



REPORT

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TO Office of Community Housing

FROM NSW Federation of Housing Associations

RE Community Housing Leasing Program

Executive summary

The Community Housing Leasing Program (CHLP) is the major funding instrument for housing associations. It is very important to the sector that CHLP delivers adequate funding to allow associations to provide the level of community housing services required by the National Community Housing Standards.

CHLP is divided into 3 main areas of funding: the leasing subsidy; property management funding (staffing and administration); and the capital contribution. The structure of all these 3 areas results in underfunding of associations:

- The leasing subsidy does not fund a number of leasehold expenses, and is capped according to the Rental Bond Board median rents, which are considered inappropriate.
- CHLP does not attempt to identify associations' property management costs, but provides funding based on formulas devised by the Office of Community Housing (OCH) which have never been released to the sector.
- The amount of capital contribution associations are required to pay has been determined by OCH based on historical calculations which have not been justified against associations' current capital portfolios.

CHLP does not clearly identify associations' viability in a non-recurrent funding environment, despite the uncertainty surrounding social housing funding post 2003. CHLP is not structured to identify and reward associations which are performing well.

OCH has not consulted housing associations about the benchmarks used in CHLP. There is concern in the sector that CHLP's benchmarks are inappropriate and that they are used to limit funding rather than simply assess performance. There are still no guidelines for how associations can spend accumulated reserve funds or surpluses, despite OCH's commitment to develop these guidelines.

Introduction

This report is based on housing associations' experience of the first 8 months of the Community Housing Leasing Program (CHLP). As CHLP has been implemented for less than a full financial year and is still based partly on historical calculations, it is not yet possible to undertake a complete analysis of its impact on the sector. However, many questions and problems have arisen since CHLP's implementation in July 2000. Accordingly, the Federation's key recommendation in this report is that CHLP should be fully reviewed as soon as practical in the new financial year. This may not be possible until the 3rd quarter (ie, early 2002) when adjustments have been made to all 4 quarters of 2000-2001 and when no CHLP payments still use historical calculations.

OCH has made several commitments to undertake a full review of CHLP, most recently in January 2001 when OCH staff briefed the Federation on third quarter adjustments. It is very important that OCH is seen to remain committed to a full review, in order to relieve frustration among housing associations about CHLP. OCH can do this by acting now to set a timeframe for the review.

In the lead up to CHLP's implementation OCH made a commitment to the sector that no housing association would be financially worse off under the new funding methodology, at least for the first year. OCH gave assurances that because CHLP funds on actual expenses, no association would be penalised. Transitional funding was provided to a small number of associations whose property management costs would be reduced under the new funding methodology. Despite these assurances many associations find themselves financially disadvantaged because their leasehold funding has been reduced or because they are forced to pay a greater amount of capital contribution.

Recommendation:

OCH should fulfil its commitment to undertaking a full review of CHLP. OCH should immediately set a timetable for the review, to commence as soon as practical in the new financial year. OCH should ensure that housing associations and the Federation participate fully in the review.

Recommendation:

OCH should ensure that no housing association is penalised financially under CHLP until the review has been completed, as originally promised.

Adequate funding for housing associations

As the major funding instrument for housing associations, it is very important that CHLP delivers adequate funding to allow associations to provide the level of community housing services required by the National Community Housing Standards.

CHLP is divided into 3 main areas of funding:

- the leasing subsidy
- property management funding, for staffing and administration
- the capital contribution, which is paid out of the association's income from their capital portfolio, and put towards their own property management costs.

As the following table shows, the way that CHLP calculates funding in each of these 3 main areas results in consistent underfunding to the association. The 3 funding areas are discussed in more detail in subsequent sections.

