

Report



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

Date: 3 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/24/9/865

Budget 2024 Cost-Savings Initiative: Treatment of housing contributions from boarders

Purpose of the report

- 1 This report provides you with further detail on the policy design and plan to implement the Budget 2024 boarders' contribution initiative.
- 2 It also seeks your agreement to the treatment of boarder payments for other income-tested assistance under the Social Security Act 2018 (the SSA), and income-tested assistance that uses the SSA definition of income. This will ensure that board payments are treated consistently across MSD assistance, and that this treatment aligns with the current treatment of rent payments.

Executive summary

- 3 As part of Budget 2024, you agreed to progress an initiative that reduces expenditure on housing subsidies by changing the way accommodation costs are recognised where a person has boarders. This addresses a current issue where accommodation costs can be counted more than once in the calculation of subsidies for a homeowner/primary tenant and their boarder.

- 4 Cabinet agreed that from 1 April 2026, all housing contributions from boarders (62 percent of the total board paid) will be counted when assessing entitlements to housing subsidies.¹
- 5 The Minister for Social Development and Employment, Associate Minister of Housing, and other Ministers as appropriate, have been authorised to make final decisions on the detailed policy design [CAB-24-MIN-0148.74 refers].
- 6 Housing subsidies under the SSA that this applies to are the Accommodation Supplement (AS), Temporary Additional Support (TAS), the grand-parented Special Benefit (SpB), the Away from Home Allowance, and the Student Allowance Accommodation Benefit for sole parents. This policy also applies to the Income-Related Rent (IRR) component of the Income-Related Rent Subsidy (IRRS) under the Public and Community Housing Management Act 1992 (PACHMA).
- 7 To progress these changes, some detailed policy decisions need to be made on how the housing contribution from boarders will be applied to allowable accommodation costs and how income will be treated. We also need to consider flow on implications of these decisions.
- 8 This paper steps you through the details of how this policy will be applied, it requests your decisions on some key policy parameters and introduces some possible limitations that we are exploring.
- 9 One decision that is needed is on how excess income from boarders is treated. We expect this will apply to a small number of people that have housing contributions from boarders greater than their accommodation costs. This is a complex issue that cannot be applied consistently for SSA subsidies and the IRR. Decisions will need to be made for drafting of the legislative changes to begin. s 9(2)(h)
[REDACTED] We will provide you with further advice if required throughout this process.
- 10 Confirmation of a legislative vehicle is needed prior to issuing drafting instructions to the Parliamentary Counsel Office (PCO). We recommend you discuss and agree your preferred legislative vehicle.
- 11 s 9(2)(h)
[REDACTED]
[REDACTED] We are awaiting advice from the Office of the Privacy

¹ Under the current treatment of housing contributions from boarders, 62 percent of board payments are considered allowable accommodation costs, and the remaining 38 percent are considered to cover costs incurred as part of the board arrangement.

Commissioner in relation to this issue. Once we have received this advice, we will provide you with an update, including any implications for implementation, possible mitigations, and any impacts on the agreed savings.

Recommended actions

It is recommended that you:

Budget 24 decisions

- 1 **note** that Cabinet agreed to count the housing contribution from all boarders in the assessment of housing subsidies from 1 April 2026 [CAB-24-MIN-0148.74 refers]
- 2 **note** that this requires a change to the current system where housing contributions received from one or two boarders are disregarded when calculating a person's total allowable accommodation costs or assessable income

Detailed policy

- 3 **agree** that MSD will recognise housing contributions from all boarders (i.e., 62 percent of payments received) as reducing the allowable accommodation costs for the person receiving the board payment for housing subsidies under the Social Security Act 2018 (the SSA)

AGREE / DISAGREE

- 4 **agree** that MSD will include housing contributions that a social housing tenant receives from boarders (i.e., 62 percent of payments received), as assessable income for the purposes of calculating the Income Related Rent (IRR)

AGREE / DISAGREE

- 5 **agree** that when housing contributions from boarders exceed the total allowable accommodation costs or the market rent applicable for the social housing property of the person receiving board payments, this excess will be included as income for any other income-tested assistance under the SSA and/or any income-tested assistance that uses the SSA definition of income

AGREE / DISAGREE

- 6 **note** that if recommendation 5 is agreed, for social housing tenants, any boarder housing contributions below the market rent will not be considered as income for the calculation of other income-tested assistance, however MSD considers this impact to be small and to be limited to those in social housing with boarders with very low income

- 7 **agree** that the approach detailed in recommendation 5 apply to all income-tested assistance under the SSA and income-tested assistance that uses the SSA definition of income (including when a client is not accessing a housing subsidy), to ensure that housing contributions from board payments are treated consistently across MSD assistance

AGREE / DISAGREE

- 8 **note** that for implementing this policy, the boarder housing contribution will continue to be calculated as 62 percent of the boarder payment and the remaining 38 percent will be considered to pay for costs incurred as part of the board arrangement and will be excluded from any assessment of income or allowable accommodation costs, for consistency with current legislation

