

Annual Regulatory Assessment Report 2017/18

Coromandel Independent Living Trust

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Executive Summary

This report contains the outcome of the Community Housing Regulatory Authority's (the Authority's) assessment of your compliance with the prescribed Performance Standards, as set out in schedule one of the Housing Restructuring and Tenancy Matters (Community Housing Provider) Regulations 2014.

We are pleased to confirm that Coromandel Independent Living Trust has successfully demonstrated ongoing compliance with the prescribed Performance Standards. Our assessment of your organisation's compliance with the Performance Standards is outlined in the following pages.

Further information about our annual monitoring and reporting process can be found on our website: <http://chra.mbie.govt.nz/assets/Uploads/Annual-Monitoring-and-Reporting-Framework-2017-18.pdf>

Additional Recommendations and Requirements

While your organisation has shown ongoing compliance with the Performance Standards, we have identified some areas of improvement we would like your organisation to work on. You will find these in the grey box under the relevant Performance Standard, along with a proposed timeline to make these improvements.

These include:

- An updated Fraud and Corruption Policy to include other types of criminal behaviour;
- Providing further information in regards to the Trust's Lease Agreement with the Thames Coromandel District Council;
- Confirmation of current compliance with the Residential Tenancies Act 1986 and associated Regulations in respect of both insulation and smoke alarms; and
- Updated policies and procedures in regard to insulation and smoke alarms.

Compliance with the Performance Standards

1. Governance

The Governance Performance Standards are as follows:

1 Governance	
1.1	For the purpose of ensuring that it is well-governed at all times, the registered Community Housing Provider (the provider):
	a) has an identified group of suitably skilled people responsible for its governance
	b) has documented systems and processes that include:
	i) strategic, operational, and financial planning documents
	ii) quality and risk management plans and mitigation strategies
	iii) effective, transparent, and accountable arrangements and controls for decision making
1.2	The provider ensures that the governing body:
	a) has access to relevant external expertise as required
	b) complies with legislative, regulatory, and legal requirements
1.3	The governing body understands the financial status of the provider at all times
1.4	The provider:
	a) acts with integrity in its business activities and maintains high standards of probity relating to its business activities
	b) establishes and administers a code of conduct for its employees and members of the governing body
	c) establishes and administers a system of employment and appointment checks
	d) establishes and administers a system for preventing, detecting, reporting, and responding to instances of fraud, corruption, and other criminal conduct by employees and members of the governing body
	e) identifies and abides by relevant accounting and auditing practices
	f) does not bring the reputation of the community housing sector into disrepute

Comments/Areas of improvement

The Authority is satisfied that Coromandel Independent Living Trust (CILT) has demonstrated compliance with the Governance Performance Standards.

CILT's accounts have been audited by M.A. Burt in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). This demonstrates compliance with Performance Standard 1.4(e).

The Trustee's Minutes appear to show good governance practices are in operation and demonstrate compliance with the Performance Standards. The Authority notes that:

- The Board regularly considers Health and Safety, in keeping with the provisions in the Health and Safety at Work Act 2015;
- Conflicts of Interest are declared, ensuring compliance with Performance Standard 1.4(a);
- CILT's Board maintains consistent oversight of its financial status, including seeking clarification of loans, and the level of risk involved in the ReUse Centre, which demonstrates compliance with Performance Standard 1.3;
- CILT's Board has sought expert advice on GST in regards to all of CILT's income, which demonstrates compliance with Performance Standard 1.2(a); and
- The Board has reviewed the 2016-2019 Strategic Plan progress with an action to write a new one in the following year. This demonstrates ongoing compliance with Performance Standard 1.1(b)(i).

Health and Safety at Work Act 2015

This year, the Authority has requested updated policies and procedures from our registered CHPs that show how they intend to meet the requirements in the Health and Safety at Work Act 2015.

