) of the *Residential Tenancies Act 2010*

Tenancy-related telephone enquiry volumes increased by 14.3% this year compared to 2009/10, with 121,984 calls responded to by staff. During the year officers answered 93% of all incoming tenancy calls, with an average waiting time for customers of 1min 35sec.

Customer Information and electronic versions of our publications are available on Fair Trading's website (www.fairtrading.nsw.gov.au). The use of the internet for information self-service by customers continues to grow. The Fair Trading Information Centre (FTIC) is one of Fair Trading's main front line services, dealing with over one million customer telephone enquiries each year, across a range of Fair Trading matters. FTIC takes an active role in promoting the available self-service options to its customers and also provides information which assists them in resolving their issues.



Funded programs

Objective: Community able to access information and consumer help in the area of residential tenancy

This is the second of two objectives that contribute to a fair and equitable marketplace in the area of residential tenancy. The independent custody of rental bonds ensures that the rights of both tenants and landlords are protected in accessing bond monies at the end of a tenancy. A fair tenancy marketplace also requires that tenants and landlords can access information on their rights and obligations, and that tenants who are having difficulty acting on their rights should be able to get help.

Fair Trading conducts information sessions, talks and seminars covering a range of topics for real estate and property agents, self managing landlords and tenants. The sessions include information regarding rights and responsibilities as agents and property managers within the Residential Tenancies Act, anti-discrimination issues covering residential tenancies and obligations of staff, smoke alarm laws, Consumer Trader and Tenancy Tribunal information on the Tribunal process and the most common areas that are referred to the Tribunal. The information is provided in conjunction with the Tribunal, NSW Fire Brigade, and the Anti-Discrimination Board.

Tenancy, real estate and property management issues can be quite complex. Fair Trading provides information and negotiates between parties on disputes. While negotiating these disputes, where officers detect any breaches of legislation, these breaches are referred for further investigation.

Consumer, Trader & Tenancy Tribunal - Tenancy Functions

The Consumer, Trader and Tenancy Tribunal is an independent body which provides an accessible, efficient and affordable avenue for the resolution of disputes about the supply of goods and services and issues relating to residential property.

The Tribunal's broad jurisdiction covers residential tenancies, retail transactions, home building or renovating, residential parks, strata and community schemes, motor vehicle purchase and repair, agents' fees and retirement villages. The relaxed formality of the Tribunal's dispute resolution service aims to bring parties to a mutually agreed settlement before a formal hearing, wherever possible.

The Tribunal is easily accessible to consumers and traders who are in dispute. There are eight Tribunal registries in metropolitan and regional NSW, and information about the Tribunal is also available from Fair Trading Centres across the State as well as the Tribunal website www.cttt.nsw.gov.au. In 2010-2011, the website recorded a significant increase in website visits with close to 418,000 people accessing the website.

CTTT Online enables people to lodge their application with the Tribunal over the internet. In 2010-2011 48% of applicants chose online lodgement and accessed the service through the Tribunal website. Applicants with tenancy disputes were the highest users of this online service. Seventy-five percent of *CTTT Online* users rate the service as 'above average' to 'excellent', and 93% would recommend the service to anyone wanting to lodge an application with the Tribunal.

In 2010-2011, the Tribunal received a total of 58,808 applications in its eight divisions, and 72,836 hearings were conducted in over 70 locations across New South Wales. Applications in the Tenancy Division continued to dominate the Tribunal's workload, accounting for 31,039 lodgements, or 53% of all applications received this year. The new *Residential Tenancies Act 2010*, which commenced on 31 January 2011, also provides jurisdiction for the Tribunal's Social Housing Division. The number of Social Housing Division applications lodged was 12,912 or 22% of total applications. A further 3,486 applications (6% of the total) related to residential park, strata and community scheme, or retirement village issues. The Rental Bond Board provided \$12.3

million in funding toward the residential tenancy functions of the Tribunal in 2010-2011, which were jointly funded by NSW Fair Trading and the Board.

New technology being piloted at the Tribunal to further streamline its services and meet customer demand enables the exchange of correspondence by email. An in-house trial of video conferencing will be undertaken in 2011-2012 before being rolled out more broadly. More information about these and other innovations is included in the Tribunal's annual report which can be downloaded from the Tribunal's website.

Grants program

In accordance with Part 8, Rental Bonds Division 6, s186 (3) of the *Residential Tenancies Act 2010* the Director-General may make a grant or loan, on the recommendation of the Board and with the approval of the Minister, from the Rental Bond Interest Account for the following purposes:

- (a) establishing and administering tenancy advisory services;
- (b) schemes for the provision of residential accommodation;
- (c) education about tenancy laws and the rights and obligations of landlords and tenants;
- (d) research into matters relevant to the relationship of landlord and tenant; and
- (e) other activities for the benefit of landlords and tenants.

The Department of Finance and Services Annual Report 2010/11, Appendix 8 Funds granted to non-government community organisations, contains information on all recipients and budget paper program information on the Rental Bond Board Grants Programs.

Programs funded by the Rental Bond Board

Tenants' Advice and Advocacy Program

The Rental Bond Board provides 50% of the total funding towards the Tenants' Advice and Advocacy Program. In 2010/11 the Board's contribution to the Program was approximately \$4.5 million.

Credit Counselling Program

The Rental Bond Board contributes 70% of the total value of the Credit Counselling Program. The Board's contribution toward the Program for 2010/11 was approximately \$2.9 million.

