

SOUTH AUSTRALIAN COMMUNITY HOUSING PROVIDERS' EXPERIENCES OF THE NRSCH



SURVEY REPORT

21ST NOVEMBER 2017

1. Introduction

1.1 NRSCH

The National Regulatory System for Community Housing (NRSCH) went live on 1 April 2014 and South Australian community housing providers (CHPs) previously registered under South Australian Co-operative and Community Housing Act 1991 were given 18 months to transition their registration to the new system.

Close to 50 CHPs in South Australia have successfully completed the transition to registration under the new National Regulatory System for Community Housing (NRSCH). Between them, these registered providers own or manage over 6000 properties. All but two of these providers are registered with their primary jurisdiction as South Australia—with regulatory engagement through the Office of the South Australian Housing Registrar.

1.2 CHCSA Survey

The Community Housing Council of South Australia (CHCSA), the peak industry body of CHPs in South Australia, sponsored a survey of members to gather information about their experiences and views of the NRSCH in SA.

The survey covered:

- achievements of the NRSCH since the transition from the SACCH Act
- appropriateness of the regulatory requirements that have to be met under the NRSCH
- reasonableness of the 'regulatory burden' associated with demonstrating compliance with the NRSCH requirements
- professionalism and understanding of the sector demonstrated by NRSCH staff in undertaking regulatory activities
- opportunities for improvements to the NRSCH in South Australia.

The survey was distributed in October 2017 to 40 CHCSA members—covering 15 providers registered as Tier 1 or 2 and 25 Tier 3 providers.

In total, 32 completed responses were received—with 12 responses from Tier 1 and 2 providers (80% response rate) and 20 responses from Tier 3 providers (80% response rate).

1.3 Survey report

This report summarises the findings from the survey. A CHCSA workshop will be held in early December to present the findings and to discuss the implications for continuous improvement to the regulatory arrangements. .

2. Respondent profile

The 32 CHPs that responded to the survey collectively manage 6,400 properties registered under the NRSCH—plus an additional 1,000 properties without a registered government interest that sit outside of the NRSCH. Over 88% of the registered properties are managed by Tier 1 or 2 CHPs.

CHPs highlighted that their business plans for participation in the NRSCH were likely to change over the next 3-5 years. In particular:

- CHPs are planning for significant growth in the sector—with estimates that the SA CHP sector will more than double in size by the end of 2022. However,
 - All of the anticipated growth is planned to come from Tier 1 and 2 providers
 - All but one of the Tier 3 providers are planning for zero or very little growth
- CHPs want to maintain their NRSCH registration—although a number of changes to Tiers are planned by survey respondents.
 - All Tier 1 CHPs plan to retain their Tier 1 registration status
 - Over half of the current Tier 2 CHPs plan to seek registration as a Tier 1 provider
 - One current Tier 3 CHP plans to seek registration as a Tier 2 provider
 - The majority of the current Tier 3 CHPs plan to retain Tier 3 registration—although over one-quarter of Tier 3 providers indicated that they are considering amalgamations or mergers with a Tier 1 or 2 CHPs. Importantly, a number of these providers cited the high costs for very small organisations in meeting regulatory obligations as a key driver for to seeking amalgamations or mergers.
- A number of CHPs strongly advocated for retaining the diversity of the sector—recognising the niche role of specialist providers and the community building role of models such as housing cooperatives.

While CHPs business plan objectives may or may not translate into reality, the potential implications for the NRSCH in SA are:

- A changed risk profile in terms of the average number of properties under management by Tier 1 and 2 providers (and potentially increased expectations of enhanced risk monitoring)
- A 20-30% reduction in the total number of existing CHPs registered with their primary jurisdiction as South Australia.

3. Appropriateness of regulatory requirements

3.1 National Regulatory Code

Overall, CHPs were generally positive that the seven outcomes in the National Regulatory Code are an appropriate set of performance outcomes for community housing providers (Figures 1, 2 and 3). The National Regulatory Code covers tenant and housing services (Outcome 1), housing assets (Outcome 2), community engagement (Outcome 3), governance (Outcome 4), probity (Outcome 5), management (Outcome 6), and financial viability (Outcome 7).

Key findings from the survey were that:

- The majority of Tier 1/2 and Tier 3 providers rated all seven outcomes in the National Regulatory Code as broadly appropriate
- Tier 1/2 providers were generally more positive about the appropriateness of the seven outcomes in the National Regulatory Code than Tier 3 providers
- CHPs were less positive about the appropriateness of
 - Outcome 3: Community engagement
 - Outcome 7 – Financial viability

Key issues raised by CHPs generally related to the difficulties of demonstrating compliance with particular outcomes (see Section 3.4).

