NSW Registrar of Community Housing

Tier 3 Performance Report 2020

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The Tier 3 Performance Report provides insights on regulatory performance, trends and patterns in the Tier 3 community housing sector for the period 1 March 2018 to 29 February 2020

Registrar's Overview

Tier 3 registered Community Housing Providers (CHPs) are mainly those whose core business is the delivery of a range of services including disability, rehabilitation, domestic and family violence, health care and youth services.

These CHPs typically have no ongoing property development activities and operate at a smaller scale of tenancy and property management. They account for almost 80% of registered community housing providers who have NSW as their primary jurisdiction.

This report provides insights into regulatory performance, trends and patterns in this sub-sector.

For the reporting period to 1 March 2018 to 29 February 2020, the Registrar notes:

A 13% increase in the number of new entrants into the scheme, with 15 new Tier 3 CHPs registered. The period also witnessed the cancellation of the registration of seven providers based on requests from these entities due largely to changes in business and/or strategic directions.

The Tier 3 sub-sector remains financially viable, with no significant compliance concerns having been identified.

The Registrar piloted a varied engagement process with low-risk Tier 3 providers that reduced the regulatory burden on the smallest providers in the subsector. Provider feedback from this pilot indicates a desire to embed this approach as an ongoing practice.

The successful registration of the first provider to be registered under the New South Wales Local Scheme (NSWLS). The NSWLS was established to encourage participation of entities that provide community housing but are unable to be registered under the National Law in NSW.

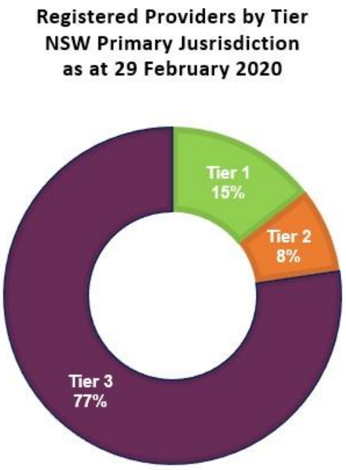
The Registrar anticipates that the growth in the number of registered Tier 3 providers will continue. This is already indicated by ongoing registration enquiries and the number of entities scheduled to undergo registration in the 2020 calendar year. This projected growth will be further impacted by program initiatives from the NSW Housing Agencies, including the Aboriginal Housing Office, the Department of Communities and Justice, and perhaps also the NSW Land and Housing Corporation.

National Regulatory System for Community Housing (NRSCH)

Size of Tier 3 Sub-sector

As at 29 February 2020, there were 123 Tier 3 registered CHPs under the NSW jurisdiction (up from 115 as at 28 February 2018). As of 29 February 2020, which is the reporting date for this paper, Tier 3 providers accounted for 77% of the community housing sector (123) while Tier 1 providers accounted for 15% (23) and Tier 2 providers accounted for 8% (13).

This report covers the 106 CHPs that completed a compliance assessment in the reporting period (102 standard and 52 targeted assessments).



New Registrations and Cancellations

In the reporting period (1 March 2018 to 29 February 2020), there have been 16 new registered Tier 3 providers in the NSW jurisdiction. 15 of these have been registered under the NRSCH while one entity was registered under the NSW Local Scheme.

