



# NSW Registrar of Community Housing Annual Statement of Performance 2013



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November 2013

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# Letter to the Minister

The Hon Pru Goward MP  
Minister for Family and Community Services  
Minister for Women

Parliament House  
Macquarie Street

SYDNEY NSW 2000

Dear Minister,

We are pleased to present to you the Registrar of Community Housing's Annual Statement of Performance 2013.

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

The report covers the period 1 July 2012 to 30 June 2013.

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

Yours sincerely,

Alex Valda, Stacey Broadbent, Wendy Hayhurst

Managers Regulation

Registrar of Community Housing

November 2013



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# Overview

## Review of 2012/13 and planning for 2013/14

In May 2013 we marked the fourth anniversary of the establishment of the Registrar's office and the commencement of the statutory regulation of community housing providers in NSW. Through the work of the dedicated staff of the office, we have continued to deliver fair and effective regulatory services to provide assurance for a viable and diverse community housing industry in NSW.

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

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

- completing our second Compliance Program to assess registered Class 1, 2 and 3 providers' achievement of performance outcomes in accordance with the Regulatory Code;
- the production of our second Sector Snapshot, providing a half-yearly summary of sector performance data from compliance assessments to supplement the full analysis of the sector published in each Annual Statement of Performance;
- working closely with the AHO to implement PARS for Aboriginal community housing providers and to deliver performance assessments;
- participation in, and hosting a meeting of, the Regulatory Practice Forum, providing housing regulators across Australia and New Zealand with the means to facilitate co-operative action and the exchange of ideas, information and practice about housing regulation;
- delivery of an expanded range of sector engagement activities including the launch of an Occasional Industry Seminar Series, designed to provide information to assist registered providers to take a proactive approach to comply with the performance requirements of the Regulatory Code and the PARS;
- implementation of an internal Aboriginal Cultural Competency program to support the development of a culturally inclusive work environment for Aboriginal staff and the culturally appropriate delivery of regulatory services to Aboriginal community housing providers and Aboriginal communities; and

# Overview

- working closely with Housing NSW to support the development of the National Regulatory System for Community Housing, and participation in national working groups.

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

- transition to the National Regulatory System for Community Housing, while maintaining momentum in administering the NSW regulatory system;
- streamlining, in close consultation with Housing NSW and the AHO, data reporting requirements and system capability for a “report once, use often” approach to performance reporting requirements for registered providers; and

- taking opportunities to expand our delivery of data and research on the performance of the registered community housing sectors.

We look forward to continuing our productive relationship with our portfolio agencies, Housing NSW and the AHO, and we look forward to continuing our engagement with community housing providers to drive positive performance outcomes across the sectors.

## Sector Snapshot for FY 2013

<b>230</b>	<b>registered community housing providers</b>
<b>34,000</b>	<b>properties under management and growing</b>
<b>38,000</b>	<b>tenancies and growing</b>
<b>\$301</b>	<b>million rental income and rising</b>
<b>\$1.697</b>	<b>billion in community housing assets</b>
<b>9.7%</b>	<b>gearing ratio with significant opportunities for growth</b>
<b>89%</b>	<b>resident satisfaction rate</b>

# Part One: Our Office

# 1



# Our Office

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

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

In addition to these statutory functions, in 2009 the Registrar was commissioned by the AHO to undertake assessments of Aboriginal organisations providing community housing under the PARS under the Aboriginal Housing Act 1998 (NSW). PARS is a core part of the AHO's Build and Grow Strategy and one of the registration paths for Aboriginal community housing providers.

## Functions

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

The legislation requires the Registrar to:

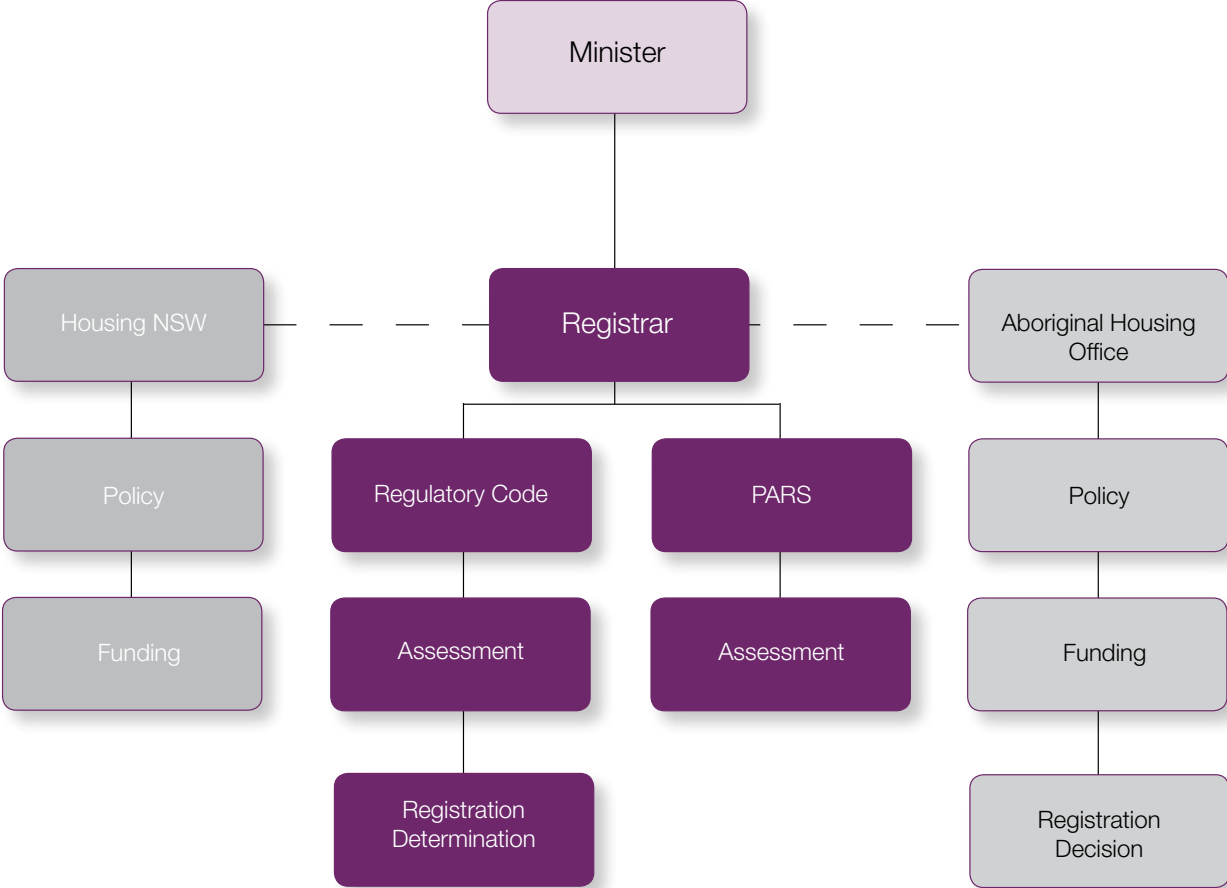
- Maintain a register of community housing providers
- Assess the suitability of organisations to be registered as community housing providers
- Register suitable community housing providers
- Investigate complaints and other matters involving registered community housing providers
- Provide information in relation to community housing

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

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

# Our Office

Figure 1: Operational structure



# Our Office

## Vision

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

## Values

Our way of working is based on five key values:

### Integrity

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

### Collaboration

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

### Professionalism

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

### Foresight

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

### Responsibility

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

## Principles

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

### Transparency

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

### Proportionality

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

### Accountability

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

### Consistency

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

### Co-regulation

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

# Our Office

## Corporate Infrastructure

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

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

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

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

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

Figure 2: Organisational chart

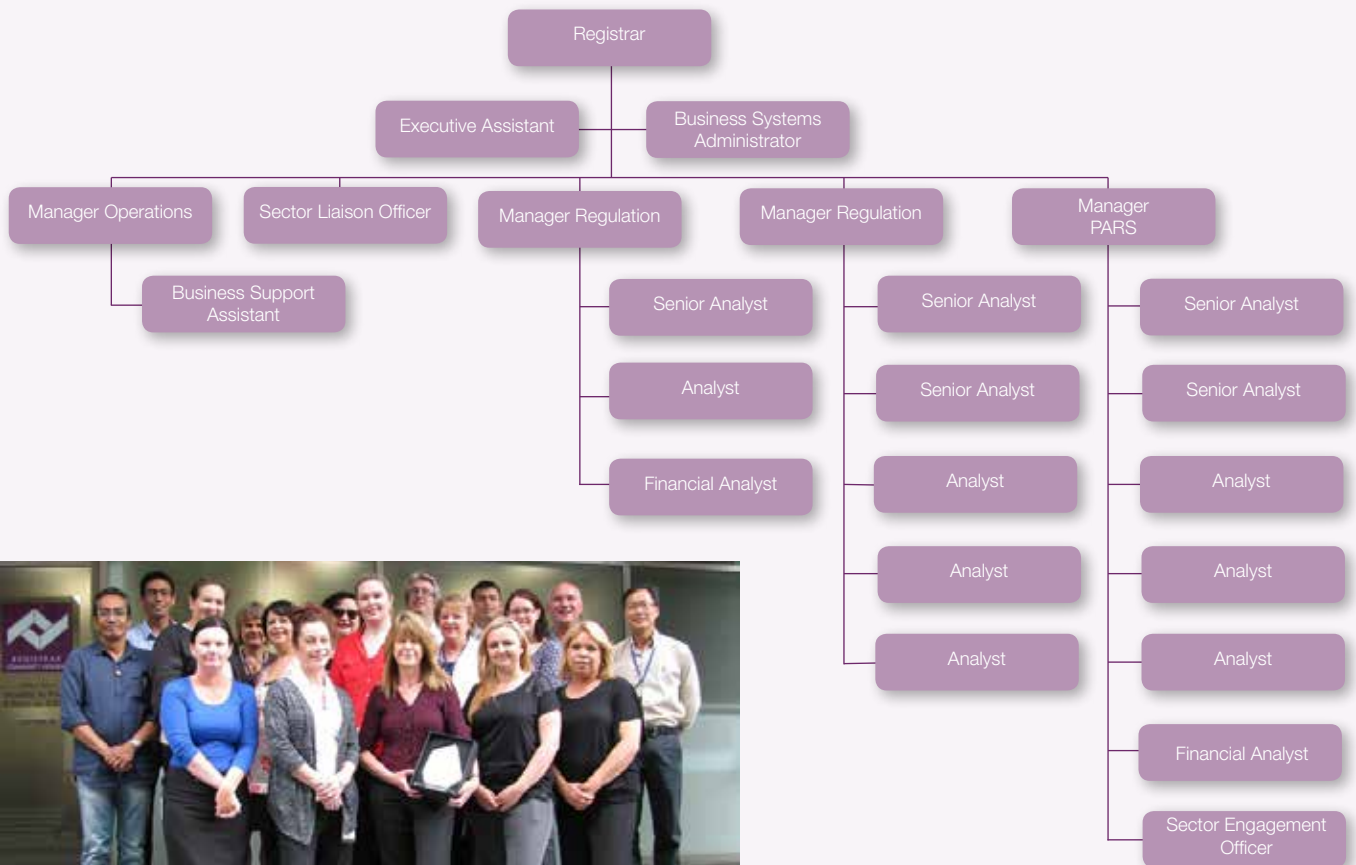


Photo 1: Staff from the Registrar's office with the CE Gold Award

# Our Office

## Capability

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

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

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

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



*Photo 2: Staff from the Registrar's office on the Aboriginal cultural competency tour*

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

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

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

- Industry Seminars and Planning and Development Day presentations on industry topics with guest speakers, including from the Registry of Co-operatives and Associations, Housing NSW; AHO, an Aboriginal Tenancy Support Service, Ombudsman NSW, and NSW Public Service Commission;
- Analyst Workshops and Exchanges held regularly to provide a collegiate forum for analysts to utilise case studies to identify areas of improvement

and promote professionalism, consistency and transparency in the assessment of community housing providers and improving regulatory practice consistent with the values and regulatory principles of the Registrar;

- Implementation of an internal Aboriginal Cultural Competency program lead by Aboriginal staff to support the development of a culturally inclusive work environment for Aboriginal staff and the culturally appropriate delivery of regulatory services to Aboriginal community housing providers and Aboriginal communities.

# Our Office

## Sector Engagement

A significant component of our work is engaging the sectors through various initiatives. The Sector Engagement Plan 2012/13 was published on the website and guided the delivery of new and continuing sector engagement initiatives throughout the year.

## Consultation

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

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

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

## Contacts and Enquiries

We received 1,435 calls on our 1800 330 940 number for various purposes, compared to 1,572 calls in 2012. There were 1,319 emails addressed to the general email [registrar@facs.nsw.gov.au](mailto:registrar@facs.nsw.gov.au), about the Regulatory Code, PARS and community housing generally, compared to 420 for the previous year. Out of those contacts, we handled 188 enquiries:

Figure 3: Type of enquiries

Requests for advice or information	174
Enquiries about providers	3
Enquiries about community housing sector	1
Enquiries about National System of Regulation	10

Figure 4: Time taken to complete the enquiry

Within 5 days	133
Within 10 days	6
Within 25 days	17
Over 25 days	32

## Website

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

Figure 5: Most popular RCH web pages



The website was visited 7,112 times compared with 5,245 times last year; 19 times on average per day, compared with 14 last year, from 429 unique IP addresses compared with 191 last year. As the figure below shows the most visited pages were compliance and registration.

In 2012/13 the accessibility and usefulness of the Provider Register on the website improved making this key function of the Registrar real-time and dynamic.

## Presentations and meetings

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

- Presenting to over 900 participants on the Regulatory Code at 24 meetings and conferences. These activities encouraged and supported an understanding of the Regulatory Code and regulatory system, as well as co operative regulation.
- Presenting to 770 participants on PARS at eight meetings and conferences; these activities supported an understanding of the PARS requirements and processes.

# Our Office

- Participating in various working groups and meetings for the development of a national regulatory system for community housing.
- Presenting to a delegation from China on the Regulatory Code.
- Participation in the Regulatory Practice Forum, to facilitate co-operative action and the exchange of ideas, information and practice about housing regulation in Australia.

## Briefing Sessions

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

- 11 compliance briefing sessions on the Regulatory Code to 173 participants; and
- 3 briefing sessions on PARS to 59 participants.

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

## Occasional Industry Seminar Series

We continued our series of Occasional Industry Seminars this year presenting three seminars, one of which was trialed the delivery of webinar technology. These seminars provide information to assist registered community housing providers to take a proactive approach in meeting the performance requirements of the Regulatory Code and the PARS.

In May 2013 the Registrar held the Occasional Industry Seminar “Independent Audit: Getting Savvy on Housing Performance Requirements”. The forum was attended by CEOs, CFOs, FOs, auditors, accountants, risk and compliance managers, members of Boards and tenants, and consultants. The half-day seminar covered a broad range of issues: performance requirements of the Regulatory Code and the PARS, and internal and external audit processes and systems.

## Strategic Stewardship

On 13 December 2012, at an Occasional Industry Seminar, the Registrar presented the findings of the Strategic Stewardship research project which was commissioned under the NSW Community Housing Industry Development Framework. The project was carried out by staff from the Registrar’s office, lead by Wendy Hayhurst, Manager Regulation, with the guidance of a project advisory group with members drawn from the industry

peak bodies, academia and the government. The panel of speakers included Wendy Hayhurst; Greg Budworth, CEO Compass Housing; Vivienne Milligan, Associate Professor, City Futures Research Centre, UNSW; and Kevin Lewis, Chief Compliance Officer, ASX.

