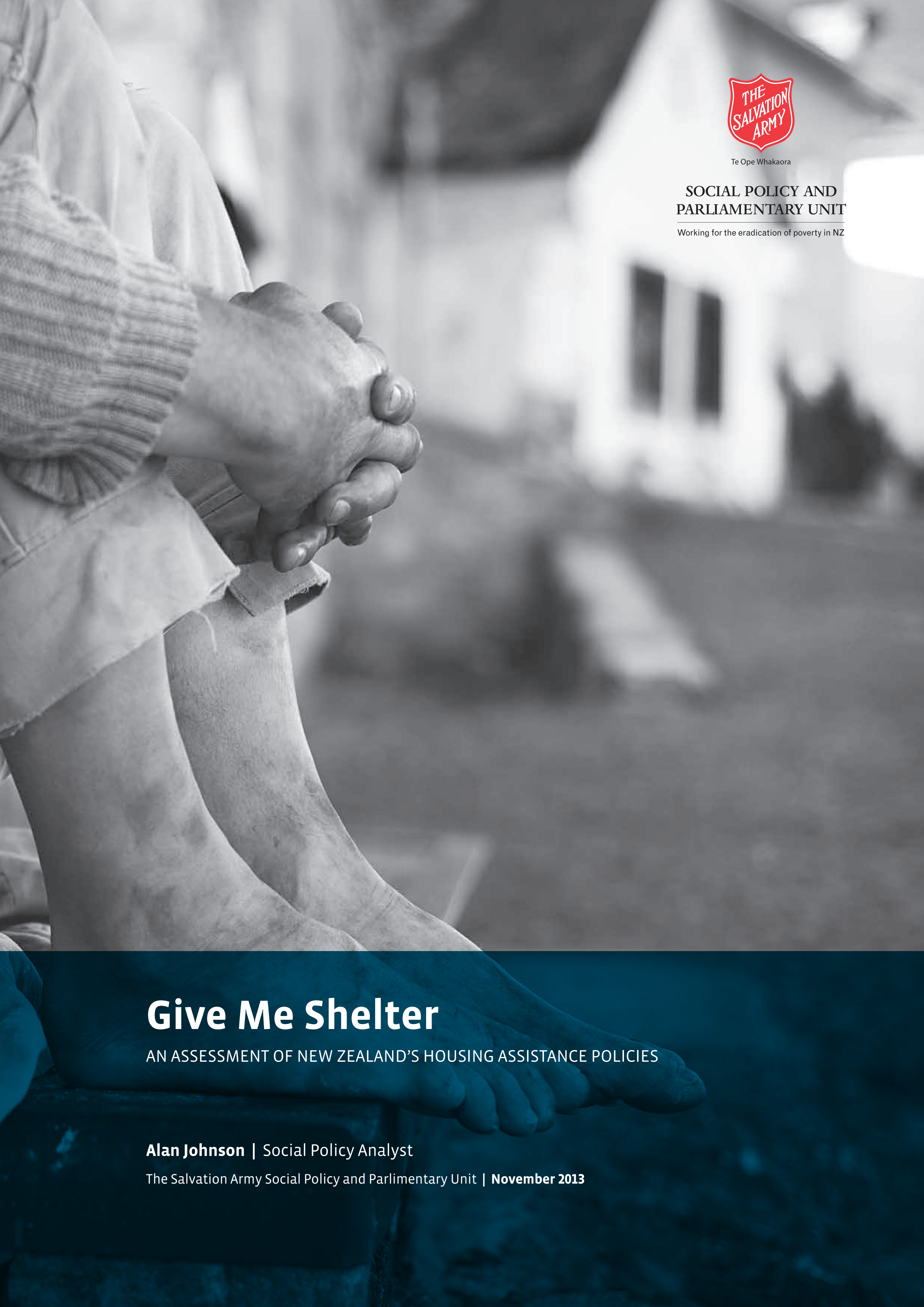

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Give Me Shelter

AN ASSESSMENT OF NEW ZEALAND'S HOUSING ASSISTANCE POLICIES

Alan Johnson | Social Policy Analyst

The Salvation Army Social Policy and Parlimentary Unit | **November 2013**

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EXECUTIVE SUMMARY

New Zealand's housing policy took a radical detour in 1993 as a result of decisions made in the 1991 Government Budget. This detour had two components—the dismantling of home ownership assistance policies which had been in place for more than 40 years, and the move to a single housing demand subsidy known as the Accommodation Supplement. This Supplement was paid to state house tenants as well as to private sector tenants, boarders and home buyers on the basis that this approach was tenure neutral, more efficient and offered greater choice. Subsequently the cost of the Supplement blew out unexpectedly, housing-related poverty appeared to increase and rates of home ownership began to fall. A supply-side subsidy in the form of an income-related rent policy for state house tenants was re-introduced in 2000.

These policy shifts were not evidence based and there have been very few attempts made since to study their impacts, especially in economic terms. This is despite the fact that housing assistance programmes are forecast to exceed $2 billion by 2016 and already cost around 8% of Government's social security and welfare spending, and support over 40% of all tenant households.

Such inaction probably does not represent indifference on the part of successive governments. Rather it may reflect the political difficulties of trying to address a policy area which is complex and expensive, and where any change will take considerable time and potentially disrupt the lives and livelihoods of hundreds of thousands of people.

The social housing reform agenda of the present Government is perhaps an exception to this inaction and this agenda does appear to be motivated partly at least by a concern that New Zealand's social housing is dysfunctional. The present reconfiguration of Housing New Zealand's housing stock is, however, being undertaken with little public scrutiny, and against a background of state house demolitions to make way for the development of mixed income communities. As well, the Government is taking much higher dividends from Housing New Zealand at a time when the Corporation probably could usefully use additional capital.

The social housing reform agenda also involves the establishment of a social housing market where NGO housing providers are being supported to develop affordable and social housing. These efforts are achieving gains although budgets are modest and progress in addressing housing shortages in such places as Auckland and Christchurch is disappointing.

The 2013 Budget announced the extension of income-related rent subsidies to NGO social housing providers as a further step in this social housing reform agenda. At best this next step is a token effort. The proposed budget of $27 million over the next four years was gained through a reduction in Government efforts to address leaky homes problems. Over the next four years Housing New Zealand can expect as much as $2.8 billion in income-related rent subsidies from the Crown. This is 99% of the total budget for such subsidies, despite the fact that the Corporation provides just over 80% of the social housing units in New Zealand. Local government provides as many as 11,000 units with no direct Crown subsidies.

Demand for housing assistance is related to levels of unemployment and benefit dependency. Future demand for such assistance will therefore depend on the buoyancy of the labour market and specifically its ability to create well paid jobs. As in all western countries, New Zealand's workforce is aging. This aging will, perhaps within the next five years, create labour shortages as baby boomers begin to retire. This retirement is a two-edged sword for future demand for housing assistance. On one hand, levels of unemployment amongst working age New Zealanders can be expected to fall—and probably with this, the demand for housing assistance will also fall. On the other hand, demand for housing assistance from retiring baby boomers is expected to increase as the numbers of people within this age cohort who did not manage to gain home ownership look to the state for assistance both for their incomes and housing.

This increased requirement for housing assistance from an aging population changes the nature of the overall demand for such assistance and of useful policy responses to it. Until now housing policy has been predicated on the idea of a housing career—that a person's or household's housing provision will change over time as they move from shared rental housing as young adults into debt free home ownership in their retirement. Policies framed by such ideas can assume that rented housing is a passing phase and that programmes to support low-income tenants are forms of temporary assistance. Who owns this rental housing and their purpose for owning it are less relevant in this world view, as are questions of security of tenure and long-term affordability.

These questions of security of tenure and long-term affordability are of concern for retiring baby boomers who do not own their own home. Without secure and affordable accommodation the quality of their lives is likely to be seriously compromised. There is scope to expand the reach of social housing to cater for this growing need.

The future role of housing assistance programmes generally and of social housing specifically should be more expansive than an extension into housing older tenant households. For more than 50 years prior to the radical housing policy detour of 1993, housing policy played a significant role in both shaping towns and cities and in nation building. The well housed working class anticipated by the architects of state housing in the 1940s and the property owning democracy sought by home ownership policies from the 1950s onwards are examples of this nation building.

A new vision for housing is within our grasp if we have the courage and imagination to seize it. We can see housing policy as not just being about providing houses but about building safe and sociable neighbourhoods and communities. Our housing assistance programmes can move beyond just offering parsimonious aid to the most needy to instead focus on providing families, especially young families, with the support and boost they need to become independent and self-determining.

This report offers some ideas for how such a new vision can be created. However, for any vision to become tangible and useful, a long-term commitment to it is required from a wide range of interests and political perspectives. Gaining such a commitment requires leadership and a shared understanding of our purpose. The purpose of ensuring that every New Zealander is adequately housed and has a stake in their society appears to be a good reason to rally such a commitment around.

INTRODUCTION

Housing is an important component of our wellbeing so should be seen as an important focus for our social policy. This is not the case—housing is very much a residual policy area. It is what has been referred to as the 'wobbly pillar'[1] of our welfare state—the more solid pillars being our public health and public education systems, and the safety net provided by income support programmes.

Probably the main reason housing is a leftover policy concern is because the vast majority of New Zealanders are able to gain access to suitable housing through market processes. In other words, housing is not a mainstream concern so it is of secondary importance politically.

But for perhaps 30% of New Zealanders access to good quality, secure and affordable housing is a problem. For many of these people it is a serious and ongoing problem. The depth of this problem might even be becoming worse in some cities as population pressure and high building costs create a growing shortage of affordable housing.

The responses from successive governments to this growing problem have been underwhelming. There has been a general unwillingness to get involved in creating more housing of the right type and in the right areas, believing steadfastly that the market will provide eventually. Meanwhile the recovery from the Christchurch earthquakes weighs heavy on the economy and the legacy of leaky homes goes unresolved.

Ironically, by international standards, New Zealand already spends a lot on housing assistance for low income households. This suggests that it is perhaps how we spend this money or how we organise the housing market that needs changing. The present Government, with some justification, might even argue that this is what it is attempting to achieve with its present social housing reform programme.

However, while these reforms are ambitious by recent historical standards, if they are seen in the wider context of the challenges we face and the actual resourcing being offered to meet these challenges the wobbly pillar metaphor is still apt.

This report is an attempt to extend the reforms around our housing assistance programmes. This is thought to be necessary in part to get better value out of current budgets and in part to begin to look ahead and to plan for our future housing need.

To achieve this, the report identifies some of the shortcomings in the present set of policy arrangements and understandings, and offers some examples of how these might be reframed or re-imagined.

This report looks specifically at the two main components of New Zealand's housing assistance programme—the Accommodation Supplement and social housing. Not included in this study are future possible options for affordable home ownership. This exclusion is not because home ownership policies are unimportant but because they are such an insignificant part of the present policy mix. The focus here is instead on the big ticket items.

The first chapter discusses definitions of housing subsidies, international experience of such subsidies and New Zealand's present housing assistance programmes. Chapter two considers social housing policy in some depth looking in particular at the performance and focus of Housing New Zealand. The third chapter focuses on the Accommodation Supplement and current policy settings around this programme. Chapter four looks at how the present policy approaches might be reframed. The final chapter offers a summary and conclusions along with some suggestions for what a broad housing reform process might look like.

Perhaps the compelling question for those who have an interest in housing policy is why bother with reform and change? Part of the answer to this question is offered in this report. Regardless of whether or not this part answer is sufficient to mobilise change, it is important that we begin a broader debate around our housing future. Hopefully this report can offer something of value to such a debate.

(clockwise from left) 7-year-old Waimarie Peawini, Naire Pahina, Karaumata Peawini and Mere Pahina, Quivaille Pahina and 2-year-old Noah Pahina-Lokeni. The family live in Papakura and struggle to feed themselves on the money they receive from the government through benefits.

New Zealand Herald, 26 July 2011. Photography: Sarah Ivey / New Zealand Herald

CHAPTER 1:
AN OVERVIEW OF HOUSING ASSISTANCE

This chapter introduces the concept and practice of housing assistance and subsidies. It begins with a discussion of the various definitions of housing subsidies and then considers international practice and experiences around housing subsidies. The final part of this chapter offers a high level summary of housing subsidies in New Zealand.

1.1 DEFINING HOUSING SUBSIDIES

A subsidy is a payment made from one party to another which has little or no subsequent obligation on the recipient back to the party subsidising. As a payment it is known as a transfer as opposed to a purchase or compensation for services offered. Because there are few or no obligations involved in this transfer it may be said to be unrequited. For this reason in New Zealand Government's budget definitions a subsidy is defined as a benefit or unrequited expense.

Subsidies are mostly paid by governments but can also be paid by private organisations. Governments may choose to subsidise the production or the consumption of a good, service or activity to either increase consumption or to otherwise change behaviour. Most often the government will wish to increase this consumption because the good, service or activity is seen as a merit good. A merit good is a good or service which society considers to be 'intrinsically good or bad so adopts measures to stimulate or discourage their consumption'.[2] The particular reason for such an intrinsic valuation will vary from case to case but includes such qualities as contribution to social outcomes like improved social cohesion or to societal values like cultural identity or empathy.

Subsidies by private organisations need to be distinguished from discounts or reduced margins which might benefit a particular group of customers and that are offered to increase turnover. It is possible for private organisations to offer lower prices to a group of customers on the basis of some social objective such as building goodwill or being socially responsible and such gestures can be seen as a subsidy or even a gift. Such gestures might be achieved through cross-subsidisation where the profitability gained from one group of customers pays for the losses or lower profitability from another group. In a housing context cross-subsidisation occurs in quasi-private organisations such as housing NGOs through rent pooling and the treatment of all dwellings in a similar way for the setting of rent regardless of their operational costs to the organisation.

Clearly in the case of a housing subsidy the good or service being subsidised is housing. More completely a housing subsidy 'involves a direct action by government, which by means of an explicit or implicit flow of funds, reduces the relative cost of producing or consuming housing'.[3]

Housing subsidies are often defined as being either supply-side or demand-side subsidies. Supply-side subsidies are said to be object focused in that the 'thing' being subsidised is an object as in a house. Supply-side subsidies are also known as known as bricks and mortar subsidies or producer subsidies and are paid to financiers, developers and providers of housing to lower the cost of providing housing units.[4]

In the same vein demand-side subsidies are said to be subject focused in that the party being subsidised is the subject of the subsidies. 'Demand subsidies are paid to households to boost their effective purchasing power in housing markets'.[5]

Across another dimension housing subsidies can be defined according how they are paid or received. Subsidies can be paid in cash, received as a tax write-off or received as lower interest rates.

Cash payments may be paid as a regular payment to meet operational or ongoing costs or as one-off grant to assist with the purchase or development of housing. Ongoing cash payments can be paid as a transfer or welfare benefit to qualifying households or to housing providers as an operating subsidy. Such operating subsidies might be calculated on the basis of operating costs, rental income foregone by offering discounted rents or as a rebate for mortgage interest paid. Vouchers, which are a commonly used form of housing assistance in the United States, are actually a form of cash payment which is either paid as a regular lump sum to the recipient or paid directly to a landlord on a recipient's behalf. The basic idea behind vouchers is that recipients receive a certificate which acknowledges their right to this supporting payment and this certificate is used by the recipient to find housing in the market.[6]

Assistance via lower interest rates can be offered in three main ways:

1. A household or housing provider can receive a cash payment from the State or as a rebate for mortgage interest paid.
2. The State can lend money directly to a household or housing provider at a rate which is lower than market rates.
3. The State may offer a bank or other lender a guarantee over the mortgage which is made to a qualifying housing provider or household and the interest rate subsequently offered is lower than it would otherwise have been on account of this guarantee.[7]

The question of tax write-offs or more correctly tax expenditures is not quite as clear cut.[8] The problem here is in trying to estimate the size of something that perhaps never existed. Tax expenditures or foregone tax in support of some housing objective may be due to tax policies which are quite deliberate and explicit or to policies which are perhaps ambivalent or even neglectful so somewhat implicit. Explicit tax policies can include tax rule allowances or tax credits in exchange for doing something—two common examples are for mortgage payments or to provide low-income housing. Implicit policies are something of an oxymoron as their intent is most likely understood but understated. In housing policy the most obvious example of an implicit tax policy is the practice of not taxing the imputed rent of owner-occupiers. Other examples include weak tax rules around the taxation of capital gains as well as generous provision for interest cost write-offs and depreciation for rental property investors.

This characterisation of housing subsidies as supply- or demand-side according to how they are paid or received is summarised in Table 1 below.

Table 1: Overview of housing subsidies

	SUPPLY-SIDE Object subsidies	**DEMAND-SIDE** Subject subsidies
OPERATIONAL ongoing payments	Ongoing transfers to housing providers	Ongoing transfers to housing consumers
CAPITAL one-off payments	One-off capital grants to housing providers	One-off capital grant to house owners
CAPITAL ongoing payments	Provision of subsidised interest rates to housing providers	Provision of subsidised interest rates to housing consumers
TAX INCENTIVES received as a reduction in tax liability	Tax relief to housing providers or investors	Tax relief to housing consumers
RISK SHARING received as a lower interest rate	State acts as guarantor for housing provider's mortgage debt	State acts as guarantor for housing consumer's mortgage debt

A considerable part of the debate around housing policy is concerned with the relative merits of the various subsidy policy options which are offered in Table 1. A core part of this debate is around the supply-side versus demand-side options. Demand-side subsidies are argued to be more equitable and more efficient than supply-side subsidies because they can be more closely targeted to those who need assistance most and because they can be used in ways which encourage recipients to utilise their housing efficiently. While there is some argument that demand-side subsidies can influence housing supply through market mechanisms, the evidence is mixed.[9] On the other hand the value of supply-side approaches is that they can address supply issues, such as a shortage or unresponsive supply, more directly than demand-side approaches, although once again the evidence is mixed.[10]

1.2 INTERNATIONAL EXPERIENCE IN HOUSING ASSISTANCE POLICIES

Most OECD countries offer some housing assistance programmes to low and modest income households. Over the past 25 years in all of these countries there has been a significant shift away from supply-side subsidies to demand-side subsidies and specifically from capital 'bricks and mortar' type subsidies for public housing agencies toward housing allowances for tenants who rent in the private or NGO housing sectors. This shift was often accompanied by the privatisation of social housing either through sales to tenants or the takeover of social housing by NGO's such as housing associations.[11] In the United States this shift from capital subsidies for housing providers to tenant-based subsidies saw the demolition of social housing units by public housing authorities and in some occasions their replacement with lower-density mixed-income communities.[12]

Commentators offer a number of reasons for this shift ranging from the inherent greater efficiency of market-based demand subsidies, to the failure of publicly owned social housing, to growing fiscal constraints on the State and to ideological shifts. These reasons combine into a powerful and somewhat mutually reinforcing narrative which presents the shift from direct public provision to a market based individualised approach as the only viable way forward.

By the late 1970s the post-World War Two Keynesian boom was winding down and with this wind down came the end of large scale investment in publicly owned and initiated social housing programmes. These programmes had often been poorly conceived and developed. A growing legacy of underfunding and poor maintenance combined with rising unemployment and the increased social marginalisation of public housing tenants were responsible for undermining popular and political support for social housing. From the 1980s onwards, social housing was seen as creating the conditions for inter-generational welfare dependency, crime, anti-social behaviour and entrenched poverty.[13] The extent to which such criticism is valid or justified is debatable given the effect of outside factors such as rising unemployment and the spatial concentration of the poor through social housing programmes.[14]

At the same time as this was occurring the finances of governments in most OECD countries came under increasing pressure due in part to rising unemployment and the associated increasing welfare costs. These pressures coincided with the need for structural adjustments in the economy as global markets developed and governments were less and less able to shelter protected industries behind tariffs and other trade barriers. These influences in turn forced governments to radically change the economic role played by the

State including reviewing the role of public enterprise and the value of direct provision by public agencies.[15]

While these changes were often introduced as being the only viable option they can be seen as being ideologically driven. Since the early 1980s neoliberalism with its prescriptions of greater use of markets for allocation and a reduced role for the State has dominated policy discourse and the formulation and implementation of policy.[16]

The idea of demand-side subsidies fits in well with neoliberal prescriptions. Neoliberal economists argue for demand-side subsidies such as rent allowances or benefits on the basis of three features:

1. **More choice:** recipients have greater choice over where they live, the type of house they live in and within limits the extent of their income they wish to spend on housing.
2. **Better targeting:** by linking access to assistance to income rather than to house occupancy it is possible to more effectively target assistance to households which need it most.
3. **Allocative efficiency:** private investors operating in a competitive market are more efficient than public agencies at deciding where to invest in rental housing and have greater incentive to manage this housing as efficiently as possible.[17]

The extent to which these expectations are fulfilled in practice is considered below.

At the same time as this shift from supply-side to demand-side housing assistance policies, many European countries and the United States embarked on programmes to increase access to home ownership. These programmes have seen a steady rise in rates of homeownership in European and North American countries from the early 1980s through until the global financial crisis in 2007.[18] The global financial crisis was intertwined with these home ownership policies especially with the creation of securitised sub-prime mortgages in United States although it would difficult to directly blame such mortgages for the crisis.[19] Changes in rates of home ownership post GFC are yet to be determined.

To date there does not appear to have been a comprehensive review of the performance of demand-side housing subsidies although there is ample literature around various impacts of such subsidies on specific housing markets and on social wellbeing. This literature comes from a number of angles of inquiry and perhaps for this reason there is no consistent picture emerging from the 20 to 30 years experience of demand-side subsidies. There is, however, some evidence to suggest that some but not all of the value of rent assistance and income supplement programme leaks to landlords,[20] that those receiving assistance may be excluded from some housing,[21] and that the supply of affordable housing to housing people receiving assistance may be inadequate.[22] These studies are relatively local and it appears that the actual outcomes achieved depend on local policy settings and budgets as well as local housing market conditions. The impact of the GFC on local housing markets as well as the housing bubble which preceded the GFC in many countries will have distorted the impacts of any housing assistance policy so it may remain difficult to gain any overall impression of the effectiveness of demand-side policies over supply-side ones.

In a review of United States' experience in rental housing assistance Knight offers a useful concluding evaluation of supply-side and demand-side approaches against a number of housing-related policy objectives. This evaluation is provided in Table 2.

Table 2: Evaluation of US rental housing assistance programmes[23]

POLICY OBJECTIVE	Supply-side Production	DEMAND-SIDE Vouchers
Preserve and expand the supply of good quality housing units	Yes—rental stock has been expanded, though more units need to be produced	Somewhat—may encourage landlords to maintain existing housing
Make housing more affordable and more readily available	Yes—but affordability depends on size and duration of subsidies	Yes—primary goal of these programmes is affordability; success depends on household's ability to find units
Promote racial and economic diversity in residential neighbourhoods	Rarely—depends on where new units are located and who is eligible to occupy them	Possibly—if recipients can find units in diverse neighbourhoods
Help households build wealth	Generally not—though lower rents may lead to increased family assets	Generally not—though lower rents may lead to increased family assets
Strengthen families	Possibly—but little literature exists to confirm programme's ability to strengthen families	Possibly—but less impact if units are located in distressed neighbourhoods or occupancy rules discourage family unification
Link housing to essential supportive services	Sometimes—when units are designed in conjunction with effective supportive services	Generally not
Promote balanced metropolitan growth	Rarely—depends on where the new units are built	Possibly—depends on recipients' ability to find units in suburban areas and close to job opportunities

1.3 AN OVERVIEW OF NEW ZEALAND'S HOUSING ASSISTANCE PROGRAMMES

Like other OECD countries, New Zealand's housing assistance policy approach has shifted from a supply-side to a demand-side focus. In 1993 an income supplementation programme known as the Accommodation Supplement was launched and was available to all low-income households regardless of their housing tenure. At the same time tenants in state-owned social housing were moved off income-related rents and were required to pay markets rents and access the Accommodation Supplement in the same way as private sector tenants.[24]

At the same time as these reforms the Government began to wind down its various home ownership assistance programmes which included tax incentives and concessionary loans and that had until then been offered continuously for 40 years. Following this wind-down the Government subsequently sold off its mortgage portfolio in what amounted to the second largest privatisation in New Zealand during this era.[25]

Following the election of a Labour-led coalition Government in 1999 income-related rents for state tenants were reintroduced in 2000 and set at 25% of household income.[26]

In effect New Zealand has a hybrid housing subsidy regime with a mix of supply-side and demand-side programmes. Nearly two-thirds of the total housing assistance budget of $1.9 billion is spent on the Accommodation Supplement with the most of the remainder being spent on income-related rents subsidies for the Government's social housing agency Housing New Zealand. Relatively small sums are provided to NGO social housing providers in capital grants and operating subsidies.

New Zealand's home ownership assistance programmes are very limited and amount to a mortgage guarantee programme known as Welcome Home Loans, a first home deposit grant under the KiwiSaver retirement savings programme and a small loan programme for rural Māori housing.

Table 3 below provides an overview of New Zealand's approach to delivering housing subsidies based on the generic framework offered in Table 1.

Table 3 makes reference to 'non-taxation' policies of tax deductibility, passive tax exemption and soft enforcement of capital income rules. Arguably these are not policies either because the treatment of housing investments is similar to the tax treatment of other investments or because there has been no explicit decision to exempt the imputed rents of owner-occupiers from being taxed.

In 2009 the Tax Working Group based at Victoria University estimated that the value of New Zealand's rental housing stock was $200 billion in 2008 yet this investment generated operating losses of $500 million and probably tax credits of $150 million.[27] This tax expenditure was not new as a previous tax review group reported that revenues from rental housing investment fell from a reported surplus of $213 million in 1993 to a $23 million loss in 1998. The use by investors of a whole asset class as means of avoiding tax was well known to governments during this period (1998–2008) yet nothing was done to address this behaviour. Over a similar timeframe (2000–2011) successive governments were advised on at least four occasions of the distorting and inequitable tax treatment of housing, yet they did little or nothing about it.[28] At least the continuing favourable tax treatment of housing as an investment can be seen as a policy of neglect by Government.

The budgets and coverage for some of these programmes is provided in Table 4.

In comparative terms the extent of New Zealand's housing assistance programme is large. Hulse (2003) estimated that 54% of New Zealand's tenant households were receiving assistance from the State in 2000/01 either as social housing tenants or through the Accommodation Supplement. Australia's assistance rate was 52%, Canada's was 35% and the United States' was just 17%. In 2012/13 the Australian Federal Government spent $A 3.7 billion on rent assistance or 1% of core government spending of $A381 billion.[29] In the same year the New Zealand Government spent $NZ 1.2 billion on the Accommodation Supplement or 1.4% of core government expenditure of $82 billion.[30]

By international standards New Zealand's spending on housing assistance programmes and especially on demand-side subsidies is high. Whether or not it is too high depends on what is being achieved with the spend. A summary of New Zealand's current housing assistance programmes is provided in Table 4.

Table 3: Overview of housing subsidies in New Zealand

	SUPPLY-SIDE Object subsidies	**DEMAND-SIDE** Subject subsidies
OPERATIONAL ongoing payments	Income-related rent subsidies to Housing New Zealand	Special needs benefits and grants to assist with accommodation costs
	Income-related rents subsidies to NGO social housing providers	Rest home subsidies
		Accommodation Supplement
CAPITAL one-off payments	Capital grants from Social Housing Fund	KiwiSaver first home buyer grants
CAPITAL ongoing payments	Interest rate subsidies for NGO housing providers under the Housing Innovation Fund	None
TAX INCENTIVES received as a reduction in tax liability	Tax deductibility of interest costs of rental properties and soft treatment of capital gains	No explicit subsidies
RISK SHARING received as a lower interest rate	No explicit subsidies	Welcome Home Loans mortgage insurance scheme

Table 4: Housing assistance programme budgets and coverage 2013/14

	2013–14 BUDGET[31]	**COVERAGE**
Accommodation Supplement	$1.119 billion	298,000 recipients of which 196,000 are renting 63,000 are boarding and 39,000 are owners
Income-related rent subsidies to Housing New Zealand	$662 million	69,300 state rental units of which perhaps 95% or 65,800 are eligible for the subsidy
Income-related rent subsidies to NGO social housing providers	$27 million for 2013/14 to 2015/16	Unknown— robably around 1000 units
Rest home subsidies	$1.2 billion (approx)[32]	Not reported—probably around 40,000 people
KiwiSaver home deposit	$19 million	Approx. 6000 households
Welcome Home Loan mortgage guarantee scheme	$2.5 million	1200 additional households
Social Housing Fund capital grants	$139 million for 2012/13 to 2014/15	Approx. 500 units

Anne Hurley (left) and Margaret Martin from the Sisters of Mercy Wiri, at one of the Housing New Zealand homes that had been unoccupied for over 100 days. South Auckland has a high number of empty and damaged Housing New Zealand homes.

New Zealand Herald, 29 August 2012. Photography: Dean Purcell / New Zealand Herald

CHAPTER 2:
A REVIEW OF SOCIAL HOUSING POLICY

This chapter reviews the present delivery of social housing in New Zealand. Such a review could be exhaustive and this is not the intention of this report. Rather, this report sets out to consider the financial aspects of the delivery of social housing in New Zealand at present and over the recent past (5 to 10 years). The purpose of such a consideration is twofold—to provide some background to the current policy settings around social housing provision and to offer a critique of these policy settings with a view to examining the scope for change and improvement.

This chapter begins by offering a brief background to social housing in New Zealand. More in-depth and critical assessments of social housing are available and should be referred to for a more complete and perhaps more balanced perspective on social housing in New Zealand.[33] The chapter then considers a number of aspects of the financial and policy frameworks which have directed the activities of the State's social housing agencies including Housing New Zealand and the Social Housing Unit. Finally the chapter reviews the past and current policies and programmes which have directed and attempted to assist other social housing agencies.

2.1 SOME BACKGROUND

In this discussion social housing is defined as housing which is allocated outside of the market and of market processes such as bidding and price-based contracts. This non-market allocation is most often based on need such as that associated with low incomes, poor health or age. Typically social housing is provided by the State or by not-for-profit NGOs although it can be provided by the for-profit sector with State subsidies or even charitable donations.

In New Zealand social housing is mainly delivered by Housing New Zealand which is seen by Government as a commercially-focused State Owned Enterprise (SOE). Housing New Zealand provides around 69,000 rental units mainly to low-income households. Housing New Zealand receives a supply-side subsidy from the Government in order to be able to offer income-related subsidised rents to most of its tenants. In return, Housing New Zealand is expected to pay a dividend back to the Government and to pay taxes as any other corporate entity would.

