

- 21.2 Inland Revenue Tax and Social Policy Māori Advisory Panel
- 21.3 Kay Saville-Smith (Chief Science Advisor, Ministry of Housing and Urban Development)
- 21.4 Tracey McIntosh (Chief Science Advisor, Ministry of Social Development)
- 21.5 MSD National Beneficiaries Advocates Consultative Group (includes [REDACTED] ^{Out of sco})
- 21.6 MSD Housing Reference Group

The process for engaging with iwi/Māori is being worked through by officials

- 22 As noted in previous advice [REP/21/6/614], consultation with Māori through a series of face-to-face hui, which is more consistent with best practice, is not possible given the condensed timeframes. Officials are working through how engagement with iwi/Māori can best be conducted within given timeframes.
- 23 Iwi/Māori stakeholders will be invited to participate in targeted engagement, and officials are working to expand the list of stakeholders, to better represent the interests of iwi/Māori. The Ministry of Social Development has a Māori reference group, made up of external members, who regularly consult with agencies. Inland Revenue is in the process of establishing a similar reference group to engage on tax and social policy issues. Meetings will be arranged with these groups as part of engagement.
- 24 Officials are exploring further channels for engagement with iwi/Māori.

Guidance material to support discussions

- 25 Guidance material which is provided as part of the public written submissions process will also be provided to stakeholders ahead of meetings.
- 26 Officials will liaise with Ministers' offices closer to the time of meetings on whether any further information should be shared with stakeholders to support engagement, if required.

s9(2)(f)(iv) [REDACTED]

Timing and duration of public engagement

- 27 Timing of when the public engagement goes live will depend on how quickly engagement material can be finalised, the timing of translation into accessible formats ^{s9(2)(f)(iv)} [REDACTED] to analyse submissions in October. Translation is likely to take one month or longer. Once the engagement material is finalised, ^{s9(2)(f)(iv)} [REDACTED], officials can confirm the exact timeframes for submissions. Based on the indicative timeframe in the table below, public submissions are likely to be open in September.
- 28 Public written submissions are likely to be open for four weeks. While it is desirable for the submissions to be open for longer this may not be possible ^{s9(2)(f)(iv)} [REDACTED].

Timing of meetings with experts and key stakeholders

- 29 Meetings will be scheduled for broadly the same period as public written submissions, but timing is more flexible. These meetings will still need to be conducted prior to the end of October, ^{s9(2)(f)(iv)} [REDACTED].

Indicative timeline for 2021

Timeline	Deliverable
July	Guidance material finalised and approved by end of July
August	Translation of guidance material into accessible formats (four weeks or longer)
September	Public submissions open for four weeks Meetings with key experts and stakeholders
October	Submissions and feedback analysed Report to Ministers summarising findings
November	s9(2)(f)(iv)
December	

s9(2)(f)(iv)

30 s9(2)(f)(iv)

Next steps

- 31 If Ministers approve the guidance material, it will be translated into accessible formats and agencies will prepare for the public engagement to go live. It is expected this will be for the month of September.
- 32 Officials will update Ministers with the exact dates the public engagement process will be open once the engagement material is finalised and s9(2)(f)(iv)
- 33 If Ministers agree, officials will prepare an oral item for Cabinet, and information for Caucus, for the Minister for Social Development and Employment to present on the engagement to update your colleagues ahead of launching public engagement.
- 34 Submissions will be analysed in October, and officials will provide Ministers with a report by the end of October summarising the findings from the engagement.

Report Number: REP/21/7/765; IR2021/312

Author: Out of scope, Policy Analyst, Income Support Policy

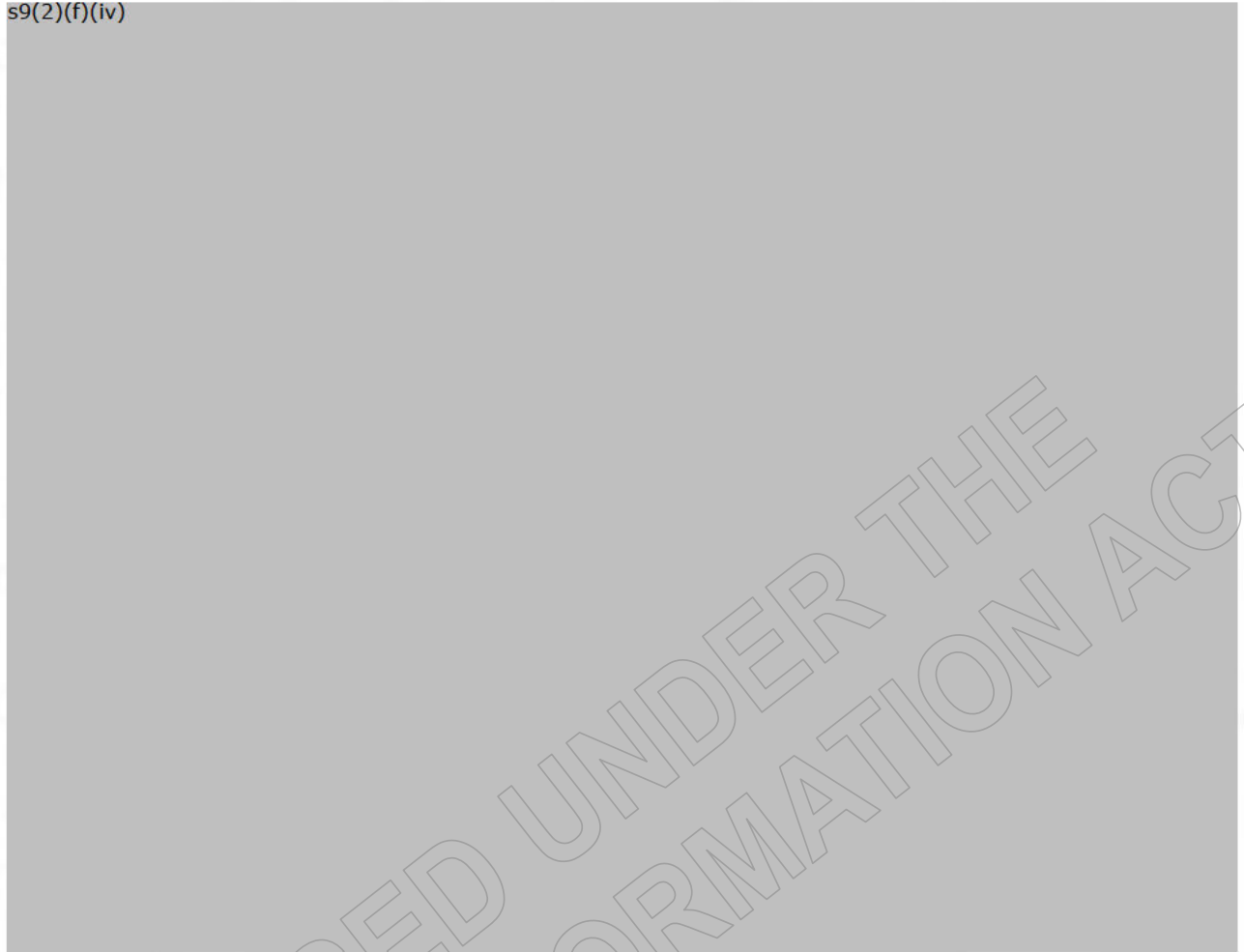
Responsible manager: Polly Vowles, Policy Manager, Income Support Policy

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

s9(2)(f)(iv)

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

s9(2)(f)(iv)



RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Accommodation Supplement

Background

Accommodation Supplement is a payment which helps people with their housing costs. Housing costs can include rent, board or the cost of owning a home. Accommodation Supplement is paid to both people receiving a main benefit and to low and middle-income working people.

