



Ref: 1718-0202

05 SEP 2017

Ms Margaret Mechum  
[fyi-request-6346-1934288f@requests.fyi.org.nz](mailto:fyi-request-6346-1934288f@requests.fyi.org.nz)

Dear Ms Mechum

I refer to your email of 3 August 2017 requesting the following information under the Official Information Act 1982 (the Act):

1. *A copy of the 'Expert Consultants Group Report on AS IRRS Review'.*
2. *I also request to know the membership of the Expert Consultants Group*

In response to part one of your request, please find attached, copies of the covering briefing dated 7 December 2012 to Ministers of Finance, Social Development and Housing, and the External Consultants Group (ECG) Report on the Review of Accommodation Supplement (AS) and Income Related Rent (IRRS). These documents have been released to you without redaction.

In response to part two of your request, the External Consultants Group consisted of:

- Robin Oliver
- Ann Dupuis
- Annette Sutherland
- Sarah Sinclair
- John Yeabsley.

You have the right to seek an investigation and review of my decision by the Ombudsman, in accordance with section 28(3) of the Act. The relevant details can be found at [www.ombudsman.parliament.nz](http://www.ombudsman.parliament.nz).

Yours sincerely

Hilary Eade  
Manager, Construction and Housing Policy  
Construction and Housing Markets  
Building, Resources and Markets





**Ministry of Business,  
Innovation & Employment**

**Minister of Finance  
Minister of Social Development  
Minister of Housing**

**Date** 7 December 2012  
**Ministerial office reference**  
**Ministry reference** MBIE ref:206 12-13

**Responding to the External Consultants Group (ECG) Report on the Review of  
Accommodation Supplement (AS) and Income Related Rent (IRRS)**

**Purpose**

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This briefing provides officials' initial advice, to accompany the External Consultants Group Report on the review of Accommodation Supplement AS and IRRS.

This briefing has been developed in conjunction with the Ministry of Social Development (MSD), the Treasury and Housing New Zealand Corporation (HNZC). The views of these agencies have been reflected in this briefing.

**Key Points**

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- 1 The External Consultants Group (ECG) was commissioned to review financial assistance for housing costs – Accommodation Supplement (AS) and the Income Related Rent Subsidy (IRRS). The findings and recommendations from their review are set out in their report.
- 2 The ECG has set a direction for financial assistance that offers opportunities to make tangible progress on social housing reform, and that contributes to the social housing market end state that Cabinet recently agreed, CAB Min (12) 38/3 refers.
- 3 These opportunities will require further development to address their more detailed design and implementation. This could result in specific initiatives that could be announced around the time of the planned March and June Cabinet papers in 2013.
- 4 Officials seek your direction to develop the detailed design and implementation of specific options recommended by the ECG, as part of the Social Housing Reform Programme.

**Recommendations**

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- 1 **Discuss** the ECG's findings and recommendations with the External Consultants Group at your meeting with the group on 11 December 2012.
- 2 **Note** that the critical issues identified in this briefing provide possible discussion points for your meeting with the ECG.

- 3 **Direct** MSD officials, supported by MBIE, Treasury and HNZC officials to provide advice within the SHRP on the long-term direction proposed by the ECG for a single instrument for providing financial assistance in June 2013.

**Yes/ No**

- 4 **Direct** MSD officials, supported by MBIE, Treasury and Housing New Zealand Corporation to provide advice within the Social Housing Reform Programme (SHRP) in March 2013 on how to most effectively design and implement the following immediate actions proposed by the ECG. This advice will also cover more detailed analysis of the overall cost and impacts across households of the specific options being proposed for implementation.

- a) Testing the contestable delivery of social housing on a trial basis in selected locations focused around a higher level of financial assistance (comparable to current IRRS).

**Yes/ No**

- b) Take account of the income of additional adult residents in HNZC properties in calculating the income-related rent paid by the primary tenant and consider how a similar approach could be applied to additional adult residents in tenancies supported by AS.

**Yes/ No**

- c) Commission further work from officials to consider establishing a time-limit on AS receipt for new AS recipients who are home-owners. Officials could also explore the possibility that future AS payments for homeowners could be a charge against the value of the property that is recovered on sale.

**Yes/ No**

- d) Commission further work from officials to consider establishing a time-limit to current homeowners receiving AS. Officials could also explore the possibility that future AS payments for homeowners could be a charge against the value of the property that is recovered on sale

**Yes/ No**

- e) Develop a policy framework to establish the criteria for testing when a structural shift in rents in a particular housing market create the case for reviewing the AS maxima that apply to that location.

**Yes/ No**

- f) Increase the AS maxima for Christchurch, Selwyn and Waimakariri territorial authorities from AS area 3 to AS area 2 to reflect the exceptional relative increase in market rents in these locations since the Canterbury earthquakes

Yes/ No

- 5 **Direct** MSD officials with support from MBIE, Treasury and HNZA, to ensure that advice on design and implementation of all recommendations agreed above addresses:

- detailed costing and impact assessments across households of all proposals
- the high level issues with IT systems change,
- impact on delivery agencies resources and
- how these issues could be managed while maintaining focus on other areas of high priority for the Government.

- 6 **Note** that the ECG have also made general recommendations regarding support to be provided following the review of tenancies, standards for housing quality and the structures within a social housing market required to support the trials and longer term approach to financial assistance. These recommendations will be addressed within the existing scope of the Social Housing Reform Programme.

**Timeframe**

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You are meeting with the External Consultants Group at **12:00pm on Tuesday 11 December 2012** to discuss their findings.

**Relevant Senior Officials**

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Michael Mills, Acting General Manager Construction and Housing Markets, Phone Number 021 533 086

**Principal author**

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Brendan Nevin, Director Social Housing Reform, Phone Number 027 704 8358

**In Confidence**

## Responding to the External Consultants Group Report on AS and IRRS

### Background

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- 1 The External Consultants Group (ECG) was commissioned to review financial assistance for housing costs – Accommodation Supplement (AS) and the Income Related Rent Subsidy (IRRS). The members of the ECG are:
  - Robin Oliver (Chair), taxation specialist and economist, Oliver Shaw
  - Annette Sutherland, Housing Manager, ComCare Trust
  - Dr John Yeabsley, Economist, NZIER
  - Dr Ann Dupuis, Associate Professor in Sociology, Massey University
  - Sarah Sinclair, Partner, Minter Ellison Rudd Watts Lawyers
- 2 The ECG has set out their findings and recommendations from their review of financial assistance for housing costs in their report. The terms of reference for their review are provided as Annex 1.
- 3 The group was asked to:
  - Ensure the housing subsidy budget for individuals and landlords is effectively targeted.
  - Identify policy changes to facilitate the delivery of social housing reform objectives (in particular to encourage greater diversity of supply of social and affordable housing) and to enhance welfare reform.
  - Consider the impact of the proposed changes on the Auckland housing market.
- 4 Their brief was not to provide detailed implementation advice on policy changes. This will be priority work for officials over coming months and will feedback into Cabinet advice in March and June 2013.
- 5 You are meeting with the External Consultants Group at 12:00pm on Tuesday 11 December to discuss their findings.

### Critical issues

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- 6 The ECG recommends a long term direction for financial assistance that enables and encourages contestable provision of social housing across a diversity of providers.

- 7 The ECG also recommends early action to test the contestable delivery of social housing on a trial basis in selected locations focused around a higher level of financial assistance (comparable to current IRRS).
- 8 This direction would ensure financial assistance more effectively addressed housing needs, improving outcomes for tenants. Greater contestability and diversity of social housing providers would contribute to more responsive housing supply, enabling more tenants to be housed at lower costs than would otherwise be the case. The trials and other immediate actions will test the benefits of this diversity and contestability, and will develop the capability and wider settings required to scale-up and apply this contestable model to all social housing.

#### A focus on housing access need and housing affordability need

- 9 AS and IRRS provide different levels of financial assistance to help meet the housing costs of recipients. The ECG have focused on both:
  - Housing access need – where people struggle to access and sustain a tenancy, for example as a result of mental illness or physical difficulties. This group broadly corresponds to those assessed as A or B or the Social Allocation System.
  - Housing affordability need – where people need financial assistance from government in order to both meet their housing costs and be able to meet their other expenses. This is a wider group that includes people with and without housing access need.

#### ECG assessment of unmet housing need

- 10 The ECG found that most people with housing access need are being housed adequately – by HNZC or by non-government social housing providers. The key question around housing access need is the unit cost of delivering these outcomes for tenants, as the IRRS can enable relatively high cost models of delivery – e.g. a single person under-occupying a three bedroom house, and/or social housing being provided in relatively high rent neighbourhoods.
- 11 The ECG found significant levels of unmet housing affordability need. The ECG argues that AS alone is increasingly inadequate to meet housing costs. Current AS parameters result in financial hardship reflected in growing use of Temporary Additional Support (TAS) to meet housing costs. This hardship is also reflected in evidence of households accepting poor quality and over-crowded housing as a way of reducing their housing costs. In contrast, IRRS provides a higher level of financial assistance for HNZC tenants with the same level of housing affordability need.

### The role of the housing market and social housing supply

- 12 The ECG highlight that housing supply is not responsive to demand and that this has driven up house prices: putting pressure on social housing supply to address access need and increasing the cost of financial assistance. If housing supply remains unresponsive, the same outcomes for tenants will come at an increasing cost in the form of financial assistance, or government will need to trade-off outcomes for tenants to reduce the fiscal cost.
- 13 The ECG identifies an opportunity to focus on expanding and transforming the supply of rental housing so that it meets demand for private and social rental at lower cost over time. This transformation is a wider programme of work building on the response to the Productivity Commission's report on housing affordability, and coordinating changes to financial assistance with wider initiatives to expand the quantity and diversity of social housing supply.

### The ECG's direction for financial assistance

- 14 The ECG outline a future direction for financial assistance that supports a well-functioning housing market that delivers affordable housing outcomes for a greater proportion of New Zealanders, and is supported by an innovative and flexible social housing market.
- 15 This financial assistance would be part of a wider social housing system that enables and encourages contestable provision of social housing across a diversity of providers. The ECG highlights the innovation seen in the provision of student accommodation and retirement accommodation, including the entry of new players and new business models into these markets. Similar innovation in social housing provision would deliver housing access outcomes for high need tenants at lower cost over time, freeing up some resource within the overall forecast baseline for financial assistance to address the unmet housing affordability need.
- 16 On balance, the ECG's analysis suggests that residual income is the closest indicator of housing affordability need. Residual income measures the income that households have for their other living expenses, after meeting their housing costs. Residual incomes could be used to calibrate the parameters for a future financial assistance instrument, or residual incomes could be explicitly incorporated into the design of financial assistance – for example, by setting a guaranteed minimum residual income for different household types.
- 17 The ECG make four recommendations to outline this future financial assistance:
- Replacing current IRRS and AS with a single financial assistance instrument for housing costs that:
    - is neutral across providers;



- provides assistance commensurate with housing affordability need;
  - ensures recipients can meet their housing costs without suffering hardship; and
  - enables mobility across providers and locations.
- Providing financial assistance either to the tenant to meet their housing costs, and/or as a subsidy direct to the provider to reduce the rent charged to the tenant. This would enable innovative models of social housing provision, and would require careful design of the regulation and other aspects of the social housing system.
  - Enabling any social housing provider who can meet the relevant criteria to house applicants with housing access need and to attract the relevant funding.
  - Integrating needs assessment and reassessment for housing access and housing affordability with the wider welfare system. This integrated needs assessment would be operated by MSD, and would be separate from housing providers.

