



Briefing

Advice on the detailed design of the full Progressive Home Ownership Fund			
Date:	28 May 2020	Security level:	In Confidence
Priority:	Medium	Report number:	BRF19/20040638

Action sought		
	Action sought	Deadline
Hon Dr Megan Woods Minister of Housing	Agree to the recommendations in this briefing.	4 June 2020
Hon Kris Faafoi Associate Minister of Housing (Public Housing)	For your information.	N/A
Hon Nanaia Mahuta Associate Minister of Housing (Māori Housing)	For your information.	N/A

Contact for discussion			
Name	Position	Telephone	1st contact
Caleb Johnstone	Manager, Market and Supply Responses	s 9(2)(a)	✓
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Other agencies consulted
Te Puni Kōkiri, The Treasury, Kāinga Ora – Homes and Communities, Ministry for Pacific Peoples, Ministry of Social Development, and the Department of the Prime Minister and Cabinet (Policy Advisory Group)

Minister's office to complete

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> Approved <input type="checkbox"/> Needs change <input type="checkbox"/> Not seen by Minister <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Declined <input type="checkbox"/> Referred to (specify) _____	Comments
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Date returned to MHUD:



Briefing

Advice on the detailed design of the full Progressive Home Ownership Fund

For: Hon Dr Megan Woods, Minister of Housing

Date: 28 May 2020

Security level: In Confidence

Priority: Medium

Report number: BRF19/20040638

Purpose

1. To provide you with advice on the detailed design of the full Progressive Home Ownership (PHO) Fund and to seek your agreement to the content of the Cabinet paper for your report back to Cabinet on the PHO Fund.

Executive summary

2. In December 2019, Cabinet agreed to the high-level design of the PHO Fund and invited you to report back on the progress made on the first phase to pilot our approach and the detailed design of the pathways.
3. The PHO Fund aims to increase home ownership opportunities for people who would not have otherwise been able to buy, with a priority to support:
 - a. a range of places with severe housing affordability
 - b. a range of households that are unable to otherwise buy
 - c. the priority groups (including Māori, Pacific people and families with children).
4. Our recommendations for the design of the pathways has been informed by the structure and functions needed to deliver the PHO Fund, our early lessons from the first phase, Te Ara Mauwhare trials, and our engagement with the sector.
5. The PHO Fund will be delivered through three pathways: the provider pathway; the iwi and Māori pathway; and the direct-to-household pathway. All three pathways will take a place-based approach and have broad criteria on the types of homes and eligible households. This will focus the support to the target households in the right places to buy affordable homes.
6. Within the three pathways, we envisage two distinct approaches. The provider pathway and iwi and Māori pathway will take a supported approach, which will include wraparound support for households and a range of different PHO products catering to a wide range of different households. The direct-to-household pathway will take a lighter touch approach, with minimal wraparound support and only using shared ownership, to target those closer to home ownership.
7. There are other key differences between the three pathways beyond the two distinct approaches:
 - a. the iwi and Māori pathway will enable iwi and Māori organisations to access the PHO Fund while still being simple, cost-effective and timely for iwi and Māori. It will deliver a more flexible outcome-based approach, identifying the outcomes organisations wish to deliver, and tailoring the approach to achieve this.

- b. the provider pathway will largely apply the process from the first phase. However, it will be open to new providers through a two-stage procurement process where providers are first pre-approved to a panel before submitting proposals for funding.
 - c. the direct-to-household pathway is essentially a shared ownership product. It will be delivered by Kāinga Ora – Homes and Communities (Kāinga Ora), which will design the operational aspects of the government shared ownership product, aligned with Cabinet’s agreed pathway design. The service provider will seek approval from the Ministers of Housing and Finance for the final design of this product.
8. We intend to develop an Investment Framework to outline the Government’s ongoing strategy for investment in PHO schemes through the PHO Fund. It would be aligned with Cabinet’s direction on the PHO Fund and confirmed by the Chief Executive of the Ministry of Housing and Urban Development (HUD). The Investment Framework would set out how funding decisions will be made, guide decision making across the three pathways and can be published so that these parameters are clear to those working in and with the PHO Fund.
 9. We anticipate that in the first full year (the 2021/22 financial year) between \$50 and \$90 million may be dispersed across the pathways, but the actual amount will depend on the quality and quantity of proposals. We also intend to ensure that each pathway disperses at least \$15 million, noting that this will also depend on there being sufficient demand.
 10. Within this, the funding approach for providers and iwi and Māori organisations should largely follow that which we developed for the first phase. Funding will be delivered under a contractual relationship between the Crown and PHO organisations. Funding will be interest-free and must be repaid, in full, to the Crown within 15 years of each drawdown. Treatment of capital gains can depend on the PHO scheme, for example, shared ownership schemes often share gains in proportion to ownership shares. Where capital gains are kept by a household, this should be allowed, and where they are kept by the PHO provider, these can be retained if used for supporting further households into PHO schemes.
 11. The funding approach for the service provider will depend on whether it will deliver this pathway in its own right, or as an agent of the Crown. We are still working through the implications of each option and aim to provide you with further advice on this when we provide you with a draft Cabinet paper.
 12. Our work has considered how the PHO Fund would operate and who would operate the different functions and what implications this would have for design. We recommend that Kāinga Ora deliver the direct-to-household pathway, while PHO providers and iwi and Māori organisations would deliver PHO schemes under the two other pathways. We also recommend that HUD holds two separate functions:
 - a. the policy function responsible for the overarching policy and the Investment Framework
 - b. the PHO function responsible for contract management, monitoring and assurance to give effect to the PHO Fund.
 13. As the first phase of the PHO Fund, we have been piloting our approach for funding providers of PHO products and we will be providing the Ministers of Finance and Housing with a briefing in June seeking agreement to the loan facilities and terms for each approved provider. We intend to run an internal process-focussed review of the first phase before progressing with further implementation of the provider and iwi and Māori pathways, to ensure we consider any lessons learnt.
 14. We consider that the provider pathway and the iwi and Māori pathway will be open to further organisations in late 2020. This provides enough time to set up the systems, processes and resources to deliver it effectively. For the direct-to-household pathway, we recommend that it be implemented in early 2021 as this pathway requires significant time to design, develop and implement.
 15. We will provide you with a draft Cabinet paper for your consideration in June based on your direction and agreement on the design of the PHO Fund included in this briefing.

