



# Progressive Home Ownership Fund – Investment Framework

## 1. Purpose

1. This Investment Framework outlines the Government’s strategy for investment in progressive home ownership (PHO) schemes through the Government’s \$400 million PHO Fund. It sets out expectations to guide funding decisions made under the PHO Fund.

## 2. The Government’s intentions for the PHO Fund

### 2.1. Context

2. The housing crisis is one of the most difficult long-term challenges New Zealand faces. It has been long in the making and is causing significant harm to the wellbeing of New Zealanders. The Government is committed to ensuring that every New Zealander has a safe, warm, dry home to call their own regardless of tenure. House prices have increased more rapidly than incomes and this has meant that far fewer households own their homes and far more are renting. Households who can service some but not all of a mortgage to buy a home are more likely to be families with children, one person households, Māori, and Pacific peoples.
3. Given the gap between house prices and what is affordable to these households, many will not be in a position to purchase a home in the future. In particular, there are many lower to medium income households and whānau who are unlikely to buy a home without a reasonable level of support; and many households and whānau with incomes at or above the median that cannot get a large enough deposit together to buy a home or service the costs of a low deposit mortgage. PHO schemes can help these households and whānau by sharing or delaying the costs of buying a home, effectively creating an intermediate tenure between renting and home ownership, the benefits of which are well demonstrated.
4. One of the reasons that housing costs have increased faster than incomes for many households is that we have not been building enough homes to keep up with demand. Housing affordability is particularly acute in some urban centres where housing costs are now very high relative to incomes. The Ministry of Housing and Urban Development (HUD) is progressing work on a place-based approach to housing and urban development challenges and is building a greater understanding of how PHO schemes can apply to this approach.
5. The Government has responded to the housing crisis in a number of ways, including investment in public and transitional housing, leading large scale urban development projects, increasing land supply for urban development, and improving conditions for renters.
6. Te Maihi o te Whare Māori - the Māori and Iwi Housing Innovation Framework for Action (MAIHI) puts Māori at the heart of Aotearoa New Zealand’s housing narrative. It acknowledges the history of Māori housing and seeks to respond to these needs



through kaupapa Māori approaches. The PHO Investment Framework will give effect to these MAIHI principles.

7. In order to ensure the Government's \$400m investment in PHO is effective, the funding will be targeted at those who would not be able to purchase a home without progressive home ownership, at places with severe affordability issues, and at three priority groups: Māori, Pacific peoples, and families with children. In addition, it will generally be used to purchase newly built homes, to support greater housing supply and ensure the scheme does not simply bid up the price of housing.

## **2.2. Outcomes**

8. The PHO Fund will increase opportunities for people to achieve independent home ownership who would not otherwise have been able to. Independent home ownership will be achieved by the graduation of households and whānau from a PHO scheme within the term of the PHO Fund. The households and whānau to be supported to achieve independent home ownership are those households and whānau that:
  - a. are unlikely to buy a home without a reasonable level of financial and non-financial support, and/or
  - b. aspire to own their own home but for whom either the size of the deposit and/or the full ongoing cost of mortgage repayments is a barrier preventing them from doing so.
9. Through the PHO Fund, households and whānau will be able to achieve secure tenure in warm, dry, safe, and suitable homes in desired locations. The preference is for these homes to be new homes.
10. PHO will be most effective in places with severe housing affordability issues and all proposals will be considered on a case-by-case basis taking into account previous approvals to ensure that funding is not concentrated in a small number of locations. . All three pathways will be available to households nationwide. The PHO Fund will focus on supporting home ownership for priority groups who are currently under-represented as homeowners, responding to the demand that is seen across the sector for PHO from these groups. Across households and whānau supported by the PHO Fund, these priority groups are expected to be strongly over-represented.
11. The PHO Fund will achieve greater home ownership through the operation and funding of three pathways that respond to demand for PHO. In two of the pathways, households and whānau are supported through wraparound services and by providers. The other pathway is accessed directly by qualifying households and whānau, with a lighter level of support. Funding of the pathways will be responsive to demand. This means that HUD will review and reset expected minimum funding amounts to each pathway on a regular basis.
12. HUD will also achieve these outcomes by ensuring the PHO scheme is cost effective and administratively simple (from the perspectives of customers and providers as well as the monitoring and review agency).



