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**September 2006**

**To: Ministry of Social Development**

**Working Age People's Policy**

***Re: Review of the Accommodation Supplement***

**Contact persons:**

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***We would like to speak to this submission in Auckland.***

## **1. Introduction**

**Child Poverty Action Group** (CPAG) advocates for better policies for children. We welcome this opportunity to make a submission.

This submission is on behalf of the members of Child Poverty Action Group. Adequate housing is vital for the well-being of children. Too many New Zealand children live in cold, damp, and overcrowded housing. Too many others live in garages and boarding houses. Housing conditions directly affect children's health and education. The impact of poor housing on children's health has been well documented. Education is affected through the transience that is a by-product of the high rents and insecure tenure that characterises rental housing in New Zealand.

Housing affordability is a key determinant of families' well-being. CPAG believes housing affordability issues must be addressed in a manner that deals with the underlying issues of income inadequacy and wider economic policy settings. This submission will consider the Accommodation Supplement in the context of these. Our reason for taking this position is the evident failure of the Accommodation Supplement to improve housing affordability for families with children to date, and the negative effects this has had on children's health, education and safety.

Poor-quality housing, overcrowding, urban polarisation and low levels of social cohesion, and the resulting poor outcomes for children are a matter of choice. They are no more inevitable than polio and rickets. As things presently stand, adjusting the parameters of the Accommodation Supplement is simply an exercise in rearranging deck chairs. Therefore CPAG urges the Ministry of Social Development and Housing New Zealand to consider the wider context housing, including the favourable tax treatment of housing investment, with a view to providing healthy, stable housing for New Zealand's low-income families.

## **2. Has the Accommodation Supplement improved housing for children?**

The Accommodation Supplement (AS) has done little to improve rental housing affordability or improve outcomes for children. In 2004 the proportion of households paying more than 30% of their incomes in housing costs was greater than it was in 1993. 29% of all children live in these households. It has barely made an impression on the number of people living in overcrowded conditions (109,000 or 3.2% of usual residents in 2001 compared to 113,000 or 3.5% in 1991). Overcrowding has been shown to be a risk factor in childhood diseases such as meningococcal meningitis, respiratory diseases, injuries and poisoning, and negative impacts on children's psycho-social health.<sup>1</sup> It also disproportionately affects children and young people. Between 1991 and 2001 there was a decrease of 1% percentage point in the proportion of children living in

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<sup>1</sup> Auckland Regional Public Health Service, 2005.

crowded households. However, preliminary data from the 2006 Census also shows that in Manukau City, where incomes are well below the national average, household size continues to rise, as compared to a national trend of falling household size. These inequities fall more heavily on Pasifika and Maori families, as these families are over-represented among households with low incomes and living standards. Further, the number of homeless persons in New Zealand has continued to climb. All this suggests that the Accommodation Supplement is ineffective or poorly targeted or both. In fact, given this data, the almost \$8.5 billion spent on the Accommodation Supplement since its implementation in 1993 does not represent good value for money.

### **3. The Accommodation Supplement as a supplier subsidy**

The AS was originally conceived of as a demand subsidy for low-income renters and mortgagors. Although it is available to assist with mortgage payments it is overwhelmingly paid to assist with rental payments. By raising income thresholds and increasing the upper limits of assistance the government has deliberately sought to target middle-income home owners. However in reality, with median house prices in the AS's Area 1<sup>2</sup> being in the order of \$395,000,<sup>3</sup> it is unlikely that any household with children having an income low enough to qualify for the AS would qualify for a mortgage. Therefore, it is likely that the majority of recipients of the AS will remain those in private rental accommodation. As such, CPAG argues it must be viewed as a subsidy to rental housing suppliers.

This view is supported by the fact that the AS has failed to improve the living conditions of many low-income renters, as noted above. Rents remain high relative to incomes – as indicated by the overcrowding statistics – and many rental houses are badly maintained. In a situation where the state is simply providing a subsidy for landlords in a laissez faire market we would expect:

- Poor quality of much of the rental stock;
- No control over costs as other market factors impact on the supply and price of housing; and
- No ability to provide the targeted recipients of the policy (ie the tenants) with security of tenure.

