Part 4

Sector Financial Performance

Annual Report 2021-2022

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

Prepared under the guidance of National Regulatory System for Community Housing (NRSCH) Financial Analysts and endorsed by NRSCH Registrars
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Contents

About this document

This Report provides an overview of the financial performance of the community housing sector.

This is the fourth and last part of a series of reports issued for the NRSCH reporting period 2021-2022. The Annual Report has been delivered in four discrete parts.

Part 1 - NRSCH Overview

Part 2 – Regulator's Report

Part 3 - Sector Performance – Non-financials

Part 4 - Sector Performance – Financial

Scope of this report

This report provides data for participating NRSCH jurisdictions only. The data contained in the report is provided by registered community housing providers as part of their scheduled assessment to demonstrate their compliance with the National Regulatory Code.

The financial analysis carried out in this section is based on the most recent financial information submitted by Tier 1 and Tier 2 registered community housing providers. Where possible, we have compared the current information to the previous financial data submitted. Due to the time difference between NRSCH compliance activities and the official reporting of financial results by community housing providers (CHPs), financial results may be from financial year 2021 (FY21) or earlier.

This report is only intended to be an overview of key financial metrics for CHPs registered under the NRSCH. Individual jurisdictions may produce more detailed financial analysis of providers operating in their state or territory. The contact details for individual jurisdictions are available on the website: https://nrsch.gov.au/contact-us.html

A financially viable sector

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

Financial viability is one of seven performance outcomes specified for housing providers within the National Regulatory Code.

The assessment of financial viability is an integrated process involving a review of audited financial statements, financial performance report which includes the budget and forecasts, business planning documents such as operational and strategic plans and other information that supports financial analysis.

Financial viability is assessed against three broad criteria:

1) Ensuring a viable capital structure (PO7a)
2) Maintaining appropriate financial performance (PO7b), and
3) Managing financial risk exposure (PO7c).

The viability of CHPs is assessed using a suite of financial performance indicators. The financial measures include thresholds for some requirements as an indicative guide to assessing performance results. The thresholds do not determine capacity or compliance per se. Rather, they provide a transparent level of performance as a starting point against which results can be assessed in the context of the provider's individual situation.

Understanding the graphs

Current and previous

The label Current in following figures refers to the most recent financial information held by the NRSCH. Due to the time difference between NRSCH compliance activities and the official reporting of financial results by community housing providers (CHPs), financial results may be from the financial year 2021 (FY21) or earlier. This approach has been taken to give a complete view of Tier 1 and Tier 2 providers.

The label Current in Tables 1 and 2 refers to the most recent financial information held by the NRSCH. The label Previous in Table 1 and 2 refers to the financial results reported by the CHP in the most recent financial report for the previous period. This data is provided for comparative purposes.

Median and thresholds

Regulators use a suite of indicators to assess financial performance. The financial measures include performance thresholds for some requirements as an indicative guide to assessing performance results. The thresholds do not determine capacity or compliance per se. Rather they provide a transparent level of performance as a starting point against which results can be assessed. Thresholds have been identified in the narrative associated with each figure.

Performance results that are below or are trending below a threshold or a combination of thresholds will raise a flag that there may be a performance concern to be addressed in the assessment of the provider's capacity or ongoing compliance. Registrars will seek to understand whether the provider is not complying with the performance requirement or whether the level of performance relates to particular risk and/or circumstances.

Exclusions

Some Tier 1 and Tier 2 providers have been excluded from the following plot graphs. These include providers who are subsidiaries of a parent entity which is also registered. The parent reports to the Registrar on consolidated numbers which also includes the subsidiary numbers. Some newly registered entities were also excluded as they were not yet operational, effectively meaning they have no historical numbers to report.

Sector financial performance

This report contains financial information for all Tier 1 and Tier 2 providers based on the most recent financial data submitted to NRSCH Registrars.

There is potential for variations in the reporting of previous data in this report compared to previous published reports. The differences from the previous reports can be explained by the methodology applied. The report extracts the most recent data regardless of the year the assessments was finalised. This means if an assessment was not completed in the current financial year (FY) it will extract the Financial Performance Report (FPR) from the previous period.

Recent accounting changes will also effect comparison between the previous reported results. Some providers restated their previous numbers while others left their previous year's numbers unchanged. In some cases these differences were material.

