

14. CITY HOUSING RENT REVIEW - 2008

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PURPOSE OF REPORT

1. The purpose of this report is to assess the housing portfolio rents for the 2008/09 financial year and to seek Council approval for a rent adjustment.

EXECUTIVE SUMMARY

2. Christchurch City Council's City Housing provides 2649 rental residential units, most of which comprise one bedroom units or bed-sit/studios. City Housing is tasked with providing affordable social housing for people on low incomes, including older people and people with disabilities. The definition of "affordable" is consistent with the Ministry of Social Development measure of 30% of a person's gross income.
3. The service is self funding, with all operational costs met from income received from rents.
4. Central government's main support for social housing changed in the late 1980s from direct assistance to funding the tenant by way of the Accommodation Supplement, where certain criteria are met. In effect the Accommodation Supplement covers 70% of the balance between the eligibility threshold and the actual rent provided the amount of subsidy does not exceed a stated limit. For example, the entry threshold for a person over 18 living alone is \$45, if the rent was \$100 a subsidy of 70% of the difference between \$45 and \$100 (\$55) equates to \$38.50 therefore the actual cost to tenant = \$61.50 ie (45 + 16.50; \$16.50 being the difference between \$55 and \$38.50).
5. Over the last four years modest rent increases have occurred. Over this period costs have inflated significantly and as a result it is becoming increasingly difficult to maintain the properties appropriately. In addition little is able to be set aside for significant renewals and replacement.
6. Critical to providing an affordable housing service that is sustainable for the Council to operate is the need to accumulate savings for significant future commitments and allow these invested funds to grow.
7. The total cost of owning and operating each of the City Housing sites (at current levels of service) over the full asset life-cycle has been assessed. This has been converted into a required rental level to fund this in a sustainable manner. For an average one bedroom unit the current rent is \$90.50 but the required rental equates to \$112 per week.
8. The rental adjustment proposed by this report is an increase of 24% per week which will place the average rent at an average of 58% of market rent.
9. The proposed rent increase has the following impacts :
 - The rents remain within the Ministry of Social Development affordability measure (30% of gross income) for most tenants
 - The majority of tenants living alone and on a sickness or unemployment benefit will be close to the 30% affordability measure
 - Exceptions to the 30% affordability measure are approximately 10 living alone tenants aged 20–24.
 - An assessment of reasonable provision for food and utilities, alongside the rent, suggests an extremely modest disposable income.
 - Note: The Whakahoia Village complex is excluded from the rental adjustment as this complex has only recently been occupied and their rentals will be reassessed in 2009 as part of the 2009 rent review.

10. For superannuitants the new rent positions them close to or below the 25% mark. Those on an Invalids' Benefit are generally between 26% and 28%. The disparity between these groups is a direct result of central government funding mechanisms, which signal a clear intent by the Government to support certain groups more than others.

2008 RENT REVIEW – CITY HOUSING

Policy and Strategy

11. Christchurch City Council's policies and vision statement for social housing states the Council's intent:
"To contribute to the community's well-being by ensuring safe, accessible, and affordable social housing is available to people on low incomes, including older people and people with disabilities."
12. The Council, in 2007, developed a Social Housing Strategy to clarify its own role in addressing social housing needs. This strategy confirmed the Council's intent to:
 - Provide affordable housing for those on low incomes and limited means as a direct means of addressing the needs of social housing.
 - Support social housing with initiatives such as helping public, private and community agencies work together to address key areas of social need, advocating for social support to meet people's needs and working with other organisations to ensure that Christchurch people live in homes that meet their social, health and economic needs.

Tenant Affordability

13. The vision, goals and objectives specify that rents are to be set at affordable levels for tenants, while ensuring Government funding mechanisms are maximised. Rent affordability is considered to be the ability to rent a property whilst leaving sufficient income to maintain an acceptable standard of living. The Ministry of Social Development measures affordability on the basis of no more than 30% of income being spent on housing.

