Working Paper no.18: 
Housing Policy 
Recommendations to Address Child Poverty 

August 2012

Purpose

1. This paper was prepared to provide the EAG with information on housing issues related to child poverty, and the range of policy options that might mitigate the impacts of child poverty.

2. This paper has informed the direction and recommendations of the EAG’s Solutions to Child Poverty in New Zealand: Issues and Options Paper for Consultation. These are preliminary findings, and a final report will be published in December 2012. The findings in this paper do not necessarily represent the individual views of all EAG members.

3. The EAG wish to acknowledge various external experts for their assistance, including David Preston, Associate Professor Ralph Chapman, Victoria University of Wellington, Dr Sarah Bierre, Helen Viggers, Kate Amore, Associate Professor Michael Baker, Dr Michael Keall, Dr Nevil Pierse at He Kainga Oranga/Housing and Health Research Programme, University of Otago, Wellington, Dr Alan Johnston, Salvation Army. The findings and recommendations in this paper do not necessarily reflect the individual views of these experts or their organisations.

Summary

4. This briefing proposes a series of recommendations to the government on housing policy initiatives to address child poverty and mitigate its effects. Policy development is seriously hampered by the lack of a current New Zealand housing strategy. This briefing on proposed changes to housing policy summarises research on the effect of housing on children’s health and well-being. Wherever possible, these recommendations on housing policy are based on research evidence to achieve better outcomes for children. Some cost-benefit assessments are available in a few cases, but more work is needed on the broader economic and social implications of these proposed changes in housing policies.

5. Housing is an important determinant of children’s well-being. The indoor environment affects children’s respiratory health, hazards in the home can cause injuries, and the
location of the home affects the schools children attend, their access to green spaces for play, and their transport choices.

6. Young children spend most of their time at home, so the quality (particularly warmth and safety) of their homes is important for their health and well-being, as well as that of their family/whānau. New Zealand housing is of lower quality than most OECD countries, and we also have one of the lowest levels of household energy use for heating among the International Energy Agency member countries (26 of the 30 OECD countries), leading to a major problem of cold, damp homes.¹

7. New Zealand has low proportions of social and community housing compared with most other OECD countries. Consequently, there are a disproportionate number of low-income households, including large numbers of children, living in private rental housing – a sector which is largely unregulated, of poorer housing quality than other tenure types, and offers little security of tenure. This has significant implications for the health, education, and broader well-being of children.

8. There is no single recommendation that would solve the serious housing problems facing many New Zealand families. The 12 recommendations are largely based on a review of extensive New Zealand evidence, as well as best practice in the OECD. The policy options are reflected in these recommendations, which can be seen as rungs on a policy ladder. Research and monitoring are essential to ensure the proposed steps achieve the desired outcomes of making healthy, safe, warm, secure housing available for all New Zealand children, including those living in low-income families.

**Housing Recommendations**

9. It is recommended that the Government:

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<th>Housing infrastructure investment and policy</th>
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<td>Include housing as a priority in the National Infrastructure Plan (NIP), which is led by the Infrastructure Unit in the Treasury and is also central to the work of the new Ministry of Business, Innovation and Employment¹.</td>
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<th>Home ownership for low-income families</th>
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<td>It is recommended that the government develops a range of measures to increase the ability of low-income households to purchase their own home. The measures should specifically address barriers for Māori and Pacific households.</td>
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The need for, role, and development of social housing

Recommendation 3:
Address the serious undersupply of social housing by taking immediate actions to increase the number of social and affordable houses and their proportion of the total housing stock.

Recommendation 4:
Extend the current Social Housing Fund beyond 2015 and substantially increase the annual commitment with a particular focus on families with children through a competitive and transparent allocation system.

Recommendation 5:
Provide on-going direction and guidance to Housing New Zealand Corporation to re-balance its focus to ensure that both asset management and outcomes for tenants are improved.

Assessment of housing needs

Recommendation 6:
Consideration should be given to establishing a single point of housing needs assessment, independent of housing providers, to provide a comprehensive assessment service for people in housing need, including the quality of housing.

Housing subsidies

Recommendation 7:
Refocus and redesign central government-funded housing subsidies (Accommodation Supplement and Income-Related Rents) as part of a wider package of income and housing support. These changes should target a greater level of housing support to a smaller number of low-income families in greatest need, including large families, families living in areas with high rents, and families with multiple needs.

Social housing standards

Recommendation 8:
Register or license all social housing providers (state, local government and community organisations) and have their properties monitored for quality, accessibility, and environmental and financial sustainability in order that they are eligible for Income-Related Rent subsidies.
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<th>Regulation of rental housing quality</th>
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<td>Ensure all rental housing (both social and private sector) meet minimum health and safety standards, according to an agreed Warrant of Fitness, such as the Healthy Housing Index. These standards should be monitored and effectively enforced, and gradually increased over time.</td>
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<th>Insulation and energy security</th>
<th>Recommendation 10:</th>
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<td>Further extend and target the current subsidy programme for insulating homes known as Warm Up New Zealand: Heat Smart, with the longer-term aim of ensuring that all remaining uninsulated or poorly insulated homes (estimated at approximately 700,000) are properly insulated and effectively heated. Specific targeting is needed to incentivise landlords to insulate their rental properties.</td>
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<td>Provide a range of practical measures to ensure that all households, including low-income households, are able to afford adequate energy to protect their health and well-being.</td>
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<th>Housing data and research</th>
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<td>Commission independent research and ongoing monitoring of housing issues affecting children, including:</td>
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<td>a) analysis of the supply and demand for housing including social housing</td>
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<td>b) broad cost-benefit analysis of housing improvement policy options</td>
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<td></td>
<td>c) assessment of the quality of rental housing</td>
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<td></td>
<td>d) ongoing monitoring of housing quality and health outcomes in children linked to poor housing</td>
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<td>e) clarification of the legislation and regulation underpinning the quality of existing housing.</td>
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Introduction

10. Housing is a critical issue affecting child poverty. Poor housing is a cause of many health problems for children, including infectious diseases, respiratory illnesses, and preventable injuries. Babies and pre-schoolers are particularly vulnerable to the health effects of poor quality housing as they spend a disproportionate amount of time in their homes; as such, poor quality housing can seriously impede normal child development.

11. Overcrowding increases the spread of infectious diseases, particularly respiratory infections such as childhood pneumonia, rheumatic fever and meningococcal disease. Overcrowding has a range of other impacts including children’s school performance (they do not have space to study, they often do not sleep well, and are tired in class), their mental health (they suffer stress and anxiety), and their social well-being (they are unable or too embarrassed to invite friends over to their home).

12. Housing is a particular problem for many Pacific children. Pacific peoples are far more likely than other ethnic groups to be living in crowded households. On average, Pacific households are significantly larger than other New Zealand households, often with multiple generations living in the same home. In 2006, 43 percent of Pacific peoples lived in crowded households requiring at least one extra bedroom. Finding private rental housing is difficult for larger households and is compounded by the probable discriminatory attitudes of some landlords. These factors, combined with low incomes, help explain why just over a quarter (26 percent) of Pacific peoples in New Zealand live in social housing (compared with only five percent of the population overall).

13. Many Māori children also face housing issues. Māori children are more likely than Pacific children to live in homes their parents own, although only half as likely as European New Zealand children. There are particular challenges faced by Māori whānau who wish to build homes on Māori land. Following Pacific children, Māori are the next most likely to be living in crowded houses. Māori are the largest tenant group in state housing, with 12 percent of the Māori population living in state housing.

14. There are a variety of well-recognised problems in the housing sector. Those most closely linked to child poverty issues include:

- Lack of supply of housing (leading to excess demand, especially in Auckland, which manifests as homelessness – living in a range of temporary situations such as crowding in with other families). This problem is closely linked to affordability issues – both in terms of the cost of purchasing a home and the cost of renting.
- Declining rates of home ownership, especially for minority groups.
- Shortage of good quality, low-cost and secure rental accommodation (i.e. a significant proportion of the rental stock – especially the private rental stock – is of low quality, uninsulated, and poorly maintained).
• Historical issues over the quantity, quality, type, and location of rental accommodation provided by Housing New Zealand Corporation (HNZC).
• The very limited stock of community housing and the policy impediments to its expansion.
• Horizontal equity issues arising from two separate subsidy regimes (the Accommodation Supplement (AS) and Income-Related Rents (IRR)).

15. There are also a number of contributing factors sitting behind these problems that need to be considered in any proposed solutions:

• Misalignment between the interests of the owners of rental properties and their tenants (e.g. landlords on the whole are looking for investment gain and a cash flow surplus whereas many tenants require long-term tenancy stability).
• Specific and complex Māori housing issues (relating to land ownership, etc.).
• The additional fiscal and resourcing challenges posed by the leaking-building problem and the extensive liabilities still remaining.
• The impact of tax policy settings (including the lack of a capital gains tax), depreciation; and, resource management provisions.
• Significant demographic shifts and changes in family structure.
• The poor productivity of the housing construction sector (which is dominated by small-scale builders and therefore misses some of the efficiency gains and quality improvements that might come from large-scale housing production).
• Limited information on a number of key issues.

16. Two additional specific regional problems need to be noted. The first issue relates to the serious damage to the housing stock in Canterbury (and especially Christchurch) where 7,560 houses in residential areas have been red-zoned and are unable to be used as a result of protracted earthquake activity. There is a need to address urgent housing issues and repair or rebuild stock just to get back to pre-2011 housing levels. The rebuild should involve consideration of the housing mix, including provision of affordable and social housing.

17. The second regional issue relates to the rapid and continued population growth in Auckland. The Auckland region is projected to account for 60 percent of New Zealand’s population growth between 2006 and 2031, increasing from 1.37 million to 1.94 million people. Auckland region would then be home to 38 percent of New Zealand’s population in 2031, compared with 33 percent in 2006 (Statistics NZ). There is an urgent need to substantially increase the number of housing units, particularly for low-income families. Many of these families have multiple needs, and would be best served through social housing.
18. Addressing housing issues will require comprehensive measures over many decades. While there have been significant reviews of the issues, there have often been difficulties implementing solutions because of the many diverse interests and trade-offs that need to be made. Housing assistance directed to adults does not always prioritise the needs of children\(^3\). Placing a child poverty lens over the housing issues can provide a clear starting point for government agencies to improve the quantity, quality, and affordability of housing in New Zealand.

19. Housing is an important determinant of children’s well-being and their future outcomes in adolescence and adulthood. The short- and long-term cost of poor housing on health alone warrants an investment approach. An investment approach would shift resources into prevention of poor outcomes, as this would result in reduced expenditure over the longer term.

**The importance of housing on children’s health and well-being**

20. Housing has an influence on children even before they are born. Data from the 1958 British Cohort Study found a strong association between inadequate housing and low birth-weight, a highly sensitive marker of the biological outcomes of intrauterine development, and of the families’ socioeconomic circumstances during pregnancy and after birth.\(^5\)

21. Poor housing causes ill health among children, as well as being an indicator of poor life outcomes among children who have been brought up in poverty. As children are growing and developing they are very vulnerable to the quality of the indoor environment. Housing quality has a cumulative impact on children’s development\(^4\) and is particularly important for children because babies and pre-school children spend so much time indoors. Both young children and older adults spend about 90 percent of their time at home, as shown in Figure 1.\(^6\)

*Figure 1: Percentage of time spent at home and on other activities, by age*
Young children are particularly vulnerable to a number of indoor exposures which are more likely in older houses, such as lead from paint or water, asbestos, mould, and pesticides. Young children are also particularly vulnerable to cold, damp and polluted indoor environments, because their thermo-regulatory systems are not fully developed, and their developing lungs are sensitive to pollutants such as second-hand tobacco and particles of nitrogen and carbon from unflued gas heaters.

There is growing evidence about the biological pathways through which the indoor environment affects health, and some of these pathways are much stronger for children. Cold indoor air is harder to heat, and cold, damp air promotes both mould growth and survival of viruses. Cold and hot temperatures (below 16°C and above 28°C) also stress the human immune system. Probably most important is the apparent contribution of household crowding to the extraordinarily high rate of infectious diseases among children in New Zealand. Our typical household heating pattern is to heat only one room of the house, so people inevitably cluster together in that room to socialise and in some cases to sleep communally. This environment makes the transmission of viruses and bacteria more likely, particularly from adults to children.

Barriers to healthy housing for children

A number of barriers prevent children living in housing that supports their health and well-being. In this section, we discuss two important barriers: poor housing affordability; and discrimination in the rental market.

The effect of housing unaffordability

Housing affordability problems are concentrated in poorer households, those containing children, and those containing Māori and Pacific families. Unaffordable housing prevents children living in housing that will benefit their health. In particular, unaffordable housing is known to be a driver of household crowding. A detailed study of the relationship between government housing policy and household crowding in the 1990s concluded that household crowding in that decade was strongly influenced by housing affordability and the move to market rents in state housing. House prices almost doubled between 2001 and 2007 and it is predicted that household crowding will rise in response to increased rents as demand for private rental housing increases.

The ratio of housing costs to income is a commonly-used measure of housing affordability. The Ministry of Social Development (MSD) defines housing affordability as:

“the proportion of households and the proportion of people within households spending more than 30 percent of their income on housing”. From 1988 to 1997, the proportion of households spending more than 30 percent of their household income on housing increased from 11 percent to 25 percent. This proportion leveled off at 24 percent between 1998 and 2001, declined slightly to 21 percent in 2004, then increased to 26 percent in 2007 and 27 percent in 2009. Those in the lowest income quintile paid 40 percent of their disposable income on housing from the early 1990’s onwards, while those in the top income quintile paid less than 20 percent of their disposable income on housing (Figure ).