No Interest Loans Scheme

90% of the total funding for the No Interest Loans Scheme is derived from the Rental Bond Board. The Board's contribution to the Program for 2010/11 was approximately \$1.7 million.

Aged-care Rights Service

Each year the Rental Bond Board funds the Aged-care Rights Service to provide advice and information to older people in supported accommodation such as nursing homes, hostels, retirement villages and boarding houses across NSW. In 2010/11 the Rental Bond Board provided funding totalling \$397,059.

Rental Bond Board Grants Program

One program was funded under the Rental Bond Board Grants Program: The project provided an additional 0.5 full time equivalent worker for each of the twenty two (22) local Tenant Advice and Advocacy Services and the Aboriginal Resource Service (Dtarawarra) and the Older Persons Tenants Service to assist with implementation of the new Residential Tenancies Act . A total of \$400,000 was approved for 2010/11.

Rental bonds held by the Board at 30 June 2011 by postcode groupings

Rental Bonds held as at 30 June by postcode groupings				
Postcode Groupings	Post Code Grouping	Bonds Held		Variation
		30/06/2010	30/06/2011	
Inner Sydney	2000 - 2014	30,974	31,701	2.3%
South Sydney	2015 - 2020	10,888	11,287	3.7%
Eastern Suburbs	2021 - 2036	49,058	49,362	0.6%
Inner West	2037 - 2059	31,065	31,140	0.2%
Lower North Shore	2060 - 2069	23,646	23,685	0.2%
Upper North Shore	2070 - 2087	11,381	11,698	2.8%
Mosman/Cremorne	2088 - 2091	10,783	10,893	1.0%
Manly/Warringah	2092 - 2109	21,340	21,547	1.0%
North Western	2110 - 2126	20,334	20,907	2.8%
Western Suburbs	2127 - 2145	36,358	37,495	3.1%
Parramatta/Hills	2146 - 2159	23,686	24,580	3.8%
Fairfield/Liverpool	2160 - 2189	31,838	33,160	4.2%
Canterbury/Bankstown	2190 - 2200	20,104	20,583	2.4%
St George	2201 - 2223	33,269	33,923	2.0%
Cronulla/Sutherland	2224 - 2249	14,136	14,012	-0.9%
Metropolitan Total		369,752	375,973	1.7%
Central Coast	2250 - 2263	28,049	28,368	1.1%
Greater Newcastle	2264 - 2319	33,459	33,964	1.5%
Hunter Valley	2320 - 2339	14,760	15,773	6.9%
New England	2340 - 2419	15,071	15,677	4.0%
North Coast	2420 - 2499	50,321	51,752	2.8%
Greater Wollongong	2500 - 2530	20,356	20,963	3.0%
South Coast	2531 - 2551	13,975	14,052	0.6%
Campbelltown	2552 - 2570	11,162	11,551	3.5%
Southern Division	2571 - 2639	14,951	15,240	1.9%
Riverina	2640 - 2739	20,010	20,935	4.6%
Penrith/Windsor	2740 - 2772	28,291	29,351	3.7%
Blue Mountains	2773 - 2786	5,225	5,234	0.2%
Orange/Bathurst	2787 - 2819	10,370	10,704	3.2%
Dubbo & North West	2820 - 2842	6,404	6,618	3.3%
Mudgee District	2843 - 2863	2,227	2,350	5.5%
Western Division	2864 - 2880	3,839	4,044	5.3%
Miscellaneous	2881 - 9999	812	207	-74.5%
Country Total		278,690	286,783	2.9%
NSW Total		648,142	662,756	2.3%

Median rents for new lettings during the June quarter by postcode groupings.

Median rents for new lettings during the June quarter by postcode groupings				
Postcode Groupings	Post Code	Median Rent (\$ per week)		Variation
		30/06/2010	30/06/2011	
Inner Sydney	2000 - 2014	530	560	5.7%
South Sydney	2015 - 2020	510	560	9.8%
Eastern Suburbs	2021 - 2036	500	550	10.0%
Inner West	2037 - 2059	495	520	5.1%
Lower North Shore	2060 - 2069	500	550	10.0%
Upper North Shore	2070 - 2087	510	560	9.8%
Mosman/Cremorne	2088 - 2091	500	550	10.0%
Manly/Warringah	2092 - 2109	500	520	4.0%
North Western	2110 - 2126	440	460	4.5%
Western Suburbs	2127 - 2145	400	420	5.0%
Parramatta/Hills	2146 - 2159	380	400	5.3%
Fairfield/Liverpool	2160 - 2189	350	360	2.9%
Canterbury/Bankstown	2190 - 2200	343	360	5.0%
St George	2201 - 2223	400	420	5.0%
Cronulla/Sutherland	2224 - 2249	400	430	7.5%
Metropolitan Total		440	460	4.5%
Central Coast	2250 - 2263	300	330	10.0%
Greater Newcastle	2264 - 2319	310	335	8.1%
Hunter Valley	2320 - 2339	275	300	9.1%
New England	2340 - 2419	210	230	9.5%
North Coast	2420 - 2499	280	300	7.1%
Greater Wollongong	2500 - 2530	310	340	9.7%
South Coast	2531 - 2551	260	270	3.8%
Campbelltown	2552 - 2570	340	360	5.9%
Southern Division	2571 - 2639	270	305	13.0%
Riverina	2640 - 2739	200	210	5.0%
Penrith/Windsor	2740 - 2772	335	350	4.5%
Blue Mountains	2773 - 2786	300	320	6.7%
Orange/Bathurst	2787 - 2819	230	260	13.0%
Dubbo & North West	2820 - 2842	185	200	8.1%
Mudgee District	2843 - 2863	220	263	19.5%
Western Division	2864 - 2880	175	185	5.7%
Country Subtotal		280	300	7.1%
Miscellaneous**		180	250	38.9%
NSW Total		350	380	8.6%