Financial Sustainability

14. The Council's Social Housing Strategy and Policy has as an aim that its housing portfolio be financially self funding and sustainable through rental income (ie 'rates neutral').
15. To assess financial sustainability the Council uses a modelling tool called the Cost of Consumption. This cashflow model captures all administrative, operational and lifecycle costs associated with owning and operating the social housing service. It also allows for the replacement of units in the future if it is seen to be a better solution than ongoing refurbishment. A critical component of the cash flow relies on the Council setting aside sufficient money progressively and leaving it as a financial investment that grows. Without this approach the Council may, in the future, need to call on general rates, borrow to fund maintenance or alternatively under-fund levels of service. Under-funding would result in the deferment of maintenance and possible asset failure (with potential for additional costs).

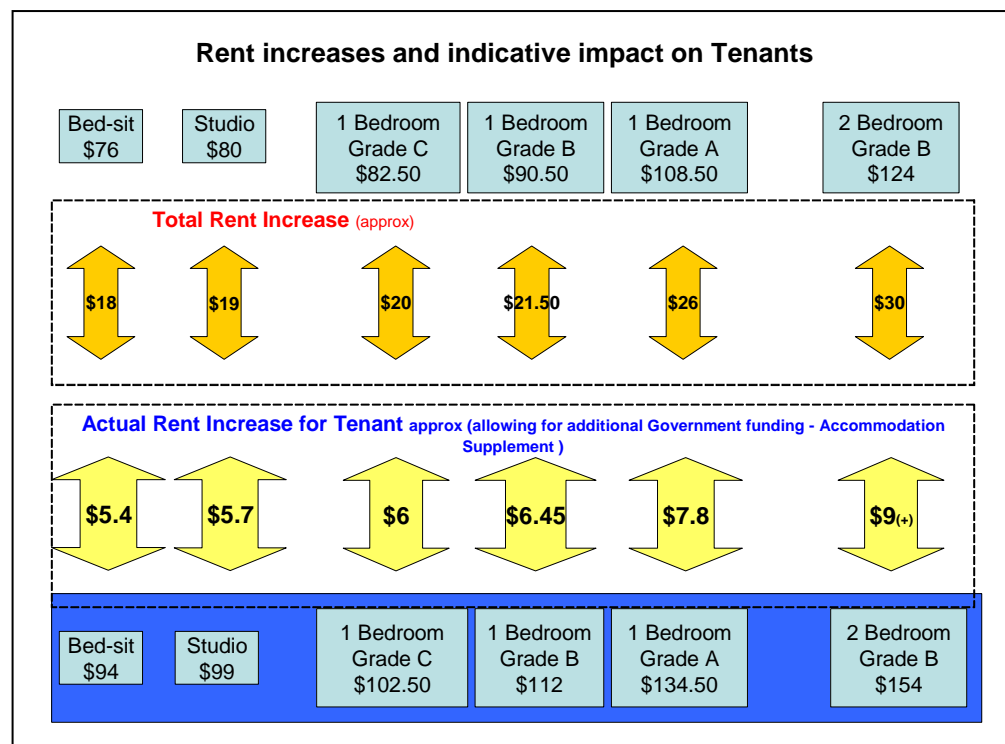
Recent Rent Reviews

16. In 2004 and 2005 rents were adjusted by 1.6% and 3%, in line with the Consumer Price Index (CPI). With both these rent reviews it was identified that construction based costs were rising above CPI levels. By 2006 hyperinflation for the residential construction industry was very evident and it was recommended changing the automatic rent adjustment formula to use the Capital Goods Price Index (CGPI) - Residential Buildings Index, instead of the CPI. This was adopted but the rent increase for that year was limited to \$2.10 per week, not the recommended \$7 per week (for a normal one bedroom unit). In 2007 the review saw an increase of 5.1% based on the CGPI, taking an average one bedroom unit to just over \$90 per week.

