



**Community Housing Council of SA Inc**

# **BUSINESS PLANNING KIT**

## **FOR**

# **NOT-FOR-PROFIT HOUSING PROVIDERS**

**This Kit was funded by HomeStart Finance**

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*ABN : 38 885 520 654  
283-285 Payneham Road, ROYSTON PARK SA 5070  
Phone: (08) 8362 1022 Fax: (08) 8362 1944*

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## ACRONYMS USED IN THIS DOCUMENT

<b>AHIU</b>	Affordable Housing Innovations Unit	<b>NFPHPP</b>	Not-for-Profit Housing Providers Program
<b>CHCSA</b>	Community Housing Council of SA Inc	<b>NFP</b>	Not for profit
<b>CHO</b>	Community Housing Organisation	<b>NGO</b>	Non-Government Organisation
<b>DFC</b>	Department for Families & Communities	<b>OCH</b>	Office for Community Housing
<b>NFPHPP</b>	Not-for-Profit Housing Provider	<b>SACHA</b>	SA Community Housing Authority

## GLOSSARY OF TERMS

<b>Term</b>	<b>Explanation</b>
Board of Management	The persons charged with the overall responsibility for the effective management of the organisation – can be elected, appointed or ex-officio
Business Case	A Business Case is an argument supporting a particular project. It should be consistent with the Business Plan. Sometimes a Business Case can be about assessing the relative merits of two or more different possibilities and arguing the case for a particular project. The Business Case explains the reasons why the organisation is setting out to do a certain project and how it will do it.
Business Plan	A blueprint for the future. It sets the direction for a business and keeps it on track once its up and running. It is also a requirement when the business is seeking finance
Director	A member of the committee or Board of Management of the Not-for-Profit Housing Provider
Ex-officio	Holding a position by virtue of office eg a CEO appointed to a Board
Officer	<p>“Any person who—</p> <p>(i) occupies or acts in a position of—</p> <p>(A) a member of the committee of the association; or</p> <p>(B) the secretary, treasurer or public officer of the association;</p> <p>or</p> <p>(ii) is concerned, or takes part, in the management of the affairs of the association,</p> <p>by whatever name called and whether or not validly appointed to occupy or duly authorised to act in the position”.</p> <p>(Associations Incorporation Act).</p> <p>“ ‘Officer’, in relation to a registered Housing Co-operative, means a committee member or executive officer of the Co-operative”.</p> <p>(SA Community and Co-operative Housing Act)</p>

## SEEKING ADDITIONAL HELP

Type of help	Where to go	Contact	Website
Information on Not-for-Profit Housing Providers Program	Office for Community Housing	8207 0233	<a href="http://www.communityhousing.sa.gov.au">www.communityhousing.sa.gov.au</a>
Information on Affordable Housing Innovations Program	Affordable Housing Innovations Unit	8124 4073	<a href="http://www.housing.sa.gov.au/affordable">www.housing.sa.gov.au/affordable</a>
HomeStart Finance	HomeStart Finance	8203 4000	<a href="http://www.homestart.com.au">www.homestart.com.au</a>
Duties of Company Directors & Corporations Law	Australian Securities & Investment Commission	1300 300 630	<a href="http://www.asic.gov.au">www.asic.gov.au</a>
Accounting standards	Australian Accounting Standards Board	03 9617 7600	<a href="http://www.aasb.com.au">www.aasb.com.au</a>
Quality assurance	DFC (Service Excellence Framework) Our Community	8415 4262 03 9320 6800	<a href="http://www.familiesandcommunities.sa.gov.au/Default.aspx?tabid=1135">http://www.familiesandcommunities.sa.gov.au/Default.aspx?tabid=1135</a> <a href="http://www.ourcommunity.com.au">www.ourcommunity.com.au</a>
Taxation information	Australian Taxation Office	13 2866	<a href="http://www.ato.gov.au">www.ato.gov.au</a>
Information on Charities and Public Benevolent Institutions	Australian Taxation Office	As above	As above
Environmental Scans	See Reference 5 below		
SWOT analysis	See Reference 6 below		
Risk Management	Australian Standard AS4360	02 9237 6000	<a href="http://www.standards.com.au">www.standards.com.au</a>
Business Case	See Reference 12 below		

## **PART A – GENERAL INTRODUCTION**

### **1. Background**

This Business Planning Kit has been developed to assist not-for-profit Non-Government Organisations (NGOs) with an interest in affordable housing to enter into arrangements under the proposed South Australian Not-for-Profit Housing Providers Program (NFPHPP) managed by the Department for Families and Communities (DFC). It is essential that NGOs have the necessary orientation, skills and knowledge, as well as a good understanding of Departmental requirements and expectations, in order to lodge and manage successful applications for funding under the proposed Program.

The Kit will also be of value to housing associations and Housing Co-operatives which do not intend to participate in the proposed Program but who would like to improve their business practices.

The Kit has been developed by the *Community Housing Council of SA Inc* (CHCSA) with funding from HomeStart Finance and with the advice and assistance of HomeStart and the Affordable Housing Innovations Unit (SA Affordable Housing Trust). The specification for the Kit was developed by HomeStart and the CHCSA. Comment on a draft version of the Kit was also obtained from a number of Community Housing Organisations (CHOs) and other NGOs.

**The Kit is divided into parts.**

**Part A** is this Introduction.

**Part B** provides the context for the Business Planning Kit. It describes the housing program changes, which are taking place in South Australia and outlines why a Kit is needed. It asks some fundamental questions about why a NGO would wish to become involved in the proposed Program and what the consequences could be. It examines some key tools of financial management and control, in particular the organisational Balance Sheet, Income and Expenditure Account and cashflow statement.

**Part C** provides a guide to the development of a Business Plan which the NGO will need to prepare a) in order to submit an application for funding under the Not-for-Profit Housing Providers Program, and b) in order to manage an ongoing business.

**Part D** contains a summary of AHIU and HomeStart requirements for applications for funding.

**Part E** is the Conclusion, drawing together the various threads. Part F contains the references to various documents cited in this Kit.

**Part F** contains a summary of key questions that Board should ask themselves when considering entering the Not-for-Profit Housing Providers Program and in preparing a Business Plan.

**Part G** contains references and footnotes.

Throughout the Kit, the approach, which has been taken, is to pose questions, which Boards of Management may need to answer if they are to make a success of affordable housing.

In order to assist in clarifying requirements for a Business Plan, the Kit uses the example of an imaginary housing association called “Adelaide Affordable Homes Inc.”.

The Kit addresses the requirements of both the Affordable Housing Innovations Unit and HomeStart Finance. To a degree these requirements overlap, although there are also differences.

## **2. Existing Requirements of the Affordable Housing Innovations Unit (AHIU), HomeStart Finance and Other Lenders**

The AHIU has existing requirements for proposals for affordable housing projects. These are contained in the document *Affordable Rental Housing Projects – Expressions of Interest*, available from the Unit. HomeStart also has requirements for applications for the CommunityStart loan. These are contained in the document *CommunityStart Checklist*, available from HomeStart.

These requirements are still current notwithstanding the likely need to develop a Not-for-Profit Housing Providers Program Business Plan. However the Business Plan will incorporate some of the elements of the above documents. To assist in preparation of the necessary documentation, a statement of AHIU and HomeStart requirements is included in Part D of this Kit. Items, which are already incorporated into the structure of the Business Plan, have been excluded from this statement of requirements to avoid duplication.

Other lenders such as banks will undoubtedly have their own requirements. It is not possible to spell these out in this Business Planning Kit. However, it is likely that a Business Plan prepared using the Kit will go a long way towards satisfying the requirements of other lenders. You should obviously check with other lenders as to their requirements.

Not-for-Profit Housing Providers should not see lenders as bogeymen. Apart from the issue of interest rates, Not-for-Profit Housing Providers and financiers have similar interests – namely, your success.

## **3. Development of the Business Planning Kit**

The Business Planning Kit was developed by the Community Housing Council of SA Inc using funding from HomeStart Finance. Technical assistance was provided by Colin Zschech, Wendy Northey (Community Sector Business Services) and Not for Profit Accounting Specialists.

Advice and assistance was also provided by HomeStart Finance, the AHIU and Office for Community Housing. The Kit draws on existing publications from a wide range of sources.

Responsibility for the final product is taken by the CHCSA Inc.

## **4. Preparing Your Business Plan/Business Case**

By following the headings, examples and advice given in Section C as well as the information in Section B, it should be possible for Not-for-Profit Housing Providers to develop a Business Plan and Business Case.

## 5. Definition of a Business Plan/Business Case

According to the Australian Government Business website, a Business Plan is simply a blueprint for the future:

*Your business plan is essential for your business - it's your blueprint for the future. It sets the direction for your business and keeps you on track once you're up and running. It's also a requirement when you're seeking finance.<sup>i</sup>*

The Business Case, on the other hand, is the reason why you have set out to do what you are planning to do.

Sometimes a Business Case could be seen as addressing a particular project within the organisation's overall Business Plan or it can be a way of assessing the viability of competing projects within the larger Plan. It is a way of justifying what you are trying to achieve.

## 6. Who This Kit is Addressed To

This Kit is addressed to Boards and staff of non-profit organisations, which wish to participate in the Not-for-Profit Housing Providers Program and to other not-for-profit housing providers who wish to improve their business practices.

When the expression "you" is used in the Kit, it usually refers to the Board, because the Board normally has overall responsibility for setting directions and monitoring progress. Sometimes it will refer to the Board and to staff and this should be apparent from the context.

In other contexts it refers to the organisation as an entity rather than the Board or staff. This again should be apparent from the context.

## **PART B – SETTING THE SCENE**

### **1. Introduction to Part B**

The Business Planning Kit for Affordable Rental Housing Providers is underpinned by a number of developments in South Australian housing strategies between 2005 and 2008:

- The release of the Housing Plan for South Australia Stage I and Stage II
- The establishment of the Affordable Housing Innovations Fund managed by a new South Australian Affordable Housing Trust as a division of the South Australian Housing Trust
- Legislative reform aimed at developing a better integrated and more customer-friendly set of government structures, service delivery models and funding mechanisms
- The introduction of the CommunityStart loan facility by HomeStart Finance, aimed at funding housing provided by Not-for-Profit housing providers
- The release of the Vision Plan for Community Housing by the Department for Families and Communities (DFC)
- The proposal to create the Not-for-Profit Housing Provider Program involving both Community Housing Organisations (CHOs) registered under the South Australian Co-operative and Community Housing Act as well as other not-for-profit non-government organisations (NGOs).