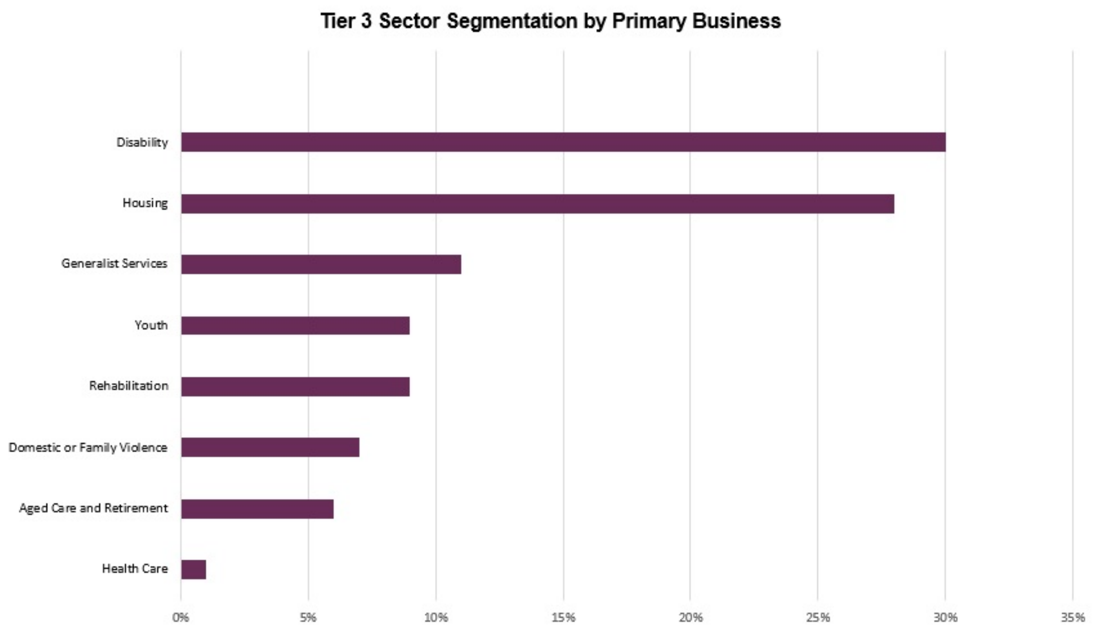
There were seven registration cancellations during the reporting period. All cancellations were at the request of the CHPs, with four of them based on business decisions to focus on other core activities, and two as a result of mergers/absorption, and one as a result of the business being wound up.

Based on the registration work presently underway, it is expected that another 10 new Tier 3 providers will be registered in the next twelve months. This will be in addition to the two entities registered after 29 February 2020.

Primary Business Segmentation

The Tier 3 subsector consists of a diverse range of providers who function in accordance with the objects of the National Law. Many of these providers deliver a variety of services.

The subsector can be segmented into categories based on the primary business of each provider. Such segmentation assists the Registrar in applying an appropriate, targeted regulatory engagement framework to the business of these providers. It also supports the objective of reducing regulatory burden for registered providers by ensuring that the level of regulatory oversight is commensurate to the operational risks of their businesses.


Tier 3 Sector Segmentation by Primary Business
Disability
Housing
Generalist Services
Youth
Rehabilitation
Domestic or Family Violence
Aged Care and Retirement
Health Care
0%
5%
10%
15%
20%
25%
30%
35%

Regulatory Engagement, Segmentation and Behaviour

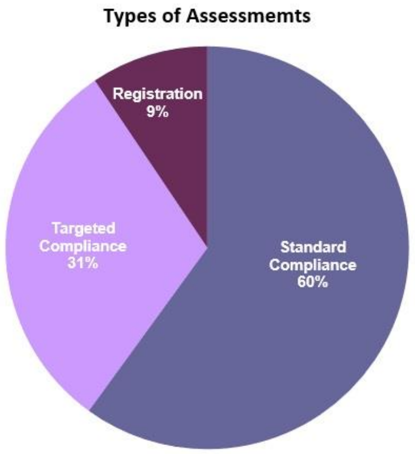
Compliance of Tier 3 Subsector

In line with the proportionality principle of the NRSCH, Tier 3 providers undergo fewer assessments compared to Tier 1 and 2 providers. Tier 1 and 2 providers are assessed annually and Tier 3 providers generally undertake a compliance assessment every two years.

The extent of regulatory engagement with Tier 3 providers is dependent on the outcome of their previous assessment and, if any significant changes have occurred for such a provider, this will result in a targeted assessment being undertaken.

As at 29 February 2020, there have been a total of 169 assessments covering 121 CHPs.15 of these have been registration assessments for new providers entering the scheme, while 154 have been compliance assessments for already registered providers.

Of the 154 compliance assessments, 102 were standard assessments undertaken as part of periodic oversight of Tier 3 providers, while 52 were targeted assessments aimed at addressing gaps identified in the policies and practices of providers.