Figure 2 Median percentage of disposable income spent on rent by disposable income quintile, 1987-2010

Source: Statistics New Zealand (HED) data

The impact of private landlords’ discrimination when choosing their tenants

27. Discrimination in the private rental market against families with children may also affect the ability of children to grow up in healthy housing. Results from the 2008 General Social Survey, reported in the 2010 Social Report, found that people in rented housing (16 percent) were twice as likely to experience discrimination as those in owner-occupied housing (eight percent). People in one-parent families with dependent children (16 percent) and unemployed people (19 percent) had higher than average rates of discrimination. Interestingly there was little variation by personal income level.
There are a number of sources of evidence of racial discrimination in the rental housing market in New Zealand. In a recent study of 106 child admissions to Wellington Hospital over a 10-day period, 5.6 percent of parents said they had “been treated unfairly when renting or buying housing because of [your] ethnicity in New Zealand.” Landlords’ preference for adult-only families as tenants may be contributing, which would create ethnic differences because Māori and Pacific families tend to have more children than European families.

Māori are more likely than European/Other to experience self-reported racial discrimination when buying or renting housing. An analysis of the 2002/2003 New Zealand Health Survey, which measured reported racial discrimination, found that the most obvious inequality was in housing (buying or renting), where Māori were 13 times more likely to report being treated unfairly because of their ethnicity than were Europeans. Successive covert studies of discrimination in the private rental market have also confirmed racial discrimination by private landlords.

In summary, evidence from several New Zealand sources suggests that discrimination, particularly in the private rental market, is one of the factors constricting the availability and choice of low-income housing for children in Māori and Pacific families.

The effects of lack of access to affordable, quality housing for children

When people cannot access affordable, quality housing of their own, they are forced to live in a variety of inadequate situations. Recent research has shown that numbers of children are experiencing homelessness in New Zealand. Using the official definition of homelessness published by Statistics New Zealand in 2009, at least one in every 100 New Zealand children aged less than 15 years were found to be homeless in 2006, and they were mainly living in severely crowded, private houses. Household crowding is a common response to housing need in New Zealand, particularly among Pacific and Māori people, and its serious health implications are well known. This section discusses household crowding, as well as the effects of poor quality housing.

Household crowding and serious infectious diseases

One of the main ways that housing conditions affect the risk of infectious diseases is through household crowding. In New Zealand, household crowding has been shown to be a major risk factor for meningococcal disease in children, childhood pneumonia and rheumatic fever.

The distribution of household crowding is very unequal and is concentrated in households containing children, low income families, and Māori and Pacific peoples. While average levels of household crowding have been declining in New Zealand, this is not the case for children. Severe household crowding can be defined as a deficit of two or more bedrooms for the size of the household. In 1991, 5.1 percent of children less than 15 years of age were living in severely crowded houses, increasing to 5.7 percent in 2006.
For Māori children, the level of exposure was twice as high (11.4 percent in 1991 and 9.9 percent in 2006). For Pacific children, the level of exposure was twice as high again (20.8 percent exposed to severe household crowding in 1991 and 20.9 percent in 2006). By comparison, exposure for European/Other children was much lower (1.8 percent exposed in 1991, 1.8 percent in 2006). While differences can be seen in perceptions and tolerance of crowding between collectivist and more individualistic cultures, no differences in measures of psychological distress have been found.

In New Zealand, there appears to be a temporal association between trends in housing unaffordability, household crowding, and rates of serious infectious diseases. Rates of serious infectious diseases have increased over the last 20 years, but the trend has not been linear. Much of the increase occurred during the 1990s, with some reversal of this trend from 2004 to 2006, followed by a more recent increase. The 1990s was a period of neoliberal economic policy and rising income inequality in New Zealand. There was an associated decline in housing affordability, including the introduction of market rents in HNZC housing, and some increases in exposure to household crowding for children.

**Housing quality and health**

Further evidence for the importance of household crowding, and housing conditions more generally, comes from evaluation of housing interventions. A major initiative in New Zealand has been the HNZC Healthy Housing Programme (HHP). The HHP had an initial pilot from January 2001 to June 2002, with the main programme starting in South Auckland in 2003 and later extending to Northland and Wellington. Recently, more money has been allocated to the HHP, as part of policies to reduce rheumatic fever.

The HHP programme aims to reduce household crowding, as well as improving housing ventilation and heating. Initial evaluation of the HHP found a significant reduction in acute hospitalisations for younger participants (a 23 percent reduction for those aged 5-34 years). A more extensive evaluation, which used a control population, found that for children (<20 years of age), participation in the HHP was associated with a 27 percent fall in the total number of acute and arranged hospitalisations in the year following completion of the HHP interventions (statistically significant, 95%CI -43% to -6%). The effect of the HHP appeared more marked for the most intensive intervention, crowding reduction, which was associated with the largest reduction of 61 percent (95%CI -79% to -26%) in acute and arranged admissions.

While the HHP successfully concentrated on improving housing to keep children out of hospital, a recent New Zealand study by medical students has explored the role of housing quality and access to primary care in identifying avoidable admissions of children aged less than 15 years to Wellington hospital. Over half (51.9 percent) of the 100

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children admitted over the 10-day study lived in houses that their parents said were colder than they would like, 17 percent had leaks, and almost a third (30.2 percent) were damp. Half the parents in the sample were eligible for Community Services Cards, and while most parents said they had no trouble paying their electricity bill, 14.2 percent of households had been unable to pay their bills by the due date and 7.5 percent of households had had their power stopped because of unpaid bills. Only two thirds (67.9 percent) of parents thought their houses had been insulated. As a consequence of living in cold, damp houses, over a quarter (28.3 percent) of parents said they had shivered, and a quarter had seen their breath when inside their house. The average cost of a children’s admission to hospital is $2,645\textsuperscript{iv} and according to the usual criteria half the admissions were ‘entirely’ or ‘partly’ preventable. In a third of cases it was judged that improving housing conditions would “have reduce[d] the risk of admission for this or a similar condition.”\textsuperscript{v}

**Does improved housing improve children’s health?**

*Housing, Insulation and Health Study*

38. A basic remediation that can be made to New Zealand houses is retrofitted insulation and a series of robust studies have shown that this intervention has a significant beneficial effect on the children in the households. A community trial of the effectiveness of these retrofits, the *Housing, Insulation and Health Study*, was undertaken with almost 1400 households in seven predominantly low-income communities in New Zealand, including households who owned their own homes, or rented privately or from HNZC. After their houses were insulated, children had significantly fewer occasions when their sleep and speech was disturbed by wheezing and they had fewer reported days off school.\textsuperscript{32,33}

39. After the non-targeted national roll-out of the retrofitted insulation and heating programme, *Warm Up New Zealand: Heat Smart* (WUNZ:HS), the first 45,000 houses retrofitted were evaluated using an innovative study design that matched houses receiving funding under the programme with multiple physically similar control homes.\textsuperscript{v} Suitably anonymised energy use and health data were gathered from treatment and control home occupants (nearly one million individuals). Assessment of the health

\textsuperscript{iv} Figure calculated by Nick Preval, *He Kainga Oranga*, for 1 million people over 3 years the average hospitalisation cost per admission for people aged under 15 is approximately $2,645 (including readmissions and waitlist cases, but excluding birth-related costs); similar respiratory hospitalisations costs are $2,278.

\textsuperscript{v} In 2010, a research team from the University of Otago, Wellington, Victoria University, Wellington, Motu Economic and Public Policy Research and Covec was commissioned by the Ministry of Economic Development to carry out a cost benefit assessment of the Warm Up New Zealand: Heat Smart programme.
benefits focused on changes in mortality, hospitalisation, and pharmaceutical use costs at a household level.

40. One of the key findings was a statistically significant reduction in total hospitalisation costs per month as a result of receiving an insulation retrofit. The study also found a statistically significant drop in respiratory-related hospitalisation costs and in circulatory-related hospitalisation costs per month, as well as a significant reduction in avoidable deaths in the intervention group.\textsuperscript{vi} Consistent with the initial \textit{Housing, Insulation and Health Study} (which showed that the costs involved in this intervention were well exceeded by the benefits, by almost 2 to 1\textsuperscript{34}) the WUNZ:HS evaluation, which had a much larger sample size, showed that the benefits outweighed the costs almost 4 to 1.\textsuperscript{vii}

41. The benefits of insulation accrue over many years: the study’s cost-benefit analysis assumed that insulation lasts for 30 years. Hence, if an insulated house is lived in by a household including children aged less than 15, it is expected that over the life of the insulation a total net present value for the benefits of reduced hospitalisation for children will be around $626 (at a four percent discount rate).

42. The study further found that 37 percent of the cohort of households who received the insulation and heating intervention included a child aged less than 15. Assuming that this proportion stays constant, it can be expected that 65,955 households with children will be insulated over the course of the programme (out of a total of 178,259 households). The net present value of the reductions in child hospitalisation resulting from the \textit{Warm Up New Zealand: Heat Smart} programme, when the estimates of installations per year presented in the cost benefit analysis are factored in and an assumption of 85 percent additionality is made, are estimated to be $32,166,000 in 2010 dollars.

\textit{The Housing, Heating and Health Study}

43. In the \textit{Housing, Heating and Health Study}, 409 children with asthma who lived in housing with ineffective heating were enrolled in the study to see whether retrofitting insulation in their houses and then installing effective heaters would improve their asthma.\textsuperscript{35} The

\textsuperscript{vi} Looking at the households that included a child aged less than 15, the study found that the average hospitalisation costs for children dropped by $2.90 per household per month (p=0.006) as a result of receiving insulation. Savings for respiratory hospitalisations were $1.88 per month (p=0.028) as a result of receiving insulation, suggesting that total savings are primarily driven by improvements in respiratory health, which is consistent with the study’s expectations. Further analysis restricted to asthma-related hospitalisation costs found a saving of $1.67 per household per month, indicating that savings in respiratory hospitalisations were driven primarily by reductions in asthma hospitalisation costs. No change was observed for circulatory hospitalisation costs, which suggests that those savings were driven by improvement in the cardiovascular health of elderly occupants. It is important to note that cost-based analyses of this type capture both frequency of hospitalisations and also severity of hospitalisation measured in length of stay and cost of procedures.

\textsuperscript{vii} \url{http://www.healthyhousing.org.nz/research/current-research/evaluation-of-warm-up-new-zealand-heat-smart/}.
parents of 60 percent of these children judged their children’s health to be poor or fair, 60 percent of the children had their sleep disturbed by wheeze, and 66 percent had fits of dry coughing at night. These findings were not surprising, as unflued gas heaters, which emit dangerous gases and particulates, were used in 57 percent of the homes (a third of New Zealand houses have unflued gas heaters, which are illegal in many jurisdictions).

44. In almost a quarter of these homes, the average level of nitrous dioxide (NO₂) over the four weeks of monitoring was above the World Health Organization 24-hour outdoor guideline of 40μg/m³. With ineffective heaters, these homes were also cold with an average temperature of 14°C in the child’s bedroom. When these ineffective heaters were replaced with more effective, sustainable heaters, the temperature rose by 1.1°C in the living room 0.6°C in the bedroom and the NO₂ level was reduced by two-thirds among those houses with unflued gas heaters. This significantly reduced the level of poor and fair health (OR 0.48, 95%CI 0.31-0.74), sleep disturbed by wheeze (OR 0.55, 95%CI 0.35 to 0.85), and dry cough at night (OR 0.52, 95%CI 0.32 -0.83). In turn, this resulted in the children in the intervention group having on average two fewer days off school during the year (95 percent CI 0.4-3.1). Even with the new improved heaters and homes insulated to New Zealand standards, every child was exposed to temperatures lower than the World Health Organization guideline of 21°C, and 50 percent of children were exposed to temperatures lower than 12°C while they were sleeping in their bedrooms. Exposure to these very cold temperatures is of greatest concern as the effect of temperature on lung function was seven times stronger under 12°C.

Figure 3: Proportion by age group and overall reporting an episode of wheezing or whistling in the chest (LH graph) or asthma attack (RH graph) during the past 12 months by the housing respiratory index for their home

Source: Keall et al. (2009).
45. These results concerning the impact of the indoor environment on children are also supported by a study of 1,000 households in Taranaki. The graphs in Figure 3 show the quality of housing, measured on the horizontal axis (the number of respiratory hazards identified in the house), and the proportion of occupants of these houses who experienced given respiratory symptoms (wheezing or whistling when breathing, or an asthma attack), by age group. These results again indicate the greater vulnerability of children’s respiratory health to housing conditions.

46. Figure 4 shows data from the same study, but this time showing the prevalence of ACC-reported home injury on the vertical axis and the number of home injury hazards identified in the house on the horizontal axis. Again, this shows a strong association between housing quality (this time measured in terms of the number of injury hazards in the home) and poor health outcomes, here the occurrence of injury in children.

**Figure 4: Prevalence of home injury among children aged less than 5 by the number of home injury hazards identified (4+4 or more hazards)**

![Graph showing prevalence of home injury](image)

**Note:** ‘4’ home injury hazards (x-axis) = 4 or more hazards  
**Source:** Keall et al. (2009).

**Residential mobility and housing quality**

47. New Zealand has one of the highest rates of residential mobility among developed countries. In the period before 2008, 19 percent of New Zealanders moved per year, compared with 10.6 percent of people in Great Britain and 6.4 percent of people in Ireland. Over half of New Zealand’s population moved between 2001 and 2006,
nearly a quarter in the year preceding the 2006 Census. At the 2006 Census, the usual length of residence for households was 3.7 years; households that owned their dwelling tended to be more settled (6.3 years), tenants more mobile (2 years), and more than half of older people (60 years or older) had lived for more than 10 years in their house.

48. There is limited information on residential mobility among children and even less on the effects of mobility. Young people aged 20 to 35 are the most mobile age group (only 19 percent living where they were five years previously), only 38 percent of children aged 5 to 14 were in the same dwelling as five years earlier. By contrast, 63 percent of people aged 65 or older had been living in their current house five years earlier. In line with the age of young parents, children are also very mobile: 35 percent of children aged less than 10 had moved in the last year.