- Around 352,000 households receive Accommodation Supplement.
- Most people are renters (244,000 households). There are around 70,000 boarders and 38,000 homeowners.
- Most households receiving AS are also receiving a benefit (68%) and are single people (86%).
- In 2019/2020, the government spent around \$1.7 billion on Accommodation Supplement.

Accommodation Supplement is paid directly to people, it is generally not paid to landlords.

Accommodation Supplement payments depend on your income, assets, housing costs, family size and where you live.

If your housing costs are more than 25% of income (or 30% of income for homeowners), Accommodation Supplement:

- covers 70% of housing costs above this
- pays to a cap that is based on family size and where you live (see maximum payments table below).

Family Type	Area 1	Area 2	Area 3	Area 4
Single person	\$165	\$105	\$80	\$70
Couple (no children)	\$235	\$155	\$105	\$80
Couple with children	\$305	\$220	\$160	\$120
Sole parent, 1 child	\$235	\$155	\$105	\$80
Sole parent, 2+ children	\$305	\$220	\$160	\$120

For people not receiving a main benefit, income above a certain amount (depending on family type) will reduce Accommodation Supplement payments by 25 cents for every dollar.

For more details on eligibility and how the payment works, visit:

<https://www.workandincome.govt.nz/map/income-support/extra-help/accommodation-supplement/index.html>

For detail on Accommodation Supplement Areas, visit

<https://www.workandincome.govt.nz/map/deskfile/extra-help-information/accommodation-supplement-tables/definitions-of-areas.html>

s9(2)(f)(iv)



RELEASED UNDER THE
OFFICIAL INFORMATION ACT

RELEASED UNDER THE
OFFICIAL INFORMATION ACT



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

Report

Date: 26 August 2021

Security Level: IN CONFIDENCE

To: Hon Carmel Sepuloni, Minister for Social Development and Employment
Hon David Parker, Minister of Revenue

Timing of engagement for Working for Families and Accommodation Supplement Review

Purpose of the report

- 1 This report seeks decisions on timing of public and targeted engagement for the Working for Families and Accommodation Supplement Review, s9(2)(f)(iv)

Recommended actions

It is recommended that you:

- 1 **note** as Ministers are s9(2)(f)(iv)
Ministers have choices on the timing of engagement with the public and targeted engagement with key experts and stakeholders

- 2 **agree** for public engagement to be deferred to April/May 2022 with submissions open for eight weeks

Agree / Disagree

**Minister for Social Development and
Employment**

Agree / Disagree

Minister of Revenue

- 3 **note** improvements to the guidance material to support engagement can be made if public engagement is deferred to next year, which will require Ministers to agree to the changes

- 4 **agree**, if public engagement is deferred to next year, to revisit the guidance materials

Agree / Disagree

**Minister for Social Development and
Employment**

Agree / Disagree

Minister of Revenue

5 **agree** for targeted engagement with key experts and stakeholders to begin either:

5.1 later this year, 2021

Agree / Disagree
**Minister for Social Development and
Employment**

Agree / Disagree
Minister of Revenue

OR

5.2 early next year, 2022 [**recommended**]

Agree / Disagree
**Minister for Social Development and
Employment**

Agree / Disagree
Minister of Revenue

6 **note** s9(2)(f)(iv) [Redacted]

7 **forward** this report to the Minister for Child Poverty Reduction, Minister of Finance, Minister for Children, Minister of Housing.

Agree / Disagree
Minister for Social Development and Employment



Polly Vowles
Policy Manager
Ministry of Social Development



s9(2)(a)
Policy Lead
Inland Revenue

Hon Carmel Sepuloni
Minister for Social Development and
Employment

Hon David Parker
Minister of Revenue

Background

2 To inform the Working for Families (WFF) and Accommodation Supplement (AS) Review (the Review), Income Support Ministers have agreed to public engagement and targeted engagement with key stakeholders and experts. Both streams of engagement will cover WFF and AS [REP/21/6/614 refers].

3 s9(2)(f)(iv)

s. Decisions are needed on the timing of the combined WFF and AS public and targeted engagement.

Officials recommend deferring public engagement to April/May 2022

Public engagement is currently planned to begin 6 September 2021, with four weeks for submissions

4 s9(2)(f)(iv)

officials do not recommend continuing with the current plan for a four-week public engagement to begin on 6 September 2021. This engagement was planned quickly s9(2)(f)(iv). The submissions window of four weeks is also very short, which may limit the quality and quantity of responses we receive. In addition, the current uncertainty surrounding the COVID-19 resurgence would make engagement very difficult.

5 Based on the Ministers' meeting on 11 August 2021 and a subsequent officials' meeting with the Minister for Social Development and Employment, officials have paused work on preparing engagement. Service delivery resources have been diverted from engagement to support delivery of the Wage Subsidy and other work programmes, in response to the recent COVID-19 Alert Level changes. Officials are now asking Ministers to confirm the deferral of public engagement and agree to new timeframes.

Officials recommend deferring public engagement until April/May 2022

6 Officials recommend Ministers defer public engagement until April/May 2022, with a submissions window of at least eight weeks. This will allow greater time to have submissions open and s9(2)(f)(iv)

Deferring to next year will also allow more time to plan engagement with Māori, and to enable translation into additional languages and accessible formats.

7 It will be important to consider the timing of engagement s9(2)(f)(iv)

8 Officials also recommend that the materials to support engagement are re-worked if public engagement is deferred to 2022. These materials were prepared very quickly, and, in particular, before further direction was provided regarding a two-track review of AS.

9 If the materials are revisited, officials do not recommend creating a substantive discussion document s9(2)(f)(iv)

Instead, the current materials could be improved and slightly expanded. In particular, officials would look to improve the proposed s9(2)(f)(iv)

s9(2)(f)(iv)

- 10 As these materials have already been agreed by Ministers, any changes would need to be agreed to again. The materials have also already been translated into Te Reo (at a small cost) and would need to be re-translated if changed. Other translations into NZSL and accessible formats had only just started and have now been paused, so there is no/little cost associated with work already completed. Improving the guidance material s9(2)(f)(iv) will also involve additional policy resource, which could otherwise be used to support the advice on WFF and AS.

There are also decisions on timing of engagement with targeted stakeholders

Targeted engagement could begin this year as planned

- 11 Targeted engagement could be conducted later this year with key experts and stakeholders, through a limited number of workshops and meetings. This would allow early discussions to feed into the direction of the Review and help to manage the interest of key stakeholders.

12 s9(2)(f)(iv)

Officials recommend that targeted engagement is deferred until next year

- 13 Deferring targeted engagement until early 2022 would s9(2)(f)(iv)

It would also allow officials more time to plan engagement with key iwi/Māori stakeholders.

- 14 Deferring to early 2022 somewhat reduces the opportunity for experts and stakeholders to contribute to the early stages of the Review, which will shape the direction of the Review going forward.

- 15 There are resourcing trade-offs between the two options, as targeted engagement will require some policy resource from all agencies involved in the Review to be diverted from supporting the development of substantive advice.

s9(2)(f)(iv)

Next steps

- 18 Decisions are needed quickly on whether public and targeted engagement will proceed as planned or be deferred to 2022, given resourcing implications for agencies.
- 19 Once decisions are made, officials will organise public and targeted engagement and keep Minister's offices informed on progress.
- 20 If Ministers agree to update the guidance materials, officials will provide updated versions for Ministers ahead of engagement.