In response, CILT has provided its Health & Safety Policy. This is very comprehensive, and appears to show that CILT understands its obligations in regards to health and safety. The policy references the legislation, and outlines the duties of the Health and Safety Officer, Health and Safety Coordinator, and Workers. Workers include all CILT's employees, volunteer workers, contractors and sub-contractors. All contractors must be inducted into CILT's health and safety policies and procedures, and be added to CILT's Contractor Register.

The policy outlines the duties of CILT. This includes:

- acquire and maintain up to date knowledge of health and safety matters;
- ensure all workers are inducted in the health and safety policies and procedures;
- ensure appropriate resources are available to identify any risks to health and safety and, so far as is reasonably practicable, eliminate or manage these risks;
- provide education and training in the correct use of all equipment and materials;
- maintain an up to date Hazard Register; and
- regularly monitor the workplace to confirm a safe working environment is maintained and undertake reviews and audits.

The policy also includes sections on Risk & Hazard Identification, Assessment & Management, as well as relevant templates (CILT Risk Assessment Worksheet, Hazard Register Template, and Notifiable Event and Hazard Reporting Form), which all appear to be appropriate and fit for purpose. We also note that all known hazards will be reviewed annually.

The Authority is satisfied that the Health & Safety Policy demonstrates compliance with the requirements under the Health and Safety at Work Act 2015.

Fraud and Corruption Policy

The Authority requested an updated Fraud and Corruption Policy that has been broadened to include other types of criminal behaviour (eg physical violence).

CILT submitted a new Fraud and Corruption Policy that was approved 11 September 2017. The Authority has reviewed this policy and cannot see any inclusion of other types of criminal behaviour as required under Performance Standard 1.4(d).

We therefore continue to require a section on criminal conduct be included. It should not be too problematic to update your existing policy, as the same notification, investigation, and disciplinary procedures would probably apply. The Authority requires the updated policy to be submitted within three months of this report. We also recommend you consider renaming your existing policy to Fraud and Criminal Conduct Policy to reflect the inclusion of broader types of criminal behaviour.

Risk Register

The Authority requested an updated Risk Register that includes mitigation strategies for each risk and assigning responsibility for implementing these strategies to a specific role(s) within the organisation.

CILT provided a new Risk Register Snapshot document that is to be included in the agenda for all future Board of Trustee meetings. The Risk Register Snapshot includes risk source, risk evaluation, the issue, the person responsible, recommended action, action taken, and date issue closed. The Authority considers the Risk Register Snapshot and its tabling at Trustee meetings are sufficient to meet our requirements to include mitigation strategies and assignment of risk responsibilities within the Risk Register. A copy of the November Trustees meeting agenda was also provided that referenced the Risk Register Snapshot, demonstrating that the updated policy is being applied in practice.

The Authority also recommended that further consideration be given to developing a separate section in the Risk Register on solely housing related risks. CILT has not provided any update on this. We continue to recommend that CILT include specific housing risks (such as long term vacancies, etc) and develop a separate section on housing related risks within the Risk Register. Registered social landlords need to be able to demonstrate active consideration of the types of housing specific risks that may impact the long term viability of their organisation.

Improvements and recommendations required	Timeline
Requirement: Provide an updated Fraud and Corruption Policy to include other types of criminal behaviour Recommendation: Rename your policy to Fraud and Criminal Conduct Policy	Within three months of this report N/A
Recommendation: Develop a separate section on specific housing related risks (such as long term vacancies, etc) in the Risk Register	N/A

2. Management

The Management Performance Standards are as follows:

2 Management	
The provider is managed in a safe, efficient, and effective manner at all times, and for that purpose the provider has documented systems and processes to ensure that:	
a)	appropriate accountability measures in respect of decision making, probity, and service delivery are in place and monitored
b)	the outcomes for tenants are appropriate, measurable, and monitored in relation to the following:
	i) affordability
	ii) access to information
	iii) access to services (including a complaints process)
c)	the provider can demonstrate that Crown funding for the purchase of tenancy services is used for tenancy services
d)	there is an appropriate management structure, and systems, policies and procedures are in place to ensure that -
	i) the operational needs of the business can be met
	ii) intended outcomes of its business can be achieved

Comments/Areas of improvement

The Authority is satisfied that CILT has demonstrated compliance with the Management Performance Standards.

