13. HOUSING RENTALS

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The purpose of this report is to appraise Councillors of the costs and benefits brought about by reducing Council Housing rentals either across the board or selectively.

INTRODUCTION

Council Policy effectively ensures that Council Housing is not an operational cost on rates. The portfolio currently has a financial return of approximately 1.5% on capital employed from rents that range from 58% of "market" (Elderly Persons Housing) to the low side of "market" (Public Rental) with an average rent of 80% of "market". This ensures that rents are affordable both to the tenant and the Council.

CURRENT SITUATION

Council rents were last increased in 1997 and were last reviewed earlier this year. A copy of that report is attached for your information. The most recent review showed that Christchurch "market" rents had increased steadily since the Government introduced the "accommodation supplement" in 1993, and plateaued in 1999 with a very slight tapering off (decline) over the past two years, reflecting a weak property market and low population growth in Christchurch. Prudent management of the portfolio has enabled an operational surplus (plus depreciation) to build up in the Housing Development Fund to a point where it now stands at $9.6M even though approximately $10M of development has been completed over the past three years.

Recent independent research has confirmed:

(a) that there is enough housing stock in the City to meet foreseeable needs.

(b) that there are niche special accommodation needs not being met.

(c) That the Council would be advised to put on hold its commitment to ongoing (larger scale) housing development and to instead look at innovative affordable housing solutions.

At the same time there is the issue of a Council housing waiting list that fluctuates between 700 and 1000. It should be noted that the waiting list comprises approximately 30% elderly and 70% not elderly.

The question this raises is that if the Council continues to build high quality housing, rented at well below market rates, will it not just take people from private rental and create further vacancies (estimated at 10%) in the private rental market?

The other unanswered questions are:

(a) will the existing Housing Development Fund adequately fund upgrading/replacement of the existing portfolio into the future when there is no asset management plan to confirm this?

(b) what should the Council do about levels of service which vary considerably across the portfolio?

Given these circumstances, officers have recommended that any further large scale development of housing units waits until answers to these questions can be answered. Remodels and niche accommodation initiatives will still continue.

However, officers have concerns that some of our PR rents are still a little on the high side (given that most are at the lower side of "market"), that many exceed the 25% of income guideline recently adopted by Central Government, and that many are considerably higher than similar EPH rents in the same complexes.

Examples are:

Airdale Courts

16x bedsits @ $75 (EPH equivalent $52)
63x 1 bed @ $90 - 95 (EPH equivalent $70 - $74) (Gloucester and Tommy Taylor $89)
29x 2 bed @ $125 (EPH $100, Gloucester and Tommy Taylor $117)

It should be noted that Tommy Taylor has superior levels of service including:

- carpets)
- drapes)
- fridges) Airedale has none of these
- double glazing)
- sprinklers)

Norman Kirk Courts

4x bed sits @ $75 (EPH equivalent $52)
25x bed @ $90 - $95 (EPH equivalent $70 - $74)
12x x 2 bed @ $125 (EPH equivalent $100)

Currently, benefits are at the following levels:

N Z Superannuation (single)	$212.69 / week net
N Z Superannuation (married)	$325.58 / week net
Sickness Benefit (over 25 years)	$153.47 / week net
Invalid Benefit (over 18 years)	$184.85 / week net

It should be noted that rent costs as a percentage of net income for Council tenants have declined slightly over the past three years (due to increased benefits).

The February 2001 report and appendices on rents clearly shows that tenants in Council PR housing are financially worse off than those in Council EPH housing, with some paying higher rents for similar units with the same level of service in the same complex (eg Norman Kirk Courts).

A further benchmark to compare are the overdue rent accounts which are currently as follows:

EPH	0.61% overdue ($42,559 in a rental portfolio of $6.953M).
PR	1.63% overdue ($38,075 in a rental portfolio of $2.337M).

It follows from this that PR tenants find their rents less affordable than EPH tenants.

There is seemingly a case for PR rents to be either reduced or the level of service enhanced, which is difficult (and costly) to achieve.

The examples in the modified Appendix 5 show the effect of reducing rent to 85% or 80% of existing ("market"). Seemingly, the law of diminishing returns applies as a $19 per week rent reduction equates a benefit to the tenant of only $5-70 per week. Clearly still a benefit to the tenant. The cost to the Council will of course be much more significant.

With a current PR rent roll of $2,230,280 p.a. 15% and 20% rent reductions would equate a cost to Council of $334,542 p.a. and $446,056 p.a. respectively.

Clearly these sorts of reductions would have a significant effect on the funding available to the HDF. Whilst the Council will still have the portfolio depreciation and a reduced level of operational surplus, there will be less for new initiatives. Given this scenario, the Council is advised to consider levels of service (eg double glazing) which are likely to create depreciable assets (rather than a straight cost of rent reduction), whilst at the same time reducing weekly outgoings (other than rents) to tenants, eg savings on energy costs, savings on laundry costs etc.

Chairman's Recommendation: That a report be prepared for the Community Services Committee on the relative benefits of improving levels of service across the housing portfolio (removing existing anomalies) and including energy efficiency initiatives.