File ref: REP/21/8/873, IR2021/374

Author: Out of scope, Policy Analyst, Income Support Policy

Responsible manager: Polly Vowles, Policy Manager, Income Support Policy

RELEASED UNDER THE
OFFICIAL INFORMATION ACT



Briefing

The potential for the Accommodation Supplement to better support housing outcomes

For: Hon Dr Megan Woods, Minister of Housing
Hon Carmel Sepuloni, Minister for Social Development and Employment

Date: 25/11/2021 **Security level:** In Confidence

Priority: Medium **Report number:** BRF21/22111154
REP/21/11/1271

Purpose

1. This briefing responds to Income Support Ministers' requests for two tracks of advice for the Accommodation Supplement Review and proposes work that could be progressed across each track:
 - a. track one: Advice on how Accommodation Supplement could be used to support increasing the supply of housing for low-income households, led by Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD)
 - b. track two: Advice on how to improve the Accommodation Supplement as an income support tool for low-income New Zealanders with high housing costs, led by the Ministry of Social Development (MSD).

Executive summary

2. New Zealanders are increasingly relying on the rental market for housing. In the last 35 years an increasing proportion of households rent from private landlords rather than Kāinga Ora, councils, iwi, Māori trusts, and community housing providers. This means an increasingly share of New Zealanders pay rents that move with the market.
3. The Government is spending an increasing amount on the Accommodation Supplement (approximately \$1.71 billion in 2019/20) but more households paying market rents are experiencing rental stress. There is an insufficient supply of affordable rentals for low-and moderate-income households.
4. The Government has choices about how to use the Accommodation Supplement spend more effectively to support housing outcomes. You have specifically asked us to look at capitalisation of the Accommodation Supplement to support people into home ownership. We have used this paper's analysis of capitalising the Accommodation Supplement to draw out where investment in housing could make more difference to low- and moderate-income households.
5. There is a small cohort (four percent of Accommodation Supplement recipients) that could benefit from being able to capitalise their current Accommodation Supplement, if they can find a house to purchase where they live. For most Accommodation Supplement recipients, achieving home ownership would require large additional subsidies to cover increasingly unaffordable mortgage servicing costs and deposits. We do not recommend Accommodation Supplement capitalisation as a tool to improve housing outcomes.

6. Given the objectives of the Accommodation Supplement review, most recipients would be better served by a well-functioning rental market, especially single people seeking smaller dwellings. s9(2)(f)(iv)

[REDACTED]

7. We understand that Ministers are also interested in advice on changes that could be made to the Accommodation Supplement as a core component of government support for low-income households. Officials propose to align this part of the Accommodation Supplement Review with the timing of the Working for Families Review. s9(2)(f)(iv)

[REDACTED]

8. In the short-term, officials recommend work to increase take-up of Accommodation Supplement by non-beneficiaries. This work will include investigating operational changes to increase take-up, s9(2)(f)(iv)

[REDACTED]

9. Officials will use data and analysis and findings from external engagement to inform the option development across 2022. The Minister for Social Development and Employment and the Minister of Revenue recently agreed to defer public engagement on the Working for Families and Accommodation Supplement Reviews until April/May 2022. s9(2)(f)(iv)

[REDACTED] we recommend not carrying out public engagement on the Accommodation Supplement alongside the Working for Families Review. Officials consider there would still be merit in undertaking targeted engagement with key stakeholders and experts to inform option development.

Recommended actions

10. It is recommended that you:

	<i>Minister of Housing</i>	<i>Minister of Social Development and Employment</i>
1. Note New Zealanders increasingly rely on market rentals for housing, increasing the reliance on the Accommodation Supplement for households exposed to market rents	<i>Noted</i>	<i>Noted</i>
2. Note the Accommodation Supplement is not designed to stimulate additional rental supply or support the development of the non-market rental sector	<i>Noted</i>	<i>Noted</i>
3. Agree because of the design of the Accommodation Supplement and a combination of housing market and recipient circumstances, a capitalisation scheme for home ownership will not improve broader	<i>Agree / Disagree</i>	<i>Agree / Disagree</i>

Minister of
Housing

Minister of
Social
Development
and Employment

housing outcomes and no further work on this
is required

- | | | | |
|-----|---|------------------|------------------|
| 4. | s9(2)(f)(iv) | Noted | Noted |
| 5. | | Noted | Noted |
| 6. | | Agree / Disagree | Agree / Disagree |
| 7. | Agree that track two of the Accommodation Supplement Review will align with the timing of the Working for Families Review, s9(2)(f)(iv) | Agree / Disagree | Agree / Disagree |
| 8. | Agree that track two of the Accommodation Supplement Review will initially focus on options to increase take-up of Accommodation Supplement by non-beneficiaries | Agree / Disagree | Agree / Disagree |
| 9. | s9(2)(f)(iv) | Agree / Disagree | Agree / Disagree |
| 10. | Agree that either: | | |
| | 10.1. public engagement and targeted engagement with key stakeholders and experts on the Accommodation Supplement will occur alongside the Working for Families Review in 2022 (status quo) | Agree / Disagree | Agree / Disagree |
| | OR | | |
| | 10.2. there will be no public engagement, only targeted engagement with key stakeholders and experts, on the | | |

Minister of
Housing

Minister of
Social
Development
and Employment

Accommodation Supplement alongside
the Working for Families Review in 2022

Agree / Disagree

Agree / Disagree

11. **Note** an Income Support Ministers meeting is scheduled for 6 December 2021 to discuss the Accommodation Supplement

Noted

Noted

12. **Forward** a copy of this briefing to Income Support Ministers: Minister for Child Poverty Reduction, Minister of Finance, Minister for Children, and Minister of Revenue

Agree / Disagree

Agree / Disagree



Hilary Eade
Kaiaki, Housing Affordability, Te
Tūāpapa Kura Kāinga

25 / 11 / 2021



Hayley Hamilton
General Manager, Employment and
Housing Policy, Ministry of Social
Development

