Social Policy & Parliamentary Unit
Working for the eradication of poverty in New Zealand

Te Ope Whakaora

HOUSING SUPPORT CRISIS RESPONSE

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SUMMARY

The housing crisis needs an urgent response: increased housing support for low-income households. In the short term, this means changes to the Accommodation Supplement and other housing supports. This needs to genuinely meet housing costs for those low-income households that have high housing costs relative to incomes, and support a pathway into more secure housing. The Accommodation Supplement changes need to work together with other welfare benefits to achieve income adequacy for lower-income households. Changes to the Accommodation Supplement need to be supported by other housing policy measures to further expand assisted homeownership and to ensure fairness in rent levels.

INTRODUCTION: A HOUSING CATASTROPHE

The Salvation Army *State of the Nation Report 2022* ***Navigating the Rapids Whakatere Ana I Ngā Tere*** released in February 2022 describes the housing situation for those on low incomes as having gone beyond crisis to what can only now be described as a catastrophe. Despite notable increases in housing supply—both of social housing and growth in overall building consents for housing—house prices and rents have accelerated well ahead of growth in incomes. The impact hits hardest for those already on the margins of the housing market. This is alongside the other health and social impacts of the pandemic, with homelessness, the need for emergency and transitional housing and the number of those waiting for social housing on the public housing register rising enormously.

This situation affecting the lives of hundreds of thousands of people in low-income households requires an urgent policy response alongside other measures to increase the availability of affordable housing in the medium to long term. A short-term response addresses the current affordability crisis directly through increased income transfers and housing subsidies. The clear aim is to reduce or prevent homelessness and household overcrowding, by assisting people to stay in their existing housing and/or secure new rental tenancies they can afford to sustain.

These measures help stabilise people's lives, reduce social harms and promote wellbeing. They complement the other aspects of housing policy that seeks to increase the number of homes being built, designing good communities to live in and addressing the quality issues of warm and dry homes.

A major driver of poverty and inequality in recent years has been housing costs.[1] The sharp increase in general inflation over the past year is an additional pressure on other living costs that exacerbates the existing housing affordability pressures.

The fastest and most effective policy tool available to government in the short term is to further increase income support payments to meet housing costs. The risk that increasing income assistance and/or housing subsidies will further inflate rents needs to be considered in the light of the available evidence. Rent increases are already occurring, despite manifestly inadequate incomes for many of those who are renting. We cannot ignore the present need, but instead must work quickly within current available systems to mitigate the risks.

The Accommodation Supplement (AS) is the main housing support income transfer in this country. There have only been two major changes to the AS in the past 20 years, and a recent review of the impact of the two changes in 2005 and 2018 found little evidence that the AS increases led to stronger increase in rents.[2] It seems the increases can be better understood as contributing to a 'catch-up' of increases from previous years that helped reduce housing stress. While the AS has a number flaws that will need to be addressed in delivering assistance, a rent subsidy has the key advantage of being able to deliver large-scale targeted assistance in the short term to improve housing affordability for people on lower incomes.[3]

A RIGHT NOT A COMMODITY

The dominant market language of housing demand and supply has the effect of pushing aside the core issue that housing is more than simply a market commodity and investment instrument. Adequate housing is an essential basic human need and every person has the right to housing. Unlike many market commodities, there are limits to consumer choice when it comes to housing—a person must have somewhere to live. The New Zealand Human Rights Commission sets out what this right means through the concept of a 'decent home', based on seven decency principles outlined by the United Nations, including affordability, accessibility, habitability and security of tenure.[4] The market elements of housing should be seen in relation to realising the fundamental right to adequate housing. In our current situation where, based on most recent estimates, there are at least 102,000 people who are either without shelter or living in housing that is manifestly inadequate, either overcrowded and/or unhealthy or lacking basic amenities, we are not meeting that basic human right.[5]

Housing is a social good but most of housing provision in this country is carried out via the private sector—both housing construction and house ownership and private rental. Direct state provision of housing makes up a tiny 4% of all housing provision through public housing. Public housing makes up around 12% of all rental housing, while most of the rest is provided via the private rental market. Other housing initiatives, such as papakāinga housing, progressive home ownership, KiwiBuild and first home loans, still make up only a small proportion of housing provision. The next 10 years should see significant expansion of these forms of housing support, but the current reality of a private market-dominated system constrains policy choices in the short term.