A further 14,000 or so social units are owned either by local government or by NGOs.[34] These other social housing providers often received capital subsidies from the State to provide the housing they offer but do not receive income-related rent subsidies as does Housing New Zealand. The result of this set of arrangements for the social housing sector outside of Housing New Zealand has been threefold:

1. That tenants and other beneficiaries of these organisations have not received the same level of subsidy as Housing New Zealand's tenants so their housing costs are normally higher, even though they often have the same level of income as state house tenants.
2. The sector's growth in terms of total numbers of dwellings has been constrained by the very limited budgets provided through two capital grants programmes which have operated over the past decade (this matter is considered below in more detail).
3. The sector's growth has not necessarily addressed housing needs but rather been driven either by political preference[35] or by the financial resources of those organisations offering up projects for State support.

In August 2010 an advisory group to the Ministers of Finance and Housing, known as the Housing Shareholders' Advisory Group or HSAG, offered them a series of recommendations for the reform of social housing in New Zealand. These recommendations included:[36]

- focusing Housing New Zealand's activity on those people and households with the highest housing need
- developing opportunities for greater delivery of social housing by third parties
- broadening the focus of housing policy to include a review of current subsidy programmes and a greater focus on building more houses
- clarifying the respective roles of Government agencies within the housing space including those of the Ministry of Social Development, Housing New Zealand and the then Department of Building and Housing.

These recommendations were largely accepted by Government in December 2010 and from mid-2011 the Government began introducing a series of operational and legislative changes to effect these recommendations. These changes included:[37]

- the establishment of the Social Housing Unit to administer the Social Housing Fund which funds the development of social housing through third party providers
- direction to Housing New Zealand to focus on the needs of households with the greatest housing need
- greater expectations placed on Housing New Zealand to pay higher dividends to the Crown and to receive lower capital contributions[38]

- extension of the availability of income-related rents to third party social housing providers and the allocation of a modest budget to fund this
- introduction of reviewable tenancies for all Housing New Zealand tenants with a view to evicting tenants who no longer have an appropriate level of need
- separation of housing needs assessment from Housing New Zealand and the allocation of this role to another Government agency which will most likely be Work and Income.

Many of these changes were put in place through the Social Housing Reform Bill introduced into Parliament at the time of the 2013 Budget.

2.2 A RECENT HISTORY OF HOUSING NEW ZEALAND

Housing New Zealand Corporation is the State's social housing provider and is the largest landlord in the country. The organisation is constituted under the Housing Corporation Act 1974 and as such is required to give 'effect to the Crown's social objectives, by providing housing and housing-related services, in a business-like manner'.[39] The Corporation is also required to operate under the Crown Entities Act 2004 and under this act it is listed as a Crown agent and required to give effect to Government policies.

Housing New Zealand is effectively treated as a private company with an independent board of directors who are appointed by the Corporation's owners who are nominally the Minister of Finance and the Minister of Housing. The Corporation is required to pay tax and, depending on the dividends/capital contributions policies of the nominal owners, it may be required to return a dividend back to these owners.

Over the decade 2002/03 to 2011/12 Housing New Zealand paid $528 million in taxes.[40] By comparison in 2008 the total value of New Zealand's rental housing stock was estimated at $200 billion yet it generated a taxable loss of $500 million[41] and perhaps associated tax credits for taxpayers of $150 million. The rich irony here is that a social housing provider is paying taxes while private sector rental housing investors are most often receiving tax refunds. The changes to depreciation rules announced in the 2010 Budget and brought into effect from 1 April 2011 are likely to change this position although by how much has not been reported.

Housing New Zealand is of course slightly unique as a company because it gains more than 60% of its revenue from Government through income-related rent subsidies and other appropriations. The extent and nature of this funding support is discussed later in this chapter.

The Crown's expectations of Housing New Zealand and its Board appear to have changed with the shifting of political power from a Labour-led government to a National-led one following the 2008 general election. This change is witnessed in the financial accounts and statements of intent of the organisation as discussed below. Supporting and more detailed data is available in Housing New Zealand's annual reports and statements of intent.

Figure 1 indicates the changes in the capital contributions which Housing New Zealand has received from the Crown and dividends it has paid to the Crown over the 10 years between 2002 and 2012. The period up to 2008/09 was more or less under the administration of a Labour-led government while the period since has been under the administration of a National-led government and these eras are indicated in Figure 1 and following graphs.

Over the seven years of its oversight the Labour-led government provided Housing New Zealand with $758 million in capital contributions and received $272 million in dividends leaving a net $486 million in funds in the Corporation. Over the three years of its oversight the National-led government has provided the Corporation with $129 million in capital contributions, received $271 million in dividends resulting in a net $142 million withdrawal of funds from the organisation.

Figure 2 shows changes in Crown borrowing to Housing New Zealand over the 10 years 2002/03 to 2011/12. During the seven years of Labour-led governments Housing New Zealand received $1.164 billion in borrowings from the Crown while during the three years of National-led government it received $48 million.

Figure 1: Housing New Zealand capital contributions and dividends[42]

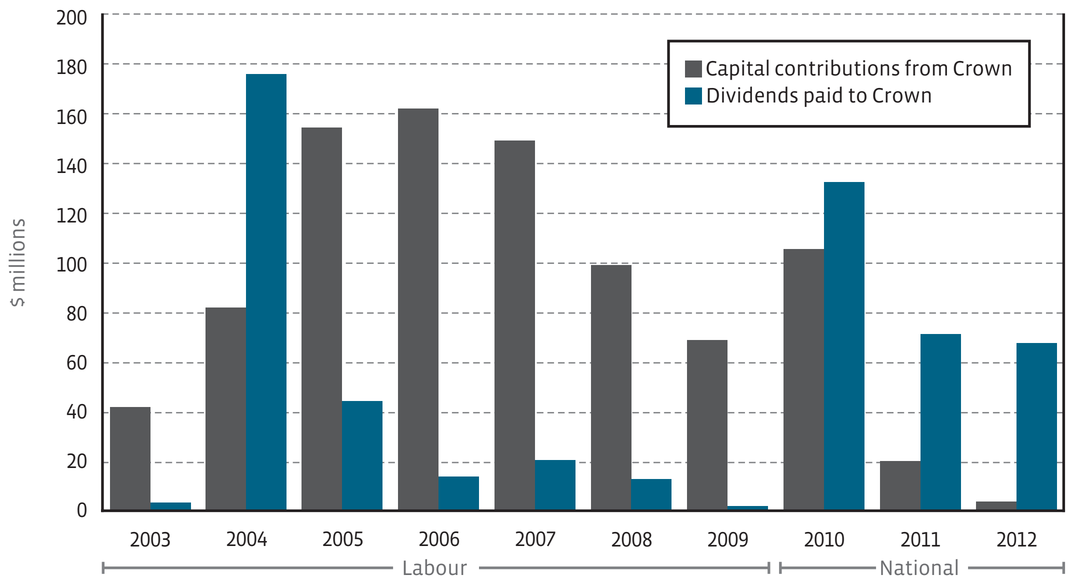


Figure 3 illustrates changes in Housing New Zealand's spending on the purchase of rental property assets. Between 2002/03 and 2008/09 the Corporation averaged $296 million per year in capital spending. In the following three years (2009/10 to 2011/12) this spending fell to an average of $225 million annually.

Figure 2: Housing New Zealand's Crown borrowings[42]

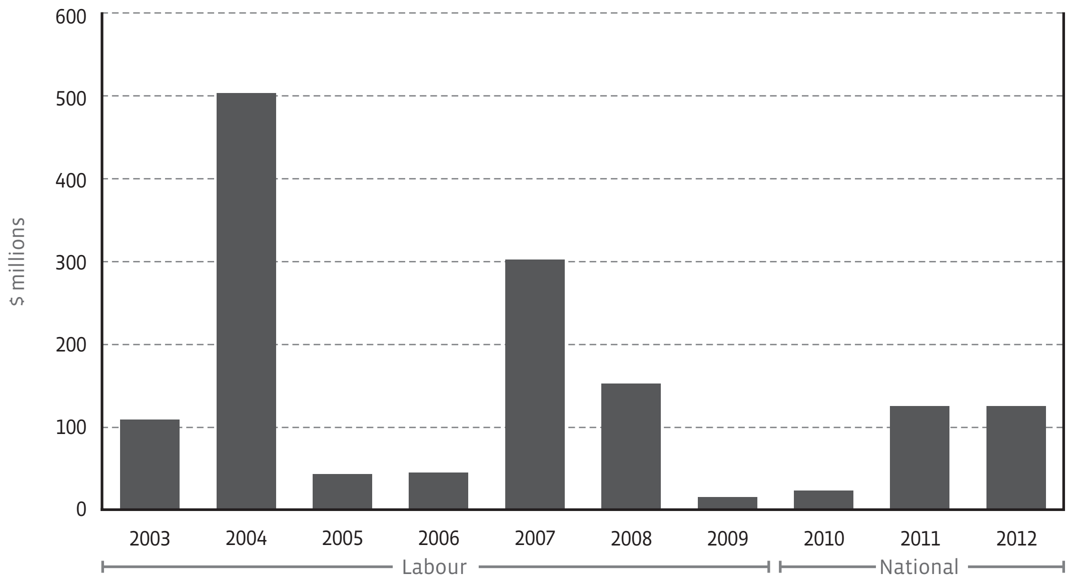


Figure 3: Housing New Zealand's spending on rental property assets[42]

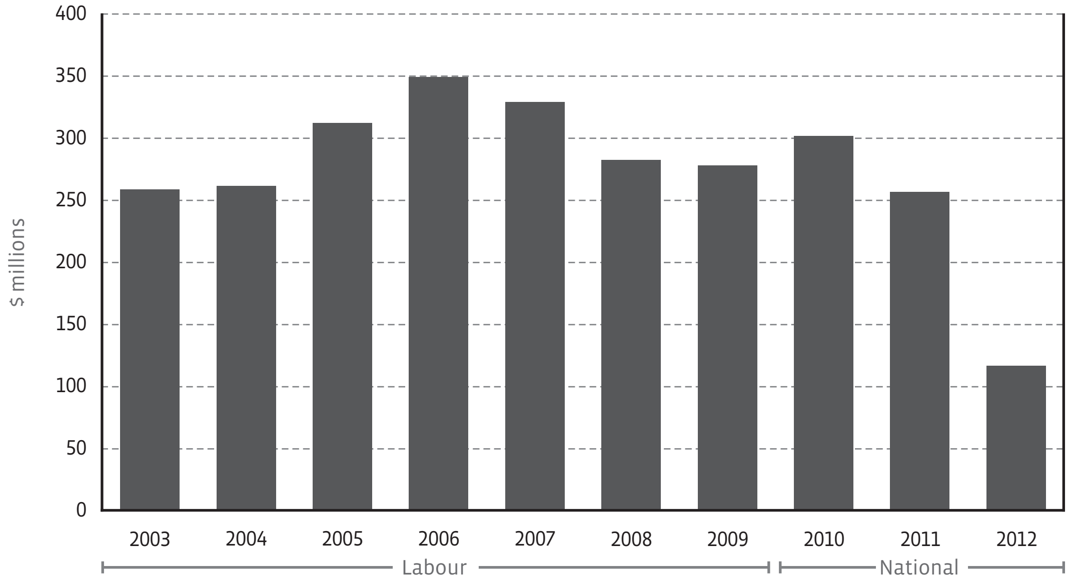


Figure 4 charts changes in Housing New Zealand's total equity over the period 2002/03 to 2011/12. This graph indicates that in 2011/12 two-thirds of this total equity of $12 billion was from revaluation of the Corporation's property assets while the remaining third of $3.8 billion was attributable to contributions from the Crown. The later share of equity has grown by $0.7 billion over the decade to

Figure 4: Housing New Zealand's equity[42]

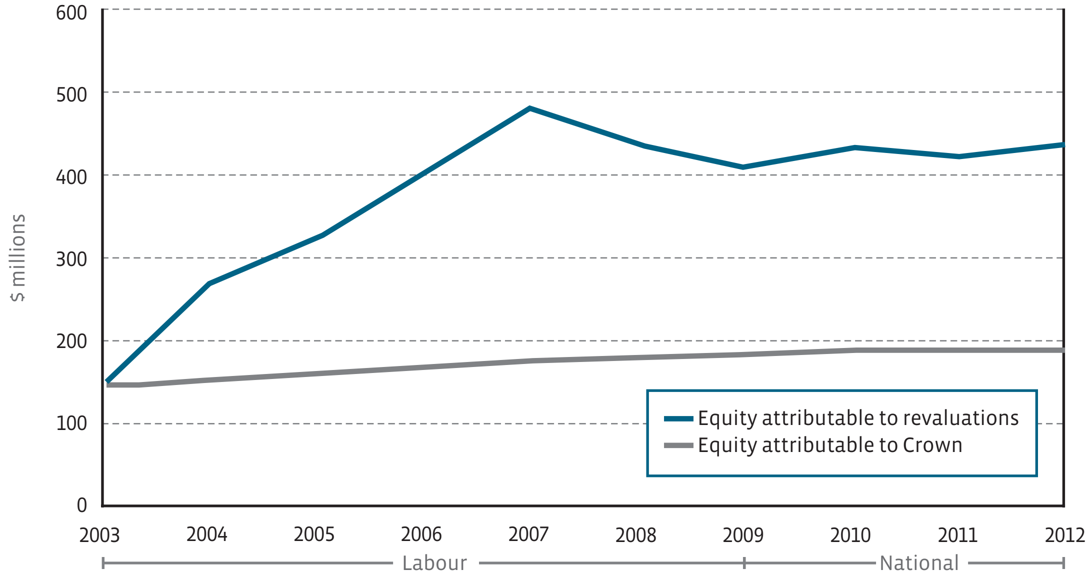
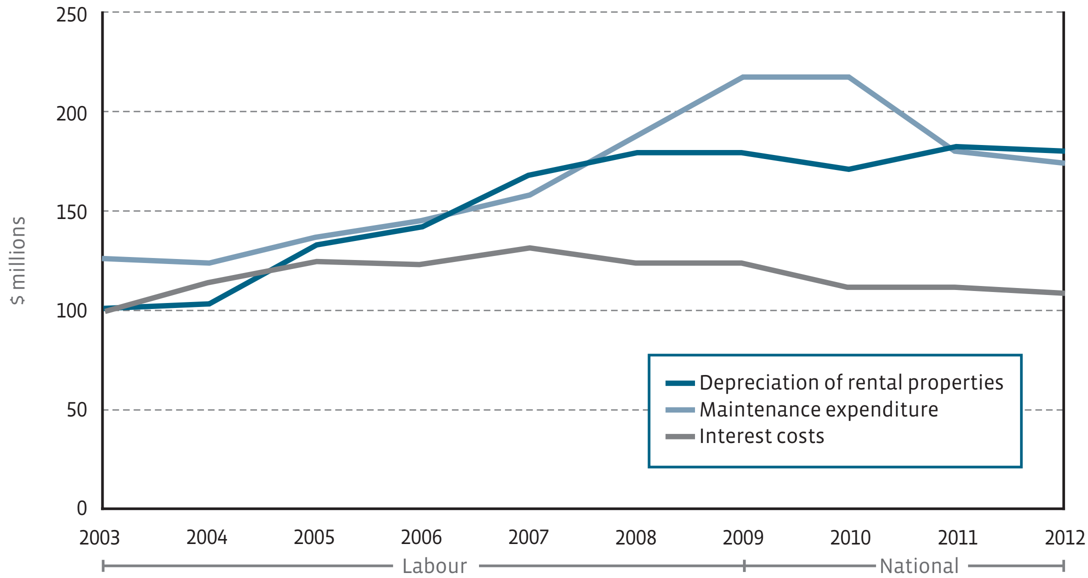


Figure 5: Housing New Zealand's main expenditures[42]

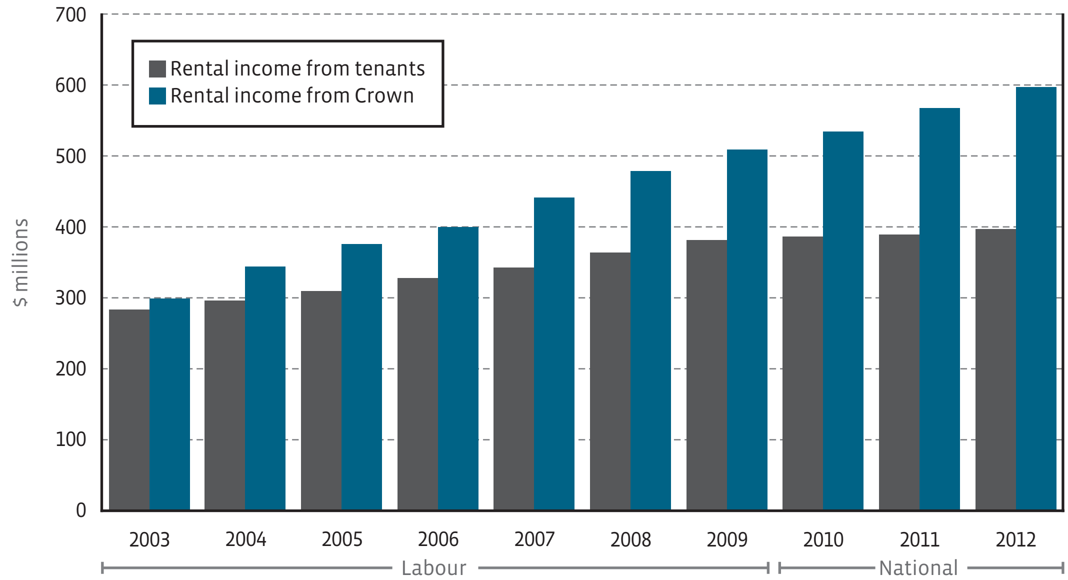


June 2012 on account of the capital contributions indicated in Figure 1. Equity attributable to revaluations has grown from $2.9 billion to $8.7 billion over this 10 year period. The sharp decline in such equity around 2007/08 was due both to a real decline in property values following the global financial crisis and a recognition of a deferred tax liability on account of the increase in equity due to revaluations. At 30 June 2012 this tax liability stood at $1.7 billion.

Figure 5 illustrates changes in expenditure by Housing New Zealand over the 10 years to June 2012. A noticeable trend in this expenditure is consistent increase in maintenance spending until 2009 and the decline of these expenditures since. This later shift coincides with the administration of a National-led government while the gradual increase in depreciation can be attributed to the increasing value of the Corporation's rental property asset. Interest costs have remained relatively constant over this period with a small decline since 2009 on account of lower interest rates. Since 2005 the Corporation's total borrowing has remained almost constant at $1.8 billion.

Figure 6 reports Housing New Zealand's main revenues for the period 2002 to 2012. This divides the revenue between rents received directly from tenants and the rent subsidy received from the Crown. The Corporation's other revenues are relatively minor and are typically around $10 to $15 million annually. These other revenues consist mainly of other appropriations from the Crown to pay for various Housing New Zealand activities such as administrating the Welcome Home Loans mortgage guarantee scheme on behalf of the Crown.

Figure 6: Housing New Zealand's main revenues[42]



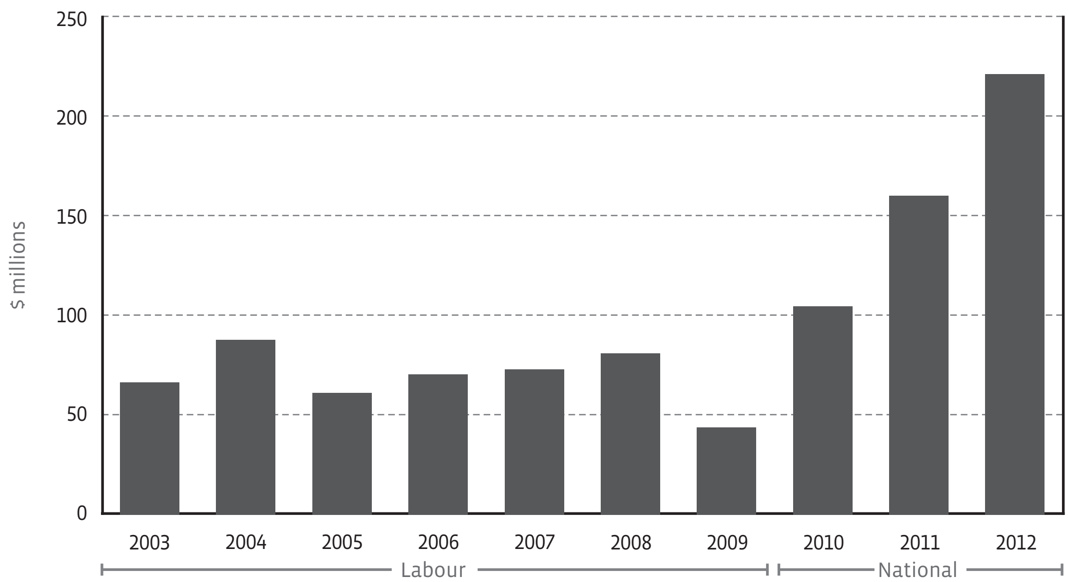
What is most noticeable in the numbers reported in Figure 6 is the declining share of total revenue which is gained from tenants' rents. This share has declined from 49% in 2002/03 to 40% in 2011/12. These revenues are considered in more detail below but there is no discernible difference between the period of the Labour-led and National-led administrations in the approaches being taken to funding Housing New Zealand's operations through this income-related rent subsidy.

There is a significant difference in the level of operating surplus which Housing New Zealand is expected to generate from its activities. This difference is illustrated in Figure 7.

The source of this difference is not entirely clear from a close analysis of Housing New Zealand's accounts. While there are claims made by the Corporation that the greater surpluses achieved during the administration of the National-led governments are the results of better operational efficiencies, the cost data provided in the Corporation's annual reports does not entirely support this claim.[43] It appears for example that some of the additional surplus is funded by increased rent subsidies from the Crown. As discussed below these increases cannot be justified on the basis of either increasing rental housing stock or an increase in background market rents.

It is possible, although not proven from the evidence available, that the practice between the Crown and the Corporation is to use the Crown's income-related rent subsidies to balance out the other elements of the Corporation's financial

Figure 7: Housing New Zealand's before tax operating surpluses[42]

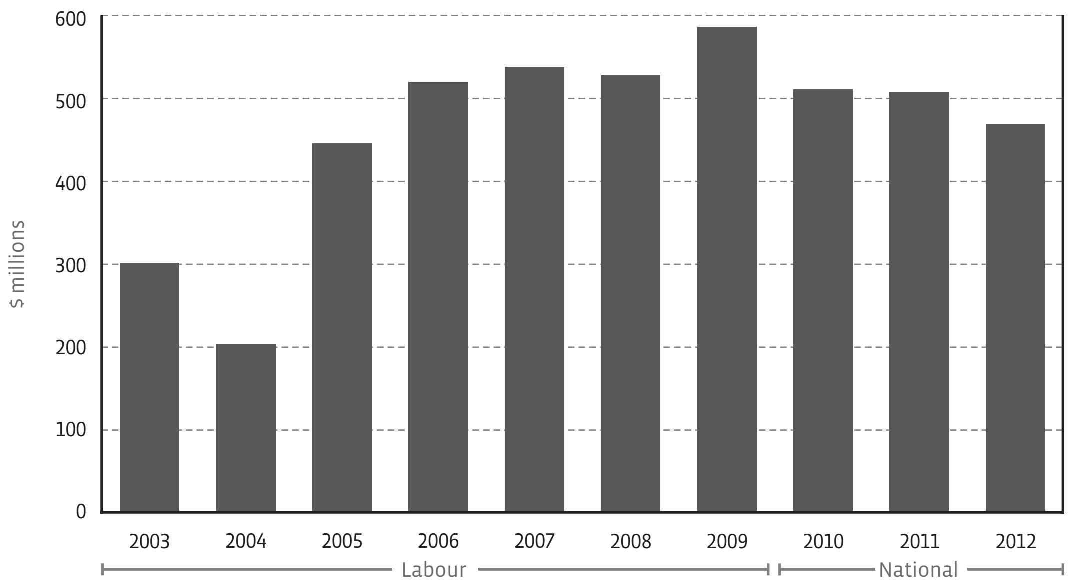


management such as expected surplus, dividends and capital contributions. If this is the case then the level of rent subsidy reported does not necessarily represent any housing assistance policy settings but instead a higher level budget policy setting which decides how much in total Housing New Zealand will receive from the Crown in any one year. Figure 8 offers some evidence to support this proposition.

The net contributions shown in Figure 8 are the balance of all operating subsidies, other appropriations, capital contributions, dividends and income tax. The results shown in 2003/04 are the net result of a balance sheet restructuring where the Government received a dividend of $176 million and then subsequently increased its lending to the Corporation. While such balance sheet restructuring is not captured in the results presented in Figure 8, overall such restructuring has not been a significant occurrence since 2003/04.

While Figure 8 shows a small decline in the Crown's net contribution to Housing New Zealand under the National-led governments that actual policy picture over the past decade is perhaps more complex than this one shift. This complexity emerges in part because the Labour-led governments of Housing New Zealand was by no means consistent suggesting that its vision for, or more likely its view of, Housing New Zealand changed over time. Furthermore, it may be that the National-led governments over the period under review were a reflection

Figure 8: The Crown's net contribution to Housing New Zealand[42]



of its longer-term plans for the delivery of social housing and so the outcomes identified in the above discussion are the immediate results of these changes.

It appears that neither Labour-led nor National-led governments have had a focusing vision for Housing New Zealand and its delivery of social housing but rather a residual view of the Corporation and its role. This residual view has meant that while social housing is seen as a necessary and not insignificant activity for Government—it is not main stage politically or philosophically so needs to be managed with a minimum of fuss or additional spending.

This thesis of a residual view of social housing is supported both by the minimal budgets offered by both administrations to build new social housing stock and by their use of somewhat showy housing legislation which was aimed at increasing housing supply but which had minimal supporting budgets and limited potential to effect any real change.[44]

This residual approach appears to have resulted in a consistent business model for Housing New Zealand under both administrations. This business model might be seen as a default one—that is, an approach which results from what is not done rather than from what is done. What has not been done is the adequate provision for extra capital to allow Housing New Zealand, or other social housing providers, to expand and to reconfigure the stock of social housing. As discussed below the present Government's support of Housing New Zealand's efforts at a major reconfiguration of its stock is to contribute $58 million in additional capital over the next 10 years while over the same time expecting dividends of around $90 million annually.

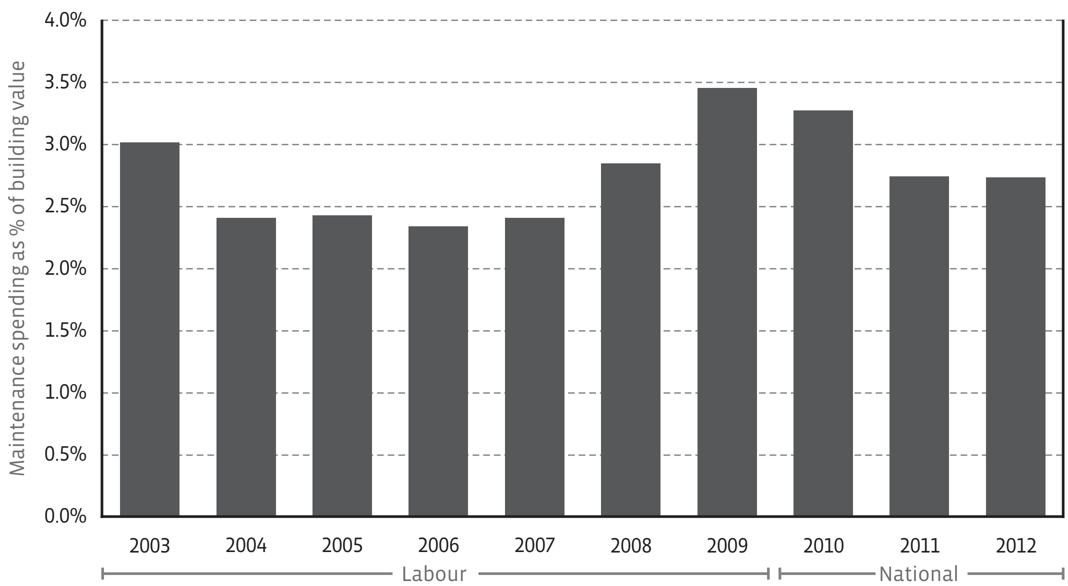
In the absence of adequate capital funding, and with expectations under, Labour-led governments that the state housing stock would grow and under National-led governments that this stock would be radically reconfigured, the default policy has been to use depreciation to fund capital expenditure.[45] While such an approach is commonplace, the capital spending involved would normally be on the replacement or refurbishment of existing assets rather than the development of additional assets.[46] An approach where depreciation is used for new capital spending subsequently requires spending on maintenance and repairs to substitute for spending on replacements and refurbishments. This is where the question of the adequacy of operating budgets can be raised.

