



NSW Registrar of Community Housing Annual Statement of Performance 2011



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Letter to the Minister

THE REGISTRAR OF COMMUNITY HOUSING
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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 2011*.

This is the first Annual Statement of Performance following the full establishment of the regulatory system for community housing providers in NSW on 1 May 2011. 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 May 2009 to 30 June 2011.

The report will be available for public access on the Registrar of Community Housing's website at www.rch.nsw.gov.au

Yours sincerely

A handwritten signature in dark ink, appearing to read "Roxane Shaw".

Roxane Shaw
Registrar of Community Housing

14 November 2011

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Part One: Overview

1

Overview



Roxane Shaw
Registrar of Community Housing

Registrar's Review

This first Annual Statement of Performance by the Registrar of Community Housing marks the successful implementation of a significant reform for the community housing sector – the establishment of an outcome-focused and risk-based regulatory system.

Community housing in New South Wales has operated as a flexible and diversified component of the social housing system for over 25 years, delivering housing to people most in need together with responsive services, and contributing to building stronger communities.

To build on these strengths, and to facilitate the growth of the sector, the *Housing Act 2001* (NSW) was amended to introduce an independent system to recognise, support and regulate a sustainable community housing sector. This new regulatory system commenced on 1 May 2009, providing the platform necessary for the next phase in the development of the sector and an expanded role for community housing providers in building, acquiring and managing more community and affordable housing.

To administer the regulatory system, we have been working since May 2009 to establish the Registrar's office and regulatory approach, to engage with the sector to support participation in the new regulatory system, and to complete the assessment of the suitability to be registered of each organisation in receipt of community housing assistance from Housing NSW.

That work was successfully completed by the close of the transitional provisions under the Housing Act on 1 May 2011, and the regulatory system was fully established, with a regulated community housing sector of 235 providers.

In addition, in November 2009, the Registrar was commissioned by the Aboriginal Housing Office (AHO) to undertake assessments of Aboriginal community housing providers in the Provider Assessment and Registration System (PARS) under the *Aboriginal Housing Act 1998* (NSW).

This first Annual Statement of Performance provides an account of our work over the past two years in administering the Regulatory Code and the PARS.

Our first account of the performance of the community housing sector under the Regulatory Code focuses on the registration assessments which found the community housing sector in a sound condition, operating with good governance, viable financial performance and good tenancy and asset management. In particular, we concluded that Class 1 and 2 providers have low levels of gearing and their sound financial position continues to be supported by good performance on tenancy and asset management, making them key partners for public and private investment.

The Regulatory Code introduced new performance requirements for providers. On registration, providers were required to demonstrate a commitment to comply with these new requirements. The focus of registration assessments was on the provider's demonstration of

Overview

preparedness to deliver community housing in accordance with the Regulatory Code. On each assessment, to ensure providers could take steps to develop that commitment to full compliance within certain timeframes, we made recommendations. Where providers are found to be non-compliant with the Regulatory Code at the end of those timeframes, notices under the Housing Act are issued. It is reflective of the sound performance of the sector, and responsiveness to our recommendations, that the occasions on which notices were issued were small in number. It is also reflective of the rigour of the regulatory system that non-compliance was detected and addressed at the earliest opportunity, in order to protect the integrity of the community housing sector.

As registration assessments of the sector spanned a two year period, this report takes an aggregated view as the baseline. In coming years, our account of the performance of the sector will focus on the outcomes of compliance assessments as at the end of each financial year and will provide data on performance outcomes with year on year trends.

There is no doubt that the successful establishment of the regulatory system is a credit to many.

Firstly, I congratulate community housing providers for their positive and constructive engagement with the new regulatory system, and the many stakeholders who contributed their expertise and goodwill to the establishment of the regulatory arrangements.

Secondly, I acknowledge that our ability to deliver on a large program of work in a short period of time was assisted by the leadership, support and resourcing provided by our two portfolio agencies, Housing NSW and the Aboriginal Housing Office.

Lastly, I thank my colleagues who showed tremendous dedication in supporting the administration of the regulatory system. While it is exciting and rewarding to be involved in the creation of a new office and all the business development required for administering regulation, there is no doubt that such a dynamic environment places significant demands on the skills, judgment and tenacity of staff. They have been tireless in response. Their personal and professional efforts and guidance have been rich, productive and greatly appreciated.

Roxane Shaw

Registrar of Community Housing

Sector Snapshot

Aggregated 2009-10

> 18,000 properties under management and growing

> 23,700 tenancies and growing

> \$156 million rental income and rising

> \$435 million in community housing assets

> 4.4% gearing ratio with significant opportunities for growth

> 70+% resident satisfaction rate

Overview

Functions of the Registrar of Community Housing

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 registered 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.

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

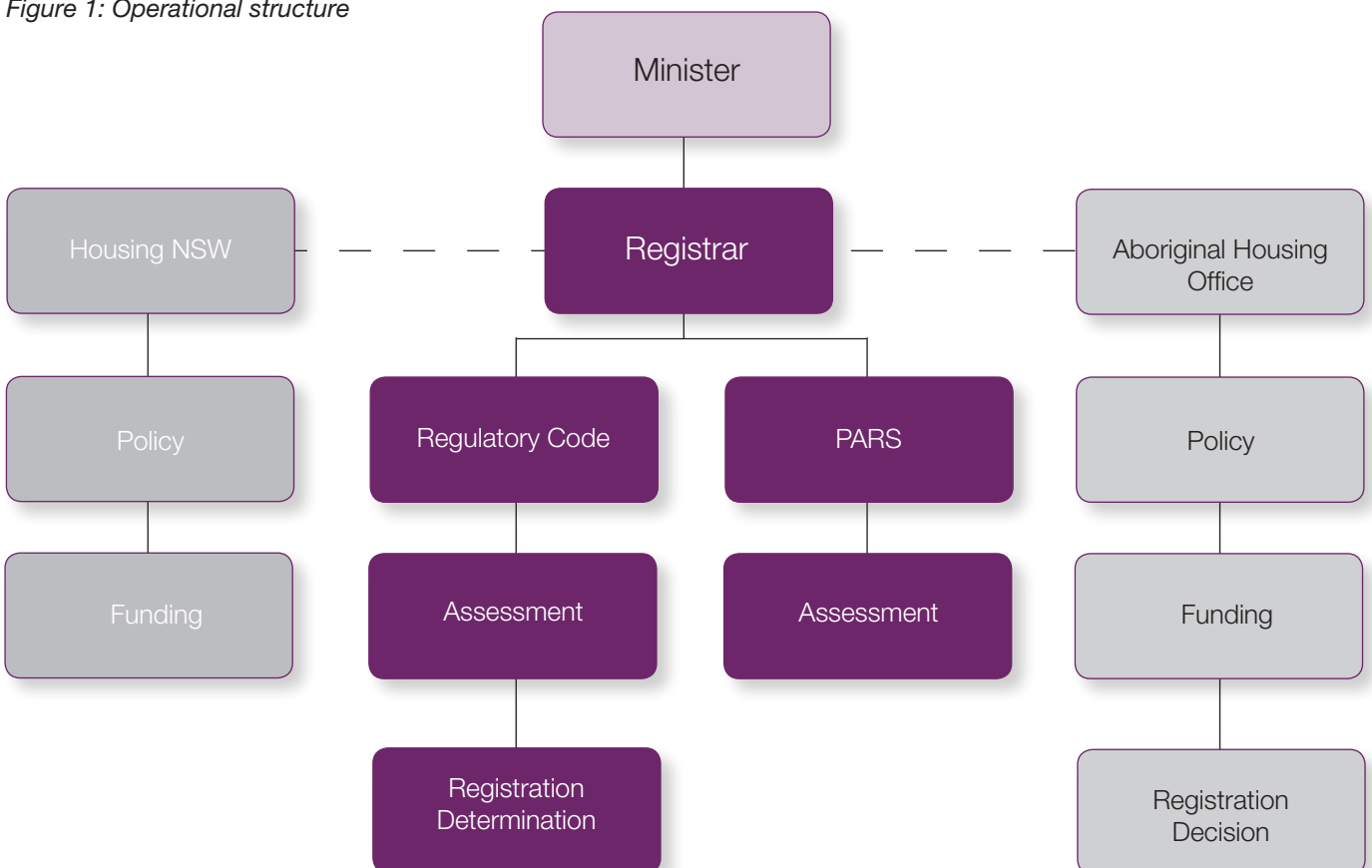
The legislation requires the Registrar to:

- 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.

In November 2009, the Registrar was commissioned by the Aboriginal Housing Office (AHO) to undertake assessments of Aboriginal community housing providers 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.

Figure 1: Operational structure



Overview

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 practices and policies.
- 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.

Part Two: Administering the Regulatory Code

2

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 minimum 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.



Photo 1: Staff of the Regulatory Code teams

Administering the Regulatory Code

2.1 Sector Engagement

In 2009, the Registrar developed and implemented a range of sector engagement initiatives to support the establishment of the regulatory system and communication with the community housing sector. These initiatives included a website, a suite of publications, an e-newsletter, state-wide briefing sessions, consultation mechanisms, an advisory mechanism, and an open invitation to the community housing sector to have the Registrar and staff present at meetings and gatherings. These initiatives are aimed at:

- promoting understanding of the Regulatory Code;
- improving understanding of how the Regulatory Code may be applied in practice;
- driving service improvement across the sector;
- strengthening risk awareness and management; and
- assisting registered community housing providers in working with the Registrar.

Registration Briefing Sessions

The Registrar delivered 23 briefing sessions on the regulatory system and registration process throughout metropolitan and regional NSW for community housing organisations scheduled for registration.

The registration briefing sessions were an important initiative in communicating the requirements of the Regulatory Code and in supporting the community housing sector to prepare for registration. The evaluation of service at the end of the briefing sessions found:

- 94% of respondents had a better understanding of the Regulatory Code after attending the briefing session;



Photo 2: Registration Briefing Session in Parramatta, October 2009

- 90% of respondents said they were better prepared to apply for registration as a result of attending briefing sessions;
- 98% of respondents had a better understanding of the registration application process and evidence requirements;
- 97% of respondents had a better understanding of the application system and submission process;
- 96% of respondents said that the presenter delivered the material in a clear and professional manner; and
- 98% of respondents said that supporting materials were relevant and useful.

Presentations

The Registrar and staff presented to more than 70 meetings and conferences throughout metropolitan and regional NSW. These activities encouraged and supported an understanding of the Regulatory Code and regulatory system, as well as cooperative regulation.

Newsletter

The Registrar published four issues of the quarterly e-newsletter, Regulation Matters, by email to all stakeholders and on the website. The newsletters shared regulatory news and updates, and featured articles on good governance,

the role of notifications under the Regulatory Code, the Provider Assessment and Registration System (PARS), and registered community housing provider case studies.

Website and Publications

The Registrar's website www.rch.nsw.gov.au is a key tool for making regulatory information quickly and easily accessible to all stakeholders.

