C.H.C.S.A. Easy Guide to the New Funding Agreement

What is the Funding Agreement?

The **Funding Agreement** is an agreement between SACHA and a Community Housing Organisation (CHO) registered under the SA Community Housing Act. The agreement does three main things:

1. It enables SACHA to provide funds to your CHO to acquire properties. The terms of the agreement cover any CHO property acquired through funds provided by SACHA.
2. It sets out some rules about how a CHO should use and look after any property that comes under the agreement
3. This includes rules about renting the property, and how CHO income from rents should be used - including returning some of it to SACHA

In South Australia, CHOs generally hold the title to their properties (the name of the CHO appears on the title). However, the Funding Agreement allows SACHA to set a **charge** on the title, which prevents the CHO from dealing in the property - say, selling it, without SACHA 's permission. It also requires the CHO to issue a **debenture** to SACHA for each property, which is like a mortgage, and effectively gives SACHA control over the property's full monetary value. The debenture is always valued at the current market value of the property.

What is the new Funding Agreement?

If you are a registered CHO, with properties originally funded by SACHA, then you have a Funding Agreement now. The new Funding Agreement is a new document, intended to replace your existing agreement. Some things in the new Agreement are *the same* as the 'old' (existing) one. Some things are different, including the rules about how to set rent, and how the CHO should use its rent income.

In general, a CHO will retain a higher amount of it's rent income under the new agreement, and return less to SACHA, although the long-term affects on CHO financial viability are still unknown, and of course that is not the whole story.

What the Funding Agreements don't do

Both the current and new Agreements sets out rules about *how* rent is calculated, but do not set a specific *amount*.

Under both Agreements, SACHA has the power to change the amount charged, and how much of it goes to the CHO, or to SACHA.

However, all CHO rents must fit with State Government policy; that no tenant should pay more than 25% of their assessable gross income in rent (or 21% for very low-

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income households). (An attachment to the Funding Agreement sets out the items that count as 'assessable' income.) This policy is not expected to change.

What are the main differences between the new and existing Funding Agreements?

The following sections summarise the main differences between new and 'old' Funding Agreements. References to relevant parts of the *new* Agreement are shown in *italics*. If you have any concerns about one or several of these points you should seek more information from CHCSA or SACHA.

1. **How to 'split up' up the rent income:**

   The 'Old' Agreement: says to work out each household's rent in 3 parts: operating levy, major maintenance levy and capital contribution. These amounts are different according to the household's income, and are shown in SACHA 's **rent schedules**. The CHO keeps the first two, and send the capital contribution amounts to SACHA each month.

   The New Agreement: says to work out each household's rent as one amount, 25% of income, or a 'market rent' (see Part 2), *whichever is less*. All of these rent payments (for each tenanted CHO property) are added up, then the CHO takes 3 'allowance' amounts out of the total:
   - ⇨ Property allowance
   - ⇨ Administration allowance
   - ⇨ Maintenance allowance

   Whatever is left over then is returned to SACHA as capital contribution.
   (See Section 2.2; Schedule B)

   The new Agreement says the CHO must do it this way, but the rules for calculating the exact amount of allowance are in a **schedule**, attached to the main Agreement. *As with the existing agreement*, SACHA can alter the schedule, without altering the main agreement.
   (See Schedule C)

   The CHO combines the first two allowances, to cover all general operating expenses (in a similar way to the current operating levy). The third, Maintenance allowance, must be kept separately and *only be spent on maintenance costs*. Unlike to old agreement, this allowance is set at a level to cover *all* maintenance ('minor' and 'major') *not* just the major maintenance items set out in the old agreement.

2. **Rent Setting - 'Market Rent' vs 'Ceiling Rent':**

   The 'Old' Agreement: has two ways to set rents: income-based rent and ceiling rent. An income-based rent is set according to the 25%-of-income rule (or 21% for very low-income households). A ceiling rent is a % amount linked to the capital value of the property. The tenant pays the lower of the two.

   The old Agreement also sets out a number of rules around how to calculate rents for 'special' cases: e.g. parents with dependent children, and share households

The New Agreement: still has the same income-based rent settings, but the ceiling rent system is replaced with a 'market rent' amount set for each property, based on Valuer General figures. This is intended to be approximately 10% less that a private rent would be for the same property in the same area. Each CHO is given information every year about the set market rent figure. Again, the tenant pays the lower of the two.

The basic reasoning for this change is that the ceiling rent system was producing ceiling rent levels for some properties considerably higher than a comparable rent in the private sector. The new system is intended to produce a market-related rent limit, averaging out at roughly 10% less than a comparable private sector rent.

Many of the rules for calculating rents for 'special cases', and other rules, are now not in the main agreement, but in a SACHA **Rent Policy**, which is summarised in a **schedule** ('B'). This gives SACHA more scope to change some of the rules for calculating rents, and other rent-related matters, and some rules are different to the old Agreement. (See Part 6)
(Section 2.1 and Schedule B)

3. **Consultation on changes to policies, guidelines or schedules to the Funding Agreement:**

The 'Old' Agreement: has a commitment to a review of the Agreement, but nothing specifically about consultation with CHOs.

The New Agreement: commits your CHO to following policies 'as summarised in the Schedules', but also commits SACHA to consult with the sector around 'negotiable aspects' of any changes to these policies. It also recognises a CHOs right to propose changes to relevant SACHA policy, including through the peak body (CHCSA).
(See Section 1.1)

However, the new Agreement also allows SACHA to change any attached **schedules** to the agreement at its own discretion, so long as CHOs are provided with a copy, and CHOs are required to comply with the changes. Presumably such changes would happen via a decision by the SACHA Board, which has sector representatives on it, but this is not stated.
(See Section 1.2.1)
The CHCSA is discussing with SACHA the development of agreed **protocols** for any SACHA consultation process with the sector.

