



SACHA CHANGE MANAGEMENT PROJECT: CHCSA UPDATE - JULY 2004

The Change Management Project has now reached the end of its initial 12-month time-line. A meeting was held at SACHA on the 1st of July to provide a summary report, and close the reference groups and steering committee. In response to the work so far, and the views of our members, the CHCSA has submitted a detailed **Position Paper & Recommendations** on all elements of the Project.

In general terms, SACHA regard the Project as having reached a preferred option and/or guiding principles for each of the Project work-streams – Funding Agreement review; Asset Management Strategies and Maintenance; Centralised Application System; and Rents. Clearly, however, there remains considerable work to be done on more detailed modelling and plans for implementing the changes. This means, in effect, the Project will be continuing for at least 6 to 12 months. It is unlikely that any new Funding Agreement or Applications System will ready to go before June 2005 at the earliest.

Below is a summary of where things seem to be up to under the four work streams of **Funding Agreement, Centralised Application System, Asset Management Strategies & maintenance, and Rent** issues:

1. Funding Agreement Review:

The main change here is a proposed shift in the way CHO funding and capital contributions are calculated from CHO rent income. Instead of the current 'split' of recommended operating levy, major maintenance allowance and capital contribution, it is proposed by SACHA that CHOs will draw three amounts out of their rent income:

1. Some 'Property Expenses' funding – based on a % of the capital value of the properties managed
2. Some Administration funding – set at a flat \$ amount, but at a different rate for Co-ops, Associations and Large CHOs.
3. Some Maintenance funding – set at a flat \$ amount per property per week

Number 1 and 2 will basically combine as your CHO's operating funds. Number 3 will be kept separately (as per major maintenance funds currently) and used to fund *all* maintenance work. The balance remaining each month will be remitted as CCs.

There are also some planned changes to reporting requirements, with compulsory Management Plans dropped, some rearranging of due dates, and the introduction of a required annual '**Maintenance Plan**'.

Some of the issues raised by the CHCSA include:

- An immediate need for an increase in Operating Levies, until a new agreement is ready to go. [*This has now happened*]
- That any new funding methodology should be reviewed annually, with a commitment to this in the Funding Agreement itself.
- That the costs to smaller CHOs of paying service providers to do work such as finance management should be recognised in funding policy
- The need for a continued recurrent funding pool for Large CHOs

2. Centralised Application System (CAS):

In essence, SACHA are proposing a system where applicants can approach either a CHO, SACHA itself or a referral agency. The body handling this initial application will have to go through a standardised government eligibility assessment form (perhaps paper or on-line) and forward the applicant details to a SACHA data base. This system would then sort applicants according to criteria such as Category 1,2 or 3, date of application, CHO preference, or area of preference.

CHOs could then access (or be sent, perhaps) information on applicants available who may be suitable to them. The CHO gets in touch with the applicant/s, and starts their own assessment, interview and/or prospective membership process from there. SACHA would use the database to gather information and make reports on applicants 'in the system'.

Response to the SACHA proposals for a CAS have been very mixed, with some Co-ops seeing a potential benefit – like no longer receiving piles of written applications by mail – and some Associations seeing it as unnecessary to them and as interfering in their own established application methods. In response to the latter concerns in particular, the proposed model has been modified to allow for some CHOs to continue to maintain their own waiting lists, outside of the centralised system.

The CHCSA regard the proposed model to date as raising some significant questions and potential problems, and without more information it is very difficult to make any kind of sensible judgement on it, and that itself is a problem. Amongst our particular concerns are:

- The added costs of establishing and operating the system (at a time when CHO financial viability is very tight)
- The untested nature of a web-accessible data base; and its capacity to sort applicants and manage a list to provide meaningful information to CHOs while also protecting applicant confidentiality

3. Asset Management Strategies & Maintenance Funding

The Asset Management work stream of the CMP covers two related areas, the development of a Strategic Asset Management Plan for the sector, and changes to maintenance funding arrangements. We'll consider these two separately:

Strategic Asset Management Plan:

A draft Plan has been submitted to the SACHA Board for consideration. The Plan suggests two levels of asset management work and decision making in the sector:

- At the CHO level: including 'ensuring assets meet client needs', 'maintaining stock' and 'planning for future growth and/or consolidation'
- At the 'whole of sector level': including 'overall sustainability' of assets, 'coordinating sector-wide ... decisions and priorities' and 'sector wide growth and management strategies'.

There are three overarching objectives identified:

1. "**Developing** a stock base that meets the needs of CHOs, tenants, members and future tenants.
2. **Maintaining** community housing stock to appropriate amenity levels and protecting asset value
3. **Partnering** of key stakeholders to enable appropriate decision making"

The detail the plan, under each of these objectives, suggests some potentially worthwhile aims, for example:

- All new properties to be built to 5 star energy ratings, and to Adaptable Housing Standards.
- Reducing unfunded liabilities in the sector
- Expanding community housing in country areas
- Increasing the number of redevelopments occurring in the sector (to be 're-branded' as the 'New Generation Housing Program')
- And the piloting of new partnerships to deliver 'Affordable Housing projects'

The draft plan includes an **Operational Supplement** mainly designed, we assume, for SACHA staff use. However, as it contains a lot of the more specific objectives of the Plan, we hope this will also be available to CHOs.