Between the early 1990s and 2005, CHOs were constrained by funding agreements and related legal and financial instruments (including debentures) which bound them to capital projects financed by the then South Australian Community Housing Authority (SACHA). Under these arrangements, it was not possible for CHOs to raise external loan funds with which to purchase, construct or otherwise develop housing for eligible social housing applicants and others in need of affordable housing. SACHA carried a sizeable debt to the South Australian Financing Authority. A proportion of the CHO income stream was directed back to SACHA to assist in debt servicing. CHOs carried a debt to SACHA, secured by debentures and a statutory charge over the funded properties.

Under the new arrangements, it initially became possible in 2005 for CHOs to enter into agreements with the Affordable Housing Innovations Unit within the Department of Families and Communities whereby funds could be made available for affordable housing projects. These projects were conducted under separate funding and legal agreements and operated alongside the traditional agreements with SACHA, although OCH were still responsible for regulation.

In early 2007, the Department for Families and Communities announced that, subject to Cabinet approval, they would introduce a new Not-for-Profit Housing Provider Program (NFPHPP). Under this Program, approved CHOs with funding agreements with SACHA would be released from these agreements and debentures. They would possibly take over a proportion of SACHA's debt to the South Australian Financing Authority and would refinance this through loans from HomeStart finance or other lenders. At the same time they would be assisted to grow through a mix of capital grant funding from the Affordable Housing Innovations Fund, loan funds from HomeStart Finance or other lenders, and inputs from other sources such as donations of land or cash.

As at the time of publication of this Kit (April 2008), Cabinet approval for the proposed Program had not been given.

Under the proposal, mortgages would replace debentures, and, subject to government covenants over land, NGOs which contribute substantial resources would eventually have outright ownership and control over projects funded through the Program, after a period of time and as they repay their mortgages. They would be free of debentures and the requirement to pay capital contributions to Government.

In conjunction with these developments, the Office for Community Housing undertook a Business Capacity Analysis of existing providers with a potential to enter the Not-for-Profit Housing Providers Program, in order to assess their readiness for participation in the Not-for-Profit Housing Providers Program. The expected outcomes of this analysis were:

- Not-for-profit housing providers that are well defined and understood, and are guided by the principles of business excellence;
- Cost benchmarks that are relevant to the organisation; and
- Performance measures that can clearly demonstrate an organisation’s capacity, business performance and service quality, and that can enable effective assessment of investment risk (for both Government and private investors).

## **2. Understanding the Framework: A Commercial Environment**

Under the Not-for-Profit Housing Providers Program, NGOs would be operating in a commercial environment as businesses, carrying all the attendant risks and opportunities that a business normally carries. It is Boards of Management, Directors and Officers who would carry this risk and manage the opportunities.

(It is recognised that terminology will vary from organisation to organisation – for the sake of simplicity and consistency, this Business Planning Kit uses the terms “Board of Management”, “Director” and “Officers” to describe key management structures).

It is clear that these new arrangements mark a fundamental shift from a system with high levels of government control and government risk-carrying to a more open and commercially oriented environment where a greater proportion of the risk is carried by NGOs. Under the old arrangements, risks to the CHO were lower because their capital was in effect fully funded and income streams were more predictable and usually adequate for day-to-day expenses. In the new environment, an increased level of decision-making by CHOs would be required in a less predictable environment.

According to the Department for Families and Communities, NGOs including CHOs would benefit from greater operating autonomy and the capacity to leverage off their growing asset bases and freed-up income streams. Regulation would still exist but would be more performance-based and outcomes-oriented, demonstrating performance, service and quality. The policy environment would be less prescriptive.<sup>ii</sup>

Any loans the NGO enters into would not be government-guaranteed so NGOs would need strategies should they be unable to service their debts, for example, through excessive rises in interest rates.

For NGOs, including CHOs, which operated under the old arrangements with SACHA, these changes amount to a move into unfamiliar territory with few benchmarks and guidelines. A new emphasis on business planning would be required, within a commercially oriented environment. The range of skills available to Boards may need to increase, for example, through the addition of specialists in financial management and business management.

It may be that Boards would need to become semi-professional in nature, with Directors compensated for their contributions in a manner acceptable to the law. Expert financial control would become the litmus test of a successful organisation.

At the same time, the fundamental social purpose of creating affordable housing outcomes for people in need must not be sacrificed. Profit is not the motive in the Not-for-Profit Housing Providers Program and commercial approaches are a means to achieving social ends. The organisation should be firmly embedded in its community, whatever that may be. Strong, well connected and well-informed Boards are a must – organisations which lack such Boards get into trouble and cease to be community-based.

Directors and Officers would need to make realistic assessments of risks and develop strategies to mitigate risks. There would be a need to review Directors and Officers Insurance policies to ensure they cover the risks attendant on loan finance. It is unlikely that the Department would throw you a lifeline in the event that you run into difficulties. At present it is unclear if the current insurance scheme put in place by Office for Community Housing would apply to Not-for-Profit Housing Providers.

Discussing risk, for example, a paper by Michael Quinlan of Allen Arthur Robinson Solicitors warns that:

***If there is no or little money in the bank when a company goes into liquidation and few easily realisable assets practitioners and creditors may seek to look elsewhere in order to recover funds. One source may be claims against directors for insolvent trading or other breaches of the Corporations Act (Cth) (the Act) or common law duties. Like many professionals who may be faced with personal liability in the future many directors take steps to ensure that they have few, if any, assets in their own name. For that reason there may be little benefit to a practitioner or creditors in successfully pursuing a director unless the director is covered by directors and officers (D&O) insurance giving the practitioner and creditors access to the funds of an insurance company.<sup>iii</sup>***

This area of law is so complex and onerous that it would be impossible to explain it adequately in this Business Planning Kit. The best that can be said is that if you do not believe you understand your legal obligations as Directors and Officers under Australian and South Australian law, then you should seek independent advice before entering into arrangements with the Department for Families and Communities under the proposed Not-for-Profit Housing Providers Program. Information on the duties of company directors is also available from the Australian Securities and Investment Commission ([www.asic.gov.au](http://www.asic.gov.au)).

At the same time, development projects would be likely to become bigger and more complex. While assistance with development projects may be available through the Department for Families and Communities, some NGOs may wish to explore the possibility of assuming responsibility for their own development projects. This may entail either improving the capacity of the Board or engaging appropriate staff.

One of the things you are trying to do through the Business Plan is to convince a potential borrower that you are a low debt risk – in the hope that they will lend you the funds to grow your organisation and meet more housing need.

**The questions which your Directors and Officers need to ask first are:**

***Question 1:** Are you willing to accept the risks as well as the opportunities afforded by the Not-for-Profit Housing Providers Program?*

***Question 2:** Do you require legal advice in order to obtain a clear understanding of your duties and obligations as commercially-oriented Directors and Officers and the implications of failing to discharge your obligations?*

***Question 3:** Are your insurance arrangements adequate to cover your Directors and Officers in the event of difficulties?*

***Question 4:** Do you require specialist Directors on your Board in the areas of financial and business management, project management and development management? Do staff have the range of skills and knowledge required to run a commercially oriented organisation?*

If you have answered these questions to your satisfaction, and believe that you are prepared to take on the responsibilities of operating in a commercial environment, then you are ready to move to the next stage of business planning.

### **3. Key Tools of Good Financial Management and Control – the Balance Sheet, the Income and Expenditure Account and the Cashflow Statement**

The three key tools used by businesses to monitor financial health and manage financial risk are the Balance Sheet, the Profit and Loss Statement (usually called the Income and Expenditure Statement in the not for profit sector) and the Cash Flow Statement.

The **Balance Sheet** can be described as a statement of the affairs of the business at a given point in time. It comprises information presented under three broad headings: assets, liabilities and equity. The information presented under assets and liabilities is normally quite detailed. Sometimes, in a Not for Profit (NFP) entity, equity will be replaced by the expression Accumulated Funds since equity is a term usually referring to how much the owner(s) owns, and there is no owner in the case of a NFP entity.

The **Income and Expenditure Statement** reflects activity over a defined period of time. It comprises information presented under two headings: income (or revenue) and expenditure. Income and expenditure statements are prepared on an accrual basis, which means that income and expenditure are matched to the period to which they relate not the period in which cash is either received or paid out. It is important to prepare an income and expenditure budget each year in order to provide a benchmark against which actual results can be measured. It is advisable to review and revise the budget at least once during the year to ensure it continues to accurately predict the financial performance of the organisation.

The **Cash Flow Statement** also reflects activity over a defined period of time. It comprises information presented under two headings: cash inflows (or receipts) and cash outflows (or payments). Cash flow statements are prepared on a cash basis, i.e. cash inflows are recorded when cash is received and cash outflows are recorded when cash is paid out. It is important to prepare a cash flow budget each year to ensure the organisation will have sufficient cash balances to meet its cash requirements during the year and to predict times where cash balances may reach critical levels.

The actual cash flows can be monitored against the cash flow budget and as actual information is gathered amendments can be made to the budget to ensure it is always accurately predicting the future cash position of the organisation. The information provided by these reports, particularly the balance sheet and the income and expenditure statement can be further analysed with the use of **ratios** and other **key performance indicators**.

**Some useful ratios and performance indicators for housing organisations are contained in the table below.**

Measure	Comment
<b>Operational &amp; Efficiency Measures</b>	
Gross Surplus (i.e. rent income less all direct property costs such as maintenance, council and water rates, capital contribution etc)	Measures the income available to cover indirect costs such as office rent, administration salaries etc.
Gross Surplus to Rent Revenue = gross surplus/rent revenue	Measures the percentage of rent income available to cover indirect costs such as rent, administration salaries etc. The flip side of this percentage is the average percentage of income required to cover all direct property costs.
Average Maintenance Expense Per Property = total maintenance expense/number of properties	Can be compared across organisations. May indicate old stock if high compared to other housing organisations
Average Responsive Maintenance Expense Per Property = total responsive maintenance expense/number of properties	As above, a more specific maintenance measure.
Average Planned Maintenance Expense Per Property = total planned maintenance expense/number of properties	As above.
Average Administration Expense Per Property = total administration expense/number of properties.	Can vary across organisations, as there are often economies of scale in larger organisations.
<b>Liquidity Measures</b>	
Working Capital Ratio = current assets/current liabilities	Liquidity ratio should be a minimum of 1:1, the higher the ratio the more able the organisation is to pay its debts on time
Quick Asset Ratio = quick current assets/quick current liabilities	A more stringent liquidity ratio, including only those assets that can be converted into cash quickly or liabilities that need to be paid on demand.