Figure 1: Appropriateness of the seven outcomes in the National Regulatory Code

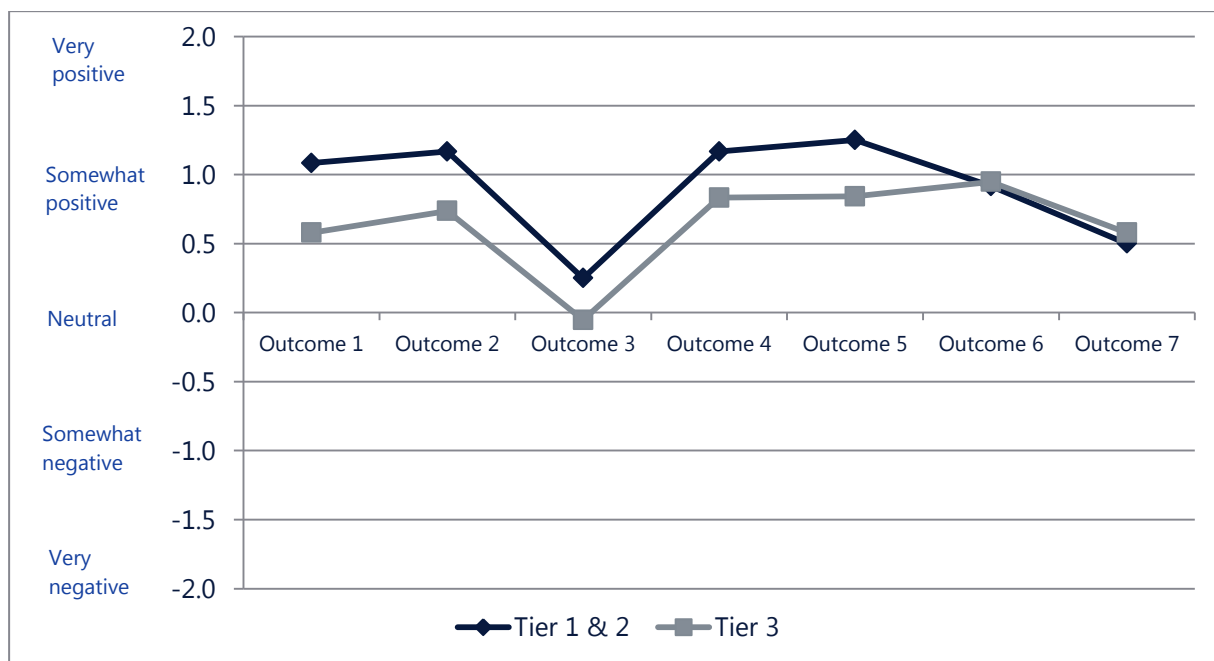


Figure 2: Appropriateness of the National Regulatory Code - Tier 1 & 2 CHPs

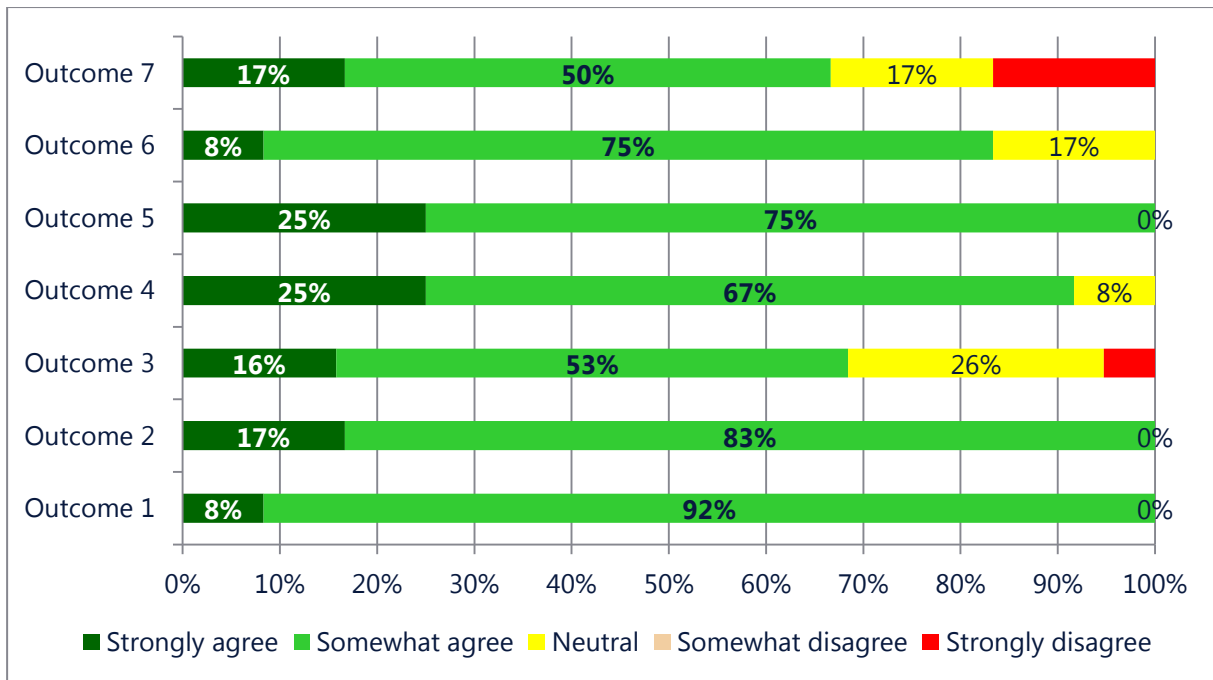
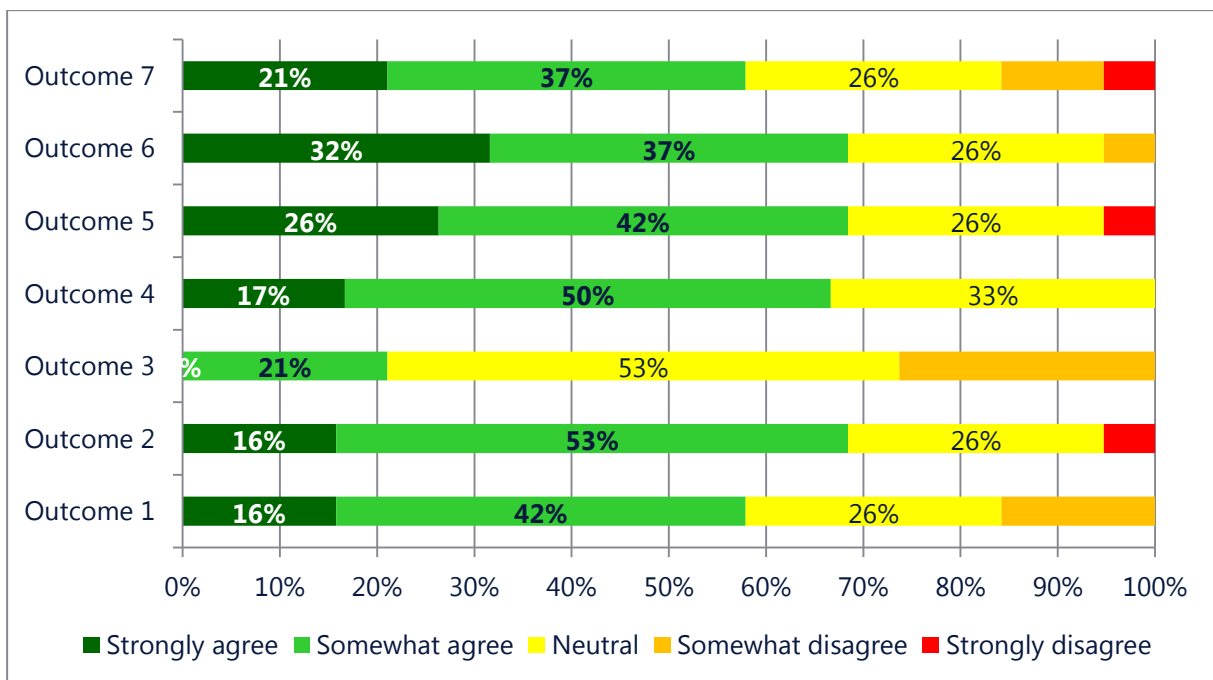