* Miscellaneous includes those not covered by any of the above postcode groupings



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Sydney NSW 2001
9275 7100
D1130060/0392

Rod Stowe
Chairperson,
Rental Bond Board
Level 9, McKell Building
2-24 Rawson Place
SYDNEY NSW 2000

7 October 2011

Dear Mr Stowe

STATUTORY AUDIT REPORT
for the Year Ended 30 June 2011
Rental Bond Board

I have audited the financial statements of Rental Bond Board (the Board) as required by the *Public Finance and Audit Act 1983* (the Act). This Statutory Audit Report outlines the results of my audit for the year ended June 2011 and details the matters found during the audit that are relevant to you in your role as one of those charged with the governance of the Rental Bond Board. The Act requires that I send this report to the Board the Minister and the Treasurer.

This report is not the Independent Auditor's Report, which expresses my opinion on the Board's financial statements. I have enclosed the Independent Auditor's Report, together with the Board's financial statements.

My audit is designed to obtain reasonable assurance the financial statements are free from material misstatement. My audit is not designed to identify all matters that may be of governance interest to you. Accordingly, there may be other matters of governance interest that did not come to my attention during my audit.

My audit is continuous and I may therefore identify new significant matters. If this occurs, I will write to you immediately.

Audit Result

I expressed an unmodified opinion on the Board's financial statements and I have not identified any significant matters since my previous Statutory Audit Report.

Misstatements in the Financial Statements

The financial statements contained misstatements which are listed in the attached appendix.

Compliance with Legislative Requirements

My audit procedures are targeted specifically towards forming an opinion on the Board's financial statements. This includes testing whether the Board has complied with legislative requirements that may materially impact on the financial statements. The results of the audit are reported in this context. My testing did not identify any instances of non-compliance.


Auditor-General's Report to Parliament

Comment on the Board's activities, financial operations, performance and compliance will appear in the Auditor-General's Report to Parliament. I will send a draft of this comment to the Board for review before the Report is tabled during November 2011.

Acknowledgment

I thank the Board's staff for their courtesy and assistance.

Yours sincerely

A handwritten signature in black ink that reads "David Nolan". The signature is written in a cursive style with a long, sweeping underline.

David Nolan
Director, Financial Audit Services

Misstatements in the Financial Statements

Uncorrected Monetary Misstatements

I identified and reported the following misstatements to management. Management determined these misstatements to be immaterial both individually and in aggregate to the financial statements taken as a whole. I agreed with management's determination and did not consider these uncorrected misstatements significant enough to modify the opinion in the Independent Auditor's Report.

I have received written representations from the Rental Bond Board on 7 October 2011 confirming management's belief that the effects of the uncorrected misstatements were immaterial, individually and in aggregate, to the financial statements as a whole.

Description of Error/ Account Balance	Assets DR/(CR)	Liabilities DR/(CR)	Retained Earnings DR/(CR)	Other Equity DR/(CR)	Statement of Comprehensive Income DR/(CR)
Uncorrected misstatements identified in this period					
1. Understatement of interest accrual	5,858	--	--	--	(5,858)
2. Understatement of interest revenue of \$143,000 and overstatement of interest expense of \$143,000 related to offsetting of interest expense and interest revenue.	--	--	--	--	-
Subtotal	5,858	--	--	--	(5,858)
Total impact	5,858	--	--	--	(5,858)



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Rental Bond Board

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of the Rental Bond Board (the Board), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Board as at 30 June 2011, and of its financial performance for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010.

My opinion should be read in conjunction with the rest of this report.

The Board's Responsibility for the Financial Statements

The members of the Board are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act and for such internal control as the members of the Board determine(s) is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the members of the Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

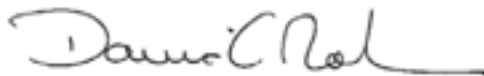
My opinion does not provide assurance:

- about the future viability of the Board
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.



David Nolan
Director, Financial Audit Services

7 October 2011
SYDNEY

STATEMENT BY MEMBERS OF THE BOARD

Pursuant to Section 41C of the Public Finance and Audit Act 1983 we declare, on behalf of the Board, that in our opinion:-

- (1) the accompanying financial statements exhibit a true and fair view of the financial position of the Rental Bond Board as at 30 June 2011 and transactions for the year ended 30 June 2011;
- (2) the statements have been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2010 and the Treasurer's Directions.

Further, the Members of the Board are not aware of any circumstances that would render any particulars included in the financial statements to be misleading or inaccurate.

On behalf of the Board.



