NSW Registrar of Community Housing
Annual Statement of Performance 2017

Registrar Outcome 3

Improved public and private investor confidence

Registrar's Key Judgements

- The Tier 1 and 2 sector is financially stable. An assessment specific to the Tier 3 sector will be made later in 2017-18 when more contemporary data is available to the Registrar.
- The Tier 1 and 2 sector is preparing to undergo a period of significant change in part driven by government policy expanding the community housing sector. The Registrar expects a significant increase in property management and level of debt in the coming periods to finance new community housing growth.
- The modest financial growth of Tier 1 and 2 community housing providers (CHPs) over the past three years is in part due to the sector preparing for these community housing initiatives.
- The Registrar has noted a decline in surplus forecasts by CHPs. This decline potentially correlates with provider feedback that in the future, subsidies may not keep pace with costs.
- CHPs with aged care activities are separated in this report due to differences in their financial structure; especially their access to different funding arrangements such as bonds and their predominance of leasing arrangements over community housing for such providers.
- The financial performance of Aboriginal community housing providers is assessed as being financially viable for the immediate future.
- A 2017-18 priority for the Registrar will be increasing capacity in the assessment of complex financial models and focusing financial assessment work on those providers carrying substantial government financial risk through housing transfers and other government housing initiatives.



Registrar Outcome 3: Improved public and private investor confidence

Under this outcome, the Registrar assesses the sector's financial performance, providing assurance that community housing providers provide sustainable and fit-for-purpose housing solutions now and into the future.

Related Object of the National Law:

> *"… to promote confidence in the good governance of registered community housing providers so as to facilitate greater investment in that sector."*

Related Object of the NSW Act that introduces the National Law:

> *"…to facilitate government investment in the community housing sector and ensure the protection of that investment."*

NRSCH – Financial Analysis

- There has been consistent growth in revenue and asset value over the last three years for Tier 1 and Tier 2 CHPs.
- Tier 1 providers experienced a growth in community housing assets, partly the result of government transfer of community housing assets already managed by CHPs. These transactions increased CHPs' asset value more than rent revenue.
- Tier 2 providers experienced growth in non-community housing assets due to the presence of CHPs with aged care activities.
- In absolute terms debt has increased but compared to total assets, debt currently remains at modest levels.
- Operating EBITDA is distorted by the way in which one Tier 1 provider records its development funding. If data for this provider is excluded, Operating EBITDA is stable.

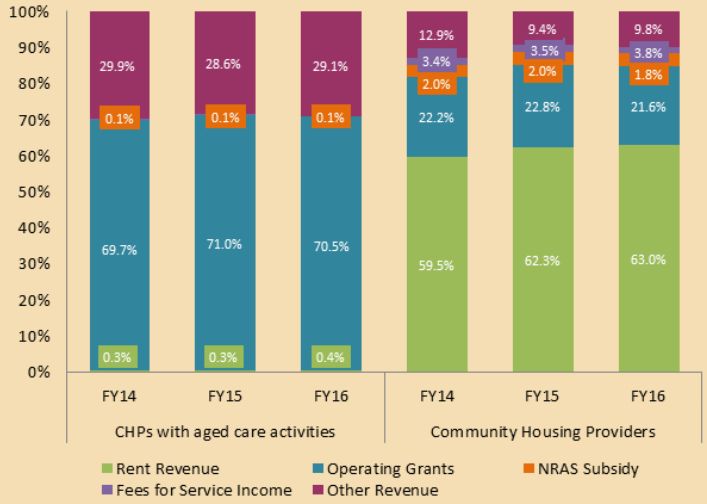
Notes:

- *NRSCH figures are drawn from the Financial Performance Reports (FPRs) submitted to the Registrar over the last three financial years by Tier 1 and 2 community housing providers.*
- *PARS figures are drawn from the last three Financial Performance Reports (FPRs) submitted to the Registrar by Aboriginal community housing providers.*

