NSW Registrar of Community Housing

Winding down of NRAS

May 2019

This advice is from an independent statutory officer and is provided pursuant to the Registrar's function contained in section 10(1)(h) of the NSW Community Housing Providers (Adoption of National Law) Act 2012.

Contents

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Campaigns

Campaigns allow the Registrar to focus analytical effort on a performance issue that appears to be common across the sector and in which the Registrar needs to form a position for guidance to the local jurisdiction, as well as for other Registrars to consider for national guidance.

Executive Summary

Key Findings

The National Rental Affordability Scheme (NRAS) is an Australian government affordable housing initiative, delivered in partnership with state and territory governments. NRAS seeks to address the shortage of affordable rental housing by offering annual financial incentives for up to ten years, to rent dwellings for eligible NRAS tenants at 80 per cent or less of the market value rent. NRAS concludes in 2026.

In coming years, many CHPs that were successful applicants for incentives funded under the NRAS will begin to see the financial incentives cease as the ten year funding timeframe for each NRAS round is reached. While the Registrar has an interest in the financial viability pressures on the CHPs directly impacted, other providers also offer fee for service management of NRAS properties and will be affected by the ending of NRAS incentives.

The NRAS wind-down is not a discrete risk in its own right but rather a component of existing risks related to government funding across the business. Analysis of financial forecasts support this position. Most CHPs have indicated to the Registrar that they have implemented effective and efficient planning strategies to offset the loss of financial incentives and to deal with the cessation. Most CHPs have conducted scenario testing and considered key risks relating to NRAS.

Some CHPs have indicated they were waiting to make decisions based on key drivers such as potential shifts in government policy in the hope that further incentives will be available or if tax incentives are amended.

CHPs who are not the owner of properties (rather operate in a fee for service arrangement) have limited control post NRAS wind down and planning strategies are less evident in these instances; highlighting a gap in program design and the need to monitor this segment closely.

There are some differences in the planning processes and strategies used and implemented, often based on the size (both property numbers and financial capacity) of the provider. Larger CHPs with higher levels of cashflow report a less significant financial impact from the NRAS cessation.

More detailed planning has occurred in those with less cashflow; both financially and in shifts in other parts of the business (development, alternate income streams, on-selling properties).

Ongoing regulatory monitoring will need to focus on the operational business processes CHPs implement as the incentives come to an end. Most have not sufficiently considered communicating with tenants, amending policy and procedures, staffing impacts and potentially resource redistribution (office locations no longer needed, roles redundant).

Collaboration with government agencies implementing NRAS would allow for improved communication, better quality planning and program design (for future programs) and effective and efficient exit strategy development which considers the impacts to not only the financial position of CHPs post NRAS but also the broader housing sector, tenants, regulatory bodies, planning departments and policy makers.

Overview

The NRAS is an Australian government affordable housing initiative, delivered in partnership with state and territory governments. The NRAS is administered under a legislative framework comprising the National Rental Affordability Scheme Act 2008 (NRAS Act) and the National Rental Affordability Scheme Regulations 2008 (NRAS Regulations).

The NRAS allocates financial incentives to organisations that provide people on low to moderate incomes with an opportunity to rent homes at a rate that is at least 20% below market value rent.

The NRAS commenced on 1 July 2008 and will conclude in 2026. In the 2014-15 Budget, the federal government announced it would not progress with any further NRAS rounds and that the scheme would be capped at 38,000 allocations.

The Registrars have been monitoring how CHPs are making appropriate provisions/plans to prepare for the winding down of the NRAS incentives as part of their ongoing Compliance Return process under the National Regulatory System for Community Housing (NRSCH). The cumulative view is that the sector is planning for the wind-down and is diversifying in response. The Registrars will continue to monitor this response.

Purpose of this Paper

This paper is an internal intelligence product designed to support analysts and the regulator to adjust regulatory activities and monitor any impacts the cessation of the NRAS program may have. The paper provides guidance around how the regulator may respond to CHP behaviours and sets the direction for any further monitoring work focused on NRAS.

This paper does not aim to address the broader national issue of the NRAS scheme cessation, nor is it meant to address the housing affordability crisis.

Registrars Role

Under the objects of the Community Housing Providers (Adoption of National Law) Act 2012 (NSW) (referred to as the National Law), the Registrar's regulatory work seeks to reinforce the viability and diversity of the community housing sector, protect government and tenant interests, and also induce confidence and encourage financial support for the sector. Within this framework, the Registrar seeks assurance from the community housing sector via the registration and compliance assessment process that those CHPs undertaking or planning to undertake expansion are able to demonstrate a well governed, well managed and financially viable sector that meets the housing needs of tenants in light of this expansion.

As part of the various campaign work undertaken by the Registrar recently which looks at the cost and revenue trends being projected in the community housing sector, the Registrar has gained a better understanding of pressure issues affecting community housing growth and the ability to manage potential long term risks.

In doing so, the Registrar has also been able to identify and assess assumptions and drivers of long-term forecasts underlying growth and viability, in order to inform housing policy and strategy, of which NRAS was been highlighted as an income pressure impacting on CHPs.

Financial viability is critical to the sector, however, there may be some unintended consequences of planned diversification which adversely impact the provision of affordable housing in the broadest sense. The Registrar is required to ensure that negative impacts are minimised and that any assessed systemic evidence of this is fed back to the sector and through to our funding and policy colleagues.

Aim of Campaign

Community housing Registrars nationally initiated a review of the preparedness of CHPs to deal with the end of NRAS funding. The intent was to ensure that the negative impacts of NRAS ending are minimised and to produce relevant systemic information through to relevant funding and policy arms of government.

Campaign Process

To gain a better understanding of the impacts (if any), the NSW 2019 Tier 1 and 2 compliance assessment round was used to collect information to assess if unintended consequences could arise as a result of the ending of the NRAS rounds.

As part of the compliance assessment process the Registrar requested additional supplementary evidence in order to assist regulatory analysts to assess both the impacts of the conclusion of the NRAS incentives and the steps being taken by CHPs to mitigate any risks.

The supplementary evidence requested to demonstrate the effective management of associated risks included:

- Risk register and/or risk management plans;
- Audited accounts and Financial Performance Report;
- Business and Strategic Plans;

- Scenario testing ("what if" analysis); and
- Relevant policies and procedures (e.g. treasury management or working capital policies).