Figure 3: Appropriateness of the National Regulatory Code - Tier 3 CHPs



3.2 Performance indicators and thresholds

Overall, CHPs were generally positive about the extent to which the performance indicators and thresholds in the NRSCH evidence guidelines are an appropriate set of specific performance requirements for their Tier of registration (Figures 4, 5 and 6). Key findings from the survey were that:

- The vast majority of Tier 1/2 providers rated the performance indicators and thresholds as broadly appropriate across all seven outcomes
- The majority of Tier 3 providers rated the performance indicators and thresholds as broadly appropriate for six of the seven outcomes. The exception was Outcome 3, with just over one-quarter of Tier 3 CHPs indicating that the indicators for community engagement was appropriate to Tier 3 providers. A small proportion of Tier 1 / 2 CHPs also expressed concerns about the indicators and benchmarks for Outcome 3.
- Apart from Outcome 3, Tier 3 CHPs were less positive about the appropriateness of the indicators and thresholds for Outcomes 1 (Tenancy management), 2 (Asset management), 5 (Probity) and 7 (Financial viability).

Key issues raised by CHPs generally related to the difficulties of demonstrating compliance with particular outcomes (see Section 3.4).

Figure 4: Appropriateness of the performance indicators and benchmarks

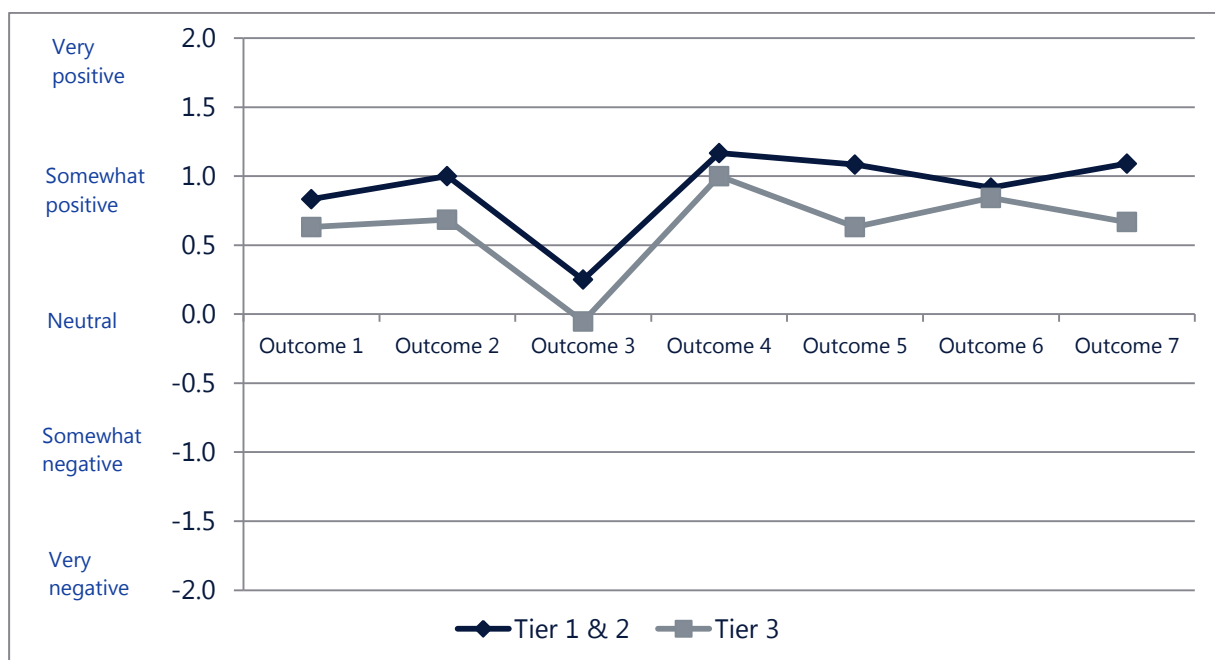


