The Treasury

Budget 2017 Information Release

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[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

THE TREASURY
Kaitohutohu Kaupapa Rawa

Treasury Report: Supplementary information about tax and transfers (No. 3)

Date:	17 February 2017	**Report No:**	T2017/265
		File Number:	SH-13-5-2-3

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Steven Joyce)	**Note** the enclosed information.	Friday, 24 February 2017
Associate Minister of Finance (Hon Simon Bridges)		
Associate Minister of Finance (Hon Amy Adams)		

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
[34]	Analyst, Tax Strategy	[39]	[23]	✓
Dr Eina Wong	Senior Analyst, Tax Strategy	[39]	[23]	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes

Treasury Report: Supplementary information about tax and transfers (No. 3)

Additional information was requested about tax and transfers following recent reports (T2017/170, T2017/164, T2017/152, T2017/197 and T2017/218), and meetings with officials.

	Date	Title	Description
Information tabled at the meeting on 13 February 2017			
1	13 February 2017	A3 of Straw packages for discussion	
Family Tax Credit			
2	17 February 2017	Family Tax Credit rate change options	
Accommodation Supplement			
3	17 February 2017	Accommodation Supplement – returning residual incomes to 2006 levels	
4	17 February 2017	Phasing of Accommodation Supplement changes	Describes an option to gradually phase in the proposed changes to AS over four years.
5	17 February 2017	Eligibility settings for the Accommodation Supplement and Social Housing	Describes high-level options for changes to these settings.
6	17 February 2017	Mid-year implementation of Accommodation Supplement changes	

Information still to be provided

After meeting with you on 13 February 2017 we have reprioritised the information still to be provided. We expect to provide for the Friday report next week (24 February):

- An updated graph of the Unemployment Benefit / Jobseeker Support weekly net to AOTWE from 1990-2015 for different households.
- Advice on the impact of housing subsidies and benefit changes on the housing market.
- A paper analysing residual incomes.
- A reconciliation of attachments 2, 3 and 5 to *T2017/197 Supplementary information about tax and transfers*.
- An amended Attachment 4 (Breakdown of population by percentages) to *T2017/197 Supplementary information about tax and transfers* that removes the identification of students where there is also a primary earner.

We are working to provide you with:

- Previous MSD advice about social housing and creating incentives for matching clients to the right size house.
- The administrative costs for Temporary Additional Support (TAS).

- A cost estimate for greater take-up of TAS.

- Tables of Income Related Rent Subsidy (IRRS) by income (spend and recipients).

We will keep your office updated about when you can expect to receive this information.

Options for packages

On 13 February 2017 we discussed with you some straw package options. Following your feedback about options, we will analyse the cost, distributional impacts and labour supply impacts. In the interim, we are preparing an analysis of the cost for options A) Increasing the $48k threshold, aligning FTC rates, and AS options (Variation 3), and B) Increasing both the $14k and $48k thresholds, removing IETC, aligning FTC rates, and AS options (MixT). We expect to table this information at your meeting with officials on 20 February 2017.

Recommended Action

We recommend that you **note** the enclosed information.

Dr Eina Wong
Senior Analyst

Steven Joyce **Minister of Finance**	Hon Simon Bridges **Associate Minister of Finance**	Hon Amy Adams **Associate Minister of Finance**

