

BlueCHP Limited Review National Regulatory System for Community Housing

It is undeniable that there is a significant need for social and affordable housing in NSW. Social housing is a scarce resource in high demand across the state. In examining the design of this system, and whether it contributes to the overall growth of the CHP sector, BlueCHP's (BCL) submission will outline both the three (3) main challenges that are present today and a strategy to ensure CHPs can be financially viable in the long term.

This issue of financial viability is crucial to a strong CHP sector. In Schedule 2, Section 3 of the Community Housing Providers (Adoption of National Law) Act 2012 states that:

“The object of this Law is to provide for a national system of registration, monitoring and regulation of community providers to:

a) to encourage the development, viability and quality of community housing.”

If CHPs cannot remain financially viable, then CHPs are unable to deliver high quality tenant outcomes to the sector. This will then lead to poorer tenant outcomes and less quality dwellings for future tenants. We have witnessed this in public housing over the past 10 years.

It is the view of BCL that the financial viability is crucial and when this is completed, only then can we really deliver outstanding tenant outcomes. Over the last few years this is an area, which is also reflected in the NRSCH return that has been given little focus. This needs to be addressed.

The challenges for the CHP sector

BCL sees three (3) main challenges that the CHP sector is experiencing at present.

They are mentioned below:

- The diminishing amount of social housing dwellings in the market
- How CHPs work with aging dwelling transfers (i.e.: 20-40 years) and addressing the funding gap needed to fill the difference between market rent and tenant rent contributions,
- The lack of capital investment with exception of the National Building Economic Stimulus Plan (NBESP) over the last 25 years, and the majority of CHPs still lack strong business skills to enable their businesses to achieve growth

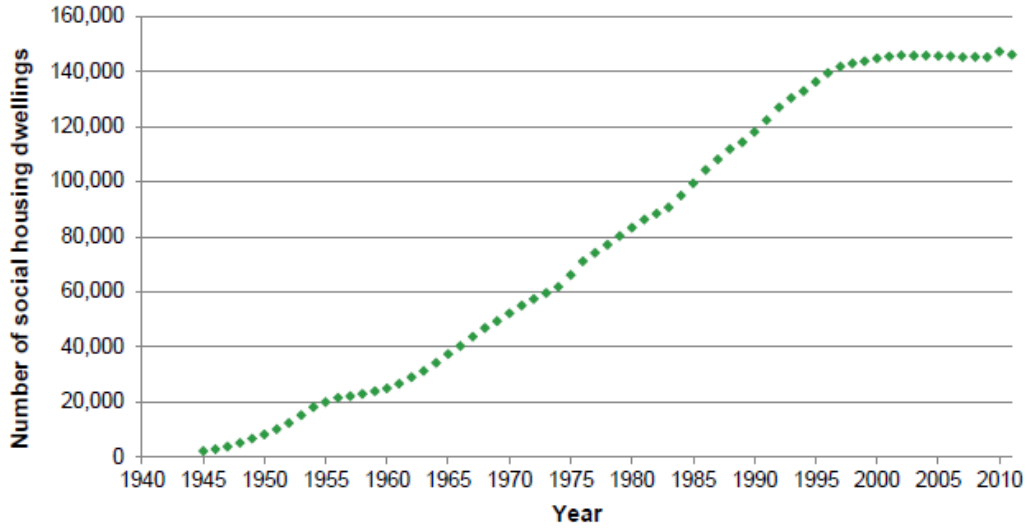
The diminishing amount of Public Housing Dwellings

The NSW Auditor General's report into the state of social housing in NSW found that public housing is supporting fewer people than it did a decade ago (NSW Auditor-General 2013). There are currently 143,996 social housing dwellings in NSW. What is most distressing is that even with the current social housing dwellings there are 60,000 people on the waiting list for these dwellings (NSW FACS, Housing Pathways, June

2016). This demand is compounded by the quality of social housing dwellings, which are ageing and becoming increasingly unfit for purpose (NSW Auditor-General 2013).