RODNEY STOWE, Chairperson



RANIT RAM, Member

7 October 2011

RENTAL BOND BOARD

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 \$'000	2010 \$'000
Revenue			
Investment income	1(c),2(a)	55,448	50,960
Other revenue	2(b)	-	298
Total Revenue		<u>55,448</u>	<u>51,258</u>
Expenses			
Administrative services	1(a),3(a)	20,979	22,464
Grants and subsidies	3(b)	23,107	20,740
Other operating expenses	3(c)	825	800
Interest on rental bonds	1(f)	116	109
Total Expenses		<u>45,027</u>	<u>44,113</u>
SURPLUS FOR THE YEAR		10,421	7,145
Other comprehensive income			
Other Comprehensive Income for the Year		-	-
Total Comprehensive Income for the year		<u>10,421</u>	<u>7,145</u>

The accompanying notes form part of these statements.

RENTAL BOND BOARD

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Notes	2011 S'000	2010 S'000
ASSETS			
Current Assets			
Cash and cash equivalents	4	47,347	37,456
Receivables	5	4,663	4,288
Total Current Assets		<u>52,010</u>	<u>41,744</u>
Non-Current Assets			
Total Non-Current Assets		<u>-</u>	<u>-</u>
TOTAL ASSETS		<u>52,010</u>	<u>41,744</u>
LIABILITIES			
Current Liabilities			
Payables	6	1,459	1,614
Total Current Liabilities		<u>1,459</u>	<u>1,614</u>
TOTAL LIABILITIES		<u>1,459</u>	<u>1,614</u>
NET ASSETS		<u>50,551</u>	<u>40,130</u>
EQUITY			
Accumulated Funds		50,551	40,130
TOTAL EQUITY		<u>50,551</u>	<u>40,130</u>

The accompanying notes form part of these statements.

RENTAL BOND BOARD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Accumulated Funds S'000	Total S'000
Balance as at 1 July 2010	40,130	40,130
Surplus for the year	10,421	10,421
Other comprehensive income:		
Total other comprehensive income	-	-
Total comprehensive income for the year	10,421	10,421
Transactions with owners in their capacity as owners	-	-
Balance as at 30 June 2011	50,551	50,551

	Accumulated Funds S'000	Total S'000
Balance as at 1 July 2009	32,985	32,985
Surplus for the year	7,145	7,145
Other comprehensive income:		
Total other comprehensive income	-	-
Total comprehensive income for the year	7,145	7,145
Transactions with owners in their capacity as owners	-	-
Balance as at 30 June 2010	40,130	40,130

The accompanying notes form part of these statements.

RENTAL BOND BOARD

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 \$'000	2010 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Payment of interest on bonds		(116)	(109)
Trade creditors		(21,949)	(22,761)
Grants and subsidies		(23,107)	(20,740)
Total Payments		<u>(45,172)</u>	<u>(43,610)</u>
Receipts			
Maturity of investments		-	1
Interest received		55,141	50,702
Other		(78)	256
Total Receipts		<u>55,063</u>	<u>50,959</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	9	<u>9,891</u>	<u>7,349</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Repayment of Loans		-	80
NET CASH INFLOWS/(OUTFLOWS) FROM INVESTING ACTIVITIES		<u>-</u>	<u>80</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		9,891	7,429
OPENING CASH AND CASH EQUIVALENTS		37,456	30,027
CLOSING CASH AND CASH EQUIVALENTS	4	<u>47,347</u>	<u>37,456</u>

The accompanying notes form part of these statements.

**RENTAL BOND BOARD
FOR THE YEAR ENDED 30 JUNE 2011**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Rental Bond Board as a Reporting Entity comprises all activities under its control. The Board is a not-for-profit entity. The administrative functions for the Board are performed by the Department of Finance and Services and costs associated with these functions are paid for on an operational basis in relation to activities performed (Note 3).

This financial report for the year ended 30 June 2011 has been authorised for issue by the Chairperson of the Board on 7th October 2011.

(b) Basis of Preparation

The financial statements are general purpose financial statements, which have been prepared in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations);
- the requirements of the Public Finance and Audit Act 1983 and Regulation; and
- the Financial Reporting Directions issued by the Treasurer.

Where there are inconsistencies between the above requirements, the legislative provisions have prevailed.

Assets (or disposal groups) held for sale and financial assets at "fair value through profit or loss" and available for sale are measured at fair value. Other financial statements items are prepared in accordance with the historical cost convention.

Judgement, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

(c) Statement of Compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

(d) Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- the amount of GST incurred by the Board as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of Cash Flows on a gross basis.

(e) Revenue Recognition

Revenue is measured at the fair value of the consideration or contribution received or receivable. Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

(f) Interest Received on Investments and Interest Paid on Rental Bonds

Interest received on investments is deposited into the Rental Bond Interest Account. This account is used to fund the Board's operations, half of the operating costs of the tenancy functions of the Consumer Trader and Tenancy Tribunal and certain tenancy support programs. The Board pays interest on rental bonds at the time the bond is refunded. The interest rate paid is linked to the rate paid on a Streamline Account balance of \$1,000 by the Commonwealth Bank of Australia. The rate is cumulative six monthly and paid from the Rental Bond Interest Account in accordance with Section 173 of the *Residential Tenancies Act 2010*.

(g) Grant Recognition for Not-for-Profit Entities

The Board has applied the requirements in AASB 1004 *Contributions* regarding contributions of assets (including grants) and forgiveness of liabilities.

(h) Investments

Investments are initially recognised at fair value plus, in the case of investments not at fair value through profit or loss, transaction costs. The Board determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this at each financial year end.