2008 Rent Review

17. The current CPGI is at 2.3% (Dec 07) while the CPI is 3.2% (Dec 07). This would equate to \$2 per week for an average one bedroom unit, if the automatic increase formula was to be applied.
18. Almost all City Housing tenants are eligible for the Accommodation Supplement. For every \$10 of additional rent (above a threshold) Work and Income NZ pay \$7 to the tenant (provided the maximum subsidy limit is not exceeded), leaving an effective net increase of \$3 in real terms.
19. The Cost of Consumption model, with updated financial data, has identified a significant increase in the cost of owning and operating the service relative to current budgets. The increased cost of operating the service on average equates to an increase of 24%. Rentals for Banks Peninsula tenants are currently below those for the rest of the portfolio. The recommended average increase of 24% will apply to these rentals with further adjustment being considered as part of the 2009 rent review to bring them into line with the rest of the portfolio. Current and revised rents for most of the City Housing units are shown in Diagram 1 below.
20. Once the additional Accommodation Supplement is considered, however, the real impact of this on most tenants ranges from approximately \$5.40 per week to \$9.00 per week. For 2 and 3 bedroom accommodation the upper limits of the accommodation supplement may be exceeded, depending on what benefit or income is being received. Accordingly, the net impact of the rent increase may vary for different tenants at these higher rentals. WINZ adjust benefits and the accommodation supplement on 1 April each year. This has historically been in line with the CPI. This percentage increase in income would off-set some of the rent increase but tends to benefit superannuitants more than those on an invalid benefit. In terms of dollars per week the unemployed and sickness beneficiaries benefit the least from a percentage increase in income. The increased income for tenants is also intended to account for the other living cost increases that these tenants will be coping with, such as food, heating and other utilities. The impact of the proposed rent increase for different classes of accommodation and different beneficiaries is shown in Tables 1 and 2, provided in Appendix 1 (attached). In particular Table 3 shows an assessment of disposable income after both rent and other living costs. Tables 4 and 5 give the same information under the CGPI adjustment.

Diagram 1



21. To maintain current levels of service a rent increase of 24% per week for all tenants, with the exception of Whakahoa Village tenants, is recommended.
22. Garages and carports are currently charged at \$16 and \$13 per week where the rental of a garage or carport is discretionary. Valuation advice suggests market rents for garages should be in the range of \$22 to \$28 per week. Given the size of the main rent increase this year and the potential for some tenants affordability to be compromised it is proposed that only a modest rent increase is applied to garages. This report proposes a new rent of \$17 for garages and \$14 for carports where the rental of these facilities is discretionary.

FINANCIAL IMPLICATIONS

23. See points 13 to 22 above. The City Housing portfolio is intended to be a self funded standalone portfolio, with no impact on general rates as set by the Council. The recommended rent increase will allow City Housing to address the significant programme of work required at City Housing complexes while continuing to meet normal reactive and preventative maintenance, including the resolution of health and safety issues as they arise.
24. The Cost of Consumption/Financial Sustainability model is a composite of individual cash-flows for each of the 113 sites (excluding Owner Occupier, Whakahoa Village and Partnership properties). The first 20 years of this cash flow are shown below with the red line being City Housing’s total expenditure and the blue line being the proposed rental. The green line shows annual interest earned when there is a positive bank balance and the interest paid due to borrowing. The purple line is the accumulated funds in the Housing development Fund at the end of each financial year. The \$50 million spike of expenditure evident in approximately seven years is driven by the portfolio reaching an average age of 40 to 50 years with planned renewal replacements being scheduled, for example, roof replacements, kitchen and bathroom renewals etc. While this can be spread to even out the works programme over a number of years this will not materially affect the financial impact on the Housing Development Fund. This is dependant on sufficient reserves being set aside for this (approximately \$34 million by year 2015) with these funds earning interest at market rates over the intervening years.

