




# NSW Registrar of Community Housing Annual Statement of Performance 2012





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# Letter to the Minister

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Ref: HOG12/17290

The Hon Pru Goward MP  
Minister for Family and Community Services  
Minister for Women  
Parliament House  
Macquarie Street  
SYDNEY NSW 2000

Dear Minister,

I am pleased to present to you the Registrar of Community Housing's *Annual Statement of Performance 2012*.

This is the second Annual Statement of Performance since the establishment of the regulatory system for community housing providers. It has been prepared to fulfil the Registrar's function under the *Housing Act 2001* (NSW) to provide advice to the Minister on the administration of the regulatory system.

The report covers the period 1 July 2011 to 30 June 2012.

It will be available for public access on the Registrar of Community Housing's web site at [www.rch.nsw.gov.au](http://www.rch.nsw.gov.au).

Yours sincerely,

Roxane Shaw  
Registrar of Community Housing

29 October 2012

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# Registrar's Review



**Roxane Shaw**  
Registrar of Community Housing

In May this year we marked the third anniversary of the establishment of the Registrar's office and the commencement of the statutory regulation of community housing providers in NSW. Through the work of the dedicated staff of the office, we have continued to deliver fair and effective regulatory services to provide assurance for a viable and diverse community housing industry in NSW.

This Annual Statement of Performance details the performance of the community housing sector under the Regulatory Code and of the Aboriginal community housing sector under the Provider Assessment and Registration System (PARS). It demonstrates that registered community housing providers are deeply connected in their communities, are flexible and innovative in responding to diverse needs, are delivering quality tenancy and asset management services, are prudent in managing probity and risk, and have the strength in their governance and financial arrangements to harness investment to increase the supply of community housing. It is a vibrant and capable sector in which government and financial institutions can have confidence in partnering and investing in order to deliver better housing outcomes for people in housing need now and in the future.

This Annual Statement of Performance also details our work in administering the Regulatory Code and PARS, where our achievements have included:

- the design and implementation of the Compliance Assessment Scheduling System, providing a risk-based approach to scheduling compliance assessment and compliance engagement based on each provider's exposure to potential non-compliance with the Regulatory Code;
- conducting our first Compliance Programme to assess registered providers' achievement of performance outcomes in accordance with the Regulatory Code;
- the production of our first Sector Snapshot, providing a half-yearly summary of sector performance data from compliance assessments to supplement the full analysis of the sector published in each Annual Statement of Performance;
- working closely with the Aboriginal Housing Office to implement PARS for Aboriginal community housing providers and to deliver performance assessments;

# Registrar's Review

- participation in, and hosting a meeting of, the Regulatory Practice Forum, providing housing regulators across Australia and New Zealand with the means to facilitate co-operative action and the exchange of ideas, information and practice about housing regulation;
  - delivery of an expanded range of sector engagement activities including the launch of an Occasional Industry Seminar Series, designed to provide information to assist registered providers to take a proactive approach to meeting the performance requirements of the Regulatory Code and the PARS;
  - implementation of an internal Aboriginal Cultural Competency program to support the development of a culturally inclusive work environment for Aboriginal staff and the culturally appropriate delivery of regulatory services to Aboriginal community housing providers and Aboriginal communities; and
  - working closely with Housing NSW to support the development of the National Regulatory System for Community Housing, and participation in national working groups.
- preparation for the transition to the National Regulatory System for Community Housing, while maintaining momentum in administering and improving the NSW regulatory system;
  - streamlining, in close consultation with Housing NSW and the Aboriginal Housing Office, data reporting requirements and system capability for a “report once, use often” approach to performance reporting requirements for registered providers;
  - developing an “horizon scanning” capability to identify and develop effective regulatory responses to emerging economic, market and industry risks; and
  - taking opportunities to expand our delivery of data and research on the performance of the registered community housing sectors.

We look forward to continuing our productive relationship with our portfolio agencies, Housing NSW and the Aboriginal Housing Office, and we look forward to continuing our engagement with community housing providers across the sectors.

## **Roxane Shaw**

Registrar of Community Housing

Through this work, we strengthened the way in which we administer the regulatory system for community housing under the Regulatory Code and the PARS, and identified a range of opportunities for us to take the regulatory system and PARS to an even stronger position in the year ahead. Our priorities will include:

# Part One: Our Office

# 1



The Registrar of Community Housing is an independent statutory officer responsible for administering the regulatory system and Regulatory Code for community housing providers under the *Housing Act 2001* (NSW).

The regulatory system ensures that community housing is developed as a viable and diversified component of the New South Wales social housing system. The Regulatory Code requires community housing providers to be well governed, financially viable and to perform in compliance with minimum standards to deliver quality housing services.

In addition to these statutory functions, in November 2009, the Registrar was commissioned by the Aboriginal Housing Office (AHO) to undertake assessments of Aboriginal organisations providing community housing in the Provider Assessment and Registration System (PARS) under the *Aboriginal Housing Act 1998* (NSW). PARS is a core part of the AHO's Build and Grow Strategy being implemented over the next few years.

## Functions

The Registrar's position and regulatory platform is determined by the *Housing Act 2001* (NSW) and Housing Regulation 2009.

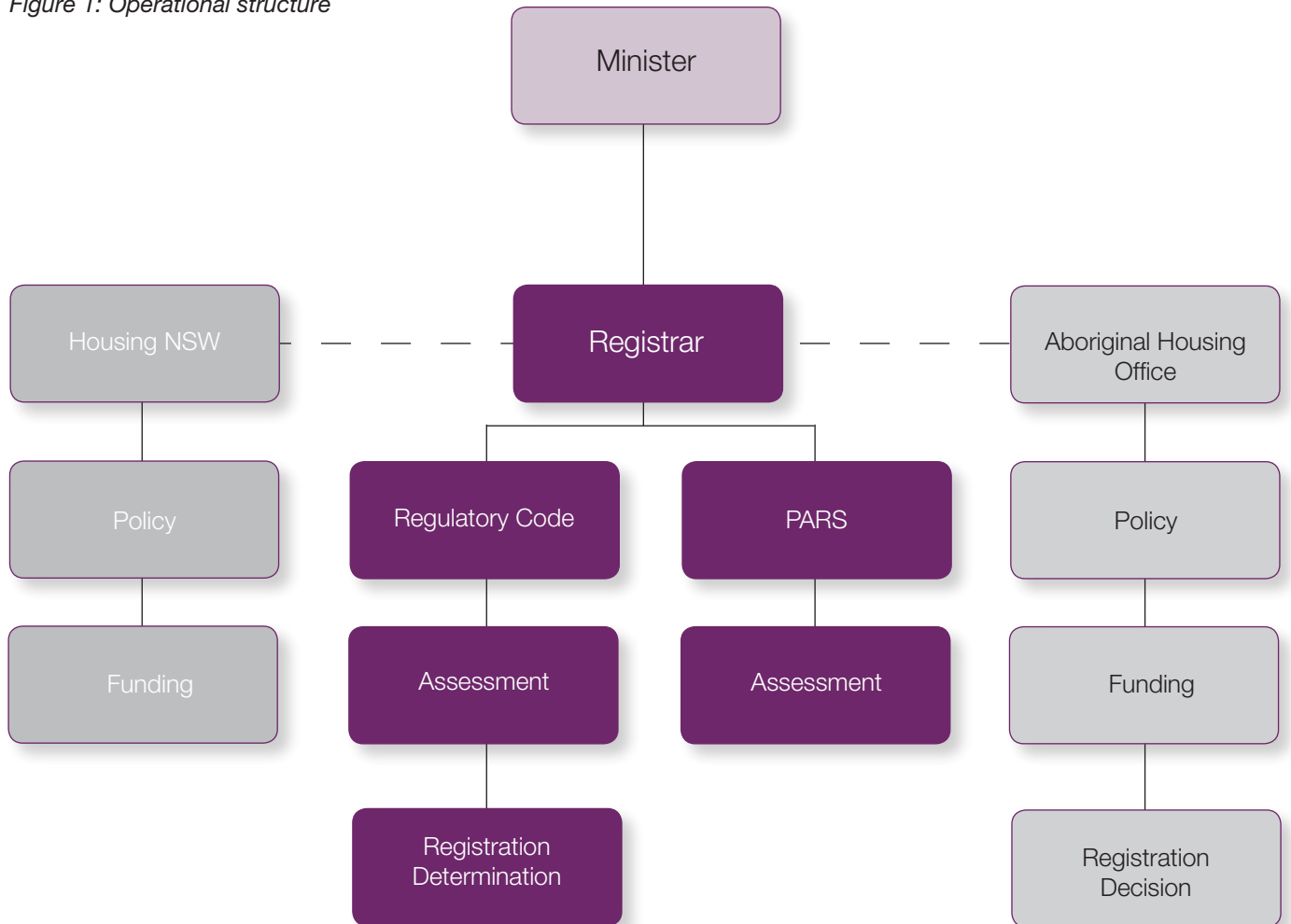
The legislation requires the Registrar to:

- Maintain a register of community housing providers
- Assess the suitability of organisations to be registered as community housing providers
- Register suitable community housing providers

- Investigate complaints and other matters involving registered community housing providers
- Provide information in relation to community housing
- Provide advice to the Minister in relation to community housing and regulation of the sector
- Advise on the matters to be included in a regulatory code for registered community housing providers
- Undertake any other function conferred or imposed on the Registrar by legislation

The Registrar's PARS platform is determined by a commissioning letter and an administrative agreement, which requires the Registrar to undertake performance assessments for the AHO using the AHO's Aboriginal registration assessment system.

Figure 1: Operational structure



## Vision

Our vision is to provide assurance for a viable and diverse community housing sector that supports people in need in NSW.

## Values

Our way of working is based on five key values:

### Integrity

- We are balanced, transparent and trustworthy in all our dealings.
- We perform our duties with honesty.

### Collaboration

- We seek, respect and value the views of others.

### Professionalism

- We take pride in the quality of our work.
- We achieve timely and practical results.

### Foresight

- We look forward in our analysis of issues.
- We learn from our experiences and strive to improve.

### Responsibility

- We take responsibility for our decisions and actions.
- We hold ourselves to high standards and scrutiny.

## Principles

Our regulation of the community housing sector is based on five key principles:

### Transparency

- We establish and communicate clear regulatory processes.
- We are open about our objectives and decisions.

### Proportionality

- We only intervene when necessary.
- Our monitoring and interventions are appropriate to the risk.
- We focus on activities likely to pose the greatest risk.

### Accountability

- We explain our decisions and are open about our policies and practices.
- We establish and communicate clear registration standards and criteria.
- We take responsibility for our actions and report on our performance.

### Consistency

- Our regulatory processes and evidence guidelines are coherent and consistently applied.
- We work across government to ensure a consistent regulatory approach.

### Co-regulation

- We actively engage providers in the regulatory process and encourage self assessment where appropriate.
- Importantly, we have a risk based approach to regulation, meaning we target areas of greatest risk and set requirements based on key service delivery outcomes for community housing.

# Our Office

## Corporate Infrastructure

While the Registrar is directly accountable to the Minister, the Registrar's office operates with the assistance of two portfolio agencies: Housing NSW and the Aboriginal Housing Office.

In each case, the Registrar has an agreement in place that details the basis of the relationship that each agency will at all times recognise the other's role and responsibilities in a spirit of partnership to optimise the outcomes for the community housing sectors in NSW.

The Registrar directs all aspects of the operations of her office, but is supported by the administrative services of the portfolio agencies and operates in accordance with portfolio agency policies, procedures, guidelines and agreements that are common to all business units and staff.

All staff of the Registrar are public servants employed under the *Public Sector Employment and Management Act 2002* (NSW), on the establishment of the portfolio agencies and seconded to the Registrar.

We recognise that each employee brings their own unique capabilities, experiences, characteristics and perspectives to their work. We aim to ensure fair and equitable outcomes in all areas of employment, which relate to recruitment, training and development, promotion, transfer, and conditions of employment. Staff participate in a range of fora to support equal employment opportunities. We aim also to provide a safe working environment. We have one trained work health and safety officer, three fire wardens and two first aid officers.

Figure 2: Organisational Chart

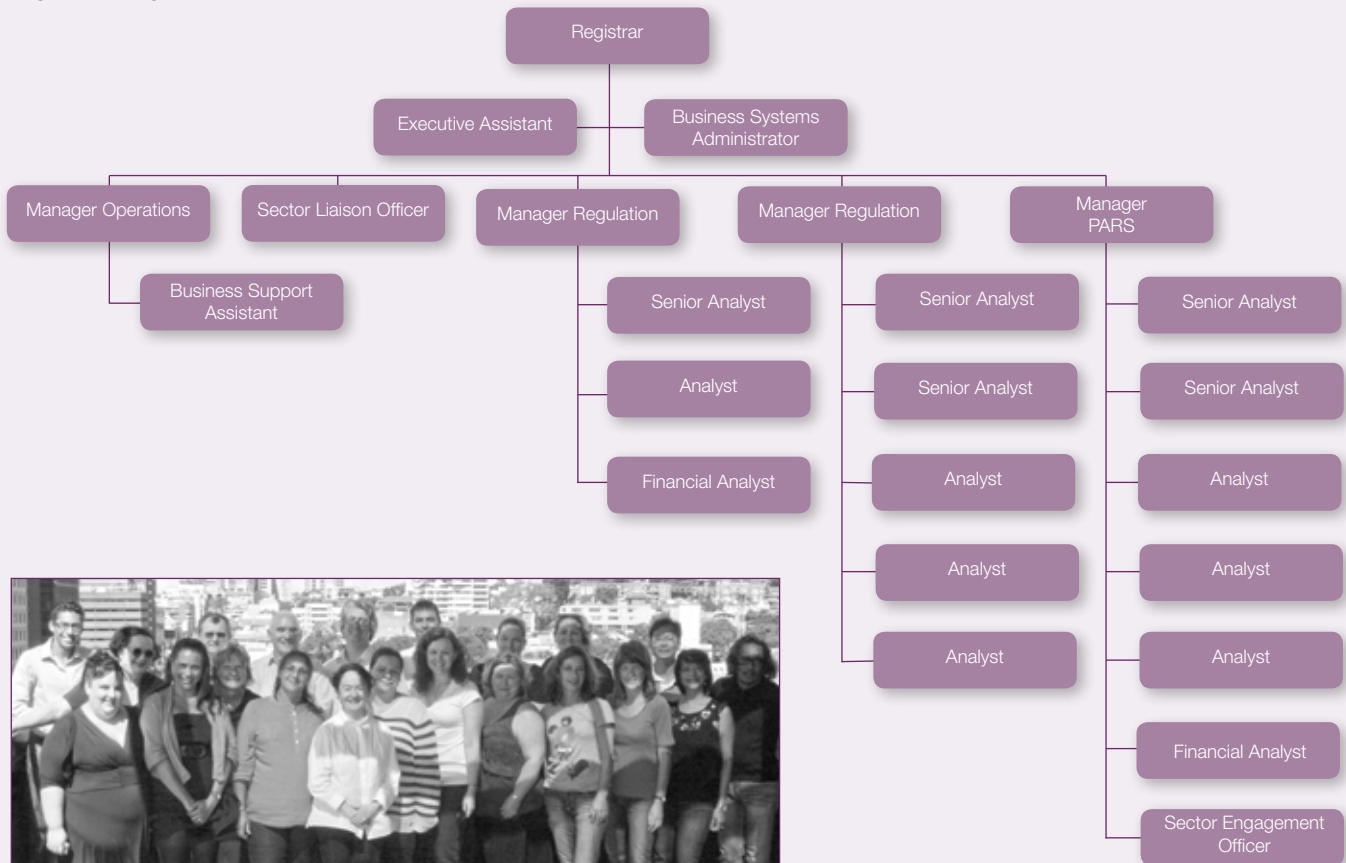


Photo 1: The Registrar (in front) and the Staff of the Office of the Registrar of Community Housing

## Capability

The skills and knowledge of staff underpin our capability in delivering on our functions and genuinely creating value in the registration and regulation of the community housing sectors.

Each year we develop and implement an Organisational Capability Plan to help us maintain focus on strengthening the professional and cultural knowledge and skills of all staff in an inclusive and supportive workplace. The activities delivered under the Organisational Capability Plan support staff to achieve the accountabilities of their position and of the office within a public service culture of integrity, trust, service and accountability.

In addition to ensuring all staff have Individual Performance and Development Plans and the opportunity to access and benefit from Housing NSW and AHO staff training and development opportunities, we supported:

- Development opportunities through special project work, higher duties and participation/ observation at industry fora and meetings;
- Approximately 50 places for staff to attend industry conferences and courses;
- Six placements under our Professional Development Placement Policy. Placements are opportunities for staff to “sit in” with resident/tenant organisations, registered community housing providers, policy organisations, representative organisations, academic institutions, and regulatory bodies. They are aimed at enhancing the capacity of staff to deliver

relevant and effective regulatory services by expanding and strengthening each officer’s skills and knowledge of community housing business delivery; and

- Five staff to undertake tertiary study (an Executive Master of Public Administration; Graduate Diploma of Applied Corporate Governance; Diploma in Management; Certificate IV in Front Line Management; and Graduate Diploma of Chartered Accounting).

