

SA Housing Trust

Community Housing Asset Renewal Program (CHARP) Guidelines



Guideline details

Community Housing Asset Renewal Program (CHARP) Guidelines v 2.2

Confidentiality level: Public

Policy Author: Tim Irvine

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Changes to existing guidelines: Fixed payments exemptions are being introduced:

Fixed Payments Exemption Type A - the first 100 properties to be redeveloped under the CHARP guidelines as replacement SACHA funded assets.

Fixed Payments Exemption Type B - the first 100 additional social or affordable housing created through approved CHARP projects, where these additional dwellings are retained by CHPs and subject to a SAHT Deed of Statutory Charge or Covenant. An equal number of nominated SACHA funded assets will be selected and exempted from the Fixed Payment.

Compulsory considerations

- This guideline has been reviewed in its entirety for relevance, and is up to date.
- All feedback, issues and questions has been considered and addressed.
- The guideline has been considered to make sure it doesn't have a disproportionate effect on any one social group – e.g. Aboriginal and/ or Torres Strait Islander people.
- Corporate and organisational risks have been considered and assessed.
- This guideline complies with the [SAHT policy framework](#).
- Staff will be notified of any policy changes when the guideline has been approved.

Approvals and review

Policy Custodian – Wendy Scullen, Business Relations Leader

Date of approval: 24 January 2020

Policy Content Architect – Tim Irvine, Senior Financial Analyst, Housing Solutions

Date of approval: 24 January 2020

Delegate – Gregg Ryan, Manager, Housing Solutions, SA Housing Authority

Date of endorsement: 24 January 2020

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1 Purpose of these guidelines

These [Community Housing Asset Renewal Program \(CHARP\) guidelines](#) set out program objective, project conditions and the criteria against which project proposals for redevelopment of community housing assets by community housing providers will be assessed.

2 Scope

This Asset Renewal program and related guidelines apply to:

- 2.1 Community housing providers registered as Tier 1 or 2 providers under the [National Regulatory System for Community Housing](#) and which have signed the **Master Community Housing Agreement**.
- 2.2 These [CHARP Guidelines](#) apply specifically to the **SACHA Funded Assets** according to Schedule 1 of the Community Housing Master Agreement (previously referred to as 'debentured' properties).
- 2.3 All other asset renewal proposals relating to community housing assets in which the SA Housing Trust has an interest and for which approval is sought will be assessed and managed through these guidelines.

These program and related guidelines **do not** apply to:

- 2.4 Community housing providers registered as Tier 3 providers under the [National Regulatory System for Community Housing](#) or project proposals which include prospective mergers or joint venture arrangements with Tier 3 providers.
- 2.5 Proposals relating to SAHT-owned properties or Joint Ventures.
- 2.6 Sale to tenants.
- 2.7 Other transactions that fall within the scope of the [Community Housing Property Transaction Policy](#).

3 Program Objectives

The objectives of the [Community housing Asset Renewal Program](#) (CHARP) are to:

- 3.1 Provide eligible community housing providers the opportunity to address significant asset management issues with SACHA Funded Assets through redevelopment of old and underperforming stock;

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- 3.2 Enable eligible providers to maximise development opportunities with assets under the Master Community Housing Agreement as well as other opportunities with state owned land or dwellings designated as community housing assets;
- 3.3 Provide an opportunity for registered Tier 1 and Tier 2 community housing providers to build property development capacity and experience with associated financing arrangements; and
- 3.4 Improve the overall quality of social housing outcomes by facilitating development opportunities and enhancing the performance of assets delivered by community housing providers.

4 Program Conditions

The following conditions apply to projects approved through the Community Housing Asset Renewal Program and other developments of community housing assets requiring approval by the SA Housing Authority:

4.1 Protection of government assets

- 4.1.1 No capital funding will be made available from SAHT resources.
- 4.1.2 There will be no net reduction in the overall number of both SACHA Funded Assets and other state funded assets sector wide.
- 4.1.3 All newly constructed dwellings must be targeted for completion within 12 months of execution of a Project Agreement (this timeframe may be negotiated with the SA Housing Authority depending upon the size and complexity of the proposed development) and 18 months from the initial **In-Principle approval** provided by the SA Housing Authority for a project.
- 4.1.4 Any new outcomes in which Government has a financial interest (i.e. new properties retained and not sold as part of the project proposal) will be incorporated under the community housing provider's Master Community Housing Agreement with the SAHT. The tenant outcome type will be negotiated between the community housing provider and the SA Housing Authority on a case by case basis.
- 4.1.5 A target to redevelop approximately 25 SACHA Funded Assets per annum will be set by the SA Housing Authority as part of the CHARP program in an individual round, unless part of a special purpose call. The SA Housing Authority may consider proposals outside of this targeted number.

