

## **Transitioning from housing provider to housing association**

This guideline replaces similar guidance developed in 2009, and responds to the changed environment in which registered agencies operate.

### **Introduction**

The Housing Act 1983 (the Act) provides for rental housing agencies to be registered as either housing providers or housing associations. Section 87 of the Act allows the Registrar to change the category of registration if the circumstances of the registered agency change. However the Act is silent on the precise differences between the two types of registered agencies. Performance Standards do not make this distinction but refer to registering agencies ranging from “small to large scale operations”. Performance is assessed with reference to the “registered agency’s scale and complexity of operation, and the concomitant risks”.

### **Background**

From mid-2008 to 2011 the Victorian and Commonwealth governments provided large scale funding programs for capital projects under the Strategy for Growth and Nation Building initiatives. Leverage of 25 per cent of the total capital cost was required. This created significant growth in new housing with debt providing the majority of the leverage. Housing providers requesting a change to housing association status needed to demonstrate that they had the governance, management, systems, financial capacity and technical expertise for growth at scale and over time. These were the requirements considered necessary for prospective housing associations in an environment of unprecedented grant funded growth.

Housing associations at this point in time had the following characteristics:

- larger – in terms of financial resources and properties owned and managed
- growing at scale – leveraging government grants to deliver larger more complex developments
- net borrowers – using debt to finance growth supported by government capital grants in accordance with development funding deeds
- operating as large social businesses – with much stronger governance and management capacity, well developed systems (both computer and processes), development skills and experience etc.
- having a risk appetite to grow at scale and over time

For the past three years limited capital money has been available to the housing sector.

### **The changing policy environment**

Assuming the State Government and its principal housing representative, the Director of Housing (DoH), continue the current policy of only allowing preferential allocations of growth resources to housing associations, any application for housing association status needs to be able to demonstrate to the Registrar that the agency can meet demands of continued growth at scale.

Growth resources from government to increase the supply of housing for disadvantaged Victorians has taken a number of forms including capital grants for housing development, management leasing and/or outsourcing and asset transfers.

At the same time housing associations must manage more complex risks, maximising the benefits for tenants and government. An aspiring housing association needs to demonstrate to the Registrar its ability to accommodate growth at scale and over time.

### **Housing Association – the emerging model**

Housing associations of today are differentiated from housing providers in that they have:

- Capacity and experience – to handle the risk associated with:
  - redevelopment and large scale asset ownership;
  - medium to large asset transfer and management contracts with assets of varying physical condition and location;
  - changing growth opportunities from the State Government and increased leverage expectations; and
  - financial capacity to acquire and manage significant debt as required without threatening viability;
- Size – especially asset ownership;
- Professional management– including well defined operational and management processes and evidence of compliance;
- Skilled and capable board and governance structures – focussed on growing the organisation as a capable and sustainable social business;
- Complexity – demonstrated experience in running a large scale and complex operation; and
- High quality service delivery

Aspiring agencies currently registered as housing providers need to be able to demonstrate that they have the capacity and experience to take on the additional risks and requirements of housing association status. While this guidance provides information on the requirements for housing association application, a housing provider is responsible for providing the evidence to satisfy the Registrar that it too can operate as a housing association.

### **Application process and assessment criteria**

All applications for housing association status are thoroughly reviewed by the Housing Registrar using the formal application process. On the basis of documentation and supporting evidence provided by the agency the lead regulator within the Housing Registrar makes a recommendation and submits the assessment to the Registrar’s Advisory Panel for consideration. The Registrar considers the capacity to meet Performance Standards and information required for housing associations under the Evidence Guidelines.

Assessment of the application will consider the following:

- willingness and ability to take on debt – a housing association needs to have a risk appetite for debt that supports sustained growth at scale within the context of the agency’s operating environment. At scale is a relative term and depends on the capacity of the agency to obtain and service additional debt.
- cashflow to sustain necessary debt – housing associations must be able to repay additional debt while ensuring that future growth is not jeopardised by the burden of existing debt and other commitments.
- board skills and expertise – the additional risk associated with operation as a housing association requires a stronger and more skilled board, with expertise that covers the range of business risks and opportunities facing the housing association.
- senior work force skills – housing associations must have well qualified and experienced management and staff that are able to make decisions and analyse opportunities for the agency. Associations are expected to demonstrate leadership and be innovative in identifying

and presenting growth opportunities and present well balanced and researched proposals to government and other investors.

