



7 September 2020

DOIA20/21070453

s 9(2)(a)

Dear s 9(2)(a)

I refer to your email of 28 July 2020 to the Ministry of Social Development requesting a copy of "Income Related Rent Subsidy (IRRS) – 31 January 2018" under the Official Information Act 1982 (the Act). On 30 July 2020, your request was transferred to the Ministry of Housing and Urban Development (the Ministry) for response.

This briefing, REP/18/1/093 - 'The Income Related Rent Subsidy (IRRS)', is released to you with only the mobile number of an official withheld under section 9(2)(a) of the Act, to protect their privacy.

In terms of section 9(1) of the Act, I am satisfied that, in the circumstances, the decision to withhold information under section 9 of the Act is not outweighed by other considerations that render it desirable to make the information available in the public interest.

You have the right to seek an investigation and review of my response by the Ombudsman, in accordance with section 28(3) of the Act. The relevant details can be found on the Ombudsman's website www.ombudsman.parliament.nz.

As part of our ongoing commitment to openness and transparency, the Ministry proactively releases information and documents that may be of interest to the public. As such, this response, with your personal details removed, may be published on our website.

Yours sincerely

Julia Pearce
Principal Advisor
Market and Supply Responses



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

The Income Related Rent Subsidy (IRRS)

Date: 31 January 2018

Report no.: REP/18/1/093

Security level: IN CONFIDENCE

Priority: Medium

Action Sought

Hon Phil Twyford Noting
Minister of Housing and Urban
Development

Contact for telephone discussion

Name	Position	Telephone	1st Contact
Hayley Hamilton	General Manager, Housing Strategic Management and Planning	04 916 3120	1 st Contact

Report prepared Hannah May, Senior Advisor, Housing Strategic Advisory

**Other
departments
consulted:** None

Minister's office comments

- ☐ Noted
- ☐ Seen
- ☐ Approved
- ☐ Needs change
- ☐ Withdrawn
- ☐ Not seen by Minister
- ☐ Overtaken by events
- ☐ Referred to (specify)

Comments

Date received from MSD

Date returned to MSD



Report

Date: 31 January 2018

Security Level: IN CONFIDENCE

To: Hon Phil Twyford, Minister of Housing and Urban Development

Cc: Hon Jenny Salesa, Associate Minister of Housing and Urban Development

The Income Related Rent Subsidy (IRRS)

Purpose of the report

- 1 This report provides you with information on current IRRS expenditure and the circumstances under which some tenants are excluded from IRRS assistance, as well as an estimation of the additional financial support required to extend the IRRS to tenants currently excluded from paying Income Related Rent (IRR).

Executive summary

- IRRS expenditure is higher than it has ever been, driven in part by the increase in market rents across New Zealand. Despite this, a number of tenants in subsidised housing are not able to access IRRS, such as those in council properties and sitting tenants in registered Community Housing Provider (CHP) properties. Sitting tenants are tenants in registered CHP properties who were tenanted before CHPs became eligible to receive IRRS, and tenants in unregistered public housing providers.
- Currently, the majority of CHP tenants (approximately 3,400) are not in public housing tenancies. There are around also 9,011 properties that are under council management and not eligible for IRRS under current regulations.
- A number of councils have begun transferring their properties to CHPs in order to access IRRS for new tenants from MSD. This approach is contributing to the rising IRRS costs mentioned above.
- Assuming a 100% eligibility rate for the 12,332 households currently identified as residing in CHP and council properties, the potential additional expenditure incurred by extending IRRS would be around \$172.6m per year.

Recommended actions

It is recommended that you:

- 1 **note** the contents of this report and the attached documents
- 2 **note** that over the next few months, agencies will continue to provide you with advice on the timeframes and scope for further work on funding policy settings, including extending IRRS, and the regulatory tools to meet the government's objectives



Scott Gallacher
Deputy Chief Executive, Housing
Ministry of Social Development

31/01/18

Date

Hon Phil Twyford
Minister for Housing and Urban Development

Date

IRRS spending is higher than it has ever been

- 2 Housing costs form the largest single component of household spending. The living standards of low-income families can be determined by how much of their income they spend on housing.
- 3 In most housing provided by Housing New Zealand Corporation (HNZC) and CHPs, the tenant pays an IRR¹ and MSD pays the difference between IRR and the market rent for the property through the IRRS.
- 4 IRRS insulates public housing tenants from increasing accommodation costs as the tenant's rent contribution increases only with an increase in their income, irrespective of what is happening with market rent. This results in increased IRRS costs to government when market rents increase.
- 5 At December 2017, MSD was paying more IRRS payments for individual households than ever before. Despite seasonal changes in the level of IRRS places over a 12 month period, the total has increased by 3 per cent on the same time last year – with weekly IRRS payments totalling \$17 million in December 2017.
- 6 **Table 1** below presents the annual IRRS expenditure since its commencement in 2014.