In-house training and development opportunities throughout the year included:

- Training in administrative decision making delivered by the Australian Government Solicitor. The training aimed to support robust and clear decision making and assessment reports for PARS and the Regulatory Code;
- Training in credit risk analysis delivered by Moody’s Analytics. The training aimed to strengthen the risk sensitivity of the financial viability assessment methods and skills deployed in compliance assessments;
- Industry Seminars and Planning and Development Day presentations on industry topics with guest speakers, including from the Registry of Co-operatives and Associations, Housing NSW, Aboriginal Housing Office, an Aboriginal Tenancy Support Service, Ombudsman NSW, and NSW Public Service Commission;
- Analyst Workshops and Exchanges held regularly to provide a collegiate forum for analysts to utilise case studies to identify areas of improvement and promote professionalism, consistency and transparency in the assessment of community

housing providers and improving regulatory practice consistent with the values and regulatory principles of the Registrar;

- Implementation of an internal Aboriginal Cultural Competency program lead by Aboriginal staff to support the development of a culturally inclusive work environment for Aboriginal staff and the culturally appropriate delivery of regulatory services to Aboriginal community housing providers and Aboriginal communities; and
- Training in Working Ethically with Our Community delivered by Housing NSW, complementing Code of Conduct and Ethics training and recognising the additional expectations placed on Aboriginal and Torres Strait Islander staff working in the community with an opportunity to discuss commonly experienced situations through case studies, how to manage them, and accessing advice in setting boundaries and accessing resources.

## Sector Engagement

A significant component of our work is engaging the sectors through various initiatives. The Sector Engagement Plan 2011/12 was published on the website and guided the delivery of new and continuing sector engagement initiatives throughout the year.

## Consultation

The Registrar's Advisory Forum met four times through the year and is comprised of industry peak body representatives, tenant representatives, Housing NSW representatives, Aboriginal Housing Office representatives and independent members with experience and an interest in strategic matters concerning regulation, registration and the delivery of community housing.

The PARS Advisory Committee met two times through the year and is comprised of key stakeholders, including representatives from the AHO (board and administration), the Office of the Registrar of Indigenous Corporations (ORIC), the NSW Aboriginal Land Council (NSWALC), the Tenants Union, an independent advisor and community representatives.

The Registrar's Advisory Forum and the PARS Advisory Committee provided valuable advice and worked with the Registrar on sector engagement, strategic direction and regulatory approach, ensuring the interests of providers and stakeholders were canvassed and addressed throughout the year.

## Contacts and Enquiries

We received 1,572 calls on our 1800 330 940 number for various purposes, compared to 1,792 calls in 2011. There were 420 emails addressed to the general email [registrar@facs.nsw.gov.au](mailto:registrar@facs.nsw.gov.au), about the Regulatory Code, PARS and community housing generally. Out of those contacts, we handled 144 enquiries:

Figure 3: Type of enquiries

Requests for advice or information	131
Enquiries about providers	7
Enquiries about administration of the Regulatory Code	4
Enquiries about policies and procedures	2

Figure 4: Time taken to complete the enquiry

Within 5 days	60%
Within 10 days	5%
Within 25 days	15%
Over 25 days	20%

## Website

The website [www.rch.nsw.gov.au](http://www.rch.nsw.gov.au) is a key tool for making information quickly and easily accessible to all stakeholders.

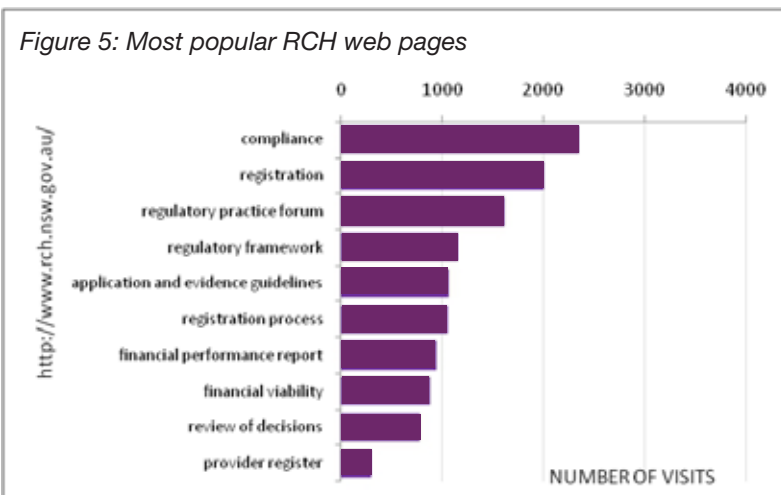
The website was visited 5,245 times; 14 times on average per day, from 191 unique IP addresses. The following pages were visited the most: compliance, registration and the regulatory practice forum.

An initiative in 2012/13 will be to improve the accessibility and usefulness of the Provider Register on the website, a key function of the Registrar which appears to be attracting the least number of visits.

## Presentations and meetings

Throughout the year, the Registrar and staff meet and present to providers and stakeholders, and participate in a range of industry activities. These have included:

- Presenting to over 200 participants on the Regulatory Code at 14 meetings and conferences. These activities encouraged and supported an understanding of the Regulatory Code and regulatory system, as well as co-operative regulation;
- Presenting to over 140 participants on PARS at nine meetings and conferences. These activities supported an understanding of the PARS requirements and processes;





# Our Office

- Participating in various working groups and meetings for the development of a national regulatory system for community housing;
- Hosting a visit by the South African Social Housing Regulatory Authority (SHRA) and establishing an ongoing dialogue on housing regulation; and
- Hosting a meeting of, and participation in, the Regulatory Practice Forum, to facilitate co-operative action and the exchange of ideas, information and practice about housing regulation in Australia.

## Briefing Sessions

Briefing sessions on the Regulatory Code and PARS are delivered throughout the year and across the State to promote understanding of the Regulatory Code and PARS; to improve understanding of how the Regulatory Code and PARS operate in practice; and to assist registered community housing providers in working with the Registrar. We delivered:

- 10 compliance briefing sessions on the Regulatory Code to 245 participants; and
- 6 briefing sessions on PARS to 72 participants.

All providers are encouraged to attend briefing sessions for practical guidance and assistance.

## Occasional Industry Seminar Series

We launched a new series of Occasional Industry Seminars this year. These seminars provide information to assist registered community housing providers to take a proactive approach in meeting the performance requirements of the Regulatory Code and the PARS.



*Photo 2: Meeting with South African Regulatory Authority Chairperson, Ms. Zohra Ibrahim (front row, centre); SHRA CEO, Mr. Brian Moholo (front row, right); (back row, left to right) the Registrar, Ms. Roxane Shaw; RCH Financial Analyst, Carlos Perez; PARS Acting Manager, Stacey Broadbent; and RCH Regulation Manager, Aleksandra Valda (front row, left)*



*Photo 3: Meeting of the Regulatory Practice Forum (left to right) : Mr. Robert Macbeth, Social Housing Unit, NZ; the Registrar, Ms. Roxane Shaw; Prof. Peter Phibbs, UWS; and Mr. Michael Pead, Social Housing Unit, NZ*



*Photo 4 (left to right): Good Governance Seminar, March 2012: Former Mission Australia Housing CFO, Mr. Charles Northcote; Westpac Exec. Dir., Mr. Jon Ross; Bridge Housing Ltd., Chairperson, Ms. Vicki Allen; and RCH Manager Regulation, Ms. Wendy Hayhurst*

The inaugural *Good Governance* seminar in March 2012 focused on the performance requirement that "... providers have sound governance that supports confidence ...", with a particular focus on the relationship between good governance and growth for registered Class 1, 2 and 3 providers. The seminar brought together a panel of respected industry participants from the Registrar's office, Bridge Housing Limited, MA Housing and Westpac Institutional Bank.

In 2012/13 the series will be further developed and will trial the use of webinar technology to maximise the opportunity for participation of providers and stakeholders located in regional and remote NSW.

## Publications

A comprehensive suite of publications is available on the Registrar's website and in hardcopy. This year we added to the resources available with the publication of:

- The *Sector Snapshot February 2012*, the first in an ongoing publication providing a short half-yearly profile of the Regulatory Code registered community housing sector, together with summary data on sector performance for Classes 1, 2 and 3;
- *Is Your Landlord Registered?* a new Fact Sheet for tenants explaining the importance of the registration of their community housing provider landlord;
- The *Compliance Assessment Fact Sheet*;
- The *Compliance Assessment Scheduling System* guide and Fact Sheet;
- The *Key Financial Viability Measures* Guidance Note; and

- Four issues of the e-newsletter, *Regulation Matters*. This newsletter is delivered by email to all scheduled and registered providers and stakeholders.

## Sector Performance Reporting

On sector performance reporting, we delivered one important initiative, and commenced another, to ensure the community housing industry has access to the regulatory information and analysis that will support ongoing compliance and strengthened performance.

## Annual Statement of Performance

At the end of last year, we published the first Annual Statement of Performance presenting an aggregated view of registration outcomes against the Regulatory Code over the two-year transitional period under the Housing Act, and providing a baseline for future reporting. In addition, it provided an account of the Registrar's work for the Aboriginal Housing Office in undertaking assessments of Aboriginal community housing providers in the Provider Assessment and Registration System (PARS).

In this, our second Annual Statement of Performance, we aim to record sector outcomes against the Regulatory Code and PARS, and to identify trends and issues in the administration of the regulatory system and PARS.

Together with the confidence that stakeholders can draw from the requirement for community housing providers to be registered, such reporting provides assurance to stakeholders of the ongoing integrity and capability of the sector, and assists the sector to respond proactively to emerging regulatory issues.

## Strategic Stewardship Research Project

Governance, risk management and strategic planning were identified as a priority for capacity building in the NSW Community Housing Industry Development Framework (IDF) as part of a state-wide strategy to grow the community housing sector and build the capacity of and confidence in the sector.

The IDF recognised that the Registrar has, through the administration of the regulatory system, substantial data and information about the providers registered under the Housing Act, which can be used to inform policy and sector development through identification of current industry practices and performance. The Registrar was commissioned under the IDF to mine and analyse that regulatory data to provide baseline evidence for the development of capacity strengthening initiatives and for the future evaluation of industry development.

The project commenced at the end of 2011 aiming to develop and utilise an analytical tool for data capture and analysis of the practices of the Class 1, 2 and 3 community housing providers at registration and on compliance assessment. A project advisory group was established, with members including staff of the Registrar's office, academics with relevant governance expertise from both Australia and overseas, the NSW Federation of Housing Associations and representatives from Housing NSW. At the close of the year, the data has been captured and analysis is well underway. We look forward to reporting in 2012/13.



## Evaluation of Services

We regularly evaluate the delivery of sector engagement and regulatory services. At the end of each briefing session, and each provider assessment, we invite feedback to inform service improvement initiatives.

### Regulatory Code assessments

- 100% of respondents said that the Registrar's office responded to enquiries in a timely manner, compared to 95% in the previous year.
- 100% of respondents said that the Registrar's office was balanced, transparent and trustworthy in its dealings, compared to 98% in the previous year.
- 100% of respondents said that the registration requirements were clearly established and communicated compared to 93% in the previous year.
- 94% of respondents said that the assessment process provided a satisfactory opportunity to submit evidence that demonstrated the organisation's performance outcomes, compared to 97% in the previous year.

The staff of the Registrar's office were again commended for their professionalism in the delivery of assessment services:

- "...our contact was very helpful and responsive"
- "[We] have been very pleased with the communication. Our analyst was a very reasonable person to deal with."
- "I think staff in the Registrar's office are very professional, skilled and respectful of the work we do"

Providers also reported that the process provided the opportunity for them to reflect on and refocus their organisational practices:

- "I think the performance areas and evidence requirements are a beneficial process to undertake..... provid[ing] an opportunity to review the organisations practices and outcomes – it was a very useful framework to incorporate."
- "We found it [the process] to be significant and appropriate. Thank you."

Other comments focused on the timeframes that were provided and requested feedback at an earlier stage.

- "The requirements are quite extensive & time consuming to collect. The time frames for completion are fairly constrained. A longer lead time would be preferable. Feedback earlier than what is achieved now would also be preferable."
- "Delay in time from submission of material to determination was unreasonable however it is understood that there were mitigating circumstances this time and that we should see improvement in future assessments."

### Regulatory Code briefing sessions

- 97% of respondents said that the presenter was clear and professional, compared to 96% in the previous year.
- 91% of respondents had a better understanding of the requirements of the Regulatory Code after attending a briefing session, compared to 94% in the previous year.
- 90% of respondents said their organisation was well placed to

meet the requirements of the Regulatory Code as a result of attending the briefing session, compared to 98% in the previous year.

- 94% of respondents had a better understanding of the process and evidence requirements, compared to 98% in the previous year.
- 93% of respondents said that supporting materials were relevant and useful, compared to 98% in the previous year.

The quality of the briefing sessions were again noted by participants:

- "The presenters understand the content of information they shared and explained the information effectively."
- "Thank you for the encouragement support and guidance in providing quality and effective services to our target group".
- "the networking again was excellent. The presenter made me feel very comfortable with the process."
- "The presentation was excellent."

### PARS assessments

- 96% of respondents said that the Registrar's office responded to enquiries in a timely manner.
- 95% of respondents said that the Registrar's office was balanced, transparent and trustworthy in its dealings.
- 96% of respondents said that the registration requirements were clearly established and communicated.
- 91% of respondents said that the assessment process provided a satisfactory opportunity to submit evidence that demonstrated the organisation's performance outcomes.

Providers commented on the quality and usefulness of the assessment process:

- “The positive encounter with the Registrar of Community Housing should be a model for all other departments working for the not-for-profit sector.”
- “I learned of few things about our organisation ... particularly areas where we needed to lift our game.”

### PARS briefing sessions

- 92% of respondents had a better understanding of the PARS performance requirements after attending a briefing session.
- 92% of respondents said they were better prepared to apply for PARS registration as a result of attending a briefing session.
- 94% of respondents had a better understanding of the process and evidence requirements.
- 96% of respondents said that the presenter was clear and professional.
- 94% of respondents said that supporting materials were relevant and useful.

The value of the briefing sessions and the quality of the delivery was noted by participants:

- “Presenter’s delivery was outstanding”
- “Very well-structured session.”
- “Very relaxed, informative session. Justified travelling 4 hours each way.”
- “The information was presented clearly and appropriately.”

### Service improvement

Survey results are a valuable measure of satisfaction with our services. The analysis for this year shows continuing high levels of satisfaction on all key measures. While we are proud and encouraged to know that our services are received so positively and that our service delivery outcomes are sustained over time, survey results are also a valuable measure of the areas and ways in which our services can be enhanced.

Throughout the year, our delivery of briefing sessions was adjusted in response to feedback received in surveys, the Financial Performance Report was streamlined, the help text available in the online Regulation Management System was improved, and the instructions in the online compliance return were clarified.

The timeliness of compliance assessments under the Regulatory Code and assessments under PARS were a particular issue this year. In 2012/13, we will undertake business process improvement activities, using feedback from surveys to help ensure the Regulatory Code compliance assessment programme and the PARS assessments are timely, efficient and useful in supporting the sectors to meet performance requirements.

### Accountability

The Registrar is subject to the provisions of the *Government Information (Public Access) Act 2009 (NSW)* and the *Administrative Decisions Tribunal Act 1997 (NSW)*.

### Requests for public access to Information

We completed one request for information under the Government Information Act. The case was completed in 28 days with the informal release of information.

### Requests for internal reviews

We completed one internal review of an original decision on an application for registration of an organisation under the Housing Act. The outcome of the review was to substitute the original decision with a fresh decision. The review was completed in 102 days with a considerable amount of that time given to the organisation that sought the review to provide new relevant evidence.

Part Two:  
Administering the Regulatory Code

# 2

# Administering the Regulatory Code

The regulatory system for community housing providers, under the *Housing Act 2001* (NSW), commenced on 1 May 2009. The Housing Regulation 2009 prescribes the Regulatory Code that registered community housing providers must comply with in their operations and the provision of community housing. Housing NSW is only able to provide community housing assistance to organisations that are registered.

The objective of the regulatory system is to ensure that community housing is developed as a viable and diversified component of the NSW social housing sector. The Regulatory Code requires community housing providers to be well governed, financially viable and to perform in compliance with standards to deliver quality housing services.

The Housing Act provided a two year transition period for all organisations receiving assistance from Housing NSW to be assessed for registration as community housing providers from 1 May 2009 until 1 May 2011.

On 1 May 2011, the savings and transitional provisions closed, and the Registrar's office moved to the ongoing compliance monitoring of registered community housing providers in addition to the assessment of new entrant organisations applying to become registered as community housing providers after 1 May 2011.

The Compliance Programme 2011 was our first. All Class 1, 2 and 3 providers were scheduled for compliance assessments in the second quarter of the financial year, with compliance returns and financial performance reports submitted in December 2011.

Analysts reviewed the compliance returns through December 2011 and established compliance assessment plans in January 2012. The compliance assessments were conducted through February to May 2012. A feature of the compliance assessments was the use of site visits with an increasing number of providers, to assist analysts capture a thorough understanding of a provider's business model, delivery and performance outcomes.

In 2012/13, the Registrar will undertake an internal evaluation of the delivery of the Compliance Programme 2011, with a view to introducing any improvements to the compliance assessment process in time for the Compliance Programme 2012.

Compliance assessments for registered Class 4 providers were ongoing, as they are conducted every two years on the anniversary of each provider's last assessment.

## New Entrants

New entrants to the community housing sector are those organisations that do not receive assistance from Housing NSW and are not delivering or have not previously delivered community housing in the terms of the Housing Act. These organisations are encouraged to contact the Registrar's office if they are interested in becoming registered as community housing providers.