The sufficiency of Housing New Zealand's maintenance spending has not been subject to any public scrutiny. Furthermore, the Corporation's maintenance budgets do not appear to be based on any long-term asset management plan which would see all properties remaining in a well maintained condition. For example there does not appear to be a consistent basis for setting maintenance budgets as over the 10 years between 2002/03 and 2011/12, such budgets have varied from 2.3% to 3.5% of the value of the Corporation's building value. This variability is shown in Figure 9. With a housing stock as extensive and as old as the Corporation's it would seem prudent to make a consistent allowance for maintenance based on some robust assessment of this stock's condition and expected economic life. While there are frequent public reports of poorly maintained state houses,[47] such poor maintenance is not however just the practice of Housing New Zealand as we appear to be a nation which neglects to adequately maintain our housing.[48]

2.3 SOCIAL HOUSING SUBSIDIES

As discussed above there is evidence to support a claim that the actual level of subsidy which Housing New Zealand receives to operate social housing on behalf of the Crown is more to do with the financial circumstances and expectations of the Corporation than they are to do with the market conditions under which it operates. As also discussed above the vast majority of the subsidies Housing New Zealand receives from the Crown is for income-related rent subsidies. While the basis for setting these subsidies is ostensibly the difference between an income-related rent which is paid by a tenant and the market rent which the Corporation would otherwise receive for that property, the actual practice over the past decade or so appears quite different. This

Figure 9: Housing New Zealand's maintenance spending as % of building value



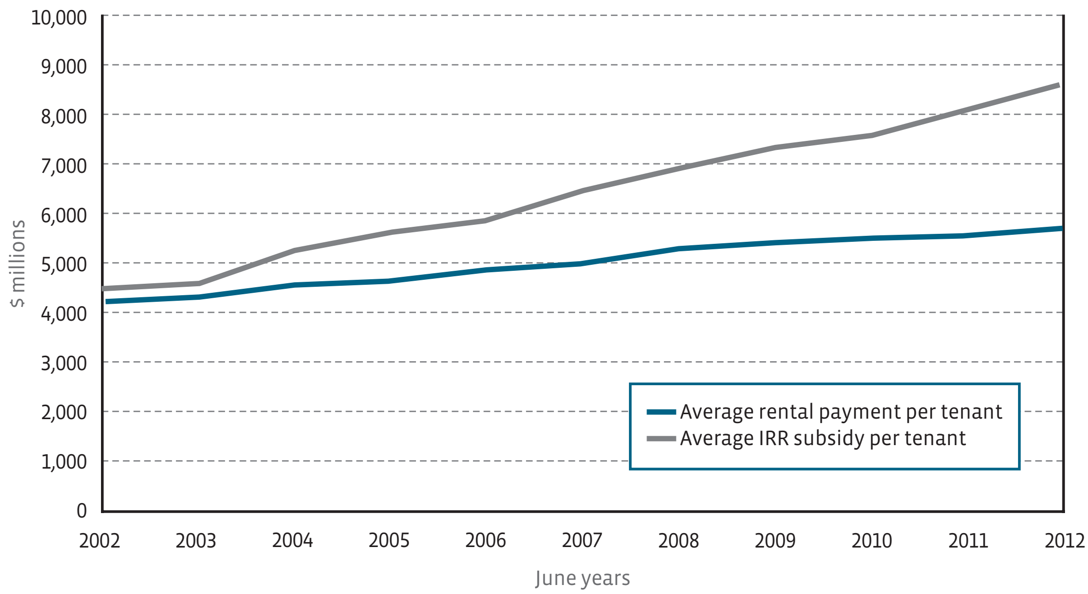
difference is important for questions of housing assistance and subsidies in part because the value of these subsidies and their allocation across different groups of tenants might not be entirely fair and in part because any rollout of income-related rent subsidies to third party social housing providers should be done on a basis which is consistent to the treatment of Housing New Zealand.

Figure 10 reports the average value of payments made to Housing New Zealand either as rents or as rent subsidies for the period 2002 to 2012. The data behind this graph is provided in Appendix 1. Over the decade under review the average value of a Housing New Zealand's tenants' rent has risen 35% in nominal terms from $4230 per year to $5730. Over the same period the average per tenancy subsidy paid to Housing New Zealand by the Crown rose 93% from $4450 to nearly $8900. This larger increase cannot be explained by rapidly increasing rents in the private sector which should be the basis for setting income-related rent subsidies.

Figure 11 shows these average payments as indices and compares these indices with Statistics New Zealand's rent inflation index which makes up part of the consumer price index. The background analysis is also provided in Appendix 1. This analysis shows that over the decade 2002 to 2012, on average and across the country, rents rose by just under 27%. If Housing New Zealand's rents and rent subsidies are compared with this rent inflation, in real terms tenants' rent payment rose nearly 7% while the level of Government subsidy rose 52%.

Income-related rents are set by a tenant's income which in most cases is

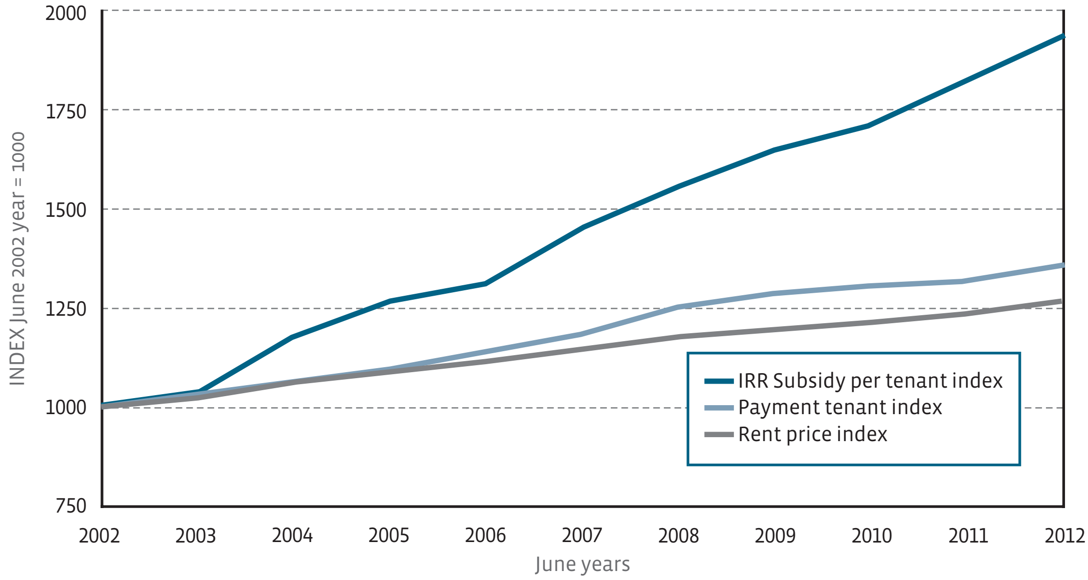
Figure 10: Value of tenants' rents and Crown subsidies to Housing New Zealand



determined by benefit levels given that the vast majority of state tenants are also recipients of welfare benefits. Given these policy settings it would be fair to claim that the income-related rent subsidies are based on tenants' needs rather than on the needs of their landlord. Even though this is the case, in terms of policy design the practice appears to have been one of the funder (e.g. the Crown) consistently agreeing to the housing supplier's (e.g. HNZC) price increases as a means of sustaining the supplier's business model. The fact that the funder also owns the supplier and expects dividends from it complicates this practice even further.

It can be reasonable for a social housing provider's subsidy regime to be based on costs rather than on some reference to market values especially if these market values are themselves distorted by such things as tax policy and investor exuberance. A problem with any cost-based model is transparency in general and the provision of some evidence that the funder is receiving value for money specifically. Having in effect a market for social housing provision where there are a number of providers all receiving the same levels of subsidy may offer some evidence of value for money. However such a market will not by itself provide this transparency and evidence unless these are required as part of the overall policy regime. Current disclosure and reporting requirements of Housing New Zealand do not offer this transparency and evidence and the true nature of the relationship between the Crown and the Corporation is not clear either.

Figure 11: Changes in rents and Housing New Zealand subsidies



2.4 HOUSING NEW ZEALAND'S PLANS

The claim made above that the present Government does not have a vision for social housing but rather a residual view of it might be judged to be unfair given its current housing reform agenda which was heavily influenced by the report of the Housing Shareholders' Advisory Group which it subtitled 'A Vision for Social Housing in New Zealand'. Overall the current social housing reform agenda appears to be driven by an ambition to reconfigure social housing to more efficiently deliver housing services to those who need it rather than by some broader perspective based on the longer-term role for social housing in New Zealand society.[49] The parameters set for achieving the Government's reform ambitions appear to be quite limiting as well. These parameters suggest that social housing in New Zealand will at best only be as big as it is now in terms of total units. This means that as the population grows social housing shrinks relatively, both as a share of the housing market and in terms of its importance to New Zealand society.

Both the Housing Shareholders Advisory Group and the Government have been clear that the reform of social housing should be based almost entirely on Housing New Zealand's existing balance sheet and within present levels of public funding. The underlying message here is that the available resources are sufficient to the task although the extent of the task has not been studied in any depth. For example forecasts of demand for social and affordable housing do not appear have not been undertaken as a preliminary to the reform process[50] although advice on the adequacy of the housing stock has been offered to Government.[51] Housing New Zealand claims to have a 'State Housing Demand Model' although its content and forecasts are not available publicly.[52]

Both the Board of Housing New Zealand and the Government have however understood the overall nature of the challenge which Housing New Zealand is facing in terms of modernising, reconfiguring and relocating its stock and these pressures appear to be the main influences in the Corporation's asset management strategy.[53] There is however a number of risks associated with this strategy not the least of which is the lack of any transparency. This in turn contributes to uncertainty over the extent of future provision of social housing in areas of high demand such as Auckland.

Early signs around the rollout of the Government's social housing reform agenda do not offer comfort that future housing needs are being adequately planned for. For example in its 2011/12 Annual Report Housing New Zealand reported:

- that the number of state units in its ownership or management had fallen by 300 after allowing for stock lost from the Christchurch earthquakes (p.22)

- that the numbers of people on priority waiting lists had declined by 39% (p. 11) at the same time that the Corporation began to close offices and move to a call centre model where applicant's needs were pre-assessed over the phone (p. 17)
- that the number of applicants actually housed by the Corporation fell from 8127 in 2010/11 to 7028 and the number of housed applicants deemed to have priority need fell from around 7150 to 6600 (p. 13)
- that the average turnaround time between tenancies was 68 days, more than double the performance target of less than 30 days (p. 18).

While these might be seen as teething troubles as Housing New Zealand re-configures its business model, nevertheless over 2011/12 the Corporation managed slightly fewer houses, housed 13% fewer applicants and required a 6% increase in operating subsidies to do this.

The forecasts offered by Housing New Zealand in its various statements of intent also offer reasons for concern. For example in its 2012–15 Statement of Intent the Corporation laid out the financial basis of its asset development strategy over the following 10 years to 2021/22. This financial plan is bold and involves almost $6 billion in spending on purchasing new properties and redeveloping and upgrading existing property. This level of spending is against a total property asset of just under $16 billion which underlines how significant this plan is in the context of Housing New Zealand's total asset base.

This 2012 financial plan proposed $1.47 billion in capital expenditures for the three years 2013/14 to 2015/16 of which $463 million was to be spent in purchasing new buildings and land. This expenditure was in part funded by asset sales over the three years in question which amounted to $971 million.[54]

One year later these plans had changed dramatically. The Corporation's 2013–16 Statement of Intent reported that for the same three years, $2.2 billion in capital expenditure was planned of which $403 million was to be spent in purchasing new buildings and land. This spending was in part to be funded by $1.066 billion in asset sales.[55] In other words planned asset sales had grown by $95 million while planned asset purchases had fallen by $60 million.

Such changes do not allay fears that the present restructuring of Housing New Zealand's asset base is not in part at least a privatisation of these assets albeit to generate funds for reinvestment into a narrower property base and to catch up on deferred maintenance.

These fears are in fact supported by other reports offered by Housing New Zealand. For example the Corporation's 2013-16 Statement of Intent reports progress on the Glen Innes North redevelopment project and that the project is intended to 'provide more houses for a growing Auckland'. The report indicates that this project will involve the removal of 156 state houses and their replacement with 'at least 260 new homes, including 78 state houses and at least 39 other social housing properties'. In other words this project will result in a net loss of 39 social housing units. This 'redevelopment is essential to improve our homes and to build a healthier safer community' the Corporation says.[56] The question not answered here is: a healthier, safer community for whom?

At a larger scale the Corporation in its briefing to the incoming Minister of Housing in January 2013 promised an additional 1441 state rental units in Auckland by the end of 2015/16. This promise is based on the anticipated disposal of 2187 state rental units, the acquisition of 1246 new units and the redevelopment of existing properties to provide a further 1117 units representing a net gain in the number of state owned units of 176. The remaining 1265 units, to meet the 1441 target, will be leased from private sector investors.[57] This seems a huge exercise to gain just 176 additional state rental units.

In summary Housing New Zealand's reconfiguration is probably the most significant redevelopment of the country's social housing ever and will likely involve at least 50% of the entire stock of state rental units. This is probably overdue given the age, location and design of much of this stock.

However considerable uncertainty and even secrecy surrounds this programme as there is little detailed or even consistent information offered in Housing New Zealand's various statements of intent on it. This uncertainty is concerning given the scale and the extent of public investment involved. From what information is available it seems that there is no intention to increase the stock of publicly-owned social housing units. Instead it appears that much of this redevelopment is intended to release the value of the underlying land for Housing New Zealand to spend on deferred maintenance and newer buildings. In addition the Government will expect higher dividends from the Corporation at a time when perhaps it should be offered it additional capital.

2.5 OTHER SOCIAL HOUSING PROVIDERS

Other social housing providers in New Zealand fall into one of two groups—local government, and NGO providers which includes iwi/hapu organisations and churches. There are no reliable estimates of the size of the housing stock owned by the NGO sector. Available estimates suggest a local government stock of around 11,000 units[58] and an NGO stock of 2000 to 5000 units.[59] A combined stock of around 16,000 units would represent around 19% of the total social housing stock in New Zealand.

Local government-owned housing stock has generally focused on providing rental housing to the elderly although larger Councils such as Wellington City Council and Christchurch City Council have also provided rental housing to a wider population of low income tenants.

NGO housing providers have tended to run to a variety of provision and business models ranging from charitable trusts to not-for-profit companies and from small-scale volunteer organisations to large-scale professionally-managed ones. The focus of these providers has been very broad and has included:

- supported housing for the elderly, those with disabilities or for people suffering from mental illness or addiction
- emergency housing and temporary accommodation for the homeless
- affordable secure tenure rental housing
- affordable home ownership perhaps through shared equity or sweat equity.[60]

State support for social housing other than that provided by Housing New Zealand has been limited to capital subsidies. From 2003 through to 2011 these subsidies were administered by Housing New Zealand through a programme known as the Housing Innovation Fund and since 2012 an alternative programme known as the Social Housing Fund has been administered by a specialist state agency the Social Housing Unit.

The Housing Innovation Fund's subsidies were most often in the form of concessionary no interest loans. Additionally there have been various smaller capital grants which have been offered to NGO social housing providers as capacity grants to assist them to put project funding bids together or as suspensory loans which are written off after a period of time if agreed loan conditions have been met.

The results achieved by the Housing Innovation Fund over the eight years of its operation are a little unclear. Formats used by Treasury to report budget appropriations which support the programme have changed over the life of the programme as has the accounting treatment of these appropriations. The level of information provided in the Government's Budget documents improved from 2008 onwards and a fairly consistent approach has been taken since then in the accounting treatment of the various expenditure lines within the Housing Innovation Fund programme.

Results reported by Housing New Zealand have often been inconsistent or vague which has meant that figures over a number of years do not always add up.[61] An example is the reporting of loans, grants and capital subsidies. These capital subsidies are an estimate of the interest foregone by Housing New Zealand in its provision of interest-free loans to NGO and local government social housing providers. The bases of such estimates have not been explained publicly and the dollar value of the subsidy seems to fluctuate from year to year.[62]

Outside of the summary of results offered by Housing New Zealand in its 2010/11 Annual Report and a summary of an evaluation report published in 2007[63] there is no publicly available evaluation of the Housing Innovation Fund. From the information available the following outcomes appear to have been achieved:

- between 800 and 866 additional housing units have been provided although an unreported number of these units were for middle-income home ownership programmes[64] so should not really be defined as social housing
- loans and grants totalling $115 million have been provided, and
- although the breakdown of this figure into loans and grants is not available, it seems from the information available, that there was around $80 million in loans, $15 million in capital grants and $20 million in recognised interest subsidies
- Housing New Zealand received up to $1.8 million per year to administer the fund.[65]

A further outcome of the Housing Innovation Fund, and by no means an intended one, was the extent of funding which went to various local councils to assist with the refurbishment of their rental units. Most of the 900 upgraded units which Housing New Zealand refers to in its summary report in its 2010/11 Annual Report are local government units. The biggest beneficiary of such support has been Wellington City Council which received grants of $137 million from the Crown between 2008 and 2013 for the refurbishment of its 2600 rental units.[66] That such a scale of spending on deferred maintenance and refurbishment of existing social housing is required illustrates well that the funding and operating models behind this housing have not been sustainable.

In the absence of an independent review of the Housing Innovation Fund the following are offered as observations of the Fund's operation and achievements based on the experience of the author and information from community housing providers and official publications:[67]

- The Housing Innovation Fund was quite compromised by Housing New Zealand's management of it. The social housing providers funded through the fund are quite clearly competitors of Housing New Zealand yet the Corporation not only administered the fund, but advised Government on the Fund's policy framework and conducted evaluations of it.[68]

- Housing New Zealand was also conflicted in its objectives to both expand the stock of state rental units and expand the stock of NGO and local government stock. This conflict led to at least one occasion when a Trust purchased existing houses with the assistance of a concessionary Housing Innovation Fund loan and these houses were then leased back to Housing New Zealand to manage as state rentals. In effect Housing New Zealand claimed two outcomes with the same house and used the capital intended for the development of third-sector social housing for its own purposes.[69]
- The use of concessionary loans rather than capital grants has meant that a number of smaller community-based social rental housing providers have reached the limit of their balance sheets. This is having two impacts. The more immediate is that they are unable to gain pre-registration status in the new funding regime under the Social Housing Unit. A second impact is that many of the concessionary loans have a 10-year concession period after which any interest subsidy ends. At this point some organisations may have to sell some of their stock in order to reduce debt. In other words concessionary loans have limited growth and have not necessarily placed the stock in secure ownership.
- The value of the subsidies reported in Housing New Zealand's annual reports and in Budget appropriations have been overstated on account of the use of loans rather than capital grants or operating subsidies. Under Labour's administration housing projects (as opposed to capacity building projects) were mainly funded through concessionary or conditional loans. The $115 million value of the Fund cited by Housing New Zealand in its 2010/11 Annual Report includes repayable loans as well as grants, loans which may be forgiven and subsidies on the interest expenses for loans. The actual value of the subsidy would be less than this $115 million although how much less is not known from the information which is publicly available.

In 2011, and in response to recommendations by the Housing Shareholders' Advisory Group, the Government shifted its focus in social housing away from reliance on a single state agency and toward the establishment of a social housing market. In this social housing market non-government providers of social housing (or NGPs) would be offered subsidies to provide social housing. These subsidies are to be offered from a dedicated fund—the Social Housing Fund. This Fund will be administered by a separate and virtually independent public agency—the Social Housing Unit.[70]

Both the Social Housing Unit and the Social Housing Fund were established in late 2011 and the Unit completed the distribution of a first round of capital grants in May 2012. That round distributed $32.5 million in grants to go toward projects valued at $89.8 million and involving 231 housing units. Around one-quarter of this funding went equally to housing provision for people with intellectual disability, low-income tenant households and modest-income home buyers while the remaining quarter was split between providers working with the elderly and people with mental illness. Nearly three quarters of the funding went to Auckland. Outside of this funding envelop was a further $2.3 million which was allocated to Māori housing organisations and $2 million to Christchurch.[71]

Following this allocation round the Social Housing Unit undertook a review of its processes and prepared the Social Housing Fund's Allocation Plan 2012–15. This plan was based on a three-year $104 million budget appropriation from Government toward the Social Housing Fund. Essentially the Allocation Plan is a pragmatic carve up of the $104 million budget between various regions and with a specific allocation for Māori housing. The regional carve up is equally between Auckland, Canterbury and the rest of New Zealand which are each allocated 20% of the budget while Māori housing is specifically allocated 14% of the total budget. A further 25% of the budget is set aside for specific larger projects with the most likely project being a greenfields development in South Auckland. Against all these allocations the Social Housing Unit has indicated a preference for funding social rental housing although it acknowledges that 'each market will have different supply gaps'.[72]

In May 2013 the Social Housing Unit announced a further round of funding grants of $20 million which were expected to co-fund housing developments worth $40 million and which involved the provision of 101 dwellings. Māori housing projects made up 20% of these approvals.[73]

While the Social Housing Unit is beginning to undertake assessments of social housing markets these assessments appear to be a stocktake of current provision rather than some analysis of what is required. Very little anticipation of overall housing needs appears to have gone into the Unit's Allocation Plan. Instead projects appear to be funded on the viability of applicants being able to contribute 50% of the project costs.[74] This has meant that only organisations with sufficient equity and/or alternative sources of income and capital can present viable proposals. These alternative sources of income or capital might come from local philanthropic funds, local government, other Government funding contracts or those being housed.[75]

There is not necessarily a relationship between relative housing need and access to this additional income and capital which can mean that projects which are funded are not necessarily addressing the most urgent or compelling housing need. The funding of affordable home ownership projects ahead of social rental housing is an obvious example of this.

The new regime of the Social Housing Unit and the Social Housing Fund has in little more than two years allocated grants of around $57 million toward projects which will provide an additional 350 dwellings. This compares favourably with the performance of the Housing Innovation Fund, which in eight years disbursed $115 million in loans, grants and subsidies, provided an additional 800 to 866 units and refurbished a further 900 social housing units. During its operation, the Housing Innovation Fund typically contributed around $15 million annually toward NGO and local government social housing. This financial support resulted in about 100 additional units per year about half of which were social housing units. The Social Housing Fund appears set to contribute around $36 million annually by way of direct grants to social and affordable housing which will produce around 150 to 200 additional units annually.

This additional effort and improved performance through the Social Housing Fund should be seen in the broader context of what happened with Housing New Zealand.

Between 2003/04 and 2009/10—the years when the Housing Innovation Fund operated fully—Housing New Zealand's housing stock grew from 65,300 units to 69,500 units and the number of social housing units owned by the Corporation grew from 63,400 to 66,500. Over this period the Government contributed $821 million in additional capital to the Corporation and received $401 million in dividends.[76]

Between June 2010 and June 2012 the number of units owned or managed by Housing New Zealand dropped slightly from 69,489 to 69,407. Over the same period the Government contributed $24 million in additional capital Housing New Zealand and received $139 million from it.

2.6 CONCLUDING POINTS

The following six main points can be taken from the preceding discussion on social housing policy in New Zealand over the past decade or so.

1. Social housing has not been at the centre of the political stage for either of the two main political parties which have held political power over the past decade. Both Labour- and National-led administrations appear to have had a residual view of social housing where social housing is seen as a necessary and significant activity for Government but one which needs to be managed with a minimum of fuss or additional spending.

2. A lack of any focusing vision for what social housing might contribute to improving peoples' wellbeing or to creating a particular kind of society has meant that the policies and programmes which operate and reshape social housing have been confused and even contradictory.
3. The value of income-related rent subsidies to Housing New Zealand has steadily increased, but this cost appears to bear little relationship either to changes in rents in the market or to the number of social housing units which Housing New Zealand manages.
4. The financial demands on Housing New Zealand have changed over the past decade. It appears that these demands had very little to do with the plans or needs of the Corporation or of social housing but much to do with the fiscal fortunes and political philosophies of the Government. This approach has meant in part that Housing New Zealand has not had sufficient additional capital to expand and to re-configure its housing stock and that a legacy of deferred maintenance and out dated and poorly located stock has resulted. While the present Government is attempting a radical repositioning of Housing New Zealand as a social housing provider, the financial parameters wrapped around this appear to pose major difficulties for Housing New Zealand and do not necessarily promise any additional social housing units.
5. Government attempts to develop a viable alternative sector of social housing providers made up of NGO's, iwi/hapu and local government organisations have at best been a token effort. These efforts were seriously compromised when Housing New Zealand was charged with the task. It appears that the move to the more independent Social Housing Unit has offered greater focus, transparency and progress. The scale of budgets and the funding models being offered through the Social Housing Fund are unlikely to move this alternative sector very far in the medium term however.
6. Finally, there does not appear to have been much anticipation of future housing need within the social housing policy framework. Housing New Zealand has apparently used housing demand models although these have never been made public. The Corporation however appears to be mindful of, and increasing responsive to, changing demand patterns. These responses are at best reactive as shown by current attempts to catch up with unmet housing need in Auckland and for demand for both smaller and larger units. These needs were probably quite predictable and the problem here is that little or no thought is being given to planning for social housing need in 10 or twenty years' time in order to avoid these reactive approaches in the future.

Thomas Sutten and his 3-year-old daughter Chanelle Sutton outside their rented home in Mt Wellington. Thomas is looking for a new property to rent but rental prices are rising.

New Zealand Herald, 4 August 2013. Photography: Sarah Ivey / New Zealand Herald

CHAPTER 3:
IMPACTS OF THE ACCOMMODATION SUPPLEMENT

There are several trends in the granting and payment of the Accommodation Supplement which suggest that the value of this housing assistance programme is diminishing or at least not responding to changing demands. This chapter considers these trends and identifies a number of unanswered questions which should hopefully be addressed in any overall review of housing assistance.

3.1 THE DISTRIBUTION OF ACCOMMODATION SUPPLEMENT PAYMENTS

Table 5 reports the number of Accommodation Supplement payments made by tenure for the past five years or so. While the total numbers of people receiving a payment has fluctuated apparently according to New Zealand's economic fortunes, the overall distribution of these payments by tenure has remained quite stable. Around 64% of recipients are tenants, 21% boarders and 15% are living in a dwelling they own.

The distribution of Accommodation Supplement recipients by income source over the past five years is provided in Table 6. The proportions of recipients falling into each of these categories appear to be changing gradually as the population ages and more people are reaching retirement age who still require additional assistance with their accommodation costs. The proportion of Accommodation Supplement recipients which receive a working age benefit has

Table 5: Recipients of the Accommodation Supplement payments by tenure[77]

	June 2008	June 2009	June 2010	June 2011	Jun 2012	March 2013
Renting	155,335	182,095	198,782	200,771	199,451	195,719
Boarding	48,901	65,928	72,341	64,298	63,515	62,674
Own home	41,254	45,360	45,930	43,478	41,149	38,958
Total	**245,490**	**293,383**	**317,053**	**308,547**	**304,115**	**297,351**

Table 6: Recipients of the Accommodation Supplement by income source[77]

	June 2008	June 2009	June 2010	June 2011	Jun 2012	March 2013
Working age benefit	169,727	213,127	232,455	223,063	218,377	212,052
Employed	52,966	55,733	58,140	57,773	56,049	53,936
NZ Superannuation	22,797	24,523	26,458	27,711	29,689	31,363
Total	**245,490**	**293,383**	**317,053**	**308,547**	**304,115**	**297,351**

remained relatively constant over the past five years at 70% to 71%. However during this period the proportion of recipients aged over 65 and receiving the New Zealand Superannuation or Veteran's Pension has risen from 9% to 10.5% while the proportion of recipients who are of working age and working has fallen from 21% to 18%.

The proportion of working age benefit recipients and New Zealand Superannuation recipients who also receive an Accommodation Supplement payment has changed gradually over the past five years although apparently from different pressures. These numbers are provided on Table 7 along with estimates of the proportions receiving these payments. This data shows that around 70% of people receiving one of the working age benefits also receive an Accommodation Supplement payment, although this proportion tended to rise during the recession and to fall slightly as overall benefit numbers fell on the back of a slight drop in unemployment rates.

Table 7: Recipients of the Accommodation Supplement & other transfers[77]

	June 2008	June 2009	June 2010	June 2011	June 2012	March 2013
People receiving a working age benefit	243,308	294,151	317,538	312,538	304,947	296,755
People receiving a working age benefit + AS	169,727	213,127	232,455	223,063	218,377	212,052
Proportion of benefit recipients also receiving AS	69.8%	72.5%	73.2%	71.4%	71.6%	71.5%
People receiving NZ Superannuation	514,276	530,758	550,520	571,239	598,993	624,000
People receiving NZS + AS	22,797	24,523	26,458	27,711	29,689	31,363
Proportion of NZS recipients also receiving AS	4.4%	4.6%	4.8%	4.9%	5.0%	5.0%

The proportion of people receiving the New Zealand Superannuation who are also receiving an Accommodation Supplement payment has risen gradually over the past five years from 4.4% to 5.0%. Such an increase is consistent with forecasts that the number of older people who require housing assistance in their retirement will rise as a cohort of people who were unable to gain debt-free home ownership during their working lives.[78]

Table 8 provides a breakdown of Accommodation Supplement payments made to people receiving a working age benefit by tenure. Over the past five years the proportion of people within this group who are renting has risen slightly from 61% to around 63.5% at the expense of beneficiaries in home-ownership which has fallen from 13% to under 10%. The proportion of beneficiaries who are receiving an Accommodation Supplement and boarding has remained relatively constant at 26% to 28%.

Table 8: Recipients of the Accommodation Supplement & main benefits by tenure[77]

	June 2008	June 2009	June 2010	June 2011	Jun 2012	March 2013
Renting	103,935	127,762	140,879	140,923	138,713	134,609
Boarding	44,294	61,040	66,736	58,767	57,951	57,262
Own home	21,498	24,325	24,840	23,373	21,713	20,181
Total	**169,727**	**213,127**	**232,455**	**223,063**	**218,377**	**212,052**

For policy analysis purposes the Accommodation Supplement 'cake' can usefully be sliced and diced according to tenure and income source. Some of the smaller 'slices' are not worth much in percentage terms, as nearly 80% of the cake is divided into three:

1. working age benefit recipients who are renting (45% of all payments)
2. working age benefit recipients who are boarding (19%)
3. people receiving wages and salaries who are renting (13%).

By value of payments made, people receiving working age benefits receive almost 70% of the total payments, those working receive 20% and superannuants receive just over 11%. By tenure these payments are broken down to 77% to those renting, 10% to those boarding and 13% to those owning or paying off their home.[79]

Clearly then the main interest in any review of the Accommodation Supplement needs to be focused on the interests and experiences of tenants and of households receiving an income-tested working age benefit. Having said this, the growing importance of elderly tenants who presently receive around 10% of the Accommodation Supplement budget cannot be ignored given the likelihood this group will grow by 6% to 7% annually while the numbers of other recipients are likely to fall—at least under the current policy settings.

3.2 THE IMPORTANCE OF THE ACCOMMODATION SUPPLEMENT TO HOUSING MARKETS

In any review of the impact of the Accommodation Supplement it is worthwhile to consider what role this subsidy plays in housing markets. This role can be seen in at least two ways: in terms of the relative importance of these subsidies to the overall housing market, and to particular sub-markets and from such an assessment the impact which changes in these subsidies may have on these markets. In other words we might be interested in the scale of the subsidies relative to the scale of the housing markets these subsidies support and in light of these, the possible impacts of any policy changes.

The prevailing wisdom around the relationship between demand subsidies such as the Accommodation Supplement and the price of housing and in particular rents, is that such subsidies have little or no impact on rents. The most recent relevant work with a New Zealand focus appears to be that from 2004 by Stroombergen. In this work he suggests that a $7 per week increase in the average value of Accommodation Supplement payments paid would increase weekly rents by just five cents.[80] A number of criticisms can be made of Stroombergen's approach[81] although he acknowledged that given the relative size of Accommodation Supplement payments in the rental housing market an effect larger than this could be expected.