Figure 5: Appropriateness of the indicators and benchmarks - Tier 1 & 2 CHPs

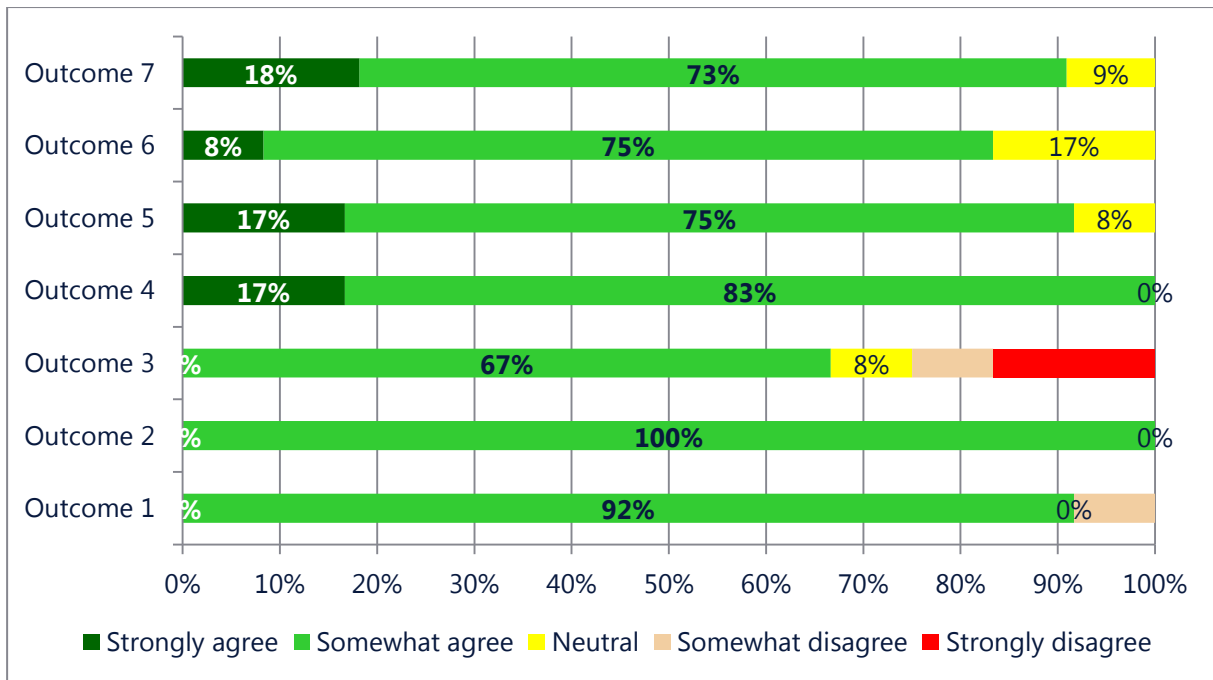
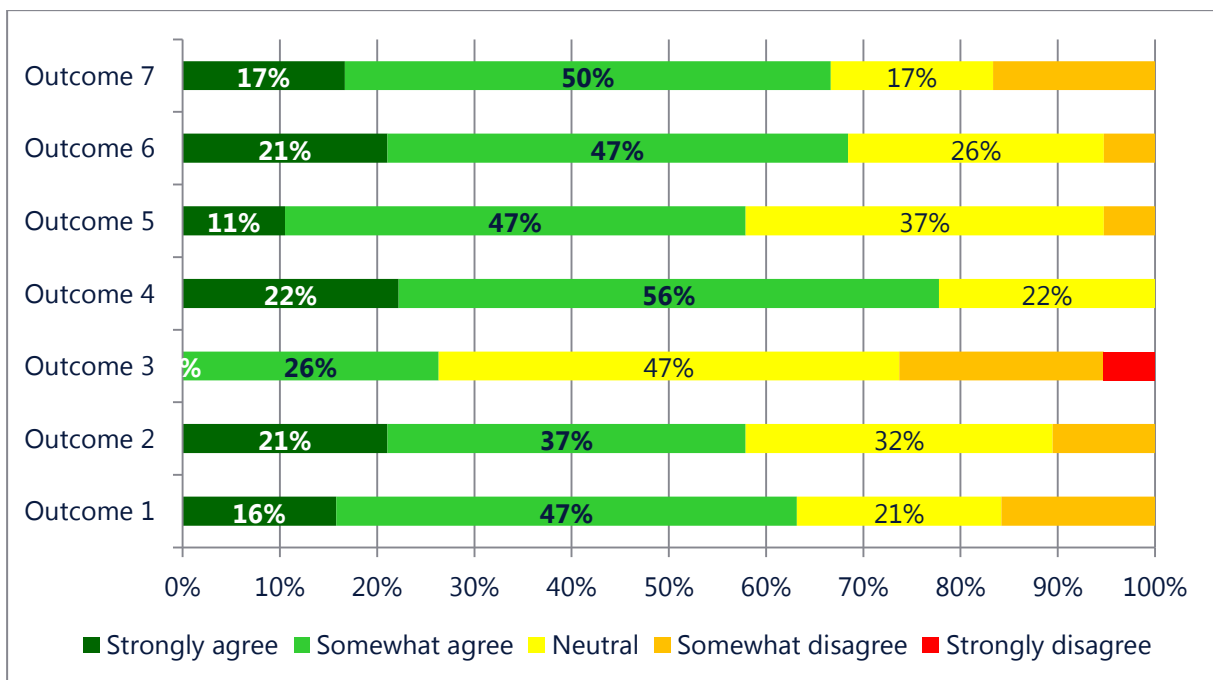


Figure 6: Appropriateness of the indicators and benchmarks – Tier 3 CHPs



3.3 Demonstrating compliance

CHPs expressed more mixed views about the reasonableness of the 'regulatory burden' associated with demonstrating compliance with the NRSCH requirements (Figures 7, 8 and 9). Key findings from the survey were that:

- The majority of Tier 1/2 providers indicated that the regulatory burden associated with demonstrating compliance was broadly reasonable for Outcome 1 (84%), Outcome 2 (75%), Outcome 4 (58%), Outcome 5 (75%) and Outcome 6 (67%)—but only a minority of providers agreed with the reasonableness for Outcome 3 (41%) and Outcome 7 (36%). In particular, more than one-quarter of Tier 1/2 providers indicated that the regulatory burden associated with Outcomes 3 and 7 was very unreasonable.
- Around half of the Tier 3 providers indicated that the regulatory burden associated with demonstrating compliance was broadly reasonable for Outcome 1 (52%), Outcome 2 (53%), Outcome 4 (52%) and Outcome 6 (52%)—but only a minority of providers agreed with the reasonableness for Outcome 3 (21%), Outcome 5 (31%) and Outcome 7 (42%). In particular, between 5% and 15% of Tier 3 providers indicated that the regulatory burden associated with all outcomes was very unreasonable.