The onus to manage risks associated with policy changes that may materially impact on a CHP's capacity to meet the Performance Outcomes rests with the governing body and management.

The NRSCH Governance Performance Outcome requires agencies to:

- Measure and manage inherent risks facing the organisation; and
- Put in place appropriate mitigation strategies and management plans.

The NRSCH Financial Viability Performance Outcome also requires:

- The board and management to have foresight of any emerging risks that may have material impact on the financial viability of the organisation.
- CHPs to monitor and manage financial risk exposure to protect their financial interest and the interests of tenants and investors.

The standard compliance assessment of providers' performance now includes the NRAS cut off in ten year forecasts and as a result Registrars are engaging providers more specifically on how they plan to treat the transition and to that effect may ask specific questions in the upcoming compliance assessment rounds and future compliance assessments in order to continue to inform funding/policy changes.

Affordable Housing in NSW

The NSW Affordable Housing Ministerial Guidelines sets out the policy framework for delivering affordable housing that has been developed with financial assistance from the NSW government and is owned or managed by registered CHPs. The guidelines aim to ensure that affordable housing in NSW is delivered:

- To a range of income groups, including very low, low and moderate income households. (NSW government is seeking to increasingly benefit low and very low income households as they are vulnerable to housing stress. Low income households have less capacity to meet other costs such as transport, health and education after paying rent).
- In a manner that generates sufficient income so that CHPs can meet associated finance and other operating costs.

A secondary aim of the guidelines is to ensure that retained earnings and assets from managing affordable housing are used by CHPs to grow more affordable housing supply, wherever possible.

The guidelines apply to all designated affordable housing properties in a registered CHPs portfolio which receives capital funding from the NSW government and/or were acquired using finance secured against government funded assets. This includes affordable housing properties funded through:

- Debt Equity Rounds 1 and 2
- Affordable Housing Innovations Fund
- Social Housing Growth Fund
- National Rental Affordability Scheme A (NRAS A)1
- Social and Affordable Housing Fund
- Communities Plus
- Borrowing against vested assets.

NRAS Sector Profile

Governance of NRAS

The Department of Social Services (DSS) is responsible for the administration of NRAS in consultation with the Australian Taxation Office and the Departments of Treasury, and Finance and Deregulation. The Australian government also works closely with state and territory governments in the ongoing management of NRAS.

The Department's responsibilities include:

- Application of the NRAS legislative framework
- Allocation of incentives to approved participants
- Assessment of approved participants' eligibility to receive the annual NRAS incentive
- Making decisions on the transfer of NRAS dwellings between approved participants or to another rental dwelling
- Publishing and maintaining guidelines for NRAS stakeholders, including guidance on regulatory and administrative requirements

NRAS Performance Reporting

DSS prepares a report for the purpose of disseminating information on NRAS which draws on information and data provided by a variety of individuals and organisations, including from Approved Participants of the NRAS.

A full copy of the latest performance report can be found here.

A snapshot of the NRAS national allocation data

Number of active allocations	34,878
Number of provisional allocations	1,492
Total allocations	36,370
Number of ceased allocations	198
Number of approved participants	126
Number of approved participants who have allocations in multiple jurisdictions	13
Number of for profit approved participants	44
Number of approved participants who are endorsed charities	79

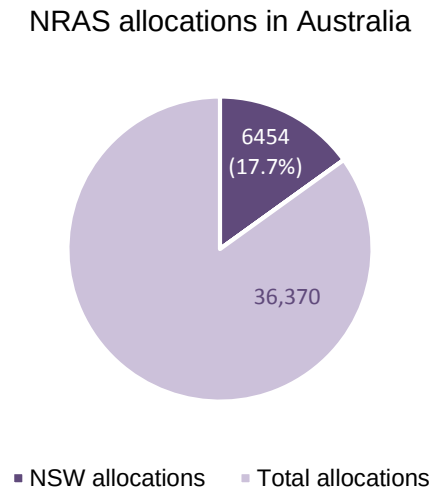
* All data in this report is current at 31 December 2018

Report definitions

- Active allocations means dwellings tenanted or available for rent.
- Provisional allocations means dwellings not yet delivered.
- Total allocations means the total number of active allocations and provisional allocations.

NRAS Incentives –The NRAS Spread

Total NRAS allocations for NSW is 6455 (of 36,370 nationally).



This makes up 17.7% of all allocations, the second largest in Australia, with Queensland holding 28.1%.

The majority of NSW allocations cease later in the scheme in 2026 (a total of 2007 allocations). Although overall nationally the scheme will see 9,178 allocations ceasing in 2024 with majority of those in Victoria and Queensland.

In NSW 87% of the allocations are held in major cities (5,658), 741 in inner regional areas and 55 in outer regional areas. There are no allocations in remote or very remote areas.

In NSW there is a larger portion of allocations held by charitable organisations with 63% (4,058) with the remainder 37% (2,397) held by for profit organisations. Overall though, nationally the portions are more balanced with 53% of allocations held by charitable organisations and 47% held by for profits.

In NSW a large portion of the allocations are either apartments (3,220), studios (1,506) or townhouses (925).

In NSW 39.1% of all allocations are 2 bedroom properties (2,525).