New entrants registered under the NRSCH in the reporting period also have the potential to distort comparative reported results. This is because their data was not included in previous reports.

Table 1: Revenue Snapshot reported 21-22

	Rent Revenue	Operating Grants	Operating EBITDA
Previous	$837,142,169.00	$1,167,784,073.00	$366,196,766.00
Current	$874,092,535.00	$1,272,627,249.00	$432,989,762.00
% change	4.41%	8.98%	18.24%

Table 1 shows the sector experienced a solid increase of over 4% in rent revenue over the periods examined.

Table 2 – Asset snapshot

	Housing Assets - written down value	Total Housing debt	Net Assets	Total Assets
Previous (FY20)	$7,358,336,876.00	$1,255,335,683.00	$8,853,495,255.00	$14,289,133,207.00
Current (FY21)	$8,174,734,957.00	$1,816,850,507.00	$9,532,850,498.28	$15,899,722,270.00
% change	11.09%	44.73%	7.67%	11.27%

Table 2 shows a significant movement in total housing debt. This movement can largely be attributed to increase lending through NHFIC.

The Affordable Housing Bond Aggregator (AHBA) provides low cost, long-term loans to registered CHPs to support the provision of social and affordable housing. Since NHFIC's establishment in 2018 $2.5 billion in long term loans to 32 CHPs have been approved, supporting over 13,000 new and existing homes. This saved CHPs an estimated $420 million in interest and fees as well as indirect costs associated with refinancing.[1]

There were also significant property transfers from public housing to CHPs, particularly in Tasmania, during the reporting period. This growth in the community housing sector led to an increase in the financial metrics reported.

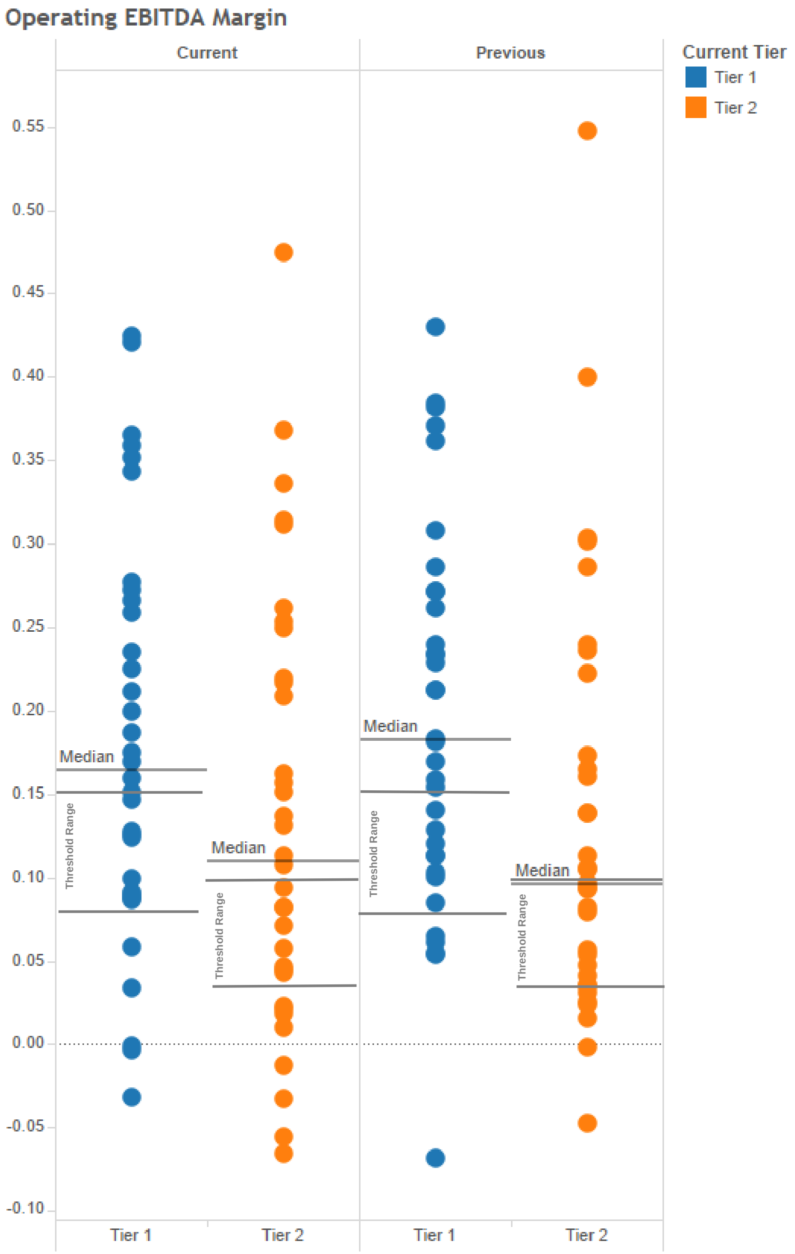
[1] https://www.nhfic.gov.au/media/1830/nhfic-annual-report-2021_locked_updated-26052022.pdf