Since May 2009, a comprehensive suite of registration resources have been published on the website, an online form has been made available for enquiries, complaints and notifications, and an online register of community housing providers is available.

Registrar's Advisory Forum

The Registrar's Advisory Forum was formed in June 2010 to advise and work with the Registrar on strategic direction, regulatory approach and sector engagement.

The Forum is comprised of industry peak body representatives, tenant representatives, Housing NSW representatives, Aboriginal Housing Office representatives and independent members with experience and interest in strategic matters concerning regulation and the delivery of community housing. The Forum secretariat is provided by the Registrar's office.

Administering the Regulatory Code

Regulatory Practice Forum

In 2010, the Registrar took the initiative to establish the Regulatory Practice Forum for housing regulators.

Membership consists of the statutory or administrative housing regulator in each State and Territory, and a representative from the Australian Government. The Forum meets quarterly to facilitate co-operative action and the exchange of ideas, information and practice about housing regulation in Australia

Consultations

In addition to consulting with the Registrar's Advisory Forum, a number of larger industry consultations were undertaken to guide the development and implementation of key regulatory activities, including:

Pilot of the registration assessment arrangements

From May to August 2009, a pilot of the registration arrangements was conducted with 10 community housing providers from all parts of the sector. The pilot was a critical stage in the implementation of the new regulatory system, which provided the opportunity to test systems and processes, and to gauge sector preparedness for registration. Findings and feedback from the pilot were used to ensure the registration system effectively and efficiently assessed community housing providers.

Compliance Framework

From September to December 2010, a consultation was conducted on the Compliance Framework to guide compliance activities under the Housing Act. The consultation, which was facilitated by an independent consultant, Elton Consulting, included nine



Photo 3: Meeting of the Regulatory Practice Forum in Sydney

workshops state-wide and a written submission process that attracted nine submissions. A wide range of stakeholders participated and feedback was positive and constructive. The Compliance Framework is now operational.

Evaluation of Service

At the completion of each registration and compliance assessment, the Registrar evaluates the delivery of regulatory services by inviting feedback from providers. The evaluation of services for the period May 2009 to June 2011 found that:

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

commitment to comply with the Regulatory Code.

Respondents were asked their views on the registration process and how it could be improved. Most feedback was favourable and praised the role of the Registrar's staff in the process:

- *I would like to commend the people who dealt with our initial registration process, we found them to be extremely well informed and helpful at all times and this made the process so much easier. Thank you.*
- *The consultations and numerous opportunities for engaging / meeting and the responsiveness / helpfulness of staff was excellent.*
- *I cannot suggest any way the process may be improved. I found the analyst preparing our report to be very helpful, supportive, and also had an understanding of the nature of supported temporary accommodation services.*
- *Thanks for very professional process I found it well resourced and valuable for our organisation.*

Administering the Regulatory Code

2.2 Sector Registration

To allow organisations to achieve registration within the statutory timeframe, Housing NSW advised the Registrar of the organisations to be included on a Schedule of Registration Rounds.

Housing NSW advised the Registrar of 531 organisations in receipt of community housing assistance and required to be registered under the Housing Act. Of those organisations, 120 were identified as falling outside the scope of the regulatory system as they were mainly programs administered by other State and Local Government agencies. The remaining 411 organisations were included on the Schedule of Registration Rounds.

As at 1 May 2011, the Registrar had determined outcomes on all 411 assessments.

Figure 2: Registration assessment outcomes as at 1 May 2011

Status	No.	%
Registered	235	57%
Elected not to register	116	28%
Failed to apply	8	2%
Ineligible or invalid (eg. not a body corporate)	46	11%
Refused registration	4	1%
Cancelled	2	1%
Total	411	100

The organisations that elected not to register were mainly specialist homelessness services who continued to work in partnership with registered community housing providers.

Of the organisations registered:

- 11 were Class 1 community housing providers

- 19 were Class 2 community housing providers
- 15 were Class 3 community housing providers
- 190 were Class 4 community housing providers

It is expected that over the coming years a small number of 'new entrant' organisations will seek registration as a community housing provider under the Housing Act. The Registrar will assess those organisations and advise Housing NSW of new community housing providers as they are registered and placed on the public register. From the end of the transitional period until 30 June 2011, one new entrant organisation was registered as a community housing provider.

Figure 3: Registration by numbers by class

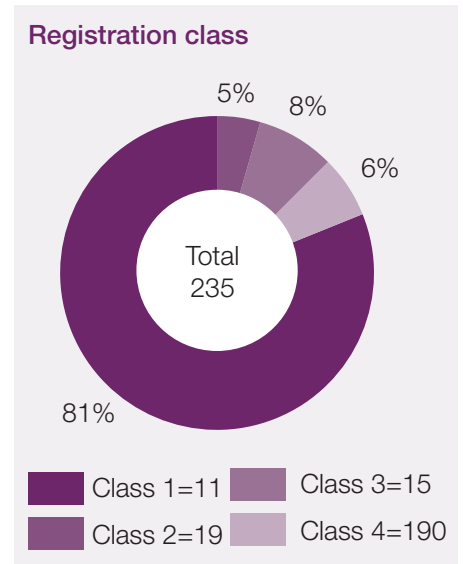
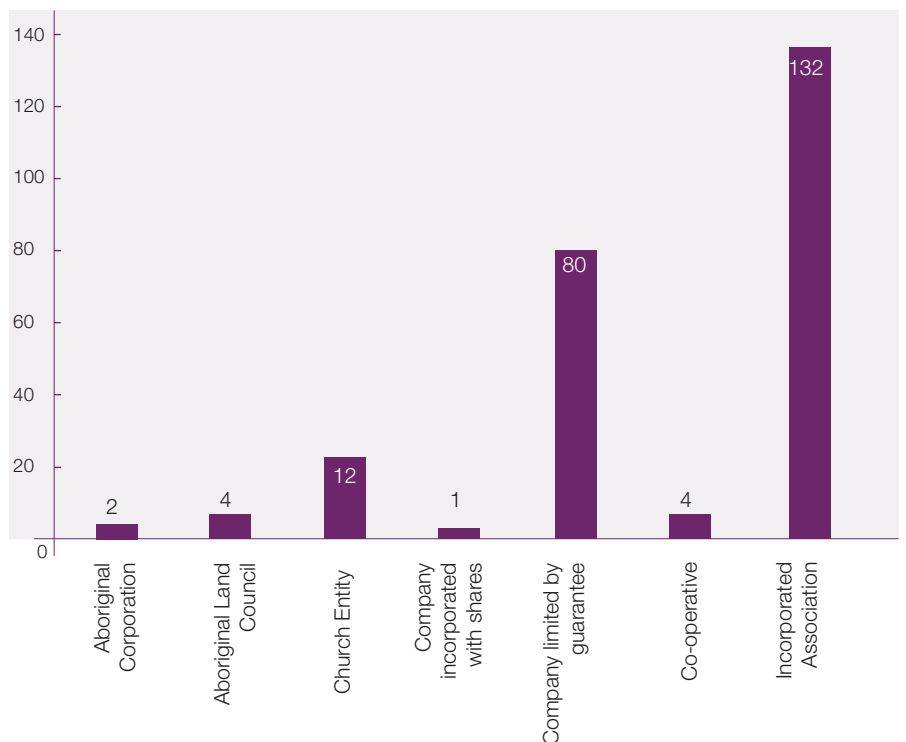


Figure 4: Registered providers by legal entity as at 1 May 2011



Of the 235 community housing providers registered as at 1 May 2011, the majority are incorporated associations (typically Class 4) and companies limited by guarantee (typically Classes 1, 2 and 3).

Administering the Regulatory Code

Figure 5: 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

2.3 Sector Performance at Registration

Registration assessments found a very diverse community housing sector operating generally in a sound condition, with good governance, viable financial performance and good tenancy and asset management.

This section examines the performance of all providers registered from 1 May 2009 to 1 May 2011 under each of the eight Performance Areas of the Regulatory Code. In particular, this section looks at (quantifiable) data given by providers of each class in response to various questions in the application form and at the types of recommendations made in registration reports. Note that some performance requirements, and therefore some application questions, do not apply to all registration classes.

The registration assessment process involved providers submitting responses to questions contained in an application form for the appropriate registration class, as well as submitting certain required documents and other supporting evidence.

In total, 238 applications were lodged in relation to the 235 providers registered. This is because two faith-based providers, due to their special corporate structures, each had to submit applications for service arms that deliver community housing with assistance from Housing NSW.

About the recommendations made in registration reports

The focus of registration assessments was on the provider's demonstration of preparedness to deliver community housing in accordance with the Regulatory Code. All registered community housing providers demonstrated a commitment to comply with the Housing Act and the Regulatory Code.

On each assessment, to ensure providers could take steps to develop that commitment to full compliance within certain timeframes, a range of recommendations were made to all organisations at the time of registration.

Making recommendations forms a fundamental part of the regulation of community housing providers. Recommendations drive continuous improvement and enable providers to focus on achieving and maintaining full compliance with the Regulatory Code. The recommendations made on registration assessments aimed to define and prioritise the actions that providers needed to take to strengthen delivery of community housing in compliance with the Regulatory Code and form the basis for future compliance assessment by the Registrar and the providers themselves.

About the financial data

Two hundred and thirty five community housing providers were registered under the regulatory code over a period of two years from 1 May 2009 to 1 May 2011. During this period community housing providers submitted financial information with the application for registration. Financial information was submitted in the Registrar's prescribed format, the Financial Performance Report (FPR).

Given the two year transition period, FPRs were not collected at a single point in time. The most recent audited financial statements provided with registration applications varied from financial year 2008 to financial year 2010. This means it is not possible to compare financial information on registration across financial years.

For comparison purposes, this report has aggregated each provider's last set of audited financial statements as the 'aggregated reporting year'. Similarly, the second last set of audited financial statements has been aggregated as the 'prior reporting year'. Most of the providers in the 'aggregated reporting year', including the majority of class 1 and 2 providers, submitted the last set of audited financial statements as at 30 June 2009. The dollar value of community housing properties as at 30 June 2009 represents 90% of total dollar value of community housing properties included in the 'aggregated reporting year'.

This is a one-off approach that will be normalised in the financial year 2011-2012 where, under the Compliance Framework, providers' financial information (Classes 1, 2 and 3) will be collected annually at a single point in time, being the second quarter of each financial year.

Administering the Regulatory Code

CASE STUDY A

Class 4 provider using an inappropriate rent-setting model

The provider delivers medium term supported accommodation. It found that residents without a history of being able to pay private rents were facing difficulty in transitioning to private rental accommodation. To address this lack of rental history for its residents, the provider established a program similar to the Housing NSW Private Rental Brokerage Service, and set rent to gradually increase to up to 50% of income. The stated aim was to ensure its residents could budget to meet higher cost of private rental accommodation while being supported, and to build a positive rental history.