<b>Long Term Solvency Measures</b>	
Debt to Asset Ratio = total debt/total assets	Measures leverage – more accurate if assets are measured at valuation rather than historic cost.
Months Operating = Accumulated funds/average monthly expenditure	Measures the number of months the organisation could operate for if no future income was generated.
Growth in Total Debt - i.e. the percentage increase or decrease in debt over time	Measures rate of growth or debt elimination.
<b>Efficiency Measures</b>	
Rent Arrears to Rent Revenue = rent arrears/rent revenue	Measures the proportion of rent revenue in arrears. Ideally less than 3%
Average Vacancy Rate Per Property = number of days all properties are vacant ÷ 365 ÷ number of properties	Measures the average proportion of time properties was vacant. Ideally less than 14 days
Vacancy Cost to Rent Revenue = vacancy costs/rent revenue	Measures vacancy costs as a percentage of rent revenue. Ideally less than 3%
Bad Debts Written Off to Rent Revenue = bad debts written off in a year/rent revenue	Measures bad debts written off as a percentage of rent revenue. Ideally less than 1%
<b>Tenant Measures</b>	
Tenant Categories Housed = categories of tenant housed per year over year as a percentage of available supply	Measures occupation by tenant category as a percentage of total supply.
Tenant Categories Occupation Rate = number of weeks occupation by each tenant category per house as a percentage of 52; sum of each category percentage plus vacancy percentage per annum = 100%	Measures occupation by tenant category over time.

It is unclear if you would be required to demonstrate that you currently meet specified benchmarks in order to qualify for funding and loan assistance.

By constantly monitoring the Income and Expenditure Statement, Cash Flow Statement, the Balance Sheet and other performance data, an entity can measure its financial health and ensure that it manages risk appropriately. Without these key records, it is walking in the dark and will not be able to manage emergent risks in a timely manner. Risks can occur in any of the elements of these statements: assets, liabilities, equity, income and expenditure. Properly monitored and well-understood financial statements enable Directors and Officers to take corrective action before it's too late.

On the other hand, these financial statements may also be used to identify opportunities.

At the present time, most CHOs probably produce monthly financial statements in-house or through a service provider, relying on an external auditor to prepare audited annual financial statements.

The annual financial statements will be either general-purpose financial statements or special purpose financial statements depending on whether the organisation is a reporting entity or not. General-purpose financial statements contain more detailed disclosures and are required to be fully compliant with Australian International Financial Reporting Standards (AIFRS). Regardless of whether the organisation is a reporting entity or not the annual financial statements must comply with the format and disclosure requirements as set down by the Office of Community Housing.

The Service Excellence Framework (SEF) offered to funded community organisations by the Department for Families and Communities (DFACS) may also be of assistance in establishing and maintaining financial control.

Documentation from the Department regarding the “Certificate” level of the SEF specifies the following standard and indicators for business planning for community organisations:

### **C1.2 Business Plans Standard**

*A Business Planning process is used to implement your Strategic Plan and to plan and monitor organisational performance.*

1. An annual cycle of business planning implements the objectives and actions developed in the Strategic Plan.
2. Business Plans include resources, milestones, timelines and personnel responsible.
3. Progress against the Business Plan, including performance measures and agreed actions, is reviewed regularly.

The SEF specifies the following standard and indicators for financial management by community organisations:

### **C.3.1 Financial Management Standard**

*The Chief Executive and managers maintain sound financial decision-making processes to ensure the efficient and effective use of the resources under their control. Financial management is transparent, accountable, and appropriately authorised. The organisation’s physical resources are managed to ensure an effective, safe and efficient service. Physical resources include buildings, equipment, furniture, vehicles and IT.*

1. Responsibility for financial management has been assigned to appropriate officers and delegations of authority are documented.
2. There are separate responsibilities for custody of assets and associated record keeping (IT, plant, vehicles, etc).
3. Systems are in place to ensure compliance with financial requirements of funding body service agreements.
4. Risk identification is carried out for major purchases (i.e. assets, projects, etc).
5. Performance against budget is monitored and reported to management, consumers and relevant stakeholders on a regular basis.

To satisfy the requirements of the SEF, appropriate evidence must be produced that the organisation complies with the standard and the indicators.

If your organisation has yet to complete the SEF, it would be well worthwhile considering this prior to making a submission for funding under the Not-for-Profit Housing Providers Program. Completion of SEF II may become a Program requirement.

**Ourcommunity.com.au**, which provides advice and support to community groups across Australia, provides the following advice on when Boards should start asking questions about financial health:

- Any significant deviation from the budget approved by the Board at the start of the financial year
- An unexpected reduction in revenue compared to previous years
- An unexpected increase in costs compared to previous years
- The incurring of any unusual and unexpected but significant expenses
- A failure to obtain independent advice when valuation of major assets is required
- Significant variation in the amount of liability (or debt) in comparison with previous predictions
- A reduction in the value of net assets
- Poor performing fundraising activities
- A lack of clarity as to the source of funds
- Late reports
- Vague answers to questions regarding financial capacity.

This is not say that the presence of one or more of these factors proves there is a problem – only that questions need to be asked.

In a business, the aim is to maximise profit and in the new commercial environment this will be your aim too – although the profit in a non-profit organisation must be put back into the organisation to further its goals. In a commercial environment, profit grows when costs are restrained and revenue maximised – but even in the new environment, Not-for-Profit Housing Providers will have constraints placed on how they maximise revenue and minimise costs. This will pose unique challenges of financial management. Healthy cash flow is the key to borrowing capacity – not the size of your asset base.

***Question 5:** Do your Board and appropriate officers have the knowledge to understand the Balance Sheet, Profit and Loss/Income and Expenditure Statement and Cash Flow Statement and take appropriate corrective action if necessary? Do they have the knowledge to identify potential opportunities? How will you address deficiencies?*

***Question 6:** Do your Board and appropriate officers understand the importance of various measures of financial health as listed previously? If not, how will you arrange to give them the necessary knowledge?*

#### **4. The Business Plan as an Ongoing Learning Tool**

The Business Plan is not a document that is prepared only to win grant funding or obtain a loan, then forgotten once the financing is obtained.

The Business Plan is a living, dynamic document that is constantly referred to and updated as new information becomes available. It should contain objectives and a means to measure progress against the objectives, so that Boards and senior staff are constantly monitoring progress. The Business Plan is a learning tool - the Board regularly assesses actual performance against the Plan, draws conclusions and adjusts the Plan accordingly.

## **PART C – DEVELOPING YOUR BUSINESS PLAN**

### **1. Introduction to Part C**

This part of the Kit is designed to help you develop a Business Plan, which you can submit, jointly to HomeStart and the Affordable Housing Trust, or to another lender and the Affordable Housing Trust.

**However, the Business Plan is also a tool that you should use on a long-term and ongoing basis to manage your business.**

Part of the key to success in obtaining funding is demonstrating to potential lenders that you clearly understand your organisation's core purpose and objectives and that you have the financial and governance capacity to implement those objectives over a sustained period of time.

Thus, a Business Plan has both a short-term and a long-term function.

Sections C2 to C7 discuss key background components to be included in the Business Plan, while Sections C8 to C17 discuss particular methods used to develop the detail of the Business Plan. Section C18 discusses the concept of the Business Case for particular projects.

### **2. The Case for Change – Joining the Not-for-Profit Housing Providers Program**

In this section you should include a statement of why you have decided to join the Not-for-Profit Housing Providers Program. In other words, what is the case for change? Why not stick with what you already have?

For example, if you are a registered Housing Association under the SACCH Act, with properties debentured to the SAHT, why not stay in that arrangement?

Have you identified the costs and risks associated with change and assessed your ability to manage these?

Our imaginary housing association, Adelaide Affordable Homes Inc, includes the following statement in its Business Plan:

*Adelaide Affordable Homes Inc has been a registered Housing Association under the SACCH Act since 1995. Currently, the Association has 100 properties in the metropolitan area. The Association has been experiencing high levels of demand for its accommodation, particularly from people with disabilities, and now has a long waiting list. It is clear that Government will not support Housing Associations in the traditional way in future. Adelaide Affordable Homes has garnered considerable financial resources over the years and notes that expansion through gearing-up and utilising these financial reserves is possible. Financial modelling suggests that by correctly mixing households of differing income levels, more can be done to house those in the highest level of need. The disability services network is highly supportive of expansion. A risk assessment shows that although there are significant risks, these can be managed. The cost of change has been identified and is included elsewhere.*

**Question 7:** *Has your organisation developed a statement outlining the case for joining the Not-for-Profit Housing Providers Program? Have you identified the costs and risks associated with change and assessed your ability to manage these?*

### 3. Key Statement of Organisational Purpose

The key statement of organisational purpose should be a statement of your fundamental reason for existing. Usually a paragraph will suffice. For example, our imaginary housing association, Adelaide Affordable Homes Inc, has the following key statement of organisational purpose:

Adelaide Affordable Homes Inc exists to provide affordable housing to a range of low to medium income families and individuals that wish to reside in the middle ring of Adelaide suburbs. The Board will aim to prioritise housing for people with clear financial and non-financial difficulties in accessing private markets, within a context of financial sustainability.

The key statement of organisational purpose is akin to a Mission Statement, a concept that will be familiar to many people. It sets the principal directions in which your organisation will go.

**Question 8:** *Has your organisation developed a key statement of organisational purpose?*

### 4. Key Statement of Organisational Strategic Objectives and Planned Activities

Organisational strategies will vary from organisation to organisation, and can change over time. A fundamental objective for all participants in the Not-for-Profit Housing Providers Program will be to obtain finance to meet the social purpose for which they have been established. The key statement will also help define your service model and core customer focus.

**Adelaide Affordable Homes Inc has the following strategic objectives:**

- To provide housing to people on low to medium incomes at no more than 25% of defined household income, maintaining financial health through an appropriate mix of low and medium income households, with the proportion of market rents held to a minimum consistent with financial viability
- To ensure 25% of stock is allocated to high needs customers
- To prioritise housing in middle ring suburbs in the Port Adelaide-Enfield Council area
- To raise capital including loan finance with a view to growing from 100 to 300 lettable properties by 30<sup>th</sup> June 2011
- To attract donations and support-in-kind to the value of at least 10% of the property portfolio
- To ensure that priority is given to applicants with demonstrated disadvantage in private markets especially those with disabilities
- To attract people with an appropriate range of skills to the Board of Management, including financial management and planning and development skills
- To ensure the organisation takes maximum advantage of taxation and other advantages available to Not-for-Profit entities, including GST benefits, local government and other rebates and Commonwealth Rent Assistance.

