



Aide-memoire

Talking points for the Report Back on the Progressive Home Ownership Fund Cabinet paper

Date:	10 December 2019	Security level:	In Confidence
Priority:	High	Report number:	AMC19/20120020

Action sought

	Action sought	Deadline
Hon Dr Megan Woods Minister of Housing	Note this information prior to attending the Social Wellbeing Committee on Wednesday 11 December 2019.	11 December 2019

Contact for discussion

Name	Position	Telephone	1 st contact
Caleb Johnstone	Manager, Market and Supply Responses	s 9(2)(a)	
Joanna Gordon	Policy Director, Market and Supply Responses		✓
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Other agencies consulted

Minister's office to complete

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

Comments

Date returned to MHUD:



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Talking points for the Report Back on the Progressive Home Ownership Fund Cabinet paper

For: Hon Dr Megan Woods, Minister of Housing

Date: 10 December 2019

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Purpose

1. To provide you with talking points for the Social Wellbeing Committee (SWC) on Wednesday 11 December 2019, when your Cabinet paper *Report Back on the Progressive Home Ownership Fund* will be considered.

Background

2. On 6 December 2019 you lodged the Cabinet paper *Report Back on the Progressive Home Ownership Fund* for consideration at SWC on Wednesday 11 December 2019.
3. The Cabinet paper seeks decisions on the targeting, high-level approach and design of the Fund, and the costs associated with establishing, administering and operating it.
4. We have provided you with talking points and further background information (Annex A) and with potential questions and answers (Annex B) to support you at SWC.

Annexes

5. Annex A: Talking points for Cabinet Social Wellbeing Committee
6. Annex B: Questions and answers for Cabinet Social Wellbeing Committee

Annex A: Talking points for Cabinet Social Wellbeing Committee

This paper reports back on the high-level approach and design of the Progressive Home Ownership Fund, and costs associated with the Fund.

The Fund will fill a gap in our demand side support for home ownership. It will be an important tool to assist some people into home ownership who otherwise would not be able to buy a home. It could support between 2,500 and 4,000 households into home ownership. We cannot fix all housing issues through the Fund. It needs to be seen alongside our comprehensive housing work programme.

To most effectively use the Fund, it would target households that would only become home owners with government support in places where housing affordability issues are most severe and where progressive home ownership schemes are effective.

The Fund would prioritise home ownership for priority groups, including Māori, Pacific peoples, and families with children.

To deliver progressive home ownership schemes, I propose I deliver through multiple channels:

- existing providers, starting with an initial pilot by April 2020. This will allow us to deliver at speed, while still providing time to get the settings right.
- delivery through government direct to households, and through working with iwi and Māori organisations. I will report back to Cabinet in May 2020 on the detailed design of these channels.

Budget and fiscal issues are also addressed. The main issue is to provide a one-off exception to the Fiscal Management Approach to allow funding to be returned in 15 years rather than 10 years. This is needed for the scheme to be effective.

Through Budget 2020 I will be seeking \$85 million over the first four years to fund the operating costs of the Fund and will seek to bring forward \$2.5 million to fund the initial pilot.

Annex B: Questions and Answers for Cabinet Social Wellbeing Committee

Question	Answer
Targeting of the Fund	
Who exactly is the Fund going to help?	<p>The Fund will target households that would only become home owners with government support. The cohorts covered are:</p> <ul style="list-style-type: none"> • lower to median income households that are unlikely to buy a home without a reasonable level of financial and non-financial support • at, or above, median income households 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 low deposit mortgage at current house prices.
How many people will the scheme actually help?	I expect around 2,500 and 4,000 will be supported by the Fund. The actual number of households/whānau helped will depend on a number of factors including how much support the household/whānau needs and where they are located.
Do you intend to set quotas for the number of households assisted?	I intend for the Fund to be demand driven, as it can be difficult to predict exactly who and where the actual demand will be. Setting a quota of the number of households to be assisted in each cohort could be detrimental to the effectiveness of the Fund. This means that it is difficult to know the exact amount on average that each recipient may receive.
How will the Fund help priority groups?	<p>The Fund is about addressing affordability. I understand that through their schemes, existing providers are supporting Māori households and Pacific households into home ownership. I do not expect this to change when we pilot the Fund through these providers.</p> <p>The iwi and Māori organisation channel will provide a specific opportunity to address affordability for Māori with aspirations for home ownership.</p> <p>The details for the government direct to households channel are yet to be determined, but might include weighting of particular criteria to support priority groups into home ownership. I will report back on exactly how this would work in May 2020, alongside the detailed design of this channel.</p>
Will this help public housing tenants achieve home ownership independence?	The Fund is targeted at households that would not otherwise be able to buy a home who have the ability to graduate from the scheme within 15 years.