Officials' view on the long-term direction for financial assistance

18 Officials agree that the long term proposal for financial assistance is worth considering alongside other approaches to the provision of income support for housing costs, and we support further work on it. Other key principles for calibrating assistance should be considered including social mobility and work incentives. The approach recommended by the ECG

19 However, we note that this approach:

- will require Ministers to make difficult judgements about the level of income people need to live on
- may be costly, depending on the parameters chosen
- will involve winners and losers
- will involve considerable change to administrative and IT systems, and could not be delivered in the short-term

20 There would be a considerable amount of work required to further develop this approach into a workable model of income support. If Ministers wish to consider advice on this approach, it is recommended Ministers agree to trial the approach in selected regions over the short term and to direct officials to report back in June 2013 on the long-term approach.

### Immediate actions to improve financial assistance for housing costs

21 The ECG also recommends a number of immediate actions that make initial steps towards this longer term direction. A key element of this immediate approach is the use of trials to build capability in government to operate a contestable, diverse social housing market and to build capability across potential social housing providers.

#### *Officials' view on the trials of a higher level of financial assistance in specific locations*

22 Officials propose to provide further advice on the best means of implementing the ECG's recommendation to test the contestable delivery of social housing on a trial basis in selected locations. These trials would be focussed around a higher level of financial assistance, comparable to current IRRS. Officials will also provide advice on how to coordinate existing initiatives to expand supply of social housing (including those delivered by the SHU) with these trials. Officials' advice will address:

- outcomes being tested, geographical location,
- funding,
- advice on which high need tenants this subsidy could attach to,
- impact on affected agencies,
- what permissions are required (i.e. whether they are contractual or legislative)
- more detailed analysis of the costs and benefits for Government and for tenants and
- interdependencies with other work.

23 Officials will also complete further work on the expected benefits of this proposal in terms of addition to the volume of social housing supply and improved sustainability for providers. Further work is also planned by officials to address the question of the desirability of supplier competition versus choice for tenants in the design for this trial.

24 As an early indication, officials suggest that the following characteristics should be considered when selecting the geographic areas for trials of additional assistance to providers:

- They will exhibit high levels of housing need at the national scale;

- They will have the potential to grow a contestable pool of providers;
- They will be designed to ensure minimum displacement impacts and value for money
- Where possible they will support other government priorities such as vulnerable children or the response to the Christchurch earthquakes

25 Officials are concerned that this additional subsidy will be difficult to unwind once provided to additional high needs recipients. Officials will need to provide advice on options to mitigate this issue.

*Immediate Actions to address anomalies within the current system*

26 The ECG recommends further work on potential changes to key aspects of the current social housing system, including needs assessment and reassessment, and the quality standards that apply to social housing. These recommendations will be addressed by report backs within the SHRP with due dates as discussed with Ministers on 4 December 2012.

27 The ECG also identifies several anomalies in current AS and IRRS that should be removed, specifically:

- Taking account of income from additional adult residents in HNZA properties in the calculation of IRRS.
- Considering the application of a time limit to the receipt of AS for new AS recipients who own their home.
- Developing principles to guide the realignment of locations within the AS maxima to reflect shifts in relative rent levels, and applying these principles to increase the AS maxima applying to the Christchurch area.

*Taking account of income from additional adult residents in HNZA properties*

28 Officials support this proposal as it would more accurately reflect the total income that households who live in HNZA tenancies have to support themselves. That is, the primary tenant has the opportunity to request additional adult residents for a contribution towards housing costs and may indeed already do so.

*Considering the application of a time limit to the receipt of AS for new and existing AS recipients who own their home.*

29 The AS rules allow AS to be paid to home-owners, but on a slightly less generous basis than for renters. The inclusion of home-owners is unusual for a demand-side subsidy, and allows recipients to retain (or build) equity in their home, with the support of Government assistance. While the social welfare

system generally ignores the presence of assets (with the notable exception of AS which only looks at cash assets), it does not normally provide assistance in a way that can result in an accumulation of wealth.

30 While we think there is merit in looking into the ECG proposals in this area, we have concerns about:

- the impacts this policy might have on vulnerable groups (e.g. older people, the disabled, people in remote communities, those in hardship or with other special needs)
- the practicalities of administering a claim on the property

*Officials' view on the ECG recommendation to accept principles to guide the realignment of locations within the AS maxima to reflect structural shifts in relative rent levels, and applying these principles to increase the AS maxima applying to the Christchurch area.*

31 Given the problems with the AS, our preference would be to undertake a fundamental update of the AS area structure and maxima. However, based on the data presented to the ECG, there does seem to be a short-term case for promoting Christchurch Selwyn and Waimakariri to AS area 2. The shock and turmoil suffered by residents may also justify doing something concrete to assist low-income people in the area with rising housing costs.

32 Currently, many rental properties in the Christchurch area are let almost in an auction setting, with potential tenants offering to top previous offers. This reflects the severe shortage of housing in the Christchurch area. While increasing AS in the Christchurch area may alleviate the financial circumstances of existing tenants, for those seeking accommodation it may further fuel the bidding process.

## Summary of officials' proposed approaches to the recommendations

Table 1 Approach to further advice on ECG recommendations and findings

ECG recommendation	Proposed approach from officials
<p><b>Recommendation 1:</b> A single objective needs assessment process should be developed for housing access need and housing affordability need, integrated with the wider welfare system needs assessment system and led by MSD. This integrated process and assessment will need careful development. It is an important pre-requisite for this future financial assistance instrument, so this work should start as soon as possible.</p>	<p>Officials to report on implementation by March 2013 within the agreed programme of work of the SHRP.</p>
<p><b>Recommendation 2:</b> Government should consider the options for using residual incomes to calibrate the financial assistance instrument, to target assistance to those with the highest housing affordability need. Financial assistance could be designed to ensure minimum residual incomes for different household types, in different locations after meeting their housing costs.</p>	<p>Officials propose to test the approach proposed by the ECG alongside other options for long-term reform</p> <p>In addition to residual income, other key principles for calibrating assistance should be considered including social mobility and work incentives. The approach recommended by the ECG</p> <ul style="list-style-type: none"> <li>• will require Ministers to make difficult judgements about the level of income people need to live on</li> <li>• may be costly, depending on the parameters chosen</li> <li>• will involve winners and losers</li> <li>• will involve considerable change to administrative and IT systems, and could not be delivered in the short-term</li> </ul>

ECG recommendation	Proposed approach from officials
<p><b>Recommendation 3:</b> Provide an IRRS-level of financial assistance to high need tenants housed by social housing providers in addition to HNZC, to support growth in the diversity and supply of social housing. Initially, these location-specific trials would focus on areas with growing levels of high need, and would be coordinated with investment to expand the supply of social housing (for example, capital grants or stock transfers).</p>	<p>Officials will develop advice on how to best implement a model for a contestable pool of IRRS funds by March 2013 including testing the model proposed by the ECG.</p> <p>Officials' advice will need to address the following:</p> <ul style="list-style-type: none"> <li>• outcomes being tested</li> <li>• geographical location,</li> <li>• funding,</li> <li>• advice on which high need tenants this subsidy could attach to,</li> <li>• impact on affected agencies, what permissions are required (i.e. whether they are contractual or legislative)</li> <li>• more detailed analysis of the costs and benefits for Government and for tenants</li> <li>• interdependencies with other work.</li> <li>• expected benefits of this proposal in terms of addition to the volume of social housing supply and improved sustainability for providers.</li> <li>• the desirability of supplier competition versus choice for tenants in the design for this trial.</li> </ul> <p>Officials are concerned that this additional subsidy will be difficult to unwind once provided to additional high needs recipients. Officials' advice would need to address the ability to manage this risk.</p>

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ECG recommendation	Proposed approach from officials
<p><b>Recommendation 4:</b> Commission further work from officials to confirm the specific locations for this IRRS-level of assistance for high need tenants. For example, Christchurch and South and West Auckland are areas with growing numbers of high need tenants and the potential for growth in social housing providers. Similarly, Whangarei and Rotorua have been selected for the initial Children's Teams demonstration sites.</p>	<p>Officials will advise on the geographic location of trials as a key element of the advice proposed in recommendation 3 above.</p>
<p><b>Recommendation 5:</b> Take account of the income of additional adult residents in HNZC tenancies when calculating income related rent</p>	<p>If you agree, officials will develop advice on how best to design and implement this recommendation by March 2013.</p> <p>Officials suggest that further work should also address whether the income of additional adult residents in tenancies where AS is received could also be taken into account in the calculation of the AS.</p>
<p><b>Recommendation 6:</b> Commission further work from officials to consider establishing a time-limit on AS receipt for new AS recipients who are home-owners. Officials could also explore the possibility that future AS payments for homeowners could be a charge against the value of the property that is recovered on sale. This work could also consider the approach for applying a similar time-limit to current homeowners receiving AS.</p>	<p>If you agree, Officials will provide detailed advice on how best to design and implement this proposal by March 2013.</p> <p>This proposal as it would more accurately reflect the additional income that HNZC primary tenants have with which to support themselves.</p> <p>Officials have some concerns about the administrative costs required to run a system of establishing a charge against the value of a property.</p> <p>Officials share the caution of the ECG that some of the long term recipients of AS that time limit may effect are particularly vulnerable so consideration of the impact on this group should be included in officials' advice on design and implementation.</p>
<p><b>Recommendation 7:</b> A policy framework should be developed to establish the criteria for testing when a structural shift in rents in a particular housing market creates the case for reviewing the AS maxima that apply to that location.</p>	<p>If you agree, officials will develop advice on how best to design and implement this recommendation by March 2013.</p> <p>Officials agreed it will be useful to develop a consistent approach to revision of AS maxima and to assess current AS maxima using this approach on Ministers on how this would be applied.</p> <p>Ministers should be aware that the final adoption of the mechanism to review AS maxima in cases of structural rent shifts could raise expectations in the future, and may result in significant future financial costs</p>