13. The PHO Fund will support wider societal outcomes (such as greater social cohesiveness) and wellbeing outcomes through improved security of tenure (such as better health and educational outcomes).

*Te Maihi o te Whare Māori - the Māori and Iwi Housing Innovation Framework for Action (MAIHI)*

14. The PHO Investment Framework will utilise a whānau centred approach through outcomes that are aligned to the MAIHI principles. The PHO outcomes embody the MAIHI principles where Te Mauri o Te Whānau is the starting point and this builds towards the wider outcomes. Te Au Taketake, the iwi and Māori pathway, will include outcomes specific to a proposal being considered in terms of alignment with the MAIHI principles. This alignment arises through:
  - a. **Mauri**: enhancing the mauri of the whānau to live in a safe, secure, warm and dry home and have built their own tino rangatiratanga – self-determination.
  - b. **Whakamana**: uplifting providers to support whānau in their journey towards home ownership including the necessary wraparound support services.
  - c. **Manaakitanga**: working with providers to work with whānau to understand their home ownership aspirations and help them to achieve those aspirations.
  - d. **Tino Rangatiratanga**: empowering whānau to achieve their housing aspirations through bespoke solutions with flexibility in the approach.
  - e. **Whanaungatanga**: building and growing connectivity - HUD with the providers and providers with the whānau and the whānau with their culture (whenua, awa, marae, hapū, iwi and wider community).
  - f. **Tikanga**: utilising best practice and best efforts when making decisions on expenditure of the PHO Fund to provide for balanced and equitable support to whānau via Māori housing providers.
15. MAIHI aims to deliver a system-wide response to Māori housing, improve Māori access to housing, and reset systems and processes so that the housing system provides equitable solutions for Māori. MAIHI includes approaches to support system responses for accelerating home ownership, and Māori-led community-based housing projects and papakāinga. The PHO scheme could be used to support both of these actions. MAIHI is accompanied by funding to support housing supply projects and to build provider capacity and capability.



Figure 1: Kaupapa Māori approach is whānau centred and strength based



*Outcomes Pathway Model*

16. A detailed outcomes framework is being developed for the PHO Fund. The direct and wider outcomes are set out in Figure 2 below.

Figure 2: High Level PHO Outcomes Pathway Model





17. The purpose of the Outcomes Pathway Model is to demonstrate how implementation of the PHO Fund will be monitored and evaluated. The PHO Fund will be monitored and evaluated across three layers of outcomes:
  - a. The three pathways are being effectively delivered to meet demand and support the fund priorities.
  - b. Households and whānau, especially from the priority groups, achieve security of tenure through affordable and independent home ownership.
  - c. Increased home ownership supports the achievement of a range of wellbeing outcomes for individuals, whānau, communities and society.
18. Outcomes and outputs will be monitored and reported upon with a full evaluation of the PHO Fund commencing in 2021/22. Information from this and subsequent evaluations will be incorporated into annual reviews of this Investment Framework.

### **2.3. Priorities for PHO Investment**

19. Cabinet has agreed on the key priorities that it wants the PHO Fund to deliver on. These priorities are shown in Table 1 and should be used to guide investment and funding decisions for the PHO Fund by the PHO Function<sup>1</sup>. The Government's expectation is that for priority three, some households outside of these priority groups would still be funded, and that these priorities will be met across the PHO investment portfolio over the lifetime of the PHO Fund. For priority two, all households and whānau supported by the PHO Fund should fall within this priority group.

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<sup>1</sup> The PHO Function is the department within the Ministry of Housing and Urban Development that will administer the PHO Fund.



*Table 1: PHO Fund Priorities*

<b>Priority</b>	<b>What does this mean?</b>	<b>How would it be applied?</b>
<p>1. People whose aspirations are to own their own home but for whom either the size of the deposit and/or the full ongoing cost of mortgage repayments is a barrier preventing them from doing so</p>	<p>Households and whānau that are unlikely to buy a home without a reasonable level of financial and non-financial support or aspire to own their own home but for whom either the size of the deposit and/or the full ongoing cost of mortgage repayments is a barrier preventing them from doing so.</p> <p>For clarity, this is not higher income households and whānau that are not yet homeowners but would be able to buy a home without financial assistance in the future.</p> <p>The upper bound household income for the target groups should be \$130,000, however, for multi-generational or extended family households or whānau which need higher incomes to buy a home suited to their size, the upper bound household income should be increased commensurably. In particular, the PHO Fund should support the:</p> <ul style="list-style-type: none"> <li>• lower to medium income target group: households and whānau that are unlikely to buy a home without a reasonable level of financial and non-financial support</li> <li>• at or above median income target group: households and whānau that cannot get a large enough deposit together to buy a home due to high rents and fast-growing house prices, and/or have insufficient income to service a lower deposit mortgage at current house prices.</li> </ul>	<p>The PHO Fund is only to be used to support households and whānau in the target groups.</p>



