

Report



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

Date: 31 October 2024 **Security Level:** IN-CONFIDENCE

To: Hon Chris Bishop, Minister of Housing
Hon Louise Upston, Minister for Social Development and
Employment
Hon Tama Potaka, Associate Minister of Housing

File Reference: REP/24/10/995

Further decisions on Budget 2024 initiative: Treatment of housing contributions from boarders

Purpose of the report

- 1 To provide an update on the privacy feedback received from the Office of the Privacy Commissioner (OPC) and MSD's proposal in response.
- 2 It also seeks decisions on the remaining aspects of the policy required to inform our instructions to the Parliamentary Counsel Office.

Executive summary

- 3 On 3 October 2024, you received detail on the policy design and plan to implement the Budget 2024 boarders' contribution initiative [REP/24/9/865 refers] and we indicated further advice would be required.
- 4 This report includes further advice on:
 - 4.1 privacy limitations and their impact on implementing this policy
 - 4.2 options for closing the gap in treatment of excess income from boarders for Social Housing (SH) tenants
 - 4.3 automated decision-making (ADM), including recommendations on the decisions proposed to be made using ADM
 - 4.4 the treatment of boarders and renters, including who is a boarder, and ensuring the treatment of boarders and renters is consistent and provided for in the legislation.

- 5 s 9(2)(h) [REDACTED]
[REDACTED]
[REDACTED] Legislative amendments to override the Privacy Act could be explored, but we recommend further work on these privacy limitations should not be progressed at this time, if we are to meet the timeframes required for Budget 2025 legislation.
- 6 The privacy limitations mean that, for the commencement of this policy, we will need to rely primarily on client declarations for their accommodation costs as is the case with many MSD products and services. This means that a risk remains that the Government will continue to subsidise the same accommodation costs twice where incorrect or fraudulent information is declared.
- 7 Expected savings may be affected by this limitation. We will monitor the impact of this change by assessing a random sample of boarding arrangements six months after commencement and provide you further advice to support a decision on whether amendments to override the Privacy Act should be investigated.
- 8 Updated modelling has been done to include the impact on expected savings as a result of the further policy design and privacy limitations. This shows that savings could increase or decrease, depending on the agreed treatment of boarders in SH (see recommendation 6). Savings are expected to:
- 8.1 either, fall by \$43.609m to \$107.347m over the forecast period, if you agree to maintain the current IRR calculation
- 8.2 or, increase by \$5.330m to \$156.286m over the forecast period, if you agree to change the way IRR is calculated.
- 9 Changes to the Cabinet decision for this initiative are required to reflect necessary legislative amendments to ensure the treatment of renters is also provided for in the legislation, and to update the commencement date. Cabinet agreed to count the housing contribution from all boarders in the calculation of housing subsidies from 1 April 2026 [CAB-24-MIN-0148.74 refers].
- 9.1 This decision does not include scope for creating legislation on the treatment of renters, which is required to ensure the treatment of both boarders and renters is provided for in the legislation.
- 9.2 We also propose to bring the commencement date forward to 2 March 2026 as our Annual General Adjustment (AGA) of benefit rates occurs on 1 April and MSD will not have capacity to implement both changes on this date.
- 10 We recommend you agree to changes to the above settings (previously agreed to by Cabinet) for the Parliamentary Counsel Office to draft the


legislation, and we recommend you request agreement to the settings described in paragraph 9 from the Cabinet Legislation Committee (LEG) when they consider the draft Bill.

- 11 Note that taking policy decisions to LEG is not best practice as this is not the purpose of LEG. However, to meet the timeframes for Budget 2025 legislation, we will not be able to take these decisions to a Cabinet committee prior to this.
- 12 We need your decision on these issues no later than 11 November 2024 so that drafting instructions can be provided to the Parliamentary Counsel Office in early December 2024 at the latest.

Recommended actions

It is recommended that you:

Privacy advice

- 1 s9(2)(g)(i) 
- 2 **note** to enable the policy to be implemented in the way MSD had proposed, primary legislation to amend the Social Security Act 2018 to override applicable provisions of the Privacy Act would need to be explored
- 3 **note** MSD would need more time to work through the requirements and implications of overriding the Privacy Act and would need to further consult with OPC as part of this work
- 4 **agree** to not progress work investigating possible changes to override the Privacy Act, recognising that these changes cannot be worked through ahead of Budget 2025 legislation

AGREE/DISAGREE

- 5 **note** MSD will monitor the impact of this change by assessing a random sample of boarding arrangements six months after commencement and provide you further advice to support a decision on whether amendments to override the Privacy Act should be investigated

Treatment of boarders for Social Housing tenants

- 6 agree to:

EITHER

- 6.1 Retain the existing calculation of Income-Related Rent (IRR) as agreed in REP/24/9/865, noting that some income from boarders will not be fully reflected in the rate of a Social Housing (SH) tenant's IRR – *prioritises minimising the financial impacts of this policy change for vulnerable SH tenants*

AGREE/DISAGREE

OR

- 6.2 Change the calculation of IRR to recognise the full housing contribution from boarders in the IRR calculation, noting the risks outlined in paragraph 40 – *prioritises cost savings and equitably implementing this policy for people receiving the Accommodation Supplement (AS) and in SH (i.e., boarder contributions are treated as accommodation costs for both)*