49. A systematic review of studies on residential mobility and childhood health outcomes found an association between high residential mobility and behavioural problems among children, with some evidence of a causal relationship. However, qualitative research shows that high residential movement does not necessarily reduce educational outcomes, but frequently-moving students do not fit with teacher and administrative expectations and can easily be problematised by schools, communities, and government agencies.

50. A secondary analysis of the almost 5,000 participants who took part in the Housing, Insulation and Health Study, where one of the entry criteria was that they were not planning to move, revealed that 15 percent of households that withdrew from the Study did so because they had moved house. Both housing quality and the health of occupants were important predictors of residential mobility. People were more likely to move if their house was in poorer condition, shadier, damper, and colder in the previous winter. People who rented rather than owned their houses were also more likely to move. Despite evidence of household crowding, which we know is a major risk factor for childhood infectious diseases and household stress, this was not sufficient to cause people to move, nor was presence of children in the household on its own a cause to move. However, households with children in poorer health were more likely to move. Other significant factors that contributed to participants having a greater chance of moving were: being less likely to use any heating; being less likely to find their community

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ix http://nzdotstat.stats.govt.nz/wbos/Index.aspx#
to be satisfactory (as indicated by less positive responses to a series of statements about their communities, e.g. ‘People are willing to help’, and ‘The neighbours cannot be trusted’).

Recommendations, rationale and research

Housing infrastructure investment and policy

Recommendation 1:

It is recommended that the government include ‘housing’ as a priority in the National Infrastructure Plan (NIP), which is led by the Infrastructure Unit in the Treasury and is central to the new Ministry of Business, Innovation and Employment.

Rationale

51. The current NIP considers housing as a component of the country’s social infrastructure.\textsuperscript{x} Any specific mention, however, appears limited to considering state-owned housing stock and not privately-owned housing as a component of national infrastructure. Maintaining all forms of infrastructure to a high quality standard has demonstrated economic and social advantages in a competitive developed economy. The Ministry of Business, Innovation and Employment (MBIE) statement of intent highlights the importance of ‘efficient, reliable and responsive infrastructure services’, with specific mention of “the quality and availability of housing”. \textsuperscript{xi}

52. Including housing in the NIP would raise the priority of the current housing shortage, and associated quality and affordability issues. This will provide a rational framework for considering:

- The way in which housing shortages can be seen as a risk to economic development.
- New partnership models for investing in social housing.
- Analysis of housing externalities.
- The positive interaction of housing and transport infrastructure.
- Integration of housing infrastructure with other infrastructure priorities, including in regard to the Auckland Spatial Plan and the Canterbury re-build.

53. It could also mean access to a portion of the $17 billion which the government has allocated to infrastructure projects over the next four years.

54. International measures of infrastructure (for international business competitiveness, for example) consider housing quality, availability, and affordability as elements of national infrastructure and competitiveness. The rationale for this is the importance that


businesses place on local housing in considering where to locate their enterprises, given that this is an important consideration for their labour force. More broadly, good quality housing is an enabling asset that facilitates a range of aspects of social well-being as well as economic productivity.

55. Including housing as a NIP priority would make clearer the need to develop a comprehensive housing strategy, which would provide a platform for housing policy to be properly integrated with policy settings in relation to urban development, energy, transport, and environmental protection. This will also require policy makers, across a range of issues, to have regard for the positive and negative externalities associated with housing when designing policy interventions.

**Research**

56. We know there are significant positive and negative externalities associated with housing. Most widely documented are the negative health and educational outcomes, which have significant fiscal costs. For example, we know the benefit/cost ratio of retrofitting basic insulation in housing is almost 4 to 1; the cost of ‘leaky buildings’ is about $22 billion and recent estimates put the annual health cost of rheumatic fever at over $40 million. Other aspects of housing, such as limited security of tenure for private renters and related high levels of residential mobility, have negative consequences for low-income families and wider social, educational, and health impacts.

57. Much low-cost housing is on the periphery of New Zealand’s major cities. As a result, many low income families face problems such as high transport costs, poor access to public transport, and limited access to public amenities. Providing affordable housing in places with high transport costs is not desirable, nor is subsidising low-income households into homes that are very expensive to heat properly. Local planning in growing regions often fails to address the urgency of increasing the housing stock in a way that is economically, environmentally, and socially sustainable, that is, building communities with a mix of housing types with appropriate amenities to support the community. These are all issues that a comprehensive housing strategy and priority consideration in infrastructure planning could address.

58. Housing tenure has changed dramatically in the last few decades. Home ownership peaked in the late 1980s to early 1990s, with nearly 75 percent of households owning the house they lived in. The most recent (2006) Census reported 67 percent home ownership across the population, with 82 percent of those making rental payments paying a private landlord. Home-ownership rates have steadily dropped over the last decade and are particularly low for Māori and Pacific peoples. The remaining third of households rent their home, about five percent of these from the social housing sector, mainly HNZC. Only Christchurch and Wellington City Council have substantial stocks of social housing and there has been considerable damage to social housing in Christchurch.
59. Table 1 shows housing tenure in New Zealand compared with other OECD countries. The mix of tenures in New Zealand is closest to U.S.A. and Australia, although it should be noted that New Zealand has lower rates of home-ownership than either of these countries.47

Table 1: International comparison of housing tenure

<table>
<thead>
<tr>
<th>Country</th>
<th>Owner occupation</th>
<th>Social renting</th>
<th>Private renting</th>
<th>Other</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>70</td>
<td>5</td>
<td>21</td>
<td>4</td>
<td>2003-2004</td>
</tr>
<tr>
<td>Denmark</td>
<td>52</td>
<td>20</td>
<td>17</td>
<td>11</td>
<td>2004</td>
</tr>
<tr>
<td>Finland</td>
<td>58</td>
<td>17</td>
<td>15</td>
<td>10</td>
<td>2004</td>
</tr>
<tr>
<td>Netherlands</td>
<td>54</td>
<td>34</td>
<td>10</td>
<td>2</td>
<td>2004</td>
</tr>
<tr>
<td>New Zealand</td>
<td>67</td>
<td>6</td>
<td>27</td>
<td>0</td>
<td>2006</td>
</tr>
<tr>
<td>Sweden</td>
<td>38</td>
<td>22</td>
<td>23</td>
<td>17</td>
<td>2005</td>
</tr>
<tr>
<td>UK</td>
<td>65</td>
<td>18</td>
<td>17</td>
<td>0</td>
<td>2011</td>
</tr>
<tr>
<td>US</td>
<td>68</td>
<td>3</td>
<td>30</td>
<td>0</td>
<td>2002</td>
</tr>
</tbody>
</table>

Note: ‘Other’ tenure includes cooperative housing, employer-provided housing and for Australia other tenure. For Finland it is the unknown tenure that is included here while cooperative and employer-provided housing are included in private rentals.

Source: Grant.

60. The proportion of social housing in New Zealand, already low internationally, is not increasing, despite the expressed demand recognised by the New Zealand Productivity Commission,50 among others. Currently, there is no national strategy for housing overall,
so that increasing social housing as a stand-alone policy is problematic. The current emphasis is on realising a greater return on the stock. Rather than viewing social housing as a social service provided by the government, social housing – as well as housing generally – is more usefully seen as a core part of infrastructure:

“The Housing Shareholders Advisory (HSA) Group and the Better Public Services Advisory Group recognized state housing as the Crown’s second largest social asset at $15.1 billion. Despite this, there is no requirement for a national level strategic plan or any planning processes for this asset. Compare this to the planning requirements for the Crown’s largest social asset – state highways, the contrasts are sobering…”

Emphasising the need for better planning, the Government recently completed the National Infrastructure Plan (NIP) 2011,\textsuperscript{xii} which included a section on social infrastructure. Social housing was listed as a strategic part of the nation’s social infrastructure. With this renewed interest in infrastructure, the New Zealand Council for Infrastructure Development (NZCID) completed a series of policy advisory reports on improving infrastructure. Some reports examined social infrastructure and included more focused studies of social housing.”\textsuperscript{51}

61. This framing, already enshrined in the NIP, would facilitate better planning of the housing stock in New Zealand. An increase in the level and standard of affordable housing and secure social and third-sector housing is an essential part of adequate and effective infrastructure. Increasing the quality and quantity of affordable and social housing would have the effect of reducing household crowding and reduce the need for children to move house so often, providing a more settled environment in which to complete their schooling.

**Home ownership**

**Recommendation 2:**

It is recommended that the government develops a range of measures to increase the ability of low-income households to purchase their own home. The measures should specifically address barriers for Māori and Pacific households.

**Rationale**

62. There is a range of measures that could support more low-income families becoming homeowners:

- Welcome Home Loans
- Enhanced KiwiSaver first-home deposit subsidies

\textsuperscript{xii} NIP (2011).
• Subsidised and guaranteed 5-10 year low-interest mortgages for first time homeowners
• Shared equity models
• Deposit assistance schemes.

63. Home ownership overcomes many of the disadvantages of renting. In particular, the owner occupier has incentives to maintain the house in better quality than the landlord and where there are children in the household, they will have the benefits of a warmer, drier home.

64. Affordable housing developments could be more viable with support from local councils. For example, with appropriate safeguards, surplus government and council land could be sold on preferential terms to community and affordable housing suppliers. The community benefit could be captured through a tax on betterment, created by re-zoning of the land for medium-density residential developments.

65. Because of their rating base and capacity to raise local government bonds, councils have a number of financial policy instruments that they could use to increase affordable homeownership. For example, councils could offer affordable housing bonds. Despite political pressure to not raise rates, councils have financial flexibility to allow Development Impact Levies to be amortised over the life cycle of development. Resource and building consent processes could be streamlined to achieve efficiency gains.

66. Entrepreneurial councils could support public/private/community partnerships and growth of third-party social enterprises that concentrate on increasing the supply of affordable housing.

Research

67. Income and wealth inequality have increased rapidly in New Zealand in several periods over the last two decades. As a house is the largest asset most households own, homeownership places families and children on very different economic and life trajectories than non-homeowners. However, under current conditions, homeownership does not necessary make life financially easier for low-income households with children. Among low-income households with children, homeowners have to spend a greater proportion of their income on housing costs than renters (Table ). Just over a quarter (28 percent) of low-income households with children are owner-occupying.

<p>| Table 2: Average percentage of household disposable income spent on rent or homeownership costs among households with children by income tertile, 2010 | Page 21 of 73 |</p>
<table>
<thead>
<tr>
<th>Income tertile</th>
<th>Renting</th>
<th>Owner-occupying</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income</td>
<td>37</td>
<td>41</td>
</tr>
<tr>
<td>Middle income</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td>High income</td>
<td>21</td>
<td>17</td>
</tr>
</tbody>
</table>

**Note:** 'Ownership' include rates, maintenance, and, if mortgaged, principal, interest, and credit costs.

**Source:** Statistics New Zealand HES data; prepared by Helen Viggers.

68. Information on the ages of children and the housing tenure of their families’ housing is difficult to access, but information derived from the 2001 Census of Population and Dwellings shows 62 percent of children were living in a home their family owned. More children (38 percent) than adults (31 percent) were likely to be living in a rented property; 59 percent of these children were European, 35 percent Māori, 19 percent Pacific and 9 percent Asian.\(^{53}\) The figure of 62 percent is a distinct reduction from 1996, when the Census showed that 67 percent of children were living in their own home and 33 percent were in homes that were rented or provided free.\(^{54}\)

69. Looked at another way, in 2006, 63 percent of families with children were living in houses they owned, which was markedly less than for all families (70 percent owner-occupied).\(^{xiii}\) Households which identified as European or ‘New Zealander’ were more likely to own their home than households identifying as Māori or Pacific (58 percent and 65 percent vs 30 percent and 22 percent), with Māori homeownership rates having declined since the 1950s when 54 percent of Māori owned their own home.\(^{55}\) Furthermore, in a study of Māori housing experiences, low incomes combined with larger family sizes prevented households from obtaining the benefits of homeownership – identified by participants as increased wellbeing and capital gain\(^{56}\).

70. Overall, homeownership rates have fallen significantly in recent decades as a result of factors such as house price inflation, increasing income inequality and demographic shifts. House prices increased by over 50 percent between 2004 and 2008; lower quartile house prices increased more (63 percent) than upper quartile house prices (47 percent) in all regions.\(^{15}\) This is likely to be due to landlord purchasing being concentrated in the

lowest quartile. In the absence of a capital gains tax (and in the presence of various tax incentives for landlords in the 2000s), and when faced with uncertainty in other financial investment markets, many small investors continue to invest in residential property, particularly in Auckland, which has the greatest pressure from migration. With an average of 2.5 people per household, a city needs to add one new dwelling to its housing stock for every 2.5 person increase in population, if it is to adequately house all of its new residents. In the three years to June 2011, Auckland's population grew by seven people for every new dwelling built. In the year to June 2012, while there has been a rise of 24 percent in the number of dwelling consents issued in Auckland, these consents have had an average building cost of $311,000, which continues a longstanding trend for construction in the upper end of the market. It has been suggested that high section prices encourage the building of larger, higher-specification houses. The lack of a national urban housing strategy, which could lead to policies and incentives to encourage urban intensification has also led to the building of larger, stand-alone houses.

The inadequate supply of new residential buildings is compounded by the dominant supply being at the upper end of the market, leaving affordable properties to buy or rent in very short supply. In the absence of new affordable houses being built, existing properties toward the lower end of the property market have been most affected. This has resulted in many low-income families being unable to afford home ownership and a scarcity of affordable rental properties. Reasonable notice of introducing a capital gains tax and land tax on rental properties could put downward pressure on prices of houses at the lower end of the market.