- 9 **agree** to allow the use of automated decision-making in the administration of the Accommodation Supplement as part of enacting this change

AGREE / DISAGREE

- 10 **agree** that to enable the use of automated decision-making, the SSA be amended so that a grant of Accommodation Supplement is no longer discretionary, which will be consistent with current MSD practice for the granting of Accommodation Supplement

AGREE / DISAGREE

Privacy limitations

- 11 **note** that officials have sought advice from the Office of the Privacy Commissioner in relation to how MSD is able to collect and use information from clients as required to implement these changes – limitations to how MSD can gather and use this information may have an impact on savings realised

Legislative vehicle for amendment

- 12 **note** that when agreeing to the initiative Cabinet noted that amendments to primary and secondary legislation will be required and invited the Minister for Social Development and Employment to issue drafting instructions to the Parliamentary Counsel Office to give effect to these decisions [CAB-24-MIN-0148.74 refers]

- 13 **note** the legislative vehicle for making these changes will need to be confirmed by 11 November 2024, prior to issuing drafting instructions to the Parliamentary Counsel Office

- 14 **note** that the Office of the Minister for Social Development and Employment has indicated a preference for Budget night legislation (anticipated to be May 2025) and that the alternative to this would be a standalone amendment bill

on the 2025 legislation programme that would need to be enacted by the end of December 2025 to allow for implementation of the initiative in early 2026

15 note that making these amendments through Budget 2025 night legislation will truncate the legislative amendment process which is designed to ensure transparency and allow for issues and unintended consequences from changes to be picked up prior to legislation coming into force, by expediting this process through Budget night legislation, there is an increased risk of issues with implementation of changes and unintended consequences of these changes

16 discuss and agree your preferred legislative vehicle for this amendment

EITHER

Budget night legislation for Budget 2025

AGREE / DISAGREE

OR

standalone amendment bill on the 2025 legislation programme

AGREE / DISAGREE

17 discuss with the Leader of the House (Minister Bishop) to prioritise the drafting of this legislation with Parliamentary Counsel Office.

AGREE / DISAGREE

Impacts on other portfolios

18 **agree** to forward this report to the Minister of Education for their information as to potential flow on impacts to Student Allowance parental income from changing the treatment of excess income from boarders for income-tested assistance under the SSA and income-tested assistance that uses the SSA definition of income

AGREE / DISAGREE

Alex McKenzie
Housing Policy Manager

Date

Hon Chris Bishop
Minister of Housing and Leader of the House

Date

Hon Louise Upston
Minister for Social Development and Employment

Date

Hon Tama Potaka
Associate Minister of Housing

Date

Background

- 12 On 12 June 2024, Cabinet agreed that the housing contribution from all boarders will be counted in the assessment of housing subsidies from 1 April 2026. This will require a change to existing policy, which disregards housing contributions received from one or two boarders when calculating a person's accommodation costs or income.
- 13 The Minister for Social Development and Employment, the Associate Minister of Housing, and other Ministers as appropriate were authorised by Cabinet to make final decisions on the policy details of this change [CAB-24-MIN-0148.74 refers]. Officials recommend that the Minister of Housing is also included in decisions on the policy details due to the impact of the IRR on Vote Housing.
- 14 As part of Budget 2024 decisions, this initiative is expected to return \$150.96 million in operating funding over four years.² 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 have been returned to the Crown.

Housing subsidies and the treatment of housing contributions from boarders

- 15 The largest housing subsidies impacted by this initiative are the AS and the IRR.
- 16 The proposed policy change will also apply to other forms of assistance that can be granted to help with accommodation costs and use the same settings as the AS in relation to boarders' housing contributions. This includes TAS, SpB, the Away from Home Allowance, as well as the Student Allowance Accommodation Benefit for sole parents³ [CAB-24-MIN-0148.74 refers]
- 17 **Annex 1** includes a brief description of the AS, IRR (and IRRS) and other subsidies affected by this change. It also includes a description of how boarders' contributions are currently treated and the objectives of this policy to recognise boarders' housing contributions for housing subsidies.
- 18 This advice also proposes identifying situations where the housing contribution from boarders exceed accommodation costs and treating that

² This includes \$17.559 million in implementation and ongoing operational costs.

³ Where not for sole parents, the Student Allowance Accommodation Benefit has different settings. It was not included as part of this initiative and will not be impacted by this change.

excess income from boarders as income for the purposes of the SSA. This will impact all income-tested assistance under the SSA (and/or other assistance that uses the SSA definition of income) and is expected to reduce assistance for some clients.

- 19 For these changes, the boarder housing contribution will be calculated as 62 percent of the boarder payment. The remaining 38 percent will be considered to pay for costs incurred as part of the board arrangement and will be excluded from any assessment of income or allowable accommodation costs.
- 20 This is consistent with the current Public and Community Housing Management (Prescribed Elements of Calculation Mechanism) Regulations 2018, which treat only 62 percent of the boarder contribution as income, as well as the SSA, which defines allowable accommodation costs for boarders as 62 percent of their board payments.