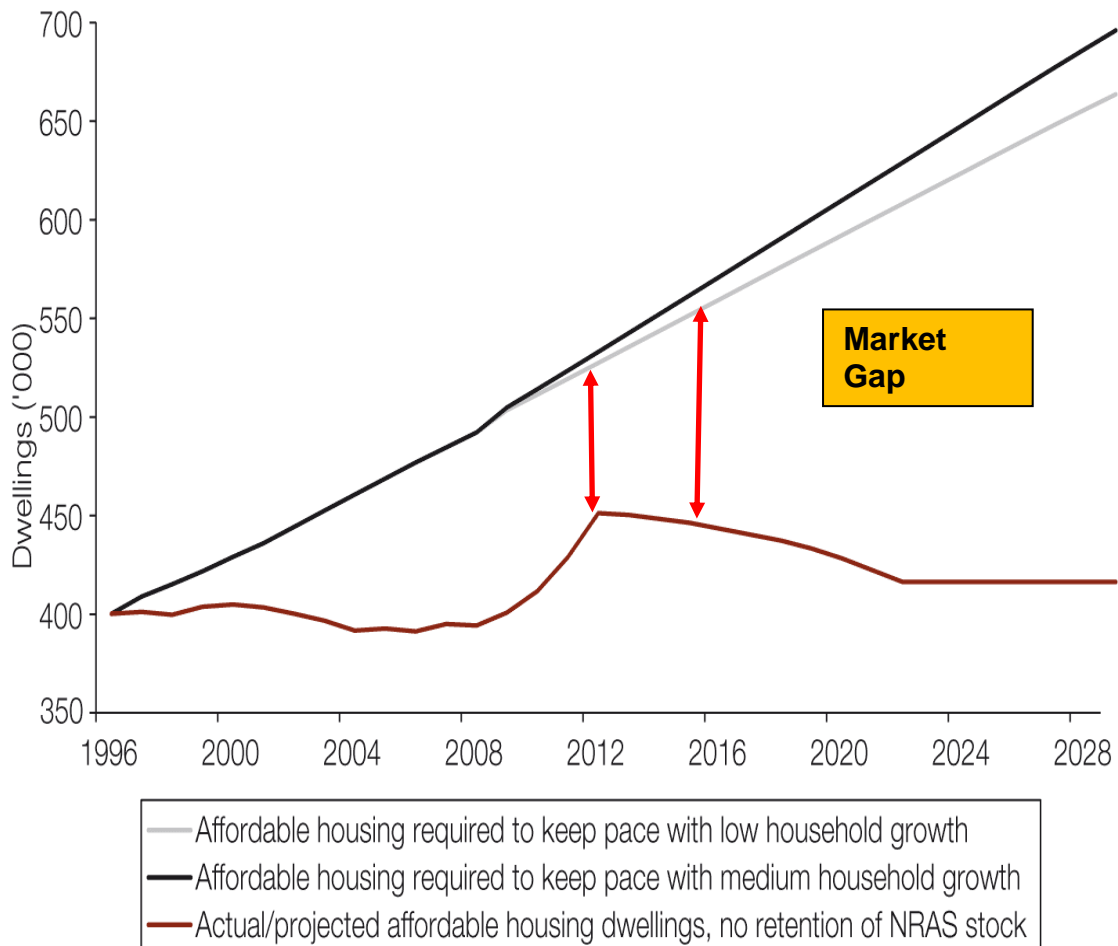
As you can see from the graph below, from 1995 – 2010, there has not been any significant growth in the number of social housing dwellings.

Figure 1: Growth in the number of social housing dwellings



Source: HNSW May 2013

This graph below shows the market gap between the supply of current affordable housing and the growing demand for affordable housing.



What these two graphs show is that the demand for public housing is growing and the supply is dwindling. And as the cost of living is also rising it is getting harder for CHPs to remain financially viable in the short to medium term. Coupled with the reduction of NRAS Income stimulus for CHPs it is even more necessary for all CHPs to have a high level of business acumen and have a solid business model to cope with these issues to thrive in this current market.

CHPs and aging dwelling transfers

The entire CHP sector has about 34,000 dwellings in its portfolio. The CHP sector achieved 112 percent growth between 2009 and 2014 (from 16,000 to 34,000 units). The growth of 18,000 units over this period was achieved through a mix of management and ownership transfers, new stock and new fee for service business. Further growth through the latest round of management transfers will increase the level of stock under CHP control to over 52,000.

Despite the ever increasing need, and focus on housing supply and affordability, there is much about the approach to address the supply shortage of dwellings that remains uncertain or unclear. And here's where the real question arises. As the CHP sector has grown; the majority of the dwellings have been transferred from government to CHPs, how effective will the CHPs be in providing high quality housing when faced with rapidly rising maintenance costs with aging dwellings? The addition of CRA will not fully cover these costs.

Business knowledge

While the government needs to ensure that we move towards addressing the yield gap (market rent less social/affordable rent) in rental income in supply of community housing, the crucial issue can be described as do the CHPs have the business acumen to remain financially viable in this current environment?

