



5 September 2019

NRSCH National Office
[by e-mail]

Dear NRSCH,

The Community Housing Council of South Australia (CHCSA) welcomes the NRSCH Data Needs Recommendations paper as an important contribution to the further enhancement of social housing regulation in Australia. We consider that it is a vital pre-condition for the long-term expansion of government and private sector investment into social and affordable housing delivered and managed by Community Housing Providers (CHPs).

It is our view that, the officially-collected data about CHP activity, business models and performance currently is inconsistent, due to the variable quality.

The NRSCH paper adequately raises many valid issues and concerns, however many of the suggestions will be influenced by contextual considerations currently under debate or otherwise yet to be resolved.

Through our observation, we are not clear on the following points:

- Until such time that the NRSCH becomes a truly national system, we would like to understand the considerations towards the nationally consistent reporting approach by the community housing industry as envisaged.
- The extent to which both the Commonwealth and States are prepared to invest necessary resources in enhancing capacity, and furthermore the regulatory workforce capability required to appropriately interpret the data.
- The CHP risk assessment approach that may be considered in the broader NRSCH review.
- Whether the central role of regulation (which is currently to provide assurance that CHPs meet minimum standards) is expanded to include sector-wide performance improvement and provider classification in these terms.
- Whether additional resources will be delivered to sufficiently enable regular on-site inspections of registered entities.
- Whether the remit is extended as such, Registrars' involvement in performance benchmarking will remain limited.

The CHCSA's recommendations, outlined below, are intended for taking forward the topics raised in the paper rather than answer the detailed questions. Many of the questions are targeted at individual CHPs and / or can only be properly answered with knowledge of the costs and implications.

The CHCSA's view is that there are three other points worth noting:



1. In South Australia there are a relatively small number of large organisations all of which have been registered in the NRSCH for some years. The CHCSA's view is that the analysts in the relevant state/territory registrar office will already be familiar with the business models, challenges and capabilities of each such large organisation. The CHCSA questions whether it is appropriate to invest in ambitious statistical profiling, which needs to be carefully considered to ensure the benefits outweigh the costs, and mindful that both Federal and State Government support would be crucial towards achieving implementation.
2. The CHCSA reads the recommendations paper as there is an impression that Registrars envisage moving to what we would see as an overly mechanistic form of assessment. While reliable data on CHP finances and performance is of course essential in informing the appropriate level of regulatory engagement with each CHP, the CHCSA further believes that it is the interpretation and importantly the synthesis of this data with other information about the organisation's governance and operating context that will ensure the NRSCH operates effectively.
3. The CHCSA believes that CHPs are already required to submit copious information and data including business plans, strategic asset management plans and performance reports. The CHCSA's opinion is that any such review of data needs to:
 - a. Address not just what additional information is required but what is redundant in the current reporting – and why?
 - b. Explain the rationale for collecting additional data; the CHCSA's opinion is that this is vital.
 - c. Certain terms used in (but not restricted to) this paper need official definition in the regulatory environment. In particular segmentation is an ambiguous term and needs to be clarified. However, we do understand it as referring to CHP classification according to risk and therefore level of regulatory engagement. We therefore strongly recommend such a classification be kept succinct.

The CHCSA was unclear on the interpretation used within the recommendations paper where segmentation seems to be synonymous with classification by contextual factors such as activities, size and location.

CHCSA Recommendations:

The CHCSA has a view that its contribution is to an ongoing discussion and looks forward to an open dialogue. As mentioned above we have not responded in detail as we expect that CHPs themselves are better positioned to do so.

In terms of the recommendations these are general in nature and thus our comments on each of them are subject to the qualifications outlined in the more detailed responses below.

Recommendation 1 – The CHCSA is supportive of the suggestions in the paper and recommended that Registrars focus on publications that are consistent with their role and purpose.



Recommendation 2 – The CHCSA strongly supports avoiding duplication in data collection. The Registrars should be engaging with the peak bodies on any new sharing of regulatory data with other agencies, and publication of individual CHP information.