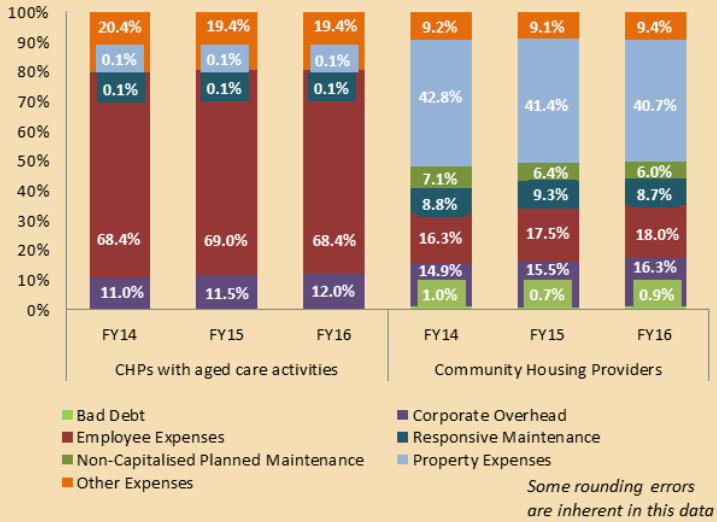
Implications of CHPs with significant aged care assets

- CHPs with aged care activities constitute a significant proportion of the financial profile of the community housing sector.
- There are differences in the income and expenditure components; for instance CHPs with aged care activities will collect less rent but will also have a greater proportion of employee expenses when compared to the rest of the sector.
- There is a reduced reliance on commercial debt. CHPs with aged care activities finance development through accommodation bonds.
- For the purposes of this report, a CHP is classified as having significant aged care assets if its accommodation bonds total more than $10 million.