ECG recommendation	Proposed approach from officials
<p><b>Recommendation 8:</b> Increase the AS maxima for Christchurch, Selwyn and Waimakariri territorial authorities from AS area 3 to AS area 2 to reflect the exceptional relative increase in market rents in these locations since the Canterbury earthquakes.</p>	<p>If you agree, officials will develop advice on how best to design and implement this recommendation by March 2013.</p> <p>Ministers should be aware that this is most likely to assist existing tenants rather than improving the bargaining power of tenants who are currently seeking housing in the area.</p>
<p><b>Recommendation 9:</b> Transfer needs assessment and reassessment for IRRS and the associated access to social housing to MSD as soon as possible.</p>	<p>This work will be progressed as agreed with Ministers. Officials will provide design and implementation advice by June 2013.</p>
<p><b>Recommendation 10:</b> Housing need should be regularly reviewed for all tenants. This should be supported by access to appropriate advisory and financial support and options to stay in the same house but without IRRS-level assistance.</p>	<p>Further advice on the best approach to design and implementation of this recommendation will be provided by March 2013.</p>
<p>Commission further work on the appropriate quality standards that should be applied to social housing. There are different levels of standards that would apply, reflecting the level of government funding provided (refer final bullet under para 12 in Summary of Conclusions Section)</p>	<p>This recommendation will be addressed as part of the advice to Ministers in June 2013 on market conduct and regulation.</p>

#### High-level design and implementation issues

33 The ECG acknowledge the care that will be needed in deciding on changes in these areas, reflecting the vulnerable nature of many new and existing AS and IRRS recipients. As discussed above officials are keen to undertake further, more detailed development of the design and implementation of these immediate actions, and their potential impacts, to provide Ministers with more complete advice on the options that could be pursued.

34 The ECG has provided high level indicative analysis of the impact of these changes on tenants and the potential fiscal costs and savings. This indicative analysis will need to be refined as the specific initiatives are developed. The ECG's initial analysis suggests indicative costs of \$35 million per year, and offsetting savings options that have the potential to yield up to \$70 million per year – so that it could be possible to implement these changes within forecast baselines.



35 Many of the ECG's proposals will require IT systems change and delivery agencies resources to implement. Due to the heavy load on staff and constraints on MSD IT systems due to the large-scale welfare reforms being rolled out in July 2013, there may be challenges in implementing the proposals in the short- to medium term.

36 Additional functions and/or complexity in the systems administered by MSD could take focus away from the implementation of welfare reform and the Government's Better Public Services Key Result Areas (in particular result area number 1: reducing welfare dependency).

37 If Ministers wish to pursue ECG recommendations, officials believe there is real value in further work looking at how the intent of the recommendations could be achieved with reduced complexity.

Next steps

38 Please indicate which options officials should develop implementation and design advice for. The detailed design and implementation of these immediate actions can be addressed as part of the Social Housing Reform Programme. This could result in specific initiatives that could be announced around the time of the planned March and June Cabinet papers in 2013.

Recommendations

- 1 **Discuss** the ECG's findings and recommendations with the External Consultants Group at your meeting with the group on 11 December 2012.
- 2 **Note** that the critical issues identified in this briefing provide possible discussion points for your meeting with the ECG.
- 3 **Direct** MSD officials, supported by MBIE, Treasury and HNZA officials to provide advice within the SHRP on the long-term direction proposed by the ECG for a single instrument for providing financial assistance in June 2013.

**Yes/ No**

- 4 **Direct** MSD officials, supported by MBIE, Treasury and Housing New Zealand Corporation to provide advice within the Social Housing Reform Programme (SHRP) in March 2013 on how to most effectively design and implement the following immediate actions proposed by the ECG. This advice will also cover more detailed analysis of the overall cost and impacts across households of the specific options being proposed for implementation.

- a) Testing the contestable delivery of social housing on a trial basis in selected locations focused around a higher level of financial assistance (comparable to current IRRS).

**Yes/ No**

- b) Take account of the income of additional adult residents in HNZA properties in calculating the income-related rent paid by the primary tenant and consider how a similar approach could be applied to additional adult residents in tenancies supported by AS.

Yes/ No

- c) Commission further work from officials to consider establishing a time-limit on AS receipt for new AS recipients who are home-owners. Officials could also explore the possibility that future AS payments for homeowners could be a charge against the value of the property that is recovered on sale.

Yes/ No

- d) Commission further work from officials to consider establishing a time-limit to current homeowners receiving AS. Officials could also explore the possibility that future AS payments for homeowners could be a charge against the value of the property that is recovered on sale.

Yes/ No

- e) Develop a policy framework to establish the criteria for testing when a structural shift in rents in a particular housing market create the case for reviewing the AS maxima that apply to that location.

Yes/ No

- f) Increase the AS maxima for Christchurch, Selwyn and Waimakariri territorial authorities from AS area 3 to AS area 2 to reflect the exceptional relative increase in market rents in these locations since the Canterbury earthquakes

Yes/ No

- 5 Direct MSD officials with support from MBIE, Treasury and HNZA, to ensure that advice on design and implementation of all recommendations agreed above addresses:

- detailed costing and impact assessments across households of all proposals

- the high level issues with IT systems change,
- impact on delivery agencies resources and
- how these issues could be managed while maintaining focus on other areas of high priority for the Government.

6 **Note** that the ECG have also made general recommendations regarding support to be provided following the review of tenancies, standards for housing quality and the structures within a social housing market required to support the trials and longer term approach to financial assistance. These recommendations will be addressed within the existing scope of the Social Housing Reform Programme.



Michael Mills  
Acting General Manager Construction and Housing Markets

Hon Bill English  
Minister of Finance

Hon Paula Bennett  
Minister of Social  
Development

Hon Phil Heatley  
Minister of Housing

Date:

Date:

Date:

**Ministers' feedback**

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## **Annex 1: Terms of Reference for the AS/IRRS Review**

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### **ACCOMMODATION SUPPLEMENT / INCOME RELATED RENTS EXTERNAL CONSULTANTS GROUP**

Robin Oliver (Chair)	Taxation specialist and economist
Annette Sutherland	Manager in a Community Housing service
Dr John Yeabsley	Economist
Dr Ann Dupuis	Associate Professor in Sociology
Sarah Sinclair	Partner in a law firm

#### **Purpose**

To assist the Director of Social Housing and a nominated representative of the Ministry of Social Development, the External Consultants Group will:

- Provide guidance and quality assurance on proposals being developed by officials. This includes guidance on the policy development methodology and on the impact and practicalities of implementing any proposals on social housing providers.
- Brief the nominated officials on the review process on the market, distributional or fiscal impacts of various options.

Particular reference will be given to how any changes will change the supply of, and demand for, social and affordable housing in Auckland.

The External Consultants Group's focus will be on the AS/IRR Review, which is a workstream within the Social Housing Reform Programme (SHRP). The External Consultants Group will also provide guidance and comment as required on other SHRP workstreams because of the inter-relationships between the AS/IRR Review and other work streams.

#### **The Social Housing Reform Programme**

The high level objectives of the SHRP are to ensure that:

- There is a diverse supply of social and affordable housing delivered by a range of providers.
- Social Housing is delivered in a way which stimulates the supply of social and affordable housing.
- The social housing sector is capable of responding to local market conditions.
- Social and economic mobility is enhanced.

To achieve these outcomes officials are focused on how to develop a market that supports the growth of multiple third party social housing providers and enables the construction of affordable housing.

#### **AS/IRR Review**

The review will:

1. Assess the demand for future housing support in the social and private rental sectors.
2. Assess the overall effectiveness of the current housing subsidy arrangements.
3. Assess the potential for reform to support a sustainable social and affordable private rental sector.

4. Provide advice on financial reform and highlighted distributional and sector impacts.

### **Objectives**

1. To ensure the housing subsidy budget for individuals and landlords is effectively targeted
2. To identify policy changes to facilitate the delivery of the objectives of SHRP and enhance welfare reform
3. To identify the impact of the proposed changes on the Auckland housing market.

### **External Consultants Group's Focus**

- Review high level objectives and how current policy settings and housing subsidies contribute (and should contribute) to the SHRP and Welfare Reform objectives.
- Ensure that all AS/IRR reform proposals fully consider impacts on the development of a social and private rental market as well as impacts on mobility and security, particularly for the most vulnerable occupants of social housing. This will require the Group to:
  - assess the eligibility for AS/IRR and review its effectiveness and efficiency in respect to targeting need
  - explore the extent to which a repositioned AS/IRR regime can increase the supply of social and affordable private rental housing
  - review the AS/IRR regime within the context of the Government's Welfare Reform Programme
  - detail the distributional impact of any proposed changes to AS/IRR programme
  - identify implications of policy proposals on the overall SHRP, and identify policy changes necessary to complement AS/IRR changes.
- Consider the extent to which any proposed changes to policy and benefit targeting may impact on the housing market in Auckland.

### **SHRP Overview**

The External Consultants Group will also need to take into account emerging thinking and policy development in respect of:

- Forecasting the supply of, and demand for, social and affordable housing;
- The Crown's investment strategy in social housing (including the use of asset transfers to encourage the growth of third party providers);
- The development of Regulatory frameworks to support policy changes.

### **Specific Requirements**

#### **Timescales**

Officials will be reporting back to Ministers in November 2012. It is anticipated that the External Consultants Group's input will be required for a total of 15 days, with a view to testing of options in October 2012.

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# Review of Financial Assistance for Housing: Final Report

## Executive Summary

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### *Overall Impact*

1. We recommend a long term direction for financial assistance that enables and encourages contestable provision of social housing across diverse providers. Such a structure for financial assistance would ensure it more effectively addresses housing needs, improving outcomes for tenants. Greater contestability among a diversity of social housing providers would contribute to more responsive housing supply, enabling more tenants to be housed at lower costs than would otherwise be the case.
2. We also propose a number of immediate actions that make initial steps towards this longer term direction. Most significantly, we recommend testing the contestable delivery of social housing market on a trial basis in selected locations, focused around a higher level of financial assistance (comparable to current Income Related Rent Subsidy (IRRS)). This financial assistance will aid expansion of supply and increased diversity of social housing provision in those locations.
3. We also recommend early changes to key aspects of the current social housing system, including needs assessment and reassessment, and the quality standards that apply to social housing. We have identified several anomalies in current Accommodation Supplement (AS) and IRRS that could be addressed to generate savings. These savings could be reallocated to offset the costs of other initiatives proposed.