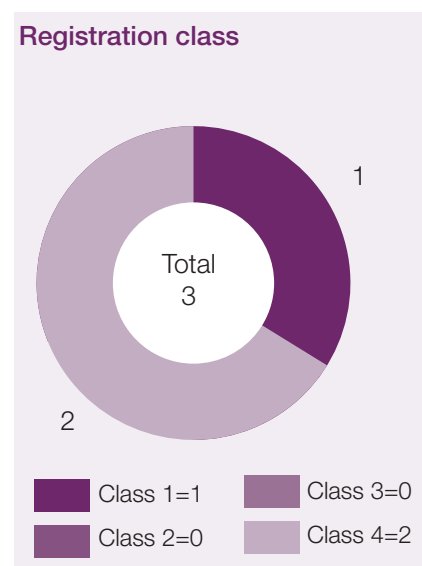
The Registrar's office has developed a standard policy and procedure for assessing the eligibility of new entrants under the Housing Act of organisations interested in becoming registered as community housing providers and their capacity to deliver community housing in the long-term with a viable business

model and appropriate capital structure and financial planning. Eligible organisations are scheduled for registration assessment.

The Registrar's office received 12 requests for information about becoming a registered community housing provider and advised the organisations of the requirements and the process for eligibility and registration assessment.

Five assessments were completed. Three of those were newly merged and restructured organisations or organisations which had their original application for registration during the transitional period refused. Two assessments were of new entrant organisations which withdrew their applications for registration on receiving the draft assessment report, choosing to use the draft assessment findings to improve their systems and practices before re-applying for registration in the future.

Figure 6: Number of new entrants registered by class as at 30 June 2012



# Administering the Regulatory Code

## Sector Profile

As at 30 June 2012, there were 231 registered community housing providers. This is a slight decrease in number on the previous year following a number of mergers and amalgamations.

Figure 7: Number of Registered Providers as at 30 June 2012

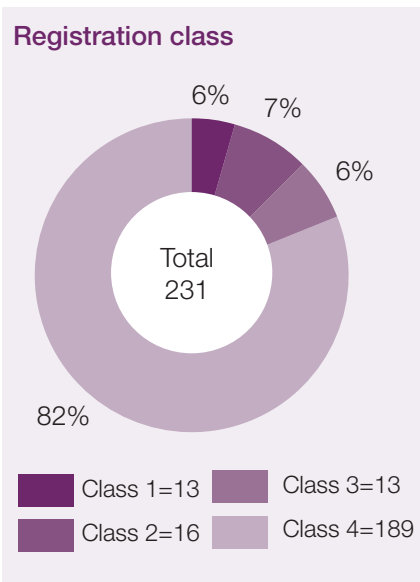


Figure 8: Accreditation by Class



Figure 9: Housing NSW Policy on Classes of Registration under the Regulatory Code for Community Housing Providers

### Class 1: Growth provider

Typically, organisations managing a large portfolio of properties (400 or more) and undertaking community housing development projects utilising private sector funds and investment. Organisations registered in this class are subject to the highest level of regulatory requirements which reflects the greater level of resources committed by government to these providers and the increased level of risk involved in borrowing and community housing development projects.

### Class 2: Housing provider

Typically, organisations managing a large portfolio of properties (200 or more) and undertaking small scale projects to develop community housing. Organisations registered in this class are subject to medium to high levels of regulatory requirements dependant on the scale of their community housing operations and their level of borrowing and involvement, if any, in community housing development projects.

### Class 3: Housing manager

Typically, organisations managing a small to medium sized portfolio of properties (30 or more) focused on property and tenancy management. Organisations registered in this class are subject to regulatory requirements that are proportionate to the scale of their community housing operations.

### Class 4: Small housing manager

Typically, organisations managing a small portfolio of properties (1 or more) focused on tenancy management. Organisations registered in this class are subject to regulatory requirements that are proportionate to small scale community housing operations.

# Administering the Regulatory Code

## Growth

The sector grew in 2010/11 through an increase of community housing units from 23,118 as at 30 June 2010 to 29,573 as at 30 June 2011. The growth has also been reflected in debt borrowing for Class 1, 2, and 3 providers from \$122.9 million in the aggregated FY 2008 to FY 2010 period to \$169.5 million as at 30 June 2011 (see Figure 31).

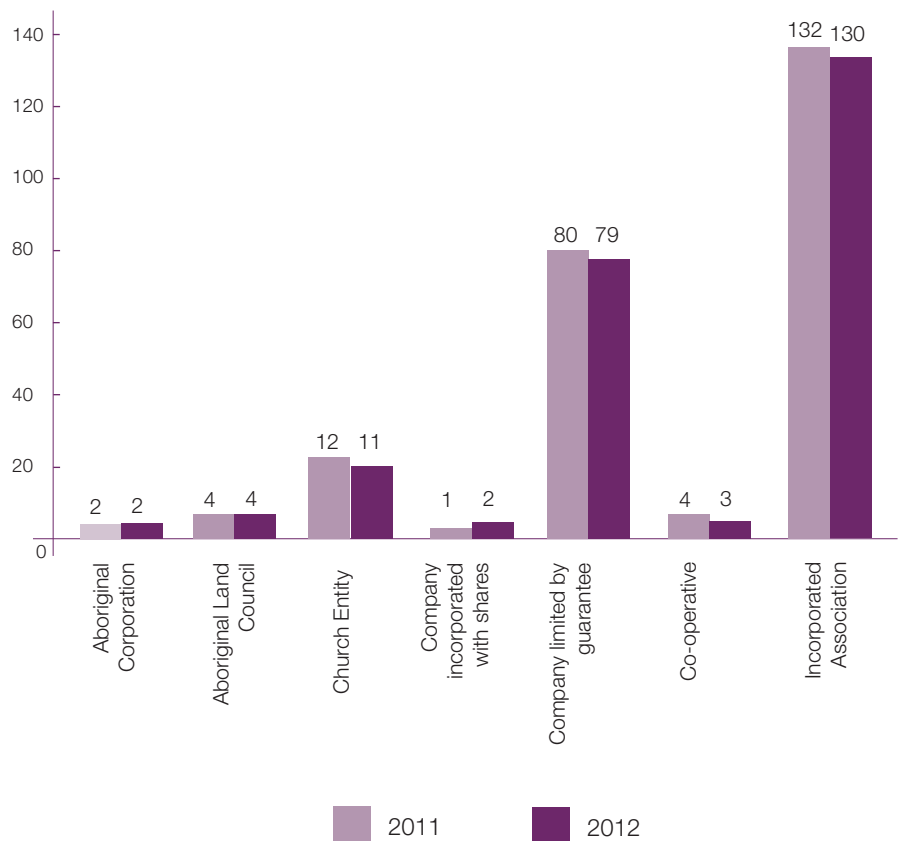
However, the overall pace of growth has not met the forecast of the previous year due to the slow-down in the implementation of Housing NSW's policy of vesting ownership of selected properties to selected community housing providers.

Class 1, 2 and 3 community housing providers increased the number of community housing units owned and managed in the financial year (FY) 2011. Community housing units owned and managed by these providers grew by 29% or 6,456 units in FY 2011 compared to FY 2010. This growth is mainly driven by 3,089 property titles transferred from Housing NSW. Class 1, 2 and 3 community housing providers increased the number of units managed on behalf of Housing NSW and third parties by 2,921 and developed a total of 446 units in the FY 2011.

Figure 10: Number of registered providers as at 30 June 2012

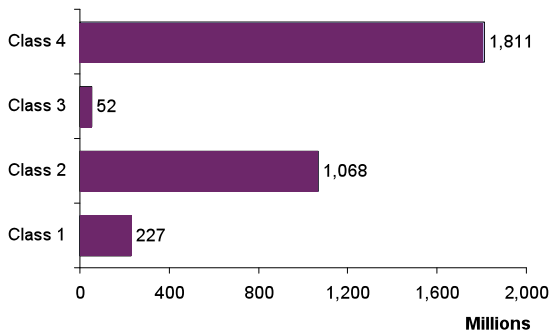


Figure 11: Registered providers by body corporate as at 30 June 2012



# Administering the Regulatory Code

Figure 12: Total Operating Revenue by Class FY 2011



The value of community housing assets for Class 1, 2 and 3 providers increased by \$1.142 billion in FY 2011 compared to the aggregated FY 2008 to FY 2010. This increment includes developments funded via private funds.

Figure 13: Total Operating Revenue Year by Year

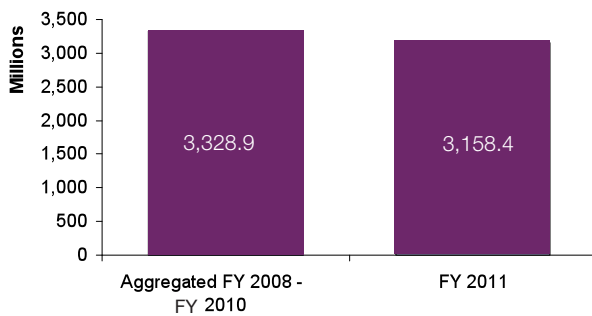


Figure 14: Residency / Tenancy Agreements (as at 30 June)

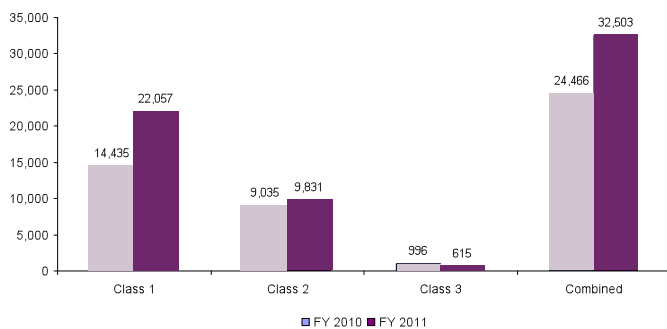


Figure 16: Total Number of Community housing Units as at 30 June 2012

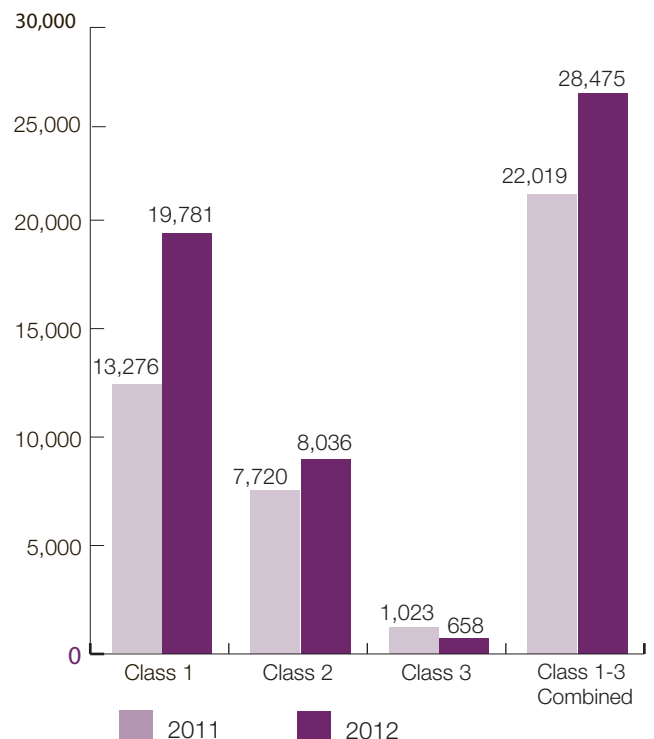
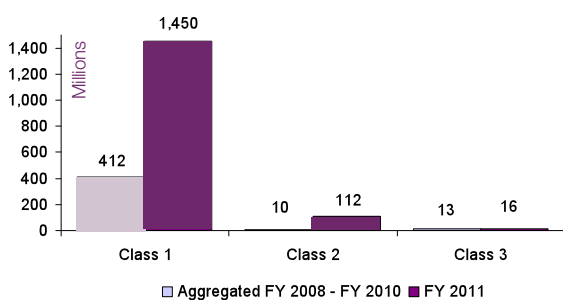


Figure 15: Community Housing Assets







## Sector Performance

This section presents the performance of community housing providers where the Registrar's office conducted compliance assessments between 1 July 2011 and 30 June 2012. It presents the quantifiable data collected from providers through the compliance return. In cases where providers underwent more than one compliance assessment in that period, only the performance data of the most recent compliance assessment are included. Similarly, in the case of providers whose corporate structure involves several service arms, where each arm was required to submit a compliance return as part of the compliance assessment, amalgamated performance data is presented.

Providers' performance is examined under each of the eight performance areas of the Regulatory Code. Some performance requirements and related questions in the compliance return do not apply to all classes of registered providers.

Positive practice found during the compliance assessments and experiences that other providers may learn from are highlighted through the report in the form of case studies.



# Administering the Regulatory Code

## Performance Area 1: Fairness and Resident Satisfaction

All classes of provider must meet the two performance requirements of this area:

- use fair and transparent tenancy management processes
- maintain reasonable levels of residents' satisfaction with overall quality of services

Class 1 and 2 providers are asked to provide results of annual tenants' surveys along with the analysis of this feedback and its use to continue to improve their services.

Class 3 and 4 providers are asked to demonstrate that they obtain feedback from a representative sample of residents at least every two years and that the analysis of this feedback is used for service improvement.

The figures below show the average and mean percentage satisfaction rates obtained in the 2011 compliance programme. Providers use a variety of different methods to collect this information. Sampling and response rates are known to vary substantially. Not all this information will have been gathered during 2011.

Figure 17: Resident/tenant overall satisfaction rate as at 30 June 2011

Class	Average	Median
Class 1	81.6%	89.0%
Class 2	83.3%	91.0%
<b>Combined</b>	<b>82.6%</b>	<b>90.0%</b>

Figure 18: Tenant Satisfaction

Satisfaction	Class 1	Class 2
71-80%	1	4
81-90%	3	6
91-100%	6	9
No response	1	2
<b>Total</b>	<b>11</b>	<b>21</b>

It was clear that providers have had many emerging issues to deal with over the 12 months to 30 June 2011. During a period of growth via asset transfers, whole of location transfers, development and acquisitions, generally they have been able to demonstrate the continuance of a reasonable level of residents' satisfaction.

All classes of provider were assessed as having room for improvement.

For example, not all Class 1 and 2 providers conducted a residents' survey during the 12 month period to 30 June 2011. A number did not have documented procedures or did not document the survey method utilised. Of those providers which did conduct surveys a number had a poor take up rate by residents. In other cases the sample of residents surveyed was too small to provide adequate information. In addition, the survey questions used by providers revealed that not all sought feedback on how satisfied residents were with their overall services, support services or property condition and maintenance.

As a result, common recommendations made to providers on their compliance assessment were in relation to providers' complaints and appeals processes, typically around using feedback to inform service improvement. Information from complaints is a rich (and relatively cheap) source of information and an excellent way of understanding what works well and where remedial action is necessary.

Another common recommendation made for 11 Class 1, 2 and 3 providers was to explore ways to improve participation in surveys. Residents' response rates were

often very low making it difficult to judge their level of satisfaction. The Registrar was looking for providers to have examined different ways to encourage participation where rates were low. Another reasonably common recommendation made to six providers was in relation to the use made of surveys and specifically how these informed providers' plans.

Finally, in a number of instances it was unclear how the information obtained from residents' feedback was used to inform the management and delivery of service improvements to residents.

Apart from collecting residents' feedback via formal survey processes, providers have an excellent opportunity to collect feedback and detect emerging issues for residents via their complaints resolution process.

Whereas the number of formal complaints was reasonably low given the number of residents and demonstrates providers' abilities to deal with residents' issues at an informal level, there are areas for improvement in the formal complaint handling process. For example:

- Policies and procedures for complaints were not always on a provider's website
- Many providers required written complaints without providing an alternative way of lodging a formal complaint and this may be a barrier to some residents
- Recording complaints – difficulty identifying a complaint from service request
- Recording complaint type and timeframe taken to reach a resolution and outcome
- Lack of policies and procedures for dealing with persistent complainants

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- Monitoring and analysis of complaints to identify emerging issues and problems and to inform service improvement
- Monitoring complaints handling process to ensure compliance with a provider's own policies and procedures.

Positively, almost all providers had responded to recommendations on registration and now had comprehensive, up to date and easily accessible policies and procedures in place across all service areas.

## CASE STUDY A

The provider delivers long-term social housing for people with special needs and residents on low and moderate incomes. It has grown in scope and scale over the past couple of years, primarily through the Housing NSW Property Transfer Program.

In order to assist in evaluating its performance in dealing with a 'whole of location' property transfer from Housing NSW, the provider commissioned independent research on its tenants and community partners experience. The research captured tenants' experience of the management of the transfer and provided opportunities to improve service provision in that locality and to improve the provider's processes for future property transfers.

## CASE STUDY B

The provider is based in the Sydney metropolitan area and provides a diverse range of services including supported accommodation, affordable housing and a fee for service program. The provider has recently become a participant in homelessness initiatives to house 'rough sleepers' and brokers funds to other community housing providers.

The provider has been strengthening its governance and transparency processes, and was recognised by a leading industry accountability organisation for its high standard of reporting and public accountability in its Annual Report 2011.

The organisation also demonstrated a high level of competence during the compliance assessment with its approach to resolving tenants' complaints. The provider created a tenants' working group to assist with the development of the 2011 Tenant Survey. This assisted to ensure questions included in the tenant survey were relevant and clearly understood by tenants.