Detailed policy to count all housing contributions from boarders when calculating entitlements to housing subsidies

Social Security Act housing subsidies

Accommodation Supplement

- 21 MSD will recognise housing contributions from boarders (i.e., 62 percent of payments received) as reducing the allowable accommodation costs for the person receiving the board payment for housing subsidies under the SSA. This will mean that the housing contributions from boarders will be directly reflected by a reduction in the accommodation costs the person receiving board payments can claim for.
- 22 This may mean that some people are no longer eligible for the AS because their accommodation costs are reduced to an amount below the relevant entry threshold. Where accommodation costs remain above the entry threshold, the rate of AS they are entitled to may be reduced.
- 23 It is estimated that around 12,300 recipients of the AS have one or two boarders, who are also themselves receiving the AS.
- 24 We consider that it would be most effective to automate some of the actions required to administer the AS under these new settings. This will require amending the SSA so that the AS is no longer granted on a discretionary basis. This is how the AS is currently administrated by MSD, and will not practically change how the AS functions, aside from allowing the automation of actions within the process.

- 25 This will also require a legislative change to allow for this automated decision-making.⁴

Temporary Additional Support and Special Benefit

- 26 We will amend settings for both the TAS and SpB to align with the changes to AS, so that housing contributions from boarders are recognised by reducing allowable accommodation costs.
- 27 For recipients of TAS and SpB with one or two boarders, this will mean a reduction in allowable accommodation costs, which would likely reduce the rate of TAS or SpB they receive.
- 28 Unlike TAS, the SpB is a discretionary benefit, so the actual impact on recipients will depend on their individual circumstances.⁵

Away from Home Allowance and Student Allowance Accommodation Benefit (sole parent rate)

- 29 The Away from Home Allowance and the Accommodation Benefit at a sole parent rate are calculated in the same way as the AS. We will amend their calculations to continue alignment with AS. This may result in reduced assistance where recipients are also receiving contributions from one or two boarders.⁶

Income Related Rent Subsidy for social housing tenants

Income Related Rent

- 30 MSD will include all housing contributions received by a person from boarders (i.e., 62 percent of payments received), as assessable income for the purposes of calculating the IRR for a social housing tenant receiving the board payment.
- 31 This change will increase the IRR payable for social housing (SH) tenants who have boarders and reduce the IRRS paid to the SH provider.
- 32 An increase in IRR could result in the tenant paying market rent, and in turn mean that the tenant could be subject to periodic tenancy review in future. If

⁴ This is required partly because the overarching change to enable automated decision-making you have recently agreed will not be made until after the implementation of this boarder initiative.

⁵ There are only a small number of people remaining on the grand-parented SpB (less than 450 clients).

⁶ There are currently less than 10 recipients of the Away from Home Allowance.

a tenant is already paying market rent, there will be no change to their IRR regardless of the amount received through board payments.⁷

33 It is estimated that around 6,300 SH tenants have boarders living with them.

Treatment of excess income from housing contributions from boarders should be simplified

34 The current 'profit from boarders' calculation that MSD uses is inconsistent with how payments received from renters are treated and does not accurately reflect the effect of contributions from boarders on the accommodation costs of those receiving board payments. The calculation is also unnecessarily complex and difficult to understand for both staff and clients (see **Annex 2** for more detail).

35 To simplify administration, improve transparency, and better align the treatment of housing contributions from boarders with how other housing contributions (i.e., rent) are treated, we recommend replacing the current 'profit from boarders' calculation for both SSA housing subsidies and people paying IRR in social housing.

36 The proposed new 'excess income from boarders' calculation would align the treatment of boarders as much as possible across SSA housing subsidies and the IRR.

37 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.

38 This excess income from boarders will then 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 (see **Annex 3** for an example of how the excess will be treated as income). For the SSA housing subsidies, this is current practice when assessing income for a person applying for a housing subsidy who is receiving rent (instead of board).

39 The proposed new treatment of excess income from boarders would result in an increase in recognised income for some clients who are receiving assistance under the SSA and/or other assistance that uses the SSA definition

⁷ Even if their IRR is calculated to be above the market rent, a SH tenant cannot be charged over market rent. As of end of July 2024 there were 1,617 SH tenants paying market rent, which is approximately two percent of SH tenancies.

of income. This could result in reductions to benefit entitlements, or in some cases, if income thresholds are exceeded, clients may no longer be eligible for support.

- 40 For example, we have identified that this could impact main benefit recipients and clients applying for Housing Support Products (HSPs), hardship assistance, the SH register, and Student Allowance. We will continue to explore the impacts of these changes and, if necessary, provide you further advice on this.
- 41 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 proposed 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.
- 42 This may mean that some SH tenants are receiving a small amount of excess income from boarders that will not be included as income. MSD considers this impact to be small and to be limited to those in SH with boarders and very low income. Other options that were considered when determining how excess income from boarders could be recognised for SH tenants that are not recommended are included in **Annex 4**.
- 43 Overall, we expect that this change to the treatment of excess income from boarders will only apply to a small number of people that have housing contributions from boarders greater than their accommodation costs.