Figure 7: Appropriateness of the performance indicators and benchmarks

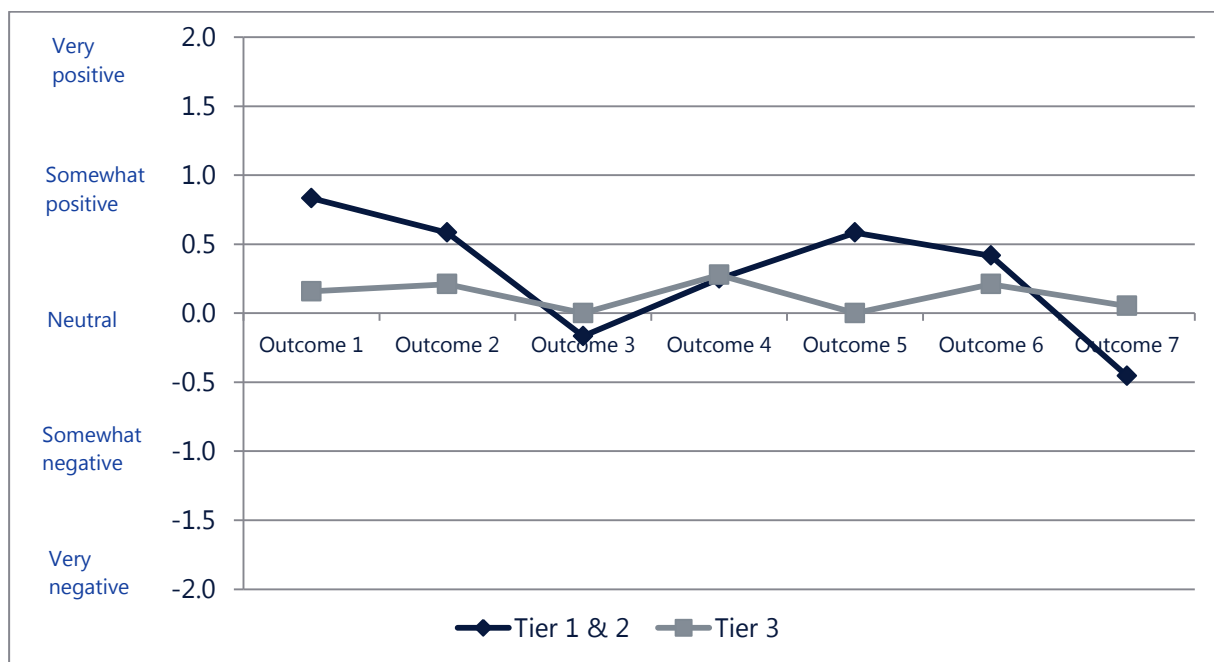


Figure 8: Reasonableness of the regulatory burden for Tier 1 & 2 CHPs

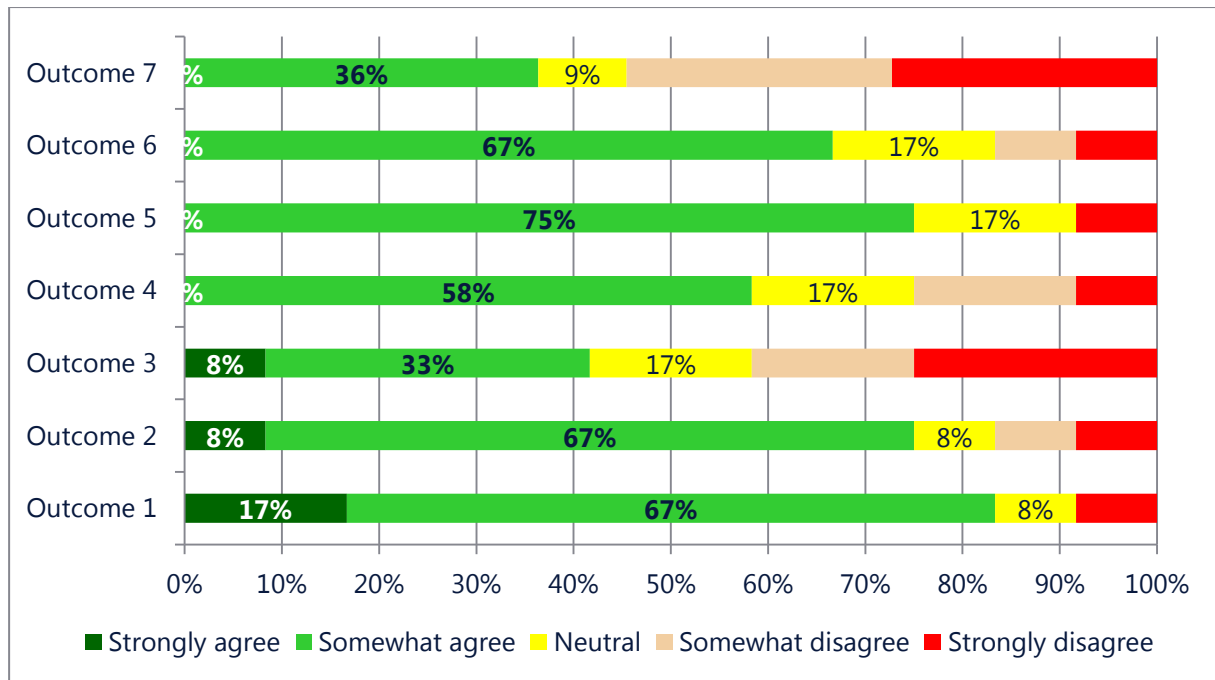
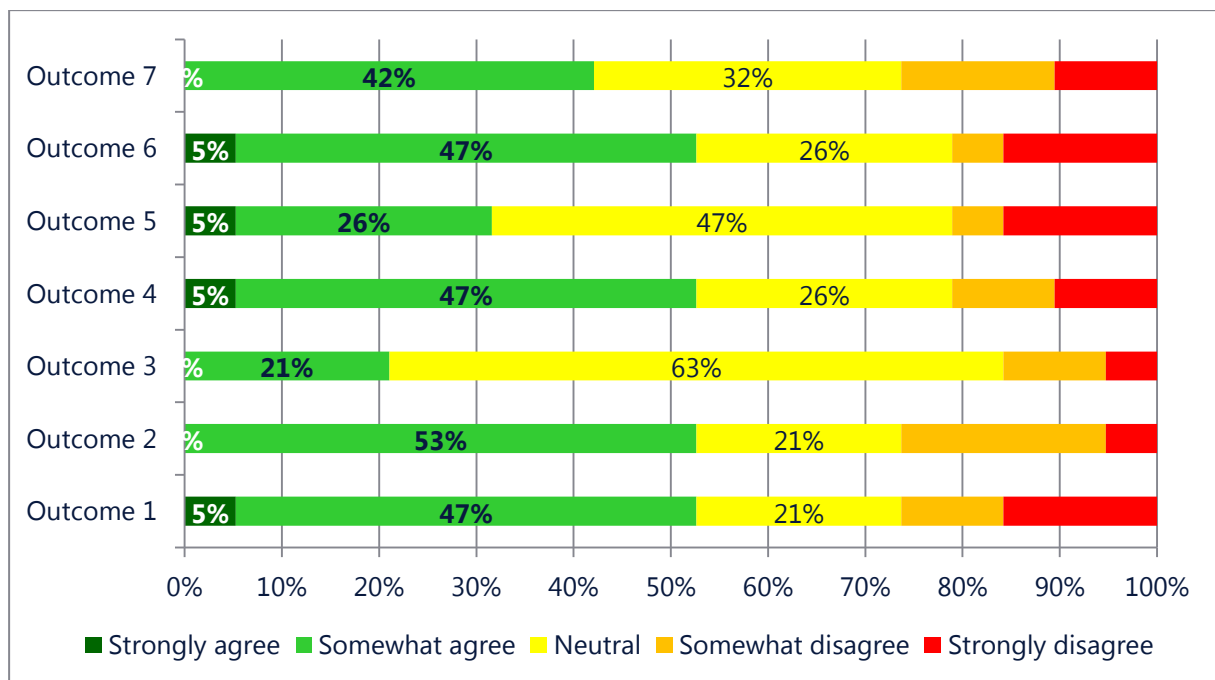


Figure 9: Reasonableness of the regulatory burden for Tier 3 CHPs



3.4 Key issues with demonstrating compliance

3.4.1 Tier 1/2 CHPs

Tier 1 and 2 CHPs highlight their strong support for the national regulatory system and recognise the appropriateness of more intensive regulatory oversight of larger portfolio and development activities.