**Planned activities will stem from these strategic objectives. For example, Adelaide Affordable Homes Inc has the following planned activities for the period 2007 to 2011:**

<b>Year</b>	<b>Planned Activities</b>
2007/08	<ul style="list-style-type: none"> <li>• Expand by 40 properties</li> <li>• Negotiate partnership agreement</li> <li>• Raise necessary finance</li> <li>• Purchase 20 dwellings</li> <li>• Buy land and build twenty dwellings</li> <li>• Establish new office</li> <li>• Employ new staff</li> <li>• Upskill the Board</li> </ul>
2008/09	<ul style="list-style-type: none"> <li>• Expand by 50 properties</li> <li>• Raise necessary finance</li> <li>• Purchase 25 dwellings</li> <li>• Buy land and build twenty five dwellings</li> </ul>
2009/10	<ul style="list-style-type: none"> <li>• Expand by 50 properties</li> <li>• Raise necessary finance</li> <li>• Purchase 10 dwellings</li> <li>• Buy land and build forty dwellings</li> </ul>
2010/11	<ul style="list-style-type: none"> <li>• Expand by 60 properties</li> <li>• Raise necessary finance</li> <li>• Purchase 20 dwellings</li> <li>• Buy land and build forty dwellings</li> </ul>
2011/12	<ul style="list-style-type: none"> <li>• Five-Yearly Performance Evaluation held</li> <li>• Asses systems and staffing requirements</li> <li>• Revise Business Plan</li> <li>• Consolidate</li> </ul>

**Question 9:** *Has your organisation developed a key statement of organisational strategic objectives and planned activities?*

## **5. Structure of the Organisation and Service Delivery Model**

This is a straightforward exercise setting out the organisation's structure, including how the structure may change as you grow.

You should include the size and make-up of the Board, senior positions and other positions, including numbers. You should include the business qualifications and experience of key people, demonstrating how you plan to retain them. You should also outline your succession plan to replace key people. Remember that a strong Board is essential in order to complement and balance executive power within the organisation.

This section of the Business Plan is also an opportunity to discuss your organisation's service delivery model. This could include tenant profile (if not specified elsewhere), supported tenancy arrangements, referral networks, support agency arrangements and interagency agreements, auspice or sponsor organisation arrangements, property allocation priorities, service boundaries and geographical areas of service delivery.

**For example, Adelaide Affordable Homes Inc has a Board made up of seven people:**

- Executive Officer (ex officio)
- Chairperson – runs a small business; no formal qualifications
- Treasurer – retired schoolteacher with an interest in Information Technology
- Secretary – mother of a tenant
- Board member – active member of local church; works as a librarian
- Board member – social worker; works for an organisation supporting people with disabilities
- Board member – community development worker with local government with qualifications relevant to that field.

As you can see, the Board currently has a strong community base and good community networks but lacks expertise in business and financial management and project development. It wishes to retain its strong community base and networks but wants to find ways of covering the identified skills and knowledge gaps.

There are currently three part-time staff:

- Executive Officer – has worked in the disability field for many years and has qualifications in disability support
- Tenancy and Property Officer – no formal qualifications
- Administration Officer/Finance Officer – has TAFE qualifications in bookkeeping and is studying for an accounting degree.

Additionally, the association has a contract handyman and gardener and a regular suite of contractors for various trades.

As the association grows, it will need to employ an additional administration worker and in-house maintenance worker, as well as a separate Tenancy Officer.

**Key people have been identified as the Chairperson, Treasurer, Executive Officer and Finance Officer. The organisation plans to keep these key people through action as follows:**

Person	Action
Chairperson	Pay an Honorarium in the form of superannuation contributions; hold meetings at hours to suit his business
Treasurer	Offer challenge of building new computer system including a wi-fi network
Executive Officer	Tailored salary package & working conditions to suit her family responsibilities
Finance Officer	Flexible working hours and additional caring leave as she cares for her aged mother.

At this stage, there is no succession plan. It needs to be developed especially as the Finance Officer may leave once qualified as an accountant. (See **Issues, Impediments, Limitations and Challenges** below).

Adelaide Affordable Homes Inc has a strong tradition of housing people with disabilities and has a strong network of referral agencies and support agencies. (In a real Business Plan, these would be specified by name). There is no current sponsor organisation. Tenant profile, service boundaries, geographical areas of service delivery and property allocation has been discussed under other headings.

**Question 10:** *Have you included a statement of organisational structure, including qualifications and experience of key people, indicating how you plan to retain them or replace them in the event they leave? Have you specified your service delivery model, either in this section or elsewhere in the Business Plan?*

## 6. Key Statement of Organisational Core Values and Principles

This is an opportunity to turn the social purpose of the organisation into a set of more specific statements. It is about what the organisation believes and how its beliefs will guide its behaviour. The statement also forms a basis for its policies.

### **Adelaide Affordable Homes Inc has the following core values and principles:**

- We believe decent and affordable housing is a fundamental human right
- We believe government has a duty to assist those who are disadvantaged
- We believe the community has a responsibility to support fellow members who are disadvantaged and to promote social inclusion and social justice
- The organisation will provide housing which meets community expectations and standards especially in respect of housing for people with disabilities
- The organisation will provide opportunities for tenant involvement in its management
- The organisation will use customer focus and customer satisfaction as key drivers of its actions and policies
- Financial viability is a key goal, but effective financial management is a tool used to achieve underlying social purposes, not an end in itself
- Directors and staff will be chosen for their knowledge, values, skills and commitment, and assisted to continue upgrading their skills and knowledge appropriate to the tasks they perform
- Staff will be provided with adequate tools and resources to carry out their responsibilities and will be remunerated appropriately
- The organisation has a philosophy of continuous learning and continuous improvement
- The organisation will hold itself accountable to its members, tenants, supporters and funding bodies through regular reporting and a commitment to appropriate scrutiny from outside eg external audit
- Good governance results from regular interaction between skilled Directors and qualified staff.

You should also include in this section a statement of any affiliations, which your organisation has.

**Question 11:** *Has your organisation developed a key statement of Organisational Core Values and Principles?*

## 7. Organisational Legal Structure and Tax Status

There are four different legal structures, which are feasible for involvement in the Not-for-Profit Housing Providers Program:

- Incorporation under the SA Associations Incorporation Act (as an incorporated association)
- Incorporation under the SA Co-operative and Community Housing Act (as a Housing Co-operative)
- Incorporation under the Corporations Law (as a company limited by guarantee)
- Incorporation under the SA Co-operatives Act (as a Co-operative)

A fifth option may be available to organisations specifically set up to house Aboriginal people – the Aboriginal Councils and Associations Act 1976, which is national legislation. However it would be necessary to incorporate as a non-profit association.

In South Australia, community housing providers have traditionally been either incorporated associations or registered Housing Co-operatives. In the eastern States, incorporation as a company limited by guarantee or limited by shares appears far more common. It is unclear what advantages this would confer on an organisation, other than the capacity to trade nationally without further registration interstate.

According to ASIC, an incorporated Association is limited to trading in its State or Territory of incorporation and must register in the relevant other jurisdiction if it wishes to trade there. This would also apply to bodies registered under the SA Co-operatives Act. It is possible for a body incorporated under State legislation to apply to ASIC for registration under the Corporations Law.

In any case, all of the above are subject to a degree of regulation under the Corporations Law, particularly in regard to winding up and control of fraudulent activities.<sup>iv</sup>

Incorporation as an association under South Australian law is familiar to most people so unless a good reason to change can be found, it is suggested that this continues to be the case. Only a small number of Housing Co-operatives have been identified as potential growth organisations and there seems no obvious reason for them to change. It is unlikely that any Not-for-Profit Housing Providers will be incorporated under the (general) Co-operatives Act and this will not be discussed further in the Kit.

It would be worthwhile spending time considering which form of incorporation suits your needs best and including a section on this in your Business Plan. Have you explicitly identified the limitations of your current structure and then mapped how a new proposed structure would address these? It is essential that you liaise with the Office for Community Housing on this topic to ensure that any proposed new structure can still be registered under the SACCH Act. Section 15 below contains more information about the different Government reporting requirements under different legal structures.

Most NGOs will want to borrow from HomeStart or private lenders. It will be interesting to see how the market responds to different forms of legal structure.

Your business plan will also need to provide information on your tax status. This could include:

- Whether you are an Income Tax Exempt Charity
- Whether you are GST-registered
- Whether you have status as a Public Benevolent Institution
- Whether you are a Deductible Gift Recipient
- Whether you have Land Tax exemptions
- Any other rebates and concessions you receive eg Council rates, water and sewerage rates, ESL.

Taxation Law is extremely complex. It is not the purpose of this Business Planning Kit to give taxation advice. It cannot be automatically assumed that because your organisation has certain tax benefits at present, these will necessarily continue once you become a Not-for-Profit Housing Provider. For example, non-profit status does not automatically confer a right to exemption from income tax – something more is required. Not-for-Profit Housing Providers will most likely seek taxation exemptions as either charities, Public Benevolent Institutions (PBIs) or Community Service Organisations.

While Community Service Organisations can self-assess their eligibility for income tax exempt status, charities and PBIs must be endorsed by the Australian Tax Office (ATO) as income tax exempt. This also now includes tax concessions under Fringe Benefits Tax and GST laws. Endorsed organisations are expected by ATO to annually review their eligibility for concessions and take steps to notify ATO if there is any change.

**The ATO offers the following definitions of a charity and a PBI:**

Charities are institutions or funds established for a charitable purpose. Charitable purposes are those that the law regards as charitable, namely.

- the relief of poverty or sickness or the needs of the aged
- the advancement of education
- the advancement of religion, and
- other purposes beneficial to the community.

A Public Benevolent Institution (PBI) is a non-profit institution organised for the direct relief of poverty, sickness, suffering, distress, misfortune, disability or helplessness. The characteristics of a PBI are:

- It is set up for needs that require benevolent relief
- It relieves those needs by directly providing services to people suffering them
- It is carried on for the public benefit
- It is non-profit
- It is an institution, and
- Its dominant purpose is providing benevolent relief.

To attract certain GST benefits (assuming you are registered for GST), you will need to comply with requirements relating to non-commercial activities. All CHOs registered under the SA Co-operative and Community Housing Act 1991 were audited for GST compliance in 2006 or 2007 and should be familiar with the requirements of the tax law in regard to GST concessions. The Office for Community Housing also provides training in GST compliance.

Depending on rent levels certain “supplies” of accommodation may be subject to normal GST rules regardless of the tax status of the organisation. To quote the ATO website:

When the sale is a supply of accommodation by a charitable institution, charitable fund, gift deductible entity or government school, the sale is GST-free if the amount charged is:

- less than 75% of the GST-inclusive market value of the accommodation, or
- less than 75% of the cost of providing the accommodation.

