

17 August 2005

Ciaran Synnott  
Executive Officer  
Community Housing Council of SA  
283-285 Payneham Road  
ROYSTON PARK SA 5070

Dear Ciaran

**RE: DRAFT FUNDING AGREEMENT**

Thank you for your submission to SACHA regarding the draft Funding Agreement. Outlined below is our response to each of the principal steps and additional recommendations you have presented in your submission.

- *That introduction of the new Agreement be deferred until 1<sup>st</sup> July 2006 for CHOs which would prefer this timeline*

SACHA will defer the implementation of the new Funding Agreement until January 1 2006, in response to some CHOs requests for more time to consider the document. This extension will also allow CHCSA time to seek legal advice on the draft Funding Agreement.

Individual CHOs will have the option to sign up later than January 1<sup>st</sup> 2006, if this is more suitable to their organisational requirements.

- *That SACHA fund the CHCSA to obtain legal and financial advice on the implications of the new Agreement, with a three month reporting timeline.*

SACHA is prepared to fund the CHCSA seeking legal advice to a maximum amount of \$5,000. SACHA will make payments on receipt of invoices.

Given the revised implementation date of 1<sup>st</sup> January 2006 SACHA would require any further submissions based on the legal advice to be forwarded by the end of September at the absolute latest.

- *That the CHCSA and SACHA set up a joint working party to further develop the draft and consider an implementation timetable.*

There has been significant consultation undertaken with the sector including the peak body since July 2003 regarding the primary changes to the Funding

Agreement. Given the feedback SACHA has received regarding groups who want to sign the new Agreement there is a danger in putting processes in place that will further delay the Funding Agreement's implementation. In this instance it is not a preferred option of SACHA to establish a joint working party this late in the process.

However, SACHA would be keen to establish a group comprising representatives from the CHCSA and sector to monitor the implementation of the Funding Agreement to inform the continuous development of tools and information for the sector, and inform the review of funding levels scheduled for 2007/2008.

- *That the draft be recast into language which reflects more strongly a partnership approach between government and the community sector and which further simplifies compliance and administrative requirements while promoting desirable outcomes and meeting performance standards*

The new Funding Agreement establishes a far greater level of partnership than was provided for in the existing agreement. The provision in Section 1 of the new agreement commits to a level of consultation and enshrines the role of the peak body.

The new funding agreement establishes a greater level of partnership than similar agreements with Government. SACHA is required under Treasurer's Instruction 15 to have a legally enforceable agreement with non-Government bodies to set the terms and conditions under which grants are made.

As a public authority, SACHA must be accountable to all areas of government including the Treasurer whose primary requirement for funding agreements is to stipulate accountabilities to Government by establishing "the rules" for using government funds (in our case, funded assets). SACHA has delivered a unique long term funding agreement that has been simplified, enables flexibility and provides for greater levels of partnership than that which exists in not only the previous agreement but also in other areas of Government and non-Government agreements. At the same time the new Funding Agreement meets Treasury requirements for appropriate accountability on the part of non-Government bodies.

- *That SACHA consider the draft as a template and be willing to enter into bi-lateral negotiations with CHOs where appropriate rather than relying on the hardship clause only*

One of the primary objectives of the establishment of the new Funding Agreement is simplicity and consistency across the sector. For this reason SACHA is not prepared to enter into bi-lateral negotiations.

- *That as much detail as possible be moved from schedules and policies into the body of the Agreement*

SACHA will explore this issue further however our preference is to retain the community housing sector view that the Funding Agreement should be far simpler and easier to read and understand.

- *That consultation and negotiation processes be strengthened and formalised into the Agreement*

Section 1 of the agreement formalises consultation processes. This is a feature that is not present in the current agreement. SACHA is willing to further consider formalising appropriate mechanisms to include sector involvement in policy development, and for this to be included in the new Funding Agreement. However, it needs to be recognised that in many cases the capacity for sector involvement may be limited, as Government through its Cabinet Committees and Ministers will always drive significant policy change. However, SACHA is committed to sector involvement in negotiable aspects of Government driven change where this occurs.

- *That appeal and arbitration provisions be introduced*

Appeals and arbitration processes are an important element of the relationship between SACHA and CHOs. The Funding Agreement has not provided for this because the SA Cooperative and Community Housing Act (1991) outlines an appeals mechanism for CHOs.

- *That the market rent provisions be considered further in the light of GST requirements*

The primary objective of introducing market rents is to address the inequities associated with ceiling rents. SACHA would be disadvantaging a number of tenants who are currently paying excessive ceiling rents by not introducing fairer market rents.

The introduction of market rents will not impact on the charitable status of CHOs. The charitable status of CHOs is legally defined by Common Law and not by the Tax Office. The law focuses on the intent of an organisation's constitution and purpose and not on its ratio of commercial to non-commercial activities.

SACHA is aware of the GST-related administrative implications of introducing market rents, and will continue to offer training to assist CHOs manage the implications of this. It needs to be reiterated that the GST issues that market rents may raise actually occur now.

- *That the relativities between co-operatives and associations be reconsidered in the light of undertakings given in SACHA's Strategic Plan*

The difference in funding for associations and co-operatives is based on actual costs incurred. Generally, associations have higher operating costs due to the need for paid staff and often the costs associated with rental office space. Financial analysis shows that in general cooperatives will receive a

greater increase in overall funding than associations. Also, developing a funding model based on service provision undermines the rationale behind housing cooperatives. SACHA recognises that further work needs to be done regarding voluntary effort and the capacity of co-operatives.

- *That the 90 property changeover point be given further consideration*

The 90 property limit has been based on the lowest number of properties managed by a CHO that was successful in being registered as a Large CHO through a formal tender process when the growth program first began. It would be seen as unfair by SACHA to disadvantage these CHOs given the historical context by defining large and the associated funding to a higher number of properties under management.