This prevailing wisdom that demand subsidies have little appreciable impact on rents may have become a point of orthodoxy amongst policy makers who prefer such subsidies and the attendant reliance on market provision. In a comparative review of housing demand subsidies, Hulse refers to the somewhat pioneering work undertaken in the 1970s in the United States which was known as the Experimental Housing Allowance Program (EHAP). She claims that the findings from EHAP:

> Have had an enduring influence on governments and others in terms of the impact of housing allowances on private rental markets. In particular, three of the EHAP findings have assumed 'taken for granted' status, both in the literature and by policy makers:
>
> - Whilst housing allowances did improve affordability (percentage of income spent on rent), many households did not make substantial changes to their housing consumption and spent most of the money on items other than housing
> - Housing allowances had only a minor effect on improving the quality of existing rental housing and a negligible effect on increasing the supply of additional rental housing, and
> - There was a negligible inflationary impact on private rent levels.[82]

Hulse identifies that the EHAP experiment was based on a localised concentration of households which received various forms of housing assistance and that even with this concentration the study's participants only accounted for 11.5% of those households living in market rental accommodation. Furthermore across the whole United States only around 5% of households in market rental housing receive Federal Government housing assistance.[83]

Hulse's review includes New Zealand's experience with the Accommodation Supplement. She estimates that at that time (before the re-introduction of income-related rents for state tenants) households receiving an Accommodation Supplement payment comprised over 50% of all households in rental accommodation.

The vastly different scales in the use of housing demand subsidies between the United States and New Zealand should offer us some reason for caution in adopting conventional or received wisdoms around the impact of housing subsidies on housing markets. These 'wisdoms' originate from the United States and do not even closely reflect the New Zealand experience.

The impact of housing demand subsidies such as the Accommodation Supplement on housing markets in New Zealand has not really been adequately resolved by any empirical evidence. This absence of evidence and the apparent lack of interest from public agencies to gather this evidence is, in itself, interesting given that the Accommodation Supplement programme has been running for over 20 years and that it accounts for around 5% of Government social welfare budgets. As discussed below, two Government sponsored reviews of the Accommodation Supplement over the past decade have failed to produce any policy recommendations. This suggests that the questions around the impacts of the programme are politically and perhaps economically too difficult to address.

While it may be clear that there are no easy answers here, the narrower question of the economic impacts of housing demand subsidies is something of a two-edged sword for policy makers. Early advice on the likely impacts of the Accommodation Supplement suggested that these payments may drive a supply response from private landlords eager to make further investment in rental housing.[84] This advice may have been more theoretically than empirically based. However, if on one hand demand subsidies do not push up rents, as the same advisors reported was the case 13 years later,[85] then how on the other hand do these subsidies offer private investors a signal or an incentive to make further investments. This dilemma is discussed in the following chapter.

There is some mixed empirical evidence of the impact of the Accommodation Supplement on housing markets. This evidence is mixed in that it is changing and that it is complex.

For example there is clear evidence that private investors did make significant investments in private rental accommodation since the introduction of the Accommodation Supplement in 1993. Whether or not this investment was driven by the Accommodation Supplement or by other factors and whether or not the investment in turn drove an increase in the supply of affordable housing are unanswered and perhaps unanswerable questions.

Table 9 summarises housing stock changes since 1991 and is based partly on census data until 2006 and estimates of Statistics New Zealand or those of the author since then.

The figures offered in Table 9 show a pattern of changing tenure against a background of an increasing stock of occupied dwellings. Specifically, rates of owner-occupation have fallen from 73.5% in 1991 to around 64.5% in 2013. As well as being the year of the introduction of the Accommodation Supplement, 1991 was the beginning of the end of State-assisted home ownership programme—a change which ultimately culminated in the privatisation of the State's mortgage portfolio from 1993.[87] The continuous decline in rates of home ownership can be traced back to this withdrawal.

Table 9: Estimates of housing stock by tenure[86]

	June 1991	June 1996	June 2001	June 2006	June 2011	June 2013
AUCKLAND						
Occupied dwellings	353,700	387,300	436,300	486,900	501,000	509,000
Owner-occupied	257,200	267,600	281,100	310,600	312,100	313,300
Rented	96,500	119,700	155,200	176,300	188,900	195,700
Ownership rate	72.7%	69.1%	64.4%	63.8%	62.3%	61.6%
REST OF NEW ZEALAND						
Occupied dwellings	948,000	1,003,900	1,072,300	1,145,800	1,227,800	1,247,300
Owner-occupied	699,700	713,400	742,000	781,000	816,800	819,500
Rented	248,300	290,500	330,300	364,800	411,000	427,800
Ownership rate	73.8%	71.1%	69.2%	68.2%	66.5%	65.7%
ALL OF NEW ZEALAND						
Occupied dwellings	1,301,700	1,391,200	1,508,600	1,632,700	1,728,800	1,756,300
Owner-occupied	956,900	981,000	1,023,100	1,091,600	1,128,900	1,132,800
Rented	344,800	410,200	485,500	541,100	599,900	623,500
Ownership rate	73.5%	70.5%	67.8%	66.9%	65.3%	64.5%

Through a simply shift-share analysis, it is possible to gain an appreciation of the extent of change in the nation's rental housing stock which can be attributed to the building of new housing to cater for rental demand, and the simple shifting of tenure of the existing housing stock. This analysis is provided in Table 10.

Tables 9 and 10 show the complex and changing nature of New Zealand's rental housing market since the introduction of the Accommodation Supplement. Over a period of more than 20 years we would of course expect patterns of housing investment to change with economic cycles and prior investment patterns. Two patterns emerge from this data:

1. Between 1991 and 2013 New Zealand's rental housing stock has grown by 80% from around 345,000 dwellings to around 623,000—an increase of 278,000 units. Over the same period the total national housing stock grew by 35% while the national population grew by 30%. The predicted additional investment in rental housing arising from the Accommodation Supplement has occurred.

Table 10: Analysis of changes in New Zealand's rental housing stock

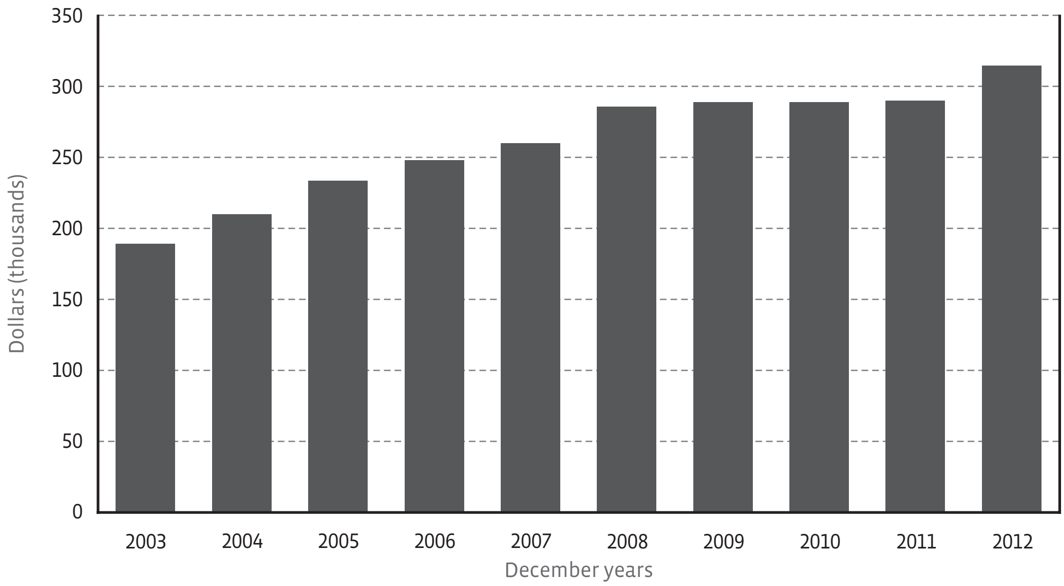
	June 1991	June 1996	June 2001	June 2006	June 2011	June 2013
AUCKLAND						
Rented dwellings	96,500	119,700	155,200	176,300	188,900	195,700
Inter-period change		23,200	35,500	21,100	12,600	6,800
Change due to tenure shift		13,950	20,400	3,100	7,500	3,900
Change due to new stock		9,250	15,100	18,000	5,100	2,900
REST OF NEW ZEALAND						
Rented dwellings	248,300	290,500	330,300	364,800	411,000	427,800
Inter-period change		42,200	39,800	34,500	46,200	16,800
Change due to tenure shift		27,700	20,300	12,550	19,500	10,200
Change due to new stock		14,500	19,500	21,950	26,700	6,600
ALL OF NEW ZEALAND						
Rented dwellings	344,800	410,200	485,500	541,100	599,900	623,500
Inter-period change		65,400	75,300	55,600	58,800	23,600
Change due to tenure shift		41,700	40,700	15,600	27,000	14,000
Change due to new stock		23,700	34,600	40,000	31,800	9,600

2. Only about half this additional investment has probably gone into new housing with the remaining coming from a conversion from owner-occupation to rental housing. These are broad estimates because of course the exact process for the provision these 278,000 units is unknown given the small scale and extensive nature of the investment decisions behind this change.

This conversion of owner-occupied dwellings into rental housing may have meant that the actual investment in new affordable housing has not kept pace with demand for this housing. Outside of new build apartments, new builds have over the past decade or more tended to be in a larger, higher quality homes. This trend is shown in Figure 12 which shows the increase in the average building cost of a non-apartment dwelling between 2003 and 2012. Over the past 10 years this average construction cost rose 66% from $189,000 to $313,000. Even allowing for rising construction costs this rise represents a 19% real increase.[88] Over this period the average size of such dwellings remained fairly constant at around 200 m2 so the cost increase must be due to higher spec building.[89]

Additional data is available to support the thesis that while the Accommodation Supplement era has been associated with a significant expansion in the stock of privately owned rental dwellings, this supply response has not necessarily generated a sufficient stock of affordable dwellings. This additional data is from South Auckland's experience of the last six years or so.

Figure 12: Average construction cost of non-apartment dwelling[89]



Between 2006 and 2012 Statistics New Zealand estimates that the resident population of South Auckland grew by 47,400 people or 19% of the overall national population growth of 248,400 (June years). Yet over the corresponding period, consents for new dwellings in South Auckland totalled just over 8000 or just 7% of the 113,500 consents issued nationally during this period. As shown in Table 11 over the period 2006 to 2012, South Auckland's population grew by 5.9 people for every new dwelling consent issued while the ratio for New Zealand as a whole was 2.2 people per new dwelling. It appears that dwelling occupancy rates in South Auckland are rising while for most of the rest of New Zealand they are falling as additional and generally better homes are built for an aging population.

Table 11: Comparisons of population growth and new dwelling consents[90]

	2006 Population	2012 Population	2006–2012 Growth	Building consents 2006–2011	Additional people for each new dwelling
South Auckland	392,200	439,600	47,400	8,028	5.9
Rest of Auckland	980,800	1,067,930	87,130	27,532	3.2
Auckland total	1,373,000	1,507,530	134,530	35,560	3.8
Rest of New Zealand	2,811,600	2,925,470	113,870	77,970	1.5
New Zealand	4,184,600	4,433,000	248,400	113,530	2.2

The data provided in Tables 9 and 10 provide a useful basis to consider the overall importance of the Accommodation Supplement to the rental housing market. Data from Tables 9 and 10 is incorporated into Table 12 which offers estimates of the extent of Accommodation Supplement penetration into the private rental market over the period since the practical introduction of the payment in 1993. Data for such penetration in Auckland is not available for the same period although between 2011 and 2013 around 40% of private sector tenants received an Accommodation Supplement payment and around half of all tenancies received state support either through the Supplement or as Housing New Zealand tenants.

Overall Table 12 offers two useful insights:

1. The extent of state support for rental market is significant by international standards and appears the be ongoing at around 35% of the private rental market and just over 40% of the total rental market once social housing is included.

2. The extent of this support appears to be cyclical and is tied into levels of unemployment, which should be expected given the significant link between Accommodation Supplement uptake and receipt of working age benefits.

Table 12: Proportion of private rental tenants receiving an Accommodation Supplement[91]

	June 1996	June 2001	June 2006	June 2011	March 2013
Total rental stock	410,200	485,500	541,100	599,900	623,500
HNZC stock	62,500	61,050	67,397	67,700	69,400
Total private rental stock	347,700	424,450	473,703	532,200	554,100
Number of people receiving AS and renting	162,100[92]	155,000	147,500	200,800	195,700
AS recipients as % of private stock	28.6%	36.5%	31.1%	37.7%	35.3%
Number of supported tenancies	162,100	216,050	214,897	268,500	265,100
Supported tenancies as % of total rental stock	39.5%	44.5%	39.7%	44.8%	42.5%

3.3 POLICY SETTINGS FOR THE ACCOMMODATION SUPPLEMENT

Adjustments to the maximum amounts available through the Accommodation Supplement were last reviewed in 2005 and these were based on 2003 median rents. Advice was offered to the Government in 2008 on possibly updating these maximums but this measure, which was costed at an additional $60 million, was considered unaffordable. Further advice to the Government in 2010 on possible increases in these maximum payments also appears to have been rejected.[93]

This failure to update the maximum values of Accommodation Supplement payments has had a number of impacts both on Government and household budgets. These impacts have been beneficial to Government budgets but detrimental to the budgets of some of the poorest households. Given this quite predictable distribution of impacts it is difficult not seeing this failure as a default policy of neglect. Under such a policy approach intractable policy settings have been allowed to disintegrate rather than being reviewed explicitly and publicly.

The policy settings around the Accommodation Supplement may be reasonably labelled as intractable for two reasons.

Firstly, given the evidence provided above on the impact of the Accommodation Supplement on housing markets, it is clear that these payments have considerable reach into the private rental market although the nature of this reach is not clear from the evidence available. As mentioned above this evidence is scanty. The prevailing wisdom at present is that the Accommodation Supplement has not influenced rent levels. Furthermore while there appears to be a historical relationship or perhaps coincidence between the rollout of the Supplement and the rapid expansion of the nation's rental housing stock, there is no evidence available which links these two.

Given this lack of evidence of the economic impacts of the Accommodation Supplement it is difficult to know with any confidence, let alone certainty, the likely impacts of changing policy settings. However it seems that any attempts to radically reduce the value of Accommodation Supplement payments are unlikely to lead to appreciable falls in rents or to a rapid change in the available housing stock. This is in part because prices such as rents tend be sticky downwards[94] and because housing investment decisions are based on a number of other factors including tax policy, retirement policy and the attractiveness of other investments. This being the case, if rents and housing supply do not change appreciably in the face of a significant decline in some tenant households' income, there are only two other things left to adjust—the affected households' housing consumption and/or other consumption. The practical outcomes of such adjustments are increasing rates of material poverty, overcrowding and homelessness for the households concerned. It is likely that a deliberate policy shift to bring such changes about will be untenable politically so instead nothing is done.

This 'nothing is done' scenario is borne out in practice and provides the second proof for the intractable nature of the Accommodation Supplement problem. On two occasions government agencies have set out to review the Accommodation Supplement with neither review producing a public result let alone a policy change. The first review was conducted by Housing New Zealand during 2006–2007 and although this review produced a summary of submissions there appears to be no other publicly available material on further work on the project.[95] The second review was conducted less publicly by the former Department of Building and Housing in 2011 and 2012 and has to date not published its findings.

As a consequence the deliberate default policy of successive Governments has been to quietly allow the value of the maximum Accommodation Supplement payments to be eroded by inflation and thereby as quietly reduce the real value of the payment to recipients.

Such an approach stands in sharp contrast to the practice of regularly adjusting other welfare transfers such as working age benefits and New Zealand Superannuation to take account of changing living costs and wages. For example, since the Accommodation Supplement maximum payments were last adjusted in 2005 main working age benefits have increase in nominal value by 23% while the nominal value of the single person's New Zealand Superannuation payment has risen by 39%. Over the same period of time rents as measured by the rent component of Statistics New Zealand's consumer price index have risen by 19%. These trends are illustrated in Figure 13.

The impact of this default policy has been that more and more households are reaching the ceiling of the maximum payment and as rents rise further these households are obliged to pay these rent increases from their other incomes sources—which most commonly are welfare benefits. The actual impacts of these changes on household expenditures and residual after housing cost incomes is considered in the following section. Table 13 charts the number of tenant households receiving the maximum Accommodation Supplement by region for the last five years.

Two trends are noticeable from the data presented in Table 13:

1. There has been a uniform rise across the country in the proportion of tenant households receiving the maximum Accommodation Supplement payment allowable under present policy settings. Over the slightly longer period, 2007 to 2013, the proportion of such households receiving this maximum rose from 33% to nearly 50%. In numerical terms this was an increase from 46,000 households to 86,000 households.
2. The proportion of households in each region which are receiving the maximum varies considerable from a high of 67% in Northland to a low of 40% in Auckland. This suggests that the maximums set in some regions are a more serious constraint than they are in others.

This capping of maximum payments accompanied with an increasing proportion of recipient households reaching these maxima has meant that the average value of payments has increased very little. This minimal increase is shown in Table 14 on a regional basis.

In nominal terms the average value of Accommodation Supplement payments has risen by between \$3 per week and \$7 per week and in percentage terms by 2% and 8%. These increases are against a background of rent increases which have averaged around 10% nationwide and 17% in Auckland.[97]

Figure 13: Changes in the value of welfare transfers and rents

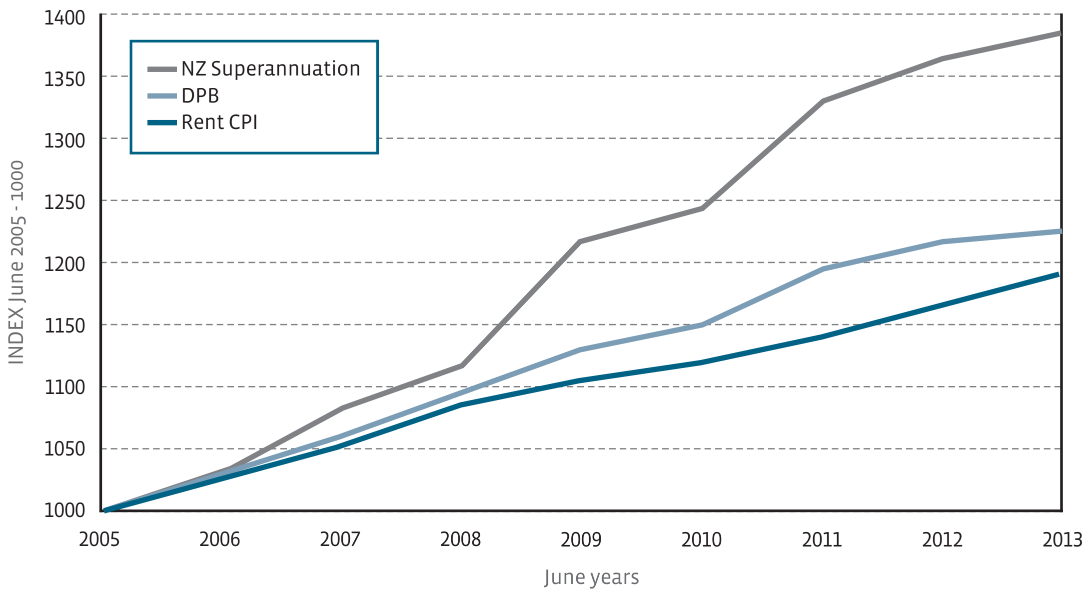


Table 13: Proportion of tenants receiving maximum Accommodation Supplement payment by region[96]

At 30 June	2008	2009	2010	2011	2012	2013
Northland	50.9%	56.6%	61.1%	64.8%	65.0%	66.9%
Auckland	28.5%	32.0%	33.8%	35.7%	38.2%	40.4%
Waikato	52.8%	56.1%	59.2%	61.9%	62.7%	63.5%
Taranaki	46.0%	51.6%	56.3%	58.5%	57.9%	59.3%
Bay of Plenty	33.7%	37.3%	40.2%	42.8%	43.3%	45.7%
East Coast	50.9%	54.5%	57.6%	60.8%	60.8%	62.7%
Central	45.7%	49.3%	53.2%	55.6%	56.7%	58.2%
Wellington	33.0%	38.1%	40.3%	43.3%	44.7%	46.0%
Nelson	38.2%	43.0%	45.2%	48.1%	51.4%	52.9%
Canterbury	49.8%	52.0%	52.8%	55.2%	56.2%	58.4%
Southern	40.4%	44.5%	47.9%	50.4%	52.4%	53.4%
New Zealand Total	**38.1%**	**41.6%**	**44.0%**	**46.4%**	**47.8%**	**49.6%**

Table 14: Average value of Accommodation Supplement paid to tenant households by region $s per week

At 30 June	2008	2009	2010	2011	2012	2013
Northland	61	62	63	65	65	66
Auckland	111	111	113	114	115	116
Waikato	68	69	69	70	70	71
Taranaki	53	53	55	56	55	56
Bay of Plenty	74	76	77	78	78	79
East Coast	65	66	67	68	68	68
Central	61	61	62	62	62	63
Wellington	75	77	78	80	80	81
Nelson	73	76	78	78	79	80
Canterbury	67	67	67	67	68	68
Southern	53	54	55	55	56	57

3.4 THE IMPACT OF THE ACCOMMODATION SUPPLEMENT ON HOUSEHOLD WELLBEING

Any review of existing housing assistance programmes could usefully give some attention to the impact which these programmes have on household wellbeing including household incomes and budgets and housing conditions. The following section offers some data and analysis on the changes in household incomes and housing budgets over the past five years or so. As well brief attention is given to available evidence on the housing conditions of households receiving an Accommodation Supplement payment.

As a basis for assessing the relationship between incomes, Accommodation Supplement payments and rents, the circumstances of six representative households which might receive a Supplement payment have been studied over a period of five years between March 2008–2013. This analysis is provided in Appendix 2 while a summary of it is offered in Tables 15, 16 and 17 below. This analysis is based on reported changes to rents, wages and salaries and to revisions in working age benefits and New Zealand Superannuation payments.[98] Lowest quartile rents have been used and the circumstances of households are considered for New Zealand as a whole and for Auckland.

The six representative households are as follows:

1. A single person household receiving a sickness benefit and renting a one-bedroom flat.

2. A single person household receiving the New Zealand Superannuation and renting a one-bedroom flat.
3. A three person household of one adult and two children receiving a domestic purposes benefit and renting a two-bedroom house
4. A five person household of two adults and three children receiving an unemployment benefit and renting a three bedroom house.
5. A five person household of two adults and three children with one adult working 20 hours per week in a minimum wage job and the other adult working 40 hours per week in the construction sector at the average hourly rate for that sector. This household is renting a three bedroom house.
6. A three person household of one adult and two children with the adult working 40 hours per week in a minimum wage job. This household is renting a two-bedroom house.

Table 15: Changes in housing affordability for representative households (New Zealand)[98]

March quarters	2008	2009	2010	2011	2012	2013
SINGLE PERSON LIVING ON SICKNESS BENEFIT IN ONE-BEDROOM FLAT						
After housing costs income $s	99.25	103.94	109.07	110.65	116.36	118.09
Ratio of outgoings to income	0.62	0.61	0.59	0.60	0.59	0.59
SINGLE PERSON LIVING ON NZ SUPERANNUATION IN ONE-BEDROOM FLAT						
After housing costs income $s	171.45	178.79	189.65	194.06	215.08	221.31
Ratio of outgoings to income	0.48	0.47	0.46	0.46	0.44	0.43
THREE PERSON HOUSEHOLD ON DPB LIVING IN A TWO-BEDROOM HOUSE						
After housing costs income $s	272.07	279.43	283.83	291.91	302.43	301.21
Ratio of outgoings to income	0.45	0.44	0.44	0.44	0.43	0.44
FIVE PERSON HOUSEHOLD ON UNEMPLOYMENT BENEFIT IN A THREE-BEDROOM HOUSE						
After housing costs income $s	349.20	354.30	357.60	360.38	371.25	371.40
Ratio of outgoings to income	0.42	0.42	0.42	0.43	0.43	0.43
FIVE PERSON HOUSEHOLD WORKING AND LIVING IN A THREE-BEDROOM HOUSE						
After housing costs income $s	990.03	1022.98	1052.74	1082.26	1110.97	1109.65
Ratio of outgoings to income	0.20	0.20	0.20	0.20	0.20	0.20
THREE PERSON HOUSEHOLD WORKING AND LIVING IN A TWO-BEDROOM HOUSE						
After housing costs income $s	498.30	517.69	529.11	537.71	552.17	556.86
Ratio of outgoings to income	0.31	0.30	0.29	0.30	0.29	0.30

Table 15 reports the after housing cost incomes and housing outgoings to income ratios (OTIs) for these households based on New Zealand averages while Table 16 reports these for Auckland.

A summary of the changes in after housing cost incomes for these households over the period 2008 to 2013 is provided in Table 17. This table also provides a comparison of the changes with other price and income changes over the same period to be able to gain an overall picture of whether or not the various households have done better or worse over this period. Table 17 shows mixed results.

A number of findings can be gained from the data provided in Tables 15, 16 and 17. Given that the basis of the assessments undertaken in these tables and the related appendices is lower quartile rents and given that around 35% of tenants in the private rental market receive an Accommodation Supplement payment, it seems reasonable to assume that the circumstances presented in these

Table 16: Changes in housing affordability for representative households (Auckland)[98]

March quarters	2008	2009	2010	2011	2012	2013
SINGLE PERSON LIVING ON SICKNESS BENEFIT IN ONE-BEDROOM FLAT						
After housing costs income $s	82.15	85.94	91.07	91.15	91.16	91.09
Ratio of outgoings to income	0.73	0.72	0.71	0.72	0.73	0.74
SINGLE PERSON LIVING ON NZ SUPERANNUATION IN ONE-BEDROOM FLAT						
After housing costs income $s	154.35	160.79	171.65	174.56	189.88	194.31
Ratio of outgoings to income	0.58	0.58	0.56	0.57	0.57	0.57
THREE PERSON HOUSEHOLD ON DPB LIVING IN A TWO-BEDROOM HOUSE						
After housing costs income $s	248.07	252.43	253.83	261.91	266.73	260.71
Ratio of outgoings to income	0.55	0.55	0.56	0.56	0.57	0.59
FIVE PERSON HOUSEHOLD ON UNEMPLOYMENT BENEFIT IN A THREE-BEDROOM HOUSE						
After housing costs income $s	314.70	318.30	321.00	321.38	323.25	320.40
Ratio of outgoings to income	0.54	0.54	0.54	0.55	0.57	0.58
FIVE PERSON HOUSEHOLD WORKING AND LIVING IN A THREE-BEDROOM HOUSE						
After housing costs income $s	916.15	944.46	968.41	995.61	1012.93	1011.46
Ratio of outgoings to income	0.29	0.29	0.28	0.29	0.30	0.31
THREE PERSON HOUSEHOLD WORKING AND LIVING IN A TWO-BEDROOM HOUSE						
After housing costs income $s	474.30	490.69	499.11	507.71	516.47	516.36
Ratio of outgoings to income	0.39	0.39	0.39	0.39	0.40	0.42

tables are fairly typical of an average household which is renting privately and receiving a Supplement payment.

The key findings are as follows:

- Across all of New Zealand housing affordability has not changed significantly as a result of the unwillingness of successive governments to index maximum Accommodation Supplement payments to rent inflation. The main reason for this is that rents have not kept pace either with general inflation or with income growth and so have probably lost value in real terms in many parts of New Zealand. As a result the value of households' other income has increased faster than rents or the Accommodation Supplement payments they may receive and housing affordability has perhaps marginally improved for many households.
- Outgoings to income ratios (or OTIs) for New Zealand households living on a working age benefit hovered around 0.4 to 0.45. The exception here is with people living on sickness benefits and looking to rent one-bedroom accommodation by themselves. The OTIs such households face would suggest that single occupancy housing is not sustainable for them in many housing markets as the OTI is often in excess of 0.6.
- Static housing affordability does not appear to be the case in Auckland where rents have begun to rise faster than general inflation and incomes. A typical OTI ratio in Auckland would be in excess of 0.55 for beneficiary households. This applies to superannuants as well and they typically enjoy a higher

Table 17: Summary of changes in incomes and prices 2008–2013

	New Zealand	Auckland
% CHANGE IN AFTER-HOUSING COSTS INCOME		
Single person living on sickness benefit in one-bedroom flat	19.0	10.9
Single person living on NZ Superannuation in one-bedroom flat	29.1	25.9
Three person household on DPB living in a two-bedroom house	10.7	5.1
Five person household on unemployment benefit in a three-bedroom house	6.4	1.8
Five person household working and living in a three-bedroom house	12.1	10.4
Three person household working and living in a two-bedroom house	11.8	8.9
Consumer price index	12.5	
Average weekly wages and salaries	17.0	
Rents[99]	9.9	17.1

basic income which is more closely indexed to wages and salaries. Housing affordability for working households appears tolerable given the income top-ups received through Working for Families and the Accommodation Supplement although single income working families are likely to struggle.

As mentioned above the majority of households who receive an Accommodation Supplement payment are renting and these households make up about 35% of the private rental market—and in Auckland perhaps as much as 45% of this market. On the basis that most of these recipient households are living on low incomes already—hence their receipt of a Supplement payment—it is reasonable to assume that these households also form the bulk of the poorest tenant households in most markets.

Some evidence is available that the poorest tenant households face the worst housing conditions. For example a study of people's perceptions of the quality of their own houses taken from the General Social Survey showed that tenants were two to three times more likely than owner-occupiers to report that their housing was damp, cold or too small. This study also reported that those households most likely to say that their housing had problems were poor and single-parent families.[100] Another report on Auckland housing associated poor housing conditions such as damp, cold and overcrowding with rental tenure.[101]

None of this is probably surprising given the lower economic status of tenant households and the housing stock which is typically rented.[102] While the housing conditions experienced by tenants are not directly related to the payment of the Accommodation Supplement, it would appear that the Supplement and the significant public expenditure behind it have not assisted low income households to gain better housing. In fact the opposite is probable—that recipients of the Accommodation Supplement are more likely than other households to live in poor quality housing.

3.4 CONCLUDING POINTS

The following five main points can be taken from this assessment of the impacts of the Accommodation Supplement.

1. The majority of households receiving an Accommodation Supplement payment (64%) are tenants and also recipients of a working age benefit or New Zealand Superannuation (72%). Around half of the whole Accommodation Supplement budget is paid to tenants reliant on a working age benefit. These features are relevant to how we might categorise the actual effect of the Supplement in policy terms.

