A POLICY OF CYNICAL NEGLECT

The slow demise of the Accommodation Supplement

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In March 2010 The Treasury offered the Ministers of Finance and Social Development advice on increasing the maximum rates paid through the Accommodation Supplement. These rates had not been adjusted since 2007 and were then based on rent levels in 2005. The estimated annual cost of the proposed adjustment was $60 million[1]. Similar advice was offered to a Labour led government in 2008. Then as in 2010 the advice was rejected and the maximum subsidies remained at 2005 rent levels – as they do still in 2016.

This paper documents changes in spending on and take-up of the Accommodation Supplement since 2000 as well as changes in rents over the past decade. This documentation is offered in support of a thesis that the failure of successive governments to adjust the maximum subsidies available under the Accommodation Supplement is a policy of cynical neglect. In other words, this failure has been deliberate and done with some understanding of its impact on low-income households.

It is usually more difficult to identify the intention of inaction than the intention of action. This is because action, and especially action by a public agency, normally requires some justification. Inaction especially if its flows from advice offered privately can simply go un-noticed and so unjustified. This tactic appears to have been adopted in the case of any review or adjustment of the Accommodation Supplement. Due to this absence of any stated intention this paper offers some possible explanations for this inaction or neglect.

Changes in housing subsidies since 2000

The Accommodation Supplement was introduced in July 1993 as a part of radical change in welfare policies announced by then Finance Minister Ruth Richardson in 1991 in her so-called 'mother of all budgets'. This budget cut welfare payments as well as introducing a universal housing subsidy which was intended to be 'tenure neutral'. Previously The Treasury had criticised the then existing mix of housing support programmes suggesting that these tended *'to bias households' tenure choice by emphasising home ownership over renting'* It recommended a general housing allowance which would eventually make state housing all but redundant given that it would be paid at the same to all low income households regardless of their tenure or landlord[2]. On its introduction, the Accommodation Supplement was designed to provide additional income support to low income tenants and home owners and to replace operating subsidies provided to the State's social housing provider Housing New Zealand.

The Accommodation Supplement is an income supplement for individuals or households with high housing costs relative to their incomes so is not strictly speaking a housing subsidy. In particular the availability of the Supplement and even eligibility for it does not guarantee an individual or household a house. To gain such access they must still find a landlord (in the case of tenant and boarders at least) willing to provide them with housing given their income and ability to pay rent. In constrained markets where supply of suitable housing may be limited or where an individual's or household's entitlements to receive a Supplement are not sufficient to secure adequate housing, there is a possibility that this entitlement is not taken up.

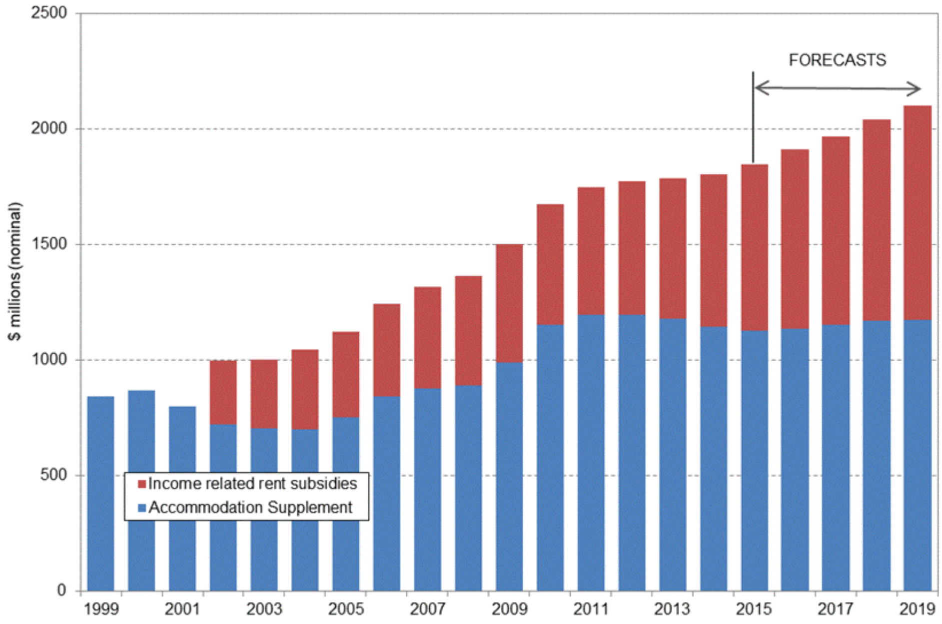
In its conception the Accommodation Supplement was designed to ensure that those receiving it had an incentive to economise on their housing costs and by doing so minimise the overall costs to the State. To achieve these objectives the Supplement has three elements:

- the entry threshold (i.e. the level of accommodation costs which recipients can reasonably be expected to meet from their own income);
- subsidy level (i.e. the proportion of subsidy for each additional dollar of accommodation cost);
- the maximum amount of Supplement payable (i.e. the level of accommodation costs at which subsidy stops increasing and above which clients meet 100% of costs).[3]

In the 1993/94 financial year the Accommodation Supplement cost taxpayers $354 million and was paid to 270,000 households. By 1999 the cost of the Supplement had ballooned out to $867 million and was paid 324,000 households. Trends in the costs of housing subsidies since 1999 including forecasts through to 2018/19 are provided in Figure 1

In 2001 the Labour Government reintroduced income related rent subsidies which saw around 60,000 state tenants move back to paying income related rents that were originally removed in the reforms of 1993. The following year housing subsidies in the form of the Accommodation Supplement and operating subsidies to Housing New Zealand topped $1 billion for the first time. Between 2003/04 and 2010/11 the cost of both subsidies rose continuously in the face of steadily increasing rents. The value of Accommodation Supplement payments rose 72% in nominal terms from $702 million in 2003/04 to almost $1.2 billion in 2010/11 while over the same period income related rent subsidies rose 61% in nominal terms from $342 million to $553 million.

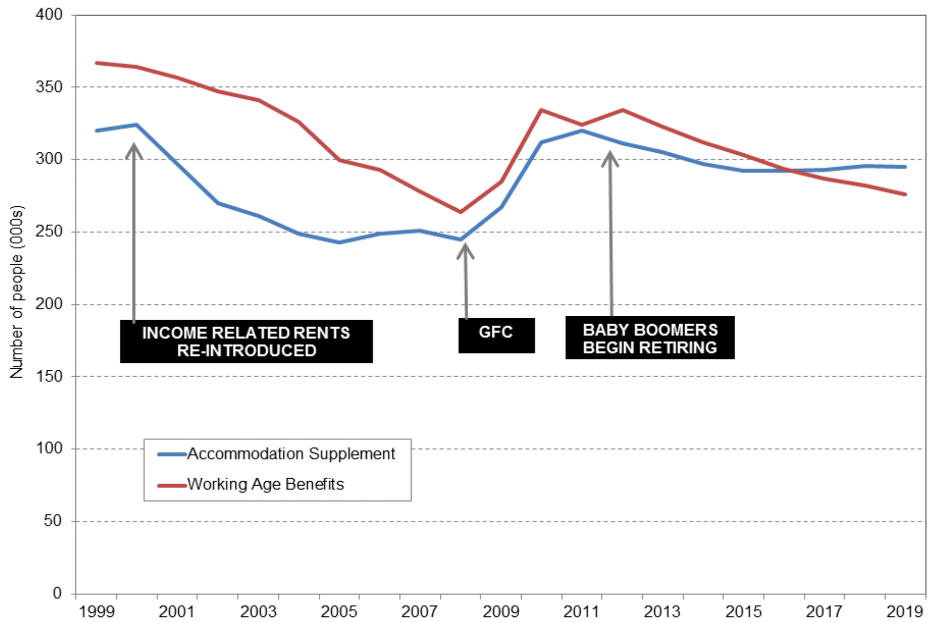
Figure 1: Housing subsidies – 1999 to 2019[4]



The number of people receiving the Supplement fell gradually from 324,000 in mid-2000 to 264,000 on the eve of the GFC in mid-2008 but subsequently increased following the GFC back to 324,000 people by mid-2011. The numbers of people receiving income related rents from Housing New Zealand grew gradually over this period by around 6,000 or perhaps by 4,500 households[5].

