4. RENTS FOR THE COUNCIL'S RESIDENTIAL HOUSING PORTFOLIO

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Corporate Plan Output:	

The Christchurch City Council Housing Working Party has now had the opportunity to review the level and appropriateness of rents charged for the Council's affordable residential housing portfolio.

INTRODUCTION

The rents for Council housing were last reviewed and raised effective from 1 July 1997. Given changes in the housing environment over the past 3½ years (including takeup of the Government's Accommodation Supplement, inflation, increase in benefit payments, a depressed rental market and H.N.Z.'s change to income related rentals) it is appropriate to again review rental levels for Council housing.

BACKGROUND

Whilst there has been a gradual integration of age groups in "City Housing" over the past four years, there has traditionally been, and remains, two separate rental regimes:

(i) Elderly Persons Housing (EPH) with rents ranging from 58% to 80% of "market"[1]. There are 2131 units in this category.
(ii) Public Rental Housing (PR) with rents set at the low end of market. There are 462 units in this category.

The most recently built complex, Gloucester Courts, which caters for all age groups has a rental regime equating approximately 80% of "market".

Prior to considering specific rental for our various categories of housing, it is important to consider the issue of affordability in its broader context across the City Housing portfolio, which includes EPH and PR housing.

It is also timely in the review to reflect on the rationale of the Council providing Public Rental ("social") housing at market rental – when there are some equity issues in such a policy.

The Council's vision statement for housing states:

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

Given the increased level of integration of age groups throughout what has traditionally been called the EPH housing portfolio and given that the majority of PR tenants are beneficiaries receiving a lower level of income than a superannuitant, the issue of rental equity is becoming a concern.

Auckland and Hutt City Councils previously had similar separations in their rental housing portfolios with similar rental regimes, ie discounted rental for the elderly and market rental for non-elderly. Auckland and Hutt have opted to let the market take care of the non-elderly and have moved to sell off non-EPH housing.

[1] Market Rents are analysed by reference to Tenancy Bonds information and property rental advertisements.

Most tenants in PR housing are receiving some form of benefit. It is likely that they face a number of barriers to employment such as mental heath issues, social problems, lack of qualifications and work skills.

It can be seen from the chart of weekly benefit rates (table/Appendix 1 and table/Appendix 2), that a single 65 year-old person in Council housing receiving $212.69 pw net New Zealand Superannuation is financially better off than a 59-year-old person receiving an invalid or Transitional Retirement benefit of $184.85 pw net. The 59 year-old person in PR housing does, under our current policy, pay more rent as a percentage of their income than the 65 year-old. We need to question whether this is fair/equitable or sensible and whether PR rents should be more aligned with EPH rents.

Budget Issues

The budgeted "net cost of service" (all housing) is ($1,732,978) for the 2000/01 budget year. The projected "net cost" of service (all housing) is ($1,870,168) for the 2001/02 year. These surpluses are after allowing for all costs including rates, depreciation of $898,816.00, loan servicing, administration and maintenance. Council policy for housing states:

"That the Council's housing activity continues to be financially self-supporting (allowing for depreciation, loan servicing, administration and maintenance)".

Clearly there are several reasons for this policy:

(i) that Council housing rents are not subsidised by ratepayers
(ii) that Council housing tenants have affordable rents, ie the Council is not seeking to make "market" returns from its housing portfolio
(iii) the housing portfolio needs to be self-sustaining in perpetuity

Accordingly, the surplus from the operational account accrues in the Council's Housing Development Fund (HDF) and is available for replacing existing housing and building new (additional) units. The HDF currently stands at approximately $10M. If the Council were to reduce PR rents by 20%, ie. to 80% of market, there would be a $512,337 reduction in revenue. Clearly a reduction of $0.5M pa from the budgeted surplus of $1,870,168 projected for the 2001/02 year will have some affect on long-term sustainability of the portfolio.

CHANGES IN THE RENTAL ENVIRONMENT

Appendix 3 tracks the bonds lodged with the Ministry of Housing Bond Centre and covers all private rental properties in Christchurch (excluding CCC & HNZ) where bonds have been paid for the ten-year period January 1990 through January 2000.