- *Fair value through profit or loss* - the Board subsequently measures investments classified as "held for trading" or designated upon initial recognition "at fair value through profit or loss" at fair value. Financial assets are classified as "held for trading" if they are acquired for the purpose of selling in the near term.
- *The Hour-Glass Investment Facilities* - are designated at fair value through profit or loss using the second leg of the fair value option ie these financial assets are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy, and information about these assets is provided internally on that basis to the Board's key management personnel.

The movement in the fair value of the Hour-Glass Investment Facilities incorporates distributions received as well as unrealised movements in fair value and is reported in the line item "investment revenue".

- *Held to maturity investments* - non-derivative financial assets with fixed or determinable payments and fixed maturity that the Board has the positive intention and ability to hold to maturity are classified as "held to maturity". These investments are measured at amortised cost using the effective interest method. Changes are recognised in the surplus/(deficit) for the year when impaired, derecognised or through the amortisation process.
- *Available for sale investments* - any residual investments that do not fall into any other category are accounted for as available for sale investments and measured at fair value in other comprehensive income until disposed or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the surplus/(deficit) for the year. However, interest calculated using the effective interest method and dividends are recognised in the surplus/(deficit) for the year.

Purchases or sales of investments under contract that require delivery of the asset within the timeframe established by convention or regulation are recognised on the trade date ie the date the entity commits itself to purchase or sell the asset.

The fair value of investments that are traded at fair value in an active market is determined by reference to quoted current bid prices at the close of business on the Statement of Financial Position date.

(i) Impairment of Financial Assets

All financial assets, except those measured at fair value through profit and loss, are subject to an annual review for impairment. An allowance for impairment is established when there is objective evidence that the entity will not be able to collect all amounts due.

For financial assets carried at amortised cost, the amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the surplus/(deficit) for the year.

When an available for sale financial asset is impaired, the amount of the cumulative loss is removed from equity and recognised in the surplus/(deficit) for the year, based on the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss previously recognised in the surplus/(deficit) for the year.

Any reversals of impairment losses are reversed through the surplus/(deficit) for the year, where there is objective evidence, except reversals of impairment losses on an investment in an equity instrument classified as "available for sale" must be made through the reserve. Reversals of impairment losses of financial assets carried at amortised cost cannot result in a carrying amount that exceeds what the carrying amount would have been had there not been an impairment loss.

(j) Liabilities

Payables

These amounts represent liabilities for goods and services provided to the Board and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(k) New Australian Accounting Standards Issued But Not Effective

The following new Accounting Standards have not been applied and are not yet effective:

- AASB 9 and AASB 2010-7 regarding financial instruments
- AASB 13 regarding fair value measurement
- AASB 2010-4 regarding annual improvements
- AASB 124 and AASB 2009-12 regarding related party transactions
- AASB 2009-14 regarding amendments to Interpretation - Prepayments of a Minimum Funding Requirement
- AASB 1053 and AASB 2010-2 regarding differential reporting
- AASB 2010-5 regarding editorial corrections
- AASB 2010-6 regarding disclosures on transfers of financial assets
- AASB 2010-10 regarding removal of fixed dates for first time adopters
- AASB 1054 Australian Additional Disclosures
- AASB 2011-1 regarding the Trans Tasman Convergence project
- AASB 2011-2 regarding the Trans Tasman Convergence project – reduced disclosure requirements
- AASB 2011-3 regarding orderly adoption of changes to the ABS GFS Manual
- AASB 2011-4 regarding removal of individual key management personnel disclosure

It is considered that the implementation of these Standards will not have any material impact on the Board's financial results.

(l) Impairment Policy

At each reporting date, the Board reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

(m) Comparative Information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements.

2. REVENUE

(a) Investment Income

	2011	2010
	\$'000	\$'000
Rental Bond Trust Account	52,346	48,100
Amortisation of (Premium)/Discounts on Trust Account Investments	924	1,306
	<u>53,270</u>	<u>49,406</u>
Rental Bond Interest Account	2,178	1,554
	<u>2,178</u>	<u>1,554</u>
	<u>55,448</u>	<u>50,960</u>

Investment income is derived from a number of sources including interest on bank accounts, TCorp Hourglass Cash, Cash Plus and Bond Market Facility Trusts, Private Shared Equity Scheme and interest on loans.

(b) Other Revenue

Reimbursement of Surplus Grant Funds	-	297
Miscellaneous Income	-	1
	<u>-</u>	<u>298</u>

3. EXPENSES

As mentioned in Note 1(a), the Department of Finance and Services has applied an Administrative Assistance Charge for the recovery of expenses that it has incurred on behalf of the Board, associated employee related costs and other operating expenses.

(a) Administrative Services

Administrative Service Charge	20,053	21,567
Capital Expenditure Service Charge	926	897
	<u>20,979</u>	<u>22,464</u>

(b) Grants and Subsidies

Tenancy Services	(i)	665	195
Credit Counselling Program	(ii)	2,937	2,780
No Interest Loans Scheme	(iii)	1,697	1,320
Tenants' Advice and Advocacy Program	(iv)	4,497	4,526
Tenancy Functions of the Consumer, Trader and Tenancy Tribunal	(v)	12,311	11,919
National Rental Affordability Scheme	(vi)	1,000	-
		<u>23,107</u>	<u>20,740</u>

(i) Tenancy Services

Within the framework of the Residential Tenancies Act 2010 and the Retirement Villages Act 1999, the Tenancy Services provide impartial information, mediation and education services to tenants, village residents, landlords, their agents and village management about their rights and obligations under this legislation.

