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PUBLIC HOUSING RENT SCALE REVIEW

DISCUSSION PAPER

OVERVIEW

The development and use of a new rent scale for public housing is a process of importance to most people in the Northwest Territories. To be acceptable, a rent scale must be fair and built on elements that have public understanding and support. The review and changes to the rent scale must therefore start with a discussion of what the scale is trying to achieve. The purpose of this paper is to begin the dialogue.

Housing Those in Need

One of the basic objectives of a rent scale for public housing is that it should make sure housing is available to those who need it. To support this objective, rent should be set according to a person's ability to pay as opposed to the actual construction and operating costs of housing.

Income and Rent Calculation

The method of fixing the amount of rent to be paid is one of the main challenges of a rent scale. How much of income should fairly go to pay for housing? Should rent be based on gross or net income? Should the income of all wage earners living in the house be included? It is suggested that the method used to calculate rent based on income, should ensure that those with little income do not pay a higher proportion of their wages for rent than those with more income.

Rent and Growth of Private Ownership

The growth of interest in private homeownership should be supported by the rent scale. Rent can have a strong influence on a tenant's desire obtain private housing and on the development of a private market. Rents which encourage those with good incomes to obtain alternative housing support the development of homeownership while a scale which features maximum rent levels and other subsidies make it economically attractive to remain in public housing. The rent scale on its own cannot direct the development of homeownership and the private market. The scale must be integrated with other policies and programs which encourage alternatives to public housing.

Income Deductions

Similarly, the calculation of rent should support individual and family independence through employment. The review of rent scale should therefore consider an employment incentive to make sure those who are earning wages do not lose disposable income through increased rent payments. In addition, the added costs involved in being employed, such as child support, should be examined for their impact on employment incentives.

Simplicity

The review of the rent scale should be based on a system that is easily understood and administered. The current rent scale contains elements which serve other social objectives besides housing, such as minimum rent for those on social assistance or a cost of living allowance. While these are important, they should be reviewed to determine their influence on the complexity of the scale.

Cost

Any review of the rent scale must consider the economics of housing and the depth of subsidy support that should and can be offered. The construction and operating costs are very high and the financial ability of government to carry an increased debt is very limited. Adjustments to the rent scale will have to be properly managed to make sure a fair assessment is made between those who can afford to contribute more and those who cannot.

Consultation

The development of an acceptable rent scale will be very difficult. The first step is to begin discussion on what a rent scale should be trying to achieve and to identify its main elements. As the details of the rent scale are identified further, discussion about its introduction and administration will be required.

PUBLIC HOUSING RENT SCALE REVIEW

The purpose of this paper is to solicit comments on the system currently used to assess rents in public housing. It is intended to encourage debate on the purpose, direction and principal elements of the public housing rental program. Through this discussion, a foundation will be established for the design and development of a new or modified rent scale.

Public housing is the single most common form of housing in Northwest Territories. The rent scale is an especially sensitive issue for the simple reason that it directly effects so many people in so many different ways. It is impossible to design a rent scale that can take account of the individual circumstances of such a large and diverse group of tenants. However, to the degree possible, the rent scale must be fair, equitable and based on a set of principles and assumptions that have public understanding and support.

The first step towards a revised rent scale must therefore be to present and explore in general terms what the scale is expected to achieve and to define the limits or constraints within which it must operate.

ELEMENTS OF A NEW RENT SCALE

Affordability/Principle of Rent to Income

The purpose of public housing, first and foremost, should be to make sure that adequate and suitable housing is available to any person or household in need. To achieve this, the rent for public housing must be set according to each tenant's income as opposed to its actual cost of construction and operating expenses.

Public housing is allocated to those households who are in the greatest need of a place to live. The amount of rent a household must pay is secondary to their need for accommodation. This can, and often does, produce the situation in which two households of similar size live side by side in identical houses and pay quite different rents. What matters is not how much money they are fortunate enough to make but that they both have a place to live.