Operating Income Components
Tier 1 & 2

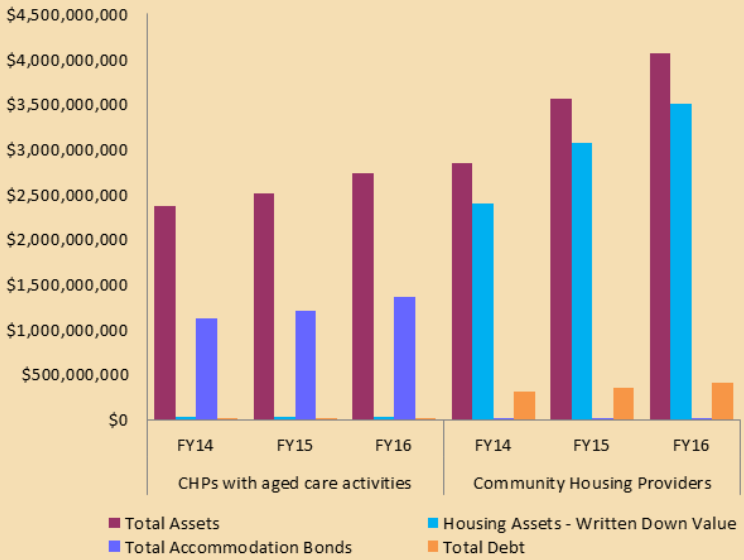


Operating Expenses Components
Tier 1 & 2



Some rounding errors are inherent in this data

Assets & Liabilities
Tier 1 & 2

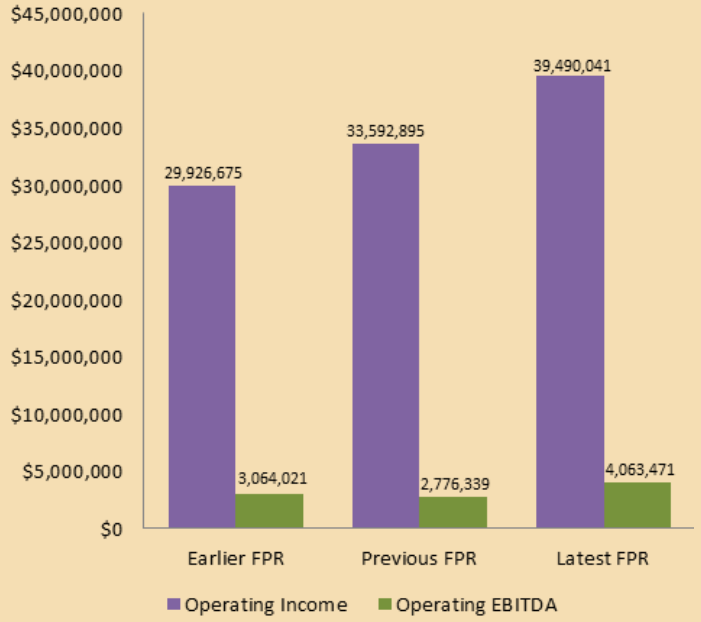


Number of CHPs: Tier 1 = 20 Tier 2 = 11

Operating Performance

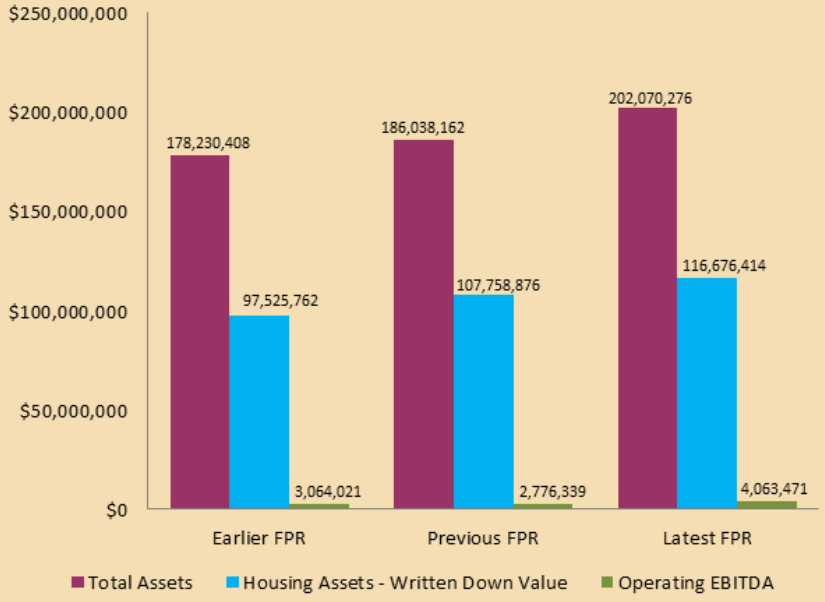
The Aboriginal housing sector has maintained reasonable financial performance during the reporting period.

The sector posted its operating surplus within the range of 8.3% to 10.3% EBITDA margin.



Return on Assets

The sector's total assets reached $202 million with a 13.38% increase from previous years and the sector reported a return on assets between 1.7% to 2.0%.



Number of ACHPs: 40

PARS – Financial Analysis

40 Aboriginal community housing providers have been registered with the AHO since 2010. After registration, providers are required to undertake a PARS Performance Review assessment.

This report is based on aggregated data from the last three Financial Performance Reports (FPRs) submitted to the Registrar.