## Performance Area 2: Sustainable Tenancies and Communities

All classes of provider must meet the two performance requirements of this area:

- Adequate support arrangements for residents to sustain tenancies
- Promoting the benefits of community housing through local community involvement

The majority of recommendations made at the time of the registration assessment had been implemented or substantially implemented by the time of the first compliance programme. New recommendations made at the time of the compliance assessment typically encourage providers to enhance arrangements to monitor the progress made against business goals relating to sustainable tenancies and communities; to enhance arrangements to monitor the effectiveness of arrangements with support partners; and to devise ways to assess satisfaction with these arrangements.

Over two-thirds of providers were found to demonstrate compliance with this part of the Regulatory Code. A number of providers had identified assessing satisfaction as a challenge and not easy to collect by means of periodic routine surveys. Others noted that residents were often moving on relatively quickly and their views were therefore difficult to capture. A common solution the providers found was to conduct exit surveys before residents moved out.

### CASE STUDY C

The provider manages a large property portfolio and delivers long-term community housing. During the compliance assessment the provider highlighted: the high incidence of homelessness in its local government areas, which has tripled in the last two years; other social problems impacting on residents and prospective residents; and the importance of support services to assist residents maintain tenancies.

The provider seeks to have other support services work with residents to resolve their problems and assist them to become independent. In order to assist in meeting this objective, the provider has appointed a clinical support co-ordinator to oversee the support arrangements in place for supported tenancies and to ensure these meet acceptable standards. Following the appointment of the clinical support co-ordinator, a series of training and capacity building initiatives have been introduced with its partnering support services.

The provider also has in place its own training and employment opportunities for residents, consistent with empowering residents to become independent and have the ability to maintain a tenancy. To this end, the provider has promoted a wide range of educational, training and employment schemes to support and encourage tenants and their families and in some cases the wider community. Examples include the following:

- an educational scholarship – grant of up to \$1,250 to students (tenants or family members) for study aids, with 30 applications being approved since its inception for laptops, cameras, etc
- a learner driver programme – professional lessons for 16-19 year olds focusing on safety aspects
- a tenants' employment scheme through JobQuest involving work in a local landscaping firm
- a laptop loan scheme for tenants
- examining the feasibility of a sports scholarship and budgeting skills course.

# Administering the Regulatory Code

Promotion of community housing was an area of strength with many providers engaged in a variety of innovative schemes to raise their profile such as sponsoring educational bursaries for their tenants and families; investing resources directly into small scale environmental initiatives; and raising awareness about housing issues locally. Involvement by smaller providers was no less impressive. A number had encouraged volunteer involvement on a remarkable scale.

The number of tenancies terminated is reasonably low. The reasons for terminating tenancies vary across the housing programmes delivered. In reviewing the data and information available it appears that, overall, tenants receive the required support, where appropriate, to maintain their tenancies.

## Performance Area 3: Asset Management

There are three performance requirements under this performance area. All classes of provider must ensure their community housing properties are well maintained. Classes 1, 2 and 3 must also undertake satisfactory asset management planning. Classes 1 and 2 must, in addition, ensure they maintain a high level of tenants' satisfaction with the condition and maintenance of their properties.

### CASE STUDY D

This is a large provider with multiple offices which manages properties across diverse areas in NSW. It has grown substantially over the past three years and has a committed property development program underway. Its strategic objectives have a particular focus on sustainable growth, meeting needs and achieving social outcomes both for people already using its services and for the broader community that requires them.

The provider demonstrates a strong commitment to working with and improving the communities it operates in, following up this commitment with innovative and practical initiatives. For example, it is developing and implementing a Reconciliation Action Plan that publicly demonstrates its commitment to close the 17 year gap in life expectancy between Aboriginal and non-Aboriginal Australians.

The provider also demonstrates using its property development activities to provide valuable opportunities for employment and training to people in its local communities. This has included obtaining a grant to employ seven Aboriginal youth trainees on a project to develop three four-bedroom homes.

Typically, Class 4 providers manage less than 30 properties; some manage a few or one property. Assistance from Housing NSW is often provided in the form of property under the Crisis Accommodation Program or other arrangements where the community housing provider does not have full, if any, responsibility for maintenance. Nonetheless, some providers that have only a small number of properties with Housing NSW assistance may manage large portfolios of properties that they either own or have acquired from other sources. In cases such as the latter, property maintenance

systems and costs, and the related value of property assets, can be important in terms of the ongoing viability of the provider.

Large community housing providers – especially those undergoing growth and expanding their portfolios through means including title transfer from Housing NSW, the Nation Building Economic Stimulus Plan (NBESP), private finance and property development – need efficient and increasingly sophisticated systems for asset management and maintenance. Class 1 and 2 providers are expected to have a comprehensive

# Administering the Regulatory Code

long-term strategic asset management plan, and to have a rolling 10 year (minimum) costed asset maintenance plan in place.

Typically, Class 4 providers manage less than 30 properties and are not responsible for most maintenance. Nevertheless, residents frequently report repairs to the provider and the Registrar expects providers to have systems in place to record and follow up on requests for maintenance. Of the 13 providers assessed just three were not compliant in this area.

For the larger providers, and in particular those that now own as well as lease community housing properties, the Registrar expects more sophisticated asset management systems including accurate and reliable asset databases, at least 10 year costed maintenance programs, and a long term strategy that factors in supply and demand for community housing in future years.

Since they were last assessed, many larger providers have been consolidating, updating and further refining their asset management systems to support significant

growth and diversification in their property portfolios. Properties have been acquired through the National Rental Affordability Scheme (NRAS) developments, the Housing NSW Property Transfer Program and other sources. In some cases providers have made significant changes to their asset management plans and systems to accommodate recent and future opportunities to grow and reconfigure their portfolios.

Recommendations were made in this performance area to around 50% of providers assessed during 2011/12. Class 1 and 2 providers received the most recommendations and typically this involved their strategic asset management planning. In 12 cases it was recommended that the provider produce or finalise its strategic asset management plan. It is recognised that in the majority of cases the planning process was well underway, and in many cases was delayed in order to respond to asset vesting decision making.

A common theme was the need to ensure that the strategic asset management plans were better integrated into overall strategic and financial planning processes;

a recommendation made to seven providers. Contract management and reporting on performance were also areas where recommendations were made, and occasionally in response to low levels of tenant satisfaction with property maintenance expressed in surveys. Another common explanation for lower than expected tenants' satisfaction was inadequate defects handling processes for repairs reported by tenants of newly constructed properties. This was identified in five providers.

Emerging areas coming from the 2011 compliance assessment process were the suitability and efficiency of current procurement arrangements, particularly where a provider's portfolio was increasing and management of properties leased from the private sector where responsibility for maintenance remains with the landlord. In the latter case it was observed that practice varied with some providers taking a pro-active approach to ensuring landlords fulfilled their obligations – as the Registrar would expect – and others having limited involvement.

## Planning

Figure 19: Q 3.1.3: Has the asset management plan been revised in the 12 months to 30 June?

Response to 3.1.3	Yes	No	No response	Total Number of Assessments
Class 1	10	3	0	13
Class 2	13	4	1	18
Class 3	11	1	1	13
Class 4	n/a	n/a	n/a	13
<b>Total</b>	<b>34</b>	<b>8</b>	<b>15</b>	<b>57</b>

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## Maintenance

Figure 20: Q 3.2.2: Has the rolling (10 year minimum) asset maintenance plan been updated in the 12 months to 30 June?

Response to 3.2.2	Yes	No	No response	Total Number of Assessments
Class 1	11	2	0	13
Class 2	14	3	1	18
Class 3	11	1	1	13
Class 4	n/a	n/a	n/a	13
Total	36	6	15	57

Figure 21: Q 3.2.3a: Has a comprehensive inspection of capital properties undertaken by a party with appropriate qualifications or experience in the building / construction / maintenance fields been undertaken in the months to 30 June?

Response to 3.2.3a	Yes	No	No response	Total Number of Assessments
Class 1	11	2	0*	13
Class 2	12	5	1	18
Class 3	8	4	1	13
Class 4	n/a	n/a	n/a	13
Total	31	11	15	57

\* One provider has only properties that are under four years old and has scheduled condition inspections to commence when they are five years old.

(Note: At registration, providers are asked: 'Are comprehensive inspections of capital properties undertaken at least every three years?').

Figure 22: Q 3.2.3d: What was the percentage of properties meeting HNSW / other standards at last inspection?

Response to 3.2.3d	Less than 60%	61-70%	71-80%	81-90%	91-100%	No response	Total Number of Assessments
Class 1	1	0	0	1	8	3	13
Class 2	4	0	0	1	10	3	18
Class 3	4	0	0	0	9	0	13
Class 4	n/a	n/a	n/a	n/a	n/a	n/a	13
Total	9	0	0	2	27	19	57

Note: Providers will only have a response to this question (3.2.3d) if preceding questions show some inspections have actually been done since the last compliance assessment.



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## Asset Management

Figure 23: Q 3.3.1a: Percentage of residents satisfied with maintenance and condition

Response to 3.3.1a	Less than 60%	61-70%	71-80%	81-90%	91-100%	No response	Total Number of Assessments
Class 1	1	1	3	5	1	2	13
Class 2	0	1	5	7	3	2	18
Class 3	n/a	n/a	n/a	n/a	n/a	n/a	13
Class 4	n/a	n/a	n/a	n/a	n/a	n/a	13
<b>Total</b>	<b>0</b>	<b>2</b>	<b>8</b>	<b>12</b>	<b>4</b>	<b>4</b>	<b>57</b>

### CASE STUDY E

The provider delivers community housing in capital, leasehold and boarding housing properties. It offers social and affordable housing and a crisis accommodation program. The provider has achieved growth over the past couple of years primarily receiving additional properties through the National Building Economic Stimulus Plan and through a series of mergers with other community housing providers.

The provider has introduced a targeted ongoing survey to better track tenants' satisfaction with repairs and maintenance. By surveying tenants on every tenth maintenance request raised the provider is able to closely monitor tenants' satisfaction with the quality of work undertaken, the time taken and the conduct of contractors used.

### Performance Area 4: Sound Governance

There are four performance requirements under this performance area. All classes of provider must ensure the governing body is effective and has sufficient expertise, and that the organisation complies with relevant legal and regulatory requirements, standards and guidelines. In addition, Classes 1, 2 and 3 must ensure that satisfactory controls and decision-making processes are in place and that they undertake planning that sustains long-term delivery of community housing.

Community housing providers in NSW vary widely in their entity

type, size, organisational structure, scope of business and plans for the future. Whereas all boards need access to fundamental skills such as financial expertise and legal advice, expertise in specialised areas may be needed particularly as new forms of business are being entered into. Examples include expertise in working with client groups that have specific support needs; in property development and asset management; human resources; and change management. Whatever governance structure is in place, internal controls affect all operations and are central to effective governance of the organisation. The roles and responsibilities of governing

# Administering the Regulatory Code

body members should be clearly defined by the organisation and acknowledged by each member.

Recommendations were most commonly made in relation to governing body performance and skills assessment; perhaps unsurprising given the number of larger providers which are growing the size and scope of their business. However, in contrast to the previous year, more Class 3 and 4 providers had also identified new skills they needed, perhaps reflecting the changes anticipated in their own business, emerging from recent government initiatives such as the specialist homelessness services review and in response to the requirements of the Regulatory Code.

The expertise needs of Class 4 providers, many of which are specialist homelessness services, tend to remain more constant than that of larger providers which are growing the size and scope of their business. However, assessment outcomes overall indicate that Class 1 and 2 providers are generally proactive in meeting changing skill needs and adapting their operations to new business opportunities. A key challenge is to have integrated planning processes where strategic plans, budget projections, annual operational plans and risk management plans are clearly related and regularly reviewed.

A number of Class 1 and 2 providers had identified skills gaps (notably in risk management, asset management and property development) and were in the process of recruiting new members; others were found to have systems for governing body reviews that could be formalised and enhanced. Notably, many large providers had recently carried out or were

planning to undertake more comprehensive independent reviews of their governance arrangements, appropriately taking the opportunity to refresh and enhance governance arrangements in response to growing and changing business.

Assessment findings indicate that Class 1 and 2 providers generally had the most efficient systems in place for monitoring their compliance with legal and other requirements. Many were found to have implemented additional internal control mechanisms (primarily IT based systems and / or internal audit programs) or to monitor performance and compliance with their legal and contractual obligations. It was also found that an increasing number of providers had designated risk and / or compliance officers.

For Class 3 and 4 providers, recommendations were more frequently made for reporting arrangements to be improved. Critically, poor internal controls and in particular lack of sufficient oversight by the governing body were a significant contributor to non-compliance decisions. In all cases it was found that the governing body was unfamiliar with the requirements of the Regulatory Code.

A key challenge, as observed during the registration process, was for providers to have integrated planning processes where strategic plans, budget projections, annual operational plans and risk management plans are clearly related and regularly reviewed. Of particular note was the general absence of evidence to suggest that strategic objectives had been subject to robust stress testing to provide confidence they were achievable should the assumptions

on which they were based be found to be unrealistic.

A governing body should include, or have access to, the range of skills and expertise required to effectively govern the organisation. Whereas this is desirable as far as practicable, the skills of a governing body may be supplemented where necessary by a board accessing external advisers. Procuring external skills is of particular importance to those providers undertaking development and growth activities. Examples include expertise in property development, asset management, human services and change management. Providers may also need to access experts in working with clients who have specific support needs.

A governing body should state which responsibilities it will carry out directly (and will not delegate) and which responsibilities it carries out indirectly, by delegating to other bodies or to the delegated officer (e.g. Chief Executive Officer (CEO) or Manager). Effective board leadership relies on clarity about roles and responsibilities and compliance with governance standards.

Whereas there is no prescribed approach for a governing body to take, the core duties of any board typically include leadership, strategic direction, policy setting, legal compliance, financial control, and risk management. All providers should have a process for regularly reviewing the skills of its governing body and addressing any identified skills' shortages.

For a provider's governing body to perform effectively, it is important that governance arrangements are established, implemented and monitored. For example,



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establishing performance measures and succession plans for the directors and key management staff; monitoring, evaluating and reporting systems on the performance of the board and management; and, reporting systems to meet the information needs of Housing NSW and other funding agencies.

Review of the skills of governing bodies remained a key theme for 2011/12, and providers in all classes reported a process for reviewing the skills of their governing body in a majority of cases. Class 1, 2 and 3 providers are also conducting independent reviews of their governing body's skills more frequently in 2011/12, with Class 1 and 2 providers conducting more rigorous reviews on at least an annual basis. The overall response rate to the question in relation to skills' review also improved across the sector for the 2011/12 assessment period.

It is accepted good practice that both chairpersons and governing body members should be appointed or elected for specific terms and be subject to periodic re-election. It is also acknowledged that there should be maximum absolute terms, as outlined in the ASX Corporate Governance Principles and Recommendations with 2010 Amendments, to ensure the introduction of new ideas, to challenge what can become 'stale practice' and maintain the governing body's independence from a provider's management staff.

**Figure 24: Has the governing body reviewed its skills in the 12 months to 30 June**

Skills Review	Class 1	Class 2	Class 3	Class 4	Total
Yes	12	16	8	7	43
No	1	1	5	2	9
No response	0	1	0	4	5
Total	13	18	13	13	57

**Figure 25: Frequency of skills review**

Frequency of Skills Review	Class 1	Class 2	Class 3	Class 4	Total
Monthly	0	0	0	0	0
Quarterly	0	0	0	0	0
6 Monthly	1	0	1	0	2
Annually	9	12	6	6	33
18 Months	0	0	0	0	0
24 Months	1	1	0	0	2
Other	0	3	1	2	6
No response	2	2	5	5	14
Total	13	18	13	13	57

Periodic elections give a provider the opportunity to respond to the need for different / new skills or expertise as well as consideration of whether governing body members are making the required performance contribution.

A provider should periodically review its governing body arrangements

and practices in place to ensure they remain ideal and / or have not become stale. The type and nature of these arrangements might need alteration to reflect new opportunities, a changed business context or a different mix of skills and competencies amongst governing body members and senior management.

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## Performance Area 5: Standards of Probity

There are three performance requirements under this performance area and each applies to all registration classes. All registered providers must have systems in place to prevent, identify and manage potential / actual fraud and corruption; must have a code of conduct and system for dealing with breaches; and all must notify the Registrar of incidents that may damage the reputation of community housing.

Assessments across this performance area indicated that the majority of providers had reliable systems in place to prevent fraud and corruption, deal with conflict of interest and maintain the reputation of the sector. Where recommendations were made, they generally required providers to update their practice to reflect changes arising from a change in operations or business; procurement fraud being one example.

For 16 providers a recommendation to revise or implement a notifiable events policy (see the Registrar's Guidance Note) was made. In the instance where a provider was issued with a notice of intent to cancel registration it was found that it had repeatedly failed to notify the Registrar about either serious allegations or events where residents could potentially be at risk of harm.

The increasing number of notifications (27 in 2011/12, compared to 20 the previous year) is a positive indicator of the increasing awareness of providers with respect to their notification obligations, as well as the open disclosure approach of the sector, with the

Registrar seen as a 'critical friend' in safeguarding the performance of the sector and its reputation. Notifications provide an early warning of possible non-compliance giving the Registrar the opportunity to guide, or to intervene, before an urgent or serious non-compliance occurs and potentially damages the reputation of the community housing sector. Providers are taking an open and prompt approach to notifications, an approach encouraged by the Registrar.