25 / 11 / 2021

Hon Dr Megan Woods
Minister of Housing

Hon Carmel Sepuloni
Minister for Social Development and
Employment

13 / 12 / 21

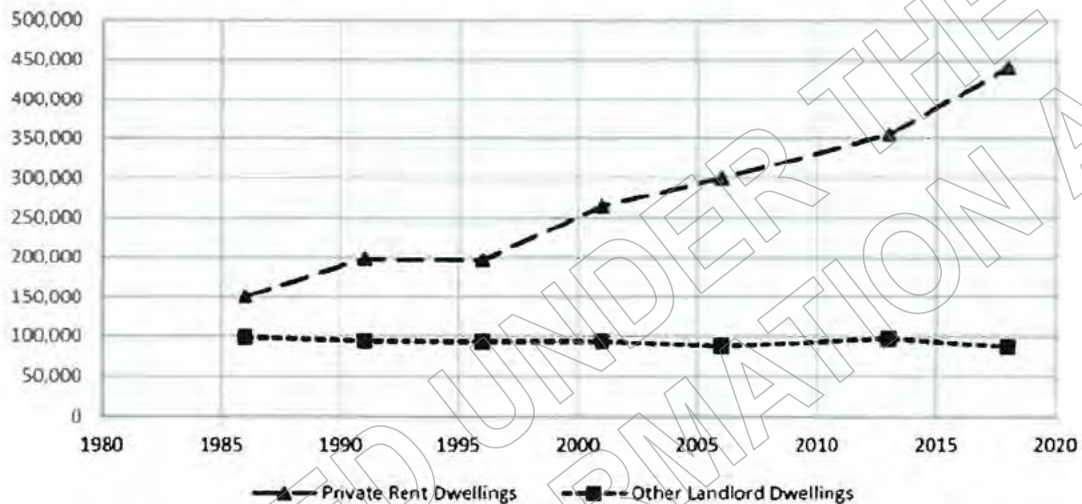
Background

11. Income Support Ministers have requested two tracks of advice for the Accommodation Supplement Review:
 - a. track one: Advice on how the Accommodation Supplement could be used to support increasing the supply of housing for low-income households, led by Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD)
 - b. track two: Advice on how to improve the Accommodation Supplement as an income support tool for low-income New Zealanders with high housing costs, led by Ministry of Social Development (MSD).
12. The Accommodation Supplement has a role both as income support for low-income households to help with housing costs and as a key housing intervention that could be more effectively used to achieve wider government housing objectives. s9(2)(f)(iv)
[REDACTED]
s9(2)(f)(iv)
[REDACTED]
13. The Government Policy Statement on Housing and Urban Development includes the focus area “enable people into stable, affordable homes”, signalling the government will adopt a more enduring market-shaping and market-making role, with an emphasis on enabling more affordable and secure housing options. This role includes addressing the gap between public and community affordable housing provision and renting/owning in the market.
14. Ministers asked for advice on the following options for Accommodation Supplement:
 - a. how capitalisation could be made to work, including consideration of how capitalisation has worked in the past
 - b. s9(2)(f)(iv)
[REDACTED]
 - c. how take-up of the Accommodation Supplement by non-beneficiaries could be improved and s9(2)(f)(iv)
[REDACTED]
15. This paper sets out potential changes that could be progressed across both tracks and provides material for discussion with Income Support Ministers on 6 December 2021.

Rental market context

16. New Zealanders are increasingly relying on the rental market for housing. Fundamental change in role of the Accommodation Supplement depends on sufficient rental supply for low- and moderate-income households. In the last 35 years an increasing proportion of households are renting from private landlords rather than non-private providers like Kāinga Ora, councils, iwi, Māori trusts, and community housing providers. Figure 1 shows New Zealand’s investor-owned private rental dwellings have increased by 300 percent since the introduction of the current welfare system in the mid-1980s. Non-private rental supply has stayed the same even as the population has grown.

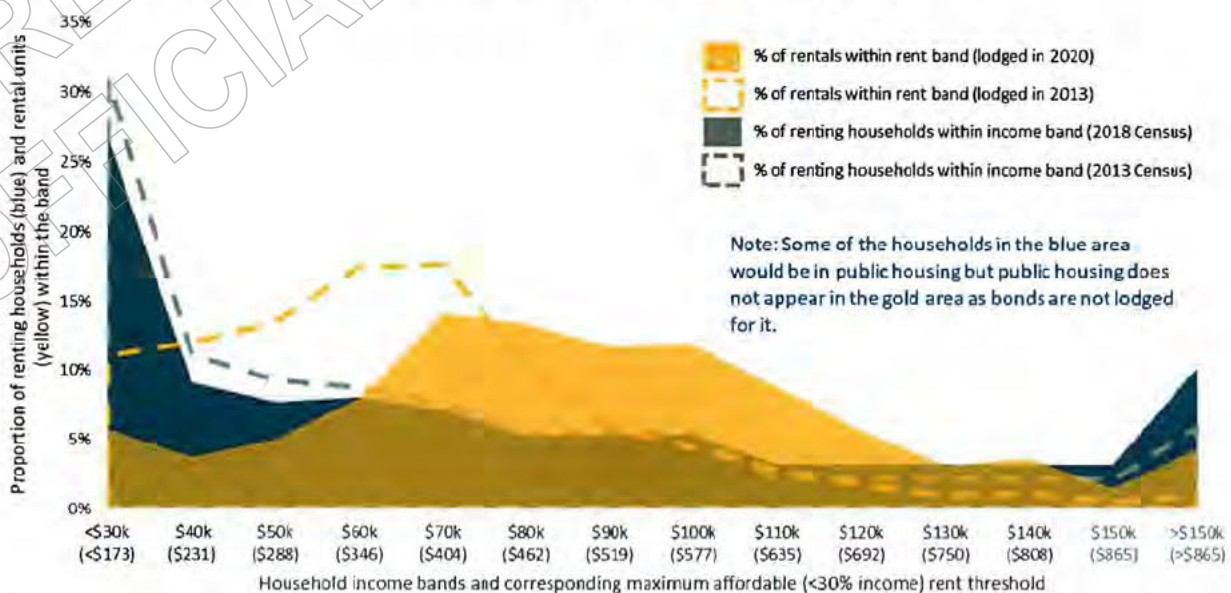
Figure 1: Private landlord and other landlord dwellings 1986-2018



Source: Kay Saville-Smith, *Building Better Homes, Towns and Cities* research note

17. This means that an increasingly large share of New Zealanders pay rent that moves with the market. Fewer low- and moderate-income households are cushioned from market rents by having a not-for-profit landlord, with the stock of non-market rentals having stood still over time. Figure 2 shows how rental increases (yellow) have moved ahead of income growth (blue), leading to fewer affordable rentals (based on 30 percent of income) at lower incomes.

Figure 2: Visualising rent affordability vs incomes since 2013



18. The Government is spending a significant and increasing amount on the Accommodation Supplement and Temporary Additional Support, but many households paying market rents

are still experiencing rent stress. This is because New Zealand does not have a sufficient supply of rentals, particularly those that are affordable to low-moderate income households. The Accommodation Supplement spend (approximately \$1.71 billion in 2019/20) has supported renters but is not designed to stimulate rental supply.

Broader system support for increasing housing supply

19. The government has a broad work programme to increase housing supply (whether for home ownership or rental). These measures include increasing land for affordable housing, investment in housing infrastructure, and community and Māori housing provision.
 - a. the Housing Acceleration Fund (\$3.8 billion) is aimed at infrastructure investment that supports development in locations facing the greatest housing supply and affordability challenges. It also includes funding for the Land for Housing programme accelerate development of under-utilised or vacant Crown land, operate in more regions and deliver a broader mix of rentals and owner-occupied housing
 - b. the Kāinga Ora Land Programme (\$46 per annum operating to service \$2 billion in borrowing) will scale up the acquisition of land to increase the pace and scale of housing developments
 - c. the Māori Infrastructure Fund (\$380 million) and Whai Kāinga Whai Ora (\$350 million) will increase scale and improve the mix of housing delivered by Māori for Māori
 - d. the Resource Management (Enabling Housing Supply and Other Matters) Amendment Bill will bring forward the National Policy Statement on Urban Development 2020 and enable increased medium density housing in tier 1 council areas.
20. These measures will lift housing supply across New Zealand as part of the mid-term economic response to COVID-19. More funding will be needed over the long-term to increase the supply of public housing and subsidised rental housing for low- and moderate-income households. In this context, Ministers asked how the Accommodation Supplement could support better housing outcomes, including the role of capitalisation to support home ownership.

Previous capitalisation schemes encouraged home ownership but the context has changed

21. The Universal Family Benefit (UFB) was introduced as part of the Social Security Amendment Act 1945. UFB started at a rate of 10 shillings (nominally \$1) per week per child, payable for 15 years. This entitlement was irrespective of family circumstances or need.
22. The 1958 Budget lifted the UFB rate to 15 shillings and families receiving the UFB could capitalise up to £1000 (nominally \$2000) of future UFB payments for a deposit on building a house. Families further benefited from an increase in the tax exemption for a dependent wife (offsetting a decrease in the personal exemption), and those on annual incomes less than £1000 could access low-interest housing loans (three percent). The mean annual income was £750 and average family size was nearly four children. The full suite of Crown schemes therefore created powerful incentives to build family housing for a growing population.
23. Figure 3 provides an indicative comparison of the UFB capitalisation to an Accommodation Supplement recipient in 2021 used to analyse capitalisation of the Accommodation Supplement. This analysis emphasises the change in context between the UFB era and 2021, especially for house prices.