4. **Operating Funds and different CHO types:**

The 'Old' Agreement: for both Co-ops and Associations allowed for the CHO to set it's own operating levy levels, according to need. This was originally intended to allow CHOs to reduce rents if they were operating efficiently. However, in practice it did not necessarily fit with Government policy on the max 25% rent to income limit. That is why SACHA specified set operating levy amounts in their rent schedules.

The operating levy amounts applied under the old agreement are different for Co-ops and Associations; the Associations 'allowed' by SACHA to charge a higher

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levy, and return less in Capital Contributions. This is intended to recognise higher running costs for Associations.

The New Agreement: also has different funding levels for different types of CHO, applied through the **Administration Allowance** (See Part 1). Different allowance levels are set for:

- ⇨ Co-ops with less than 90 properties ($7/property/week)
- ⇨ Associations with less than 90 properties ($17/property/week)
- ⇨ Large CHOs with 90 properties or more ($7/property/week for first 90 properties; $20/property/week each property above 90)

(See Section 2.2 and Schedule C)

5. Tenant eligibility criteria & management of applications:

The 'Old' Agreement: does require CHOs to house applicants/members according to set Government criteria. However, the different demands of these criteria on Co-ops and Associations have not always been clear.

The New Agreement: makes it clear that all applicants must meet basic criteria, but after that, a Co-op's next most important consideration should be the suitability of an applicant for their organisation. *(See Sections 3.1 and 3.3; Schedules A and H)*

6. Rent Policy:

As noted in Part 2, the new Agreement is tied to a number of SACHA policies that sit outside the main agreement. By signing the new Agreement, you are committing to abiding by these policies as well. One of these is the Rent Policy. If you do not sign, it is unclear whether you would be bound by this policy. It contains a lot of the more detailed rules about rent, some of which are covered in the body of the 'old' Agreement. Key things to look out for are as follows; sections noted in italics are from the full Rent Policy (RP), not the new Funding Agreement:

- ⇨ *Market Rents:* the operations of the 'market rent' method are set out, as the alternative to the 'old' ceiling rent system. (**Note:** This is due to be introduced in October 2006, so if you sign up to the new Agreement before then, you'll still be using the ceiling rent system.) It appears that Co-ops will still be able to charge 'market rent' paying members a discounted rate, to recognise their participation. *(RP Section 4.2)*

- ⇨ *Rent Increases due to Changes in Gov't Policy:* where rents go up due to changes in property valuations - flowing on the ceiling or market rents - the 'old' agreements specified rents could only rise by $5 per rent review period (6 months). In the new policy this has been increased to $10. *(RP Section 2.4)*

- ⇨ *Non-member tenant levies (NMTL) for Co-ops:* the new Policy says that Co-ops can only charge a NMTL of 10% of what the tenant would normally pay as a member. Also, within the new funding structure, all of this levy is returned to SACHA. *(RP Section 4.1.5)*

- ⇨ *Other 'service' levies:* the Policy has a number of rules about any compulsory levies charged by a CHO. In general, unless these are to pay for a service provider, the levy must be charged and used for a 'service that the CHO is not expected to provide as part of its normal business'. *(RP Section 4.1.5)*

- ⇨ *Share Households:* the new Policy, in effect, no longer allows CHOs to treat members of a share house as individual households for the purposes of rent. Rent is to be based on total assessable income for all household members (except around separate rules for income of children under 21). The way the rent payments are then apportioned among members of the household is the responsibility of the person whose name is on the tenancy agreement. *(RP Section 4.3.11)* (**Note:** this does not apply for 'group households' which are defined as specific to Associations, involving a 'modified' shared accommodation arrangement for people with specific needs.)

- ⇨ *Minimum Income & 'breaching':* the Policy states that if a person on Centrelink benefits is 'breached', their rent should still be assessed at the level of benefit they 'should be' getting (ie when *not* 'breached'). *(RP Section 4.3.8)*

7. Vacancies:

The 'Old' Agreement: required CHOs to continue to pay Capital Contributions on a vacant property.

The New Agreement: Does not require Capital Contributions on a vacant property, *but* the CHO also does not 'qualify' for the normal funding allowances related to that property - while it is vacant. *(Section 2.2.5)* A number of CHOs have raised concerns about this, because, for example, Council rates will still have to be paid. If there is some reason for a long-term vacancy, CHOs can apply to SACHA for approval. *(Section 5.7 and Schedule G)*

8. Reporting Requirements:

The 'Old' Agreement: sets out a number of requirements around CHO reporting to SACHA and 'compliance'.

The New Agreement: makes some changes to reporting requirements, most notably dropping the requirements for management plans, but introducing a new requirement for **Maintenance Plans** *(Section 6.3)*, in line with the new funding arrangements for maintenance *(Section 5.6)*. Some reporting deadlines have also changed; both budgets and maintenance plans are due on 31 May each year.

9. Insurance:

The 'Old' Agreement: in theory allowed CHOs to seek their own individual insurance arrangements, although most, if not all, groups have operated within SACHA's 'umbrella' arrangements for some time.

The New Agreement: requires all CHOs to participate in insurance arranged on their behalf by SACHA, and to pay the relevant amounts relating to premiums, etc. Our advice from SACHA is that they are still covering excess amounts above $500 in relation to CHO claims.

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