Assessment findings

On the information available, although the provider had apparently consulted with the local Housing NSW office regarding the establishment of its program, it was not clear that the rent model met the requirements of Housing NSW's Crisis Accommodation Program (under which the property is managed) or ensured affordable outcomes for residents. While the stated aim was to support residents, the provider retained the benefit of the increased rental payments, and set rents at levels above benchmarks known to cause housing stress.

Assessment recommendation

The recommendation to the provider requires a review of its program, in consultation with the Housing NSW Community Housing Division, to ensure its rent model and residents' lease requirements meet community housing rent policy and supported accommodation program guidelines.

Performance Area 1: Fairness and Resident Satisfaction

All classes of provider must meet the two performance requirements in this area: to use fair and transparent tenant management processes; and ensure that reasonable levels of resident satisfaction are maintained.

For Class 3 and Class 4 providers, recommendations were mostly around needing to: improve and promote complaints and appeals systems; clarify and document rent and tenure policies; and obtain and effectively use resident feedback to improve services.

Reported satisfaction levels are high overall among tenants of Class 1 and 2 providers. The Evidence Guidelines indicate that an overall rate of satisfaction with the services provided should be at least 75%.

Among all Class 1 and 2 providers, only one application in each class reported satisfaction rates below this level, at 70% and 73% respectively. Recommendations that related to this question were made to one Class 1 provider and to five Class 2 providers, and most were about ensuring appropriate action is undertaken in response to the feedback obtained from tenants.

Figure 6: Fair and Transparent Processes

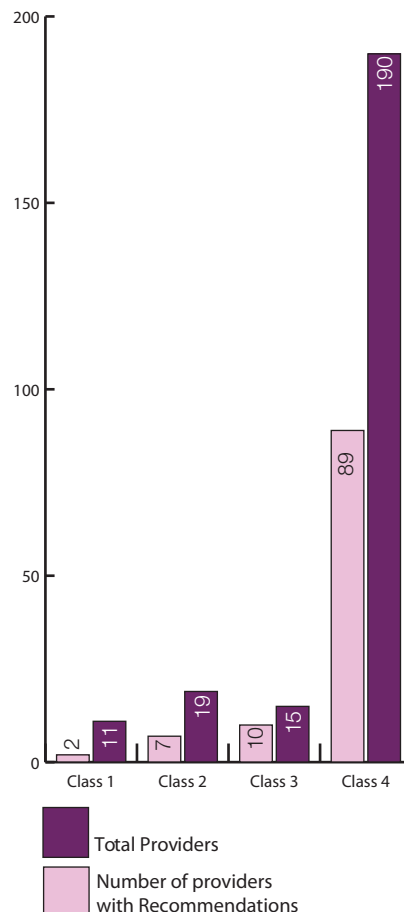
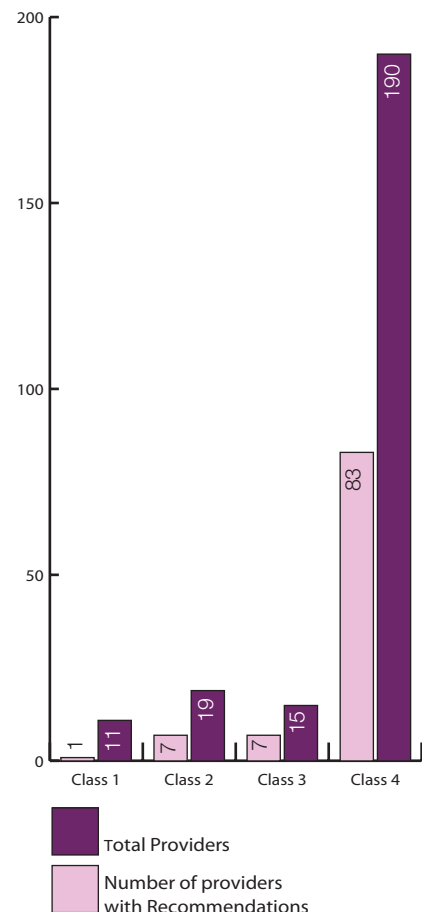


Figure 7: Resident Satisfaction with Overall Quality



Administering the Regulatory Code

Figure 8: Tenant Satisfaction

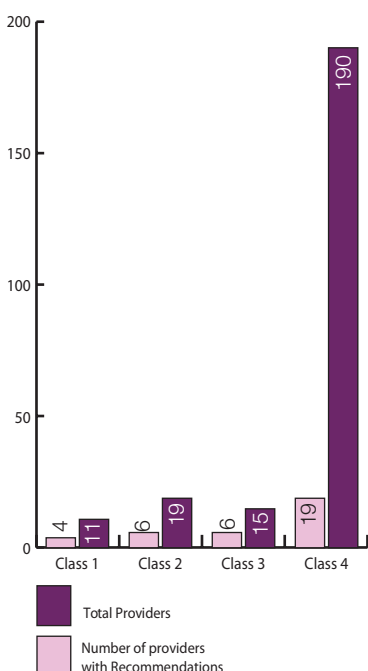
Satisfaction	Class 1	Class 2
71-80%	1	4
81-90%	3	6
91-100%	6	9
No response	1	2
Total	11	21

Performance Area 2: Sustainable Tenancies and Communities

All classes of provider must meet the two performance requirements in this area: adequate support arrangements for tenants to sustain tenancies; and promoting community housing through community involvement.

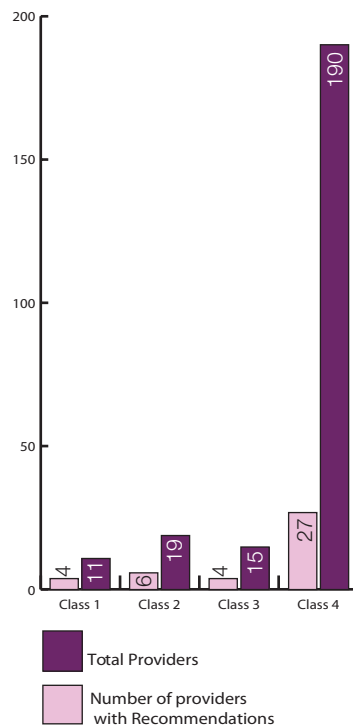
For all classes, most of the recommendations made related to monitoring the adequacy of support agreements and residents' satisfaction with support services.

Figure 9: Support Arrangements for Residents



The relatively good performance of Class 4 providers reflects their expertise in the provision of support services.

Figure 10: Community Involvement



Performance Area 3: Asset Management

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

Typically, Class 4 providers manage less than 30 properties; some as few as 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

CASE STUDY B

Class 4 provider working with other support services for sustainable communities

The provider delivers crisis accommodation, together with support and outreach services for Aboriginal and non-Aboriginal women and children escaping domestic violence and homeless women.

Assessment findings

The provider has an extensive network of support services it draws upon to assist its residents. For example, it delivers healing workshops in collaboration with another support service. Feedback received from workshop participants showed improved self-esteem, enabling them to better face the challenges before them. Feedback also showed that workshops' positive impact had a roll-on effect, with some of the women's partners subsequently deciding to attend the men's group delivered by the support service.

Administering the Regulatory Code

CASE STUDY C

Class 2 provider responding to complaint about its maintenance service

A tenant complained to the Registrar about a provider's lack of response to complaints about repairs and maintenance. While the tenant pursued their individual concern through the NSW Consumer Trader and Tenancy Tribunal, the Registrar assessed whether the complaint raised issues concerning the provider's compliance with the Regulatory Code.

Assessment finding

The provider acknowledged that it needed to develop a more robust system to respond to tenant concerns, and agreed to review the systems in place to ensure repairs and maintenance are completed in accordance with work orders raised.

Assessment recommendation

The recommendation to the provider requires the development and implementation of improved systems, to be reviewed as part of the provider's next compliance assessment.

not have full, if any, responsibility for maintenance. Nonetheless, some organisations that have only a small number of properties with Housing NSW assistance may manage large portfolios of properties that they either own or have 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 long term asset management plan, and to have a rolling 10 year (minimum) costed asset maintenance plan in place.

Among Class 1 providers the recommendations made mostly related to maintenance and planning systems, while resident satisfaction with the maintenance and condition of their properties was generally well monitored. Monitoring resident satisfaction in this area is not so well covered among Class 2 providers. Recommendations about asset planning were consistent with the greater involvement of providers in large-scale asset management, and registration assessment found that 100% of Class 1 providers consistently have long term asset management planning goals, compared with 89% of Class 2 providers and 69% of Class 3 providers. These differences across classes are consistent with

the different level of experience in relation to large-scale asset management as well as their opportunities for portfolio growth.

Figure 11: Asset Management Planning

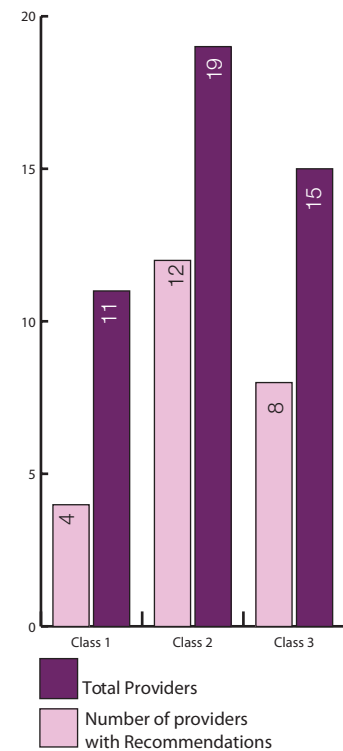
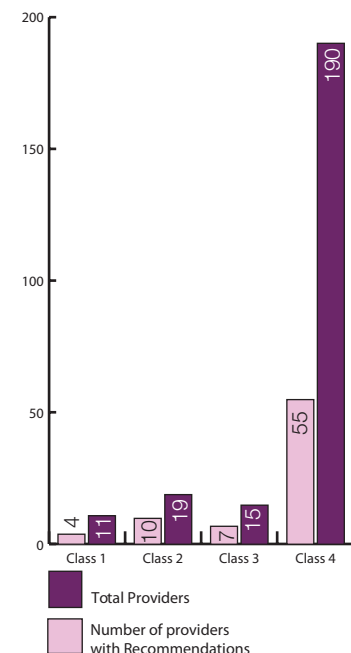


Figure 12: Maintenance Planning



As well as having documented goals about asset management planning, Class 1 and 2 providers are expected to have long term strategic asset management plans in place that address strategic and operational issues. There are increasing opportunities for community housing providers to expand and adjust their property portfolio to meet identified housing needs utilising both government and private resources. Long term strategies are therefore increasingly important, including efficient arrangements for managing property assets throughout their life-cycle. Again, a higher proportion of Class 1 than Class 2 providers reported that they consistently have comprehensive strategic asset management plans.