Owner-occupied housing for low-income families, apart from providing residential stability, provides the major asset for most families and a stream of housing services, as well as possible income buffering in an emergency. Homeownership is associated with positive effects on educational outcomes for children, with children of homeowners more likely to stay in school than those of renters, which may translate into higher earnings later in life. Homeowners are also more likely to invest time in community activities, though much of this benefit is associated with the increased length of tenure of owner-occupied households. It is difficult to accurately account for characteristics of homeowners that may make these outcomes more likely, though these U.S. studies all considered this in their economic modeling. A study using a randomly allocated homeownership subsidy enabling low-income homeownership found little association with indicators of community participation, though outcomes for children were not measured and measures were taken four years after homeownership, which may not have accounted for longer-term benefits.

Home-ownership seems to confer both psychological and material advantages on owner occupants, although a recent systematic review concludes the evidence is not strong. Psychologically, owning a home rather than renting seems to confer greater autonomy
and social status, what economists call ‘positional goods’. Houses that are owned are generally in better condition than rented accommodation. Rental housing is generally of poorer quality and more insecure. Leases do not give the same security to tenants as a house title gives to an owner. However, this is not a static situation, in part because the housing market is such a pivotal part of the general economy and in an economic recession, home-owners, who bought in a boom, may be left with negative equity in their houses. In this case, home-ownership may be less secure than rental housing, particularly if the home-owner is made unemployed or becomes chronically ill. Mortgage payment commitments and the costs of maintaining housing can be stressful and the quality of housing that can be afforded on reduced incomes may be less health promoting than rental housing.

74. Homeownership does not have the split incentives that typically operate between landlords and tenants in the private rental market, but homeowners can also defer maintenance of their property as a way of deferring expenditure. The recent House Condition Survey conducted by BRANZ showed that the New Zealand housing stock was in poor condition and continues to get worse, with more deferred maintenance than in the last survey. Private rental properties were found to be in worse condition than homes that were owned.

75. Finally, the challenges of building homes on Māori land must be addressed as recommended in the Auditor General’s report on the issue and the later report from the Productivity Commission, *Inquiry into Housing Affordability*. Māori land is considered to be a ‘taonga tuku iho, a treasure handed down through the generations’, and building housing on this land is a means of enhancing the well-being of the community and giving children “a home to return to”. Māori have hoped to build good quality housing on their land, but have faced barriers through difficulties in obtaining finance, getting approval for plans, accrual of rates arrears, costs of infrastructure, and coordinating shareholders.

76. Both the Auditor General’s and the Productivity Commission’s reports make recommendations on strategies to address these barriers. For instance, the Productivity Commission recommends a team of Māori housing expert advisors associated with Te Punu Kōkiri or the Whānau Ora agency provide advice to Māori landowners with aspirations to build housing on their whenua, to guide them through consent processes, as well as providing advice on options for management structures for their land.

77. Government and councils could both play a role in facilitating plans for the use of Māori land for housing by developing options to adapt existing lending policies and precedents of private finance institutions. Both central and local government need to work with iwi and other Māori leaders to develop a private/public partnership model for increasing the
stock of housing for Māori and increasing Māori involvement in community housing provision.

The need for, role, and development of social housing

**Recommendation 3:**

*It is recommended that the government address the serious undersupply of social housing by taking immediate actions to increase the number of social and affordable houses and their proportion of the total housing stock.*

**Rationale**

78. By social housing we are referring to housing provided on the basis of assessed financial and social need, at subsidised rates, and with active tenancy management. Social housing can include rental housing or homeownership support for individuals or families. Tenancy management is the approach to supporting families with multiple risks and needs. See Appendix 1 for an extended discussion of social housing.

79. Social housing is of critical importance for many low-income families and expansion of the stock of such housing should be a high priority. A high proportion of New Zealand’s most disadvantaged families live in social housing. At about 5 percent of the total housing stock, New Zealand has a comparatively small social housing sector, and the vast majority of this is owned and managed by HNZC. On current policy settings, while the stock of social housing is likely to remain relatively stable, it will continue to fall as a proportion of the total housing stock.

80. About 20 percent of children living in poverty are living in state houses, and about 50 percent are in private rentals. Demand for social housing significantly exceeds supply. The HNZC waiting list underestimates actual demand – many people not on the waiting list and living in private rental housing would be better served in social housing. With historically high levels of unemployment, the excess demand for social housing can be expected to continue, if not increase, over the medium-to-long-term.

81. Expanding the stock of social housing is a long-term commitment and will require a considerable capital investment over an extended period of time. There should be adequate support for and incentives to encourage the expansion of the community housing sector, including on-going capital and operational support, although it remains to be seen whether the community housing sector can provide the economies of scale available to HNZC.

82. Current policy settings do not assist the development of community housing. In particular, those renting from community housing providers are not eligible for income-related rents. Thus, they are at disadvantage relative to those who are housed by HNZC. Moreover, if community housing providers supply houses at below market rentals, this
will reduce the level of assistance available to renters via the Accommodation Supplement, with no offsetting subsidy to the provider.

Research

83. There is growing evidence that social housing is a very effective way to protect the health and well-being of children in poverty. In the United States, a study involving a large convenience sample of children of low-income renter families who receive public housing subsidies found that children in these families were less likely to have anthropometric indications of under-nutrition than children in comparable families not receiving housing subsidies, especially if the family not only had a low income but was also food insecure.73 74

84. As recently outlined in the New Zealand Productivity Commission’s Inquiry into Housing Affordability, government funding of housing comes through various policy instruments.50 HNZC now manages the assets – around 69,000 houses and apartmentsxiv – but has transferred the social management of the quarter of a million tenants. Other social housing providers are local government (with around 14,000 units)73 and community housing providers (with estimated 2,100 – 5,000 units).76

85. When compared with the New Zealand population, HNZC tenants are disproportionately Māori (38 percent) and Pacific (36 percent), with higher numbers of women.77 Many are children, with 45 percent of HNZC tenants being less than 18 years of age, and a median age of 20 years (compared with the national median age of 36 in 2006).

86. In June of 2012, 1,360 households in Auckland and Northland alone were on the waiting list for a Housing New Zealand home. xv This waiting list excludes households defined as having low to moderate housing need; inclusion of these people would see the figure double.

Recommendation 4:

It is recommended that the government extend the current Social Housing Fund beyond 2015 and substantially increase the annual commitment with a particular focus on families with children through a competitive and transparent allocation system.

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xv As of July 31, 2012, HNZC reported having 69,398 properties, with 66,424 of these occupied. Of the remaining 2,974 properties, 962 were ready to let, 456 were fire damaged or under repair, and 1556 were vacant pending sale or redevelopment.

Rationale

87. The rationale for expanding investment in social housing was discussed in the previous section. Allocating additional funding for social housing on a competitive basis will encourage growth of the community housing sector. xvi

88. There is a good case for having a mix of social housing providers. Currently the community housing sector accounts for less than 1 percent of the housing stock. Community housing organisations in other countries have shown that they can deliver tenant outcomes that are as good, or better, than governments, council housing departments, and private landlords, although the history and administration of social housing is very different in most other developed countries and national and institutional comparisons are difficult (see Appendix 1 for more details). They can also offer a complete “wrap around” package of support that extends beyond the provision of housing into other needs of the client households. With HNZC currently taking a property-management approach and shifting away from supported tenancy management, there is a growing gap in the provision of social housing.

Recommendation 5:

It is recommended that the government provide on-going direction and guidance to Housing New Zealand Corporation to re-balance its focus to ensure that both asset management and outcomes for tenants are improved.

Rationale

89. The Expert Advisory Group supports the measures taken by HNZC over recent years to upgrade the quality of its housing stock, improve insulation and heating, and rebalance the size, type, and location of its stock to meet demand. However, there is concern about the lack of transparency in the implementation and outcomes of the new policy for assessing housing needs, the policy of evacuating tenants on short notice, and the move away from supporting tenants. The Productivity Commission noted there is a growing discontent with the approach HNZC is taking. 13

90. The current policies are based on making the best use of limited government capital. They presume that people and families can be reallocated among the housing stock relatively flexibly. However, social housing is best thought of as a contribution to a complex set of social needs that typically occur in clusters. The current approach to reform is not always in harmony with the desires of communities for stability and continuity. The organisations within the communities, such as schools and primary health organisations, are often essential for addressing the needs of families requiring social

xvi This appropriation is limited to the purchasing of services from, or providing support to, third party providers of social and/or affordable housing services.
assistance, including social housing. Encouraging periodic tenancy reviews to move families on, may disturb the social relationships that underpin families and local communities in areas of high state housing concentrations and undermine the social objectives of providing state housing (especially where families have multiple needs besides housing).

91. The demographic mix of people living in state housing is changing, with more single adults being allocated housing. This means those units are not available for families with children who need affordable, safe, stable housing.

92. Pre-school children spend a disproportionate amount of time in their home (90 percent), and many are exposed to the cumulative health risks of both poor quality and crowded homes. Currently the assessment criteria include the number of children in the household, but do not make any distinction based on age (e.g. a 15-year-old receives the same score as a five-month old child).

93. Currently, 7 percent (4,904) of the HNZC occupied dwellings are let at full market rents, indicating that income constraints are no longer an issue for these households.\textsuperscript{xvii} A one-time relocation grant (to be used for expenses such as moving or a home ownership deposit) may be a cost effective means of making these units available to families in greater need of social housing. This could be targeted to specific areas where there is excess demand for the HNZC houses. Where HNZC houses are in provincial areas with low rents, and not in areas of high demand for social housing, HNZC should consider favourable rent-to-own options for the tenant.

94. There are some particular operational undertakings that would improve the availability of housing for children most in need. These include:

- Additional weighting on the presence of pre-school children in HNZC housing need assessment criteria
- Incentivising families paying full market rents in state houses to relocate to other housing through a voluntary re-location subsidy.

Assessment of housing needs

\textit{Recommendation 6:}  

\textit{It is recommended that the government give consideration to establishing a single point of housing needs assessment, independent of housing providers, to provide a comprehensive assessment service for people in housing need, including the quality of housing.}

\textsuperscript{xvii} Data provided by HNZC to the Children’s Commission in August, 2012.
Rationale

95. The application for, and assessment of need for, housing support is currently run through separate processes – through HNZC for state social housing, through community housing providers for third-party social housing, and through Work and Income New Zealand (WINZ) for the Accommodation Supplement (AS). It seems likely that an independent assessment of housing need would provide better allocation and response to households in poverty and reduce transactions costs for individuals dealing with multiple assessment processes.

96. Presently, assessment of housing need mainly occurs through HNZC. A person requiring housing will contact the HNZC 0800 number and will be given an appointment for a housing assessment. The housing assessment will be undertaken by HNZC and the household either rated as eligible or ineligible for a HNZC house. Their level of need (priority) is also assessed. Households rated as eligible become the responsibility of HNZC, but households deemed ineligible cease to be the responsibility of HNZC and are usually referred to other providers or agencies, with neither organisation having responsibility for monitoring their housing outcomes.

97. There are underlying conflicts in this system. In areas of high need for housing, the assessment will likely be affected by the supply of vacant houses and new house builds. This situation creates an incentive for HNZC to keep its list to a manageable size, rather than reflect serious housing need. Some people will have a poor tenancy history with HNZC, which may influence assessment of their current need.

98. A further difficulty arises in that once someone has failed to meet the HNZC criteria for housing, they must then seek housing in the private market and go through another process to gain eligibility for the AS. In areas of high need this often means they will not be suitably or affordably housed, but no monitoring of this situation occurs. No state agency has responsibility to help, and the household is left to the vagaries of the market or the support of community agencies.

99. Because there is no one point of assessment, the true state of housing need is difficult to determine. No data on households requiring housing are collected by any single state agency because assessment is not tied to housing need but to the delivery of a housing product, i.e. rationed state housing and the AS. However, in the absence of substantially more social (and total) housing stock, rationing access would still need to continue.

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xviii In 2006, six percent of individuals received the AS. (Jamieson, K., & Quality of Life Project. (2007). Quality of Life In Twelve of NZ's Cities 2007. Christchurch: Quality of Life Project, p.113).
100. The proposed independent comprehensive assessment service would provide one point of assessment for people in housing need to access. Because a high number of the people seeking assistance would be beneficiaries, the logical agency to deliver this service would seem to be Work and Income New Zealand.

101. The assessment process would determine households’ housing needs. The assessment would have three possible results:

i. A household is determined to be eligible for a state house. Such a household would be referred to HNZC who would be responsible for housing the household within a set time.

ii. A household is not eligible for a state house, but is eligible for AS to support them in the private rental market.

iii. A household is not eligible for state housing and is unlikely to be able to manage in the private market, even with AS. The agency keeps working with the family and relevant community organisations to provide temporary housing, and then permanent social housing.

102. A number of benefits could be gained through an independent, comprehensive service:

- By establishing one point of housing need assessment closely aligned to income support assessment could provide a more comprehensive picture of the household, and assistance and help could be offered in a more connected and unified way. It would place responsibility for alignment of AS with IRR with one body as part of broader interventions.

- The assessment process would be less biased towards or away from anyone housing ‘product’. The housing solution that best fits the household would be determined, and the assessment service would service multiple housing providers. It would prioritise those with the greatest need and provide options for others.

- The true level of social and state housing need could be determined if the assessment process were not used as a rationing tool. This would enable better informed planning for social housing, delivered by HNZC, local government, and the community. Reliable information on housing need would be developed, allowing better planning in a key area for eradicating child poverty.

- This system could generate a potential saving for the Crown as it avoids agency duplication and deals with both assessment for housing supply and assessment for income supplementation in one place.
Housing subsidies

Recommendation 7:

It is recommended that the government refocuses and redesigns housing subsidies (Accommodation Supplement and Income-Related Rents) as part of a wider package of income and housing support. These changes should target a greater level of housing support to a smaller number of low-income families in greatest need, including large families, families living in areas with high rents, and families with multiple needs.