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- 4.1.6 No Fixed Payments will be payable on approved Exemption Type A or B properties. See section 4.3 Fixed Payments in this document for more details.
- 4.1.7 The SA Housing Authority has absolute discretion as to whether and in what circumstances the Fixed Payment Exemption Types A and B will be applied.
- 4.1.8 The general location of SACHA Funded Assets will be maintained or improved. For example, as a guideline, projects proposing to sell SACHA Funded Assets within inner ring suburbs and replace them with properties in outer ring suburbs will not be supported.
- 4.1.9 A Project Agreement will be issued for each approved project by the SA Housing Authority for execution by the provider and the SA Housing Authority. This project agreement will summarise all approved conditions and targeted dates for construction and the release of fixed payments.
- 4.1.10 The project agreement must be executed by the community housing provider within 30 days of its receipt from the SA Housing Authority in order to align with vacancy periods and fixed payment exemptions.

4.2 Financial Acquittal

- 4.2.1 The SA Housing Authority will require a full acquittal of all funds into and out of the project, whether in the form of cash proceeds or asset contribution, at project completion.
- 4.2.2 If a project involves demolition or sale of a SACHA Funded Asset, and the value of security for Government's financial interest is thereby reduced, then a new Deed of Statutory Charge, bank guarantee or similar instrument may, at SAHT's discretion, be executed to fully secure the Government's financial interest.
- 4.2.3 Upon project completion a new Deed of Statutory Charge will apply over the project properties in which Government has a financial interest. Where third party financiers are a party to the project a Deed of Priority may also be required to be entered into.
- 4.2.4 The financial interest of Government will be determined as follows:
 - 4.2.4.1 Where a SACHA Funded is targeted for redevelopment, the Government contribution will be valued at the latest available Valuer General's valuation, but the SA Housing Authority may at its absolute

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discretion seek an updated independent valuation prior to the execution of a project agreement,

4.2.4.2 Where a SACHA Funded or state funded asset is to be sold to generate development funding for a project, a market valuation will be required to estimate the value of the property for the project agreement. The final Government contribution will be valued at the net sale proceeds [i.e. sale price minus selling costs (maximum 2.5% of the sales price) as per the settlement statement and the value of any equity that might be due to the tenant as part of grandfathered equity share schemes i.e. [group self build](#)]. See section 4.6 Property Sales in this document for more information.

4.2.5 100% of the financial interest of Government will be secured by a Deed of Statutory Charge against the community housing provider's property portfolio as follows:

4.2.5.1 Against the title of project outcomes or part thereof to the same value of the original properties, this may result in security being placed over more properties than the original property; or

4.2.5.2 Where the value of properties delivered is less than the financial contribution of Government, the residual will be secured against the title of alternate land or property held by the community housing provider as agreed between the provider and the SA Housing Authority or the provider may provide a financial return to Government for the remaining unsecured amount.

4.2.6 Any surplus funds on completion of project (where the funds derived from sale of the original or new project properties exceed those reinvested into new retained project outcomes), must be reinvested into an approved community housing project or returned to Government, as agreed by the SA Housing Authority, within a timeframe agreed by the SA Housing Authority. The preferred position is that all funds are reinvested against the proposed project.

4.2.7 Where the likelihood of surplus funds is reasonably foreseeable, the project proposal should include a specific proposal for the investment of surplus funds. The community housing provider will arrange and fund an independent market valuation to determine the value of properties post completion and provide the valuation(s) to the SA Housing Authority immediately to enable the execution of the Deed of Statutory Charge.

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4.3 Fixed Payments

4.3.1 Fixed Payments on any approved new CHARP 'Type A' outcomes which replace SACHA Funded Assets, included in a proposal approved by the SA Housing Authority, will be waived. See more Type A details below at 4.3.8.

These guidelines will be applied to CHARP outcomes in CHARP project agreements executed from 1 July 2019.

SAHT has the sole discretion to apply Fixed Payment exemptions.

SAHT reserves its right to change the CHARP guidelines prior to the approval of a project.

4.3.2 Properties can only be vacated once '**In-Principle**' agreement has been provided and no earlier than 6 months prior to demolition or sale unless otherwise agreed by the SA Housing Authority.