### *Summary of Conclusions*

4. There will always be housing need that requires the provision of social housing and financial assistance for housing costs. This housing need has been amplified by the lack of responsiveness in housing supply – putting pressure on the supply of social housing and the levels of financial assistance. This is the essence of the problem that the External Consultants Group has been asked to address.
5. Some people struggle to access a house in the private market, and often require ongoing support to sustain their tenancy – for example, as a result of mental illness or physical disabilities. Other people can access a house but need assistance to both afford their housing costs and be able to meet their other living expenses. Both groups of people are often vulnerable, with low incomes and limited capacity to cope with rapid change.

6. Fundamentally, housing supply is not sufficiently responsive to demand. As the Productivity Commission<sup>1</sup> has outlined, not enough houses are being built overall and very few houses are being constructed for lower quartile income households. As a result, house prices have been growing rapidly and, especially in Auckland, owner-occupied housing is becoming beyond the reach of low to moderate income households. Rents have also increased, but not as quickly as house prices. The gap between rents and house prices is making it difficult for reasonable quality rental accommodation to be provided at a cost that lower income households can afford.
7. Inadequate housing supply and high housing costs increase demand for the provision of social housing and for Government financial assistance for housing costs. In particular, expenditure on IRRS and AS has grown significantly over the last decade. Increasing numbers of recipients of AS are left with low levels of income for their other expenses after meeting their housing costs. This has been reflected in growth in the numbers of recipients of hardship benefits, in particular Temporary Additional Support (TAS), and in evidence of households accepting poor quality housing and/or over-crowded conditions as a way of reducing their housing costs.
8. It should not be a surprise that these instruments are not coping well since they were not designed for the current environment. Moreover, the design of the AS and IRRS can result in very different outcomes for recipients with the same characteristics, based on their landlord rather than their need. TAS is unsuitable for meeting housing costs as it is paid for short durations and has a 100% abatement rate (and so creates poor work incentives).
9. The key government reaction to these challenges needs to enable the housing market to respond to demand pressures with increased affordable housing supply. This will ease the price and availability pressures on the social housing market and enable it to focus on housing need. None of the measures we propose are likely to be sustainable in the absence of a well-functioning housing market.
10. Housing access need is currently addressed by the provision of social housing, by central government (through Housing New Zealand Corporation (HNZC)), local government, and non-government social housing providers. Social housing provision needs to become more effective and innovative, to better meet increasingly diverse social housing needs at lower cost. For example, HNZC could be given the tools and incentives to operate more flexibly, and the non-government social housing sector could be developed and expanded.
11. We believe the Government should work towards a longer term housing policy in which a well-functioning housing market delivers

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<sup>1</sup> New Zealand Productivity Commission. *Housing Affordability Enquiry (Final report)*, March 2012.



affordable housing outcomes for a greater proportion of New Zealanders, and is supported by an innovative and flexible social housing market. Reflecting the vulnerable nature of many recipients of AS and IRRS, any change should be designed to carefully manage the impact on current and future recipients. This would involve:

- Replacing the current IRRS and AS with a single financial assistance instrument for housing costs. This financial assistance would be neutral with respect to the housing provider. It would ensure that assistance is commensurate with need, so that recipients can meet their housing costs without suffering hardship. Recipients could also access a range of providers and would be able to move from one provider to another or move locations as their circumstances change (for example from a social housing provider to a private sector provider).
- The Government should be willing to provide financial assistance to either the tenant or the provider in order to more efficiently ensure tenants can meet their housing costs. This would require careful design of a wider social housing system, including regulation and needs assessment.
- Reflecting this flexible financial assistance, the Government should also enable any social housing provider who can meet the relevant criteria to house applicants with housing access need, and to attract the relevant funding.
- Needs assessment for financial assistance and for housing access need should be separate from housing providers and should be integrated with other welfare support. This suggests it should be part of the Ministry of Social Development (MSD). Needs should be assessed and reassessed on an on-going basis, as is the case with other welfare support.

12. This package of reform will take time to develop and implement. In the interim, there are a range of immediate measures that can be advanced to improve the existing mechanisms for housing assistance. The following measures would be consistent with the longer term approach outlined above, and can be justified on their own merits:

- Transfer needs assessment and reassessment for IRRS and the associated access to social housing to MSD as soon as possible.
- Reassess housing access needs on an on-going basis for all social housing tenants (not just new tenancies), in addition to the reassessment of their housing affordability need and the relevant level of financial assistance. The focus should be on providing positive assistance and support to those whose

circumstances have changed, to move from HNZC to the private rental market.

- Investigate options for tenants to remain in the same house once they are no longer in high housing need. For example, offering the scope to stay in the same home with a different landlord, and opportunities for the tenant to purchase through rent to buy or similar schemes.
- Operate a contestable, diverse social housing market on a trial basis in selected locations, including by providing an IRRS-level of financial assistance in respect of high need tenants housed by non-government social housing providers. This higher subsidy could be provided to either the provider or the tenant accessing social housing. The social housing system in these locations would be managed by a government agent (for example, the Social Housing Unit) that would accredit social housing providers, identify the level of need for social housing, and ensure sufficient provision of suitable social housing. These trial locations would be coordinated with capital subsidies to social housing providers to maximise the growth in supply of social housing.
- Consider enabling the proactive use of benefit diversion – with the consent of the recipient – to pay their rent directly to their housing provider, from their AS and any main benefit income.
- Review the frequency of re-assessment for AS (currently fortnightly) given this creates compliance burdens and unnecessary arrears for working households – a growing share of total AS recipients.
- Remove anomalies in the current IRRS/AS assistance by:
  - Deeming a contribution towards the rent payment from other adults who are resident in HNZC properties.
  - Introducing a time limit on access to AS for new recipients of AS who are homeowners and consider appropriate options to transition those whose entitlement ends.
  - Increasing the AS maxima that apply to Christchurch, Selwyn and Waimakariri to reflect the exceptional relative increase in market rents in these locations.
- Commission further work on the appropriate quality standards that should be applied to social housing. There are different levels of standards that would apply, reflecting the level of government funding provided:
  - Minimum standards that apply to all accommodation.

- (Possibly) higher standards that apply where the tenant is receiving financial assistance and, in effect, the Government is meeting part of the housing costs. A key question is whether such standards would have perverse incentives in discouraging the provision of housing to recipients of financial assistance.
- Clear standards for the housing and the related social landlord services, where the Government is providing subsidies to the social housing provider.

13. We consider that the above short term changes would be consistent with the proposed longer term direction of reform and make early steps to redirect funds to the highest need tenants. They also create an environment that encourages HNZA to be more flexible, and that seeks to develop the non-government social housing sector.

14. We considered a number of other short term changes to aspects of the current IRRS and AS assistance, and concluded that such changes could not be supported. There is little scope to meet the pressures on AS and IRRS by more keenly targeting the level of existing assistance, as the vast majority of recipients are vulnerable with low incomes<sup>2</sup> and the wider housing market remains unresponsive.

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<sup>2</sup> Over 80% of AS recipients are beneficiaries and over 90% of HNZA tenants are beneficiaries.

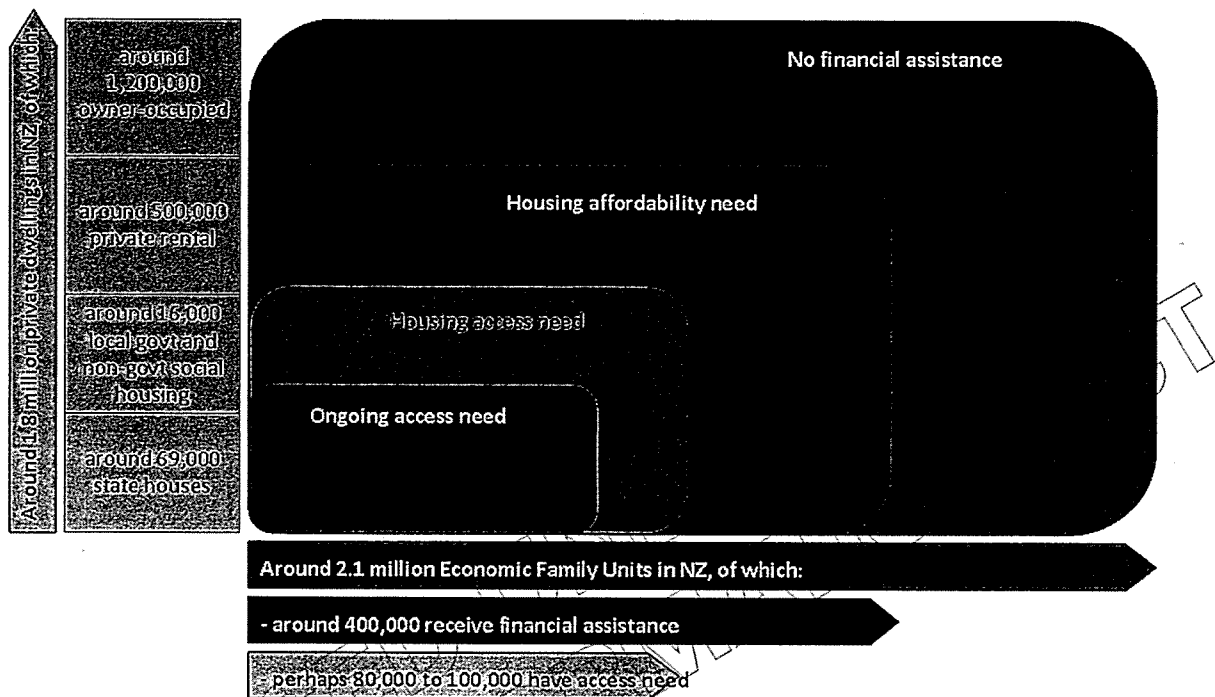
# Review of Financial Assistance for Housing: Final Report

## Introduction

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1. Financial assistance for housing costs currently contribute to meeting the basic human need for shelter for around one-in-five New Zealand households. Quality housing provision contributes to a range of broader Government objectives, including the health and education of our children. It is essential that the \$2 billion per year that the Government invests in this financial assistance is focused to make the greatest possible contribution to these outcomes.
2. There are separate and distinct objectives for housing access and housing affordability:
  - **Housing affordability need** occurs when households have high housing costs relative to their incomes. For lower income households, this can result in the household having relatively little income for their other expenses after meeting their housing costs.
  - **Housing access need** occurs when households are unable to access and/or sustain housing in the private market. This can occur because of factors such as poor credit or tenancy history, mental health or addiction issues, or physical disabilities.
3. A narrow definition of social housing corresponds to housing access need and the provision of housing to those tenants by the state or third sector providers. This equates to around 7% of all households in New Zealand. On this definition social housing is primarily provided by central government, local authorities, and non-government organisations.
4. A broad definition of social housing corresponds to housing affordability needs and all households receiving financial assistance from the Government in order to meet their housing costs. This financial assistance can be paid directly to the individual or paid to providers in return for their charging tenants a less than market rent. This equates to around 20% of households in New Zealand, and includes people who live in housing provided by a significant number of private landlords as well as social housing providers.

