

# GOVERNMENT REGIONAL OFFICERS' HOUSING

## Cost Recovery Rent Policy

April 2017



Government of **Western Australia**  
**Housing Authority**

Policy Number	
© of Housing Authority, Government of Western Australia 2017. Reproduction of this work in whole or part within the Housing Authority and on condition that it not be offered for sale, is permitted by the Housing Authority.	
Further information please contact: <i>Title :</i> <i>Housing Programs</i> <i>Policy and Evaluations Branch</i> <i>Address :</i> <i>Housing Authority</i> <i>99 Plain Street</i> <i>EAST PERTH WA 6004</i>	
Telephone	08 9286 6000
Facsimile	08 9286 6025
Email	<a href="mailto:Brett.Hockley@Housing.wa.gov.au">Brett.Hockley@Housing.wa.gov.au</a>
Website	<a href="http://www.housing.wa.gov.au/investorsandpartners/grohagencies/Pages/default.aspx">http://www.housing.wa.gov.au/investorsandpartners/grohagencies/Pages/default.aspx</a>

## TABLE OF CONTENTS

<b>1..... INTRODUCTION</b>	<b>4</b>
1.1 OVERVIEW	4
1.2 PURPOSE OF THIS DOCUMENT	5
1.3 SCOPE	5
1.4 RELEVANT LEGISLATION AND REFERENCES	5
1.5 DOCUMENT CONTROL	5
1.6 DOCUMENT REVIEW	6
1.7 FULL DOCUMENT HISTORY	6
1.8 DEFINITION OF TERMS (GLOSSARY)	6
<b>2..... COST RECOVERY RENT MODEL</b>	<b>7</b>
<b>3..... UPGRADES AND REFURBISHMENTS:</b>	<b>9</b>
<b>SCHEDULE A – LIST OF MARKET AND COST TOWNS:</b>	<b>10</b>

# 1. INTRODUCTION

## 1.1 OVERVIEW

At an Expenditure Review Committee Budget Bilateral Meeting held in February 2002, a new strategic direction for the Government Regional Officers' Housing (GROH)<sup>1</sup> was approved. A key element of the strategy was the introduction of cost recovery rents for GROH's residential assets in 2003/04.

Prior to this decision, client departments renting GROH accommodation paid an indicative market rent in all locations. GROH was required to fund its activities from the revenues generated by its rental stock. Departments were charged rents on the basis of a market valuation. However, whilst market rents are appropriate in regional centres, many of the 250 locations where GROH provides accommodation do not have a viable housing market and therefore the market rent charged does not accurately reflect the cost of housing provision.

Charging client departments cost rents enables GROH to recover the cost of housing provision in locations lacking a robust real estate market.

Going forward, a Treasury approved model was devised to calculate the cost rent for new construction projects. An initial cost recovery figure is calculated based upon construction, operational and administration costs.

The Consumer Price Index (CPI) is utilised annually as an appropriate measured increase to rental costs, applied consistently to all cost rent GROH properties.

Cost rents continue to remain in effect until a property reaches the 'end' of its economic life (25 years). To account for the depreciation of cost rent properties in comparison to newer cost rent properties in the same town, once a cost rent property reaches 25 years of age cost recovery is considered to be complete. After this time, cost rent charges will cease and revert to market rent charges.

### Objectives

Cost rents enable GROH to:

- Promote an efficient allocation of resources across Government by communicating the true costs of providing a service to departments.
- Help promote efficiency within GROH by increasing competition with the private sector. GROH cost rents can be readily compared to the rents charged by other housing providers.

---

<sup>1</sup> Formerly the Government Employees' Housing Authority (GEHA)

- Establish rents that recover the costs of an efficient supply of housing.
- Allow GROH to offer a fair rental return outside the established markets and encourage third party residential investment.
- Provide a scale of charges for both new and existing GROH stocks that in general, recognises the decreasing amenity of older properties.

Cost rents will **not**:

- Provide a pool of funds to support all of GROH capital works requirements.
- Recover revenues lost from years of market rents.
- Apply in locations with a viable housing market
- Apply to any properties GROH currently leased from a third party.

## **1.2 PURPOSE OF THIS DOCUMENT**

This document is written with the aim of providing clear policies and procedures for GROH staff to ensure effective management and consistent implementation of the Cost Recovery Rents policy.

## **1.3 SCOPE**

This document is written for use by GROH staff, its agents and client departments.