When a client that is not getting a housing subsidy applies for other income-tested assistance under the SSA, the excess income from boarders calculation will apply

- 44 The new excess income from boarders approach for SSA housing subsidies is proposed to apply regardless of whether a client is accessing a housing subsidy. This means that clients with boarders who are applying for assistance under the SSA, or that uses the SSA definition of income, and are not receiving a housing subsidy would still have the excess income from boarders calculation as determined for AS applied to determine if they have income from their boarders.
- 45 Treating boarders' housing contributions in this way aligns with the current treatment of rent payments, ensuring that impacts on MSD assistance between these two similar payment types for housing arrangements are fair and consistent.

Legislative vehicle and timeline

- 46 Amendments to primary and secondary legislation are required in relation to the following policy changes:
 - 46.1 when calculating SSA housing subsidies, all housing contributions from boarders (62 percent of payments received), will be included when calculating the total allowable accommodation costs of the person receiving board payments,
 - 46.2 when calculating IRR for SH tenants, all housing contributions from boarders (62 percent of payments received) will be included when calculating the assessable income of the person receiving board payments,
 - 46.3 if housing contributions from boarders exceed the total allowable accommodation costs (SSA housing subsidies) or applicable market rent for the SH property (IRR) of the person receiving board, any excess income from boarders will be included as income for income-tested assistance under the SSA, and for assistance that is linked to the SSA definition of income,
 - 46.4 if a client is not getting a housing subsidy, the proposed approach for SSA housing subsidies for the determination of income charged from boarder payments will be applied when determining eligibility and the rate of income-tested assistance under the SSA and/or assistance that uses the SSA definition of income.
- 47 The Minister for Social Development and Employment's Office has indicated a preference for Budget night legislation for Budget 2025 (likely May 2025) as the legislative vehicle for any necessary amendments. Officials have explored this option as well as the alternative of a standalone amendment Bill.
- 48 We recommend that you discuss and agree to your preferred legislative vehicle. Minister Bishop, as Leader of the House must agree to the vehicle for legislative changes.
- 49 Implementing these policy changes through Budget night legislation in 2025 will truncate the legislative amendment process, which is designed to ensure transparency and allow any issues and unintended consequences from these changes to be picked up prior to legislation coming into force. Therefore, by expediting this process through Budget night legislation, there is an increased risk of implementation issues and unintended consequences.

Potential flow-on impacts for housing and income support

MSD may see an increase in requests for some hardship and housing supports

- 50 If the policy change results in a material change to the rate of assistance received (or rent payable through the IRR), MSD may see an increase in applications for hardship and housing supports as households adjust. This would likely be through Special Needs Grants (SNGs), Recoverable Assistance Payments (RAPs), Advances and HSPs. This policy change could also result in increased rent arrears owed to Kāinga Ora and other social housing providers.

The new treatment of excess income from boarders may also impact eligibility or rate payable for some assistance

- 51 Changes to the assessment of income may mean that some people (anticipated to be a small number) are pushed above the income limit for assistance under the SSA. This may impact eligibility for SNGs, RAPs, Advances. The impact on eligibility for HSPs that have an income limit is likely to be minor as the income limits for HSPs are relatively high compared to other forms of assistance under the SSA.
- 52 Changes to the rate of assistance paid by MSD resulting from the charging of boarder income may also flow through to the assessment of parental income for Student Allowance. This is because the determination of parental income is determined in part from family scheme income, which itself is an adjusted form of net income, and as such will change alongside rates of assistance from MSD.

There will likely be some impact for the Social Housing Register through increases to the assessable income of applicants

- 53 Increases to assessable income may mean that some applicants on the SH Register are over the income limit once the policy change is applied. Being over the income limit may make them ineligible for SH and their application may be removed from the SH Register.⁸

⁸ MSD has discretion to allow eligibility to SH when income exceeds the limit if there is an urgent housing need. An 'income override' can be granted in exceptional circumstances with managerial approval. Therefore, not all applicants who are pushed over the income limit via this policy change will be removed from the SH Register.

- 54 For applicants that remain under the income limit, the increase in assessable income may result in a reduced priority rating.⁹ For applicants that move into social housing, assessable income for the purposes of calculating IRR would only take into account contributions from boarders received while in social housing.