Operating EBITDA Margin

Operating Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) Margin is calculated as operating earnings before interest tax depreciation and amortisation divided by operating revenue. This is a key measure of profitability and is monitored by Registrars to ensure CHPs are generating sufficient margin to achieve business goals.

The performance threshold for Tier 1 providers is 8%-15% and 3%-10% for Tier 2 providers.

Figure 1:



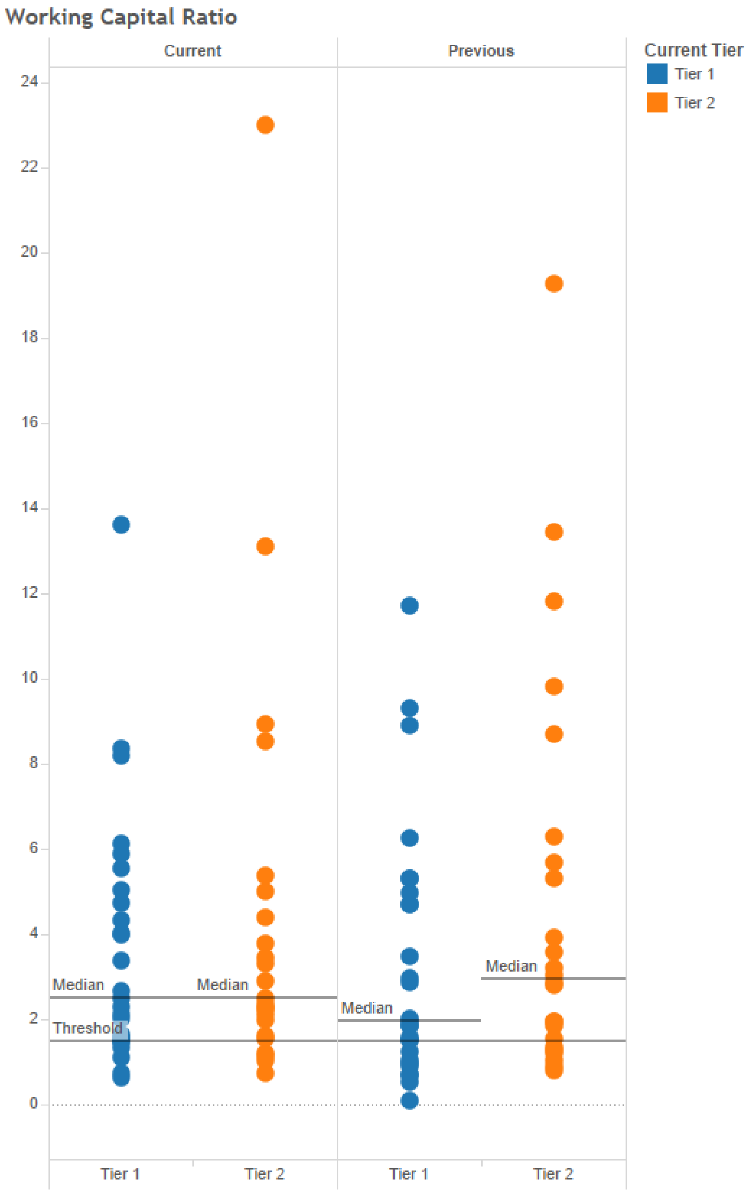
The majority of CHPs are operating above the threshold range reflecting healthy profitability margins

Working Capital Ratio

Working Capital Ratio is calculated as current assets less restricted cash divided by current liabilities less unspent capital grants and accommodation bonds. This is a key measure of liquidity and is monitored by Registrars to ensure CHPs have a sufficient capacity to absorb adverse financial events. It indicates whether the provider has enough current assets to meet its short term obligations when they fall due.

