COMMUNITY HOUSING REGULATORY AUTHORITY

Financial Viability
Guidance Note

Purpose

This document provides additional guidance for applicants and registered Community Housing Providers (CHPs) on meeting the financial viability performance standard under the Public and Community Housing Management (Community Housing Provider) Regulations 2014.

Our assessment process

Our assessment process looks at whether your organisation can demonstrate financial viability and solvency. This means assessing whether your organisation has a viable capital structure, maintains an appropriate level of financial performance, and manages exposure to financial risk.

We also look at whether your organisation is able to generate sufficient income to meet your operating expenses and service any debt commitments. This includes looking at your business or strategic plan and assessing whether it is financially viable for your organisation to fulfil any expansion plans without compromising your existing services.

What you need to provide

We assess your organisation's financial viability when you apply for registration and during annual monitoring if you are registered. In both instances, you will need to provide us with audited financial statements, budget documents, your financial policies and procedures, and your business or strategic plan.

You will need to engage the services of an accountant to prepare your financial statements as well as an independent auditor. Some applicants and providers also find it helpful to engage an accountant to prepare their budget documents, though this is not a requirement.

You can find more information on the content of these documents on page two of this guidance note.

What this document covers

This document provides guidance on how to prepare your financial statements, as well as some information on the key factors we look for when determining whether your organisation meets the financial viability performance standard.

Preparing your financial statements

Financial statements are the primary evidence we use to assess whether your organisation meets the financial viability performance standard. Making sure they are prepared correctly helps ensure that your organisation's financial position is reflected fairly and that your application or annual monitoring can be processed as quickly as possible.

- **Organisations operating for more than 12 months**

  Your financial statements must be prepared in accordance with the relevant standards published by the External Reporting Board. These standards set different reporting requirements depending on the size and type of your organisation. Your accountant will be able to advise you about which format is right for your organisation.

  Your financial statements must be audited by an independent auditor before we can accept them. An independent auditor will express an opinion on whether your financial statements fairly present your organisation's financial position, performance, and cash flow. They will also verify that your financial statements have been prepared in accordance with the relevant External Reporting Board standards.

  You must also provide us with a budget forecast for your organisation. For applicants, this forecast should cover the next three years; for registered CHPs, it only needs to cover the next financial year. Your budget forecast should include statements of revenue and expenditure, cash flows, financial position, notes and budget assumptions. Your budget documents must be capable of comparison with your audited financial statements.

- **Organisations operating for less than 12 months**

  If your organisation has been operating for less than 12 months, you may provide us with interim management accounts instead of audited financial statements. We would expect that these accounts are accompanied by an independent assurance practitioner's review carried out by a qualified auditor. The auditor will need to obtain sufficient evidence to express confidence in the details of your accounts.

  Your management accounts will need to include a statement of financial position, a statement of comprehensive revenue and expenses, cashflow statements, and notes to the financial statements. The notes to the financial statements must outline the assumptions and basis for the document's preparation, as well as any other information relevant to understanding your statements. This should include information about how the organisation is funded, and whether the organisation has sufficient capital resources to manage unexpected losses and adverse events.

  You will also need to provide us with prospective financial statements. These must be prepared in accordance with the relevant External Reporting Board standards and include, at a minimum, a three-year budget forecast.

Demonstrating a viable capital structure

Our assessment begins by confirming that your organisation has a viable capital structure that demonstrates a capacity to remain profitable. This means maintaining a healthy balance sheet, positive equity, and a cash flow that is sufficient to service any debt commitments.

The key factors we look for in your documentation include:

- ✓ **Suitable balance between debt and equity**

  Your financial statements must show that your organisation is secure enough that you can finance your existing operations and any planned growth over the long term. This means that your organisation will have positive equity and a positive cash flow that is sufficient to service any debt commitments.

  We assess all applicants and registered providers on a case-by-case basis and do not use a simple financial leverage ratio. Instead, we consider a range of factors to assess whether your leveraging is financially viable, such as the composition of your debt and use of any concessionary loans.