2. Demand for an Accommodation Supplement payment appears to be cyclical and is connected, perhaps unsurprisingly, to the demand for working age benefits. An observable structural or non-cyclical change is the gradual decline in the proportion of recipients who are owner-occupiers and an increase in the proportion who also receive the New Zealand Superannuation. The number of superannuants who receive the Accommodation Supplement is likely to grow by around 2000 per year. This demand will not be cyclical and is probably an important factor to consider in any review of the Supplement.
3. Evidence of the relationship between the Accommodation Supplement and the housing market, and especially the rental housing market, is scanty and there has been little effort made to gather such evidence. This means claims that the Supplement is captured by landlords in higher rents are not supported by any evidence and similarly neither are claims that the Supplement has driven an increase in the supply of affordable housing. There is in fact evidence to suggest that recent new house building and residential investment has not increased the stock of affordable housing and while this trend cannot be blamed on the Accommodation Supplement it offers some evidence that there is little or no relationship between the Supplement and the stock of affordable dwellings.
4. Government reviews of the Accommodation Supplement have failed to offer any alternatives to how low-income households might be assisted with their housing costs. This failure may be an indication of the political difficulties around any wholesale changes in the current policy settings which do not also involve a significant increase in budgets. Successive Governments have embraced a default policy of ignoring the need to index the maximum Accommodation Supplement payments to inflation. This tactic has saved Government $60 million to $100 million per year.
5. Despite this failure to adjust maximum payments there is no evidence that housing is less affordable for households receiving an Accommodation Supplement payment. The exception to this stable picture is Auckland where over the past two years rents appear to have risen faster than incomes and housing has become less affordable for most tenant households. On any account the Accommodation Supplement has not provided recipient households with affordable housing. Other than for working households, the housing outgoings to income ratio for households receiving a Supplement payment are typically above 0.4 and may be above 0.6.

These points are taken into the following discussion of options for reforming housing assistance policies.

Homeless street beggar Alan Hamilton sits on Queen Street. People are complaining there are too many buskers, homeless and charity collectors asking for money on Auckland City's main street.

New Zealand Herald, 9 April 2013. Photography: Dean Purcell / New Zealand Herald

CHAPTER 4:
FURTHER HOUSING POLICY RESPONSES

This chapter considers possible demand for housing assistance due to demographic and economic change. It then looks at ways in which the current approaches to providing housing assistance might be reframed as a way of making both policies and programmes more explicit in their intent and scope. Reframing might help to open up a wider public debate over why as a nation we continue to support housing assistance programmes, and over the appropriate extent and generosity of these programmes. Such a debate has been absent at least since the Royal Commission on Social Policy in 1987 and could ideally form the starting point and hopefully the basis of any future housing reform programme.

4.1 FUTURE DEMAND FOR HOUSING ASSISTANCE

Forecasts or predictions of housing demand are most often based on demographic forecasts of population change and assumptions around household formation patterns. Household formation is conditioned by economic opportunity and specifically whether or not individuals or families have sufficient income or other entitlements to rent or buy a house. Where individuals lack sufficient income or other entitlements to gain housing, they are mostly likely to share accommodation with others and so form a larger household more or less involuntarily. These households housing demand remains unmet or ineffective.

Short of asking everyone living in such circumstances for their housing preferences, there are few if any ways of knowing the extent of unmet housing demand without making some assumptions around what an ideal household formation pattern would be. Such assumptions are made, sometimes implicitly, in many discussions of housing demand. For example it is often assumed that because New Zealand has an aging population with a larger proportion of the population reaching retirement age and living past 80 years, the numbers of one and two person households are forecast to increase.[103] Such a scenario presupposes that older people can and want to live alone or just with their partner or spouse. Furthermore there may also be a scenario where some groups of older people will live with their extended families as a cultural practice when in fact this may not be preferred and may in fact be the reverse—that members of the extended family live with older people because they cannot find housing of their own.

Forecasts of housing demand will always rely on assumptions and while this may be unavoidable it is important to be aware of the cultural lens through which these assumptions are being made and to be explicit about assumptions of whose housing needs will be met or unmet.

Into such assumptions comes the question of housing assistance. Housing assistance is more or less an intervention designed to ensure that people who may be unable to gain access to reasonable quality housing are able to do so. Behind such an intervention is an understanding of what is desirable or acceptable in terms of access to housing—that is, who gets into assisted housing, and the quality of the housing provided.

In the public provision of health and education services there are often quite particular rules around access and quality but such an approach is not adopted in New Zealand around access to housing assistance. Instead access to social housing is rationed and so subject to tests of relative need—that is, who needs the available housing the most. While access to housing-related income support such as the Accommodation Supplement is subject to access rules around need and entitlement, this access is conditional on a person being able to find housing in the first place. Furthermore there are no rules or conditions around the quality or appropriateness of the housing gained which can mean that public money is going into supporting sub-standard housing outcomes.

This lack of any precise way of being able to forecast future household formation and the demand for housing assistance offers an opportunity to approach this problem through scenario planning such as that done by CRESA (2009) around future housing needs of older people. Such an approach might be a useful way of leading a public discussion on future demand for housing assistance but it is not the approach taken in this report.

The approach taken in the following forecast of demand for housing assistance is to assume recent patterns of household formation and income distribution continue over the next 10 years and that these patterns are overlaid on expected population change and various labour market scenarios. Alternative scenarios predicated on such changes as declining take up of welfare benefits or on higher growth in household incomes could be explored in a more extensive exercise.

The simple model used to make these forecasts focuses on demand for the Accommodation Supplement as the main indicator of demand for housing assistance. As discussed in previous chapters around 370,000 households receive some assistance from the State for their housing. Around 69,000 of these households receive this assistance through Housing New Zealand and the remainder through the Accommodation Supplement. Because the state housing stock has waiting lists and is always nearly full, variation in demand for housing assistance registers as changes in uptake of the Accommodation Supplement. It seems reasonable to adopt this uptake as a proxy for demand for housing assistance.

The forecast model is summarised in Appendix 3. It is based on recent data on labour market participation and benefit take-up and makes use of Statistics New Zealand's population forecasts through to 2021. Past relationships such as labour-force participation and benefit take-up rates are used to make assumptions on such relationships through to 2021. While the model is not predictive in any sense it offers some insights into what the key influences on future demand for housing assistance is likely to be and how sensitive this demand is to changes in key contributing factors such as job growth and rates of take-up of housing assistance. Table 18 offers some results of expected changes in take-up of the Accommodation Supplement as a result of changes in these contributing factors.

Table 18 offers four scenarios around different values for job growth, rates of labour force participation and rates of uptake of the Accommodation Supplement by households receiving a working age benefit or New Zealand Superannuation. The most pessimistic of the scenarios suggests a potential growth in demand for housing assistance of around 17% over the eight years through to 2021. The most optimistic scenario suggests a 7% decline in demand while middle ranging options suggest growth in demand by 4% to 6%. Such demand growth is consistent with population growth over this period, which under the population growth scenario used will see population grow by 7%.[104] In others words under realistic economic scenarios, growth in demand for housing assistance is likely to be just below rates of population growth.

As discussed in the previous chapter, demand for the Accommodation Supplement appears to be tied to the employment cycle and rises when unemployment rises. This model indicates that even under modest job growth rate assumptions demand for housing assistance is unlikely to grow significantly if at all under the present policy settings.

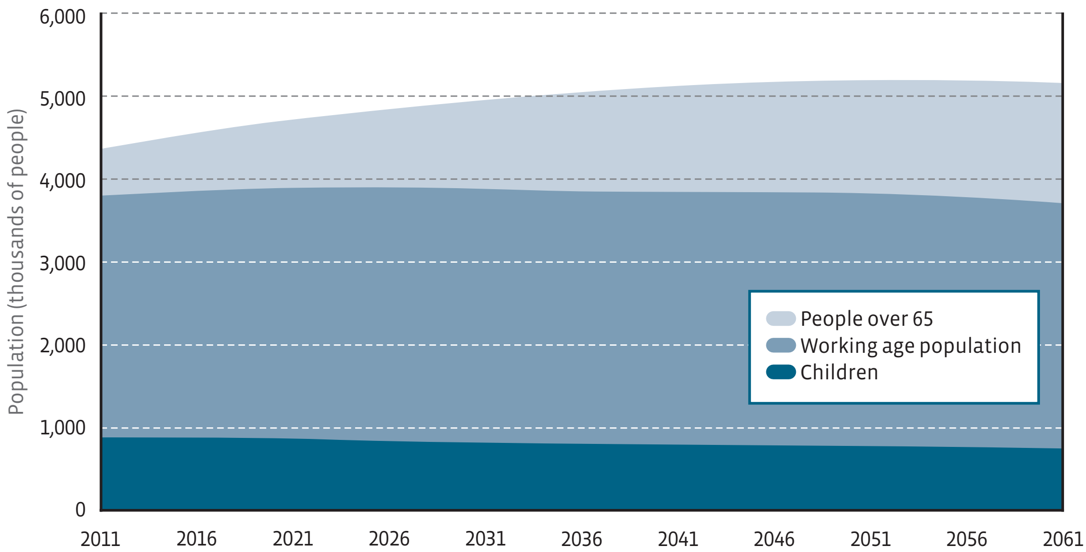
In this model and perhaps in reality, the factors most influential on demand for housing assistance are those relating to the behaviour or needs of older people. Specifically it is the rate of labour force participation by over-65 year olds and their take up of the Accommodation Supplement which have the biggest impact on demand for housing assistance.

This is probably to be expected for a number of reasons including the fact of our aging population. Over the next eight years the size of the population aged 15 to 64 years is expects to grow by less than 4% while the population aged over 65 is expected to grow by more than 30%. This projection raises significant challenges even in the medium term around the increasing age of the New Zealand workforce and skilled labour shortages. Figure 13 is offered as an illustration of this challenge over a longer period and is based on the same forecast scenario used in this demand model.

The extent of this problem of an aging workforce has to date been masked by rising rates of labour force participation amongst those aged over 65 years. This rate has risen from 12% in 2006 to 20% in 2013 and the number of workers aged over 65 has climbed from 52,000 to 118,000 over the same period.[105] Essentially this effect is due to retiring Baby Boomers choosing to remain in the labour force beyond their 65th birthday.

Over the period under consideration job growth has been weak, especially between late 2007 and mid-2010 when there was virtually no increase in employment. Under such conditions the growing labour force participation of over-65 year olds has crowded out employment of those under 65 and especially 15 to 19 year olds.[106] Most likely this increased the numbers of people on working age benefits more than would have been the case if this increased participation had not occurred. This crowding out effect is built into the forecast model which estimates benefit uptake based on the numbers of people in the

Figure 13: New Zealand Population projections 2011–2061



15 to 64 age group who are not in work. This effect cancels out over the forecast period as growth in the over 65 workforce tapers off and unemployment rates across the board are projected to fall.

Labour force participation rates amongst over 65 years olds in Table 18 range from 18% to 20%. There is a possibility that this rate could exceed 20%, although the recent growth in rates of participation can be expected to taper off as the numbers of people reaching 65 in any one year begins to stabilise and as those beyond 65 retire eventually.

The second factor relating to the needs of older people are rates of take up of the Accommodation Supplement. As noted in the previous chapter this take up has been increasing over the past five years both in terms of total numbers and in terms of a proportion of the total population over 65. This increasing proportion is against a base population which is also growing quickly and this has resulted in the numbers of over 65 year old who receive an Accommodation Supplement payment growing by 50% between 2007 and 2013.

The extent to which there will continue to be a growing demand for housing assistance from the over 65 population is not known although it seems likely, from data from the last census, that this growth will continue for some time yet. Morrison (2008) has demonstrated the extent of declining home ownership over

Table 18: Scenarios for change in demand for Accommodation Supplement

At 30 June	CURRENT	HIGH GROWTH	MEDIUM GROWTH 1	MEDIUM GROWTH 2	LOW GROWTH
Annual rate of job growth	0.9%	1.5%	1.0%	1.0%	0.5%
Over 65 labour force participation rate	20.5%	18%	19%	19%	20%
15 to 64 labour force participation rate	77.5%	77.5%	77.5%	77.5%	77.5%
Working age benefit take-up	53	53	55	56	55
(% of working age population)	36.5%	36.5%	36.5%	36.5%	36.5%
Annual growth in % Over 65s receiving AS		0.1%	0.1%	0.2%	0.2%
Proportion of benefit recipients receiving AS	70%	70%	72%	72%	75%
Proportion of employed working age population receiving AS	2.6%	2.6%	2.6%	2.6%	2.6%
Change in number of AS recipients 2013–2012		–19,000	11,000	17,000	51,000
% growth in AS recipients 2013–2021		–7%	4%	6%	17%

time for any age group or age cohort. For example in 2006 the age cohort born 1951–1956 had a 4% lower chance of owning their home than did the cohort born between 1941–1946 at the same age. Morrison concludes 'younger cohorts have ended up with a low rate of home ownership than their predecessors even after age and year effects are taken into account'. Unless, more recently, there has been some reversal in the housing fortunes of younger age cohorts, it seems likely that home ownership rates at age 65 will begin to fall appreciably after 2016.[107]

This model and the projections it offers it seems likely that even with modest job, growth rates of benefit dependence will fall on account of the aging workforce. This prospect means that under present policy settings for housing assistance, demand for such assistance from the working age population will decline.

Offsetting this decline is the increase in demand for such assistance from the over-65 population. This increased demand is different from the demand it may replace in that it will be a consistent and predictable demand for that household or person for the remainder of their life or more likely their life of independence. The metaphor of a housing career or pathway does not apply to people in their retirement unless they have sufficient wealth to make choices. Those people without the wealth of homeownership in their retirement will be stuck renting. For these people the policy challenge is not placing them in employment so that they may gain higher income and more affordable housing positions, but rather ensuring that they have adequate housing and sufficient income to live moderately well. With such a challenge, the adequacy of the housing assistance offered becomes more central to the policy framework and this is the focus adopted in the following discussion.

4.2 FRAMING ALTERNATIVE POLICY RESPONSES

This report has to date considered two of the three main approaches to providing housing assistance—demand subsidies and the provision of social housing. The third approach, modest income home ownership assistance programmes, has been omitted partly because these programmes in New Zealand are minimal in scale and reach and because they tend to cater for households in the intermediate market which may not be considered to have the most pressing need. The reconsideration of New Zealand's homeownership assistance programmes, however, is long overdue.

This chapter considers the framing and reframing of social housing and demand subsidies in an attempt to address these programmes' shortcomings as they have been identified in the previous two chapters. The principal shortcoming seen in our current social housing programme is that no planning has been done for future demand and for adequately funding this demand. The principal shortcoming in the Accommodation Supplement is that it has been capped as a budget saving move and does not seem to be delivering low income households with affordable, adequate and appropriate housing.

What has not been identified in the previous chapters are the shortcomings between the programmes and specifically the absence of horizontal equity between households with similar, and in many cases identical, incomes and housing needs. As identified in the previous chapters, the per household subsidy is much higher for Housing New Zealand tenants than it is for tenants of other social landlords and of private landlords, and these later groups of tenants normally have lower after housing costs incomes. In attempting to reframe housing assistance policy there is a compelling need to address this absence of horizontal equity.

This focus on achieving greater horizontal equity can be done in four basic ways:

1. By reducing rates of subsidies to state house tenants to make then as badly off as private tenant—as was done between 1993 and 1999 with market rents for state tenants.
2. By increasing subsidy rates to tenants in other social housing and private rental housing so that they have the same after housing cost incomes as state tenants.
3. Somewhere between these approaches where subsidy rates for state tenants are reduced while those in other households are increased to the point where all households have similar housing costs to income ratios or after housing cost incomes.
4. By making some of the above adjustments and accepting some residual horizontal inequity.

A public or a policy discussion on such approaches will most likely quickly expand to a larger debate around means and ends. In particular this debate might focus on three critical questions:

- What is the overall purpose of such subsidies from a societal perspective?
- What is a sufficient or adequate effort to make toward achieving this purpose?
- What is the best way to achieve this purpose?

The development or evolution of New Zealand's housing assistance policy does not appear to have addressed these critical and perhaps quite fundamental questions. Instead policy programmes appear to have been introduced for pragmatic reasons or on ideological grounds.[108] It may in fact be timely to undertake a fundamental reassessment of our housing assistance policies although this is not the intent of this report. Rather it is the intent to offer some perspectives on how this debate might be started.

As with other income support programmes such as New Zealand Superannuation, welfare benefits and Working for Families, the underlying intent of housing support programmes is to ensure that all citizens are able to live in conditions and circumstances which as a society we consider are reasonable. There is unlikely to be any broad consensus on what is considered reasonable and in fact as a society we have debates around such questions quite infrequently—the last being the Royal Commission on Social Policy in 1987.[109]

This absence of agreement notwithstanding, the 'reasonableness' question does not in fact appear to have ever been asked around housing assistance. As mentioned earlier the key objective in the design of the Accommodation Supplement was to limit budgets—questions of adequacy were quite secondary from all accounts. As also mentioned previously in this report subsequent reviews of the Accommodation Supplement have not been made public so the question of adequacy has never been thoroughly debated. The reinstatement of income-related rents for state tenants by the Fourth Labour Government in 1999 and with this the setting of rents at 25% of net income was not preceded by any public debate on the question of adequacy but appears to have been simply a reinstatement of a former policy setting which predated the reforms of 1991.

The absence of a broad public debate around the adequacy of income support policies is also evident in the other two major policy shifts of the last 25 years —the benefit cuts of 1991 and the introduction of Working for Families in 2005. The benefit cuts of 1991 were simply introduced to widen the margin between welfare benefits and minimum wages and paid no regard to the living costs of those whose incomes were cut.[110] Similarly the thresholds set for Working for Families and their application appear to have been decided by the Minister of Social Development with limited policy advice and no public submissions and were similarly motivated by the creation of an incentive margin between those families in work and those not in work.[111]

The policy settings around New Zealand's housing support and income support policies have from all accounts come about through ad hoc processes based mainly on political preference rather than on an astute assessment of needs, behaviours and likely impacts. The policies determined by these settings are significant both in terms of reach and budgets, affecting around 450,000 households or about 27% of all households and costing $9.4 billion or 10% of all Government spending.[112]

In any alternative framing of housing assistance policies two points emerge as being quite compelling. The first is the interconnectedness between housing support policies and other income support policies and that ideally these should be considered as a whole rather than as a two-stage process where housing support is a second stage and sometimes an add on. The second point arises perhaps as a result of this residual approach to housing support policies as it appears that these policies have not been adequately funded and that they do not appear to have been effective in reducing housing-related poverty or in responding to future needs.

While it may be possible to ignore these points and the need for significant policy change, the opportunities for change appear significant and risks of ignoring housing-related poverty are considerable.

New opportunities are emerging around the challenge of our aging work force and the likelihood that unemployment rates will begin to fall to levels where labour shortages in many parts of the economy are a problem. One response could be to allow more people to migrate to New Zealand and as a consequence to exacerbate housing shortages, especially in Auckland. An alternative response could be to begin to shift the focus of income support policies away from incentivising work and toward ensuring that poverty traps and other disincentives associated with steep abatement regimes and the resulting high effective marginal tax rates are removed.[113] While such an alternative approach would require supporting efforts in youth training and remedial education as well as in support and perhaps sanctions for the truly work shy, the overall shift involved could be toward broader entitlements and away from narrow and uncertain targeting. Ideally such an alternative approach should work toward narrowing income and wealth inequality especially between the low paid and the well paid and between the young and the middle aged. This can be achieved both through tax reform and more inclusive and perhaps more generous family income support programmes. The risk of not taking such steps is that New Zealand will continue to loose young people and young families to Australia.[114]

Housing and especially housing costs and housing opportunities are critical to the attractiveness of a place or an economy to young workers. If as a society we ignore questions of housing stress and housing poverty in revised income policies, we risk losing some of the end value of such policies as higher family incomes are bled off in higher housing costs. This prospect suggests a greater focus on the supply-side in any future housing policies.

4.3 REFRAMING HOUSING DEMAND POLICIES

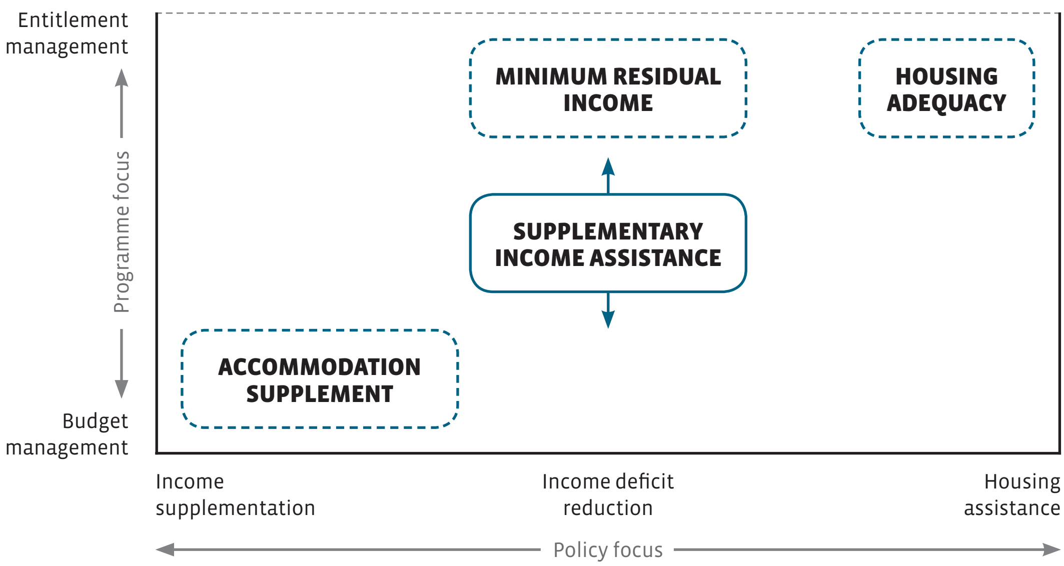
Hulse (2002) in her extensive review of housing demand subsidies concludes that there are three basic approaches or models for such subsidies. These models are as follows:

1. **Income supplementation models** where additional income is paid to households which are considered to have high housing costs.
2. **Income deficit models** where specific allowance is made for households' variable housing costs in calculating basic income support entitlements.
3. **Housing assistance models** which aim at ensuring that households have access to housing that meets defined standards, normally around adequacy, affordability and appropriateness.[115]

The Accommodation Supplement and Australia's Rent Assistance are examples of income supplementation models. The various supplementary income assistance programmes such as special needs grants and benefits are New Zealand examples of income deficit models. Housing vouchers such as those used on a limited scale in the United States are an example of a housing assistance model.

Alternative useful framings of housing demand subsidies are offered by Kemp (2000) where he considers such polices alongside other income support policies, and Beer et al (2011) who frame housing assistance policies in terms of a 'wellbeing dividend'.

Figure 14: Policy options for housing demand subsidies



Hulse's analysis provides a useful framework for comparing the various objectives which can motivate demand subsidies. This framework is offered as an options matrix which compares the policy objectives with the extent of the response made toward these objectives. The current position of New Zealand's demand subsidy regime is indicated on this matrix along with two alternative responses which are discussed below.

The options matrix offered in Figure 14 is predicated on a distinction between what a policy focuses on and on what the programme based on this policy focuses on. Two relevant and current examples of such a distinction are with the Accommodation Supplement and the supplementary income support programmes which are administered by Ministry of Social Development.

The Accommodation Supplement, as its name suggests, is a policy focused on supplementing household's incomes to assist them to meet their accommodation costs. However in both the original thinking behind the Accommodation Supplement policy rules and in subsequent decisions not to update policy settings it is apparent that the actual focus of the programme is to manage budgets rather than the entitlements of those whom the policy was meant to serve.[116]

Ministry of Social Development administers a variety of supplementary income support programmes mainly directed at recipients of working age social welfare benefits. These programmes might be recoverable in that they may be an advance against future benefit payments or non-recoverable in that they are an additional allowance or one off grant in addition to other benefit payments. Amongst the non-recoverable payments is the Temporary Additional Support programme (TAS) which assists people to cover a significant income deficit for a three month period.[117] After this three-month period the recipient will have their circumstance reviewed but is generally expected that they have reduced her or his living costs in order to close the income deficit. Housing costs of course feature in the living costs and related income deficit. Although it is a household's total living costs and not its housing costs which are relevant in any assessment of additional entitlement it is not difficult to see that there is a link between the increasing inadequacy of the Accommodation Supplement and the increasing reliance on other supplement incomes programmes such as TAS.

While these supplementary income policies are focused on income deficits and the related programmes on entitlements, the actual extent of approval of payments tends to fluctuate for no explicit policy reason.[118] This suggests that the balance in the programme focus between budget management and entitlement management shifts from time to time—hence the arrows indicating such shifts in Figure 14.

An example of an income support programme which is almost entirely focused on managing entitlements and not budgets is New Zealand Superannuation. This is of course an income supplementation programme because it is not means tested or at all concerned with other incomes or needs of recipients. Furthermore budget growth is funded without question each year and indexation against wage and salary growth is normally also done without debate. There is in other words no political direction to manage budgets so the focus has been on entitlements.

The alternative framing of housing demand subsidies is also offered in Figure 14. This alternative framing suggests firstly that the programme focus of such subsidies should shift from one focused on managing budgets and on limiting budget growth to a focus on entitlements—however these entitlements are established by policy. In many respects policies mainly focus on determining entitlements so it is somewhat contradictory to have a policy determining entitlements with a related programme attempting to limit entitlement as a way of managing budgets. The alternative framing offered in Figure 14 looks to overcome this contradiction.

Details of how the two alternative policy approaches offered in Figure 14 might be designed or implemented are possibly less important at this stage when the discussion is around broad concepts. In broad terms the residual income approach would be based on ensuring that households are left with a minimally acceptable income once their housing costs have been paid. Similarly, the adequate housing approach would be based on an assessment of a household's housing needs and then on providing the assistance required to ensure that these needs are met.

As some initial assessment the Appendix 5 offers some strengths and weaknesses of the various approaches to demand subsidies as framed in Figure 14.

Overall it can be expected that a shift in programme focus from managing budgets to managing entitlements will require larger budgets and this will be seen as a major disadvantage to such an approach. Countering this weakness or disadvantage is that the policy interventions which are delivered through an entitlement approach will be more effective—that is, the outcomes which are anticipated by the interventions will be more closely achieved.

For example a housing assistance approach to the administration of housing demand subsidies implies a more intensive assessment of need than that done with the present administration of the Accommodation Supplement. In such an approach housing need is not simply a gap between income and housing costs but is rather based on the physical and social needs of the household. Such a closer assessment of need probably requires higher levels of subsidy because the household is no longer expected to economise on their housing and perhaps in doing so to settle for substandard or otherwise inadequate housing.

Once the type and condition of the house which is being subsidised comes into the policy framework the question of housing standards arises. Once this question arises it is possible that the policy focus shifts more toward the adequacy of the housing stock and of housing supply and to the best model for providing this stock/supply. At this point the value of supply-side subsidies might also come into question and the place of social housing is integral to this supply-side debate.

4.4 REFRAMING SOCIAL HOUSING POLICIES

The adequate housing approach identified by Hulse and considered above in the reframing of demand subsidies provides a neat entry point for reconsidering social housing as part of a spectrum of responses to housing need. Such a reconsideration would be useful in part to confirm why we as a nation bother with social housing. If we can make this confirmation we might subsequently begin to move social housing in from the political margins where it has languished in since the 1950s.

The value case for social housing has probably not previously been established although the reverse idea that social housing is no different to private sector rental housing was tested in the welfare reforms emerging from the 1991 Budget. The reversal of these reforms as they related to market rents in Housing New Zealand's housing stock came as an ideological shift brought about by the election of the Clark led Labour Government in 1999. This shift was however preceded by a general unpopularity of the market rents policies.[119]

While the public at this time may have had some unease about the plight of state tenants and this unease may have contributed to the election of the Labour Government, it would be difficult to read this as a clear mandate for public or social housing. As discussed in Chapter 2 it appears that social housing has a residual place in the political agenda of both centre left and centre right governments. It was suggested in that chapter and at the conclusion of an analysis of Housing New Zealand's financial and performance statements, that both Labour-led and National-led governments over the past decade have viewed social housing as a necessary (and not insignificant activity) for Government but something that is not that important either politically or philosophically. As a result both have seen social housing managed with a minimum of fuss or additional spending.

The lack of political importance of social housing can be traced both to its declining importance in the housing market[120] and to the way in which state housing and those living in state housing have become increasing marginalised and even maligned. In his analysis of changing attitudes toward state housing, Schrader suggests that state housing begun to be seen in problematic and even pathological terms from the mid 1950s and that the public perception of state housing as slum housing emerged during the 1960s and as housing for the poor from the 1970s.[121] This framing of social housing as being the site and even the source of entrenched poverty is identified in other countries as well.[122]

Somewhat ironically Housing New Zealand has even engaged in such rhetoric telling the story of state tenants Paula and Mervyn wanting to 'move away from a problem neighbourhood to raise their children in a more family-friendly area'. The solution was for the Corporation to help Paula and Mervyn move into private rental housing because this 'was best for the children'. A further bonus, reports Housing New Zealand, is that Paula and Mervyn 'have inspired friends living in Corporation properties in their old neighbourhood to move into private rentals also'.[123] Here the State's social housing provider is, unwittingly perhaps, washing its hands of the poor social and physical environments it has helped create.

The reframing of social housing so that it is seen to have a popular mandate and a legitimate place and role in New Zealand society would appear to be a huge task. This report is not intended to fully address this task but may assist in focusing public discussion toward us gaining a new understanding and perhaps a vision for social housing in New Zealand. This focusing will look at several dimensions of the current framing of social housing and broader social policies including the idea of a social housing market, the nature of property rights and the role of housing within a new welfare state.

The social housing reforms presently being pursued by the National led coalition Government are mainly based on the strategy of creating a social housing market. There appears to be two core ideas contributing to this strategy. Firstly, there is the idea that competition will foster innovation and perhaps efficiencies. Secondly, there is the idea that additional capital might be brought into social housing from the community and private sectors thereby reducing the demand for capital from the Crown.

As ideas these appear quite sound although as we have seen with the framing of housing demand subsidies, the realisation and value of such a strategy requires an adequate alignment between the policy focus and the programme focus. There are presently signs that this strategy, as with many previous social housing initiatives, is being done on the cheap. In other words the policy focus is laudable and credible but the programme focus lacks sufficient resources or sound thinking.