## Good Governance Webinar

In 2012/13 the Occasional Industry Seminars series was further developed by the trial use of webinar technology to maximise the opportunity for participation of providers and stakeholders located in regional and remote NSW. The webinar focused on good governance for Class 4 Regulatory Code and PARS providers.

As reflected in the webinar feedback, this initiative was welcomed as an effective communication means that utilised resources well by saving time and money. The participants reported that they were happy with the way the session was run and are keen to participate in more webinars in the future.



*Photo 3: Occasional Industry Seminar Independent Audit speakers (from left to right): Peter Muir – Institute of Internal Auditors; Phil O’Toole – Internal Audit Bureau; Stacey Broadbent – RCH; Carlos Perez – RCH; Stanley Tsoi – RCH (absent: James Winter – Institute of Chartered Accountants)*

# Our Office

“The session was run well, would like more of these as the time saved is valuable”.

“This webinar was really well received by our Committee. We look forward to the next one. Thank you”.

## Publications

A comprehensive suite of publications is available on the Registrar's website [www.rch.nsw.gov.au](http://www.rch.nsw.gov.au) as well as in hard copy and USB sticks. This year we added to the resources available with the publication of:

- The Annual Statement of Performance 2012
- The Sector Snapshot February 2013, the second in an ongoing publication providing a short half-yearly profile of the Regulatory Code registered community housing sector, together with summary data on sector performance for Classes 1, 2 and 3;
- The Strategic Stewardship Research Project Report; focusing on Class 1, 2 and 3 registered community housing providers this report describes the findings and ways in which the sector could strengthen its capacity
- The Appointment of the special advisor Guidance Note
- The Registrar of Community Housing Publications Fact Sheet & USB; and
- Three issues of the e-newsletter, Regulation Matters. This newsletter is delivered by email to all scheduled and registered providers and stakeholders;



Photo 4: ASOP 2012

## Sector Performance Reporting

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

### Annual Statement of Performance 2012

At the end of last year, we published the second Annual Statement of Performance presenting sector outcomes against the Regulatory Code and PARS, and to identify trends and issues in the administration of the regulatory system and PARS.

In addition, it provided an account of the Registrar's work for the AHO in undertaking assessments of Aboriginal community housing providers in the PARS.

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

## Strategic Stewardship Report February 2013

The findings of the Strategic Stewardship Research Project were published and presented in an Industry seminar.

The project that commenced at the end of 2011 developed and utilised an analytical tool for data capture and analysis of the practices of the Class 1, 2 and 3 community housing providers at registration and on compliance assessment.

The project was carried out by staff from the Registrar's office, lead by Wendy Hayhurst, Manager Regulation, with the guidance of a project advisory group with members drawn from academia, government and the industry peak body.

The publication is available from the RCH website.

## Evaluation of Services

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

### Regulatory Code assessments

- 93% of respondents said that the Registrar's office responded to enquiries in a timely manner, compared to 80% in the previous year.



# Our Office

- 95% of respondents said that the Registrar's office was balanced, transparent and trustworthy in its dealings, compared to 98% in the previous year.
- 93% of respondents said that the registration requirements were clearly established and communicated compared to 86% in the previous year.
- 95% of respondents said that the assessment process provided a satisfactory opportunity to submit evidence that demonstrated the organisation's performance outcomes, the same as in the previous year.

As in previous years, the staff of the Registrar's office were again commended for their professionalism in the delivery of assessment services:

- "The analysts are great and very helpful".
- "...staff in the Registrars Office are very professional, skilled and respectful."
- "[I] have been very pleased with the communication. [My analyst] was a very reasonable person to deal with".

## Regulatory Code briefing sessions

- 95% of respondents said that the presenter was clear and professional, compared to 97% in the previous year.
- 92% of respondents had a better understanding of the requirements of the Regulatory Code after attending a briefing session, compared to 91% in the previous year.
- 91% of respondents said their organisation was well placed to meet the requirements of the Regulatory Code as a result of attending the briefing session, compared to 90% in the previous year.

- 92% of respondents had a better understanding of the process and evidence requirements, compared to 94% in the previous year.
- 95% of respondents said that supporting materials were relevant and useful, compared to 93% in the previous year.

The quality of the briefing sessions and the presenters was again noted by participants:

- [The presenter] "was very professional, engaging and friendly".
- "The session was reassuring and informative about what seemed a daunting process but now seems simpler".
- "I enjoyed the simplicity of the presentation".
- "Thanks! Well worth coming".

## PARS assessments

- 86% of respondents said that the Registrar's office responded to enquiries in a timely manner.
- 100% of respondents said that the Registrar's office was balanced, transparent and trustworthy in its dealings.
- 100% of respondents said that the registration requirements were clearly established and communicated.
- 83.3% of respondents said that the assessment process provided a satisfactory opportunity to submit evidence that demonstrated the organisation's performance outcomes.
- 100% of respondents said that the requirements encouraged my organisation to proactively manage services, assets and risks.

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

- "We found it to be significant and appropriate." (FPR)
- "We were happy with the current content." (web site content)
- "Provide examples of successful applications... to facilitate others (non-successful ones) to see the workings of such. Thank you."

## PARS briefing sessions

- 98% of respondents had a better understanding of the PARS performance requirements after attending a briefing session.
- 93.3% of respondents said they were better prepared to apply for PARS registration as a result of attending a briefing session.
- 96% of respondents had a better understanding of the process and evidence requirements.
- 100% of respondents said that the presenter was clear and professional.
- 100% of respondents said that supporting materials were relevant and useful.

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

- "The presenter was excellent. Very clear on how things run re: PARS."
- "Good session, right amount of information presented in a very clear and engaging manner."
- "PARS Team supportive. Cultural appropriate presenter and very knowledgeable."
- "I'm glad I came. I understand the PARS a lot better."

Part Two:  
Administering the Regulatory Code

# 2

# Administering the Regulatory Code

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

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

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

On 1 May 2011, the savings and transitional provisions finished, 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.

Since 1 May 2011 the office has completed two full compliance programs: 2011/12 and 2012/13. In these programs all Class 1, 2 and 3 providers were scheduled for compliance assessments in the second quarter of the financial year, with compliance returns and financial performance reports

submitted in November 2011 and 2012. Following the 2011/12 program, the Registrar undertook the evaluation of the delivery of the compliance program 2011/12 and introduced improvements to the compliance assessment process in time for the compliance program 2012/13. For the 2012/13 compliance program, compliance assessments were conducted through to March 2013. A feature of the compliance assessments has been the use of site visits with a number of providers to assist analysts capture a better understanding of a provider's business, delivery of community housing and services and meeting the performance outcomes of the Regulatory Code.

Compliance assessments of registered Class 4 providers have been ongoing, as they are conducted every two years on the anniversary of each provider's last assessment. To 30 June 2013, 156 assessments were conducted on 141 providers across four classes of registration.

Some providers have undergone multiple assessments due to compliance findings of the previous assessments. Two providers had multiple assessments due to their organisational structure.

## New Entrants

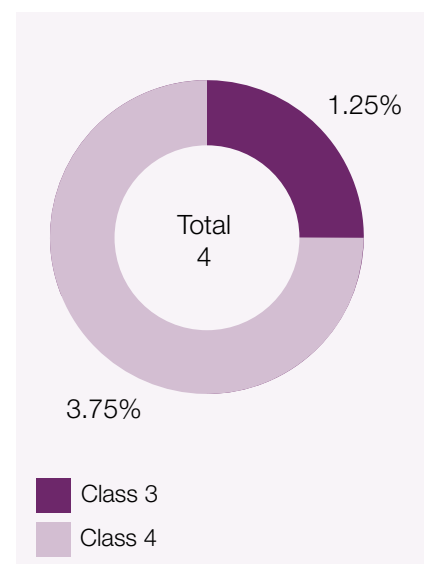
New entrants to the community housing sector are those organisations that do not receive assistance from Housing NSW and are not delivering or have not previously delivered community housing in the meaning of the *Housing Act*. These organisations are encouraged to contact the Registrar's office if they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

The Registrar's office has a standard policy and procedure for assessing the eligibility of new entrants under the *Housing Act* of organisations interested in becoming registered as community housing providers. The Registrar assesses their capacity to deliver community housing in the long-term with a viable business model and the appropriateness of their capital structure and financial planning. Eligible organisations are scheduled for registration assessment.

In 2012/13 the Registrar's office received 14 requests for information about becoming a registered community housing provider and advised the organisations of the requirements and the process for eligibility and registration assessment.

The Registrar's office conducted five assessments of new entrants. Two of those were newly restructured organisations. Two assessments were new entrant organisations

*Figure 6: Number of new entrants registered by class as at 30 June 2013*



# Administering the Regulatory Code

which did not receive assistance from Housing NSW. One organisation withdrew its application for registration on receiving the draft assessment report, choosing to use the draft assessment findings to improve its systems and practices before re-applying for registration in the future.

## Sector Profile

As at 30 June 2013, there were 230 registered community housing providers. This is a slight decrease in number on the previous year following a number of mergers and amalgamations.

Figure 7: Number of Registered Providers as at 30 June 2013

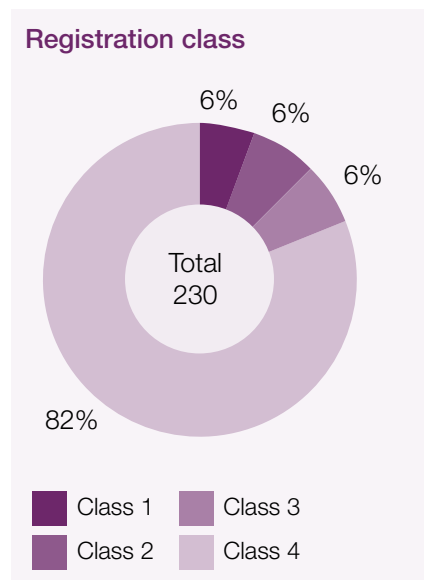


Figure 8: Housing NSW Policy on classes of Registration under the Regulatory Code for community housing providers

### Class 1: Growth provider

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

### Class 2: Housing provider

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

### Class 3: Housing manager

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

### Class 4: Small housing manager

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

# Administering the Regulatory Code

## Growth

Class 1, 2 and 3 community housing providers increased the number of community housing units owned and/or managed in 2012 financial year (FY). Community housing units owned and/or managed by these providers grew by 17% or 4,974 units in FY 2012 compared to FY 2011. Class 1, 2 and 3 community housing providers increased the number of units managed on behalf of Housing NSW and third parties by 4,219 and developed a total of 745 units in FY 2012.

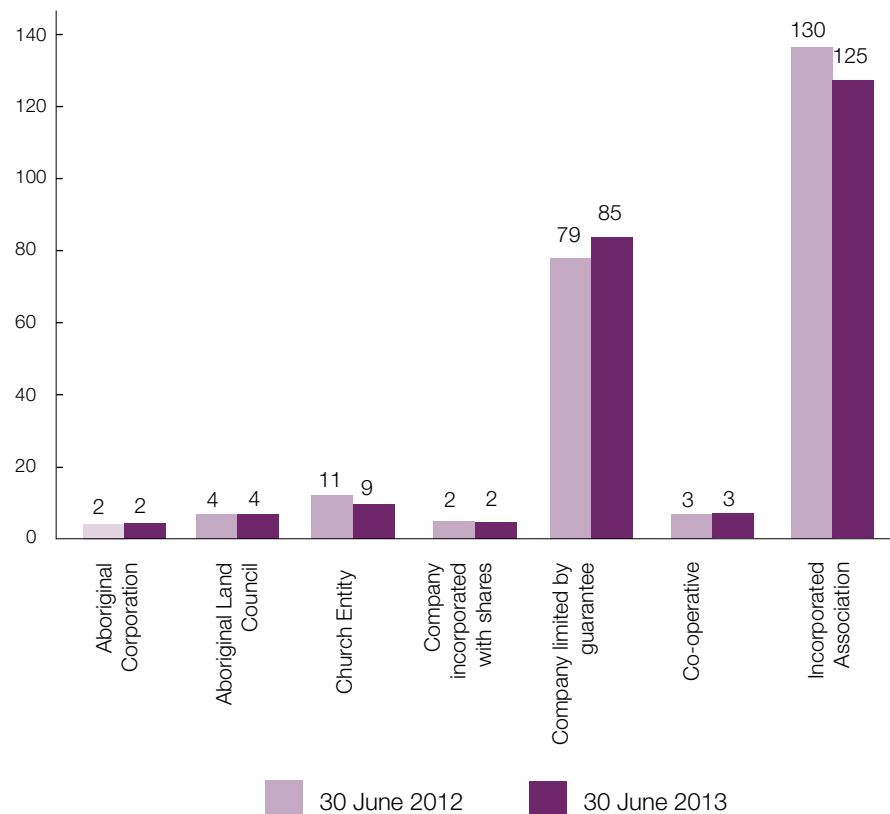
The value of community housing assets for Class 1, 2 and 3 providers increased by \$119.7 million or 8% in FY 2012 compared to FY 2011. This increment includes developments funded via private funds and asset revaluation additions.

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

Figure 9: Registered providers by class of registration 2012 and 2013



Figure 10: Registered providers by body corporate as at 30 June 2012



# Administering the Regulatory Code

Figure 11: Number of community housing units

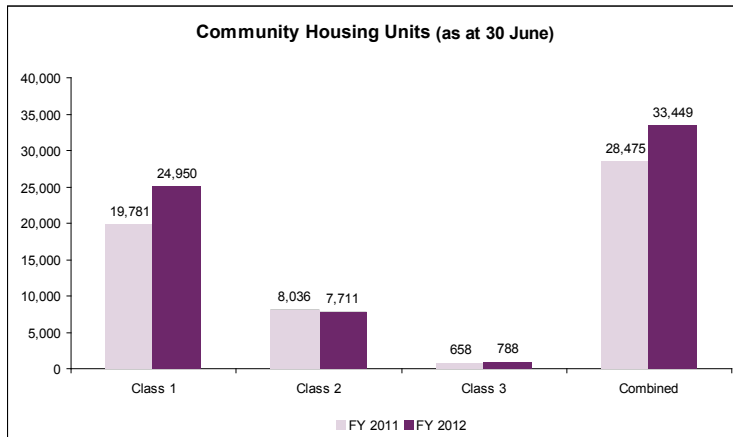


Figure 12: Operating revenue by class

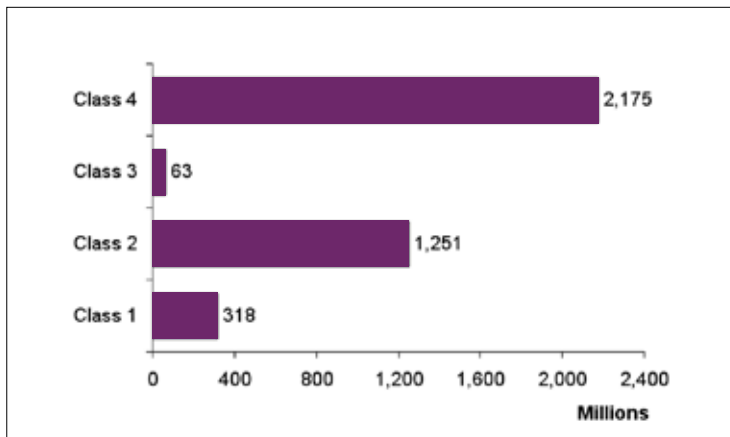


Figure 13: Number of community housing assets

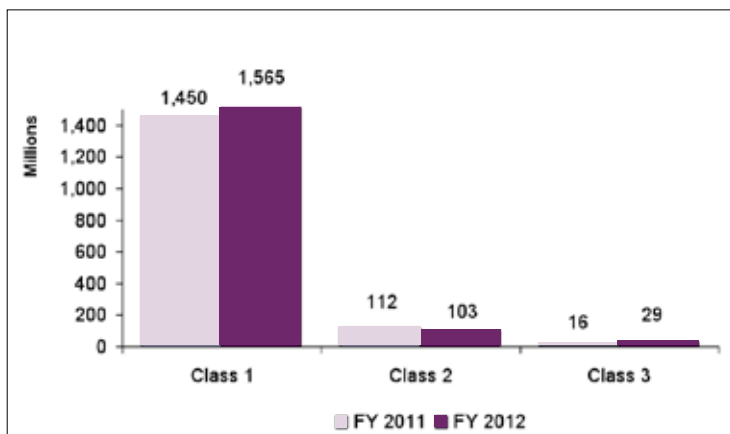
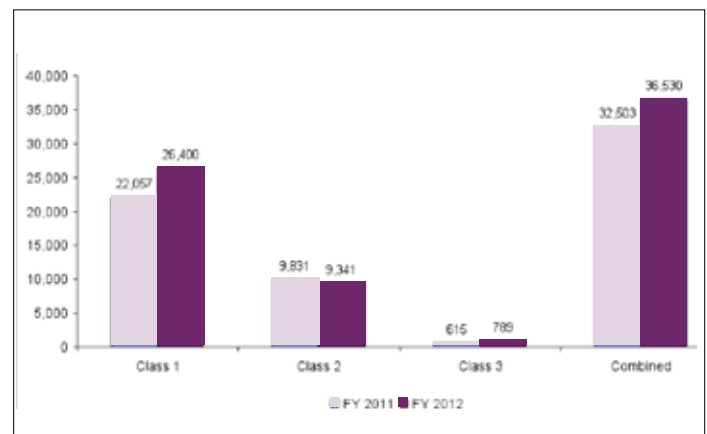