Attachment 1: Straw packages for discussion, 13 February 2017

	Increase the $14k to $21k[1]	Increase the $48k to $55k[1]	Remove IETC	Align FTC rates	Increase AS[2]	Adjust IWTC	Estimated cost	Target groups	Aggregate impact on work incentives	Aggregate impact on incomes
Approximate Fiscal Cost	+ $1,100m	+ $1,100m	- $200m	+ $600m	+ $370m	- $19m				
Core package		X			X		$1.5b	Earners > $48k and in housing/financial hardship	Could be marginally positive, mainly for earners > $48k	Likely to increase for target groups
Variation 1		X	X		X		$1.3b	Core + indiv losers in $24-$48k	Could be marginally positive, mainly for earners > $48k; Needs further modelling	Likely to increase for target groups, but indiv losing IETC are worse off
Variation 2		X	X	X	X		$1.9b	Core + indiv losers in $24-$48k + families with children	Needs further modelling	Likely to increase for target groups, but indiv losing IETC are worse off
Variation 3		X		X	X		$2.1b	Core + families with children	Needs further modelling	Likely to increase for target groups
Variation 4		X		X		X	$1.7b	Earners > $48k + families with children	Needs further modelling	Likely to increase for target groups
LowT	X (or to $18k)		X		X		$1.3b ($0.8b)	Earners > $14k and in housing/financial hardship	Needs further modelling	Likely to increase for target groups (but indiv losing IETC are worse off with $18k)
MixT	Increase to $18k ($650m)	Increase to $52k ($700m)	X		X		$1.5b	Earners > $14k and in housing/financial hardship	Needs further modelling	Many families gain, but average gains likely to be small

1 Thresholds can be scaled.
2 AS package can be unpacked. Current proposals range between $300m and $370m.

Attachment 2: Family Tax Credit rate change options

This attachment explains the expected changes for Family Tax Credit (FTC) rates as a result of cumulative inflation.

One of the options being considered as part of a "tax and transfer" package for Budget 2017 is to set all of the different age rates for FTC to the "Age 16 to 18" rates. In effect, this means three FTC rates would be increased according to the following table:

Table 1: Option to align FTC rates

Status Quo		Proposal	
1st child			
ages 0-15	$ 4,822	ages 0-18	$ 5,303
ages 16-18	$ 5,303		
Subsequent child			
ages 0-12	$ 3,351		
ages 13-15	$ 3,822	ages 0-18	$ 4,745
ages 16-18	$ 4,745		

If this change occurs on 1 April 2018, it would cost approximately $580 million in the 2018/19 tax year. This cost would reduce in the next few years as WFF legislation requires all but the two "Age 16 to 18" rates of FTC to be indexed by cumulative inflation once that has passed 5% from the last indexation date. At the same time that an indexation round occurs, the WFF abatement threshold drops by $450 and the abatement rate increases by 1.25%. Under the most recent forecasts, the 2016 Half Year Economic and Fiscal Update (HYEFU), the next indexation is expected to occur on 1 April 2019.

Because all of the younger age FTC rates are expected to increase on 1 April 2019, and the "Age 16 to 18" rates will remain unchanged, this indexation reduces the gaps between the younger age rates and the "16 to 18" rates. This adjustment has already been included in the 2016 HYEFU forecast.

The indexation changes in 2019/20 provide a means of reducing the cost of the FTC rate alignment if the alignment is phased over three years, beginning in 2018/19 and reaching parity in the FTC rates by 2020/21.

Table 2, on the next page, shows the changing FTC rates under the status quo, immediate FTC parity and phased FTC parity options, plus the fiscal cost of each option in each tax year.

Table 2: Comparison of FTC

Tax Year	2018/19	2019/20	2020/21	3-year Total
Abatement threshold	$36,350	$35,900	$35,900	
Abatement rate	22.50%	23.75%	23.75%	
Eldest child, age 16 to 18, FTC	$5,303	$5,303	$5,303	
Subsequent children, 16 to 18, FTC	$4,745	$4,745	$4,745	
STATUS QUO				
Eldest child, age 0 to 15, FTC	$4,822	$5,119	$5,119	
Subsequent children, 13 to 15, FTC	$3,822	$4,057	$4,057	
Subsequent children, 0 to 12, FTC	$3,351	$3,557	$3,557	
IMMEDIATE FTC ALIGNMENT				
Eldest child, age 0 to 15, FTC	$5,303	$5,303	$5,303	
Subsequent children, 13 to 15, FTC	$4,745	$4,745	$4,745	
Subsequent children, 0 to 12, FTC	$4,745	$4,745	$4,745	
Fiscal cost in year	$577 million	$416 million	$410 million	$1,403 million
PHASED FTC ALIGNMENT				
Eldest child, age 0 to 15, FTC	$4,982	$5,143	$5,303	
Subsequent children, 13 to 15, FTC	$4,129	$4,438	$4,745	
Subsequent children, 0 to 12, FTC	$3,815	$4,281	$4,745	
Fiscal cost in year	$187 million	$227 million	$410 million	$824 million