## **1.4 RELEVANT LEGISLATION AND REFERENCES**

- ◆ Government Employees Housing Act 1964
- ◆ Residential Tenancies Act 1987
- ◆ State Supply Commission Policies and Guidelines for Buying Wisely
- ◆ Code of Ethics for the Western Australian Public Sector
- ◆ Public Sector Management Act 1994
- ◆ Freedom of Information Act 1992
- ◆ GROH Delegation of Authority Manual
- ◆ GROH Register of Certifying and Incurring officers

## **1.5 DOCUMENT CONTROL**

This document is published on the Department of Housing and Works Internet site at [www.groh.wa.gov.au](http://www.groh.wa.gov.au) under GROH Policies

Responsibility for the document lies with Director, Government Regional Officers' Housing

## 1.6 DOCUMENT REVIEW

This document may be amended from time to time (see 1.7 Document History).

## 1.7 FULL DOCUMENT HISTORY

ISSUE	DATE	REASON	POLICY AUTHOR	OFFICERS TITLE	DATE LOADED ON Internet
1	June 2008	First edition	Danielle Faulkner	Coordinator Policy and Projects	June 2008
2	September 2008	Amendment to 2.2 in alignment with the recommendations of the Sustainability Review of GROH	Danielle Faulkner	Coordinator Policy and Projects	September 2008
3	June 2009	Locations amended	Emily Robinson	A/Coordinator Policy and Projects	June 2009
4	August 2009	Minor rewording	Emily Robinson	A/Coordinator Policy and Projects	
5	November 2009	Policy amended	Emily Robinson	Policy and Research Officer	
6	April 2017	Lists of cost and Market towns amended	Chris Walker	Policy and Research Officer	April 2017

## 1.8 DEFINITION OF TERMS (Glossary)

TERM / ACRONYM	MEANING
Departments	Those Government Departments under the administration of a Minister of the Crown and proclaimed to be a Department for the purpose of the <i>Government Employees' Housing Act 1964</i> .
GROH	Government Regional Officers' Housing
CPI	Consumer Price Index

## 2. COST RECOVERY RENT MODEL

POLICY :	PRACTICES / PROCEDURES
<p>The Cost Rent Model has the following parameters:</p> <ul style="list-style-type: none"> <li>• Market Rents remain where a market exists.</li> <li>• The cost rent charge for an individual property annually resets.</li> <li>• The annual charge is converted to a weekly charge by dividing by 52.</li> <li>• The charging component for property construction is combined with other charging components to derive a final rent amount.</li> <li>• The final rent amount is compared to the assessed market rent and the higher amount is charged.</li> <li>• The Consumer price Index is utilised annually as an appropriate measured increase to rent.</li> <li>• At the end of the ‘life’ of a property (25 years) cost rent charges will cease and revert to market rent charges, regardless of whether the cost rent is greater than the market rent.</li> </ul>	<p><b>2.1 Market Rents</b></p> <p>Through the development of partnerships within the private sector GROH stimulates private housing investment to enhance the quality of housing. Recognising investor potential ensures GROH remains efficient, effective and sustainable.</p> <p>Cost rents will be utilised in locations without a viable housing market to stimulate investment.</p> <p>Market rents will remain in locations where a viable housing market exists.</p> <p>Market/Cost Rent locations are subject to review by GROH (refer to Schedule A for a complete list of market/cost rent locations).</p> <p><b>2.2 Choose the Highest of Cost or Indicative Market Rent</b></p> <ul style="list-style-type: none"> <li>• GROH will charge the higher of the two rents provided by an independent Valuer and the cost rent model.</li> <li>• To account for the depreciation of cost rent properties in comparison to newer cost rent properties in the same town, once a cost rent property reaches 25 years of age cost recovery is considered to be complete. After this time, cost rent charges will cease and revert to market rent charges.</li> </ul> <p><b>2.3 Project Costs</b></p>

<b>POLICY :</b>	<b>PRACTICES / PROCEDURES</b>
	<ul style="list-style-type: none"> <li>• An initial cost recovery figure is calculated using a Treasury approved model, which takes into account construction, operational and administration costs.</li> </ul> <p><b>2.4 Operational Costs</b></p> <ul style="list-style-type: none"> <li>• Each year the most current approved Annual Budget Figures for maintenance, improvements, refurbishments, rates and general rental expenses for each region are sourced from the budget system.</li> <li>• This figure is divided by the number of GROH owned properties in each region to obtain an annual regional average for each property.</li> <li>• The result is divided by 52 to obtain a weekly figure. This figure is then added to the capital cost recovery component to obtain the total cost rent (per week) for the property.</li> <li>• The operational cost is added to the apportioned costs</li> </ul> <p><b>2.4 Administration, Maintenance and Vacancy</b></p> <ul style="list-style-type: none"> <li>• Maintenance, administration and vacancy costs are apportioned by region for every property.</li> <li>• The returns from leasing vacant properties to private tenants are deducted from these costs.</li> <li>• The cost is added to the apportioned costs.</li> </ul>



