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. 4)

Date:	24 February 2017	**Report No:**	T2017/335
		File Number:	SH-13-5-2-3

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Steven Joyce)	**Note** the enclosed information.	Friday, 3 March 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	Acting Manager, 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 (attached)

Treasury Report: Supplementary information about tax and transfers

Additional information was requested about tax and transfers following recent reports (T2017/170, T2017/164, T2017/152, T2017/197, T2017/218 and T2017/265), and meetings with officials.

	Date	Title	Description
	Information tabled at the meeting on 20 February 2017		
1	20 February 2017	Preliminary package options for consideration	**Since tabling this document, we have realised that the distributional impacts of the two options had an error. We will correct this and provide amended tables in next week's report.**
2	20 February 2017	AS Option – impact on residual incomes	
	Information about T2017/197 Supplementary information about tax and transfers		
3	24 February 2017	Reconciliation of attachments 2, 3 and 5	Refers to the replacement rate graphs compared to AOTWE
4	24 February 2017	Updated family type distribution	The distribution has been updated to reflect family's main source of income.
	EMTR information		
5	24 February 2017	EMTR analysis for individuals with taxable income between $14k and $48k	
	Accommodation Supplement (Source: MSD)		
6	24 February 2017	Phasing of Accommodation Supplement changes – amended	
7	24 February 2017	Advice on creating incentives for matching clients to the right size house	

Information still to be provided

We expect to provide for the Friday report next week (3 March):

- An updated graph of the Unemployment Benefit / Jobseeker Support weekly net to AOTWE from 1990-2015 for different household types.
- A report about the impact of Accommodation Supplement or benefit changes on the housing market.
- More information about the variability of gains from the two packages set out in attachment 1 by income band.
- Scaling options for Family Tax Credit changes, including abatement threshold and abatement rate changes.
- An analysis of a package that adjusts the $14k and $48k thresholds for fiscal drag, aligns the Family Tax Credit rates, removes the Independent Earner Tax Credit and has changes to the Accommodation Supplement.

- AS and residual income impacts – why have the single and no children families residual incomes fallen by 22% compared to other types.
- Model impacts of AS options on social housing register.
- The impact of increasing the Family Tax Credit on the social housing register.
- The fiscal impact of time-limiting Accommodation Supplement eligibility to three and five years for homeowners (with grand parenting).

We are working to provide you with:

- 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).
- The number of individuals who may be eligible for both the Independent Earner Tax Credit and Accommodation Supplement.
- Advice about a preferred $300 million Accommodation Supplement package.

Index of information provided to date

The appendix to this report contains an index of the tax and transfers information provided to date.

Inquiry regarding Accommodation Supplement Budget 2017 bid

MSD were considering making a bid for changes to the Accommodation Supplement as part of Track 2 of the Budget 2017 process. In December 2016 it appeared that changes to the Accommodation Supplement would be considered as part of a potential tax and transfer package. To avoid duplication, no bid was placed in Track 2.

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

Appendix: Index of information provided about tax and transfers

Document date	Report number	Description
5/09/2016	T2016/1640	Aide Memoire: Income Policies for Low-income Populations
21/12/2016	TR2016/2527	Aide Memoire: Who receives accommodation supplement and Working for Families 21 December
13/09/2016	T2016/1650	Preliminary Options for Tax Cuts for Budget 2017
29/09/2016	BN2016/508	Ability to implement Budget 2017 tax cuts and Working for Families changes 29 Sep
7/11/2016	T2016/2059	Aide Memoire: Advice on Adjusting for Fiscal Drag and the Possible Impacts
7/11/2016	T2016/1948	Advice on personal tax cuts for Budget 2017
10/01/2017	T2016/2551	Aide Memoire: Effect of Accommodation Supplement on effective marginal tax rates 10 Jan
23/12/2016	T2016/2540	Advice on Adjusting Tax Thresholds and the Possible Impacts
17/10/2016	T2016/1991	Aide Memoire: Clawback rate update 5 Sep
31/01/2017		Options to simply the tax and transfer system – Treasury slide pack, Tuesday 31 January 2017
1/02/2017	T2017/14	Taxes and labour supply
3/02/2017	T2017/164	Removing the Independent Earner Tax Credit
2/02/2017	T2017/152	Advice on Changes to the Tax System, Distributional Analysis of Possible Impacts
3/02/2017	T2017/170	Supplementary information about tax and transfers (and attachments)
3/02/2017	T2017/170	Attachment 1 – Breakdown of population
3/02/2017	T2017/170	Attachment 2 – A3 summary of the main transfers
17/10/2014	T2017/170	Attachment 3 – DPMC report: Work programme to address children living in material deprivation
7/11/2014	T2017/170	Attachment 4 – DPMC report: Work programme to address children living in material hardship
12/12/2014	T2017/170	Attachment 5 – DPMC report: Package to reduce the number of children living in material hardship
15/12/2014	T2017/170	Attachment 6 – T2014/2197 – Points for meeting on children in material hardship
5/02/2015	T2017/170	Attachment 7 – DPMC report: Material hardship package
11/02/2015	T2017/170	Attachment 8 – T2015/160: Children in material hardship package
1/11/2014	T2017/170	Attachment 9 – Treasury's advice on benefit settings
10/02/2017	T2017/218	Aide Memoire: Potential options for a tax and transfer package
10/02/2017	T2017/197	Supplementary information about tax and transfers (No. 2)
7/02/2017	T2017/197	Attachment 1 - Accommodation Supplement spend
7/02/2017	T2017/197	Attachment 2 – Amended replacement rate graphs updated from Child Material Hardship package