Figure 14: Number of residency and/or tenancy agreements



# Administering the Regulatory Code



## Sector Performance

This section presents the performance of registered community housing providers where the Registrar's office conducted compliance assessments between 1 July 2012 and 30 June 2013. It presents the quantifiable data collected from providers through their compliance returns. In cases where more than one assessment was conducted on a provider in that period, only the performance data of the most recent compliance assessment is included. Similarly, in the case of providers whose corporate structure involves several service arms, where each arm was required to submit a compliance return as part of the compliance assessment, amalgamated performance data is presented.

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

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

# Administering the Regulatory Code

## Performance Area 1: Fairness and Resident Satisfaction

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

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

Class 1 and 2 providers are asked to provide the results of annual tenant surveys along with the analysis of this feedback and its use in continuous improvement of services.

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

The tables in figures 15 and 16 below show the average and median percentage satisfaction rates obtained in the 2012/13 compliance program. Providers use a variety of methods to collect

*Figure 15: Resident/tenant overall satisfaction rate as at 30 June 2011*

Class	Average	Median
Class 1	88.05%	87.00%
Class 2	88.03%	89.50%
<b>Combined</b>	<b>88.04%</b>	<b>89.00%</b>

*Figure 16: Tenant Satisfaction*

Satisfaction	Class 1	Class 2
71-80%	1	3
81-90%	8	7
91-100%	4	6
No response	1	0
<b>Total</b>	<b>14</b>	<b>16</b>

this information. Sampling and response rates are known to vary substantially. Not all this information will have been gathered during the reporting period.

Most providers have implemented or taken considerable steps to implement the recommendations from the previous assessment. All providers have generally been able to demonstrate the continuance of treating residents fairly and transparently and achieving a reasonable level of residents' satisfaction.

All Class 1, 2 and 3 residents have residential or tenancy agreements in place. Seventy-five percent of Class 4 providers assessed for compliance have between 80 and 100 percent of residents with a residential agreement.

Providers across all classes were assessed as having some room for improvement. Twelve recommendations were made to seven Class 1 providers; twelve recommendations to six Class 2 providers; eighteen recommendations to six Class 3 providers; and seventy-four recommendations to thirty-two Class 4, with four providers who were issued notices of non-compliance and notices of intent to cancel registration accounting for twenty-seven recommendations. Recommendations across all classes were about the use of complaints and appeals feedback to improve service delivery.

The Registrar has continued to encourage providers to promote participation in surveys where rates were low. Some innovative approaches are discussed in the case studies associated with this performance area.





# Administering the Regulatory Code

## **CASE STUDY A – Innovative ways of obtaining feedback**

The provider is registered as Class 1 and has undergone several compliance assessments since registration. The provider uses feedback from tenants to identify opportunities for service improvement. Since the last assessment this has included implementing a Client Charter for all offices. The Charter clearly explains service commitments such as returning phone calls within one working day and the rights and responsibilities of residents. The Charter is publicly available on the provider's website.

The provider has also introduced a quality assurance measure in offices which provide a service. Staff know they may at any time be handling requests from the mystery shopper but only executive staff know who, how and when the mystery shopper will engage staff. The purpose of the exercise is to improve quality service by becoming aware in real time of day-to-day challenges, such as knowing what information may be protected or freely given.

## **CASE STUDY B – Obtaining feedback**

The provider is registered as Class 1 and has undergone several compliance assessments since registration. It has a range of methods for receiving feedback from tenants. For example, it has established tenant councils in various locations. It has also just commenced six monthly "open for inspection" forums in each of its offices providing tenants with an opportunity to meet with representatives of its senior management team. The results have shown that the provider responds to community concerns in a more timely and appropriate way and that the board takes an active interest in how the interaction works in practice.

## **CASE STUDY C – Reporting on feedback back to tenants**

The provider was registered in 2010 as a Class 4 community housing provider and has undergone a compliance assessment since that time.

The provider is a not-for-profit community based organisation that delivers a wide range of accommodation and support services. Services are provided to the aged, young people, women, Indigenous Australians, migrant communities and new refugees. The provider manages two capital properties with a community housing agreement from Housing NSW, providing shared accommodation for up to six young people.

In addition to managing two properties with a community housing agreement from Housing NSW, the organisation also provides support services to clients in ten other properties under a partnership agreement with another community housing provider. The provider is governed by a Management Committee and its different programs by separate sub-committees. Each sub-committee elects one or two representatives to serve on the Management Committee.

Resident satisfaction is determined through feedback gathered from the resident survey which is compiled into a report that is made available to all tenants, staff, Youth Sub-committee, the Executive Officer and the Management Committee. This report is used to monitor and improve the service provided to residents.

## **CASE STUDY D – Provision of information and encouraging feedback online**

The provider was registered in 2009 as a Class 1 community housing provider and has undergone several compliance assessments since that time. The provider now places a significant amount of information on its website. Residents are encouraged to look for the information they need online. All key policies are posted and updated online and the information provided there is presented in a variety of languages.

The provider's website also contains a section that answers frequently asked questions from staff and residents relating to practical situations. The section is regularly updated as new issues arise. The provider is actively encouraging its residents to complete the feedback survey through the website with incentives in the form of a shopping voucher. The tenant newsletter is also posted online.

# Administering the Regulatory Code

## Performance Area 2: Sustainable Tenancies and Communities

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

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

The majority of recommendations against this performance area at registration and previous compliance assessment have been implemented; a small number of additional recommendations have been made at compliance across all classes assessed.

New recommendations ask providers to enhance arrangements to monitor the effectiveness of arrangements with support partners, and to devise ways to assess satisfaction with these arrangements.

Support for residents has been found to be a particular strength of Class 4 providers due to the nature of their business.

Promotion of community housing continues to be an area of strength with many providers engaged in a variety of innovative schemes to raise their profile such as sponsoring educational bursaries for their tenants and families; investing resources directly into small scale environmental initiatives; and raising awareness about housing issues locally. Involvement by smaller providers was equally impressive. A number had encouraged volunteer involvement on a remarkable scale.

The number of unplanned tenancy terminations is reasonably low. The reasons for terminating tenancies

vary across the housing programs delivered. In reviewing the data and information available it appears that, overall, tenants receive the required support, where appropriate, to maintain their tenancies.

The Registrar's office has observed several cases of no cause terminations and encouraged providers to establish a system where decisions for such terminations can be escalated and reviewed.

### CASE STUDY E – Supporting people with disabilities to obtain employment

The provider was registered in 2010 as a Class 2 community housing provider and has undergone several compliance assessments since registration. The provider delivers accommodation and support services in NSW to people primarily with an intellectual disability from a wide range of age groups. The provider has four properties managed with a shared equity arrangement with Housing NSW. The provider also owns five properties. A further six properties are leased in the private rental market and seven properties are owned by the Department of Family and Community Services (FACS). The provider also owns two parcels of land with dwellings under construction which are due to be completed early in 2014. All properties are or will be utilised as group homes.

The provider operates a wholesale nursery which grows more than 500 varieties of plants. Situated on a four hectare site, the nursery has capacity to produce more than one million plants per annum. The business was established with two very clear and equal objectives: to operate and trade delivering financial returns to the organisation. And to do this by employing people with disabilities as who contribute to the success of the business. The nursery employs 26 people of which 19 have disabilities.

### CASE STUDY F – Improving support for residents through a regional office structure

The provider is registered as a Class 2 community housing provider and has undergone a compliance assessment registration.

Operating in the regional area the provider has demonstrated initiative in the management of an integrated regional office co-sharing with other support services, providing better access to clients and saving costs.

In rural NSW housing providers are finding better ways for their clients to access services in person as close to their localities as possible. A growing rural provider covering a wide area of NSW shares the building with several support agencies. Not only does this office 'hub' arrangement reduce the provider's operating costs but also offers one-stop-shop services to its tenants and potential applicants. Both the main and branch offices of the provider are well designed, providing good access and ample information leaflets and resources available to tenants.

# Administering the Regulatory Code

## Performance Area 3: Asset Management

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

Typically, Class 4 providers manage less than 30 properties; some manage a few or one property and are not responsible for most maintenance. Assistance from Housing NSW is often provided in the form of properties managed by Specialist Housing Services (SHS) or other arrangements where the community housing provider does not have full, if any, responsibility for maintenance. Nevertheless, residents frequently report repairs to the provider. The Registrar expects providers to have systems in place to record and follow up on requests for maintenance. Some providers that have only a small number of properties with Housing NSW assistance may manage large portfolios of properties that they either own or receive 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. Of the 97 Class 4 providers that were assessed, no provider was determined to be non-compliant in this area.

Large community housing providers – especially those undergoing growth and expanding their portfolios – need efficient asset

### CASE STUDY G – Using social network pages to enhance resident feedback on support services

The provider achieved registration in 2011 as a Class 3 community housing provider and has undergone a compliance assessment registration. A positive initiative implemented by the provider is its use of Facebook for the promotion of its services and to enable client feedback commenting on its support services.

The Facebook page includes the services available from the provider and links to a variety of resources including information on housing, health and welfare.

The use of this resource to link into the mainstream media also leads to wider and quicker client awareness of community activities and support. Client feedback showed a high rate of use and high level of satisfaction with the provider's access to support services.

management and maintenance processes. Class 1 and 2 providers are expected to have a comprehensive long-term strategic asset management plan, and a rolling ten-year (minimum) costed asset maintenance plan in place. For these providers, and in particular those that own as well as lease community housing properties, the Registrar expects more sophisticated asset management systems including accurate and reliable asset databases and a long-term strategy that factors in supply and demand for community housing in future years. Of the 30 Class 1 and 2 providers that were assessed, one provider was determined to be non-compliant in this area.

Since they were last assessed, many larger providers have continued the process of consolidating, updating and further refining their asset management systems to support growth and diversification of their property portfolios. However growth is now occurring in a more organic manner with no additional properties received through Housing NSW in this reporting period. Properties are

still being acquired or developed through National Rental Affordability Scheme (NRAS) developments, private sector financing, or the provider's own resources. In some cases providers have made significant changes to their asset management plans and systems to accommodate recent and future opportunities to grow and reconfigure their portfolios.

Recommendations were made in this performance area to around 20% of providers assessed during 2012/13. Class 1 and 2 providers received the most recommendations and typically this involved their strategic asset management or maintenance plans. In total nine providers received recommendations regarding finalisation or strengthening of these plans. It is recognised in the majority of cases that the planning process was already underway, and in many they were delayed in order to respond to any asset vesting decision making.

An issue emerging from the 2013 compliance assessment process is the level of financial allocations for

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property maintenance, especially when taking over the management of Housing NSW stock that was received in the previous period and was in a poor state of repair. In some cases the providers were unaware of the true state of the properties prior to allocation making strategic asset planning decisions difficult. The formal process for extracting information to improve the maintenance planning process will need to be improved. Providers need to have processes in place that can action maintenance issues in a timely manner however some are still relying on ad hoc/infrequent procedures to collate and analyse maintenance information/resident feedback. The introduction of new asset management systems particularly for larger providers; while it is anticipated these systems once implemented will improve the maintenance processes these projects due to their cost and complexity represent a significant risk.

Some providers have reported declining resident satisfaction with condition and maintenance of their property. It is noted in some cases the questions asked in the most recent surveys have changed since the previous year, making a direct comparison difficult. Providers will need to ensure the maintenance feedback process can be adjusted for these changes.

In 2013 Housing NSW outsourced maintenance of properties managed by SHS to Class 1 and 2 community housing providers in local areas. Housing NSW as the contract manager retained overall responsibility for responsive and cyclical maintenance requirements. As this change required many Class 4 providers to adjust their policies and procedures recommendations were made in the 2013 compliance assessment process to make the necessary alterations.

## Planning

Figure 17: Q 3.1.3: Has the asset management plan been revised in the 12 months to 30 June?

Response to 3.1.3	Yes	No	No response	Total Number of Assessments
Class 1	12	2	0	14
Class 2	10	6	0	16
Class 3	10	3	1	14
Class 4	n/a	n/a	n/a (97)	97
<b>Total</b>	<b>32</b>	<b>11</b>	<b>98</b>	<b>141</b>

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## Maintenance

Figure 18: Has the rolling (10 year minimum) asset maintenance plan been updated in the 12 months to 30 June?

Response to 3.1.3	Yes	No	No response	Total Number of Assessments
Class 1	12	2	0	14
Class 2	12	3	1	16
Class 3	11	3	0	14
Class 4	n/a	n/a	n/a (97)	97
Total	35	8	98	141

## Inspection of properties

Figure 19: Has a comprehensive inspection of capital properties undertaken by a party with appropriate qualifications or experience in the building/construction/maintenance fields been undertaken in the months to 30 June?

Response to 3.1.3	Yes	No	No response	Total Number of Assessments
Class 1	12	2	0*	14
Class 2	12	3	1	16
Class 3	11	3	0	14
Class 4	n/a	n/a	n/a (97)	97
Total	35	8	98	141

Figure 20: What was the percentage of properties meeting HNSW/other standards at last inspection?