MATTHEW EFFECT TURBOCHARGED

It is nearly four years since The Salvation Army's *Beyond Renting* report looked at the crisis in renting and described the 'Matthew effect' in housing in this country.[6] It is a term drawing on a biblical reference to Matthew 13:12 that says for those who have, more will be given, and those without will lose what little they have. Sociologist Robert Merton used the term to describe how in some social systems initial advantages accumulate through time.[7]

This is one of the dynamics of inequality. Where wealth accumulates, it becomes easier to add further wealth. Wealth is passed on across generations; networks of privilege make access to finance and investment opportunities easier. Those who have more, receive even more. In contrast, those who have little live in constant risk of losing everything, struggle to gain a foothold on the path to economic resilience and are labelled as a burden (on 'society' or the 'tax payer').

Before Covid-19, in the three years between 2015–2018, the wealthiest 20% of households in this country increased their wealth on average by around $300,000. The poorest 20% on average increased by $3000.[8] Those who have been able to purchase houses in recent years have seen substantial growth in their wealth. This dynamic has primarily benefitted middle class home owners and property investors.[9]

The past two years will have seen an acceleration of this 'Matthew effect' when it comes to housing. The dividing line for wealth inequality has sharpened between those in the middle and upper classes who tend to hold much of their wealth in housing and those who rent. Renters have not shared in the bonanza of housing-based wealth growth and have faced rising rents and higher hurdles to save for home ownership and/or financial security.[10]

The boundaries of this divide follow deeply etched lines of ethnicity, age and disability. Median net wealth was highest for 65- to 74-year-olds ($433,000 in 2018) and lowest for young people ($3000 in 2018). Māori households median net worth was $42,000 and for Pasifika households median net worth was $16,000, while for European households it stood at $151,000.

- Around four out of five people of Pasifika ethnicity (79%) do not own their own home, compared to 69% for Māori, 51% Asian and nearly double the proportion for European (42%).[11]
- People living with a disability face high rates of housing stress and housing insecurity and are a group that are very reliant on government income support and live with high poverty rates.
- Lower-income renters have faced larger rent increases, with the lower quartile median rent increasing by 47% compared with around 40% for the overall median rent over the past six years.[12]

AN OVERVIEW OF CURRENT HOUSING SUPPORT

The current housing support assistance in the social system is complex and has a number of flaws. The key elements in current housing support are the AS and Income Related Rents Subsidy (IRRS) that combine with other parts of the welfare system to determine the actual payments people in housing need receive.

Key criticisms of the system are: the system is complex and does not deliver adequate support to meet actual housing costs; fails to genuinely reduce housing affordability stress; has low up-take for those outside of the welfare system; and, does not protect against homelessness or poor quality housing. Any immediate policy response has to work with this flawed system, making short-term adjustments to mitigate existing flaws. This must be in parallel with further work on the ongoing 'overhaul' of the welfare and income support system,[13] including the current review of Working for Families (WFF).[14]

The AS is the main housing-related income support payment in the current welfare system. It is currently paid to around 350,000 people, the majority of whom are renting. The AS is a direct private market income subsidy for renters and home owners. The AS is limited by maximum payments based on the area the recipient is living in as well as other criteria, such as a limit to other cash assets the recipient can hold and a 30% recipient contribution.

The IRRS is paid to support people living in public housing, either government-owned Kainga Ora (KO) housing or non-government community housing organisations such as Salvation Army Social Housing. People receiving the IRRS are not eligible for the AS. The tenant's rent is limited to 25% of the person's income and the government subsidy paid directly to the housing provider covers the difference between the market rent and the rent paid by the tenant.

The number of people in public housing has been increasing steadily over the past four years, with over 9000 additional housing units added since June 2017 (14% increase). The government IRRS subsidy payments have been rising sharply because market rents that the subsidy are based on are rising, as well as the number of people in public housing overall. Government-owned agency KO receives the bulk of IRRS payments because 85% of public housing tenancies are with KO. This means that, in contrast to the AS, one branch of the state, the Ministry of Housing and Urban Development, is reimbursing another in the form of KO and that spending remains in the wider public sector domain. In total $2.3 billion was spent on AS and $1.2 billion on IRRS (**Table 1**) in the year to 2021; across both payments almost $1 billion more than pre-Covid-19, reflecting the increasing number of people overall needing welfare support during the pandemic.