Recommended actions

16. The Ministry of Housing and Urban Development recommends that you:

1. **Note** that Cabinet invited you to report back to the Cabinet Social Wellbeing Committee on the progress made on the first phase and the more detailed design of the pathways; *Noted*
2. **Agree** to officials drafting a Cabinet paper for your report back to the Cabinet Social Wellbeing Committee on the basis of your direction and agreement on the design of the PHO Fund; *Agree / Disagree*

Pathway design

3. **Agree** that the common features that will be applied to each pathway be: *Agree / Disagree*
 - 3.1. a place-based approach, with some differences in how this is applied for the iwi and Māori pathway;
 - 3.2. that homes must be easily resaleable (with some flexibility in the iwi and Māori pathway), affordably priced, and preferably new builds;
 - 3.3. that households should generally earn less than \$130,000 (with an exception for multi-generational households), be a first home buyer or second chancer, and be able to buy a home in New Zealand;
4. **Agree** to the features common to the supported pathways that are: *Agree / Disagree*
 - 4.1. delivery of wraparound support;
 - 4.2. a wide range of different PHO products able to be used;
 - 4.3. delivery entirely by the PHO provider, from finding suitable homes to supporting households to graduation;
5. **Agree** that the iwi and Māori pathway applies a more flexible outcome-based approach, identifying the outcomes organisations wish to deliver, and tailoring the approach to achieve this; *Agree / Disagree*
6. **Agree** that the provider pathway largely apply the process from the first phase with the addition of a panel approach that is open to new providers; *Agree / Disagree*
7. **Note** that HUD will run an internal process-focussed review of the first phase before progressing with further implementation of the provider and iwi and Māori pathways; *Noted*
8. **Agree** that the direct-to-household pathway take a lighter touch approach to delivering PHO schemes, targeted towards those closer to home ownership than through the provider and iwi and Māori pathways; *Agree / Disagree*

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| 9. | Note that Cabinet agreed that the direct-to-household pathway will be delivered through a shared ownership product by a service provider; | <i>Noted</i> |
| 10. | Agree that the government shared ownership product be designed by the service provider applying Cabinet's agreed design of the pathway; | <i>Agree / Disagree</i> |
| 11. | Agree that the final design for the government shared ownership product be agreed to by the Ministers of Housing and Finance; | <i>Agree / Disagree</i> |

Objective and priorities of the PHO Fund

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| 12. | Note that the objective of the PHO Fund is to increase opportunities for people to access home ownership who would not have otherwise been able to; | <i>Noted</i> |
| 13. | Note that the PHO Fund has three key priorities to: support a range of places with severe housing affordability, Cohorts A and B, and the priority groups (including Māori, Pacific people and families with children); | <i>Noted</i> |
| 14. | Agree that the objective and priorities of the PHO Fund be set out in an Investment Framework, alongside the allocation of funding across the pathways, and the reporting requirements; | <i>Agree / Disagree</i> |
| 15. | Agree that the Investment Framework be confirmed by the Chief Executive of HUD; | <i>Agree / Disagree</i> |

Funding approach

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|-----|--|-------------------------|
| 16. | Agree that the funding approach largely follow the approach from the first phase in that: | <i>Agree / Disagree</i> |
| | 16.1. loans will be interest free that must be repaid within 15 years of the initial drawdown; | |
| | 16.2. any capital gains that a household would normally receive through the design of a PHO scheme could be kept by the household; | |
| | 16.3. any capital gains that a provider receives can be retained so long as they are used for delivery of PHO schemes to more households; | |
| | 16.4. consideration of whether to make loans will be made under section 65L of the <i>Public Finance Act 1989</i> , which allows the Minister of Finance to lend money to any person or organisation on behalf of departments if it is in the public interest; | |
| 17. | Note that officials anticipate that between \$50 and \$90 million may be dispersed in the first full year (the 2021/22 financial year), but that the actual amount will depend on the quantity and quality of proposals put forward; | <i>Noted</i> |

18. **Agree** that each pathway should disperse at least \$15 million, but this will also depend on there being sufficient demand; *Agree / Disagree*

Roles and functions

19. **Note** that to successfully deliver PHO schemes to households through the PHO Fund, it is important that the different roles and functions are performed by organisations well suited and equipped to perform them; *Noted*

20. **Agree** to the following allocation of functions and roles: *Agree / Disagree*

20.1. the HUD holds two separate functions:

20.1.1. the policy function responsible for the overarching policy and the Investment Framework;