Figure 3: Comparing Universal Family Benefit to Accommodation Supplement

	1961 household ¹	Equivalent value 2021	2021 example AS recipient ²
Household income	£800	\$70,000	\$62,571
UFB weekly	45s (£2.5s)	\$190	-
UFB annual (3 children)	£117	\$9,855	-
AS weekly	-	-	\$34
Family tax credit	-	-	\$196
In-work tax credit	-	-	\$72
Best start tax credit	-	-	\$60
Capitalisation/grants	£1000	\$45,973	\$38,400
House sale price	£3320	\$260,000	\$590,000
Remaining service after grant deducted	£2320	\$215,027	\$551,600
Interest rate ³	3%		5.4%

¹ Assumes families capitalised the maximum allowable under the UFB scheme. Wages and housing costs convert differently to 2021 values.

² Assumes sample family (2 non-beneficiary adults, 3 children aged 10, 4 and 1 accessing maximum relevant WFF credits), capitalised 15 years of Accommodation Supplement in 2021 and added maximum First Home Grant, ignoring price caps, and purchasing lower-quartile house. KiwiSaver is not included in this comparison.

³ 1961 interest rate over 15 years, 2021 current 5-year mean rate

24. UFB lost purchasing power and relevance during the 1970s as birth rates declined, and by the mid-1980s capitalisation of the UFB was no longer used as a route to home ownership. The UFB was replaced by tax credits and welfare payments based on need and the Housing Corporations Home Deposit scheme. As means testing meant a family may not qualify for assistance if their circumstances changed, capitalisation was no longer considered viable.
25. The mean house value at the end of the UFB scheme in 1985 was approximately \$55,000 - three times household income. Home ownership peaked at 73.8 percent in 1991, six years after the UFB ended. House values are now between eight-to-ten times household income, and home ownership has fallen below 65 percent. Home purchasers face increasing barriers as the deposit required for first home purchase rapidly grows, while those who already have equity are using low interest rates to leverage more property purchases for private rentals.

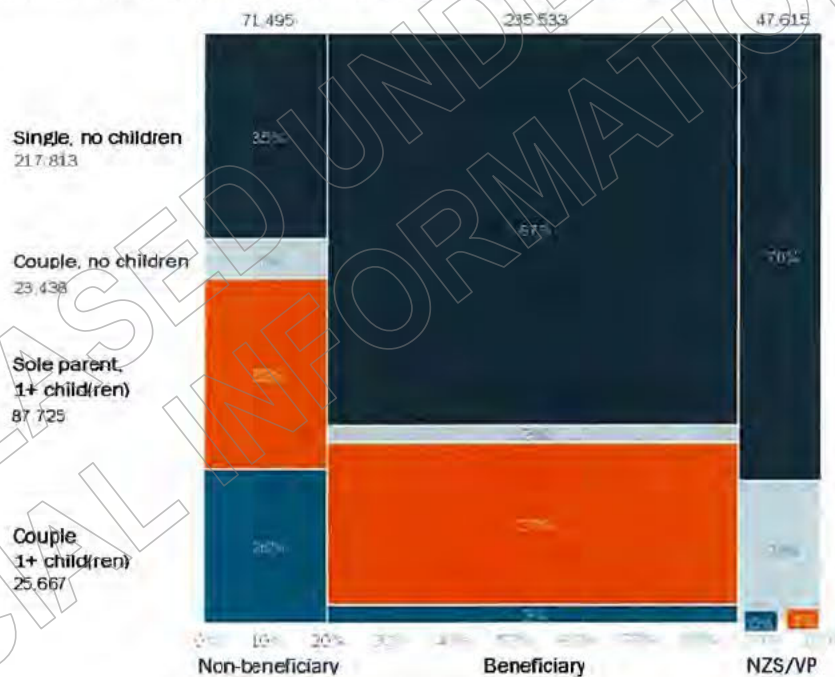
Using the Accommodation Supplement to support better housing outcomes, including capitalisation

26. You have key choices about how to use the Accommodation Supplement spend more effectively to support housing outcomes. Income Support Ministers have specifically asked us to look at capitalisation of the Accommodation Supplement to support people into home ownership – this analysis and advice is set out in the next section. The Accommodation Supplement is provided to people and households based on need, considering cash and equivalent assets and the proportion of household income committed to housing costs. As need reduces (through increased income, assets, or reduced housing costs), the

Accommodation Supplement may abate. The Accommodation Supplement and cut-out rates are also affected by where a recipient lives.¹

27. The potential role of Accommodation Supplement capitalisation varies depending on a recipient's situation (Figure 4 provides an analysis of Accommodation Supplement recipients by income source and household type²):
- most Accommodation Supplement recipients (80 percent) are beneficiaries or New Zealand Superannuation or Veteran's Pension recipients who are renting or boarding. Approximately 14,000 pensioners and 16,000 beneficiary households are homeowners who receive Accommodation Supplement to help service their mortgage
 - most Accommodation Supplement recipients (61 percent) are single with no children. Outside of Auckland and Wellington, there is a limited supply of one and two-bedroom dwellings for single people to purchase or rent
 - most Accommodation Supplement recipients do not have substantial assets to support a house deposit. To remain eligible for the Accommodation Supplement, a single person must not have cash assets above \$8,100 and a couple or sole parent must not have more than \$16,200.

Figure 4: Accommodation Supplement recipients by income source and household type²



Source: MSD administrative data, as of 29 October 2021

Modelling Accommodation Supplement capitalisation

28. Annex A shows a selection of scenarios used to model Accommodation Supplement capitalisation and alternatives such as PHO and low interest loans. These are discussed further below in paragraphs 32-39.

¹ For each of the four Accommodation Supplement areas, one location has been used as an example for scenarios: Area 1 – Auckland, Area 2 – Wellington, Area 3 – Rotorua, Area 4 – Invercargill.

² The numbers across the top of the figure represent total recipients by income source: Non-beneficiary recipients (71,495), Beneficiary recipients (235,533) and NZS/VP recipients (47,615). The figures down the left-hand side represent total recipients by family type: Single, no children recipients (217,813), Couple, no children (23,438), Sole parent, 1+ child(ren) (87,725), Couple, 1+ child(ren) (25,667). Both the row and column total to 354,643 total recipients.

29. Scenarios tested different model Accommodation Supplement households in different locations (Auckland, Wellington, Rotorua and Invercargill) and compared capitalisation with PHO and a hypothetical low-interest long-term loan. Combinations of these interventions were also tested.
30. Most scenarios show substantial affordability gaps and demonstrate that capitalising the Accommodation Supplement by itself to subsidise a house purchase is generally not feasible. A small percentage of households would benefit from being able to capitalise their Accommodation Supplement for a house purchase. Those that could purchase a house this way would be better served by a PHO scheme.

Capitalisation would not work for beneficiaries and pensioners: mortgage serviceability is the barrier

31. No Accommodation Supplement capitalisation scenario would systemically help beneficiaries and pensioners into home ownership as neither of these groups can service a mortgage and cover living costs with their income. For example:
 - a. a single person in Auckland on Jobseeker support would have an affordability gap of around \$390,000 to buy a one-bedroom home (see Annex A, Figure 1)
 - b. a sole parent of two children in Christchurch would be around \$280,000 short of buying a three-bedroom home (Annex A, Figure 2).
32. Pensioners are additionally disadvantaged as banks will not provide long-term lending to them. For beneficiaries and pensioners, public housing and affordable rentals can provide equivalent housing security to home ownership and provide adequate after-housing-costs incomes to cover other expenses.