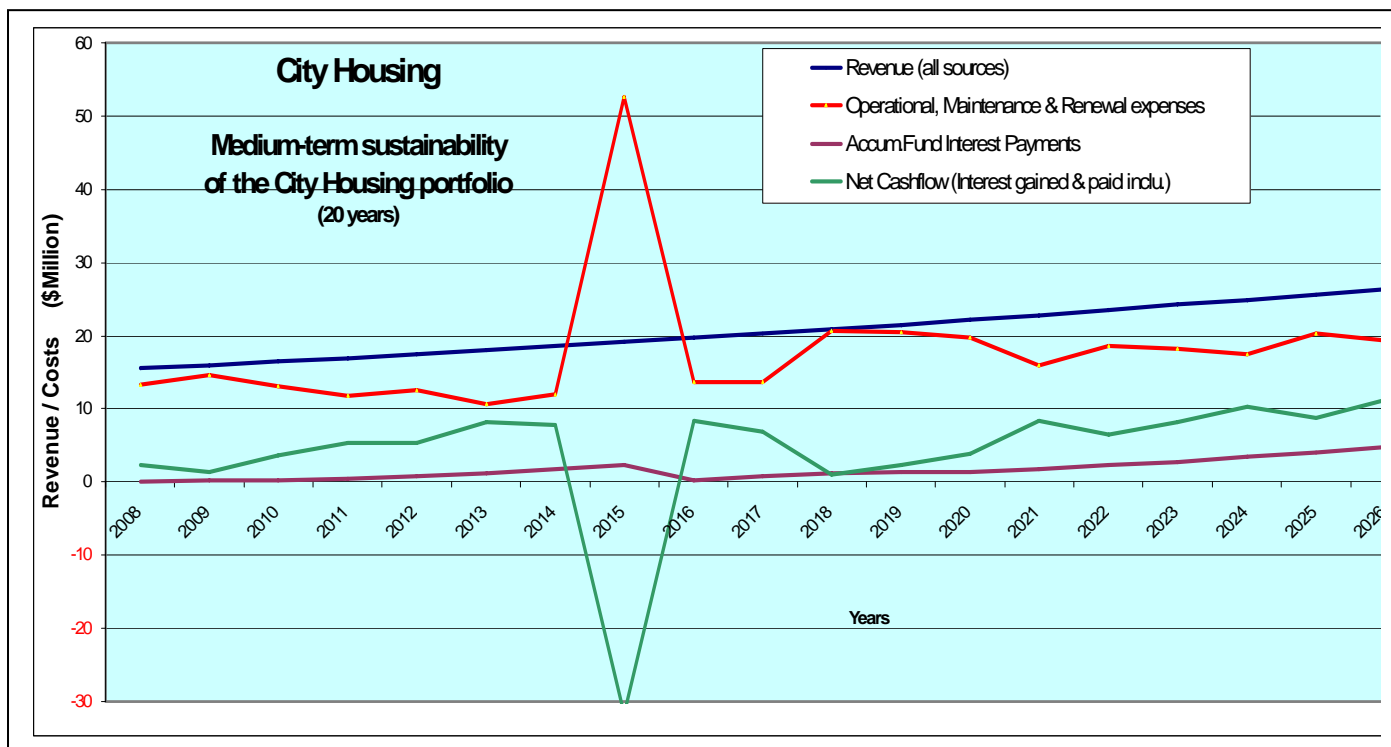


Chart 1

Do the Recommendations of this Report Align with 2006-16 LTCCP budgets?

25. No. The 10 year LTCCP budget only provides for rental increases in line with forecast CGPI.

LEGAL CONSIDERATIONS

26. The rental process proposed by staff complies with both the Residential Tenancies Act and tenancy lease agreements, assuming the required notice of the rent increase can be given prior to 1 July 2008. The report is also compliant with the Local Government Act 2002 Schedule 10.

Have you considered the legal implications of the issue under consideration?

27. Yes – see above.

ALIGNMENT WITH LTCCP AND ACTIVITY MANAGEMENT PLANS

28. Community Outcomes supported by City Housing's service include 'An Attractive and Well-designed City' 'A City of Inclusive and Diverse Communities', 'A City of Healthy People', 'A Well-Governed City' and 'A Prosperous City'. Aligns directly to the provision of Social Housing in page 49 of the LTCCP under the Community Services Group activities.

Do the recommendations of this report support a level of service or project in the 2006-16 LTCCP?

29. Yes.

ALIGNMENT WITH STRATEGIES

30. Christchurch City Council's policies and vision statement for social housing states Council's intent:

"To contribute to the community's well-being by ensuring safe, accessible, and affordable social housing is available to people on low incomes, including older people and people with disabilities."