Response to 3.2.3d	Less than 60%	61-70%	71-80%	81-90%	91-100%	No response	Total Number of Assessments
Class 1	0	0	0	6	5	3	14
Class 2	0	0	0	0	12	1	16
Class 3	1	0	0	0	10	3	14
Class 4	n/a	n/a	n/a	n/a	n/a	n/a (97)	97
Total	1	0	3	6	27	104	141

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

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## Asset Management

Figure 21: Percentage of residents satisfied with maintenance and condition

Response to 3.3.1a	Less than 75%	75%+	No response	Total Number of Assessments
Class 1	4	10	0	14
Class 2	4	12	0	16
Class 3	n/a	n/a	n/a (14)	14
Class 4	n/a	n/a	n/a (97)	97
<b>Total</b>	<b>8</b>	<b>22</b>	<b>4</b>	<b>141</b>

### CASE STUDY H – Placing residents in the centre of the asset management system

The provider is registered as Class 1 and has undergone several compliance assessments since registration. It demonstrated awareness of the stock challenges presented by its portfolio and identified local housing needs. For example, through the work underpinning its strategic asset management plan development it has identified a need to replace some existing housing with new, smaller units to meet local demand. It has identified some transferred properties as unviable in terms of their current and maintenance needs, and may negotiate their sale.

During the site visit by the analysts from the Registrar's office and property tour the Asset Manager demonstrated keen appreciation of the need to respond to tenants' concerns relating to new building defects, and to involve tradespeople in identifying these issues. The provider's asset team also places importance on instructing tenants in the proper use of complex systems such as solar power. Properties visited by the Registrar's office were, from an external inspection, in a well-maintained state. The grounds in particular were maintained to a high standard comparing favourably with other locations visited by the Registrar's staff.

The provider has adopted a system for the iPad which enables the reporting of maintenance planning and tracking on site. Condition and maintenance histories are available on the iPad with alerts for hazards such as likely asbestos contamination and lead paint. Where lead paint is identified as a risk, its removal is scheduled between tenancies. The Asset Manager spoke about the provider's asbestos management strategies. Incoming tenants are informed if asbestos is present or likely to be so. The provider has documented its policy on identifying and managing the presence of both asbestos and lead paint, highlighting action to be taken to protect the health and safety of tenants, tradespeople and staff.

Overall the provider's approach to maintenance is marked by hazard awareness and risk reduction that includes cleaning gutters to reduce fire hazard, and addressing long-standing termite damage.

### CASE STUDY I – Alerting residents to various building issues

The provider is registered as Class 1 and has undergone several compliance assessments since registration. It published an article in its tenant newsletter giving clear and straightforward advice about the dangers of asbestos. The article describes asbestos and how to recognise it, the possible risks and what tenants should do if they are concerned. It outlines the steps to be taken by the provider if asbestos is damaged. It conveys the information necessary to ensure potential risks are understood but does so in a non alarmist way.

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## Performance Area 4: Sound Governance

There are four performance requirements under this performance area. All classes of provider must demonstrate 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 demonstrate that satisfactory controls and decision-making processes are in place and that they undertake planning that sustains long-term delivery of community housing.

Community housing providers in NSW vary widely in their entity type, size, organisational structure, scope of business and plans for the future. All governing bodies need to have access to skills such as financial expertise and legal advice, however expertise in specialised areas may be needed among the governing body members themselves, particularly as new forms of business are being entered into. Examples include expertise in working with client groups that have specific support needs, expertise in property development and asset management, human resources, and change management.

Whatever governance structure is in place, internal controls affect all operations and are central to effective governance of the organisation. The roles and responsibilities of governing body members should be clearly defined by the organisation and acknowledged by each member.

Recommendations were commonly made in relation to governing body skills, the process for skill assessment and the effectiveness of

the governing bodies in monitoring organisational performance.

The expertise needs of Class 4 providers, many of which are specialist homelessness services, tend to remain more constant than those of larger providers which are growing the size and scope of their business.

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.

Integrated planning processes whereby longer-term strategic plans, financial plans and risk management plans work together and are regularly translated into shorter-term operational plans and constantly monitored and reviewed, remains the key challenge for registered providers. There is also absence of evidence of stress-testing the strategic objectives to provide providers with confidence they are achievable if the assumptions on which they are based are found to be unrealistic or change due to a range of circumstances.

Compliance assessment findings indicate that Class 1 and 2 providers generally had the most efficient systems in place for monitoring their compliance with legal and other requirements. Many were found to have implemented additional internal control mechanisms, mainly IT based systems and internal audit programs, and that they have systems for proactively ensuring compliance with the provider's legal and contractual obligations as well as for monitoring that performance. An increasing number of providers have designated risk and compliance officers.

Systems for proactively achieving and regularly monitoring compliance with legal, regulatory and contract requirements relevant to providers' operations is the performance requirement where most recommendations were made for Class 3 and 4 providers.

For Class 3 and 4 providers recommendations were more frequently made with respect to reporting arrangements which require improvement. Lack of or poor internal controls and adequate oversight by the governing body were also areas of performance where a number of recommendations were made and a significant contributor to non-compliance findings. In most cases it was found that the governing body was unfamiliar with the requirements of the Regulatory Code.

Members of the governing body should have, or have access to, the range of skills and expertise required to effectively lead the organisation and scrutinise the achievements of its objectives. The skills of a governing body may be supplemented where necessary by a board accessing external advisers. Procuring external skills is of particular importance to those providers undertaking development and growth activities. Examples include expertise in property development, asset management, human services and change management. Providers may also need to access experts in working with clients who have specific support needs.

A governing body should state which responsibilities it will carry out directly (and will not delegate) and which responsibilities it can delegate to other bodies or officers. Effective board leadership relies on clarity

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about roles and responsibilities and compliance with governance standards.

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

For a provider's governing body to perform effectively, it is important that governance arrangements are established, implemented and monitored. For example, establishing performance measures and succession plans for the directors and key management staff; monitoring, evaluating and reporting systems on the performance of the board and management; and, reporting systems to meet the information needs of the NSW Department of Family and Community Services and other funding agencies.

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

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

**Figure 22: Has the governing body reviewed its skills in the 12 months to 30 June 2012**

Skills Review	Class 1	Class 2	Class 3	Class 4	Total
Yes	13	16	13	78	120
No	1	0	1	13	15
No response	0	0	0	6	6
Total	14	16	14	97	141

**Figure 23: Frequency of governing body skills review**

Frequency of Skills Review	Class 1	Class 2	Class 3	Class 4	Total
Monthly	0	1	0	1	2
Quarterly	0	1	1	4	6
6 Monthly	0	0	3	7	10
Annually	10	10	7	58	85
18 Months	1	0	0	1	2
24 Months	1	2	0	3	6
Other	1	2	1	10	14
No response	1	0	2	13	16
Total	14	16	14	97	141

## CASE STUDY J – Using a committee model to support a skill-based governing body

The provider achieved registration as Class 4 in 2009 and has undergone a compliance assessment in 2012.

The provider is a not-for-profit organisation that provides accommodation and support to people with a broad range of disabilities and their families and carers across NSW and the ACT. The principal activities include the provision of individual and family support, respite, recreation and leisure programs, day programs, accommodation, employment, equipment and technology, specialist services and therapy services to people with disabilities.

The provider has four properties under a community housing agreement with Housing NSW, a Division of the Department of Family and Community Services (FACS). A further 17 properties are managed with funding from the organisation's primary funding body in FACS, ADHC.

The provider's Board is skill-based and directors are chosen on the basis of their ability to assist in furthering the organisation's objectives. There are two formal Board committees: the Finance and Properties Committee and the Nomination Committee. Each Committee has Terms of Reference endorsed by the Board.

The Nomination Committee has developed a position description for directors which is used to recruit suitable candidates. Candidates are interviewed by members of the Committee, which then makes recommendations to the whole Board. The Board has undertaken a review of its structure and operations using external consultants to ensure that the best team of directors is available to provide leadership to the provider.



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## **CASE STUDY K – The role of the appropriately skilled board in organisational planning**

The provider is registered as Class 1 and has undergone several compliance assessments since registration. There have been significant changes in the scale and scope of provider's community housing activities supported by its planning process. The provider developed a new Strategic Plan as the previous one contained objectives which were no longer consistent with government priorities.

The development of the new plan was informed by an internal analysis of the strengths and weaknesses of the organisation, an independent housing needs analysis and a study outlining the options for meeting the housing needs and the organisational priorities. The board held an externally facilitated strategic planning day to consider its future business direction. A draft strategic plan was developed for consultation. The plan addresses the provider's constraints and opportunities independent of government capital investment.

The new 2012-15 strategic plan and the resulting business plan identify goals for growth through the development of additional affordable housing. The provider is aware of the growing need for social housing and has identified the possibility of freeing up existing social housing stock by developing affordable housing options for those tenants in a position to move on from social housing.

In addition, the provider reviewed the skills and experience it required to oversee the new business direction and appointed new board members with appropriate expertise.

The provider's planned growth is through property development and acquisition. Its Growth Committee focuses on acquisition, disposal and development. The Risk Committee considers risk to the organisation in general and also specifically in relation to development projects. The provider has updated its risk register to take into account current known risks arising from commencing development.

The provider's strategic plan also addresses the current position on stock transfers. It is realistic about the likelihood of these opportunities materialising and sets out objectives consistent with what can be achieved through using its own resources and commercial loans. In addition to ensuring stock is maintained in line with the Housing NSW asset standards, it has identified opportunities to increase its portfolio to meet the needs for affordable homes in the area in which it operates.

To support its growth the provider has reviewed and updated its policies and procedures for acquisition, development and disposal of properties in its asset management strategy and its risk plan. This work provides the Registrar with assurance that the provider has considered the resources, organisational capability and the risks associated with growth. The provider's board members have skills and expertise appropriate for the scale and scope of the organisation. In line with its vision for growth the provider appointed members with extensive property development skills and government and policy making skills during this phase of its business development.

## **CASE STUDY L – Calendar of legal and compliance obligations as a way of meeting this performance requirement**

The provider is registered as a Class 4 community housing provider and has undergone a compliance assessment registration.

The provider has introduced an excellent system for ensuring that it meets its contractual, legal and compliance obligations. This is consistent with the scale and scope of its operations. It clearly lists the activities it needs to carry out including meeting reporting deadlines and renewing insurance certificates. It is kept under review and added to as new obligations and/or tasks are identified. It is linked to supporting information including work, health and safety issues, an asset register, employment records and complaints and feedback. Where relevant the record includes action needed to resolve matters and the completion of this.

It is a clear and accessible record that gives assurance to the regulator that the provider is in control of its business; that the management committee has access to relevant information; that the real risk of knowledge being lost when key individuals leave or are absent from a small organisation is minimised; and that there is evidence and background information to inform strategic planning and service reviews.

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## Performance Area 5: Standards of Probity

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

Assessments across this performance area indicated that the majority of providers had reliable systems in place to prevent fraud and corruption, deal with conflict of interest and maintain the reputation of the sector. A small number of recommendations made required providers to strengthen their monitoring and audit mechanisms and to update their practice for the protection of whistleblowers.

Almost hundred percent of providers across all classes have reviewed policies for the prevention and referral of fraud, corruption and criminal conduct as well as their code of conduct and ethics and are receiving written undertaking from their governing body members and staff, including volunteers, to comply with the code. The largest number of recommendations made in the performance area of Standards of Probity (29) were around revising or implementing a notifiable events policy in accordance with the Registrar's Guidance Note on notifications. In the instance where a provider was issued with a notice of intent to cancel registration it was found that it had repeatedly failed to notify the Registrar about either serious allegations or events where residents could potentially be at risk of harm.

## CASE STUDY M – Enhancing probity in the procurement of goods and services

The provider was registered as a Class 3 community housing provider and has undergone several compliance assessments since registration. It provides accommodation and a range of support services to people with disabilities.

At the time of the registration the provider had an independent Chairperson however following the changes to the organisation's personnel, the same person ended up exercising the duties of the Chief Executive Officer and the Chairperson. In addition, the Registrar was advised that the organisation was purchasing services from this person. The Registrar sought assurances from the provider that the procurement services were conducted in a transparent manner and that it achieved the best value for money for the provider. The regulator also requested assurance of a clear separation between the governing body and the executive.

The provider sought independent advice on these matters and the roles of the Chairperson and the Chief Executive were separated again. The provider's governance policies were updated so they were consistent with the ASX Principles of Good Corporate Governance.

With respect to procurement, the provider has rented an office block owned by one of the directors since 2005. The rent for the property is reviewed against current rental benchmarks by an independent third party and rent determined accordingly. A lease was prepared by the legal representative and reviewed by an independent law firm. The lease was signed by an independent director and a conflict of interest is declared by the director who owns the building.

In addition, the provider gave assurance to the Registrar that the procurement of services from companies owned by the previous Chairperson were conducted in a transparent manner. Conflict of interest is a standing agenda item at governing body meetings. Before the start of each meeting the Chairperson cross checks the agenda against the disclosure statements to ensure any potential conflicts of interest are identified and entered in the conflict of interest register. A review of the audited financial statements indicates transactions between related parties are on normal terms and conditions and are no more favourable than those available to other parties. Director related entities are listed.

All procurement decisions are bound by a service agreement which is reviewed annually by independent auditors on behalf of the organisation. At the expiration of each service agreement all directors are involved in the decision making prior to signing a new agreement. The director who provides services to the organisation declares a conflict of interest at governing body meetings and does not participate in decision making about procurement of, managing or monitoring of, a contract in which the director has an interest.

The provider has in place a Corporate Governance Risk Management policy, Code of Conduct, Delegations Manual and Governance policy. These documents outline the expectations of staff and Board members in relation to probity requirements.

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The number of notifications has remained steady at 26 in the current year, compared to 27 in 2011/12. This is an indicator of providers' awareness of their notification obligations and of their disclosure approach. In all communication to the sector the Registrar continues to convey the message of being seen as a 'critical friend' in safeguarding the performance of the sector and its reputation. Notifications provide an early warning of possible non-compliance giving the Registrar the opportunity to guide or to intervene before an urgent or serious non-compliance occurs and potentially damages the reputation of the community housing sector. Providers are taking an open and prompt approach to notifications, an approach encouraged by the Registrar.

**Figure 24: Systems for prevention, investigation and referral of fraud, corruption and criminal conduct policies reviewed in the 12 months to 30 June 2012**

Systems for prevention, investigation and referral of fraud, corruption and criminal conduct policies reviewed in the 12 months to 30 June 2012	Class 1	Class 2	Class 3	Class 4	Total
Yes	13	15	1	0	29
No	1	0	0	0	1
No response	0	1	13	97	111
Total	14	16	14	97	141

**Figure 25: Code of conduct reviewed in the 12 months to 30 June 2012**

Code of conduct reviewed in the 12 months to 30 June 2012	Class 1	Class 2	Class 3	Class 4	Total
Yes	10	10	8	64	92
No	3	6	5	31	45
No response	1	0	1	2	4
Total	14	16	14	97	141

**Figure 26: Written undertaking by governing body and employees to comply with the code**

Written undertaking by governing body and employees to comply with the code	Class 1	Class 2	Class 3	Class 4	Total
Yes	13	16	13	84	126
No	0	0	0	12	12
No response	1	0	1	1	3
Total	14	16	14	97	141

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

Many Class 4 providers are specialist homelessness service organisations that receive recurrent government funding where the funds must be periodically

acquitted. This context is taken into account when assessing viability. Such cases typically show low but positive surplus margins and minor deficiencies in operating cash inflows to outflows.

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

Class 1 and 2 providers must undertake risk management planning that includes implementing controls for minimising the risk of government investment loss. These providers must submit a risk management plan that meets relevant standards and has commentary on recent reviews of the plan. Most providers reported that they review the risk management plan annually, with some reviewing plans more frequently as the review may occur as part of monitoring the progress of particular projects or in the context of a provider's current business.