The Authority is not aware of any changes to the management of CILT. In the absence of any changes to existing policies and procedures, the Authority considers that the policies and procedures submitted at the time of registration are sufficient to demonstrate on-going compliance with the prescribed Management Performance Standards.

Improvements required	Timeline
Nil	N/A

3. Financial Viability

The Financial Viability Performance Standards are as follows:

3 Financial Viability	
The provider demonstrates that financial viability and solvency at all times, and for that purpose the provider has documented systems and processes to ensure that:	
a)	there is a viable capital structure
b)	appropriate financial performance is maintained
c)	financial risk exposure is managed

Comments/Areas of improvement

In last year's monitoring, the Authority requested clarification from CILT on the degree of certainty with which its income streams from contracts and grants can be expected to continue in the future.

CILT responded as follows:

'CILT has been operating for over 21 years and holds several high trust outcome agreements with MSD, MOE. Regular funding is sought from philanthropic trusts, Lotteries, Trust Waikato, etc. CILT has good reputation with funders and provides clear accountability of funding received'.

The Authority appreciates the nature of the funding agreements CILT holds with various funders and that your organisation seeks regular funding from philanthropic trusts and other agencies. Our focus as the regulator is on the long term financial and operational viability of CILT and how to best assess this within CILT's funding realities. With these considerations in mind, and although CILT would have made a small operating loss of \$27,000 without capital funding, we are satisfied with the explanation provided and that CILT has demonstrated compliance with the Financial Viability Performance Standards for 2017/18.

The Authority also requested clarification from CILT about whether it owns the land on which its buildings are situated.

CILT responded as follows:

'The land is owned by local Council: Thames Coromandel District Council (TCDC). CILT provided the Deed re Sale and Purchase of Units and Variation of Lease held with TCDC, along with a Lease – Coromandel Independent Living Trust - Letter Recording Rent Review – 505 Kapanga Road, Coromandel'.

The Deed records that the 'Land means the land situated at 505 Kapanga Road, Coromandel comprising 2643m² more or less being Lot 1 on DPS 15996 Identifier SA 14d/644 but does not include the Units'. Under the lease, the yearly rental payable shall be reviewed every three years and remains unchanged at \$350 per annum (plus GST) with effect from 17 January 2017. CILT purchased the Units for \$96,329.58 plus GST and arranged loans with Housing New Zealand Corporation for the purchase of the Units, to carry out immediate repairs to the existing units and erect seven new units.

The Authority also notes that under Section 4.3(d) of the Lease, 'Upon termination of this Lease for any reason...the ownership of Units shall pass to the Council without any form of compensation being payable to the Trust...' This raises concerns regarding CILT's ability to retain control of its units and ensure stability of tenure for its tenants. To ensure that these concerns are addressed, the Authority requires CILT to:

- add this as a risk to your Risk Register for consideration by the Board; and,
- provide further information on the likelihood of such a termination occurring and what the Trust would do in this circumstance to ensure:
 - ongoing viability of your organisation (given that the rental income from the units is a significant source of income for the Trust); and,
 - tenants remain appropriately housed.

The Authority requires this information within three months of this report.

The Authority's Financial Advisor has assessed CILT's audited financial statements. A summary of this assessment is as follows:

- The audited financial statements for the year ended 31 December 2016 record CILT to be financially viable and CILT is recorded as being in a satisfactory position.
- The audited financial statements record CILT to operate at a surplus and to be both balance sheet and cash flow solvent.
- CILT recorded a surplus of \$152,000 in 2016 but this was after taking account of capital grants of \$179,000. Without the capital grants, CILT incurred a small operating loss of \$27,000 (compared to a modest surplus of \$22,000 in 2015).
- Although a one off loss of \$27,000 is not ideal, the explanations that have been given on CILT's income streams are satisfactory. However, this should be monitored to ensure this loss does not continue indefinitely.
- CILT appears to have annual expenses of approximately \$800,000 and needs an equivalent amount in income to cover those costs.
- CILT is dependent on income from contracts with MSD and MOE and grant income from DIA and WDHB to cover its operating expenses. Any loss of income from those sources would have a significant detrimental impact on the ability of CILT to cover its expenses.
- In addition to the audited financial statements CILT also provided supplementary income statements on the pensioner flats. These record the rental income earned and expenses incurred on the pensioner flats for each year for the years ended 31 December 2013 – 2016 and for each month for the months of January 2017 – September 2017. These record a small surplus being earned on the pensioner flats. The rental income is recorded as being sufficient to cover the related costs (including an allocation of CILT's administration costs). This is positive but the rental surplus cannot be considered in isolation from the overall position of CILT.
- CILT is in a satisfactory financial position. It has total assets of \$1.74M funded by equity of \$540,000 and debt of \$1.2M. This is an equity ratio of 31% which is satisfactory given the nature of the organisation its assets and the liabilities.
- The liabilities of \$1.2M include a suspensory loan of \$380,000 and deferred income of \$135,000. Under normal operating conditions neither of these amounts would be expected to be required to be repaid in cash.
- Excluding the suspensory loan and the deferred income, the remaining liabilities total only \$685,000 and the equity ratio would be 61%, which is more than satisfactory.
- The only asset of any significance is land and buildings with a book value of \$1.5M. This includes the social housing flats with a book value of \$1.24M. Book value is based on depreciated historic cost. Market value is not known but in the current climate is likely to be in excess of book value.
- Two HNZN loans are secured against the properties, specifically the social housing flats. The loans total \$890,000 and represent an LVR of 72% which is not unreasonable. The HNZN suspensory loan of \$380,000 will be fully discharged on 16 November 2037 if all obligations are performed under the Facilities agreement in respect of the Housing Innovation Fund Assistance. The HNZN Term Loan is interest free for the first 10 years to 16 November 2022. Monthly repayments are \$2,582 and it matures on 16 November 2037. Excluding the suspensory loan, the HNZN term loan of \$510,000 represents an LVR of 41%, which is quite conservative and under current market conditions any maturing loan should be able to be refinanced relatively easily (albeit perhaps not quite as freely as had previously been possible).
- Excluding the HNZN suspensory loan, HNZN term loan and deferred income (which will not require a cash outlay) the only other liabilities are trade creditors and an annual leave accrual. These two

amounts total \$174,000. This shouldn't pose any great problem. The annual leave accrual included in the \$174,000 is \$66,000 and in all likelihood will be settled by staff taking leave rather than being paid out in cash. The amount of cash on hand and debtors receivable of \$148,000 is sufficient to settle the remaining creditors of \$108,000.

- The statement of cash flows is not as informative as it might be and on its face there appears to be a disconnect between the size of the cash transactions recorded in the statement of cash flows and the income and expense figures recorded in the income statement. Gross operating cash flows are approximately \$250,000 compared to income and expense figures of \$700,000 (excluding the capital grant). Also there is a figure entitled "cash flows from other investing and financing activities" \$211,150 which is not further explained.
- Clarification was sought from CILT regarding these figures: Firstly, there has been netting off of cash payments against cash receipts rather than recording the gross cash received from revenue sources. The gross amount of cash revenue received before this offsetting is quite closely aligned to the revenue figure in the income statement. The reason for the offsetting is not apparent from the exchange of emails but the explanation provides sufficient clarification of the disconnect from the income statement for present purposes and need not be pursued further. Secondly, part of the revenue in the income statement was in the form of a capital grant, which has been classified as investing activity in the statement of cash flows. This is compliant and resolves that aspect.
- The statement of cash flows records positive cash flows from operating activities (albeit quite small) and there is no indication of any inability of CILT to pay its debts as they fall due (perhaps aided by the capital grant).