	In some cases, this may include public housing tenants where the household has the potential to graduate to full home ownership.
Does this scheme penalise those who have been saving hard but are ineligible for a scheme?	<p>The Fund is a targeted intervention to assist some people into home ownership who otherwise would not be able to buy a home.</p> <p>The Fund cannot address all housing issues. For this, we have a comprehensive housing work programme in place. KiwiBuild is intended to help those households that have been saving hard to be able to find an affordable home to buy.</p>
If people cannot afford a home right now, how will they graduate from the scheme and pay back the government's share?	<p>For the last decade, there have been a number of providers that have successfully delivered schemes and people have graduated out of these schemes. It is entirely possible for a household, with the necessary support through a scheme, to be able to have a mortgage without support 10 to 15 years down the track as their income grows and as they have paid off their provider's equity share.</p> <p>Preliminary modelling done by officials also shows this is possible.</p> <p>I intend for the Fund to be designed in a way that continues to make this possible for households to progress to full ownership in due course. This includes a one-off exception to the Fiscal Management Approach to allow funding to recycle within 15 years rather than 10 years.</p>
Place-based approach	
How will the Fund target places of greatest need?	<p>To assess and select areas where progressive home ownership is delivered, I will consider a range of factors such as median income levels, lower quartile house prices, the cost of building new homes, and the cost of land.</p> <p>I also expect that as we work with iwi and Māori, a more specific look at places and projects will identify specific areas of Māori housing need that might not be identified at regional, district or urban level.</p>
Are households on \$130,000 the households with the greatest need for progressive home ownership schemes?	In applying a place-based approach, I will tailor any eligibility criteria to ensure that we target people who would not otherwise be able to buy without government support.

	<p>While \$130,000 is potentially the upper limit for support through the Fund, this does not necessarily mean that it will be applied across the country. In areas where affordability is most severe due to high prices, such as Auckland and Queenstown, a household with income of \$130,000 may well need support to be able to afford to buy a home. In other areas, this may be sufficient income to buy without any support.</p>
<p>You note that the Fund may help in urban and some regions but what about smaller regions?</p>	<p>Through the place-based approach, the Fund will prioritise areas with severe housing affordability issues where there is a clear need for progressive home ownership schemes.</p> <p>How granular this approach will be is yet to be developed but could be based on a region, area, city, or town basis. I will report back in more detail on the place-based approach in May 2020.</p>
<p>How does this approach fit with Minister O'Connor's Rural Proofing Policy?</p>	<p>The Progressive Home Ownership Fund will be an important tool for us to assist some people into home ownership who otherwise would not be able to buy a home. However, we cannot fix all housing issues through the Fund.</p> <p>My expectation is that the Fund will prioritise areas with severe housing affordability issues where there is a clear need for progressive home ownership schemes. This is unlikely to be rural areas in most cases.</p>
<p>Allocation of funding</p>	
<p>How much will each recipient receive?</p>	<p>I expect that the amount will vary depending on a household's individual circumstances. For example, a household earning \$85,000 buying a \$540,000 home may need around \$150,000 in support. A household earning \$110,000 buying a \$650,000 home may need \$100,000.</p>
<p>How much funding will be allocated between the different channels?</p>	<p>I intend to put \$45 million towards the initial pilot through providers. The pilot will help us to understand the types of schemes, the demand for schemes and the ability for providers to leverage the Fund to scale up. This will be important for determining how much funding will be allocated towards each channel.</p>
<p>Iwi and Māori channel</p>	
<p>How will progressive home ownership schemes work on Māori freehold land?</p>	<p>Where land is Māori freehold land, third parties, including the Crown, cannot acquire any ownership interests in the land as part of a progressive home ownership scheme. That said, third parties can have ownership interests in a property located on Māori freehold land.</p>