Rationale

103. The spectrum of housing support ranges from provision of social housing for those with intense needs, to targeted housing subsidies for those with accommodation related issues, to income support that should cover all expenses (Figure 6). The AS was initially intended as a targeted housing support, but has grown, and can be seen as plugging gaps in inadequate social housing and inadequate income support levels.
104. In New Zealand, the issue of housing subsidy mainly comes down to the relativity between the different concessional approaches of the Accommodation Supplement (AS) and the state housing Income-Related Rents (IRR) formulae. A key budgetary problem for the Government is that IRR costs significantly more per subsidised household than does the AS. The Housing Shareholders Advisory Group has recommended that the IRR and AS be reviewed and aligned, however, given the very high threshold of socioeconomic household deprivation necessary to become a HNZC tenant, the impact on existing state house tenants of rationalising to a single system of assistance would need to be assessed.

105. The range of possible changes to the AS includes:

- Limiting eligibility for some groups (e.g. non-beneficiaries with no children)
- Reducing the subsidy for those boarding
- Putting time caps on subsidies to home-owners
- Reducing the maximum rates for some groups (e.g. move couples without children to the same maximum as singles)
- Raising the income threshold (but with a higher subsidy rate)
- Providing additional support for families with more children (raising the current maxima from four persons)
- Limiting the type of housing that will be supported (either requiring a minimum quality standard (see later section for discussion) or not providing supplements for dwellings larger than a set standard.

106. Despite large amounts spent on the AS it appears to have done little to encourage developers to build new low cost housing (see further discussion in the sections on infrastructure and home ownership).

107. Possible changes to consider for the Income-Related Rents (IRR) include introducing a maximum IRR based on family size and location, and phasing in an increase to the IRR threshold.

108. The current provision of housing subsidies through the AS and IRR is a substantial expense of almost $2 billion annually. There are indications that this investment could be refocused to generate better value for New Zealanders.
There are a range of options to better focus the AS on needs of children, which are listed in Table 3.

**Table 3: Policy options to better focus the Accommodation Supplement on the needs of children**

<table>
<thead>
<tr>
<th>Option to consider</th>
<th>Estimated saving or cost</th>
<th>Discussion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limit subsidies to certain population groups, such as families with children and persons with disabilities</td>
<td>$350 -400m/yr saving</td>
<td>Broad restriction would disadvantage many adults, but some subgroups may be less vulnerable, such as adult non-beneficiaries with no children (including students and adults living at home).</td>
</tr>
<tr>
<td>Eliminate or lower subsidy for boarding</td>
<td>$100m saving if eliminated; $20m/yr saving if subsidy rate lowered from 62 percent to 50 percent</td>
<td>Families are increasingly using boarding to meet housing needs, so would need to ensure this does not disadvantage children. It could also reduce the demand for boarding and increase the demand for separate units.</td>
</tr>
<tr>
<td>Eliminate homeowners subsidy, or raise eligibility threshold</td>
<td>$175m saving if eliminated; $2-5m/yr saving if threshold changed from 30 percent to 40 percent</td>
<td>Possible time-limits for homeowners could provide transitional support for instances of family breakup or lost employment. However, this would conflict with Recommendation 2 to incentivise home ownership.</td>
</tr>
<tr>
<td>Reduce maximum rate for couples without children to single without children rate</td>
<td>$28m/yr saving</td>
<td>Housing needs for couples should not be significantly greater than for a single person, and no children would be impacted.</td>
</tr>
<tr>
<td>Higher maxima for families with more children (currently no higher maxima for households with more than 4 people)</td>
<td>Neutral or low cost</td>
<td>Having additional maxima to give additional support to families with higher numbers of children would support the objective of reducing crowding. Could be combined with lower ceilings for those without children.</td>
</tr>
<tr>
<td>Raise the threshold of income-related rents, e.g. from 25 percent to 30 percent</td>
<td>$188m/yr saving</td>
<td>25 percent is a low threshold by international standards. This change would remove AS from a large number of households that receive only a small amount of support. Possibly best combined with increased subsidy for those who are eligible.</td>
</tr>
<tr>
<td>Increase the subsidy level from 70% to 75%</td>
<td>$90m/yr cost</td>
<td>Provide those who qualify with a better rate of support. The cost could be reduced by only raising the rate for families with children. However having to pay part of the extra cost of more expensive accommodation helps ration scarce accommodation.</td>
</tr>
<tr>
<td>Freeze CPI adjustment on the maxima</td>
<td>$20m/year saving</td>
<td>Note this CPI adjustment is not always made.</td>
</tr>
</tbody>
</table>
110. These changes would mean that some people receiving the subsidy will likely be worse off, but our goals are to improve circumstances for children in poverty.

111. It would be important to undertake a parallel consideration of IRR settings in conjunction with any changes to the AS. The annual IRR subsidy is now $626 million, across the 66,424 occupied state housing units housing an estimated 220,000 adults and children.

112. The level of the subsidy is the difference between 25 percent of the tenant’s gross income and the unit’s market rent (set by HNZC). There are a number of examples where the incentives operating in the IRR system do not seem to be correctly operating. For example, because the tenant pays the same rent regardless of the housing unit they are in, there is no incentive on them to be accommodation relevant to their need (e.g. single adult in 4 bedroom house). This could be changed, for example, by bringing in a maximum subsidy rate based on family composition and location.

113. The incentives on HNZC for effective portfolio management may also not be correct. For example, as HNZC generate their operating revenue from the IRR, they would have an incentive to set market rent higher than true levels. They would also have an incentive to keep state houses in their portfolio that generate extremely high IRR, when selling that high-value property could finance several units in another area. However, high value properties are also more likely to be closer to jobs and amenities and there are demonstrable advantages to mixed-income communities and schools. There does not appear to be any incentive to rent to the market in areas of low demand for the current portfolio of state houses.

114. Possible options to alter the IRR to generate programme savings are shown in Table 4.

**Table 4: Options to alter the IRR to generate programme savings**

<table>
<thead>
<tr>
<th>Option to consider</th>
<th>Estimated saving or cost</th>
<th>Discussion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduce maximum IRR based on household size</td>
<td>$95m/yr saving</td>
<td>This would reduce the level of subsidy for singles and retain higher subsidies for families with children. Could also address other unintended consequences of people renting out their extra rooms.</td>
</tr>
<tr>
<td>Phase in an increase in IRR threshold in HNZC properties (e.g. from 25% to 30%)</td>
<td>$55m/yr saving</td>
<td>25 percent is a low threshold by international standards; this change would slightly increase rents for all HNZ tenants, but could be phased in or grand parented. Only advisable if under taken in conjunction to similar changes to AS.</td>
</tr>
</tbody>
</table>
115. Getting the incentives right would improve the HNZC portfolio management. There would be other non-financial benefits to getting aligning incentives for HNZC and their tenants. For example, some current tenants would be incentivised to move to more appropriate accommodation, and more units would then become available for families with children in need.

116. Savings generated from changes to the IRR could be used to extend IRR to community housing providers meeting certain conditions. For example, $40 million could extend IRR to 10,000 community housing units.

117. The AS and IRR are demand-side subsidies helping individuals and families in the short term, but do little to address housing supply problems in the long term. But there is a risk that any savings from changes to the AS and IRR could be channeled into general revenue or other non-housing related areas. It is important that there be a commitment to channel any savings into areas that will make a real difference in the long term: into stock of social housing, and initiatives to increase affordable housing (such as leveraging community and iwi partnerships to increase affordable housing stock).

**Research**

118. The current AS programme is demand-driven and expenditure was $1.2 billion last year. Since the introduction of this targeted cash subsidy in 1993, the AS has grown to become the second largest benefit after National Superannuation.\(^{\text{ix}}\) There is wide agreement that the current programme is not the best way to spend these resources to achieve improved outcomes for low-income families. Some also view it as a distortion in the private rental market, with the benefit being captured by landlords, while the supply affordable housing continues to be inadequate.

119. Although it is difficult to disentangle cause and effect in the housing market, it is plausible that the introduction of the AS reduced the availability of houses suitable for first home buyers. This could have occurred by the AS increasing the demand for rental housing, to which landlords responded by buying low-cost properties which were previously owner-occupied, in order to rent them out\(^{\text{xx}}\). The AS thus enabled a greater return on

\(^{\text{ix}}\) The AS replaced the previous mix of cash and in-kind assistance, which included subsidised rental accommodation and housing loans from the Housing Corporation and accommodation supplements for beneficiaries from the Department of Social Welfare. This work is based on/includes Statistics New Zealand’s data which are licensed by Statistics New Zealand for re-use under the Creative Commons Attribution-Noncommercial 3.0 New Zealand license. In addition, the Housing Corporation was replaced by Housing New Zealand and tenants’ rents were increased to market rents.

\(^{\text{xx}}\) However Preston (2012) suggests that the main factor in the rise in housing prices in the period 2002-2007 was the massive expansion in housing lending permitted by monetary policy. Similar events and associated “housing price bubbles” occurred in a number of other developed countries prior to the Global Financial Crisis of 2008. Preston (2012) *Are New Zealand Housing Prices Still Overvalued?*
investment at the lower end of the market. This increase of rental properties did not increase the number of affordable houses available.

120. Figure 7 shows that over half lower-income households who rent are eligible for the AS. In the middle- and lower-income tertiles a greater proportion of households with children, than households without children, are eligible to receive it. There are approximately 310,000 recipient households with over 600,000 adults and children. The majority of recipient households are renting (200,437 or 65 percent), with another 65,879 (21 percent) boarding, and the remaining 44,010 (14 percent) owing their own home.\textsuperscript{xxi}

\textbf{Figure 7: Percentage of households eligible for the Accommodation Supplement by income, renting status, and presence of children, 2010}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure7.png}
\caption{Percentage of households eligible for the Accommodation Supplement by income, renting status, and presence of children, 2010}
\end{figure}

\textbf{Source:} Statistics New Zealand (HES) data; prepared by Helen Viggers.

121. Overall households in the lowest income groups were most likely to be eligible for the AS and to receive the greatest proportion of the money. Households in the lowest third of incomes received about 56 percent of the AS, 32 percent to middle tertile households, and 14 percent to households in the highest tertile of incomes. About 78 percent of the AS went to renting households, with the remainder to owner-occupied households.\textsuperscript{xxii}

\textsuperscript{xxi} Data for these analyses comes both from the Ministry of Social Development’s database on the AS, most of which is reported in the Ministry of Social Development’s Statistical Report and a special run of the Household Economic Survey by Statistics New Zealand with data on the AS eligibility estimated through Treasury’s TaxWell. The two data sets appear to be largely concordant.

\textsuperscript{xxii} Technically these households were classified as ‘non-renting’, a category which probably includes some boarding households.
122. Looking at the distribution of AS by family type, households with children account for just 42 percent of the AS recipients, with their households receiving 54 percent of the money, as detailed below in Table 5.

**Table 5: Accommodation Supplement receipt and cost by household type, year to June 2010**

<table>
<thead>
<tr>
<th>Household type</th>
<th>No. of recipients (percent of total recipients)</th>
<th>Median rate (per week)</th>
<th>Annual cost (percent of annual cost)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Household with no children</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>159,618 (51%)</td>
<td>$45</td>
<td>$428m (38%)</td>
</tr>
<tr>
<td>Partnered</td>
<td>20,806 (7%)</td>
<td>$75</td>
<td>$83m (7%)</td>
</tr>
<tr>
<td><strong>Household with children</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>100,155 (32%)</td>
<td>$75</td>
<td>$464m (41%)</td>
</tr>
<tr>
<td>Partnered</td>
<td>29,749 (10%)</td>
<td>$94</td>
<td>$150m (13%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>310,328</td>
<td></td>
<td>$1.125b</td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development database; prepared by David Preston.

123. Comparing Table 5 (median AS rates) with Table 6 (mean AS rates), it can be seen that the mean weekly AS rate for households with children was greater than the median weekly rate for households with children, suggesting that many of these households are receiving relatively small weekly AS payments.

**Table 6: Average (mean) weekly Accommodation Supplement rate by household type and income tertile, 2010**

<table>
<thead>
<tr>
<th>Household type</th>
<th>Income tertile</th>
<th>All incomes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>Mid</td>
</tr>
<tr>
<td>Renting with children</td>
<td>$105</td>
<td>$121</td>
</tr>
<tr>
<td>Renting, no children</td>
<td>$62</td>
<td>$87</td>
</tr>
<tr>
<td>Renting, overall</td>
<td>$81</td>
<td>$106</td>
</tr>
<tr>
<td>Not renting, overall</td>
<td>$54</td>
<td>$85</td>
</tr>
<tr>
<td>All tenures with children</td>
<td>$98</td>
<td>$116</td>
</tr>
<tr>
<td>All tenures, no children</td>
<td>$61</td>
<td>$77</td>
</tr>
<tr>
<td>All tenures, overall</td>
<td>$78</td>
<td>$98</td>
</tr>
</tbody>
</table>

Note: Statistics New Zealand did not release average rates for some high-income household types, presumably because relatively few qualify for the AS.

Source: Statistics New Zealand HES data; prepared by Helen Viggers and Kate Amore.

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124. Households with dependent children were more likely to be eligible for the AS (20 percent of New Zealand households with dependent children), and their average payments were greater ($100/week) than households without dependent children (13 percent of New Zealand households without dependent children eligible for the AS; average payments $67/week). A third of those households eligible for the AS were renting and eligible for a higher rate of supplementation ($87/week) than those eligible households who were not renting (6 percent, $69/week).