POLICY :	PRACTICES / PROCEDURES
	<p><b>2.5 Consumer Price Index</b></p> <ul style="list-style-type: none"> <li>The Consumer price Index is utilised annually as an appropriate measured increase to rental costs.</li> </ul>

### 3. UPGRADES AND REFURBISHMENTS

POLICY :	PRACTICES / PROCEDURES
<ul style="list-style-type: none"> <li>The department will be liable for payment of capital costs if requesting a specific upgrade to a property.</li> </ul>	<p><b>3.1 Specific Upgrades requested by Department</b></p> <ul style="list-style-type: none"> <li>If a department has a specific requirement for a property to be upgraded and it is unlikely that the next occupant will have a requirement for this upgrade (i.e. a disability bathroom), then the department will be liable for the capital costs.</li> <li>There will be no change in rents as a result of these specific upgrades.</li> </ul>

## SCHEDULE A – LIST OF MARKET AND COST TOWNS

### MARKET TOWNS

Albany	Dongara	Katanning	Wandina
Augusta	Drummond Cove	Merredin	West End
Australind	Dunsborough	Mount Tarcoola	Wonthella
Beachlands	Esperance	Narrogin	Yallingup
Beresford	Exmouth	Northam	Yalyalup
Bluff Point	Forrester Park	Pannawonica	
Boddington	Geraldton	Pegs Creek	
Boulder	Glenfield	Pinjarra	
Bremer Bay	Harvey	Point Samson	
Broome	Hopetoun	Port Denison	
Bunbury	Jarrahdale	Port Hedland	
Busselton	Jurien Bay	Rangeway	
Cape Burney	Kalbarri	Ravenswood	
Capel	Kalgoorlie	Redbank	
Carnarvon	Karnet	Shellborough	
Cassia	Karratha	South Hedland	
Cervantes	Koombana	South Kalgoorlie	
Collie	Kununurra	Spinifex Hill	
Cooke Point	Lancelin	Strathalbyn	
Cowaramup	Lawson	Sunset Beach	
Dalyellup	Leeman	Tarcoola Beach	
Dampier	Leinster	Tom Price	
Denham	Mahomets Flats	Waggrakine	
Denmark	Manjimup	Walnut Grove	
Derby	Margaret River	Walpole	

**SCHEDULE A (cont.) – COST TOWNS**

Ardyaloon	Coolgardie	Grass Patch	Mandangala	Ongerup	Wanarn
Badgingarra	Coorow	Halls Creek	Marble Bar	Onslow	Wandering
Balgo Hills	Corrigin	Hyden	Meckering	Paraburdoo	Wangkatjungka
Beacon	Cosmo Newberry	Jameson	Meekatharra	Pemberton	Warakurna
Bencubbin	Cranbrook	Jerdacuttup	Menzies	Perenjori	Warburton
Beverley	Cue	Jerramungup	Miling	Pia Wadjari	Warmun
Bidyadanga	Cunderdin	Jigalong	Mingenew	Pingelly	Waroona
Bindoon	Dalwallinu	Kalannie	Moora	Pingrup	Watheroo
Binnu	Dandaragan	Kalumburu	Morowa	Quairading	Wellstead
Blackstone	Darkan	Kambalda	Mount Barker	Ravensthorpe	Wickepin
Ballidu	Dawul	Kellerberrin	Mount Magnet	Roebourne	Wickham
Bolgart	Djarindjin	Kendenup	Mount Margaret	Rottnest Island	Williams
Borden	Djugerari	Kirup	Mulga Queen	Salmon Gums	Wiluna
Boyup Brook	Donnybrook	Kiwirrkurra	Muludja	Scaddan	Wingellina
Bridgetown	Dowerin	Kojonup	Munglinup	Southern Cross	Wongan Hills
Brookton	Dumbleyung	Kondinin	Nannup	Tambellup	Woodanilling
Broomehill	Dwellingup	Koorda	Narembeen	Tammin	Woolah
Bruce Rock	Eneabba	Kukerin	Newdegate	Three Springs	Wooroloo
Burringurrah	Eucla	Kulin	Newman	Tjirrkarli	Wundowie
Cadoux	Fitzroy Crossing	La Grange	Norseman	Tjukurla	Wyalkatchem
Calingiri	Frankland	Lake Grace	Northampton	Tjuntjuntjara	Wyndham
Camballin	Gairdner	Lake King	Northcliffe	Toodyay	Yalgoo
Cane	Gascoyne Junction	Latham	Nullagine	Trayning	Yandeyarra
Carnamah	Gingin	Laverton	Nungarin	Useless Loop	Yerecoin
Cascade	Gnowangerup	Leonora	Nyabing	Wagin	York
Condingup	Goomalling	Looma	One Arm Point	Wananami	Yulga Jinna
					Yuna