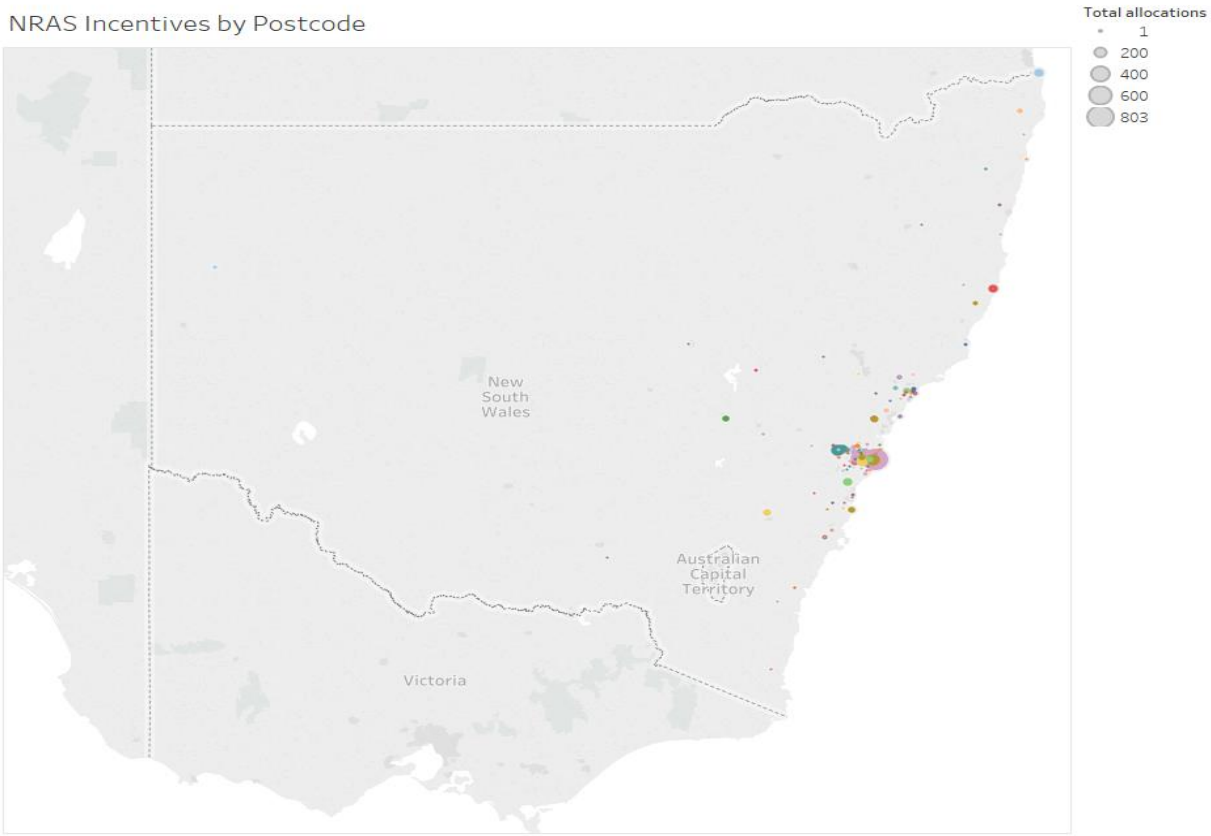
The suburbs with the highest number of NRAS allocations are Chippendale 803, Camperdown 211, Guildford 230 and Penrith 221.

Nationally the suburb with the highest number of NRAS allocations is Canberra City (829) and Chippendale in NSW being the second highest (803).

In NSW the approved participant with the largest number of allocations is Central Park Students Pty Ltd (803), and Evolve Housing Limited with the second largest (784).

Nationally, the approved participant who receives the largest number of allocations is National Affordable Housing Consortium Ltd (3,579), with majority of the allocations based in Queensland.

For the 2017-18 NRAS year, 122 approved participants submitted Statements of Compliance (SOCs). As at 7 February 2019, the SOCs for 121 approved participants have been assessed and paid, in total or in part, resulting in 34,697 incentives issued (i.e.99 per cent of all incentive claims paid).



The community housing sector in NSW

As of May 2019, there are 152 registered community housing providers under the NSW NRSCH jurisdiction who manage over 45,000 properties. Tier 1 providers make up 14% of the sector (20) and Tier 2 providers make up 8% (11) and Tier 3 providers make up 79% of the community housing sector (115).

Tier 1 and 2 providers dominate the NSW jurisdiction by the number of tenancies and assets managed. The Registrar has produced a succession of public reports on sector performance. The reports provide insights on trends and patterns in the community housing sector. To see a copy of the reports click here.

This report does not capture the entire sector for NSW; it includes only Tier 1 and 2 providers currently being assessed in the compliance assessment round and who own or manage properties receiving NRAS incentives.

Analysis and Trends in NRAS Exit Planning in NSW

The NSW 2019 Tier 1 and 2 compliance assessment round included 27 CHPs.
As part of the assessment CHPs were asked to respond to a number of questions regarding the management and exit planning of the NRAS scheme. Responses were received by all 22 CHPs that receive an NRAS incentive (either owned or managed for a fee for service).

A guidance note was issued prior to the compliance assessment round commencing, and CHPs were given a table to submit responses relating to the planning of the NRAS wind down. See Appendix 2 and 3 for the template and a copy of the guidance note.

Overall, most CHPs indicated that where possible they have conducted and implemented effective and efficient planning strategies. Both in their intentions to offset the loss of financial incentives and in the way the organisation plans to deal with the cessation. CHPs have undertaken sufficient financial planning and have forecast for the NRAS cessation at this point, (noting that the scheme for most providers still has at least six to seven years remaining).

The key finding is that NSW CHPs do not deem the ending of NRAS a significant financial impact and will remain viable post cessation. Financial analysis supports this view and indicates that the winding down of the incentives is not a financial threat to viability. (See page 14 for financial analysis).

Common effective planning techniques identified

Strategic planning including updating strategic plans, business plans, operational plans and risk management plans are the most common responses when asked about the type of planning conducted.

A large portion of providers have stated they will retain properties (owned) and will continue to offer the properties as affordable housing.

All providers have forecast for at least ten years with one provider planning 20 years ahead. CHPs state they have planned for the financial loss post the cessation and advise that whilst it is a loss, it is ‘planned for, known, manageable, minimal, or insignificant’ and they have planned for the loss adequately.

Some CHPs have indicated they are investigating other revenue streams, private real-estate, shared equity, mixed development opportunities, vesting etc. to offset the loss.

For CHPs who receive a management fee for properties managed on behalf of landlords or investors, it is clear that they have started negotiating with the owner of properties regarding the cessation. Providers have indicated that they are aware that owners may on-sell, increase rents and offer the properties to the general rental market. Hence the risk manifests less to the CHP’s viability and more to the potential reduction in available affordable housing stock.

Most providers state that discussions with board and management on various risks, transitions, policy and other implications are occurring.

Six providers have explicitly stated that they don’t feel the financial impact is significant and they can absorb the loss with little risks.