(ii) Credit Counselling Program

Provides funding for the provision of financial counselling services to individuals most of whom are tenants and also training of persons in financial counselling and for education in financial management. This program is supplementary to the Credit Counselling Program within the Department of Finance and Services.

(iii) No Interest Loan Scheme (NILS)

A community based program that helps low income people, most of whom are tenants, to buy essential household items. This program provides funding towards NILS administration costs and also employment of a dedicated NILS Coordinator.

(iv) Tenants' Advice and Advocacy Program

The Tenants' Advice and Advocacy Program was implemented to provide advice, information and advocacy to public and private tenants, and where appropriate to people seeking to become tenants. The service also undertakes community education on the issues of tenants' rights.

The Program is jointly funded by the Department of Finance and Services and the Rental Bond Board in accordance with the Property, Stock and Business Agents Act 2002, and the Residential Tenancies Act 2010.

(v) Tenancy Functions of the Consumer Trader and Tenancy Tribunal

The Consumer Trader and Tenancy Tribunal has the jurisdiction to determine matters under the Residential Tenancies Act 2010 and the Retirement Villages Act 1999. These matters include requests to terminate tenancy agreements, payment of rental bonds on termination of tenancies, breaches relating to terms of the tenancy agreement and payment of compensation. This function is jointly funded by the Department of Finance and Services and the Rental Bond Board.

(vi) National Rental Affordability Scheme

The National Rental Affordability Scheme is jointly supported by the Federal Government and the NSW State Government with the aim to increase the supply of affordable rental dwellings across New South Wales. The scheme will be available to very low to moderate income tenants across the state.

(c) **Other Operating Expenses**

	2011	2010
	\$'000	\$'000
Other operating expenses:		
Auditor's remuneration	56	54
Bank charges	54	61
Investment Management Fee	683	636
Other	32	49
	<u>825</u>	<u>800</u>

4. CASH AND CASH EQUIVALENTS

Cash at Bank	68	137
Hour-Glass Cash Facility	38,665	29,160
Hour Glass Strategic Cash Facility	8,614	8,159
	<u>47,347</u>	<u>37,456</u>

Cash at bank is held with the Westpac Banking Corporation. Interest is earned on daily bank balances and calculated each month. The average interest rate for the period was 4.65% (4.51% in 2009/10). TCorp interest for Hour-Glass Cash Facility was 5.37% (4.46% in 2009/10). The Hour Glass Strategic Cash Facility was 5.58% per annum (4.62% in 2009/10).

For the purposes of the Statement of Cash Flows, cash includes money deposited with banks, TCorp Hourglass 'Cash' Facility and cash on hand.

Cash and cash equivalent assets recognised in the statement of financial position are reconciled at the end of the financial year to the statement of cash flows as follows:

Cash and cash equivalents (per statement of financial position)	47,347	37,456
Closing cash and cash equivalents (per statement of cash flows)	<u>47,347</u>	<u>37,456</u>

5. RECEIVABLES

Items classified as receivables are as follows:

Accrued Interest	4,554	4,248
Debtors	109	40
	<u>4,663</u>	<u>4,288</u>

Details regarding credit risk, liquidity risk and market risk are disclosed in Note 10.

6. CURRENT LIABILITIES - PAYABLES

Accrued Administration Charges	1,112	1,398
Other Accrued Charges	347	216
	<u>1,459</u>	<u>1,614</u>

Details regarding credit risk, liquidity risk and market risk are disclosed in Note 10.

7. COMMITMENTS FOR EXPENDITURE

There are no commitments for capital or other expenditure or commitments for leases at balance date (Nil - 30 June 2010).

8. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Rental Bond Board is not aware of any contingent liabilities or contingent assets at the date of these financial statements.

9. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO SURPLUS/(DEFICIT)

	2011	2010
	\$'000	\$'000
Surplus/(Deficit) for the year	10,421	7,145
(Decrease)/Increase in Payables	(155)	469
(Increase)/Decrease in Receivables	(375)	(265)
Net Cash (used in)/from Operating Activities	9,891	7,349

10. FINANCIAL INSTRUMENTS

The Board's principal financial instruments are outlined below. These financial instruments arise directly from the Board's operations or are required to finance its operations. The Board does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board's main risks arising from financial instruments are outlined below, together with the Board's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout these financial statements.

The Board has overall responsibility for the establishment and oversight of risk management and reviews and agrees on policies for managing each of these risks. Risk management policies are established to identify and analyse the risks faced by the Board, to set limits and controls and to monitor risks. Compliance with policies is reviewed by the internal auditors on a continuous basis.

The Rental Bond Board's financial instruments include cash, receivables, investments and payables.

(a) **Financial Instrument Categories**

Financial Assets	Note	Category	2011 S'000 Carrying Amount	2010 S'000 Carrying Amount
Class: Cash and cash equivalents	4	Not applicable	47,347	37,456
Receivables*	5	Loans and receivable (at amortised cost)	4,663	4,288
Class: Payables**	6	Financial liabilities measured at amortised cost	1,459	1,614

* Excludes statutory receivables and prepayments (ie not within scope of AASB 7)

** Excludes statutory payables and unearned revenue (ie not within scope of AASB 7)

(b) **Credit Risk**

Credit risk arises when there is the possibility of the Board's debtors defaulting on their contractual obligations, resulting in a financial loss to the Board. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of the Board, including cash, receivables, and authority deposits. No collateral is held by the Board. The Board has not granted any financial guarantees.