AGREE/DISAGREE

- 7 **note** if you agree to recommendation 6.1 above, this might decrease net savings for this initiative by \$43.609 million over the forecast period, due to the estimated reduction in AS and Temporary Additional Support savings modelled to account for the privacy limitations in implementing this initiative
- 8 **note** if you agree to recommendation 6.2 above, this could increase net savings from this initiative by \$5.330 million over the forecast period, but given the risks with the policy, MSD do not recommend that you recognise these additional savings or make any appropriation changes at this point
- 9 **note** the Ministry of Housing and Urban Development (HUD) and Kāinga Ora have raised concerns with this modified approach and do not support the proposal to apply 100 percent of a boarders housing contribution to a SH tenant's IRR
- 10 **note** HUD believes that a maximum of 70 percent of the housing contribution from boarders should be applied to the IRR to reduce the adverse effects, but we would need more time to work through this option and it could not be done in time for Budget 2025 legislation
- 11 **note** if you wanted to explore another modified option further, another legislative vehicle for this initiative would need to be found

Automated Decision Making (ADM)

- 12 **note** you previously agreed to allow the use of ADM in the administration of AS and this will require a legislative change to allow for ADM
- 13 **agree** that as part of removing discretion from the AS to enable ADM, we will specify that AS is not granted for a specified time period (i.e., recipients remain eligible for AS until they are no longer eligible – grants will not expire)

AGREE/DISAGREE

- 14 **note** the Minister for Social Development and Employment will receive options for the detailed design of ADM in early 2025 which will include decisions on the specific times when reviews would be triggered, exceptions to the review, the required IT changes and implementation impacts

Boarders vs renters

- 15 **agree** that boarders will be described in the legislation, for the purposes of AS only, and if a person is not identified as a boarder, they will be treated as a renter (meaning 100 percent of their contribution towards accommodation will be treated as accommodation costs, instead of 62 percent)

AGREE/DISAGREE

- 16 **agree** to instruct Parliamentary Counsel Office to draft the legislation to confirm the treatment of renters as described in **Annex 1** in the legislation, so that the legislation will provide for the treatment of boarders and renters together

AGREE/DISAGREE

- 17 **agree** to take to the Cabinet Legislation Committee a recommendation to include the current treatment of renters in the draft Bill required to implement this policy – for agreement when they consider the draft Bill

AGREE/DISAGREE

Commencement date for initiative

- 18 **note** Cabinet agreed to count housing contributions from all boarders in the assessment of housing subsidies from 1 April 2026, but as this is the same time as the Annual General Adjustment (AGA) of benefit rates for MSD, MSD will not have capacity to implement both of these changes at the same time

- 19 **agree** to instruct the Parliamentary Counsel Office to draft the legislation to commence from Monday 2 March 2026, to allow the changes to happen prior to the AGA

AGREE/DISAGREE

20 **agree** to take the recommendation to change the commencement date for this policy from 1 April 2026 to 2 March 2026 to the Cabinet Legislation Committee for agreement when they consider the draft Bill required to implement this policy

AGREE/DISAGREE

Alex McKenzie
Manager
Housing Policy

Date

Hon Chris Bishop
Minister of Housing

Date

Hon Louise Upston
Minister for Social Development and
Employment

Date

Hon Tama Potaka
Associate Minister of Housing

Date

Background

- 13 On 3 October 2024, you received initial detail on the policy design and plan to implement the Budget 2024 boarders' contribution initiative [REP/24/9/865].
- 14 s 9(2)(h) [REDACTED]
[REDACTED] We were awaiting feedback from OPC at the time of that advice.
- 15 We have now received feedback from OPC and our proposal in response to it is explained below.
- 16 In addition, there are some remaining decisions that are needed to inform our drafting instructions to the Parliamentary Counsel Office. Advice to support you in making these decisions is also included here.

The effectiveness of this policy may be constrained by privacy limitations

- 17 Due to timing constraints, we recommend that the privacy limitations are not addressed for the Budget 2025 legislation.
- 18 As part of current process for the treatment of boarders, as well as a range of other products and services, MSD relies on declarations from all applicants. The current process assumes these declarations to be accurate and for changes in circumstances to be notified to MSD. This current process would continue if no changes to override the Privacy Act are progressed.
- 19 There is a risk that the homeowner or person receiving the board payments and their boarder provide information that is inconsistent. This is an existing risk with a range of MSD services and products, but is a particular issue for this policy as it could limit our ability to achieve the intent of ensuring the Government is not subsidising the same set of accommodation costs twice.

s 9(2)(h) [REDACTED]

- 20 To minimise the risk of inconsistent information being provided, we had proposed to link these clients in the MSD system. MSD would then use the information provided by the homeowner or person receiving the board payments to update the boarders' information and adjust the boarders' subsidies as required.

21 s 9(2)(h) [REDACTED]

22 We would need to explore amending the Social Security Act 2018 (SSA) to override the applicable provisions of the Privacy Act. MSD would need more time to work through the requirements and implications of overriding the Privacy Act and would need to further consult with OPC as part of this work.

23 Amendments likely to be required would be:

- a provision enabling MSD to collect and use personal information provided by a person other than the individual concerned to make decisions about that person – to override IPP 2 (general rule that personal information is collected from individual concerned)
- provisions to determine the process MSD must follow before making decisions with that information – to meet IPP 8 (accuracy of personal information to be checked before use).

24 s 9(2)(h) [REDACTED]

25 We do not have enough time to fully work through changes to address the privacy limitations in time for Budget 2025 legislation. OPC has also advised that legislative amendments which override the Privacy Act should not be enacted through Budget legislation – they should only be done through standalone legislation that is subject to normal processes of agency consultation and parliamentary scrutiny.