The performance threshold for working capital ratio is greater than 1.5 times for all registered providers. Figure 2 shows that most CHPs are operating above threshold and are able to meet current maturing obligations. Those operating below threshold have been able to demonstrate that their current reported financials are not a risk to their ongoing viability. Registrars will continue to monitor those who operate below threshold.

Figure 2:



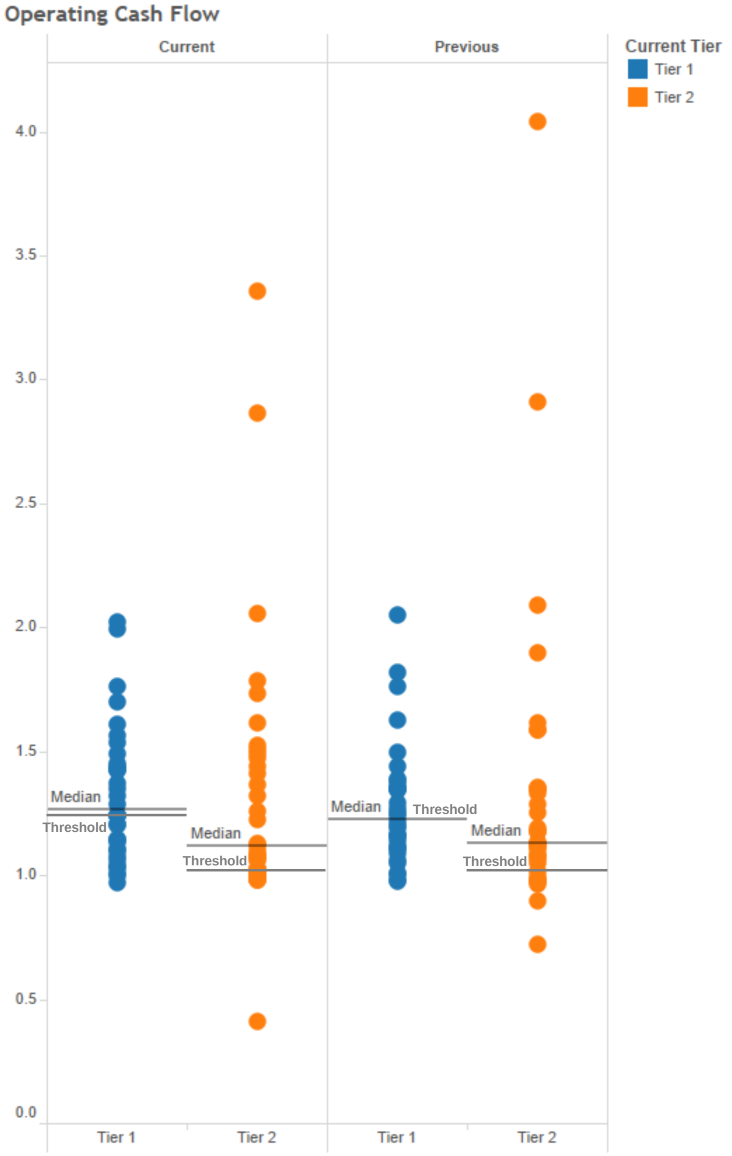
Operating Cashflow Adequacy Ratio

Operating Cashflow Adequacy is calculated as operating cash inflows divided by operating cash outflows. This is a key measure of financial performance and is monitored by Registrars to ensure CHPs are generating sufficient cash flows from operations to achieve business goals.

The performance threshold for operating cashflow adequacy ratio is greater than 1.2 times for Tier 1 providers and greater than 1.05 time for Tier 2 providers. These prudentially safe thresholds ensure that CHPs are able to absorb unexpected cash outflows. A higher threshold is set for Tier 1 CHPs who generally have more exposure to financing and development cash flow risks.

Figure 3 shows that most CHPs are performing above 1.0 demonstrating that CHP's cash inflows generated from operations are enough to meet cash outflows.