Attachment 3: Accommodation Supplement – returning residual incomes to 2006 levels (Source: MSD)

Summary

This note discusses the possibility of an Accommodation Supplement (AS) option that focuses on returning (real equivalised) residual incomes to 2006 levels. It covers:

- A summary of the changes in residual incomes for AS recipients between 2006 and 2016, and:
- The limited ability of current settings to directly target residual incomes
    - Given these limits, the factors that need to be considered if residual incomes are targeted, particularly:
        - whether the desired option should restore residual incomes for most AS recipients, or AS recipients on average, and
        - the willingness to focus gains (to the extent possible) to groups whose residual incomes have declined the most (single-person households, non-beneficiaries), rather than to those whose incomes have not declined (superannuitants and sole parents) or have declined less than others (couples with children).

This option has not yet been modelled, as it was desirable to discuss the considerations above before settling on the exact parameters of a new option.

Key points

- Although current AS settings mean that it is not possible to directly target residual incomes, if this were possible then it would cost around $170 million to return residual incomes in 2016 to 2006 levels.
- The current AS Option 1 provides an average gain to all AS recipients of $21 per week at an overall net cost of $360 million.
- We are currently modelling the impact that the proposed AS Option 1 (with a net annual fiscal cost of $360m) would have on residual incomes.
- The modelling also suggests that a combination of increases to the AS maxima and a more generous co-payment are the best way to target support to those households under most housing stress.

Note on residual incomes

Note that 'residual incomes' in this document refers to the real equivalised residual (after-housing costs) incomes of AS recipients. 'Real' means that incomes have been adjusted by the Consumer Price Index (CPI), so that all figures are in equivalent 2016 dollars.

Equivalisation is a process that adjusts the income of households based on their composition, i.e. it splits the income across the members of a household. For example, two households with the same annual income of $50,000 but different compositions (one a single person, and one a family of two adults and two children) would have different equivalised incomes, with the family of four showing a much lower equivalised income than the single-person household. This analysis uses the modified OECD equivalence scale. More detail can be provided on this if desired.

Changes in residual incomes

The table below shows the average changes in weekly residual incomes of AS recipients between 2006 and 2016, under current settings. The groups are split by income source (main benefit, not on main benefit, superannuitants) and tenure type (renting, boarding, homeowner).

Table 1: Changes in residual incomes of AS recipients between 2006 and 2016 – by income source and tenure type

	2006	2016	Percentage change	Number of recipients in 2016
All recipients – income source	$	$		
On main benefit	169	155	-8%	195,848
New Zealand Superannuation or Veterans Pension	218	256	18%	38,127
Non-beneficiary	251	235	-6%	57,377
All recipients – tenure type	$	$		
Renting	193	189	-2%	192,962
Boarding	167	165	-1%	65,221
Mortgage for own home	201	194	- 4%	33,169
Total recipients	188	184	-2%	291,352

Source: Benefit Income Dynamics Dataset. Note: The measure uses the modified OECD equivalence scale to adjust for differences in family composition, and the CPI to adjust for changes in consumer prices.

The table above shows that there are significant differences between households on different income sources over this period. Superannuitants' real residual incomes have increased by 18% on average, largely due to the indexation of New Zealand Superannuation (NZS) to net average wages. Beneficiaries and non-beneficiaries have seen, in contrast, average declines of around 6-8% in their residual incomes, though this varies greatly by household type, shown and discussed below.