Effective planning techniques have been identified, these include:

- Development of an Affordable Housing Group
- Holding workshops for risk management and strategic planning
- Consideration of asset management plans on the broader scale – taking into account on selling properties hard to let or those with higher vacancies which cost more to manage.
- Offering properties to key workers particularly for remote locations.
- Re-negotiating loans, accessing National Housing Finance and Investment Corporation (NHIFIC), developing an Acquisition Policy or an Asset Recycling Strategy.

Some providers have advised that alternate income streams are being explored or further developed such as entering the Special Disability Accommodation (SDA) environment and diversifying their income streams. A small group of providers have advised they are pursuing tax benefits and liaising with the Australian Tax Office to consider their entitlements and requirements.

Issues raised for further monitoring

More than one CHP outlined that no specific planning has occurred, stating that the NRAS incentives are a long way off ending so no further consideration has occurred within the organisation and feel it is too early for planning apart from financial forecasting.

One provider indicated they may either sell or raise rents for those properties owned. One CHP has advised that there will be an impact on remote office spaces – some office spaces may not be required after NRAS finalises; hence a re-allocation of resources is required.

More than one CHP were waiting until after the federal election to make long term decisions. Another stated that they feel they are in a good position to receive further grants (NRAS 2) if the government extends the program.

For CHPs advising that the property owners who are most likely to sell, communication with tenants is being left up to the owners about the ending of the scheme. This is a risk and will need to be monitored.

For one CHP, an advantage of the cessation is that the NRAS Guidelines won't need to be followed, which means a reduction in compliance – to both the provider and the tenant as annual surveys are sent to tenants to ensure eligibility requirements are continually met.

Further work needed

Communication to tenants – clarity around who communicates (owners or providers who manage the property). Whilst financial planning is clear and detailed, providers have not considered communication or the impact the ending of NRAS has on tenants as part of the exit planning process. Clarity should be provided to tenants about the consequences of the ending of the scheme and the future of their tenancy and housing option.

Some CHPs have not adequately considered the changes required to policy, procedures, communications, changes to rent calculators and other tools used to manage NRAS properties – post cessation. This should be a focus for future monitoring.

Financial Analysis of NRAS in NSW

The Registrar can clearly identify (through compliance assessment data submitted by CHPs) the downward trend of NRAS incentives is gradual from forecast year 2020 to 2026 then the incentive drops considerably. Whilst the incentive drops dramatically post cessation, CHPs are forecasting an increase in operating EBITDA (earnings before interest, taxes, depreciation and amortization) in terms of dollar value. Operating EBITDA margin remains stable at 11-12% for most of the forecast years and interest cover ratio is above 3 times in all except one forecast year.

This means that CHPs are anticipating replacing the loss of NRAS funding by diversifying operation activities and generating other income streams. Net operating cashflows are also expected to increase across the 10-year forecast.

Based on the data and this analysis, the downward trend of NRAS incentive does not seem to threaten the viability of the community housing sector. However the cessation of NRAS is likely to impact affordable housing stock with some rent adjustments to market rates expected.

NSW Tier 1 & 2 CHPs with NRAS incentives.

Financial Year	NRAS Incentive ($ millions)	Total Operating EBITDA ($ millions)	Operating EBITDA Margin (%)	Interest Cover Ratio (times)	Net Operating Cash Flow ($ millions)
2016	22.988	78.338	11%	5.2	71.597
2017	30.241	72.369	10%	4.4	51.187
2018	31.061	66.659	8%	3.4	85.534
2019	33.887	71.155	8%	3.0	76.836
2020	29.167	99.246	10%	3.4	99.593
2021	25.672	109.335	10%	3.0	99.905
2022	21.600	125.949	11%	2.9	114.931
2023	17.686	135.796	12%	3.1	126.717
2024	15.154	142.521	12%	3.3	126.771
2025	12.874	142.513	12%	3.2	132.666
2026	11.049	141.003	11%	3.2	131.714
2027	1.900	136.661	11%	3.1	127.963
2028	1.169	142.161	11%	3.3	134.228

To see a copy of the NRAS Incentive (indexation) March 2019 click here.

Implications

The future of NRAS incentives is not clear, creating a gap in the planning ability for CHPs. There are potential risks for tenants in houses owned by private developers that CHPs manage. If no new incentives are available a large number of affordable housing properties may be lost from the housing market with investors likely to sell the properties or to raise rents to the full market value.

CHPs are placed in a difficult situation if they are managing properties for which private, for profit developers are receiving incentives. Occupants of these properties have a lease with providers, not with property owners and CHPs may be looking at a prospect of rehousing tenants in properties in their own portfolio or terminating the tenancies. There will be impacts if not managed appropriately.

If no replacement incentives are available and CHPs continue to self-fund subsidised affordable housing properties with existing tenants, there is also likely to be a decline in investment into additional affordable housing properties; stock that would be delivered by CHPs and added to the subsidised housing market numbers.

The Registrar is not in a position to follow up with private for profit recipients of NRAS incentives regarding their plans to either sell the properties at market value, rent them at market rent, or make use the tax benefits associated with the provision of affordable housing without government incentives.

Overall though there will be increased pressure on the social housing system and possibly a volatile rental market, especially in Sydney and areas with larger NRAS properties.

Opportunities

Opportunities identified by CHPs as a result of effective planning strategies has forced CHPs to be more agile and creative in terms of revenue streams. Building diversity in the sector is an objective the Registrar is monitoring.

CHPs will no longer be required to comply with NRAS guidelines post the cessation – CHPs have stated that they feel tenants will be better off. The compliance requirements decreases and there will be less administrative burden. The guidelines are restrictive and limited.

The increasing momentum of National Disability Insurance Scheme (NDIS) / SDA has allowed providers to expand into areas which normally would not be part of the products and services provided. Tenants with a disability will benefit from the increase in supply of housing as a result.

There are opportunities for CHPs to engage with the NHFIC to reduce debt faster and allow for further development and expansion of portfolios. A number of larger CHPs have advised their intentions to liaise with NHIFIC. The NHFIC offers loans, investments and grants to encourage investment in housing, with a particular focus on affordable housing.

There are opportunities for future incentive programs and affordable housing strategies to incorporate considerable changes which address the issues and challenges many have identified through the winding down of NRAS.