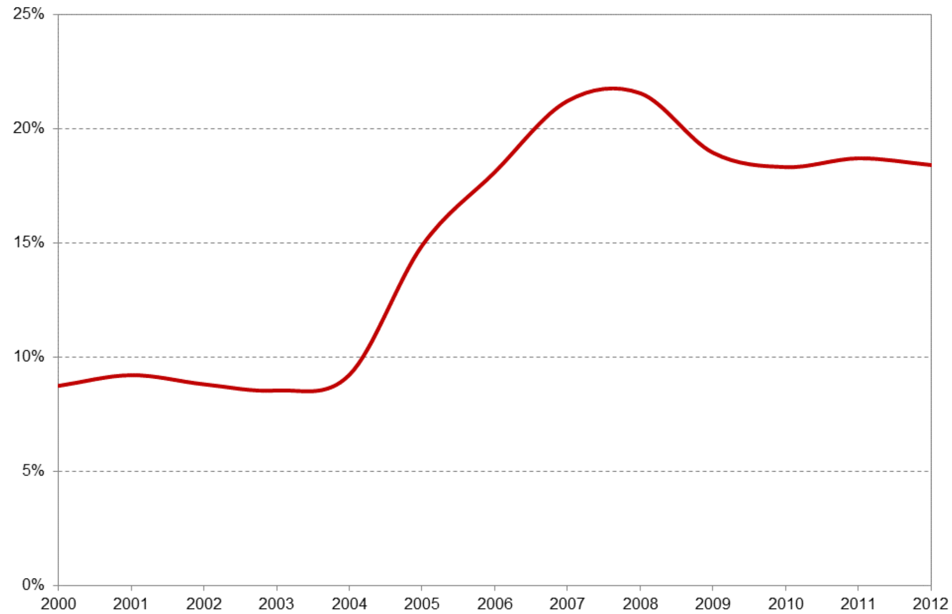
The longer-term trend in take-up of the Accommodation Supplement is provided in Figure 2. This take-up is compared with take-up of the working age benefits as it has tended to be the case that the Accommodation supplement is paid mainly to people receiving such benefits. Three notable shifts can be identified in the data provided in Figure 2.

Figure 2: Take-up of the Accommodation Supplement & working age benefits – 2000 to 2019



The first shift occurred around 2001 as income related rents were reintroduced by the Labour Government. This change saw a matching decline in the numbers of people receiving the Supplement with numbers eventually falling to around 250,000 by 2005/06. This decline was however not entirely due to the re-introduction of income related rents because over the same period two other relevant changes took place. The first change was the gradual decline in numbers of people receiving a working age benefit as employment conditions improved. This decline saw the number of people on benefits drop by 100,000 people between 2000 and 2008 to 264,000. Against this decline in benefit dependency more working households began to pick up the Accommodation Supplement as illustrated in Figure 3. Between 2004 and 2008 the proportion of people or households receiving an Accommodation Supplement payment and in paid employment rose from 9% to over 21%. While there has been no official explanation for this rapid increase in take-up, it did coincide with the introduction of the Working for Families suite of income support programmes and as noted above the significant decline in people and households receiving welfare benefits. It may be the case that at this time an increasing proportion of households became or already were engaged with the State for some form of income support thus making it easier to also claim the Accommodation Supplement.

Figure 3: Proportion of Accommodation Supplement recipients in paid work – 2000 to 2012



The second notable shift in take-up of the Accommodation Supplement occurred at the time of the GFC in 2008. Between 2008 and 2012 the numbers of people receiving the Supplement and a working age benefit sharply increased as New Zealand's employment fortunes faltered. Over this period take-up of both payments rose 27% with the numbers of people receiving the Accommodation Supplement rising from 245,000 in 2008 to 311,000 in 2012. This rise appears to be associated with the increase in benefit take-up points to how unpredictable such take up is given that it is connected to the economic cycle – at least in its present form.

The third shift in take-up of the Accommodation Supplement is perhaps a little more subtle but well-illustrated by the forecast that by around 2016 the number of Supplements being paid will exceed the number of working age benefits paid out. It appears that from around 2011 Accommodation Supplement take-up became disconnected from working age benefit take-up. This trend is on account of increasing numbers of people receiving both New Zealand Superannuation and an Accommodation Supplement payment and roughly coincides with the beginning of the retirement of the baby boomer generation in early 2011.

At the end of June 2011 approximately 27,700 people were receiving both New Zealand Superannuation and an Accommodation Supplement payment. Four years later in June 2015 this number had risen to almost 35,500. By 2025 the number of people receiving both payments – should current policy settings remain, is estimated to rise to over 70,000[6]. This growth is not only due to the expansion in the over 65 population but also to declining rates of homeownership amongst younger age cohorts of the baby boomer generation meaning that more and more retirees will need to rent in their old age. This trend is evident in the forecasts for Accommodation Supplement pay-outs through to 2019 although these forecasts are also predicated on continuing job growth, stable or falling unemployment and declining dependency on working age benefits.

Since 2011 the nominal value of the Accommodation Supplement budget has remained more or less unchanged at just under $1.2 billion annually. Budget forecasts through to 2019 suggest the Government's expectation is that this budget setting will remain for the foreseeable future. As suggested above this expectation is based clearly on an assumption of gradually increasing demand for housing assistance from retirees alongside diminishing benefit dependency and reducing reliance on housing assistance from the working age population. As discussed below this reducing reliance is a result of unchanged policy settings rather than an indication of improving housing affordability.

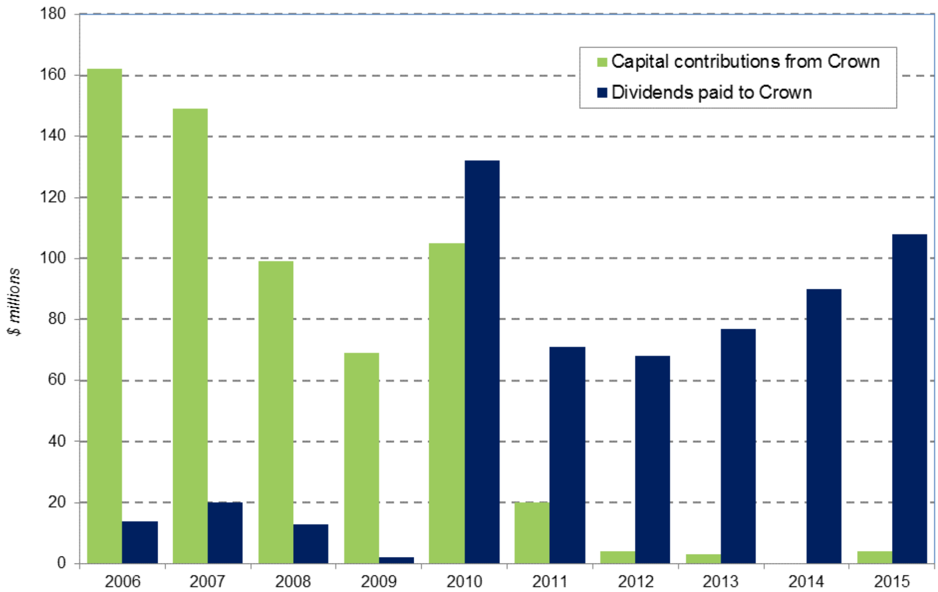
It is clear from Figure 1 that against this static budget for the Accommodation Supplement there is increasing reliance by Government on supply-side subsidies through rent subsidies to Housing New Zealand. Such subsidies increased (in nominal terms) from $553 million in 2010/11 to $718 million in 2014/15 and are forecast to grow to $925 million by 2018/19. Three policy shifts are at play in these changes.