26 Without further investigation, we cannot confirm how much more time is needed to work through the privacy limitations, due to the novel approach required. Further investigation would divert resources from implementing this proposal for March 2026, so is not recommended at this time.

s9(2)(h) [REDACTED]

² MSD has a number of information sharing agreements with [other agencies](#) providing for indirect collection, these agreements are in most cases authorised by legislation.

- 27 If you agree to proceed without addressing these privacy limitations, MSD will look to monitor the impact of this initiative by assessing a random sample of boarding arrangements 6 months after this change has been implemented. We will then provide you further advice to support a decision on whether amendments to override the Privacy Act should be investigated.

The privacy limitations cannot be worked through quickly, which introduces a risk for the effectiveness of the policy

- 28 Without amendments to override the Privacy Act, there is a risk that the Government may continue subsidising the same set of accommodation costs twice. The current process has a risk that the collection of information is not comprehensive and that perverse and unusual arrangements may be created to circumnavigate the system.
- 29 For example, this could happen where the boarder declares themselves to be a renter (meaning 100 percent of their payment is taken as accommodation costs) but the person receiving the board payments declares them to be a boarder (meaning only 62 percent of their accommodation costs offset the person receiving the board payments' accommodation costs). In this case, there is a risk that the remaining 38 percent of the boarders' contribution could be taken as accommodation costs for both the person receiving the board payments and the boarder, and both housing subsidies would be calculated to reflect that.
- 30 Collecting personal information from the person receiving the board payments, then matching and linking clients into households would have enabled MSD to automatically reconcile and adjust payments for boarders/renters in the household. It would have also allowed MSD to generate automatic communication with clients to confirm the accuracy of any amendments to their circumstance. MSD does not have the staff capacity necessary to do this manually and without the use of personal information. Not being able to do this will limit MSD's ability to identify and follow up on any possible incorrectly or fraudulently declared housing arrangements.

Closing the gap identified in the treatment of boarders for SH tenants

You have agreed to how to treat excess income for SH tenants

- 31 You have agreed to how excess income from boarders would be treated for SH tenants.³ In our previous advice, we noted that there was a risk with this approach that some SH tenants would be getting contributions from boarders that are not recognised towards their income for assistance provided by MSD. This would be inconsistent with how excess income from boarders is recognised for AS recipients.
- 32 Some SH tenants whose IRR is less than market rent will be receiving housing contributions from boarders that are more than their IRR, but less than the market rent. With the currently agreed approach, any housing contributions from boarders that are less than the market rent for a SH property would not be considered as income for the calculation of income-tested assistance. This would mean that some SH tenants are receiving a small amount of excess income from boarders that will not be included as income.

We have identified a modified approach which would close the gap identified in our last advice

- 33 With further consideration, we have identified a modification to this approach that would close the gap identified and reflect the housing contributions from boarders as accommodation contributions for SH tenants.
- 34 This modification would change the way IRR is calculated to recognise the full housing contribution from boarders in the IRR calculation, recognising they are accommodation contributions rather than income. Currently only 25 or 50 percent of the housing contribution from boarders would be used to calculate the IRR, as this is how income is treated. See **Annex 2** for further explanation of how the calculation would be modified.
- 35 This modified approach would affect all SH tenants with boarders as their IRR would increase to reflect the full housing contribution from their boarder(s), even if they do not reach market rent. This approach would also mean that

³ For SSA housing subsidies, if the housing contributions from boarders exceed the total allowable accommodation costs of the person receiving payment any excess will be counted as income. For those in social housing, excess income would be counted if housing contributions from boarders exceed the total market rent applicable to their SH property. This excess income from boarders will be used when assessing eligibility for and calculating the rate of assistance under the SSA and for income-tested assistance that uses the SSA definition of income.

anyone who has excess income from boarders would be paying market rent in their SH tenancy, which would mean they no longer receive the Income Related Rent Subsidy (IRRS).

- 36 This approach would align with how we treat boarder housing contributions for AS, as the housing contributions from boarders will be fully reflected in the accommodation costs for the person receiving the board payments. Modelling suggests this could result in estimated IRRS savings of \$70.355 million over the forecast period (compared to \$21.416 million in IRRS savings forecast as part of Budget 2024 advice) (see **Annex 4** for more detail). However, risks that could impact the savings realised are also increased (described further in the next section).
- 37 A decision to use the modified approach to calculating IRR would ensure a more equitable approach to how this policy is applied to people receiving AS and people in SH. It would also prioritise cost savings. A decision to keep the agreed option using the current IRR calculation would prioritise minimising the financial impacts of this policy change for vulnerable SH tenants.

The modified approach would move more people towards market rent and has some risks

- 38 The modified approach introduces some risks by incentivising a behavioural change that would impact the savings realised by this initiative.
- 39 The proposed modification to the treatment of excess income from boarders would result in an increase to IRR and reduction to IRRS for all SH tenants with boarders who are not already paying market rent (note all additional residents⁴ are considered boarders).
- 40 Risks with this approach are as follows:
- **Increased tenancy reviews:** It would also mean that more people are eligible for tenancy reviews as more people would be on market rent and could have flow on impacts for MSD's ability to meet demand for these reviews.
 - **Reduced utilisation of SH:** The incentive to better utilise a SH property will be removed, as tenants will have all boarder housing contributions (i.e. 62 percent of payments from boarders) fully reflected in their IRR. However, the remaining 38 percent of the boarder contributions would

⁴ An additional resident in social housing (SH), means a person who is aged 16 or over, is financially independent (as defined in Schedule 2 of the Social Security Act 2018), resides or is to reside in the housing, but is not a person to whom the SH is or is to be let, nor their spouse or partner.

continue to be excluded from the IRR calculation, reflecting the increased household costs from having a boarder.