Some questions or issues of concern for the CHCSA include:

- Just what the rhetoric of ‘partnership’ might mean for CHO-SACHA working relationships in areas such as land acquisition, new-builds and joint ventures.
- The future of programs such as joint ventures and self-builds, and how well these ‘products’ meet current and future needs and opportunities. There is also the still largely untested Associated Land Owners provision, of course, and again the future of this needs to be made clear.
- The capacity of the Plan to deliver on desirable environmental sustainability outcomes, especially those that go beyond the fairly basic step of achieving 5-star ratings on buildings.
- The stated goal of stronger relationships between SACHA, SAHT and the Land Management Corporation and, again, what that might mean in practical terms. Some would say that there is already too much inclination within SACHA to support an alignment of community housing practice or policy with that of the Trust.

Maintenance Funding

The main proposal from SAHCA here is that the current split of minor and major maintenance funds will be done away with under a new Funding Agreement, to be replaced with a *single maintenance funding allowance*, as a flat \$ amount per property per week (to cover all maintenance spending). There seems to be a recognition that current funding allowances for maintenance are inadequate, and that this new system will need to deliver more funds for this purpose.

Alongside this change, CHOs would be required to produce a **Maintenance Plan** annually, which will identify spending budgets and goals for recurrent (everyday) maintenance and planned (longer-term) maintenance. We understand that, initially, these Maintenance Plans would be informed by a new ‘round’ of building inspections; presumably for all stock in the sector.

There is some case to say that these arrangements will provide more flexibility for CHOs to plan maintenance according to their own needs and priorities, without having to juggle two ‘lines’ of maintenance funding. The change will also allow for flow-on changes to rent calculation methods – removing the need to separately calculate operating, maintenance and capital contribution amounts for each individual rent payer.

The proposed changes will also have particular implications for members of Comhouse. Initially, SACHA suggested that it would be necessary to have *all* of the new maintenance allowance paid to Comhouse. CHOs would then negotiate whether they want to continue directly managing their own work in some areas (eg as per current minor maintenance), or ask Comhouse to manage it on their behalf. However, this position seems to be shifting now to a view that Comhouse members might negotiate with Comhouse about paying only a proportion of the maintenance monies to them, depending on the level of service required. This is more consistent with what Comhouse themselves have been saying; that in principle this is the kind of flexibility they’d like to offer their members.

In any case, all of this suggests a somewhat different and expanded role for Comhouse in the sector. The changes could require current Comhouse members to negotiate new contracts; and Comhouse could be holding a greater proportion of the sector’s available funds. There is no firm view from SACHA at this stage about things like the no-draw-down period, and how those arrangements would cross over to a new system.

The CHCSA respects and values the role of Comhouse in the sector. Our general concern is that the proposed changes to maintenance funding very much ‘shift the goal posts’ for both Comhouse and its member CHOs, and the longer-term impacts of that are unclear. We are not convinced that the potential benefits of a new maintenance *funding* method really require such significant flow-on changes in the way maintenance is actually provided. (I.e. we could get the benefits without greatly affecting the provision arrangements.)

Some questions or issues of concern for the CHCSA include:

- Whether the proposed changes to maintenance funding will require new contracts to be drawn up between Comhouse and its member CHOs
- The risk that some Comhouse member groups may consider withdrawing from Comhouse, if not satisfied with the arrangements on offer.
- The potential cost of a whole new round of inspections.
- Whether CHOs will be able to retain a proportion of the new maintenance allowance for their own use, and continue to purchase only a more limited service from Comhouse (something like they currently do).
- What impacts these changes might have in the longer term on the competitiveness and/or costs of maintenance provisions in the sector
- Potential disincentives for voluntary minor maintenance work
- The system starting to generate indirect funding 'penalties' for non-Comhouse member CHOs

4. Rent Issues

There are two main issues to consider under the heading of rent. Firstly, SACHA has proposed a shift from the current ceiling rent method to a **market rent** methods. This means the 25% limit of rent to income would still be in place, but the alternative limit would not be the current ceiling limit worked out as a % of a dwelling's capital value. Instead it would be the average market rent (as assessed by the Valuer General) for a particular property type in a particular area. In other words, a tenant would pay the 25% of assessable income, *or* the average market rent, whichever ever is the lower. The SACHA Board has already approved this change in principle.

The other main issue concerns **Commonwealth Rent Assistance** (CRA). Community Housing is different to Housing Trust housing in that tenants can get CRA, while Trust tenants can't. For Community Housing sectors and CHOs, it is possible to increase the level of CRA accessed by tenants, by altering rent levels and structures – while still ensuring that tenants still pay no more than 25% of total assessable income in rent. It is also possible for the CHO and/or SACHA to 'capture' some of this CRA income through the rent structure – and this already happens now. (It also happens in the private rental sector of course.)

Some Community Housing sectors in other States now use these methods to bring in more overall income. It can be a real benefit in this sense, that more money is available to provide services, build more housing or what have you. However, such changes can sometimes mean a loss of disposable income for those tenants who were already getting CRA. Some would also challenge the whole principle of using CRA in this way, seeing it as an unethical impost on a source of tenant income.

Some questions or issues of concern for the CHCSA include:

- The main set of concerns about a change to a market rent method as above, relate to its potential impacts in other areas, for example: CHOs capacity to claim GST credits on some properties; CHOs status as Income Tax Exempt Charities (ITEC); and CHOs capacity to get rebates on Council rates. Unless we can be convinced there are no concerns in these areas we are not supportive of this change. The proposed new system would also result in some significant rent increases for CHO tenants in areas of low property values, such as in some country areas.
- Re the CRA issues, a number of Housing Co-operatives and at least one Housing Association have expressed strong concerns about such changes, and its potential impacts on tenants real incomes. The CHCSA is certainly sympathetic to those concerns, and has communicated them to SACHA. However, we also recognise that, with Commonwealth capital funding for social housing decreasing, potential alternatives such as this – which *are* being employed in other States – should not be easily dismissed.