If the rent scale were to abandon the principle of rent to income, it would, at the same time, abandon the principle of allocating housing to those in need. The largest and best quality houses would go to those with the most money. The smallest and worst houses would go to those with the least.

Rent Assessment

The manner in which income and the derived rent is calculated is a significant issue which may affect the principle of fairness. It is suggested that the method of rent calculations should ensure that those at the lower income scales are not paying a higher proportion of their resources to rent than those with larger incomes.

In this regard, a concern centres around the use of gross versus net income as the basis for rent assessment. Similar reviews relating to fairness should include consideration of rent based on the income of the lessee versus rent based on the combined income of all employed adults living in a particular public housing unit.

Promotion of Private Housing Markets

A common theme in all discussions of social policies in the Northwest Territories, including the public housing rent scale, is the need to reduce the widespread dependence on government assistance. The solution to the overwhelming role of the Housing Corporation in housing matters is the stimulation and growth of private housing markets in both the areas of home ownership and rentals. Private markets, by their very nature, function independently of public institutions. The ideal housing situation for the Northwest Territories would be to have a pool of public and private housing available in every community.

A new rent scale could not by itself bring about the development of private housing markets in the communities. Such a long term goal calls for the careful co-ordination and integration of a wide range of government policies and programs. However, a poorly designed rent scale could easily prevent the emergence of private markets.

Housing subsidies tend to work against the operation of private markets in two ways. First of all, they tend to shut out private developers because they cannot hope to compete against the low cost of publicly-subsidized housing. Secondly, by keeping the cost of housing artificially low, subsidies offer no encouragement for tenant households to look to private, self-reliant housing alternatives.

Personal independence and private accommodation go hand in hand. If a new rent scale is to reduce the reliance on government, it must limit the amount of housing subsidies. It is therefore suggested that a revised rent scale should set rents which establish a smooth and even transition between public and private housing.

At the same time, other programs within the Housing Corporation and the government at large will have to be designed to ensure that support for the development of private homeownership is integrated with the objectives of the rent scale.

Promotion of Employment

The present rent scale has been criticized for the effect it can have of discouraging employment. With the principle of rent to income, the rents in public housing vary with the income of the tenant households. For lower income households in particular, it can happen that after rent has been paid according to earnings, the household is left with less money than those who do not work and depend entirely on social assistance. If this situation should continue to occur, the tenant household may decide they are better off not to work.

The inclusion of income expended for child care and child support as a component of rent assessment is also an area requiring discussion. In many instances, these expenses which can be considerable and are mainly related to support for employment, are unavoidable. There may be other similar expenses which should be examined in relation to the rent scale.

As a matter of principle, a new rent scale should serve to support independence and self-reliance. It certainly should not deter employment. It is suggested that the consideration of a new rent scale should examine an "Employment Deduction" from the income in the calculation of rent.

Simplicity

The present rent scale is the result of a series of ad hoc changes and amendments to the national rent scale set out under the National Housing Act. The revisions were made in response to a variety of policy objectives, some of which were aimed at quite different and sometimes contrary goals. The result is a rent scale which does not fit together well and which presents difficulties for people trying to understand it. In its current form, due to complexity, it does not meet the test of fairness.

The design of a new rent scale should revolve around a few, very clear and consistent objectives and principles. Not only would such a simplified rent scale stand a better chance of achieving its objectives, but the tenants would find it easier to understand and the Housing Associations and Authorities and others who must work with it would find it easier to administer.

Rent Scale as an Instrument of Added Social Policy

Public Housing Rent Scales are often used in the service of social policy objectives which do not properly belong within the domain of housing policy. The present rent scale contains elements of "added" social policy which, while defensible on their own, often tend to complicate a rental scale. Should particular social policy objectives be seen as desirable, it is recommended that they be pursued through measures and programs designed and administered specifically to address the stated need.

It is suggested that a new rent scale should restrict itself to what it can do well, and that is setting the rents in public housing. Therefore, a uniform and coherent rent scale should avoid the "special purpose" exemptions, deductions and adjustments which complicate the present scale. It is difficult to measure the success of these inclusions in achieving their original objectives. In addition, they often tend to confuse the understanding and administration of the goals of housing policy and fairness of rent assessment.