31. The Social Housing Strategy developed in 2007 built on this vision and has established a set of principles (to guide the strategy), goals (setting out what is to be achieved by the strategy) and objectives (how the goals will be achieved). The strategy states that Council will support social housing outcomes using a variety of approaches. In particular it confirmed Council's intent to be a direct provider of social housing.
32. The vision, goals and objectives specify that rents are to be set at affordable levels for tenants, while ensuring Government funding mechanisms are maximised. Rent affordability is considered to be the ability to rent a property whilst leaving sufficient income to maintain an acceptable standard of living. The Ministry of Social Development measures housing affordability on the basis of no more than 30% of gross income being spent on housing.
33. The strategy signals that the Council's provision of social housing continues to be self-funding, with its operation being rates neutral. The strategy also specifies that the Council set rentals that provide for the sustainable operation of, and investment in, the Council's social housing portfolio.

Do the recommendations align with the Council's strategies?

34. Yes

CONSULTATION FULFILMENT

35. N/A

STAFF RECOMMENDATION

It is recommended that the Council:

- (a) Increase rents for all existing City Housing Tenants (with the exception of Whakahoa Village tenants) by 24% per week, commencing from the beginning of the first rental period in July 2008 and for all new tenancies beginning on or after 1 May 2008.
- (b) Increase garage rentals to \$17 per week and carport rentals to \$14 per week where the rental of these facilities is discretionary.

BACKGROUND INFORMATION

- 36 Appendix 1 includes information on affordability for tenants under various options, the make up and age of the portfolio, a graphic profile of the cash-flow forecast for several options, key assumptions used in financial forecasts and a breakdown of long term expenditure.

THE OBJECTIVES

37. The purpose of the Rent Review is to ensure that adequate funds are available to cover the cost of owning and operating the Council's residential rental accommodation service with no call on general rates while still delivering an affordable housing service to its targeted clientele.

THE OPTIONS

38. **Maintain the Status Quo** - No rent increase.

Fails to adequately fund the Council's social housing service. This would adversely impact upon the ability to continue to provide the current level of service. (On average 47% of market rents.)

39. **Increase rent in line with the CGPI** (Capital Goods Price Index) – currently running at 2.3% (Dec 07)

Fails to adequately fund Council's social housing service. This would adversely impact upon the ability to continue to provide the current level of service. (On average 48% of market rents.)

- 40 **Increase rent by 24% in line with the forecast cost of owning and operating the service and in line with the tenant affordability targets**

Adequately funds the social housing service in perpetuity at the current level of service while achieving the target levels of affordability as defined by the Ministry of Social Development measure of 30% of gross income. (On average 58% of market rents.)

THE PREFERRED OPTION

41. **Increase rent by 24% in line with the forecast cost of owning and operating the service and in line with the tenant affordability targets**

Adequately funds the social housing service in perpetuity at the current level of service while achieving the target levels of affordability as defined by the Ministry of Social Development measure of 30% of gross income.

ASSESSMENT OF OPTIONS

The Preferred Option

42. **Increase Rent by 24%** in line with the forecast cost of owning and operating the service.

	Benefits (current and future)	Costs (current and future)
Social	Social housing service contributes to the well-being of targeted communities – now and in perpetuity.	May motivate some tenants to move to lower cost housing, especially people under the age of 25 that are sickness beneficiaries or unemployed
Cultural	Neutral	Neutral
Environmental	Neutral	Neutral
Economic	Social Housing service adequately funded and able to continue delivering current levels of service – now and in perpetuity.	Existing tenants experience an increase in the cost of living with some individuals experiencing a noticeable level of financial hardship.
<p>Extent to which community outcomes are achieved: Primary alignment with community outcome Healthy and Active People Also contributes to A Liveable City and A Safe City</p> <p>Impact on the Council's capacity and responsibilities: Enables Council to continue to operate its social housing service in a financially sustainable manner while still achieving affordable housing targeted individuals.</p> <p>The report identifies what assets are included in the service and the asset maintenance, renewals and replacement planned. It also identifies the costs associated with maintaining levels of service provided and the source of funding required to meet these commitments.</p> <p>These are key requirements required for compliant with LGA Schedule 10.</p> <p>Effects on Maori: There are no specific impacts on Maori that are different from those to be experienced by other ethnic groups.</p> <p>Consistency with existing Council policies: This option is consistent with the provision of a sustainable service in perpetuity, as expressed in the Social Housing Strategy and the Council's policy register.</p> <p>Views and preferences of persons affected or likely to have an interest: This report has been prepared based on Council Policy, along with information from previous rent reviews, and detail provided by City Housing.</p> <p>Other relevant matters: N/A</p>		