Rents rose steadily over the period from January 1990 to January 1997 and then declined slightly over the next 2½ years. This long-term trend reflects the positive property market which existed in the Christchurch for most of the 1990s, becoming more depressed in the late 1990s with the impact of the Asian economic downturn and losses in net migration for the City. Median rents in actual dollars rose from $140pw in January 1990 to $185pw in January 1997. Over the next three years to January 2000, median rents dropped and stabilised at $180pw.

Clearly, based on market conditions, the Council would seem to have little justification to increase housing rents. On the other side of the coin, because the decline in market rents has been minimal over the past 2½ years, there would seem to be little pressure for the Council to reduce its rentals across the board.

It should also be noted that whilst Council rentals have remained fixed, benefits have increased over the same period.

For example:

	1997	2001
NZ Superannuation (single)	$208.79 pw	$212.69 pw
NZ Superannuation (married)	$321.22 pw	$325.58 pw
Sickness benefit (over 25 years)	$152.21 pw	$153.47 pw
Invalid Benefit (over 18 years)	$182.65 pw	$184.85 pw

Accordingly, rent costs as a percentage of net income for Council tenants have declined over the past three years, albeit marginally.

RENTALS AS A PERCENTAGE OF NET INCOME PLUS VALUE ADDED

One of the drivers of this review has been the 1 December 2000 move by Housing New Zealand (HNZ) to income related rents, where qualifying tenants will pay a maximum of 25% of their net income on rent. At the same time, tenants qualifying for 25% of income rent will no longer be eligible to receive the accommodation supplement.

It is difficult to make direct comparisons between HNZ and Council rents when you consider the value added in the Council "rent package". [2]

- Over the past three years, the Council has increased its level of service with the employment of additional housing staff, particularly in the "activities" area.

- In 1997 the staff costs per accommodation unit were $285.00. For 2001/02 the comparative budgeted costs for the same period are $392.00 per unit. Maintenance costs for the same periods are $800.00 per unit and $776.00 per unit respectively (a decline).

- The most significant enhancements in the Council "rent package" include the following:

Lawn mowing/grounds maintenance		$ 2.50	pw per tenant
Activities	)	$ 3.75	pw per tenant
Tenant support / welfare	)		
		$ 6.25	total per week per tenant included in the rent

Clearly, if these services were not provided, rents could be reduced, thus reducing the ratio of "rent as a percentage of net income". Appendices 4 and 5 give a number of "rent as a percentage of net income" scenarios for EPH and PR housing respectively, making allowance for the accommodation supplement.

The accommodation supplement was introduced in 1993, when HNZ increased its housing rentals to "market" rates and made available a variable benefit for those who qualified, essentially through low income/assets. The primary target was probably the unemployed or those on some other form of benefit (eg. Sickness, DPB) and those on NZ Superannuation. The less direct target was probably those on low wages and particularly those families with young children.

[2] HNZ does facilitate tenant access to other services provided by other government agencies.

The accommodation supplement provides a cash grant (to those qualifying) of 70% of the rent paid above set thresholds. It should also be noted that the supplement is also available to those boarding or paying mortgages.

The entry thresholds are 25% of net income for those renting or boarding and 30% of net income for those paying mortgages. The current accommodation supplement regime is shown as Appendix 6 & 7 (Table 7(a), (b) & (c)) attached.

SOCIAL HOUSING – A NATIONAL CONTEXT

In November 2000, the Property Manager attended a Housing New Zealand administered "Social Housing strategy workshop".

The purpose of the workshop was to identify the interventions needed to enable HNZ to move forward in assisting the Government to achieve its objectives in relation to housing. In running this workshop, HNZ used material collected from an earlier workshop of primarily central government officials to canvass opinion on the issues surrounding the provision of housing assistance in New Zealand generally, and to identify the gaps in housing interventions currently available.

The workshop which the Property Manager attended was split into two sessions:

(1) The morning session, which was set aside for discussion on current housing issues and gaps from a third sector perspective.
(2) The afternoon session, which involved identifying and prioritising the key components of an expanded social housing strategy as it relates to working with communities and third sector providers.