CHLP area:	Leasing subsidy	Property management	Capital contribution
Calculation:	“Actuals”	OCH formulas	“Benchmark”
Comments:	<p>The leasing subsidy is capped at the RBB median calculated across the whole leasehold portfolio.</p> <p>Under the cap, the leasing subsidy is paid on the difference between rent paid to landlords and rent charged to tenants, less 4% of rent charged (2% for vacancies + 2% for arrears). No other costs to the leasehold program are allowable.</p> <p>As a result, the leasing subsidy is paid on actual expenditure only where:</p> <ul style="list-style-type: none"> • the rent charged by landlords is no more than the RBB median for the portfolio, AND • leasehold vacancies account for no more than 2% of rent chargeable, AND • leasehold arrears account for no more than 2% of rent charged, AND • the association has no other leasehold costs. <p>Therefore it is very likely that CHLP underpays.</p>	<p>Property management funding is calculated according to the number of properties managed by the association, based on 2 formulas—staff funding and administrative funding. These formulas were devised by OCH and have never been released to the sector in an accurate form.</p> <p>The property management funding formulas were designed to ensure that OCH did not pay more in these areas under CHLP than under the previous funding methodology. Therefore, the amount of funding provided is not based on associations’ actual expenses but is based on an outdated funding methodology.</p> <p>OCH does not claim to fund associations’ whole property management costs, but makes a “contribution”. In other words, OCH acknowledges that CHLP underpays.</p>	<p>The amount of capital contribution each association is expected to make is either:</p> <ul style="list-style-type: none"> • \$200 per property per quarter, OR • the amount the association has historically contributed <p>whichever is higher.</p> <p>The \$200 “benchmark” is based on an average of associations’ historical contributions. Therefore both methods of calculating the capital contribution rely on historical amounts rather than any accurate costing of associations’ income and expenditure for the capital portfolio.</p> <p>All associations are now required to pay at least the historical average, and higher paying associations continue to pay more. This has the effect of ratcheting up the sector’s overall contribution, and makes it likely that associations are paying too much capital contribution. Therefore it is likely that CHLP underpays.</p>
Outcome:	UNDERFUNDING	UNDERFUNDING	UNDERFUNDING

Table 1: CHLP payments

The effect of the CHLP funding calculations is that housing associations are underfunded to perform their core functions. It is of concern to the sector that the most obvious “efficiencies” built into CHLP in fact involve OCH underfunding associations. As the funding methodology

progressively takes full effect, we can expect to see a significant funding shortfall for associations.

Housing associations might be able to fund this shortfall by using their accumulated reserve funds ("surpluses") if they have any. However, this would mean that the current funding methodology would be subsidised by past funding practices, which is not sustainable into the future even if it is viable in the present. In other words, associations will become financially unviable and may have to fold. There are also no guidelines from OCH which authorise associations to spend surpluses.

Alternatively, associations might be able to fund the shortfall through other activities, such as fee-for-service work. However, this would require all associations to be entrepreneurial, just to continue carrying out their core functions. OCH does not behave in a way which assumes that housing associations are professional and responsible organisations, let alone supporting them to be entrepreneurs. See the discussion of surpluses below. Further, it is inappropriate for housing associations to have to make up a shortfall in government funding in order to provide the services expected by government. To make an obvious comparison: public housing does not have to raise alternative funds in order to conduct its core functions.

Another effect of CHLP's funding calculations is that housing associations are not funded to perform other important functions. These unfunded functions include activities which associations are expected to undertake in order to meet the standards on which accreditation is based. For example, associations are not funded to conduct tenant participation activities, despite the importance of this in the standards.

The first principle of the new funding methodology, before it was implemented as CHLP, was to focus on outputs. CHLP does not effectively focus on outputs: it purports to be based on unit costings, but it is not clear how this works. Associations are working hard to manage the change to the new funding methodology. As a result, they are finding that CHLP currently encourages a focus more on inputs (the amount of funding each quarter, retrospective adjustments, etc) than on outputs.

Some associations have completed costings of their actual expenses, which they would be able to provide to OCH. This would assist OCH to cost CHLP more accurately and would be a better basis for a funding methodology.

Recommendation:

OCH should commit to providing appropriate funding to housing associations to ensure that they can provide the level of community housing services required by the National Community Housing Standards.

Recommendation:

OCH should work with housing associations to identify their actual operating costs in all areas and to develop a transparent and fair funding methodology.

Leasing subsidy

A key principle of the new funding methodology, before it was implemented as CHLP, was to ensure the clearer identification of associations' operational costs. The leasing subsidy fails to identify all the costs associated with leasehold properties.