Figure 1: Representation of type and scale of housing need<sup>3</sup>



5. Housing assistance is provided to some of the most disadvantaged households in New Zealand. In the main, these households will have benefit-only income. In reaching our conclusions, we have been conscious that they operate within tight household budgets and even relatively minor changes in the levels of assistance they receive could have adverse impacts. The effects of any change on low income recipients who are either current tenants or new tenants flowing into the housing assistance system should be carefully considered.

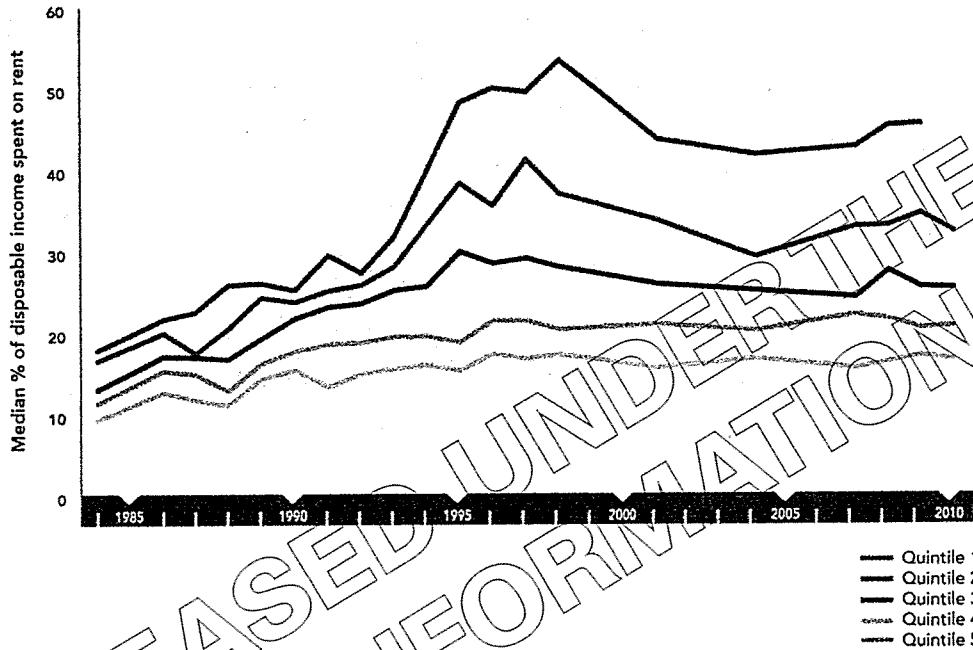
#### ***The wider challenges facing the New Zealand housing market***

6. Natural population growth rates, external migration to New Zealand and internal migration within New Zealand have resulted in overall population growth being concentrated in Auckland. Housing supply has struggled to match the growth in population demand in Auckland; the result has been a marked and sustained increase in rents. This has been driven by a number of factors. For example, land accounts for around 60% of the cost of a new dwelling in Auckland compared to 40% in rest of New Zealand.

<sup>3</sup> An Economic Family Unit (EFU) consists of an adult, a partner (if any) and/or dependent children (if any). The concept of an EFU is often used for poverty reporting and reflects the unit of benefit eligibility. A household may contain more than one EFU, for example the primary tenant and one or more boarders, or where multiple EFUs are flatting and share a single dwelling.

7. The loss of and damage to a significant portion of the housing stock in the Christchurch area from the Canterbury earthquakes has generated similar rental affordability problems.

Figure 2: Median % of disposable income spent on rent across New Zealand by quintile<sup>4</sup>



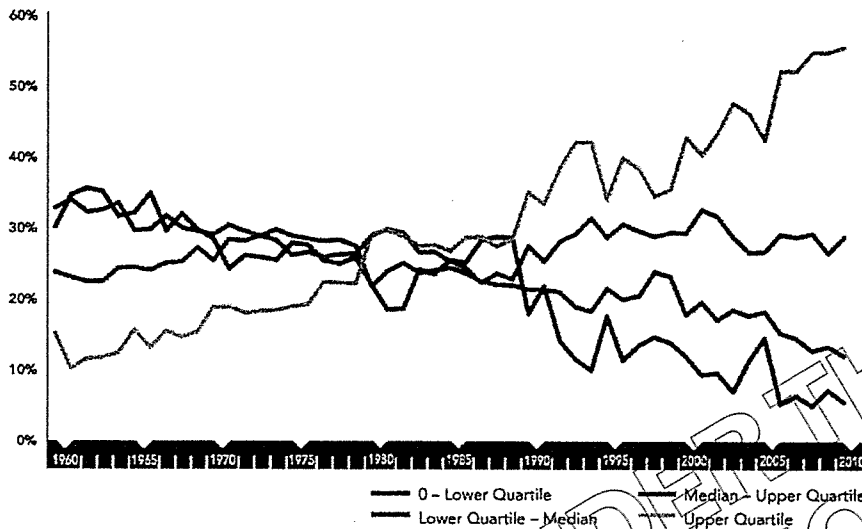
8. These affordability pressures are felt most acutely by lower income households. Figure 2 above demonstrates that households are spending an increasing proportion of their disposable incomes on rent and those in the lowest two quintiles of income are most affected. Despite the rent movements, the housing market has been unresponsive to these segments, building very little new affordable or social housing. Overall new housing supply volumes are at historical lows and only 5% of new housing construction is targeted at the lower quartile (see Figure 3 below).

9. There are opportunities for non-government providers to increase their involvement in social housing provision. A move towards greater non-government provision could encourage:

- Specialised local responses to particular local housing needs.
- Innovation by providers and more flexible responses to changing housing need (on a housing and regional basis).
- Access to private sector capital to provide social housing and a resulting higher rate of growth in the stock.
- Growth of providers who could diversify into affordable housing.

<sup>4</sup> Quintiles are defined as: Quintile 1 Under \$29,499; Quintile 2 \$29,500 - \$49,999; Quintile 3 \$50,000- \$76,799; Quintile 4 \$76,800- \$116,999; Quintile 5 \$117,000+

Figure 3: Value distribution of new housing investment in New Zealand



Source: Productivity Commission calculation using QV data

Notes:

1. For each year, the data show the share of new houses that are valued within each quartile of the value distribution for the existing housing stock.

10. Increased involvement of non-government providers will assist in efficiently meeting the demand for social housing. There has been some work to develop social housing indicators of demand which suggests that housing need will continue to grow nationwide through to 2021, with significant growth occurring in the Auckland region. Growth of non-government provision of social housing would complement the increased focus of Housing New Zealand Corporation (HNZC) on the households with the highest housing access need.

11. Currently, non-government social housing providers account for a small share of the total housing market as compared with UK and Australia. In New Zealand, the private rental market has a relatively larger role in housing many low income and often vulnerable households.

12. Financial assistance for housing costs helps recipients to meet their housing costs – through the Income Related Rent Subsidy (IRRS) for state housing tenants, and through the Accommodation Supplement (AS) for other tenants and some homeowners.

13. The public cost of providing this financial assistance (AS and IRRS) has grown rapidly over the last decade. Current official forecasts show such growth slowing over the next four years, as the economy improves. The wider challenges around housing affordability, however, present significant risks that the actual costs will exceed these forecasts. Government has limited levers to contain the growth in this expenditure, given the current design of AS and IRRS. As a result, this fiscal management can create greater pressures on housing access need and housing affordability need.

14. **Finding 1:** The Government objectives for housing outcomes for tenants, affordability for tenants and the fiscal cost of financial assistance are increasingly difficult to reconcile in the current context of a shortage of housing supply in key markets. While restraints on the overall supply of housing, especially affordable housing, remain, the government's social and affordable housing assistance measures will struggle to meet need.

15. **Finding 2:** A significant expansion and transformation of overall housing supply and the provision of affordable and social housing is required to make housing supply more responsive to demand, to make housing more affordable, and to reduce the cost of providing social housing.

16. The supply of social and affordable housing will, in part, be addressed by the reforms to housing supply that the Government is seeking to introduce in response to the Productivity Commission report on housing affordability. But ensuring sufficient supply of social and affordable housing is always likely to be challenging, and the Government will need to devote particular attention to expanding supply for this segment of the housing market.

***Housing access and housing affordability needs are not being met***

17. At any point in time, there are around 310,000 recipients of AS and around a further 61,000 recipients of IRRS. Given the movements in and out of welfare receipt during the course of a year, around 600,000 Economic Family Units will have received AS or IRRS at some time each year. Reflecting these measures of housing affordability need, between 30% and 40% of all private rental tenancies are likely to be in receipt of AS at any given time. Given this extensive reach of AS and the constrained supply of affordable housing, any general increase in AS payments will have a large impact on the housing market. It can be expected that most of any increase would be absorbed by higher rents, leaving tenants little better off and a significant increase in government expenditure<sup>5</sup>.

18. Housing access need is harder to observe and measure. In addition to the 61,000 IRRS recipients, there are around 16,000 households renting from non-government social housing providers (council housing and third sector NGO providers) who also concentrate on high need tenants. HNZC has a waiting list of applicants who are high need and waiting to be housed, and other households may be discouraged from applying for state houses by the perception that they will be unable to access them. Evidence suggests that a large minority of AS recipients are facing significant financial hardship which may also translate into housing access need<sup>6</sup>. Taken together, these

<sup>5</sup> Arthur Grimes and Sean Hyland with Andrew Coleman, James Kerr and Alex Collier (2012), "A New Zealand Regional Housing Model", Motu, for the Department of Building and Housing.

<sup>6</sup> Average payment of AS per recipient was around \$75 per week in June 2012. Average payment of TAS was around a further \$60 per week in June 2012.



different indicators suggest that there are at least 80,000 households with housing access need, almost all of whom would also have housing affordability need and most of whom are housed by HNZC or other social housing providers.

19. A core problem is the inadequate supply of social and affordable housing. As a result, the Social Allocation System (SAS) can be seen as managing access to available state housing rather than objectively measuring the need for housing access assistance. Supply shortages also result in higher market rents, which increase housing affordability need and create financial hardship.