Credit risk associated with the Board's financial assets, other than receivables, is managed through the selection of counter parties and establishment of minimum credit rating standards. Authority deposits held with TCorp are guaranteed by the State.

Cash

Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation (TCorp) 11am unofficial cash rate, adjusted for a management fee to NSW Treasury. The TCorp Hour Glass cash facility is discussed in paragraph (e) below.

(c) **Liquidity Risk**

Liquidity risk is the risk that the Board will be unable to meet its payment obligations when they fall due. The Board continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets.

During the current and prior years, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. The Board's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Treasurer's Direction 219.01 allows the Minister to award interest for late payment.

(d) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Board's exposures to market risk are primarily through other price risks associated with the movement in the unit price of the Hour Glass Investment Facilities. The Board has no exposure to foreign currency risk and does not enter into commodity contracts.

Interest Rate Risk

Exposure to interest rate risk arises primarily through the Board's interest bearing investments held with NSW TCorp. The Board does not account for any fixed rate financial instruments at fair value through profit or loss or as available-for-sale. Therefore, for these financial instruments, a change in interest rates would not affect profit or loss or equity. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The Board's exposure to interest rate risk is set out below.

2011 Financial assets*	\$'000				
	Carrying Amount	Profit -1%	Equity -1%	Profit +1%	Equity +1%
Cash and cash equivalents	47,347	(4,735)	(4,735)	4,735	4,735
Receivables	4,663	(466)	(466)	466	466

2010 Financial assets*	\$'000				
	Carrying Amount	Profit -1%	Equity -1%	Profit +1%	Equity +1%
Cash and cash equivalents	37,456	(3,746)	(3,746)	3,746	3,746
Receivables	4,288	(429)	(429)	429	429

*Payables are excluded as the Board deems there exists no interest exposure.

(e) **Other Price Risk - TCorp Hour-Glass Facilities**

Exposure to "other price risk" primarily arises through the investment in the TCorp Hour-Glass Investment Facilities, which are held for strategic rather than trading purposes. The Board has no direct equity investments. The Board holds units in the following Hour-Glass investment trusts:

Facility	Investment Sectors	Investment Horizon	2011 \$'000	2010 \$'000
Cash facility	Cash, money market instruments	Up to 1.5 years	38,665	29,160
Strategic cash facility	Cash, money market and other interest rate instruments	1.5 years to 3 years	8,614	8,159

The unit price of each facility is equal to the total fair value of the net assets held by the facility divided by the number of units on issue for that facility. Unit prices are calculated and published daily.

NSW TCorp is trustee for each of the above facilities and is required to act in the best interest of the unit holders and to administer the trusts in accordance with the trust deeds. As trustee, TCorp has appointed external managers to manage the performance and risks of each facility in accordance with a mandate agreed by the parties. However, TCorp acts as manager for part of the Cash Facility. A significant portion of the administration of the facilities is outsourced to an external custodian.

Investment in the Hour-Glass facilities limits the Board's exposure to risk, as it allows diversification across a pool of funds with different investment horizons and a mix of investments.

NSW TCorp provides sensitivity analysis information for each of the investment facilities, using historically based volatility information collected over a ten-year

period, quoted at two standard deviations (ie 95% probability). The TCorp Hour-Glass Investment facilities are designated at fair value through profit or loss and therefore any change in unit price impacts directly on profit (rather than equity). A reasonably possible change is based on the percentage change in unit price (as advised by TCorp) multiplied by the redemption value as at 30 June each year for each facility (balance from Hour-Glass statement).

	Impact on Profit/Loss		
	Change in Unit Price	2011 \$'000	2010 \$'000
Hour-Glass - Cash Facility	+/- 1.0%	387	292
Hour Glass Strategic Cash Facility	+/- 2.0%	172	163

(f) **Fair Value**

Financial instruments are generally recognised at cost, with the exception of the TCorp Hour-Glass facilities, which are measured at fair value. As discussed, the value of the Hour-Glass Investments is based on the Board's share of the value of

the underlying assets of the facility, based on the market value. All of the Hour-Glass facilities are valued using "redemption" pricing.

The amortised cost of financial instruments recognised in the Statement of Financial Position approximates the fair value, because of the short-term nature of many of the financial instruments. The following table details the financial instruments where fair value differs from the carrying amount:

	2011 \$'000 Carrying Amount	2011 \$'000 Fair Value	2010 \$'000 Carrying Amount	2010 \$'000 Fair Value
Financial Assets				
TCorp Hour Glass Cash Facility	38,665	38,665	29,160	29,160
TCorp Hour Glass Strategic Cash Facility	8,614	8,614	8,159	8,159
	47,279	47,279	37,319	37,319

(g) **Fair Value Recognised in the Statement of Financial Position**

The Board uses the following hierarchy for disclosing the fair value of financial instruments by valuation technique.

- Level 1 - Derived from quoted prices in active markets for identical assets/liabilities.
- Level 2 - Derived from inputs other than quoted prices that are observable directly or indirectly.
- Level 3 - Derived from valuation techniques that for the asset/liability not based on observable market data (unobservable inputs).