OCH stated that the leasing subsidy would be paid on actual expenditure, capped at the Rental Bond Board (RBB) median. However CHLP only funds the difference between the

rent paid to landlords and the rent charged to tenants, less 4% for allowable arrears and vacancies. This does not take into account other costs to the leasehold program, such as Centrepay charges, moving costs or debts written off for water usage. There is nowhere to account for these costs. Nor is there anywhere for associations to account for higher arrears or vacancies. See below further discussion of the benchmark for vacancies. As a result, CHLP fails to fund housing associations' actual leasehold costs.

There is considerable confusion over the extent to which rental bonds are funded under CHLP. As bonds are not strictly expenses but remain an asset, they cannot be claimed under the leasing subsidy as a leasehold expense. However, it is not clear how else associations are expected to fund bonds, especially when they receive additional leasehold properties. Associations would appreciate clarification on this important matter.

Recommendation:

OCH should provide information to associations about how bonds are to be funded under CHLP.

The leasing subsidy is capped at the RBB median rent. That is, the rent paid to landlords must not exceed the median rent, calculated across the whole portfolio. Associations remain very concerned that the RBB median rents are too low to operate as an appropriate cap. Because of the way that the data are collected, even the most up to date RBB median rents are always at least several months old. In markets where rents move very quickly, including the Sydney metropolitan area, this means that the RBB medians underestimate current rents significantly.

Most associations currently spend less than the median rent across their leasehold portfolio. However, there are a number of reasons for this, which suggest that the situation is unlikely to be sustainable in the long term:

- As the leasehold portfolio is dynamic, some properties are held for less than a full quarter. For example, there can be a gap when replacing a leasehold property, or when acquiring new leasehold properties during growth. The current quarterly return does not necessarily reflect this information, as leasehold property numbers can be reported as at the end of the quarter. This means that there is an imperfect match between leasehold property numbers and actual leasehold expenditure.
- Leases which have been held for a long time tend to cost less than the median, as rents for new leases increase much more quickly than rents on existing leases. As well, many associations have been able to negotiate lower rents with landlords in the past. Similarly, associations which have leased RTA properties are typically paying below the median on these properties. However, associations are gradually losing these lower cost properties, and must replace them with others which are likely to cost much more.
- Associations are sometimes forced to acquire substandard properties in order to keep at the median rent. This not only leads to community housing tenants being housed in inappropriate properties, but also leads to higher maintenance costs.
- Some associations are unable to acquire sufficient leasehold properties to meet their targets because of the time it takes to locate appropriate properties without going over the median rent.

Associations with a long term leasehold portfolio face further difficulties with meeting the RBB median rents. In some cases the rent has been negotiated between the Department of Housing and the landlord, with no input from the housing association, at a rate up to \$25 per property per week greater than the RBB median. Associations seek assurances from OCH that the actual cost of long term leasehold properties will be fully funded under CHLP so that associations are not left to face a cost over which they have had no control.

Some associations have conducted independent research into the private rental market. In certain areas the average rent is 20% higher than the RBB median. The RBB median incorporates properties which are below the social housing standard, as well as properties which are well above it. Both extremes of the scale are inappropriate for community housing providers. Associations would like a more meaningful assessment of the cost of acquiring appropriate leasehold properties than the RBB medians.

Recommendation:

OCH should acknowledge the many problems with the RBB medians and apply them only with caution. OCH should conduct further research to identify the cost of the leasehold portfolio in various areas, to provide a more appropriate leasing subsidy cap.

Property management costs

Despite the stated principle of identifying associations' operational costs, CHLP does not even attempt to identify actual property management costs. Staffing and administration (property management) are funded according to formulas derived by OCH and never released to the sector. Factsheet 1 of June 2000 provided incomplete formulas for staff and administration funding, and the accompanying graphs were inconsistent with the formulas. It is widely agreed by housing associations that the funding delivered by these formulas results in underpayment.

Under the Community Housing Assistance Program all housing associations are eligible to bid for growth funds to acquire new properties. In 2000-01, around half of the associations received additional properties. However, associations' ability to plan for growth has been hampered by OCH's failure to provide adequate information about CHLP funding formulas. In particular, during the past two growth funding rounds associations have been unable to calculate accurately the amount of additional staff funding and administrative funding they would be eligible for if they accepted additional properties.

The Federation raised this issue with OCH in July 2000 and OCH made a commitment to develop a "ready reckoner" which would allow associations to calculate how much additional staff and administrative funding they would receive with growth. This was only provided to associations last week.