Table 1: Government Housing Support Expenditure

($ millions per year)	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Accommodation Assistance	1127	1204	1640	1923	2302	2325	2241	2188	2239	2296
Income-Related Rents	815	890	974	1071	1202	1304	1399	1495	1497	1497
TOTAL	**1942**	**2094**	**2614**	**2994**	**3504**	**3629**	**3640**	**3683**	**3736**	**3793**
Accommodation Supplement #	290,000	285,000	295,000	318,000	364,000	354,000	346,000	345,000	350,000	354,000

Source: Half Year Economic and Fiscal Update December 2021.

The AS or IRRS, along with WFF payments in addition to the core welfare benefits are the main components of incomes for people receiving government welfare. Other income support payments include the Winter Energy Payment (WEP), Best Start payments for children three years or younger and the disability allowances.

Adding to the complexity, a further payment, Temporary Additional Support (TAS), is used as an inadequate but ameliorating payment to reduce the often large gap between the entitlements from core benefits, WFF, AS and actual living costs including housing. Around 86,000 people were receiving TAS payments in March 2022, but it is designed not to meet full costs, as is also the AS, with both using percentage discounts and maximum limits, so, by design, they leave many households short of income and potentially on the path to deeper poverty.

In addition, the Ministry of Social Development (MSD) pays a series of Housing Support Products (HSP) to people on a welfare benefit to assist them to move into private sector rental housing. The aim of these payments is to help move people from public housing, transitional or emergency housing into longer term housing in the private rental market. These HSP, therefore, also play a small role in the overall government income support, with around 1300 recipients as of March 2022.

COMPLEX AND INEFFICIENT

The complexity of this system of multiple income support payments is made worse by the inadequacy of core benefit rates. The increases to core benefits and other support in April 2022 are bringing welcome additional support for people on low incomes, but still fall short of what was needed for a liveable income in April 2022 (see example on page 5).

The majority of people receiving welfare who are not living in public housing also need to receive the AS because the core benefit rate is not sufficient to meet even the lowest market rents plus basic living costs. This problem was clearly identified in the 2019 Welfare Expert Advisory Group (WEAG) report which recommended significantly increasing core benefit rates and making changes to the AS and WFF at the same time to ensure that the end result is increased incomes overall (Recommendation 33).[15] Different thresholds for entitlement and abatement of support across the core benefits, WFF and AS means that increases in core benefits could in effect be clawed back through decreased entitlement to WFF and/or AS or TAS.

Liveable Incomes in 2022. *In March 2022, an update of the WEAG 2019 household budgets was prepared, including allowing for increased household living costs inflation and increases in welfare benefits (Fairer Future paper[16]). Housing costs were based on South Auckland rental housing that is in an area with the highest maximum for AS payments (Area 1). For these examples, housing costs are between 50–60% of disposable income. The AS entitlement—for the example, households—covers around half of rent for those not sharing accommodation. For the single person examples, this means a shortfall in housing costs of $162 per week: for a sole parent with three children $290 and for a couple with two children $280. These housing shortfalls contribute to overall shortfalls of income needed to cover costs of a very modest level of participation in society, ranging from $88 to $307 per week for those households.*

LIMITED IMPACT ON AFFORDABILITY

The AS in its current form has a limited impact in reducing housing affordability stress, that is, households having to pay more than 30% of gross income on housing costs. AS payments are a significant housing subsidy, but it is estimated that in 2019 overall, the AS reduced the number of households in housing stress by only 13,000 of the 142,000 in severe affordability stress for those on the lowest incomes.[17] Researchers have estimated that under current settings and based on 2019 data, an additional spend of $2.4 billion would need to go to lower income AS households to reduce housing costs below the 30% level.[18]

The relatively low maximum payment limits for the AS will be contributing to the weak affordability outcomes. The current maximum amounts were set in 2018 based on 2016 rents, but average rents have increased by nearly 40% in the six years between February 2016–2022 and lower quartile median rent by 47%.[19] If the AS maximum amounts had been adjusted for the 40% increase in average rents, the Area 1 maximum for a single person of $165 would be $66 higher at $231, and the maximum for a family with three or more people of $305 would $122 higher at $427.

Urban or Rural? *Community groups in Queenstown have been advocating for several years now for changes to the designation of parts of their region near the city. These are the places where many people on lower incomes live who work in town or in the surrounding country region. Areas that are considered urban by the Council are classified as rural by MSD for the AS. It means that neighbouring parts of Queenstown have widely different maximum thresholds for the AS, despite market rents being similar. Neighbouring suburbs classified as Area 1 have a maximum AS subsidy of $305 compared with $120 for Area 4 for a couple with two children. The result is that low income households have to find the difference between actual rent and the lower Area 4 AS support out of their own pockets.*[20]

There is low up-take of AS outside of the welfare system, with an estimate of 106,000 people in May 2018 who may not have be receiving it,[21] although exact information on the extent of this is not available.[22] The limited efforts to promote the AS to non-welfare recipients may have been motivated by government budget concerns.[23] The very low limit for cash assets ($8100 for a single person and $16,200 for a couple) compared with that for the IRRS ($42,700) likely also means that households needing support are not eligible or have to exhaust savings before getting support, further limiting their chances of achieving home ownership.