The first is a change in the Government's dividend policy for Housing New Zealand. This change is illustrated in Figure 4 which charts capital contributions from and dividends paid to the Crown for the most recent ten years of reported results. Clearly higher dividends are being required of Housing New Zealand under National led governments than under Labour led ones although this difference in dividends does not account for all of the increase in income related rent subsidies under National. In 2010/11 Government paid Housing New Zealand rent subsidies of $553 and gained a $71 million dividend in return – a net of $481 million. In 2014/15 rent subsidies amounted to $718 million against a dividend of $108 million giving a net of $610 million.

A second change emerges from the present Government's desire to target state housing for those who need it most and to consequentially move out state tenants who can afford to pay market rents for the reason that their incomes are sufficient to do so. This policy has influenced the proportion of income coming from market rent tenants and from those paying income related rents and as it does so the level of income related rent subsidy will change to compensate for this compositional change. This effect is however relatively minor at around $10 million to $15 million extra in income related rent subsidies between 2013/14 and 2014/15[7]. As the proportion of state tenants paying income related rents approaches 100% it seems unlikely the review of tenancies of those paying market rents will continue to reap the same gains (in terms of more tenants on income related rents) as more recent review tranches have.

The third and perhaps most significant change is the Government's social housing reform agenda. This reform aims *'to build a flexible social housing system that responds to the immediate need of the most vulnerable clients and their families'*[8]. This is anticipated to be done in part through the sell-off of state rental housing units to NGO providers and to extend income related rent subsidies to these providers. The forecast rapid increase in the value of income related rent subsidies between 2014/14 and 2018/19 shown in Figure 1 may be to make such a move more lucrative to NGO and perhaps private providers to become involved in the provision of social housing. These increases are from $718 million in 2014/15 to $926 million in 2018/19 which given that few additional social housing units are likely to be provided over this time period suggests that there will a substantial increase in the per-unit subsidy. The extent to which this higher subsidy will be shared between Housing NZ and NGO and private sector social housing providers is unknown at this stage.

Figure 4: Housing New Zealand dividends and capital contributions – 2006 to 2015

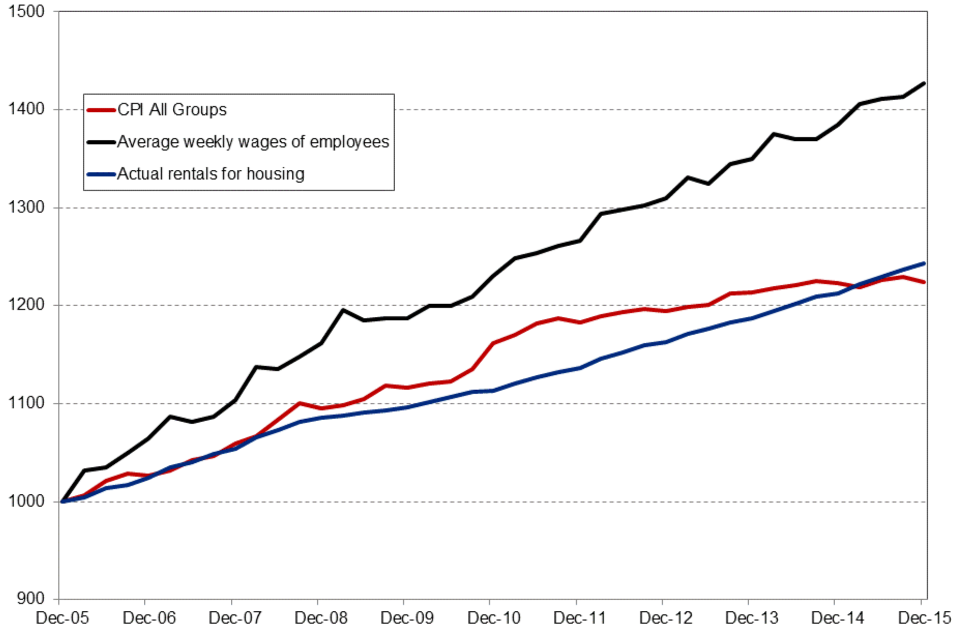


Changes in rental housing markets

The story of static budgets and constant policy setting for the Accommodation Supplement s would not be complete without some focus on rising rents.

At a high level of aggregation there does not appear to be a problem with rising rents as rents seem to be moving in line with overall CPI inflation and behind changes in wages and salaries. Such a comparison is shown in Figure 5 which compares indices for the All Groups CPI, CPI for rents and average wages of employees for the decade to the end of 2015. This comparison suggests that wages have grown at a faster rate than rents for all of the past 10 years and so rents have become relatively more affordable. The actual picture appears more complex than this however.

Figure 5: A comparison of wage, rents and CPI – 2005 to 2015



There are a number of reliable sources of data on rents and rent price changes and these tend to contradict the picture presented by the CPI rental index[9]. The most comprehensive source of rent data is that of rents reported whenever tenancy bonds are lodged with the Tenancy Bonds Division of the Ministry of Business Innovation and Employment[10]. This tenancy bond rent data in effect records the market clearing prices for rents at any given time and in the specific local market in which the apartment, flat or house is located. Against these market clearing or current market rents, the actual rents paid by many tenant households may be quite different. This difference is due in part to the fact that only around 70% of rented properties are registered with the Tenancy Bond Division (tenancies without bonds are not required to register) and that around 40% of tenancies are agreed in any one year. Together this means that the rents reported by tenancy bond lodgements probably only represent about 30% of the market in any given year and that the remaining tenancies are probably paying rents below these reported rents. Furthermore, perhaps 70,000 to 75,000 dwellings owned by Housing New Zealand, local councils and NGO housing providers are social housing units so tenants are mostly paying less than market rents. While it is unclear from the description of how CPI data is collected it seems likely that these below market rents will also be aggregated into the rent index published in the consumer price index series. Although there is this difference, it is likely that rents reported in tenancy bond lodgements are an accurate account of current market prices and for this reason are worth considering in any analysis of rent affordability.

Figures 6 and 7 record changes in nominal rents for two bedroom flats and three bedroom houses in Auckland, Wellington and Canterbury regions and for New Zealand overall. Figures 6 and 7 offer clear evidence that rents in general and particularly in Auckland and Canterbury have risen much faster than CPI inflation and the rent inflation reported in the CPI data set. Rents in both Canterbury and Auckland rents rose more than 50% in nominal terms between 2005 and 2015 while CPI inflation was around 22%. Across New Zealand rents for two bedroom flats and three bedroom houses increased by 43% to 45% in nominal terms over the ten year to the end of 2015.