However, many of these Tier 1 / 2 CHPs highlight the need to fine-tune the performance benchmarks and compliance requirements to achieve a better balance between managing risks and minimising regulatory burdens. Key pressure points relate to:

- Demonstrating financial viability (Outcome 7). Despite the Financial Performance Report (FPR) being in place for a number of years, the majority of Tier 1 and 2 CHPs still have concerns that “the financial tool is not appropriate and burdensome” and that it is “difficult to align the FPR and the forecasting requirements with the organisation’s strategic plans”.
- Demonstrating community engagement (Outcome 3) – CHPs have concerns about the broad nature of the current performance requirements to “work with others” through “place renewal and social inclusion” and the absence of guidance on the required thresholds to meet the regulatory requirements. CHPs indicated that the reporting burden for compliance could be minimised if greater emphasis was placed on reporting significant changes to community engagement arrangements.
- Meeting performance requirements for tenant turnarounds (Outcome 1) - CHPs have concerns that the performance thresholds for tenancy turnaround (tenanted and untenanted) are unrealistic—and this is reflected in the current sector performance on against this requirement reported in the Office of Housing Regulation Annual Report 2016-17.

3.4.2 Tier 3

Tier 3 providers had more mixed views about the appropriateness of the current regulatory arrangements—particularly for volunteer member-tenant managed providers. Key concerns relate to:

- The volume of evidence that needs to be submitted to demonstrate ongoing compliance—even through very little changes from year to year in the operation of a small Tier 3 provider.
- The perceived mismatch between regulators ‘black letter’ understanding of the requirements in the Tier 3 evidence requirements and the risks that need to be managed by a small CHP e.g. expected member knowledge of financial management even where an external service provider is engaged to provide advice on financial performance.

- The perception that the current performance requirements and evidence requirements are fundamentally framed around Tier 1/2 providers—and have not been built from the ground up with Tier 3 providers in mind.
- The significant cost of meeting compliance requirements (relative to the size of Tier 3 providers)—without any increase in operating income or reduction in capital contributions.

Specific pressure points related to:

- The costs associated with preparation of the Financial Performance Report (Outcome 7)—given that manual processing needed to produce the information in the required format.
- The unreasonableness of the expectations of community engagement (Outcome 3) for very small CHPs or member-based organisations—where volunteer member-tenant management is by definition the key contribution to community engagement.
- The costs associated with collecting and collating data on maintenance—and the cost of engaging a qualified building professional to inspect all properties at least once every 3 years (Outcome 1 and 2).
- The unreasonableness of the expectations for tenant turnarounds (Outcome 1)—especially for volunteer organisations.
- The unreasonableness of requirements to conduct employment checks for volunteer organisations (Outcome 1).

4. Utility

CHPs were generally positive about the usefulness of the NRSCH registration and compliance activities for identifying risks and improving outcomes—with 75% of Tier 1/2 CHPs and 68% of Tier 3 CHPs recognising some benefits (Figure 10). In contrast, fewer Tier 1/2 CHPs (29%) and Tier 3 CHPs (34%) indicated that recommendation made by the regulator to improve compliance were clear and achievable (Figure 11).