By implication, if the rent is over these limits, the supply is input-taxed, meaning the housing provider will pay GST on purchases made to create the supply but will not be able to claim the GST back from the Tax office as they could if the supply was GST-free. ATO publishes a list of market rents for each State and Territory and updates them in January each year.

One aspect of the GST law that will play a more prominent role in future for Not-for-Profit Housing Providers is the requirement for special treatment of purchases \$1,000 or over and under \$5,000, purchases of \$5,000 or over and under \$500,000, and purchases of \$500,000 and over. There are special rules in regard to claiming GST credits during the so-called ‘Adjustment Period’, which can last up to ten years.

This could result, for example, in money being sent backwards and forwards between the provider and the ATO for many years. For example, the current system of OCH selling properties to CHOs and gaining back the tax credits will no longer apply.

There may be a trade-off between financial viability and retention of taxation benefits and tax exempt status. It is unclear how 'commercial' a Not-for-Profit Housing Providers could become without jeopardising its charitable status. It may be desirable, once you have worked out how you are going to operate and be structured under the proposed Not-for-Profit Housing Providers Program, to assess whether you will be still be eligible for taxation benefits.

Further information can be obtained from tax professionals or the ATO ([www.ato.gov.au](http://www.ato.gov.au)). An alternative that could be explored would be to establish a separate legal entity to trade as an affordable housing provider, which then donates any surplus back to its parent organisation for the purpose of housing those with the lowest incomes.

A separate, but related, issue is to consider whether you would be better off establishing a new organisation to carry out your Not-for-Profit Housing Provider role. The existing organisation could remain a debentured CHO with OCH while you establish a completely new entity to become the Not-for-Profit Housing Provider. This would avoid the need to take on a proportion of the old SACHA debt.

This could have impacts in specific areas i.e. in terms of attracting finance, industry credibility, governance, structure and SACCH Act registration.

***Question 12:** Will your organisation continue to qualify for income tax exemption and other tax concessions once it becomes a Not-for-Profit Housing Provider?*

***Question 13:** Does your organisation conduct an annual review of its tax status as recommended by the ATO?*

***Question 14:** Have you given consideration to which form of incorporation suits your organisation's needs best? Would a change of incorporation affect your registration under the SACCH Act? Have you discussed the change with OCH?*

***Question 15:** Are you aware of the any changed governance, reporting or operational requirements under a new structure, and do you have the resourcing and expertise to meet these?*

***Question 16:** Have you explored whether it would be better for you to establish a new entity to carry out Not-for-Profit Housing Provider functions or can you simply expand the role of the current organisation? Have you considered impacts in specific areas i.e. in terms of attracting finance, industry credibility, governance, structure and SACCH Act registration?*

## **8. Environmental Scan**

Environmental scanning is a technique used by organisations when seeking to understand the impact that changes in the environment may have on their plans and operations.

Both internal and external environments need to be scanned.

Three examples from existing organisations will help to clarify the concept <sup>v</sup>:

### **NSW Rural Fire Services**

NSW Rural Fire Service has begun a program of annual reviews of its Strategic Plan to ensure it remains current and relevant. This year, to enhance the process, we included an external environmental scan to ensure that key external Stakeholders, and a sample of volunteers, were given an opportunity to contribute to the Plan's development in a series of workshops. The focus of the Scan was the Service's Key Result Areas, which are:

- Operations,
- Learning & Development,
- Community Safety, and
- Management.

### **Canberra Institute of Technology**

CIT Environmental Scans provide information about emerging external influences that may impact on the operation of CIT in the immediate future, and also in the longer term. The bi-annual Environmental Scans provide a valuable overview of new industry, government, community and broader VET sector initiatives, regionally and nationally.

### **University of South Australia**

Environmental scanning (ES) is an important activity in the development of an organisation's capacity and capability for change. Environmental scanning helps identify the external forces, events, trends, issues and relationships (referred to as "items") that might assist or adversely affect an organisation's future. Some of the benefits of ES include:

- reduce uncertainty - assist both short term decision making and the development of long term strategies
- identification and monitoring of new and emerging risks and opportunities
- benchmark assumptions
- process improve
- enhance contextual awareness - assist staff to develop their awareness of the organisation's environment and promote strategic conversation
- develop experience and techniques in obtaining and reporting on organisational intelligence.

There is no one standard methodology for conducting an environmental scan. The NSW Fire Services, for example, engaged a consultant to consult with a range of external stakeholders who were asked for their opinions about the current and likely environment for fire services. The other organisations mentioned above had the resources to conduct their own scans in-house and relied on researching current policy environments, developments and activities in their sectors. They made extensive use of other people's publications as well as their contacts in other organisations.

For Not-for-Profit Housing Providers, the internal environment particularly refers to changes in the nature of the customer base, which may impact, on the way in which the provider conducts its business. Management systems can also change.

The environmental scan will prove useful in conducting the next stage of the Business Plan, namely the SWOT analysis.

Another useful component to the Environmental Scan is a review of relevant strategic and development plans. It is important that Not-for-Profit Housing Providers are familiar with documents like the State Strategic Plan, Regional Development Plans and Local Development Plans or strategies operating in the geographic area that is relevant to them. These can be easily referenced from the Internet.

A Business Case that aligns itself with (or is at least cognisant of) relevant strategic priorities of Federal, state or local governments are likely to be well regarded.

For example, if the Business Plan documents the organisation's intention to expand into Roxby Downs, it is relevant to that Business Plan that there is an Economic Development Strategy and Environmental Strategy applicable to the area and that Federal and State funds may consequently be available as would local government support. Similarly if government is concerned about the needs of a particular client group (key workers, aged etc) via a strategic document it would make sense that an organisation targeting such clients would reference their plan to that strategy.

It can be expected that Not-for-Profit Housing Providers will have extensive networks in the non-government sector and government. These networks can be drawn on to continuously update knowledge of the external environment for housing providers. In South Australia, the Community Housing Council has responsibility for developing and sustaining networks of NFP housing providers. This involves provision of information as well as opportunities to gather and exchange news and views.

Regular involvement in these networks is likely to provide most Not-for-Profit Housing Providers with sufficient information to produce an adequate environmental scan for business planning purposes.

If a Not-for-Profit Housing Provider is isolated from these networks, then its task will be much harder. It will need to devote the resources to searching out the environment. This could be a time-consuming process.

Adelaide Affordable Homes Inc maintained regular links with the CHCSA and other providers, reading on-line bulletins and attending forums and other events. It also made sure it maintained close links with relevant government officers. This was achieved through personal contact, attendance at government-sponsored events and invitations for Government officers to attend Board meetings or meetings with staff. Hence writing an environmental scan was straightforward. Adelaide Affordable Homes Inc was able to readily identify changes in the social, political and economic environment, which would impact, on its operations over the coming year or two.

*Question 17: Has your organisation conducted a recent environmental scan?*

## **9. SWOT Analysis**

The SWOT analysis – Strengths, Weaknesses, Opportunities and Threats – is a longstanding and familiar tool within both government, non-government and commercial organisations.

Conventionally the analysis is carried out in a workshop format with participants asked to identify each of the four elements, recording their discussions as they go along. These are then tidied up, organised and prioritised. It can be useful to place the analysis into the form of a grid with four cells. An external facilitator can be useful. Sometimes participants may work individually or in pairs before sharing their thoughts with the larger group, or participants can be divided up into four groups, each of which explores one element in depth before reassembling into the larger group.

**Business Victoria states that:**

*Examining the internal operations of your business and researching the business environment will help you form short and long term strategies. A SWOT analysis also draws your attention to areas of your business that require improvement and identifies core strengths that can be used to further develop and refine your business.*

**Your internal analysis should cover the following:**

- products and product range
- research and development
- staff and management skills
- market share
- profitability
- production capacity
- level of borrowed funds

**Your external research should look into these factors:**

- competitors - their present position, likely future and reasons for success or failure
- economics - the state of the economy, interest rates and employment levels
- technology - changes to existing products, methods of distribution and production
- politics - tax, environment, wages and regulations
- social situation - changes in social behaviour, attitudes, standard of living or income levels
- health and safety - changes in zoning regulations or environmental standards.<sup>vi</sup>

To a degree the SWOT analysis overlaps the environmental scan. In an adequately resourced and well-functioning organisation, much of the above information will be common knowledge among staff but may be less apparent to Directors. Therefore it could be a good idea to devote a Board session to developing the SWOT analysis, with key staff in attendance.

Many people involved in the Not-for-Profit Housing Providers Program will have had previous experience with SWOT analysis but it is highly likely that this will have been in a non-commercial context. As providers moving into a more commercial environment, groups should conduct their SWOT analysis using the more business-oriented model provided by *Business Victoria* or some other business-oriented expert rather than drawing on conventional not-for-profit models alone.

This is part of the process of reorientation towards a business-management framework which Not-for-Profit Housing Providers are expected to achieve. Not-for-Profit Housing Providers are moving into a competitive market and must plan to function within that context. You are competing for loan finance with other would-be borrowers, including other Not-for-Profit Housing Providers. You also carry out the SWOT analysis with risk-management in mind at all times.

In future it may be desirable for the CHCSA to conduct sector-wide SWOT analyses to provide context for individual organisations.

When conducting the SWOT analysis, attention should be paid to the five elements of financial management identified in the Balance Sheet, Income and Expenditure Account and Cashflow Statement – assets, liabilities, equity, income and expenditure.

For example, here is a hypothetical analysis of these components identified by Adelaide Affordable Homes Inc. This is not meant to be a comprehensive analysis, it is merely offered as an example that you can build on:

<b>Item</b>	<b>Strengths</b>	<b>Weaknesses</b>	<b>Opportunities</b>	<b>Threats</b>
Assets	Land & housing assets tend to grow in value over time ahead of CPI; Housing is seen as good security	Housing markets are cyclical and values can fall in real terms; Govt capital funds are limited	Markets are regional – we can identify potential growth areas of the State and buy/build there	We can make bad judgements
Liabilities	The principal owing can be identified in advance & projected for many years	We carry an interest rate exposure; We have no government guarantee	Strong growth in housing markets reduces real value of liabilities quickly through inflation, while building asset values	Poor economic circumstances eg market downturn; rising interest rates
Equity	Equity is good collateral for further growth	We are starting from a small base & equity takes time to build	There are still affordable markets around South Australia	Poor management or adverse economic circumstances may force us to cash in equity to meet expenses
Income	We have the capacity to model and vary our income mix according to circumstances; We can tap into CRA, ATO tax concessions and various State tax concessions and rebates on property-related charges	Incomes mix is limited by our charter and funding agreements with Govt	We are unlikely to run out of customers; We can attract voluntary effort and donations	Little growth in incomes is likely; the Commonwealth Government may decide to reduce or eliminate CRA for our tenants; tax and other concessions can be reduced or eliminated
Expenditure	We may be able to tap into sector-wide pricing eg insurance	Maintenance costs have to be carefully controlled	We can access a range of rebates and concessions	State and Local Govt's may be less generous with concessions; Arrears & vacancies may rise beyond our control
<b>Item</b>	<b>Strengths</b>	<b>Weaknesses</b>	<b>Opportunities</b>	<b>Threats</b>

*Question 18: Has your organisation conducted a recent SWOT analysis?*

## **10. Issues, Impediments, Limitations and Challenges**

This section of the Business Plan should contain a concise summary of issues, impediments, limitations and challenges facing the Not-for-Profit Housing Provider. Much of this will be derived from the preceding environmental scan and SWOT analysis.