20. These poor outcomes are the result of the way AS and IRRS have been designed to contain the Government's fiscal costs:

- IRRS is only provided in respect of state houses operated by HNZC – so access is limited.
- AS requires a co-payment towards housing costs from the tenant and requires the tenant to meet the whole of any housing costs above the AS maxima – so rising market rents create growing financial pressure on tenants even after the receipt of AS.
- IRRS also generally provides a higher level of financial assistance for housing costs, for tenants selected on the basis (primarily) of their housing access need. As a result, levels of assistance and housing affordability outcomes can be very different for tenants with similar levels of housing affordability need<sup>7</sup>.

21. The AS co-payment structure ensures tenants face the incidence of the marginal cost of their housing, creating incentives to carefully balance their housing costs. However, housing costs have increased to the point where many households are in a position of financial hardship and extremely limited choices. The choice between a poor quality house that is cold, damp, in poor condition and over-crowded, or having enough money for food and other essentials is no choice at all. Too often, households are being forced to make compromises in their housing choices that contribute to poor housing, education and health outcomes.

22. Around 52,000 AS recipients also receive Temporary Additional Support (TAS). TAS is a hardship benefit designed to fill temporary gaps when a recipient's expenses exceed their income. TAS is paid for periods of up to 13 weeks at a time, and can be rolled-over at the end of each period. TAS recipients face a 100% abatement rate, as TAS is reduced \$ for \$ for any increase in their income. While TAS receipt is an imperfect measure of housing affordability need, it is indicative of unmet housing need in the private rental market.

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<sup>7</sup> The average payment of IRRS per recipient was over \$180 per week in June 2012. In part, this reflects differences in household types and housing costs. However, our analysis also shows that IRRS recipients who started their HNZC tenancy over the last year would be around \$75 per week worse off (on average) if they received AS instead of IRRS.

23. **Finding 3:** Housing access and housing affordability needs are not assessed consistently across AS and IRRS, generating uneven treatment and financial hardship for households with comparable levels of need. TAS was designed to meet temporary increases in living costs, it is poorly suited to provide on-going assistance to help meet housing costs.

### ***The future approach to housing financial assistance***

24. Financial assistance for housing costs should be designed and delivered to:

- Address housing access and affordability needs of tenants.
- Be affordable to government.
- Enable and support greater diversity and supply of social housing provision.

25. In this way, financial assistance can play a critical role in achieving the Government's future social housing market end state – and wider changes to social housing provision can create a more sustainable path for financial assistance. The ideal future shape of housing financial assistance would, in our view, separate the provision of social housing from the provision of financial assistance for housing affordability need. This would in turn involve:

- Separation of the role of provider of social housing (HNZC, local authorities or the non-government sector) from the role of provider of financial assistance for housing costs.
- A single, consistent instrument for providing housing financial assistance not linked to the type of social housing provider.

#### Greater diversity and supply of social housing

26. In our view, HNZC having the dual role of both providing social housing and administering financial assistance has stifled the development of social housing. Separating these roles is an important first step to create an environment in which non-government players can provide social housing on a more equal footing with HNZC, and where HNZC can focus on its core role as a social housing provider.

27. This separation will require the development of a social housing system that can accommodate a diversity of providers, including financial assistance that is not dependent on the provider. This will help the development of the non-government social housing sector, as has happened in some other countries. Greater diversity and supply of social housing should result in greater dynamism among providers to find innovative, lower cost methods to supply social housing - for example, by making better use of the land committed to social housing, and through lower cost construction techniques.

28. The ability of non-government providers to respond in this way should not be under-estimated. Private provision of student accommodation and retirement villages has developed rapidly in recent years, with the entry of new players and new business models into these markets. In the student market, a key feature has been the way that tertiary institutions have facilitated the matching of a “common waiting list” of students looking for accommodation with a short-list of suitable accommodation providers. Both student accommodation and retirement villages have developed distinctive models of relatively high density housing that focus on the facilities and factors that these particular tenants value, rather than use the standard stand-alone properties on large sections that are prevalent across the housing market.

29. HNZA should also operate as a more dynamic and flexible social housing provider. HNZA should be encouraged to re-circulate its capital more quickly, to better meet changing housing needs. The Government’s policy of reviewable tenancies for new HNZA tenants is a useful step and could be extended to some existing tenants, for example those paying a market rent. This could be supported by greater flexibility for tenants to remain in the same house once they are no longer in high housing need. For example, options could be developed so that tenants could stay in the same home with a different landlord and/or opportunities could be developed with community housing providers to assist tenants to purchase through rent-to-buy or similar schemes.

30. Contestability and diversity of provision of social housing should result in social housing being provided at lower cost over time, so that social housing supply is feasible and sustainable for providers and rents are more affordable for tenants. This will enable Government to more effectively meet the high need that AS and IRRS currently fails to address, in particular high housing affordability need as well as high housing access need. It should also better ensure that available social housing evolves to meet changing social needs.

#### A single financial assistance instrument

31. A second aspect of the desired future is a single, consistent instrument for providing housing financial assistance not linked to the type of social housing provider. It would not be possible to address the affordability needs of tenants and the government and support diversity of supply through small changes at the margins of current AS and IRRS – for example, changing the subsidy rate and maxima for AS. A new, single system of financial assistance is needed, and should be designed to directly address the objectives for housing affordability need.

32. A range of options have been considered as part of this review. Our analysis suggests that the variation in housing costs across different household structures and locations means that there is an enduring

role for a financial assistance instrument to address housing affordability need. The Welfare Working Group suggested that such an instrument could take the form of lump sum payments that vary by location – to simplify the welfare system and to minimise the impact on work incentives. Reflecting our terms of reference and the impact of current housing need on outcomes for tenants, we favour a more complex instrument that matches the financial assistance more closely to housing affordability need.

33. On balance, our analysis suggests that residual income is the closest indicator of housing affordability need. Residual income measures the income that households have for their other living expenses, after meeting their housing costs. Residual income could be used to calibrate the parameters for a future financial assistance instrument, or residual income could be explicitly incorporated into the design of financial assistance – for example, by setting a guaranteed minimum residual income for different household types.

34. **Finding 4:** Government should work towards a single, consistent system of financial assistance for housing costs to address housing affordability need. This financial assistance should ensure that:

- Households with the highest affordability need are not facing financial hardship.
- The level of financial assistance is commensurate with housing affordability need.
- The design of the financial assistance does not undermine incentives to seek and take work.

35. **Recommendation 1:** A single objective needs assessment process should be developed for housing access need and housing affordability need, integrated with the wider welfare system needs assessment system and led by MSD. This integrated process and assessment will need careful development. It is an important prerequisite for this future financial assistance instrument, so this work should start as soon as possible.

36. **Recommendation 2:** Government should consider the options for using residual income to calibrate the financial assistance instrument, to target assistance to those with the highest housing affordability need. Financial assistance could be designed to ensure minimum residual incomes for different household types, in different locations after meeting their housing costs.

37. Under this single financial assistance system, the same level and form of financial assistance would be provided to all tenants, reflecting their housing affordability need. If the Government was able to define its objectives for addressing housing affordability need in terms of the residual income for different household types, this would enable

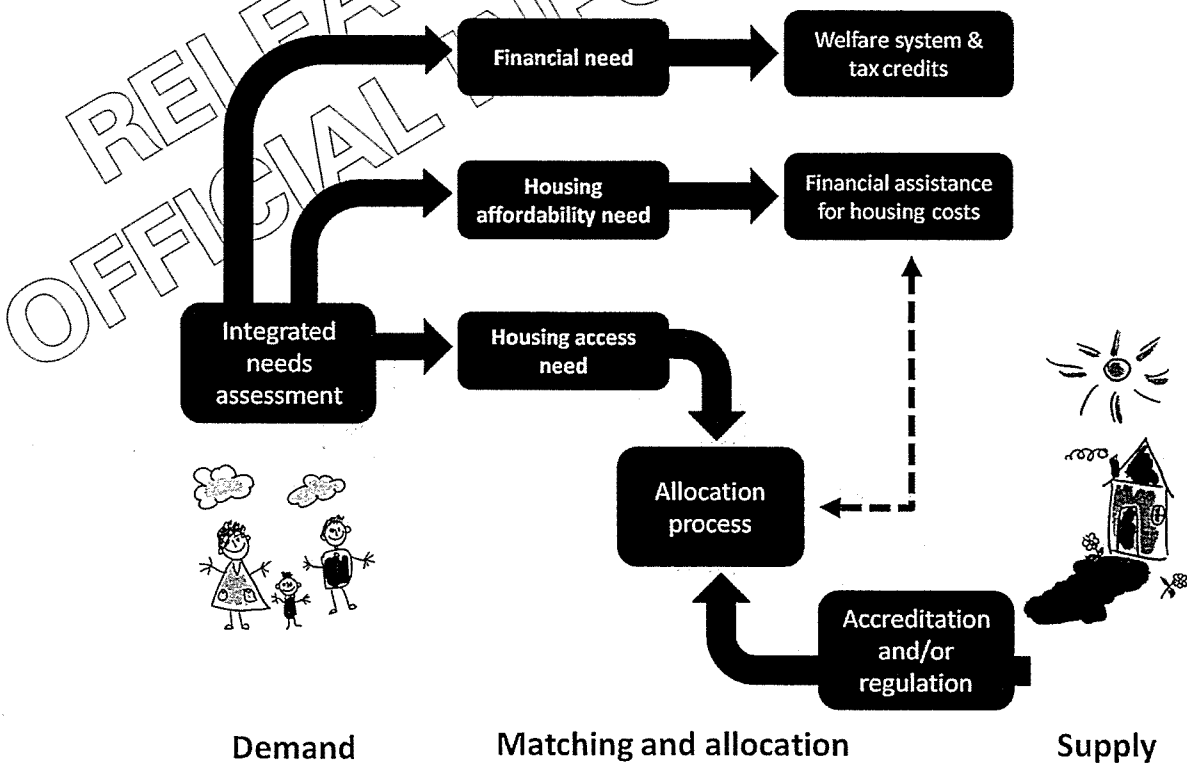
financial assistance to be more closely aligned with these objectives – either through calibration or direct parameterisation. In this way, the maximum affordability need could be addressed for any given cost to Government.

Future social housing system

38. Figure 4 provides a stylised representation of this future social housing system. As recommended above, an integrated needs assessment process (operated by MSD) for housing access need, housing affordability need, and access to the wider welfare system is a core part of this model.

39. Applicants with housing affordability need, in addition to any access to the welfare system, would receive additional support through the single financial assistance instrument. Applicants with housing access need would be separately identified as part of this integrated needs assessment process. Access need would be addressed through the direct provision of social housing, and not through an accompanying higher level of financial assistance – as is currently the case with IRRS relative to AS. Tenants with housing access need would be prioritised for social housing and (where required) the provision of a higher level of (non-financial) support around the tenancy.