In the 2012/13 compliance round, recommendations were made to five Class 1 providers regarding forecasting, strengthening their financial controls, contingency planning and applying appropriate risk measurements. Five Class 2 providers also received recommendations for improvement in the areas of forecasting and maintenance provision and seven Class 2 providers were issued recommendations regarding the

scope of their risk management planning. Recommendations were also made to six Class 3 providers regarding improvements to operating cash flows, forecasting and maintenance provisions. Twenty-six Class 4 providers received recommendations for improvement in the performance requirement Financial Performance, mainly in the areas of operating income and expenses, operating cash flow, operating margin, internal controls and implementing recommendations by their auditors.

Class 4 providers were found, in the majority of cases (71 of the 97 assessed), to have good financial practice and good financial health.

There was also positive practice observed with a number of providers strengthening financial skills both on their governing bodies and in their senior management teams.

Financial performance was one of the reasons for the Registrar's decisions about non-compliance, particularly in the areas of maintenance provisioning, forecasting and financial controls.

The analysis of sector financial performance considers operating performance, asset growth, capital structure, interest cover, summary financial statements, and key financial ratios.

The process for the collection of financial information involves community housing providers seeking to comply with the requirements of the Regulatory Code, submitting financial information to the Registrar in the prescribed format, the FPR. FPRs, with supporting evidence, for Class 1, 2 and 3 providers were collected at a single point in time in the second quarter as part of

# Administering the Regulatory Code

the 2012/13 compliance program. Financial information for these providers was collected as at 30 June 2012.

Financial information for Class 4 providers is collected on the second anniversary of their registration assessment or at any other time if an earlier compliance assessment is warranted. FPRs for Class 4 providers were collected according to the schedule as part of the 2012/13 compliance program.

For comparative purposes, this report has brought forward the sector financial information as published in the NSW Registrar's

Annual Statement of Performance 2012 (ASOP 2012). The sector financial information brought forward relates to FY 2011 for Class 1, 2 and 3 providers and "aggregated FY 2008 – FY 2011" for Class 4 providers. This report compares this information to financial information as at 30 June 2012 (FY 2012) for Class 1, 2 and 3 providers and to "aggregated FY 2009 – FY 2012" for Class 4 providers. The aggregated reporting year considers the most recent audited financial statements provided. It is an aggregation of information relating to all Class 4 providers that have been assessed by the Registrar, with only the most

recent assessment taken into consideration.

The overall financial information of the sector is the combination of Classes 1, 2 and 3 financial information as at 30 June 2012 and Class 4 "aggregated FY 2009 – FY 2012".

This report presents a year-on-year performance for Class 1, 2 and 3 providers. The report also presents a comparison between Class 4 providers' financial information "aggregated FY 2008–FY 2011" and the "aggregated FY 2009 – FY 2012".

Figure 27: Operating surplus and margin

	Operating Surplus		Operating Margin	
	FY 2011	FY 2012	FY 2011	FY 2012
	\$ millions	\$ millions	%	%
Class 1	\$30.9	\$48.1	13.6%	15.1%
Class 2	\$34.5	\$41.3	3.2%	3.3%
Class 3	\$4.6	\$4.4	8.9%	7.0%
	Operating Surplus		Operating Margin	
	Aggregated FY 2008 - FY 2011	Aggregated FY 2009 - FY 2012	Aggregated FY 2008 - FY 2011	Aggregated FY 2009 - FY 2012
	\$ millions	\$ millions	%	%
Class 4	\$37.7	\$57.8	2.1%	2.7%
Sector	\$107.7	\$151.7	3.4%	4.0%

Operating surplus excludes government capital grants and unusual and non-recurrent items such as fair value gains and profit or loss on disposal of assets. The sector's operating margin increased to 4.0% and the sector's operating surplus improved by 41% to \$151.7 million in the aggregated FY 2009–FY 2012.

Class 1 and 2 providers increased their operating surplus by 56% and 20% respectively in FY 2012 compared to FY 2011. Class 1 providers' operating margin grew from 13.6% in FY 2011 to 15.1% in FY 2012 while Class 2 providers' operating margin slightly increased by 0.1% in the same period. Class 1, 2 and 3 providers had an increase in their rent revenue

resulting from a rise in the number of community housing units owned and managed. Class 1 providers' overall operating revenue has grown at a faster rate than the increase in expenses in FY 2012. Class 2 providers' overall operating revenue and expenses grew at equivalent rates.

# Administering the Regulatory Code

Figure 28: Operating revenue\*

	Operating Revenue			
	Aggregated FY 2008 - FY 2011		FY 2012	
	Rent Revenue	Other Revenue	Rent Revenue	Other Revenue
	\$ millions	\$ millions	\$ millions	\$ millions
Class 1	\$144.8	\$16.9	\$190.4	\$50.8
Class 2	\$56.6	\$409.3	\$61.6	\$461.5
Class 3	\$4.9	\$5.5	\$5.4	\$7.4
	Operating Revenue			
	Aggregated FY 2008 - FY 2011		Aggregated FY 2008 - FY 2011	
	Rent Revenue	Other Revenue	Rent Revenue	Other Revenue
	\$ millions	\$ millions	\$ millions	\$ millions
Class 4	\$22.0	\$957.5	\$43.7	\$1,166.0
Sector	\$228.3	\$1,389.2	\$301.1	\$1,685.8

Operating revenue of the sector increased by 21% to \$3.8 billion in the aggregated FY 2009– FY 2012. This total includes government operating grants of \$1.8 billion. All Classes improved their operating revenue in the period assessed. Operating revenue of Class 1, 2 and 3 providers increased by 40%,

17%, and 22% respectively in FY 2012 compared to FY 2011. In this period, rent revenue rose by 32% for Class 1 providers, 9% for Class 2 providers, and 11% for Class 3 providers. Operating revenue of Class 4 providers increased by 20% in the aggregated FY 2009–FY 2012.

Figure 29: Operating expenses\*

	Operating Expenses							
	Aggregated FY 2008 - FY 2011				FY 2012			
	Maintenance	Employee	Depreciation	Other Expenses	Maintenance	Employee	Depreciation	Other Expenses
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions
Class 1	\$29.0	\$44.1	\$8.1	\$115.2	\$39.1	\$54.2	\$8.4	\$168.6
Class 2	\$14.0	\$630.9	\$75.6	\$312.9	\$16.8	\$759.4	\$94.0	\$339.2
Class 3	\$1.1	\$27.5	\$0.9	\$17.7	\$1.5	\$34.4	\$2.0	\$21.0
	Operating Expenses							
	Aggregated FY 2008 - FY 2010				Aggregated FY 2008 - FY 2011			
	Maintenance	Employee	Depreciation	Other Expenses	Maintenance	Employee	Depreciation	Other Expenses
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions
Class 4	\$	\$1,090.6	\$76.1	\$606.8	\$	\$1,291.9	\$77.5	\$747.6
Sector	\$44.1	\$1,793.0	\$160.8	\$1,052.6	\$57.3	\$2,139.9	\$181.9	\$1,276.4

# Administering the Regulatory Code

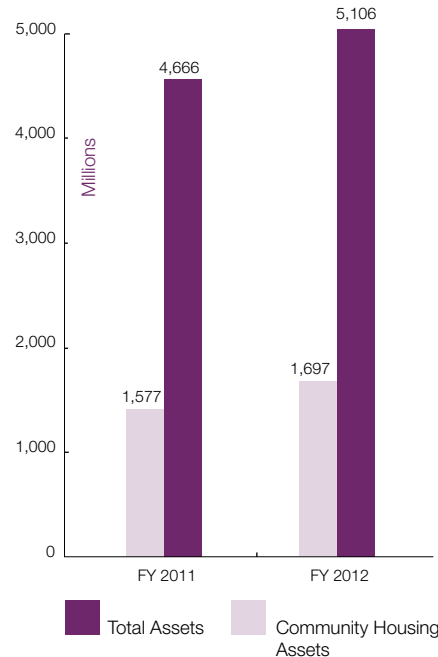
Sector operating expenses increased by 20% to \$3.7 billion in the aggregated FY 2009–FY 2012. The expense composition of the sector remains constant and the proportion of expenses are the same over the aggregated FY 2009–FY 2012.

Operating expenses for Class 1 providers increased by 38% in FY 2012 due to a rise of 46% in other expenses and a rise of 35% in maintenance expenses. Class 2, 3 and 4 providers also increased their operating expenses by 17%, 24%, and 19% respectively in the last comparative period. In FY 2011 maintenance expenses had decreased for Class 2 and 3 providers; however, these providers reported an increase of 20% and 29% respectively in FY 2012.

Class 1 providers' most significant expense item is property expenses<sup>1</sup>. It grew from \$96.2 million in FY 2011 to \$109.5 million in FY 2012 representing a 14% increase. The most significant expense item for Class 2, 3 and 4 providers is employee expenses which rose 20%, 25%, and 18% in FY 2012 respectively. Class 1 providers' employee expenses also increased by 23% which is in line with the other classes.

<sup>1</sup> Property expenses include rates, property leases, rents, insurance, electricity, water usage, and other management expenses. It excludes maintenance and employee expenses.

**Figure 30: Asset values classes 1, 2 and 3**

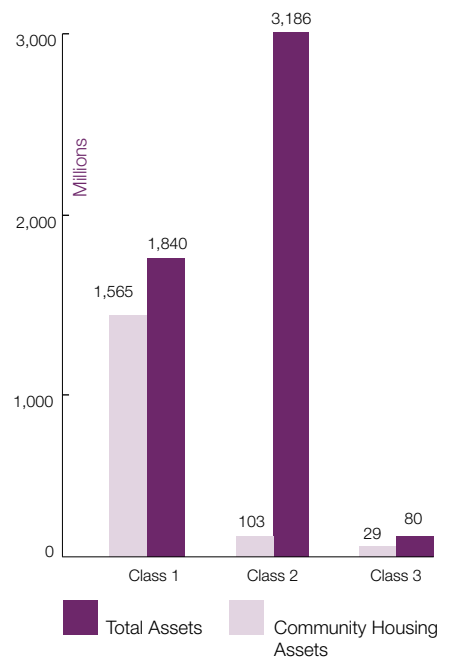


Community housing assets represented 34% of total assets for Class 1, 2 and 3 providers in FY 2011. This proportion remained constant in FY 2012.

Community housing assets for combined Class 1, 2 and 3 providers increased by 8% (or \$119.7 million) to \$1.7 billion from FY 2011 to FY 2012. Total assets (which is broader than community housing assets) for combined Class 1, 2 and 3 providers increased by 9% (or \$440.5 million) to \$5.1 billion in the same period.

Community housing assets include properties owned, developed or acquired by the registered provider in order to provide social and/or affordable housing in the long-term. Property titles transferred from Housing NSW are community housing assets. Community housing assets also include properties owned by the registered provider with the main

**Figure 31: Asset values by class type FY 2011**



purpose to provide transitional and/or crisis accommodation. Aged care facilities, retirement villages, hospitals and churches are not considered to be community housing assets.

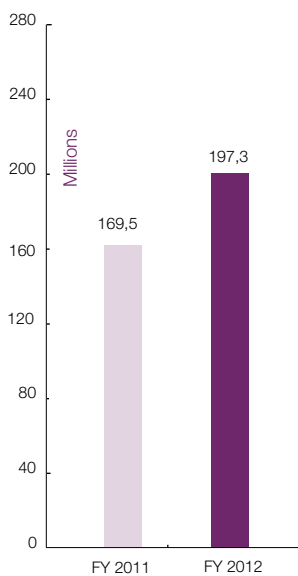
The growth of community housing assets and its value concentrated in Class 1 providers in FY 2012. Class 1 and 2 community housing assets represented 92% and 6% of combined community housing assets of Class 1, 2 and 3 providers respectively.

Community housing assets represented 85% of total assets for Class 1 providers in FY 2012.

Some Class 2 providers include the provision of aged care services and retirement living as part of their principal activities. Assets related to these activities formed the majority of the \$3.1 billion of total assets for Class 2 providers.

# Administering the Regulatory Code

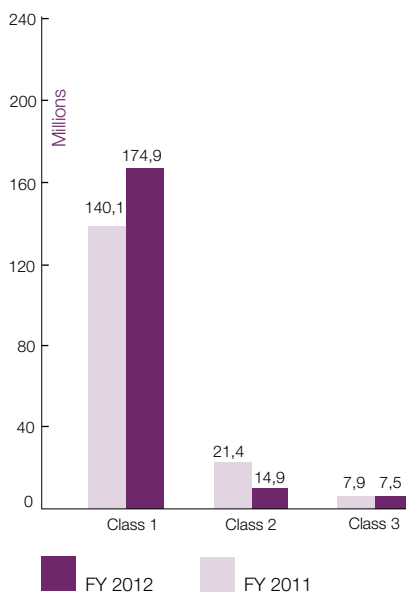
**Figure 32: Interest bearing debt – class 1, 2 and 3**



Interest bearing debt for combined Class 1, 2 and 3 providers totalled \$197.3 million in FY 2012 which is an increase of 16% on FY 2011 (\$169.5 million). Interest bearing debt for this group had a net increase of \$27.8 million in FY 2012.

Interest bearing debt is reported as current interest bearing debt and non-current interest bearing debt. The proportion of current debt and non-current debt changed considerably from FY 2011 to FY 2012. In FY 2011 this proportion was 13% current interest bearing debt and 87% non-current interest bearing debt compared to 49% and 51% in FY 2012 respectively. Two Class 1 providers reported reclassification of debt following accounting standards while re-negotiating with financial institutions.

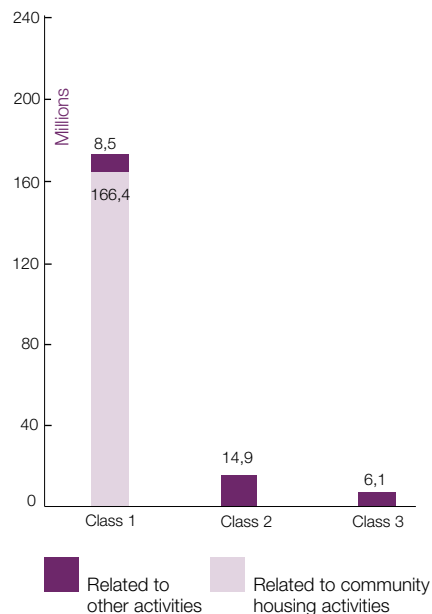
**Figure 33: Debt per class type – interest bearing debt**



Interest bearing debt by class indicated that Class 1 providers have actually increased interest bearing debt by 25% (or \$34.8 million) to \$174.9 million in FY 2012 compared to FY 2011. Interest bearing debt for Class 1 providers represented 89% of combined interest bearing debt for Class 1, 2 and 3 providers in FY 2012.

Interest bearing debt for Class 2 providers decreased by 31% (or \$6.5 million) to \$14.9 million in FY 2012. Likewise, interest bearing debt for Class 3 providers decreased by 5% (or \$0.4 million) to \$7.5 million in the same period. Interest bearing debt for Class 2 represented 8% of combined interest bearing debt for Class 1, 2 and 3 providers in FY 2012.

**Figure 34: Interest bearing debt – community housing sector FY 2011**



Interest bearing debt related to community housing activities was raised by Class 1 and 3 providers in FY 2012. Interest bearing debt related to community housing activities grew by 24% to \$166.4 million in FY 2012. It represented 95% of total interest bearing debt for Class 1 providers. Class 3 providers reported an interest bearing debt associated with community housing activities of \$1.4 million in FY 2012.



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Interest bearing debt for Class 2 providers decreased by 31% (or \$6.5 million) to \$14.9 million in FY 2012. Likewise, interest bearing debt for Class 3 providers decreased by 5% (or \$0.4 million) to \$7.5 million in the same period. Interest bearing debt for Class 2 represented 8% of combined interest bearing debt for Class 1, 2 and 3 providers in FY 2012.