Maintain the Status Quo

43. Maintain the Status Quo - No rent increase.

Fails to adequately fund the Council's social housing service. This would adversely impact upon the ability to continue to provide the current level of service

	Benefits (current and future)	Costs (current and future)
Social	Current tenants enjoy an improved level of affordability (relative to WINZ funding)	Social housing service may not be able to continue to contribute to the well-being of targeted communities in perpetuity. Levels of service will need to be reduced potentially impacting on the quality of life for some tenants
Cultural	Neutral	Neutral
Environmental	Neutral	Neutral
Economic	Existing tenants experience a small improvement to the cost of living	Social Housing service not adequately funded with risk that the service becomes unviable in the medium to long term. Would also result in a reduction in the level of service provided.
<p>Extent to which community outcomes are achieved: Primary alignment with community outcome Healthy and Active People Also contributes to A Liveable City and A Safe City</p> <p>Impact on the Council's capacity and responsibilities: Compromises Council's ability to continue to operate its social housing service in a financially sustainable manner while still achieving affordable housing for targeted individuals.</p> <p>The report identifies what is included in the service and the asset maintenance, renewals and replacement planned. It also identifies the costs associated with maintaining levels of service provided and in particular that the level of funding provided under this option is inadequate to meet these commitments without materially changing the current level of service.</p> <p>These are key requirements for compliance with LGA Schedule 10.</p> <p>Effects on Maori: There are no specific impacts on Maori that are different from those to be experienced by other ethnic groups.</p> <p>Consistency with existing Council policies: This option is not consistent with the provision of a sustainable service in perpetuity, as expressed in the Social Housing Strategy and the Council's policy register.</p> <p>Views and preferences of persons affected or likely to have an interest: This report has been prepared based on Council Policy, along with information from previous rent reviews, and detail provided by City Housing</p> <p>Other relevant matters: N/A</p>		

Alternate Option

44. **Increase rent in line with the CGPI** (Capital Goods Price Index) – currently running at 2.3% (Dec 07)
(provided for under delegated authority to the General Manager of Community Services)

Fails to adequately fund Council's social housing service. This would adversely impact upon the ability to continue to provide the current level of service.

	Benefits (current and future)	Costs (current and future)
Social	Current tenants enjoy a comparable level of affordability (relative to WINZ funding)	Social housing service may not be able to continue to contribute to the well-being of targeted communities – now and in perpetuity. Levels of service will need to be reduced potentially impacting on the quality of life for some tenants
Cultural	Neutral	Neutral
Environmental	Neutral	Neutral
Economic	Existing tenants experience a comparable cost of living to the previous year.	Social housing service not adequately funded with risk that the service becomes unviable in the medium to long term. Would also result in a reduction in the level of service provided.
<p>Extent to which community outcomes are achieved: Primary alignment with community outcome Healthy and Active People Also contributes to A Liveable City and A Safe City</p> <p>Impact on the Council's capacity and responsibilities: Compromises the Council's ability to continue to operate its social housing service in a financially sustainable manner while still achieving affordable housing for targeted individuals.</p> <p>The report identifies what assets are included in the service and the asset maintenance, renewals and replacements planned. It also identifies the costs associated with maintaining levels of service provided and in particular that the level of funding provided under this option is inadequate to meet these commitments without materially changing the current level of service.</p> <p>These are key requirements for compliance with LGA Schedule 10.</p> <p>Effects on Maori: There are no specific impacts on Maori that are different from those to be experienced by other ethnic groups.</p> <p>Consistency with existing Council policies: This option is not consistent with the provision of a sustainable service in perpetuity, as expressed in the Social Housing Strategy and the Council's policy register.</p> <p>Views and preferences of persons affected or likely to have an interest: This report has been prepared based on Council Policy, along with information from previous rent reviews, and detail provided by City Housing</p> <p>Other relevant matters: N/A</p>		