MSD may be unable to gather the information required to achieve and report on the savings associated with this initiative

- 55 For this policy change to be effectively implemented and reported upon, and for the savings to be delivered, MSD requires the ability to gather information from those receiving boarder and/or renter payments about the people making those payments. MSD also requires the ability to link these clients within the IT system if they are both receiving MSD assistance.
- 56 This ensures that MSD has a clear understanding of the relative situations of the individuals involved, and that any changes to their assistance relating to an alteration in their boarding arrangement can be accurately made.
- 57 If this is not possible, there is a significant risk that information on changes to a boarding agreement is provided by one party but not the other, and as a result, MSD assistance could be incorrectly assessed, impacting the possible savings from this initiative.
- 58 s 9(2)(h) [REDACTED]
[REDACTED]
[REDACTED].
- 59 This is because, for example, MSD would be collecting information from a person receiving a board payment about the boarder making those payments, without receiving that information directly from the person it entails. This could then impact assistance to the boarder, despite them having never given MSD information about a change in arrangements.
- 60 We are currently awaiting advice from the Office of the Privacy Commissioner to confirm whether our ability to collect information would be limited in this way.

⁹ There are five criteria used to establish the priority rating of a SH applicant. Each criterion can be rated from one to four, with the maximum priority rating being A20. The 'affordability' criterion considers all assessable income, so if the assessable income increases, the 'affordability' rating could decrease, which would then decrease the overall priority rating.

- 61 At this stage, it is unclear what options may be available to allow MSD to use information in this manner. We will provide you further advice once we have received advice from the Office of the Privacy Commissioner.

MSD may be unable to automate changes to assistance if information cannot be effectively collected which could compromise accuracy

- 62 If MSD is able to collect and act upon information in the manner intended, the most efficient way to process this information is to automate actions within our systems. However, if this is not possible, it is unlikely MSD could effectively automate these actions.
- 63 This would mean that a higher volume of manual actions by staff would be required to administer the policy, and to adjust assistance. As such, accuracy could be compromised in comparison to if these actions were automated.

There is currently other work progressing which will affect AS and IRRS

- 64 MSD and HUD are currently preparing advice on a review of AS and IRRS. MSD is also preparing advice on additional cohorts of SH tenants for Tenancy Reviews. Should this advice progress, implementation of changes will need to be carefully considered and the risk of unintended consequences will increase due to multiple changes being made to these products quickly.

Implementation

- 65 Once detailed policy decisions have been made and legislation has been amended, implementation of this policy change can begin. The delivery of this policy change has been broken into two main phases, information collection and policy implementation.
- 66 The first phase aims to take advantage of existing client engagements to gather boarder and renter information and will begin approximately one year prior to legislative changes coming into effect. During phase one we will also be notifying clients about this policy change.
- 67 Information about who is receiving payments from boarders and/or renters is not currently held in MSD systems in a way that enables reassessment of client payments. This information will need to be collected from clients, stored, and maintained until payments are reassessed in early 2026. Household circumstances for boarders can frequently change, and staff will need to keep the records up to date as new information is received.
- 68 Phase two is to be implemented in early 2026, from when the legislation comes into effect. Phase two will include notifying the clients that are impacted by the changes, reassessing payments, completing any transitional arrangements, and tenancy reviews for SH tenants will begin to include the housing contributions from boarders.

- 69 In most cases, if a SH tenant is receiving payments from one or two boarders, their IRR will increase at the time of their annual review (or their next change in circumstances, whichever comes first).

Next steps

- 70 Due to the potential flow on impacts to Student Allowance, we have shared this report with officials at the Ministry of Education and recommend you forward the report to the Minister of Education for their information.
- 71 Final decisions on this paper are required by 14 October 2024 so drafting instructions can be completed.
- 72 PCO have advised that at least 12 weeks of drafting time is required for this amendment. If the legislative amendment is to progress as part of Budget night legislation in 2025, MSD will need to provide drafting instructions to PCO as soon as possible to ensure enough time is provided to draft the amendment.
- 73 We are currently seeking advice on privacy implications which will impact how we gather information on clients who may have boarders living with them. Once we have received this advice, MSD will provide you further advice on what is possible within the information requirements of the Privacy Act, any implications for implementation, possible mitigations, and any impacts on the agreed savings.

Annexes

- 74 **Annex 1:** AS, IRRS and other subsidies affected by this change, how boarders are currently treated and objectives of this policy.
- 75 **Annex 2:** Current 'profit from boarders' calculation.
- 76 **Annex 3:** How MSD will treat income from boarders.
- 77 **Annex 4:** Options analysis: The treatment of excess income from boarders for SH tenants who pay IRR.

File ref: REP/24/9/865

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Annex 1: AS, IRRS and other subsidies affected by this change, how boarders are currently treated and objectives of this policy

The Accommodation Supplement

The AS is a weekly housing subsidy intended to assist people in private accommodation. It is paid to people who have high accommodation costs relative to their income and cash assets, and is available to lower income homeowners, renters, and boarders. People who have accommodation costs and meet the eligibility criteria, may be eligible for the AS. The total (or allowable) accommodation costs¹⁰ of the applicant directly impacts both eligibility for the AS (through the entry threshold)¹¹, and the amount they receive.