Figure 4: Proposed future design of financial assistance



40. This model also requires clear processes for managing the common waiting list of applicants with access need to ensure they are housed by social housing providers.

41. The Social Housing Unit (SHU) already has a role in the accreditation of providers, in the context of its grant funding. This role could be extended to cover the wider accreditation and/or regulation of social housing providers in this future model. The SHU's capability could be significantly expanded to also include oversight of the matching of tenants with providers (the allocation function). This allocation function could include responsibility for a safety net component – to ensure that high needs applicants are housed appropriately.

42. In this model, SHU could also be responsible for forecasting future demand for social housing – the projected flows of new applicants with access need who would join the waiting list over the next five or ten years. SHU could then provide funding to social housing providers to ensure growth in supply matches the likely level and location of demand. Housing is location-specific, so this management of supply and demand may need to operate at the level of a number of local or regional housing markets, rather than as a single super-system for the whole of New Zealand.

43. In broad terms, this social housing system is neutral to the provider of social housing, enabling greater participation by non-government providers. There are a variety of ways in which this system could be structured to harness the contestability that a greater diversity of providers can bring. This could include giving tenants greater choice over their provider, and/or explicitly tendering across providers for the ability to supply social housing into this system.

44. This new system of financial assistance will better address housing affordability need for more tenants, within a given level of government expenditure. The economy and wider housing market dynamics will still drive growth in expenditure, unless changes to the supply of social housing can be achieved to:

- Provide social housing at lower market rents over time, so that it is more affordable for tenants, and so that financial assistance to address affordability need is less costly.
- Expand the supply of social housing and the diversity and responsiveness of social housing providers, to more effectively address housing access need.

***Government can take immediate steps to move in this direction***

45. Several immediate actions can be taken to lay the foundation for this future approach. These immediate actions will improve the performance of AS and IRRS, so that they better address housing access and affordability needs. The actions will also build capability and knowledge within government and social housing providers to

inform system design and implementation of a longer term approach. There are two parts proposed:

- Implementing location-based trials of a contestable, diverse social housing market focused around an IRRS-level of financial assistance model, in areas where there is high and growing housing need and coordinated with actions to expand the supply of social housing.
  - Addressing anomalies within existing AS and IRRS design, to address more affordability need, overall.
46. These initiatives work in parallel to existing steps to improve the performance of HNZC, and the state housing portfolio. HNZC is working to lift the quality and condition of the state housing portfolio and to reconfigure the portfolio to better match the location and characteristics of future high need tenancies.
47. The two immediate steps are complementary and should result in more affordability and access need being addressed. In particular, addressing anomalies within the current structure of AS and IRRS will enable an expansion in the number of tenants who can receive a higher level of financial assistance – in the location-specific trials – within existing forecast baselines. This will reduce the incidence of financial hardship. The coordination of an IRRS-level of assistance with supply initiatives should increase social housing so that the housing access need of more tenants can be addressed.
48. In the transition, the location-specific trials could be limited to new high need tenants who are assessed as high need through the needs assessment process. Similarly, the initiatives to address anomalies in current AS and IRRS could be limited to new applicants, with grand-parenting arrangements to protect the level of support received by existing tenants.

#### *Location-based trials of a contestable social housing market*

49. The trials would create greater contestability in the provision of housing for high need tenants. Tenants would receive an IRRS-level of assistance when they are housed by any social housing provider (not just HNZC). Access to this higher level of financial assistance would be coordinated with other initiatives to increase social housing supply, to maximise the impact on supply. The key elements of an IRRS-like outcome are that:
- The tenant is able to meet their housing costs without suffering hardship (for IRRS, by paying an income-related contribution to the rent from their net income).
  - The tenant has a greater security of tenure in a suitable size and quality property, relative to a private rental.

- The social housing provider receives the equivalent of a market rent<sup>8</sup> in total.

50. There are a variety of ways to design assistance – paid to the tenant and/or paid directly to the social housing provider – to achieve these outcomes. Under the current design of IRRS, HNZC combines the roles of housing provider, allocation of housing to tenants, needs assessment, and delivery of financial assistance. It is unlikely that social housing providers would perform all these roles, even if the legislation were changed to enable them to receive the current IRRS. These trials provide the opportunity to test alternative ways to design a social housing system and the associated financial assistance to achieve these IRRS-like outcomes. This would include:

- Assessing and reassessing need to create a common (up to date) pool of high need tenants who can be prioritised, allocated and matched to social housing providers.
- Prequalifying potential social housing providers by specifying the services levels and other criteria they need to meet, including security of tenure for the tenant and quality standards for the housing.
- Delivering financial assistance to the tenants and/or directly to the provider to ensure the social housing provider receives the equivalent of a market rent and that the tenant has an adequate residual income.

51. These trials also provide opportunities to coordinate with other government initiatives, including those in the Better Public Services results (e.g. Supporting Vulnerable Children and Reducing Long-Term Welfare Dependence). Careful design of the initiatives and high quality evaluation will enable key lessons to be established.

52. Different locations could also be used to test different models where providers compete to house high need tenants. For example, the common needs assessment process could create a contestable pool (waiting list) of high need tenants that providers could bid to house. The Government could operate a tender like process for providers to supply a portfolio of social housing in that location, into which high need tenants are then allocated and housed.

53. In order to provide an initial estimate of the cost of these trials of providing an IRRS-level of financial assistance, we have examined the cohort of HNZC tenants who have started their tenancies over the past

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<sup>8</sup> A market rent is used as short-hand for ensuring that providers are financially viable. In theory, market rents would be set at a level that achieves this outcome. For social housing providers, this viability could be achieved through a combination of payments from the tenant, operating payments from Government and/or some form of capital subsidy. It should be recognised that different providers have different business models. For example those providers/landlords with an objective to buy and hold/sell for capital growth have a different model to those with the objective of long-term hold, which needs sustainable cashflow (to fund maintenance and upgrades).



year. We have assumed that they are representative of high need tenants, as they are likely to have been assessed as A or B under the SAS recently, and their circumstances are unlikely to have changed materially. Around 8,000 new HNZC tenancies are started each year. For these new tenants we have modelled the AS that they would have received, assuming their housing costs and other circumstances are unchanged. On average, these tenants are \$75 per week better off on IRRS compared to AS.

54. This suggests that providing an IRRS-like subsidy to a current AS recipient who would meet high need criteria would cost around \$4,000 per year. An ambitious short-term target would be for non-government social housing providers to increase their stock by 500-750 dwellings per year<sup>9</sup>. If all of this increase in supply was occupied by high need tenants who attract a higher subsidy, then this could indicatively cost around \$2 million per year, cumulating for each additional year and each additional cohort of recipients.

**Table 1: Costs to extend location-based trials of a new financial assistance**

\$ million	2013/14	2014/15	2015/16	2016/17
500 new dwellings and new high need tenants per year	2	4	6	8
1,000 new dwellings and new high need tenants per year	4	8	12	16

55. This option would need more detailed modelling to confirm the likely costs – in particular to reflect the location and other characteristics of the additional high need tenants being housed. It is also likely that there would be some small offsetting savings from other benefit types, in particular TAS. There would also be significant administrative costs associated with the trials, depending on the delivery model used for their implementation.

**56. Recommendation 3:** Provide an IRRS-level of financial assistance to high need tenants housed by social housing providers in addition to HNZC, to support growth in the diversity and supply of social housing. Initially, these location-specific trials would focus on areas with growing levels of high need, and would be coordinated with investment to expand the supply of social housing (for example, capital grants or stock transfers).

**57. Recommendation 4:** Commission further work from officials to confirm the specific locations for this IRRS-level of assistance for high need tenants. For example, Christchurch and South and West Auckland are areas with growing numbers of high need tenants and the potential for growth in social housing providers. Similarly, Whangarei and Rotorua have been selected for the initial Children's Teams demonstration sites.

<sup>9</sup> Submission of Community Housing Aotearoa to the Productivity Commission's draft report on its housing affordability inquiry, February 2012.

### *Addressing anomalies in current AS and IRRS design*

58. There are anomalies within the design of existing AS and IRRS that create financial hardship for some recipients and provide higher levels of financial assistance to other recipients. Removing these anomalies would reduce the financial assistance received by some tenants in order to increase the level of financial assistance that can be provided to other recipients.

#### Boarders in HNZN properties

59. IRRS is designed to ensure that tenants generally pay 25% of their net income, and the net income of their partner or spouse, towards their housing costs. However, the income of additional adults resident in the HNZN property is not included in this calculation, and neither are the board payments received from the first two boarders. In effect, this is a windfall to the primary tenant, as IRRS is meeting in full the housing costs associated with the additional bedrooms that are being used by the boarders.

60. Around a quarter of all HNZN tenancies have one or more additional adults resident at the address. There were around 27,000 additional residents in HNZN properties as at July 2012. Of these additional residents, around 11,500 were recorded as making board payments to the primary tenant.

61. The proposal is to deem a contribution towards the total housing costs from these additional adults equal to 20% of a deemed income. This deemed income would be the higher of their actual benefit rate, or the minimum benefit that they could receive (equal to the relevant unemployment benefit for boarders aged 16 to 64 and New Zealand Superannuation for boarders aged 65 and over).

62. This deemed contribution would be collected from the primary tenant over and above their income-related rent contribution – based on their own income – and directly reducing the IRRS that they receive. These deemed board payments would range from around \$25 per week to around \$60 per week per boarder, depending on the benefit status of the boarders.

63. Based on previous analysis, this option would decrease total IRRS expenditure by around \$43 million per year, and would increase AS expenditure (in respect of the board payments made) by around \$5 million per year – to yield a net saving of up to \$38 million per year.

64. Further analysis would be required to refine these figures, in particular to estimate the potential behavioural response by boarders and by the primary tenants. If a significant proportion of boarders in HNZN properties ended up renting on their own account instead of making the deemed board payments, this could result in larger offsetting increases in expenditure on AS.

65. It is possible that this policy change could be enabled through regulatory changes. However further work is required to establish whether regulations would be appropriate. There may be advantages for legislating to provide a stronger foundation for the policy change. There may be an opportunity to use existing processes to draft legislative changes to fast track this legislative change.

66. **Recommendation 5:** Take account of the income of boarders in HNZC properties in calculating the income-related rent paid by the primary tenant.