Interest bearing debt related to community housing activities was raised by Class 1 and 3 providers in FY 2012. Interest bearing debt related to community housing activities grew by 24% to \$166.4 million in FY 2012. It represented 95% of total interest bearing debt for Class 1 providers. Class 3 providers reported an interest bearing debt associated with community housing activities of \$1.4 million in FY 2012.

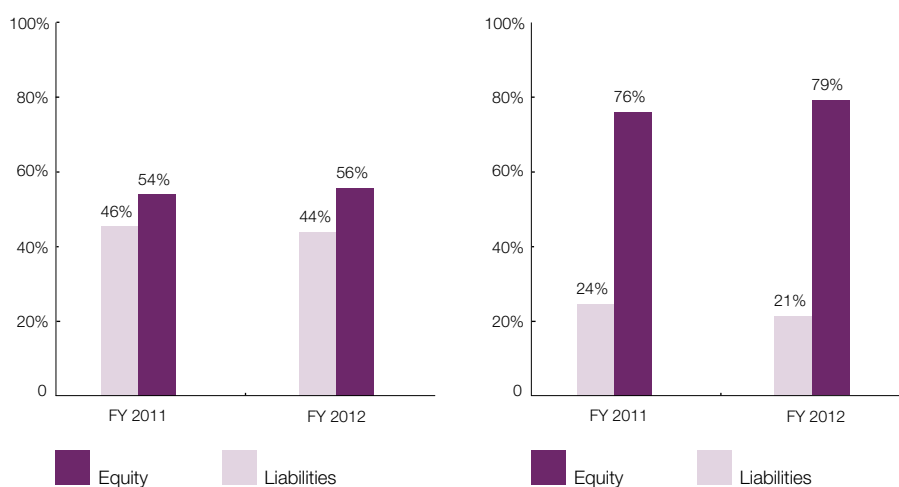
The Interest cover ratio measures the capacity of an organisation to cover interest expenses with operating earnings. This ratio is calculated with EBITDA (i.e. earnings before interest, tax, depreciation and amortisation), which is based on operating surplus adjusted for interest costs, taxation, and depreciation. Interest cover ratio results varied across the different classes in the sector over FY 2012 and aggregated FY 2009–FY 2012.

The sector overall interest cover ratio improved to 9.7 times due to a better performance of each Class type. Interest cover for Class 1 providers improved slightly because of an increase in EBITDA performance of 47% compared to an increase of 39% in interest expenses in FY 2012. Interest cover for Class 2 and 3 providers improved noticeably due to a decrease in interest expenses of 43% and 3% in FY 2012 respectively.

Figure 35: Interest cover

	Interest Cover	
	FY 2011	FY 2011
	times	times
Class 1	5.1	5.4
Class 2	13.4	28.8
Class 3	10.7	12.6
	Interest Cover	
	Aggregated FY 2008 - FY 2011	Aggregated FY 2009 - FY 2012
	times	times
Class 4	8.7	8.8
Sector	8.6	9.7

Figure 36: Capital structure classes 1,2 and 3



Capital structure refers to the combination of equity and liabilities to finance overall operations and growth. The proportion of equity and liabilities for combined Class 1, 2 and 3 providers changed slightly over the FY 2012.

Total assets of combined Class 1, 2 and 3 providers were financed by 56% equity and 44% liabilities in FY 2012. Class 1 providers' total assets were financed by 79% equity and 21% liabilities in the same period.

Combined Class 1, 2 and 3 providers registered an increase in total liabilities of 3% and an increase in equity of 15% in FY 2012 compared to FY 2011. Class 1 providers had a change in its proportion of equity and liabilities over the same period. Class 1 providers, however, registered a drop in total liabilities of 8% and an increase in equity of 14%. The decrease in liabilities relates to some providers recognising long-term government capital grants as grant income.

# Administering the Regulatory Code

Figure 37: Summary financial statements

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	Class 1, 2 and 3			Sector		
	FY 20011	FY 2012	Variance	Aggregated FY 2008 - FY 2011	Aggregated FY 2009 - FY 2012	Variance
	\$Millions	\$Millions	(%)	\$Millions	\$Millions	(%)
<b>Income Statement</b>						
Government Operating Grants Received	709.2	855.0	20.6%	1,540.9	1,820.3	18.1%
Rent Revenue	206.3	257.4	24.8%	228.3	301.1	31.9%
Other Revenue	431.7	519.8	20.4%	1,389.2	1,685.8	21.4%
<b>Total Operating Revenue</b>	<b>1,347.1</b>	<b>1,632.3</b>	<b>21.2%</b>	<b>3,158.4</b>	<b>3,807.2</b>	<b>20.5%</b>
<b>Operating Expenses</b>						
Operating Expenses	1,178.6	1,419.5	(20.4%)	2,863.8	3,444.6	(20.3%)
Depreciation	84.7	104.4	(23.3%)	160.8	181.9	(13.1%)
Interest Expenses	13.8	14.6	(5.5%)	26.0	28.9	(11.5%)
<b>Total Operating Expenses</b>	<b>1,277.1</b>	<b>1,538.4</b>	<b>(20.5%)</b>	<b>3,050.6</b>	<b>3,655.5</b>	<b>(19.8%)</b>
<b>Net Operating Surplus</b>	<b>70.1</b>	<b>93.8</b>	<b>33.9%</b>	<b>107.7</b>	<b>151.7</b>	<b>40.8%</b>
<b>Government Capital Grants</b>						
Government Capital Grants	42.6	51.9	21.9%	52.3	66.2	26.7%
Unusual and Non-Recurring Items	762.7	29.9	(96.1%)	788.8	31.7	(96.0%)
<b>Net Surplus</b>	<b>875.3</b>	<b>175.6</b>	<b>(79.9%)</b>	<b>948.8</b>	<b>249.6</b>	<b>(73.7%)</b>
<b>Balance Sheet</b>						
Cash & short term investments	632.0	790.5	25.1%	899.0	1,097.5	22.1%
Other current assets	349.6	328.4	(6.1%)	607.2	606.5	(0.1%)
<b>Current Assets</b>	<b>981.6</b>	<b>1,118.9</b>	<b>14.0%</b>	<b>1,506.2</b>	<b>1,704.0</b>	<b>13.1%</b>
Community Housing Properties	1,577.5	1,697.2	7.6%	1,655.7	1,697.2	2.5%
Other Non-Current assets	2,106.7	2,290.3	8.7%	3,261.3	3,746.8	14.9%
<b>Non-Current Assets</b>	<b>3,684.2</b>	<b>3,987.5</b>	<b>8.2%</b>	<b>4,917.0</b>	<b>5,444.0</b>	<b>10.7%</b>
<b>Total Assets</b>	<b>4,665.9</b>	<b>5,106.4</b>	<b>9.4%</b>	<b>6,423.2</b>	<b>7,148.0</b>	<b>11.3%</b>
<b>Current Liabilities</b>						
Current Interest Bearing Debt	22.5	97.1	332.4%	137.7	315.9	(129.4%)
Other Current Liabilities	481.2	537.4	(11.7%)	958.8	1,003.4	(4.6%)
<b>Current Liabilities</b>	<b>503.6</b>	<b>634.5</b>	<b>(26.0%)</b>	<b>1,096.5</b>	<b>1,319.2</b>	<b>(20.3%)</b>
<b>Non-Current Liabilities</b>						
Non-Current Interest Bearing Debt	147.0	100.2	31.8%	419.7	198.3	52.8%
Other Non-Current Liabilities	1,497.6	1,488.8	0.6%	1,539.8	1,620.5	(5.2%)
<b>Non-Current Liabilities</b>	<b>1,644.6</b>	<b>1,589.0</b>	<b>3.4%</b>	<b>1,959.6</b>	<b>1,818.8</b>	<b>7.2%</b>
<b>Total Liabilities</b>	<b>2,148.2</b>	<b>2,223.4</b>	<b>(3.5%)</b>	<b>3,056.0</b>	<b>3,138.1</b>	<b>(2.7%)</b>
<b>Net Assets</b>	<b>2,517.6</b>	<b>2,883.0</b>	<b>14.5%</b>	<b>3,367.1</b>	<b>4,009.9</b>	<b>19.1%</b>
<b>Statement of Cash Flows</b>						
Cashflows from Operating Activities (Net of Capital Grants)	213.2	194.9	(8.6%)	415.8	390.1	(6.2%)
Cash Flow from Investment Activities	(329.0)	(230.7)	29.9%	(497.1)	(390.1)	21.5%
Cash Flow from Financial Activities	153.6	134.7	(12.3%)	157.4	105.3	(33.1%)
<b>Net Cash flow</b>	<b>37.9</b>	<b>98.9</b>	<b>161.3%</b>	<b>76.1</b>	<b>105.3</b>	<b>38.4%</b>
Opening Cash balance	594.2	691.6	16.4%	823.0	992.1	20.5%
<b>Closing Cash balance</b>	<b>632.0</b>	<b>790.5</b>	<b>25.1%</b>	<b>899.1</b>	<b>1,097.4</b>	<b>22.1%</b>

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Figure 38: Key financial ratios

Key Financial Ratios	Class 1, 2 and 3		Sector	
	FY 2011	FY 2012	Aggregated FY 2008 - FY 2011	Aggregated FY 2009 - FY 2012
EBITDA Margin(%)	9.1%	9.8%	7.2%	7.5%
Working Capital Ratio(times)	1.9	1.8	1.4	1.3
Operating Cash Adequacy(%)	117.6%	113.6%	114.3%	111.2%
Gearing Ratio(%)	3.7%	4.1%	8.7%	7.4%
Interest Coverage Ratio(times)	8.5	10.6	8.6	9.7

## CASE STUDY N – Successful implementation of more complex business models

The provider is a registered Class 1 provider operating nationally and in regional NSW and has undergone several compliance assessments since registration. The provider entered into a subsidiary deed arrangement with an interstate organisation and later assumed management control of that organisation. As a result, the provider now considers its former subsidiary a controlled entity for consolidation purposes. Evidence submitted shows the provider has implemented appropriate protocols to ensure sound governance and decision making between the parent and subsidiary entities.

In 2010, the provider altered its constitution to enable them to participate in partnership arrangements with subsidiaries in other jurisdictions. The aim of this change was to provide formal processes to share housing, property management skills, and resources. The first such arrangement included a loan from the provider to the subsidiary.

In 2011, based on the funding agreement the provider assumed management control of the subsidiary. Under a Memorandum of Understanding and loan agreement with the provider, the subsidiary's board of directors resigned, vesting organisation control to the provider.

The evidence submitted to the Registrar demonstrates that the executive and governing body of the provider has been engaged in resolving the issues surrounding the control of the subsidiary. There was a degree of uncertainty about the legal options available to the provider. Steps were taken to resolve the matter using external expertise. The governing body conducted a thorough audit of the subsidiary arrangement. An internal audit plan was developed to address the risks associated with this issue. The results of the internal audit showed there were no matters that could affect provider's compliance with the Housing Act and the Regulatory Code.

On the evidence available, the loan to the subsidiary did not represent a significant risk to the provider's viability.

The Registrar was assured at all times that the provider carried out appropriate due diligence for its enterprise. In addition, the provider is monitoring this part of its business and has undertaken to notify the Registrar of any significant change.

It is expected that any partnership arrangements registered community housing providers enter into will be supported by the strong due diligence and risk management processes.

### CASE STUDY O – Improved business processes in the function of improved tenant outcomes

The provider is registered as Class 1 and has undergone several compliance assessments since registration. Improved outcomes for tenants are at the centre of provider's strategic planning process. At the site visit, the provider advised the Registrar's office about its plans to examine how they deploy their human and financial resources to achieve improved tenant outcomes.

This will involve an analysis of where time is currently spent using activity based costing and comparing the results against tenants' requirements and requests. The provider's aim is to have its services reconfigured and, following further work, focusing staff time on responding to issues already identified by tenants, such as antisocial behaviour and community development. At the same time, the provider is introducing centralised and specialised maintenance service. The roll out of the centralised and specialised maintenance will provide client services staff with the opportunity to take on new responsibilities.

The provider has identified communities where there are specific problems that require action by the indicators of lower demand, antisocial behaviour and is designing local responses. The approach has been tried first in one location where a project for disaffected youth is being developed. A number of other localities ranging in size from two or three streets to a whole scheme have been identified for future attention.

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

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

Information is collected on the average number of days providers take to let void<sup>2</sup> and vacant<sup>3</sup> properties. Rent arrears as a percentage of total rental income is also collected.

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

A total of 51 recommendations to achieve compliance and a number of observations for efficiency improvements were made across all classes of providers. Fifty percent of Class 1 providers, 62% of Class 2, 43% of Class 3 and 28% of Class 4 providers assessed for compliance in 2012/13 received recommendations in this performance area. The recommendations were mainly around correctly recording and differentiating between a void and a vacant property; reducing where possible vacant times between residents; introducing efficiency measures for better utilisation of properties and monitoring progress; and conducting market rent and resident income reviews consistent with Housing NSW or other relevant policies.

There was no non-compliance in this performance area.

### Empty Properties

The community housing sector has historically used a benchmark of 28 days for turnaround of void properties<sup>4</sup>. The majority of Class 1 providers, three-quarters of Class 2 providers and the majority of Class 3 providers reported that they achieved average void times within the benchmark. No Class 4 providers reported void times above the benchmark.

Figure 39, next page, shows the average and median turnaround times for class 1, 2 and 3 during FY2011/12. Similarly to the previous years caution should be taken when interpreting this table because information is not collected for the total number of void and vacant properties. These will vary considerably between providers. The sector average performance reported is the average of the average turnaround times. The number of vacant days collected by the Registrar relates to all community housing properties managed by the registered provider, not only the properties that represent the assistance by Housing NSW to the provider.

The community housing sector has historically used a benchmark of 28 days for turnaround of void properties. This measure provides information on the average turnaround time (reletting) as the number of days it takes to tenant a

<sup>2</sup> Voids are properties which were unavailable for immediate re-letting because of, for example, major maintenance work

<sup>3</sup> Vacants are properties available for immediate re-letting, but which have not been, for various reasons

<sup>4</sup> Turnaround time for void properties is the time in days a property is not habitable due to maintenance requirements

Figure 39: Turnaround times – voids

Class	Average	Median
Class 1	28.65	27.40
Class 2	33.82	29.70
Class 3	29.75	11.00
Combined	30.95	27.20

property, calculated as the number of void days divided by the number of void properties.

Sixty-five percent of Class 1 providers, 69% of Class 2 providers, 86% of Class 3 providers and three-quarters of Class 4 providers reported that they achieved average void times within the benchmark. Fifty-nine providers (two Class 1, four Class 2, five Class 3 and 48 Class 4) reported no void properties in the 12 months to 30 June 2012.

The community housing sector has historically used a benchmark of 14 days for turnaround of vacant properties. This measure provides information on the average turnaround time (reletting) as the number of days it takes to tenant a property, calculated as the number of vacant days divided by the number of vacant properties. Figure 39 below shows the average and median turnaround times for vacant properties for Class 1, 2 and 3 providers.

Forty-two percent of Class 1 providers, 62% of Class 2, 71% of Class 3 and 85% of Class 4 providers reported average turnaround times within the benchmark. Where the benchmark was exceeded, two Class 2 providers and two Class 4 providers reported average turnaround times of over 100 days. Two Class 1, one Class 2, three Class 3 and 52 Class 4 providers reported no vacant days.