- **Increased demand for temporary housing:** If SH tenants choose not to take on boarders in response to this policy, there could be flow on impacts for current boarders who may find it difficult to find suitable, affordable alternate accommodation. This could put pressure on entry into temporary housing including Emergency Housing and Transitional Housing. However, where boarding arrangements reflect family obligations, we would not expect these to change.
- **Reduced savings recognised:** Some SH tenants will stop charging the boarder to live there. This will reduce the IRRS savings but the boarder will not qualify for AS, which would mean some savings are still realised. However, since the IRRS generally provides more support than the AS, savings may be lower than if the IRRS savings themselves had been realised. This could have significant impacts on the estimated savings, which are not able to be modelled as the behaviour change from clients is not able to be reliably predicted.
- **Increased hardship:** Increases in IRR, in addition to recognising contributions from all boarders could create further cost pressures for vulnerable households and have flow on implications of increasing access to other hardship assistance (such as Temporary Additional Support (TAS)).

41 We have provided you options to decide whether you want to keep the existing calculation of IRR in line with our previous advice, or whether you would like to introduce this new IRR calculation which recognises the full boarder housing contribution in IRR. To support you in this decision, a summary of the possible changes to a SH tenants' IRR is included in paragraphs 47 and 48.

The Ministry of Housing and Urban Development and Kāinga Ora have raised concerns with this modified approach

- 42 The Ministry of Housing and Urban Development (HUD) and Kāinga Ora have raised concerns with this modified approach and do not support the proposal to apply 100 percent of a boarders' housing contribution to an SH tenant's IRR.
- 43 Kāinga Ora have noted that the risk of increased rent arrears and debt to them would be greater with this approach, because the rents to tenants will be higher. Kāinga Ora also noted that tenants will face a much greater affordability issue if their boarder misses one or more payments under the proposal to change the IRR calculation. This could also result in an increase in requests for Rent Arrears Grants, or increased demand for temporary

housing, depending on what action is taken by Kāinga Ora if increased rent arrears and debt occur.

- 44 Kāinga Ora have also noted concerns that tenants stop declaring boarders to avoid rent increases. Kāinga Ora may lose the visibility on who is in their homes that they require to make accurately informed tenancy management decisions.
- 45 HUD believes that the modified approach which would apply 100 percent of a boarders housing contribution to a SH tenant's IRR would be unworkable in practice. This is due to significant risk of non-compliance, risks of non-compliance jeopardising savings, higher monitoring and audit costs for Kāinga Ora, and adverse outcomes from deterring people from taking on boarders (as noted above).
- 46 HUD believes that a maximum of 70 percent of the housing contribution from boarders should be applied to the IRR, to reduce the adverse effects described above. We would need more time to work through this option. This could not be done in time for Budget 2025 legislation. If you wanted to explore this further, another legislative vehicle for this initiative would need to be found.

Some examples of how SH tenants could be affected by the IRR calculation options

47 For a single SH tenant who:

- is on the 18+ rate of Jobseeker Support of \$353.46 net
- has no dependent children
- earns wages of \$80.90 net per week
- has two boarders each paying \$200.00 per week
- is living in a SH property with a market rent of \$600.00 per week
- has no Family Tax Credit.

They could have a 104 percent increase in IRR under the currently agreed option or a 230 percent increase in IRR for the modified option.

	Current IRR	New IRR	Modified calculation IRR
IRR	\$108.00	\$210	\$356
Percentage increase		94% increase	230% increase

48 As another example, for a single SH tenant who:

- is on an abated 18+ rate of Supported Living Payment of \$384.84
- has no dependent children
- earns wages of \$194.16 net per week
- has an income exemption for the first \$20.00 per week⁵
- has two boarders living each paying \$400.00 per week
- is living in a SH property with a market rent of \$415.00 per week
- has no Family Tax Credit.

They could have a 142 percent increase in IRR under the currently agreed option, or a 161 percent increase in IRR for the modified option (increase is capped by the market rent).

	Current IRR	New IRR	Modified calculation IRR
IRR	\$159.00	\$384	\$415
Percentage increase		142% increase	161% increase

These changes aim to treat boarders and renters consistently

- 49 Current practice is to treat all boarders as if 62 percent of their payment goes towards accommodation costs, regardless of whether we know their actual accommodation costs. By contrast, renters have 100 percent of their rental cost included as their accommodation costs, which accurately represents how much they pay. This practice is not proposed to be changed here, as it is out of scope for this work, which looks to recognise contributions from all boarders. To revisit this approach would require more time to consider the policy options further and could have financial implications.
- 50 Maintaining this current approach, the difference between boarders and renters will be determined in legislation and operational guidance. We propose this would be done by defining a boarder in the legislation and

⁵ Up to \$20 a week of personal earnings for clients and their partners, who qualify to get Supported Living Payment, are exempt in income assessments.

treating all those who do not fall into the definition of a boarder (or homeowner) as a renter.

51 We consider a boarder to meet one of the following criteria:

- A boarder:
 - makes a regular payment for living in the premises, and
 - the regular payment is for their accommodation and food, and may include utilities and other service costs, and
 - is not named on the tenancy agreement, and
 - is not a flatmate with shared food costs that can be identified separately from their accommodation costs.
- For those living in social housing properties, a boarder is an additional resident (as defined by s 2 of the Public and Community Housing Management Act 1992).
- A boarder is a person living in a commercial boarding house.