Figure 6: Geometric means of rents for two bedroom flats - 2005 to 2015

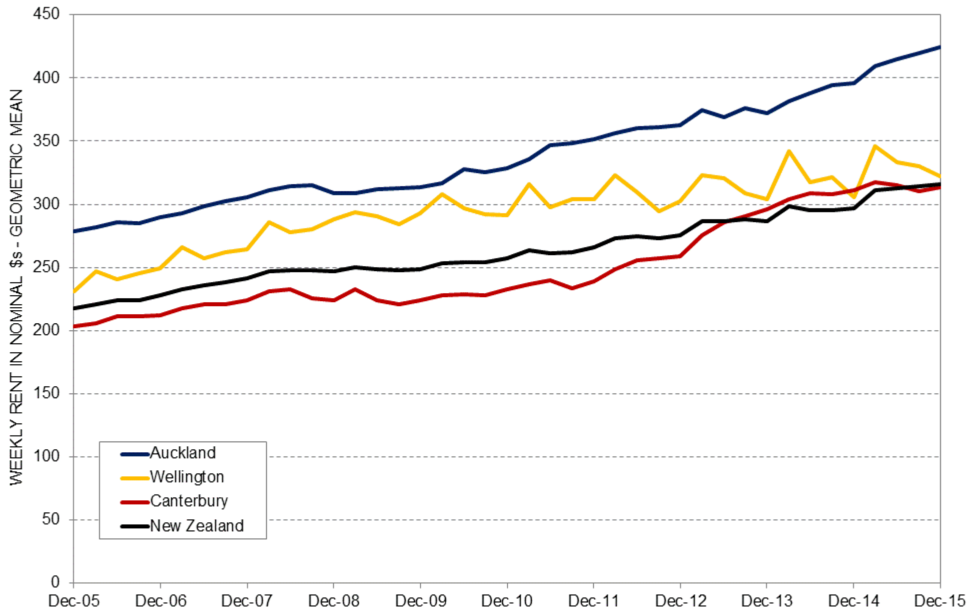
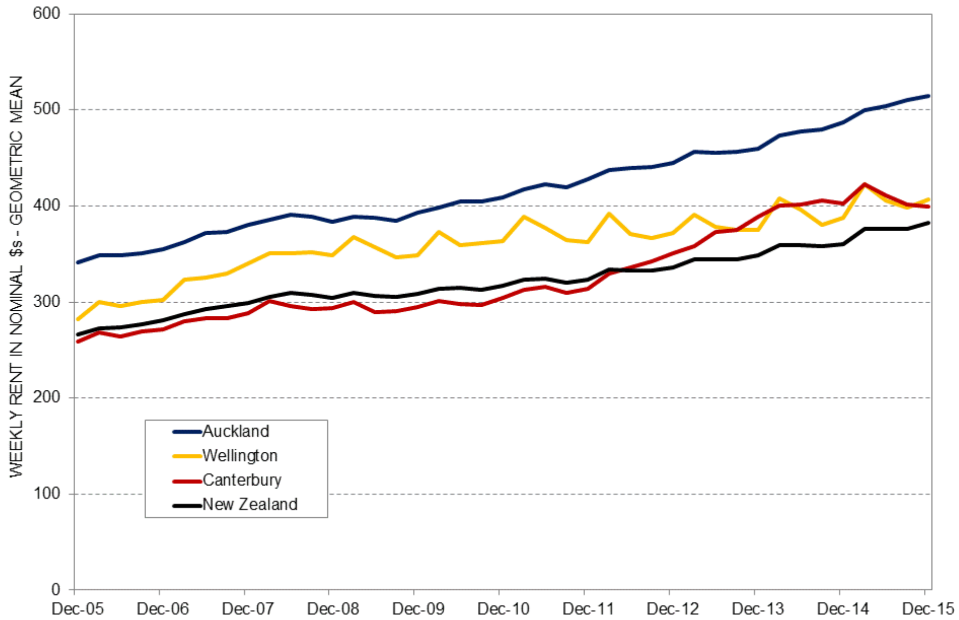


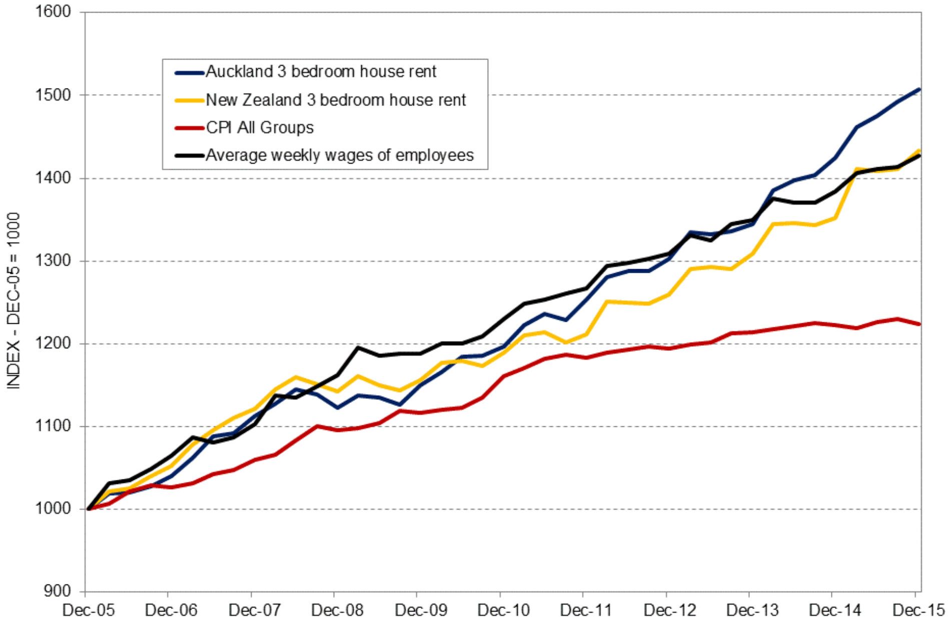
Figure 7: Geometric means of rents for three bedroom houses - 2005 to 2015



A comparison of rents, wages and prices for the period 2005 to 2015 is offered in Figure 8. The rents reported here as indices are those for three bedroom houses (geometric means) for Auckland and New Zealand overall which are reported against the CPI and average wages for employees. Two things are noticeable in the data offered in Figure 8. The first is how closely New Zealand wide rents are aligned with wages with nominal increases over the ten year period of 43%. This of course contradicts the results offered in Figure 5. The second feature from Figure 8 is how Auckland rents have recently outpaced wages and salaries. CPI inflation ran at about half the growth in rents and wages.

While wages/salaries have tended to move with rents those living on working age benefits have not been so lucky given that benefits are indexed against inflation. This means that those relying on benefits and top-up payments through the Accommodation Supplement have lost ground against rents since 2005. The extent of these reversals is considered below.

Figure 8: Comparison of rents, wages and prices – 2005 to 2015



Accommodation Supplement payment patterns

As mentioned in the introduction, this maximum amount has not been adjusted since 2007 and was then based on rents in 2005. As reported in the previous section rents have risen by 45% to 55% since 2005 so this maximum amount is well out of date. Just how out of date is partly illustrated by the data presented in Figures 9 and 10.

Figure 9 reports proportion of tenant households receiving the maximum Accommodation Supplement payment by Ministry of Social Development's operational regions. More than two-thirds of such households are receiving the maximum payment in Northland and Waikato while this proportion is lowest in Auckland at 45% of tenant households. Here of course the maximum payments available are much higher[11].

