

6. CITY HOUSING RENT REVIEW – 2012/2013



General Manager responsible:	General Manager Community Services, DDI 941- 8607
Officer responsible:	Manager City Housing & Community Facilities
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PURPOSE OF REPORT

1. The purpose of this report is to seek the Council's approval to not increase City Housing rentals for the 2012/13 year and extend the planned rent increase programme by one year, to include 2015.

EXECUTIVE SUMMARY

2. The Council's Social Housing Strategy and Policy states that its housing portfolio be financially self-funding and sustainable through rental income. 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.
3. Traditionally since 2003 City Housing rentals have been reviewed and increased annually. In response to a shortfall between rents received and the asset renewal programme, at its meeting of 23 April 2009 the Council resolved in part:
 - (a) If there are no alternative sources of funding the future replacement of the Council's housing units available and in place before 31 March 2010, increase rents for all existing housing tenants (except Whakahoa Village tenants) by:
 - (i) 5.7 percent from the beginning of the first rental period in July 2010 and for all new tenancies (except Whakahoa Village tenancies) beginning on or after 1 May 2010
 - (ii) 2.8 percent plus Capital Goods Price Index (CGPI) from the beginning of the first rental period in July 2011 and for all new tenancies (except Whakahoa Village tenancies) beginning on or after 1 May 2011
 - (iii) 2.8 percent plus CGPI from the beginning of the first rental period in July 2012 and for all new tenancies (except Whakahoa Village tenancies) beginning on or after 1 May 2012
 - (iv) 2.8 percent plus CGPI from the beginning of the first rental period in July 2013 and for all new tenancies (except Whakahoa Village tenancies) beginning on or after 1 May 2013
 - (v) 2.8 percent plus CGPI from the beginning of the first rental period in July 2014 and for all new tenancies (except Whakahoa Village tenancies) beginning on or after 1 May 2014.
 - (b) Increase rents for Whakahoa Village tenants by an amount equal to the 2009 increase in the CGPI from the beginning of the first rental period in July 2010 and for all new tenancies beginning on or after 1 May 2010.

In accordance with the above resolution, City Housing rents are scheduled to increase in 2012 by 2.8 percent plus movement in the CGPI (1.1 percent), a total increase of 3.9 percent. For a one bedroom (B1) flat the current rental is \$112.60 per week and with the scheduled increase that would rise to \$117.00 per week, an increase of \$4.40 per week.

4. The additional 2.8 percent base movement for five years was to bring the asset programme for housing back to a sustainable level after many years where rental increases fell behind the funding required. The amount was calculated from the Cost of Consumption model that uses an

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estimate of the asset life and the maintenance required to keep the asset at an acceptable level through its life.

5. The earthquakes have dramatically changed the assumptions in the Cost of Consumption model as many assets will now be prematurely replaced and/or significantly refurbished. The reworking of the Cost of Consumption model to take account of these significant changes has not taken place and will not be completed before the 2012/13 rent adjustment letters need to be posted to tenants. It is highly likely that the model, once reworked, will give a changed picture of funding requirements.
6. In considering the annual rent increase for 2012/13 staff consider that it would be prudent and fairer to tenants to defer the base 2.8 percent movement for a year until the situation has been reworked and the financial implications better understood. Given the very small increase in CGPI for the 2011/12 year the recommendation is to leave rents at their 2011/12 levels for the 2012/13 year.
7. The Council at its meeting on 20 April 2006 resolved the following delegation: "That the General Manager Community Services be delegated authority to adjust City Housing rentals annually in accordance with movement in the CGPI - Residential Buildings Index, with the Council being advised prior to the rental adjustment taking effect, and with any proposal to adjust rentals in excess of this mechanism to be reported to the Council for approval."

This delegation, combined with the resolution of 23 April 2009 referred to above would allow the General Manager Community Services to approve the scheduled 2012 increase of 3.9 percent.

The Housing and Community Facilities Committee is charged by the Council to make recommendations to the Council on "Housing rentals that fall outside the delegations to the General Manager Community Services." Given the short time frame involved the Committee has not been able to meet to consider this report but after informal discussions with the Chair of the Committee, he is comfortable for the staff recommendation to come directly to the Council.

8. Options:
 - (a) increase rents by 3.9 per cent from the beginning of the first rental period in July 2012, with the exception of Whakahoa Village tenancies. Whakahoa Village rents to be increased by 1.1 per cent (CGPI movement) as from the beginning of the first rental period in July 2012. All new tenancies beginning on or after 1 May 2012 attract the new rentals
 - (b) increase rents by the movement in the CGPI only. This would increase rents by 1.1 percent. All new tenancies beginning on or after 1 May 2012 attract the new rentals
 - (c)
 - (i) forego the planned 2012/13 increase of 3.9 per cent and
 - (ii) increase rents for all existing housing tenants (except Whakahoa Village tenants) by 2.8 percent plus CGPI from the beginning of the first rental period in July 2015 and for all new tenancies (except Whakahoa Village tenancies) beginning on or after 1 May 2015.

9. Preferred Option:

Option (c) above is the staff preferred option.

FINANCIAL IMPLICATIONS

Option (a): This option provides for an increase in annual revenue from rents of approximately \$520,000.

Option (b): This option results in an increase in annual revenue from rents of approximately \$147,000.

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Option (c): The opportunity cost of this decision would see an approximate \$520,000 reduction in planned rental revenue during the 2012/2013 financial year. This amount reflects a decision of not applying a 3.9 percent rent increase to the 2264 rental units that are let, or available to let (stock levels were 2649 prior to the series of earthquake events).

Do the Recommendations of this Report Align with 2009-19 LTCCP budgets?

10. No.

LEGAL CONSIDERATIONS

11. Residential Tenancies Act 1986 and the Local Government Act 2002.

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

12. Yes. There is no legislation requiring the Council to increase its residential rentals annually.

ALIGNMENT WITH LTCCP AND ACTIVITY MANAGEMENT PLANS

13. Alignment is restricted to the Activity Management Plan Social Housing measure of "Social Housing remains rates neutral and rentals are maintained at affordable levels".

Do the recommendations of this report support a level of service or project in the 2009-19 LTCCP?

14. Yes; Community Support, Housing.

ALIGNMENT WITH STRATEGIES

15. The preferred option aligns with the Council's Social Housing Strategy although it does impact upon the ability to ensure rents are set a level which ensures financial sustainability of the portfolio.

Do the recommendations align with the Council's strategies?

16. Yes.

CONSULTATION FULFILMENT

17. Not applicable.

STAFF RECOMMENDATION

It is recommended that the Council:

- (a) Forego the planned 2012/13 increase of 3.9 per cent and
- (b) Increase rents for all existing housing tenants (except Whakahoa Village tenants) by 2.8% plus CGPI from the beginning of the first rental period in July 2015 and for all new tenancies (except Whakahoa Village tenancies) beginning on or after 1 May 2015.