Table 1: Annual IRRS expenditure

Year	2014/15	2015/16	2016/17
Annual spend	\$703.207m	\$755.268m	\$815.277m

- 7 There are currently 63,482 IRRS tenancies across New Zealand. The average (national) IRRS payment made to primary applicants as at December 2017 was \$267 per week.

Average IRRS spend varies across the regions

- 8 The IRRS payment made by MSD differs in each region due to variations in market rents. For example, the highest IRRS paid is \$334 per week, in Auckland, where the average weekly market rent is \$464.30. In comparison, the IRRS paid in the West Coast is \$92 per week, where weekly market rents are on average \$199 per week.
- 9 The IRR that tenants pay has remained relatively stable (as it is a proportion of the tenant's income), but market rents in some locations have increased, requiring MSD to pay a greater amount of IRRS to meet this market rent.
- 10 An implication of this regional variation is that more tenancies can be purchased in areas where the market rent is low (or, the same expenditure purchases less properties in high market rent areas).
- 11 IRRS data, including payments, places and average rent by Territorial Authority (TA), is shown in **Appendix A**.

There are some exclusions to IRRS eligibility

- 12 In April 2014, when IRRS was being extended to CHPs, a decision was made to exclude local authorities and council-controlled organisations and sitting tenants of registered CHPs.
- 13 Three key reasons for excluding sitting CHP tenancies from eligibility for IRRS when MSD became the purchaser of IRRS places in April 2014 were;

¹ Income related rent is calculated based on 25 percent of income up to an income threshold, and 50 percent of income above the threshold

- financial constraints due to the capped IRRS appropriation², and
 - that this group of tenants were already adequately housed and so do not require access to the subsidy provided through IRRS, and
 - that extending eligibility for IRRS to sitting CHP tenants would create inequities and not benefit those who are inadequately housed and have been assessed as priority A (at risk) or B (in serious need) on the Housing Register.
- 14 In addition, there were concerns that extending IRRS councils would cause some to expand their housing portfolio in a way that was not sustainable, and which could have impacts on rate payers.

Sitting tenants of registered CHPs cannot access IRRS

- 15 CHPs have been able to manage public housing tenancies since 14 April 2014. Sitting (existing) CHP tenants who were not allocated to the CHP by MSD cannot receive the IRRS.
- 16 CHPs may choose to charge a below-market rent to their sitting tenants, but MSD will not provide a subsidy to the provider. This reduces the revenue a CHP receives from its portfolio with implications for their ability to invest in services, systems, assets and growth.
- 17 Currently, the majority of CHP tenants (approximately 3,400) are not in public housing tenancies and so are not eligible to pay IRR, but are able to receive the Accommodation Supplement (AS).

Tenants in council properties cannot access IRRS

- 18 As noted in the joint report provided to you by MSD and HNZA on 20 December 2017 (REP/17/12/1355 refers), councils play a key role in providing housing in their communities by offering housing to support people who are on a low income at a subsidised rent³.
- 19 From the latest data MSD holds, there were 61 councils providing 13,479 houses in 2014. Auckland, Wellington and Christchurch councils had the largest portfolios with over 6,500 units between them – however at this time, much of the Christchurch City Council stock had been severely damaged in the earthquakes.
- 20 In order to access IRRS from MSD, a subsidiary of a local authority or council-controlled organisation may apply to register as a CHP if it is operating at arm's length⁴, partner with an existing CHP or transfer their stock to a CHP to change the use of their stock into public housing tenancies.
- 21 This means current settings are incentivising councils to establish an arm's length CHP, or work with an existing one, and transfer their stock into public housing tenancies to access IRRS from MSD. This approach increases the rental revenue

² The MSD policy to focus on new tenants was developed on the basis of the Cabinet decision in Budget 2013 to provide a limited amount of IRRS funding for CHPs. The level of funding in 2013/14 would not have been sufficient to cover all current CHP tenants. Since 2014/15 MSD has had greater flexibility about how much IRRS funding it provides to CHPs as the IRRS funding streams for HNZA and CHPs were combined.

³ Council housing is provided by councils and their tenants typically receive the Accommodation Supplement (AS). The average AS payment as at December 2017 was \$72 per week.

⁴ This regulation was created following concerns that extending IRRS to councils would be problematic as ring-fencing the financial operations of local government authority from the housing portfolio could potentially jeopardise the security of the housing stock or lead to cross subsidisation between activities. For example, there is a possibility that a council could decide to cross-subsidise other council activities with revenue from IRRS. While it might be possible to overcome this, the most straightforward approach (at the time) was to require that the council set up a CHP in order to access IRRS.

available to manage and maintain that housing while helping to reduce the cost for the sitting tenants.

- 22 MSD is aware of 4,468 council properties that have been transferred either by sale or lease to registered CHPs⁵ in the period since the 2014 survey. This leaves approximately 9,011 properties remaining under council management.
- 23 While these transfers assist in the growth of the registered CHP sector, there is a corresponding increase in the number of IRRS places to be funded.
- 24 A list of council stock, less transfers that we are aware of, is outlined in **Appendix B**.