- project delivery – agencies must be able to demonstrate strong capacity or prior experience in larger scale development projects (or other complex housing projects) that have been implemented on time and on budget to be considered for housing association status.
- demonstrated innovation – in the current economic and policy climate housing associations must be able to identify and explore opportunities to increase the supply of social housing to house more disadvantaged Victorians. Agencies that are currently developing at scale and have strategies and plans to grow social housing are preferred.
- asset management capacity – this is fundamental to property owners and managers with responsibilities to Government and tenants in need of social housing.

The attachment provides additional detail on the specific areas of focus for decision making.

The final decision regarding the category upgrade is made by the Registrar of Housing Agencies. Agencies are advised of the outcome and, if necessary, the reasons for the decision.

## Attachment

### Key areas of focus

Key requirements that need to be considered and addressed prior to an application being assessed by the Housing Registrar are set out below. The Evidence Guidelines that support Performance Standards set out the information requirements for housing associations compared to housing providers.

In order for a housing provider to demonstrate capacity to operate as a housing association in the current environment, as a minimum, it must provide demonstrable evidence in:

- Governance
  - strong skills based board;
  - independent board with an appropriate number of independent members to form the majority of the board, or as a minimum to form a quorum independently of any directors who are also directors of another group entity;
  - well documented governance policies – with demonstration that they are followed;
  - a suitable sub-committee structure that is able to support governance and business decisions;
  - quality reporting system that focusses on key business, risks, developments etc.; and
  - a proven risk appetite that is well managed.
- Management
  - well-developed management structure that has the skills and experience to support existing and new business directions;
  - well documented policies and procedures that address agency business operations clearly and concisely;
  - appropriate delegations for financial and management decision making;
  - strong business plan that lays well documented plans and assigns responsibility and time frames for actions; and
  - well-developed performance management system that reports on agency performance to management and the board.
- Housing assets
  - well-developed asset strategy and plan that encompasses the whole-of-life management of assets;
  - planning for the assessment of asset quality and due diligence of growth opportunities;
  - development plan that works with the asset strategy and financial planning of the agency and takes account of at the whole of asset life cycle when considering resource implications; and
  - effective maintenance procedures with measures that include timeliness of maintenance responses and the effectiveness of maintenance processes.
- Tenant and housing services
  - well established tenancy management processes that value diversity and equity;
  - documented tenancy management policies and procedures;
  - tenant participation program to support tenants participating in decision making;
  - well-developed strategies for managing any future transfers of a significant number of public housing tenants into community housing while maintaining the focus on existing tenants; and

- accessible complaints processes that monitor and resolve complaints paying attention to matters of equity and diversity.
- Probity
  - well-developed policies and procedures with strong focus on conflict of interest and fair and transparent dealings with stakeholders; and
  - evidence of these processes being used – including conflict of interest registers.
- Financial viability
  - robust financial policies and procedures that cover the agency's range of business and financial responsibilities;
  - sound financial planning and resource management and the ability to plan for the resource needs of asset transfer;
  - capability to develop large scale housing redevelopment programs to revitalise stock;
  - management of the resource commitments of potentially taking on sustained medium scale growth opportunities;
  - financial and organisational capacity to withstand the cost of tender preparation and due diligence required for response to EOI and/or RFQ;
  - risk appetite - supported by a comprehensive risk management plan and risk matrix that addresses the new risks the organisation faces when considering and implementing growth plans (e.g. through development opportunities or sizeable asset transfer); and
  - access to adequate debt funding to finance large scale developments and redevelopments.
- Community Engagement
  - ambitious programs to work with others to maximise the economic and social outcomes for tenants and the community through place renewal and social inclusion; and
  - promoting community housing to local organisations and protecting the reputation of the sector.