In its 2013 Budget the Government announced the rollout of its social housing reform budget with a promise of ongoing funding for income-related rent subsidies to be paid to social housing providers other than Housing New Zealand. The budget for this programme was extremely modest—just under $27 million over four years and reaching $9 million in 2016/17.[124] On the basis of the per unit level of subsidy present being offered to Housing New Zealand this will be sufficient to fund 1000 other social housing units.[125] There are a number of concerns with this gesture.

The first concern is that this $27 million for an extension in income-related rent subsidies is not an additional budget but has been taken from the Watertight Service budget of Ministry of Building Employment and Innovation.[126] This reallocation begs the questions of the effectiveness of and commitment to the Crown's contribution to resolving the leaky homes legacy which may be worth as much as $11 billion and affect between 22,000 and 110,000 dwellings.[127]

A second concern is around the adequacy of such a small budget for the idea of creating a social housing market. Over the next four years, 2013 to 2017, Housing Zealand may expect as much as $2.9 billion in income-related subsidies and its stock is unlikely to exceed 70,000 units.[128] Over the same period other local government and NGO social housing providers will own and manage up to 16,000 dwellings or around 19% of New Zealand's total social housing stock.[129] In other words over the next four years Housing New Zealand looks set to receive 99% of all social housing operating subsidies to provide 81% of the social housing stock.

The rules around how the $27 million income-related rents subsidy will be allocated have not been announced although in its Cabinet Briefing papers Ministry of Business, Employment and Innovation has warned of the need for rationing.[130] Such rationing may create quite perverse and unproductive behaviours amongst NGO social housing providers if for reasons of rationing the new subsidy regime is only to be applied to new social housing units. For example some providers might choose to sell down their existing units in order to gain access to the capital subsidies through the Social Housing Fund and to gain access to income-related rent operating subsidies. An alternative response would be to require existing tenants to apply for income-related rent subsidies perhaps under threat of eviction. No additional social housing units will be created by such moves although the balance sheets and operating positions of the providers would improve.

In addition this more favourable treatment of the State's social housing provider will not create a level field on which to develop a social housing market and is inequitable to other providers—especially local government.

If the same level of subsidy was provided to local government social housing providers as is provided to Housing New Zealand, an annual operating subsidy of $30 to 60 million would be required. When offsetting savings from reduced Accommodation Supplement payments are taken account of this would represent a net cost to the Crown of perhaps as much as $50 million annually. The level of operating subsidy required for NGO providers to be on an equal footing as Housing New Zealand would be in range of $10-30 million annually at a net cost of $5 to 15 million.[131] In other words the current level of subsidy being offered to alternative social housing providers is about one sixth of that which is required if a credible and fair social housing market was to be established.

The idea of a credible and fair social housing market does only rest on subsidy levels however. Oxley et al. (2010) suggest that the notion of competition in the context of social housing is confused and complex and that while the idea of such competition is seen by some as being worthwhile and even essential, the idea 'is applied without a consistent specification of its meaning, attributes or significance'.[132] They discuss key elements of a social housing market such as who is the competition between, what it is over and how it is manifest or played out? For example they distinguish between competition between social housing providers and competition between social housing providers and private rental providers. Similarly there can be competition between tenants for housing, between housing providers for tenants and between housing providers for subsidies. Given that social housing is not allocated via market mechanisms there is also the added dimension of how allocations and other decisions are made

Table 20: Possible competitive structures for social housing market

	Between tenants for housing	Between housing providers for tenants	Between housing providers for subsidies
Competition between social housing providers	Tenants need to establish compelling need to gain access to social housing	Tenants have choice of social landlord at same cost	Subsidy regime focused on performance and extent of tenant need
Competition between social housing providers and private housing providers	Tenants needs assessed independent of provider and access decided on relative risks/merits of individual tenants	Subsidy programme offers seamless choice between social and private providers	Subsidy available to all providers with tenants having open choice between providers

on a non-price basis. Table 20 offers possible social housing market processes within this overall framing. Other processes and other framings are also possible.

Clearly elements of the rollout of a social housing market are under consideration such as with tenant allocation into social housing and it appears that the extent of the market at present is between Housing New Zealand and NGO providers. Officials' views around income-related rent subsidies had not reached the public domain at the time of publication. Given the inadequacy of this subsidy budget and the fact that it appears to have been determined by the extent of funds available for re-allocation rather by some assessment of need and appropriate scale, it would seem unlikely that much fundamental thinking has gone into how this subsidy programme will work.

Table 20 offers some ideas for framing a social housing market but at best these ideas are preliminary and only illustrative of what might be achieved. If we are to develop a credible and fair social housing market some thought must be given to the structure of this market before Government agencies decide how to allocate a modest $9 million budget between competing NGO social housing providers.

As a background to such thinking consideration needs to be given to sustainable funding models for social housing. As discussed in Chapter 2 there is little evidence to suggest that the present funding arrangements for Housing New Zealand have produced a sustainable business model were sufficient allowance has been made for maintenance. Instead, successive Governments appear to have required the Corporation to use depreciation allowances to fund new capital expenditure which required new stock to be provided or significant reconfiguration of the existing stock to be undertaken. The casualty here was deferred maintenance and the consequence has been a poorly maintained and configured stock.

The implications of such a set of arrangements is that any future policy settings which may be based on Housing New Zealand's current funding model will not necessarily produce a sustainable funding model for social housing. Using Housing New Zealand's current funding arrangements as a benchmark for future funding of an expanded social housing sector is unwise, given a lack of proof that such funding arrangements are viable in the medium term.

Ideally a more fundamental re-assessment of funding of social housing needs to be undertaken to ensure firstly that sufficient allowance is being made for maintenance and depreciation and secondly, that adequate provision is being made for a return on capital. Unless such provision is made social housing will continue to live on borrowed time, which has been well illustrated by the need for a $137 million bailout of Wellington City Council's social housing operations.

Once a sustainable funding model is agreed to, this model should ideally be used in deciding subsidy rules and these rules should be applied to all social housing providers regardless of the sector or structure of their ownership. Such an approach of course creates the prospect of private sector involvement in social housing provision. Such involvement will however require private sector operators to achieve greater efficiency than public or NGO providers in order to generate the higher returns which owners would require.

While private sector operators may be able to generate greater efficiencies there is of course also the chance that higher returns are being generated either by reductions in service levels or by short-term decision-making. Equally there is a risk of poor service levels and short-term thinking as a consequence of bureaucratic inefficiency. The challenge then in any future subsidy regime is in the adequate specification of contracts to protect housing consumers and funders from the consequences of poor performance and opportunism.

The design of contracts between the Crown and social housing providers is a complex and detailed question which is beyond the scope of this report. It is however worthwhile to consider how such contracts and the broader relationships which attend these might be framed. Past relationships between Crown agencies such as Housing New Zealand and the Social Housing Unit, and NGO social housing providers, would suggest that greater attention needs to be given at the start to how roles and responsibilities are framed. For example under the former Housing Innovation Fund and during the early life of the Social Housing Fund, contracts were originated entirely by the Crown agencies and framed in terms which suited the Crown's interests. This was so even though the NGO providers were offering up to half the capital for any project and bore most of the development and operational risk.

There are of course alternative policy and political paradigms which can equally as well be applied not only to the question of how the relationship between the State and social housing providers might be framed but to wider questions of the purpose and process of social housing. One such paradigm or perspective is that of new institutionalism and of new institutional economics.[133]

New institutional economics (NIE) is particularly focused on transaction costs and property rights and the impact these have on human behaviour and social organisation. Gibb and Nygaard use a NIE framework, involving both transactions costs and property rights, to analyse a number of organisational questions emerging from the restructuring of social housing in United Kingdom. This work ties in well with thinking around the nature and structure of social housing markets.

Nygaard et al. (2008) suggest that a number of property rights can be identified within social housing which belong to various parties including tenants, owners and citizens. Such a framework offers a useful way of contemplating the scope of policies as they affect social housing as well as a way of better appreciating the competing rights and interests of stakeholders in social housing. By way of example Nygaard and his colleagues identify five types of property rights which might frame social housing provision. This framework is developed further in Table 21 to provide an example of how a property rights approach such as that offered by NIE and Nygaard might shape the conception and development of social housing policy.

An approach to framing policy such as that offered in Table 21 creates more opportunity to innovate and to integrate various policy strands than have done the top-down centralised and risk adverse approaches of the past.

A third approach to reframing social housing policy is to think about the inter-relationships between social housing and social welfare policy. This connection does not appear to have been made particularly well in the development of New Zealand's housing policy despite the fact that the majority of recipients of direct housing assistance are also recipients of welfare payments[134] and despite the extensive evidence linking housing to peoples' wider wellbeing.[135] This is not to suggest that those developing and agreeing on housing policy are not unaware of these connections but that housing policy has, until recently, mainly been developed by Housing New Zealand and tended to be formed in isolation to policy development in health, education and social development.

The housing-welfare nexus has been considered extensively within academic literature with a number of often unconnected approaches or ideological positions being taken. For example some writers have looked at housing,

Table 21: Property rights framing of social housing policy

SOCIAL HOUSING					
Property right	Shelter for qualifying households	Revenue streams	Asset for borrowing against	Constituency building	Vehicle for implementing other policies
Right holder	Tenants	Housing funder	Housing owner	Community	Policymakers
Examples of the scope of policy	Access criteria	Rent policy	Capital funding	Community building	Place making
	Tenure rights				
	Quality of housing provided	Subsidy rules			Broader social development goals

housing policy and housing markets in the context of social structures or a broadly defined welfare state. Such an approach may often look at the unequal treatment of various housing tenures and at the interests which such treatment serves or doesn't serve. Such an approach is useful for framing wider distributional issues within a society but does not appear that valuable in an analysis of social housing policy except in providing an understanding of the political and economic forces which are marginalising social housing as a tenure.[136] These forces include the ideological preference for home ownership over rented housing, the use of such ownership as a buffer against poverty in retirement and the social allocation of resources towards home ownership rather than retirement incomes. In this regard New Zealand has gone down a different trajectory to that of most other western societies including Australia and this difference is posing some unique challenges around housing and income provision.

As discussed above New Zealand's housing policy is quite unique with its heavy reliance on demand subsidies to support housing affordability. As well, New Zealand has a falling rate of home ownership unlike most other western countries.[137] However like many other English-speaking countries New Zealand has not made sufficient provision for a collectively funded retirement scheme and will face increasing fiscal pressure over the next two or three decades to continue to fund the current tax funded Superannuation scheme. This prospect is as also discussed above on the back of declining rates of home ownership for retiring age cohorts. It is a claim made by this report that these declines will become an increasing feature of future demand for social housing. This is relevant to the framework offered below.

The second perspective offered in the academic literature on the relationship between housing and welfare takes a more micro view and considers the relationships between welfare and housing policies and individual behaviour and wellbeing.[138] One of the strands to come out of this perspective is that of the housing career or the idea that an individual traverses a number of housing tenures and arrangements during the course of their adult life.

This idea of a housing career is picked up in a New Zealand context in the work of Grimes et al. (2006) and DTZ New Zealand (2005). In its work on housing tenure aspirations DTZ acknowledge the quite complex nature of individuals' housing careers but dismiss this complexity by suggesting 'that while it might be more difficult and take longer for New Zealanders to get into home ownership today than was the case 30-40 years ago the normative 'housing career' path remains the dominant pattern or more specifically the dominant aspiration'.[139]

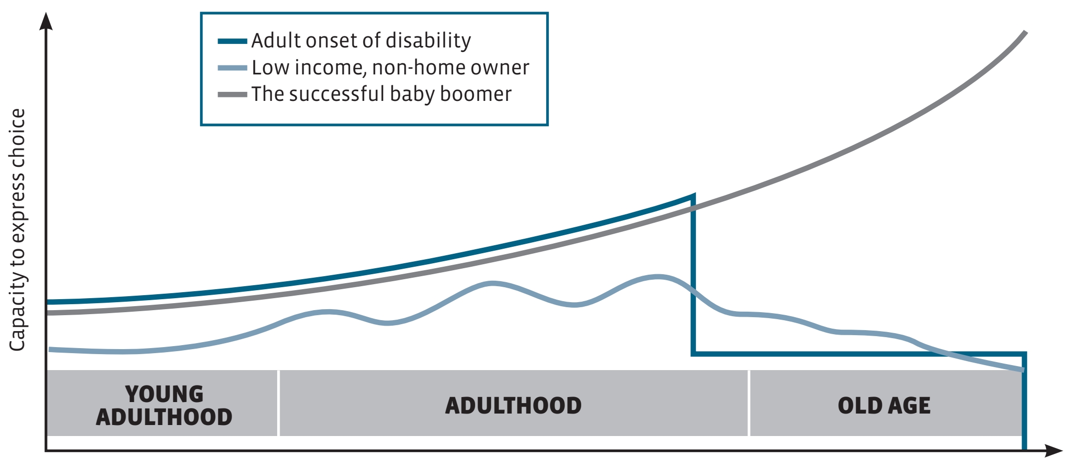
The 'normative' career path of renting through to debt-free home ownership is so dominant as an idea and as an experience for many that alternative experiences or careers are not considered. This might be the case for a broadly focused policy debate but is not likely to be the case for a debate around social housing policy. The reason is that perhaps for 20% of the population the career into homeownership is not an experience.

The metaphor of a housing career has connotations to a working or professional career which implies consistent application and gradual improvement in income and status. Fopp (2009) has suggested that the use of metaphors such as career and pathway in the context of housing and homelessness are not necessarily neutral. He suggests that 'to have a career path is to follow a socially acceptable and prescribed path which paradoxically allows employees to extend their bounds within acceptable ... limits' and that by association a housing career implies that the experience of homelessness is 'about options and opportunities'.[140]

While the metaphor or framing of housing experience as a career is handy, it is important to accept firstly that there are limits to such framing and secondly, that the so-called 'normative' housing career should not be idealised as the singular worthwhile focus of housing policy.

Beer and Faulkner (2009) have accepted such proviso in their use of careers to frame Australian housing futures. They suggest that 'not all moves through the housing market are an outcome of choice and the concept of a housing career therefore underplays the impact of financial demographic and market-based constraints on housing choice'.[141] They offer alternative framing devices of

Figure 15: The capacity to express choice within housing over time[144]



housing histories and housing pathways before proceeding to fine tune the idea of housing careers. This fine tuning introduces an idea of a housing career ladder or of a game of snakes and ladders[142] where misfortune may strike during a person's life which can cause their housing position to deteriorate. Divorce, illness and loss of employment are examples of such misfortune.

Beer and Faulkner offer a useful graphical representation of the various paths of fortune or misfortune which individuals may experience over the course of their lives. These paths are described in terms of the capacity to express choice within housing over time. This representation is offered in Figure 15.

In her study of future demand for social housing in United Kingdom Monk (2009) assessed the entries and exits to/from social housing in England and Wales. She identified three groups of social housing tenants:

1. Those for whom social housing is transitional accommodation and who move out into private rental or even ownership—this is around 45% of all tenants
2. Those for whom social housing is for the long term' who are ' generally more disadvantaged in terms of income, health, disability and lack of participation in the labour market—this group is around 45% of all tenants, and
3. A smaller group of about 7% of tenants who come into social housing in their old age as their needs change.[143]

Except for the last group of older people Monk suggests that it is not possible to identify who within a group of new tenants will eventually leave and who will stay long term. She suggests that the 'distinguishing features relate to changes in their life chances while they are social tenants'.

> 'The policy challenge is to provide all tenants with opportunities to alter those characteristics which put them into priority need so as to enable them to leave if they wish, while at the same time recognising that not all of them will succeed and that therefore support for the long term needs of this group must also be provided for, even though they cannot be identified except over time, by default.'[145]

This proposal stands in sharp contrast to the present approach in New Zealand of reviewable tenancies in at least three respects. The first is that attention is paid to offering tenants 'opportunities to alter those characteristics which put them into priority need' and not on reviewing tenancies as some form of penalty if tenants manage to achieve these changes without assistance and support. The second difference is the choice tenants have to stay even if their circumstances do change—such an option will assist in building greater cohesion and leadership within a social housing community or neighbourhood. The third difference is in the recognition that a significant group of tenants require support for their long-term needs and that this support is offered in and through their housing—in other words there is not housing career for these people.

Housing New Zealand in its own assessment of their tenants' ability to succeed outside of social housing acknowledges a similar reality to that offered by Monk for England and Wales. Through this assessment the Corporation has segmented its tenants according to need and has found that 85% of those assessed were judged to have complex medical or social needs or disabilities and personal circumstances which meant they had few housing options outside of social housing. This assessment process missed 32.5% of tenants who had been tenants before 2000 so were likely to be older people in late middle age or retirement.[146] The Corporation also reports that one third of their tenants are single parents with dependent children, 25% are couples or multi-adult households with dependent children while 40% are adults living alone, as couples or in groups without children.[147]

4.5 ADDRESSING HORIZONTAL EQUITY AND MORAL HAZARD

The relationship between demand subsidies and social housing provision is somewhat abrupt on account of the needs assessment process and the rationing which this requires. For example two households with identical incomes and similar housing needs are assessed as having different entitlements to social housing. The difference may be additional circumstances such as the health or other social needs of what might be considered a more vulnerable household. The more favourable treatment of Housing New Zealand tenants creates a potential moral hazard where households which can demonstrate higher needs and perhaps less self-reliance or resilience gain more favourable treatment.

On the other hand, households' housing needs are first assessed independent of how these needs might be addressed and if the subsidies offered are commensurate with this need rather than with whom the housing provider is, an opportunity is available to fine tune subsidies to need rather than have this sharp transition. Such an approach can address the problems of horizontal equity raised on page 71 and reduces the risk of moral hazard as well.

An attempt was made in 1991 to address this problem of horizontal equity through the introduction of market rents for Housing New Zealand tenants. In effect this change reduced the level of support to state tenants to the same level as for private sector tenants although it paid no regard to the adequacy of the support offered or the outcomes achieved either in terms of housing gained or living standards.

The range of options available to address this problem of horizontal equity has been offered above on page 71. This alternative framing of both demand subsidies and social housing provision offers some scope for how the adjustments suggested on page 71 might be achieved. It could be the case that any reform of New Zealand's housing assistance policies could be driven in part at least by a desire to achieve greater horizontal equity as well as effectiveness and long term efficiency.

Achieving such a policy balance could be done by using the framing offered above and by pursuing the following guidelines:

1. That the objective of all housing assistance programmes should be to ensure that all citizens have access to good quality housing of a size and design adequate to their needs and which they can afford. This suggests that a housing assistance approach should drive housing support and subsidy programmes.
2. That once a person or household has adequate housing it is the residual after-housing cost income which will determine much of their living standard, and so this should be the measure for deciding horizontal equity.
3. The ownership of the housing provided matters less than that housing is able to meet the reasonable needs of the people living in it and that any subsidy arrangements offer value to the Crown on behalf of taxpayers.
4. Many tenants and especially tenants in late middle age or older and those with chronic illness or serve disabilities are unlikely to have a housing career or pathway out of supported rental housing. The unresolved question is whether this housing is provided as social housing or as subsidised private rental housing.
5. The principal advantage of social housing over private rental housing is that it can offer security of tenure and so should be seen as the preferred means of delivering supported housing to people and household with long term housing needs.

4.6 CONCLUDING POINTS

The following five main points offer a summary of the high level policy responses which might usefully drive a reform of New Zealand's housing assistance policies and programmes.

1. Demand for housing assistance under the present policy settings appears to be tied to rates of unemployment and demand for working age benefits. There is however a growing demand for assistance from retired households which

have not been able to gain debt-free home ownership during their working lives. Likely job growth over the medium term, alongside an aging workforce, may create labour shortages within five years and the resulting higher levels of employment will drive down demand for the Accommodation Supplement. Offsetting this will be an increasing demand from older households although overall demand for housing assistance is unlikely to grow over the next five to eight years.

2. The increasing number and proportion of retired households alongside the current age structure of social housing tenants suggests that additional social housing units will have to be built to provide these people with adequate and secure accommodation.

3. The current focus of the Accommodation Supplement policy and programme seems to be toward managing budgets rather than managing entitlements or housing outcomes. This focus has been in place since the programme was introduced in 1991 and have not reduced the prevalence of housing-related poverty. The fundamental change required in New Zealand's housing demand policies is to ensure that households' after housing costs income is adequate to allow them to meet basic living costs. Ongoing reliance on supplementary income assistance such as special needs grants suggests that the present income support regime for those out of work is not sufficient to meet housing and living costs on a sustainable basis. Housing costs and housing support programmes form an essential part of any meaningful response to this problem.

4. Recent social housing reforms are based on the creation of a social housing market. While such a market has the potential to drive innovation and efficiencies in the social housing sector, it is not clear what this sector will look like—even at a broad scale. The extent of Government's financial commitment to a broader social housing market is not credible at present.

5. Housing policy appears to be predicated on middle-class New Zealand's experience of a housing career and this framing is not adequate or appropriate for those New Zealanders who may need ongoing assistance with their housing. An alternative framing which includes poorly paid and perhaps intermittent work, perhaps illness and disability and a lack of any material assets needs to be developed in order to better understand the nature of future demand for housing assistance for perhaps 20% of New Zealanders.

State houses on Haverstock Rd, Sandringham, Auckland, that are being removed by Housing New Zealand.

New Zealand Herald, 6 March 2013. Photography: Richard Robinson / New Zealand Herald

CHAPTER 5:
THE NEXT STEPS

From the analysis and discussion offered in the preceding chapters it is possible to identify a number of challenges facing social housing and housing support programmes. The relative importance and urgency of these various challenges is likely to be disputed perhaps on philosophical grounds or possibly from straightforward pragmatism. Any debate on such relativities can perhaps be overcome by developing an overall structure for considering these challenges and the responses which might be made to them. This is the intention of this final chapter.

5.1 REFRAMING OF HOUSING POLICY

Chapters 2 and 3 have identified a number of significant shortcomings with New Zealand's present array of housing support programmes. As suggested in these chapters these shortcomings are systemic and emerge as a consequence of a lack of any agreed understanding of what these programmes are intended to achieve. For example as a housing assistance programme, the Accommodation Supplement arose from an intent to re-distribute existing budgets for income supplementation and housing subsidies in what was intended to be a fairer way. The question of the adequacy of these budgets to bring about worthwhile housing outcomes was not considered. In a similar vein the administration and funding of social housing pays little regard to the quality of the housing being provided or to the broader social outcomes being achieved. Social housing has been funded more or less as a legacy programme which is too important for those dependent on it to close down but not important enough for the rest of country to do anything about.

The proposal offered in Chapter 4 is based on the idea of reframing or re-imagining New Zealand's housing policy. For housing assistance programmes it was suggested that a change of focus could be achieved by focusing both policy and programmes away from the present preoccupation with budget management toward a focus on managing entitlements. This entitlement management approach is practiced in other public policy areas such as public health and retirement incomes. Clearly such a shift in focus will have budgetary implications and will need to be planned for if a change of this extent and nature is to take place. An entitlement management approach to housing assistance should ideally be tied into other income support programmes such as working age welfare benefits and Working for Families so that there is some assurance that after housing costs incomes are sufficient and so that incentive and poverty trap problems brought about by high abatement rates are dealt with.

The proposals offered in the previous chapter were:

- the establishment of a social housing market
- taking a property rights approach to the redesign of social housing
- rethinking the metaphor of a housing career as it applies to people for whom social housing is the only realistic housing option.

The idea of a social housing market has already been advanced by the Housing Shareholders' Advisory Group and it is apparent that the Government has recently made tentative steps in this direction. The funding announcement offered in the 2013 Budget for an extension of supply-side subsidies to other social housing providers is however discouraging. Over the next four years just $27 million will be offered for this programme while Housing New Zealand can expect $2.8 billion in income-related rent subsidies. In other words Housing New Zealand will receive 99% of the social housing budget and provide 80% of the social housing. If a viable and worthwhile social housing market is to be established more thought needs to be given to extent of this market and the nature of the competition within it. Such preliminary thinking appears to be absent at present.

If and as the idea of a social housing market is developed, alternative policy thinking around social housing would be desirable. One such alternative comes from the New Institutional Economics framework whereby the rights and interests of the various parties or participants in social housing could be considered collectively and apart. In this approach social housing policy is not designed exclusively from the perspective of the tenant, or state agencies, or neighbours or taxpayers but from all these perspectives.

The idea of a housing career is pervasive and persuasive in housing policy discourse and has emerged more strongly recently with the recasting of what it means to be a tenant of the state. A perception has been created with the introduction of reviewable state house tenancies that most social housing tenants will eventually move on as they get their lives together and move into a brighter housing future in private rental housing or even homeownership. Such a pathway might be the middle-class experience or expectation of those who write policy but is an exception for most social housing tenants. This different reality needs to be taken into account in any reframing of housing policy so that the true nature of housing need can be better understood. For example a life blighted by disability, poor health and intermittent or unreliable employment creates a need for secure and affordable accommodation which might only be able to be met through social housing.

The ideas of such reframing are raised in the policy proposals that follow.

5.2 KEY HOUSING POLICY CHALLENGES

A number of policy challenges have been identified in the preceding chapters. For clarity and some coherence the five main challenges have been structured according the focus of the challenge and these are presented in Table 22 below. Addressing or meeting these challenges of course requires an acceptance that they are important.

If these challenges are considered important and if support for change is given, the responses necessary will vary according to scope and the necessary timeframes. At one end of the spectrum we have strategic responses which bring about significant changes in thinking and approach and which take several years to effect. At the other end we have programme responses which could easily be effected over one or two years.

These challenges are of course nested in a number of broader social, economic and political challenges which will condition both the nature of any political support that will be offered to meaningful housing reform and the extent of such support in terms of budgets, policy change and institutional adjustment.

Table 22: Key housing policy challenges

FOCUS	CHALLENGE
Vision	A lack of any vision or unifying view of social and affordable housing
Planning	A poor understanding of future housing need and a failure to plan for this need
Funding	Inadequate funding and an absence of any funding models which might address housing need in an effective way and on a sustained basis
Equity	No horizontal equity between tenants of different social housing providers and private sector tenants
Programmes	A lack of integration between housing assistance policies and programmes and current welfare and income support programmes

If the present housing policy direction is pursued without more extensive modification and additional resources the following outcomes may emerge over the next five years:

1. The stock of social housing will not increase and may even decline as local government sells or closes its housing in the face supply subsidies which continue to favour the State's social housing agency.
2. The housing needs of retiring Baby Boomers who have not gained a foothold in home ownership will continue to go unmet and will result in increasing rates of poverty amongst older households.

3. The housing-related poverty of benefit dependent working age households may also deepen in the face of rising rents in local housing markets where there is strong population growth.
4. This in turn may cause households which are benefit dependent or even on the margins of the labour market to relocate to areas with lower housing costs thereby distancing themselves from job opportunities. In other words the lack of attention to housing issues in regions with strong labour markets will lead to a jobs-housing imbalance and at a time when labour shortages are expected to begin emerging due to an aging population and the inevitable retirement of Baby Boomers.
5. The benefit-employment interface will remain vexed with complex entitlement rules and resulting high abatement rates. These in turn creates large disincentives for people to work harder as well as uncertainty for those whose employment is insecure.
6. The quality of the $2 billion annual spend on housing subsidies will remain questionable with generally poor housing outcomes being achieved both for the households receiving assistance and the agencies or individuals providing much of this housing.
7. There is no guarantee that there will be an adequate supply response from the market to meet demand for affordable housing, despite the promise that the present regulatory reforms will unleash an investment boom which will provide 39,000 additional houses in Auckland alone.[149]
8. The job-housing equation in New Zealand and Australia will be weighed up by younger working age households and will be influential in their decisions to relocate to Australia. In other words New Zealand is competing with Australia for younger workers not just in terms of wages and working conditions but also in terms of housing costs and opportunities. This competition comes at a time where both countries' populations are aging and the value of younger workers and taxpayers is rising.

5.3 POSSIBLE RESPONSES

These direct and indirect challenges around housing policy should ideally be addressed in a comprehensive and extended way rather than through isolated and perhaps short-term fixes. A comprehensive approach requires both a long term commitment of at least five to 10 years and a need to respond at strategic, policy and programme levels. The timing of the various responses clearly needs to be decided through detailed work. It is however important to avoid a type of top down approach such as that taken with the Labour-led government's New Zealand Housing Strategy where a great deal of initial effort was given to discussing and deciding strategy and little in the way of policy reform or programme development followed. Conversely the present Government's reform efforts are focusing on detailed policy and programme delivery without giving sufficient attention to the bigger picture or where such reforms may lead.

An alternative approach is to advance on all fronts by acknowledging first the need for a generally agreed purpose for housing assistance policies and programmes and secondly the value of addressing all these challenges as a combined effort. While the idea of having an agreed purpose might seem optimistic some agreement might be reached if basic principles and expectations are applied rather than seeking to develop an aspirational vision or mission statement. Such a purpose statement could simply be:

> The purpose of housing assistance policies and programmes is to ensure that all New Zealanders have access to secure housing of an acceptable standard which they can reasonably afford.

Within such a purpose statement there are clearly qualitative questions around the extent of security offered, what represents an acceptable standard and what is reasonably affordable. Such questions should ideally be addressed through detailed policy analysis and debate but until now no such debate has occurred especially with policy around the Accommodation Supplement. A policy debate around security of tenure, housing quality and affordability is probably overdue on any account for a least it might begin to reconcile current conditions with some idea of acceptable standards. Such a debate may also lead both some discussion on the quality of the current spend and the adequacy of present budgets.

A possible framework for addressing these key housing challenges is presented below and is based on some identified key issues and responses to these at a strategic, policy or programme level.

A lack of any vision or unifying view of social and affordable housing

Key issues	Strategic responses	Policy responses	Programme responses
Absence of clear statement of purpose of housing policies	Decide the high level purpose of housing policies and programmes as the ambition of all other reforms and perhaps in a bipartisan way		
Lack of understanding of the contribution of housing to broader social goals	Expand home ownership opportunities as part of building a stakeholder society	Re-focus social housing support programmes to support community building and the strengthening of social capital	Begin to address questions of antisocial behaviour in social housing estates as the basis for building more convivial and safer neighbourhoods
No clear expectation of housing standards to be achieved by housing support programmes	See housing interventions as a critical part of public health programmes	Develop housing warrant of fitness programme for rental housing	Apply minimum environmental standards to all social housing units and private rental properties receiving an AS payment.

