

The Treasury

Budget 2017 Information Release

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| | | |
|------|--|--------------|
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| [40] | Not in scope | |

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Treasury Report: Costing and distributional analysis of potential changes to the Accommodation Benefit

| | | | |
|--------------|---------------|---------------------|-------------|
| Date: | 21 April 2017 | Report No: | T2017/1091 |
| | | File Number: | SH-13-5-2-3 |

Action Sought

| | Action Sought | Deadline |
|--|---|---------------|
| Minister of Finance (Hon Steven Joyce) | Agree to one of the three options provided | 28 April 2017 |
| Associate Minister of Finance (Hon Simon Bridges) | | |
| Associate Minister of Finance (Hon Amy Adams) | | |

Contact for Telephone Discussion (if required)

| Name | Position | Telephone | 1st Contact |
|--------------|------------------------------------|----------------------|-------------|
| [34] | Analyst, Labour Market and Welfare | [39] (wk) N/A (mob) | ✓ |
| Dr Eina Wong | Senior Analyst, Tax Strategy | [39] (wk) [23] (mob) | |

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Costing and distributional analysis of potential changes to the Accommodation Benefit

Executive Summary

The Accommodation Benefit (AB) is a payment to assist with accommodation costs for students eligible for the Student Allowance, with different amounts available depending on region. Sole parents students receiving the AB will benefit from the family incomes package as their AB rate is tied to the Accommodation Supplement; however, other students are unlikely to benefit from the package.

In line with Accommodation Supplement changes, Ministers could consider increasing the maximum payment rate for the AB, to recognise the increasing rents faced by students in these regions. This report sets out the costs of increasing the maximum weekly payment by either \$10 or \$20. The report also gives indicative figures on how many people will benefit from these changes, and the age profile of these people.

To include the fiscal cost of Ministers' preferred option in final Budget forecasts, a decision needs to be made by 28 April.

Fiscal costs of the two changes are:

| \$m | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---------------------------|---------|---------|---------|---------|
| A - \$10 maximum increase | 3.8 | 11.5 | 11.6 | 11.8 |
| B - \$20 maximum increase | 6.3 | 19.5 | 19.5 | 19.8 |

Treasury Report: Costing and distributional analysis of potential changes to the Accommodation Benefit

Purpose of Report

1. As part of the Budget 2017 Family Incomes Package, you have requested additional information on making changes to the Accommodation Benefit (AB) for students. This report provides costing and distributional impacts of two potential changes to the AB for your consideration. Increasing payments for all AB recipients has been modelled but is not reported as you have indicated this is not a preference.

Accommodation Benefit Structure and Potential Changes

2. The AB is a supplement to student allowance payments that recognises the accommodation costs to students who do not live at home.
3. Students who are sole parents are paid the AB at the equivalent rate of Accommodation Supplement. Given that Accommodation Supplement changes have been agreed and will flow on to this group, we have not assessed any change for this group.
4. For other students, the AB subsidises half the average room rental in the region, over \$40, up to a maximum of \$40.

$$AB = \frac{\text{Regional average room rental}}{2} - 40, (\text{up to } \$40)$$

5. The AB was introduced in 1989, and has not been adjusted since. At the time, no region would have received the maximum rate.
6. The subsidy could be increased by increasing the maximum payment, which would be in line with earlier advice on changes to the Accommodation Supplement that recognises rent prices have increased without a corresponding increase to maximum allowances.
7. This paper assesses two options:

- a. *Increase the maximum weekly AB rate by \$10.*

This adds \$10 per week to many AB payments, except where rental rates in the area are relatively low. For example, the six university cities are all currently at \$40 per week. With this proposal, the Palmerston North rate increases to \$40.50 and Hamilton's to \$49.50, while the remaining rates increase to \$50 per week.

- b. *Increase the maximum weekly AB rate by \$20.*

This adds \$20 per week in some regions. In the six university cities, the Palmerston North rate increases to \$40.50 and Hamilton's to \$49.50. Dunedin's rate increases to \$51 and the Auckland, Wellington, and Christchurch rates increase to \$60 per week.

8. Without a cap on AB rates in Auckland, Wellington, and Christchurch (i.e., using the formula in paragraph 4), the AB rates adjusted for 2017 average rents would increase by \$90 (Auckland), \$43 (Wellington), and \$23 (Christchurch).

Indicative Costings and Distributional Impact

9. The data analysis below was provided by the Ministry of Education. Due to time constraints, the data which has been collated to produce costings has been limited; however, we consider the data is sufficiently accurate to allow decisions to be made.
10. Changes are assumed to be made on 1 April 2018, consistent with other components of the package. We have been advised that it would cost approximately \$95,000 for MSD to make the necessary IT system changes to administer the rates.

Table 1: additional cost of each AB proposal

| \$m | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---------------------------|---------|---------|---------|---------|
| A - \$10 maximum increase | 3.8 | 11.5 | 11.6 | 11.8 |
| B - \$20 maximum increase | 6.3 | 19.5 | 19.5 | 19.8 |

11. The fiscal costs are based on an average take-up of 28 weeks reflecting take-up of Student Allowance benefit.
12. The number of people and age profile if all regions had their rates changed are shown in tables 2 and 3 below. Due to time constraints, we estimated these for all regions, rather than only for regions at the maximum. Of the recipients impacted, 44% are male and 56% are female.

Table 2: Estimated number of people impacted

| 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---------|---------|---------|---------|
| 45,270 | 44,740 | 44,350 | 44,350 |

Table 3: Age profile

| | |
|----------|-------|
| Under 20 | 16.5% |
| 20-24 | 42.0% |
| 25-29 | 21.1% |
| over 30 | 20.4% |

Current and proposed rates

13. Because AB rates are set based on average room rents by region, and therefore 2018 rates are not available, Table 4 shows what the rates would be if they were increased using 2017 rents.

Table 4: Selected hypothetical regional AB rates for 2017

| Region | Current Rates | Option A | Option B |
|--------------|---------------|----------|----------|
| Auckland | 40.00 | 50.00 | 60.00 |
| Wellington | 40.00 | 50.00 | 60.00 |
| Christchurch | 40.00 | 50.00 | 60.00 |
| Dunedin | 40.00 | 50.00 | 51.00 |
| Hamilton | 40.00 | 49.50 | 49.50 |
| New Plymouth | 40.00 | 50.00 | 52.50 |
| Napier | 40.00 | 46.50 | 46.50 |
| Nelson | 40.00 | 50.00 | 51.50 |

| | | | |
|------------------|-------|-------|-------|
| Whangarei | 40.00 | 43.50 | 43.50 |
| Palmerston North | 40.00 | 40.50 | 40.50 |
| Whanganui | 27.00 | 27.00 | 27.00 |
| Invercargill | 26.50 | 26.50 | 26.50 |
| Rotorua | 39.50 | 39.50 | 39.50 |
| Gisborne | 40.00 | 40.00 | 40.00 |
| Greymouth | 40.00 | 42.00 | 42.00 |

Timing

14. To include the fiscal cost of increasing the AB in the final Budget forecasts, a decision of which option to implement needs to be made by 28 April.

15. Changes to the AB rates in Schedule 3 of the Student Allowances Regulations 1998 can be implemented by Order in Council and do not require amendments to primary legislation. The Order in Council can be drafted for Ministers' consideration at the same time as the Accommodation Supplement changes.