The variation by tenure type is smaller, with boarders facing the smallest decline and homeowners facing the biggest decline.

A further breakdown of household types is shown in Table 2.

Table 2: Changes in residual incomes of AS recipients between 2006 and 2016 – by household types

	2006	2016	Percentage change	Number of recipients in 2016
On main benefit	$	$		
Couple no children	169	159	-6%	9,609
Couple and one child	171	173	1%	3,040
Couple with two or more children	170	171	1%	4,662
Single person with no children	145	131	-10%	118,208
Sole parent with one child	204	206	1%	30,718
Sole parent with two or more children	191	195	2%	29,611
Total on main benefit	169	155	-8%	195,848
NZS and Veterans Pension	$	$		
Couple no children	235	270	15%	9,450
Single person with no children	213	251	18%	28,542
Total NZS/VP	218	256	18%	38,127
Non-beneficiaries	$	$		
Couple no children	176	166	-6%	4,316
Couple and one child	263	260	-1%	6,759
Couple with two or more children	254	253	0%	11,436
Single person with no children	186	145	-22%	14,525
Sole parent with one child	328	304	-7%	9,706
Sole parent with two or more children	296	289	-2%	10,635
Total Non-beneficiaries	251	235	-6%	57,377
Total all recipients	188	184	-2%	291,352

Source: Benefit Income Dynamics Dataset. Note: The measure uses the modified OECD equivalence scale to adjust for differences in family composition, and the CPI to adjust for changes in consumer prices.

While residual incomes for beneficiaries have declined by 8% overall, this decline is entirely driven by households without children, with singles without children experiencing the largest decline of 10%, and making up a large proportion (60%) of beneficiary AS recipients. The average residual incomes of beneficiaries with children are about the same or slightly higher than in 2006, due to the significant boost from the Child Material Hardship package in 2016.

While beneficiaries' declines in residual incomes have been concentrated among households without children, non-beneficiaries in all household types have experienced declines in their residual incomes. The largest decline is also seen in singles without children, but sole parents with one child have also seen a relatively large decline.

AS Option 1 – residual income impacts

AS Option 1 is a broad-based option that aims to increase the residual incomes of most AS recipients. It:

- updates locations to be in the most appropriate AS Area
- increases the maxima for the AS Areas to 2016 median rents, and
- decreases the recipient co-payment (for renters and boarders) from 30% to 25%.

Under this option:

- around 250,000 AS recipients would benefit by an average of $24 per week
- around 2,000 AS recipients would lose by an average of $1 per week, largely due to interactions with the disability allowance and Temporary Additional Support (TAS)
- the remaining AS recipients (around 40,000) would see no change to their assistance as either their increased AS would be exactly offset by a decrease in TAS, or they are a homeowner who is not currently receiving the AS maxima (and so would not benefit from a maxima increase or the more generous co-payment).
- the average weekly gain, if all AS recipients who do not gain are included, reduces to around $21 per week.

The rationale for the AS Option 1 is primarily to improve the affordability of housing for most AS recipients, by increasing their residual (after housing cost) incomes. This option also considerably reduces the gap between the financial support that AS recipients and IRRS recipients receive. This option gives the largest gains to those who have experienced the highest housing cost growth (by moving locations and updating the maxima), but also recognises that there are considerable numbers of AS recipients with very low residual incomes who are below the AS maxima.
We are currently modelling the impact that the proposed AS Option 1 would have on the residual incomes of AS recipients. A detailed analysis of the residual incomes of AS recipients will be provided in future advice.

Inability to target residual incomes

<u>If it were possible to directly target residual incomes, it would cost around $170m to return residual incomes in 2016 to 2006 levels.</u>

However, it is impossible to directly target residual incomes with current settings, particularly given:

- The fundamental design of the AS is to target high housing costs, not residual incomes (and does not include any consideration of income beyond the entry threshold), and
- The AS maxima are based on '1, 2 or 3-person rates' which mean that families with the same number of people, but different compositions, are treated the same. For example, the '2-person rate' applies to couples without children and sole parents with one child. It is impossible to target different household types of the same size without changing these settings.