These features are clearly evident in the rental market, despite the subsidy and the clear interest in social outcomes that it should imply. Much of the rental housing available to low-income families is of poor quality and offers no security of tenure. Indeed, transience figures from CPAG research shows that approximately 30% of children move at least

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<sup>2</sup> Auckland Isthmus and the North Shore, including the Whangaparoa Peninsula.

<sup>3</sup> Real Estate Institute of New Zealand. [www.reinz.co.nz](http://www.reinz.co.nz).

once during the school year, disrupting their education and making it difficult to become a part of their community.<sup>4</sup>

More generally, this focus on rental accommodation at the expense of home ownership subsidies has contributed to falling levels of home ownership among working families, and resulting low levels of social cohesion in the low-income neighbourhoods targeted by “Mum and Dad” investors. Poor social cohesion is damaging for children, both in terms of their social development and exposure to hazards such as bullying and domestic violence.

#### **4. Housing affordability and income adequacy**

Housing affordability has declined significantly since 1991. This is reflected in the 8% fall in home ownership rates from 1991 – 2001.<sup>5</sup> In areas such as Manukau City home ownership rates fell by 13% in the same period. In tandem with this rents have risen, and hence the financial difficulties faced by low-income earners, particularly beneficiaries. Many low-income families were dealt a double blow in the early nineties by benefit cuts and the introduction of market rentals on state housing. This, combined with the sale of state houses and falling real wages for low-income earners in the nineties, probably accounts for the much lower rates of home ownership in areas such as Manukau.

At the heart of these reduced rates of home ownership is income inadequacy. This has been recognised, but not adequately ameliorated, by the AS. Certainly, it is somewhat odd that something as fundamental as housing costs appear to have been spliced out of the basic benefit, with a portion then added back in as a supplementary allowance. Rather, benefits should reflect the actual expenses families – including beneficiary families – face. While the AS does attempt to reflect different geographical costs and family size, albeit crudely, these should be largely covered by base income and Family Support. Increasing the maximum limits of the AS has not made accommodation more affordable for those with the greatest need for whom decent accommodation is becoming increasingly less affordable.

#### **5. Impact of the wider economic environment**

Housing affordability has not only been adversely affected by the AS's impact as a supplier subsidy, but also by the favourable tax treatment investment in housing enjoys relative to other, more productive, investment. Investment in rental properties is favoured by New Zealand households in part because a significant portion of annual losses can

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<sup>4</sup> Johnson, A (2003) *Room for improvement: Current New Zealand housing policies and their implications for our children*. Auckland: Child Poverty Action Group, Inc.  
URL: <http://www.cpag.org.nz/resources/publications/res1115625926.pdf>

<sup>5</sup> Statistics New Zealand Census data.

be written off against other income where properties are highly geared and returns are low. Moreover, property is attractive because of the prospect of untaxed capital gains. This has contributed to rising house prices, even in areas (for example Wellington) where there is no real population or income pressure for such increases. It is this hidden subsidy to the wealthy that is both maintaining high housing prices relative to rents and driving down levels of home ownership.

More broadly, this preferred treatment for housing has contributed to New Zealand's massive overseas debt fuelled by an astonishing and unsustainable 9.7% current account deficit, and seen billions of dollars funnelled into consumption rather than productive investment. It has also contributed to New Zealand's growing income gap, as low-income families struggle to pay relatively high housing costs.

While national debt and income distribution may be dismissed as abstractions, their impact on children in low-income families has been all too real. The Ministry of Social Development's Living Standards Report 2004 shows that from 2000 to 2004 the percentage of children in "significant" and "severe" hardship increased from 18% to 26%. During this period the economy grew by 17%. Those who were most likely to be downwardly mobile were sole parents with dependent children – the group for whom income inadequacy is most obviously a problem, and whose housing options are the most limited. The downward mobility of such a significant number of children in a time of economic expansion suggests that the AS is failing to improve living conditions for children in low-income families. CPAG submits that an alternative model that emphasises home ownership, social cohesion and income adequacy for families with children be implemented.