## Performance Area 6: Protection of Government Investment

There are three performance requirements under this performance area. Providers in all registration classes must be solvent. Classes 1 and 2 must have an appropriate capital structure and be viable for the foreseeable future; Classes 3 and 4 must be financially viable for the immediate future. Class 1 and 2 providers must also undertake coherent business planning and risk management planning.

Assessment of financial viability relies mainly on financial and operational data submitted by the provider in a format set by the Registrar – the Financial Performance Report (FPR).

Analysts check the validity of the data entered in the FPR against the provider's audited financial statements and other information submitted. Three years of historical data is also required from all provider classes. In a few cases, where mergers or corporate entity changes have recently occurred, FPRs are needed for more than one corporate entity.

Some providers, such as (but not always) faith-based providers, have financial arrangements in place without which they would not appear to be viable based on the FPR data alone. Examples include relationships with trust funds or formal agreements with a 'parent' entity that provides a cross-guarantee for the provider to establish or continue operating.

Many Class 4 providers are specialist homelessness service organisations that receive recurrent government funding where the funds must be acquitted at year's end. This context is taken into account when assessing viability. Such cases typically show low but positive surplus margins and minor deficiencies in operating cash inflows to outflows.

Strategic planning and monitoring that takes into account financial issues (including assets and servicing loans) is important for large and growing providers, and for many it is a developing area of expertise. New opportunities for growing social housing go hand-in-hand with new risks such as entering into partnership contracts and accessing private funds. Assessments have highlighted that robust internal financial systems, controls and risk management are integral to good financial outcomes.

Class 1 and 2 providers must undertake risk management planning that includes implementing controls for minimising the risk of government investment loss. These providers must submit a risk management plan that meets relevant standards and has commentary on recent reviews of the plan. Most providers reported that they review the risk management plan annually, with

# Administering the Regulatory Code

the remainder, apart from one that gave no-response, reviewing plans more frequently, and this may occur as part of reviewing progress with particular projects or in the context of other current business.

Class 4 providers were found, in the majority of cases (11 of the 13 assessed), to have sound financial practice and were in good financial health.

More recommendations were made for Class 1 and 2 providers, which was not unanticipated given the changes to their scale and scope, the fact they were operating in an uncertain environment and a number were in the process of reviewing and enhancing their financial management systems. There was much positive practice observed with a number of providers strengthening financial skills both on their governing bodies and in their senior management teams.

A recommendation to improve financial forecasting was made to 13 Class 1 or 2 providers. Dealing with uncertainty is an inherent part of business management for any provider, but of particular significance for larger organisations. Scenario planning and forecasting are critically important as planning tools to assist a governing body and management identify risks, plot the possible consequences on its business and make sound decisions about future activity; thus ensuring the ongoing viability of its organisation. It is acknowledged forecasts cannot always be accurate as they are based on assumptions that may or may not occur. Well performing providers not only see the value of forecasting, but also test their assumptions by way of sensitivity analysis producing worst, steady state and best case scenarios to ensure that they can

withstand adverse change and respond to better than expected performance.

For Class 3 providers, improvements to internal controls, typically overlooked by the governing body, was cited in recommendations. In the single case of non-compliance associated with this performance area it was the absence of control over major spending decisions that had been the focus of regulatory concerns.

It was notable that financial viability concerns did not motivate any of the decisions made about non-compliance. The analysis of sector financial performance considers operating performance, asset growth, capital structure, interest cover, summary financial statements, and key financial ratios.

The process for the collection of financial information involves community housing providers seeking to comply with the requirements of the Regulatory Code, submitting financial information to the Registrar in the prescribed format, and submitting the Financial Performance Report. FPRs for Class 1, 2 and 3 providers were collected at a single point in time as part of the 2011/12 compliance program. Financial information for these providers was collected as at 30 June 2011.

Financial information for Class 4 providers is collected on the second anniversary of their registration assessment or at any other time if an earlier compliance assessment is warranted. FPRs for Class 4 providers were collected according to schedule as part of the 2011/12 compliance program.

For comparative purposes, this report has brought forward the 'aggregated reporting year' as

published in the Registrar's Annual Statement of Performance 2011 (ASOP 2011). The 'aggregated reporting year' aggregates the most recent audited financial statements provided at the time of the registration application. At that time, providers' most recent audited financial statements varied from FY 2008 to FY 2010. The financial information brought forward has been labelled as aggregated FY 2008 – FY 2010 and this report will compare it to the last audited financial statements as at 30 June 2011 for Class 1, 2 and 3 providers and to aggregated FY 2008 – FY 2011 for Class 4 providers.

The overall financial information of the sector is the combination of Classes 1, 2 and 3 financial information as at 30 June 2011 and Class 4 aggregated FY 2008 – FY 2011.

The comparison between financial information as at 30 June 2011 and the aggregated FY 2008 – FY 2010 needs to be read with caution. This is not an actual reflection of a year-on-year performance. In the aggregated FY 2008 – FY 2010, the majority of Class 1, 2 and 3 providers submitted the most recent audited financial statements as at 30 June 2009.

In addition, one provider has not submitted its FPR and is under a notice of non-compliance. Two providers have changed Class of registration as a result of the 2011 compliance program. A former Class 2 provider is now a Class 1 provider and a former Class 3 provider is now a Class 2 provider.

# Administering the Regulatory Code

Figure 26: Operating Surplus and Margin

	Operating Surplus		Operating Margin	
	Aggregated FY 2008 - FY 2010	FY 2011	Aggregated FY 2008 - FY 2010	FY 2011
	\$ millions	\$ millions	%	%
Class 1	\$19.6	\$30.9	14.7%	13.6%
Class 2	\$6.0	\$34.5	0.6%	3.2%
Class 3	\$80.7	\$4.6	18.5%	8.9%
	Operating Surplus		Operating Margin	
	Aggregated FY 2008 - FY 2010	Aggregated FY 2008 - FY 2011	Aggregated FY 2008 - FY 2010	Aggregated FY 2008 - FY 2011
	\$ millions	\$ millions	%	%
Class 4	\$37.3	\$37.7	2.1%	2.1%
Sector	\$143.7	\$107.7	4.3%	3.4%

Operating surplus excludes government capital grants and unusual and non-recurrent items such as fair value gains and profit or loss on disposal of assets. The sector's operating margin slightly declined to 3.4% and the sector's operating surplus decreased by 25% to \$107.7 million in the aggregated FY 2008 – FY 2011. This was mainly influenced by a parent-subsidary group re-

arrangement of one Class 3 provider, with large non-community housing activities, requiring it to submit a different set of financial statements to the Registrar, which was not available for this report.

Class 1 and 2 providers improved their operating surplus by 58% and 475% respectively in FY 2011 compared to aggregated FY 2008 – FY 2010. However, Class 1 providers' operating margin

slightly declined to 13.6% while Class 2 providers' operating margin improved to 3.2% in FY 2011. Class 1 and 2 providers had an increase in their rent revenue from a rise in number of community housing units owned and managed. However, Class 1 providers' overall operating income has grown at a slower rate than the increase in expenses in FY 2011

Figure 27: Operating Revenue\*

	Operating Revenue			
	Aggregated FY 2008 - FY 2010		FY 2011	
	Rent Revenue	Other Revenue	Rent Revenue	Other Revenue
	\$ millions	\$ millions	\$ millions	\$ millions
Class 1	\$71.7	\$21.0	\$144.8	\$16.9
Class 2	\$49.3	\$365.9	\$56.6	\$409.3
Class 3	\$8.4	\$257.5	\$4.9	\$5.5
	Operating Revenue			
	Aggregated FY 2008 - FY 2010		Aggregated FY 2008 - FY 2011	
	Rent Revenue	Other Revenue	Rent Revenue	Other Revenue
	\$ millions	\$ millions	\$ millions	\$ millions
Class 4	\$26.7	\$939.9	\$22.0	\$957.5
Sector	\$156.1	\$1,584.3	\$228.3	\$1,389.2

# Administering the Regulatory Code

Operating revenue of the sector decreased by 5% to \$3.1 billion in the aggregated FY 2008 – FY 2011 driven by an 88% decrease in operating revenue for Class 3 providers in FY 2011\*. Operating revenue by class, however, demonstrated that Class 1, 2 and 4 providers actually improved.

Operating revenue of Class 1 providers increased by 70% in FY 2011 compared to the aggregated FY 2008 – FY 2010.

This performance includes an increase in rent revenue of 102% from an increase of community housing units owned and managed

in FY 2011. Operating revenue of Class 2 providers rose by 7% in FY 2011 mainly due to the increase in community housing units owned in FY 2011. Operating revenue of Class 4 providers increased by 3% in the aggregated FY 2008 – FY 2011.

Figure 28: Operating Expenses\*

Operating Expenses								
Aggregated FY 2008 - FY 2010					FY 2011			
	Maintenance	Employee	Depreciation	Other Expenses	Maintenance	Employee	Depreciation	Other Expenses
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions
Class 1	\$15.4	\$20.6	\$5.4	\$72.5	\$29.0	\$44.1	\$8.1	\$115.2
Class 2	\$43.1	\$612.8	\$72.9	\$261.9	\$14.0	\$630.9	\$75.6	\$312.9
Class 3	\$10.3	\$141.0	\$19.0	\$185.6	\$1.1	\$27.5	\$0.9	\$17.7

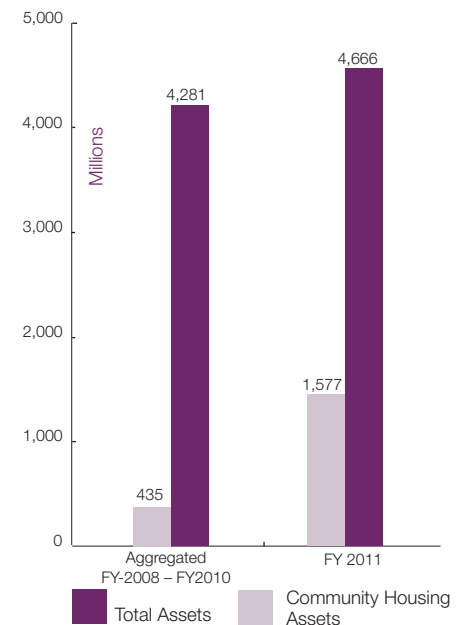
  

Operating Expenses								
Aggregated FY 2008 - FY 2010					Aggregated FY 2008 - FY 2011			
	Maintenance	Employee	Depreciation	Other Expenses	Maintenance	Employee	Depreciation	Other Expenses
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions
Class 4	\$36.8	\$1,074.8	\$75.2	\$538.0	\$25.8	\$1,090.6	\$76.1	\$581.1
Sector	\$105.6	\$1,849.1	\$172.6	\$1,057.9	\$69.9	\$1,793.0	\$160.8	\$1,026.8

Sector operating expenses declined by 4% to \$3.0 billion in the aggregated FY 2008 – FY 2011 driven by an 87% fall in operating expenses of Class 3 providers in FY 2011\*. The expense composition of the sector remains constant and the proportion of expenses changed up to 2% over the aggregated FY 2008 – FY 2011. Class 1 and 3 providers had the most significant changes in the proportion and variation of expenses.

Operating expenses for Class 1 providers increased by 72% in FY 2011 due to a rise of 88% in maintenance expenses and a rise of 114% in employee expenses. Maintenance expenses decreased in all other class categories. However, overall operating expenses for Class 2 and 4 providers grew by 4% in FY 2011 and 3% in aggregated FY 2008 – FY 2011 respectively.

Figure 29: Asset Values Classes 1, 2 and 3





# Administering the Regulatory Code

Total community housing assets represented 10% of total assets for Class 1, 2 and 3 providers in aggregated FY 2008 – FY 2010. This proportion grew to 34% in FY 2011 mainly due to the transfer of property titles from Housing NSW to community housing providers' balance sheets and to the development of community housing properties.

Community housing assets for Class 1, 2 and 3 providers increased by 262% (or \$1.1 billion) to \$1.5 billion from aggregated FY 2008 – FY 2010 to FY 2011. Total assets for Class 1, 2 and 3 providers increased by 9% (\$385 million) to \$4.6 billion in the same period.

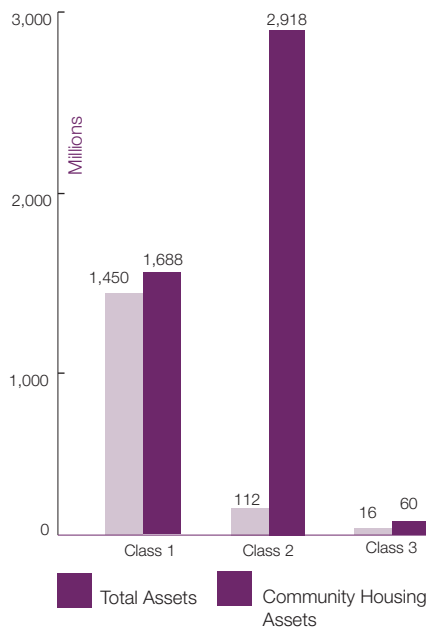
The growth of community housing assets, and its value, concentrates in Class 1 providers in FY 2011. Class 1 and 2 community housing assets represented 92% and 7% of combined community housing assets of Class 1, 2 and 3 providers respectively.

Some Class 2 providers include the provision of aged care services and retirement living as part of their principal activities. Assets related to these activities form the majority of the \$2.9 billion of total assets for Class 2 providers.

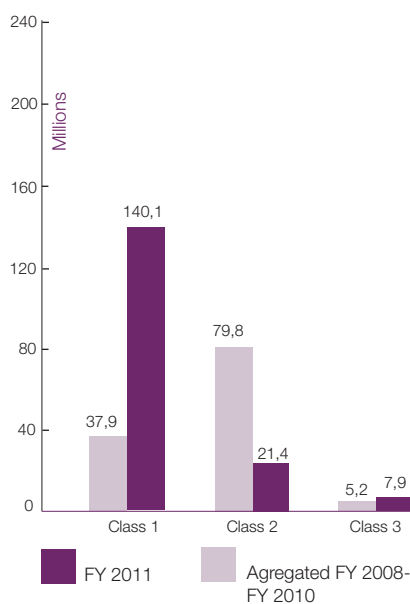
Interest bearing debt for Class 1, 2 and 3 providers totalled \$169.5 million in FY 2011, which is an increase of 38% on the aggregated FY 2008 – FY 2010 (\$122.9 million). Interest bearing debt for this group had a net increase of \$46.5 million in FY 2011.

Interest bearing debt by class indicated that Class 1 providers have actually increased interest bearing debt by 270% (or \$102.2 million) to \$140.1 million in FY 2011 compared to aggregated FY 2008 – FY 2010. Interest bearing debt for

**Figure 30: Asset values by class type FY 2011**



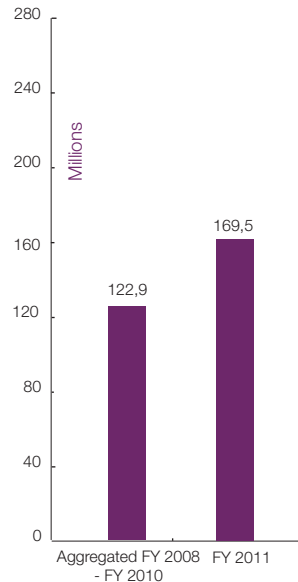
**Figure 32: Debt per Class Type – Interest Bearing Debt**



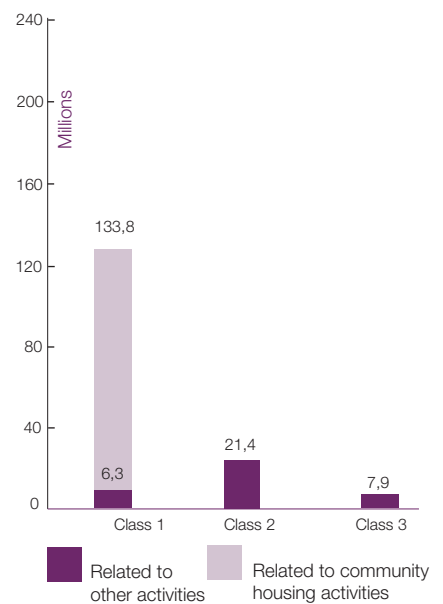
Class 1 providers represented 83% of combined interest bearing debt for Class 1, 2 and 3 providers in FY 2011.

Interest bearing debt for Class 2 providers decreased by 73% (or \$58.3 million) to \$21.4 million due

**Figure 31: Interest Bearing Debt - Class 1,2 and 3**



**Figure 33: Interest Bearing Debt – Community Housing Sector FY 2011**



to repayment of debt not related to community housing activities in FY 2011. Interest bearing debt for Class 2 represented 13% of combined interest bearing debt for Class 1, 2 and 3 providers in FY 2011.

# Administering the Regulatory Code

It is important to note that interest bearing debt related to community housing activities was raised only by Class 1 providers in FY 2011. Interest bearing debt related to community housing activities was 96% of interest bearing debt for Class 1 providers.

Interest cover ratio measures the capacity of an organisation to cover interest expenses with operating earnings. This ratio is calculated with EBITDA (i.e. earnings before interest, tax, depreciation and amortisation), which is based on operating surplus adjusted for interest costs, taxation and depreciation. Interest cover ratio varied across the different classes in the sector over FY 2011 and aggregated FY 2008 – FY 2011.

The sector's overall interest cover ratio fell to 8.6 times due to drops in this ratio of Class 1 and 3 providers. Interest cover for Class 1 providers declined because of an increase in interest expenses as a result of undertaking additional debt to fund community housing developments.