<p>2. Priority groups: Māori, Pacific peoples, families with children</p>	<p>The priority groups are Māori, Pacific peoples and families with children. Families with children means households with at least one legal parent or guardian and at least one child under the age of 18.</p>	<p>The PHO Function is expected to prioritise allocation of the fund to Māori, Pacific peoples, and families with children across the portfolio of investment over the life of the fund. Funding decisions should maximise the amount of support to these groups by prioritising proposals which have a greater proportion of households and whānau in these groups. Kāinga Ora should promote the direct to households product to households and whānau in these priority groups. The first review of this Investment Framework should consider the extent to which the priority groups are receiving support from the Fund and adjust funding allocations via the pathways to balance both demand and the need to prioritise these priority groups.</p>
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### 3. Delivery through pathways

20. Delivery of the PHO Fund and its priorities will be done through three pathways:
- a. through government directly to households (**the direct-to-households pathway**), which will be delivered by Kāinga Ora;
  - b. through providers that offer a range of PHO schemes (**the provider pathway**);
  - c. through working with iwi and Māori organisations to deliver a range of PHO schemes (**Te Au Taketake**).
21. The expectation is that the pathways will work co-operatively to maximise choices and opportunities for households and whānau and ensure effective use of the PHO Fund. For instance, providers would be expected to advise households and whānau about other pathways if another pathway is likely to be more suitable for them. Access to land, funding and customers will differ across the providers, and therefore providers in each pathway are able and encouraged to partner with one another to promote more effective use of the PHO Fund and maximise opportunities.

## 4. Fund Allocation

### 4.1. Annual funding allocations

22. The PHO Fund will be demand driven within the parameters set out in this Investment Framework. The Government’s expectation is that the PHO Fund will be able to support between 1,500 and 4,000 households or whānau, and that the allocation of that funding will be made over four years. This may be extended as part of the review of this Investment Framework if demand for the PHO Fund is insufficient. Funding should not be allocated over a shorter time period than four years, to ensure there is certainty over the minimum period for which funding will be available.
23. Each year HUD will determine a range of funding that is expected to be allocated. An indicative funding forecast is shown in Table 2. The indicative funding forecast will be reviewed halfway through each year as part of the review of this Investment Framework, based on evidence of demand, whether past funding decisions have met the fund priorities, and the likelihood of future demand from providers or groups where it may take time to build capability or capacity to access the PHO Fund.
24. A pilot PHO round started in July 2020. This made \$45m of the \$400m available for allocation, leaving at least \$355m available over the four year period.

*Table 2: Indicative Funding Range Forecast for years 1-4*

	2020/21	2021/22	2022/23	2023/24
Indicative funding range	\$50m-\$90m	\$70m-\$100m	\$100m-\$115m	\$50m-\$135m

### 4.2. Allocating funding across pathways

25. Table 3 shows the minimum amount that will be available for investment in each pathway over the four year period. Note that this a minimum only, and leaves some funding available to ensure the fund priorities are met and to respond to demand.



26. These minima will be reviewed at least annually as part of the review of this Investment Framework. The review of this Investment Framework should also consider whether maximum allocations should be set for pathways for the remaining years, taking into account the extent to which each pathway is supporting the fund priorities.

*Table 3: Indicative Funding **Minima** per pathway for years 1-4*

	2020/21	2021/22	2022/23	2023/24
Direct-to-households pathway	\$15m	\$23m	\$33m	\$16m
Provider pathway	\$15m	\$23m	\$33m	\$16m
Te Au Taketake pathway	\$15m	\$23m	\$33m	\$16m

27. It is expected that the minimum identified to be spent in each pathway would be spent unless there is insufficient demand and/or quality of proposals for use of the PHO Fund in the given year. In the first two years of operation (2020/21 and 2021/22), if the minimum for any pathway is not spent, this PHO Function should carry the remaining amount over to the following year for that pathway. If the PHO Fund is over-subscribed in years one to three, the review of the Investment Framework should consider whether future minimum allocations within each pathway should be brought forward. Amounts above that minimum should not be brought forward.