Figure 9: Proportion of tenant households receiving the maximum Accommodation Supplement by region – June 2015

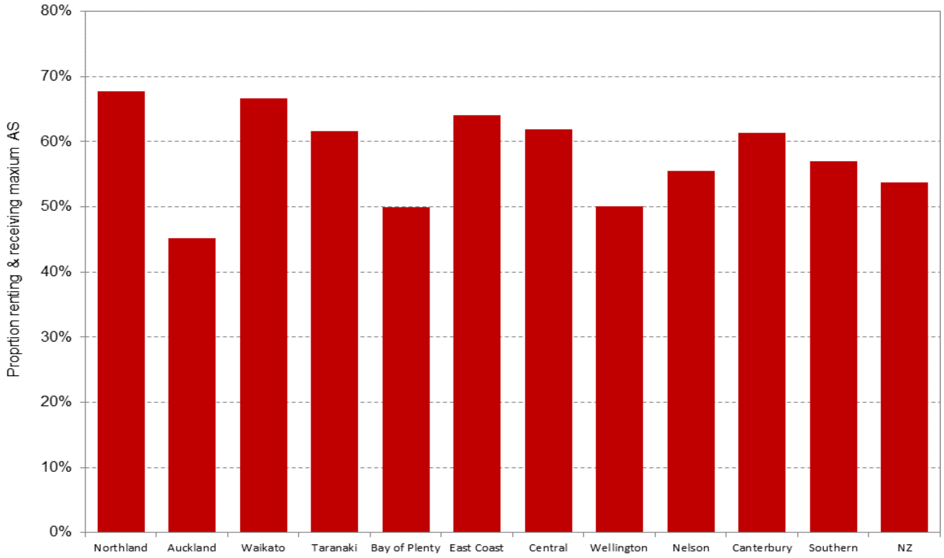
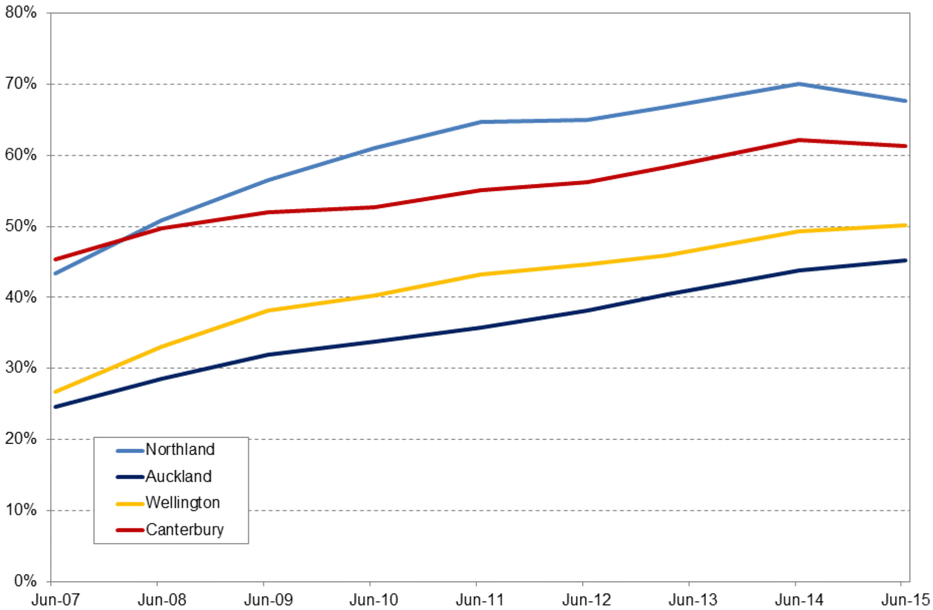


Figure 10 reports changes in the proportion of households receiving the maximum Supplement payment for selected regions from June 2007 through to June 2015. In all regions the proportion of tenant households receiving the maximum payment has increased by between 20% and 25%. In Northland for example the proportion of tenants receiving the maximum payment rose from 43% in June 2007 to 68% in June 2015.

Figure 10: Changes in the proportion of tenants receiving the maximum Accommodation Supplement pay-out for selected regions – 2007 to 2015



The extent of hardship caused by this set of circumstances alongside rising rents has not been assessed in any official review or monitoring programme so it is difficult to determine the impacts of such changes on household budgets and their material wellbeing.

Appendix 2 is offered as an indication of the extent to which households are materially worse off by this failure to increase maximum payments and by the subsidy rates. This analysis is based on a scenario of a single parent living on a benefit with two children who is renting a two bedroom house in one of 20 low or moderate cost housing markets in New Zealand. In addition to the benefit each hypothetical household receives, they are also paid Working for Families entitlements and on top of this an Accommodation Supplement payment based on the relationship between household income and rents. The analysis estimates households' after housing cost income in 2007 and 2015 and then adjusts the 2007 figures for inflation to gain an understanding of real changes in household incomes[12].

The results offered in Appendix 2 offer a mixed picture. Notwithstanding the pattern shown in Figures 9 and 10, that the proportion of recipients receiving the maximum has increased, just eight of the 20 hypothetical households examined in this analysis had their Accommodation Supplement patterns capped by these maximums. With the exception of Invercargill none of the markets surveyed in this analysis had the lowest maximum payment of $75 per week and this could account for some of this anomaly.

All the household circumstances considered in Appendix 2 saw a real decline in after housing cost incomes although there was quite a wide range in this decline – from 0.9% in Whangarei to more than 30% in parts of Christchurch. The clear pattern offered in the third table in Appendix 2 is that areas where the maximum payment is binding have experienced the sharpest decline in after housing cost incomes. This of course is to be expected.

The main reason for the overall real decline in households' incomes after housing costs is that rents have generally run ahead of inflation while incomes for beneficiaries are pegged to inflation[13]. In such circumstances, with a subsidy rate of 70%, inevitably households are obliged to pay the remaining 30% of any rent increase from other income so their residual after housing cost income will decline in real terms.

Clearly a great deal more work needs to be done to determine the extent to which the now ten year old settings of the Accommodation Supplement are still assisting to make housing affordable for low-income households. The lack of any interest by Government in doing such analysis, raises questions around the actual purpose of the existing suite of housing assistance programme[14]. The final part of this paper speculates on what the purpose or intent might actually be.

Possible interpretations

It is often quite difficult to identify the intention of inaction because those not acting frequently say little about their failure to act – perhaps hoping that this failure goes un-noticed and so can remain unjustified. Certainly no explanation for failing to update the maximums payable under the Accommodation Supplement has been offered by the successive administrations since 2008. Five possible interpretations are offered here. The reasons suggested through these interpretations are not mutually exclusive. In some scenarios offered here there may be two policy drivers at work but with different importance or relevance placed on each.

A shift away from demand subsidies

The data offered in Figure 1 on total housing subsidy expenditures since 2000 may be interpreted as an intentional shift away from demand subsidies to supply subsidies. This was certainly the case around 2000 as the Labour Government of that time re-introduced incomes related rent subsidies for state tenants. This was done through a direct subsidy to the state owned social housing provider Housing New Zealand. In the first full year of this subsidy the Government paid Housing New Zealand $276 million in subsidies to allow Housing New Zealand to offer around 60,000 tenants to pay an income related rent. Ten years later this subsidy had more than the doubled in nominal terms to $596 million and by 2015 it had almost doubled in real terms to $718 million.