10/02/2017	T2017/197	Attachment 3 – Comparison of Unemployment Benefit/Jobseeker support with AOTWE
3/02/2017	T2017/197	Attachment 4 – Breakdown of population
3/02/2017	T2017/197	Attachment 5 – Household living-costs price indexes 2008-2016
10/02/2017	T2017/197	Attachment 6 – Primer about tax credits (source Inland Revenue)
23/09/2017	T2017/197	Attachment 7 – Aide Memoire: Explanation of FTC Interactions with the Tax and Welfare System (T2017/1847)
4/12/2015	T2017/197	Attachment 8 – MSD Report: Incentivising and rewarding independence from welfare and social housing
4/12/2015	T2017/197	Attachment 9 - MSD Report: Incentivising and rewarding independence from welfare and social housing (Appendix One)
27/05/2016	T2017/197	Attachment 10 – Report: Reassessing the use of MSD resources to trial a transition payment
10/02/2017	T2017/197	Attachment 11 – Understanding the impact on TAS of increases to AS and main benefits
10/02/2017	T2017/197	Attachment 12 – Housing subsidies – example and scenarios
10/02/2017	T2017/197	Attachment 13 – Further information on AS recipients who own their own home
10/02/2017	T2017/197	Attachment 14 – Information on non-recipients of Accommodation Supplement
17/02/2017	T2017/265	Supplementary information about tax and transfers (No. 3)
17/02/2017	T2017/265	Attachment 1 - A3 of straw packages for discussion
17/02/2017	T2017/265	Attachment 2 - Family tax credit rate change options (phasing)
17/02/2017	T2017/265	Attachment 3 - Accommodation Supplement - returning residual incomes to 2006 levels
17/02/2017	T2017/265	Attachment 4 - Phasing of AS changes
17/02/2017	T2017/265	Attachment 5 - Eligibility settings for the AS and social housing
17/02/2017	T2017/265	Attachment 6 - Mid-year implementation impacts of AS changes

Attachment 2: AS Option 1 – impact on residual incomes

The table below shows the impact of AS Option 1 (update locations and maxima, reduce the co-payment) on the (real equivalised) residual incomes of recipients of the Accommodation Supplement (AS). This option:

- Increases average residual incomes to 6% higher than in 2006, over all AS recipients
- However, single-person households without children have residual incomes that are still very slightly lower (on average) in this option, compared to 2006 - these are highlighted in red in the table below
- For single beneficiaries without children, this option reduces the decline in residual incomes from 10% to 2% below that in 2006
  - Single beneficiaries without children make up 41% of all AS recipients
- For single non-beneficiaries without children, the option reduces the decline in residual incomes from 22% to 9%
  - Single non-beneficiaries make up 5% of all AS recipients

Table 1 – Real equivalised incomes of AS recipients in 2006 and 2016, including AS Option 1

	2006	2016	2016 new AS	Percentage change (previous)	Percentage change (new)	Number of recipients in 2016
All recipients	$	$	$			
Renting	193	189	208	-2%	8%	192,962
Boarding	167	165	168	-1%	1%	65,221
Mortgage for own home	201	194	214	-4%	6%	33,169
Total recipients	188	184	200	-2%	6%	291,352
All recipients	$	$	$			
Receiving main benefit	169	155	168	-8%	-1%	195,848
New Zealand Superannuation or Veterans Pension	218	256	269	17%	23%	38,127
Not on main benefit	251	235	263	-6%	5%	57,377
Total recipients	188	184	200	-2%	6%	291,352
	2006	2016	2016 new AS	Percentage change (previous)	Percentage change (new)	Number of recipients in 2016
Main benefit recipients	$	$	$			
Couple no children	169	159	173	-6%	3%	9,609
Couple and one child	171	173	185	1%	8%	3,040
Couple with two or more children	170	171	183	0%	8%	4,662
Single person with no children	145	131	142	-10%	-2%	118,208
Sole parent with one child	204	206	222	1%	9%	30,718
Sole parent with two or more children	191	195	210	2%	10%	29,611
Total main benefits	169	155	168	-8%	-1%	195,848
NZS and Veterans Pension recipients	$	$	$			
Couple no children	235	270	287	15%	22%	9,450
Single person with no children	213	251	263	18%	23%	28,542
Total NZS/VP	218	256	269	17%	23%	38,127
Non-beneficiary recipients	$	$	$			
Couple no children	176	166	202	-6%	15%	4,316
Couple and one child	263	260	286	-1%	9%	6,759
Couple with two or more children	254	253	275	-1%	8%	11,436
Single person with no children	186	145	170	-22%	-9%	14,525
Sole parent with one child	328	304	340	-7%	4%	9,706
Sole parent with two or more children	296	289	317	-2%	7%	10,635
Total Non-beneficiaries	251	235	263	-6%	5%	57,377
Total all recipients	188	184	200	-2%	6%	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.