Given these limits, a variety of factors need to be considered to determine which trade-offs are acceptable in creating this option.

Average or individual gains

A key consideration is whether this option should return residual incomes to 2006 levels, on average, for different groups or whether this option should return residual incomes to 2006 levels for all or most recipients. Average gains can hide significant gains and losses for different groups.

An option to increase residual incomes on average will cost considerably less than an option to increase residual incomes for all or most recipients, but could mean that many recipients still have residual incomes below that in 2006. For example, while beneficiary sole parents' residual incomes have not declined since 2006, on average, it is possible that beneficiary sole parents living in areas with high rental cost growth may have experienced declines in their residual incomes.

Alternatively, if there is a preference to restore residual incomes for most AS recipients, this will involve giving substantial gains to those whose residual incomes are already at, or above, 2006 levels (as spillovers from the target group). These spillovers will substantially increase the cost of this option.

Gains for certain groups

Another key consideration is the willingness to focus gains to groups whose residual incomes have declined the most (to the extent possible), rather than to those whose incomes have not declined (or have declined less than others).

As noted, current settings make this difficult and are likely to increase the complexity of the options. However, these options include:

- Targeting single-person households without children: Beneficiary and non-beneficiary single-person households have experienced the largest declines in residual incomes. Targeted changes could be made to the single-person settings of the AS (such as the maxima, co-payment, entry threshold components) to increase the gains for this group.
    - Note that any targeted increases to this group would also benefit around 29,000 superannuitants in single-person households, whose residual incomes are already above that in 2006.
- Targeting non-beneficiaries: While non-beneficiaries have experienced the most widespread declines in residual incomes, the only way to target them would be to change abatement rates and thresholds, which would increase entitlement to the AS to a larger group of non-beneficiaries and be relatively costly.
    - AS Option 1 does provide the largest average gains to non-beneficiaries, as they tend to have higher housing costs than beneficiaries and so disproportionately benefit from increases to the AS maxima.
    - Any increases in rates of payment will also necessarily go to beneficiaries too (as they receive the unabated amounts).

Next steps

Our next advice will include the impact that the proposed AS Option 1 would have on the residual incomes of AS recipients.

If there is a preference to restore residual incomes for most AS recipients, then it is likely that the desired option would be a version of the previously modelled AS Option 1 ($360m cost), scaled to some extent. This is because AS Option 1 was designed to have broad coverage of AS recipients, and target the largest increases to those who have experienced the highest housing cost growth.

A version of Option 1 with smaller increases in the AS maxima, and potentially a smaller decrease in the co-payment, may be able to restore residual incomes for most AS recipients with smaller spillovers, though further modelling will be required to explore this.

Attachment 5: Eligibility settings for the Accommodation Supplement and Social Housing (Source: MSD)

This note sets out the eligibility criteria for Accommodation Supplement (AS) and Social Housing and provides high-level options for changes to these settings alongside proposed changes to the Accommodation Supplement. The high level options for change range in scale and complexity and the more complex changes may be better considered alongside a major reform of housing subsides.

Key points

Any increases to AS will lead to an 'automatic' adjustment in the eligibility for social housing. This is because the affordability component of the eligibility criteria for social housing is based on a comparison with what the household could afford in the private market with AS. Therefore if AS increases, fewer households will be likely to score a 4 (the highest rating) for affordability as part of the social housing assessment. We are currently modelling the likely impact this will have on eligibility for social housing.