Of course, it is not enough to identify these items. The Business Plan should identify how you plan to address them, who is responsible and when they will be addressed.

For example, Adelaide Affordable Homes Inc identified the following matters:

<b>Issues &amp; Challenges</b>	<b>Solution</b>	<b>Timeline</b>	<b>Responsibility</b>
Development opportunity too big for us	<ul style="list-style-type: none"> <li>• Need to find partner</li> </ul>	<ul style="list-style-type: none"> <li>• Urgent</li> </ul>	<ul style="list-style-type: none"> <li>• EO</li> </ul>
Existing tenants fear change & growth	<ul style="list-style-type: none"> <li>• Explain and reassure</li> </ul>	<ul style="list-style-type: none"> <li>• Urgent</li> </ul>	<ul style="list-style-type: none"> <li>• Chairperson &amp; EO</li> </ul>
There is no succession plan for key people	<ul style="list-style-type: none"> <li>• Develop plan</li> </ul>	<ul style="list-style-type: none"> <li>• Within six months of Business Plan</li> </ul>	<ul style="list-style-type: none"> <li>• Chairperson &amp; EO</li> </ul>
<b>Impediments &amp; Limitations</b>			
Office space insufficient for planned staff increase	<ul style="list-style-type: none"> <li>• Rent additional space</li> </ul>	<ul style="list-style-type: none"> <li>• Within three months of being funded</li> </ul>	<ul style="list-style-type: none"> <li>• Executive Officer</li> </ul>
Computer software inadequate	<ul style="list-style-type: none"> <li>• Purchase better software</li> </ul>	<ul style="list-style-type: none"> <li>• Within one month of being funded</li> </ul>	<ul style="list-style-type: none"> <li>• Finance Officer</li> </ul>
Board has limited experience in financial analysis and project management	<ul style="list-style-type: none"> <li>• Attract appropriate Board members</li> <li>• Conduct training for current Board members</li> </ul>	<ul style="list-style-type: none"> <li>• Within two months of Business Plan</li> </ul>	<ul style="list-style-type: none"> <li>• Current Board &amp; EO</li> <li>• EO &amp; Chairperson</li> </ul>

***Question 19:** Has your organisation identified and listed any issues, impediments, limitations and challenges facing it in the next few years, along with solutions, timelines and responsibilities?*

## **11. Skills, Resources and Financial Audit**

A skills audit compares the skills an organisation believes it needs with the skills it currently has, so that it can set about acquiring the missing skills. Skills are needed in order to achieve goals, and as we have seen, these goals will be different under the Not-for-Profit Housing Providers Program.

### **Identifying gaps in skills can lead to a number of actions:**

- A training needs analysis for existing employees and Directors
- Introduction of targeted training programs
- Recruitment of new staff if existing staff cannot be re-trained
- Outsourcing where appropriate
- Recruitment of new Directors.

The benefit will be an organisation, which is better equipped to achieve its goals.

One approach to this task is to make use of a grid. As an example, Adelaide Affordable Homes Inc developed the following grids:

### Skills Audit (Board and Staff)

Element	Skills Required	Skills Held	Strategy to Meet Gap
Development	<ul style="list-style-type: none"> <li>Capacity to identify development opportunities</li> <li>Capacity to develop &amp; manage development projects</li> </ul>	<ul style="list-style-type: none"> <li>Cursory</li> <li>Nil</li> </ul>	<ul style="list-style-type: none"> <li>Engage consultant</li> <li>Outsource to AHIU</li> </ul>
Financial planning	<ul style="list-style-type: none"> <li>Capacity of Board to develop accurate financial projections over a long term</li> </ul>	<ul style="list-style-type: none"> <li>Nil</li> </ul>	<ul style="list-style-type: none"> <li>Locate suitable person to serve on Board</li> <li>Outsource task or upskill Finance Officer</li> <li>Training session for Board</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>Capacity of Board and EO to monitor and understand financial statements and other approaches to risk management</li> </ul>	<ul style="list-style-type: none"> <li>Minimal among both staff and Board</li> </ul>	<ul style="list-style-type: none"> <li>Locate suitable person to serve on Board</li> <li>Upgrade staff skills</li> <li>Training session for Board</li> </ul>
Asset management	<ul style="list-style-type: none"> <li>Capacity to monitor stock condition and develop asset management plans</li> </ul>	<ul style="list-style-type: none"> <li>Staff have experience but no formal qualifications</li> </ul>	<ul style="list-style-type: none"> <li>Upskill staff</li> <li>Use contractors where appropriate</li> </ul>

A resources audit, in conjunction with the skills audit, should identify those parts of the business that need to be improved, enhanced or changed to ensure that it can efficiently meet its objectives. It therefore includes physical assets, systems, procedures, capital, and borrowings.

Adelaide Affordable Homes Inc used the following grid to conduct its resources audit:

### Resources Audit

Element	Resources Required	Resources Held	Strategy to Meet Gap
Physical assets	[List required office space; office equipment; computers etc]	[List current office space; office equipment; computers etc]	[Show when and how gap will be met]
Systems	[Looks at computer systems, maintenance etc]	[Stocktake of current situation]	[Plan of how to bridge the gap]
Procedures	[Eg rent collection; maintenance]	[Details current procedures]	[Shows how any needed development will take place]
Capital	[Identifies current capital resources]	[Uses cash flow budget spreadsheet to project capital requirements]	[Shows mix of grants, equity & borrowings]
Borrowings	[Identifies borrowings in more detail eg annually]	[Shows current borrowings if any]	[Develops a borrowing schedule]

The financial audit is the one you have done each year. It does not need to be done by a registered company auditor unless your Constitution requires it or unless it is necessary in order to comply with provisions of the Associations Incorporations Act or directions of the Corporate Affairs Commission.

**Question 20:** *Has your organisation conducted recent skills, resources and financial audits?*

## 12. Risk Management Plan

A risk is simply an event which may or may not happen and which is likely to have a negative impact on your organisation. Risk management is concerned with four issues:<sup>vii</sup>

- Risk Identification
- Risks Quantification
- Risk Response
- Risk Monitoring and Control.

However, before considering risk management, it is necessary to consider the question of “risk appetite”. How willing is your organisation to take on risk? How much risk are you willing to accept? It is suggested that if you are highly risk-averse, then the Not-for-Profit Housing Providers Program may not be for you. One way of assessing your risk appetite is in fact to develop a Risk Management Plan. Then you will have a realistic assessment of what lies before you and you can make a judgement about whether you are willing to accept the identified risks.

For Not-for-Profit Housing Providers, risks can be classified under a number of headings: financing risks, business capacity risks, human and management capacity risks, infrastructure risks and Government risks. It is likely that in future the OCH will adopt a risk-based regulatory system, which assesses and monitors relative risks of different organisations and regulates them accordingly.

Another risk you will need to assess is the risk contained in the Facilitation Agreement or other legal and financial arrangements you enter into with Government and financiers. How do their requirements affect you? For example, the Facilitation Agreement appears to have step-rights for the SAHT but no step-out rights once difficulties are resolved. Another risk is that you will lose entitlement to RTT concession on commercial properties.

The concept of “risk” and the practice of risk management and risk mitigation should permeate all you do as a Not-for-Profit Housing Provider.

As an example, Adelaide Affordable Homes Inc developed the following elements as part of its Risk Management Plan for its Business Plan:

<b>Risk</b>	<b>Cause</b>	<b>Impact</b>
Interest rate rises exceed tolerance level eg >10% for 12 months	<ul style="list-style-type: none"> <li>• Federal Government economic management</li> </ul>	High
Failure to attract cross-section of incomes in tenant mix	<ul style="list-style-type: none"> <li>• Housing stock not attractive;</li> <li>• Alternatives available to customers</li> </ul>	High
Rent arrears greater than 3%	<ul style="list-style-type: none"> <li>• Tenants unable to afford rents</li> <li>• Insufficient staff to control arrears</li> <li>• Staff not adequately trained to support tenants</li> </ul>	Low in short term

A risk can be assessed on two dimensions: probability and impact. This produces a combined risk score. For example, while the probability of interest rates exceeding 10% for twelve months is low, the impact of this could be severe. Hence, a rating of High Risk should be assigned.

Probability	4	Medium	Critical
	3		
	2	Low	High
	1		
		1	2
		3	4
		Impact	

There are four possible responses to an identified risk – avoid it, transfer it, mitigate it or accept it.

Risk	Avoid it	Transfer it	Mitigate it	Accept it
Interest rate rises exceed tolerance level eg >10% for 12 months	It is outside our control	No one to transfer to	Negotiate loan instruments which cushion impact; increase rents; sell properties to generate cash	It would be unacceptable
Failure to attract required cross-section of incomes in tenant mix	Ensure stock is of a suitable standard, type and location to keep attracting required income mix	No one to transfer to;	Trade stock to generate more attractive mix; Build up reserves to cover bad times	Not acceptable in medium to long term
Rent arrears greater than 3%	Better tenant selection to ensure tenants can afford to/will pay Adequate staff training & numbers	Negotiate tolerant arrangement with funding body	More active management of arrears	Not acceptable in medium to long term
Govt's may change concessions rules	Continually advocate to Govt re necessity of concessions	Not transferable	Advocacy	Not acceptable

As a result of this assessment, the Board of Adelaide Affordable Homes Inc decided to proceed with its application for funding under the Not-for-Profit Housing Providers Program, believing that the risks were acceptable and could be managed.

Risk control involves constant monitoring and review of risks. This is partly a staff function and critically a Board function. The Board should review risks on an ongoing basis. Risk management is an ongoing process as old risks can become superseded and new risks can emerge.