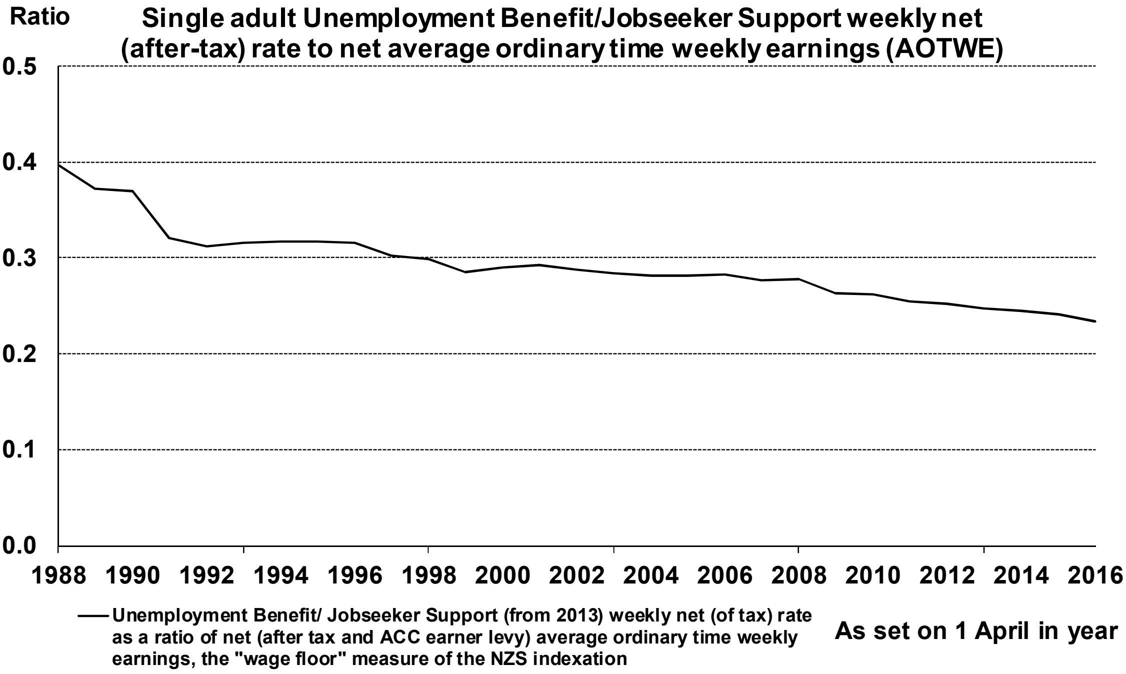
Why have singles without children experienced the largest declines in residual incomes?
This is likely because they did not benefit from the Child Material Hardship package in Budget 2015, which only targeted families with children. While benefits have increased annually with the Consumers Price Index (CPI), the main form of supplementary assistance that families without children receive is the Accommodation Supplement, which has not been adjusted and has declined in real value and purchasing power since 2006. Housing costs have also generally grown faster than the CPI.