Financial assets at fair value	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	2011 Total \$'000
TCorp Hour Glass Cash Facility	-	38,665	-	38,665
TCorp Hour Glass Strategic Cash Facility	-	8,614	-	8,614
	-	47,279	-	47,279

Financial assets at fair value	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	2010 Total \$'000
TCorp Hour Glass Cash Facility	-	29,160	-	29,160
TCorp Hour Glass Strategic Cash Facility	-	8,159	-	8,159
	-	37,319	-	37,319

The table above only includes financial assets as no financial liabilities were measured at fair value in the statement of financial position.

There were no transfers between level 1 and 2 during the period ended 30 June 2011.

11. RENTAL BONDS

In accordance with Section 162 of the Residential Tenancies Act 2010, and Regulations to the Act, bonds received by landlords or their agents must be deposited with the Board's Rental Bond Account within seven days of receipt. The Board invests funds from the Rental Bond Account in accordance with Section 185(2) of the Residential Tenancies Act 2010 and the Public Authorities (Financial Arrangements) Act 1987. Interest received on investments is paid into the Rental Bond Interest Account. Funds awaiting disbursement are invested on the short-term money market in accordance with the Board's legislation for periods not exceeding 180 days.

Rental Bond Trust Funds

	2011 S'000	2010 S'000
Trust Investments	910,902	852,056
Add:		
Trust Ledger Bank Account	3,002	(2,103)
Less:		
Provision for Interest Owed to the Board	(4,464)	(4,174)
Rental Bonds	<u>909,440</u>	<u>845,779</u>

Rental Bonds are invested as follows:

TCorp Hour-Glass Facility	78,502	79,982
Direct Fixed Interest Portfolio (a)	830,240	769,970
Private Shared Equity Scheme (b)	2,160	2,104
	<u>910,902</u>	<u>852,056</u>

- (a) Treasury Corporation restructures the Rental Bond Board Trust investments to include a direct fixed interest portfolio, which is being managed with a buy and hold strategy, so that capital losses within the portfolio are minimised. In addition to this, Treasury Corporation is managing an overlay and stock lending portfolio with the view of adding value to the 'physical' fixed interest portfolio.
- (b) The Private Shared Equity Rent/Buy Scheme was established to assist low income tenants and those on the public housing waiting list, to achieve home ownership. The Board initially invested \$20M with a yield of 4% plus the CPI per annum. For the year to 30 June 2011, the CPI movement was 3.6% (3% - 30 June 2010).

Market Valuation of Rental Bond Investments

Market valuations were obtained on the investments listed below:

	2011	2010
	\$'000	\$'000
NSW Treasury Corporation Hour-Glass Facility	78,502	79,982
Direct Fixed Interest Portfolio	842,064	783,724
Private Shared Equity Scheme	2,207	2,136
Less: Provision for Interest Owed to the Board	(4,464)	(4,174)
	<u>918,309</u>	<u>861,668</u>

Market values as at 30 June 2011 were based on Treasury Corporation's advice.

Total liability to bond holders as at 30 June 2011 is \$909M compared to the market value of the Trust's investments of \$918M, resulting in an excess of \$9M (2009/10 excess \$16M).

The Board monitors and reviews its investment strategy and performance on an on-going basis to ensure that the gap between its total liability to bond holders and the market value of the Trust's investments is managed to minimise its risk exposure.

12. AFTER BALANCE DATE EVENTS

The Rental Bond Board is not aware of any circumstances that occurred after balance date that would render particulars included in the financial statements to be misleading.

END OF AUDITED FINANCIAL STATEMENTS

Internal Audit and Risk Management Statement

Rental Bond Board Annual Report Attestation to TPP 09-05

Internal Audit and Risk Management Statement for the 2010-2011 Financial Year for Rental Bond Board (RBB)

I, Rod Stowe, Commissioner for Fair Trading, am of the opinion that the Rental Bond Board (RBB) has internal audit and risk management processes in operation that are, in all material respects, compliant with the core requirements set out in Treasury Circular NSW TC 09/08 *Internal Audit and Risk Management Policy*.

I, Rod Stowe, Commissioner for Fair Trading am of the opinion that the Audit and Risk Committee for the NSW Department of Finance and Services, which oversees the RBB is constituted and operates in accordance with the independence and governance requirements of Treasury Circular NSW TC 09/08. The Chair and Members of the Audit and Risk Committee are:

- Mr Peter Whitehead, Independent Chair (period of appointment from 1 September 2009 to 31 August 2012)
- Ms Carolyn Burlew, Independent Member (period of appointment from 1 September 2009 to 31 August 2011)
- Dr Gul Izmir, Independent Member (period of appointment from 8 October 2009 to 7 October 2011)
- Ms Anne Skewes, Non-independent member (period of appointment from 24 March 2010 to 23 March 2013)
- Mr Michael Silk, Non-independent member (period of appointment from 24 March 2010 to 23 March 2013)

These processes provide a level of assurance that enables the senior management of the Rental Bond Board to understand, manage and satisfactorily control risk exposures.

As required by the policy, I have submitted an Attestation Statement outlining compliance with the policy to Treasury.



Rod Stowe
Commissioner

In accordance with a resolution of the Governing Board of the Rental Bond Board

This annual report has been prepared by NSW Fair Trading a Department of Finance & Services for the purposes of Annual reports (Statutory Bodies) Act 1984 including tabling in Parliament and providing the public with access to copies.

Our annual report is available in electronic web-based format and can be downloaded from Fair Trading's website at

http://www.fairtrading.nsw.gov.au/About_us/Publications/Annual_reports.html

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