Capital structure refers to the combination of equity and liabilities to finance overall operations and growth. The proportion of equity and liabilities for Class 1, 2 and 3 providers remained constant over the aggregated FY 2008 – FY 2010 and FY 2011. The property title transfer from Housing NSW had an effect on Class 1 and 2 providers' equity. However, Class 1 providers managed to maintain the same proportion of equity and liabilities over aggregated FY 2008 – FY 2010 and FY 2011.

Figure 34: Interest cover\*

	Interest Cover	
	Aggregated FY 2008 - FY 2010	FY 2011
	times	times
Class 1	21.7	5.1
Class 2	8.3	13.4
Class 3	1831.1	10.7
	Interest Cover	
	Aggregated FY 2008 - FY 2010	Aggregated FY 2008 - FY 2011
	times	times
Class 4	8.6	8.7
Sector	14.5	8.6

Figure 35: Capital Structure Classes 1,2 and 3

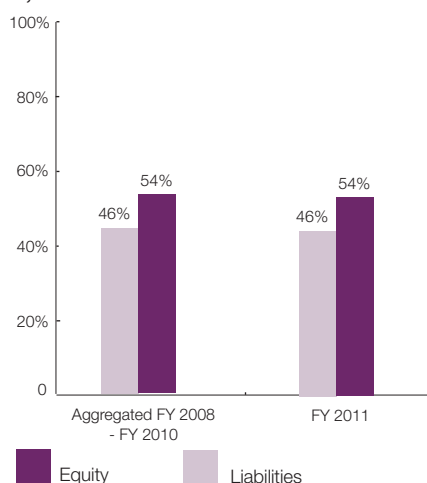
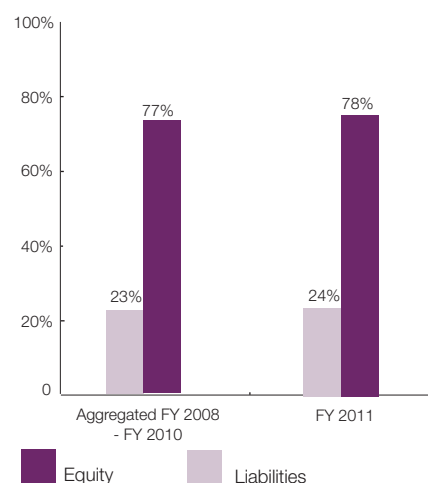


Figure 36: Capital Structure Class 1



# Administering the Regulatory Code

Figure 37: Summary Financial Statements

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	Class 1, 2 and 3			Sector		
	Aggregated FY 2008 - FY 2010	FY 2011	Variance	Aggregated FY 2008 - FY 2010	Aggregated FY 2008 - FY 2011	Variance
	\$Millions	\$Millions	(%)	\$Millions	\$Millions	(%)
<b>Income Statement</b>						
Government Operating Grants Received	793.0	709.2	(10.6%)	1,588.5	1,540.9	(3.0%)
Rent Revenue	129.4	206.3	59.4%	156.1	228.3	46.2%
Other Revenue	644.4	431.7	(33.0%)	1,584.3	1,389.2	(12.3%)
<b>Total Operating Revenue</b>	<b>1,566.8</b>	<b>1,347.1</b>	<b>(14.0%)</b>	<b>3,328.9</b>	<b>3,158.4</b>	<b>(5.1%)</b>
Operating Expenses	1,357.2	1,178.6	13.2%	2,994.4	2,863.8	4.4%
Depreciation	97.3	84.7	13.0%	172.6	160.8	6.8%
Interest Expenses	6.0	13.8	(130.2%)	18.2	26.0	(42.6%)
<b>Total Operating Expenses</b>	<b>1,460.5</b>	<b>1,277.1</b>	<b>12.6%</b>	<b>3,185.2</b>	<b>3,050.6</b>	<b>4.2%</b>
<b>Net Operating Surplus</b>	<b>106.3</b>	<b>70.1</b>	<b>(34.1%)</b>	<b>143.7</b>	<b>107.7</b>	<b>(25.0%)</b>
Government Capital Grants	38.2	42.6	11.5%	47.3	52.3	10.5%
Unusual and Non-Recurring Items	46.6	762.7	1536.6%	68.4	788.8	1053.2%
<b>Net Surplus</b>	<b>191.1</b>	<b>875.3</b>	<b>358.1%</b>	<b>259.4</b>	<b>948.8</b>	<b>265.8%</b>
<b>Balance Sheet</b>						
Cash & short term investments	617.8	632.0	2.3%	867.7	899.0	3.6%
Other current assets	393.9	349.6	(11.3%)	650.0	607.2	(6.6%)
<b>Current Assets</b>	<b>1,011.7</b>	<b>981.6</b>	<b>(3.0%)</b>	<b>1,517.7</b>	<b>1,506.2</b>	<b>(0.8%)</b>
Community Housing Properties	435.3	1,577.5	262.4%	507.3	1,655.7	226.4%
Other Non-Current assets	2,834.2	2,106.7	(25.7%)	3,985.2	3,261.3	(18.2%)
<b>Non-Current Assets</b>	<b>3,269.4</b>	<b>3,684.2</b>	<b>12.7%</b>	<b>4,492.6</b>	<b>4,917.0</b>	<b>9.4%</b>
<b>Total Assets</b>	<b>4,281.1</b>	<b>4,665.9</b>	<b>9.0%</b>	<b>6,010.3</b>	<b>6,423.2</b>	<b>6.9%</b>
Current Interest Bearing Debt	72.5	22.5	69.0%	115.9	137.7	(18.8%)
Other Current Liabilities	455.9	481.2	(5.5%)	1,006.7	958.8	4.8%
<b>Current Liabilities</b>	<b>528.4</b>	<b>503.6</b>	<b>4.7%</b>	<b>1,122.6</b>	<b>1,096.5</b>	<b>2.3%</b>
Non-Current Interest Bearing Debt	50.4	147.0	(191.7%)	150.5	419.7	(178.9%)
Other Non-Current Liabilities	1,396.8	1,497.6	(7.2%)	1,603.2	1,539.8	4.0%
<b>Non-Current Liabilities</b>	<b>1,447.2</b>	<b>1,644.6</b>	<b>(13.6%)</b>	<b>1,753.7</b>	<b>1,959.6</b>	<b>(11.7%)</b>
<b>Total Liabilities</b>	<b>1,975.6</b>	<b>2,148.2</b>	<b>(8.7%)</b>	<b>2,876.3</b>	<b>3,056.0</b>	<b>(6.2%)</b>
<b>Net Assets</b>	<b>2,305.5</b>	<b>2,517.6</b>	<b>9.2%</b>	<b>3,134.0</b>	<b>3,367.1</b>	<b>7.4%</b>
Retained Earnings	2,368.0	1,929.9	(18.5%)	3,191.0	2,624.4	(17.8%)
Reserve	(62.5)	587.7	1040.3%	(57.0)	742.8	1403.1%
<b>Total Equity</b>	<b>2,305.5</b>	<b>2,517.6</b>	<b>9.2%</b>	<b>3,134.0</b>	<b>3,367.1</b>	<b>7.4%</b>
<b>Statement of Cash Flows</b>						
Cashflows from Operating Activities (Net of Capital Grants)	188.8	213.2	12.9%	390.8	415.8	6.4%
Cash Flow from Investment Activities	(491.6)	(329.0)	33.1%	(664.8)	(497.1)	25.2%
Cash Flow from Financial Activities	345.8	153.6	(55.6%)	349.4	157.4	(54.9%)
<b>Net Cash flow</b>	<b>43.0</b>	<b>37.9</b>	<b>(12.0%)</b>	<b>75.4</b>	<b>76.1</b>	<b>0.9%</b>
Opening Cash balance	574.8	594.2	3.4%	792.3	823.0	3.9%
<b>Closing Cash balance</b>	<b>617.8</b>	<b>632.0</b>	<b>2.3%</b>	<b>867.7</b>	<b>899.1</b>	<b>3.6%</b>



# Administering the Regulatory Code

Figure 38: Key Financial Ratios

Key Financial Ratios	Class 1, 2 and 3		Sector	
	Aggregated FY 2008 - FY 2010	FY 2011	Aggregated FY 2008 - FY 2010	Aggregated FY 2008 - FY 2011
EBITDA Margin(%)	10.4%	9.1%	8.4%	7.2%
Working Capital Ratio(times)	1.9	1.9	1.4	1.4
Operating Cash Adequacy(%)	113.8%	117.6%	113.0%	114.3%
Gearing Ratio(%)	2.9%	3.7%	4.4%	8.7%
Interest Coverage Ratio(times)	26.4	8.5	15.0	8.6

## Performance Area 7: Efficient and Competitive Delivery of Community Housing

This performance area looks at whether providers of all classes, make efficient use of their community housing properties and funding.

Information is collected on the average number of days providers take to let void (properties which were unavailable for immediate re-letting because of for example major maintenance work) and vacant (available for immediate re-letting) properties. Rent arrears as a percentage of total rental income is also collected.

Class 1, 2 and 3 providers must also demonstrate their costs of management are competitive.

Non-compliance in this performance area was found in three providers and concerned the provider's rent collection and review practice. In two instances rent collection was considered to be poor. In all three, regular rent reviews were not being carried out.

### Empty Properties

The community housing sector has historically used a benchmark of 28 days for turnaround of void properties (i.e. the time a property is not habitable due to maintenance requirements). The majority of

Class 1 providers, three-quarters of Class 2 providers and the majority of Class 3 providers reported that they achieved average void times within the benchmark. No Class 4 providers reported void times above the benchmark.

The community housing sector has historically used a benchmark of 14 days for turnaround of vacant properties (i.e. the time a property is not occupied while another applicant is being selected / allocated). The majority of Class 1, 2 and 3 providers were successful in managing their vacancy rates.

Figure 39 below shows the average and median turnaround times for class 1,2 and 3 during FY2011. Caution should be taken when interpreting this data because information is not collected for the total number of void and vacant properties. These will vary considerably between providers. The average sector performance figure will be distorted by providers with small number of voids but particularly short or long turnaround times.

Figure 39: Turnaround times

Class	Average	Median
Class 1	21.58	24.5
Class 2	37.3	28
Class 3	13.2	0
Combined 1-3	24.5	20

The majority of Class 1, 2 and 3 providers reported average turnaround times within the benchmark. Where the benchmark was exceeded, four class 2 providers and one class 3 provider reported average turnaround times of over 40 days. Of the nine class 4 providers who reported, seven let vacant properties on average within 10 days and the remaining two took on average between 11-20 days.

Relatively few recommendations were made in relation to empty property management. Nine providers were recommended to improve their turnaround times for vacant properties. Similar reasons for longer vacancy periods were advanced; typically delays in nominations being received for transitional accommodation and properties being left in poor condition by outgoing residents. Some providers were already responding to these challenges by exploring joint training with their support partners.

### Rent arrears

Rent arrears of 4% or less are regarded as the benchmark. Figure 40 shows the rent arrears as % rent revenue due at 30 June 2011. Caution should be taken when interpreting this data because information is not collected for the total amount of rent arrears or revenue due. These will vary considerably for different providers.

# Administering the Regulatory Code

Figure 40: Rent arrears as percentage of rent revenue

Class	Average	Median
Class 1	1.4%	1%
Class 2	2.6%	2%
Class 3	13.2%	0.3%
Combined (1-3)	2%	1.5%

All Class 1 providers reported rent arrears of 4% or less. Rent arrears for four Class 2 providers and one Class 3 provider were above the 4% benchmark. Three providers reported arrears of 6% or above.

No rent arrears above 4% were reported for Class 4 providers; however, many residents of these organisations pay a board and lodging fee which is not considered to be rent arrears.

Figure 41: Rent arrears

RENT ARREARS	CLASS 1	CLASS 2	CLASS 3	CLASS 4
1%	8	6	8	9
2%	4	5	0	0
3%	0	1	2	0
4%	1	1	2	0
5%	0	2	0	0
6%	0	1	1	0
7%	0	1	0	0
No response	0	1	0	4
TOTAL	13	18	13	13

## Performance Area 8: Development Projects

The performance requirements under this performance area apply to Class 1 and Class 2 providers only, to undertake appropriate project planning to cost and execute community housing development projects, and Class 1 providers must leverage their assets at a rate that delivers sustainable and optimal growth. Leverage rates are not set by the Registrar because appropriate rates will vary depending on many factors including the organisation's financial position, strategic plans and external market conditions.

While some providers have executed small development projects and are planning larger ones, most have yet to commence construction. Some have already borrowed private funds for this purpose and others are preparing to do so. Some commenced by acquiring property developed by other agencies or companies, but are now considering or actively pursuing more complex land purchase / new-build projects. A range of approaches are emerging, including partnerships between providers, developers and investors.

Recommendations about improving project planning and policy were made to 13 Class 1 and 2 providers in a reduction from 19 at registration. The most common recommendation concerned strengthening project appraisal processes and ensuring that these considered the impact on the organisation's overall business.

Whereas recommendations were made to three providers to enhance the skills and expertise in this field, it was found that most providers had strengthened their governing body and / or senior management.

Recommendations about financial leverage were made to five Class 1 providers. These recommendations responded to particular circumstances in the individual organisations and focused on capacity to achieve sustainable and optimal growth.

Combined Class 1 and 2 providers experienced a large growth in operations and community housing assets. This growth was mainly driven by the transfer of property titles from Housing NSW to providers' balance sheets as part of the Nation Building Economic Stimulus Plan (NBESP) that the federal government continued implementing in 2010-11. The

# Administering the Regulatory Code

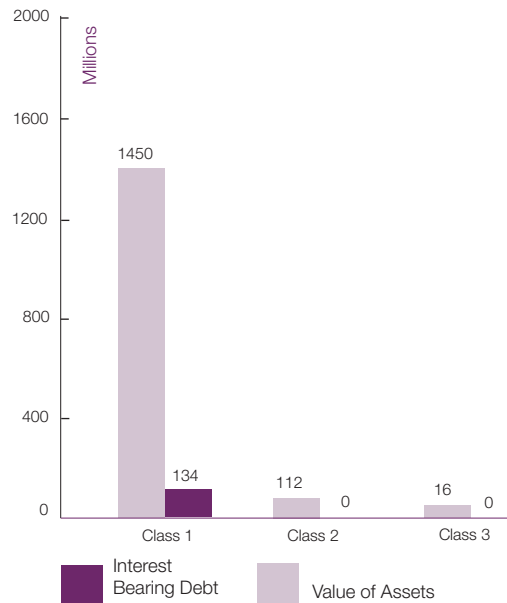
NBESP requires providers to leverage the community housing assets transferred to their balance sheets by developing more community housing assets. The development of community housing assets required providers to obtain new commercial loans using transferred assets as cross-guarantees.

The net value of purchase and / or development of community housing assets was \$118.6 million and \$11.2 million for Class 1 and 2 providers respectively in FY 2011.

The pace of future community housing assets growth in the sector (via development) could be affected by coming State government decisions regarding asset vesting in future financial years.

The loan to value ratio (LVR) has been calculated based on the value of the community housing assets in comparison to interest bearing debt related to commercial housing activities. LVR for Class 1 providers was 9.2% in FY 2011.

Figure 42: Commercial Debt for Community Housing Activities to Value of Community Housing Assets – LVR FY 2011



# Administering the Regulatory Code

## Compliance assessments and action

The platform for promoting and assessing registered providers' compliance with the Housing Act and the Regulatory Code is the Registrar's Interim Compliance Framework (ICF). The ICF is the operative guidance for compliance activity under the Housing Act until the commencement of the National Regulatory System (NRS). This approach is intended to minimise the impact and burden of regulatory system changes for the sector and allows a streamlined transition to the national arrangements.

The Registrar's approach is to promote a culture of voluntary compliance through sector engagement and to detect and address non-compliance at the earliest opportunity by conducting compliance assessments of registered community housing providers.

Class 1, 2 and 3 registered providers are scheduled for compliance assessment in the second quarter of each financial year. This allows for contemporaneous assessment of audited financial statements and strategic planning associated with their annual general meetings.

Class 4 registered providers are scheduled for compliance assessment biennially on the anniversary of registration or previous compliance assessment, unless there is an indication that an earlier compliance assessment is required.

Compliance assessments involve a registered provider submitting relevant information and evidence to the Registrar's office. Compliance assessments may also involve site visits where the Registrar's staff validate and clarify performance outcomes through a visit to a provider, the partners or residents.

A compliance assessment may identify areas for service improvement to maintain compliance or areas of non-compliance with the Regulatory Code. Wherever possible, the Registrar will respond to areas for service improvement or non-compliance by identifying the action the provider should take to improve performance and bring the organisation to compliance. The provider is given the opportunity to take responsibility for remedying its performance. The compliance action taken by the Registrar includes making observations and recommendations.

Where non-compliance is not remedied by the provider, or where the non-compliance is serious in nature, the Registrar will use powers under the Housing Act to bring the provider to compliance.

Where a provider has not addressed observations and recommendations arising from the last registration or compliance assessment, or where a compliance assessment finds significant non-compliance, the Registrar will issue to the provider a notice of non-compliance identifying the matters required to be addressed in order to avoid cancellation of the provider's registration, and specifying a period

of at least 30 days in which those matters are to be addressed.

When a provider has not addressed matters in a notice of non-compliance, or where the non-compliance is serious and requires urgent action, the Registrar will issue to the provider a notice of intent to cancel registration within a specified period. If the provider does not remedy the non-compliance matters detailed in the notice within the specified period, the provider's registration will be cancelled.