The Income Related Rent Subsidy

The IRRS is paid to SH providers to subsidise rent for SH tenants. SH tenants are required to pay an IRR based on their assessable income and household type. The maximum rent that is payable is the market rent for the property. The government pays the remainder of the rent to the SH provider through the IRRS but because market rent does not usually reflect the full cost of provision of housing, HUD pays an additional operating supplement to most housing providers. For SH, either 'assessable income' or the applicable rate of Jobseeker Support for the household type, is used to assess eligibility for social housing, and how much IRR will be paid for the property.

Other subsidies impacted by this policy

TAS is a means-tested weekly hardship payment that helps people when they do not have enough money to cover their essential living costs (not just housing).

¹⁰ Allowable accommodation costs refer to: the rent a renter pays (excluding any service costs); the payments, maintenance, local authority rates, and housing insurance premiums that an owner, or shared owner, pays that are required due to mortgage security or MSD is satisfied is reasonable, and 62 percent of the amount paid for board or lodging a boarder pays. These costs are set out in Section 65 of the SSA.

¹¹ Entry thresholds are the amount of their income a person must be paying for their accommodation costs to be eligible for AS. For beneficiaries, the entry threshold is 25 percent of main benefit for renters or boarders, and 30 percent for owner-occupiers (to reflect that the government is subsidising acquiring an asset). For non-beneficiary households, the Jobseeker Support entry thresholds are used.

TAS is calculated based on chargeable income, allowable costs, and an assessment of disposable income against a set of standard costs.

SpB is a means-tested weekly discretionary benefit that supports people whose circumstances are causing them hardship (housing or otherwise). TAS replaced the SpB from 1 April 2006 and is not open to new applicants.

The Away from Home Allowance is paid to the caregiver of a 16 or 17-year-old dependent child who is living away from home while participating in tertiary study or employment-related training.

The Student Allowance Accommodation Benefit at a sole parent rate is an accommodation benefit for sole parents receiving the Student Allowance

The current treatment of payments received from boarders

Payments received from one or two boarders are not counted when assessing entitlements to the AS, IRR and other assistance that uses AS settings. Payments from one or two boarders are also disregarded when assessing a person's income when calculating entitlements to other assistance under the SSA.

The policy to not count contributions from one or two boarders when calculating housing subsidies and assistance under the SSA was introduced around 1992.¹² It was intended to encourage better utilisation of state housing (i.e., occupation of empty rooms) and to encourage beneficiary households to take on boarders to offset some of their costs. The wider context to the introduction of the policy was a reduction in SSA benefit rates in 1991, and the introduction of charging market rents for state housing tenants from October 1992. The policy aimed to encourage better utilisation of state housing stock, particularly for sole parent beneficiaries living in larger state houses but was applied to all income assessments for assistance under the SSA at the time.

For assistance under the SSA, this policy is contained in the Ministry's operational guidelines, rather than legislation. The policy in relation to the calculation of the IRR for SH tenants is set out in the Public and Community Housing Management (Prescribed Elements of Calculation Mechanism) Regulations 2018.

It is uncommon for a household to have three or more boarders. If a person receives payments from more than two boarders (and the arrangement is not

¹² The IRR and Accommodation Benefit were the two main housing subsidies available at the time. The AS was introduced in 1993, replacing both the Accommodation Benefit and the IRR as the primary housing subsidy for state housing tenants, private sector renters, boarders, and homeowners (mortgagees). The IRR was reintroduced for state housing tenants in 2000.

considered to be a business venture, such as a boarding house) the amount received from the third and subsequent boarders is charged as income via the 'profit from boarders' calculation. This calculation is also contained in the Ministry's operational guidelines, not legislation.

The 'profit from boarders' calculation does not apply when calculating assessable income for SH tenants. If a SH tenant is receiving board payments from three or more boarders (and the contributions from boarders are not considered to be the tenant's main source of income), the housing contributions from the two boarders paying the highest amount of board are disregarded, and contributions from any other boarders will be included in the IRR calculation.

Policy objectives

The primary driver of the policy change is to remove an inconsistent feature of current policy that enables a portion of the same accommodation cost to be claimed by two or more people. This will be achieved by changing the way housing contributions from boarders are recognised when calculating housing subsidies. This will reduce expenditure on housing subsidies.

In addition to reducing expenditure, recognising all housing contributions from boarders when calculating entitlement to housing subsidies seeks to achieve the following objectives:

- **improve MSD's ability to accurately assess entitlements to housing subsidies:** The existing policy means that MSD is not able to consider the actual accommodation costs (or income) for housing subsidies of most people who are receiving board payments. As a result, some will be receiving support through the AS for accommodation costs that are already covered by payments from their boarders. It is also possible that contributions from boarders, in combination with housing subsidies received, exceed the total accommodation costs of the person receiving payment, meaning they are profiting from the housing subsidy.
- **allow for the more equitable treatment of payments received from boarders and renters:** People receiving board payments are currently significantly advantaged over those in similar situations who choose to rent out room instead. All rent payments a person receives are already counted against allowable accommodation costs when assessing entitlements to housing

subsidies and if rent contributions exceed the total accommodation costs, then the excess is treated as income.¹³

- **reduce the possibility that MSD subsidises accommodation costs more than once:** Current policy around payments received from boarders makes it possible for the Government to subsidise the same accommodation costs more than once. This can happen when a household with one or two boarders has both the person receiving board and the boarder claiming AS independently to cover the same accommodation costs.