## 5. Accessing the PHO Fund

### 5.1. Providers and iwi and Māori organisations

28. The Fund can be accessed through the provider and iwi and Māori pathways by organisations that meet the provider criteria. The pathways are expected to be open to both new and existing PHO providers who meet the required criteria. There will be a strong preference for not-for-profits. For-profits involvement will be on a case by case basis requiring ministerial approval.
29. It is expected that the PHO Function will develop eligibility criteria for providers that wish to submit a proposal. The eligibility criteria may include financial performance, good governance practice, sound organisational processes, having a PHO product designed, willingness of financial institutions to work with the product and the ability of the provider to work with households.
30. The Government (via HUD) will contract with providers and iwi and Māori organisation to deliver PHO schemes using the PHO Fund:
- For the provider pathway, the PHO Function will hold funding rounds up to four times per year. Providers will be able to submit proposals to access funding via these funding rounds.
  - For Te Au Taketake, the PHO Function will remain perpetually open all year round. Iwi and Māori organisations will be able to submit proposals to access funding at any time.



31. Once an organisation has met the eligibility criteria as part of a successful proposal, it is not expected that they would need to demonstrate that they meet the eligibility criteria as part of subsequent proposals.
32. Under Te Au Taketake, the PHO Function should be open to the use of innovative approaches that can help whānau buy homes on multiply owned Māori freehold land, or in papakāinga developments.
33. The PHO Function will also distribute grant funding to providers and iwi and Māori organisations to provide wraparound support services to households and whānau, including financial capability services. A method to allocate this funding is to be determined by the PHO Function.

## **5.2. Kāinga Ora**

34. For the direct-to-households approach Kāinga Ora is to advise HUD on anticipated demand for funding from the PHO Fund for each six-month period (with indicative amounts for upcoming six-month periods). HUD will then confirm funding to Kāinga Ora to deliver for the upcoming six-month period and will review this allocation as part of any regular reviews of allocations across all three pathways. The Government (via HUD) will contract with Kāinga Ora to deliver the direct-to-households pathway using the PHO Fund.

## **5.3. Households and whānau**

35. Households and whānau will access the PHO Fund by applying to Kāinga Ora under the direct-to-households pathway or applying to or working with a provider or iwi or Māori organisation that wishes to access the PHO Fund.

# **6. Eligibility**

## **6.1. Eligible homes**

36. The PHO Fund intends to support households and whānau to buy secure assets that will enable them to graduate from schemes or be able to sell and move if circumstances change. Homes purchased using the Fund should be new builds (i.e., be in the planning, development or construction phases or have received code compliance within the previous 12 months), with limited exceptions that are agreed by HUD on a case-by-case basis.

## **6.2. Eligible households and whānau**

37. The general criteria for eligibility under the PHO Fund will ensure that households and whānau are legally able to buy a home (e.g., over the age of 18 and usually resident in New Zealand), and have a household income of no more than \$130,000 (except for multigenerational households and whānau where the income limit should be adjusted for the size of the household). The households should not already own a home, and nor should they have the resources to buy a home without support.
38. The Government's expectation is that households and whānau receiving assistance from the PHO Fund will occupy the homes they are supported to purchase.