Recommendation 3 – Financial Performance Reporting

The CHCSA recommends that CHPs are given a six week lead time to review an amended FPR template.

The Financial Performance Report (FPR) that is required to demonstrate compliance with Outcome 7 (Financial Viability) could be improved. The required segmented financial reporting arrangements for Tier 1 and 2 CHPs could be better aligned with internal (CHPs own) financial reporting. Similarly, there are opportunities to streamline compliance requirements for Tier 3 CHPs, which are smaller and specialist organisations, to better reflect their risk profiles and other regulatory obligations, taking into account their differing business models.

The CHRIS database used by Registrars to collect information from CHPs could be improved. For example, a more flexible/smarter method for CHPs to extract financial data from their systems for upload into the Financial Performance Report (FPR) would be a more efficient use of CHP's time. The current format involves completion of an Excel spreadsheet which is resource intensive.

Increasing investor confidence in community housing could be achieved by better aligning NRSCH data requirements to mirror those of potential financiers, particularly NHFIC. This does not require more regular or more expensive reporting requirements, and is covered by the existing reasonable level of self-reporting, since many of the significant metrics are annual measures already reported by CHPs to enable access to debt finance.

It would be useful to understand the rationale behind the setting of some financial thresholds and how they ensure financial sustainability. In particular, return on assets target (EBITDA/Total assets) is set at 5%, when the sector, providing subsidised low income housing, generally operates in the 1%-2% range. Also the operating cash adequacy minimum threshold will generally call for much higher EBITDA targets than the minimum benchmark of 8%; it is unclear how this measure provides comfort to what is adequately addressed in the Working Capital and Amended Quick Ratios.

Recommendation 4 – The CHCSA considers that the timing of data collection could be supported further by the NRSCH Registrars opening the CHRIS provider portal on an ongoing basis.

Data integrity – The CHCSA highly recommends that is imperative to ensure that data collected by the regulator is of high quality, and furthermore support the CHPs to ensure they have suitable systems and processes to collect, are interpreting definitions consistently and then accurately reporting. The CHCSA strongly believes that this is fundamental to operation of the NRSCH.

It is important to note that there is no evidence to suggest there are systemic weaknesses within the sector. The CHCSA does however; recognise that it is in the interest of all stakeholders that a more in-depth assessment is carried out to provide assurance. Before any decisions to further expand data collection the CHCSA believes it would be more appropriate to investigate and probably enhance the current data quality, rather than simply expanding.



Segmentation - Due to this potentially ambiguous term it is important that its use in this context is clearly defined. For the purposes of this submission the CHCSA has taken segmentation to mean a more nuanced interpretation, other than that provided by the Tier framework.

Data publication – The CHCSA is pleased to see the recent publication of a national report, albeit that the value of such outputs will remain compromised until the system is truly national.

Provider-specific statistics – There are undoubtedly very clear sensitivities within the sector to publication of individual data but recognition that this is standard practice in other jurisdictions. We recommend that a short life working group with sector representatives with the intention that a staged approach is taken to publishing more data. This is clearly dependent on first completing the data integrity exercise.

Benchmarking – The CHCSA believes that this is generally seen as a task most appropriately either undertaken or could be undertaken by industry bodies who are better placed to facilitate the conversations around the findings. The CHCSA will be shortly investigating its ability to conduct such benchmarking services. However, the CHCSA understands that both CHIA NSW and PowerHousing Australia already run programmes covering areas that include but extend beyond data collected under the NRSCH.

Furthermore, the CHCSA understands that the CHIA NSW service was supported by the NSW Government and the NRSCH registrars. The CHCSA will additionally consider how the data collection and benchmarking services may be useful to organisations that are unable to participate in existing schemes e.g. the smaller Tier 3's.

The CHCSA has welcomed the opportunity to provide feedback on the NRSCH Data Needs Recommendations paper and we look forward to the outcomes and continued dialogue of the NRSCH Data Review.

Yours sincerely

A handwritten signature in black ink, appearing to read "Gareth Norman", with a long horizontal line extending to the right.

Gareth Norman
Executive Officer