Another accessible approach to risk management is found in the Australian Standard on risk management (AS4360) and associated Handbook, available from Standards Australia ([www.standards.com.au](http://www.standards.com.au)). The framework used by the Standard is as follows:

- Communicate and consult (at each stage of the process)
- Establish the context in which the process takes place
- Identify risks – where, when, why and how events could prevent, degrade, delay or enhance the achievement of the objectives
- Analyse risks – both in terms of controls and consequences

- Evaluate risks – decide what you need to do
- Treat risks – implement cost-effective strategies and action plans
- Monitor and review your plans.

By managing risks well, the Not-for-Profit Housing Providers sector can eventually achieve lower interest rates, leading to higher volumes of output per dollar borrowed.

*Question 21: Has your organisation assessed its “risk appetite”?*

*Question 22: Has your organisation developed a Risk Management Plan for its growth program?*

### 13. Quality Assurance

Quality assurance is a familiar term but it can have different interpretations according to context:

Quality assurance (QA) is about managing business processes so that **both the supplier and the customer are satisfied** with the **quality and consistency** of the goods or services provided. For suppliers, QA means consistent production and delivery of a product or service. For customers, QA nurtures confidence in consistently receiving a product or service that meets their specifications.<sup>viii</sup>

Quality Assurance is the planned and systematic pattern of all actions necessary to provide adequate confidence that the product optimally fulfils customer's expectations. It is the set of activities ensuring that requirements are clearly established and the defined process complies with these requirements.<sup>ix</sup>

#### Benefits of Quality

Truly excellent organisations are those that strive to give consumers greater confidence in the quality of services provided and satisfy their stakeholders by what they achieve, how they achieve it and what they are likely to achieve.

There are many quoted attributes of a quality organisation;

- Customer focused,
- Clear direction and accountability,
- Continuous learning and innovation,
- Valuing people and diversity,
- Collaborative work practices,
- Evidence based decision making; and
- Social and ethical responsibility.

The Service Excellence Program has adopted these principles in developing the Service Excellence standards.<sup>x</sup>

It would be necessary for Not-for-Profit Housing Providers to demonstrate that they have well-thought-out quality assurance and quality improvement systems in place, through including a section in their Business Plan.

The National Community Housing Standards will be of assistance to housing providers along with the Service Excellence Framework.

In South Australia, the Department for Families and Communities has enacted quality assurance principles through the Service Excellence Framework. This applies not only in the housing sector but in many areas of human services such as the disability sector.

**The following explanation is taken from the Department for Families and Communities website:**

*SEII [Service Excellence Version II] is a comprehensive integrated quality management framework, which incorporates a number of essential standards and it builds on the Plan, Do, Check and Act cycle of Continuous Improvement. Service Excellence is a proven model for strengthening and building organisations to facilitate development and improvement. In addition to providing a set of standards, SEII is a systematic and structured approach to quality. SEII is a self-improvement tool for organisations to assess and improve performance.*

The structure of SEII is organised around three categories, which are:

- **Leadership and Management** – strategic planning, governance, policies and procedures and financial and contract management.
- **People, Partnerships and Communication** – effective, safe and accessible service delivery.
- **Service Provision** – meeting strategic objectives and consumer needs through high quality services.

These three key categories are made up of a set of standards that are applicable to most quality management frameworks. In SEII the standards provide the mechanism for both internal evaluation and independent assessment.

It is anticipated that in order to satisfy Not-for-Profit Housing Providers Program expectations in regard to quality assurance, Not-for-Profit Housing Providers will have completed SEF II. However, this has not yet been mandated by OCH or AHU.

**Further information can be obtained from:**

Communications Co-ordinator

Service Excellence Program

Department for Families and Communities

Phone: (08) 8415 4262

Website: <http://www.familiesandcommunities.sa.gov.au/Default.aspx?tabid=801>

[Note: It is understood the Department is reviewing the applicability of SEII to the community housing sector and that a revised approach incorporating the National Housing Standards and SEII may emerge in 2008].

**Question 23:** *Will your organisation benefit from undertaking a quality assurance process, and if so, have you identified a QA process that will best suit your future plans”?*

## **14. Operational Legal and Regulatory Framework**

As discussed above, groups funded through the Not-for-Profit Housing Providers Program may be legally incorporated under one of a number of options. All groups will be regulated in part by the Commonwealth Corporations Law. Groups incorporated under the Associations Incorporation Act will also be regulated by the Office of Business and Consumer Affairs.

It is expected that groups will also be regulated by the Office for Community Housing under the SA Co-operative and Community Act and the SA Housing Trust Act.

Groups will enter into a Facilitation Agreement with the Department for Families and Communities (SA Housing Trust) as well as a mortgage contract with HomeStart or other lenders. The Department will impose a covenant on any land, which is part of the funded project. The lender may require a mortgage over other land owned by the funded group in order to provide adequate security.

You should include details of who regulates you and in what jurisdictions you operate.

It can be seen that regulatory requirements are extensive, with overlapping reporting requirements. This is explored in more detail in the following section.

## **15. Reporting Framework**

Groups funded under the Not-for-Profit Housing Providers Program will need to report to a number of regulatory and/or funding entities on an ongoing basis:

- Office for Community Housing – usually bi-annually
- HomeStart Finance – usually annually
- Office of Consumer and Business Affairs (OCBA) – annually (if an incorporated association)
- Australian Securities and Investments Commission (ASIC) – annually (if a company limited by guarantee)

All of the above will require annual audited financial statements (Balance Sheet and Income and Expenditure Account), except ASIC.

OCBA will require periodic returns from prescribed incorporated associations (which must include the annual financial statements and auditor’s report). Since “prescribed associations” are those with \$200,000 per annum of gross revenue, it is certain that all Not-for-Profit Housing Providers will fall into this category.

ASIC will require an Annual Statement from companies limited by guarantee and may require financial statements under certain circumstances. Regulators usually have the power to request considerably more detailed information and access to organisational records at their discretion. Lenders other than HomeStart may have their own reporting requirements.

Reporting requirements are different if the Not-for-Profit Housing Provider is registered as a housing association under the SA Co-operative and Community Housing Act (SACCH Act).

Reporting requirements for providers not registered under the SACCH Act are specified in the SAHT Facilitation Agreement. Under the amended South Australian Housing Trust Act and South Australian Co-operative and Community Housing Act, reporting requirements under the Facilitation Agreement will be altered.

### **The current requirements are:**

- A report setting out project performance against the relevant performance standards, statistics and reports specified in a schedule to the Agreement
- A copy of audited financial statements and accounts prepared in accordance with relevant accounting standards and legislative requirements including a copy of any auditor's final management letter issued as part of the annual audit
- Declarations that over the previous financial year the provider has complied with all legal, financial and other reporting requirements to which it is subject including complying with any relevant Australian taxation office requirements.

Additional reporting requirements are specified in Schedule 3 (Annual Performance Reporting) to the Facilitation Agreement.

Funded agencies are required to certify each year that they have met specified Performance Outcomes, or to disclose which Outcomes they have not met and the steps being taken to ensure the Outcomes can be met. **The Schedule also requires the production of the following statistics:**

- Average Vacancy Rate per house supplied – number of days (or weeks) Project houses are vacant divided by 365 (or 52) divided by number of houses
- Bad Debts – amount of debt written off in a year as a percentage of total rent due
- Administration Expenditure as a percentage of total rent due (admin expenditure is all expenditure other than maintenance, rates & taxes, debt servicing payments (P+I)).
- Categories of tenant housed per year over year as a percentage of available supply.
- Number of Weeks Occupation by each Tenant Category per House as a percentage of 52 – sum of each category percentage plus Vacancy percentage per annum = 100%.
- Responsive Maintenance as a percentage of Total Rent Due

(In respect to these statistics where the Agency is required as a result of other funding arrangements with the Minister to report regularly to the Minister it may elect to meet its obligation to provide these statistics on each Project by providing similar statistics on all its housing including Project Properties).<sup>xi</sup>

**The Facilitation Agreement notes that:**

To the extent that any of the above requirements are reporting requirements the Agency has to the Minister under legislation or another agreement and provided these other reports cover Project Properties those reports will serve to meet the relevant obligations under this Agreement.

In other words, the reporting requirements are organised in such a way that duplication is avoided.

Current annual reporting requirements for providers registered as housing associations under the SACCH Act are specified in the Funding Agreement

<b>Report</b>	<b>Due date</b>
CHO Budget	31 May
Maintenance plan	31 May
Data collection including segmented waiting list 30 September	31 July
Notification of authorised Person	30 September
Audited Financial Statements Or Annual Report	30 September

Although funded by SA Affordable Housing Trust, Not-for-Profit Housing Providers will be regulated by, and report to, the Office for Community Housing as the government housing regulator for non-profit housing.

New reporting requirements may possibly emerge from the Business Capacity Analysis commissioned by Office for Community Housing in 2007.

This will include the development of appropriate measures and indicators that can demonstrate an organisation's financial, business and service performance. The Office for Community Housing will develop a risk-based improvement system to effectively regulate and improve Not-for-Profit Housing Providers' risks and capacity. However, at the time of writing, this work was yet to be undertaken. An amended version of the Business Planning Kit will be developed once this work has been undertaken.

Boards will require monthly reporting that shows progress against the targets and expectations specified in your Business Plan. It is possible that the regulator and the financier will require these reports too.

***Question 24:** Do your Board and Management Team understand their reporting requirements and that these will change? Have you identified which reports you will need to provide to which regulators and how often?*

## **16. Budget over Timeframes and Financial Planning Tool**

This section of the Business Plan can be developed using the cash flow spreadsheet, which will be found on the enclosed CD.

The spreadsheet enables you to enter your own values for certain variables including capital construction or purchase costs, the value of loans, tenant incomes, rent levels, projected annual increase in rent, the number of properties in your project and average vacancy and bad debt levels.

The financial planning tool – which is incorporated into the spreadsheet - is designed to assist you in developing your Business Case and Budget over Timeframes.

The tool allows you to input various client profiles and income mixes and allows you to differentiate different Council rates and partnership arrangements which affect required borrowing levels.

The spreadsheet will calculate your expected cash flows over a twenty-year period. As well as demonstrating project viability and allowing you to assess your borrowing capacity, it becomes a

benchmark against which you can measure your progress and effect any adjustments over the life of the project.

*Question 25: Has your organisation prepared a cash flow budget for the project?*

## 17. Performance Evaluation

As mentioned, a Business Plan is a dynamic working document, to be used by the organisation to assess its progress and respond to change and variation in the real world. It is not a static document, just sitting on the shelf. Performance must be evaluated along three vectors – financial, business and service. Be aware that Office for Community Housing will evaluate your performance along these vectors.

However, it is necessary to **plan** for the Business Plan to be a living document – it doesn't just happen.