The re-socialisation of housing subsidies

The re-socialisation argument is similar to the shift away from demand subsidies at least insofar as the Labour led government ran it in 2000. Its re-introduction of income related rent subsidies for state tenants can be seen as a deliberate move to shift housing policy emphasis from the private to the public sector. While under the previous National led government's use of market rents and the Accommodation Supplement to support state tenants still saw public funding go into public housing, the clear preference of that government was to use market processes to decide allocations. The Labour led government's provision of direct subsidies to fund state housing and its provision of additional capital to grow the state housing stock are clear evidence of the re-socialisation thesis in practice.

Perhaps as expected the re-socialisation argument wears a bit thin under National led governments. Granted the income related rent subsidies have risen under National from $512 million in 2008/09 to $718 million in 2014/15 and are forecast to increase further to $927 million by 2018/19. However, the number of rental units under Housing New Zealand's ownership or management has declined recently and Government has signalled its intention to sell off around 10% of the remaining stock to third party providers which may include NGOs, iwi organisations or even private companies. In addition some of the higher subsidies to Housing New Zealand have been taken back as higher dividends while at the same time Housing New Zealand has received no additional capital from its owner to assist it to reconfigure its stock and re-structure its business model.[15]

As part of the present Government's social housing reform agenda it is intended to shift the emphasis of social housing provision away from the state to NGO providers because apparently these *'can be closer and more responsive to their community'* and are able to *'bring in new approaches and access new sources of funding'*[16]. The exact nature of such alternate funding and its adequacy for the task is not stated but such ideas do illustrate the Government's interest in moving Government out of the provision of social housing.

Unwillingness to inflate rents

It is sometimes argued that the Accommodation Supplement is a landlords' subsidy and that as such any increase in the value of the Supplement will simply leak out to landlords in the form of higher rents. Remarkably there has been little analysis undertaken of either the income or price effects of the Accommodation Supplement and the two published studies appear to have been written to order to suit the argument that the payment is not a landlord subsidy[17].

A recent study by Australian academics for Ministry of Social Development found somewhat equivocally that:

> *''it is highly likely that an increase in the AS will lead to a concomitant increase in private rental prices in New Zealand. The magnitude of this rental increase will depend on the supply elasticity of the New Zealand housing rental market.*
>
> *Findings from the literature review suggest that rents are determined by house prices in the long run. It would therefore be incorrect to say that a housing supplement such as the AS drives rent increases or is a determinant of rent increases. However, it is clear from the evidence that an increase (decrease) in housing supplement is a factor in increased (decreased) rental prices.''*[18]

The empirical question of whether the benefits of the Accommodation Supplement accrue to landlords or tenants would most likely depend on the state of the rental market at any given time. In a market with short supply – such as in Auckland presently, we could expect most of the benefits of higher rent subsidies to drive rents up. Alternatively in more subdued rental markets any increase in such subsidies may be shared between landlords and tenants. However, even in such markets, the fact of an increase in a specific housing related payment to tenants may present a widely shared signal to landlords to increase rents simply because tenants have a greater ability to pay.

The potential for an increase in the Accommodation Supplement to fuel rent inflation is not unrealistic and the unwillingness to increase subsidy levels for fear of such pressure is not unreasonable. Such a response does not however answer a quite fundamental question around access to affordable housing especially in the face of recent rent increases which have left low-income household appreciably worse off. In particular the fear of future inflation does not address the impacts of past rent inflation or even of future rent inflation not fuelled by subsidy increases.

This fear of further rent inflation demonstrates a critical weakness in the use of demand subsidies. Such an approach depends on price to act as a signal to apportion demand and to incentivise increases in supply. If prices don't rise, it is unlikely that additional housing will be supplied unless there is a fall in input costs. While interest rates have fallen to historic lows, construction costs, land values and rates continue to rise faster than general inflation so any prospect of landlords' input costs falling overall appears remote. In rental markets with growing demand through population growth, some rent inflation is inevitable unless there is a matching supply increase and the conundrum here is that supply will only increase if higher costs can be matched by higher rents.

Simply too hard

The Accommodation Supplement is a treadmill type programme which is difficult to stop and because of its speed difficult to get off. The 'simply too hard' response, or more accurately non-response, is conceivably based on the idea that it too expensive and not sufficiently useful to increase funding and subsidy rates under the present Accommodation Supplement regime but too disruptive to radically change or even dispense with this regime.

Around 210,000 to 220,000 households and most likely as many as 500,0000 individuals are now dependent on the Accommodation Supplement to help pay their rent, board or mortgage[19]. At a cost of $1.1 billion annually the average per household subsidy is likely to be around $5000 per year so the impact on these household budgets is significant.

Perhaps as much as 25% of private sector tenants receive an Accommodation Supplement to assist them to pay their rent and the withdrawal of some or all of the estimated $900 million in rent subsidies paid through the Accommodation Supplement will have substantial consequences both on rents and residential property investment[20].

A slow demise

Regardless of the explanations or justifications for the failure to increase the value of Accommodation Supplement payments, the fact remains that the value of these payments has declined in importance – both to the government paying them and the households receiving them. Between 2010 and 2015 the total cost of the Accommodation Supplement fell by $36 million or by nearly 7% in real terms and the number of people receiving it fell by around 30,000. As illustrated in Appendix 2 some of this decline is impacting on the budgets of New Zealand's poorest households and most likely threatening their financial and material wellbeing. While these impacts do not appear to have been assessed by any government agency they must have been appreciated by decision makers because of the mere fact of declining budgets alongside rents which in many markets are rising at a faster rate than benefit incomes and some peoples' wages and salaries.

The slow demise thesis suggests that whether the failure to respond to increasing inadequacy of demand-side subsidies of the Accommodation Supplement is due a lack of interest or a paucity of ideas on the part of policy makers either way the importance of these subsidies is gradually declining. This decline – 7% in real terms over the past five years, could in fact be a de facto policy of allowing the value of the programme to gradually diminish perhaps to the point in 10 to 15 years' time when radical reform is possible because the consequences of such reform are also diminished.

Where such a policy approach of neglect in the face of rising housing costs and growing inequalities of wealth is seen as cynical or simply pragmatic is a matter of interpretation.

What is to be done?

The intention of this paper was not to suggest new policies and approaches but simply to highlight the existence of a de-facto housing policy of gradual demise and neglect.

The Accommodation Supplement can be seen as a fiscal and social disaster. Fiscally it is hard to do away with because of the dependencies which have been created – both amongst tenants and landlords. Socially it is not achieving any worthwhile objective – it is not ensuring that low income families and individuals have access to housing they can afford, it has not driven an increase in the supply of affordable housing and it has not ensured that the housing being subsidised is of acceptable quality[21]. The Supplement has probably been capitalised into housing prices at the lower end of the market and so made home-ownership less affordable for modest and middle income households.

These failings may not be on account of the overall use of demand-side housing subsidies but rather due to the design of the Accommodation Supplement and the absence of balancing supply-side measures which might drive increases in the supply of affordable housing.

Even if a future government were to make a substantial and extended commitment to supply side programmes, it seems unlikely that the current shortcomings and weaknesses in affordable housing markets will be remedied for at least eight to ten years. This means that the promise of a cure in supply-side responses should not mean that the Accommodation Supplement is left untouched meantime and that the current de-facto policy of cynical neglect is allowed to continue. Alternative approaches to the delivery of demand-side programmes need to be considered as a matter of urgency. These alternatives might perhaps have moderately larger budgets but should certainly have greater control over how housing is accessed and paid for.