PROTECTION AGAINST HOMELESSNESS AND EXCESSIVE RENT INCREASES

The AS does not offer entitlement to housing, but is paid as a subsidy to a household should they be fortunate enough to secure housing with the income and other entitlements they have. This means that the AS does not necessarily secure people against homelessness or even poor quality housing.[24] In other countries, payment of housing support is linked to compliance with housing standards.[25] It makes sense to explore ways to link AS and other housing support to basic requirements, such as the healthy homes regulations. While it might not be feasible in the immediate short term to implement, this needs to be part of medium-term changes to housing support policy.

Ensuring renters are genuinely better off as a result of changes to housing support will also involve measures to promote fair rent levels. Annual rent reviews could be limited to no more than the lower of CPI inflation or the increase in average wages. There should also be a requirement for the rent of a new tenancy to be within a reasonable range of the previous tenancy (with allowance for situations where significant improvements have been made to the property rented).

Transitional and Emergency ***housing are the frontline responses to homelessness that have been rapidly expanded in the past five years. Transitional housing places increased from 1123 places in June 2017 to 5143 in March 2022.[26] These programmes work with people with more complex needs over a three-month period to help them stabilise their lives and prepare to move into longer-term housing. Emergency housing supports people in temporary accommodation, such as motels and boarding houses, while they seek other longer-term housing. The number of clients/families supported through emergency housing grants increased from 1671 in June 2017 to 5854 in March 2022. The key issue for both these forms of immediate and short-term responses is that people leaving struggle to find secure rental housing they can afford. Better financial support through higher AS payments so a household can find secure rental housing would likely be more cost effective, with the average annual cost of AS at around $6000; around the same as a few weeks supporting that same household in emergency housing.***

A WAY FORWARD

The way forward must be guided by the principle of ensuring people have sufficient resources available to enable them to find and retain rental or other affordable housing. In the short term the AS has the advantage of being able to deliver much-needed assistance directly to those most affected by rising rents and housing costs.

The changes needed to AS must aim to genuinely meet housing costs for those low-income households with high housing costs relative to income, and support a pathway into more secure housing (e.g., assisted home ownership). The AS changes need to work together with other welfare benefits to achieve income adequacy for lower-income households. Changes to AS also should be supported by other measures to further promote assisted home ownership and to moderate rent increases.

The 2019 WEAG report set out a clear programme of reform for the AS and other housing support. The focus was on enabling low-income families to develop an asset base, if they so choose, through options such as secure low-interest loans, rent-to-buy schemes, shared equity and other forms of microfinancing. This needs to be accompanied by a realistic definition of housing affordability that is proportional (25–30%) to household incomes in the lower half of the household income range and asset tests and abatement rates that do not disincentivise home ownership or employment.[27]

Progressive home ownership and other assisted ownership models need to be further expanded and greatly boosted. It has been proposed that higher-income households (e.g., over $100,000) receive an assisted home ownership subsidy instead of AS. AS expenditure could be more effective if some expenditure was directed into other forms of housing assistance that better leverages household resources in a way that opens pathways into intermediate tenures that promote the building of low-cost housing and relieve pressure on the rental market.[28]

Specific areas for action include:

- AS areas need to be revised regularly and the maximum limits updated annually for increases in housing costs inflation.
- Thresholds for household savings need to lifted for AS and aligned across welfare benefit categories. The AS limit of $8100 for a single person ($16,200 for a couple) needs to be lifted to match that for the IRRS of $42,700.
- Include an affordability test for the AS of housing costs at no more than 30% of household income for the lower half of household incomes.
- Progressive home ownership and other assisted ownership models need to be further expanded and greatly boosted.
- Link the AS to healthy homes standards and fair rent levels.

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Every effort is made to ensure the accuracy of facts and information in this report. Inaccuracies or errors in interpretation remain ours and we are happy to discuss any brought to our attention.
The views are the authors', expressed in the name of The Salvation Army, Te Ope Whakaora.

We welcome your comments.
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