The most feasible options that could be pursued in Budget 2017 alongside possible AS changes are:

- Amending the affordability component of the social housing assessment – for example, if AS changes provided more support for people in the private rental market than the highest score a household could get for affordability could be reduced to 3 (rather than 4)
- Introducing a time-limit for homeowners in receipt of AS (for example, a 5 year maximum). The likely savings will need to be modelled if there is interest in this option.
- The cash asset tests for AS and social housing could be aligned – further work would be required to understand the likely impact this would have.
- Other changes (e.g. treatment of income) are more complicated and may be better considered as part of a broader programme of subsidy reform.

Eligibility settings

The components of the eligibility settings for Accommodation Supplement and Social Housing are broadly similar in that both consider the applicant's:

- age
- income
- amount of cash assets available
- residency status, and
- housing situation.

However, none of the components are set at the same rate, and the settings for social housing cvould be considered as more generous than those of the Accommodation Supplement. A more detailed comparison of the two eligibility settings is provided at the end of this note.

Purpose of the Accommodation Supplement

The AS provides assistance towards accommodation costs, including rent, board and the cost of owner-occupied homes regardless of income source. The primary objective of the AS is to provide targeted financial assistance to help people with high accommodation costs and limited income to meet those costs. The AS was designed to direct assistance to those who need it most, and provide for housing assistance across a number of diverse individual and family types and circumstances. The design of the AS takes into account housing costs, location, family type and income and was intended to create consistent treatment.

Determination of housing need

The Social Allocation System (SAS) is the series of questions that assesses an applicant's need for social housing and prioritises that need. Eligibility to social housing is confined to clients who are determined at risk (priority A) or in serious housing need (priority B).

Questions are asked across five criteria:

- **Adequacy -** focuses on whether the client needs accommodation or needs to move from their current accommodation due to: not currently living in any accommodation, or living in emergency housing; lack of basic facilities; over-crowding; or lack of security of tenure of their current accommodation

- **Suitability -** focuses on needing to move due to: medical, disability or personal needs or family violence or neighbourhood tension

- **Affordability** - focuses on the ability to afford alternative, suitable housing in the private market

- **Sustainability** - focuses on financial management difficulties and difficulties in social skills

- **Accessibility -** focuses on the ability to access and afford suitable and adequate housing as a result of discrimination, lack of financial means to move and availability of alternative, affordable suitable housing in the private market.

Across each of the five criteria, applicants can score between 1 and 4. A score of 1 for any criteria means that applicant has low or no need in that area and a score of 4 means they are at risk.

For an applicant to be Priority A they need to score 4 on at least one criteria and have any other rating greater than 1. Priority B applicants have a highest score of 3 across the five criteria and have any other rating greater than 1.

Affordability of suitable alternative housing

The assessment of affordability within the Social Allocation System measures the client's ability to afford, with the assistance of any Accommodation Supplement they may be entitled to, suitable alternative housing.
The ratings are based on the proportion of income left over after housing costs, with the highest ratings being given to applicants who are spending a high proportion of their income on housing costs, ie more than 65%.

There are four levels of risk rating for affordability:

At risk (4)	Residual income where ratio is 35% or less
Serious housing need (3)	Residual income where ratio is between 36% and 55%
Moderate need (2)	Residual income where ratio is between 56% and 69%
Low or no need (1)	Residual income where ratio is 70% or greater