Treatment of Renters

52 The treatment of housing contributions from boarders' policy aims to align the treatment of boarders with the current treatment of renters, where possible. See **Annex 1** for a description of the current treatment of renters.

53 s 9(2)(h)

[REDACTED]

54 The Cabinet decision agreeing to count the housing contribution from all boarders in the calculation of housing subsidies [CAB-24-MIN-0148.74 refers] does not include scope for amending the legislation to provide for the treatment of renters. Due to the limited time the Parliamentary Counsel Office have to draft this legislation ahead of Budget 2025, we recommend you agree to the settings for the treatment of renters, for the Bill to be drafted on this basis, and that you request agreement to these settings from the LEG when they consider the drafted Bill.

55 Note that taking policy decisions to LEG is not best practice as this is not the purpose of LEG. However, to meet the timeframes for Budget 2025 legislation, we will not be able to take these decisions to a Cabinet committee prior to this.

There are some remaining decisions required to enable Automated Decision-Making for this initiative

- 56 We consider that it would be most effective to automate some of the actions required to administer the AS under these new settings. ADM is proposed to ensure that implementation of this change is possible without large impacts on frontline staff capacity. A summary of ADM and the current ADM work underway in MSD is included in **Annex 3**.
- 57 You have agreed to allow the use of ADM in the administration of the AS, as part of enacting this change. s 9(2)(h) [REDACTED]
[REDACTED]
[REDACTED] You have also agreed to amend the SSA so that the AS is no longer granted on a discretionary basis [REP/24/9/865 refers].
- 58 As we are not proposing to address the privacy limitations in the initial legislative change, we are limited in the circumstances we can use ADM.

We recommend the AS has no specified period of grant

- 59 As part of removing the discretion from AS to enable ADM, we will need to specify a period of grant (as this is currently also discretionary).
- 60 We recommend AS is not granted for a specified period of time (i.e., recipients remain eligible for AS until they are no longer eligible). This means that grants will not expire. This will align with MSD current practice.

The Minister for Social Development and Employment will receive further advice on ADM in January 2025

- 61 The Minister for Social Development and Employment recently agreed to progress changes to automated reviews for ongoing assistance that does not expire (including the AS). This included agreement to allow MSD to automatically:
- trigger a review, periodically, for specified benefits that do not expire
 - stop a client's benefit if they do not complete the review
 - process these reviews automatically (i.e., decide to continue a client's entitlement) if the client has no changes in their circumstances that affect their eligibility or rate payable [REP/24/8/801 refers].

⁶ This is required partly because the overarching change to enable ADM the Minister for Social Development and Employment has recently agreed will not be made until after the implementation of this boarder initiative.

- 62 The Minister for Social Development and Employment will receive options for the detailed design of ADM in early 2025. These options will include decisions on the specific times when reviews would be triggered, exceptions to the review, the required IT changes and implementation impacts.
- 63 Some work which is underway relating to this initiative, which the Minister for Social Development and Employment will receive advice on is:
- consideration of automatically applying flow on effects of the boarders' contribution changes to TAS and Special Benefit (SpB) so that recalculation of these supports is done automatically on the day of implementation
 - a regular review period of 52 weeks for the AS and other ongoing assistance.

Financial Implications

- 64 If you agree to modify the IRR calculation for SH tenants with boarders, this could increase net savings for this initiative by \$5.330 million over the forecast period. However, given the risks with the policy, MSD do not recommend that you recognise these additional savings or to make any appropriation changes at this point. If we think there are any material changes to the fiscal forecast as part of these changes, they will be reflected in MSD's forecasts as a forecast change in a future economic and fiscal update.
- 65 The inability to match and link clients in households may also have implications on the frontline capacity needed to implement this policy. However, it could reduce the complexity of the IT solution required to implement the system. If this occurs, we will provide you further advice exploring the option of transferring some of the appointed Capital Expenditure for this initiative into Operational Expenditure.

Updated modelling on the savings expected from this initiative

The original modelling

- 66 As part of Budget 2024 decisions, this initiative was expected to return \$150.96 million in operating funding over four years. This includes a reduction of \$76.8561 million in expenditure on the AS, \$21.416 million on the IRRS, and \$63.353 million on TAS and SpB over the forecast period. Net savings from this initiative using these figures have been returned to the Crown.

Changes to update the modelling

- 67 Following policy decisions and further understanding of privacy limitations, we have updated the modelling used to inform the expected savings.
- 68 For the privacy limitations, we have assumed that 20 percent of boarding arrangements will not be captured accurately in the MSD system as we will not be able to check these automatically. It is difficult to determine the level of accuracy that we will achieve in the system, so this assumption could be wrong, resulting in lower or higher savings. With this assumption, the expected savings have dropped to \$56.308 million in expenditure on the AS and \$39.282 million on TAS and SpB over the forecast period.
- 69 With the agreed changes to recognise excess income received from boarders as assessable income for assistance under the SSA, we have also recognised some additional savings in Supported Living Payment, Sole Parent Support and Jobseeker Support and Emergency Benefit. These come from a reduction in \$0.689 million in expenditure on Jobseeker Support and Emergency Benefit, a reduction in \$0.159 million on Sole Parent Support and a reduction in \$0.160 million in expenditure on the Supported Living Payment over the forecast period.
- 70 Overall, these two changes have resulted in a drop in the expected savings under Vote Social Development over the forecast period. This drop may be off-set by the increase with savings in Vote Housing that will occur if you agree to the new calculation of IRR for recognising contributions from boarders for SH tenants.
- 71 We have not updated modelling for the savings on the IRRS for the current calculation of IRR for SH tenants with boarders, but we have updated modelling for the new IRR calculation, if it is agreed. If the new calculation of IRR is agreed, the savings under Vote Housing will increase to \$70.355 million as a result of reduced expenditure on the IRRS.