Best practice strategies and observations of effective planning

The types of best practice strategies which would ensure effective planning include:

- Strategies (including business plans, operational plans and risk management plans) need to be clear and take into account the cessation of incentives.
- Workshops held with relevant stakeholders, with a focus on risk tolerance and setting the strategic direction.
- NRAS exit strategy development is factored into all areas of business including policy and procedures, communication with tenants, planning for exits, on-selling and transferring existing tenants, impacts to stock and market changes. Strategies take into account reputational risks for the CHP, impacts on other performance areas (termination rates, occupancy rates, rent arrears, cost of resourcing and managing exits and transfers – resource intensive activities)
- Asset recycling strategies - Only selling properties with high vacancy rates – targeting properties which are not suitable (type of housing not appropriate for local demand) or not meeting the affordable housing need in that area (size or location).
- Completed in depth scenario testing and financial modelling – with a view of exit years and the impacts clearly known and addressed.
- Priority is given to key workers in the area – working with local business and considering broader economic benefits by target employment vacancies and offering key workers affordable accommodation as part of employment offerings. Bringing skilled people to regional areas.
- Affordable housing workgroup – addressing local area needs as part of a broader network of contributors.

Considerations for Registrars - Moving Forward

A number of considerations have been identified for Registrars to consider along with other stakeholders. These include:

1. **Increased regulatory monitoring of community housing providers NRAS exit planning processes and strategies as the NRAS cessation years approach.** Monitoring should be embedded into compliance assessment processes until the scheme ends. CHPs are withholding decision making following the outcome of the federal the election where the future affordable housing policies and the direction of government in this environment is confirmed.

2. **Providers who manage properties on behalf of owners/investors to provide more detailed advice to the Registrar about the exit plan for properties after NRAS finalises.** This report identifies the gap in appropriate planning processes where CHPs do not have control over properties and whilst it may be premature it is pertinent that CHPs conduct planning and assessing risks to tenants, property markets, minimising risk to CHPs. This intelligence gathering should also be embedded into compliance assessments.

3. **Guidelines are produced and published for best practice exit planning strategies to support CHPs.** Guidelines should also be produced to assist regulatory analysts to assess best practice planning strategies and identify risks associated with lack of appropriate planning within the compliance and monitoring process.

4. **SDA/NDIS financial reporting should be segregated in the FPR** – the NRAS research has identified that having access to segregated NRAS financial data assists with financial planning and analysis. To understand and fully analyse the NDIS/SDA offset planning mentioned a number of times by various providers, the segmenting of financial performance for SDA would allow the Registrar to understand where providers are offsetting the loss of the incentive and the alternate income streams which providers are pursing in replacement of NRAS. SDA is not segregated and can be difficult to identify, it currently can be placed against a number of categories in the Financial Performance Report and grouped in with a range of government grants.

5. **Collaboration with state and commonwealth government agencies** who are implementing and monitoring NRAS would allow for improved communication, planning, program design (of future programs) and effective and efficient exit strategy development.

6. **Future changes in government policy may impact on the regulation of affordable housing**. An increase in the supply of affordable housing may require a shift in resources based on the regulatory activities required to be undertaken by Registrar. Growth in the sector can see an increase in regulation financial risk. Whilst this report has not addressed the broader affordable housing issue, it does highlight that changes to incentives (and in particular an increase of incentives) for affordable housing supply may drive further registration demand. This needs to be monitored closely by all Registrars.

Case Study

Provider ABC receives a direct NRAS incentive for over 170 properties which will cease between 2022 and 2025. The provider also manages over 60 properties for other investors.

High-level operational and cash flow forecasting has been undertaken to provide information to the (new) Board concerning the impact of the loss of the NRAS incentives will have on the organisation. The loss of NRAS sees a 39% reduction of income for this provider. The current cash flow forecasting is based on known 'business as usual', i.e. it does not anticipate a new version of NRAS. Recent Business Cases for its upcoming development recently completed dwellings, contain the provision of a small sell-down of dwellings to eliminate debt before the NRAS ceases.

Although the Cash Flow Forecast indicates the sell-down of 5-6 properties, the properties actually chosen for sell-down will be those with the highest vacancy rates (i.e. those that have proven to be less desirable). The provider will carefully manage property leasing of the identified sell-down properties so as to not negatively impact its tenants.

The provider has three (3) new Board Members and its risk appetite has significantly changed (largely and reasonably due to the declining rental market in the area and resultant lower rental incomes – which resulted in a re-cast of the 18-19 cash flow forecast). The Board has recently reviewed the NRAS Planning Forecast and will hold a Risk Tolerance / Appetite Workshop to discuss and determine, amongst other matters, its approach to the termination of NRAS and capacity for new developments.

The Board will also hold a Strategic Directions Workshop along with the CEO and COO agreeing to provide an NRAS Exit Strategy to the Board post its Strategic Direction Workshop (i.e. the timing is to ensure that the Operational Plan aligns with the Board's Strategic Direction). The Strategy will encompass risk and risk mitigation strategies and this will be tailored to the Board's approved Strategic Direction.

Once the Strategic and Operational Plans are approved, all applicable policies and procedures will be updated. Those specifically relating to NRAS operations will become redundant and be archived. A tenant communication strategy is not deemed necessary at this point in time as it is the intention to retain the properties.

Early stage Scenario testing to ascertain the income gap that will eventuate as properties exit the NRAS is complete. Further scenario testing and modelling that includes alternative income streams, organisational restructures is in progress. Financial planning has begun and the wind down of NRAS income is included in the outer-year forecasts to be provided with the 2017-2018 NRSCH Annual Return. Alternative income streams will be explored and options will be built into financial models and provided as full business cases for the approval of the Board.

Other than selling properties to assist with debt reduction, the provider intends to retain all of the properties it owns that currently have NRAS allocations attached. All retained properties (i.e. including those developed by the provider) will be 'affordable' rentals and the government's income guidelines will apply (noting that these are more generous than the NRAS income guidelines).

Of the properties managed for other investors, the insignificant financial impact of NRAS Investor fees has been modelled in the NRAS Planning Forecast. Consideration to the cessation of NRAS will be given by the Board at its Risk Tolerance and Strategic Direction Workshops. The providers relevant Investor NRAS policies and procedures will become redundant as NRAS finishes, or, alternatively, should another iteration of NRAS evolve, will need to be adapted to comply with any new legislation.

