Allowable Expenditure and Surplus Policy

Funded Providers

Version Control

Version	Date	Comments
	15.03.2018	Legislation reference updated

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1. Background

The Department of Housing and Public Works is committed to strengthening the community housing sector to take a more active role in managing and delivering social housing.

This policy provides direction on program allowable expenditure and use of surplus program funds, to give funded providers (including providers registered under the *Housing Act 2003*) greater independence and flexibility when using program funds. Providers should read this policy together with their funding (assistance) agreement.

The department may review and/or change this policy at any time, or make specific decisions about allowable expenditure, and/or surpluses, for any program or funding agreement. These decisions will consider the particular circumstances of that program or agreement. All references in this policy to “approval” or “agreement” mean approval or agreement in writing.

2. Policy purpose

The intent of this policy is to provide clear direction on how program receipts can be expended and the department’s position on the use of surplus funds. The policy encourages providers to operate efficiently and allows them to use funds flexibly to manage and grow social housing programs.

Specifically, this policy will outline:

- a Common Allowable Expenditure List for community housing programs
- the cash provisions providers are expected to make for asset management and maintenance
- the unexpended program funds providers are expected to return to the department how to identify a surplus balance and how it should be treated.

3. Policy scope

This policy applies to all recurrent and non-recurrently funded housing programs. This includes the following programs:

1. Long-term Community Housing Program (LTCHP)
2. Affordable Housing Program (AHP)
3. Community-managed Housing – Studio Units Program (CMSU)
4. Same House Different Landlord Program (SHDL)
5. Community Rent Scheme (CRS) 6. Crisis Accommodation Program (CAP)
6. Supportive Housing Program (SHP).

The policy requirements for allowable expenditure (Section 6) do not apply to CAP. Allowable expenditure for CAP is prescribed in the program specifications.

4. Legislative and contractual requirements

Provisions in the *Housing Act 2003 (‘the Act’)*, the *Housing Regulation 2015 (‘the Regulation’)* and funding agreements allow the department to ask funded providers to return unexpended program funds or receipts.

Section 26 of the Act outlines the department’s ability to demand repayment of any unexpended amounts when a funding agreement ends, and the amount paid under the agreement has not been expended.

Section 8 of the Regulation also allows the department to require the provider to return any unexpended program receipts that under a funding agreement have not been expended during a particular time.

This policy is subject to the provisions of the Act, the Regulation and any applicable funding agreement.

5. Program receipts (income)

In Schedule 5 of the Regulation, program receipts for a funded service means:

(a) amounts paid to the registered provider by the chief executive as grants, loans or other financial assistance for the purpose of providing the service and
(b) rent or other income from funded property and
(c) the proceeds of a sale of funded property and
(d) fees for providing relevant goods or services, and (e) interest received on an amount mentioned in (a) to (d).

All of these income types are classified as program funding and are subject to this policy.

6. Allowable expenditure

All funding should be acquitted in accordance with International and Australian Accounting Standards and the conditions of any applicable funding agreement.

Depreciation: The Australian Accounting Standards requires non-current assets that have limited useful lives (depreciable assets) to be depreciated over those useful lives. Depreciation is a noncash expense for the business entity. The depreciation expense is, however, considered in the calculation of the operating result. It is not included as an allowable expense against program funds but will still be recorded in financial reporting to meet the requirements of the appropriate accounting standard.

6.1. Common Allowable Expenditure List

The following funding parameters apply to the expenditure of all program receipts:

1. Program receipts can only be used to fulfil funded program objectives.
2. Funds should not be used to cross-subsidise other properties or units of accommodation managed by the provider, unless approved by the department.
3. The department may ask providers to show evidence of how an expense has contributed to fulfilling the funded program’s objectives. Providers are expected to have a transparent and reliable method of cost allocation that can be reasonably justified.

In addition, the Common Allowable Expenditure List (Attachment 1) explains what the department considers to be appropriate and allowable use of program receipts. This applies to all community housing programs, with the exception of CAP, to ensure consistency across all programs and to provide clarity on the appropriate uses of program funds.

6.1.1 Management fees

The Common Allowable Expenditure List allows funded providers to use program receipts to cover management fees (often referred to as corporate services expenses). Management fees are charged to recover overhead costs, shared across different income sources, meaning they cannot be charged as a direct cost to a single income source.

Management fees can be either:

- an external charge, paid by funded providers, for another organisation to perform governance or financial services (excluding auspice fees), or
- an internal charge, for overhead and other common costs, that does not directly apply to a particular program.