20.1.2. the PHO function, a contract management, monitoring and assurance function that will give effect to the PHO Fund;

20.2. that Kāinga Ora be the service provider for the direct-to-household pathway as the delivery arm of the Government's priorities for housing and urban development;

20.3. that other PHO providers and iwi and Māori organisations deliver PHO schemes under the two other pathways;

Implementation and timing

21. **Agree** that the provider and iwi and Māori pathways be opened up to further organisations in late 2020; *Agree / Disagree*

22. **Agree** that the direct-to-household pathway be implemented in early 2021 to allow more time to design and develop; *Agree / Disagree*



Caleb Johnstone
Manager, Market and Supply Responses

28 / 05 / 2020

Hon Dr Megan Woods
Minister of Housing

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Background

17. As part of the Government Build Reset, Cabinet made available \$400 million for the delivery of PHO schemes through a PHO Fund [CAB-19-MIN-0444 refers]. The PHO Fund is a targeted initiative to increase opportunities for people to access home ownership who would not have otherwise been able to do so.
18. It will support up to 4,000 households into home ownership. Within this, the PHO Fund will have a specific aim to address affordability issues for priority groups (including Māori, Pacific peoples, and families with children) who have an aspiration for home ownership in areas where housing affordability issues are most severe.
19. In December 2019, Cabinet agreed that the Fund would deliver progressive home ownership through different pathways [CAB-19-MIN-0672 refers]:
 - a. through government directly to households
 - b. through providers that offer a range of progressive home ownership schemes
 - c. through working with iwi and Māori organisations to deliver progressive home ownership schemes in particular places and/or projects.
20. Cabinet also agreed that the PHO Fund would take a staged approach with:
 - a. an initial pilot where \$45 million of the Fund would be directed to existing providers of PHO schemes through a limited invitation process in April 2020
 - b. development of relationships with Māori and iwi to deliver PHO schemes intended to be established by July 2020
 - c. development of a government direct-to-household scheme and provider pathway.
21. While Cabinet agreed to some further high-level approach and design issues (including the design principles that would apply to the PHO Fund), Cabinet also agreed that the decisions for the detailed design of the initial pilot be delegated to the Minister of Housing and Minister of Finance and invited you to report back to the Cabinet Social Wellbeing Committee on the:
 - a. progress made on the pilot of the Fund
 - b. more detailed design of the government direct and iwi and Māori pathways.
22. This paper sets out our advice on the detailed design for the full PHO Fund and seeks your agreement to this design. It will be used to draft your Cabinet paper for your report back to the Cabinet Social Wellbeing Committee, including:
 - a. the detailed design of the three pathways: provider pathway, iwi and Māori pathway and the direct-to-household pathway
 - b. the details of the investment framework, which sets out the PHO Fund's objectives and investment intentions
 - c. the roles and functions needed to deliver the PHO Fund and who is best placed to carry out these roles
 - d. progress made on the first phase to pilot our approach
 - e. where relevant, any implications from COVID-19 that may affect the delivery and implementation of the PHO Fund.

Design and process for the three pathways

23. In December 2019, Cabinet agreed that the Fund would deliver progressive home ownership through different pathways:
 - a. through providers that offer a range of PHO schemes (provider pathway)
 - b. through working with iwi and Māori organisations to deliver PHO schemes in particular places and/or projects (iwi and Māori pathway)

- c. through government directly to households (direct-to-household pathway).

Some design elements will be common to all pathways

24. To ensure that the PHO Fund delivers on the high-level intent that Cabinet agreed to in December 2019, we consider that the following elements are essential for all three pathways.

The pathways will take a place-based approach

25. A place-based approach will ensure that support is delivered to places where housing affordability issues are most severe and where PHO schemes can help to address this.
26. The provider and direct-to-household pathways will be informed by the heatmap developed for the first phase, which identified priority places with severe housing affordability issues. We recommend that the initial priority places be those used for the first phase.¹ We will, however, review the priority places regularly to ensure the places selected continue to be appropriate.
27. The iwi and Māori pathway will take a project or place approach by looking more closely at where Māori are facing severe affordability issues. We will work closely with iwi and Māori organisations to identify the projects or places that would be well placed to support Māori whānau into home ownership. We consider this appropriate as Māori whānau needs may not be reflected in a high-level analysis of where severe housing affordability issues are.

Homes suitable for PHO need to be resaleable, affordably priced, and preferably new builds

28. There will be a range of different homes bought through PHO schemes, depending on the scheme type and design used. However, we consider that homes bought should be:
 - a. a home that is easily resaleable – the PHO Fund should ensure households retain some mobility to move if their circumstances change. This is broadly met by supporting households to buy homes that are eligible for a commercial mortgage. However, we note that this may look different in the iwi and Māori pathway, for example where homes are built on multiply-owned Māori freehold land where the land cannot be sold.
 - b. affordably priced – the PHO Fund should help households buy a first home that is affordably priced. We intend to set broad house price caps informed by the first phase, which is testing the appropriateness of the First Home Grant and Loan price caps².
 - c. new builds in the first instance – places where new and existing homes are similarly priced indicates systemic housing affordability issues that could be address by PHO schemes. However, we consider that there should be some flexibility to establish certain circumstances where an existing home could be bought. We note that COVID-19 is likely to affect the supply of new builds, particularly in the short term.