The formulas for staffing and administration both assume certain efficiencies of scale, with per property funding reducing as an association's portfolio grows. Housing associations remain concerned about the application of efficiencies of scale to staff funding. Again, because the staff funding formula has never been released, and because the graph supplied did not extend beyond 300 properties, it is not possible for associations to calculate the efficiency dividend they will be expected to deliver.

Recommendation:

OCH should work with housing associations to identify the actual costs

involved with staffing and administration of organisations of different sizes, and to develop a fair and transparent funding formula.

Viability

CHLP does not clearly identify associations' viability in a non-recurrent funding environment. This is a significant gap in the funding methodology, given the uncertainty surrounding social housing funding post 2003. Since CHLP funds associations not according to their actual costs but according to formulas derived by OCH, CHLP is not a good measure of what it actually costs to provide community housing.

Another factor which contributes to CHLP's failure to identify viability is the method of reporting on the capital and leasehold portfolios. From the point of view of understanding an association's viability, it would be useful to calculate the total income, expenditure and "profit" for the capital portfolio before making any contribution to leasehold costs. That is, staffing and administration of the capital portfolio could be fully costed and included as a capital portfolio expenditure, along with maintenance provisions, etc. On this model, the "capital contribution" would then be put towards the property management costs for the leasehold portfolio only, because property management for the capital portfolio would already have been paid before the "profit" was calculated. This would give associations and OCH a more accurate idea of the number of leasehold properties for which they can already cover management costs. Restructuring CHLP in this way would also assist associations and OCH to calculate:

- how many leasehold properties the association's current capital portfolio could support, including both property management costs and leasing subsidy
- how many additional capital properties the associations would need to acquire in order to support their existing leasehold portfolio.

In other words, it would identify the extent to which an association would be viable in a non-recurrent funding environment. As it stands, the structure of CHLP combined with the built in underfunding for property management costs means that it is not possible to determine the viability even of the largest associations.

**Recommendation:
OCH should work with housing associations to identify and improve their financial viability, including in an environment without recurrent funding.**

Rewards for good performance

Originally, the new funding methodology was intended to identify and reward good performance. CHLP does not appear to be structured to identify good performance. There are two main areas of CHLP which could help identify good performance: benchmarks and surpluses/capital contribution. However, the benchmarks have not been developed in consultation with housing associations and are therefore not an appropriate reflection of good practice. See the discussion of benchmarks below. As OCH is aware, the level of surpluses or capital contribution generated by an association is a measure of several factors other than simply good performance. The amount of money generated by an association's capital portfolio is affected by:

- the age and quality of the properties (which affects maintenance costs)

- the size of the properties
- the household size and profile (which determines the rent paid)
- the location of the properties (which affects the maximum rent payable)
- the level of council rates payable
- the rate of turnover of tenancies.

The amount of capital contribution required by OCH is not an accurate measure of good performance.

Nor does CHLP reward associations which are seen to be performing well. In fact, with the move to funding on actuals and the variable “benchmark” for capital contribution, associations which are performing well are more likely to feel that they are losing funding under CHLP. For example, through good financial and housing management, an association may:

- have historically made an above average capital contribution, and
- hold several leasehold properties which were acquired at well below the median rent.

Under CHLP, an association in this situation would:

- continue to pay the higher capital contribution, regardless of their current capital costs, and
- have their leasehold subsidy adjusted down.

It is very likely, therefore, that such an association would feel punished for their good performance, rather than rewarded.

Recommendation:

OCH should uphold their commitment to develop incentives within the funding methodology to encourage good financial and housing management.

Quarterly returns

In developing CHLP, OCH made a commitment that the new quarterly returns would be simpler and more transparent, and that there would be clear instructions about how to compile the data. These commitments have not been met.

The new quarterly returns require associations to report on new information in ways that their systems are typically not set up to handle. For example, associations find it very time consuming to report on actual leasehold expenditure by property type, LGA etc. It is not clear to associations why OCH requires them to report in this difficult format, since it has no bearing on their funding. (The leasehold subsidy is capped at the median rent across the whole portfolio, and therefore does not require actual expenditure by category.) Associations could adjust their systems in order to collect information in this way, but not without incurring adjustment costs.