## 7. Fund Management Expectations

### 7.1. PHO Function

39. The Government's expectations are that the PHO Function:

- a. applies the principles identified for the PHO Fund in its policies, practices and procedures (that is additionality, graduation, administrative simplicity, cost effectiveness, place-based).
- b. acts reasonably and uses its best endeavours to achieve the outcomes and priorities for the PHO Fund, including engaging with providers and iwi and Māori organisations to support broad participation in PHO schemes supported by the PHO Fund.
- c. provides information to the PHO policy function within HUD, at least annually, on:
  - i. how the PHO Fund principles have been applied
  - ii. the achievement of the PHO Fund priorities across the PHO Fund
  - iii. the demand for the PHO Fund in each pathway and the achievement of the outcomes and priorities via each pathway
  - iv. the funding and forecast funding requirements (based on an anticipated pipeline) for the PHO Fund and any recommended changes to these allocations.
- d. ensures that data requirements placed on providers, iwi and Māori organisations and Kāinga Ora to support monitoring and evaluation of the PHO Fund are consistent with the principle of administrative simplicity.
- e. uses good practice when funding and contracting (in compliance with the applicable government rules and guidance) and making funding decisions and puts in place best practice fund management arrangements.
- f. uses an output-based approach for the provider pathway. This will involve contracting for an output, such as the number of households or whānau that a provider will deliver the PHO scheme to at an average cost per household.
- g. uses outcomes-based approach for Te Au Taketake pathway. This will enable iwi and Māori to work with government, on a case-by-case basis, to determine the outcomes that they wish to achieve through the delivery of PHO schemes to their iwi, hapū, or whānau in a place or for an identified project. Contracting would still include deliverables or outputs that will support the outcomes and aspirations.
- h. uses a reasonable degree of flexibility in its approach to the PHO Fund, including, if needed, providing guidance to providers and iwi and Māori organisations to ensure their proposals are fundable, and allowing a reasonable period of time to address any shortcomings in a proposal that, if addressed, would otherwise be successful.



- i. considers the need to introduce measures that will better enable the utilisation of the PHO Fund by priority groups.
- j. allows funding in the provider and iwi and Māori pathways to be staged over time where this enables a provider or iwi or Māori organisation to secure land or homes to be used for PHO purposes.

## **7.2. Providers and iwi and Māori organisations**

40. The Government expects that for the provider pathway and the iwi and Māori pathway:
  - a. any capital gains that a household would normally receive through the design of a PHO scheme could be kept by the household.
  - b. any capital gains that a provider or iwi and Māori organisation receives can be retained so long as they are used for PHO purposes.
  - c. providers and iwi and Māori organisations will inform the PHO Function of any changes, where possible in advance, that would affect the terms or the delivery or the management of PHO schemes that have been funded through the PHO Fund.
  - d. providers and iwi and Māori organisations will advise the PHO Function of any additional households or whānau supported into home ownership within the 15 year period (e.g. as a result of early graduation) and provide assurance that the additional households or whānau supported would contribute towards the achievement of the PHO Fund priorities.

## **7.3. Kāinga Ora as the provider of the direct-to-households scheme**

41. Kāinga Ora will be expected to responsibly and prudently manage the direct to households scheme. This includes using its best endeavours to implement the PHO Fund priorities and to achieve the fund outcomes and priorities.
42. This also includes taking action to minimise the possibility of losses it may incur, recognising this will need to be balanced against the broader policy objectives of the PHO Fund. Responsible, diligent and prudent management will extend to:
  - a. ring fencing the funding and assets
  - b. the design and structure of the progressive home ownership product, and related agreements
  - c. management of the relationship with co-owners
  - d. oversight of the property.
43. Any capital gains that a household would normally receive through the design of a PHO scheme can be kept by the household. Capital gains that a provider would normally make through a PHO scheme will be held by Kāinga Ora. There will be oversight from the PHO Function as to what, in relation to PHO, these funds can be used for.
44. Kāinga Ora will advise the PHO Function of any additional households or whānau supported into home ownership within the 15 year period (e.g. as a result of early graduation), with a focus on achieving the priorities of the PHO Fund.



## 8. Review

45. This Investment Framework will be reviewed on at least an annual basis, with the first review commencing six months after the Investment Framework is operationalised. The review will be undertaken by the policy function within HUD. If changes are recommended to PHO investment, the policy function will advise the Minister of the recommended changes. Any changes to this Investment Framework must be approved by the Minister before they take effect.
46. As part of this review, HUD is to draw on the information provided by the PHO Function under paragraph 40(c) of this Investment Framework, and, once available, any evaluation and reporting on whether the PHO Fund is meeting the PHO Fund outcomes under paragraph 19. The review is to include:
  - a. whether the eligibility criteria for households and whānau and houses remain appropriate.
  - b. evidence of demand for PHO schemes via the PHO Fund, including demand for different pathways, in different locations, cohorts, and by households and whānau in the priority groups: Māori, Pacific peoples and families with children.
  - c. The alignment between previous funding allocations, the fund priorities, and emerging demand, including whether the fund priorities are being met.
47. This information will be used to update the Investment Framework so that it sets out the Government's investment intentions to the PHO Function, Kāinga Ora, providers, iwi and Māori organisations, households and whānau. This should aim to meet demand and to increase funding to any of the priority groups or priority places which have received low levels of funding to date.