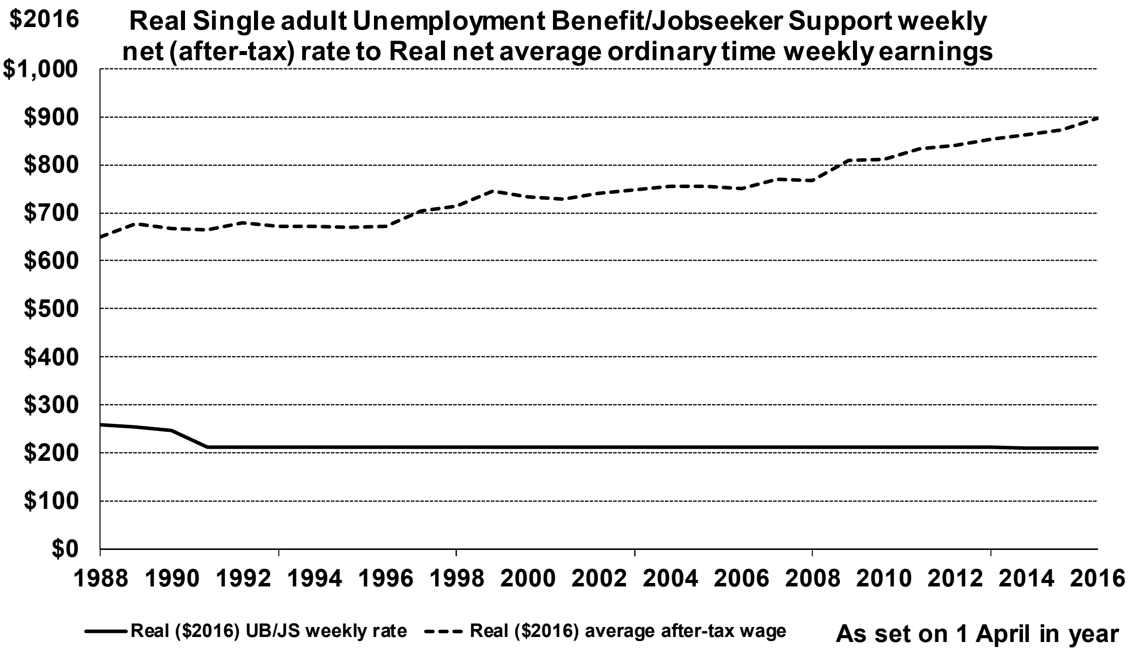
Next steps:

- Are you interested in further analysis of what is driving the declines in residual incomes for singles without children?
- Are you interested in further geographical analysis of the AS Areas?
    - Some of this will be part of the paper on residual incomes, to be sent to you on Friday 24 February.
- Are you interested in an option that better targets single AS recipients without children?
    - Note that it is difficult to target this group without making current settings more complicated.

Attachment 3: AS Option – Reconciliation of attachments 2, 3 and 5 of T2017/197 Supplementary information about tax and transfers (No. 2)

A previous report included graphs from MSD showing the after-tax average weekly wage against after-tax income of various beneficiary types (T2017/197 refers). That report also included a Treasury-prepared graph comparing the unemployment benefit/Jobseeker Support with net average ordinary time weekly earnings. Our analysis has confirmed that these graphs are based on the same data. We have reproduced the Treasury graph using the same approach that MSD used:





The after-tax income of each beneficiary type consists of more than just their net benefit income. In the case of a:

- Sole parent with two children, the after-tax income included beneficiary income combined Domestic Purpose Benefit/Sole Parent Support benefit income, Family Tax Credit for two children, and Accommodation Supplement.
- Couple with two children, the after-tax income included the beneficiary income combined Unemployment Benefit/Jobseeker Support benefit income for a couple, Family Tax Credit for two children, and Accommodation Supplement.
- Single adult with no children, the after-tax income included the beneficiary income combined Unemployment Benefit/Jobseeker Support benefit income and Accommodation Supplement.

The Unemployment Benefit/Jobseeker Support weekly net (of tax) rates used by MSD are the same in each year as those used in the Treasury graph, and the net average ordinary time weekly earnings (AOTWE) are also the same. The AOTWE measure is the "wage floor" used in ensuring New Zealand Superannuation rates are at least 66% of the average wage.

The conversion to real (2016) dollar measures had been done by MSD by factoring out Consumer Price Index (CPI) measured inflation. Using a consistent CPI measure, Treasury has reproduced that part of MSD's graph, but excluded the Accommodation Supplement.

With the two graphs now covering the same time period (1988 to 2016) and with the extra income received by the single beneficiary (the Accommodation Supplement) removed, it is clearer the two graphs are consistent.

The top graph shows a decline in the rate of the weekly net UB/JS benefit rate to the after-tax AOTWE. This drops from just under 0.4 in 1988 to just over 0.23 by 2016. Over the same time period the bottom graph shows the wedge, between the real values of the weekly net UB/JS benefit payment and the after-tax AOTWE, rising from just over 390 dollars, in 2016 terms, to just under 690 dollars today.

Attachment 4: Updated family type distribution

Individuals

Individual taxable income	Number of individuals	Workers	Beneficiaries	NZS recipients	Full-time Students	Part-time Students	Other income source	No taxable income
$0 - $14,000	736,000	18%	15%	2%	21%	3%	12%	28%
$14,000 - $31,000	971,000	28%	11%	49%	7%	2%	3%	*
$31,000 - $48,000	588,000	76%	*	14%	3%	4%	3%	*
$48,000 - $60,000	355,000	84%	*	8%	*	5%	2%	*
$60,000 - $70,000	212,000	78%	*	13%	2%	5%	2%	*
$70,000 - $100,000	386,000	83%	*	10%	*	5%	2%	*
$100,000 - $125,000	140,000	82%	*	13%	*	4%	*	*
$125,000 - $150,000	66,000	84%	*	9%	*	*	*	*
$150,000 +	114,000	79%	*	13%	*	*	6%	*

Access to the Household Economic Survey data was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented here are the work of Treasury, not Statistics
* Value suppressed to maintain confidentiality. Values must have at least 3000 counts and at least 10 sample units.