125. Table 7 shows that the AS supplement in general pays for a greater proportion of the housing costs of low-income households compared with higher-income households. Compared with households without children, the AS makes a greater contribution toward the housing costs of households with children, particularly for those renting. However, the difference between low-income and middle-income households is small among households with children, and Table 6 shows that the weekly rate of AS payment tends to be higher for middle-income households than for low-income households. These indications that middle income households with children receive higher AS subsidies than lower income households with children raise important equity issues, particularly in light of the evidence that rents in lower value houses are proportionally higher than in high value houses. Further analysis is needed to ensure that AS does not increase household inequalities.

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xxiii These findings may be influenced by household composition (mid-income households typically contained more people (although not more children)), incomes that vary geographically with accommodation costs, or higher income households choosing more expensive dwellings. For households with children, however, the average number of children per household did not vary by household income, renting status, or supplement receipt. Households with children in the lowest income tertile contained 3 or 4 people on average; households containing on average four people were those not receiving an accommodation supplement, and those not renting. Thus it seems plausible that single parent households are relatively common among low-income AS recipients.
Table 7: Average percentage of housing costs paid by the AS by household type and income tertile, 2010

<table>
<thead>
<tr>
<th>Household type</th>
<th>Income tertile</th>
<th>All incomes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>Mid</td>
</tr>
<tr>
<td>Renting with children</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Renting, no children</td>
<td>35</td>
<td>31</td>
</tr>
<tr>
<td>Renting, overall</td>
<td>37</td>
<td>35</td>
</tr>
<tr>
<td>Not renting, overall</td>
<td>28</td>
<td>29</td>
</tr>
<tr>
<td>All tenures with children</td>
<td>37</td>
<td>36</td>
</tr>
<tr>
<td>All tenures, no children</td>
<td>34</td>
<td>29</td>
</tr>
<tr>
<td>All tenures, overall</td>
<td>36</td>
<td>33</td>
</tr>
</tbody>
</table>

Note: Statistics New Zealand did not release average rates for some high-income household types, presumably because relatively few qualify for the AS.

Source: Statistics New Zealand HES data; prepared by Helen Viggers and Kate Amore.

Social housing standards

Recommendation 8:

It is recommended that all social housing providers (state, local government and community organisations) should be registered or licensed, have their properties monitored for quality, accessibility, and environmental and financial sustainability in order to be eligible for Income-Related Rent subsidies.

Rationale

126. As a purchaser of social housing-related tenant support (through rental subsidies) the government should have clear expectations of the quality of product and services it is receiving. A registering or licensing regime with associated monitoring for quality, accessibility, and sustainability outcomes is a key step in having a more efficient and transparent system.

127. This change would raise the quality of social housing and reduce the horizontal inequities between families living in different types of social housing and the private rental market.

128. There is great variation in the support to social housing providers; HNZC, which caters to the most socioeconomically deprived tenants, receives the most generous operational support through the IRR subsidy. However, this arrangement does not assist the development of community housing, as community housing providers supply houses at below market rentals, which reduces the level of assistance available to renters via the
accommodation supplement, with no offsetting subsidy to the provider. These policy settings also disadvantage families living in other community social housing compared to those in state houses, as they receive a lower rent subsidy compared to those in state housing.

129. This recommendation would be consistent with the Government’s Social Housing Reform Programme objectives to increase the involvement of community sector providers, to grow the overall quantum of social housing and achieve better efficiency and value for money.

**Recommendation 9:**

*It is recommended that the government should ensure all rental housing (both social and private sector) meet minimum health and safety standards, according to an agreed Warrant of Fitness, such as the Healthy Housing Index. These standards should be monitored and effectively enforced, and gradually increased over time.*

**Rationale**

130. Over 70 percent of all children living in poverty live in rental accommodation; 50 percent rely on private rental housing, with only 20 percent in HNZC state housing or other social housing.\(^2^9\) Rental housing is generally of poorer quality, with inadequate or non-existent insulation, and inefficient and ineffective heating. Overall, many existing houses are cold, damp, and poorly maintained.\(^1^1^0\) Some do not meet even basic considerations of sanitation and safety. Regulation of existing housing is inadequate – the Housing Improvement Regulations which currently apply were gazetted in 1947 and have not been amended since (see Appendix 2). Addressing the poor condition of private rental housing would do much to address the health and safety effects of inadequate housing.

131. There is a misalignment between the interests of the owners of rental properties and their tenants. Under the current regulations, responsibility for identifying any issues rests with the tenants, but most international justifications have some regulations that place responsibility on the landlord for minimal health and safety of a rental property.

132. There are models that could be used in setting new minimum standards for public and private rental accommodation in New Zealand, including the UK ‘Decent Homes Standard’ and local work on the use of a Healthy Housing Index developed by the University of Otago and BRANZ.

133. Frequency of the warrant of fitness could vary depending on the age of the property or condition on initial inspection. This could also be phased in, starting with a minimum set of standards, increasing overtime to lift the quality of rental accommodations. Local
government already have inspectors providing a certificate of occupancy for new housing that could expand to manage additional inspection and certification.

134. Landlords could be required to have a warrant of fitness before renting out properties, including as a minimum requiring insulation and effective, non-polluting heating. These standards would be enforced by local governments.

135. The AS could also be restricted to only compliant properties. However, great care would be needed in implementing this policy since there are not currently enough high standard rental properties. Therefore this change could mean that low income families in substandard accommodation would then lose the AS which, without better accommodation to move to, would worsen child poverty without any immediate improvement in house quality.

136. Major costs would be to the private sector landlords, but this could be partially offset through favourable tax treatment of any required improvements, possibly through either:

- reinstating depreciation on these capital costs (landlord depreciation on housing property with a life of over 50 years has been abolished, so reinstatement would partially reverse this fiscal saving), or
- allowing full depreciation on these costs in the year in which they are incurred.

Research

137. The quality of English housing has been regulated since 2004 by the Housing Health and Safety Rating System, which assesses housing quality with respect to the health and safety of the occupants and identifies remediations to bring sub-standard housing up to an adequate standard, enforced by local authorities. Such an approach would be a practical way of raising standards of the New Zealand housing stock and ensure better health outcomes for the population in general, but particularly for children. The vulnerability of children to poor housing conditions, which are unfortunately prevalent in a large proportion of New Zealand housing, is a common finding in research.\textsuperscript{79-87} Housing is subject to insanitary provisions under the Building Act 2004 and Health Act 1956, and the Building Code standards only apply to new housing.

138. The Healthy Housing Index assessment involves an inspection of the house by a trained inspector, which takes about one hour to complete. Various aspects of the home are evaluated, including moisture levels, presence of mould, orientation of the house to the sun, insulation levels, heating types, presence of lead in paint, safety threats and safety features. All elements of the Healthy Housing Index are based on international and locally-developed best practice, including the British Housing Health and Safety Rating System, the current building code, and recent research. It has been developed and tested in various studies, and has so far been used to evaluate more than 2,000 New Zealand homes. Any instrument used to evaluate the health and safety of housing needs to have
sufficiently wide scope to cover the wide range of impacts that housing has on health and safety, and needs to be backed up with reliable peer-reviewed research that justify the use of the measure.\textsuperscript{85}

**Insulation and energy security**

**Recommendation 10:**

*It is recommended that the government extend and target the current subsidy programme for insulating homes known as Warm Up New Zealand: Heat Smart with the longer-term aim of ensuring all the remaining un-insulated or poorly insulated homes (estimated at approximate 700,000) are properly insulated and effectively heated. Specific targeting is needed to incentivise landlords to insulate their rental properties.*

**Rationale**

139. The current four-year insulation programme started in mid-2009. The initial aim was to retrofit close to 190,000 homes. This goal was revised to 230,000 (up 41,000) in the 2012 budget. Rigorous cost-benefit analyses on insulation programmes show this to be an effective way of improving school attendance and health outcomes, reducing mortality and heating costs.

140. Again, there is a misalignment between the interests of the owners of rental properties and their tenants. Landlords do not currently have any incentive to improve the insulation of their properties other than for increasing rent ability. Tenants are subject to the negative externalities, including high heating costs and health risks, but have no incentive to invest in the infrastructure of a rented property.

141. Landlord uptake of the Heat Smart subsidy to improve the insulation and weather-tightness of rental properties (without rental cost increase) could be incentivised through favourable tax treatment of their cost of the required improvements, and be included as a requirement of the proposed rental housing warrant of fitness.

**Research**

142. The research outlined earlier in the paper clearly demonstrates there is exceptionally strong evidence for the benefits of retrofitting insulation in houses, particularly for children and older people.

143. We do not have a definitive overall view of the quality of New Zealand housing, because we have not had a major random survey of all New Zealand housing since 1938. However, the 2010 BRANZ House Condition Survey, which for the first time surveyed rental properties and utilised the Healthy Housing Index\textsuperscript{88} found them in significantly worse condition than houses in private ownership.\textsuperscript{89}
144. We have estimated that less than a third of New Zealand’s 1.4m houses are fully insulated (insulation was only compulsory after 1978). Successive governments have funded retrofit insulation programmes through the Energy Efficiency and Conservation Authority, but while at some periods these programmes have focused on low-income families and Community Card holders, families with children have never been prioritised. As New Zealand has exceptionally high rates of residential mobility, it may be that explicitly targeting children would not be practical or efficient.

**Recommendation 11:**

*It is recommended that government consider a range of practical measures to ensure that all households, including low-income households, have adequate energy to protect their health and well-being.*

**Rationale**

145. Improvements to the physical quality of housing will go some way to improving health outcomes. However, without also heating the homes, many children will continue to suffer the consequences of a cold, damp domestic environment. Heating costs are often an area where families in low income reduce their expenditure, unfortunately putting their children at risk.

146. Government needs to ensure that low-user tariffs are effective and available to low-income households. Measures to reduce household power costs, including bulk purchasing commercial contracts for social housing, should be investigated.

147. In New Zealand the domestic electricity market is regulated as if it is a normal market good rather than an essential service. Consideration should be given to regulating the electricity market as if it is an essential service for modern life. For instance the United Kingdom, Australia and United States all have embedded ideas from behavioural economics in their energy regulations.

**Research**

148. New Zealand has a high proportion of households whose expenditure on energy is required to be greater than 10 percent of their household income, to heat their house to World Health Organisation levels,\(^90\) the internationally accepted definition of fuel poverty.\(^91\) Figure 8 shows the expenditure of households by income decile groups, highlighting that low decile households, which include disproportionate numbers of children, are burdened by energy costs compared to those in the top income decile.
Figure 8: Average (mean) percentage of income spent on household fuel by income decile, 1989-2010

Notes:  
(1) Decile 1 = lowest income; decile 10 = highest income;  
(2) ‘Household fuel’ relates to energy used for heating, cooking, and other purposes, and includes electricity, gas, firewood, etc. Electricity accounts for most household fuel.  
Source: Statistics New Zealand HES data; prepared by Helen Viggers.

149. Indeed, Figure 9 shows that those in the bottom income decile have very little income after paying housing, heating and transport costs.
Figure 9: Average (mean) percentage of income spent on selected housing-related goods and services by income decile, 2010

Note: 'Ownership' include rates, maintenance, and, if mortgaged, principle, interest and credit costs.
Source: Statistics New Zealand HES data; prepared by Helen Viggers.

150. The rising cost of fuel for heating has been identified internationally. Frank and colleagues indicated the stark implications in their article “Heat or Eat?”. This US study showed that after adjustment for differences in background risk, children living in low-income renter households receiving the Low Income Home Energy Assistance Program were less likely to be undernourished or overweight, had lower odds of acute hospitalisation from an emergency department visit compared with children in comparable households not receiving the Low Income Home Energy Assistance Program.

151. A Canadian study found inter-provincial variation in heating cost inflation explained as much as 61 percent of the inter-provincial variation in food insecurity increases between 1998 and 2001. Child health and development in children less than three years of age has also been shown to be negatively affected by household energy insecurity, defined as the household having had an unheated or un-cooled day, using a cooking stove for heating, or being threatened with or having been disconnected from utility services in the previous year. As the severity of household energy insecurity increased, poor health and wellbeing outcomes increased in babies and toddlers. A narrative synthesis of five intervention studies examining specific effects of cold housing on health noted that the
effects of fuel poverty on children is under-researched, but that adolescents living in cold housing are at risk of mental health problems and engage in increased antisocial behavior.  

152. Stories of local families struggling to manage high electricity costs, cold homes, and low-incomes are not new, with several examples making headlines in recent years. One group of consumers likely to experience high rates of fuel poverty in New Zealand are those using prepayment metering, an electricity payment method often used by low-income consumers with electricity debt, or who have difficulty budgeting. A price comparison survey found that despite paying in advance through crediting the meter, electricity is more expensive per unit for prepayment consumers. 

153. In a nationwide New Zealand electricity prepayment meter users’ survey, parents and caregivers commented on the negative impacts of electricity prepayment metering on their children, for example “the kids get sick of me telling them to conserve power”, indicating increased family tension. The consequences of running out of credit, or “self-disconnecting” as it is known by the industry, were more problematic, with some adult respondents stating that the worst thing about their last self-disconnection event was “not being able to prepare baby’s bottle”, or “can’t cook my kids dinner.” Over half of the respondents had self-disconnected at least once in the past year, with one third of those disconnecting without electricity for at least 12 hours during the last event. A follow-up postal survey in late 2011 explored the heating practices of households using prepayment metering, and found that prepayment metering encourages restriction of space heating in homes that are already cold, with 57.0 percent of respondents reporting cutting back on using their heaters. 

154. More than two thirds reported experiencing shivering and more than half reported being able to see their breath condensing when breathing out inside their home during the winter months on at least one occasion. 