To assist providers reach or maintain full compliance, the Registrar makes recommendations which target areas of improvement that need to be actioned within a specified timeframe. Any significant recommendations are followed up ahead of a provider's next scheduled assessment, usually via a targeted compliance assessment. Providers are usually advised of the timeframe within which they are to respond to recommendations.

In the 2018 report, the Registrar reported that a high incidence of non compliant notification policies among Tier 3 CHPs had been identified and targeted as part of regulatory engagement with the 70 providers which had undergone a standard compliance assessment at the time.

In the reporting period to 29 February 2020, the Registrar issued 51 new recommendations targeting improvements to notification policies for Tier 3 CHPs that had not been captured as at 28 February 2018. These policies require providers to report to the Registrar in relation to notifiable incidents and events in accordance with the National Regulatory Code.

In doing this, the Registrar is confident that more providers are now complying with the notification requirements and are adopting a varied notification engagement procedure with Tier 3 providers to ensure this improvement is maintained.

The trends in recommendations for improved performance for Tier 3 providers for the reporting period are shown below:

Performance Outcome 1 Tenant and Housing Services	Performance Outcome 2 Housing Assets	Performance Outcome 3 Community Engagement	Performance Outcome 4 Governance	Performance outcome 5 Probity	Performance Outcome 6 Management	Performance Outcome 7 Financial Viability
Developing or improving complains handling policies and procedures. Reviewing and updating feedback systems.	Improving tenant knowledge on how to lodge repair requests. Improving management of repair requests.	No common trends were identified.	Improving process for evaluation of CEO and governing body. Updating business planning documents.	Reviewing and implementing Code of Conduct. Improving processes for documenting and managing Conflicts of Interest. Improving systems for notifying the Registrar of significant events.	Improving systems for managing rent collection.	Providing financial information to the registrar in the prescribed form.

Pilot Segmentation of Tier 3 CHPs

In 2019, as part of sustained efforts to adapt the level of regulatory oversight to the operational risks of Tier 3 providers, a pilot segmentation program was implemented using a sample of providers that managed less than 10 community housing assets.

This pilot covered 26 providers, which represented 22% of the 117 registered Tier 3 CHPs at the time. The program involved the development of a testing framework, the issuance of a guidance note to them, and holding a briefing session (webinar) for identified participant-CHPs.