Where providers are responsible for the maintenance of capital properties, they should have in place a maintenance plan that is regularly updated and shows forecast maintenance needs and costs for every property each year for at least the next ten years. This forms the basis for budgeting, scheduling inspections and undertaking maintenance works across the provider's whole property portfolio. It is important that providers have the capacity to maintain their property assets (whether owned or managed under contractual arrangements) to appropriate standards and can demonstrate this.

Among Class 1 providers, 91% reported they have consistently implemented rolling maintenance plans, compared with 81% of Class 2 providers and 69% of Class 3 providers.

CASE STUDY D

Class 1 provider asset management systems

At the time of registration in 2009, this provider managed over 1,200 properties, was developing 26 properties and planned to acquire 135 properties over the next 18 months. It had successfully tendered for title transfer properties from Housing NSW, has received funding through the National Rental Affordability Scheme (NRAS) and Social Housing Growth Funds (SHGF), and planned to borrow an additional \$8m from the private sector for property development.

Assessment findings

The provider has systems covering all aspects of asset management, and is continuing to further integrate and improve these. Its strategic and operations plans include goals and performance measures relating to asset management, such as ensuring all developments have appropriate project plans. It has a documented asset management strategy outlining risks and mitigation strategies as well as policies on asset management and it has a long-term rolling asset maintenance plan. The organisation also undertakes analysis of housing need and monitors resident satisfaction with aspects of its maintenance service. The provider has modelled its leveraging ability, and is working in partnership with a local university and building centre on modelling environmentally sustainable dwellings for social housing.

To better position itself for the scope and scale of planned growth, the provider was observed to have

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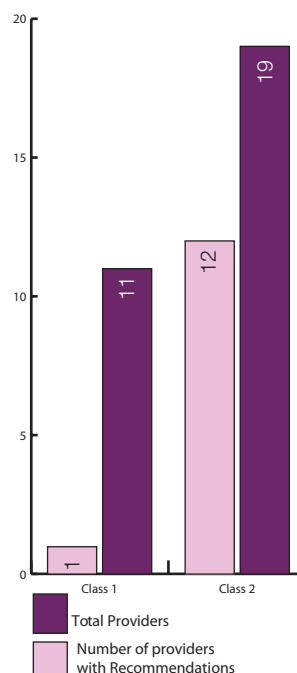
Figure 13: Long Term Asset Management Goals in Plans

GOALS	Class 1	Class 2	Class 3
None/Ad Hoc	0	0	1
Developing	0	4	4
Consistent	11	17	11
No response	0	0	0
Total	11	21	16

Figure 15: Strategic Asset Management Plans

PLAN	Class 1	Class 2
None/Ad Hoc	0	0
Developing	1	64
Consistent	10	15
No response	0	0
Total	11	21

Figure 14: Resident satisfaction with condition and maintenance



Administering the Regulatory Code

CASE STUDY D

Class 1 provider asset management systems (continued)

service improvement opportunities to integrate its asset management planning with financial planning and assumptions, risk management and asset maintenance plans. There were some discrepancies between forecast maintenance costs across its planning processes, as different approaches to costing had been made in each relating to properties being transferred to the provider.

Assessment recommendations

The recommendations to the provider required an integrated approach to asset management planning with asset maintenance, financial and risk management planning, consistent with its asset management strategy.

In response to the registration assessment, the provider commenced recruiting a dedicated position to manage strategic assets and maintenance, as well as a position on staff for a qualified person to conduct the three-yearly rolling property inspections.



Figure 16: Ten year rolling maintenance plan

10 Year Maintenance Plan	Class 1	Class 2	Class 3
None/Ad Hoc	0	0	0
Developing	1	4	5
Consistent	10	17	11
No response	0	0	0
Total	11	21	16

Figure 17: Three yearly inspection of properties

Capital Properties Inspected	Class 1	Class 2	Class 3
Yes	11	18	15
No	0	2	1
No response	0	1	0
Total	11	21	16

Regular on-site inspections of all capital properties by a suitably qualified and experienced person is important to ensure all properties are maintained to relevant industry standards. Where numbers of properties are high, some providers adopt a continual rolling program of inspections. Most providers incorporate information from such inspections into their rolling long-term maintenance plans. Additional inspections would also be done by a person with suitable experience, for example when a tenancy is terminated. Registration assessments have shown that some providers that receive funding to provide support services, but have a relatively small number of community housing properties, may

have systems where inspections have been based on OH&S standards rather than building standards.

Most providers, in all classes, reported that they do have comprehensive inspections of capital properties done at least every three years by a party with appropriate qualifications or experience.

Administering the Regulatory Code

Performance Area 4: Sound Governance

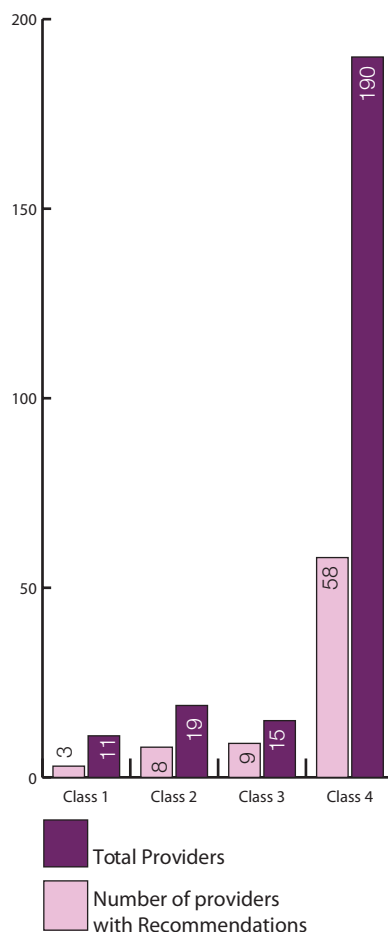
There are four performance requirements under this Performance Area. All classes of provider must ensure the governing body is effective and has sufficient expertise and that the organisation complies with relevant legal and regulatory requirements, standards and guidelines. In addition, Classes 1, 2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

Community housing providers in NSW vary widely in their size, type, organisational structure, scope of business and plans for the future. While 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, or in property development, 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 provider. The roles and responsibilities of governing body members should be clearly defined by the organisation and acknowledged by each member.

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. The expertise needs of Class 4 providers, many

of which are support-focussed, 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.

Figure 18: Expertise of Governing Body



CASE STUDY E

Class 4 provider with poor internal controls

The provider delivers housing to low income earners of a cultural group. It also delivers a childcare centre and welfare office.

Assessment findings

The provider relied on the individually held knowledge of its governing body members and staff and its networks rather than documented policies and procedures, to:

- prevent fraud, corruption or criminal conduct;
- facilitate compliance with legal and contractual requirements;
- ensure fair and transparent processes for its residents and applicants; and
- deliver asset maintenance.

Assessment recommendation

The recommendations to the provider require the governing body to implement an action plan, under the advice of an industry peak body, to develop and implement its operational policies and procedures and internal controls to achieve compliance with the Regulatory Code.

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Figure 19: Governing body decision making

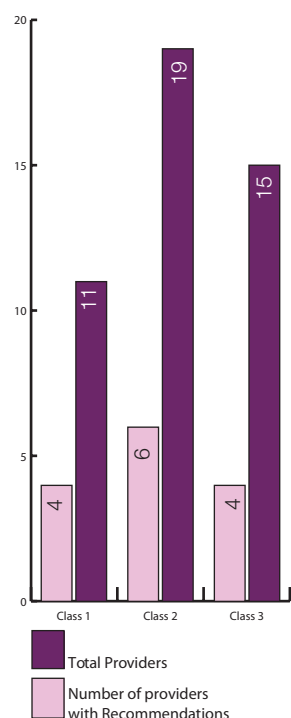


Figure 20: Compliance with legal and other requirements

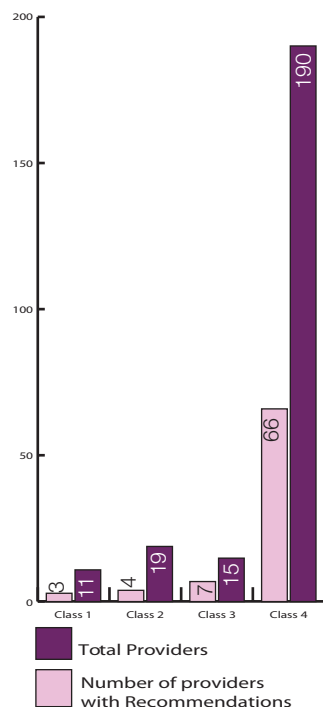
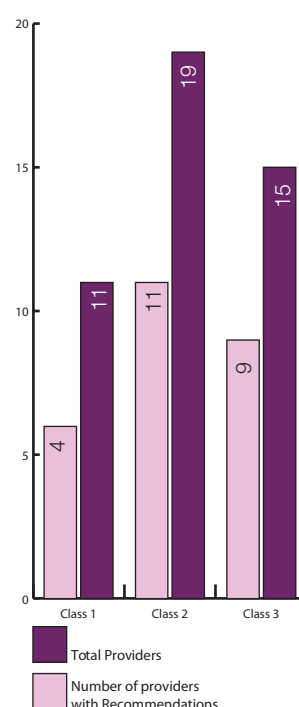


Figure 21: Planning



All providers should have a process for regularly reviewing the skills of its governing body and addressing any identified skill shortages. If strategic plans are to be implemented successfully, it is important that future as well as current needs of the organisation are considered. For some providers, particularly smaller organisations, this is a fairly informal process that takes place as part of its Annual General Meeting process,

when new board members may be sought. Others, particularly larger providers that are developing new business, may use a structured approach facilitated by an external consultant that looks at both the board and its individual members. Outcomes of such reviews might include providing opportunities for skill enhancement to existing members as well as recruiting new skills.

The vast majority of providers in all classes reported a process for regularly reviewing the skills of their governing body. However, a significant proportion of Class 4 and Class 3 providers) did not respond to this question. This raises concern, as even where the business is fairly consistent it is important to monitor and maintain appropriate governance skills.

Figure 22: Governing body reviews its skills

Skills Review	Class 1	Class 2	Class 3	Class 4
Yes	11	20	13	168
No	0	0	2	17
No response	0	1	1	5
Total	11	21	16	190

Figure 23: Governing body frequency of skills review

Frequency of Skills Review	Class 1	Class 2	Class 3	Class 4
Monthly	0	1	0	5
Quarterly	0	1	0	5
6 Monthly	1	3	1	9
Annually	8	9	9	122
18 Months	1	0	0	1
24 Months	0	2	1	4
Other	1	5	2	23
No response	0	0	3	21
Total	11	21	16	190

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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 manage potential 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 resulted in relatively high numbers of recommendations for all registration classes.