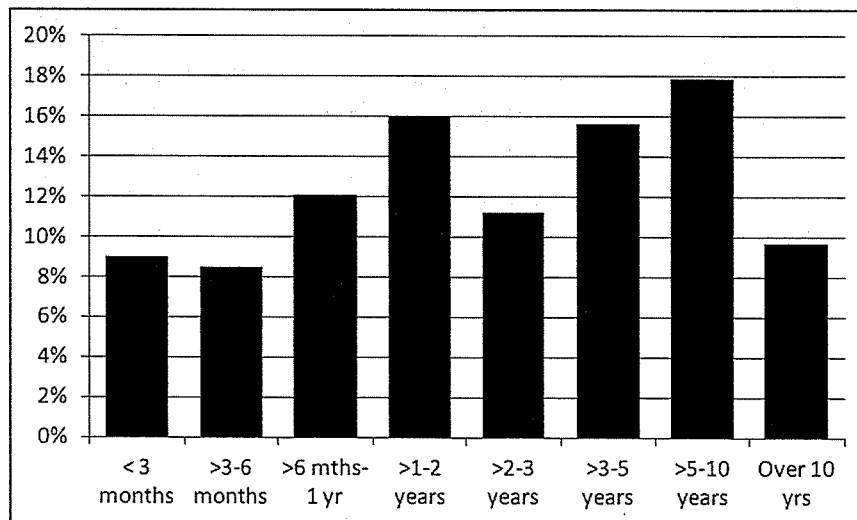
#### AS for homeowners

67. AS is currently received by around 44,000 homeowners at any point in time. This can provide a responsive and cost-effective safety net when people's circumstances change. Their housing costs may be lower as an owner compared to their costs were they to move into private rental. Enabling homeowners to stay in their own home also enables existing connections to community and public services (e.g. schools) to be maintained.

68. However, long term receipt of AS subsidises homeowners to accumulate equity in their home, in a way that other AS and IRRS recipients cannot. In principle, receipt of AS for home-owners should be subject to a time constraint.

69. Around \$160 million was spent on AS for homeowners in 2011/12. AS homeowners tend to have higher incomes, with more in work and fewer receiving any other benefit income than other AS recipients (renters and boarders). Around a third of AS homeowners have no benefit income, compared to around 20% of AS renters. AS homeowners also have higher housing costs than other AS recipients. Around 30% of homeowners have housing costs of \$350 per week or more, compared to around 10% of AS renters.

Figure 5: AS homeowners > by duration, as at June 2012



70. As illustrated in Figure 5, AS homeowners have a relatively flat distribution of incomplete durations of AS receipt. As at June 2012, around 30% of AS homeowners had been receiving AS for up to a year, around 30% for 1-3 years, around 30% for 3-10 years, and around 10% for more than 10 years. AS homeowners with longer durations are more likely to be singles and smaller households, so their average AS is a little lower. The pattern of AS expenditure is similar to the numbers of recipients, with around 30% of the AS expenditure being on durations of up to a year, 1 to 3 years and 3 to 10 years, and 8% of the AS expenditure being on recipients with a duration of more than 10 years.

71. If AS for homeowners were restricted by duration, the amount saved would reflect the difference in housing costs between homeownership and renting, for a similar property, as AS homeowners are likely to be eligible for AS as renters if they changed tenures. AS homeowners have average housing costs around a third higher than for AS renters despite having similar other characteristics – in particular the mix of household sizes.

72. Taken together, this suggests that limiting AS receipt to a maximum of one year for new AS homeowners could generate a saving of perhaps \$6 million in the first year, \$12 million in the second year, building up to over \$30 million once it was fully implemented. Similarly, applying the time limit immediately to all AS homeowners with durations of more than a year would provide a saving of around \$30 million per year. However, the figures are very tentative and would need to be modelled in more detail, in particular to estimate the offsetting changes in other benefit types (e.g. TAS).

73. Particular care would need to be taken with the implementation of any change in this area, in particular for existing AS homeowners. AS homeowners with longer durations are more likely to be beneficiaries and less likely to have additional income, when compared to other AS homeowners, and have similar characteristics to the most vulnerable beneficiaries. AS homeowners are also widely distributed across the country, with significant numbers in low demand areas (like small rural towns) where it may take significant time to sell a house, if it can be sold at all.

74. **Finding 5:** In principle, access to AS for home-owners should be subject to a time constraint, and this time limit should be clearly established at the point of access.

75. **Recommendation 6:** Commission further work from officials to consider establishing a time-limit on AS receipt for new AS recipients who are home-owners. Officials could also explore the possibility that future AS payments for homeowners could be a charge against the value of the property that is recovered on sale. This work could also consider the approach for applying a similar time-limit to current homeowners receiving AS.

## AS maxima

76. In principle, if a location has experienced a structural shift in the level of market rents compared to the rest of New Zealand, there is a case for reviewing the AS maxima that apply to that location.
77. Christchurch and nearby districts have experienced an exceptional shock to housing supply and demand, with the damage or loss of a significant part of the housing stock. Higher insurance premiums have increased costs for landlords. The recent earthquakes and the rebuild programme have also generated exceptional shifts of population in and out of Christchurch City, Selwyn and Waimakariri.
78. MBIE bond data suggests that average market rents in Christchurch, Selwyn and Waimakariri have increased by up to 25% over the last two years, compared to around 9% across New Zealand overall. 44% of AS recipients in these locations face housing costs in excess of the AS maxima, compared to 38% across New Zealand and 29% in Auckland. This creates a strong case for moving Christchurch, Selwyn and Waimakariri from AS area 3 to AS area 2, in response to this relative shift in rents.

Table 2: AS maxima by area

Household size	1	2	3+
AS maxima – Area 3	\$65	\$75	\$120
AS maxima – Area 2	\$100	\$125	\$165

79. MSD micro-simulation modelling suggests that increasing the AS maxima for Christchurch, Selwyn and Waimakariri would increase AS expenditure by around \$21m in 2013/14, rising to \$23m in 2016/17. This would increase the maxima applying to around 12,500 AS recipients in these areas, increasing the average AS received by over \$30 per week.

80. Around 7,500 (60%) of these AS recipients would be below the new AS maxima, and would gain around \$15 per week. The remaining 5,000 (40%) of AS recipients would be above the new maxima, and would gain between \$35 and \$50 per week depending on the size of their household. Around 90% of the recipients at the AS maxima in Christchurch are beneficiaries, and 75% have no non-benefit income.
81. One illustration of the impact of this initiative is that the MSD modelling estimates that it would reduce expenditure on TAS and SPB by around \$4.5m per year. As a result, the net cost of this initiative would be \$16m in 2013/14 rising to \$19m in 2016/17.

**Table 3: Cost of increases to AS for the Christchurch area in 2013/14 and outyears**

\$ million	2013/14	2014/15	2015/16	2016/17
Gross increase in AS expenditure	21.0	21.9	22.9	23.3
Less offsetting reduction in TAS & SPB	(4.7)	(4.5)	(4.4)	(4.4)
Net cost	16.1	17.2	18.4	18.7

**82. Finding 6:** The sustained growth in rents in the Christchurch housing market, relative to the New Zealand average, since the Canterbury earthquakes creates a strong case for resetting the AS maxima that apply to this location.

**83. Recommendation 7:** A policy framework should be developed to establish the criteria for testing when a structural shift in rents in a particular housing market create the case for reviewing the AS maxima that apply to that location.

**84. Recommendation 8:** Increase the AS maxima for Christchurch, Selwyn and Waimakariri territorial authorities from AS area 3 to AS area 2 to reflect the exceptional relative increase in market rents in these locations since the Canterbury earthquakes.

*Transfer Needs Assessment to MSD*

**85.** The long term model outlined above envisages a single objective needs assessment and reassessment process for housing access need and housing affordability need, integrated with the wider welfare system needs assessment system and led by MSD. An early first step towards this approach would see MSD taking responsibility for needs assessment and reassessment for IRRS, and the associated access to social housing, as soon as possible.

**86.** In the short term, this would mean MSD would operate the current Social Allocation System. When possible, that system should be reviewed to ensure that it is fully measuring housing access need for social housing. In the medium term, consideration should be given to whether MSD should also assume responsibility for allocating high access need tenants to social housing providers.

**87. Recommendation 9:** Transfer needs assessment and reassessment for IRRS and the associated access to social housing to MSD as soon as possible.

**88.** A reasonable consequence of integrating needs assessment with other aspects of welfare support should be that housing access needs should be reassessed on an on-going basis for all social housing tenants (not just new tenancies). This should be at set intervals so that tenants whose circumstances have changed have a period to adjust for example, by finding private rental accommodation or moving

to home ownership. In this way, social housing providers such as HNZC will not have capital tied up by providing housing to those not in high need, and will be able to redirect that capital to best effect.

89. The focus should be on assisting those in changed circumstances to explore housing options well in advance of a tenancy review. This should be in the form of advice and/or financial assistance. This would be the responsibility of MSD.

90. In addition, the government should investigate options for tenants to remain in the same house once they are no longer in high housing need. This would mean, for example, the means to stay in the same home with a different provider other than HNZC or another social housing provider. Options to purchase the house through rent to buy or similar schemes.

91. **Recommendation 10:** Housing need should be regularly reviewed for all tenants. This should be supported by access to appropriate advisory and financial support and options to stay in the same house but without IRRS-level assistance.

#### *Other short term recommendations*

92. Our overall approach in this report is to set out a long term model for social housing and in the meantime recommend changes to help develop the social housing sector. In that regard the government should consider all steps that would help HNZC operate more effectively and that would grow the still small sector of non-government social housing providers.

93. This should include allowing AS to be paid directly to providers in some cases. This might be desirable where it can provide a social housing provider with a more secure flow of income. However that, in turn, requires a review of the frequency of re-assessment for AS (currently fortnightly) given this creates compliance burdens and unnecessary arrears for working households – a growing share of total AS recipients.

94. Consideration should also be given to the proactive use of benefit diversion – with the consent of the recipient – to pay their rent directly to their housing provider, from their AS and any main benefit income.

#### *Quality Standards for Housing*

95. We are concerned about the quality of some low income housing. Between 30 and 40 per cent of private rental housing is part-funded by the Government through AS. It seems anomalous that the Government should be funding a quality of accommodation that it would not allow a social housing provider such as HNZC to offer. However, this needs to be balanced by the fact that with general housing shortages any imposition of higher quality standards may

result in the removal of some housing from this part of the market, leaving lower income households with even fewer accommodation options.

96. A balanced response is required and, in our view, the Government should commission further work on the appropriate quality standards that should be applied to social housing. There are different levels of standards that would apply, reflecting the level of government funding provided:

- Minimum standards that apply to all accommodation.
- (Possibly) higher standards that apply where the tenant is receiving financial assistance and, in effect, the Government is meeting part of the housing costs. A key question is whether such standards would have perverse incentives in discouraging the provision of housing to recipients of financial assistance.
- Clear standards for the housing and the related social landlord services, where the Government is providing subsidies to the social housing provider.

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