Figure 10: Usefulness of the NRSCH for identifying risks and improving outcomes

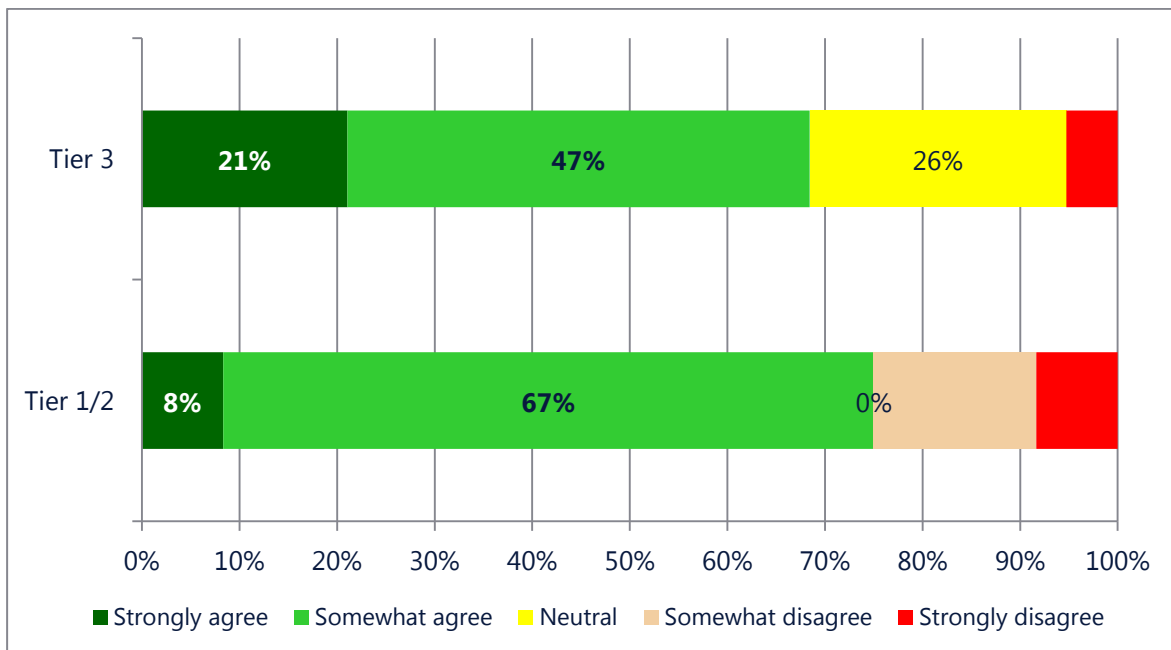
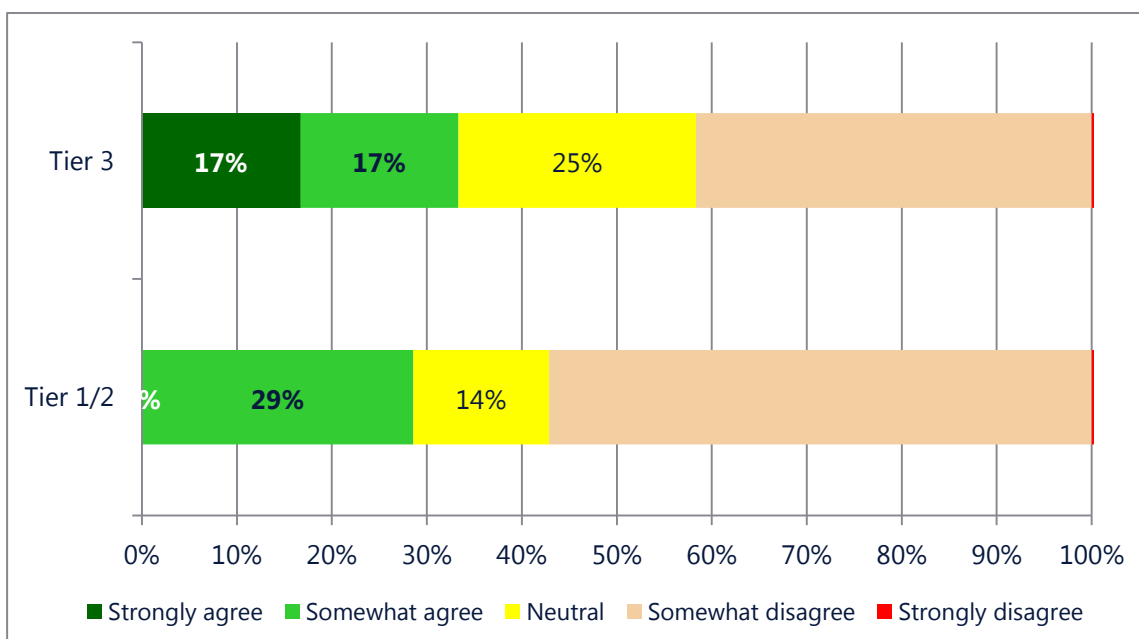


Figure 11: Clarity and achievability of recommendation



Positively, a number of providers recognised the importance of the registration process in ensuring that appropriate policies and procedures were in place—and agreed that the assessment process had highlighted areas for improvement and the implications for current practice on future financial viability.

Amongst the 57% of Tier 1/2 CHPs and 42% of Tier 3 CHPs that somewhat disagreed that assessment recommendations were clear and achievements, the issues raised by individual providers were that recommendations:

- lacked specificity and that it was hard to obtain clear guidance on what the regulatory staff required
- tended to focus on additional paperwork—that was often not material to performance yet time consuming to gather
- focused on views about “how they think we should operate”.

For organisation that have used debt finance to fund development or other community housing activities (n=9 Tier 1 and 2 providers), only one of the nine (11%) had been requested by a financiers to provide their NRSCH compliance returns as evidence of their suitability and standing.

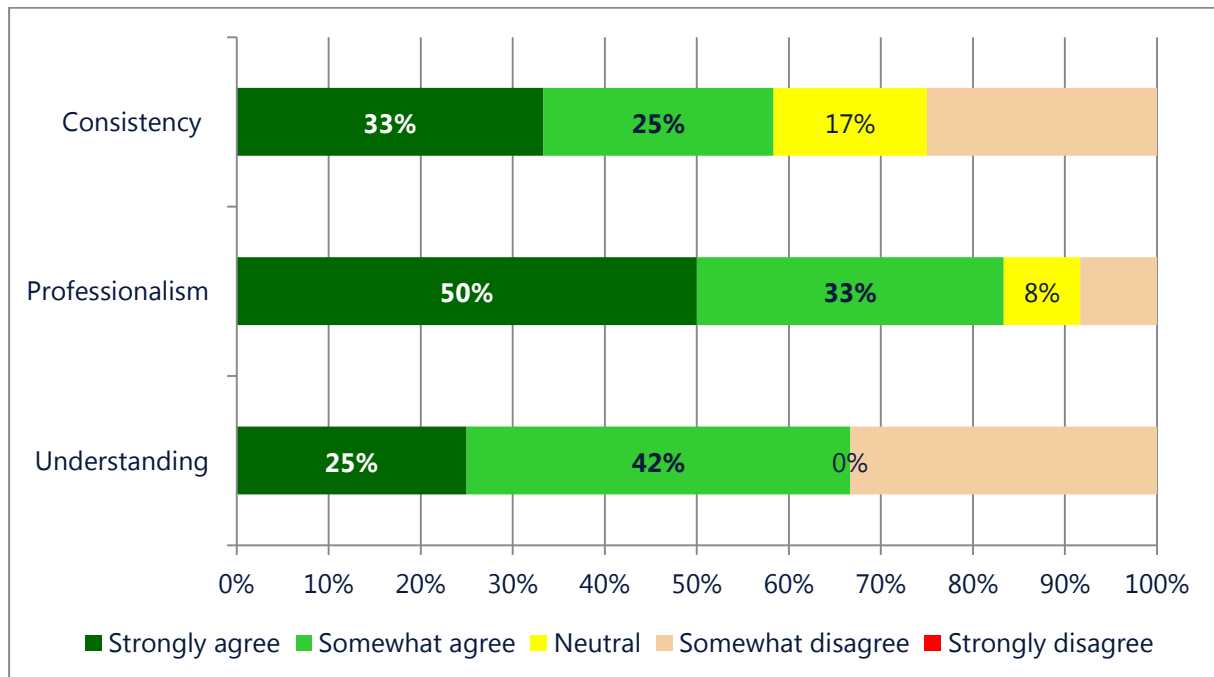
5. NRSCH regulatory processes

CHPs were generally positive about the NRSCH regulatory processes—although the views were more mixed among Tier 3 providers.