APPENDIX 1

MINISTRY OF
SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

THE TREASURY
Kaitohutohu Kaupapa Rawa

Date: 18 March 2010 SH-13-5-2-1

To: Minister of Finance and Minister for Social Development and Employment

cc: Minister of Revenue

AIDE MEMOIRE: ADDITIONAL ADVICE ON ADJUSTMENTS TO ACCOMMODATION SUPPLEMENT

At the meeting of the Ministerial tax sub-group on 8 March 2010, Minister Bennett requested further information about the reasons why decisions about the Accommodation Supplement (AS) are not needed now, and the proposed process for obtaining those decisions.

What is the Accommodation Supplement?

The AS is the primary form of financial support for accommodation costs for low and middle income people. It is available to beneficiaries and working people who meet the eligibility criteria. The amount paid is equivalent to 70% of their accommodation costs above an entry threshold and up to a maximum amount. The maximum amounts payable vary by region and family type and were last adjusted in 2005 (based on 2003 median rents).

Expenditure on AS is estimated at $1.165 billion in the 2009/10 year. As at February 2010, 316,000 people received an AS; about a third of people were receiving the maximum rate and 56,000 were not receiving a main benefit.

Impacts of the tax package on accommodation costs

Rent costs are not subject to GST, so officials are not recommending any changes to AS as part of the GST compensation package.

The proposed changes to property taxation, whereby investment houses are no longer able to claim depreciation as a tax deduction, may result in an increase in rents. Treasury estimates that, *over time*, the most extreme impact would be approximately a one-off increase of 2.2%. The size of the impact is very difficult to quantify as it will depend on a range of factors such as the behaviour of landlords, the impact on construction of new houses, and the approach taken to enforcement of the new rules.

[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

What officials are recommending

In our 11 March 2010 report on compensation matters [T2010/339 and REP 10/03/095 refers], we recommended that - as the impact of the tax package on rents is uncertain and there are wider policy issues associated with housing assistance - Ministers should:

> **direct** officials (led by the Ministry of Social Development) to report back to the Ministers of Finance, Social Development and Employment and Housing on the impacts of changes in the tax package on housing affordability, and wider considerations relating to the Accommodation Supplement and Income Related Rents, before Budget 2011.

There may be opportunities to offset costs of changing housing assistance by retargeting the payment, or reprioritising other entitlements. However, given the pressure on future Budget operating allowances, the expectations of what could be achieved will need to be realistic. The last time the AS was reviewed, in 2008, the costs of increasing the maximum rates to catch up with increased accommodation costs since the last adjustment were around $60 million per annum. The previous Government decided this was unaffordable at that time.

Alternative Options

If Ministers do not wish to undertake such a wide review (officials' preferred approach), there are three alternative options:

EITHER **Agree *not*** to change the AS settings in response to the Budget 2010 tax package, and ***not*** to set in place a process for doing so in the near future;

OR **Agree** to a narrow review that would provide advice on whether there might be a need for any changes to AS as a result of the impact of the property tax changes on rents (i.e. the estimated 2.2% impact over time);

OR **Agree** to increase, as part of Budget 2010, the maximum rates of AS by 2.2% from 1 October 2010 (or 1 April 2011) at a cost of between $15 and $25 million per annum, depending on the exact methodology used.

[deleted-privacy], Principal Analyst, Ministry of Social Development, [deleted-privacy]

Oliver Valins, Senior Analyst, The Treasury, [deleted - privacy]

Sue Mackwell, Deputy Chief Executive, Ministry of Social Development, [deleted - privacy]

Bill Moran, Manager, The Treasury, [deleted - privacy]

Chris Gillion, Senior Policy Advisor, Inland Revenue, [deleted - privacy]

APPENDIX 2: Analysis of changes in rents and household's after housing cost incomes for a single parent household renting a 2 bedroom house

2007

Town or city	Mean rent YE June 2007	Main benefit	Working for Families payments	Total income	Accommodation Supplement	After housing cost income
Kaitaia	179.94	255.65	139.00	394.65	56.89	271.61
Whangarei - Onetangarei	227.76	255.65	139.00	394.65	90.37	257.26
Auckland - Beachaven	292.65	255.65	139.00	394.65	135.79	237.79
Auckland – Henderson	271.58	255.65	139.00	394.65	121.04	244.11
Auckland – Avondale	292.27	255.65	139.00	394.65	135.52	237.91
Auckland – Papatoetoe	286.72	255.65	139.00	394.65	131.64	239.57
Hamilton - Claudelands	229.65	255.65	139.00	394.65	91.69	256.69
Tauranga - Central/Greerton	241.98	255.65	139.00	394.65	100.32	252.99
Rotorua – Kuirau	245.08	255.65	139.00	394.65	102.50	252.06
Napier – Taradale	245.49	255.65	139.00	394.65	102.78	251.94
New Plymouth - outer suburbs	238.62	255.65	139.00	394.65	97.97	254.00
Palmerston North	206.48	255.65	139.00	394.65	75.47	263.64
Wellington - Trentham North	206.05	255.65	139.00	394.65	75.17	263.77
Wellington - Porirua East	196.56	255.65	139.00	394.65	68.53	266.62
Wellington- Killbirnie/Lyall Bay	332.46	255.65	139.00	394.65	163.66	225.85
Nelson – Central suburbs	250.76	255.65	139.00	394.65	106.47	250.36
Christchurch – Hornby	232.18	255.65	139.00	394.65	93.46	255.93
Christchurch - Linwood	236.43	255.65	139.00	394.65	96.43	254.66
Dunedin – South Dunedin	210.22	255.65	139.00	394.65	78.09	262.52
Invercargill	155.64	255.65	139.00	394.65	39.89	278.89

2015

Town or city	Mean rent YE June 2007	Main benefit	Working for Families payments	Total income	Accommodation Supplement	After housing cost income
Kaitaia	230.13	300.98	157.00	457.98	80.94	308.80
Whangarei - Onetangarei	259.76	300.98	157.00	457.98	101.68	299.91
Auckland - Beachaven	410.70	300.98	157.00	457.98	207.34	254.62
Auckland – Henderson	379.97	300.98	157.00	457.98	185.84	243.01
Auckland – Avondale	377.87	300.98	157.00	457.98	184.37	264.47
Auckland – Papatoetoe	376.99	300.98	157.00	457.98	183.75	245.99
Hamilton - Claudelands	282.86	300.98	157.00	457.98	117.85	292.98
Tauranga - Central/Greerton	308.60	300.98	157.00	457.98	135.88	285.25
Rotorua – Kuirau	302.17	300.98	157.00	457.98	131.38	275.81
Napier – Taradale	272.80	300.98	157.00	457.98	110.81	295.99
New Plymouth - outer suburbs	308.78	300.98	157.00	457.98	136.00	269.20
Palmerston North	250.42	300.98	157.00	457.98	95.15	302.71
Wellington - Trentham North	262.94	300.98	157.00	457.98	103.91	298.95
Wellington - Porirua East	260.98	300.98	157.00	457.98	102.54	299.54
Wellington- Killbirnie/Lyall Bay	406.36	300.98	157.00	457.98	204.31	216.62
Nelson – Central suburbs	316.10	300.98	157.00	457.98	141.12	283.00
Christchurch – Hornby	369.06	300.98	157.00	457.98	178.20	208.92
Christchurch - Linwood	351.35	300.98	157.00	457.98	165.80	226.63
Dunedin – South Dunedin	262.55	300.98	157.00	457.98	103.64	299.07
Invercargill	220.31	300.98	157.00	457.98	74.07	302.67