Families

Family taxable income	Number of families	Workers	Beneficiaries	NZS recipients	Full-time Students	Part-time Students	Other income source	No taxable income
$0 - $14,000	349,000	14%	18%	1%	37%	4%	8%	18%
$14,000 - $31,000	492,000	23%	26%	34%	11%	3%	3%	*
$31,000 - $48,000	399,000	55%	*	36%	4%	3%	1%	*
$48,000 - $60,000	186,000	76%	*	17%	*	4%	3%	*
$60,000 - $70,000	117,000	72%	*	19%	5%	*	*	*
$70,000 - $100,000	316,000	81%	*	12%	*	4%	1%	*
$100,000 - $125,000	189,000	81%	*	11%	*	6%	*	*
$125,000 - $150,000	121,000	81%	*	14%	*	3%	*	*
$150,000 +	231,000	83%	*	10%	*	4%	3%	*

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Households

Individual household income	Number of households	Workers	Beneficiaries	NZS recipients	Full-time Students	Part-time Students	Other income source	No taxable income
$0 - $14,000	70,000	16%	28%	*	11%	*	15%	24%
$14,000 - $31,000	278,000	14%	27%	48%	5%	3%	3%	*
$31,000 - $48,000	252,000	34%	6%	52%	5%	2%	2%	*
$48,000 - $60,000	132,000	67%	*	24%	*	2%	5%	*
$60,000 - $70,000	93,000	66%	*	24%	5%	*	*	*
$70,000 - $100,000	292,000	79%	*	14%	*	4%	1%	*
$100,000 - $125,000	191,000	84%	*	10%	*	4%	*	*
$125,000 - $150,000	133,000	84%	*	11%	*	3%	*	*
$150,000 +	306,000	82%	*	10%	*	5%	3%	*

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* Value suppressed to maintain confidentiality. Values must have at least 3000 counts and at least 10 sample units.

Attachment 5: EMTR analysis for individuals with taxable income between $14k and $48k

EMTR decomposition for the $14k - $48k taxable income range			
Case	EMTR	Decomposition	Number of individuals
1	17.5	17.5% MTR only	520,000
2	30.5	17.5% MTR + IETC abatement	89,000
3	40	17.5% MTR + WfF abatement	68,000
4	42.5	17.5% MTR + AS abatement	44,000
5	47.5	17.5% MTR + 30% benefit abatement	7,000
6	52.5	17.5% MTR + 35% benefit abatement	4,000
7	55.5	17.5% MTR + AS and IETC abatement	*
8	65	17.5% MTR + AS and WfF abatement	16,000
9	87.5	17.5% MTR + 70% benefit abatement	22,000
10	100	17.5% MTR + MFTC abatement	6,000

Key:
EMTR – Effective Marginal Tax Rate.
MTR – Marginal Tax Rate.
IETC – Independent Earner Tax Credit, abated at 13% between $44,000 and $48,000 on an individual basis.
WfF – Working for Families, abated at 22.5% on family income over $36,350.
AS – Accommodation Supplement, abated at 25% on family income above an amount that depends on benefit type and family composition. Cannot overlap with benefit abatement. 100% take-up is assumed, which is above what is estimated from MSD data, so some individuals in the AS categories above may be facing a 25% lower EMTR.
Benefit Abatement – Abated at 30%, 35% or 70% depending on family income, benefit type and couple status. As the abatement of benefit income also potentially lowers taxable income the actual abatement may be less as the marginal tax rate only applies to the increase in taxable income. Individuals facing similar benefit abatement aside from changes to taxable income have been aggregated into categories assuming they face the MTR on the entire extra dollar.
MFTC – Minimum Family Tax Credit, effectively abated at 100% (excluding ACC levy) for eligible families with children.