121. Among prepayment consumers, households with children were found to be worse off than households without children over a number of indicators relating to fuel poverty. Households with children were more likely to:

- Experience greater levels of hardship
- Cut back on grocery spending to pay for electricity
- Suffer from ‘bill stress’
- Experience a self-disconnection event in the past year 

‘Bill stress’ includes:
- Starting prepayment metering because of debt accruing on the electricity account
- Being unable to pay any of the telephone, gas, or water bills in the past year
- Having help from family or friends to pay for electricity in the past year.
• Receive help from family or friends to help pay for electricity
• Report being unable to access $500 in the next week for a family emergency
• Report that they would use a money-lender.\textsuperscript{98, 99}

155. Results from the follow-up survey in 2011, found similar trends where households with children were experiencing greater bill stress than childless households. Receiving help from family or friends over the past year to pay for electricity was marginally significantly more likely among households with children. The follow-up survey also investigated whether households using prepayment metering restrict grocery spending to afford electricity. Almost three of five households with children reported cutting back on groceries to pay for electricity, compared with just over two out of five childless households (p≤0.05).

156. In 2011, there were 30,000 disconnections for non-payment on standard post-payment billing in 2011\textsuperscript{102} and an estimated 8,000 self-disconnections from prepayment meters.\textsuperscript{101} A report investigating fatal unintentional house fires between 1997 and 2003 found that 13 deaths, predominantly in children, occurred in eight unattended candle fires during the period. Three of these households were disconnected from electricity services due to non-payment at the time of the fire, another household was not supplied with electricity due to the remote location.\textsuperscript{104}

Housing data and research

Recommendation 12:

It is recommended that the government commission independent research and ongoing monitoring of housing issues, including:

\begin{itemize}
  \item[a.] analysis of the supply and demand of housing including social housing;
  \item[b.] broad cost/benefit analysis of housing improvement policy options;
  \item[c.] assessment of the quality of rental housing;
  \item[d.] ongoing monitoring of housing quality and health outcomes in children linked to poor housing;
  \item[e.] clarification of the legislation and regulation underpinning the quality of existing housing.\textsuperscript{xxv}
\end{itemize}

Rationale

157. There is no current housing strategy in New Zealand. While HNZC has indicated they are undertaking a forecasting project, an independent analysis by researchers with proven capability would be preferable. This analysis would provide accurate and reliable data on the actual need for social housing, and the shortfall in affordable housing by region.

\textsuperscript{xxv} See also Productivity Commission Recommendation 11.1.
158. There is an urgent need to consider the broad cost/benefit analysis of the various policy options considered here. For example, where dual or multiple systems of social housing provision prevail, issues exist about the appropriate balance, comparative efficiency and cost relativity of the various housing subsidy systems. HNZC tenants are an extremely economically and socially disadvantaged population, so the health and equity impacts of rationalising to a single system of assistance on existing state house tenants needs to be carefully assessed before policies changes are made.

159. Undertaking an assessment of the quality of rental property (both social and private) would provide information needed to develop a regulatory framework for the proposed housing warrant of fitness.

160. Several of the research and monitoring gaps identified here could be met by an ongoing (or periodic) national housing survey, such as are conducted in most OECD countries. Such a survey could provide data on the condition of New Zealand housing and the presence and prevalence of exposures that might adversely affect child health and safety. It would need to be sufficiently large to provide robust, valid data on housing conditions across important population groups (children, elderly, major ethnic groups) and over time. One potential sampling base could be as an extension of the current National Health Survey operated by the Ministry of Health. This extension would need to include physical inspection of the house (eg using the Healthy Housing Index). Participants could also be asked for permission to track their linked health data to see how their risk of serious disease related to their housing conditions.

161. Finally, there is a need to clarify the relationship between the Building Act 2004, Health Act 1956, and Housing Improvement Regulations 1947, in order to set out the minimum legal standard required of rental housing.
Appendix 1: Social Rental Housing in Developed Economies

Introduction

This paper looks at issues involved in operating policies of social rental housing in developed economies. The term ‘social rental housing’ (often referred to simply as ‘social housing’ or ‘public housing’ or ‘social tenancy’) consists of a set of housing institutions and policies aimed to improve the housing situation of lower income and disadvantaged people. Social rental housing normally has the following predominant characteristics:

1) Ownership of the housing by public authorities, housing associations, or not-for-profit organisations
2) Concessional or income-related rents
3) Priority focus on providing housing tenancies to low income and disadvantaged groups
4) Stable tenancy conditions
5) At least minimum adequate standards of housing by local standards.

The qualifying word ‘predominant’ is necessary, because examination of the actual social housing policies of developed economies indicates that policy and practice often diverge significantly from this list in one or more ways.

1) Ownership

The ownership structure of social public housing varies widely.

Public ownership

The most common form of social rental housing is that where the government or public authorities directly own the public housing stock. In countries where the government is the direct owner and manager or the housing stock, a number of quite distinct patterns occur. These include:

- Central government responsibility, mainly via specialised corporations or housing authorities (New Zealand, Singapore)
- Provincial or State government responsibility (Australia)
- Local or Municipal Government ownership (England, Sweden)
- Mixed, but mainly State or city governments using Federal Government funding (USA).

Preston, D. Social Rental Housing in Developed Countries, May 2012.
In several of these cases the words ‘predominant’ or ‘mainly’ need to be added as a qualifier. In the New Zealand case for example local authorities also own and manage some housing stock (pensioner housing), as do some housing associations.

**Housing Associations and Not-for-Profit organisations**

The second major form of social rental housing provision comes in the form of ownership and management by voluntary sector housing associations or not for profit organisations which also provide some social rental housing. This is the predominant pattern in the Netherlands, the country with the highest proportion of social rental housing in Western Europe. Housing associations are also important in Sweden.

Housing associations and not-for-profits usually get a large part of their funding from the government in the form of grants and concessional credits and loans.

In return they must meet a range of policy requirements in terms of rental levels and tenancy priority.

**Profit-making bodies**

A hybrid form which exists in the United States is the delivery of social rental housing by profit-making corporations using government operating or capital subsidies and grants. These multifamily complexes house about 1.7 million families in the U.S. The buildings were constructed between 1966 and 1983, and are usually more modern and in better condition than the older ‘public housing’ stock. However, a problem which has emerged is that the contracts to provide low-income rentals are time limited. Hence, upon the expiry of the time limits or contracts, rents go up and low-income tenants tend to be replaced by people from higher income groups.

**Other approaches**

Other policies to provide concessional rental housing include:

- Tenant subsidies for private rental. Examples include the US ‘rental vouchers’ (assisting about 2 million families in the US), and the New Zealand Accommodation Supplement.
- Rent controls on private sector landlords.

Neither of these two approaches are included in the statistical classification of social rental housing. Tenant subsidisation in particular is the main alternative to social rental housing to provide affordable rental accommodation for low income and disadvantaged groups.

**Ownership Issues**

In a number of developed countries the trend in recent decades has been away from government support for social rental housing and towards a greater focus on home ownership for owner occupiers. For example in England the number of social rental housing units fell from 5.1 million in 1979 to around 3.9 million in the middle of the first decade of the 21st century,
mainly as a consequence of the ‘right to buy’ policy (Scanlan and Whitehead). Even in the Netherlands where social rental housing had risen from 12 percent of households in 1945 to 41 percent by 1975 (Rosemary Dolata), by 2006 the ratio was back down to 34 percent as owner-occupier ratios rose (Dutch Social Housing Association-AEDES).

In the case of Singapore sale (actually a 99 year lease) of rental units has been a major part of the policy of the Singapore Housing and Development Board (HDB). The Board undertakes most housing construction in Singapore and provides rental housing for low income households as well as middle income units for sale. Sale of units to tenants and aspirant owner occupiers has provided a large part of the funding to finance ongoing housing construction; 80 percent of the population of Singapore live in HDB constructed housing, with the majority now being owner-occupiers, who have purchased a lease. Ability to use individual Central Provident Fund balances to buy a lease has facilitated this process.

In Hong Kong also the recent trend has been toward allowing people to buy Hong Kong Housing Authority apartments.

2) Concessional Rentals

A second general characteristic of social tenancies is the existence of concessional or income-related rents which are usually significantly below market rents for most tenants. For example in the US the HUD guideline is that tenants should pay 30 per cent of their adjusted monthly income as a ‘total tenant payment.’

The extent of the implicit subsidisation varies by country and region. For example in the case of Sweden a 1994 study by Berger, Jonsson and Turner found that while actual social tenancy rentals were below simulated market rentals in main urban areas, over the country as a whole “there was a surprisingly good fit”.

This Swedish finding needs perhaps to be set in its context.

- The massive level of subsidised housing construction in Sweden in the decades after World War II meant that the housing market was nearly saturated by the 1990s, and market rents accordingly modest.
- The relatively egalitarian nature of Swedish income distribution meant that ‘low income’ Swedes had higher incomes than elsewhere, and hence could afford to pay higher ‘concessional’ rents.

In the case of the Netherlands, it is now the Social Housing Organisation (AEDES) which is lobbying government to allow rental increases for social tenancies. The AEDES website notes that it “is in favour of reasonable market-orientated rental prices which are based on the quality and market position of the housing.”

The context of the AEDES position is a situation where fiscal constraints limit the availability of subsidised government assistance, while the maintenance costs of the ageing social rental
housing stock are rising. There is also a need to upgrade the stock in areas such as thermal efficiency.

In New Zealand, case concessional rents for social housing (state housing) were abandoned entirely in the 1990s, and individual tenant applications for an Accommodation Supplement (AS) rent subsidy put in its place. This shift however was reversed in 1999, and income-related rents re-instated for social tenancies.

3) **Priority for Low-Income and Disadvantaged groups**

A third normal characteristic of social tenancies is priority for low-income and disadvantaged groups. However, this priority tends to be strongest in countries where social tenancies are a relatively low percentage of all households (US, Canada, Australia, New Zealand). A partly converse philosophy applies in countries where social tenancies are a relatively high proportion of households, such as the Netherlands, Sweden, Austria, Denmark, and Norway. Here inclusion of a broad range of working class and middle-class tenants along with the disadvantaged is regarded as an advantage to facilitate social inclusion.

Social exclusion and the creation of social problem areas tends to be worst where social rental housing is concentrated in distinct large areas, such as the English “council estates” or the US ‘projects’, and where a high proportion of the tenants come from substantially disadvantaged groups and low-status ethnic minorities. Possible alternatives include ‘pepper potting’ of social tenancies as individual units in other housing areas, or ‘small cluster’ projects in the midst of other housing.

In Singapore, the problem is approached by a policy which has the effect of ensuring that most of the occupants of the high rise blocks which contain social tenancies are ordinary homeowners who have purchased a lease. Singapore also operates ethnic quotas for its housing blocks.

It should be noted that even in the countries where social tenancies now go almost entirely to significantly disadvantaged groups, this was not always the case. For example in the US many of the original public housing allocations went to returned servicemen and their families. In New Zealand, there were traditionally numbers of state housing units which went to public servants on transfer.

However, there is a trade-off between social inclusion and dealing with the most pressing cases of housing need in countries (Australia, NZ, US Canada) where the social housing stock is a very low proportion (generally around 5 percent) of the total housing stock. With such low social housing availability there is no real room to house any significant proportion of social tenancy applicants other than the disadvantaged. Hence, concentration of the disadvantaged in social tenancies tends to be a consequence of a low ratio of social tenancy housing availability in the housing stock unless (like Singapore) there are other policies which work to offset this.
4) **Stable Tenancies**

A fourth general characteristic of social rental housing is the provision of stable tenancies. This is regarded as helping to avert some of the problems (disruption in the schooling of children, high moving costs) associated with high turnover private sector tenancies which are often characteristic of disadvantaged groups. The concept is embodied in the US HUD tenancy information statement,

> “you may stay in public housing as long as you comply with the lease.”

However, other studies show that income-related rents in the US ‘graduate out’ those whose income rises substantially, because they can then do better in the private housing market. The US income-related rent formula does not seem to have a market rent cap. Hence social tenancies in the US tend to be stable mainly for the long-term low-income groups.

In the case of New Zealand the 2011 briefing of Housing New Zealand to the incoming Minister of Housing notes that “changes...instituted from 1 July 2011, mark a shift from the perception that a “state home is for life.”

5) **Adequate Minimum Housing Standards**

A fifth objective of social tenancies has generally been the attainment of adequate minimum housing standards in terms of the local situation. This of course has meant different things at different times in different places. For example the early social housing projects in Singapore and Hong Kong provided less space per person than in Australia and New Zealand.

The housing standard objective has become a growing problem in some countries where the social housing stock is ageing, and required standards in areas such as thermal insulation have risen.

A second problem which has been very visible in the US and parts of the UK has been a situation where ‘planner preferences’ have resulted in the creation of types of social housing stock which do not meet the needs and preferences of the families living in them. A case in point has been the high rise ‘Tower blocks’ of apartments which have exacerbated social problems and ended up being dynamited.

Singapore however has been relatively successful in using high-rise apartment blocks for social tenancies and other forms of public housing. Part of the reason has been a policy of using apartment ground floors as ‘social space’ to accommodate social activities and convenience services. In part also it may be that the Singapore population is subject to more social discipline than in some other developed economies.
**Social Housing Ratios in Western and Central Europe**

A study by Scanlan and Whitehead found that there were very large variations in the proportion of social tenancies in Western and Central Europe as the figures below show. The figures are generally the early or mid-part of the first decade of the 21st century.

**Table A1: Housing Occupancy Status – Percentage**

<table>
<thead>
<tr>
<th>Country</th>
<th>Owner occupier</th>
<th>Private rental</th>
<th>Social rental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>54</td>
<td>11</td>
<td>35</td>
</tr>
<tr>
<td>Austria</td>
<td>55</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Denmark</td>
<td>52</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>Sweden</td>
<td>59</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>England</td>
<td>70</td>
<td>11</td>
<td>18</td>
</tr>
<tr>
<td>France</td>
<td>56</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>Ireland</td>
<td>80</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Germany</td>
<td>46</td>
<td>49</td>
<td>6</td>
</tr>
<tr>
<td>Hungary</td>
<td>92</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

It may be noted that only the very tail of the European group is as low as the social tenancy proportions in the US, Canada, Australia, and New Zealand, where the ratios are around five percent.