¹³ For example, when person receiving AS rents out a room to another person, the accommodation costs of the person renting out the room are assessed on the total rental cost of the premises less the rent they are receiving for the room.

Annex 2: Current 'profit from boarders' calculation

It is the current policy of Work and Income to generally disregard the money received from the first 2 boarders for the purpose of housing subsidies as it is accepted that the board paid:

- will only cover the person's costs and
- tends to be a family or informal arrangement.

If the client has more than two boarders, and the arrangement is not a business venture, then the amount received from the third or subsequent boarders is charged as income via this formula:

Accommodation Supplement entry threshold for the boarder
Entry threshold divided by 62 percent
Round up to the nearest dollar
Amount payable by the boarder to get Accommodation Supplement

Calculate profit from boarder:

Total board payable
Less amount payable by the boarder to get Accommodation Supplement
Amount of chargeable income

Note if the boarder has more than one child, the maximum family tax credit amount for the second and any subsequent children is added to the Accommodation Supplement entry threshold.

Annex 3: How MSD will treat income from boarders

Scenarios – How MSD will treat income from boarders



Current state

Currently the money received from the first 2 boarders is disregarded and MSD charge profit from boarders as income against a clients financial assistance only using the amount received from the third or subsequent boarders.



Future state

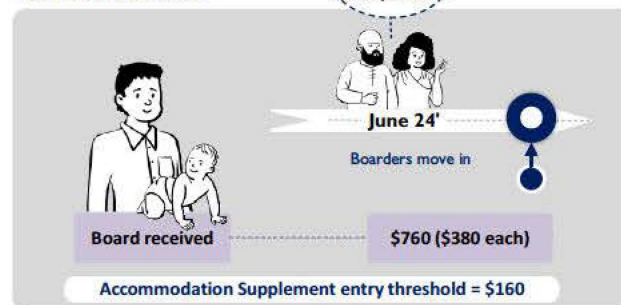
When the total housing contribution from all boarders exceeds the allowable accommodation costs of the homeowner/tenant, their accommodation costs will be reduced to zero and any excess board will be counted as income when assessing eligibility to other types of assistance.



Scenario 4 – Jordan

Relationship status	Single	Area	2
1 Child	Age 1	Gross annual income	\$54,000 (40 hours per week)
Type of accommodation	Rent	MSD assistance	Childcare Subsidy & Accommodation Supplement
Rent per week	\$435		

Current state

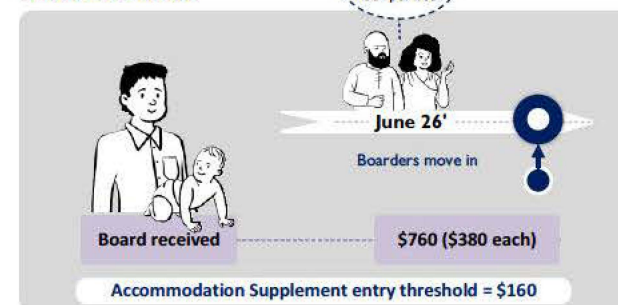


Accommodation costs	\$435 rent
CCS	\$287.10
ASUP	\$113

Assessment for TAS completed = Nil entitlement

Note: if Jordan was only in receipt of CCS we will need to determine his accommodation costs to calculate the amount of residual income

Future state



Accommodation costs	NIL
CCS	\$229.05 ★
ASUP	NIL

★ \$36 = Residual income charged against CCS

Assessment for TAS completed = Nil entitlement

Difference

\$171 per week

Annex 4: Options analysis: Treatment of excess income from boarders for SH tenants

Where a person is in SH, has boarders and is receiving a benefit, their IRR would be calculated as follows:	Consistency with treatment of AS/IRR for boarders	Consistency for treatment of other benefits	Clear pathway (i.e. no feedback loop)	Income and accommodation costs are distinct	Consistent with current treatment of income.	Rationale as to why this is / is not recommended
Option 1 (recommended) 1. Calculate client's income based on any wages and excess income from boarders (calculated using a new calculation: housing contributions from boarders minus the market rent for the property). 2. Use this income calculation to identify the client's applicable benefit rate. 3. Use the client's applicable benefit rate and income from other sources and all housing contributions from boarders (assessable income) to calculate their IRR.	Somewhat consistent with the AS calculations where the housing contributions from boarders are removed from the accommodation costs and the excess housing contributions from boarders are considered income.	Consistent with other benefit calculations where the excess income from boarders would be treated the same as other income. This works within the current system.	The excess income from boarders is considered first in the benefit calculation, so the excess income from boarders doesn't need to be considered again if boarders' housing contributions exceed market rent.	<p>Excess income from boarders is treated as income and affects benefit rates the same as other income. When housing contributions from boarders is less than market rent those housing contributions do not count towards income.</p> <p>All housing contributions from boarders are treated as assessable income for the purposes of calculating IRR only (so only reflected at 25 percent and 50 percent rates for IRR).</p>	The excess income from boarders is counted both for IRR and benefit calculation. This is consistent with current treatment of income.	<p>Recommended: Because this option is close to being consistent with how housing contributions from boarders will be treated for AS clients and this approach works within the current system (i.e., only reflecting assessable income in the IRR calculation and not accommodation costs).</p> <p>This approach minimises the risk of big impacts on the IRRS which may be an issue from a HUD perspective.</p> <p>Calculating the impact on the rate of benefit first is consistent with how MSD currently calculates household income for the purposes of the IRR.</p> <p>Where a SH tenant is paying less than market rent, excess income from boarders may be underestimated as the</p>

