Guidance Note

Financial viability

COMMUNITY HOUSING REGULATORY AUTHORITY

Purpose of this guidance note

This guidance note provides advice on how Community Housing Providers (CHPs) can demonstrate compliance with the Performance Standards related to financial viability.

Introduction

A key requirement of being a Class 1: Social Landlord is that your organisation must be financially viable and solvent at all times.[1]

Financial viability is important to ensure all our CHPs can continue to provide housing and positive outcomes for their tenants over the long-term.

What is financial viability?

Financial viability is the ability to generate sufficient income to meet operating expenses, service debt commitments and, where applicable, grow the business without compromising existing services.

Which entity must be financially viable?

Some CHPs are subsidiaries of another entity. Where this is the case, the CHP itself must be able to maintain a viable financial position, without reliance on the parent. This requirement may be waived if the parent entity has provided an enforceable guarantee of the CHP's financial viability and has provided proof of its ability to fulfil the guarantee (written evidence of the guarantee, and the parent's audited financial accounts will need to be provided).

How do we assess financial viability?

During annual monitoring we review the CHP's financial accounts, plus other information that will help to form a view of the CHP's ongoing financial viability and solvency.

The documents we review are:

- historic financial statements
- prospective financial statements (budget forecasts)
- current insurance schedules
- Business Plan or Strategic Plan
- a summary of any new capital expenditure (planned or undertaken) that is not captured in the audited financial accounts or budget forecasts[2]
- financial policies and procedures if they have been updated since they were last provided to the Authority.

Further details on the historic financial statements and prospective financial statements that must be provided to the Authority are set out below.

Financial statements and accounts

The financial statements must be in the name of the CHP. However, if the CHP has subsidiaries, it should provide consolidated financial statements for the group.

The community housing operations must be clearly visible within the financial statements.[3]

The accounting policies on which the financial

[1] Performance Standard 3.

[2] This list should only include capital expenditure at a scale likely to affect the operations of the CHP. For example, purchase of housing stock should be included; smaller spending like new office equipment should not.

[3] Performance Standard 2(c) - "The provider is managed in a safe, efficient, and effective manner at all times, and for that purpose the provider has documented systems and processes in place to ensure that the provider can demonstrate that Crown funding for the purchase of tenancy services is used for tenancy services".

statements are based must be provided to the Authority.

Most CHPs have financial reporting requirements imposed by their governing legislation (e.g. the Companies Act 1993, the Charities Act 2005). A CHP's financial statements must be prepared in accordance with the requirements of its governing legislation or the requirements of the CHP's own rules or constitution (whichever is the higher standard).[4] However, at a minimum, all CHPs' financial statements must contain the information set out below:

Historic financial statements

The historic financial statements must include statements of income and expenditure, cash flow, financial position, and changes in equity (or a reconciliation of opening equity to closing equity) for the past financial year.

The historic financial statements must also include information on the security, interest rates, and maturity, including a maturity analysis, of any loans. This information must show the amounts due in the next 12 months, 2-5 years, and beyond 5 years.

The historic financial statements must be audited, and a copy of the auditor's report provided to the Authority. Small-scale CHPs may request permission from the Authority to have their financial statements reviewed instead of audited. This will be considered on a case by case basis. The CHP must not be in breach of its own rules by having its financial statements reviewed instead of audited. Where permission is granted, the CHP must provide a copy of the reviewer's report.

Prospective financial statements (budget forecasts)

Since November 2020 the Authority has required one-year budget forecasts instead of the previously required three-year forecasts. This decision has been taken based on sector feedback, current sector financial management practice, and the Authority's goal of minimising compliance burdens where possible. One-year budget forecasts are also more appropriate for registered Class 1: Social Landlords focused on providing tenancies and housing services.

Budget forecasts must include statements of income and expenditure, cash flow, financial position, changes in equity (or a reconciliation of opening equity to closing equity), and a statement of the underlying assumptions upon which the budget forecast is based.

Budget forecasts must make acceptable allowance for the costs of running the housing service that factor in rental income, tenancy management costs, and repairs and maintenance.

Financial reporting outside of the annual monitoring cycle

Sometimes it is necessary for a CHP to provide information to the Authority outside the annual monitoring cycle if an event has occurred, or may occur, that could impact on the financial viability of the CHP.

In these cases, the CHP should notify the Authority via the Change and Disclosure reporting process. See the Guidance Note on Change and Disclosure Reporting for further information.

CHPs that have other businesses

Many CHPs in New Zealand have other businesses in addition to community housing.[5] As a general rule, a CHP must be able to demonstrate that its income from providing community housing is sufficient to cover the

[4] Performance Standard 1.4(a) – The provider identifies and abides by relevant accounting and auditing practices.

[5] Unlike most jurisdictions, New Zealand does not limit registered CHPs to providing only community housing.

costs of provision; there should be no cross-subsidisation from the CHP's other businesses.

The Authority is mainly concerned with CHPs that rely on government social service contracts to subsidise the cost of providing community housing. These contracts are typically shorter in duration than income related rent subsidy (IRRS) contracts and have no guarantee of renewal. The Authority is also concerned with the reliance of some CHPs on donations to support their provision of housing.

The Authority may make exceptions for small-scale CHPs where there is a strong basis for confidence in retaining the non-housing source of income.

Further information

If you have any concerns or questions about compliance with the Performance Standards related to financial viability, please contact us at CHRA@hud.govt.nz.