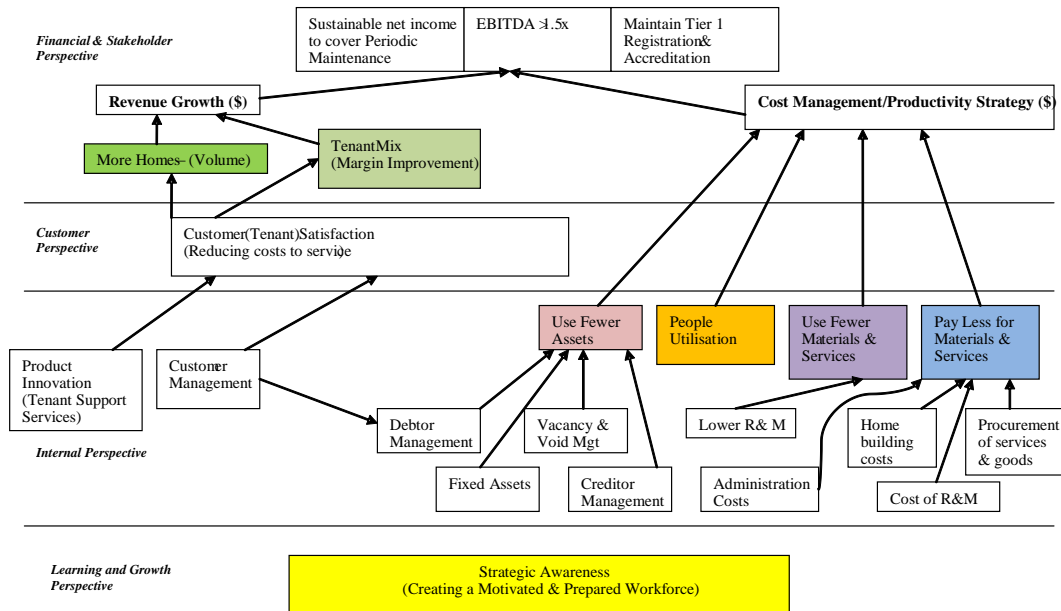
While the seven key performance indicators of the NRSCH are all important, the weighting applied to each indicator is skewed towards the wrong elements. Having a small percentage of information in the NRSCH returns about business management allocated to registration process seems as though the focus is in the wrong areas. How can you improve tenant outcomes when the cost of repairs rising, and wages increases that are based on WPI not CPI index that are rising faster than rent.

While the information gathered about tenancy management is vitally important, how can CHPs grow and thrive if the focus of reporting is not on business viability? To run their businesses well requires high level of business acumen – making business viability centre stage requires further investment in training and perhaps rationalisation of the sector to achieve economies of scale.

However, if the focus as in the case of BCL is on Revenue growth and Cost Management / Productivity Strategies (as seen in the diagram on page 4) this will enable CHPs to focus on the whole of business, as each of the levers are key to improving their businesses performance. To first create sustainability and then opportunity for growth the CHPs have to address each of these factors in the diagram below.

BCL incorporates the seven (7) key business drivers to ensure that BCL can both grow and remain financially viable. It is evidenced in the diagram below:

The seven (7) key business drivers for sustainable growth



© Charles Northcote

All of the seven performance indicators are located in this diagram above. Focusing on these fundamental seven (7) drivers will help to not only assess the current state of the CHP, but also help to identify areas for growth. It can also be used to educate all staff members about how any business works. This will hopefully give them more knowledge to make better business decisions. These seven (7) drivers can be improved irrespective of the current or future stimulus incentives that the government may introduce, and will lead to greater profitability to the individual CHP and also across the sector.

BCL reports uses these drivers to create six (6) key KPIs in its Board reporting. BCL would recommend adoption of such KPIs. BCL is happy to share its proprietary knowledge for the benefit of the sector.

Conclusion

BCL is a supporter of the NRSCH, we welcome the review and believe that it is timely. The focus on sustainability is pre-requisite of the NHFIC for it to lend to CHPs, this valuable addition to the CHP sector is a 'game-changing' enabler for the sector and it is timely that the NRSCH review focus on what will provide a catalyst for growth and investment into the sector.

BCL staff were involved in the set-up of the NRSCH financial reporting system and firmly believe that it is time for this to evolve to meet the requirements of a changing sector. We believe that equally public housing should be put under the same system to ensure that the same disciplines apply to all in the sectors.

Shifting our focus as a body to help all CHP's grow and thrive should be the main focus for the NRSCH Regulatory System. Finding ways to upskill the business knowledge and removing the barriers for CHP's to procure more community housing dwellings will ultimately lead to a more experienced and professional community housing sector. As we can note from the United Kingdom the focus on financial viability is preeminent in their regime, noting that over GBP \$70m bonds are outstanding in the market, and there has never been a default to date. These are the building blocks behind building a strong and viable sector that can grow and ensure that tenants live in high quality housing over the long term.