More importantly, instructions for how to compile the data for the quarterly returns have been anything but clear. OCH has released a number of factsheets which attempt to clarify various aspects of CHLP. However these factsheets have typically been released late, and some contain misleading information. For example, factsheet 1 contained incomplete formulas for calculating staff and administration funding, as well as graphs which were inconsistent with the formulas. OCH staff have also provided inaccurate information about important matters, including the calculation of the leasehold subsidy cap. As a result, associations are not confident that they can rely on information from OCH. There are still no funding guidelines for CHLP, which means that associations have no reliable source of information about CHLP.

Intensive tenancy management

To help fulfil the principle of supporting intensive tenancy management initiatives CHLP includes a provision for a staff loading of 33% for all “complex tenancies”. Originally the tenancies affected would include those with a support agreement or on an estate requiring intensive tenancy management. OCH asked associations for feedback about the type and number of tenancies which they thought should attract the loading. We understand that OCH is currently negotiating with public housing about the estates which will qualify for the support loading. Other types of high need tenancies, such as those with a support agreement, no longer appear attract the loading.

Associations have still not received payment for the staff support loading. They are very concerned that OCH has reneged on this commitment.

Recommendation:

OGH should ensure that associations are paid the staff loading, backdated to 1 July 2000. OGH should inform associations about the types of tenancies which will attract the loading. OGH should ensure that associations have an opportunity to review the types of tenancies which attract the loading.

Benchmarks

OGH made a commitment to form a reference group to develop new benchmarks and to monitor existing benchmarks for CHLP. This could have provided an opportunity for associations to have input into how organisations’ performance is assessed and the appropriate level of funding for certain functions. However the reference group has never been established.

The issue of appropriate benchmarking is a high priority for housing associations. Associations believe that they can make a valuable contribution to the development of benchmarks for the sector. They are very concerned that benchmarks are being developed without consultation. As a result, there is concern in the sector that CHLP uses inappropriate benchmarks. Some of the benchmarks appear to be set at the wrong level, and/or set by the wrong method. For example:

- CHLP allows 2% vacancy rates. This is a much lower vacancy allowance than is typically used among real estate agents for private rental properties, where a 4% vacancy rate (or 2 weeks/year) is considered to be standard. A vacancy rate of less than 3% is considered to be a very tight rental market. This suggests that it is unreasonable to insist that housing associations operate within an even tighter vacancy allowance. In the context of the nominations business rules for

redevelopment sites and stock transfers, associations face longer periods of vacancies over which they have no control. This is because of the additional time it can take for public housing to provide an appropriate shortlist of applicants for vacant properties.

- The leasehold maintenance allowance of \$65 per property per quarter is based on historical amounts from the outdated Community Tenancy Scheme Budget Strategy.

See also the discussion of the capital contribution benchmark in the following section.

There is also the perception that the concept of benchmarking is being misused by OCH. Benchmarks are commonly understood to be a means for an organisation to measure its performance against peer organisations' best practice. Benchmarks are also often understood as targets against which performance can be assessed. Neither of these conceptual approaches to benchmarking relate directly to funding. However, under CHLP "benchmarks" operate directly as funding caps. They represent the limit on the amount of funding OCH is prepared to pay for various functions. This makes their development and monitoring especially important.

Recommendation:

OCH should immediately establish a reference group to consult effectively with associations on the key issue of benchmarking/funding caps, to ensure that associations have input into the development and monitoring of CHLP funding limits. OCH should commit to a timetable for reviewing and developing benchmarks based on consultation with associations.

Capital contribution "benchmark"

The amount of capital contribution that associations are required to pay has a major impact on the viability of individual associations and the housing association sector as a whole. This is a key issue for housing associations.

At the start of CHLP there was no benchmark for the capital contribution associations are expected to pay. OCH made a commitment to negotiate the level of capital contribution with the sector to develop an appropriate benchmark, and to negotiate with individual associations over the amount of capital contribution they should make. Factsheet 6 dated January 2001 introduced a benchmark of \$200 per property per quarter which associations are now required to pay as a minimum. This took place without negotiation with the sector. Associations which have been paying less than this amount will have an adjustment made to their quarter 4 payment to force them to "repay" the amount owing since July 2000.