The provider will endeavour to give priority to the tenants who are 'key workers' residing in these NRAS Investor properties who are unable to afford private market rent and thus sustain their tenancies, should it have vacant properties available at that time.

Insights and Snapshots

Comment	Key issues
'Funding from all levels of government has decreased over time, with much government expenditure on housing focused on maintenance of its ageing public housing stock. Since the Nation Building Economic Stimulus Plan (A$42b investment by the Commonwealth government in response to the Global Financial Crisis) there has been extremely limited direct or indirect government funding of affordable housing. The most significant impact of the withdrawal of government funding has been the constraint it's placed on (the providers) ability to grow its own portfolio of housing stock'.	• *Unstable and unpredictable government funding* • *Scheme design issues*
'…..in excess of 50 major program contracts in place with state governments over varying tenures from one to five years. More than half of these have been renewed at least once. Generally, the determination of a program, if not rolled forward, will be succeeded by a replacement program. This may require a re-tender, however, past performance and standing ensures a high success rate in these situations'.	• *The need to reduce red tape and lesson the cost administrative pressures* • *Contract management issues* • *Assumptions based on past performance*
'A tenant communication strategy is not deemed necessary at this point in time as it is (the providers) intention to retain the properties it owns…. properties chosen for sell-down will be those with the highest vacancy rates and the process timed and managed to ensure that there is no negative impact on tenants'…	• *Communication risks* • *Asset management planning variances*
'….currently pursuing an ATO class ruling application that could see private market landlords being able to take advantage of a tax offset (in lieu of the NRAS incentives)'.	• *Tax incentives and opportunities not clear*
'….employed a Business Development Manager to bring options to the Board, via the committee structure, for directional change to ensure long-term viability in the face of the reduced funding…..'	• *Specific staffing skills /expertise required to navigate system.* • *Changing environment and business needs for CHPs*
'….currently expanding into the NDIS/SDA sector, however, this area does not provide a substitute for the cash incentive received to support affordable housing….'	• *Disability sector growth*
'….could face some reputational risk if transitional arrangements with existing tenants are not carefully managed'……will be mitigating this risk through early communication and engagement with landlords and tenants and by looking to provide pathways to other housing options for tenants'.	• *Reputational risks*
'New opportunities provide diversified income streams and increased cash flow and surpluses. Major projects…..all form part of strategies to assist with managing the cessation of NRAS and the financial impact of the loss of NRAS incentive payments may have on our Cash flows'.	• *Diversity is needed to boost cashflow*
'engaging with NHFIC to refinance existing loan facilities….'.	• *Financing drivers*

Appendix 1 - Data

Data from Allocations by approved participant and state/territory

	Active allocations	Provisional allocations	Total allocations
NSW	**6,006**	**449**	**6,455**
62 Darlinghurst Road Pty Ltd	0	27	27
Aboriginal Housing Company Limited	0	32	32
Affordable Management Corporation Pty Ltd ATF Affordable Housing Management Fund	8	0	8
Arara Properties Pty Limited	24	0	24
Argyle Community Housing Limited	30	0	30
Australian Affordable Housing Securities Limited	377	0	377
Australian Catholic University Limited	50	0	50
Bamreta Pty Ltd	24	0	24
BaptistCare NSW and ACT	104	0	104
BlueCHP Limited	325	0	325
Boyce Group Holdings P/L	110	0	110
Bridge Housing Limited	230	7	237
Broken Hill Lifestyle Village Pty Ltd ATF Broken Hill Village Unit Trust	3	16	19
C.K.S. Group (Aust) Pty Ltd atf C.K.S. Unit Trust	172	8	180
Central Park Students Pty Ltd	803	0	803
CITY OF CANADA BAY COUNCIL	24	0	24
City West Housing Pty Ltd	200	0	200
Common Equity NSW Ltd	23	0	23
Community Housing Limited	344	1	345
Compass Housing Services Co Ltd	308	0	308
Deborah Sue Prior	17	0	17
Ecclesia Housing Limited	124	2	126
Evolve Housing Limited	784	0	784
Housing Plus	53	0	53
Hume Community Housing Association Co Ltd	392	25	417
Illawarra Retirement Trust	14	0	14
Link Housing Ltd	32	0	32
Mckenzie Bond Pty Ltd	175	20	195
Mission Australia Housing Limited	190	0	190
National Affordable Housing Consortium Ltd	68	58	126
National Housing Group Pty Ltd	68	205	273
North Coast Community Housing Company Limited	20	0	20
PGG Unit Trust	22	18	40
Questus Funds Management Limited as Responsible Entity for the Questus Residential	29	2	31
Samstone Pty Ltd	0	28	28
SGCH	247	0	247
Southern Cross Community Housing Ltd	56	0	56
The Claireleigh Joint Venture	24	0	24
The Illawarra Community Housing Trust Ltd	71	0	71
The Trustee for Affordable Housing Management Trust	4	0	4
The trustee for THE ASPIRE HOUSING GROUP UNIT TRUST NO 1	76	0	76
Twin Rivers Developments Pty. Limited	36	0	36
UnitingCare Ageing	146	0	146
WENTWORTH COMMUNITY HOUSING LIMITED	122	0	122
Williams River Developments Pty Limited	16	0	16
Zinkohl Pty Ltd	61	0	61

Incentive status by state/territory

State	Active allocations	National %	Provisional allocations	National %	Total allocations	National %
NSW	6,006	16.5%	449	1.2%	6,455	17.7%
Vic.	5,799	15.9%	27	0.1%	5,826	16.0%
Qld.	10,224	28.1%	0	0.0%	10,224	28.1%
WA	4,354	12.0%	940	2.6%	5,294	14.6%
SA	3,600	9.9%	0	0.0%	3,600	9.9%
Tas.	1,504	4.1%	26	0.1%	1,530	4.2%
ACT	2,384	6.6%	0	0.0%	2,384	6.6%
NT	1,007	2.8%	50	0.1%	1,057	2.9%
Total	**34,878**	**95.9%**	**1,492**	**4.1%**	**36,370**	**100.0%**

