

The Treasury

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From: [7]
Sent: Friday, 8 February 2013 4:04 p.m.
To: 'gary.white@parliament.govt.nz'
Cc: [7] John Laxon; [7]
Subject: Warm Up New Zealand Budget Bid - Targeting options.

Categories: Other

Hi Gary,

We understand that Minister Bridges is meeting with Minister Coleman on Monday to discuss Warm Up New Zealand. We are currently working on advice which will be provided in advance of budget ministers meetings in March but have included below some initial thoughts on targeting and costs to inform the discussions at the meeting. Note that these thoughts are preliminary and we will provide further advice following direction from Ministers.

1. Current programme

The current programme offers two subsidy rates: a 60% uncapped subsidy for Community Service Card (CSC) holders and 33% (capped at \$1,300) for any other income level group. Many insulation retrofits for CSC holders receive third party funding from the private sector to fund the remaining 40%.

230,000 insulation retrofits have been completed at a cost of \$347million since 2009. Of this 105,000 were in low income households and 125,000 were in general income households.

2. Benefits of the Programme

Evaluations have estimated that the cost benefit ratio of the programme is around 3.9:1, however, 71% of these benefits arise from avoiding death (at a value of \$150,000 a year) in people over 65 who had been hospitalised for a circulatory illness (Motu, 2013). The cost benefit ratio when this group is removed is much smaller (approximately to 1:131, Motu, 2013)[7]

3. Targeting options

Given the non-uniform nature of the benefits, the effectiveness of the programme will be maximised by targeting the groups who derive the highest benefit from insulation. Treasury's initial view is that any further extension be limited to the following groups:

a) Elderly:

Given that a large proportion of the benefits of insulation accrue to elderly with circulatory illness, the Government could target this demographic, using either a DHB referral to target the specific health needs and income levels, or through the Super Gold Card as a way to target the entire population over 65. A low-income targeting option would limit eligibility to CSC-endorsed Super Gold Cards.

b) Low income with children:

Children under 5 are more susceptible to developing respiratory illness and spend more time in the home than older children and adults and would therefore benefit more from insulation than households without young children. This group can be targeted through community service card holder eligibility combined with proof of children under 5.

c) The Rental Market

Much of New Zealand's low income households are renters. Currently, there is little incentive for landlords to insulate their rental homes as they do not receive the full benefits of insulation. Neither the current WUNZ programme, nor MBIE's proposed extension addresses this problem. The uptake of the current scheme has been

disproportionately by owner occupied households (14% of all retrofits were in rental houses). How to target low income renters and whether the government is interested in subsidising a capital improvement for landlords who are not in the low income bracket themselves are considerations that need to be made when developing this extension.

Housing Affordability: Any plans to target the private rental market need to consider the impact on housing affordability. If private landlords pass on the costs of retrofitting insulation to tenants it may create a financial barrier for low income households to access affordable, insulated rental properties.

Rheumatic Fever: If the programme were to be used to target rheumatic fever, targeting would have to be narrowed considerably by region, ethnicity, age of occupants and income. The Ministry of Health has strong evidence that rheumatic fever is concentrated among areas of overcrowded houses in the North Island, and particularly in South Auckland. Rheumatic fever is a rare disease (180 cases per year nationally) and even with strong targeting it will not be guaranteed that an extension of WUNZ will stop the spread of rheumatic fever. Insulation works to combat rheumatic fever primarily by an indirect route: by warming houses therefore avoiding overcrowding of rooms. If WUNZ is extended for the rationale to reduce rheumatic fever, we recommend MBIE works closely with the Population Health team of the Ministry of Health to determine targeting.

4. The size and cost of un-insulated housing

230,000 insulation retrofits have been completed at a cost of \$347million since 2009. MBIE estimate there are a further 650,000 under-insulated homes in New Zealand;

MBIE has estimated that the average subsidy cost for low-income households is \$1,800. Assuming that only low income households were targeted, and the subsidy remained at 60% of the total cost then the number of houses that can be insulated under various per annum quantum regardless of targeting is below:

Total Funding Provided per annum \$M	No of Low Income Houses Insulated Q
10	3,846
20	8,846
30	13,846
40	18,462
50	23,077
60	27,692
70	32,308
80	36,923

Another option is to change the proportion of the insulation cost that the Government subsidises. MBIE have indicated that they have third party funders lined up to provide the remaining 40% for many of these retrofits and that changing the proportion of the subsidy may jeopardise this. Further advice on scaling options and uptake implications will be provided to inform Budget Ministers’ decisions.

5. Complementary policy initiatives

Any non subsidy proposals to increase insulation such as mandatory disclosure of insulation levels or minimum performance standards should be looked at alongside the Government’s response to the recommendation for a WoF in the white paper on Vulnerable Children.

Let me know if you have any questions,

Cheers,

[7]

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