4.3.3 In the event the project agreement is not executed by the provider within the required timeframe, fixed payments will re-commence for the vacant property until execution of the agreement.

4.3.4 The provider is responsible for notifying its Business Relations Specialist upon vacancy to enable suspension of fixed payments for the property and adjustment of the provider's Quarterly Data Return.

4.3.5 Fixed Payments for any new outcomes under the Master Community Housing Agreement will become due from the date of settlement unless otherwise agreed by the SA Housing Authority (for example, through an Exemption Type A as detailed below).

4.3.6 Fixed payments on re-developed sites will be waived for a period of up to 12 months unless otherwise agreed by the SA Housing Authority (for example, through an Exemption Type A as detailed below).

4.3.7 Both Fixed Payment Exemption Type A and Type B outcomes in which Government does not have a financial interest, or the interest is nominal (i.e. peppercorn) will be incorporated under the community housing provider's Master Community Housing Agreement with the SAHT and subject to the usual terms and conditions including but not limited to:

- Community housing Eligibility policy
- Community housing Tenant Allocations and Tenure policy
- Community housing Rent policy

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- Community housing Property Transaction policy
- Community housing Property Sale to tenant procedure
- Other property related actions under the *Community Housing Providers (National Law) (South Australia) Act 2013 Section 24 (1)* where SAHT needs to give permission (e.g. major disability modifications).

4.3.8 Fixed Payment Exemption Type A

No Fixed Payments will be payable on approved new CHARP outcomes which replace SACHA Funded Assets. Note that this exemption will be capped to the first 100 properties under the program (for CHARP outcomes in CHARP project agreements executed from 1 July 2019).

As a *guide*, the Fixed Payment Exemption Type A will be applied as follows:

- Direct CHP Contribution*:

0% - 15%	No FP Exemption.
> 15%	All FP Exempted on SACHA funded replacement assets.

* To be calculated as: $\text{Total Direct CHP contribution} / \text{Total Construction cost for project}$

- Direct cash (i.e. not including other Commonwealth/State funding) or debt contributions of the CHP are counted towards the Total Direct CHP contribution. Costs (including development and costs of sale) and revenue relating to market sales of the CHP cannot be counted as a Direct CHP contribution.
- Total Construction cost includes costs associated with design/planning/subdivision/construction of the General or Supported outcomes, plus land purchase cost if sales revenue not used to fund this purchase.
- There are two types of SACHA funded replacement assets described above:
 - 1) Redeveloped SACHA funded assets (i.e. where existing SACHA Funded Assets are demolished and replaced with new build SACHA Funded Assets on SACHA Funded Asset land).
 - 2) Sale SACHA Funded Assets (i.e. sale of SACHA Funded Assets to tenants/private market or insurance payouts) which require replacement SACHA Funded Asset outcomes.

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- Forecast exemptions will be negotiated as part of the execution of the CHARP Project Agreement, and confirmed by acquittal at project completion. The acquittal of project costs will need to be signed off at an appropriate senior level within a community housing provider i.e. CFO or similar.
- Fixed Payment exemptions relate only to the CHARP and cannot be expanded to programs outside of CHARP e.g. insurance payouts and subsequent development projects.
- It is completely at the discretion of the SA Housing Authority as to whether the fixed payment exemption applies.

4.3.9 **Fixed Payment Exemption Type B**

To further stimulate investment by community housing providers, Fixed Payment offset exemptions will also be provided for additional social or affordable housing created through approved CHARP projects, where these additional new dwellings are retained by community housing providers and subject to a SAHT Deed of Statutory Charge or Covenant. This exemption will be capped at a further 100 properties.

The Fixed Payment offset exemption would be applied to an equal number of nominated existing SACHA Funded Assets. While SAHT's financial interest in these additional properties would be nominal (i.e. peppercorn), the properties would be captured under the Master Agreement and subject to the usual terms and conditions including Eligibility, Rent and Property Transaction Policies.

Community housing providers can select a SACHA Funded Asset against which the exemption applies.

It is completely at the discretion of the SA Housing Authority as to whether the exemption applies.

Note that if the non-replacement SACHA funded asset outcome is an outcome of another program (eg: SAHT lease transfer programs) then the fixed payment exemption will not apply.

Should the additional social or affordable housing created through approved CHARP projects be sold in the future, or the Deed of Statutory Charge or Covenant is removed, the Fixed Payment Exemption Type B on the nominated SACHA Funded Assets will be withdrawn and Fixed Payments will restart.