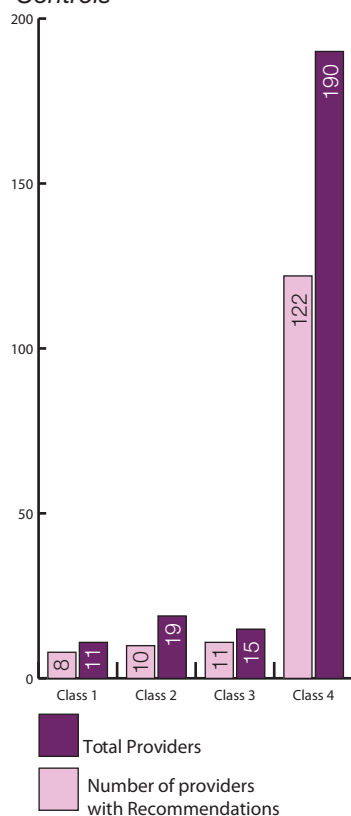
Most providers have some elements of fraud and corruption prevention in place, but these vary markedly depending on the size and nature of the business. Elements can include codes of conduct, formal delegation schedules, financial management policies and controls, audits and other mechanisms. It is important that volunteers, staff and board members are all covered by a code (or codes) of conduct. It is not unusual to find that while policies and procedures address the conduct of staff and volunteers, they fail to give adequate guidance about the conduct of members of the governing body.

As codes of conduct, codes of ethics and other systems to prevent fraud and corruption tend to be developed by providers over time, some gaps and inconsistencies between final documents often result. Regular review of these systems is important to ensure they are appropriate, understood and used.

An area often overlooked is facilitating reporting of allegations of corrupt behaviour by protecting the 'whistleblower'. (Whistleblower protection is good practice but is not a legal requirement for most community housing providers.) Class 1 and 2 providers are expected to have a fraud and corruption prevention plan in place as part of their overall risk-management system.

Notifying the Registrar is a new requirement, introduced as part of the Regulatory Code. Assessment therefore usually relied on the providers demonstrating a commitment to implement a system to notify the Registrar when appropriate, and recommendations were made about this to over 75% of the providers in each class. In most cases these referred to the Registrar's Guidance Note on this requirement to help the provider establish appropriate systems.

Figure 24: Fraud and Corruption Controls



CASE STUDY F

Class 4 provider with inadequate systems for managing conflict of interest

The provider delivers supported accommodation and support programs to people with disabilities.

Assessment findings

The provider did not have a set of policies and procedures, or reliable practices, for identifying, managing and removing or mitigating conflicts of interest. As a result, an unmitigated conflict of interest situation had been a feature of the provider's operations. A member of the governing body was a parent of a tenant and owned one of the properties in the provider's portfolio. The governing body member received rent for the use of the property; however a formal lease was not in place that reflected these arrangements, a arms length management arrangement was not in place; and the arrangement did not appear to meet the receipt of benefit and conflict of interest provisions of the provider's constitutional documents.

The provider believed the long-standing arrangements in place were satisfactory and did not need to be formalised.

Assessment recommendation

The recommendation to the provider requires the resolution of the leasing arrangement between the governing body member and the provider, establishment of a system to support the code of conduct, and the governing body member declaring a conflict of interest and the governing body implementing appropriate mitigation strategies.

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CASE STUDY G

Class 4 provider that operates with a close financial margin

The provider delivers supported accommodation. In the FPR submitted with its registration application, the three years of audited historical financial data showed the provider had negative operating margins of (0.4%), (3.4%), and (1.7%). This flagged potential financial viability issues.

Assessment findings

The provider was forecasting a return to surplus in the next financial period. During the registration assessment the next period audited financial statement became available, which validated the positive forecast. The provider also had a strong working capital ratio (of over 3:1) for each period, and a positive cash flow.



Figure 25: Code of Conduct

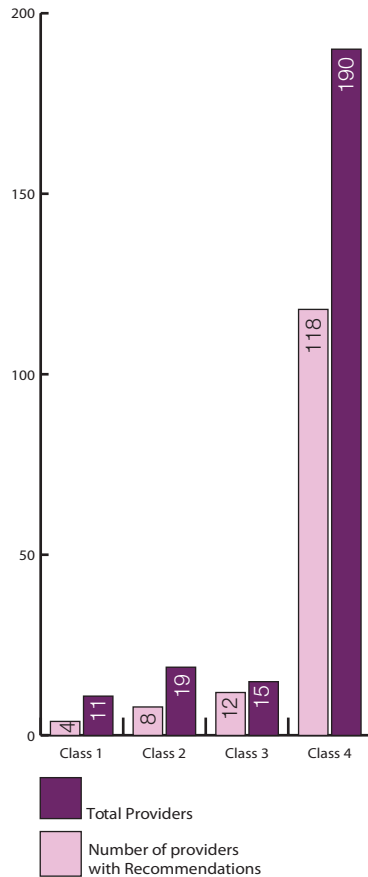
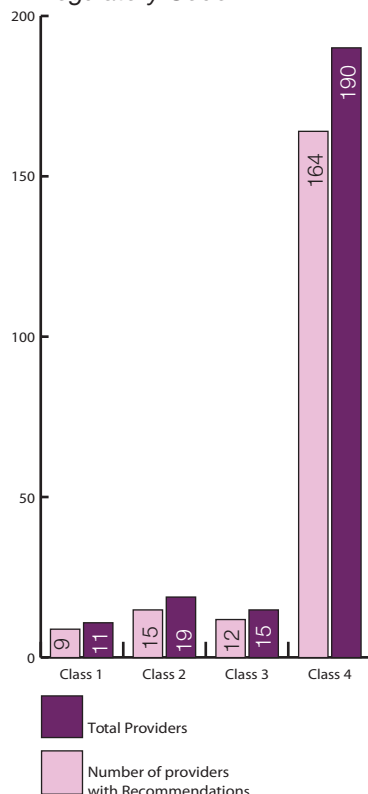


Figure 26: Notifications under the Regulatory Code



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, often (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.

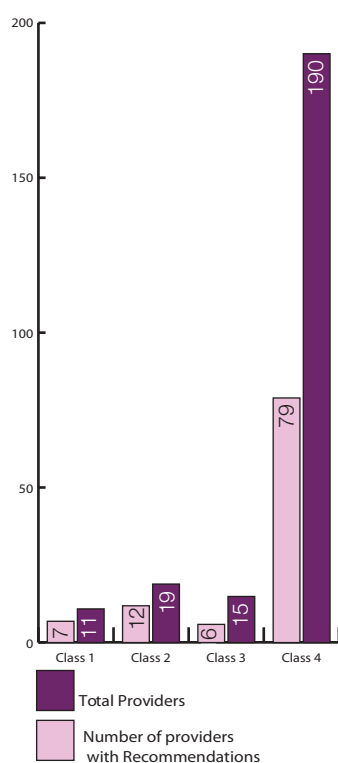
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Many Class 4 providers are support-focussed organisations that receive recurrent government funding where the funds must be acquitted at year's end. This context is taken into account when assessing viability. Such cases typically show low but positive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

Recommendations about financial performance were made to relatively large numbers of Class 1 and 2 providers, on matters including operating margins, gearing ratios and financial forecasting. This largely reflects that organisations were still developing (through 2008 to 2010) systems to successfully deliver property development through leveraging. In contrast, Class 4 providers received recommendations in this area related to financial controls, operating margins and cash flow issues.

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.

Figure 27: Financial performance



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

CASE STUDY H

Class 1 provider capital structure and growth strategy

The provider doubled the number of community housing properties it had under management between 2008 and 2009. It forecast continued rapid growth each year, to around four times of current portfolio in 2012. A substantial part of this forecast growth relies upon development of community housing properties, as well as property transfers from Housing NSW.

Assessment findings

The provider plans to leverage its growing asset base through commercial debt to generate further growth. The overall financial performance of the provider was good over the period 2007 to 2009, and it forecast improvement over the period 2010 to 2012. Financial ratios over the assessed period 2007 to 2012 indicated the provider is managing its growth well.

The data submitted reflected better cash balances and working capital ratios, but a compromised capital structure in the forecast period 2010 to 2012. The provider's gearing ratio was 0% in 2007, 5.1% in 2008 and 11.1% in 2009. Levels of gearing have been well managed to date. However, the future trend fluctuates, with forecast gearing ratios of 14.0% in 2010, 45.1% in 2011, and 25.0% in 2012. The gearing ratio falls due to a considerable debt re-payment planned in 2012. These levels of gearing weaken the capital structure, but are manageable considering the forecast growth in community housing assets and rental revenue.

Assessment recommendation

The recommendation to the provider requires implementation of strategies to improve operating performance in 2012 to allow for sustainable growth into the future, particularly in relation to effective debt management.

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Figure 28: Business Planning

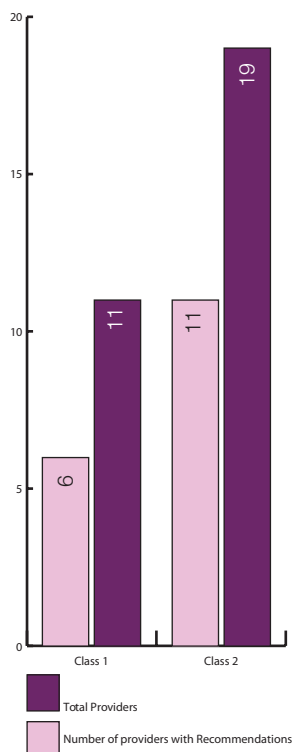


Figure 29: Risk management planning

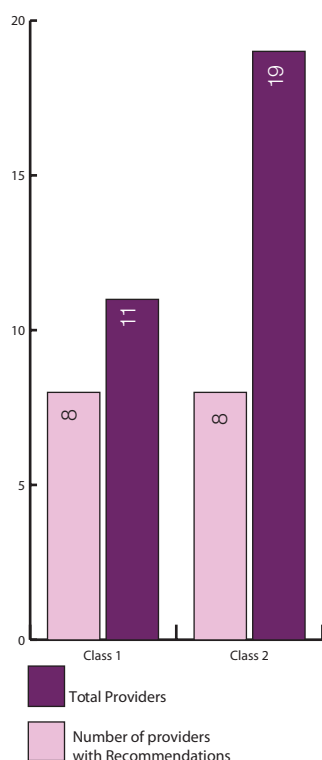


Figure 30: Frequency of risk management plan reviews

Frequency of Management Plan Review	Class 1	Class 2
Monthly	0	3
Quarterly	2	2
6 Monthly	2	5
Annually	6	9
Other	1	1
No response	0	1
Total	11	21

As previously stated, the methodology for the collection of financial information has been that the organisations seeking to be registered as community housing providers submitted financial information to the Registrar of Community Housing with their application for registration. This information was submitted in the Registrar's prescribed format, the Financial Performance Report (FPR).

FPRs were collected over the period of two years, as providers' registration fell due, not at a single point in time. The three-year historical information included in the FPR will therefore refer to different financial years for different providers. The most recent audited financial statements provided with the registration application vary from financial year 2008 to financial year 2010. This means it is not possible to compare financial information across financial years.