Figure 40: Turnaround times – vacants

Class	Average	Median
Class 1	28.65	27.40
Class 2	33.82	29.70
Class 3	29.75	11.00
Combined	30.95	27.20

#### Rent arrears

Rent arrears is a measure of the rent revenue due but not paid as a variance between rent charged during the period and rent collected. Rent arrears of 4% or less are regarded as the benchmark. All Class 1, 2 and 3 providers reported rent arrears of 4% or less. There were four Class 4 providers with high levels of rent arrears of around 10%. In each case the Registrar's staff discussed the reasons with the provider as well as the strategies for returning the rent arrears to an acceptable level. Figure 40 below shows the rent arrears as the percentage of rent revenue charged at 30 June 2012. Caution should be taken when interpreting this table because

Figure 41: Rent Arrears

Class	Average	Median
Class 1	28.65	27.40
Class 2	33.82	29.70
Class 3	29.75	11.00
Combined	30.95	27.20

information is not collected for the total amount of rent arrears or revenue charged. These will vary for different providers. The sector average performance reported is the average of the average rent arrears as a percentage of rent charged.

#### CASE STUDY P – Exploring more efficient ways of achieving outcomes for tenants

Several registered Class 1 and 2 regional providers that have similar strategic visions and challenges have formed an alliance. The alliance members work together to develop benchmarking based on examples of good practice and support each other's initiatives where appropriate.



# Administering the Regulatory Code

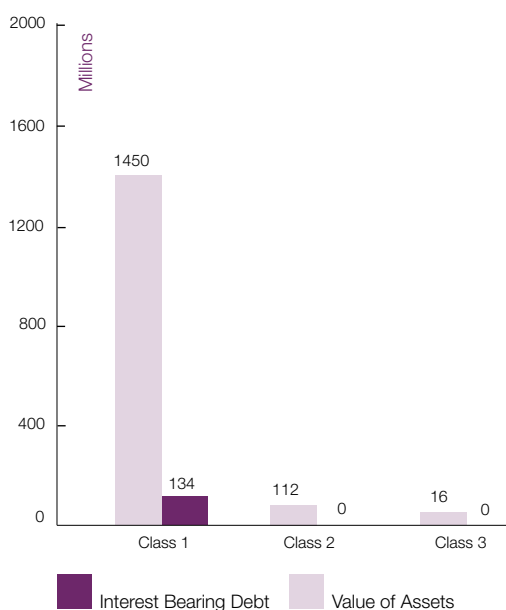
## Performance Area 8: Development Projects

The requirements under this performance area for providers to undertake appropriate planning to cost and execute community housing development projects apply only to Class 1 and Class 2 providers. 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 a number of factors, including the organisation's financial position, strategic plans and external markets conditions.

Some providers have executed development projects and are planning larger ones. Some have borrowed private funds for this purpose and others are negotiating conditions with lenders. Some are now considering or actively pursuing more complex land purchase and new-build projects. A range of approaches are emerging, including partnerships between providers, developers and investors.

Recommendations about improving project planning and policy were made to five Class 1 and 2 providers around the need for integration of development plans into the strategic framework, risk and asset management planning and around project management policies, procedures and methodology. This is a reduction in the number of larger providers that are involved in development with recommendations in this area compared to the previous year when thirteen Class 1 and 2 providers received recommendations for improvement.

Figure 42: Commercial debt for community housing activities to value of community housing assets – LVR FY 2011



While a recommendation was made to one provider to enhance skills and expertise in this field, it was found that most providers had strengthened their governing body expertise and/or senior management structure in response to previous recommendations.

Recommendations about financial leverage were made to three Class 1 providers (compared to five providers in 2011/12). These recommendations focused on loan structure, covenants and risk management and are aimed on ensuring providers enhance capacity to achieve sustainable and optimal growth.

Combined Class 1 and 2 providers experienced a large growth in operations and community housing assets. This growth was mainly driven by the transfer of property titles from Housing NSW to providers' balance sheet as part of the Nation Building Economic

Stimulus Plan (NBESP) the federal government continued implementing in 2010/11. The NBESP requires providers to leverage the community housing assets transferred to their balance sheet by developing more community housing assets. The development of community housing assets required providers to obtain new commercial loans using transferred assets as cross-guarantee. There was no transfer of property titles from Housing NSW to providers' balance sheet during 2011/12.

The net value of purchase and/or development of community housing assets was \$98.7 million and \$6.7 million for Class 1 and 2 providers respectively in FY 2012.

The pace of growth of community housing assets in the sector through development will be determined by state government decisions on property title and management transfer in future financial years.

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The loan to value ratio (LVR) is calculated based on the value of the community housing assets in comparison to interest bearing debt related to community housing activities. LVR for Class 1 and 2 providers were 10.6% and 4.7% respectively in FY 2012.

## Compliance assessments and action

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

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

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

Class 4 registered providers are scheduled for compliance assessment biennially on the anniversary of registration or

previous compliance assessment, unless there is an indication that an earlier compliance assessment is required.

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

A compliance assessment may identify areas for improvement to maintain compliance or areas of non-compliance with the Regulatory Code. Wherever possible, the Registrar will respond to areas for improvement or non-compliance by identifying the action the provider should take to improve performance and bring the organisation to

compliance. The provider is given the opportunity to take responsibility for remedying its performance. The compliance action taken by the Registrar includes making observations and recommendations.

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

Where a provider has not addressed observations and recommendations arising from the previous 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



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registration, and specifying a period of at least 30 days in which those matters are to be addressed.

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

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

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

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

Figure 43 below provides a summary of compliance actions by the Registrar in 2012/13.

Figure 43: Compliance actions by class of provider

Compliance action	Total assessments	Number of Class 1 assessments	Number of Class 2 assessments	Number of Class 3 assessments	Number of Class 4 assessments
Observations only	32	4	3	4	21
Observations and recommendations	91	9	10	8	64
Notice of non-compliance	4	-	1	1	2
Notice of intent to cancel registration	2	-	-	-	2

Figure 44: Number of registration cancellations

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

## Cancellation of registration

The registration of five providers was cancelled in 2012/13. The cancellations were not due to the lack of performance by providers but due to mergers and amalgamations of previously registered providers which resulted in the previous body corporate

ceasing to exist, or due to the body corporate's decision to exit the community housing sector. There was no impact on residents and tenants as the management of properties was transferred to a registered provider by Housing NSW prior to cancellation.

## CASE STUDY Q – Using the Registrar's enforcement processes to improve performance

In its dealings with the regulated sector, the Registrar encounters a range of responses. Contrary to some providers that only cooperate with the regulator when legally required, this case study highlights some positive practices where providers, following a notice of non-compliance or a notice of intent to cancel registration, embraced the guidance provided and were able to demonstrate full compliance in the areas where they were initially found to be non-compliant.

Provider 1 operates a crisis refuge which provides short-term accommodation, case management and support for people with disabilities. The property accommodates five people and is leased from Housing NSW under the Crisis Accommodation Program. Housing NSW retains maintenance responsibilities for the property. The organisation also provides support to tenants in properties managed by another registered community housing provider. *(continued next page)*



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## **CASE STUDY Q – Using the Registrar’s enforcement processes to improve performance – *continued***

At the time of its first compliance assessment the provider was issued with a notice of non-compliance for failure to implement recommendations in the area of Standards of Probity made at registration. The provider responded to the notice of non-compliance in a particularly prompt and positive way demonstrating that it had learnt well from the experience and as a result has made changes to the way in which it governs and manages its operations consistent with, and, sustainable for its size and scope. It has done this by establishing a sub-committee which meets bi-monthly to review its policies and procedures. A review program has been set up.

The provider has already established a management sub-committee to review and develop policies to ensure continued compliance with its statutory, legal and contractual obligations with the intention that policies will be reviewed every two years unless a need arises to review earlier.

Provider 2 was issued with a notice of non-compliance for apparent failure to implement recommendations made at registration and at the subsequent compliance assessment. A team of analysts from the Registrar’s office visited the provider to enable it to demonstrate the evidence of compliance, mainly in the areas of Sound Governance and Standards of Probity.

In the discussion, it became apparent that the provider did in fact operate in a way consistent with the requirements of the Housing Act and the Regulatory Code for community housing providers, as well as with its constituting legislation, but did not represent its achievements in a way that would enable the assessment through a desktop review. Some of its significant organisational outcomes, such as the skills of the governing body members, were in a hand written form; some questions from the Registrar’s standard compliance form were misunderstood and not answered. At the site visit the provider showed all the evidence required and gave a tour of its properties. The review team recorded the material presented by the provider in the notes of the site visit and treated those notes, once approved by the provider, as evidence. The evidence gathered and observed during the site review provided the Registrar with assurance that the organisation was providing community housing in a culturally appropriate way and in compliance with the requirements of the Housing Act and the Regulatory Code.

Provider 3 was issued a notice of non-compliance and, having failed to adequately respond to the notice of non-compliance, it was issued with a notice of intent to cancel registration.

As required by the notice of intent to cancel registration, the provider appointed a special adviser to assist it in correcting the issues of non-compliance and position the organisation for a sustainable delivery of community housing.

The provider was able to demonstrate to the Registrar full compliance with all performance areas previously assessed as non-compliant. Following the final assessment when the provider was assessed as fully compliant with all relevant areas of the Regulatory Code, the provider gave feedback to the Registrar’s office. It highlighted that it felt the compliance assessment process and assessment report were fair. The provider was also very satisfied with the advice and guidance given by the special adviser and thought that the appointment of the special adviser was an excellent strategy for bringing the organisation back to compliance. The provider also said the compliance process significantly assisted it improve

its overall business practices. The provider was pleased that its operations in the governance and probity areas provided greater transparency to all stakeholders. Finally, the provider thought that the redistribution of responsibilities in response to the compliance assessment enabled it to further develop its practices and procedures for ensuring ongoing compliance. Overall, the provider thought that, while negative in the tone, going through the process of improvement following the notices of non-compliance and intent to cancel registration was a worthwhile corporate experience.

# Administering the Regulatory Code

## Complaints about providers

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

In 2012/13, the Registrar's office dealt with 121 matters with respect to community housing providers registered under the Housing Act comprising 43 complaints about providers, 26 notifications by providers, 19 advice about providers and 33 other matters, such as the Registrar becoming aware of the rapid change of the scale and scope of a provider's operations or information that the Registrar assessed required that the preliminary enquiries into a particular matter were warranted.

Complaints may raise a range of issues about a provider's compliance with the Regulatory Code. The Registrar assesses all indications of possible non-compliance in a holistic way. Similarly to 2011/12, the main areas of complaints to the Registrar in 2012/13 were fairness and resident satisfaction, standards of probity and governance and asset management.

Figure 45 provides the outcomes of the investigations carried out by the Registrar.

Figure 45: Outcomes of the investigations carried out by the Registrar

Investigated and raised potential non-compliance for inclusion as part of the scheduled compliance assessment of the provider	39
Investigated and raised potential non-compliance for inclusion in an unscheduled compliance assessment of the provider	2
Investigated and the provider was found to be in compliance	24
Out of Registrar's jurisdiction and no referral	6
Out of Registrar's jurisdiction and referred to another body	11
Resolved	5
Withdrawn by complainant	2
Other	26

## Notifications by providers

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

The Registrar dealt with 26 notifications. Notifications covered a range of subjects across all performance areas. The Registrar assessed the circumstances of the notifications and concluded in 13 cases that the provider was demonstrating compliance in the matter; twelve notifications were addressed as part of the scheduled compliance assessments; one notification resulted in an unscheduled compliance assessment of the provider.

### CASE STUDY R – Making the Registrar “a critical friend” through the sound notification process

The provider is registered as Class 1 and has undergone several compliance assessments since registration. The provider has notified the Registrar on multiple occasions of incidents that could affect the reputation of the community housing sector. The types of incidents ranged from properties damaged through flood or fire to changes in its corporate structure and proposed large scale developments. Following the Registrar's guidance note on notifiable events the provider sought clarification from the Registrar on whether other incidents should have been reported. The provider's actions demonstrate an effective system is in place to notify the regulator of relevant matters in a timely manner.

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. It operates on the principles of self-determination and self-management for Aboriginal peoples. This sector is the largest in Australia, providing housing for approximately 23% of the Aboriginal population living in NSW.

The NSW Aboriginal community housing sector was the first 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 initiatives to support the Aboriginal community housing sector, including the introduction of a new registration system - the Provider Assessment and Registration System (PARS).

PARS was modelled on the NSW Regulatory Code for community housing providers and the NSW Standards for Governance and Management of Aboriginal Housing. It ensures that Aboriginal organisations providing housing services meet the requirements to be registered under the Aboriginal Housing Act 1998. A PARS team, established at the Registrar's office under an agreement with AHO, is responsible for the independent assessment of Aboriginal organisations seeking PARS registration. The AHO is responsible for registration decisions.

## Sector Profile and Performance

This section examines the performance of Aboriginal organisations that went through PARS assessment from 1 July 2012 to 30 June 2013 under the seven performance areas of the AHO's PARS Guide for Aboriginal Community Housing Providers (PARS Guide). Data used in this section involve Class 3 and 4 providers, and were obtained from their responses to various questions in their PARS applications and the subsequent recommendations in their respective assessment reports.

PARS is a voluntary system and one of several registration pathways offered under the AHO's Build and Grow Strategy. The assessment process involves Aboriginal organisations responding to questions in the PARS on-line application and submitting appropriate documentation to accompany their applications against the AHO's performance areas.

In addition to undertaking assessments, the Registrar also reports to the Chief Executive of AHO on the outcomes of these assessments of Aboriginal organisations seeking to register under PARS as approved providers.

34 Aboriginal organisations were scheduled to participate in the Round 4 rollout of PARS for 2012-2013. Three organisations were later included in assessments. 22 providers were not assessed as they chose not to participate or opted for other registration pathways. For those that did not make it to final stage of the assessment process (final report with recommendations), the PARS team had in many cases performed the following work: completed the R2R process, commenced and completed draft reports before they were discontinued. Approximately 40.5% or 15 providers invited to participate in PARS had been assessed with outcomes. One assessment at the final stage was discontinued. The following table shows the distribution of assessment and

*Figure 46: Number of assessments, assessment outcomes, and types or choice of registration and pathways elected by providers*

1 July 2012 to 30 June 2013	Number of Providers
Assessed	15
Meets	0
Capacity to Meet	12
Ineligible	0
Does not Meet	2
Discontinued	1
Not assessed – Provider Reason	22
Not Participating	14
Elected SHAPE	2
Elected Regulatory Code	1
Elected Head-lease	5
Total	37

# Administering the PARS

registration outcomes, types of registration, and other pathways elected by providers.

Out of these assessments, twelve were subsequently registered as 'approved providers' (Capacity to Meet), two were 'not approved' (Does not Meet) by the AHO as at 30 June 2013.

In addition to PARS assessments, the Registrar and the PARS team continued to work closely with the AHO in developing initiatives to improve the registration and performance of Aboriginal organisations, including drafting a performance review framework for PARS.

## Recommendations from PARS assessment reports

The PARS assessments report on Aboriginal organisations' demonstrated capacity to deliver Aboriginal community housing in accordance with the *Aboriginal Housing Act 1998*, AHO policies and the PARS performance requirements. Each assessment includes recommendations to help ensure that providers could take steps to further develop their practice within specified timeframes. In the long-term, these recommendations assist providers to drive continuous improvements of their businesses and help strengthen the delivery of community housing to the Aboriginal community and for key stakeholders, such as the AHO.

The following section uses the information from total number of assessments with positive outcomes as at 30 June 2013.

## Performance Area 1: Fairness and Tenant Satisfaction

All Aboriginal community housing providers must meet the two performance requirements in this area: that they use fair and transparent processes in delivering housing services, and maintain a level of tenant satisfaction with the overall quality of their services.