Allocations ceasing by calendar year

State	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
NSW	67	431	271	380	457	605	1,140	1,164	2,007	6,522
Vic.	95	286	96	261	1,296	1,356	2,143	388	0	5,921
Qld.	5	181	323	1,079	2,694	2,499	2,845	603	0	10,229
WA	0	50	131	266	352	1,110	920	891	1,574	5,294
SA	24	179	262	515	517	806	1,079	240	2	3,624
Tas.	7	59	128	153	150	25	321	98	596	1,537
ACT	0	32	157	393	746	93	542	60	361	2,384
NT	0	0	0	12	150	125	188	532	50	1,057
Total	**198**	**1,218**	**1,368**	**3,059**	**6,362**	**6,619**	**9,178**	**3,976**	**4,590**	**36,568**

Allocations by ABS Remoteness by state/territory

State	Major Cities	Inner Regional	Outer Regional	Remote	Very Remote	Unknown	Total
NSW	5,658	741	55	0	0	0	6,455
Vic.	4,917	884	25	0	0	0	5,826
Qld.	7,694	1,469	1,051	9	1	0	10,224
WA	4,346	404	270	230	45	0	5,294
SA	3,035	315	226	23	1	0	3,600
Tas.	0	1,217	310	2	0	0	1,530
ACT	2,384	0	0	0	0	0	2,384
NT	0	0	965	88	4	0	1,057
Total	**28,033**	**5,031**	**2,902**	**353**	**51**	**0**	**36,370**

Charitable status by State/Territory

	Endorsed Charities					**For Profit/Other**		
State	**Active allocations**	**Provisional allocations**	**Total allocations**	**Completed %**	**Active allocations**	**Provisional allocations**	**Total allocations**	**Completed %**
NSW	3,933	125	4,058	96.9%	2,073	324	2,397	86.5%
Vic.	4,003	27	4,030	99.3%	1,796	0	1,796	100.0%
Qld.	4,842	0	4,842	100.0%	5,382	0	5,382	100.0%
WA	1,554	20	1,574	98.7%	2,800	920	3,720	75.3%
SA	1,435	0	1,435	100.0%	2,165	0	2,165	100.0%
Tas.	1,171	26	1,197	97.8%	333	0	333	100.0%
ACT	1,759	0	1,759	100.0%	625	0	625	100.0%
NT	246	50	296	83.1%	761	0	761	100.0%
Total	**18,943**	**248**	**19,191**	**98.7%**	**15,935**	**1,244**	**17,179**	**92.1%**

Type of dwellings by State/Territory

	Apartment		Boarding House		House		Studio		Townhouse		Total
State	Active allocations	Provisional allocations	Active allocations	Provisional allocations	Active allocations	Provisional allocations	Active allocations	Provisional allocations	Active allocations	Provisional allocations	Active allocations
NSW	3,220	125	18	28	337	222	1,506	7	925	67	6,455
Vic.	3,156	26	0	0	435	1	1,214	0	994	0	5,826
Qld.	3,101	0	0	0	3,811	0	147	0	3,165	0	10,224
WA	1,237	307	0	0	1,059	25	1,091	0	967	608	5,294
SA	1,025	0	0	0	1,743	0	73	0	759	0	3,600
Tas.	208	0	0	0	211	26	770	0	315	0	1,530
ACT	543	0	0	0	110	0	1,666	0	65	0	2,384
NT	581	50	0	0	131	0	161	0	134	0	1,057
Total	**13,071**	**508**	**18**	**28**	**7,837**	**274**	**6,628**	**7**	**7,324**	**675**	**36,370**

Size of dwellings by state/territory

State	Studio	1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms	5 or more Bedrooms	Total allocations
NSW	1,508	1,345	2,525	862	212	3	6,455
Vic.	1,214	1,728	2,027	739	113	5	5,826
Qld.	147	1,649	2,503	4,357	1,567	1	10,224
WA	1,091	1,151	1,598	1,238	214	2	5,294
SA	73	488	1,016	1,688	326	9	3,600
Tas.	770	68	484	204	4	0	1,530
ACT	1,666	200	278	133	9	98	2,384
NT	161	314	361	203	18	0	1,057
Total	**6,629**	**6,943**	**10,792**	**9,424**	**2,463**	**118**	**36,370**

Appendix 2- Guidance Note

NATIONAL REGULATORY SYSTEM
COMMUNITY HOUSING
A joint initiative of Commonwealth, State and Territory Governments

Managing risks associated with the winding down of NRAS incentives

The purpose of this communication is to advise that depending upon your organisations circumstances, your Registrar may be seeking supplementary information to assess if any unintended consequences could arise from the end of the National Rental Affordability Scheme (NRAS) rounds.

In the 2014-15 Budget, the Government announced it would not progress with any further NRAS rounds and that the scheme would be capped at 38,000 allocations. In coming years, many Community Housing Providers (CHPs) that were successful applicants for properties funded under the NRAS will begin to see financial incentives associated with the scheme cease as the 10 year funding timeframe for each NRAS round is reached. Other providers offer fee for service management of NRAS properties and will be affected by the ending of NRAS incentives.

The Registrars have been monitoring how relevant CHPs are making appropriate provisions/plans to prepare for the winding down of the NRAS incentives as part of their ongoing Compliance Return process under the National Regulatory System for Community Housing (NRSCH). The cumulative view is that the sector is planning for the wind-down and is diversifying in response. The Registrars will continue to monitor this response.

You may not need to adjust your annual returns which indicate plans, business strategies, financial forecasts, scenario testing and policies potentially related to NRAS. However, as the standard compliance assessment of providers' performance now includes the NRAS cut off in their 10 year forecasts, Registrars would like to engage providers more specifically on how they plan to treat the transition and to that effect may ask specific questions in the upcoming Tier1/2 assessment round in order to form a national view on any necessary funding/policy changes.

Specifically, your Registrar may ask providers that are receiving NRAS incentives or managing NRAS properties and tenancies on behalf of other providers or private developers to share their plans about what they will do with: a) properties they have control over and b) tenancies of all NRAS properties.