According to the Federation's calculations, the average contribution in quarter 1 was \$207 per property per quarter. The median contribution was \$192. OCH has confirmed that the minimum of \$200 per property per quarter was based on the average quarter 1 contribution, after analysing associations' income and expenses. The quarter 1 contribution was itself based on historical amounts.

This is a very unsatisfactory "benchmark" for several reasons. Firstly, it is not a benchmark as the term is commonly used, but a required minimum payment. In other words, it is a funding cap imposed by OCH. The minimum amount payable has been calculated using an average of historical amounts. It does not take into account associations' current capital portfolio expenses but reflects historical accident. Associations do not consider that the

historical capital contribution calculations are based on reliable income and expenditure data. For example, associations are concerned that the current allowance for cyclical maintenance is insufficient. In the absence of full technical inspections of all capital properties, OCH's assumptions about capital expenses appear to be based on guesswork.

There is little basis to use the average historical contribution as a minimum. In fact, given that the median historical contribution is only \$192, less than half of the associations have historically been contributing the new "benchmark" amount. An average is a very unstable basis for this type of "benchmark". Reviewing the benchmark by calculating the average would have the effect of artificially driving up the amount associations are required to pay.

Further, associations which have historically paid more than \$200 per property per quarter are required to continue paying the higher amount. This means that there is no recognition that some associations have been contributing more than the new "benchmark", to match the recognition that some have been undercontributing. It also leads to the bizarre situation where a supposed "benchmark" is different for each organisation.

Associations are very dissatisfied with the benchmark and with the process of developing it. Initially, the amount of capital contribution was to be negotiated between individual associations and OCH staff. However, these negotiations have been very one sided. Associations which have historically paid more than \$200 per property per quarter but which have evidence that this is no longer sustainable given changes to their portfolio, have not been able to negotiate a lower contribution. Associations which have historically paid less than \$200 per property per quarter have been required "repay" the amount owing since July 2000 and to contribute more in future quarters.

In effect, OCH has required associations to repay funds without negotiation, in direct contradiction to the earlier commitment to negotiate. Some associations have been left financially worse off, despite OCH's commitment that no association would be disadvantaged by CHLP. These associations face a compounding problem, as the higher capital contribution will continue to be required in future quarters regardless of their ability to pay it. In setting the capital contribution benchmark in a way which is not transparent and above board, OCH appears to establish the benchmark and exclude the possibility of consultation in the future.

Recommendation:

OCH should negotiate with associations on the capital contribution "benchmark" via the benchmarking reference group, and develop a policy which enhances the viability of individual housing associations and the sector as a whole. OCH should work with associations to determine the actual income, expenditure and "profit" of their current capital portfolios.

Recommendation:

OCH should not require associations to repay any capital contribution until an appropriate benchmark has been set in consultation with the sector as a whole.

Capital contribution exceeding property management costs

Under CHLP the capital contribution is not literally repaid to OCH, but goes towards the association's property management expenses. It is very important to note that funding for property management expenses is calculated by OCH's staffing and administration formulas and reflects the size of the association rather than actual costs.

A small number of housing associations are almost in the situation where their total capital contribution per quarter is more than their total property management funding under CHLP. In other words, these associations are almost able to make a contribution to something other than their own property management expenses. A relatively small amount of capital growth would see these associations' capital contribution exceed their property management funding allowance. Indeed, following the allocation of growth resources in the 2000-01 Community Housing Assistance Program, some associations may already find themselves in this situation.

The issue is where this excess capital contribution should be directed. The association could literally repay the money to OCH. Alternatively, the association could contribute to their own leasing subsidy. However, in the interests of transparency it may not be appropriate for an association's capital contribution to be put towards their leasing subsidy, as CHLP is meant to isolate the leasing subsidy from other costs.

The associations concerned are all large (formerly "growth) metropolitan associations with a reasonably good capital:leasehold ratio and an above-average capital contribution.

All housing associations need to be informed of OCH's policy when an association's capital contribution exceeds their property management funding. The situation brings into sharp focus a number of issues which associations have raised previously, including:

- the appropriate use of the profit generated by capital properties, including accumulated surpluses
- the calculation of the capital contribution
- the adequacy of CHLP funding formulas, including the amount funded for property management
- the autonomy of associations, including their capacity to exercise discretion and responsibility in meeting housing need
- the capacity of OCH and associations to measure and improve associations' viability.