						housing contributions from boarders above the IRR and below the market rent is not counted as income. This is considered acceptable as the housing contributions from boarders is still counted as assessable income for calculating the IRR, meaning their income still falls below the market rent threshold and we would want to limit the impact of abatement from the excess income from boarders calculation.
Option 2 1. Calculate the client's income based on any wages. 2. Use this income calculation to identify the client's applicable benefit rate. 3. Use the client's applicable benefit rate and income from other sources and housing contributions from boarders (assessable income) to calculate their IRR. 4. Ignore any excess income from boarders where the housing contributions from boarders exceed the market rent.	Somewhat consistent with the AS calculations where the housing contributions from boarders are removed from the accommodation costs. But this is inconsistent because housing contributions from boarders are not considered income once market rent is reached.	Inconsistent for other benefit calculations where the excess income from boarders would be treated the same as other income for AS recipients, but not for SH tenants paying IRR.	The feedback loop is removed by taking out recognition of excess income from boarders for SH tenants.	Any excess income from boarders above market rent is ignored. The boarders' housing contributions below market rent are treated as assessable income for the purposes of calculating IRR only (so only reflected at 25 percent and 50 percent rates for IRR).	The excess income from boarders is counted as assessable income for IRR calculation but not as income for benefit calculation. This is inconsistent with the current treatment of income.	Would not recommend: Because of inconsistency of how excess income from boarders is treated for AS and IRR when applied to other benefits. This approach would allow SH tenants to profit from SH if their boarders were paying a relatively high amount of board, which is not in line with the intent of SH. SH is for people who have a serious housing need that they cannot meet via the private rental market.
Option 3 1. Calculate the client's income based on any income from other sources and the housing	Inconsistent with the AS calculations where the housing contributions from boarders are removed	Inconsistent for other benefit calculations where the excess income from boarders	The feedback loop is removed by using the housing contributions from boarders to	Double penalises a client by treating the housing contributions from boarders as income	The housing contributions from boarders are counted both for IRR calculation and for	Would not recommend: Because it double penalises clients who are receiving housing

contributions from boarders. 2. Use this income calculation to identify the client's applicable benefit rate. 3. Use the client's applicable benefit rate and income from other sources and the housing contributions from boarders (assessable income) to calculate their IRR.	from the accommodation costs rather than treated as income.	would only be treated as income for AS recipients.	calculate benefit entitlement.	for the purposes of benefit calculation and for IRR calculation for SH tenants.	benefit calculation. This is consistent with current treatment of income.	contributions from boarders. The impact on SH tenants with a boarder could be very high, which would be unfair on many SH tenants who have a boarder for genuine reasons (i.e., a SH tenant who requires a full-time caregiver to be living with them).
Option 4 1. Calculate the client's income based on any wages. 2. Use this income calculation to identify the client's applicable benefit rate. 3. Use the client's applicable benefit rate and income from other sources to determine their IRR. 4. Subtract boarders' housing contributions from the IRRS. 5. Housing contributions from boarders above the IRRS are ignored.	Consistent with the AS calculations where the housing contributions from boarders are removed from the accommodation costs at a \$1 for \$1 rate. But this is inconsistent because excess income from boarders are not considered income.	Inconsistent for other benefit calculations where the excess income from boarders would be treated the same as other income for AS recipients but ignored for SH tenants paying IRR.	The feedback loop is removed by not recognising the excess income from boarders.	Excess income from boarders above market rent is ignored. The housing contributions from boarders below market rent are treated as accommodation costs and directly lower the IRRS paid to the SH provider.	Housing contributions from boarders are counted for IRR calculation and not for benefit calculation, which is inconsistent with current treatment of income.	Would not recommend: Because of inconsistency of how excess income from boarders is treated for AS and IRR when applied to other benefits. This approach would allow SH tenants to profit from SH if their boarders were paying a relatively high amount of board, which is not in line with the intent of SH. SH is for people who have a serious housing need that they cannot meet via the private rental market. (Note: if excess income from boarders above market rent were included, it would reopen the feedback loop).