In this section of your Business Plan, you will need to show how you will measure the progress of your Business Plan. You will want to know if objectives are being met, and if not, why and how are you going to respond to that?

See the Business Plan as a learning tool – what can we find out from it? How can we adjust and do better? In other words, continuously evaluate your performance.

**For example, Adelaide Affordable Homes Inc planned to evaluate its performance against the Business Plan as follows:**

- The Business Plan is a monthly agenda item at Board meetings
- A condensed version of the Business Plan is used, showing specific objectives by timeframes, assessed against progress using agreed performance indicators and measures
- The Executive Officer is required to report each month against objectives
- Financial and other reports are tabled each month and studied by the Board
- There is a section in the Annual Report entitled Performance Evaluation against the Business Plan, detailing successes, shortcomings and adjustments
- The Plan is updated each year
- Every two years the Board holds a special meeting at which a mini-plan is developed using the framework in this Kit eg in regard to the environment and SWOT analysis
- An independent expert is engaged to provide an objective external perspective on performance and recommend change once every five years
- A thoroughly overhauled plan is produced once every five years.

*Question 26: Has your organisation included a section in the Business Plan on how you plan to evaluate your performance and progress against the Plan?*

## 18. Business Case (Individual Projects)

A Business Case should be prepared in respect of each project that you undertake. The Business Case should be consistent with the Business Plan.

A lender will expect you to prepare a Business Case before lending you money for a specific project, so that they can assess the viability of your proposal. You may, of course, apply for funding for a number of different projects, over a number of years.

Sometimes a Business Case can be about assessing the relative merits of two or more different possibilities and arguing the case for a particular project.

The Business Case explains the reasons why the organisation is setting out to do a certain project and how it will do it.

The following definitions may also assist you to understand what a Business Case consists of <sup>xii</sup>:

### **Queensland University of Technology**

A Business Case provides a methodology for assessing the economic, social, environmental and financial impact of significant projects/proposals. All the impacts associated with a project/proposal are identified and, where possible, costs and benefits are valued in monetary terms. This allows management to select the project that provides the maximum net benefit to QUT.

The purpose of the Business Case Framework is to improve the quality of services, to ensure value for money, and to rank competing projects, where appropriate, in the context of the limited resources available to QUT. This objective can be achieved through the preparation of a structured Business Case that:

- clearly defines project objectives, and considers a wide range of options to meet these objectives;
- links the project/proposal to the strategic objectives of QUT by considering issues such as growth in student numbers; growth in staff numbers; and the adoption of new technologies;
- identifies the net benefit of the project/proposal to the QUT's community, and the impact on QUT's budget; and
- formally documents strategies and accountabilities for ensuring the identified benefits are realized.

### **NSW Premier's Department**

A 'business case' is a form of advice to executive decision-makers. It is a substantiated argument for a [specific] project, policy or program proposal requiring a resource investment, often including a financial commitment. It sets out:

- the problem or situation addressed by the proposal;
- the features and scope of the proposed initiative;
- the options considered and the rationale for choosing the solution proposed;
- the proposal's conformity with existing policies, etc;
- the implementation plan;
- the expected costs;
- the anticipated outcomes and benefits; and
- the expected risks associated with the proposal's implementation.

Obviously, much of the above is covered elsewhere in your Business Plan and does not need to be repeated. You should focus on the reason why you want to do what you plan to do.

**For example, Adelaide Affordable Homes Inc developed the following introductory statement for its Business Case:**

*At the present time, Adelaide Affordable Homes Inc has a waiting list of 200 families and individuals for affordable housing. A substantial proportion of these are reliant on Disability Support Payment. These applicants face significant hurdles – they are unable to afford home ownership or private rental accommodation; they often find that private accommodation does not meet their needs for disability-sensitive buildings either externally or internally; and there are long waiting times for public housing. Demand has been growing, especially for suitable stock in the north west quadrant of Adelaide. The Association wishes to grow in order to meet this demand. Thanks to previous bequests and donations, the Association can contribute a substantial proportion of the capital cost. Opportunities to construct purpose-built dwellings on vacant land in the target area have been identified.*

The introductory statement is then followed by substantial detail justifying the project.

## **PART D – ATTACHMENTS TO YOUR BUSINESS PLAN**

When submitting your Business Plan to HomeStart and the AHIU, you should include certain attachments as required by those entities. Much of the information listed in the current CommunityStart Checklist and the AHIU Expressions of Interest documents will already be included in your Business Plan, if you follow the above guidelines.

**HomeStart requires the following, in addition to the Business Plan:**

- Organisation Details
- Copy of Certificate of Registration for Incorporation
- Copy of Constitution
- Copy of SACHA registration (if applicable)
- Minutes of Board Meeting authorising the application for finance
- Copy of Management Excellence Rating (if applicable)
- Annual Reports from the last 3 years OR
- Audited financial statements from the last 3 years (Balance Sheet, Profit & Loss, Statement of Cashflows)
- Interim financial statements (only required if latest financials are greater than 6 months old)
- Forecast financial statements for next 12 months
- Project Details
- Project proposal document
- Copy of recent valuation on property to be offered as security (if available)
- Building plans and contract (if available)
- Letter from appropriate body confirming details of grant/funding/equity financing
- Rates Notice and Title details (if available)
- Any other documentation relevant to your application

**The AHIU requires the following, in addition to the Business Plan:**

**Contact information**

- Name of organisation
- Australian Business Number (ABN)
- Address: Street and postal
- Name of Chief Executive Officer and the principal contact person for this project including their position title, telephone number, facsimile number, main e-mail address
- Details of partner organisation if the project is to be carried out with another organisation.

**Organisational capacity and experience****Property related experience:**

- Details of expertise and experience in:
  - Property acquisition and development
  - Property management
  - Working with Government including appropriate references/referees;
  - Managing a number of properties (list number, type of housing, target groups, funding program or source of funding).

**Governance arrangements**

- Details of any accreditation under the South Australian Co-Operative and Community Housing Act
- Details of any code of conduct governing the organisation's operations.

**Financial capacity**

- Details of financial capacity (financial statements and other information), including financial references/referees
- Details of capacity to contribute equity to a project (cash and/or property assets)
- Details of proposal to raise any debt financing required to fund project capital requirements.

**Human resources**

- Full details of the personnel (including their experience) who would participate in the proposed consultative process, and who are likely to be involved in the development and management of an affordable housing project.

**Affordable rental housing philosophy**

- Details of the organisation's affordable rental housing philosophy and in particular current/preferred approach to:
  - setting affordable rents
  - proposed tenant selection processes
  - property management and achieving successful housing outcomes for tenants
  - managing and maintaining tenant access to CRA
  - monitoring operational performance including suggested performance
  - benchmarks to assist long term government supervision of operational
  - performance and subsidy provision
  - appeals processes by tenants.

**Need for the project**

- Brief description of the project, including:

- How many households will be assisted
- Whether it is targeted to a specific needs group
- The need for this project in the location and how that need has been identified.

**Project resources and feasibility**

- Details of land or properties identified for the project, including details of location, current ownership and suitability for affordable housing for the target group
- Access to non-housing support services required by the tenants to be targeted
- Status of the project proposals (extent to which implementation may have begun).

**PART E – CONCLUSION**

The aim of this Business Planning Kit has been to give potential Not-for-Profit Housing Providers the information they require to develop a robust and useful Business Plan. The Business Plan will not simply be a document you present to HomeStart and the AHU in order to secure funding – it should be a living guide to action and a benchmark against which to assess your progress on a long-term basis. It should be bread-and-butter of Board meetings, into the future.

## **PART F: SUMMARY OF QUESTIONS FOR THE BOARDS OF NOT-FOR-PROFIT HOUSING PROVIDERS TO RESPOND TO:**

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## PART G – REFERENCES

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<sup>i</sup> <http://www.business.gov.au>

<sup>ii</sup> NFP Not-for-Profit Housing Provider Program Information Session, 28<sup>th</sup> March 2007 and follow-up correspondence

<sup>iii</sup> Directors and Officers Insurance – How Often Will It Be A “Recoverable Asset” Available To A Liquidator?, Michael Quinlan, Partner Allens Arthur Robinson, 15 March 2002, <http://www.aar.com.au/pubs/insol/insmar02.htm>

<sup>iv</sup> See SA Co-operative and Community Housing Act, Sections, 6, 59, 73, 74, 82, for example. Also Associations Incorporation Act, Sections 3A, 40A, 40B, 41, 41D, 41E, 49AF. And also see the Regulations to these Acts.

<sup>v</sup> [http://www.rfs.nsw.gov.au/file\\_system/attachments/State/Attachment\\_20050308\\_EF1FBF86.pdf](http://www.rfs.nsw.gov.au/file_system/attachments/State/Attachment_20050308_EF1FBF86.pdf);  
[http://www.cit.act.edu.au/curve/publications/environmental\\_scan/](http://www.cit.act.edu.au/curve/publications/environmental_scan/) ; <http://www.unisa.edu.au/pas/qap/es/default.asp>

<sup>vi</sup> [http://www.business.vic.gov.au/BUSVIC/STANDARD/1001/PC\\_60036.html](http://www.business.vic.gov.au/BUSVIC/STANDARD/1001/PC_60036.html)

<sup>vii</sup> [http://www.projectperfect.com.au/info\\_risk\\_mgmt.php](http://www.projectperfect.com.au/info_risk_mgmt.php)

<sup>viii</sup> [http://www.qgm.qld.gov.au/08\\_qa/index.htm](http://www.qgm.qld.gov.au/08_qa/index.htm)

<sup>ix</sup> <http://www.quality.org.au/>

<sup>x</sup> Department for Families and Communities, Benefits of Quality,  
<http://www.familiesandcommunities.sa.gov.au/Default.aspx?tabid=1135>

<sup>xi</sup> The expression “rent due” may be confusing as in accounting terminology this may simply refer to rent currently unpaid. A better expression might be “rent charged”.

<sup>xii</sup>

[http://64.233.167.104/search?q=cache:mr\\_mpVpDpg4J:www.frp.qut.edu.au/exec/documents/bc\\_guidelines\\_template.doc+business+case&hl=en&ct=clnk&cd=3&gl=au](http://64.233.167.104/search?q=cache:mr_mpVpDpg4J:www.frp.qut.edu.au/exec/documents/bc_guidelines_template.doc+business+case&hl=en&ct=clnk&cd=3&gl=au) ;  
[http://www.premiers.nsw.gov.au/our\\_library/employment\\_conditions/BCaseguidelines.pdf](http://www.premiers.nsw.gov.au/our_library/employment_conditions/BCaseguidelines.pdf)