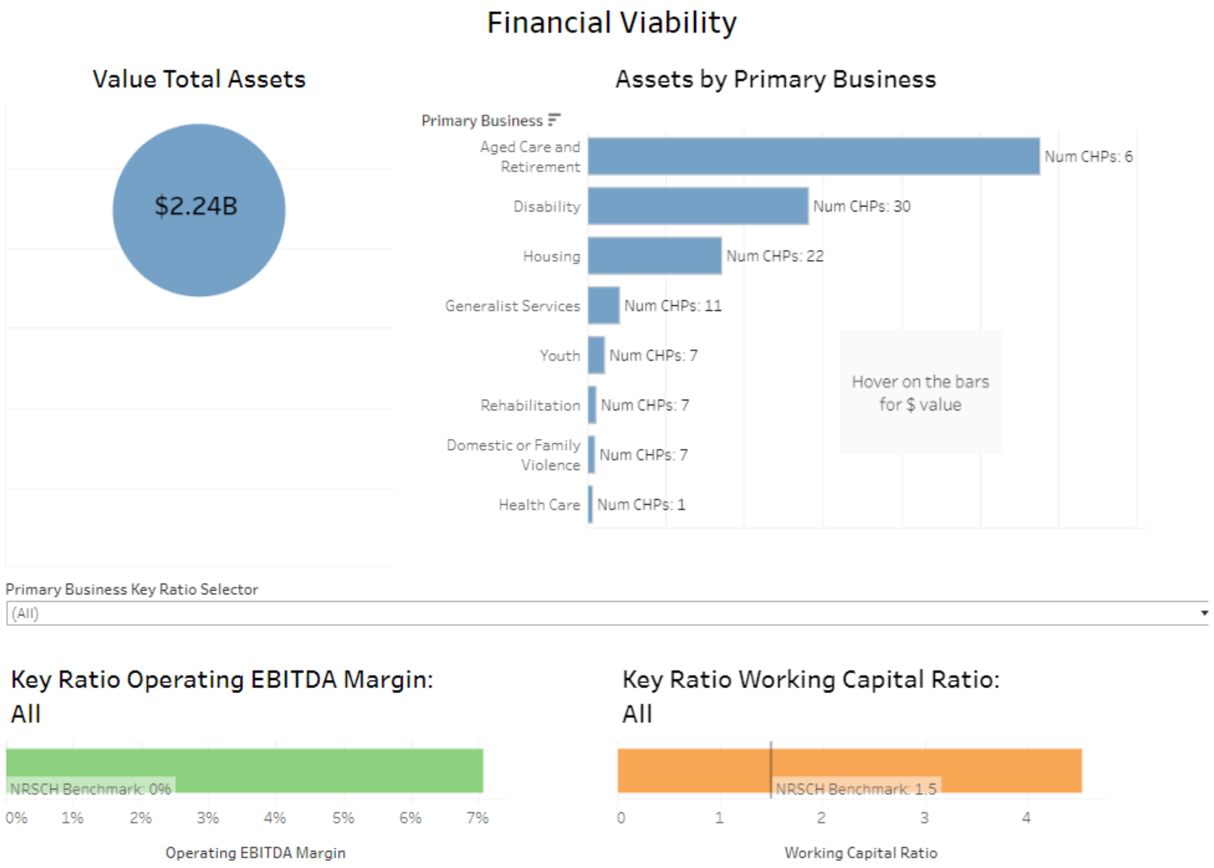
The pilot program delivered the following key outcomes:

- Reduced regulatory burden for low-risk providers – participants confirmed that the pilot program:
    - Reduced the volume of evidence submitted (67% submitted less evidence than at previous engagements)
    - Reduced the time spent on the regulatory submissions (91% noted a reduction of between 50% and 75%)
    - Reduced resources committed to the regulatory engagement

- Flexibility in evidence requirements and scheduling
    - 81% of participants want the pilot program embedded as the formal engagement process going forward.
    - 80% of participants indicated a preference to have their scheduled engagement between April and August.

The Registrar is now adopting a more flexible approach with evidence requirements and a less intrusive regulatory engagement as an ongoing practice for those Tier 3 providers which are assessed as low risk.

Tier 3 Financial Viability



Tier 3 NSW Sector Assets

The Value Total Asset table does not capture the entire Tier 3 sector for NSW; it includes only the 91 out of 124 currently registered providers who had completed a Financial Performance Report (FPR) as at 29 February 2020. It is also noted that seven of the 124 providers sought deregistration in this reporting period

The Tier 3 sector is diverse in terms of primary business type and financial size as shown in the Assets by Primary Business table.

While there may be variation in financial size, the number of community housing properties managed by each provider is comparable.

The Assets by Primary Business table shows the six organisations recognised as Aged Care and Retirement providers, which skews the reported financial metrics by indicating a larger asset base but it is not community housing in character. These providers hold significant number of assets which are unrelated to their community housing operations.

Financial Viability

The NSW Tier 3 sector is assessed as financially viable with no significant compliance concerns identified.

NSW Tier 3 providers continue to perform at acceptable levels across key NRSCH financial metrics.

The Key Ratio Operating EBITDA Margin table measures average profitability and is calculated at 7.1% versus the NRSCH benchmark of 0%. ((Operating EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) Margin is a measurement of a company’s operating profitability as a percentage of its operating income.)

The Key Ratio Working Capital Ratio table measures average liquidity and is calculated at 4.53 versus the NRSCH benchmark of 1.5 (Working Capital Ratio is a measure of an organisation's liquidity position ratio of its current assets to current liabilities.)

The majority of Performance Outcome 7: Financial Viability recommendations made by the Registrar to Tier 3 providers since 2018 have been administrative in nature and did not affect provider performance (see recommendations table).