Households should generally earn less than \$130,000 and be an eligible first home buyer

29. As agreed by Cabinet, the target cohorts for the PHO Fund are Cohorts A and B. Those being:
 - a. lower-to-median income households that are unlikely to buy a home without a reasonable level of financial and non-financial support (Cohort A)
 - b. 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

¹ Those being: Auckland; Matamata-Piako District, Hamilton City and Waipa District; Tauranga City and Western Bay of Plenty District; Napier City; Manawatu District and Palmerston North City; Kapiti Coast, Porirua City, Upper Hutt City, Lower Hutt City and Wellington City; Nelson City and Tasman District; Dunedin City; and Queenstown-Lakes District.

² These price caps are broadly consistent with KiwiBuild with the exception some of the higher priced places that have a cap that is \$50,000 higher under First Home Grant and Loan.

insufficient income to service a low deposit mortgage at current house prices (Cohort B).

30. This broadly equates to a household income cap of around \$130,000. However, we recommend retaining flexibility for multigenerational households to exceed this, as provided in the first phase.
31. We will also require that households assisted are able to purchase a home in New Zealand³ and that they do not currently own property in New Zealand or overseas. This will allow for first home buyers and second chancers to get support, aligned with other government support for buying a home. It is worth noting that PHO providers have their own criteria that they will likely apply above and beyond what we intend to set out as a minimum for the overall PHO Fund.

The iwi and Māori pathway and provider pathway will take a supported approach to delivering PHO schemes

32. The iwi and Māori pathway and provider pathway will be able to deliver to both Cohorts A and B. In targeting Cohort A, we consider that these pathways will need to take a more supported approach to delivering PHO schemes and will therefore have some common design elements.

The supported pathways will provide for wraparound support and some funding for it

33. Most providers that target households in these cohorts offer a wide range of wraparound support for households, including financial capability services, discounted utilities deals, and other financial and non-financial support where a household is struggling to remain in the PHO scheme. The wraparound support that providers typically offer are an essential part for supporting their target cohorts and ensuring households successfully graduate.
34. The PHO Fund Budget 2020 initiative has funding for wraparound financial capability services that will help fund providers that offer, or partner to offer, wraparound financial capability services. Funding for these services will be in the form of a grant, and therefore not required to be paid back to the Crown.

There will likely be a wide range of different PHO products used

35. As Cabinet noted in December 2019, the provider pathway will deliver a range of different products, which may include rent-to-buy, shared ownership, leasehold, and deferred settlement schemes. We consider that this is also likely for the iwi and Māori pathway.
36. The actual range of products will be dependent on what providers wish to offer through the PHO Fund. As a result of COVID-19, providers may also choose to change the mix of households they support, or the product they offer, as a way to manage risk. Some providers have indicated a preference for offering rent-to-buy, as opposed to shared equity, in the short term. This may help manage both provider and household risk in more uncertain times.

Providers of the PHO scheme will be responsible for the entire delivery

37. Providers and iwi and Māori organisations will select their own PHO product and will be responsible for the entire delivery. This includes selecting households to finding suitable homes to supporting households through to graduation.

Some design elements will be specific to the iwi and Māori pathway

38. In December 2019, Cabinet noted that the iwi and Māori pathway would enable iwi and Māori organisations to deliver PHO schemes on a project or place basis. This pathway should allow access to the PHO Fund while still being simple, cost effective and timely for iwi and Māori.

³ To buy a home in New Zealand you must be at least 18 years old and be a New Zealand Citizen, Permanent Resident, or Resident Visa Holder who is 'ordinarily resident in New Zealand'.

39. In designing this pathway, we have been, and will continue to be, informed by the experience that Te Puni Kōkiri has in delivering Te Ara Mauwhare. While there are several differences between the PHO Fund and Te Ara Mauwhare, there are also a number of aspects that we have been able to incorporate into the design of this pathway, including working more closely with iwi and Māori organisations to identify the outcomes they wish to achieve, providing flexibility for how schemes are delivered, and the need to connect development opportunities with PHO schemes.
40. HUD have developed the Māori and Iwi Housing Innovation Framework (MAIHI) for action that will support the delivery of the PHO Fund, and particularly the iwi and Māori pathway. MAIHI provides a whānau-focused approach with a woven design around sustainability of whānau, whakapapa, and whenua.

It will use an outcomes-based procurement approach

41. The iwi and Māori pathway will use an outcomes-based procurement approach. This will enable iwi and Māori to work with us, 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. We expect this to include the actions and deliverables associated with achieving these outcomes. It is important to identify the housing aspirations of the whānau and how the rūpū delivering PHO schemes can support the whānau involved to achieve those aspirations.

It will provide greater flexibility for how PHO schemes are delivered

42. We consider that a more flexible approach is needed for the iwi and Māori pathway to enable greater participation and delivery of PHO schemes from iwi and Māori organisations. From our market engagement, there are some iwi and Māori organisations with an aspiration to help whānau but do not have their own PHO product. We anticipate that some iwi or Māori organisations may therefore wish to partner with a PHO provider.
43. This pathway may also deliver PHO schemes that the other pathways may not deliver. For example, PHO schemes to help whānau buy homes on multiply-owned Māori freehold land, or in papakāinga developments. We recommend that this pathway remain open to innovative PHO products so long as they are effective for delivering the outcome sought.