Figure 3:



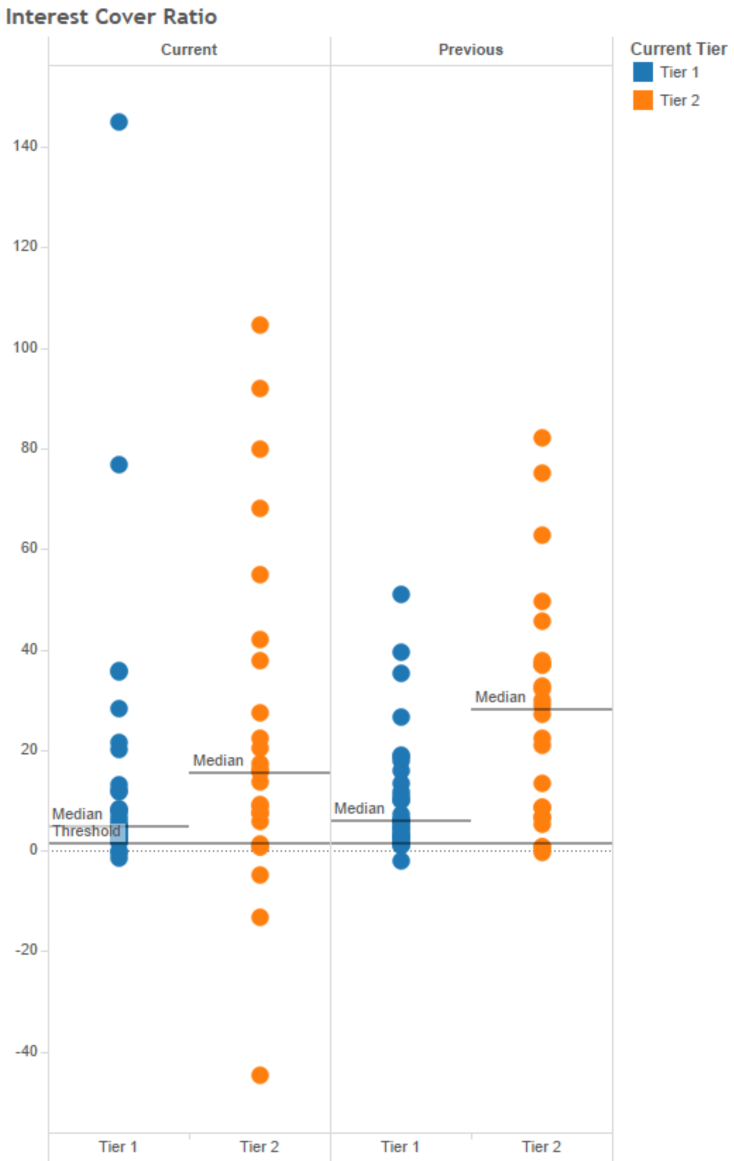
Interest Coverage Ratio

Interest Coverage Ratio (ICR) is calculated as operating EBITDA divided by total interest expense. This is a key measure of the ability to service debt obligations and is monitored by Registrars to ensure CHPs are generating surplus funds to service financial commitments.

The performance threshold for interest coverage ratio is greater than 1.5 times for all registered providers.

Figure 4 shows that the majority of providers are operating above or within an acceptable range of the threshold. Registrars will continue to monitor providers operating below threshold to ensure that they are generating sufficient funds to service financial commitments.

Figure 4:



Gearing Ratio

Gearing Ratio is calculated as total repayable debt divided by total assets. This is used to determine sustainable debt levels and is monitored by Registrars to ensure the provider's capital structure is viable in the long term.

This ratio is typically considered along with the ICR to form a more complete picture of a provider's financial situation. Combining information from the ICR and gearing ratio allows analysts to undertake basic sensitivity analysis and ascertain the effect of interest rate changes, or changes in gearing on a provider's overall financial position. The performance threshold for gearing ratio is <30% for all registered providers. It indicates how much a provider owes compared to how much its total assets.

Figure 5:

Figure 5 shows most providers are working within prudential measures in relation to this metrics. Providers operating above threshold are increasing their debt levels to grow community housing operations. The use of leverage shows the growing maturity of the sector. Evidence is that they can manage the risk. Registrars will, however, continue to monitor providers operating above threshold to ensure long term financial sustainability.

For information on the National Regulatory System
for Community Housing please visit
www.nrsch.gov.au