Guidance notes are issued by the Registrar of Community Housing to assist registered community housing providers to comply with the Regulatory Code. Guidance notes aim to explain the Regulatory Code as interpreted and administered by the Registrar. The purpose is to improve understanding of how the Regulatory Code may be applied in practice and to assist registered community housing providers in working with the Registrar. They do not seek to extend the Regulatory Code and they are not exhaustive. The Regulatory Code itself should always be read and understood, as it constitutes the law. Guidance notes do not give or constitute legal advice. Where appropriate, registered community housing providers should obtain their own professional advice about compliance with the Regulatory Code.

Regulators across a number of State and Territory jurisdictions have agreed to use a common set of key financial viability measures and ratios, with standardised definitions, when assessing community housing organisations’ financial viability. The common set of financial viability measures are based on the use of consistent data inputs to calculate each ratio.

Areas of Focus
Financial viability is defined as the ability to generate sufficient income to meet operating payments, debt commitments and, where applicable, to allow growth while maintaining service levels. The agreed key financial viability measures will focus on the following.

- Organisations’ profitability;
- Liquidity;
- Cash flow;
- Capital structure;
- Debt servicing; and
- Capacity for growth.

Implementation
The financial viability measures will be implemented from 1 October 2011. The financial viability measures and ratio definitions will be integrated into the existing Financial Performance Report template used for registration and compliance assessments.

The Financial Performance Report template will be tested with industry representatives to ensure no or minimal additional information may be required from community housing organisations in order to calculate agreed financial viability measures.

Profitability Ratios
Profitability ratios assess the adequacy of revenue to meet organisation’s operational costs, while ensuring the organisation has sufficient surplus to fund debt repayment and/or growth.

EBITDA Margin (Expressed as percentage)
Earnings before depreciation, amortisation, interest and taxes (EBITDA)*

Operating revenue**

*EBITDA excludes both interest revenue and interest expenses.

**Operating revenue and EBITDA excludes capital grants, asset transfers, profit on sale of assets, revaluation gains or losses, non-cash items of capital nature and any other unusual or non-operating items.

Liquidity Ratios
Liquidity ratios assess the underlying liquidity and the ability to service short-term financial obligations.

Working Capital Ratio* (Expressed as times)

Amended Quick Ratio* (Expressed as times)

Cash, short-term investments and unused overdraft facilities**

*Both ratios Working Capital and Amended Quick ratios exclude restricted assets and liabilities (i.e. assets and liabilities that are committed for a specific purpose) – e.g. capital grants, tenant bonds.

It is to be noted that restricted assets and liabilities may vary across jurisdictions. A prudent decision is to be made by the concerned jurisdiction keeping in mind materiality of the impact and nature of the transaction.

** Unused credit facilities – bank overdraft, line of credit, etc.
Key Financial Viability Measures

**Cash Flow Ratios**
Cash flow ratios tell about the adequacy of operating cash inflows to cover operating outflows.

Operating Cash Adequacy (Expressed as times)

- Operating cash inflows
- Operating cash outflows

*Operating cash inflows exclude capital grants and other non-operating events (mostly capital in nature).*

**Capital Structure Ratios**
Capital structure ratios show the percentage of long-term financing represented by long-term debt.

Gearing Ratio (Expressed as percentage)

- Total repayable debt
- Total assets

*Total repayable debt does not include lease payment/payable.

**Intangible contractual rights typically held by community housing organisations shall be excluded from average total assets for the purpose of this ratio (e.g. Assets held by community housing organisations in South Australia as per Funding Agreement between them and South Australian Housing Trust).**

**Debt Servicing Ratios**
Debt servicing ratios indicate if interest payments can be serviced and the debt (capital amount) repaid.

Interest Cover Ratio (Expressed as times)

- Earnings before depreciation, amortisation, interest and taxes (EBITDA)
- Interest expense

**Cash Flow Forecast*** (Expressed as times)

- Net cash flow from operations plus interest paid
- Scheduled debt servicing payments (principal and interest)

*EBITDA refers to operating EBITDA excluding capital grants, asset transfers, profit on sale of assets, revaluation gains or losses, non-cash items of capital nature and any other unusual or non-operating items.

**Capitalised portion of interest should be excluded.

***The information needed regarding schedule of payments may not be easily obtainable. This ratio was agreed in principle but subject to data availability.

**Capacity for Growth**
Capacity for growth ratio is used to determine an organisation’s ability for growth.

Return on Assets (Expressed as percentage)

- EBITDA
- Average total assets

**Cash Cost of Capital (Expressed as percentage)**

- Total financing cost
- Average total assets

*Total financing cost includes Interest Expenses (capitalised portion excluded) and cost incurred to manage interest rate risk (e.g. hedging cost).

Ongoing bank charges and fees should be excluded from total financing cost. This ratio will be reviewed in 12 months to measure the impact and materiality of ongoing bank charges and fees.