A copy of the notice of intent to cancel registration is required to be given to Housing NSW and to be published on the public register of registered community housing providers.

The Registrar must cancel the registration of a registered provider if the Registrar is satisfied that a notice of intent to cancel registration has been issued and the registered provider has failed, within the period specified in the notice, to satisfy the Registrar that its registration should not be cancelled, or to appoint a special adviser.

Housing NSW is not to give assistance to a provider unless the organisation is registered and, as far as reasonably practicable, Housing NSW is to withdraw assistance from a provider that ceases to be registered.

# Administering the Regulatory Code

Figure 43: Compliance actions by class of provider

Compliance action	Total assessments	Number of Class 1 assessments	Number of Class 2 assessments	Number of Class 3 assessments	Number of Class 4 assessments
Observations only	7	2	1	1	3
Observations and recommendations	43	11	16	10	6
Notice of non compliance	6	-	1	2	3
Notice of intent to cancel registration	1	-	-	-	1

## Cancellation of provider registration

The registration of eight providers was cancelled in 2011/12. The cancellations were not due to the lack of performance by providers but due to mergers and amalgamations of previously registered providers which resulted in the previous body corporate ceasing to exist; or due to the body corporate's decision to exit the community housing sector. There was no impact on residents and tenants as the management of properties was transferred to a registered provider by Housing NSW prior to cancellation.

Figure 44: Number of registration cancellations

Compliance action	Total providers	Number of Class 1 providers	Number of Class 2 providers	Number of Class 3 providers	Number of Class 4 providers
Notice of cancellation	8	0	5	0	3

## Complaints about providers

The functions of the Registrar include the investigation of complaints and other matters in respect of registered providers.

In 2011/12, the Registrar's office dealt with 58 complaints and 17 other matters with respect to community housing providers registered under the Housing Act.

Complaints may raise a range of issues about a provider's compliance with the Regulatory Code. The Registrar assesses all indications of possible non compliance in a holistic way. The main areas of complaints dealt with by the Registrar in 2011/12 was as represented in figure 45.

## CASE STUDY F

Notifications provide an early warning of possible non-compliance giving the Registrar the opportunity to guide, or to intervene, before an urgent or serious non-compliance occurs and potentially damages the reputation of the community housing sector.

In a recent example, a provider made a notification in relation to its financial affairs.

The provider has robust systems in place to prevent, detect, and to respond to fraud and corruption. As a result, the provider was alert to anomalies in its financial records detected by senior staff. The provider notified the Registrar and undertook an internal review and external investigation into its financial record keeping.

The Registrar was satisfied with the provider's approach and was kept abreast of the progress of both the internal review and external investigation, and the actions of the provider to mitigate probity, operational and reputational risks.

The review and investigation processes determined that while there had been errors in its financial record keeping, there was no evidence of fraud or corruption.

The provider has since restored its financial records and has strengthened its finance operations.

The provider responded proactively to ensure the matter was resolved in a timely manner and that it maintained a high level of probity, in close consultation with the Registrar.



# Administering the Regulatory Code

**Figure 45: Main areas of complaints**

Fairness and resident satisfaction	72%
Sustainable tenancies and communities	3%
Asset management	9%
Sound governance	5%
Standards of probity	3%
Registrar's practices	2%
Housing NSW practices	5%

**Figure 46: The outcomes of complaints investigations by the Registrar**

Investigated and raised potential non-compliance for inclusion as part of the scheduled compliance assessment of the provider	25
Investigated and raised potential non-compliance for inclusion in an un-scheduled compliance assessment of the provider	6
Investigated and the provider was found to be in compliance	2
Out of Registrar's jurisdiction and no referral	4
Out of Registrar's jurisdiction and referred to another body	7
Withdrawn by complainant	1
Other	13

## Notifications by providers

Part 6 of the Regulatory Code includes the requirement that registered providers notify the Registrar in a timely manner of any incident relating to its operations that damages or may damage the reputation of the community housing sector. A notifiable incident is any serious event that compromises the quality of services provided to residents, the asset service, the good governance or viability of the provider, and that would raise public concerns about standards of providers' probity.

The Registrar dealt with 27 notifications.

**Figure 47: Main performance area the subject of the notification**

Fairness and resident satisfaction	5
Sustainable tenancies and communities	5
Asset management	3
Sound governance	2
Standards of probity	11
Protection of Government investment	1

**Figure 48: Outcomes of notifications**

Identified to be included in the scheduled compliance assessment of the provider	10
Identified to be complying with the Regulatory Code	8
Guidance provided/matter resolved	9

## CASE STUDY F continued

The provider commented "No one ever wants to admit that something has gone wrong, especially, not to the Regulator. We are pleased that the Registrar focused on what we did to fix the problem and to ensure that the reputation of the organisation and the sector was not at risk".

The timely notification enabled the Registrar to monitor the provider's response to identified risk and to receive assurance of the provider's compliance with the Regulatory Code. In the process of the notification, both the provider and the Registrar ensured there were 'no surprises' and that the interests of tenants and stakeholders were protected.

The focus of the Registrar's assessment of a notification is to address compliance and to safeguard the reputation of the sector. Prompt and open notification to the Registrar can help identify the risk of, or actual, non-compliance at the earliest opportunity. This enables, in the vast majority of notifications, the use of regulatory engagement rather than regulatory enforcement to ensure the provider maintains, or returns to, compliance.

*A Guidance Note on notifications is available to assist providers to meet their responsibilities under the Regulatory Code.*



# Administering the Regulatory Code

## Compliance Assessment Scheduling System

The Compliance Assessment Scheduling System (CASS) sets out the risk based-approach used by the Registrar in scheduling the frequency, scope and level of engagement for compliance assessments on the basis of reliable data and information indicative of the exposure of the sector and each registered provider to the risk of potential non-compliance with the performance requirements of the Regulatory Code.

By being transparent about this risk-based approach, the Registrar aims to promote an understanding of the administration of the regulatory system and to have a relationship with the sector that is based on open and honest exchanges, discussions and responses to compliance assessment scheduling.

Compliance assessment is a cyclical process involving each registered provider periodically demonstrating compliance with the Regulatory Code. This involves:

- Each provider is notified of its next scheduled compliance assessment.
- At the scheduled time (typically annually for Classes 1, 2 and 3 and biennially for Class 4 providers) the provider submits a Provider Details Update followed by a Compliance Return.
- This evidence of performance is assessed against the Regulatory Code.
- The findings and conclusions of the compliance assessment then come together in the CASS review, together with a consideration of indicators of exposure to potential non-

compliance, to determine the scope, frequency and level of engagement of the next scheduled compliance assessment.

- The provider is notified of its next scheduled compliance assessment.

Outside of this cycle, the findings and conclusions of investigations of complaints, notifications under the Regulatory Code, and advices will result in a CASS review to determine whether the frequency, scope and level of engagement of the next scheduled compliance assessment ought to be adjusted.

CASS reviews are the key feature of the Compliance Assessment Scheduling System. CAS review outcomes are not a measure of the performance or compliance of the provider. It is not an assessment of a registered provider's actual performance or actual compliance with the Regulatory Code, but a tool for the scheduling of compliance assessments.

Since the introduction of CASS, the Registrar's office has completed 107 CAS reviews on 67 providers, as at 30 June 2012. A CAS review is completed after each registration assessment, scheduled or triggered compliance assessment, a complaint, notification or advice from or about the provider. Some providers were the subject of several CAS reviews (e.g. they may have undergone a compliance assessment and a complaint or notification investigation). The most recent CAS review informs the next engagement between the Registrar and the provider.

Out of 107 CAS reviews, three were completed after registration assessments; 69 following compliance assessments; four

on receiving advice from or about registered providers; 21 on completion of complaint investigations; and 14 after the assessment of notifications by providers.

Figure 49: CAS review outcomes

Approved CAS Category	Number of CASS reviews
High	16
Major	8
Moderate	43
Minor	21
Low	19
Total	107

The CAS review assessment of indicators requires both quantitative and qualitative analysis, recognising that not all circumstances can be quantified and that, even where they are quantified, they need to be understood in the specific context of each provider's unique history and operating environment.

Qualitative analysis is particularly important in relation to understanding the relevance of complaints and notifications. As with all quantified measures, they are simply indicative, not determinative. Whereas a pattern of complaints and notifications may point to exposure to potential non-compliance, a qualitative analysis allows the pattern to be understood in context.

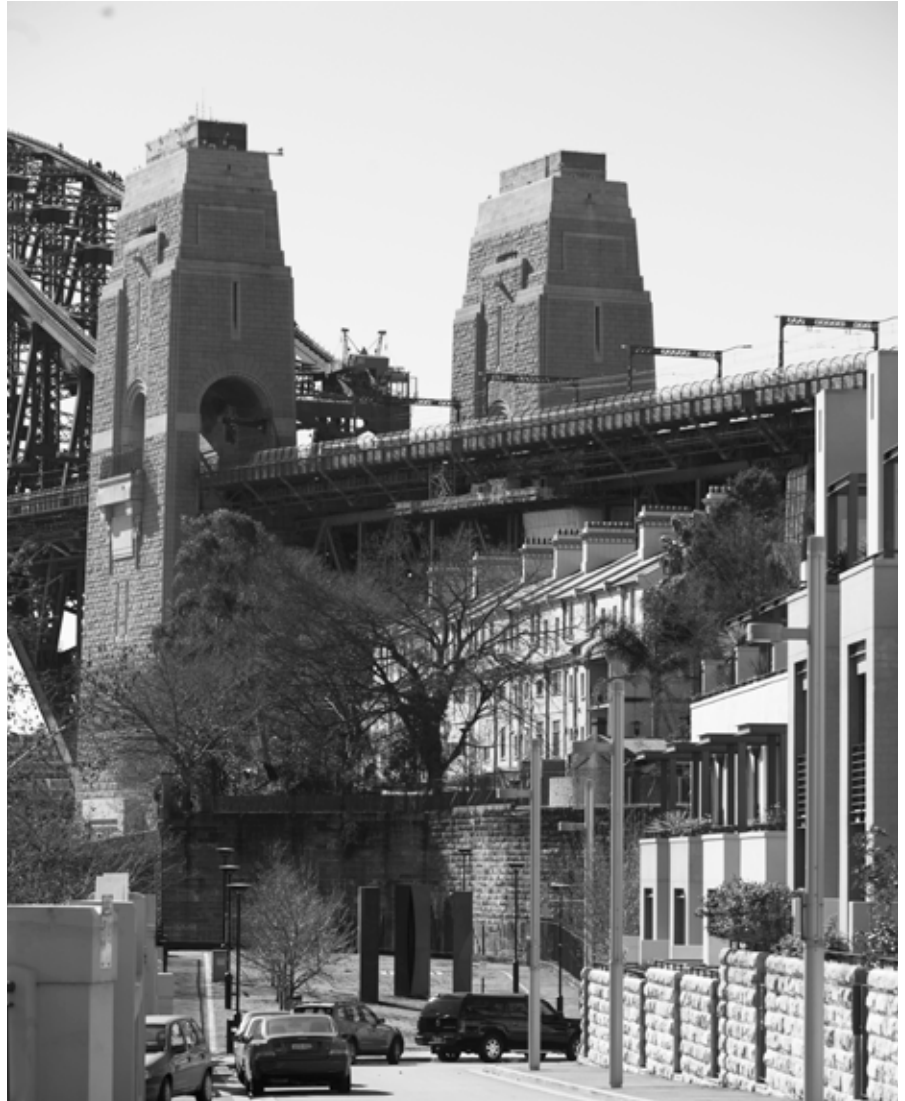
In this context, in 69 CAS reviews (66%) completed to 30 June 2012 there was no change to the indicated CAS category. The category was moderated in 38 CAS reviews (35%) to take into account the qualitative factors such as changes in the governance

# Administering the Regulatory Code

or management structure and responsiveness by the provider. Of these 16 (or 15% of all reviews completed) were changed to a higher category and 22 (or 20% of all reviews completed) were changed to a lower category.

The Registrar does not publish the CAS reviews or results for individual providers. CAS reviews are internal to the Registrar and are only used to determine the frequency, scope and level of engagement of a provider's next compliance assessment. The outcome of the CAS review and resulting CASS category are shared with the registered provider that is the subject of the engagement with the Registrar.

In view of the Registrar's proactive and flexible approach to the administration of the regulatory system, it is recognised that the CASS is an evolving tool that will be progressively refined in line with our growing regulatory experience with the registered community housing sector. The Registrar will review the CASS in 2012/13, allowing for 12 months of feedback from the sector and the Registrar's analysts about its implementation. The system will be reviewed in consultation with industry stakeholders.



Part Three:  
Administering the PARS

# 3

# Administering the PARS

The NSW Aboriginal community housing sector is made up of organisations providing culturally appropriate services to Aboriginal communities. The sector operates on the principles of self-determination and self-management for Aboriginal peoples. This Aboriginal housing sector is the largest in Australia, providing housing for approximately 23% of the Aboriginal population living in NSW.

The NSW Aboriginal community housing sector which has been operating and evolving for the past 11 years, was the first to introduce registration. With the introduction of The Build and Grow Aboriginal Community Housing Strategy, the Aboriginal Housing Office (AHO) has developed new initiatives to support the Aboriginal community housing sector, including the introduction of a new registration system called the Provider Assessment and Registration System (PARS).

PARS has been established to ensure Aboriginal organisations providing housing services meet the requirements to be registered under the *Aboriginal Housing Act 1998*. The system has been modelled on the NSW Regulatory Code for community housing providers and the NSW Standards for Governance and Management of Aboriginal Housing, adapted by the AHO in consultation with Aboriginal community housing providers, the AHO board and relevant stakeholders.

In December 2009, the Registrar entered into an agreement with the AHO to undertake independent performance assessments of Aboriginal organisations seeking PARS registration. A PARS team was established in early 2010 at the Registrar's office and has been

responsible for the assessment of Aboriginal organisations seeking PARS registration with the AHO. The assessments of applications for registration by eligible Aboriginal organisations are conducted by the Registrar, with the AHO responsible for registration decisions.

## Sector Profile and Performance

This section examines the performance of Aboriginal organisations which underwent a PARS assessment from 1 April 2010 to 30 June 2012 under the seven performance areas of the AHO's PARS Guide for Aboriginal Community Housing Providers (performance and evidence guidelines). Data used in this section involved Class 3 and 4 providers, and were obtained from their responses to various questions in their PARS applications and the subsequent recommendations in their respective assessment reports.

PARS is a voluntary system, and just one registration pathway within the AHO's Build and Grow Strategy. Many Aboriginal organisations providing housing required time to consider their registration options.

The assessment process involved Aboriginal organisations submitting responses to questions contained in the PARS on-line application, as an eligible Class 3 or Class 4 organisation, and appropriate documentation to accompany their applications against the AHO's performance areas.

The Registrar's role is to undertake assessments of Aboriginal organisations in NSW using the AHO's PARS Guidelines, and to report on the outcome of the assessment to the Chief Executive of the AHO. The AHO makes the decision to register organisations as approved providers.

By 30 June 2012, 121 invitations to participate in PARS had resulted in an outcome. Ninety-two resulted in a decision not to participate in PARS at the time of the invitation, or in a decision to participate in another registration system such as the Regulatory Code, NSW Aboriginal Land Council's (NSWALC) Social Housing Approval & Provider Evaluation (SHAPE), or in a decision to head-lease. Of the 121 invitations to participate, 29 resulted in an application under PARS and an assessment outcome.

Figure 50: Completed invitations to participate and the outcome

As at 30 June 2012	Number
Assessed	29
Meets	1
Capacity to Meet	17
Ineligible	2
Does not Meet	9
Not assessed – Provider Reason	92
Not Participating	10
Elected SHAPE	4
Elected Regulatory Code	2
Elected Head-lease	76
Total	121

# Administering the PARS

Out of these PARS applications and assessments, 17 Aboriginal organisations were registered with the AHO as “approved providers” and nine were “not approved” for registration by the AHO.

In addition to PARS assessments, the Registrar and the PARS team continued to work closely with the AHO in relation to an ongoing performance monitoring framework for PARS.

## Recommendations from PARS assessment reports

The focus of PARS assessment reports was on the Aboriginal organisations’ demonstrated capacity to deliver Aboriginal community housing in accordance with the Aboriginal Housing Act, AHO policies and PARS performance requirements.

On each assessment undertaken, recommendations were made to ensure that Aboriginal community housing providers could take steps to further develop their practice within specified timeframes.

Making recommendations forms a fundamental part of assessments for Aboriginal community housing providers. Recommendations assist providers to drive continuous improvements within their business and enables Aboriginal community housing providers to define and strengthen their delivery of Aboriginal community housing to the Aboriginal community and to key stakeholders such as the Aboriginal Housing Office.

The following section uses the total number of assessments as at 30 June 2012.

## Performance Area 1: Fairness and Tenant Satisfaction

All Aboriginal community housing providers must meet the two performance requirements in this area: to use fair and transparent processes and ensure that tenants’ satisfaction with overall quality is maintained.

For all classes of Aboriginal community housing providers, recommendations were around needing to develop and update the complaints and appeals policy, rent policy and eligibility policy and obtain and effectively report and utilise tenant feedback.