Financial viability is critical to the sector, however, there may be some unintended consequences of planned diversification which adversely impact the provision of affordable housing in the broadest sense. Hence, what – if anything – is to occur to affordable housing properties and tenancies is important for Registrars to understand and your assistance in contributing to this knowledge would be welcomed. As a group, Registrars are concerned to ensure that negative impacts are minimised and we will feed any assessed systemic information back to the sector and through to our funding and policy colleagues.

Should you have any queries regarding this matter please feel free to contact your assigned NRSCH regulatory analyst.

Appendix 3 – Compliance questions

For providers that directly receive NRAS incentives:	
Number of properties the organisation receives a direct NRAS incentive for	
Approximate year the incentives cease	
Where are the properties located	
What type of planning or decision making has occurred to manage the cessation of NRAS? For example: • Scenarios testing • Financial planning has included planning for the cessation of the scheme? • Strategic Plan is up to date • Risk management plan captures the risks and mitigation strategies • Management Board has agreed on transition planning • Policies/procedures will be amended to reflect the change • Communication to tenants	
What does the organisation plan to do with the properties you receive incentives for? On-sell, retain, adjust rents, transition tenants to alternate accommodation. For each response given/or for mixed strategies used please provide percentages or numbers to reflect the strategy used.	

For providers who receive a fee for service for NRAS properties (managed):	
Number of NRAS properties the organisation receives a fee for service	
Approximate year the management arrangement will cease	
Where are the properties located	
What type of planning and decision making has occurred to manage the cessation of NRAS? For example: • Scenarios testing • Financial planning included the cessation of the scheme? • Strategic Plan is up to date • Risk management plan captures the risks and mitigation strategies • Management Board has agreed on transition planning • Policies will be amended to reflect the change • Communication to tenants	
What does the organisation plan to do after the scheme ends? Will the cessation make a financial impact, and if so how will the organisation overcome this?	

Appendix 4 – Linkage to other work

The NRAS Campaign has direct linkages to other regulatory work occurring within the Registrar's office, including:

Viability

The Registrar has recently focused analytical effort to consider the cost and revenue trends being projected in the community housing sector and identified and assessed assumptions and drivers of long-term forecasts underlying growth and viability. The findings of the focused analysis are being used to inform housing policy and strategy, as well as regulatory assessment of viability.

The review identified that while the sector is currently operating viably, structural pressures exist that are working against viability incrementally over the long-term. These, combined with less-positive economic settings going forward, will increase the pressure on viability. This trajectory should be monitored and form a significant consideration for long-term planning and policy setting. Whilst the Registrar assesses the CHP sector as viable, there are cost pressures over the next ten years warranting policy consideration. A profound shift in commissioning approach could alleviate these pressures.

Affordable Housing discussion paper

The Registrar is producing independent advice regarding affordable housing in NSW. A paper titled, *Affordable Housing in NSW, the housing regulatory perspective* aims to identify implications for the regulation of CHPs arising from emerging risks in CHPs managing affordable housing targets and expectations in NSW. The paper identifies risks in NSW and suggests mitigation strategies so that government affordable housing intentions are implemented in a way that aligns with the objects of the National Law; particularly in relation to outcomes for tenants, use of assets and financial viability of CHPs in view of the high current and future needs for affordable housing.

Performance Reporting

The Registrar has a number of intelligence and reporting functions under the National Law. Specifically S10(1)(f) is a broad function including "to provide …information about the compliance of registered community housing providers with community housing legalisation." S10(1)(h) includes functions to provide information and advice to the Minister for Families, Communities and Disability Services of on the regulation of CHPs and any other matters under community housing legalisation. The Registrar also produces performance reports which provide insights on trends and patterns in the sector.

The Registrar fulfils these functions through a range of reporting tools including informal reports, intelligence briefs and public statements of performance. 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.
The recent performance reporting has identified a number of financial pressures impacting on the sector, one of those being NRAS. See a copy of the previous performance reports here.

NRSCH Review

The NSW Registrar's input to the NRSCH Review provides insights into the nature of the scheme, the past performance of the scheme, what improvements are being pursued regardless of the NRSCH Review process, and what areas of reform are needed that are beyond the capacity of Registrars to address. This advice also considers key drivers that will continue to test the NRSCH over the next ten years and are likely to shape new opportunities or issues that could be addressed by the Review.

The points raised are supported by other performance evaluation and reporting work conducted by the NSW Registrar. The paper addresses the diversification of registered CHPs which has increased new business opportunities, however the ending of NRAS incentives causes risk for viability of these providers and the stability of tenants. The limited coordination of stewardship nationally, limited monitoring, and lack of clarity, create risks to maintaining the current levels of affordable housing stock over the next 10 year period. Although, potential new approaches being proposed for affordable housing funding and concessions could markedly impact the viability of businesses and encourage more participants across the country.

NSW Registrar of Community Housing Annual Statement of Performance

The NSW Registrar's Annual Statement of Performance describes the Registrar's performance throughout FY17/18 in relation to objects of the National Law. The Registrar has adjusted performance reporting to have product reflecting the performance of providers and separately report on the performance of the regulator against contemporary reporting standards.

The report charts the progress of the Registrar's office over the last year and sets out the direction, goals and priorities for the coming year and helps the Registrar to monitor progress and demonstrate performance against public value, including areas for improvement as well as successes.

The Registrar's public value is defined in the objects of the law that is administered; to apply the national system of registration; to facilitate government investment in community housing and ensure the protection of that investment; and to support the provision of registered community housing for people on a low, very low or moderate incomes. See a copy of the Annual Statement of Performance here.

Reference List

- Australian Government, Federal Register of Legislation,
  - National Rental Affordability Scheme Act 2008, No. 121, 2008
  - National Rental Affordability Scheme Regulations 2008, Select Legislative Instrument No. 232, 2008 as amended made under the National Rental Affordability Scheme Act 2008
- The NSW Government, Family and Community Services, NSW Affordable Housing Ministerial Guidelines 2018 – 19
- Community Housing Providers (Adoption of National Law) Act 2012
- The NSW Registrar of Community Housing, NSW Tier 3 Performance Report February 2018
- Registrar of Community Housing - Annual Statement of Performance Reporting Period July 2017 – June 2018
- Australian Government, National Rental Affordability Scheme Quarterly Performance Report As at 31 December 2018

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