As noted earlier in this report, CHLP does not identify the extent to which housing associations are viable in a non-recurrent funding environment. Even the small number of associations which are close to covering their property management funding with their capital contribution cannot establish the extent to which they would be viable in a non-recurrent funding environment. The structure of CHLP does not allow them to calculate how many leasehold properties they would be able to sustain, nor how many more capital properties they would require in order to sustain their current leasehold portfolio.

Initial consultation with the associations concerned has raised several possibilities for the use of their "excess" capital contribution. The individual association could use the money as an internal source of growth. For example, the association could support a mortgage using a combination of accumulated surpluses as a deposit and the excess capital contribution for loan repayments. This would allow the association to acquire additional properties.

Alternatively the excess capital contribution could be used to improve the association's services. The money could be spent on staffing, for example, by remunerating staff adequately for the tasks they perform, or by hiring staff to perform specific tasks such as improving tenant participation. As noted earlier in this report, CHLP fails to fund associations

to carry out several important functions, such as tenant participation, which are required by accreditation.

It is important to acknowledge that neither the capital contribution nor the property management allowance, as calculated by CHLP, reflect actual costs. The capital contribution reflects the historical amount paid by individual associations, rather than their current capital portfolio expenses and income. The property management allowance reflects OCH's formulas for staff and administration funding, and do not relate to actual expenses. If actual income and expenses were taken into account for capital contribution and property management, it is very unlikely that any association would be near the point of covering their property management costs with their capital contribution. This is because CHLP contains in-built underfunding in these key areas.

Recommendation:

OCH should develop a policy in consultation with associations about the appropriate use of any capital contribution which exceeds an association's property management funding. OCH should provide information to all housing associations about this policy.

Appropriate use of surpluses

Under CHLP there are no guidelines for how associations can spend any accumulated reserve funds, or the "surplus" which continues to be generated by capital properties. OCH made a commitment to consult with associations during 2000 and develop a policy paper about the use of surpluses. However, this has not happened.

Associations are independent organisations whose constitutions, aims and objectives set out the type of activities they will pursue. Typically these objectives state that the association will act to relieve poverty by the provision of community, social or affordable housing. Associations have internal accountability mechanisms which ensure that they carry out their objectives. Associations will, therefore, be guided by their own objectives to spend any reserve funds/surpluses for legitimate community housing purposes. That is, the money will be spent as it was intended by the government to be spent.

One of the original principles of the new funding methodology was to recognise the increasing professionalism of housing associations. OCH could take practical steps towards achieving this goal by removing the restrictions on the use of reserve funds/surpluses. OCH could also make good its commitment to work with associations to develop broad guidelines about the appropriate use of this money.

Recommendation:

OCH should recognise the professionalism and accountability of housing associations by enabling them to spend reserve funds/surpluses on social/affordable housing, as directed by associations' own aims and objectives.

Public housing nomination rights

In the most recent quarterly return OCH introduced a trial report sheet for associations with properties which have public housing nomination rights attached (stock transfers and redevelopment sites). Associations must report on the number of capital properties for which

they requested a nomination shortlist, and must calculate this as a percentage of their capital vacancies for the quarter.

Associations are concerned that this method of reporting measures nomination rights in an inappropriate manner. Nominations should be measured as a percentage of the total capital portfolio, not just as a percentage of capital vacancies. Maintaining a certain percentage of nominations to capital vacancies (rather than the capital portfolio overall) could lead to an unjustified increase in the percentage of capital properties allocated via the nominations process. Since redevelopment properties are by definition brand new, the turnover can be expected to be lower than across the rest of the capital portfolio. Therefore there are likely to be more vacancies in capital properties without nomination rights. The current reporting method would require associations to allocate some of their vacancies in properties without nomination rights to public housing nominated applicants, just to maintain their target percentage. This would be completely inappropriate.

Further, this is not the reporting method which was discussed at OCH's Nominations and Allocations Reference Group as part of the nominations business rules. Associations are very concerned that the business rules appear to have been changed without consultation.

Recommendation:

OCH should consult with the Nominations and Allocations Reference Group to develop appropriate reporting methods for the nominations process.

Conclusion

The Federation is committed to working with OCH to improve CHLP, and looks forward to participating in a full review of the funding methodology.