For comparison purposes, this report has aggregated each provider's last set of audited financial statements as the 'aggregated reporting year'. Similarly, the second last set of audited financial statements has been aggregated as the 'prior reporting year'. As

indicated, most providers in the 'aggregated reporting year', including the majority of class 1 and 2 providers, submitted the last set of audited financial statements as at 30 June 2009. The value of community housing properties as at 30 June 2009 represents 90% of total dollar value of community housing properties included in the 'aggregated reporting year'.

This is a one-off approach that will be normalised in the financial year 2011-2012 where financial information of community housing providers (Classes 1, 2 and 3) will be collected annually at a single point in time. Financial information for Class 4 providers will be collected on the second anniversary of their registration assessment or at any other time if an earlier compliance assessment is warranted.

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Figure 31: Operating Surplus and Margin

	Operating Surplus		Operating Margin	
	Prior Reporting Year	Aggregated Reporting Year	Prior Reporting Year	Aggregated Reporting Year
	\$ millions	\$ millions	%	%
Sector	\$150.8	\$143.7	5.2%	4.3%
Class 1	\$18.7	\$19.6	18.0%	14.7%
Class 2	\$36.7	\$6.0	4.1%	0.6%
Class 3	\$54.2	\$80.7	14.6%	18.5%
Class 4	\$41.1	\$37.3	2.8%	2.1%

Figure 32: Operating Income

The sector's operating surplus decreased by 4.7% in the aggregated reporting year. The sector's financial performance also suffered a slight decline in the same period. The financial performance of all classes, except class 3 providers, declined in the aggregated reporting year. This is mainly because the sector's operating income has grown at a slower rate than the increase in expenses. For Class 1 and 2 providers this is reflective of the lag associated with scaling up infrastructure to meet future growth.

The number of community housing providers with operating deficits is zero for Class 1 providers, two for Class 2 providers, five for Class 3 providers, and 51 for Class 4 providers in the prior reporting year. This compares to one for Class 1 providers, three for Class 2 providers, three for Class 3 providers, and 69 for Class 4 providers in the aggregated reporting year.

	Operating Income			
	Prior Reporting Year		Aggregated Reporting Year	
	Rent Income \$ millions	Other Income \$ millions	Rent Income \$ millions	Other Income \$ millions
Sector	\$115.3	\$1,416.6	\$156.1	\$1,584.3
Class 1	\$48.8	\$26.3	\$71.7	\$21.0
Class 2	\$36.6	\$358.3	\$49.3	\$365.9
Class 3	\$6.9	\$204.3	\$8.4	\$257.5
Class 4	\$22.9	\$827.7	\$26.7	\$939.9

Sector income was \$3,328.9 million in the aggregated reporting year, an increase of 15.9% on the prior reporting year (\$2,872.4 million).

The income composition of the sector and each class type remains constant and the proportion of income remains similar over the prior and aggregated reporting periods. Rent income increases in

dollar value and as a percentage of total income across the sector and Classes 1 and 2.

Rent income improves in all classes and hence in the aggregated sector picture. This improvement relates to the overall growth of community housing properties managed by community housing providers in the aggregated reporting year.

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Figure 33: Operating expenses

Sector	Operating Expenses							
	Prior Reporting Year				Aggregated Reporting Year			
	Maintenance \$ millions	Employee \$ millions	Depreciation \$ millions	Other Expenses \$ millions	Maintenance \$ millions	Employee \$ millions	Depreciation \$ millions	Other Expenses \$ millions
Sector	\$90.3	\$1,586.7	\$141.5	\$903.2	\$105.6	\$1,849.1	\$172.6	\$1,057.9
Class 1	\$12.2	\$14.3	\$3.9	\$54.6	\$15.4	\$20.6	\$5.4	\$72.5
Class 2	\$36.9	\$548.3	\$60.0	\$221.6	\$43.1	\$612.8	\$72.9	\$261.9
Class 3	\$9.5	\$122.9	\$17.3	\$167.6	\$10.3	\$141.0	\$19.0	\$185.6
Class 4	\$31.7	\$901.1	\$60.3	\$459.4	\$36.8	\$1,074.8	\$75.2	\$538.0

Sector operating expenses were \$3,185.2 million in the aggregated reporting year, an increase of 17.0% on the previous year (\$2,721.7 million).

The expenses composition of the sector and each class type remains constant and the proportion of expenses remains the same over the prior and aggregated reporting years. All expenses items increase in dollar value but all remain constant as a percentage of total expenses.

Other expenses include interest expenses. Sector interest expenses were \$18.2 million or 0.57% of total expenses in the aggregated reporting year. Interest expenses for Class 1 and 2 providers were \$1.0 million (0.88% of Class 1 total expenses) and \$4.9 million (0.49% of Class 2 total expenses) respectively. Class 3 providers have interest expenses less than \$0.1 million. This leaves Class 4 providers with interest expenses of \$12.2 million or 0.70% of Class 4 total expenses.

None of the expenses items relate exclusively to the community housing sector. All classes in the sector have a different number of providers with different business models offering a diversity of services. In future annual statements

Figure 34: Interest cover

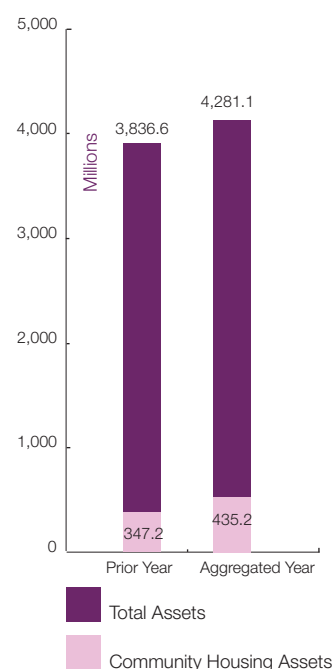
Sector	Interest Cover	
	Prior Reporting Year times	Aggregated Reporting Year times
Sector	26.9	14.5
Class 1	196.6	21.7
Class 2	37.4	8.3
Class 3	1292.3	1831.1
Class 4	12.6	8.6

of performance income and expenses related to community housing sector will be differentiated.

The registration assessment of community housing providers pays particular attention to their ability to service debt. The Registrar has adopted the 'EBITDA' measure to capture this important indicator. EBITDA is based on operating surplus adjusted for interest costs taxation and depreciation. The interest cover ratio is expressed in times, with a ratio of 1.0 being the minimum needed to meet interest costs.

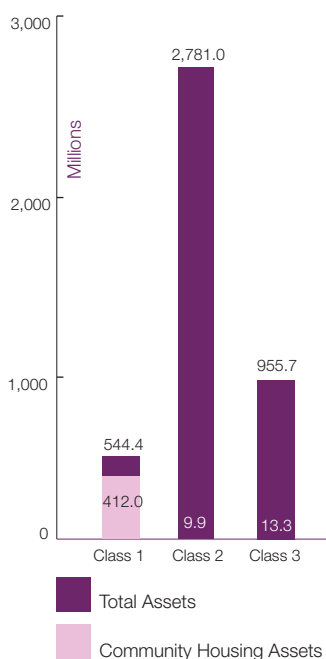
The low levels of debt and the overall good financial performance of the sector are reflected in the strong interest cover ratio for the whole sector.

Figure 35: Asset Values Class 1, 2 and 3



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Figure 36: Asset values by class type – Aggregated Reporting Year



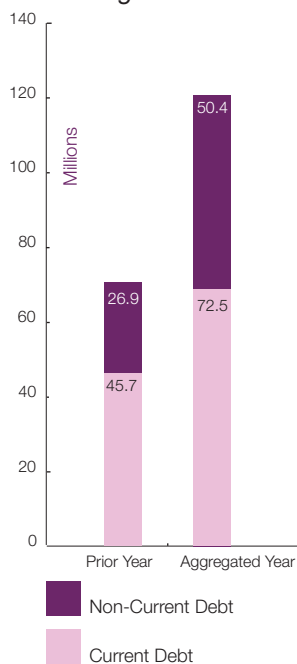
The financial viability assessment considers financial risks related to community housing and non-community housing investments.

Total owned asset value increased by \$444.4 million or 12% to reach a value of \$4,281.1 million in the aggregated reporting year. Likewise, community housing asset value increased by \$88.0 million or 25% to a value of \$435.2 million in the aggregated reporting year. Community housing assets as a proportion of total assets were 9% and 10% in the prior year and aggregated reporting year respectively.

The value and growth of community housing assets concentrates primarily in Class 1 providers in the aggregated reporting year.

Interest bearing debt for Classes 1, 2, and 3 totalled \$122.9 million in the aggregated reporting year, which is an increase of 69% on

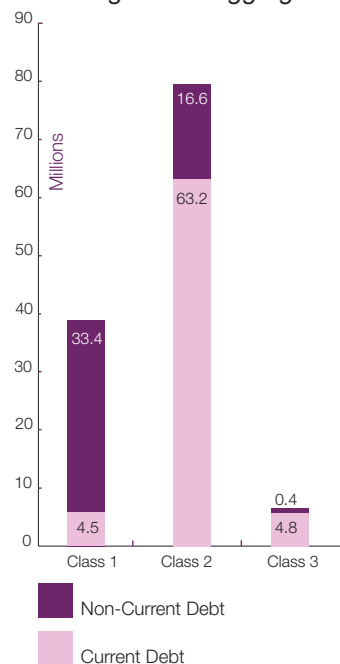
Figure 37: Aggregated debt – Interest Bearing Debt - Class 1,2 and 3



the previous year (\$72.6 million). In both prior and aggregated reporting years, current debt has been greater than non-current debt. Current debt as a percentage of total debt was 63% and 59% in prior and aggregated reporting years respectively. Current debt is due and payable by the provider within 12 months after the end of the reporting period.

The proportion of current and non-current interest bearing debt differs across classes 1, 2, and 3. Current debt represents 12%, 79%, and 93% for Class 1, 2, and 3 respectively. Class 1 providers' current and non current debt relates to growth in community housing assets where commonly debt periods are linked to the useful life of the asset. In contrast, 92% of Class 2 providers' current and non current debt relates to non-community housing assets (aged care assets). Aged care assets are mainly funded with resident bonds/loans. Short-

Figure 38: Debt per class type – Interest Bearing Debt – Aggregated Reporting Year



term loans are used as a vehicle to develop assets. Then they are replaced with tenant bonds/loans which have a longer life span and cheaper or no interest attached.

Class 3 interest bearing debt concentrates in one provider with 92% of Class 3 total interest bearing debt. This provider's debt represents only 0.5% of its total assets.

Class 1 providers have an aggregate gearing ratio of 7.0% in the aggregated reporting year compared to 1.7% in the prior year. The median gearing ratio increased from 0.2% to 10.3% in the aggregated reporting year. Only one community housing provider reported fair value gains from revaluation of community housing assets in the aggregated reporting year. Class 1 overall profits on disposal of assets were \$0.3 million in the aggregated reporting year compared to nil in the previous year.