The overall aim of the workshop was to put forward/collect tangible solutions which HNZ and the broader social housing community could action. Some of the suggestions put forward by the Property Manager to this workshop included:

- The importance of accurately assessing need for social housing
- The need for a definition of affordability
- Accessibility in its broadest context
- A national tenancy policy and application process
- A national satisfaction survey for accurate benchmarking

The Property Manager also suggested:

- That many housing problems were not necessarily related to the wrong mix of housing being available, but were mainly to do with inadequate income
- Support for local authorities in meeting the additional cost of housing those who have been deinstitutionalised
- Rent from source for local authorities
- That the accommodation supplement was insufficient
- That there were a number of town planning issues

It would be fair to say that all the local authority representatives attending the workshop believed that some form of Government assistance to local authorities to facilitate 25% income rents (matching HNZ policy) would be looked at positively by their respective Councils.

RENTAL STATISTICS FOR COUNCIL HOUSING NEW ZEALAND-WIDE

Appendices 8 (a) and (b) have been collated by the Council's Housing Manager, Mr Errol Waller, and present for the first time ever a snapshot of rental comparisons across New Zealand.

As will be noted, the Christchurch City Council is "middle of the road" in terms of its current rental regime.

OPTIONS

There were several options or combinations of options available to the Council, as follows:

(i) Do nothing
(ii) Increase rents
(iii) Reduce rents (including rationalisation of Public rental)
(iv) Seek government grant to top up difference between "25% of income rents" and the Council's current position, ie retention of surplus for reinvestment.

Option (i) Do Nothing

Strengths	Weaknesses
• No Admin costs associated with advising changes in rent • Keeps housing account surplus at a healthy level (albeit modest) above break even	• Does not deal with the current perceived inequity between EPH and PR rents • PR rents in particular do not meet the 25% of net income "affordability" test

Option (ii) Increase Rent

Strengths	Weaknesses
• Increased operational surplus to be transferred to Housing Development Fund for reinvesting in housing	• Does not reflect current market trends • Would further increase the ratio of rent as a percentage of net income, against the spirit of the Council's vision statement for affordable housing • Administration costs involved • Likelihood of increased rent arrears problems • Negotiate response from tenants

Option (iii) Reduce Rent

Strengths	Weaknesses
• Rectifies the disparity between EPH and PR if done selectively • Meets the spirit of the Council's vision statement for housing	• Pre empts any option of "partnership" with Government • Reduces some rents below the 25% of income affordability • Negative public response

Option (iv) Seek Government Grant

Strengths	Weaknesses
• Builds a partnership with Government • Retains a status quo in the meantime • Does not pre-empt possible Government action • Leaves the Council financially neutral in terms of operational surplus available for reinvestment in housing. • Meets the spirit of the Council's housing vision statement • Likelihood of Council/HNZ standardised tenancy process	• Possible additional cost if the Council is required to replicate the HNZ tenancy process

SUMMARY

In any rent review, and given the multitude of income/asset permutations available, it is very difficult to develop "affordable rent" scenarios for each real life tenant vis-à-vis the examples included in the appendices to the report.

What is important in the consideration of setting rentals is the vision statement of the Council:

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

In the absence of any formal Council rental policy fixing (eg all rents at 80% of market) we have, over the year, collected a portfolio of rentals ranging from 58% of market (in the EPH area) to the low end of market in the PR area. Rent paid as a percentage of net income ranges from 22% to 36% in the EPH/PR categories respectively (see Appendices 7 & 8).

It is clear that our existing EPH rents are generally in the "affordable" range of approximately 25% of net income, but that the PR rents are less affordable in the 30% to 36% of net income range. All these percentages could be discounted (both EPH and PR) by removing the extra value of services provided in the Council Rental Package over and above services provided in the private sector.

Whilst Council housing returns a modest surplus which is reinvested in housing, the Council should not lightly make a decision to reduce this surplus, in particular making PR rents more affordable.

The Council has always targeted housing those with limited income assets (generally in receipt of some form of Government benefit) and it is recommended that this policy continue. If income/assets for Council tenants exceed the accommodation supplement limits available, and the accommodation supplement abates fully as a result, it could be suggested that those tenants may not meet the Council's objectives of housing those with limited income/assets. The accommodation supplement is currently the "leveller" between those on low income/asset levels and those with modestly higher income/asset levels.

Chairman's Recommendation: That the draft annual plan and budget for 2001/2002 allow for rents to remain at their present levels, and that all tenants be notified.