EMTR decomposition by family type					
Family Type	Number of individuals	EMTR Mean	EMTR Lower Quartile	EMTR Median	EMTR Upper Quartile
Couple with child(ren)	181000	31.4	17.5	30.5	40
Couple, no children	238000	21.9	17.5	17.5	17.5
Single with child(ren)	89000	35.6	17.5	17.5	47.5
Single, no children	275000	24.0	17.5	17.5	30.5

EMTR decomposition by family type					
FamType	Number of individuals	EMTR Mean	EMTR Lower Quartile	EMTR Median	EMTR Upper Quartile
Couple with child(ren)	181000	31.4	17.5	30.5	40
Couple, no children	238000	21.9	17.5	17.5	17.5
Single with child(ren)	89000	35.6	17.5	17.5	47.5
Single, no children	275000	24.0	17.5	17.5	30.5

Attachment 6: Phasing of Accommodation Supplement changes - amended (Source: MSD)

Summary

This note describes an option to gradually phase in the proposed changes to the Accommodation Supplement (AS) over four years, from 2018/19 to 2021/22. It then draws out the key implications of phasing this option, namely:

- not all AS recipients will gain in every year
- while the phasing of the option does try to smooth the gains to recipients, there are phases where large increases to some recipients are unavoidable, and
- the loss of 'value' of the increases in the maxima (based on 2016 rents) over the four years.

This analysis is based on the AS option that:

- 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%[3].

Phasing options can be created for other AS options, if desired. The summary costs and distributional analysis of this option (AS Option 1) are shown in the table below.

Table 1: AS option 1 - summary

	AS – Option 1[4]
Net fiscal cost (2018/19)[5]	$356m
$ reduction in TAS	$117m
Gross fiscal cost (2018/19)	$473m
% reduction in fiscal cost of TAS	44%
Winners	250,000
Average gain p/w	$24
Losers	2,000
Average loss p/w	$1.00

Note that the number of winners and losers does not equal to the total number of AS recipients of around 290,000. This is because around 40,000 AS recipients experience no gain or loss through these changes, largely because their AS increases are exactly offset by a reduction in the Temporary Additional Support (TAS) or they have a mortgage and are under the maxima.
The movements of locations to new AS Areas, and the current and proposed maxima, are shown in Appendix 1.

3 Note that this does not mean that it is now equivalent to the recipient contribution for Income-Related Rent Subsidy (IRRS) recipients. IRRS recipients pay a total of 25% of their net (assessable) income until they exceed an earnings threshold. AS recipients pay an 'entry threshold' that is based on 25% of their benefit income (and if they have children, their Family Tax Credit). The co-payment is paid on top of this, and means that AS recipients are almost always paying a larger proportion of their income on housing costs than IRRS recipients.

4 This assumes a full year fiscal cost and commencement date of 1 July 2018.

5 Note that these costs are only based on current recipients. New recipients, and higher take-up by current and new recipients, are likely to increase the overall fiscal costs. Estimates of the fiscal impact of new recipients and higher take-up can be provided in future advice, though estimates of take-up are subject to considerable uncertainty.

Phasing option

This option phases the components of Option 1 over four years, from 2018/19 to 2021/22, as described below:

- Year 1 (2018/19): Moves locations to their new AS Areas
- Year 2 (2019/20): Decreases the recipient co-payment (for renters and boarders) from 30% to 25%, and increases the maxima by 1/3 of their total increase
- Year 3 (2020/21): Increases the maxima by the second 1/3 of their total increase
- Year 4 (2021/22): Increases the maxima by the final 1/3, to their total increase.

This gradually phases the fiscal costs, as shown in the table below.

Table 2: Phased AS Option 1 – fiscal costs

	Locations move Areas Year 1	Co-payment & 1/3 max Year 2	2/3 max Year 3	3/3 max Year 4
Accommodation Assistance (AS)	$180m	$323m	$408m	$473m
Hardship Assistance (TAS)	($46m)	($74m)	($99m)	($117m)
Net fiscal cost	$134m	$249m	$309m	$356m

Implications of phasing

The key implications of phasing are:

- Not all AS recipients will gain in every year
- While the phasing of the option does try to smooth the gains to recipients, there are phases where large increases to some recipients are unavoidable, and
- The loss of 'value' of the increases in the maxima (based on 2016 rents) over the four years.

These are described in more detail below.

Recipients who don't gain in each phase

While around 250,000 AS recipients gain from the overall option (out of a total of around 290,000 AS recipients), not all recipients will gain in each phase. Table 3 shows the number of clients that gain in each phase.

Table 3: Number of clients impacted at each phase

	Locations move Areas Year 1	Co-payment & 1/3 max Year 2	2/3 max Year 3	3/3 max Year 4
Client Impact	76,000 (26% of all clients)	250,000 (85% of all clients)	133,000 (46% of all clients)	133,000 (46% of all clients)

Recipients who receive large gains

The components have been phased to try to smooth the gains to recipients over the four years, and to avoid losers. There are some limitations in our ability to smooth gains, particularly for recipients living in a location that shifts up an AS Area, as they will receive a substantial increase in their AS in 2018/19.