It will create connections to other support and activities related to developments

44. Feedback from iwi, rūpū, and Māori organisations is that the lack of development finance may be a barrier for some iwi and Māori organisations to participate in the PHO Fund. Funding from the PHO Fund is intended to fund whānau into homes, rather than as development finance. Using funding for development finance would increase the risk of not delivering on the PHO Fund's outcomes by effectively taking on development risks.
45. Instead, we intend to connect iwi and Māori organisations with other initiatives that could help get developments up and running as well as potential development partnerships. This may help iwi and Māori organisations bridge the gap of development finance.

The provider pathway will largely apply the process from the first phase

46. We consider that the provider pathway should largely apply the process used for the first phase where we piloted our approach with PHO providers, while considering early lessons learnt.

There will be the addition of a panel procurement approach that is open to new providers

47. Cabinet noted that to establish this pathway, officials would need to set up an open panel of suppliers. This panel would be open to existing PHO providers, but also new providers.
48. An open panel works by pre-approving providers that are considered suitable for funding for PHO schemes. An open panel will reduce the ongoing administrative costs for the PHO Fund, as it will only need to run a procurement process for assessing funding bids with the pre-approved providers.
49. To be pre-approved to join the panel, providers will go through the appropriate due diligence. This will leverage what was included for the first phase's due diligence, which included

looking at the soundness the organisation and whether it had a PHO product developed (which includes new PHO products).

Proposals will be funded through an output-based process

50. This pathway will take an output-based procurement approach for contracting and funding providers to deliver PHO schemes. This will involve contracting for an output, such as the number of households that a provider will deliver the PHO scheme to at an average cost per household. With this output, we would expect there to be improved home ownership opportunities for households located in the priority places.

The direct-to-household pathway will take a lighter touch approach

51. As Cabinet agreed, the direct-to-household pathway will be targeted primarily to Cohort B, households that are closer to home ownership than Cohort A. As a result, the design of this pathway will take a lighter touch approach. In particular, it will:
- a. **only use a government shared ownership product through a tenants-in-common arrangement**, where the capital cost of purchasing the home is shared between the home owner and the government. Shared ownership schemes are typically more suitable for households closer to home ownership than other types of PHO product.
 - b. **be household initiated**, where the household is responsible for finding a house that they wish to buy (within the common criteria for what houses are suitable for the PHO Fund). This will provide an option for those seeking to buy from the private market in a place suitable for them rather than selection from a list of predetermined homes in specific locations.
 - c. **offer minimal wraparound services**, as Cohort B should not need the same level of wraparound support as Cohort A. The minimal wraparound services may include a financial capability component, such as the Sorted Kāinga Ora programme used in Te Ara Mauwhare, and possibly some longer-term support where a household's circumstances change significantly during the period of co-ownership.
 - d. **have light touch relationship between the service provider and household**. The service provider will need to conduct property inspections (where necessary), approve alterations where a building consent is required, check that rates and insurance have been paid, and any other oversight that may be necessary. This will safeguard the responsibilities as co-owner of the property.

The service provider is best placed to design the operational details of the PHO product

52. As with the other pathways, there will need to be a service provider for the delivery of the direct-to-household pathway and the government shared ownership product. This service provider will be responsible for engaging with households, managing the approval process, and oversight of properties bought, among other things.
53. We consider that alongside delivering the direct-to-household pathway, the service provider is best placed to design the operational aspects of the government shared ownership product. The operational design will be aligned with Cabinet's agreed design of the pathway, including those features common to all pathways. We also consider that the operational design should be:
- a. shared ownership through tenants in common
 - b. designed around households graduating from the scheme within 15 years, to align with the capital recycling requirement
 - c. interest-free, but with the flexibility to potential charge some small administrative fees such as an annual administration fee
 - d. designed so that households are responsible for the costs of home ownership, including rates, insurance, and maintenance

- e. designed to have any capital gains, or losses, shared in proportion to the ownership stake with the home owner, with the commercial mortgage counting as part of the home owners share
 - f. available to an individual once only.
54. We recommend that you seek Cabinet's approval for the final decisions of the government shared ownership product to be delegated to the Ministers of Housing and Finance.

Achieving the outcomes and priorities of the PHO Fund

55. The PHO Fund aims to increase opportunities for people to access home ownership who would not have otherwise been able to.
56. Underneath this outcome, we consider that the PHO Fund should have three key priorities to deliver on. These are to deliver:
- a. in a wide range of places where housing affordability issues are most severe and where progressive home ownership schemes can help to address this
 - b. to households in both Cohorts A and B
 - c. for priority groups (including Māori, Pacific peoples, and families with children) who have an aspiration for home ownership in areas where housing affordability is an issue.