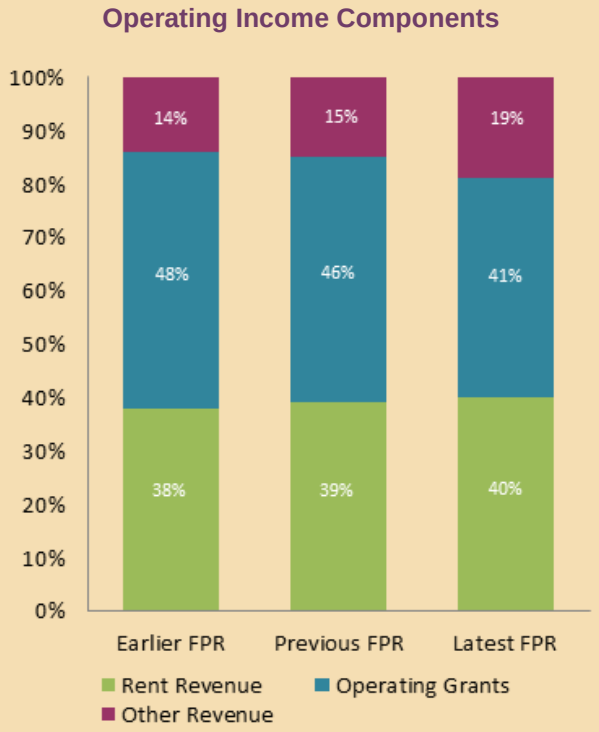
- Based on the last three FPRs:
  - the financial stability of the Aboriginal housing sector remains stable
  - the sector is heavily subsidy-dependent and has less reliance on rent than non-aged care related CHPs
  - the sector reported its average working capital ratio of 3.0 and amended quick ratio of 2.0 (see footnote). Overall it appears the sector is slightly improving its working capital ratio which indicates the sector has the adequate liquidity to continue to operate into the future.
- Looking ahead, the sector will need to continue to strengthen its financial viability and look for other financial sources to be self-sustaining and capable of delivering financial returns in the future.

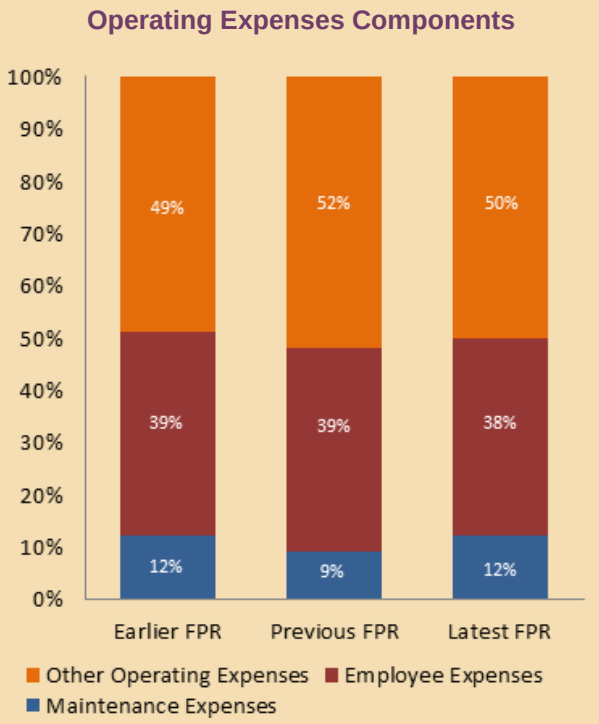
Footnote:

EBITDA margin is a measurement of a company's operating profitability as a percentage of its operating income. It is equal to earnings before interest, tax, depreciation and amortization (EBITDA) divided by operating income. 3.0% is the Registrar's benchmark for EBIDTA margin for ACHPs.

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. It is equal to the EBITDA divided by its total assets.

Working capital ratio and **amended quick ratio** are indicators of a company's short-term liquidity. Both indicators measure whether a company has enough short term assets to cover its short term debts. Working capital ratio is equal to current assets divided by current liabilities. Amended quick ratio is equal to the cash equivalent divided by current liabilities. 1.1 is the Registrar's benchmark for both ratios for ACHPs.





Number of ACHPs: 40

The majority of operating income for the sector is derived mainly from sources related to government funding and rental income. The income component indicates that providers in the sector heavily rely on government subsidies for business operations.

The percentage of government funding has reduced from 48% to 41% over the last three FPRs and the percentage of rental income has increased from 38% to 40% over the same period.

From the above trends, it appears that the sector has sustained gradual growth in rental collection and is starting to reduce its reliance on government funding.

While the current financial position of the Aboriginal housing sector appears sustainable, as indicated above this appears primarily due to reliance of funding from government.