Conclusion

- CILT is recorded in the audited financial statements as being in a satisfactory financial position with a satisfactory financial structure and borrowing at a satisfactory level and conservative LVR. CILT is recorded as being both balance sheet and cash flow solvent. CILT is recorded as operating at a surplus, although this was enhanced by the receipt of capital grants without which a modest deficit was recorded. A one off deficit is noted and the Authority will continue to monitor CILT's finances through annual monitoring to ensure the ongoing financial viability of CILT.

Insurances

CILT has provided evidence that appropriate insurances are in place. CILT has material damage for properties and management liability insurance covering association liability, statutory liability, employer's liability etc, as well as commercial motor vehicle insurance, with AIG. All insurances are valid to 27 September 2018.

Improvements required	Timeline
<p>Requirements:</p> <p>In regards to the Trust's Lease agreement where upon termination of the lease for any reason... the ownership of Units shall pass to the Council:</p> <ul style="list-style-type: none"> • Add this as a risk to your Risk Register for consideration by the Board; and, • provide further information on the likelihood of such a termination occurring and what the Trust would do in this circumstance to ensure: <ul style="list-style-type: none"> ○ ongoing viability of your organisation (given that the rental income from the units is a significant source of income for the Trust); and, ○ tenants remain appropriately housed. 	<p>Within three months of this report</p>

4. Tenancy Management

The Tenancy Management Performance Standards are as follows:

4 Tenancy Management	
The provider has documented systems and processes to ensure that:	
a)	the provider complies with all relevant legislative requirements (including the Residential Tenancies Act 1986)
b)	the tenancy management process is transparent and responsive
c)	confidentiality of all tenancy information is maintained

Comments/Areas of improvement

The Authority is satisfied that CILT has demonstrated compliance with the Tenancy Management Performance Standards.

The Authority is not aware of any changes to the tenancy management of CILT. In the absence of any changes to existing policies and procedures, the Authority considers that the policies and procedures submitted at the time of registration are sufficient to demonstrate on-going compliance with the prescribed Tenancy Management Performance Standards.

Improvements required	Timeline
Nil	N/A

5. Property and Asset Management

The Property and Asset Management Performance Standards are as follows:

5 Property and Asset Management	
The provider manages its community housing assets in a manner that ensures properties are suitable, and for that purpose the provider has documented systems and processes to ensure that:	
a)	changing housing needs are determined and plans for asset acquisitions, disposals, and reconfigurations to respond to those in need are in place
b)	relevant property condition standards are set, measured and met on an on-going basis
c)	cyclical and life-cycle maintenance to maintain property conditions is planned and undertaken in a timely manner
d)	the provider complies with all relevant legislative requirements (including, but not limited to, the Building Act 2004, the Building Regulations 1992, and the Residential Tenancies Act 1986)

Comments/Areas of improvement

The Authority is satisfied that Trust has demonstrated compliance with the Property and Asset Management Performance Standards.

Insulation and smoke alarms

In response to recent legislative changes, the Authority requested updated policies and procedures to meet the requirements in regard to insulation and smoke alarms.

CILT provided an updated Housing Policy. It appears that this has been updated to include further responsibilities under section 1.3.5 *Responsibilities of CILT as Landlord*. This now includes f) *Comply with all building, health and safety standards that apply to the premises*.

Although this is a good start, the Authority requires your organisation to further update the Housing Policy to meet the specific requirements under the Residential Tenancies Act 1986 and Residential Tenancies (Smoke Alarms and Insulation) Regulations 2016 (Regulations). Whilst it is not the intention of the Authority to be prescriptive, we have provided the following information, which your organisation may like to consider when updating your Housing Policy.

In respect of insulation:

- Provide a landlord's statement on insulation as part of all new Tenancy Agreements;
- Ceiling and underfloor insulation will be in all rental homes from 1 July 2019 where it is reasonably practicable to install (or from 1 July 2016, for all IRRS tenancies);
- The insulation installed will be qualifying insulation under the Regulations (see sections 12 and 13 of the Regulations with regard to ceiling insulation, and sections 15 and 16 in respect of underfloor insulation);
- The only instances in which the qualifying installation will not be installed in a property is if one of the exceptions in Sections 18-21 applies;
- The installation of insulation will take place in accordance with relevant standards (i.e. NZS 4246:2006 where applicable); and,
- Electrically conductive insulation will not be installed in any property.