	<p>I have directed my officials to undertake further work to understand how the government shared ownership scheme can be used for Māori freehold land, and to consider any implications for general land returned pursuant to Treaty settlements, both of which are particularly important for the iwi and Māori delivery channel.</p>
<p>How will the iwi and Māori delivery channel work?</p>	<p>This delivery channel will involve working more closely with iwi and Māori organisations to deliver schemes on a project or place basis. I will report back in May 2020 on the details of how this channel will work.</p> <p>These schemes could be bespoke arrangements possibly delivered through partnerships with other providers, or through leveraging the government shared ownership scheme.</p>
<p>Do we not already have relationships with iwi and Māori? Do we not already know what these organisations are doing and where?</p>	<p>We do not already have relationships with iwi and Māori in this specific area. My officials will be engaging with iwi and Māori organisations in relation to the Progressive Home Ownership Fund and on the iwi and Māori delivery channel.</p> <p>I am aware that some iwi and Māori organisations may already have relationships with the government through the Te Ara Mauwhare trials run by Te Puni Kōkiri. This may provide a platform for engaging on the Fund.</p> <p>I have also yet to determine the places or projects in which the iwi and Māori channel will be used. Establishing early relationships with iwi and Māori organisations will help to identify projects or potential projects that could incorporate progressive home ownership schemes through the Fund.</p>
<p>Government direct to households channel</p>	
<p>Why do we need a government direct to households scheme if community housing providers are already successfully offering schemes?</p>	<p>Many provider's schemes are delivered through closer relationships with households who aspire to home ownership. This leaves open a market for a lighter touch scheme that provides the financial support without the bespoke relationships, providing the opportunity for the scheme to be scaled up more easily.</p> <p>In addition, there may also be places where housing affordability is an issue, and where progressive home ownership schemes would be effective, but there are no providers currently in place to deliver schemes in that area. The government scheme would be able to fill this opportunity in the progressive home ownership market as well.</p>

Is there a risk to government if we co-own homes with people?	<p>With co-ownership, the Crown would be jointly responsible for rates, insurance and maintenance. My officials will work through any risks to the government as part of the detailed design of the government direct to households scheme. This includes not only any issues on entry to the scheme, but also any risks that apply for the duration of the scheme and on graduation from the scheme.</p> <p>However, providers are already successfully delivering shared ownership schemes where homes are jointly owned between the provider and the household.</p>
Are you confident that banks will be willing to lend to households in progressive home ownership schemes?	<p>Providers have already established relationships with banks to ensure that the households they assist are also able to get a commercial mortgage alongside their schemes.</p> <p>For the government shared ownership scheme, my officials will engage with banks and other financial institutions to ensure that there is wide awareness of how the direct to households product will work and to ensure that the scheme is designed in a way where banks will be willing offer commercial mortgages to households in the scheme.</p>
How will the Fund interact with KiwiBuild?	Households would be responsible for applying for the scheme as well as acquiring a commercial mortgage and finding a home to purchase, which could be a KiwiBuild home.
Provider channel	
How will you select which providers are involved in the pilot?	<p>The initial focus would be to pilot delivery of progressive home ownership schemes through providers of existing schemes and those able to operate in specific places or with particular groups, such as Māori or Pacific households.</p> <p>Participation in the pilot would be by invitation. With my officials I will develop criteria for selecting which providers are invited into the pilot. At a later stage, officials will establish a panel of progressive home ownership providers so that further funding to providers is allocated through an open process, allowing new providers to access the Fund.</p>
Other	
Will there be interest charged to providers, households, or iwi and Māori organisations?	<p>I do not intend to charge any interest for lending that the government makes to providers as part of the initial pilot.</p> <p>I have yet to make any detailed design decisions for the government shared ownership scheme, on which I will be reporting back to Cabinet in May 2020. This will include whether any interest is charged to households (possibly in the form of an equity charge), whether government will share in any capital gains, or any other similar mechanisms.</p>

<p>Will there be enough supply of new builds given that there is considerable lag before additional new houses are built?</p>	<p>I intend for the Fund to target new supply in the first instance. Part of the intent of the pilot is to better understand whether providers are able to deliver schemes alongside new builds at the pace and scale envisaged by the Fund. I expect that once the Fund is well established, it may help to stimulate supply of affordable housing.</p>
<p>Who will administer the Fund?</p>	<p>For the initial pilot, I expect that the Ministry of Housing and Urban Development will administer the Fund. For the long-term delivery of the Fund, I will be reporting back to Cabinet in May 2020 as part of the detailed design of the remaining delivery channels.</p>