Capitalisation would not work for non-beneficiaries in high-priced areas without significant additional subsidies

33. Non-beneficiary Accommodation Supplement recipients in areas 1 and 2 (47,000 households primarily in Auckland, Tauranga, Waikato, Wellington and Christchurch, approximately 16 percent of recipients) cannot systemically accumulate or capitalise a sufficient deposit to purchase a lower quartile dwelling in the same area. Raising or removing the cash asset caps may enable these households to increase their deposit but would broaden Accommodation Supplement eligibility and cost significantly more.
34. Even where a household can accumulate enough deposit combined with existing First Home Products, households on relatively low incomes would still struggle to afford a home without substantial additional support. For example, a sole parent of two children in Auckland with a household income of \$40,000 would need an additional \$500,000 to afford a three-bedroom home in Auckland (Annex A, Figure 3).
35. These 47,000 Accommodation Supplement recipients are more likely to benefit from an affordable rental or a public house if they are eligible. Recipients in areas 1 and 2 who are close to the income caps and smaller households are potentially able to buy a home through PHO.

Capitalisation could work for non-beneficiary Accommodation Supplement recipients in areas with lower house prices, but PHO is a better option

36. Accommodation Supplement capitalisation would potentially assist with home ownership for non-beneficiary Accommodation Supplement recipients in areas with lower house prices where they could service a commercial mortgage or a PHO scheme with their remaining income. These households need suitably sized houses to purchase and long-term stability of their income relative to mortgage servicing costs.
37. In area 3 locations such as Rotorua, a couple with two children and household income of \$60,000 per year could capitalise their weekly Accommodation Supplement into \$30,000 to

add to their deposit (Annex A, Figure 4). Comparatively, a PHO scheme alone would be enough to assist this example family into home ownership.

38. In area 4 locations such as Invercargill, a couple with one child on an annual income of \$40,000 would only need a PHO scheme to buy a two-bedroom home. Annex A, Figure 5 shows the large proportion of such a purchase that would be serviced by benefits.

We do not recommend pursuing Accommodation Supplement capitalisation

39. We estimate an Accommodation Supplement capitalisation scheme has the potential to help (at most) four percent of recipients into home ownership, assuming there is a supply of suitable lower-quartile homes. PHO provided better support in every scenario where capitalisation assisted with ownership. s9(2)(f)(iv)

40. Accommodation Supplement capitalisation would also not provide support to those in the greatest housing stress. We are concerned about single people and pensioners, who are both under stress and who have the least choice of right-sized accommodation supply.

41. In addition to the very small cohort that would benefit from capitalisation, there are additional issues:

- a. capitalisation is complicated, due to the abatement and eligibility criteria designed into the Accommodation Supplement. Lower quartile house price fluctuations further complicate this as a path to home ownership
- b. households purchasing a home with the aid of Accommodation Supplement capitalisation could find themselves in additional financial stress, particularly if they need to fund one-off costs or suffer financial shocks, and would no longer have access to the Accommodation Supplement for weekly costs
- c. Accommodation Supplement capitalisation would add another government homeownership product to an already complex set of offerings.

s9(2)(f)(iv)

42. s9(2)(f)(iv)

- 43.

s9(2)(f)(iv)

44. s9(2)(f)(iv)

s9(2)(f)(iv)

45.

46.

s9(2)(f)(iv)

47.

s9(2)(f)(iv)

48.

s9(2)(f)(iv)

s9(2)(f)(iv)

49.

50.

s9(2)(f)(iv)

51. s9(2)(f)(iv)

s9(2)(f)(iv)

s9(2)(f)(iv)

52.

53.

s9(2)(f)(iv)

54. s9(2)(f)(iv)

55.

56.

57.

s9(2)(f)(iv)

58. s9(2)(f)(iv)

59.

s9(2)(f)(iv)

s9(2)(f)(iv)

60. s9(2)(f)(iv)

61.

Public housing is still needed for those who are eligible

62. Demand for public housing has grown rapidly; in September 2021 there were 24,546 applicants on the public housing register. Māori disproportionately make up around half of those on the register, and Pacific peoples about one in eight. In the year to September 2021, an additional 3,131 applicants were added to the register, while 2,490 public homes were added to supply by Kāinga Ora – Homes and Communities and community housing providers.
63. Investment through the Public Housing Plan 2021-24 will see the total number of public and transitional homes increase to 87,919 by June 2024, up from 69,569 in June 2018.
64. Demand for one-bedroom units represents about half of the current housing register and reflects a lack of housing suitable for single adults and retired singles to live independently. In many places there are few one-bedroom rentals available leading to single adult households sharing accommodation or competing with families for larger homes.
65. Sole parents make up the next largest group on the Housing Register. While sole parents can receive significant levels of Accommodation Supplement and Temporary Additional Support to meet the cost of rentals, rental supply is still a problem in many places.

Work programme for Track Two

66. The Accommodation Supplement is a core component of income support for low-income households. In the second track of the Accommodation Supplement Review, ministers have requested advice on how to improve the Accommodation Supplement as an income support tool.

67. s9(2)(f)(iv)

68.

69. This track of the Accommodation Supplement Review will align with timing with the Working for Families Review. s9(2)(f)(iv)
70. The two potential option workstreams of Track Two include:
- a. s9(2)(f)(iv)
 - b. increasing take-up of the Accommodation Supplement by non-beneficiaries.

s9(2)(f)(iv)

71. s9(2)(f)(iv)

72.

Increasing take-up of Accommodation Supplement by non-beneficiaries

73. Given the current gap in affordable supply, in the short-term there is merit in ensuring that as many households that are eligible take up the Accommodation Supplement to help with housing costs. Low take-up of the Accommodation Supplement among non-beneficiary households is an issue. In 2019 MSD modelled the take-up rate among non-beneficiary households using 2017/18 Household Economic Survey (HES) data in the Integrated Data Infrastructure (IDI). Key findings from this work showed that in the year to June 2019, around 100,000 households may have been eligible for Accommodation Supplement but did not receive it. Approximately 84 percent of this group are employed and 38 percent are families with children.
74. Improving take-up of the Accommodation Supplement among working households would contribute to reducing housing stress, improve income adequacy for people who are working, improve financial incentives to obtain employment and reduce child poverty. A higher take-up rate may also reduce the need for other housing support and third tier assistance and could reduce churn onto main benefits (as the Accommodation Supplement provides additional income support for lower-income households in work).

75. s9(2)(f)(iv)

s9(2)(f)(iv)

76.

s9(2)(f)(iv)

77.

s9(2)(f)(iv)

78.

s9(2)(f)(iv)

79.

s9(2)(f)(iv)

80.

Data and analysis

81. MSD has research work underway that will inform option development across track two and new work that will inform assessment of options.

82. Existing work already underway includes:

- a. **Motu research:** 2018 Motu research looking at the impact of the maxima increase in 2005, found that approximately 36 percent of the increase in Accommodation Supplement payments were absorbed by higher rents. However, it was not possible from the 2018 analysis to determine if the subsequent increase in rental payments were the result of recipients being able to spend more and improving the quality of their housing.