How these priorities will be achieved will depend on the pathway

57. The way in which each of these priorities will be delivered on will vary depending on the approach of each pathway.
58. For the provider and iwi and Māori pathways, the places where PHO schemes are delivered will depend on where organisations operate. These pathways may not have full coverage of the priority places identified for delivery of PHO schemes due to where they operate PHO schemes. However, the direct-to-households pathway will not be restricted by where organisations choose to operate. It will instead be open across all priority places.
59. The pathways will deliver two distinctive forms of support that will be complementary in supporting a range of households in Cohorts A and B. The provider pathway and iwi and Māori pathway will support households in both Cohorts A and B. This is complementary to the direct-to-household pathway, which will only support households in Cohort B that want to select a house of their choice and do not need the same level of wraparound support. This will ensure that a range of households in both Cohorts A and B are supported.
60. Across all of the pathways, we expect that PHO schemes will deliver with a focus on the priority groups (including Māori, Pacific peoples, and families with children). We will expect that under all three pathways, those delivering PHO schemes will need to clearly demonstrate how they will support priority groups. We know through information gathered as part of our market engagement that existing providers already deliver to many Māori whānau and Pacific households and expect this to continue through the provider pathway. The iwi and Māori pathway, will however, have an explicit focus to support Māori whānau into home ownership. The direct-to-household pathway will also focus to support priorities groups.
61. For Pacific peoples, we will explore what opportunities are available for the PHO Fund to support and be supported by the Budget 2020 initiative, Improving Housing for Pacific Families and Communities. This is a new initiative, administered by the Ministry for Pacific Peoples (MPP), that will investment \$41.315m over a four-year period to improve housing for Pacific peoples across the continuum. It will fund:
- a. financial literacy services so that Pacific families are able to cope with significant economic shocks
 - b. Pacific organisations to partner and build more homes for Pacific families and creating more employment opportunities required to build the homes

- c. more Pacific organisations to be able to deliver housing to Pacific families and communities
- d. exploration of opportunities outside of metropolitan cities for Pacific peoples to create their own success.

We consider that the primary outcome and priorities should be set out in an Investment Framework to guide investment decisions

62. An investment framework would outline the Government’s ongoing strategy for investment in progressive home ownership schemes through the PHO Fund. It would set out how funding decisions are made by the PHO Function and guide decision making of those delivering PHO schemes across all three pathways. This will help to ensure that there is a coordinated approach that is consistent in the way it achieves the desired outcome of the PHO Fund. The Investment Framework will include the:
- a. priorities for the PHO Fund, as described above
 - b. application of the design principles⁴ that guide our design of the PHO Fund
 - c. eligibility aspects that are common across the pathways, those being the place-based approach, restriction of the types of houses and the broad household eligibility criteria
 - d. approach for how funding is handled, including expectations around fund management, how funding will be staged, and the approach for allocating across the pathways
 - e. reporting regime, including requirements to track progress towards the outcome and priorities of the PHO Fund.
63. The Investment Framework would be confirmed by the Chief Executive of HUD and published so that it would set out how funding decisions will be made to providers, iwi and Māori organisations, the service provider, and households. It would also guide decision making made by the service provider in its approach to selecting households.

Roles and functions of the PHO Fund

There are several roles and functions needed to deliver the PHO Fund

64. There are several different roles and functions that need to be in place for the PHO Fund to operate. The roles and functions vary considerably, from substantive policy roles to operational roles to the delivery of PHO schemes. To successfully deliver PHO schemes to households through the PHO Fund, it is important that the different roles and functions are performed by organisations well suited and equipped to perform them.

There needs to be an ongoing policy function for the lifetime of the PHO Fund

65. HUD’s Housing and Urban Settings Group is performing the initial policy functions for the PHO Fund. Beyond the initial establishment of the PHO Fund, there will be ongoing policy functions to monitor and evaluate the PHO programme, and to set and review the PHO Investment Framework, as needed.

We recommend that HUD continues its role as the policy function

66. We recommend that HUD continues to undertake these functions beyond the establishment of the PHO Fund. HUD is already undertaking these functions, minimising any administrative costs that would be incurred by transferring responsibility. In addition, policy for the PHO Fund sits within HUD’s responsibility for strategy, policy, funding, monitoring and regulation of the housing and urban development system.

⁴ These are the principles of additionality, graduation, administrative simplicity, cost effectiveness, and place-based.

The PHO function will have several roles to give effect to the PHO Fund

67. The PHO Fund will need a PHO function to give effect to the policy. This will be a contract management, monitoring and assurance function that will:
- a. hold relationships with the sector and interested groups, including with iwi and Māori groups, Pacific peoples, PHO providers, and the direct-to-household service provider
 - b. enter into arrangements with providers (including iwi and Māori providers) to deliver their PHO schemes (the supported approach) through a procurement process, and with the service provider for the direct scheme (the direct approach)
 - c. determine the levels of funding allocated to (and within) the different pathways, in accordance with the investment framework
 - d. manage and monitor the contracts
 - e. report on the performance of the allocated funding and provide assurance that PHO Fund priorities are being met.

We consider that HUD is also best placed to lead this role

68. We recommend that HUD should also perform this role. HUD already performs a similar function for public housing. Adding the PHO function to its responsibilities will therefore be complementary to its existing functions. It also has the right skillset to be the PHO function as it has:
- a. good relationship management skills as it already has established relationships with public housing providers, some developers, and some iwi and Māori groups
 - b. expertise in procurement, funding, managing and monitoring contracts, and operational policy regarding the provision of funding for the delivery of public housing.
69. Keeping this role within HUD will also allow for better coordination across the various part of HUD involved in the PHO Fund. We also consider that for consistency across the PHO Fund, it should be delivered by a single agency, rather than separating out parts of the PHO Fund. HUD will however be expected to engage with other agencies. In particular, given the priorities of the PHO Fund, we consider that HUD should engage regularly with Te Puni Kōkiri and MPP.
70. HUD performing this role will also keep investment decisions separate from all potential recipients of funding for PHO schemes. HUD will not be involved in the delivery of PHO schemes to households through the PHO Fund.
71. HUD will need to build its capability and capacity to perform this role. Funding for administrative and establishment costs has been secured through Budget 2020. However, some of this funding is needed for funding the service provider (detailed in the next section). We will be undertaking further analysis to identify how this funding will be split between the two functions.