There are significant financial implications in extending IRRS more broadly

- 25 Estimating the financial impact of extending eligibility for IRRS to sitting CHP tenants is difficult. As discussed above, MSD has limited knowledge of this group and without tenants going through a housing assessment, it is difficult to estimate how many could potentially be eligible for IRRS.
- 26 **Table 2** below presents the estimated costs for varying levels of IRRS eligibility, for council and CHP stock.

Table 2: Estimated annual costs of extending IRR to council and sitting CHP tenants

Council scenario	33% (2,974 units)	50% (4,505.5 units)	100% (9,011 units)
Estimated annual IRRS cost	\$41m	\$62.7m	\$125.3m
CHP scenario	33% (1,122 units)	50% (1,700 units)	100% (3,400 units)
Estimated annual IRRS cost	\$15.6m	\$23.6m	\$47.3m
TOTAL	\$60m	\$86.3m	\$172.6m

- 27 Assuming 100% of tenants in the approximately 3,400 existing CHP properties started receiving IRRS in 2018/19, it is estimated to cost an additional \$47.3million each year. If this change also applied to the approximately 9,011 council properties, it would add over \$125 to the annual IRRS expenditure. This is an annual addition of \$172.6 million in IRRS payments for 12,332 properties.

⁵ Registered as a Class I Social Landlord with the Community Housing Regulatory Authority.

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Ministry of Social Development

Released under the
Official Information Act 1982

Appendix A: IRRS tenancies, averages and total payments

Territorial Authority	Number of tenancies	Average Rent	Average IRR	Average IRRS	Total IRRS per week
Auckland	29,282	\$464.30	\$129.84	\$334.46	\$9.794m
Bay of Plenty	2,551	\$315.43	\$105.74	\$209.69	\$0.535m
Canterbury	6,862	\$338.00	\$106.19	\$231.81	\$1.591m
Gisborne	1,190	\$260.01	\$104.77	\$155.24	\$0.185m
Hawke's Bay	2,637	\$311.73	\$103.92	\$207.81	\$0.548m
Manawatu-Whanganui	2,332	\$250.77	\$99.54	\$151.23	\$0.353m
Marlborough	397	\$304.36	\$108.10	\$196.26	\$0.078m
Nelson	566	\$346.66	\$106.14	\$240.52	\$0.136m
Northland	2,014	\$293.37	\$104.55	\$188.82	\$0.380m
Otago	1,515	\$269.98	\$103.56	\$166.42	\$0.252m
Southland	382	\$218.73	\$97.44	\$121.29	\$0.046m
Taranaki	1,062	\$279.41	\$102.26	\$177.16	\$0.188m
Tasman	155	\$337.63	\$110.28	\$227.35	\$0.035m
Waikato	4,165	\$323.58	\$106.74	\$216.85	\$0.903m
Wellington	8,090	\$349.61	\$111.96	\$237.64	\$1.923m
West Coast	282	\$199.48	\$92.03	\$107.45	\$0.030m
National	63,482	\$384.64	\$117.21	\$267.43	\$16.977m

Appendix B: List of council stock by region

Region	Total stock as reported in the CHA 2014 survey	Known transfers – sale (S) or lease (L) to registered CHP	TOTAL
Ashburton	118		118
Auckland	1412	1412 (L) <i>Haumaru Housing Limited Partnership</i>	0
Buller	44		44
Carterton	38		38
Central Hawke's Bay	48		48
Central Otago	98		98
Chatham Islands	4		
Christchurch	2649	2376 (L) <i>Otautahi Community Housing Trust</i>	273
Clutha	98		98
Dunedin	954		954
Far North	147		147
Gisborne	132		132
Gore	6		6
Grey	125		125
Hamilton	344	344 (S) <i>Accessible Properties Limited</i>	0
Hastings	220		220
Hauraki	56		56
Horowhenua	115	115 (S) <i>Compassion Housing</i>	0
Hurunui	37		37

Hutt City	205		205
Invercargill	215		215
Kaikoura	17		17
Kaipara	56		56
Kapiti Coast	118		118
Kawerau	27		27
MacKenzie	10		10
Malborough	177		177
Masterton	86		86
Matamata-Piako	118		118
Napier	376		376
Nelson	142	142 (L) Nelson Tasman Housing Trust	0
New Plymouth	142		142
Otorohanga	28		28
Palmerston North	414		414
Porirua	29		29
Queenstown Lakes	19		19
Rangitikei	74		74
Rotorua	152		152
Ruapehu	66		66
Selwyn	25		25
Southland	69		69
South Taranaki	74		74
South Waikato	79		79
South Wairarapa	32		32

Stratford	10		10
Tararua	92		92
Tasman	101		101
Taupo	66		66
Tauranga	246		246
Timaru	245		245
Waimakariri	126		126
Waimate	27		27
Waipa	131		131
Wairoa	32		32
Waitomo	24		24
Whanganui	293		293
Wellington	2332		2332
Western BOP	60		60
Westland	55		55
Whakatane		79 (S)	0
	79	Tauranga Community Housing Trust	
Whangarei	165		
TOTAL	13,479	4,468	9,011