Motu have recently investigated the impact of the 2018 Families Package Accommodation Supplement changes on housing outcomes. This research seeks to

⁹ An HTC is currently used in the US at a state level. California offers a "Non-refundable renter's credit" of \$60 (singles) and \$120 (couples) per week where a person(s) has paid rent in California for at least half the year and has had income of \$43,533 (singles) or \$87,066 (couples) or less.

understand the effect of the 2018 policy changes (increasing the Accommodation Supplement maxima and changes to area allocations) on rents. The Minister for Social Development and Employment will receive an update with the final report and the key findings in December 2021. The report will then be published in early 2022. s9(2)(f)(iv)

- b. **national survey:** following the Budget 2021 benefit increase, MSD is undertaking a work programme to understand people's experiences of the increases in main benefit rates. MSD is conducting a survey to gather nationally representative information on awareness and understanding of other income support payments (i.e., Working for Families and Accommodation Supplement), claiming experience and non-take-up. Accommodation Supplement will be a particular focus for these questions and findings will feed into the work programme to increase non take-up. The survey is being developed, with the aim of having headline results by June 2022.

83. MSD is also beginning work to address questions about the drivers of housing costs and how recent income support measures have impacted after-housing-costs incomes:

- a. **understanding the drivers of housing costs for low-income households:** MSD is undertaking work to understand the drivers of housing costs for low-income households. This work is beginning with a literature review looking at individual and household level factors that are driving the variability in low-income housing costs in New Zealand
- b. **understanding the impacts of the 2021 benefit increase on after-housing-cost incomes:** using an updated benefit income dataset to understand how before- and after-housing-cost-incomes have changed over time. Additional analysis to include understanding how housing costs are changing geographically, modelling housing costs by family type, and understanding the changing levels of severe housing stress (low after-housing-costs incomes).

Consultation and Engagement

84. The Minister for Social Development and Employment and the Minister of Revenue agreed to public engagement and targeted engagement with key stakeholders and experts across both Working for Families and Accommodation Supplement Reviews. The Working for Families Review is considering more fundamental changes to the structure and design of Working for Families payments. In September, Ministers agreed to defer public engagement on the Working for Families Review until April/May 2022 [REP/21/8/873 refers].

85. Proposed engagement for the Working for Families Review and Accommodation Supplement will include:

- a. public engagement using an online process with survey questions and ability to submit written submissions (online or via post). Guidance material will be provided outlining the purpose of the engagement, background information about Working for Families and Accommodation Supplement, the key objectives and constraints of the review and a limited number of questions to guide submissions
- b. targeted engagement with a limited number of experts and key stakeholders. Officials have identified an initial list of possible experts and key stakeholders who could be invited to participate in meetings with officials.

86. s9(2)(f)(iv)

87. Officials recommend that no public engagement on Accommodation Supplement proceeds in May 2022. Officials consider that there is still merit in the targeted engagement with experts and key stakeholders to inform option development.

Risks

88. Focusing on generating better housing outcomes using the Accommodation Supplement is a challenging way to examine strategic housing outcomes. We have recommended that housing programmes focus on specific housing outcomes and include objectives that lead to less reliance on the Accommodation Supplement.

Consultation

89. The Treasury, Department of Prime Minister and Cabinet, Inland Revenue and Oranga Tamariki have contributed to this report.

Next Steps

90. In December 2021, the Minister for Social Development and Employment will receive the Motu report and findings for publication in early 2022.
91. Based on decisions made in this paper and discussion with Income Support Ministers, officials will provide further advice in 2022 on ^{s9(2)(f)(iv)} and the Accommodation Supplement work programme.

Annexes

92. A – Accommodation Supplement scenarios to test capitalisation.

Annex A: Accommodation Supplement scenarios to test capitalisation

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Annex A: Accommodation Supplement scenarios to test capitalisation

To model Accommodation Supplement capitalisation in different scenarios, we have assumed:

- 15 years of Accommodation Supplement is capitalised for a deposit.
- KiwiSaver (5 years) and First Home Grants are included in the deposit by default, and a First Home Loan is used (5% deposit).
- Households purchase a lower quartile house in the same area they live in, on a 30-year term based on 6.5% interest.
- Household incomes are after tax, inclusive of Working for Families.
- We have also modelled scenarios using low-interest loans (2%), and the Progressive Home Ownership scheme (25% shared equity).

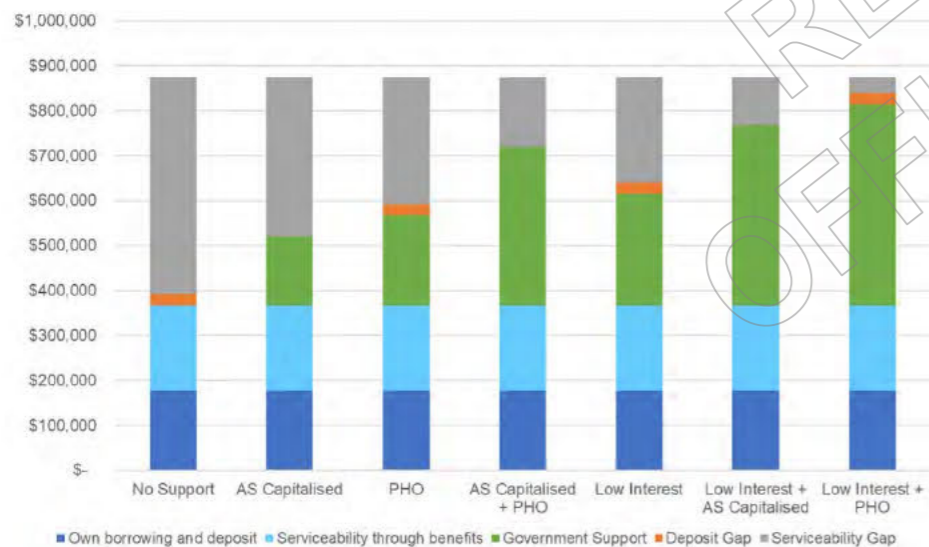
Figure 1: Single person living in Auckland on Jobseeker support buying a one-bedroom home



Figure 2: Sole parent living in Christchurch on Jobseeker support buying a three-bedroom home

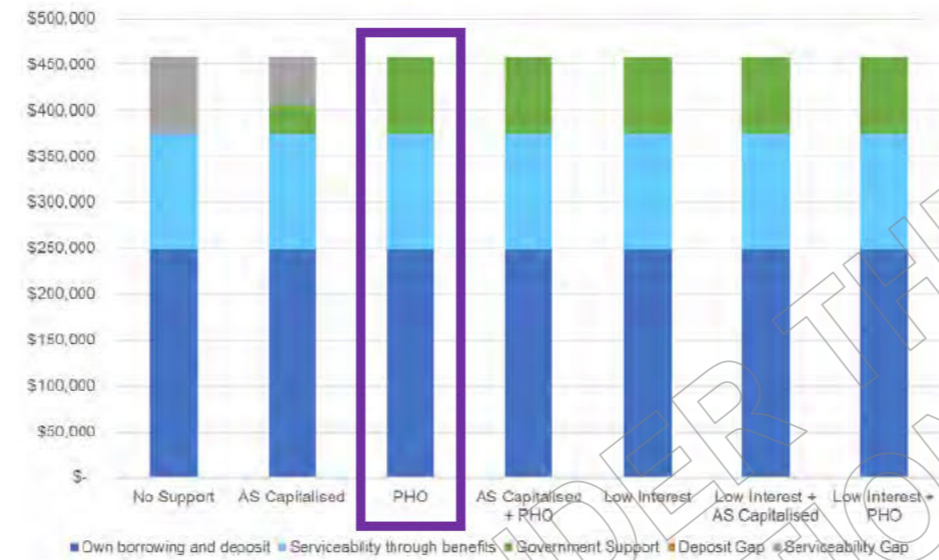


Figure 3: Auckland single non-beneficiary with two children and household income of \$40,000 buying a three-bedroom home