Updated net savings

- 72 Using the figures that have been updated, net savings under this initiative will:
- either, reduce by \$43.609 million to \$107.347 million over the forecast period, if the current IRR calculation is maintained for SH tenants with boarders
 - or, increase slightly by \$5.330 million to \$156.286 million over the forecast period, if the new IRR calculation is agreed to.

73 It is important to note that these expected savings are based on the very uncertain assumptions that:

- 20 percent of boarding arrangements will not be captured accurately in the MSD system
- people will not alter their housing arrangements as a result of this policy change.

74 See **Annex 4** for a breakdown of the expected operating savings– both from the Budget 24 bid and the updated figures (assuming the new IRRS calculation is agreed to).

Other matters for decision or for your information

Commencement of initiative – for decision

75 Cabinet agreed to count housing contributions from all boarders in the assessment of housing subsidies from 1 April 2026. However, this is the same time as the AGA for MSD and we will not have capacity to implement both these changes at the same time.

76 We recommend that this change instead be implemented from Monday 2 March 2026 to allow the changes to happen prior to the AGA. As Cabinet previously agreed to the 1 April 2026 start date, we propose this change will be made by a recommendation to LEG when they consider the draft Bill required to implement this work.

Tax implications – for your information

77 We do not expect there to be any implications to the amount, rate or way in which income from boarders is taxed by the IRD. s 9(2)(h)

78 The policy change may impact the rate of someone's main benefit or the amount of other social security assistance (which relies on the definition of income under the SSA to calculate entitlement and the rates of assistance). This is because the new 'excess income' calculation may result in people having a higher rate of income (for the purposes of the SSA) than they would have before the policy change when the 'profit from boarders' calculation was used to calculate any income received from boarders.

79 This may have tax implications as any increases to a person's income (under the SSA) may reduce their rate and entitlement to a main benefit which may in turn change their amount of taxable income. We expect this to only affect a small number of people. Any changes to a person's entitlement or rate of

other assistance (that is not a main benefit) under the SSA, including AS, will not impact a person's taxable income.

80 s 9(2)(h) [Redacted text block]

81 We will bring these definitions and this risk to IRD's attention when they are consulted on the Bill. We will also ensure these differences are covered in any training material for MSD frontline staff.

Consultation

82 We have consulted with HUD, Kāinga Ora, Inland Revenue and the Treasury on this paper.

Next steps

83 We need your decision on these issues no later than 11 November 2024. We are currently in the process of writing drafting instructions for the Parliamentary Counsel Office, which we are aiming to provide in early December 2024 at the latest.

84 Following your decisions, we propose you take a paper to LEG in March 2025, to get agreement to the draft Bill and agreement to the decisions indicated in this report. MSD may also need to provide a Supplementary Analysis Report (SAR) as part of this paper, to meet the Regulatory Impact requirements for this proposal. We will discuss the timing of this paper with your office.

85 We have also informed Treasury that this amendment will need to be included in Budget 2025 legislation.

86 The table below shows the expected timing for the next steps.

Action	Timing
Final policy decisions from Ministers	11 November 2024
Drafting instructions sent to the Parliamentary Counsel Office	6 December 2024 at the latest
Cabinet paper with amendment Bill to LEG and Cabinet (may also include a SAR)	March 2025
Budget 2025 legislation	TBC (April/May 2025)

Annexes

87 Annex 1: Current treatment of renters

88 Annex 2: How IRR would be calculated under the agreed and modified options

89 Annex 3: Automated decision-making

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Annex 1: Current treatment of renters

Rent received counts towards the accommodation costs for Accommodation Supplement

- 1 A person renting accommodation can rent out a room in that accommodation to another person. The accommodation costs of the person receiving the rent payment is calculated as the rental cost of the premises, less the rent they are receiving for the room.
- 2 Where a homeowner is renting out a room in the house they live in to another person, to determine their eligibility for AS their accommodation costs are assessed on the total accommodation costs of the premises (including mortgage interest and principal repayments), less the rent they are receiving for the room.
- 3 This treatment of rent received prevents the double subsidisation of accommodation costs that can currently occur with board payments.

Rent received counts towards income if the rent received exceeds the total accommodation costs

- 4 For renters, if the rent received exceeds the total rent for the property, the person receiving the rent payments will not have any accommodation costs and they will be ineligible for the AS. Any amount of rent received in excess of the total amount of rent for the property is charged as income to calculate assistance under the Social Security Act 2018 (SSA) and/or other assistance that uses the SSA definition.
- 5 Similarly, for homeowners renting out a room in the house they live in, the rent received for the room rented out is not considered income unless it is more than the total accommodation costs for the property. If the rent received exceeds the total accommodation costs for the homeowner, they will not have any accommodation costs, and they would be ineligible for the AS. Any amount received that is in excess of the total accommodation costs for the homeowner is charged as income to calculate assistance under the SSA and/or other assistance that uses the SSA definition.