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Figure 39: Summary Financial Statements and Key Financial Ratios

	Class 1, 2 and 3			Sector		
	Prior Year	Aggregated Year	Variance	Prior Year	Aggregated Year	Variance
	\$Millions	\$Millions	(%)	\$Millions	\$Millions	(%)
Income Statement						
Government Operating Grants Received	697.6	793.0	13.7%	1,340.5	1,588.5	18.5%
Rent income	92.3	129.4	40.2%	115.3	156.1	35.4%
Other Income	588.9	644.4	9.4%	1,416.6	1,584.3	11.8%
Total Operating Income	1,378.8	1,566.8	13.6%	2,872.4	3,328.9	15.9%
Operating Expenses	1,186.3	1,357.2	(14.4%)	2,571.6	2,994.4	(16.4%)
Depreciation	81.2	97.3	(19.8%)	141.5	172.6	(22.0%)
Interest Expenses	1.6	6.0	(275.0%)	8.5	18.2	(114.1%)
Total Operating Expenses	1,269.1	1,460.5	(15.1%)	2,721.6	3,185.2	(17.0%)
Net Operating Surplus	109.7	106.3	(3.1%)	150.8	143.7	(4.7%)
Government Capital Grants Received	12.6	38.2	203.2%	21.3	47.3	122.1%
Unusual and Non-Recurring Items	54.4	46.6	(14.3%)	51.0	68.4	34.1%
Net Surplus	176.7	191.1	8.1%	223.1	259.4	16.3%
Balance Sheet						
Cash & short term investments	574.8	617.8	7.5%	788.9	867.7	10.0%
Other current assets	375.2	393.9	5.0%	640.0	650.0	1.6%
Current Assets	950.0	1,011.7	6.5%	1,428.9	1,517.7	6.2%
Non-Current Assets	2,886.7	3,269.4	13.3%	3,918.4	4,492.6	14.7%
Total Assets	3,836.7	4,281.1	11.6%	5,347.3	6,010.3	12.4%
Current Interest Bearing Debt	45.7	72.5	(58.6%)	127.7	115.9	9.2%
Other Current Liabilities	397.1	455.9	(14.8%)	852.8	1,006.7	(18.0%)
Current Liabilities	442.8	528.4	(19.3%)	980.5	1,122.6	(14.5%)
Interest Bearing Debt	26.9	50.4	(87.4%)	75.4	150.5	(99.6%)
Other Non-Current Liabilities	1,207.4	1,396.8	(15.7%)	1,390.1	1,603.2	(15.3%)
Non-Current Liabilities	1,234.3	1,447.2	(17.2%)	1,465.5	1,753.7	(19.7%)
Total Liabilities	1,677.1	1,975.6	(17.8%)	2,446.0	2,876.3	(17.6%)
Net Assets	2,159.6	2,305.5	6.8%	2,901.3	3,134.0	8.0%
Retained Earnings	2,195.2	2,368.0	7.9%	2,941.1	3,191.0	8.5%
Reserve	(35.6)	(62.5)	(75.6%)	(39.8)	(57.0)	(43.2%)
Total Equity	2,159.6	2,305.5	6.8%	2,901.3	3,134.0	8.0%
Statement of Cash Flows						
Cashflows from Operating Activities (Net of Capital Grants)	149.3	188.8	26.5%	284.9	390.8	37.2%
Cash Flow from Investment Activities	(292.4)	(491.6)	(68.1%)	(443.6)	(664.8)	(49.9%)
Cash Flow from Financial Activities	189.2	345.8	82.8%	240.2	349.4	45.5%
Net Cash flow	46.1	43.0	(6.7%)	81.5	75.4	(7.5%)
Opening Cash balance	528.7	574.8	8.7%	707.4	792.3	12.0%
Closing Cash balance	574.8	617.8	7.5%	788.9	867.7	10.0%

Administering the Regulatory Code

Figure 40: Key Financial Ratios

	Class 1, 2 and 3		Sector	
	Prior Year	Aggregated year	Prior Year	Aggregated year
EBITDA Margin(%)	10.7%	10.4%	8.5%	8.4%
Working Capital Ratio(times)	2.1	1.9	1.5	1.4
Operating Cash Adequacy(%)	112.8%	113.8%	111.1%	113.0%
Gearing Ratio(%)	1.9%	2.9%	3.8%	4.4%
Interest Coverage Ratio(times)	86.8	26.4	27.9	15.0

Performance Area 7: Efficient and Competitive Delivery of Community Housing

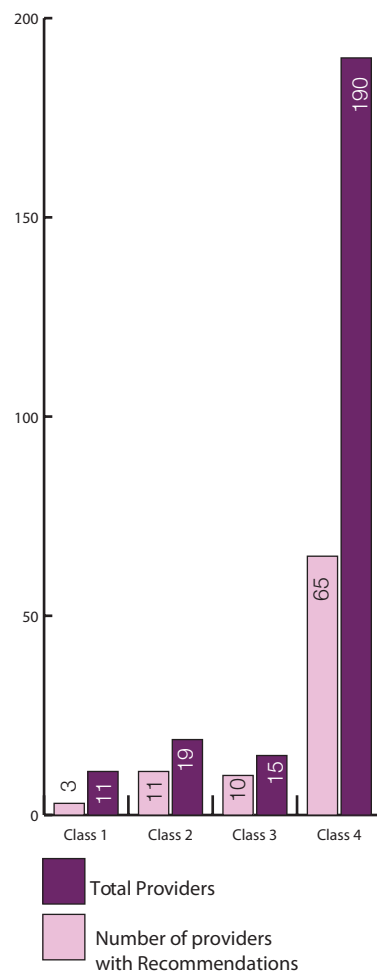
This Performance Area looks at whether providers of all classes, make efficient use of their community housing properties and funding. Class 1, 2 and 3 providers must also demonstrate their costs of management are competitive.

Recommendations about efficiency measures were made to all classes, with a high proportion of the recommendations made to Class 3 and Class 4 providers relating to a need for regular review of market rents and residents' incomes.

Recommendations were made to Class 1 and Class 2 providers on topics including managing corporate overheads, and setting and monitoring efficiency measures in business plans.

For providers that are significantly dependent on rental income, it is important to have efficient tenancy management systems around allocations, market and tenant rent reviews, and arrears management. Housing NSW's *Community Housing Rent Policy* does not apply to 'crisis' accommodation. However the basis of any fees charged to residents should be clear, fair, well documented and explained to the

Figure 41: Efficiency



resident – this is an area where there is scope for improvement among many of the support-focused providers assessed for registration.

CASE STUDY I

A Class 4 provider that is not subject to Community Housing Rental Policy

The provider manages one property, under a Community Lease agreement with Housing NSW, which operates as a permanent community home for two people with profound disabilities. The residents are clients funded by Ageing, Disability and Home Care, which sets rent policy (which is paid to the provider) at 25% of the disability pension.

As this property is managed under a Community Lease and rent payments from residents are set by ADHC, the provider is not required to review market rents or take other steps to ensure it has appropriate rental income.



Administering the Regulatory Code

The community housing sector has historically used a benchmark of 28 days for turnaround of void properties (that is, the time property is not habitable due to maintenance needs). All Class 1 providers, half of Class 2 providers and the majority of Class 3 providers reported that they achieved average void times within the benchmark.

The community housing sector has historically used a benchmark of 14 days for turnaround of vacant properties (that is, the time a property is not occupied while another resident is being selected/allocated). There is scope for improvement in reducing vacancy rates across the sector generally, although the operating context of individual organisations does influence these outcomes.

Note that providers have not all reported on the same year in response to these questions about vacants and voids, as this depends on when the registration application was lodged. Class 4 responses were inconsistent so are not included, as in most cases they have not previously collected this data.

The provider's program aims and the needs of its residents and tenants are important considerations when looking at performance relating to voids and vacancies. For many support-focussed providers, reporting obligations under funding contracts focus on

Figure 42: Average property void days

PROPERTY VOID DAYS	CLASS 1	CLASS 2	CLASS 3
0-10 days	2	3	8
11-20 days	3	3	2
21-30 days	6	5	1
31-40 days	0	2	0
41-50 days	0	1	0
51-60 days	0	1	1
61-70 days	0	1	0
71-80 days	0	0	1
81-90 days	0	0	0
91-100 days	0	1	1
100+ days	0	0	1
No response	0	4	1
Total	11	21	16

the scale and nature of the support service provided rather than use of properties. Many Class 4 providers, for example, unlike large providers, do not systematically collect data on vacancies and voids. Properties used for crisis accommodation, group homes or other shared/supported accommodation, may never be completely empty and for sound operational reasons may not always be filled to capacity. Vacancy times may be longer where, for example, ensuring compatibility with other residents of a shared home is a factor.

It is important to monitor and minimise arrears levels to maintain financial efficiency. There is often an 'overlap' period in arrears benchmarks because rent due but not paid in, for example, the last week of a year will not be 'in arrears' until the first weeks of the following year. Rent arrears of 4% or less is the benchmark. All Class

Figure 43: Average property vacant days

PROPERTY VACANT DAYS	CLASS 1	CLASS 2	CLASS 3
0-10 days	4	9	10
11-20 days	5	6	3
21-30 days	0	2	0
31-40 days	0	0	0
41-50 days	0	0	1
51-60 days	0	0	1
61-70 days	0	0	1
71+ days	0	1	0
No response	2	3	0
Total	11	21	16

1 providers reported having levels of 2% or less, as did the majority of Class 2 providers. Only three Class 2 providers had arrears levels over the 4% benchmark. Among Class 3 providers, the majority reported levels under 4%.

Figure 44: Rent arrears

RENT ARREARS	CLASS 1	CLASS 2	CLASS 3
1%	3	5	5
2%	6	5	2
3%	2	2	2
4%	0	2	1
5%	0	2	1
6%	0	1	3
7%	0	2	0
8%	0	0	1
9%	0	0	0
10% +	0	0	1
No response	0	2	0
Total	11	21	16

Administering the Regulatory Code

Performance Area 8: Development Projects

The performance requirements under this Performance Area apply to Class 1 and Class 2 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. Assessments found comprehensive and professional approaches to development project planning by providers. Some have executed small development projects and plan larger ones; some have already

borrowed private funds for this purpose and others are preparing to do so. Some commenced with project-managing redevelopments and progressed to more complex land purchase/new-build projects. A range of innovative approaches are emerging, including partnerships between providers, developers and investors. Recommendations about planning and costs were made to five Class 1 providers and to fourteen Class 2 providers. Recommendations about financial leverage were made to six Class 1 providers. These recommendations were in the nature of positioning providers for continuing growth in development projects as an ongoing business line rather than addressing any shortcomings in current performance.

Administering the Regulatory Code

2.4 Sector Compliance

In December 2010, following consultation with the community housing sector and Housing NSW, the Registrar published an Interim Compliance Framework to provide a platform for compliance promotion and assessment. The Interim Compliance Framework has been extended as the operative guidance for compliance activity under the Housing Act until the commencement of the National Regulatory System. This approach will minimise the impact and burden of further regulatory system changes for the sector, and will allow a more 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.