## **6. A way forward**

The first issue CPAG believes must be addressed is the quantity and quality of low-cost housing. One way to achieve this would be to increase the availability of housing through Housing New Zealand. Housing New Zealand's waiting lists are testimony to the shortage of affordable housing, particularly in areas such as Manukau City. This is reinforced by the trend to increased household size in South Auckland noted above. While initiatives such as the redevelopment at Talbot Park at Glen Innes and the proposed mixed development at Hobsonville are welcome, there needs to be more of them, particularly in areas where overcrowding is common. Moreover, such developments need offer a wider range of choices than simply renting. Home ownership subsidies, greater use of third-sector housing initiatives and greater collaboration with local authorities to provide social housing could be achieved at a cost less than or equal to the AS, and provide the security of tenure and control over housing quality the AS has abjectly failed to provide to date. We acknowledge Housing New Zealand's Welcome Home Loan scheme as an initial first step, but believe it must be extended to reflect the high price of housing in urban areas.

Income inadequacy is a key issue that must be addressed. As the Ministry's background material points out, this review is being conducted at a time when the benefit system as a whole is under review, supposedly with a view to simplification. Therefore, this review presents an opportunity to take a broader view of the housing issue, and increase benefits to a level that reflects the actual expenses faced by households, including accommodation. CPAG submits therefore that (1) incomes be adequate to provide decent housing for families, and that this be done through ensuring adequate benefits and child-related financial assistance are available to all families and (2) that the emphasis be moved from just assisting people with rental costs to assisting low-income families, including beneficiary families, into their own homes. We submit that benefits must be raised to include a realistic assessment of accommodation costs, and Family Support increased, maybe with a universal component. This could be achieved by eliminating the divisive In Work Payment. This would provide an increase in the incomes of beneficiaries, particularly sole parents and their children. We also submit that, even with the extension of the availability of the AS up the income range, it is in reality a residual add-on for beneficiaries. For this reason any changes must focus on this group, or risk compounding the regressive nature of the Working for Families package as it presently stands.

If benefits are raised to improve the affordability of housing, it is reasonable to ask whether this would simply be inflationary with housing supply relatively inelastic in the short term. CPAG submits that while improved incomes would probably increase demand and hence prices, the increase in prices is unlikely to cancel out any improvement in incomes. However, we argue that the key policy issue here is that presently many low-income families are so poor their choices are severely constrained, with outcomes that are inequitable and inefficient. In practical terms, this means that children are getting sick and having their schooling disrupted unnecessarily. A programme of replacing the thousands of state houses sold off in the 1990s by building more houses (rather than just leasing existing housing stock) would help overcome any tendency for rents to increase as incomes increase.

Our final submission is perhaps the most important. We strongly urge that the risk-free rate of return method of taxing investment properties as recommended by the McLeod Tax Review<sup>6</sup> be revisited.<sup>7</sup> Reducing the favourable tax treatment that residential property investment presently enjoys would save the taxpayer money through (1) reduced expenditure on the AS as the speculative bubble deflates and housing becomes more affordable to a wider range of households, and (2) taxpayers would no longer be subsidising property investors claiming tax losses and speculating on capital gains. A wider benefit would be reduced average household debt nationally as highly geared loans became less common, thereby reducing the need to borrow millions of dollars from

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<sup>6</sup> Tax Review 2001, Final Report to the Minister of Finance, October 2001.

<sup>7</sup> See <http://www.cpag.org.nz/resources/submissions/res1115714116.pdf>.

overseas to finance unproductive investments. In short, the favourable treatment of housing has created a massive distortion in the savings and investment market that has had very real and negative effects on the public purse, and thousands of low-income New Zealand families and their children.

We do not think a capital gains tax is a feasible solution, not only for the reasons expounded by McLeod, but also because it is not sensible to introduce such a tax at the height of a speculative bubble. The bench line values for such a tax would be high with the prospect of many capital losses not gains. We do not think the RFRM alternative has been adequately considered to date and urge the committee to revisit this.

In conclusion, CPAG submits that simply adjusting the parameters of the existing AS without reference to the wider policy environment will not improve outcomes for children living in uninsulated and overcrowded housing. If the government is serious about equality of opportunity for all children then it must commit to providing affordable, decent housing for them, in neighbourhoods whose social fabric has not been shredded by a constant turnover of desperately poor residents. This will not be achieved by tweaking a supplementary benefit; it will be achieved by helping people into their own homes, and dealing with the basis of the property bubble that has put housing beyond the reach of so many.