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A Project Agreement or a Deed of Consent will specify exemptions or resumptions of fixed payments.

4.4 Protection of tenant interests

- 4.4.1 The overall number of housing outcomes available for General or Supported customers sector wide will be maintained.
- 4.4.2 The overall number of SACHA Funded Assets will remain unchanged.
- 4.4.3 The geographic spread of properties will be retained unless there is demand for investment in other areas.
- 4.4.4 Where a project requires the relocation (whether temporary or permanent) of existing tenants, the community housing provider is responsible for sourcing alternative suitable community housing accommodation and must ensure that moving costs are paid for and existing rights and conditions are maintained, including rent charged and tenure arrangements. Relocations should occur according to the community housing provider policy – also refer to the [SAHT Relocations policy](#) as a guide on how to treat such tenants.

4.5 Vacancy management

- 4.5.1 To maximise rental return on SACHA Funded approved for renewal or redevelopment, the community housing provider may in the short term assign an 'Affordable' Tenancy Type or utilise the asset for short term Transitional Housing from vacancy until project commencement. In this instance for SACHA Funded Assets the fixed payment will continue to apply regardless of the basis of rental.
- 4.5.2 In order to maintain the total portfolio profile outcomes as set out in Annexure A of their Master Community Housing Agreement, community housing providers must in the first instance consider their portfolio and manage new vacancies across their portfolio to maintain agreed portfolio targets. Where a development proposal has a significant impact on agreed portfolio outcomes, the community housing provider may negotiate a short term amendment during the construction period.
- 4.5.3 Un-tenantable properties and properties under construction will be excluded from the KPI assessment process for the duration of the project.

4.6 Property Sales

- 4.6.1 Community housing providers are responsible for managing any property sales related to the project proposal and funding associated sales,

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conveyancing and valuation costs. This includes development sites where land subdivision occurs and allotments or properties are sold on the private market to fund a project.

- 4.6.2 SACHA Funded Assets can only be sold where the sale price is greater than 90% of the market valuation as determined by an independent market valuation. The only exception to this is the sale of re-development sites where land division occurs and allotments/house and land packages are sold in conjunction with a private developer.
- 4.6.3 The SA Housing Authority reserves the right to undertake its own independent market valuation where the sale of a property is estimated to fall below the 90% of current valuer general (VG) value.
- 4.6.4 In the event the sale is below the 90% of VG value, the property cannot be sold unless further approval is sought and given by the SA Housing Authority.
- 4.6.5 Projects involving construction on Government land and subsequent sale will be subject to the Government's 15% Affordable Housing Policy.

5 Provider Eligibility

To be eligible to submit a Project Proposal under the Community Housing Asset Renewal Program or other development opportunity involving a community housing asset, a community housing provider must:

- 5.1 Be a registered Tier 1 or 2 provider under the National Regulatory System for Community Housing;
- 5.2 Have no regulatory compliance issues;
- 5.3 Have entered into and be compliant with the terms of the Master Community Housing Agreement; and
- 5.4 Be willing to give permission for the SA Housing Authority to obtain a copy of its latest *Financial Performance Report* and *Compliance Report* from the Registrar to determine financial risk exposure.

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6 Request for Proposals

6.1 Frequency

The SA Housing Authority will release a 'Request for Proposals' from time to time via a Community Housing Bulletin and the [SA Housing Authority provider Intranet page](#).

Proposals submitted or negotiated outside of a formal call may be considered in accordance with these Guidelines dependent upon budget and resource implications.

Proposals will also be considered on an urgency basis where properties have become un-tenantable or severely unsuited for their designated program purpose.

6.2 Ongoing submission

At the discretion of the SA Housing Authority, consideration will be given to bids outside of scheduled rounds, especially for community housing providers which have been given approval for and executed a CHARP project in previous rounds. Proposals should be linked to short to medium term plans and will be assessed under CHARP Guidelines.

6.3 Format

Community housing provider initiated proposals must be submitted in the form provided at Attachment 1.

Prior to submission, community housing providers are encouraged to discuss their proposals with the SA Housing Authority staff including their Business Relations Specialist and the Senior Financial Analyst, Housing Solutions.