We considered Kāinga Ora but do not recommend it to lead the PHO function

72. While we considered whether Kāinga Ora could perform this function, this is not our recommended approach.
73. While performing the PHO function for the PHO Fund would be consistent with Kāinga Ora's mandate and it has experience making investment decisions, Kāinga Ora is our preferred option for the service provider of the direct-to-household pathway (as described in the next section). The PHO function will make decisions about how much funding is provided to each pathway, including to the service provider for the direct-to-household scheme. To avoid any perception of a conflict of interest in making those funding decisions, it is important to separate the role of funder and provider (recipient).
74. It would also lose the benefit of this function being within HUD, removing the ability to make easier connections between the different parts of HUD that will have ongoing involvement in the PHO Fund.

HUD will be required to collect data on the performance of the PHO Fund

75. The performance of the PHO Fund will be tracked to ensure it delivers on its priorities. To effectively track the performance, this will require that the PHO function collect data from those it funds to assess the delivery against the priorities. The requirements for reporting will be set out in the Investment Framework and likely to include reporting on:
- a. how many households have been assisted or have registered interest, which should be broken down by region, priority groups, and cohorts
 - b. how many homes are completed and ready for purchase, and how many homes are in the pipeline and when will they be completed (including a regional breakdown)
 - c. progress that households have made towards graduating from their respective PHO schemes, including repayments or complete sale of the home
 - d. the size of the equity gain made by providers and the details of where this gain has been reinvested into PHO schemes
 - e. the cost of delivery of different PHO schemes
 - f. whether any households have defaulted and graduated from the scheme.
76. Over time, we may need to make changes to how the PHO Fund operates to ensure it continue to deliver on the outcomes sought. Any changes made will be informed by our monitoring and evaluation, be aligned with our place-based approach, and consistent with MAIHI. HUD will proactively work with Te Puni Kōkiri, MPP, and the Ministry of Social Development to get regional intelligence that can inform this approach.

The direct-to-household pathway will need a service provider to deliver the government shared ownership product

77. There will need to be a service provider for the delivery of the direct-to-household pathway. The service provider is a delivery role that will deliver the government shared ownership product, and the role will involve:
- a. engaging directly with prospective households
 - b. managing the application and approval processes
 - c. managing the ongoing relationships with the households
 - d. providing ongoing oversight of the property.
78. As the service provider is delivering on behalf of the Crown, it will also have monitoring and accountability responsibilities. It would need to have a close relationship with HUD in its role as Policy and PHO functions.
79. There are two potential options for who could be the service provider:
- a. Kāinga Ora
 - b. an existing PHO provider

We recommend that Kāinga Ora carry out this role

80. We recommend that this role be carried out by Kāinga Ora. Kāinga Ora is the delivery arm for the Government's priorities for housing and urban development. It currently performs complementary roles and functions in relation to managing and approving government home ownership products, and would align with providing a one stop shop for government assistance. It will also soon deliver and manage the Residential Earthquake Prone Building Financial Assistance Scheme. Kāinga Ora is also well placed to work closely with HUD as the policy and PHO function.
81. Kāinga Ora also has experience owning and managing a property portfolio, and with property maintenance, for its over 63,000 public housing places. This experience would need to be transferred to the lighter touch approach and different investment outlook that will be taken for the direct-to-household pathway, which will take some resource. Kāinga Ora would be

monitoring shared ownership properties to ensure its ownership share is safeguarded, which would be lighter touch than as a landlord of public housing properties.

82. If Kāinga Ora provided the direct scheme, it would need to build additional capability and/or outsource functions that it does not currently have. This includes capability around delivering a PHO product and knowledge of how to safeguard shared ownership investments. We expect that Kāinga Ora would assess existing capability in the market and whether it would be efficient or effective to outsource any capability and/or contract in that expertise.
83. Funding for establishment and administrative costs have been secured as part of Budget 2020. As mentioned earlier, we will be doing further analysis to identify how this funding should be split between Kāinga Ora as service provider, and HUD as the PHO function. This may include looking at whether any existing appropriations can be leveraged.

We also considered existing PHO providers, but do not recommend this approach

84. We also considered whether an existing PHO provider should perform this role. Multiple PHO providers currently perform this role for their own products and therefore have the capability for all functions required.
85. There are no existing PHO provider delivering to households in the volumes that we expect are likely for the direct scheme. Unlike Kāinga Ora, PHO providers do not have a national presence and therefore would also need to expand capability to deliver in each of the priority places.
86. In addition, we anticipate the direct-to-household scheme will target households that do not need wraparound support, whereas most PHO providers currently target those that need greater support. This may require a change in the approach that many existing provider already take.
87. Providers will also be involved in the provider pathway, and possibly the iwi and Māori pathway through partnerships with iwi and Māori organisations. s 9(2)(g)(i)
88. If a provider were able to commit the time and resources, they still may not wish to co-own a significant number of homes through the direct-to-household pathway. Co-owning homes comes with several risks and responsibilities. If this were the case, there would be considerable time and cost to the government in setting up and administering a Crown holding company for the funding allocated to the direct-to-household pathway and to hold the Crown's ownership interests.
89. Given these factors, we do not recommend that an existing provider take on the role of the direct-to-household service provider.