High level options for changes to eligibility settings for housing subsidies

	Problem definition	Option	Magnitude of savings	Flow-on considerations
AS	AS is being used to build equity by a significant number of recipients who own their own home, in a way that people who rent or are paying board are not able to.	Time-limiting the duration of AS receipt (e.g. for a maximum of 1, 3 or 5 years)	As at December 2016 there were 33,000 AS recipients who owned their own home. Analysis from 2012, based on approximately 44,000 AS homeowners, estimated the savings from limiting AS receipt to a maximum of one year for **new** AS homeowners would save: • $6 million in the first year • $12 million in the second year • $30 million once fully implemented In addition it estimated that time-limiting AS immediately would provide savings of around $30 million a year. MSD can model the impact of time-limiting AS for homeowners based on current numbers.	Displacement effects of people already housed if forced to sell their home. How long should those currently receiving AS as homeowners be grandparented for? Paying small amounts of AS for homeowners to maintain their mortgage may actually be a more cost-effective option for some recipients than contributing towards rent. Removing eligibility to AS for homeowners after one year would be significantly more work to implement operationally than the proposed AS changes. In particular communicating the change, working with people who lose their entitlement and establishing processes to deal with grandparented clients.
AS / IRRS	The treatment of income varies between AS and IRRS creating inconsistencies in treatment between the different subsidies. Issues include: • income type (Gross vs nett) • Income period (AS is weekly vs IRRS which is over 8 weeks) • Child Support/Tax credit/asset treatment • Time to notify before amount of subsidy can be reduced (immediate vs 60 days) • how board payments are treated	Align the treatment of income across AS and IRRS	Would require modelling to establish fiscal costs Changes may reduce administrative costs Detailed modelling would be required to establish how any changes would affect AS or IRRS clients. Changes could create positive or negative impacts depending on client circumstances.	• Complex to model impacts for clients • Could impact significant numbers of clients (particularly those paying an Income Related Rent) • May be more suited for consideration as part of a broader subsidy review
AS / IRRS	For IRRS, income from boarders is not counted as assessable income for income-related rent calculations until the third boarder. In addition, the boarder may be eligible to receive AS for their accommodation costs. There may be instances where two different subsidies are being paid to different members of the same household.	Change the definition of assessable income to include board payments	High level analysis from 2015 has estimated a reduction in IRRS expenditure of $8.5m per year. The impact on Accommodation Supplement expenditure would need to be modelled	• Would require legislative change and likely to impact a small number of IRRS tenancies / boarders • May be more suited as part of a broader subsidy review and included alongside consideration of income definitions
AS /IRRS	The cash asset threshold for social housing is far higher than the cash asset for AS, which means that people with higher savings can access social housing than those in the private rental market. The AS cash asset threshold has not been adjusted	Align the social housing cash asset to AS and /or increase the AS thresholds to a new limit	Would require modelling to estimate the number of applicants for social housing who may become ineligible with a lower cash asset threshold and the number of people who would become eligible for AS if those	• What is the appropriate amount of cash assets that people accessing housing subsidies should have? i.e. should people be able to access housing assistance

	since 1988.		cash asset limits were raised.	while saving for a house deposit?
IRRS	The Housing register (applicants not currently in social housing) is at the highest point since June 2014, with the median time to house a Priority A applicant 56 days in 2016.	Restricting Social Housing to those with a severe housing need (Priority A)	As at 30 December 2016, there were 4,771 applicants on the Housing Register, of which 3,189 (67%) were Priority A, and 1,582 applicants were Priority B.	Would be a significant change to social housing eligibility and likely to be controversial Grandparenting provisions would need to be considered Operational impacts would need to be modelled.
IRRS	Currently the two housing subsidies overlap in purpose as they both, to various extents, meet the affordability needs of people on low income needs with their housing costs	Removing or amending the affordability criteria in the social housing calculation	MSD would need to model the impact on eligibility and make-up of the register by removing the Affordability criteria overall. Of the 4,771 applicants on the Housing register at 30 December 2016: • 11% listed financial stress as their main reason for applying for social housing • 20% rated a 4 for Affordability (at risk) and 25% rated a 3 (serious need).	Does the Affordability criteria provide useful information for differentiating between social housing applicants – ie while it may not be used to determine eligibility, if two people with the same needs are on the social housing register, would one way to distinguish them be if one faced higher costs to rent privately?
		Change the thresholds in the Affordability calculation when people are considered at risk and/or changing what is included in the Affordability calculation (ie TAS)	Would need to model the impact of changing the thresholds for affordability on eligibility and make up on the register	Changing thresholds may not be necessary if there is a big enough change in residual incomes.
		No change scenario – e.g increases to the Accommodation Supplement, improves residual incomes so that there are fewer people spending more than 65% of their income on housing costs.	Would require modelling to estimate how many applicants would be ineligible with the new AS rates.	Does the improved residual income make Affordability criteria redundant?