- ✓ **Sufficient capital resources**

  Your financial statements must demonstrate that your organisation has sufficient capital resources to fulfil any short and long-term debt obligations and manage any unexpected losses or adverse events. Generally, this means that a newly established organisation will have current assets (e.g. cash or term deposits) equivalent to two-or-three years' operating expenses.

  We also consider any growth programme (such as acquisitions, developments, or new services) outlined in your business or strategic plan. It is important that your organisation has a plan and sufficient capital resources (e.g. cash, equity, assets, or debt capacity) to fulfil these ambitions. This means that any planned projects must be within the scope of your current financial position or funding arrangements. We may also ask that you provide information on the progress of any agreements, funding, and relationships associated with your planned projects.

- ✓ **Ability to fulfil short and long-term debt commitments**

  Your financial statements will provide an overview of your organisation's ability and plan to fulfil your debt commitments. Please ensure that your financial statements and budget documents include clear information on the security, interest rates, and maturity of any loans. Your statements should also include notes about any concessionary conditions of those loans (if applicable).

- ✓ **Demonstrated consideration of relevant financial factors**

  Your financial statements must demonstrate that all relevant financial factors have been considered in their preparation. Your accountant will include a series of notes and disclosures in your financial statements. Notes to the financial statements will include information such as a statement of compliance, the measurement basis applied, and any assumptions and disclosures. You will need to ensure that this section is provided in your application or annual monitoring submission.

  We also expect that your budget documents will include, at a minimum, forecasts of your organisation's financial performance, financial position, and cash flows. Please make sure you have considered any planned projects and their associated professional fees, your loan structures, and inflationary pressures on your insurance and debt servicing costs.

  Your budget documents or prospective financial statements (if applicable) should make allowance for the costs of running your planned housing operation. This means you will need to factor in considerations such as rental income, tenancy management costs, insurance, rates and maintenance.

Maintaining appropriate financial performance

To meet the financial viability performance standard, your organisation must have a history of good financial performance and a clear understanding of your business model. This means having robust financial policies and procedures that keep your governing body informed.

The key factors we look for in your documentation include:

- ✓ **Good performance history**

  We assess your financial statements to ensure that your organisation has had no significant, ongoing, or repeated instances of inadequate financial performance. This includes operating losses, insolvency, or failure to achieve business goals due to poor financial performance. We also expect that the independent auditor has been able to express an unqualified opinion that your accounts are satisfactory in all respects.

- ✓ **Robust policies and procedures for monitoring financial performance**

  You will need to provide us with your policies and procedures for managing and monitoring financial performance. We assess your policies and procedures to ensure that they are robust and consistent with industry best practice. This means that they will include processes outlining when regular reviews of financial performance will take place, and when that performance review will be reported to your governing body.

  We also assess your policies and procedures to ensure that they reflect the unique context of your organisation's business model, if necessary. This includes showcasing an understanding of your organisation's profitability, management of spending, investing, borrowing, and asset utilisation.

Managing financial risk exposure

The financial viability performance standard is about ensuring that your organisation is ready and able to provide secure housing over the long term. An important part of this is understanding and managing any financial risks that may impact your organisation's ability to maintain your tenancies. We are looking to confirm that your organisation has appropriate procedures to recognise and respond to those risks.

The key factors we look for in your documentation include:

- ✓ **Appropriate insurance coverage**

  Maintaining insurance coverage proportionate to your risk exposure is an important part of demonstrating prudent risk management. Your insurance coverage should, at a minimum, include operational insurance cover (e.g. directors and employers' liability insurance) and material damage insurance for any owned properties. We need to see copies of your insurance schedules, on the insurer's letterhead.

  If your organisation leases properties from an associated entity, then you will also need to provide us with insurance schedules for those properties, to which your organisation is a named party to that insurance cover. You do not need to supply us with insurance schedules for other leased properties, though we would recommend that you consider whether the property owner's insurance is sufficient to manage any risks you carry as the tenancy and property manager.

  You can find more information on what we look for in insurance schedules on our website here.