Figure 51: Fairness and tenant satisfaction

Performance Area 1	Number of Providers	Providers with Recommendations
1.1 Fair and Transparent Processes		
Class 3	6	3
Class 4	21	18
1.2 Tenant Satisfaction with Overall Quality		
Class 3	6	4
Class 4	21	18



# Administering the PARS

## CASE STUDY G

The provider was incorporated in the early 1980s as a body corporate to manage land, houses and business enterprises. It manages a portfolio of properties; the majority of which it owns, with several managed on behalf of two other agencies. It has a committed governing body with a vision to generate business opportunities to secure growth and sustainability for the local community.

The provider submitted its housing policies, business plan and its annual report to support its application for PARS assessment, and demonstrated its commitment to providing a high level of tenant satisfaction with its services. These documents provided examples of how it identifies tenant concerns and outlined steps

to ensure tenant matters were addressed appropriately. While the provider showed strong focus and commitment to its tenants and has developed a tenant survey as part of its business plan, it has not implemented this survey as part of its method of capturing tenant feedback, nor does it have a policy and procedure for reporting on the findings of the survey.

To meet this performance requirement, the provider was recommended to: review and implement an annual tenant survey that captures feedback on its services, including repairs and maintenance, and tenant support; and develop policies and procedures that outline how it will use the feedback in its planning processes, policy reviews and service improvement.

## CASE STUDY H

This provider applied for registration in mid 2011. It manages several properties: it owns most of the properties and leased several from another agency. It outsourced the management of its rental properties to a real estate agent, and stated that it retained final decision on eligibility, allocation and occupancy, rent setting and repairs and maintenance.

The provider demonstrated that it had programs to support its tenants, and is proactive in meeting the needs of its community. However, it advised that it did not monitor and report on the adequacy of support arrangements for its tenants.

For this performance area, the provider was recommended to develop a mechanism to monitor and maintain support arrangements for tenants, and develop and implement a policy to support these arrangements, including a tenant feedback mechanism.

## Performance Area 2: Sustainable Tenancies and Communities

All classes of Aboriginal Community Housing Providers must meet the two performance requirements in this area: support arrangements for tenants and community involvement.

For all classes the majority of recommendations related to monitoring and reporting on the adequacy of support arrangements and tenants satisfaction with support services.

Figure 52: Sustainable tenancies and communities

Performance Area 2	Number of Providers	Providers with Recommendations
2.1 Support Arrangements for Tenants		
Class 3	6	3
Class 4	21	15
2.2 Community Involvement		
Class 3	6	0
Class 4	21	1



# Administering the PARS

## Performance Area 3: Asset Management

Within this performance area, there are three performance requirements. However for the purposes of PARS, Aboriginal community housing providers were only assessed against performance requirement 3.2, Maintenance. In order to meet this performance requirement, providers must demonstrate that they budget for responsive, cyclical and planned maintenance as well as undertake maintenance. For Class 3 providers, it is a requirement that they ensure they have a three to five year maintenance plan addressing all properties, condition inspections, item lifecycles, projected annual costs for each property and annual budget.

For all classes the majority of recommendations made were in relation to maintenance budget provision, and monitoring and reporting on maintenance. For Class 3 providers the most common recommendation was maintenance planning and maintenance budgeting.

Figure 53: Asset management

Performance Area 3	Number of Providers	Providers with Recommendations
3.2 Maintenance		
Class 3	6	4
Class 4	21	17

### CASE STUDY I

The provider is a company limited by guarantee, self-funded from its investment dividends and rental incomes from its properties. It owns most of these properties and leases a number from another agency. The provider was established to provide low-cost rental housing and accommodation and had plans for increasing properties to address lack of housing and overcrowded accommodation on land it owns.

The provider's financial performance report indicated that repairs and maintenance budgets may not have been meeting the required minimum aggregated allowance for planned and responsive maintenance. This has significant implications for the provider's ability to maintain its properties, and can create deferred liabilities that can affect future viability. However, the provider had developed a plan consisting of three key strategies to meet repairs and maintenance requirements: introduction of the new rent policy; accessing grants for backlog repairs and maintenance; and appropriate budgeting and implementation for the following financial year.

To meet this performance requirement, the provider was recommended to: prepare separate budget allocations and accounting processes for its planned and responsive maintenance; demonstrate that its expenditure for planned and responsive repairs and maintenance meets the requirements in the current and following financial years; and demonstrate that it has made appropriate provisions to transfer accrual of planned maintenance funding within its accounts and financial statements on a year-to-year basis.

## Performance Area 4: Sound Governance

There are four performance requirements under this performance area. All classes of Aboriginal community housing providers must ensure the governing body is effective and has sufficient expertise and that the organisation complies with all legal and statutory obligations. Class 3 must ensure it is planning satisfactorily for the future and ensure that it is monitoring and reporting on its planning activities.

Aboriginal community housing providers vary in size, type, organisational structure and scope. The Aboriginal community housing sector consists of Aboriginal corporations, co-operatives, incorporated associations and local Aboriginal land councils. Due to this variety it is recognised that governing body types within the Aboriginal community housing sector can consist of various skill sets such as community services or Elders within local communities. While this is recognised as a component of the skill set of the board, it is fundamental that

# Administering the PARS

governing bodies have expertise or access to expertise in key areas such as financial management.

Assessment findings found that Class 3 providers had the most efficient systems in place to monitor compliance with legal and other requirements. Class 4 providers generally needed strengthening in this area. However it was found that the majority of providers assessed needed to develop systems to monitor and report on the planning process and ensure that they were undertaking ample business/strategic planning.

The vast majority of Class 3 and 4 providers reported that they regularly reviewed the skills of their governing body. However on assessment it was found that a number of providers did not demonstrate a clear process on how the skills of the governing body were regularly reviewed nor did the providers document the skill set of the board.

**Figure 54: Sound governance**

Performance Area 4	Number of Providers	Providers with Recommendations
<b>4.1 Expertise of Governing Body</b>		
Class 3	6	5
Class 4	21	16
<b>4.2 Decision-making</b>		
Class 3	6	4
Class 4	21	19
<b>4.3 Compliance with legal and other requirements</b>		
Class 3	6	0
Class 4	21	17
<b>4.4 Planning (Class 3 only)</b>		
Class 3	6	4
Class 4	21	N/A

## CASE STUDY J

The provider is a company limited by guarantee, with an annually elected board of directors, established to fulfil several objectives, including low-cost rental housing, emergency and temporary accommodation to its members, developing tenant support services, investment, land and property development, and leasing. The provider procures outside professional services to monitor its finances and for assisting them with governance issues.

The provider advised that the number of meetings of its board 12 months prior to its application for PARS assessment exceeded the required number per year. It submitted the required and up-to-date documents, including an induction kit for the board of directors on their role and relevant procedures attached to this role, and a template for self-assessment of the members of the board of directors, which help identify under-performance on governance responsibilities. The provider also advised that its current board had skills in asset, human resource and housing management, and had plans for training its board on risk assessment and financial management.

To meet this performance requirement, the provider was required to: undertake the proposed corporate and financial governance training, and develop and implement a company risk management plan to mitigate issues such as (but not limited to) those arising from its planned developments, property portfolio expansion and attendant asset management planning and budgeting.

# Administering the PARS

## Performance Area 5: Probity

There are two performance requirements under this performance area and they relate to all classes of providers. All providers must have systems in place to prevent, investigate and mitigate potential fraud and corruption and must have a code of conduct and system to deal with breaches. Assessments across all performance requirements resulted in high numbers of recommendations for all classes.

While most providers have some elements of fraud and corruption prevention in place, whether it is formal or informal, these elements vary depending on the nature of business conducted by the Aboriginal community housing provider. Some elements can include a code of conduct policy, formal delegation schedules, financial controls and risk auditing mechanisms.

While most providers indicated they had a code of conduct policy and agreement for staff and volunteers, it was clear throughout the assessment process that the governing bodies often lacked guidance and were overlooked. Regular reviews of these systems are important to ensure the systems are understood, appropriate and utilised.

One area that is often overlooked for all classes was whistleblower protection. It is a requirement of the PARS guidelines that all providers ensure they have policy covering whistleblower protection. While whistleblower protection is not a legal requirement for Aboriginal community housing providers, it encourages good standards of practice.

Figure 55: Probity

Performance Area 5	Number of Providers	Providers with Recommendations
5.1 Fraud and Corruption		
Class 3	6	5
Class 4	21	20
5.2 Code of Conduct		
Class 3	6	3
Class 4	21	19

### CASE STUDY K

The provider based its probity standards on the provisions of a particular law and subordinate legislation. These standards state that the responsibility of all its officers and staff is to act with honesty, care and diligence and to disclose all pecuniary interests.

It advised that its board, staff and volunteers have provided a written undertaking to comply with a code of conduct. The code covers 11 areas of probity including: upholding the objects of the provider and the legislation; safe-guarding and upholding the interests of the provider; ethical behaviour and standards; confidentiality; and, appropriate behaviour at provider meetings. Also, the provider has a code of behaviour for its board, members, staff and volunteers with specific procedures they need to observe. The assessment found the code referred to a different law than the one relevant to the provider's constitution.

To meet this performance requirement, it was recommended that the provider: would need to formulate a code of conduct that meets its constitution, and develop and implement policies and procedures for dealing with allegations and investigations in instances where its code of conduct is breached.

# Administering the PARS

## Performance Area 6: Protecting Community Investment

This performance area consists of three performance requirements: financial performance, business planning and risk management planning.

The assessment of financial viability for Aboriginal community housing providers relies mainly on financial and operational data submitted by the provider in a format set by the Registrar – the Financial Performance Report (FPR). The PARS financial analyst checks the validity of the data entered in the FPR against the provider's audited financial statements and other information submitted. Providers are also required to provide three years of historical financial data.

Recommendations on financial performance were made across all classes of PARS providers. They included internal controls, audit management letters, operating expenses and insurances. 50% of all Class 3 providers assessed had recommendations that included internal controls.

Figure 56: Protecting community investment

Financial Performance	Number of Providers	Providers with Recommendations
Class 3	6	3
Class 4	21	18

### CASE STUDY L

Analysis of the provider's application for PARS assessment showed that it was making insufficient provisions to cover future expected cyclical maintenance expenditure. Its stated rent policy was based on the cost rent model that should have included sufficient funds for cyclical maintenance. There was concern that while the provider was financially solvent, insufficiently providing for cyclical maintenance could be a long-term risk to their financial viability.

The provider's business plan indicated that the governing body was aware of the issue and was taking steps to resolve it by adopting a market-based approach to rental policy. The additional revenue would be allocated for cyclical maintenance.

For this performance area, the provider was required to ensure there is sufficient provision to cover expected cyclical maintenance expenditure, and ensure the methodology behind the cost/rent process is robust enough that sufficient rent is collected to cover the cost of cyclical maintenance, in addition to the provider's other obligations.

# Administering the PARS

## Performance Area 7: Efficient and Competitive Delivery of Aboriginal Community Housing

This performance area, which applies to all classes, determines whether providers make efficient use of their Aboriginal community housing properties and funding. They must also demonstrate that their costs of management are competitive.

Recommendations were made to all providers, with a high proportion made to Class 4. The majority of recommendations related to rent arrears management, vacancy rates, rental arrears bad debts, and voids.

Figure 57: Efficient and competitive delivery of Aboriginal community housing

Performance Area 7	Number of Providers	Providers with Recommendations
7.1 and 7.2 Efficient and Competitive Delivery of Aboriginal community housing		
Class 3	6	1
Class 4	21	13

The PARS guidelines set a minimum benchmark of 30 days vacancy rate and to minimise the turnaround time of void properties. These guidelines also require Aboriginal community housing providers to collect at least 85% of rents and have no more than 15% rental arrears.

Furthermore, providers assessed under PARS are required to ensure their corporate overheads are minimised and within an acceptable range of total expenditure as a percentage.

Figure 58: Average void and vacant days

Performance Area 7	Average void days*	Average vacant days	Number of Providers	Number of Providers with Data
Class 3	25	20	6	6
Class 4	0	19	21	18

\* The quality and reliability of the void data is moderately low. It is data as reported by providers and, on assessment, it has been noted that provider data collection and understanding of definitions will need to be improved over time.

### CASE STUDY M

The provider has delivered community services to the local community for over 20 years, such as referrals to legal and advocacy services, community social housing providers, and health services in its region. It has also provided educational talks to local schools on culture, heritage and natural resource management issues.

Members of the board are volunteers. However, in accordance with the legislation under which the provider was established, and the policy of a peak organisation of which the provider is a member, board members are able to be paid sitting fees and to be reimbursed out-of-pocket expenses. The provider's profit and loss statement indicated remuneration payments, however, there was no policy or procedure to support these payments, leaving the provider exposed to potential fraud or mismanagement. The recommendation was that the provider consults with its peak organisation to develop and implement its board remuneration policy.

# Administering the PARS

## Registration Outcomes

This section reports on the profile of all PARS registered providers from 2010 to 30 June 2012. Of the total 17 PARS registered providers, six were Class 3 and 11 were Class 4. Of the total registered, five were Aboriginal corporations, eight were local Aboriginal land councils, two were companies limited by guarantee and two were co-operatives. Figure 59 shows the distribution of registered providers by legislation under which they were established.

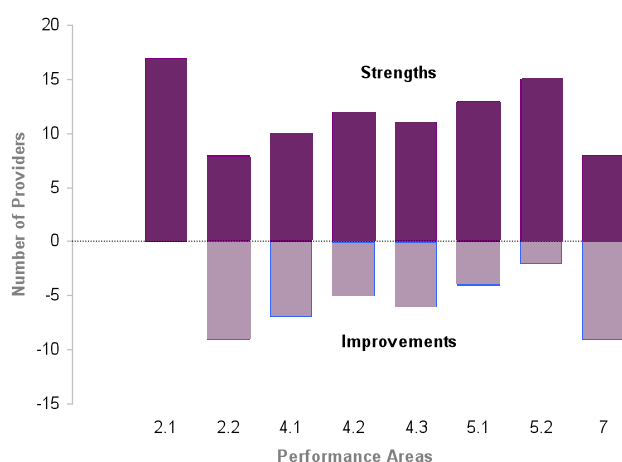
Figure 59: Number of registered providers by Class and legislation

Registered Providers	Class 3	Class 4	Class 3 and 4
Number of registered community housing providers as at 30 June 2012	6	11	17
Number of registered community housing providers by body corporate as at 30 June 2012			
The Corporations (Aboriginal and Torres Strait Islander) Act 2006	2	3	5
Aboriginal Land Rights Act 1983	1	7	8
Company Limited By Guarantee (Companies Act 1961)	1	1	2
Co-operative Act 1961	2	0	2
Total	6	11	17

Many providers strongly met the requirements in the following areas of performance: (2.1) support arrangements for tenants, (4.2) decision-making, (4.3) compliance with legal and other requirements, and (5.2) code of conduct.

This positive outcome on (2.1) performance area for all classes of providers is not surprising. Many Aboriginal community housing providers also provide non-community housing related services or programs, e.g. land development, employment, health, education. This experience would afford them the knowledge and skills in engaging communities and in developing programs to support their members, including tenants.

Figure 60: Areas of strength and improvement of PARS registered community housing providers



The areas where most recommendations were made, indicating improvements are required (62.5% of Class 3 and 72.7% of Class 4 on average) were focused on the following performance areas, particularly Class 4 providers: (2.2) community involvement (noting that this was in relation to formalising some aspects of what are very strong informal outcomes on



# Administering the PARS

engagement with community); (4.1) expertise of governing body; (4.3) compliance with legal and other requirements. Most of Class 3 have to improve on performance requirement (7) efficient and competitive delivery of community housing.

## Financial condition

By 30 June 2012, 17 providers were registered as Aboriginal community housing providers by the Aboriginal Housing Office following a PARS assessment. During this period Aboriginal community housing providers submitted financial information with their PARS application.

The most recent audited financial statements provided with PARS applications varied from financial year 2008 to financial year 2011. This means that it is not possible to compare financial information on registration across financial years.

This section examines the financial condition and viability of all providers registered under PARS from April 2010 to 30 June 2012. This means the financials were not collected at a single point in time. For consistency, this report has aggregated each provider's last set of audited financial statements, and set the dates of these statements as the 'aggregated reporting year'. This approach will be normalised once the PARS Performance Review framework is completed, as financial data will be collected at one point in time on an annual basis.

Figure 61: Aboriginal community housing sector snapshot

Aboriginal Community Housing Sector Snapshot Aggregated 2011-2012	
Number of Units Managed	1008
Number of Tenancies	994
Total Rent Revenue	\$2.4 million
Rent revenue Class 3	\$1.4 million
Rent revenue Class 4	\$1.0 million
Community Housing Properties	\$35.9 million
EBITDA Margin	5.7%
Net Assets	\$52.3 million

Based on their consolidated financial reports, Class 3 and 4 providers delivered 5.7% EBITDA margin (earnings before interest, taxes, depreciation, and amortization) for the aggregated reporting year. Overall, in terms of its financial performance, the Aboriginal community housing sector had a reasonable level of return.

The sector's level of liquidity, with a 2.2 working capital ratio, coupled with a positive cash flow adequacy of 108.2%, indicated that providers were in a comfortable position to meet their short-term debt obligation.

Overall, the financial results of the Aboriginal community housing sector in the aggregated reporting year were reasonable. The financial condition of this sector is expected to improve with regulatory oversight. Through regulation, providers are expected to maintain best business practices. Also, improvement in the financial condition of the sector will be facilitated by policies and procedures in financial management that have been in place to keep rental arrears at a reasonable level to build a sustainable Aboriginal community housing sector in the future.

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