In respect of smoke alarms:

- Smoke alarms will be installed in all CILT's properties;
- There will be a smoke alarm installed in every sleeping space of within three meters of the entrance to the sleeping space;
- There will be at least one qualifying smoke alarm installed on the storey or level in the habitable space or in at least one of the habitable spaces (as the case may be);
- All smoke alarms will be 'qualifying smoke alarms' as set out in the Regulations (for both battery smoke alarms and hard-wired smoke alarms, as appropriate); and,
- Tenants have certain responsibilities under the Regulations (see sections 9 and 10 of the Regulations).

The regulations are available at:

<http://www.legislation.govt.nz/regulation/public/2016/0128/16.0/DLM6856201.html>

We also require confirmation you are currently compliant with the regulations in respect of both insulation and smoke alarms within six weeks of this report. Please note that for insulation, all IRRS tenancies should have been compliant by 1 July 2016 and all other tenancies must be compliant by 1 July 2019.

We require the updated policies and procedures in regards to insulation and smoke alarms within three months of this report.

Property and asset management

For this year's annual monitoring round, the Authority sought further information on how providers were meeting the Property and Asset Management Performance Standards in practice. To this end, we requested that all registered providers submit the following:

- Maintenance schedules for 2016/17 and maintenance work planned for 2017/18
- Five Property Inspection Reports
- Maintenance Expenditure Reports for 2016/17.

CILT has responded as follows:

Maintenance Schedule for 2017 and work planned for 2018

The Maintenance Schedule identifies maintenance work for 2017, where this is needed and whether this has been completed. Work planned for 2018 is recorded using the same format. Work includes landscaping, painting, electrical, and other standard maintenance. This appears to be reasonable and organised maintenance for CILT's properties. CILT also provided a Totalspan carport construction contract

and noted that new ramps have been installed into each unit and a 3 car carport was built on site during the past 12 months.

Five Property Inspection Reports

The five Property Inspection Reports provided appear to show that appropriate inspections are undertaken. The unit’s address and date of inspection are noted; the report covers each area of the property and if there are any faults, these are recorded. The Authority notes that on some reports, faults are recorded, whereas on other reports, faults are recorded along with a signature and a tick. CILT may like to consider including an “action taken and/or complete” column, similar to the Maintenance Schedules, as this would make it clear whether action has been taken to remedy the fault. CILT may also like to consider adding testing smoke alarm batteries to its inspection list. The Authority also notes that the reports provided include tenant names and ask that CILT redact this information in future to ensure the confidentiality of all tenancy information is maintained.

Maintenance Expenditure Reports

CILT provided a Repairs and Maintenance Transactions list of property repairs and maintenance for the period 1 November 2016 to 31 October 2017. This covers a wide range of repairs and maintenance and totals \$7,096.55. CILT also provided an Equipment and Running Costs Transactions list for the period 1 November 2016 to 31 October 2017 that totals \$1,084.47.

These documents provide good evidence of continued compliance with the Property and Asset Management Performance Standards.

Improvements required	Timeline
<p>Requirement:</p> <p>In respect of insulation and smoke alarms, we require:</p> <ul style="list-style-type: none"> • Confirmation you are currently compliant with the regulations in respect of both insulation and smoke alarms • Updated insulation and smoke alarms policies and procedures 	<p>Within six weeks of this report</p> <p>Within three months of this report</p>

Further information

Our website has a lot of information to assist your organisation maintain registration as a Class I Social Landlord, which we encourage you to check regularly. We have released a series of Guidance Notes on various aspects of the regulatory process, including Disclosure and Change Reporting obligations. The Guidance Notes can be found at: <http://chra.mbie.govt.nz/about-chra/guidance-notes>.

If you have any questions regarding our assessment of your organisation’s performance, please feel free to contact Toni Regan, Business Advisor on (04) 901 8468 or toni.regan@mbie.govt.nz.