- *That the provision regarding non-retention of funds to cover vacancies be further considered*

SACHA believes that the draft new Agreement provides specific benefit to CHOs when compared to the existing agreement in that it does not require CHOs to pay capital contributions to SACHA for vacant properties. It is not feasible for CHOs to retain funding components for vacant properties as there is no rent being paid for these properties. Also such an approach may create incentives for CHOs to carry vacancies.

- *That a way to give some flexibility in rent setting when a CHO can make efficiencies in its costs be examined*

It is important that community housing rents are equitable across the sector. Enabling CHOs to charge rent below the standard 25% of income or maximum property rent would create inequities across the sector and would be in breach of Government Housing Policy.

It is also important to note that such flexibility in rent setting would ultimately result in individual CHOs receiving less administration allowance which could impact the long term viability of the CHO.

- *That the rent policy be an in-depth focus of the proposed working party*

As mentioned above, the establishment of a joint working party on the Funding Agreement is not a preferred option for SACHA. Rent manuals will be tested extensively with the sector to ensure that the information is accurate and provides CHOs with enough information to undertake necessary tasks.

SACHA would be happy to include rents policy as a focus of any committee established to monitor the implementation of the new Funding Agreement.

- *That the Agreement for more flexible use of capital contributions particularly in regard to CHOs' accessing private capital and the strict requirement around debentures be softened to allow affordable housing models to be developed*

This is not an option for the draft Funding Agreement. SACHA will be exploring affordable housing opportunities with CHOs and the Department of Families and Communities', Affordable Housing Unit in the future.

Affordable Housing proposals would require a separate funding agreement between Government and non-Government bodies as it is a different form of grant with different financial arrangements and may not necessarily apply to the entire Community Housing sector.

- *That concerns around the changed maintenance provisions be addressed*

The new maintenance funding structure has been developed in response to concerns that the past structure was too rigid and did not enable CHOs to effectively manage maintenance. The introduction of maintenance plans is intended to be a mechanism through which CHOs will gain greater control of their maintenance and allow SACHA to monitor maintenance requirements and spending. The maintenance plans will be very similar to maintenance budgets currently required under the Funding Agreement. For this reason they do not represent a significantly new activity for CHOs. Initial maintenance plans will be informed by SACHA-funded stock inspections. For non-Comhouse members these will be managed by individual CHOs who will be able to select their own building inspectors. Comhouse will manage the inspection process for its members. These arrangements will be written into the necessary documentation required for one off inspection grant funding, rather than the new Funding Agreement.

The requirement for Comhouse members to pay 47% of their maintenance fund to Comhouse maintains the same level of service that is currently being provided.

- *That issues to do with properties outside the Agreement be resolved*

The Funding Agreement only covers properties under the Agreement and it does not have any relationship with properties outside of the Agreement. For this reason the Agreement can not address associated issues.

In response to your additional recommendations

- *That the draft Agreement specifically authorise maintenance funds to be used to offset the costs of maintenance administration where a CHO employs administrative staff or a service provider*

Following our consultations with the sector we have recently secured Board approval for Large CHOs to access up to 25% of their maintenance funds for maintenance-related administrative purposes. This will form part of the Maintenance Planning reporting and requires SACHA approval. SACHA will ensure that the ability of large CHOs to do this will be provided for in the appropriate part of the Funding Agreement or policy. The sector will receive further communications about this shortly.

- *That the Agreement make it clear that funds under the Property Allowance and Administration Allowance can be combined into one expense pool*

SACHA will ensure that the ability of CHOs to do this is included in the appropriate documentation.

- *That SACHA increase the proposed 10% levy on Non-Member Tenants to a more realistic level which encourages such tenants to become co-op members where appropriate*

SACHA is happy to consider further views on what an appropriate fixed non-member tenant levy should be. However, while it is recognised that a rent incentive is one lever to encourage non-member tenants to become full members, SACHA's view is that the use of fixed term leases and assessment of a non member tenant's participation during the term of this lease must remain the primary lever for encouraging membership. Also, it must be recognised that any significant increases in non-member tenant levies in some instances could push rents above market rates which is likely to be a disincentive for non-members to consider becoming community housing tenants.

- *That SACHA coordinate its advice to CHOs regarding tenancy issues with the RTT*

SACHA has already taken steps to ensure rent policy provisions are in keeping with RTT advice. SACHA is happy to further consider any other examples that are brought to its attention, where elements of the proposed new Funding Agreement are inconsistent with residential tenancies practice.

- *That the section on new-build construction be amended to require SACHA to consult with CHOs over design and materials especially with reference to housing for people with disabilities or mental health issues*

SACHA is committed to working with CHOs to produce the right housing stock. Provision for this can be incorporated into the new Agreement.

- *That the entire Agreement be subject to review after five years not ten years*

The ten year time frame does not prevent the Agreement being reviewed sooner. As you would be aware it takes significant effort to review an Agreement such as this. This recent process has taken in excess of two years. Shortening the timeframe would present significant resourcing issues to SACHA and the sector.

- *That the due date for monthly capital contribution reports be the 28th rather the 21st, to fit in with other CHO administrative requirements*

This was considered as part of the initial work undertaken. However it presents issues with SACHA's current arrears reporting structures and is therefore not feasible.

Again thank you for your time in preparing this submission. If you have any further questions please contact Maria Fidge on 8207 0245 or by email [maria.fidge@dfc.sa.gov.au](mailto:maria.fidge@dfc.sa.gov.au)

Yours sincerely

A handwritten signature in blue ink, appearing to read 'B Moran', with a long horizontal flourish extending to the right.

**BRENDAN MORAN**  
**GENERAL MANAGER**