All Class 1, 2 and 3 registered community housing providers have been 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 Meeting.

All Class 4 registered community housing providers have been scheduled for compliance assessment biennially on the anniversary of registration, unless the registration assessment report or a subsequent risk assessment indicates an earlier compliance assessment is required.

Compliance assessments involve a registered community housing provider submitting relevant information and evidence to the Registrar. Compliance assessments may also involve site visits where staff from the Registrar's office attend a registered community housing provider to validate and clarify performance outcomes.

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 will be given the opportunity to take responsibility for remedying its performance. 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.

Where 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 is required to be given to the New South Wales Land and Housing Corporation (Housing NSW) and to be published on the public register of registered community housing providers.

The Registrar must cancel the registration of a registered community housing provider if the Registrar is satisfied that a notice of intent to cancel registration has been issued and the registered community housing 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.

Administering the Regulatory Code

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

Compliance assessments

From 1 May 2009 to 30 June 2011, 17 compliance assessments were commenced and three assessments were completed. One compliance assessment confirmed the provider's ongoing compliance with the Regulatory Code. The second compliance assessment resulted in the issuing of a notice of non compliance, followed by a notice of intent to cancel registration and the request to appoint a special advisor; and subsequently a notice of cancellation of registration. The third compliance assessment resulted

in a cancellation of registration as the provider merged with another registered provider. Fourteen compliance assessments are underway.

The provider that demonstrated ongoing compliance at the time of the compliance assessment was found to have met all recommendations made at the time of its assessment for registration as a community housing provider. The compliance assessment made fresh recommendations for service improvement across the following performance requirements: planning, reputation of the community housing sector and financial performance.

Complaints assessments

A function of the Registrar is to investigate complaints and other matters in respect of community housing providers registered under

the Housing Act. Not all complaints can be dealt with by the Registrar. Each complaint is assessed to determine the appropriate action to take on the concerns raised.

The Registrar deals with complaints that raise concerns about a registered community housing provider's compliance with the Regulatory Code. The Registrar does not investigate complaints that raise concerns about the provision of service to individuals. Registered community housing providers and other complaint resolution bodies (Consumer, Trader and Tenancy Tribunal, the Housing Appeals Committee, Community Justice Centres etc.) have responsibility for responding to these types of complaints. The Registrar does not have a complaint resolution role and cannot provide a remedy for individuals.

Figure 45: Complaints Assessment

Complaint outcome	Number
Complainant referred to the provider or complaint resolution bodies	9
Investigation subsequently revealed the provider was compliant with the Regulatory Code	3
Complaint was resolved immediately through explanation provided to the complainant	3
Complaint was withdrawn by complainant	2
In progress	9
Total	26

Administering the Regulatory Code

CASE STUDY J

Cancellation of registration due to non-compliance with the Regulatory Code

A community housing provider was registered in 2009 having demonstrated a commitment to comply with the requirements of the Regulatory Code. The compliance assessment of the registered provider was scheduled to commence six months after the registration due to a large number of recommendations made across all areas of performance.

The compliance assessment found that the provider had failed to respond to the Registrar's recommendations on registration and was non-compliant with all performance requirements. A notice of non-compliance was issued giving the provider 30 days to address the matters of non-compliance.

A further compliance assessment was conducted and, as the provider had failed to address the matters of non-compliance, the Registrar issued a notice of intent to cancel registration and required the appointment of a special adviser within 21 days of the notice.

Following the appointment of the special adviser, and regulatory engagement with the governing body and Housing NSW, the provider decided that it was unable to meet the requirements of the Regulatory Code and sought to merge with another registered community housing provider. Housing NSW facilitated a merger arrangement and assisted with

Continued next page

Notification assessments

Part 6 of the Regulatory Code aims to ensure that community housing providers maintain high standards of probity and includes the requirement that *'a registered community housing provider must 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 resident or asset services, the good governance of the provider or the viability of the provider, and which would raise public concern about standards of probity.

A Guidance Note on notifications was published in 2009 to assist providers to meet their responsibilities under the Regulatory Code.

Figure 46: Notification Assessments

Subject of notification	Number
Adverse or potential adverse media coverage about the provider	6
A motion of no confidence in a governing body member or chief executive officer or senior staff member	1
An instance of serious or repeated breaches of the provider's code of conduct	1
Any matter that has adversely affected or may adversely affect the financial solvency or viability of the provider	1
Fraud, corruption or criminal conduct in connection with a provider's operations	1
Other matters (organisation in breach of its own constitution, severe property damage)	2
Total	9

Notices

From 1 May 2009 to 30 June 2011, the Registrar issued three Notices of Non Compliance, two Notices of Intent to Cancel Registration and two Notices of Cancellation to four providers.

Administering the Regulatory Code

Figure 47: Notices to Providers

Provider	Type and number of Notices	Outcome
Provider 1	Notice of Non Compliance.	Compliance achieved and no further action required.
Provider 2	Notice of Non Compliance followed by Notice of Intent to Cancel Registration.	Compliance achieved and no further action required.
Provider 3	Notice of Non Compliance followed by Notice of Intent to Cancel Registration and Notice of Cancellation of Registration.	Registration cancelled due to non-compliance with the Regulatory Code.
Provider 4	Notice of cancellation of registration.	Registration cancelled due to a merger.

CASE STUDY J

Cancellation of registration due to non-compliance with the Regulatory Code (continued)

the transfer of the tenancies to another registered community housing provider in the local government area with no impact on tenants.

The provider's registration as a community housing provider was cancelled and it is no longer eligible for housing assistance from Housing NSW.



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 people. This Aboriginal housing sector is the largest in Australia, which provides housing for approximately 23% of the Aboriginal population living in NSW.

The NSW Aboriginal community housing sector was the first one to introduce registration, which has been operating and evolving for the past 11 years. 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 community housing providers meet the requirements to be registered under the Aboriginal Housing Act 1998. The system has been modelled on the Housing 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 community housing providers for PARS registration. A PARS team was established in early 2010 at the Registrar's office and has been responsible



Photo 4: Staff of the PARS team

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

3.1 Sector Engagement

A critical part of the implementation of PARS is the sector engagement strategy.

PARS Briefing Sessions

A core component of the sector engagement strategy is the delivery of briefing sessions in key locations across NSW prior to each scheduled registration round.

To June 2011, a total of 15 briefing sessions were delivered. Briefing sessions covered:

- Introduction to the Registrar of Community Housing and the PARS team

- An overview of PARS and the PARS Performance Requirements
- The PARS application process
- Demonstration of the on-line application process
- Demonstration of how to use the Financial Performance Report
- Overview of how to prepare for PARS

Representatives from more than 50 Aboriginal community housing providers attended the briefing sessions.

Administering the PARS

The evaluation of service at the end of the briefing sessions found:

- 86% of respondents had a better understanding of the PARS Performance Requirements after attending the briefing session;
- 79% of respondents said they were better prepared to apply for PARS registration as a result of attending briefing sessions; and
- Respondents found the presenters and supporting materials good, including that “The presenter was ‘deadly!’” and “The best (-) presentation ever!”.

Presentations

The PARS team presented to more than eight Aboriginal community housing sector meetings, governing bodies and forums. These included presenting to a Tenancy Advice and Advocacy Program network meeting, the AHO remote housing forum and to the NSW Aboriginal Land Council zone conference.

The PARS team was also active in attending key sector events, participating in a further eight conferences and forums. These included attendance at the NSWALC State Conference Expo in April 2011, a seminar held by the Office of the Registrar of the Land Rights Act and AHO Regional forums.

These activities encourage and support understanding of PARS and facilitate a co-operative approach to registration.

Newsletter

The Registrar published four issues of the quarterly newsletter, Regulation Matters. The articles covered: the role of the Registrar’s office in implementing PARS, introduction to the PARS team;



Photo 5: PARS Briefing Session

the PARS Pilot Program; updates on implementation and briefing sessions and attendance at key conferences and seminars such as the NSW Aboriginal Land Council State conference.

Website

The Registrar published a range of PARS resources and guidance materials on the website www.rch.nsw.gov.au.

Content on the website includes information about the PARS application process, a copy of the PARS Financial Performance Report and explanatory notes, Required Document checklists, as well as an assessment guidance sheet regarding preparing for PARS. Information about sector engagement activities such as briefing sessions is also included.

PARS Advisory Committee

The Registrar established the PARS Advisory Committee during the pilot and initial establishment stage. This committee met six times until 30 June 2011. Its key aims were to:

- provide advice and feedback to the Registrar of Community Housing on the implementation of the application and evidence guidelines to be used in the performance assessments of the Aboriginal community housing sector in NSW, and on the assessment methodology and reporting approach used;
- ensure the registration assessment approach appropriately reflected the diverse nature of the Aboriginal community housing sector;
- work with sector representatives to provide feedback to the Registrar’s office on the assessment methodology and reporting approaches for PARS assessments;
- provide advice to the Registrar’s office regarding the scheduling of registration rounds, and
- provide advice on the sector engagement strategy, including on briefing sessions and guidance materials.

Administering the PARS

The Committee comprised 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.

Following completion of the pilot program, it was decided to continue the PARS Advisory Committee until mid 2013 to enable continued oversight of PARS and input from the sector and key stakeholders. The Committee will meet quarterly.

PARS Practice Group

In order to facilitate understanding of the PARS process and the impact on the implementation of PARS on providers, a PARS Practice Group (PPG) has been established. Comprising members of the PARS team, AHO staff, and other stakeholders involved in preparing Aboriginal community housing providers for PARS, it enables communication between these parties in relation to the program implementation. The PPG is co-ordinated by a nominated Senior Analyst from the PARS team. The PPG has met on five occasions since the first meeting held in August 2010.

3.2 Sector Registration

The implementation of PARS commenced in April 2010 with a pilot program. As part of the pilot program, nine Aboriginal community housing providers from across NSW participated in the PARS registration process to test the registration and assessment systems. All nine providers were successfully registered under the PARS pilot program.

The AHO engaged the services of consultants to evaluate the pilot program, which was completed in early 2011. Results of the evaluation will inform the ongoing implementation of PARS.

The Registrar's role is to undertake registration assessments of Aboriginal community housing providers in NSW and make recommendations to the Chief Executive of the AHO on whether a provider should be approved (unconditional), approved (conditional) or not approved for registration.

During 2010/2011, it was planned that 80 assessments would be completed. By 30 June 2011, 92 Aboriginal community housing providers had been invited to register in a series of registration rounds.

PARS is a voluntary system, and just one pathway within the AHO Build and Grow strategy. Many Aboriginal community housing providers required time to consider options. Some chose to postpone registering for PARS, while others chose not to participate. As at 30 June 2011, approximately 40% of invited providers had been assessed, were in the process of submitting applications or were under assessment. Twelve providers had completed the PARS process and been registered.

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

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