7 Provider Proposal Assessment

7.1 Evaluation panel

A minimum of three SA Housing Authority staff will be nominated by the Manager, Housing Solutions ensuring appropriate experience and expertise in:

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- Financial analysis
- Provider business models
- Development applications and requirements

While the evaluation panel will not include a proponent's Business Relations Specialist, this staff member will be consulted during the assessment process to validate or confirm information provided in project proposals e.g. data, performance reports, adherence to contract conditions.

7.2 **Assessment criteria**

Project proposals will be assessed in two separate parts against mandatory criteria (Part A) and project criteria (Part B).

All mandatory criteria must be satisfied in order for the proposal to progress for further assessment against the project criteria. Proposals not meeting Part A criteria will be rejected.

7.2.1 **Part A: Mandatory criteria**

1. The proposal satisfies program objectives (as set out at section 3 above);
2. The community housing provider meets eligibility requirements (as set out at section 5 above);
3. The project will return at least an equal number of housing outcomes for General or Supported customers;
4. No additional capital funding is requested of the SAHT;
5. Cash proceeds to be reinvested into specified and approved community housing project(s) or returned to Government; and
6. Expected compliance with Local Government development requirements.

7.2.2 **Part B: Project criteria**

Project proposals will then be assessed according to four (4) key elements:

1. **Project viability**

Giving consideration to:

- Timeframe for completion
- Project complexity

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- Tenant considerations (i.e. suitable relocation requirements – see section 4.4 in this document)
- Location or replacement properties (i.e. a like for like replacement in terms of location).

2. Community housing provider capacity (to develop and deliver)

Giving consideration to:

- Skills commensurate with project complexity
- Partnership arrangements
- Community housing provider financial viability and financial risk exposure

3. The funding model

Giving consideration to:

- Cash funding/borrowing/grants
- Risk/viability
- Funding approval status

4. Project outcomes

Giving consideration to:

- Number of new outcomes (i.e. yield)
- Distribution of Affordable versus General or Supported outcomes
- Property input location versus property output location (like for like is preferred however each proposal will be considered on its merits)
- Target demographic is well supported and tenancies sustainable (where relevant). Links to existing SA Housing Authority urban renewal areas and any SAHT regional asset plans.

7.3 Weighting

Each of the four assessment elements will be weighted by the SA Housing Authority according to Government strategic priorities at the time.

Proposals with the highest weighted scores will be recommended by the evaluation panel for approval.

8 Project Approval

Approval must be obtained on a project by project basis in accordance with the *SAHT Instrument of Financial Delegations* relating to SAHT operations.

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Any changes to the original submission (e.g. substitute properties to be sold or reductions in yield following planning approvals) will be subject to reassessment and re-approval.

9 Planning approvals

Proposals under CHARP may be submitted for planning approval through the Office of State Co-ordinator General. In some circumstances this may be a quicker process than local council and expedite the delivery of the project.

10 Definitions

Act means the *Community Housing Providers (National Law) (South Australia) Act 2013*.

Master Community Housing Agreement means the Master Community Housing Agreement (2016) entered into between the community housing provider and the South Australian Housing Trust, and includes all attachments, annexures and schedules to it.

Fixed Payment means the dividend payable by the Community Housing Provider to SAHT for SACHA Funded Assets set out in Part B of Schedule 2 of the Master Community Housing Agreement.

In-Principle agreement for the purposes of CHARP projects will be in the format of a formal letter signed by the General Manager of Homes and Partnerships, SA Housing Authority, acknowledging the project has been agreed to in principle but where a project agreement has yet to be executed.

SACHA Funded Asset for the purpose of these guidelines means those Project Properties which are specified in Schedule 1 of the provider's Community Housing Master Agreement as SACHA Funded Assets (previously referred to as 'debentured' properties).

11 Related information

11.1 Controlling documents

These guidelines link to the [Core Operating Policy: Community Housing Property Transaction Policy](#) and comply with the relevant requirements of the:

- *Community Housing Providers (National Law) (South Australia) Act 2013 (section 24)*
- Master Community Housing Agreement
- SAHT Instrument of Financial Delegations relating to SAHT operations

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11.2 Supporting documents

- [CHARP Project Proposal Form](#)
- SA Government's *Guidelines for the Assessment of Unsolicited Proposals* (where proposals are considered outside of a formal call by the SA Housing Authority under the Community Housing Asset Renewal Program)
- [Community housing use of property as security for debt finance procedure](#)

11.3 Date this policy applies from

24 January 2020

11.4 Version Number

Version 2.2

The online version of this guideline is the approved and current version. There is no guarantee any printed copies are current.