Comparison of eligibility settings for Accommodation Supplement and Social Housing

	Accommodation Supplement	Social Housing
Age	Aged 18 years of age and older, unless they are aged 16 or 17 years and are financially independent	18 years or over **or** 16 or 17 years and either: • be (or have previously been) married or in a civil union **or** • single or in a de facto relationship if they have been approved by the Tenancy Tribunal to enter a tenancy agreement for a social house they have been offered
Income	Varies by household type and area, but for non-beneficiaries the income thresholds for different household types range between: Single, 16+ in Area 1: • $381.00 per week, after which the rate of AS starts to abate until the cut-out point of $961.00 per week Couple with 1 or more children in Area 1: • $616.00 per week after which the rate of AS starts to abate until the cut-out point $1,516.00 Note: the cut out points from Areas 2, 3, and 4 progressively reduce, ie the cut-out point for a single, 16+ in Area 2 is $781.00 per week, in Area 3 it is $641.00 and in Area 4 it is $561.00.	Income threshold for eligibility for social housing[7] are set at 1.5 times the relevant net weekly rate of New Zealand Superannuation • Single client who has no spouse or partner and no dependent children, $577.14 per week • Any other client, $887.91 Exceptions to income limits can be made where: • the client's income or assets exceeds the limits, and • they have an urgent social housing need, and • that housing need can be met by the provision of social housing
Cash assets	Beneficiaries: • $8,100 for a single person • $16,200 for a sole parent or a married, civil union or de facto couple Non-beneficiaries may be able to receive the full rate of AS if their cash assets are less than: • $2,700 for a single person • $5,400 for couples and sole parents Over which their AS starts to reduce until the cash assets reach: • $8,100 for a single person • $16,200 for couples and sole parents At these limits non-beneficiaries are no longer entitled to AS. *NB: These thresholds have not been adjusted since 1988*	$42,700 (based on 10% of the national median house price but is only adjusted periodically)
Residency	• Be a New Zealand citizen, or	• Be a New Zealand citizen, or

[7] Income thresholds for the Income Related Rent calculation are: Single client who has no spouse or partner and no dependent children, $384.76 per week; Any other client, $591.94. Income above these thresholds increases the calculated Income Related Rent by 50c in the dollar up to the market rent for that property. These thresholds are lower than the limits used for the eligibility for social housing.

	• a permanent resident or • be deemed to hold a residence class visa in New Zealand under the Immigration Act 2009 (eg Australian citizens or residents), and • generally be ordinarily resident in New Zealand.	• a permanent resident who has lived in New Zealand for two years or more at any one time since becoming a permanent resident, or • a permanent resident who has lived in New Zealand for less than two years since becoming a permanent resident and is receiving a main benefit, or • not a permanent resident but is receiving an Emergency Benefit because they are a spontaneous refugee or protected person or are applying for residence and are compelled to remain in New Zealand.
Housing component	Applicants have accommodation costs, which could be rent payments, board payments or mortgage payment	Be at risk or in serious housing need (as assessed through the Social Allocation System).

Attachment 6: Mid-year implementation of Accommodation Supplement changes

MSD has advised that a 1 October 2017 implementation date for the proposed changes to AS would be challenging but achievable. Initial estimates suggest that approximately $2.5 million of operational funding would be required to implement the proposed changes to the AS regions, maxima and co-payment. This would cover the cost of the IT changes that would be required as well as operational funding for the implementation of the changes (e.g. a project team to manage the implementation, staff training, communications and stakeholder management, changes to operational documents, post-implementation support etc). A 1 October 2017 implementation date would require IT changes to be developed and progressed alongside the legislative changes needed to implement the proposals.