Most of the recommendations under this performance area for all classes of Aboriginal community housing providers were on complaints and appeals policies, allocation policies, and obtaining feedback. All recommendations on tenure, rent and eligibility policies were for Class 4.



Figure 47: Fairness and tenant satisfaction

Performance Area 1	Number of Providers	Providers with Recommendations
1.1 Fair and Transparent Processes		
Class 3	3	2
Class 4	9	9
1.2 Tenant Satisfaction with Overall Quality		
Class 3	3	3
Class 4	9	9

# Administering the PARS

## CASE STUDY S – Formalise methods of tenants and applicants feedback and improve mechanism to support tenants

The provider is incorporated under the *Aboriginal Land Rights Act 1983* (ALRA 1983) and operates a social housing scheme. It is a registered Class 4 community housing provider under PARS with rental properties that it owns and manages. Class 4 providers manage between 1 to 30 properties.

The provider submitted a housing policy booklet dated 2009 with its application for PARS registration. This policy appeared to be fair and transparent. It provided its local community with information on the systems and procedures of its tenancy management. In light of the changes in AHO policies, Consumer Trader and Tenancy Tribunal (CTTT) procedures, and the *NSW Residential Tenancies Act (RTA) 2010* this housing policy was deemed dated. A review of its application also indicated that it had only an informal method of obtaining tenants and applicants feedback, inadequate recording of complaints and appeals, and ineffective referral mechanism to support its tenants.

Addressing these deficiencies will help the provider improve the quality of its services. The Registrar of Community Housing recommended that the organisation update its housing policy to comply with AHO policies, particularly on HACP, CTTT procedures, and the NSW RTA 2010. The provider was also required to communicate all these changes to its membership, governing body members, tenants and applicants. In addition, it was required to formalise its method of obtaining tenant and applicant feedback, recording of complaints and appeals, and referral mechanism to support its tenants.

## Performance Area 2: Sustainable Tenancies and Communities

All classes of Aboriginal community housing providers must meet the two performance requirements in this area: that they ensure tenants with support needs receive appropriate support and/or able to maintain their tenancies, and contribute to initiatives that promote the benefits of Aboriginal community housing.

The majority of providers indicated that they had participated in community activities and promoted community housing in their local government areas.

For all classes, the majority of recommendations related to monitoring and reporting on the adequacy of support arrangements and agreements with support agencies.

## CASE STUDY T – Sustain tenancy through community involvement

The organisation is a registered Class 4 community housing provider. It is incorporated under the ALRA 1983. The provider appeared to have good referral mechanisms for tenants who require support. In its application for PARS registration, the organisation provided evidence to show its involvement in the local community. It has a close working relationship with

its managing agent that provides advice on tenancy issues. In addition, it has a formal Memorandum of Understanding (MoU) with the local council. The MoU required that the council consult and seek advice from the local Aboriginal community on project and programs. The provider's community engagement included participation in activities for ANZAC Day, Aboriginal Tent Embassy anniversary, NAIDOC week, and Safe and Healthy Families Expo.

Figure 48: Sustainable tenancies and communities

Performance Area 2	Number of Providers	Providers with Recommendations
2.1 Support Arrangements for Tenants		
Class 3	3	3
Class 4	9	8
2.2 Community Involvement		
Class 3	3	1
Class 4	9	4

# Administering the PARS

## Performance Area 3: Asset Management

There are three requirements under this performance area. However, for the purposes of PARS Aboriginal community housing providers were assessed only against the performance requirement (3.2 Maintenance) that their properties are well-maintained.

In order to meet this requirement, all providers must demonstrate that they budget for responsive, cyclical and planned maintenance; as well as undertake maintenance. In addition, Class 3 providers are required to have a three-to-five year maintenance plan that addresses all properties, condition inspections, item lifecycles, projected annual maintenance and costs for each property, and annual budget for these costs that are linked to financial targets.

For all classes of providers, the majority of recommendations made were on maintenance budget provision, and monitoring and reporting on maintenance. Class 3 providers had the most number of recommendations on maintenance planning.



Figure 49: Asset management

Performance Area 3	Number of Providers	Providers with Recommendations
3.2 Maintenance		
Class 3	3	3
Class 4	9	8

### CASE STUDY U – Develop and implement policy for recording repairs and maintenance expenditures

The provider is registered under the *Co-operatives Act (NSW) 1992*. It is an approved PARS Class 4 community housing provider and manages a portfolio of rental properties.

In its application for PARS registration, the provider showed that it had sufficient policies and procedures in place to deal with repairs and maintenance. They had budgets for repairs and maintenance, but their provision appeared to be inadequately budgeted. However, evidence suggested that it had the capacity to increase its provision for repairs and maintenance. Class 4 providers are not required to have a three-to-five year maintenance plans, but the AHO requires that they have budgeted plan for cyclical/planned maintenance.

The Registrar of Community Housing recommended that the provider develops and implements a cyclical maintenance plan and ensures that budgets are in accordance with the AHO's policies, i.e. minimum of 1-3% for cyclical repairs and 0.5% of the overall replacement value of the dwellings per annum for responsive repairs. The provider was also required to develop and implement financial policies, specifically for recording repairs and maintenance expenditures.

# Administering the PARS

## Performance Area 4: Sound Governance

There are four requirements under this performance area for all Aboriginal community housing providers under PARS: that they must have an effective and skilled governing body; their decision-making processes meet AHO standards; they comply to all legislative, regulatory requirements and standards relevant to their operations; in addition, Class 3 providers must undertake planning that identifies adequately the priorities and resources to maintain the long-term delivery of Aboriginal community housing.

Aboriginal community housing providers vary in size, type, organisational structure and scope. The Aboriginal community housing sector consists of Aboriginal corporations, co-operatives, incorporated associations and local Aboriginal land councils. Due to this variety, the Aboriginal community housing sector may consist of various skills sets, such as community services or Elders within local communities. While the latter is recognised as a component of the skills set of the board, it is fundamental that governing bodies have expertise or access to expertise in other key areas, such as financial management and property management.

The majority of Class 3 and 4 providers had reported that they have effective governance body and have systems to monitor their performance. However, assessment of their applications for registration indicated that a number of providers, mostly Class 4, needed to improve on their delegation and compliance policies and processes.

Figure 50: Sound governance

Performance Area 4	Number of Providers	Providers with Recommendations
4.1 Expertise of Governing Body		
Class 3	3	3
Class 4	9	9
4.2 Decision-making		
Class 3	3	3
Class 4	9	7
4.3 Compliance with legal and other requirements		
Class 3	3	3
Class 4	9	9
4.4 Planning (Class 3 only)		
Class 3	3	3
Class 4	N/A	

### CASE STUDY V – Formalise training and skills development of governing body

The organisation is an approved Class 4 PARS provider. It is registered under the *Co-operatives Act (NSW) 1992*.

In its application for PARS registration, the provider reported that the number of its board meetings during the assessment period exceeded the PARS requirements and its own Rule Book. Its governing body is highly skilled and have skills in project management, policy and program development, social services and housing management. Whilst there were no systems in place for reviewing the skills set of the board, the provider showed strong commitment to improving the skills of the board through a broad range of professional development opportunities. The provider also showed evidence that where its board was lacking in skills, it regularly utilised external expertise, such as for financial issues.

The Registrar of Community Housing recommended that the organisation develop and implement a formalised training and development plan for the board. A part of this plan includes an annual assessment of their board's training needs.



# Administering the PARS



## CASE STUDY W – Develop policy for identifying, investigating and reporting probity breaches

The organisation is a registered Class 3 community housing provider. It is incorporated under the *Aboriginal Land Rights Act 1983* (ALRA). Class 3 providers manage more than 31 properties, which they either own and/or manage.

Documents that the organisation provided with its application for PARS registration indicated that it had sound policies to assist in preventing fraud, corruption and criminal conduct. While it has taken steps to minimise instances of certain malpractice because of an incident that occurred several years ago, a review of this incident indicated that it still did not have a formal policy to guide the organisation in identifying, investigating and reporting on such matters.

To strengthen its ability to maintain high standards of probity, the Registrar of Community Housing recommended that the provider develop and implement a fraud, corruption and criminal conduct policy. This policy should include procedures that help the organisation identify, investigate and report actual or potential fraud, corruption and criminal conduct.

## Performance Area 5: Probity

There are two requirements under this performance area for all classes of PARS providers: that they must have systems in place to prevent, investigate and mitigate potential fraud and corruption; and a code of conduct and system to deal with breaches. Assessments of all requirements under this performance area resulted in several recommendations for all providers.

It is a requirement under the PARS Guide that all providers ensure they have policy covering whistleblower

protection. While whistleblower protection is not a legal requirement for Aboriginal community housing providers, it encourages good standards of practice.

Most providers indicated that they have systems of fraud and corruption prevention and code of conducts for their staff and volunteers. Many providers across the board had recommendations to develop or improve whistleblower protection. Most recommendations on improving conflict of interest policies and monitoring and audit mechanisms were for Class 4 providers.

Figure 51: Probity

Performance Area 5	Number of Providers	Providers with Recommendations
5.1 Fraud and Corruption		
Class 3	3	3
Class 4	9	9
5.2 Code of Conduct		
Class 3	3	3
Class 4	9	9

# Administering the PARS

## Performance Area 6: Protecting Community Investment

This performance area consists of three requirements: financial performance, business planning and risk management planning. For this report, Aboriginal community housing providers were assessed only against financial performance – that they must be solvent and financially viable in the immediate future.

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

Recommendations on audit management letter and internal controls were made across all classes of PARS providers. Most of the recommendations on audit management letters and internal controls were for Class 3.

Figure 52: Protecting community investment

Performance Area 6	Number of Providers	Providers with Recommendations
Financial Performance		
Class 3	3	3
Class 4	9	9

### CASE STUDY X – Improve rental arrears prevention and management

The organisation is a registered Class 4 provider, which owns and manages several rental properties. It is incorporated under the ALRA 1983.

Based on documents it provided for its PARS application for registration, its financial performance appeared to have been improving from the previous financial years. This performance was moderated by underlying problems with its rental arrears management. If it can maintain its financial performance level at the time of its application, and improve its profitability and reduce rental arrears, it would appear that the provider will be financially viable for the immediate future. However, the provider appeared to lack an overall documented policy to guide, improve and monitor its financial governance, planning, management and performance.

To improve its financial performance, the provider was required to undertake several activities: develop and implement policy to guide, improve and monitor its overall financial governance, planning, management and performance; complete appropriate actions to remedy any outstanding issues raised by its auditor in the 2012 audit management letter; review its rental arrears policy and procedure and take appropriate action to improve its rental arrears position; and actively monitor its financial performance.

# Administering the PARS

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

There are two requirements for all PARS providers under this performance area: that they use efficiently their properties and funds, and demonstrate that costs of their managing properties are competitive.

Recommendations were made to many providers across all classes. The majority of these recommendations related to managing rent arrears and rental arrears bad debts.

The PARS Guide sets a minimum benchmark of 30 days vacancy rate and requires providers show that they have processes to minimise the turnaround time of void properties. It also requires Aboriginal community housing providers to collect at least 85% of estimated collectable rent and have no more than 15% of rental income as rental arrears.

Furthermore, the PARS Guide also requires providers under assessment to minimise their corporate overheads within an acceptable range of total expenditure.

### Registration Outcomes

This section reports on the profile of all PARS-registered providers from 1 July 2012 to 30 June 2013. Of the total 12 PARS-registered providers, three were Class 3 and nine were Class 4. The majority of registered providers (9 or 75% of 12) were local Aboriginal land councils, and most (7 or 77.7% of 9) were Class 4. The table below shows the distribution of registered providers by legislation.

Figure 53: Efficient and competitive delivery of Aboriginal community housing

Performance Area 7	Number of Providers	Providers with Recommendations
7.1 and 7.2 Efficient and Competitive Delivery of Aboriginal community housing		
Class 3	3	3
Class 4	9	9

Figure 54: Average void and vacant days

Performance Area 7	Average void days*	Average vacant days	Number of Providers	Number of Providers with Data
Class 3	16.3	9.3	3	3
Class 4	1.5	33.6	9	8

Figure 55: Number of registered providers by class and legislation

Registered Providers	Class 3	Class 4	Class 3 and 4
Number of registered community housing providers as at 30 June 2013			
The Corporations (Aboriginal and Torres Strait Islander) Act 2006	0	1	1
Aboriginal Land Rights Act 1983	2	7	9
Company Limited By Guarantee (Companies Act 1961)	1	0	1
Co-operative Act 1961	0	1	1
Total	3	9	12

Many providers met the performance requirement on (2.2) community involvement [see table below]. In addition, the majority of Class 4 providers performed well on sound governance, particularly (4.2) decision-making requirements.

This positive outcome on (2.2) community involvement for all classes of providers is not surprising. Many Aboriginal community housing providers also provide non-community housing-related services or programs, e.g. land development, employment, health, education. This experience would afford them the knowledge and skills in engaging communities

and in developing programs to support their members, including tenants.

The providers' good result on performance requirement (4.2) decision-making could be explained not only by the compliance requirements under various legislations for which they were set up and had plenty of practice of but also by the established cultural practice in Aboriginal communities - of community consultation.

The areas where most recommendations were made, indicating improvements are required, focused on the following: (2.1) support arrangements for

# Administering the PARS

tenants, (4.1) expertise of governing body, (4.3) compliance with legal and other requirements, (5) probity standards, specifically fraud and corruption and code of conduct; and (7) efficient and competitive delivery of community housing, which primarily involved Class 3 providers.

These recommendations involved primarily improving existing policies, systems or procedures, as many providers already have them. The most common of the performance areas identified for improvements were: (2.1) monitoring and reporting on agreements with support agencies; (4.1) training and induction of board members; (4.2) delegation of responsibility; (4.3) compliance policy; (5.1) whistleblower protection and monitoring audit mechanisms; (6.0) management audit letter and internal controls; and (7.0) preventing and managing rent arrears.

## Financial Condition

This section examines the financial condition and viability of all providers registered under PARS from 1 July 2012 to 30 June 2013. During this period, 12 were registered as Aboriginal community housing providers by the Aboriginal Housing Office following PARS assessments: three were Class 3 and nine were Class 4. These providers submitted financial information with their PARS application. The most recent of these statements provided with PARS applications were for the financial years 2011 to 2013.

Based on their consolidated financial reports, Class 3 and 4 providers delivered 10.3% EBITDA (earnings before interest, taxes, depreciation, and amortisation) margin for the reporting year. The sector's level of liquidity – with a 3.68 working capital ratio and a positive cash flow adequacy of 107.9% – indicated that providers

were in a comfortable position to meet their short-term debt obligations. Overall, in terms of its financial performance, the Aboriginal community housing sector had a good rate of return.

With these financial results, the outlook for the Aboriginal community housing sector is optimistic. This outlook will be facilitated by providers developing and improving policies and procedures in financial management, specifically to keep their rental arrears at a reasonable level and minimise their rental bad debts.

The financial condition of the sector is expected to improve further with continued regulatory oversight. Through regulation, providers are expected to maintain best business practices and continue to build a sustainable Aboriginal community housing sector.

*Figure 56: Aboriginal community housing sector snapshot*

Aboriginal Community Housing Sector Snapshot FY2012-2013	
Number of Units Managed	76
Number of Units Owned and Managed	293
Number of Tenancies	375
Total Rent Revenue	\$2,488,842
Rent revenue Class 3	\$1,446,562
Rent revenue Class 4	\$1,042,280
Aboriginal Community Housing Properties	369
EBITDA Margin	10.3
Net Assets	\$59,229,809

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