A poor understanding of future housing need and a failure to plan for this need

Key issues	Strategic responses	Policy responses	Programme responses
Failure to plan for housing as part of the national infrastructure	Reframing housing as social infrastructure	Include a high level housing plan in the National Infrastructure Plan	
Lack of any demand forecasting for social housing or housing assistance programmes		Develop national housing demand model as basis for future policy and budget setting	Release Housing New Zealand's social housing demand model for public debate
Poor understanding of future demand for housing assistance from older people		Undertake study of future housing needs of over 55 year olds based on 2013 Census results	Commence planning for future social housing needs based on the increasing demand for housing assistance from over 65 year olds

Inadequate funding and an absence of any funding models which might address housing need in an effective way and on a sustained basis

Key issues	Strategic responses	Policy responses	Programme responses
Current policy settings for Accommodation Supplement are not sufficient to lift some households out of housing-related poverty	Initiate a comprehensive review of demand subsidies with a view to taking an entitlement rather than a budget management approach		Adjust maximum thresholds payable under the Accommodation to the same relative levels as set in 2007 and adjust budgets accordingly
Current levels of funding for Housing New Zealand are insufficient sustainably operate social housing	Review budget settings to fund higher budgets for Housing New Zealand's asset maintenance	Review Housing New Zealand's funding model to make adequate provision for asset maintenance and depreciation	
Funding for other social housing providers should be comparable with that received by Housing New Zealand	Review budget settings to fund higher budgets for supply subsidies for other social housing providers	Develop a sustainable funding model for all social housing providers including Housing New Zealand and base future social housing subsidies on this model	

No horizontal equity between tenants of different social housing providers and private sector tenants

Key issues	Strategic responses	Policy responses	Programme responses
Housing New Zealand tenants have more affordable housing than other social housing tenants in similar circumstances	Review budget settings to fund higher budgets for supply subsidies for other social housing providers	Develop a sustainable funding model for all social housing providers including Housing New Zealand and base future social housing subsidies on this model	
Housing New Zealand tenants have more affordable housing than private sector tenants in similar circumstances	Initiate a comprehensive review of demand subsidies with a view to taking an entitlement rather than a budget management approach		Utilise supplementary income support programmes to ensure that private tenant households have comparable after housing costs incomes as those of state tenants

A lack of integration between housing support policies and programmes and current welfare and income support programmes

Key issues	Strategic responses	Policy responses	Programme responses
Supplementary income support programmes to assist with housing costs involve additional complexity and uncertainty and high abatement rates	Undertake overall review of income support programmes to ensure greater integration with labour and housing market dynamics	Review income support programmes to better integrate housing costs into overall income entitlements	
The Accommodation Supplement does not assure access to adequate housing or relief from housing-related poverty	Initiate a comprehensive review of demand subsidies with a view to taking an entitlement rather than a budget management approach		Adjust maximum thresholds payable under the Accommodation to the same relative levels as set in 2007 and adjust budgets accordingly

5.4 TOWARD A BIGGER VISION FOR HOUSING

Housing is inextricably linked to our wellbeing as individuals and as families, so it's conceivable that housing is strongly connected to our wellbeing as communities and as a nation. This report suggests that we have overlooked this relationship by the way we have allowed ideology rather than compassion and common sense to drive our housing policy over the past 20 years.

This report has attempted to undertake a broad review of New Zealand's two main housing assistance programmes: the demand-side subsidy known as the Accommodation Supplement and the supply-side subsidy which is principally the income-related rent subsidies paid to the State's social housing agency, Housing New Zealand. As a broad study this review does not offer specific policy recommendations but rather proposes a framework for re-imagining New Zealand's housing policies. This report also offers a number of responses which can be applied into this framework. The main reason for this lack of specificity is a finding that our housing policies and programmes have little or no intellectual or philosophical core—they have been driven by pragmatism and they have no agreed purpose.

Such a policy position has created two types of challenges for New Zealand. The first challenge emerges with our aging population and from an increasing demand for social housing from people currently aged over 50 who have not made it into home ownership ranks. This group of people will most likely have to rely entirely on the State for their income and housing in their retirement. The current entitlements offered through the Accommodation Supplement will be insufficient to allow them to gain a modest standard of living in the private sector rental market.

The second challenge emerges around the housing needs of younger generations and the diminished prospects they have to become homeowners and to even gain affordable rental accommodation. This second challenge is intertwined with labour market dynamics given the prospect that New Zealand may face labour shortages over the medium term as the Baby Boomer generation moves into retirement and as the cost of housing becomes more difficult for low-paid households to juggle in high cost but job rich cities such as Auckland and Tauranga.

But there is a bigger challenge still around what housing and housing policy could become with a worthwhile vision and the requisite courage and commitment to pursue this vision. In the past housing has been critical to New Zealand's nation building either as a way of improving living standards or as a way of building a more inclusive society. Today such a broad vision for housing is lacking and we have even begun to frame social housing as being responsible for the social problems which are manifest in many social housing neighbourhoods.

The Government's social housing reform agenda is currently being rolled out although its success and achievement is yet to be proven. Both Government and the New Zealand public have a right to expect better value out of the social housing system and the move to supporting other social housing providers is an obvious way of encouraging innovation and greater accountability. What is required of Government is a more realistic financial commitment to building a viable social housing market.

The bigger picture around housing remains our continued reliance on demand subsidies and the Accommodation Supplement. While there is limited evidence on the impact of the Supplement on housing markets, given that over one third of tenant households are receiving this payment it seems likely that it has to some extent been capitalised into higher property prices. The failure to increase the maximum values of the Accommodation Supplement, even as rents have risen, has subtly applied downward pressure on rents and on tenants' disposable incomes. Such a measure is not a long-term solution to the financial stress being faced by these households.

Ideally Government should develop a more comprehensive approach to how family and household incomes are supported by the State. The ad hoc approaches of income supplements, tax credits and temporary assistance has created an unnecessary administrative burden, uncertainty and poverty traps. Furthermore this approach has not been effective in encouraging private investors to build a larger stock of affordable housing.

To move from our present position requires more than a few minor shifts or deflections: it requires a fundamental review of where we as a country are in terms of our housing system and where we would like to go. Such a review is not the task of a single piece of work as it requires extensive and robust thinking, broad discussion and hopefully an inclusive decision-making process.

Ideally any review of our housing assistance programmes should be based on a widely accepted purpose for such programmes—just as the purposes of our public health and education systems are widely understood and supported. In such an ideal world the politics of housing should be about means and not goals because as a national community we have broadly agreed on these goals.

As a first step we need as a national community to begin a discussion around what it is that we hope for from our social housing system.

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APPENDICES

Appendix 1: Housing New Zealand and Statistics New Zealand rent data

Year ending June	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Housing New Zealand stock	61,878	64,399	65,304	66,354	67,397	68,128	68,644	69,173	69,489	69,717	69,407
Tenant payments $'s millions	262	280	295	308	326	341	362	376	384	388	398
Income-related rent subsidies $'s millions	276	297	341	373	395	440	476	507	529	564	596
Rent payment per tenant $'s	4,234	4,348	4,517	4,642	4,837	5,005	5,274	5,436	5,526	5,565	5,734
Subsidy per tenant $'s	4,452	4,609	5,223	5,617	5,864	6,458	6,934	7,329	7,613	8,090	8,587
Payment per tenant — 2012 $ All Groups CPI adjusted	5,534	5,532	5,660	5,663	5,720	5,767	5,889	5,872	5,833	5,668	5,734
Subsidy per tenant — 2012 $ All Groups CPI adjusted	5,819	5,864	6,544	6,852	6,934	7,442	7,743	7,917	8,036	8,239	8,587
Rent payment per tenant — 2012 $ Rent CPI adjusted	5,371	5,369	5,411	5,404	5,494	5,550	5,685	5,690	5,699	5,677	5,734
Subsidy per tenant — 2012 $ Rent CPI adjusted	5,647	5,691	6,257	6,539	6,661	7,162	7,475	7,672	7,851	8,252	8,587

Appendix 2: Analysis of representative households' income and housing costs

NEW ZEALAND-WIDE						
Single person in one bedroom flat living on sickness benefit	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**
Basic benefit income	178.49	184.17	190.39	194.12	201.40	204.96
Accommodation Supplement	80.76	79.77	78.68	81.53	80.96	83.13
Total disposable income	259.25	263.94	269.07	275.65	282.36	288.09
Rent*	160.00	160.00	160.00	165.00	166.00	170.00
After housing cost income	99.25	103.94	109.07	110.65	116.36	118.09
Outgoings to income ratio	**0.62**	**0.61**	**0.59**	**0.60**	**0.59**	**0.59**

Appendix 2 (Continued)

Single person in one bedroom flat living on New Zealand Superannuation	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Mar-13
Basic benefit income	266.00	274.9	288.06	295.23	321.07	330.07
Accommodation Supplement	65.45	63.89	61.59	63.83	60.01	61.24
Total disposable income	331.45	338.79	349.65	359.06	381.08	391.31
Rent*	160.00	160.00	160.00	165.00	166.00	170.00
After housing cost income	171.45	178.79	189.65	194.06	215.08	221.31
Outgoings to income ratio	**0.48**	**0.47**	**0.46**	**0.46**	**0.44**	**0.43**
Single person with two children in two bedroom house living on DPB	**Jun-08**	**Jun-09**	**Jun-10**	**Jun-11**	**Jun-12**	**Mar-13**
Basic benefit income	263.78	272.70	278.04	288.47	293.58	295.37
Working for Families payments	146.00	146.00	146.00	149.00	157.00	157.00
Accommodation Supplement	82.29	80.73	79.79	84.44	82.85	88.84
Total disposable income	492.07	499.43	503.83	521.91	533.43	541.21
Rent*	220.00	220.00	220.00	230.00	231.00	240.00
After housing cost income	272.07	279.43	283.83	291.91	302.43	301.21
Outgoings to income ratio	**0.45**	**0.44**	**0.44**	**0.44**	**0.43**	**0.44**
Couple with three children in three bedroom house living on Unemployment Benefit	**Jun-08**	**Jun-09**	**Jun-10**	**Jun-11**	**Jun-12**	**Mar-13**
Basic benefit income	310.00	318.00	322.00	325.00	329.00	331.00
Working for Families payments	206.00	206.00	206.00	210.00	221.00	221.00
Accommodation Supplement	88.20	90.30	89.60	95.38	96.25	99.40
Total disposable income	604.20	614.30	617.60	630.38	646.25	651.40
Rent*	255.00	260.00	260.00	270.00	275.00	280.00
After housing cost income	349.20	354.30	357.60	360.38	371.25	371.40
Outgoings to income ratio	**0.42**	**0.42**	**0.42**	**0.43**	**0.43**	**0.43**
Couple working 60 hours per week with three children in three bedroom house	**Jun-08**	**Jun-09**	**Jun-10**	**Jun-11**	**Jun-12**	**Mar-13**
Minimum wage	12.00	12.50	12.75	13.00	13.50	13.75
Hours worked	20	20	20	20	20	20
Total gross income	240.00	250.00	255.00	260.00	270.00	275.00
PAYE	33.00	31.25	29.32	27.30	28.35	28.87
Total net income	207.00	218.75	225.68	232.70	241.65	246.13
Average wage in construction sector	22.26	22.69	23.08	23.73	24.42	24.4
Hours worked	40	40	40	40	40	40
Total gross income	890.40	907.60	923.20	949.20	976.80	976.00
PAYE	122.37	113.37	106.14	99.64	102.48	102.48
Total net income	768.03	794.23	817.06	849.56	874.32	873.52

Appendix 2 (Continued)

Total net household income	975.03	1012.98	1042.74	1082.26	1115.97	1119.65
Working for Families payments	270.00	270.00	270.00	270.00	270.00	270.00
Accommodation Supplement	0.00	0.00	0.00	0.00	0.00	0.00
Total disposable income	1245.03	1282.98	1312.74	1352.26	1385.97	1389.65
Rent*	255.00	260.00	260.00	270.00	275.00	280.00
After housing cost income	990.03	1022.98	1052.74	1082.26	1110.97	1109.65
Outgoings to income ratio	**0.20**	**0.20**	**0.20**	**0.20**	**0.20**	**0.20**
Single parent working 40 hours per week at minimum wage with two children in two bedroom house	**Jun-08**	**Jun-09**	**Jun-10**	**Jun-11**	**Jun-12**	**Mar-13**
Minimum wage	12.00	12.50	12.75	13.00	13.50	13.75
Hours worked	40	40	40	40	40	40
Total gross income	480.00	500.00	510.00	520.00	540.00	550.00
PAYE	66.00	62.50	58.65	54.60	56.70	57.75
Total net income	414.00	437.50	451.35	465.40	483.30	492.25
Working for Families payments	270.00	270.00	270.00	270.00	270.00	270.00
Accommodation Supplement	34.30	30.19	27.76	32.31	29.87	34.61
Total disposable income	718.30	737.69	749.11	767.71	783.17	796.86
Rent*	220.00	220.00	220.00	230.00	231.00	240.00
After housing cost income	498.30	517.69	529.11	537.71	552.17	556.86
Outgoings to income ratio	**0.31**	**0.30**	**0.29**	**0.30**	**0.29**	**0.30**
AUCKLAND ONLY						
Single person in one bedroom flat living on sickness benefit	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**
Basic benefit income	178.49	184.17	190.39	194.12	201.40	204.96
Accommodation Supplement	120.66	121.77	120.68	127.03	139.76	146.13
Total disposable income	299.15	305.94	311.07	321.15	341.16	351.09
Rent*	217.00	220.00	220.00	230.00	250.00	260.00
After housing cost income	82.15	85.94	91.07	91.15	91.16	91.09
Outgoings to income ratio	**0.73**	**0.72**	**0.71**	**0.72**	**0.73**	**0.74**
Single person in one bedroom flat living on New Zealand Superannuation	**Jun-08**	**Jun-09**	**Jun-10**	**Jun-11**	**Jun-12**	**Mar-13**
Basic benefit income	266.00	274.9	288.06	295.23	321.07	330.07
Accommodation Supplement	105.35	105.89	103.59	109.33	118.81	124.24
Total disposable income	371.35	380.79	391.65	404.56	439.88	454.31
Rent*	217.00	220.00	220.00	230.00	250.00	260.00
After housing cost income	154.35	160.79	171.65	174.56	189.88	194.31
Outgoings to income ratio	**0.58**	**0.58**	**0.56**	**0.57**	**0.57**	**0.57**

Appendix 2 (Continued)

Single person with two children in two bedroom house living on DPB	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Mar-13
Basic benefit income	263.78	272.70	278.04	288.47	293.58	295.37
Working for Families payments	146.00	146.00	146.00	149.00	157.00	157.00
Accommodation Supplement	138.29	143.73	149.79	154.44	166.15	183.34
Total disposable income	548.07	562.43	573.83	591.91	616.73	635.71
Rent*	300.00	310.00	320.00	330.00	350.00	375.00
After housing cost income	248.07	252.43	253.83	261.91	266.73	260.71
Outgoings to income ratio	**0.55**	**0.55**	**0.56**	**0.56**	**0.57**	**0.59**
Couple with three children in three bedroom house living on Unemployment Benefit	**Jun-08**	**Jun-09**	**Jun-10**	**Jun-11**	**Jun-12**	**Mar-13**
Basic benefit income	310.00	318.00	322.00	325.00	329.00	331.00
Working for Families payments	206.00	206.00	206.00	210.00	221.00	221.00
Accommodation Supplement	168.70	174.30	175.00	186.38	208.25	218.40
Total disposable income	684.70	698.30	703.00	721.38	758.25	770.40
Rent*	370.00	380.00	382.00	400.00	435.00	450.00
After housing cost income	314.70	318.30	321.00	321.38	323.25	320.40
Outgoings to income ratio	**0.54**	**0.54**	**0.54**	**0.55**	**0.57**	**0.58**
Couple working 60 hours per week with three children in three bedroom house	**Jun-08**	**Jun-09**	**Jun-10**	**Jun-11**	**Jun-12**	**Mar-13**
Minimum wage	12.00	12.50	12.75	13.00	13.50	13.75
Hours worked	20	20	20	20	20	20
Total gross income	240.00	250.00	255.00	260.00	270.00	275.00
PAYE	33.00	31.25	29.32	27.30	28.35	28.87
Total net income	207.00	218.75	225.68	232.70	241.65	246.13
Average wage in construction sector	22.26	22.69	23.08	23.73	24.42	24.4
Hours worked	40	40	40	40	40	40
Total gross income	890.40	907.60	923.20	949.20	976.80	976.00
PAYE	122.37	113.37	106.14	99.64	102.48	102.48
Total net income	768.03	794.23	817.06	849.56	874.32	873.52
Total net household income	975.03	1012.98	1042.74	1082.26	1115.97	1119.65
Working for Families payments	270.00	270.00	270.00	270.00	270.00	270.00
Accommodation Supplement	41.12	41.48	37.67	43.35	61.96	71.81
Total disposable income	1286.15	1324.46	1350.41	1395.61	1447.93	1461.46
Rent*	370.00	380.00	382.00	400.00	435.00	450.00
After housing cost income	916.15	944.46	968.41	995.61	1012.93	1011.46
Outgoings to income ratio	**0.29**	**0.29**	**0.28**	**0.29**	**0.30**	**0.31**

Appendix 2 (Continued)

Single parent working 40 hours per week at minimum wage with two children in two bedroom house	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Mar-13
Minimum wage	12.00	12.50	12.75	13.00	13.50	13.75
Hours worked	40	40	40	40	40	40
Total gross income	480.00	500.00	510.00	520.00	540.00	550.00
PAYE	66.00	62.50	58.65	54.60	56.70	57.75
Total net income	414.00	437.50	451.35	465.40	483.30	492.25
Working for Families payments	270.00	270.00	270.00	270.00	270.00	270.00
Accommodation Supplement	90.30	93.19	97.76	102.31	113.17	129.11
Total disposable income	774.30	800.69	819.11	837.71	866.47	891.36
Rent*	300.00	310.00	320.00	330.00	350.00	375.00
After housing cost income	474.30	490.69	499.11	507.71	516.47	516.36
Outgoings to income ratio	**0.39**	**0.39**	**0.39**	**0.39**	**0.40**	**0.42**

* Rent is based on MBIE Tenancy Bond Division reported lower quartile rents

Appendix 3: Outline of housing assistance demand model

HOUSING ASSISTANCE DEMAND MODEL		
Model parameters	**Assumed**	**5 year average**
Job growth rate	1.0%	0.9%
Over 65's participation rate	19.0%	15.3%
15 to 64 years olds participation rate	77.5%	77.5%
Beneficiaries as % of 15-64 year old not in work	36.5%	36.3%
Proportion of benefit recipients receiving AS	72.0%	71.9%
Annual growth in proportion of Superannuants recieving AS	0.1%	0.1%
Proportion of working aged employed receiving AS	2.6%	2.6%

Appendix 3 (Continued)

POPULATION																
At 30 March	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Working age population (15 years and over)	3,287,500	3,334,900	3,374,100	3,415,400	3,467,600	3,507,700	3,537,500	3,563,000	3,599,125	3,635,250	3,682,000	3,716,400	3,750,800	3,785,200	3,819,600	3,854,000
15 to 64 year olds	2,779,300	2,811,700	2,838,600	2,866,400	2,903,100	2,925,000	2,931,600	2,935,000	2,947,600	2,960,200	2,982,000	2,993,000	3,004,000	3,015,000	3,026,000	3,037,000
Over 65	508,200	523,200	535,500	549,000	564,500	582,700	605,900	628,000	651,525	675,050	700,000	723,400	746,800	770,200	793,600	817,000
Total population	**4,176,100**	**4,222,700**	**4,263,600**	**4,305,700**	**4,361,800**	**4,402,700**	**4,430,500**	**4,460,000**	**4,486,625**	**4,513,250**	**4,537,000**	**4,583,800**	**4,630,600**	**4,677,400**	**4,724,200**	**4,771,000**
WELFARE BENEFITS																
At 30 March	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Total numbers																
Unemployment benefits	44,549	28,845	19,034	37,146	60,211	59,940	53,479	48,756	31,685	30,011	30,911	28,649	26,314	23,905	21,421	18,862
Domestic Purposes Benefit	103,362	97,142	95,861	102,003	109,643	113,071	113,005	106,382	112,263	111,263	110,591	109,502	108,403	107,292	106,171	105,038
Sickness Benefits	46,072	47,802	45,676	51,041	55,796	59,582	58,458	58,208	62,232	62,498	62,958	63,191	63,423	63,655	63,887	64,120
Invalid Benefits	74,401	76,619	81,130	84,544	84,877	85,055	83,657	83,409	89,175	89,557	90,216	90,549	90,882	91,214	91,547	91,880
Total of four main working age benefits	**268,384**	**250,408**	**241,701**	**274,734**	**310,527**	**317,648**	**308,599**	**296,755**	**295,355**	**293,328**	**294,676**	**291,891**	**289,021**	**286,067**	**283,027**	**279,899**
As a % of 18–64 population																
Unemployment benefits	1.7%	1.1%	0.7%	1.4%	2.2%	2.2%	1.9%	1.8%	1.1%	1.0%	1.0%	1.0%	0.9%	0.8%	0.7%	0.6%
Domestic Purposes Benefit	4.0%	3.7%	3.6%	3.8%	4.0%	4.1%	4.1%	3.9%	3.8%	3.8%	3.7%	3.7%	3.6%	3.6%	3.5%	3.5%
Sickness Benefits	1.8%	1.8%	1.7%	1.9%	2.1%	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Invalid Benefits	2.9%	2.9%	3.1%	3.2%	3.1%	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Total of four main working age benefits	**10.4%**	**9.6%**	**9.1%**	**10.3%**	**11.4%**	**11.6%**	**11.2%**	**10.8%**	**10.0%**	**9.9%**	**9.9%**	**9.8%**	**9.6%**	**9.5%**	**9.4%**	**9.2%**

Appendix 3 (Continued)

EMPLOYMENT																
At 30 March	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Total Jobs	2,107,900	2,163,000	2,156,900	2,173,000	2,170,600	2,209,900	2,230,900	2,239,800	2,262,198	2,284,820	2,307,668	2,330,745	2,354,052	2,377,593	2,401,369	2,425,382
15 to 64 year olds unemployed	95,300	96,700	96,000	128,800	153,500	166,700	171,200	155,800	146,437	138,052	136,842	126,739	116,404	105,836	95,033	83,992
Unemployment rate	4.3%	4.2%	4.3%	5.6%	6.6%	7.0%	7.1%	6.5%	6.1%	5.7%	5.6%	5.2%	4.7%	4.3%	3.8%	3.3%
Over 65s employed	64,000	65,600	71,600	81,400	84,900	98,400	109,700	118,100	123,790	128,260	133,000	137,446	141,892	146,338	150,784	155,230
15 to 64 years employed	2,043,900	2,097,400	2,085,300	2,091,600	2,085,700	2,111,500	2,121,200	2,121,700	2,138,408	2,156,560	2,174,668	2,193,299	2,212,160	2,231,255	2,250,585	2,270,152
Employment rate 15 to 64 year olds	73.5%	74.6%	73.5%	73.0%	71.8%	72.2%	72.4%	72.3%	72.5%	72.9%	72.9%	73.3%	73.6%	74.0%	74.4%	74.7%
15 to 64 years in labour force	2,139,200	2,194,100	2,181,300	2,220,400	2,239,200	2,278,200	2,292,400	2,277,500	2,284,845	2,294,612	2,311,511	2,320,037	2,328,564	2,337,091	2,345,617	2,354,144
Participation rate 15–64 year olds	77.0%	78.0%	76.8%	77.5%	77.1%	77.9%	78.2%	77.6%	77.5%	77.5%	77.5%	77.5%	77.5%	77.5%	77.5%	77.5%
Participation rate over 65s	12.6%	12.5%	13.4%	14.8%	15.0%	16.9%	18.1%	18.8%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
15 to 64 years not in work	735,400	714,300	753,300	774,800	817,400	813,500	810,400	813,300	809,192	803,640	807,332	799,701	791,840	783,745	775,415	766,848
Beneficiaries as % of 15–64 year olds not in work	36.5%	35.1%	32.1%	35.5%	38.0%	39.0%	38.1%	36.5%	36.5%	36.5%	36.5%	36.5%	36.5%	36.5%	36.5%	36.5%
DEMAND FOR HOUSING ASSISTANCE																
At 30 March	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
% of Over 65's receiving Accommodation Supplement	na	4.1%	4.3%	4.5%	4.7%	4.8%	4.9%	5.0%	5.1%	5.2%	5.3%	5.4%	5.5%	5.6%	5.7%	5.8%
Number of Superannuants receiving Accommodation Supplement	na	21,606	22,797	24,523	26,458	27,711	29,689	31,363	33,189	35,063	37,059	39,021	41,030	43,086	45,188	47,338
% of Beneficiairies receiving AS	na	67.9%	70.2%	77.6%	74.9%	70.2%	70.8%	71.5%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
Number of Beneficiaries receiving AS	na	170,113	169,727	213,127	232,455	223,063	218,377	212,052	212,656	211,196	212,167	210,161	208,095	205,968	203,779	201,528
% of working aged employed receiving AS	na	2.5%	2.5%	2.7%	2.8%	2.7%	2.6%	2.5%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
Number of working recipients of AS	na	51,691	52,966	55,733	58,140	57,773	56,049	53,936	55,599	56,071	56,541	57,026	57,516	58,013	58,515	59,024
Total number of AS recipients	na	243,410	245,490	293,383	317,053	308,547	304,115	297,351	301,444	302,330	305,767	306,208	306,642	307,067	307,483	307,889

Appendix 4: Estimates of cost of extending income-related rent subsidies

Local Government	LOW ESTIMATE	HIGH ESTIMATE
Qualifying stock — units	10,000	11,000
Average weekly tenant income (net) $s	357	357
Average market weekly rent $s	150	200
Income-related weekly rent paid by tenant $s	89.25	89.25
Income-related rent subsidy $s per week	60.75	110.75
Total value of IRR subsidy $millions pa.	**31.6**	**63.3**
Average current rent charged $s per week	100	125
Accommodation Supplement paid $s per week	7.53	25.03
Total value of AS payments $million pa	3.9	14.3
Net cost of IRR subsidy to Crown $million pa.	**27.7**	**49.0**
Community Sector	**LOW ESTIMATE**	**HIGH ESTIMATE**
Qualifying stock — units	2,000	3,000
Average weekly tenant income (net) $s	400	450
Average market weekly rent $s	200	300
Income-related weekly rent paid by tenant $s	100	112.5
Income-related rent subsidy $s per week	100	187.5
Total value of IRR subsidy $millions pa.	**10.4**	**29.3**
Average current rent charged $s per week	160	250
Accommodation Supplement paid $s per week	42.00	96.25
Total value of AS payments $million pa	4.4	15.0
Net cost of IRR subsidy to Crown $million pa.	**6.0**	**14.2**

Appendix 5: An assessment of alternative approaches to housing demand subsidies

POLICY FOCUS	PROGRAMME FOCUS	EXAMPLE	STRENGTHS	WEAKNESSES
Income supple-mentation	Entitlement management	An income support programme which provides additional income to households with higher housing costs sufficient for them to meet these higher costs entirely	Achieves some horizontal equity although will depend on generosity of supplementary assistance	No guarantee that adequate housing is obtained—household might under-consume Limited ability to manage budget growth Abatement rules might cause poverty traps
Income supple-mentation	Budget management	An income support programme which provides additional income to households with higher housing costs but which is insufficient for them to meet these higher costs entirely	Able to limit budget growth Recognises the impact which different housing markets have on household costs and wellbeing and makes some effort to overcome these	Fails horizontal equity tests in that identical households in different housing markets have different after housing costs incomes. Abatement rules might cause poverty traps
Income deficit	Entitlement management	A household's income is topped up to ensure that its after housing costs income is adequate to meet other accepted needs.	Achieves horizontal equity in that the income position of households with different household costs is similar	Limited ability to manage budget growth Households might over consume housing increasing demand overall Abatement rules might cause poverty traps
Income deficit	Budget management	Household has limited access to additional income support to overcome immediate income deficits but	Able to limit budget growth May force households to minimise housing costs.	May not adequately acknowledge rising housing costs or local market conditions Likely to force households to under consume housing and to live in inadequate housing as a result Abatement rules might cause poverty traps
Housing assistance	Entitlement management	Housing First approach which ensures that housing needs are adequately met as a basis for overall household wellbeing	Focuses on housing needs rather than household income and ensures that these needs are adequately met	Limited ability to manage budget growth Entitlement rules might cause poverty traps
Housing assistance	Budget management	Targeted approach for selected perhaps at risk or likely to succeed households which assesses their housing needs and provides financial and other assistance to have this need met	Able to limit budget growth Effective way of providing targeted assistance to households most in need	Accessibility limited to budgets Moving households off programme might be difficult

END NOTES

1 See Torgerson (1987) Housing the wobbly pillar under the welfare state in Turner, Kemeny and Lundqvist eds. Between the State and Market: Housing in the Post-Industrial Era, Almqvist and Wiksell.

2 Definition from The Penguin Dictionary of Economics.

3 Haffner & Oxley (1999) p.148

4 Ibid pp. 146–7

5 Hulse (2207) p.16 and Kemp (2000) p.44

6 Susin (1999) p.2

7 See Elsinga et al. (2009) for an extensive discussion on the rationale behind mortgage guarantees and the extent to which they are a form of subsidy or an unsubsidised – self supporting financial instrument which is mediated by the State. Some mortgage guarantees programmes involve little or no subsidy

8 See as Haffner and Oxley (1999) pp. 149–153 for a discussion on the complexities of estimating the extent of housing subsidies involved in tax policies and tax expenditures.

9 It is unlikely that demand subsidies will increase supply unless rising rents act as a price signal for new investors. The evidence of the link between demand subsidies and rents is mixed. In New Zealand little research on the impact of the Accommodation Supplement on housing markets has been done. The only notable study was by Stroombergen (2004) based on changes in rental markets around the time of the re-introduction of the income-related rents for state houses. He found very little evidence that the Supplement increased rents. Evidence from other countries suggest an alternative impact however. Gibbons and Manning (2005) in a study of the impacts of changing policy around the UK's housing benefit suggest that between 60% and two thirds of the incidence of a subsidy reduction was borne by landlords rather than tenants. Susin (1999) in a study of the impacts of rent vouchers on 90 US urban housing markets found that these payments raised rents by 16% which resulted in low-income tenants paying an additional $8.4 billion in rents in exchange for subsidies worth $5.8 billion. As Haffney and Oxley (1999) note the actual incidence of any housing subsidy will depend on the nature of the housing market into which these subsidies are being paid. For example for in housing markets where supply is relatively inelastic to income changes, rents are likely to rise by as much or perhaps more than any income increase meaning that the benefits of any rent subsidy are likely to leak to landlords in higher rents.