Treatment of rent where part of the home is being rented out

- 6 Where a person who owns their own home is renting out part of a property (for example another house on the same section or a self-contained flat that is a part of the home) the person's AS is assessed on the proportion of the property they live in.
- 7 In this case, accommodation costs are treated as the total costs for the property multiplied by the proportion of the floor area that the person

receiving rent lives in. Income (if any), would then be calculated as rent received less total accommodation costs for property.

Rent received by a social housing tenant is treated as a board payment for the purposes of calculating IRR

- 8 When calculating IRR for SH tenants who have an additional occupant paying a contribution towards accommodation costs, those contributions are considered board payments.

Annex 2: How IRR would be calculated under the agreed and modified options

Current calculation	Agreed option	Modified IRR calculation
<p>Assessable income is:</p> <p>main benefit</p> <p>+</p> <p>other income</p> <p>The rate of Income Related Rent calculated using the household income is the total of:</p> <p>25% of assessable income, at or below the income threshold</p> <p>+</p> <p>50% of assessable income above the income threshold</p> <p>+</p> <p>a portion of the tenant's and their partner's family tax credit entitlement</p>	<p>Assessable income is:</p> <p>main benefit</p> <p>+</p> <p>other income</p> <p>+</p> <p>(boarder contributions x 62%)</p> <p>The rate of Income Related Rent calculated using the household income is the total of:</p> <p>25% of assessable income, at or below the income threshold</p> <p>+</p> <p>50% of assessable income above the income threshold</p> <p>+</p> <p>a portion of the tenant's and their partner's family tax credit entitlement</p>	<p>Assessable income is:</p> <p>main benefit</p> <p>+</p> <p>other income</p> <p>The rate of Income Related Rent calculated using the household income is the total of:</p> <p>25% of assessable income, at or below the income threshold</p> <p>+</p> <p>50% of assessable income above the income threshold</p> <p>+</p> <p>a portion of the tenant's and their partner's family tax credit entitlement</p> <p>+</p> <p>(boarder contributions x 62%)</p>

Annex 3: Automated decision-making

Overview of Automated decision-making (ADM)

- 1 ADM is a tool that can support the achievement of the Government's priorities, through delivering modern and efficient services at scale, and supporting people to access public services. For MSD, ADM is a critical enabler for delivering improved client outcomes, both now and in the future.
- 2 ADM is defined as 'a decision within an automated process where there is no substantial human involvement in making the decision (including statutory decisions)'.
- 3 By contrast, *automation* is the use of electronic systems to replace repeatable processes to reduce dependency on manual actions or interventions, with a human still being involved in any decision-making.
- 4 ADM is different from automation because it includes decision making in the automated processes. Automating parts of a process is different to automating a decision within the (automated) process.

How does work in this project fit into broader ADM changes?

- 5 In March 2024, the Minister for Social Development and Employment agreed to enact a broad authorising provision, accompanied by appropriate safeguards, which would allow MSD to use ADM for all decisions made under the Social Security Act 2018.
- 6 We are in the process of seeking Cabinet agreement for this legislative change. The Bill, which will allow the wider use of ADM by MSD, is due to be introduced to the house in mid-2025 and be enacted in 2026.
- 7 Alongside the broad authorising provision in the Bill, we are also proposing to introduce a requirement that all on-going benefits (including Accommodation Supplement) which do not expire will be reviewed at least once every 52 weeks.
- 8 As part of this we plan to legislate to allow ADM to be used to:
 - trigger the review
 - process the review if the client declares they have no change in their circumstances
 - stop their benefit if they do not respond to the review.

Annex 4: Breakdown of the expected operating savings

Figures provided for Budget 2024 decisions

Recommended operating savings (\$m)						
Operating expense category	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears*	Total
<i>Accommodation Assistance</i>	-	-	(6.471)	(33.616)	(36.766)	(76.854)
<i>Hardship Assistance</i>	-	-	(8.491)	(26.766)	(28.096)	(63.353)
<i>Income Related Rent Subsidy</i>	-	-	-	(6.040)	(15.376)	(21.416)
Depreciation and/or capital charge (if relevant)	-	-	1.641	1.641	1.641	4.924
Net FTE funding	-	1.356	1.746	0.604	0.523	4.229
Net contractor/consultant funding	N/A	N/A	N/A	N/A	N/A	N/A
Net FTE and contractor/consultant overhead funding	-	0.441	0.581	0.162	0.109	1.294
Project Delivery OPEX – communications costs for delivery	-	0.220	-	-	-	0.220
Total (\$m)	-	2.017	(10.993)	(64.015)	(77.964)	(150.956)
* Note costs are expected to remain consistent in outyears but savings profile has only been modelled for the forecast period and may change.						

Formula and assumptions underlying costings

- 1 The previous model includes an estimate of the number of AS clients with boarders also receiving the AS (16,400 clients, 75 percent of which were assumed to have boarding arrangements).
- 2 The previous model includes the following assumptions:
 - 2.1 That MSD identifies and records board payments prior to change so their AS, Temporary Additional Support (TAS) and Special Benefit (SpB) would be assessed from February 2026.
 - 2.2 That boarder contributions towards AS, TAS and SpB accommodation costs will be recognised by reducing the accommodation costs for the homeowner or primary tenant by 62% of the contribution they receive from all boarders (but other preferred solutions may be identified as this policy is further developed).