To ensure equity, and to simplify the rent scale, it is felt that policies and programs which meet social objectives, other than housing, be carefully reviewed to assess their influence on the rent scale.

FINANCIAL LIMITATIONS

Some steps have already been taken to prepare the way for a new rent scale. At the hearings held by the Special Committee on Housing, tenants stated that they resented having to pay their rent when the quality of maintenance on houses was so poor. It was suggested that the Housing Corporation was not keeping its end of the bargain.

The maintenance system in public housing has seen major improvements to bring the standards of maintenance up to an acceptable quality. In dollars and cents, the Housing Corporation increased its maintenance budget by several million dollars from approximately \$9 million in 1985 to over \$18 million in 1986.

However, public monies, especially in the large amounts spent on the new maintenance system, are increasingly difficult to obtain. Proposed changes to the rent scale must therefore consider the severe financial restraints under which both the Housing Corporation and the Government of the Northwest Territories are required to operate.

Currently, the rents tenant households pay bear little relation to the actual costs of public housing. The present rent scale recovers none of the construction costs of public housing and only 10% of the operating costs. To give some examples, in 1986 it cost approximately \$152,000 to build a three bedroom house in the Western Arctic. The same house cost \$225,500 in the Eastern Arctic. On average, each and every public house costs around \$10,000 per year to operate and maintain. Of this the Housing Associations and Authorities collect only \$1,600 in rent. Clearly the rents assessed under the present rent scale do not begin to represent the true construction and operating costs of housing in the Northwest Territories. As the Special Committee on Housing recognized, of all the services provided by the Government of the Northwest Territories, only health care is more heavily subsidized.

Public housing is built and operated through cost-sharing agreements with the Canada Mortgage and Housing Corporation. These agreements specify that the amount of CMHC's contribution towards the operating costs of public housing is contingent on the use of the rent scale set out in the National Housing Act. CMHC calculates that with the special deductions and exemptions allowed in the rent scale used in the Northwest Territories, the Housing Corporation collects 40% less rent from its tenants than it otherwise should. Some of the items in the present scale of concern to CMHC and which are not recognized in the federal scale are, for instance, the Territorial Rent Adjustment, maximum rents, minimum rents for Senior Citizens, electrical power subsidies and minimum rent for social assistance recipients. Because the Housing Corporation does not comply with the terms of the national rent scale, CMHC cuts back its contribution to public housing by the amount it estimates the Housing Corporation does not collect in rent. To satisfy CMHC and the terms of the national rent scale, a revised territorial rent scale would have to raise approximately \$2 million more in rent than the scale now in use.

The magnitude of the housing subsidy the present rent scale permits is expensive. The fact of the matter is that neither the Housing Corporation nor the Government of the Northwest Territories has the money to afford further reductions in the rents charged for public housing.

This does not mean the rent scale cannot be improved. What it does mean is that any changes which serve to reduce the rent for some tenants should be balanced by increases in the rents collected from others. Within this constraint the present scale still has room for improvements. The challenge is in determining the fair and equitable balance whereby some will pay less and some will pay more.

CONCLUSION

The development of a fair and equitable rent scale is a very difficult task, and any scale established will likely be viewed with concern and be the subject of some criticism. This is an expected feature of the relationship between landlord and tenant and is not unique to the Northwest Territories. The provinces and the federal government have always experienced strong resistance to adjustments to rent scales.

However, to revise the rent scale in isolation of those affected by the changes is certain to only increase the concerns already associated with the application of rent. While consensus may not be possible and the process difficult, full discussions about the main elements of a rent scale may develop a better appreciation of the issues by all involved. As the basic features of the rent scale are discussed and refined, proposals for specific changes to the actual scale and the methods of their implementation and administration can be introduced as a part of consultation process.

The purpose of this paper is therefore to initiate discussions with those having an interest in the review of the rent scale currently applied by the Northwest Territories Housing Corporation.

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