- ✓ **Thorough policies and procedures for managing financial risk**

  You will need to provide us with your organisation's policies and procedures for managing financial risk. These policies and procedures should be thorough and consistent with industry best practice. This means that they should, at a minimum, outline when and how financial risks are reported to your governing body. They should also outline the process for how financial risks are identified and included in your organisational risk register.

  Your policies and procedures will also need to outline your approach to reviewing your insurance and ensuring that your organisation maintains appropriate coverage.

Post-registration requirements

If your organisation is registered, you will need to demonstrate that you continue to meet the financial viability performance standard at all times. You will need to provide us with updated financial information during your annual monitoring, as well as keep us updated of any changes to your operations throughout the year.

Your key responsibilities following registration are to:

- ✓ **Make sure your audited financial statements are ready on time**

  Registered CHPs are monitored every year to ensure that they continue to meet the performance standards. This means that you must provide us with audited financial statements for the previous financial year. Your audited financial statements will need to be ready at the same time as your annual regulatory report, which is due 28 days after your annual general meeting. They will also need to indicate the use of any Income-Related Rent Subsidy (IRRS) funding.

  We recommend engaging an accountant and auditor early so that your financial statements are ready on time. Failing to provide information that demonstrates your continued compliance with the performance standards may result in your registration being suspended until that information is provided.

- ✓ **Keep us up to date with any changes to your operations**

  We take a proportional approach to assessing ongoing compliance with the financial performance standard. This means we need to know when your portfolio expands or when there are significant changes to your operations. Registered CHPs are responsible for updating us on any new acquisitions or housing development, expansion into new geographical locations, new business ventures involving significant capital expenditure, or the subcontracting out, of any housing services.

  You also need to let us know of any significant events that may impact your financial positions or bring the sector into disrepute. This includes cases of fraud or criminal misconduct, defaults on loans or circumstances that make a default likely, and financial issues which could impact the viability of your organisation or lead to a reduction in service levels or staff.

  You can find more information on our change and disclosure process, and the type of things you might need to notify us about, on our website here.

Summary of supporting documents

Your organisation will need to provide us with the following documents to demonstrate that you meet the financial viability performance standards. You can find more information on these documents in our Performance Standards and Guidelines document here.

Requirement	Indicator	Supporting documents
Viable capital structure	Maintains a suitable balance between debt and equity and has sufficient capital resources to remain viable	• Strategic or business plan • Budget forecasts or prospective financial statements • Audited financial statements (for past 3 years) or reviewed management accounts (if operating for less than 12 months) • Summary of any new planning or undertaken capital expenditure (if applicable)
Good financial performance	Good performance history that demonstrates an understanding of the organisation's business model	• Policies and procedures for monitoring and managing financial performance
Appropriate financial risk management	Understands financial risks and maintains appropriate insurance coverage	• Insurance schedules • Policies and procedures for managing financial risk • Policies and procedures for ensuring appropriate insurance coverage is in place

Frequently asked questions

Can our parent organisation subsidise our operations?

No. CHPs that are subsidiary organisations must be able to maintain a viable financial position without relying on a parent organisation for ongoing financial support. We would instead recommend that your parent organisation consider investing sufficient seed capital so that your organisation can become independently established.

Can requirements be waived if our parent organisation has provided a letter of support?

No. We no longer accept letters of support as evidence of financial viability.

Can our housing service be cross subsidised by another service?

No. CHPs must be able to demonstrate that their community housing operation is independently viable. This means that the income received from that operation is sufficient to cover its own expenses.

This does not mean that rental and property management income must be your sole source of revenue. CHPs may receive income from a variety of sources, including funding and contracts for community services.

Are we viable if we rely on donations, grants, and short-term contracts?

Generally, we would expect that CHPs are not dependent on one-off funds or short-term contracts to generate ongoing surpluses.

We will consider these circumstances on a case-by-case basis. The most important factor is that any long-term housing you provide is independently viable and isolated from the risk of short-term contracts.

What if we are unable to secure insurance coverage for our properties?

If you are unable to secure insurance coverage for any of your properties, you will need to inform us of this risk and include it in your organisational risk register. We would also expect that you provide evidence of your strategies to mitigate this risk.