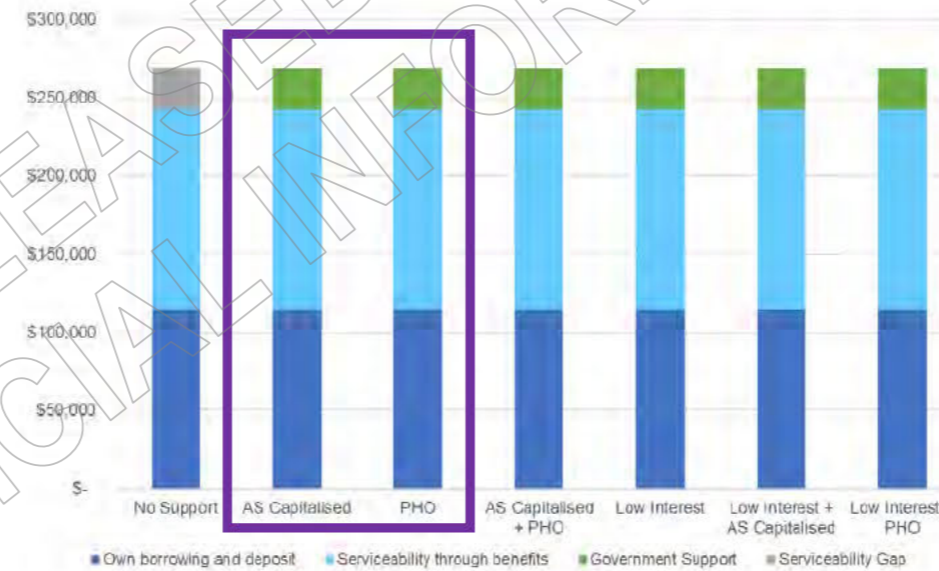
There are no scenarios where existing government support or adding Accommodation Supplement capitalisation enables purchase of a suitable dwelling. Government support and benefits would need to cover 80% of the total.

Figure 4: Rotorua non-beneficiary couple with two children and household income of \$60,000 buying a three-bedroom home



Subject to available supply, a Progressive Home Ownership scheme would enable this family to purchase a dwelling.

Figure 5: Invercargill non-beneficiary couple with one child and household income of \$40,000 buying a two-bedroom home



Subject to available supply, both capitalised accommodation supplement and Progressive Home Ownership would enable this family to purchase a dwelling. Government support and benefits would cover over half of the total.

s9(2)(f)(iv)

Aide-mémoire



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

Meeting

Date: 3 December 2021 **Security Level:** Budget Sensitive

For: Hon Carmel Sepuloni, Minister for Social Development and Employment

File Reference: REP/21/12/1326

Income Support Ministers' discussion on the Accommodation Supplement

Meeting details 5.15pm, 6 December 2021

Expected attendees Minister for Child Poverty Reduction, Minister of Finance, Minister for Children, Minister of Housing, Minister of Revenue

Purpose of meeting This meeting is to discuss the recent briefing from Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD) and the Ministry of Social Development (MSD) on next steps for the Accommodation Supplement (AS) Review.

Background Income Support Ministers had previously indicated that they would like to consider further advice on the AS across two tracks:

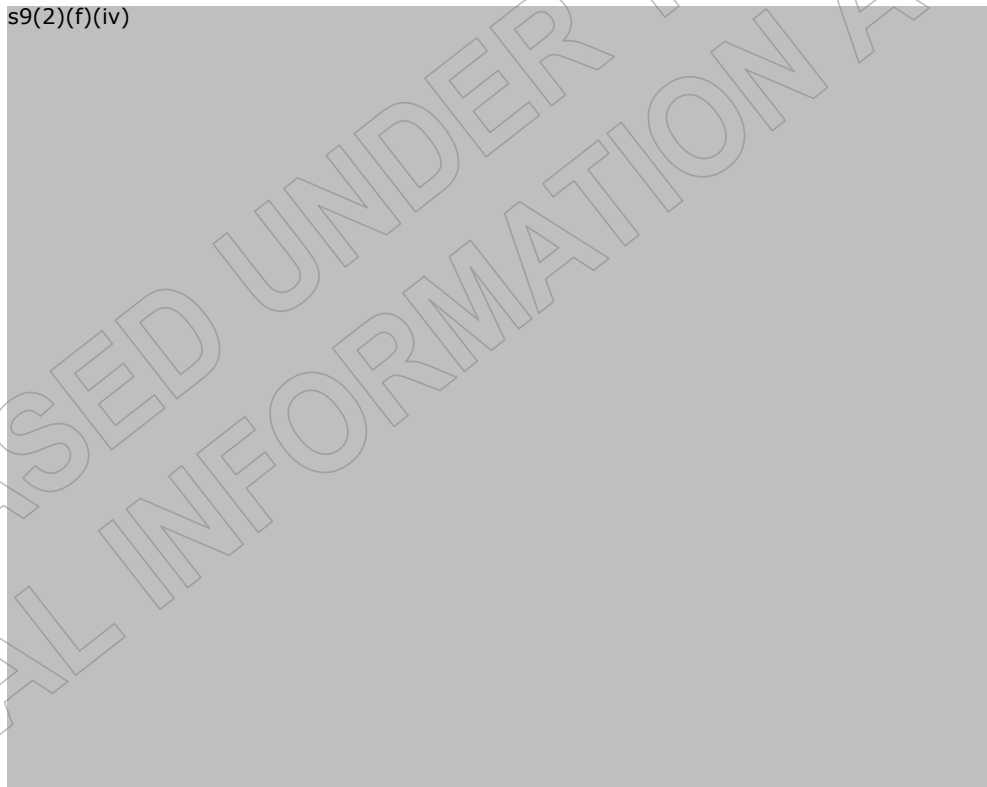
- Track One: Advice on how the AS could be used to support increasing the supply of housing for low-income households (led by HUD)
 - Track Two: Advice on how to improve the AS as an income support tool for low-income New Zealanders with high housing costs (led by MSD).
-

**AS Briefing –
track one
advice**

HUD’s advice is that capitalisation of AS for home ownership would only work for approximately 4% of current AS recipients. These are likely to be working households in areas with lower house prices. In addition, capitalisation is unlikely to be a realistic option for:

- Beneficiaries and New Zealand Superannuation / Veteran’s Pension recipients due to their limited ability to service a mortgage (especially without the ongoing support of the AS), and
- Non-beneficiary households in the main cities, unless there are significant additional subsidies available to help with the costs of a house deposit.

s9(2)(f)(iv)




**AS Briefing –
track two
advice**

For the part of the AS Review led by MSD, we recommend that this work aligns with the Working for Families Review, s9(2)(f)(iv) [redacted].

MSD has considered two workstreams:

- s9(2)(f)(iv) [redacted]
- Consideration of options to increase take-up of AS by non-beneficiaries.

s9(2)(f)(iv)



s9(2)(f)(iv)



Progressing work to increase take-up in the short-term

In the short-term MSD recommends work to increase take-up by non-beneficiaries. s9(2)(f)(iv)



MSD has a data and analysis workstream to inform these options. This includes a national survey, that among other things, will ask questions about awareness of the AS and reasons as to why people who may be eligible have not taken it up.

Recommend to not proceed with public engagement

We also seek clarification on the planned public engagement for the AS Review alongside the Working for Families (WFF) Review. s9(2)(f)(iv)



Out of scope



Next steps

MSD and HUD will provide further advice on AS in 2022.

Author: Alana Roughan, Principal Policy Analyst, Employment and Housing Policy

Responsible manager: Hayley Hamilton, General Manager, Employment and Housing Policy