For Tier 1 / 2 CHPs,

- 67% agreed or somewhat agreed that the SA NRSCH regulatory staff have a good understanding of their organisation and business / service model (with 33% somewhat disagreeing)
- 83% agreed or somewhat agreed that SA NRSCH regulatory staff were professional in engaging with your organisation (with only 8% somewhat disagreeing)
- 58% agreed or somewhat agreed that SA NRSCH regulatory staff were consistent in interpreting and applying the NRSCH evidence guidelines in assessing compliance (with 25% somewhat disagreeing).

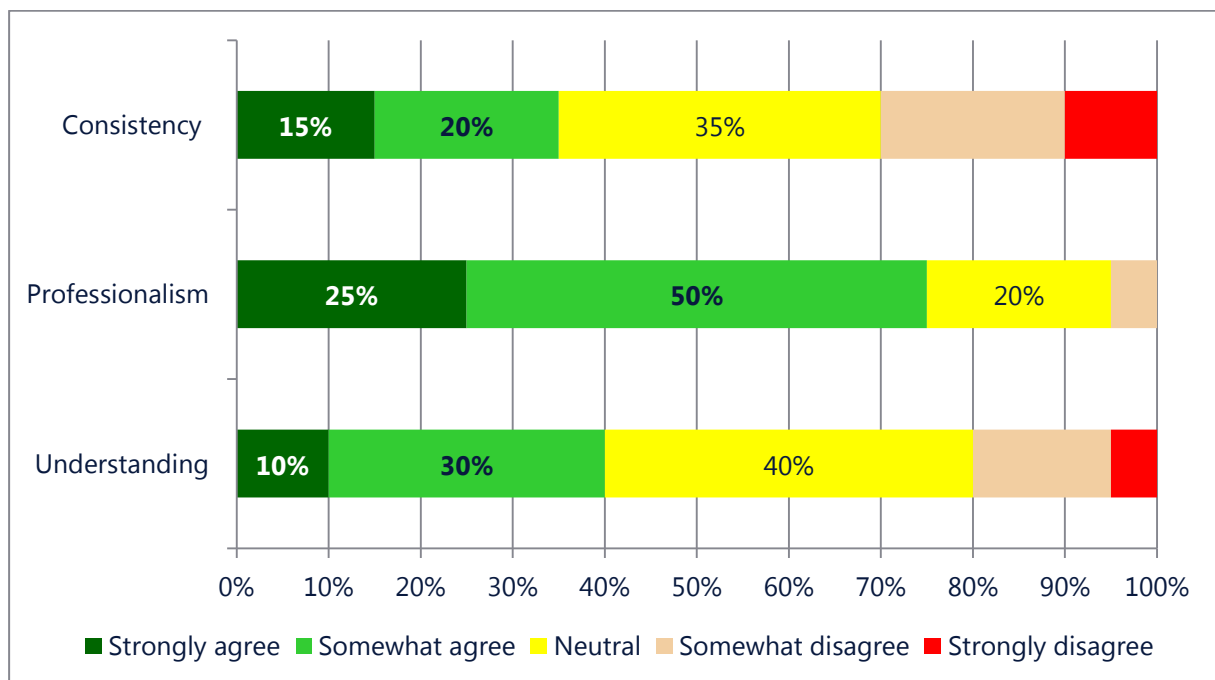
Figure 12: Feedback on NRSCH regulatory processes – Tier 1/2 CHPs



For Tier 3 CHPs,

- 40% agreed or somewhat agreed that the SA NRSCH regulatory staff have a good understanding of their organisation and business / service model (with 20% disagreeing or somewhat disagreeing)
- 75% agreed or somewhat agreed that SA NRSCH regulatory staff were professional in engaging with your organisation (with only 5% somewhat disagreeing)
- 35% agreed or somewhat agreed that SA NRSCH regulatory staff were consistent in interpreting and applying the NRSCH evidence guidelines in assessing compliance (with 30% disagreeing or somewhat disagreeing).

Figure 13: Feedback on NRSCH regulatory processes – Tier 3 CHPs



6. Questions for further discussion

CHPs indicated that the implementation of the NRSCH in SA has supported the continuing professionalism and reputation of the sector and greater trust from government in partnering with CHPs to deliver social housing services—although many Tier 3 providers still perceive the NRSCH to be an additional cost without significant, tangible benefits.

Providers highlighted the professionalism and responsiveness of SA NRSCH regulatory staff in supporting the effectiveness of the roll-out of the regulatory system—and ongoing efforts to support sound risk management and positive outcomes.

At the same time, a number of areas for ongoing improvement were raised. In many cases, CHPs did not propose specific changes—but rather raised questions that need further discussion with the Office of Housing Regulation, Housing SA and Renewal SA.

1. Governance of the NRSCH

- How can CHPs and industry bodies have greater formal input into ongoing refinements of the National Regulatory Code performance requirements and evidence guidelines—particularly given there is no National Regulatory Council
- How can the independence of Office of Housing Regulation within SA be strengthened to ensure a transparent separation between regulatory and policy / funding decisions.

2. Reporting

- Are there opportunities to streamline and reduce duplication of reporting to NRSCH and Renewal SA
- Are there opportunities to share more nationally-consistent benchmarking information collected by Registrars.

3. Financial Performance Report

- For Tier 1 / 2 providers, what are the options to better align the FPR with standard business financial reporting practices
- For Tier 1 / 2 providers, what are the options to make the financial performance benchmarks more applicable to the South Australian context
- For Tier 3 providers, should the FPR be replaced with a requirement to simply submit the audited financial accounts for the registered entity.

4. Community engagement

- For Tier 1 / 2 providers, what the specific expectations to “work with others” on “place renewal and social inclusion”
- For Tier 3 providers, is it relevant to require registered providers to demonstrate ongoing compliance

5. Reducing the compliance burden on Tier 3 providers

- Should a separate set of performance indicators and evidence requirements be developed from the ‘bottom up’ for Tier 3 providers
- Should Tier 3 evidence requirements distinguish small housing associations from volunteer member-tenant managed providers
- Should the compliance assessment period for outcomes 1 to 6 be extended to every three years (along with annual submission of audited financial accounts to met reporting obligations for Outcome 7).

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