This latter group of overseas, English-speaking countries traditionally promoted owner occupancy rather than social tenancies. The New Zealand case however seems to be evolving in a different direction as home-ownership ratios have been falling, but social tenancy ratios not rising. However, New Zealand is still a considerable way away from the proportions of private rentals seen in Germany.

In the German case, high reliance on private rentals has been accompanied by laws which tend to protect the situation of tenants. According to the Global Property Guide, the German Civil Code (which the Guide described as ‘depressingly pro-tenant’) restricts ability to increase rents for sitting tenants, and for the majority of rental leases (defined as ‘unlimited duration leases’) and also restricts the ability to give notice to the following circumstances:

- breach of contract
- the landlord needs the property for himself or his family
- the lease contract prevents the landlord from making economic use of the premises.


**New Zealand Situation**

**Table A2: New Zealand household tenure ratios, estimates for March 2012**

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner occupiers (including Family Trusts)</td>
<td>66.9</td>
</tr>
<tr>
<td>Rentals</td>
<td>28.9</td>
</tr>
<tr>
<td>Provided free</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Statistics NZ.*

Housing New Zealand Corporation (HNZC) properties provide accommodation for around four percent of households. Other forms of social tenancy (local government pensioner housing, housing associations, Māori providers, etc.) would bring the New Zealand social tenancy ratio up to around 5 percent. This suggests that the private rental share in New Zealand is now up to around 24 percent of households. Statistics NZ figures indicate that the total share of all renters amongst New Zealand households rose from 23.3 percent in 1991 to an estimated 28.9 percent in 2012. However, the Statistics NZ estimate of the rise in rentals may be understated to the extent that some of the Family Trust held properties grouped in with owner occupation are actually arms-length rentals.

**Issues for Social Tenancies**

The promotion of social tenancies as a means of providing adequate and affordable accommodation for low income and disadvantaged groups competes for government funding with two other housing policy alternatives:

- Promoting home ownership
- Individual rent subsidies such as the NZ Accommodation Supplement (AS).

**Promoting home ownership**

Promoting home ownership amongst those with modest incomes has gained political support in a number of countries which previously focused assistance on social tenancies. Supporting policies include subsidised loans, tax deductibility of mortgage interest, and ‘right-to-buy’ options for existing social tenants. However, while home ownership is a feasible objective for the majority of households (with sufficient government financial support), home ownership is not a realistic option for the very poorest people. Hence a policy of providing affordable rental accommodation will always be needed in welfare states.
Promotion of home ownership for modest income families was once a major element of New Zealand housing policy, which focused on concessional interest rate loans from then Housing Corporation (now HNZC), and on deposit assistance (Family Benefit Capitalisation). It is no longer a major element of New Zealand housing policy except to the extent that the rental value of owner occupied housing is not taxed, and there is no capital gains tax. Low-income people can also access the AS to help support mortgage payments.

One issue which is worth further research is the extent to which banks include AS as an element of the income assessment for low income and beneficiary households seeking to buy a house. If people can normally only get mortgages when they can afford to pay for them out of earned income, then the AS mechanism would only come into operation as a safety net following a loss of earned income rather than at the start of a home-ownership seeking process.

**Subsidising private rentals**

The second option for governments which wish to meet social housing needs is to subsidise tenants rather than the housing stock providers. This option gives more flexibility to clients on issues such as location. New Zealand policy now relies much more heavily on this option than on funding social tenancy providers including its own HNZC. Social tenancies provide housing for only around five percent households, including only 4 percent in state housing tenancies. AS paid to renters provides for over 12 percent households. Given the low volume and proportion of social housing stock in New Zealand, there is little short term alternative to relying on subsidising private rentals for meeting most of the low income rental housing need.

**Rationalising dual and multiple systems**

Where dual or multiple systems of social housing provision prevail, issues exist about the appropriate balance, comparative efficiency and cost relativity of the various housing subsidy systems.

In New Zealand this comes down mainly to the relativity between the different concessional approaches of the AS and the State Housing Income-Related-Rents formula. A key budgetary problem for the Government is that Income Related Rents cost significantly more per subsidised household than does the AS. However, the impact of rationalising to a single system of assistance on existing state house tenants has not been assessed.

**An expanded role for not for profit housing providers?**

The NZ Government paper *A New Direction for Social Housing in New Zealand* indicates an objective of “greater involvement of third-sector providers of social housing.” This objective is set in the context of a recognition of housing supply and household affordability issues, and fiscal affordability issues for the government. The Government set up a semi-autonomous...
Social Housing Unit within the Department of Building and Housing to focus on an investment strategy to increase the third sector involvement in social housing.

European and North American experience suggest that not-for-profit organisations require substantial amounts of government assistance to be financially viable while providing adequate accommodation at affordable rents for low income people. In the 2011/2012 budget the New Zealand Government established a Social Housing Fund of $37.4 million to support the ‘third sector’ of housing providers. Longer-term intentions about the scale of government funding to go to the third sector social housing providers are not clear.

The cost structure of ‘third sector’ not for profit housing providers is not currently clear. For example, it is not certain if third sector social housing providers as a group can provide adequate standard housing at a lesser cost than HNZC, since the latter presumably enjoys economies of scale. However, there may be some providers (e.g. Māori providers with existing land for development) who can do so. More generally, if the capital cost of the activities of the third sector providers can be kept off the books of government this may have some presentational advantages. The ongoing implications of this are that, if the third sector providers have to borrow commercially to fund housing construction or purchase, the government would have to provide ongoing subsidies. Without subsidies the third sector providers would have to turn to asking for market rents, which would tend to undermine their basic purpose of social housing provision.

Elsewhere in developed economies the competition for government subsidies is mainly between social rental housing providers and direct home ownership. And everywhere the issue is how to fund some form of social rental housing. In some it is also how to cope with growing maintenance costs of a large existing and ageing social housing stock. New Zealand also has this problem with its state housing stock.

**Longer-term policies**

One other message which emerges from the international statistics is that distinct patterns and levels of social housing build up through the impact of decades of consistent policies and counterpart resource allocation being applied. There are no quick fixes.

In the New Zealand case there are also issues of the quality of the housing stock, which is a major issue irrespective of the tenure of the occupants. Longer-term housing policy also needs to address this issue.

**Conclusions for New Zealand**

The social rental housing conditions and policies in other developed countries provide some additional context for developing policies to meet social housing needs in New Zealand. They also show that different countries have followed different policies, and some, unlike New
Zealand, have very large parts of their housing stock provided in the form of social rental tenancies.

In considering options for meeting the housing needs of low and modest income households in New Zealand, the existing position affects the options which can be adopted. The current New Zealand position can be considered to be as follows:

- New Zealand has a very low proportion of social rental houses amongst its housing stock, and many of these have increasing maintenance and upgrading needs.
- More generally, a substantial part of the New Zealand housing stock does not meet modern standards in relation to conditions such as insulation and heating needs.
- New Zealand has a high and rising proportion of people living in private rental accommodation.
- New Zealand also has a declining home ownership ratio, with a ratio of house prices to incomes which is very high by historical standards.
- NZ housing policies give far less support to home ownership by moderate income families than in the past, when concessional lending from Housing NZ and deposit assistance via Family Benefit capitalisation existed.
- Housing availability is also an increasing problem because of three years of depressed house building activity, and the dwellings loss caused by the Christchurch earthquake.
- New Zealand has a large low income population, including many beneficiaries, who are likely to need ongoing assistance with housing affordability.
- The fiscal problems NZ governments now face constrain the level of government resources which can be allocated to meet social housing needs.

All of these factors suggest that dealing adequately with New Zealand social housing needs is going to take many years, and will require sustained resource input. The form which this input will take is a key policy question. Possible options include:

- measures to stimulate additional homebuilding
- developing new policies to promote home ownership
- expanding state rental housing
- promoting ‘third sector’ social housing providers
- public/private partnerships in housing provision
- upgrading the housing stock
- raising mandatory minimum standards for private rental properties
- increasing tenancy rights in private rental accommodation.

These are not necessarily mutually exclusive options, but most will compete for a limited pool of resources.
In the shorter term however, some conclusions are inevitable:

- For the foreseeable short term future, New Zealand will have to rely mainly on private rental accommodation to provide most of the rental accommodation needs of the low income population. This means the continuation of some form of tenancy subsidisation for low income households, such as the AS.

- The limited size of the social rental housing stock means that priority will continue to need to be for the most disadvantaged, with implications for social exclusion.

- Fiscal pressures are likely to lead to a quest to rationalise the differential amounts of assistance now involved in state housing Income Related Rents and the AS.

- Fiscal pressure will also affect the amount of government resourcing which can be allocated for ‘third sector’ social housing providers.

**Annex of Sources from Appendix 1**


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SHARE (Social Housing Action to Reduce Energy Consumption). Social Housing in the U.K. Available at: http://www.socialhousingaction.com/social_housing_in_the_uk.htm Accessed 20 August 2012.


Appendix 2: Based on extract from Institutional challenges in addressing healthy low-cost housing for all - learning from past policy.

There are four key pieces of legislation in New Zealand that make reference to the expected quality of existing housing stock, including owner-occupied and rented dwellings. These are the Housing Improvement Regulations 1947, the Health Act 1956, the Residential Tenancies Act 1986 and the Building Act 2004. The agencies responsible for enforcement and the quality required by each regulation or act is summarised in Table 1.

Table 1: Current Regulations Applicable to Existing Housing Stock

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Date</th>
<th>Quality Requirements</th>
<th>Responsibility for Enforcement</th>
<th>Responsibility for Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Improvement Regulations (brought in under the Housing Improvement and Slum Clearance Act 1945)</td>
<td>1947</td>
<td>Prescriptive list of requirements, including heating, amenities, and number of people per room</td>
<td>Local government</td>
<td>Ministry of Health (with the Minister for Housing)</td>
</tr>
<tr>
<td>Health Act</td>
<td>1956</td>
<td>Free from nuisance and insanitary conditions</td>
<td>Local government</td>
<td>Ministry of Health</td>
</tr>
<tr>
<td>Residential Tenancies Act</td>
<td>1986</td>
<td>Reasonable state of repair and compliance with relevant legislation</td>
<td>Tenancy Services and Tribunal</td>
<td>Department of Building and Housing</td>
</tr>
<tr>
<td>The Building Act and Code (code under review)</td>
<td>2004</td>
<td>Free from nuisance and insanitary conditions</td>
<td>Local government</td>
<td>Department of Building and Housing</td>
</tr>
</tbody>
</table>

The Legal Conception of Acceptable Housing

1. The definition of an adequate existing house is not made explicit in the Health, Building or Residential Tenancies Acts. The Housing Improvement Regulations are a prescriptive set of requirements, not often enforced because they are thought to be dated, and incompatible with the trend towards legislation that focuses on outcomes rather than solutions, exemplified in the Building Act 2004 and the Resource Management Act 1991. The Health Act 1956 and the Building Act 2004 attempt to ensure that the immediate illness and injury risks of existing dwellings are minimised. A distinction is made between new and existing buildings in the Building Act, with new buildings required to meet much higher health and wellbeing standards (sections 3(a) and (b)).

2. A local authority may act on a dwelling and its surrounds if they consider it to be offensive or likely to be injurious to health under the Health Act 1956, section 29. The nuisance provision of the Health Act 1956 is not found in other legislation and is used by local authorities to address housing quality problems. Under the nuisance provision of the Health Act 1956, a house must be free of vermin, overcrowding of occupants, contaminated or potentially contaminated water, and under section 39 have adequate sanitary facilities. Commonly, local authorities enforce the provisions of the Building Act 2004 relating to dangerous and insanitary housing, where fines can reach up to $200,000. The Building Act applies largely to new housing and renovations, but can be used in place of the Health Act to govern sanitation, dangerous conditions and earthquake safety in existing dwellings (Building Act 2004, sections 121–123).

3. Existing housing is rarely subject to the regulatory provisions of the Building Act, except in extreme cases. The cost for local authorities in taking a case to court is high, and uncertainty of the outcome of a hearing can influence the decision to prosecute. The lack of alternative accommodation for the occupants of a house can also influence the way that housing quality regulations are enforced.

4. The Residential Tenancies Act 1986 has a slightly different approach, requiring a rental property to comply with relevant legislation and also be maintained in a ‘reasonable’ condition. What constitutes ‘reasonable’ largely depends on interpretation by a tenancy mediator, or an adjudicator in the Tenancy Tribunal. It is further complicated by informal arrangements between landlord and tenant. A tenant may sometimes settle for a house that would not be considered reasonable by an official measure if they are able to pay a lower rent. Also, the onus of complaint is on the tenant, who may fear jeopardising the tenancy. Moreover, the Tenancy Tribunal has no power to require a landlord to improve a property beyond the current tenancy contract. If the Tribunal finds in the tenant’s favour and stipulates that the landlord remediate the property, once the contract is terminated the unimproved property can be immediately relisted.
5. Over two-thirds of the current housing stock in New Zealand was built before standards requiring insulation in new buildings were introduced in 1977; in Dunedin this figure is over 80 percent. Very minimal housing regulations coupled with the popularity of weatherboard-style housing, low expenditure on housing maintenance, and inadequate provision for energy-efficient heating suggest that the quality of existing housing in New Zealand is likely to be a national problem.

6. In 1946 the World Health Organization defined health as “a state of complete physical, mental and social wellbeing and not merely the absence of disease or infirmity.” Quite clearly the Acts outlined above deal with housing as a determinant of health in a narrow sense, where health is the absence of disease or injury and the intention is to ensure the indoor environment does not risk basic and immediate health and safety. The less obviously imminent risks of cold and damp housing are largely ignored.
References


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