- 2.3 That changes for AS, TAS and SpB recipients will begin in February 2026 and be rolled out over 12 months.
- 2.4 That changes for the IRR to recognise boarder contributions would begin in July 2026 and be rolled out over 12 months, with the full effect of changes realised after 14 months (due to the required 60-day notice period for changes to a client's IRR).
- 3 The previous model does not include:
 - 3.1 MSD clients with boarders who are not receiving the AS. This means that savings were potentially under-estimated. However, if board payments are not identified by MSD, then the savings were over-estimated.
 - 3.2 Removing the current calculation of "boarder profit" as income for AS, TAS, SpB and main benefit recipients who have 3 or more boarders (i.e. no longer recognising "boarder profit" for any boarders) – this was expected to increase the amount of support that a client receives, but impact is expected to be small due to the small amount of boarder profit under the current calculation and the small number of clients with 3 or more boarders.
 - 3.3 A flow on impact on the 'Student Allowance Accommodation Benefit for Sole Parents' for sole parent students with boarders – for the purposes of these costings, we assumed those changes to be negligible.
 - 3.4 Client actions to circumnavigate the change and any behavioural response that reduces instances of boarding or amount of board charged.
 - 3.5 Changes to the level of boarder income.
 - 3.6 Any increases to take-up of other assistance (e.g. hardship assistance and Housing Support Products) as a result of these changes – this is difficult to predict as we do not know how many households have boarders nor can we identify how many households will face significant hardship as a result of this proposed change.
 - 3.7 Any flow-ons to other supports (e.g. fewer eligible for AS may reduce number of people accessing Community Services Card).

Updated figures following further decisions and information (as at 23 October 2024)

Recommended operating savings (\$m)						
Operating expense category	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears*	Total
<i>Accommodation Assistance</i>	-	-	(9.793)	(23.406)	(23.109)	(56.308)
<i>Hardship Assistance</i>	-	-	(6.366)	(16.031)	(16.884)	(39.282)
<i>Supported Living Payment</i>			(0.025)	(0.065)	(0.07)	(0.160)
<i>Sole Parent Support</i>			(0.027)	(0.065)	(0.067)	(0.159)
<i>Jobseeker support and Emergency Benefit</i>			(0.114)	(0.281)	(0.294)	(0.689)
<i>Income Related Rent Subsidy</i>	-	-	(0.827)	(27.571)	(41.957)	(70.355)
Depreciation and/or capital charge (if relevant)	-	-	1.641	1.641	1.641	4.924
Net FTE funding	-	1.356	1.746	0.604	0.523	4.229
Net contractor/consultant funding	N/A	N/A	N/A	N/A	N/A	N/A
Net FTE and contractor/consultant overhead funding	-	0.441	0.581	0.162	0.109	1.294
Project Delivery OPEX – communications costs for delivery	-	0.220	-	-	-	0.220
Total (\$m)	-	2.017	(13.184)	(65.012)	(80.108)	(156.286)
* Note costs are expected to remain consistent in outyears but savings profile has only been modelled for the forecast period and may change.						

Formula and assumptions underlying costings

Italicised items are new or modified from the previous modelling.

4 The updated model includes:

4.1 Changes reducing the amount of AS, TAS and SpB.

4.2 *Changes reducing the amount of Income Related Rent Subsidy (IRRS) - New IRR calculation: Including the accommodation component of boarder contributions (62% of payments) at a rate of 100% when calculating IRR (rather than taking the 25% or 50% rate currently used for calculating IRR) – expected to reduce the IRRS and bring more people to/closer to market rent. Impacts on IRRS. Include in modelling the number of people affected by the proposed change and the cost impact on individual households.*

- 4.3 *Change implemented on 2 March 2026 for AS, TAS and SpB (occurring all at once, not rolled out over 12 months).*
- 4.4 *Change delivered from 2 March 2026 for IRR, rolled out over 12 months, with the full effect of changes realised after 14 months due to the required 60-day notice period for changes to a client's IRR.*
- 4.5 Boarder contributions towards AS, TAS and SpB accommodation costs will be recognised by reducing the accommodation costs for the homeowner or primary tenant by 62% of the contribution they receive from all boarders.
- 4.6 *An assumption that we will not have the correct information for 20 percent of boarder housing situations. These situations will be missed as a result of the privacy limitations which means that these cannot automatically be picked up in the MSD system.*
- 4.7 *Excess income from boarders, calculated by calculation below. Excess income from boarders is included as assessable income under the SSA and things that use the SSA definition of income (including non-housing supports) e.g. reduces main benefit and TAS. This will result in additional savings. This will also be implemented on 2 March 2026.*

*[Excess income from boarders] =
[total boarder accommodation contributions] – [accommodation costs **or** SH market rent]*

5 Changes not modelled:

- 5.1 flow on impact on the 'Student Allowance Accommodation Benefit for Sole Parents' for sole parent students with boarders. For the purposes of these costings, we have assumed these changes to be negligible.
- 5.2 Any changes to Student Allowance as a result of changes to parental income.
- 5.3 Impact on households which have boarders who are not receiving the AS. This means that savings are potentially under-estimated. If board payments are not identified by MSD, then the savings will be over-estimated.
- 5.4 Client actions to circumnavigate the change.
- 5.5 Behavioural response that reduces instances of boarding or amount of board charged.
- 5.6 Changes to the level of boarder income.
- 5.7 Any increase to other assistance (e.g. hardship assistance and Housing Support Products) as a result of these changes. This is difficult to predict as we do not know how many households have boarders nor can we

identify how many households will face significant hardship as a result of this proposed change.

5.8 Any flow ons to other supports (e.g. fewer eligible for AS may reduce number of people accessing Community Services Card).

5.9 Impact on people not accessing AS who may have boarders that impact on their main benefit or other supports.

5.10 Increased uptake of AS from beneficiaries.