- This affects 76,000 recipients who gain an average of $30 per week in 2018/19, with a maximum weekly gain of $90
- Clients with the largest gain are those in seven locations that shift up two AS Areas these include Oxford, Ashburton, Martinborough, Geraldine, Pleasant Point, Morrinsville, and Greytown

It would be impossible to phase the gains resulting from locations moving AS Areas without creating a very expensive and complicated operational 'work around'.
The increases to the AS maxima in subsequent years are much more straightforward to phase. If the maxima increases were done in a single year, it would mean that 133,000 recipients would gain an average of $29 per week, with a maximum gain of $105 per week. By phasing this option, the average gains (each year) drop to $13 per week and the maximum gain falls to $35 per week. Table 4 below shows the effect of phasing for those clients who would experience large gains in AS.

Table 4: Examples of clients with large gains

Example of clients with large gains[6]	Current AS Area	Current AS maxima	New AS Area	Proposed maxima	AS gain year 1	AS gain year 2	AS gain year 3	AS gain year 4	Total weekly AS gain
Greytown couple no children	4	$55	2	$170	$70	$15	$15	$15	$115
South Auckland couple with children	2	$165	1	$330	$60	$35	$35	$35	$165
Queenstown sole parent one child	2	$125	1	$250	$35	$30	$30	$30	$125
Lower Hutt couple with children	3	$120	2	$240	$45	$25	$25	$25	$120
Gisborne single person	4	$45	3	$90	$20	$5	$10	$10	$45

[6] Note that the clients in this scenario were not in receipt of TAS. The net gain for client receiving TAS would be lower, as TAS reductions could offset some, or all, of the gain from an AS increase.

Loss of value of AS maxima

Phasing the option over four years means that recipients do not receive the full increase in AS maxima, which are based on median rents in 2016, until 1 April 2021. This means that, assuming that rental costs continue to grow, recipients are not gaining increases aligned to actual median rents, but to a lower percentile of rents. For example, if rents continue to grow at 5% per year, on average, by 2021 the 2016 median rent will be around 21% below the median.

The decline in the real purchasing power of AS maxima is caused by their non-indexation to either prices or rental costs[7]. Indexation of AS maxima, either to prices or rental costs, would better maintain the relative value of the payment, prevent significant declines in affordability for AS recipients and lessen the need for significant fiscal adjustments to restore relative values in future years.

[33]

It would be possible to incorporate some indexation in the short term, into AS Option 1, if desired. This could include adjusting the AS maxima increases currently modelled (see Appendix 1), by either the Consumer Price Index or expected rental cost growth, so that the increases maintain their value over the phasing of the option.

7 The 'entry threshold' component of the AS is broadly linked to the Consumer Price Index (CPI), as it is based on 25% of recipients' benefit income. Benefits are annually indexed to increases in the CPI (excluding alcohol and tobacco). For families with children, the entry threshold is also based on 25% of the Family Tax Credit (first child rate for children aged 0-15), which is indexed to the CPI once cumulative changes in the CPI reach 5%.

Appendix 1

Current AS maxima:

	Person rate		
	1	2	3+
Area 1	$145	$160	$225
Area 2	$100	$125	$165
Area 3	$65	$75	$120
Area 4	$45	$55	$75

Proposed AS maxima – based on 2016 median rents:

	Person rate		
	1	2	3+
Area 1	$185	$250	$330
Area 2	$115	$170	$240
Area 3	$90	$110	$175
Area 4	$80	$90	$140

Maximum gain: Includes the proposed change in AS Area (e.g. Area 2 to Area 1) and proposed AS maxima increases

	Person rate		
Current AS Area	1	2	3+
Area 1	40	90	105
Area 2	85	125	165
Area 3	50	95	120
Area 4	70	115	165

Maximum gain: From new AS maxima only

	Person rate		
Current AS Area	1	2	3+
Area 1	40	90	105
Area 2	15	45	75
Area 3	25	35	55
Area 4	35	35	65

