

B A C K G R O U N D E R

CHRISTCHURCH CITY'S 24 PER CENT RENT INCREASES

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## Christchurch City's 24% Rate Increases

### INTRODUCTION

On 27 March, the Christchurch City Council announced that rents for City Housing units would increase by 24 per cent "to fund deferred maintenance and future replacement of the Christchurch City Council's 2649 housing units." Council's statement continued:

*The adjustment ... means tenants will pay rent increases of between \$5.40 and \$9 per week and these increases will take effect in July. City Housing's actual increase will not be directly reflected in the rents paid by tenants because of the effect of Work and Income New Zealand's accommodation supplement, which pays a portion of most City Housing tenants' rent payments.*

As a local MP with many low income constituents affected by the increase, Jim Anderton has examined the Council's case for the rent increases. He found:

- Council claims that the rent increases would be mostly covered by Accommodation Supplement are glib.
- Council is taking a consistent stance against housing affordability.
- There was inadequate consultation with the people affected over the design of the rent increases.
- The increases apply whether they are affordable or not.
- Council has failed to show the increase is needed to cover costs.
- It's a bad time for Council to be increasing rents.

**"There is no evidence the council gave adequate thought to phasing in increases at a pace people could adjust to. There isn't enough evidence that the size of the rent increases is justified. And it doesn't look like they are being applied fairly," Jim Anderton says.**

He says Council should:

- Reconsider its decision with better consultation with affected tenants and social agencies working with the city's most vulnerable citizens.
- Release publicly all changes in accounting assumptions behind the decision and encourage public debate about those changes.
- Take a fresh look at phasing in increases over, say, three years.
- Design a safety net for those tenants who don't receive the Accommodation Supplement.

“Council has given no indication that it tried to protect the tenants. The increases will apply to some of the most vulnerable people in Christchurch. I call on Christchurch City Council to be strong enough to care for its citizens.”



#### DETAILED RESPONSES TO COUNCIL'S CLAIMS

**Council claims that the rent increases would be mostly covered by Accommodation Supplement are glib**

The Council claimed in its announcement that a 24 per cent increase meant ‘tenants will pay rent increases of between \$5.40 and \$9 per week.’

Jim Anderton says that claim is glib and untrue for a number of tenants.

“It’s evidence of bad faith. It shows the council is out of touch with the sorts of people who live in social housing.”

Some of the tenants do not and will not receive an Accommodation Supplement. Some are also on a fixed income.

One example is a tenant who was invalided in an accident in the 1980s and has been on ACC of 80 per cent of his then income ever since. That person cannot do anything to change his income, which is falling as a proportion of the average wage. That person does not receive full Accommodation Supplement. His higher rent has to be met by cutting back on essential expenditure elsewhere.

Former Christchurch City Councils have built a proud record in social housing but this council is now pushing any responsibility, which former councils have owned and developed, onto central government.

### **Council is taking a consistent stance against housing affordability**

The Council has increased rents at the same time that it is actively spending ratepayers' money to oppose the government's affordable homes bill, which is aimed at adding a thousand new affordable homes to New Zealand's housing stock every year.

"On the one hand the council is saying affordable housing is the government's responsibility and on the other hand it is doing its best to stop the government making housing affordable," Jim Anderton says.

"They can't have it both ways - they can't credibly unload responsibility for housing onto central government and simultaneously try to block an affordable housing measure from being introduced by central government."

### **The design of the rent increases does not appear to have been exposed to adequate consultation with the people affected.**

The increases apply whether they are affordable or not.

The council has taken a very blunt approach.

Social housing rents have in the past been between forty to seventy percent of market rents. Yet the council has simply imposed an across the board rent increase, rather than configuring increases against a person's ability to pay, or a ratio of market rents.

A 24 percent increase will push some needy tenants closer to full market rentals.

Council has claimed the average rent will not be 58 percent of market rents. But it should also show the range of rents, and how many tenants are now in a range much closer to market rents. Some of those who had rents at seventy percent of market rental will now be close to full market rentals.

### **Council has failed to show the increases are needed to cover costs**

Publicly available Council accounts do not appear to support the Council's claim that 24 per cent rent increases are needed to "redecorate units, repair paths and fences and ultimately to replace units when they are no longer suitable for rental."

For example, Christchurch City Holdings fully owns Citycare, the organisation that does the re-decoration and maintenance of the units. It is this year announcing an increased dividend.

CCHL is forecasting a dividend of \$38 million for the year commencing on 1 July - the same date as the rent increase.

That dividend is \$4 million higher than the expected dividend this year and \$3.5 million higher than the dividend forecast in the Statement of Intent for 2008-09.

CCHL is forecasting dividends that are higher still by \$1.5 million and \$1 million for the following years.

The Council itself says the higher dividend is keeping council rates sixteen percent lower than they would otherwise have been.

"What is happening is that the council is charging higher rents for the most vulnerable people in order to help keep rates for everyone else down. The higher rents mean council's own maintenance company can charge more and contribute to increased profits for its holding company and keep rates down," Jim Anderton says.

"The issue of whether the increase is needed to cover future maintenance and replacement of the units is a technical accounting issue related to discounted cashflows and assumptions about the life of the units.

"But Council has not made its changes in these figures explicit and there is no way that changing them could justify an immediate increase rather than a phased increase over several years, giving tenants time to adjust.

"It appears, however, that the council has moved from breaking even on housing after recovering its costs and cost of capital, to making a profit. The community should at least have been given a chance to contest those decisions."

### **It's a bad time for Council to be increasing rents**

New Ministry of Social Development figures show 22,000 people in Christchurch are living in crowded conditions - up by a fifth over five years.

Jim Anderton, MP for Wigram

Christchurch City's 24% rent increase

More affordable and accessible housing is urgently needed. Council is making it less affordable.

The City Missioner has recently spoken out about people living in sheds they rent for as much as \$90 a week.

Jim Anderton says rent increases will sting even more because market rents appear to be climbing as the housing market slows.

In Australia when house prices stopped going up, fewer new houses were available which resulted in an increased demand for rentals and higher rents. The same could happen here, especially as landlords who are no longer receiving a capital gain seek to cover their costs directly through rent.

The Christchurch City Council, as the second largest house rental agency in New Zealand, has always previously played a constructive role in housing low income individuals and families, and I hope they will give serious consideration to continue to do so.

