

# Fact Sheet

## Financial performance reporting for providers

January 2014

**This fact sheet explains how providers can demonstrate financial viability for the purposes of registration and ongoing compliance and how financial viability will be assessed under the National Regulatory System for Community Housing (NRSCH). It supplements the Performance Outcome 7: Financial Viability Guidance Note.**

### Regulatory requirements

The National Regulatory Code (the Code) sets out the performance outcomes and requirements that must be met by registered community housing providers under the NRSCH. Performance Outcome 7 of the Code concerns the Financial Viability of registered providers.

Community housing providers must demonstrate their capacity to comply with the Code on application and, once registered, must demonstrate ongoing compliance with the Code.

### Financial viability

The community housing provider must be financially viable at all times.

Financial viability is the ability to generate sufficient income to meet operating payments, debt commitments and, where applicable, to allow for growth, while maintaining service levels.

### Assessment of financial viability

Performance and assessment data will be used to inform a risk-based assessment of all registered providers to determine compliance with the National Law and Regulatory Code. This will determine the level of regulatory engagement and, where necessary, action.

The assessment of financial viability is an integrated process involving analysis of historical and forecast financial data and a review of the strategic/business plan, risk management plan, and other information that supports the Registrar's financial analysis.

The financial analysis considers the audited financial statements and the financial performance report (FPR) to produce ratio and trend analysis, to compare the overall performance of the provider with the budget and prior year(s), and to understand the assumptions underlying the forecast.

To place these results into a broader context, the provider's strategic and business plans are used in order to understand the environment in which they operate and the strategic objectives as well as their perspective on business growth (where applicable) and any risks around operating and growth activities.

The Registrar's assessment also requires information around financial plans including funding arrangements, and sensitivity and scenario testing. Other considerations are a provider's capital structure, its liquidity and treasury management practice. The provider's risk management

plan is also key to understanding what risks have been identified and associated mitigation strategies.

A range of evidence sources are set out in the Financial Viability Guidance Note. They are not intended to be prescriptive or exhaustive and the provider may use alternative business evidence or data.

### Evidence of financial viability

Ongoing compliance with the financial viability outcomes of the Code will be assessed through a review of the documents submitted by the provider and according to the provider's registration tier.

The Evidence Guidelines describe the performance outcomes and evidence sources for assessing providers against the performance outcomes and requirements for different types of providers (classified as Tier 1, 2 and 3 providers).

The approach taken to assessing viability is proportionate to the tier of the registered provider as follows:

**Tier 1** housing providers are expected to submit three years of historical and ten years of forecast information.

**Tier 2** housing providers submit three years of historical and ten years of forecast information.

**Tier 3** housing providers submit two years of historical and two years of forecast information.

### Financial performance reports

As part of their Registration Application, the provider will prepare a Financial Performance Report (FPR) with financial and non-financial information. The FPR contains a suite of financial measures that are used to analyse organisational performance. This Microsoft Excel spreadsheet features:

- instructions for use and definitions
- financial worksheets with historical and forecast sections
- development and funding assumptions
- ratio analysis, trend analysis and charts (automatically generated from data entered), and
- some non-financial measures.

Income and expenditure is segmented into business activities, and separates owned from managed assets and housing business from other business activities to give Registrars a clear understanding of the provider's ability to meet debt covenants and any significant reliance on other segments to cross-subsidise operating performance. Documents can be attached with the FPR as supporting evidence.

## Financial performance requirements and measures

For financial viability, the performance requirements are:

- ensuring a viable capital structure
- maintaining appropriate financial performance
- managing financial risk exposure

Each financial performance requirement has an associated set of:

- Performance indicators
- Thresholds: as an indicative guide to measuring performance results against the Code outcomes and requirements
- Recommended evidence sources to demonstrate capacity
- Recommended evidence sources to demonstrate ongoing compliance.

The financial viability measures are a suite of indicators and a supplement to the Evidence Guidelines in assessing a provider's financial performance against the National Regulatory Code. There are 12 key measures and associated ratios used to measure financial performance, as well as five measures to assess financial operating performance. See the Financial Viability Guidance Note for details of associated measures.

## Other relevant information

A number of structural factors that have implications for the provider's financial position and performance are taken into account during assessment, such as the:

- asset management and maintenance plans
- level of involvement in support housing activities
- level of involvement in diverse business activities
- level of involvement in contract income, rather than asset based activities.
- level of involvement in property development
- the number and nature of any affiliated entities
- financial policies and procedures

## Addressing issues

The first course of action where an issue is identified is discussion by the Primary Registrar with the registered provider to obtain an accurate and comprehensive understanding of the issue and whether it is of regulatory concern i.e. it impacts on the provider's compliance or capacity to comply with the regulatory Code.

Where it is established that an issue is a concern, the Registrar will if appropriate make a recommendation in the assessment report that the provider resolves the issue in a timely and logical manner. In circumstances where the Registrar is not satisfied with the response from or progress made by a provider in resolving an issue, she or he may issue a notice of non-compliance and is empowered to use other enforcement powers set out in the National Law.

## Confidentiality

All financial information submitted to Registrars will be treated as confidential under Section 26 of the National Law. However, in the case of multi-jurisdiction providers, some or all information on a provider's financial performance may be shared with relevant Registrars in other jurisdictions.

## For more information

Please visit the NRSCH website at: [www.nrsch.gov.au](http://www.nrsch.gov.au) to access the:

- Performance Outcome 7: Financial Viability Guidance Note
- Evidence Guidelines
- National Regulatory Code.