New Accommodation Supplement Areas

Current Areas	Proposed new Areas
Area 1	
Central Auckland Zone, Northern Auckland Zone.	Central Auckland Zone, Northern Auckland Zone, Arrowtown, Queenstown, Waiheke Island, Southern Auckland Zone, Western Auckland Zone, Warkworth, Helensville, Snells Beach, Brightwater, Pukekohe, Wanaka, Tauranga, Waiuku.
Area 2	
Arrowtown, Queenstown, Waiheke Island, Wellington Zone, Southern Auckland Zone, Western Auckland Zone, Warkworth, Helensville, Snells Beach, Brightwater, Pukekohe, Wanaka, Tauranga, Waiuku, Nelson, Wakefield, Wellsford.	Wellington Zone, Nelson, Wakefield, Wellsford, Lincoln, Rolleston, Woodend, Darfield, Christchurch, Rangiora, Leeston, Cambridge Zone, Lower Hutt Zone, Porirua Zone, Kapiti, Hamilton Zone, New Plymouth, Kerikeri, Te Puke Community, Raglan, Napier Zone, Cromwell, Motueka, Whangarei, Blenheim, Waihi Beach, Taupo, Matamata, Hastings Zone, Katikati Community, Whangamata, Whitianga, Oxford, Ashburton, Martinborough, Geraldine, Pleasant Point, Morrinsville, Greytown.
Area 3	
Lincoln, Rolleston, Woodend, Darfield, Christchurch, Rangiora, Leeston, Cambridge Zone, Lower Hutt Zone, Porirua Zone, Kapiti, Hamilton Zone, New Plymouth, Kerikeri, Te Puke Community, Raglan, Napier Zone, Upper Hutt Zone, Cromwell, Motueka, Te Awamutu Zone, Whangarei, Blenheim, Whakatane, Dunedin, Waihi Beach, Taupo, Thames, Matamata, Hastings Zone, Russell, Katikati Community, Whangamata, Hanmer Springs, Whitianga, Alexandra, Palmerston North, Paihia, Otaki, Feilding, Rotorua, Tairua, Taipa Bay-Mangonui, Takaka, Kaitaia.	Upper Hutt Zone, Te Awamutu Zone, Whakatane, Dunedin, Thames, Russell, Hanmer Springs, Alexandra, Palmerston North, Paihia, Otaki, Feilding, Rotorua, Tairua, Taipa Bay-Mangonui, Takaka, Kaitaia, Inglewood, Te Aroha, Timaru, Waitara, Gisborne, Carterton, Twizel Community, Temuka, Coromandel, Picton, Oamaru, Hokitika, Edgecumbe Community, Waihi, Paeroa, Huntly, Kaikoura, Kawakawa, Greymouth, Masterton, Hawera, Dargaville, Shannon, Otorohanga, Winton, Levin, Kaikohe, Waipawa.
Area 4	
Oxford, Rural (Incl.some Off Shore Islands), Ashburton, Martinborough, Geraldine, Rural Centre, Inglewood, Te Aroha, Timaru, Pleasant Point, Morrinsville, Greytown, Waitara, Gisborne, Carterton, Twizel Community, Temuka, Coromandel, Picton, Oamaru, Hokitika, Edgecumbe Community, Waihi, Paeroa, Huntly, Kaikoura, Kawakawa, Greymouth, Masterton, Hawera, Dargaville, Shannon, Te Anau, Stratford, Otorohanga, Winton, Levin, Featherston, Kaikohe, Waimate, Invercargill, Moerewa, Wanganui, Ohakune, Te Kuiti, Putaruru, Balclutha, Foxton Community, Eltham, Opunake, Gore, Waipawa, Milton, Manaia, Riverton, Opotiki, Kawerau, Bluff, Waipukurau, Marton, Westport, Tokoroa, Woodville, Dannevirke, Reefton, Bulls, Pahiatua, Wairoa, Turangi, Taumarunui, Taihape, Raetihi, Mangakino, Patea, Murupara, Waiouru	Rural (Incl.some Off Shore Islands), Rural Centre, Te Anau, Stratford, Featherston, Waimate, Invercargill, Moerewa, Wanganui, Ohakune, Te Kuiti, Putaruru, Balclutha, Foxton Community, Eltham, Opunake, Gore, Milton, Manaia, Riverton, Opotiki, Kawerau, Bluff, Waipukurau, Marton, Westport, Tokoroa, Woodville, Dannevirke, Reefton, Bulls, Pahiatua, Wairoa, Turangi, Taumarunui, Taihape, Raetihi, Mangakino, Patea, Murupara,Waiouru.

Attachment 7: Advice on creating incentives for matching clients to the right size house (Source: MSD)

As part of a discussion about broader subsidy review at a previous Pygmalion meeting, the Minister for Social Housing expressed interest in the incentives to encourage people in social housing (or receiving the Income-Related Rent Subsidy (IRRS)) to live in a house of an appropriate size (and reduce their house size if it is too large).

Utilisation looks at how well matched the properties across the social housing portfolio are to the tenants' requirements (i.e. the proportion of tenants who require three-bedroom properties that are in three-bedroom properties). As at June 2015, around 45 percent of Housing New Zealand properties had an exact match, and 40 percent were underutilised (i.e. the house has one or more bedrooms than the tenant needs).

As the result of the current structure of IRRS, social housing tenants are insulated from the market cost of living in houses with more bedrooms than they require as they pay an income-related rent based on 25% of their income regardless of property size. There are no incentives on social housing providers to improve utilisation of their properties as they are paid market rent (made up of the tenant's Income Related Rent and the IRRS subsidy) regardless of utilisation rates.

[33]

[33]

The proposed BPS result area 'Better Access to Social Housing', which aims to reduce the median time to house Priority A clients from the register, may have an impact on utilisation.

[34]