10 Most work on the relative merits of demand and supply subsidies appears to be theoretical rather than empirical. Sa-Aadu (1984) for example offers econometric modelling which supports the greater efficiency of demand subsidies. Tutin (2008) similarly analyses the relative merits of demand and supply subsidies suggesting that a 'major argument against demand subsidies is that the efficiency of personal housing benefit is highly dependant on supply responsiveness (elasticity) which in recent years has proved to be very low in most European countries (and increasingly other post-industrial countries). (p.48) In an empirical study Sinai and Waldfogel (2005) suggest that in the US supply-side subsidies crowd out other forms low income housing provision and that demand-side subsides are better at targeting assistance to needy households. This study considers housing consumption rather than housing supply so makes no comment on the impact of demand subsidies on supply.

11 Pawson (2005)

12 Solomon (2005) p17.

13 In the UK the New Labour Government of Tony Blair around 1999 began shifting their political rhetoric for combating social exclusion to combating anti-social behaviour. Both political projects were framed as being a particular problem on public housing estates and in fact social housing agencies were made responsible for curbing the anti-social of tenants – see for example Flint (2002). Since the 1950s US public housing has been presented in pathological terms - see Vale (2010). The most recent housing assistance programme known as HOPE VI has deliberately attempted to offer incentives and opportunities to leave public housing projects or estates as a solution to what are seen as intractable problems of the neighbourhoods. As people leave these estates they are demolished – see Vale (2013).

14 The debate refuting the framing of social housing in problematic or even pathological terms has attempted to recast social housing estates specifically and social housing policy more generally in terms of social exclusion and structural and embedded nature of deprivation, inequality and poverty. See for example Arthurson and Jacobs (2003), Orfield and McArdle (2006) and Magnusson-Turner (2008)

15 See for example Easton, B. (1997) In Stormy Seas: The Post-War New Zealand Economy, University of Otago Press and Thorns (2000)

16 See Peck and Tickell (2002), Dodson (2006), Forrest and Hirayama (2009), Katwala (2009), Hodkinson (2010)

17 See Aaron and von Furstenberg (1971) Sa-Aadu (1984) Treasury(1987) Kuila (1993) Currie and Gahvari (2008) Treasury.

18 Andrews and Sanchez (2011) Table 1 p.212

19 See Sassen (2009) and Schwartz (2012) for a discussion on the relationships between housing markets, financial securitisation and the GFC.

20 See footnote 9 above

21 See Cunningham and Droesh (2005) study of locational outcomes of housing voucher holders in Chicago.

22 See Randolph and Holloway (2007)

23 Knight (2004) p.33

24 Luxton (1991)

25 Murphy (2000)

26 Murphy (2003)

27 See Tax Working Group (2010) p.26

28 See Johnson (2012) pp.13–19

29 Australian Federal Government Budget 2013/14 Statement 6, Expenses and Net Capital Investment, Table 3, p. 6

30 Source is NZ Government 2013 Budget documents Vote Social Development and Vote Housing

31 March 2013 figures provided by Ministry of Social Development

32 This care includes residential support and nursing care and amounts to just under $1.2 billion annually see Ministry of Health (2012) Table 5.2 p.26

33 See for example the Housing Shareholders' Advisory Group's summary of social housing, Housing New Zealand's 2013 briefing to the Minister of Housing and Murphy (2003).

34 This estimate of 14,000 units is taken from Capital Strategy et al.(2007) who report a Statistics New Zealand estimate of 11,000 units owned by local government in 2006(p.12). They estimate that between 2,100 and 5,400 units were owned by iwi/hapu and community based organisations in 2007 (p.28).

35 An example of such political preference is the capture of the Housing Innovation Fund programme by Wellington City Council for the refurbishment of its social rental stock.

36 Housing Shareholders Advisory Group (2010) p.,5–8

37 See Cabinet Paper on Social Housing Reform of 28 March 2013 which is available at http://www.mbie.govt.nz/what-we-do/housing/social-housing-reform

38 The table below provides the forecast capital contributions from and dividends to the Crown as reported in Housing New Zealand's Statement of Intents for 2008–09, 2010–13 and 2013–15. Figures are in $millions. This data show that a major change in dividend/contributions policy is observable from 2010 onwards.

Statement of Intent	**2008–09**	**2008–09**	**2010–13**	**2010–13**	**2010–13**	**2013–15**	**2013–15**	**2013–15**
Financial year	2009/10	2010/11	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Capital contribution from Crown	81	25	39	10	6	5	5	5
Dividend to Crown	0	15	48	63	56	90	88	88
Net contribution	81	10	(9)	(53)	(50)	(85)	(83)	(83)

39 Housing New Zealand (2012) Annual Report 2011–12 p.35

40 Source: cash flow statements from Housing New Zealand's annual reports

41 Tax Working Group (2010) p.17

42 In its 2011/12 Annual Report Housing New Zealand reports. '(t)he Corporation developed an efficiency plan in 2011 to deliver on the Government's short term dividend expectations from the Corporation. The planned savings were $20 million in 2011/12 rising to $57 million in 2013/14. Initiatives within the plan included improving procurement processes, reducing contractor and consulting costs, streamlining front and back office functions, ring fencing some non-core activities and adopting a life-cycle approach to the replacement of asset components. … As a result of this work the Corporation has generated significant efficiencies and savings in 2011/12. This delivered efficiency savings of $28 million, well above the full year target of $20 million.' (p.29). Yet the same annual report reports that the Corporation's target for 8000 rent units receiving significant planned maintenance was not achieved with just 5195 units actually being maintained. (p.42) This is consistent with the figures reported in Figure 9 which show a sharp decline in maintenance expenditures since 2009/10. Furthermore cash flow statements for 2011/12 indicate almost constant payments to employees and contractors over the period 2009/10 to 2011/12 (p.58).

43 See Labour's Housing Affordability (Local Authorities Enabling) Act 2008 and National's Housing Accords Act 2013. Both pieces of legislation use the Resource Management Act to provide supply-side policy initiative.

44 See Housing New Zealand's Statement of Intent 2013–16 p.30

45 Housing New Zealand's Annual Rreport provides analysis of HNZC's asset values, depreciation allowances and reported additions to its stock for the period 2006/07 to 2011/12. Over this period the Corporation made provision for $989 million in depreciation, received $161 million from disposal of rental property assets and spent $1.424 billion in additions to its rental housing stock. The extent to which such additions are new stock, increased capacity of existing stock—such as with adding a garage or bedroom, or simply refurbishment is not reported in these figures.

46 Between 2006/07 and 2011/12 Housing New Zealand added an additional 700 units to its owned stock. This addition cannot be fully explained by retained earnings, capital contributions or increased borrowing over the period.

47 In its financial review of Housing New Zealand in 2008 Parliament's Social Services Committee reported that the Corporation estimated a deferred maintenance liability of $2 billion and that depreciation allowances were not necessarily used for maintenance as this discussion was directed by the Government rather than the Board. A 2008 audit of Housing New Zealand's maintenance function found that the 'Corporation had comprehensive and effective processes and procedures for maintaining state housing properties. However, it did not have an adequate system that provided detailed information on the condition of its properties. As a result, it did not have a reliable basis for measuring and managing its overall workload'. (Controller and Auditor General (2008))

48 Buckett, Jones and Marston (2012) for example report that 70% of owner occupiers reported that they thought their house was in a good or excellent state of repair while those undertaking the survey assessed that only 42% of the surveyed stock was in a good or excellent condition while 25% was in a poor condition. The state of repair of rental housing was worse than that of owner-occupied housing with 44% of the surveyed stock being assesses as being in a poor condition (p.9)

49 See for example the Minister of Housing's speech to the New Zealand Housing Futures Conference on 19th July 2012 (available at http://www.beehive.govt.nz/speech/new-zealand-housing-futures-conference) where he suggests that New Zealand's social housing model needs to change and then focuses on supply and affordability problems before shifting responsibility from Government suggesting that the 'level of need is too high to continue to expect the taxpayer—the state—to fund alone' without suggesting where alternative funding will come from or what a new model of social housing might achieve.

50 Treasury's advice to Government over the social housing reform process which has been released publicly does not identify any housing demand issues as being relevant to the advice it offered. This advice does however acknowledge that there is not presently in place a framework for even monitoring demand. Treasury (2013) paragraph 73

51 The Housing Shareholders Advisory Group in their report to the shareholding Ministers do spend some space addressing the adequacy of the social housing stock and refer to a Housing New Zealand estimate from 2007 which suggested a shortfall in state houses of 10,760 houses over the following 10 years. (p.32). In its reports on housing affordability, the Productivity Commission (2012) give attention to demographic changes and housing demand and utilise work of Department of Building and Housing from 2010 which suggested a shortfall of up to 38,000 dwellings over the 20 years to 2031 and a shortfall in Auckland of 90,500 over the same period. (p.82)

52 See Housing New Zealand (2013) Briefing to Incoming Minister of Housing p.20

53 See Housing New Zealand's Statement of Intent 2012-15 pp.18-20.

54 Ibid p.29. The asset sales figure includes $716 million in assets sales and $255 million in proceeds from impairments/losses on sales.

55 See Housing New Zealand's Statement of Intent 2013-16 p.30. The asset sales figure includes $910 million in assets sales and $156 million in proceeds from impairments/losses on sales

56 Ibid p.21

57 See Housing New Zealand (2013) Briefing to Incoming Minister of Housing p.11

58 See CRESA (2007) p.10

59 See Capital Strategy (2007) p.12 and p.28

60 Ibid pp.18-39

61 Housing New Zealand in its 2010/11 Annual Report offers a useful summary of the Housing Innovation Fund's achievements (p.26) although these results are a little different from the annual results reported in previous years. In its 2010/11 Report the Corporation claims that through the Fund loans have been approved for 866 additional social housing units of which 'more than 600 were new builds' while '225 units were purchases of existing housing'. Yet the sum of all the additional units provided under annual reports total just 799 units. A graph showing the number of additional units provided is offered in this summary and the figures offered in this graph do not correspond with results reported in previous years. For example the number of additional units reported in the graph for 2004/05 is around 98 yet the Corporation's 2004/05 Annual Report reports that 220 'new house units' were provided under the Fund in that year (see p.36).

62 For example Treasury in the 2009 Budget reported subsidies of $7.9 million (see Vote Housing 2009 Supporting Information p.38) while a year later and with additional concessionary and suspensory loans made this subsidy fell to $5.5 million (see Vote Housing 2010 Supporting Information p.12)

63 See Housing New Zealand (2007) although the background reports of this evaluation are referred to in this report they are not available on the Housing New Zealand's website.

64 Middle income home ownership programmes developed by Queenstown Lakes Housing Trust and by the New Zealand Housing Foundation mainly in Auckland were funded through the Housing Innovation Fund. Additionally the Housing Foundation received its own budget appropriation of $500.000 in 2009/10 – see Budget 2011 document Social and Housing Sector – Information Supporting the Estimates 2010/11 p.33

65 See HNZC Annual Report 2007/08 p.29

66 See Vote Housing Information Supporting the Estimates 2009/10 p13.

67 The author is a trustee for a non-profit social housing provider and was for five years a director of Community Housing Aotearoa—New Zealand's peak body for community housing.

68 See Housing New Zealand (2007)

69 See Ngati Hine Forestry Trust's 2012 Annual Report p.8 Available at http://www.ngatihine. Māori.nz/images/ann_rep/2012agm/NHFT%202012%20Annual%20Report.pdf

70 The Social Housing Unit is a department of the Ministry of Business Innovation and Employment so while being independent of direct housing provision is not independent of Government control

71 See Social Housing Unit (2012) Newsletter May 2012 Available at http://www.shu.govt.nz/assets/documents-2/Newsletters/SHU-Newsletter-May-2012.pdf

72 See Social Housing Unit (2012)

73 See Social Housing Unit (2013) Newsletter May2013. Available at http://www.shu.govt.nz/assets/documents-2/Newsletters/SHU-Newsletter-May-2013.pdf

74 In the Social Housing Fund grant allocations announced in May 2013 all six of recipients from the main fund contributed exactly half the project costs while one of the three recipients from the Putea Māori fund did.

75 See for example the $10 million contribution by the Canterbury Community Trust which will be administered by the Social Housing Unit toward projects located in Canterbury – Social Housing Unit (2013) Newsletter May2013

76 These are estimates based on Housing New Zealand's Annual Reports

77 CRESA (2009) and Morrison (2008)

78 Data on Accommodation Supplement payments supplied directly by Ministry of Social Development while figures on numbers of benefit recipients taken from MSD's Benefit Fact Sheets and The Statistical Report. The figure for NZ Superannuation recipients for 2013 is based on Statistic New Zealand's age cohort population estimates

79 These estimates are based on a breakdown of payments data by income source and tenure provided by Ministry of Social Development to The Salvation Army directly. The estimates are based on relative shares in March 2013.

80 Stroombergen (2004) p.6.

81 Stroombergen's approach was to consider changes in rent around the time of the re-introduction of income-related rents in 2000. His methodology involved studying the impact of changes in Accommodation Supplement payouts on rents. His analysis found that there was little change in rents around the re-introduction of income-related rent despite that fact that the total value of Accommodation Supplement payments had declined sharply—because of HNZC tenants moving to a new subsidy regime. From this result he reasoned that the Accommodation Supplement had no noticeable impact on rents. A flaw in his model arises around the fact that the decline in Accommodation Supplement payments coincided with a proportionally similar withdrawal of housing units from the competitive housing market; so the average per unit or per household payment being made remained the same albeit that fewer units/households were involved. This being the case the relationship between subsidies, households' ability to pay, housing demand and rent changed very little over the period under study. His study merely confirmed this stability.

82 Hulse (2002) p.18.

83 Ibid p.49.

84 This advice came from Infometrics in a paper to Housing Corporation of New Zealand titled The Impact of the Proposed Accommodation Supplement on Housing Markets. Cited in Hulse (2002) p.46.

85 Stroombergen worked for Infometrics at the time of his 2004 report.

86 These estimates are based of Statistics New Zealand's half yearly Dwellings and Households Estimates. The ownership rates used in these estimates appear to be taken from Census figures with the rate used for years beyond 2006 based on the 2006 census. To update this rate and to take account likely declines in rates of owner-occupation the estimated rates from the Household Economic Survey have been used for the New Zealand wide rate and an estimate based on the 2006–2012 change used for the Auckland rate. Figures of the total housing stock for Auckland for 2011 and 2013 are based on consents for new dwellings since 2006.

87 See Murphy 2000.

88 The output cost index for the construction sector rose 40% over the 10 years to the end of 2012.

89 This estimate is from Statistics New Zealand's building consent data series.

90 This data is taken from Statistics New Zealand's website and specifically from their population estimates for Auckland which is available at http://www.stats.govt.nz/~/media/Statistics/Census/2006-reports/Auckland%20Council%20tables/Auckland%20Council%20tables.xls and their quarterly building consent data. The area taken to be South Auckland for the purposes of this Table includes the local board areas of Howick, Mangere-Otahuhu, Manurewa, Otara-Papatoetoe and Papakura. Building consent data for taken for the years ending December 2006 through to December 2011 to cover the delays between consent issue and the likely completion of the building.

91 Data on Accommodation Supplement payments is sourced from Ministry of Social Development while estimates of rental housing stock are based on Statistics New Zealand dwelling estimates and tenure mix from their Household Economic Survey. Estimates of Housing New Zealand's stock are taken from their annual reports and from Olssen (2010).

92 This figure needs to be treated with caution as at this time Housing NZ tenants paid markets rents and received Accommodation Supplement.

93 From a Treasury 2010 aid memoir to the Minister of Social Development and Employment on the Accommodation Supplement downloaded from http://www.treasury.govt.nz/publications/informationreleases/budget/2010/pdfs/b10-am-tsy-aaaas-18mar10.pdf on 5th July 2013.

94 'Sticky' in this context refers to prices which do not adjust to changing market conditions. Cairncross (1953) Home and Foreign Investment 1870–1913 in his study of Glasgow housing markets observed that these markets tended to adjust to outside factors such as the trade cycle and patterns of foreign investment rather than to immediate conditions of supply and demand in the housing market. These influences (which have close parallels for Auckland in 2013) meant for example that rents did not fall as vacancy rates rose. Caincross's thesis has been challenged subsequently by others—see Reece (1988) The price adjustment process for rental markets: some further evidence; Real Estate Economics 16:4 pp411–418. Generally prices such as rents might be sticky because of high search costs and transactions costs—the cost and trouble of finding and signing up for a another rental property or of finding another tenant or because of long term contracts which cannot easily be broken should market conditions change.

95 See Housing New Zealand (2007).

96 Data on Accommodation Supplement payments is sourced from Ministry of Social Development while estimates of rental housing stock are based on Statistics New Zealand dwelling estimates and tenure mix from their Household Economic Survey. Estimates of Housing New Zealand's stock are taken from their annual reports and from Olssen (2010).

97 This estimated increase for New Zealand is based on changes in the rent component of the CPI and for Auckland is based on rent data provided by Ministry of Business Innovation and Employment from tenancy bond data. The Auckland figure related to the former Auckland City area and not the full Auckland region.

98 Rent data is from the Ministry of Business Innovation and Employment Tenancy Bond database and was provided to the author as customised data. Information on changes in wages and salaries is taken from Statistics New Zealand's Quarterly Employment Survey while information on benefit and superannuation rates is taken from the Ministry of Social Development's annual Statistical Reports.

99 The rent inflation for all New Zealand is taken from Statistics New Zealand's Consumer Price Index data series fro the period March 2008 to march 2013. For Auckland the inflation is based on Ministry of Business Innovation and Employment data from its Tenancy Bond Division and is based on median rents for central Auckland which is generally the Auckland isthmus.

100 See Statistics New Zealand (2013) pp.10–11.

101 See Auckland Regional Public Health Service (2005).

102 For example the Household Economic Survey 2012 reports that 35% of tenant households are in the poorest three deciles and that tenant households are three times more likely than owner-occupied households to spend more than 40% of their income in housing costs.

103 Housing demand forecasts have tended to rely on Statistics New Zealand's household forecasts. These household forecasts have been derived from a number of assumptions around peoples' preferred living arrangements which are themselves based on current demographic trends for fewer children per family, lower rates marriage and co-habitation and more single-parent households. See Statistics New Zealand's discussion of this at http://www.stats.govt.nz/browse_for_stats/population/estimates_and_projections/NationalFamilyAndHouseholdProjections_HOTP2006-2031update/Technical%20Notes.aspx. The problem with such assumptions is that pay little regard to the economic opportunities which families and individuals have to form households. There may for instance be fewer than expected one and two person households simply because people cannot afford to live this way.

104 The population scenario used is based on Statistics New Zealand's population forecasts and specifically on the medium fertility, medium mortality scenario with a new inward migration of 10,000 people annually. This scenario is offering recent population estimates which are slightly higher than those arising.

105 These are March figures taken from Statistics New Zealand's Household Labour Force Survey. The participation rates used in the demand forecast model are slightly different to these rates and are based on the number of over 65 years olds in employment—as reported in the Household Labour Force Survey. divided by Statistics New Zealand's estimates and forecasts of the over 65 population.

106 Between March 2006 and March 3013 employment amongst 15 to 19 year olds fell from 154,000 people to 99,000. Source: Statistics New Zealand Household Labour Force Survey.

107 Morrison (2008) p.47 and Table 8 p.45.

108 Murphy (2000), Thorns (2000), Murphy (2003) and Dodson (2006) provide useful historical analysis of these reforms. Essentially the reforms fall into two phases—those of the National Government in 1991, and those of the Labour Government in 1999. The 1991 reforms included a shift to demand subsidies through the introduction of the Accommodation Supplement, the introduction of market rents for state house tenants, the commercialisation of Housing New Zealand and the privatisation of the Crown's home mortgage portfolio. These reforms were justified by Luxton (1991) although with no prior empirical evidence of the effectiveness of the mechanisms proposed nor any assessment of their likely impacts. These reforms were aimed at 'reducing the direct role of the state, increasing consumer choice, and containing, if not reducing the fiscal cost of housing assistance'. (Thorns p.130) The cornerstone policy of these reforms—the Accommodation Supplement was explicitly designed to redistribute existing housing assistance budgets with no concern for the adequacy of the assistance provided. (Kuila 1993). The 1999 reforms immediately followed the election of the Labour led coalition government and largely were around the re-introduction of income-related rents for state tenants. Rents were set at 25% of household income most likely based on historic precedent because there is no evidence of official advice being offered on an appropriate subsidy rate.

109 The recent Welfare Working Group might be considered to be a more recent reconsideration of social policies although its terms of reference, the political bias in appointment to the group, the lack of robust policy advice from the public sector and the cursory regard given to public input suggests that this exercise was not of the same scale scope and ambition as either the Royal commission on Social Policy in 1986 or its predecessor the Royal Commission on Social Welfare in 1971. Unlike the 1971 Commission the 1986 Commission does not appear to have had a great impact on subsequent social policy setting so might not even be seen as much of a broad reconsideration of social policy but merely a distraction from the neo-liberal economic reforms which were happening at the same time.

110 For a discussion around the context and impacts of the 1991 welfare benefit cuts see Starke, P. (2008) Radical welfare state retrenchment: A comparative analysis; Palgrave Macmillen; Easton, B. (1995) Poverty in New Zealand; New Zealand Sociology 10.2 and Blaiklock, A. et al (2002) When the invisible hand rocks the cradle: New Zealand children in a time of change; Innocenti Working Papers no.93.

111 For a detailed summary of the process for the establishment of the Working for Families programme see the evidence offered by Child Poverty Action Group in its appeal to the Court of Appeal case against the discriminatory nature of the programme (available at http://cpag.org.nz). In his 2006 budget speech which introduced the Working for Families programme, Michael Cullen emphasised his Government's work first approach to welfare as being the motivation for the programme claiming that '(M)aking work pay through the In-Work Payment component of the Working for Families package improves people's opportunities to make a better life for themselves and their families. Analysis of the Working for Families package suggests that by its full implementation in 2007 there will have been a 70 per cent reduction in child poverty using a threshold of 50 per cent of median income'. (p.27). In 2004 19% of children were reported to be living below the 50% threshold on an after housing costs basis. This rate declined to 16% in 2007 and sat at 17% in 2012—see Perry (2013) Table H.2 p.130.

112 These figures are based on 2013 Budget estimates.

113 The following table estimates the effective marginal tax rate faced by a family with two children with one partner working and renting a house for $300 per week. Estimates of Working for Families entitlements are based on a payment table from http://www.workingforfamilies.govt.nz/tax-credits/payment-table.html.

Gross annual income	**30,000**	**35,000**	**40,000**	**45,000**	**50,000**	**55,000**	**60,000**	**65,000**	**70,000**
PAYE on M category — annual	4,270	5,145	6,020	6,895	8,020	9,520	11,020	12,520	14,020
Gross weekly income	577	673	769	865	962	1,058	1,154	1,250	1,346
Net weekly income	495	574	653	733	807	875	942	1,009	1,077
Working for families payment	217	217	198	179	161	136	118	100	75
Net weekly income before AS	712	791	851	912	968	1,011	1,060	1,109	1,152
Weekly rent	300	300	300	300	300	300	300	300	300
Accommodation Supplement	85	72	61	50	41	33	25	16	8
Net disposable income	797	863	912	962	1,009	1,044	1,084	1,125	1,160
Effective marginal tax rate		**32%**	**48%**	**48%**	**52%**	**64%**	**58%**	**58%**	**64%**

114 New Zealand's migration patterns are quite volatile with significant numbers of people migrating to and from the country. Net migration over the five years to 30 June 2013 amounted to just 37,600 people although this net figure represented 427,200 people arriving permanently and 389,600 people departing permanently. The age structure of those arriving and departing are more or less the same which means that the inward migration is not contributing to reducing the median age of the population as would be expected from immigration policies which targeted young adults and their children. The reason of course is that young adults and children are departing in the same numbers as those arriving. Over the five years 2008–2013, 103,200 people aged under 20 left New Zealand to live permanently in another country. This figure represents 8.6% of all the people in this age range. Just over two thirds of the people under 20 years who left New Zealand over this period departed for Australia. Eighty five per cent of those departing New Zealand permanently are aged under 45 years while 61% of the New Zealand population falls within these age groups.

115 Hulse (2002) p.51.

116 For a discussion on the policy objectives and settings for the design of the Accommodation Supplement see Kuila (1993). See footnote xciii for reference to 2010 Treasury advice on reviewing the Accommodation Supplement.

117 For details on Temporary Additional Support see Ministry of Social Development (2013) The statistical report for the year ending June 2012 p.105.

118 Before 2008 temporary additional assistance was administered as a programme known as the Special Benefit. Over the decade 2002/03 to 2011/12 the number of Special Benefits or temporary assistance payments being made of course varied with the number of working age benefits being paid at the time. The availability of these payments as a proportion of the four main working age benefits has however varied considerably over the decade. This proportion rose from 10.0% in 2004 (30 June figures) to 17.5% in 2010 falling slightly to 17.0% in 2012. For data see Ministry of Social Development's annual statistical reports.

119 In this respect under consumption might be by choice, necessity or from a lack of choice as with discrimination. Under consumption might take the form of accepting and paying for low quality housing which poses health risks or by living in housing which too small for the household or overcrowded. A significant problem with under consumption is an agency problem in that parents and caregivers may be making choices which risk the health and safety of their children or dependents.

120 See for example Murphy (2003) p.96.

121 In 1991 Housing Corporation owned approximately 66,000 state units which represented 19% of the 345,000 rental houses in the national housing stock. In 2012 Housing New Zealand owned 66,093 rental units or 11% of the estimated 600,000 rented dwelling in New Zealand. See HNZC annual reports for stock figures and Statistics New Zealand for national housing stock data.

122 Schrader (2004) pp.157–162. Schrader suggests that the social marginalisation of state housing is a consequence of middle class attitudes toward the poor.

123 See Arthurson and Jacobs (2003) pp.15–19 and Gibb and McLennan (2006) p.91.

124 Housing New Zealand Annual Report 2011/12 p15.

125 See page Appendix 1 of this report for estimates of the per unit subsidy for Housing New Zealand. In 2011/12 this stood at $8,600 and by 2013/14 could be as much as $9,500.

126 See Treasury (2013) Social development and housing sector—information supporting the estimates 2013/14 B5A Vol.10 p.10.

127 Treasury (2013) Social development and housing sector—information supporting the estimates 2013/14 B5A Vol.10 p.10.

128 See Price Waterhouse Coopers (2009) p.2.

129 In its 2013–16 Statement of Intent Housing Zealand is budgeting for $2.125 billion in income-related rent subsidies between 2013/14 and 2015/16 p.42.

130 See Ministry of Business Employment and Innovation (2013) p. 8.

131 See Office of Minister of Housing (2013) Social Housing Reform; p.8 Available at http://www.mbie.govt.nz/about-us/publications/cabinet-papers/Social%20Housing%20Reform%20-%20Cabinet%20Paper.pdf. Paragraph 43 of this report claims that the additional budget for income-related rent subsidies is based some assessment of the community housing 'sectors expansion plans' which implies that the subsidies will only be available to new housing. Such an approach will most likely create incentives for providers of existing stock to sell down this stock and purchase or develop new stock in order to qualify for this subsidy. Such a perverse response will most likely drive a rethink of such a policy and will lead to demand for much more substantial budgets.

132 See Appendix 4 for details of these estimates.

133 Oxley et al. (2010) p.335.

134 New Institutionalism is a broad field of philosophy, law, sociology and economics which is concerned with the impact of institutions on human behaviour and on social processes. New Institutional Economics (NIE) is a narrower field which 'addresses two overarching issues: what are the determinants of institutions—the formal and informal rules shaping social, economic and political behaviour? And what impact do institutions have on economic performance? It is the impact of institutions via property rights and transactions costs that ultimately affect ability of individuals and society (at a more macro levels) to extract gains from trade which in turn can lead to enhanced economic wellbeing.' Alston, L. (2008) chapter on New institutional economics in The New Palgrave Dictionary of Economics.

135 As discussed in Chapter 3 67% of recipients an Accommodation Supplement payment also receive a benefit or superannuation payment. Data on the income status of Housing New Zealand tenants is not published although the Corporation reports that 90 to 95% of tenants receive an income-related rent. This would suggest that their incomes are at or near benefits levels.

136 For extensive assessment of the links between housing and more general wellbeing see Maani et al (2006) who establish that the social gradient between low income and poorer health is mediated via communicable disease and overcrowding; this result was supported by Baker et al. (2013) in their meta analysis of the link between overcrowding and incidence of infectious disease, Jackson, et al.(2011) who demonstrate the impact of housing interventions on reduced hospital admissions; Grimes et al (2006) discuss the pivotal nature of housing in determining social and economic outcomes and specifically in creating wealth disparities and poverty traps.

137 For example see Arthurson and Jacob (2003), Kemeny (2005), Kemeny (2006), Jarvis (2008), Malpass (2008), Stamso (2010), Schwartz (2012).

138 Data on the effect of the GFC on home ownership is yet to be published given the infrequency of census and the variable processes of foreclosure across countries. In the United States four million houses had been foreclosed on by 2011 and a further 4.5 million houses had been subject to at least one foreclosure filing. The final number of foreclosures expected was between eight million and 13 million. (United States Government 2011 p.402). These foreclosures are in the context of a US national housing stock of 116 million units (US 2010 Census) of which 68.7% were in owner-occupation (Andrews and Sanchez p.212). Not all foreclosed units will be in owner-occupation but even if half of the expected 8 million foreclosures are the US homeownership rate will fall to 65%.

139 See for example Peace et al. (2002), Bridge et al. (2003), Maani et al. (2006), Grimes et al. (2006), Beer and Faulkner (2008), Yates and Whelan (2009) and Ost (2012).

140 DTZ New Zealand (2005) p.76.

141 Fopp (2009) pp.288–9.

142 Beer and Faulkner (2008) p.29.

143 Ibid pp.33–34.

144 Ibid Figure 13 p.37.

145 Monk (2009) p.31.

146 Ibid p.31.

147 Housing New Zealand Corporation (2012) Annual Report 2011–2012 p.11.

148 Housing New Zealand Corporation (2013a) p.18.

149 See Nick Smith's press release of 10th May 2013 Housing supply and affordability addressed in Auckland Accord at http://www.beehive.govt.nz.release/housing-supply-and-affordability-addressed-in-auckland-accord.

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Te Ope Whakaora

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