Town or city	2007 after housing cost income	2007 after housing cost income in 2015$s	2015 after housing cost income	Real change in after housing cost income 2007 to 2015	Maximum Accommodation Supplement payment effective
Kaitaia	271.61	319.54	308.80	-3.4%	NO
Whangarei - Onetangarei	257.26	302.66	299.91	-0.9%	NO
Auckland - Beachaven	237.79	279.76	254.62	-9.0%	NO
Auckland – Henderson	244.11	287.19	243.01	-15.4%	YES
Auckland – Avondale	237.91	279.89	264.47	-5.5%	NO
Auckland – Papatoetoe	239.57	281.85	245.99	-12.7%	YES
Hamilton - Claudelands	256.69	301.99	292.98	-3.0%	NO
Tauranga - Central/Greerton	252.99	297.64	285.25	-4.2%	NO
Rotorua – Kuirau	252.06	296.54	275.81	-7.0%	YES
Napier – Taradale	251.94	296.40	295.99	-0.1%	NO
New Plymouth - outer suburbs	254.00	298.82	269.20	-9.9%	YES
Palmerston North	263.64	310.17	302.71	-2.4%	NO
Wellington - Trentham North	263.77	310.32	298.95	-3.7%	NO
Wellington - Porirua East	266.62	313.67	299.54	-4.5%	NO
Wellington- Killbirnie/Lyall Bay	225.85	265.70	216.62	-18.5%	YES
Nelson – Central suburbs	250.36	294.54	283.00	-3.9%	NO
Christchurch – Hornby	255.93	301.10	208.92	-30.6%	YES
Christchurch - Linwood	254.66	299.60	226.63	-24.4%	YES
Dunedin – South Dunedin	262.52	308.85	299.07	-3.2%	NO
Invercargill	278.89	328.11	302.67	-7.8%	YES

ENDNOTES

[1] The advice is attached as Appendix 1.

[2] The Treasury (1984) *Economic Management* p.266

[3] Kuila, J. (1993) *Integrating Government assistance for accommodation*. Social Policy Journal of New Zealand vol. 1

[4] Source: Budget Economic and Fiscal Updates from various new Zealand Government budgets.

[5] There are no consistent reports on the proportion of state tenants paying income related rents although this share is generally around 95% - see HNZC Annual Report 2014/15 p6. At 30 June 2004 Housing NZ reported owning or leasing 65,304 units while by the end of June 2011 this stock had risen to 69,717 units.

[6] Johnson, A. (2015) *Homeless baby boomers: housing poorer baby boomers in their retirement*. See Table 3.5 p.26 and forecasts on p.57

[7] This estimate is based on the compositional change in HNZC's rent income reported in its 2014/15 Annual Report (p.50) In 2013/14 84.7% of tenants' rental income came from tenants paying income rented rents but by 2014/15 to proportion had risen to 87.4% as tenants paying market rents were squeezed out.

[8] See the Social Housing Reform Programme website at http://www.socialhousing.govt.nz/

[9] Note here on HES Census, Quotable Value reports rental analysis at https://www.qv.co.nz/resources/property-trends

[10] Available at http://www.mbie.govt.nz/info-services/housing-property/sector-information-and-statistics/rental-bond-data

[11] The present Accommodation Supplement maximum rates are $225 per week for Auckland Isthmus and North Shore, west and south Auckland, Tauranga, Wellington, Nelson and Central Otag0 $165 per week, other urban areas including Hamilton, Palmerston North and Christchurch $120 per week and the rest of New Zealand $75 per week. See http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/statistical-report/statistical-report-2008/supplementary-benefits/payment-rates.html

[12] Rents are based on four quarter averages of the geometric mean rents for two bedroom houses reported by the Ministry of Business Innovation and Employment Tenancy Bond division.

[13] The working age benefits are pegged against the CPI. Working for Families payments however are adjusted intermittently.

[14] The housing reform process promoted by Government revolves around the reform of social housing and of land use regulation not housing assistance policies.

[15] This lack of support is well demonstrated by the changing expectations set down in Housing NZ's various states of intent to its owners the Crown. For example in the 2013/16 SoI Housing NZ indicated that in 2014/15 it planned to spend $806 million on new capital assets including $279 million in redevelopment. This was to be financed in part by $287 million in sales of assets and $245 million from operational surpluses and depreciation. A year later these plans had changed significantly. The 2014/18 SoI was only able to offer one year forward forecasts of its capital budgets due the uncertainty around its role. This plan for the 2014/15 year indicated a smaller capital spend of $554 million including $118 million in redevelopments and this was to be financed $86 million in sales and $238 million operational surpluses and depreciation. Over the five year to 30 June 2014 Government contributed $31 million to Housing NZ in new capital and took $414 million in dividends, $525 million in interest and $440 million in taxes.

[16] The Prime Minister John Key's speech to Auckland Rotary Club on 28th January 2015 'The state of my nation'

[17] See Johnson A. (2014) *Give me shelter: An assessment of New Zealand's housing assistance policies*, pp.47-54 for a discussion on the impacts of the Accommodation Supplement on housing markets. The two reviews of these impacts cited were both undertaken by Adolf Stroombergen – see Infometrics Ltd. (1991) *The Impact of the Proposed Accommodation Supplement on the Housing*

Market, report prepared for Housing Corporation of New Zealand, Wellington and Stroombergen, A. (2004) The effects of the Accommodation Supplement on market rents, Centre for Social Research.

[18] Brackertz, N. de Silva, A. and Fotheringham, M. (2015) *Literature review of the impact of demand-side subsidies on the housing market*. Australian Housing and Urban Research Unit. P.6

[19] This estimate is based on June 2015 figures provided directly by Ministry of Social Development. This data reported that 191,727 individuals received an Accommodation Supplement as tenants, 63,202 as boarders and 34,553 as owners – a total of 289,482. It may the case however that a payment is made to two individuals living in the same household either as partners sharing costs and both living on a benefit or perhaps as a tenant with a boarder. The estimate of 210,000 to 220,000 households is based on the likelihood that a small proportion of recipients are living as partners and the estimate of 500,000 people is based on an average household size of two people plus boarders.

[20] As discussed above it is not possible to determine how many tenant households – rather than individual tenants, receive the Accommodation Supplement. The 25% estimate of all tenants receiving a Supplement is based on an estimate that the 191,727 individual tenants receiving the Supplement in June 2015 made up 150,000 households. The $900 million estimate for Accommodation Supplement payments paid to tenants is based on customised data provided by Ministry of Social Development.

[21] While there has been no assessment of the quality of housing provided under Accommodation Supplement rental subsidies it is generally the case the rental accommodation is of the poorest quality and that tenants experience the lowest satisfaction with their housing. For example Buckett, N. Jones, M, and Marston, N. (2011) *BRANZ 2010 housing condition survey – condition comparison by tenure*, BRANZ, report that owner-occupied houses were nearly twice as likely to be in a good condition than rental housing and that 44% of rental housing was assessed as being in a poor condition (p.9). In the General Social Survey 2014 45% of tenants reported mould problems with their house against 25% of owner-occupiers while 35% of tenants reported that their house was always or often cold against 15% of owner occupiers doing do – see Statistics NZ's website at http://www.stats.govt.nz/browse_for_stats/people_and_communities/Households/nzgss_HOTP2014.aspx