If management fees are an internal charge, they should be apportioned ‘fairly’ across programs. ‘Fairly’ refers to the portion of an expense the organisation pays for the direct use or benefit of a program. The organisation must establish a consistent and rational method of sharing the cost that best represents the fair use of the expense item.

An example of fair use for office space would be calculating the cost per square metre used by a program, plus an equal share of the cost for common areas, divided by the number of full-time equivalent staff. The provider may be asked to show their method of calculating fair use for management fees.

7. Provisions for asset management and maintenance

Providers must allocate enough funds from their program receipts to pay for the management and maintenance of provider-owned and department-owned properties and assets to meet regulatory and funding requirements. Reserves set-up for this purpose should be supported by cash and accounted for using the appropriate accounting standards and practices.

Providers will need to get approval from the department if they want to create a reserve of funds for any other purpose, such as capital upgrades.

8. Return of unexpended program receipts

The department has the power, under the Act and the Regulation, and through contractual obligations with funded providers, to request the return of unexpended program funds or receipts.

8.1. Recurrently funded programs

Recurrently funded programs receive an annual or recurrent funding grant from the department.

This includes private head-lease programs such as CAP and CRS.

Unexpended funds may result from a provider failing to meet their minimum program quota, on average, during a funding period. If so, the department may require the provider to return unexpended program funds from that funding year.

For example, if a provider is funded to head-lease a minimum of 20 properties, and on average only head-leased 15 properties during the one funding period, the department may require for the unexpended program funds from that funding period to be returned.

The department may require the provider to return the funds by making a payment to the department or by reducing their funded amount for the next financial year.

The received unexpended funds may be placed in a strategic pool of funds the department can use at its discretion to reallocate to delivering housing services.

8.2. Non-recurrently funded programs

The department may require the provider to return any unexpended capital or one-off grant funding.

The department will also require the repayment of loans and other financial assistance provided by the department, and sale proceeds of funded property (at percentage of equity, if applicable).

9. Surplus balance

A surplus is any program receipts left over after subtracting allowable expenditure, appropriate provisions for asset management and maintenance and, if required, returning unexpended program funds or receipts to the department.

For properties owned by providers, where the provider has a stated share in the equity of the property under a funding agreement, this will be recognised in determining the proportion of surplus to which this policy applies. Similarly, where a funding agreement provides for a Provider Surplus Proportion, that proportion of surplus is not subject to this policy.

The provider can keep surplus funds to use for allowable program expenditure as shown in Attachment 2. The provider will need to submit an application to the department for approval if they want to use surplus funds for a special project or purpose not listed in the Common Allowable Expenditure List. If approved, this funding is classified as committed surplus.

Providers should apply to use surplus funds to develop, grow and improve the social housing sector, such as:

- redeveloping the existing portfolio
- increasing maintenance and management funds for existing assets
- increasing the supply of housing stock in the state.

The department will review applications and decide if the proposal provides value for money and will address housing need in the region.

10. Policy links

This policy is linked to the Maintenance policy for department-owned properties managed by funded housing providers.

Attachment 1: Common Allowable Expenditure List

Common Allowable Expenditure List	
Expense categories	**Definition of expense categories and examples**
Tenancy management	Expenses related to the management of funded tenancies and delivery of tenancy services. This includes but is not limited to insurances, tenant engagement strategies, recovering rent arrears and debts.
Property management	Expenses related to the maintenance and management of funded properties. This includes but is not limited to insurances, repairs, maintenance and property services, utilities for communal areas, cleaning and pest control, rates and taxes, rent on rental properties, security expenses and valuation fees.
Organisation administration	Expenses related to the operation of the organisation to support the delivery of funded tenancy and property management services. This includes but is not limited to accounting fees, advertising and promotion, audit, auspice, legal and management fees, bank charges, computer expenses, equipment hire / lease, health and safety, insurances, salaries and wages and interest paid on loans previously approved by the department.
Service improvement strategies	Expenses that support business and service improvement strategies. This includes but is not limited to expenses related to obtaining and maintaining accreditation and undertaking service review activities and requirements, consultation activities, preparation of business and strategic plans and tenant surveys.
Miscellaneous	The provider may use up to: • $10,000 of unexpended funds or • 2% of unexpended rent receipts in total for any one financial year, to purchase client support services that help sustain tenancies. This must not be for services which can be funded through other support services or means and must be directly housing related.

Attachment 2: Diagram of Allowable Expenditure and Surplus Policy