Interaction with other government home ownership products

The PHO Fund will be complementary to other government support products where possible

90. The PHO Fund is an important and complementary tool that fills a gap in the government's demand-side interventions. However, we consider it equally important that the PHO Fund is designed to be complementary to the existing demand- and supply-side interventions, particularly those administered by Kāinga Ora.
91. Regarding the First Home Loan and Grant, our recommended design will broadly enable most households to access these products where needed. While PHO schemes will help those that have an insufficient deposit, we consider that the First Home Grant is still important to support households with their deposit. Households are less likely to need First Home Loan shared ownership schemes but may still be important for helping households access commercial mortgages under other types of PHO products.

92. Tenant Home Ownership is a programme run by Kāinga Ora where it makes state houses available for purchase to existing tenants, although not all properties are available under this programme. While these will be existing homes, as the programme is aimed at existing tenants, the effects of increasing demand for existing houses is likely to be minimal. Where home being bought is located in one of the priority places, we consider that the direct-to-household pathway should enable Kāinga Ora tenants to buy the house they live in through this programme.
93. The KiwiBuild programme and Axis Series homes are complementary to the PHO Fund in that they are delivering affordably priced new builds for sale to first home buyers (and second chancers). Given this complementarity, we consider that through the direct-to-household pathway, households should be allowed to choose a KiwiBuild or Axis series home if it is the right home for them. This will also ensure that households have as wide a range of options for finding a new build as possible.
94. For KiwiBuild, this will require Cabinet to agree to allow Kāinga Ora, either as agent of the Crown or in its own right, to purchase KiwiBuild homes alongside an eligible buyer. At present Cabinet have only agreed that KiwiBuild homes be bought by either an eligible buyer, or by a charitable or not-for-profit organisation, iwi, or Community Housing Provider as a PHO scheme provider. This does not include Kāinga Ora purchasing KiwiBuild homes, with a household, through the direct-to-household pathway. For the Axis Series homes, this will only require joint agreement from the Ministers of Housing and Finance to adjust the eligibility criteria.
95. We also intend to further explore opportunities with Kāinga Ora and Land for Housing for how the Government's supply initiatives could interact with the PHO Fund across the three pathways. This includes Crown led developments and how the PHO Fund may be one way to help existing households remain in areas of urban regeneration and provide opportunities for people in the current communities to enter into ownership of affordable housing.
96. This will likely involve active partnerships between the Crown, PHO providers, iwi, Māori ropu, and other groups. In these instances, the PHO providers would actively work with the community and prospective home owners to get them ready for shared equity, rent-to-buy or leasehold arrangements. It could also see people accessing the direct-to-household pathway to buy homes within other parts of the Crown led development.
97. Te Puni Kōkiri will be running Te Ara Mauwhare trials through 2020/21, but not as an ongoing product. Rōpū involved in those trials, and others who are currently supported through Māori Housing Network programmes (papakāinga development, infrastructure support, and Sorted Kāinga Ora), may wish to be involved in any of the three PHO pathways. HUD and Te Puni Kōkiri will explore opportunities for how the Te Puni Kōkiri programmes could interact with the PHO Fund across the three pathways, particularly for papakāinga developments of around ten homes.

Funding and allocation approach

The funding approach for the provider pathway and iwi and Māori pathway will largely follow that which we developed for the first phase

98. Funding to providers, iwi and Māori organisations will be delivered under a contractual relationship between the organisations and the Crown. Consideration of whether to make loans will be made under section 65L of the *Public Finance Act*, which allows the Minister of Finance to lend money to any person or organisation on behalf of departments if it is in the public interest.
99. Funding will be interest free loans that must be repaid, in full, to the Crown within 15 years of each drawdown. Within the 15-year period, contracted organisations will have the flexibility, where households graduate early, to either recycle the loan to assist an additional household into home ownership, or otherwise return the money to the Crown. Funding will still need to be returned within 15 years of the original drawdown, so any recycling would be reliant on

early graduation from households to ensure that the provider can graduate multiple households within 15 years.

100. Compared to the first phase, the full PHO Fund will make more loans to more organisations

s 9(2)(f)(iv)

101. We will also not require contracted organisations to pass on any capital gains they may make to the Crown. However, we will require that any capital gains are reinvested into the delivery of PHO schemes to more households. The amount of capital gains a provider may receive will depend on the scheme type, as the gains can be shared with households particularly under shared ownership schemes where gains are shared in proportion to ownership stakes. Given this, we consider that households should keep any capital gains.

Funding will be staged for the delivery of PHO schemes

102. The PHO Fund is a demand-side initiative that funds the delivery of PHO schemes. It is not intended to be a supply-side initiative and therefore would not provide development finance or contributions towards land purchases.

103. That said, we have heard through our stakeholder engagement that it is essential that funding be staged to ensure that homes can be secured for households to purchase with PHO schemes. This means that funding may be staged at certain milestones in the delivery of the homes for households. We will, however, require that any organisations receiving funding have a high level of certainty of the households that they will deliver to and that they have evidenced demand in the pipeline, to ensure that homes are in the right place, at the right price.

s 9(2)(f)(iv)

We will clearly set out the allocation across the three pathways in the Investment Framework

106. We recommend that each pathway have a set minimum for how much funding should be delivered each year. This will provide greater certainty to those involved in each pathway of how much funding will be available, while still allowing some flexibility to adjust based on the level of demand in a given year.
107. For the first year (the 2021/22 financial year), we anticipate that between \$50 and \$90 million may be dispersed. However, as the PHO Fund is demand driven, the actual size of funding sought will depend on the quantity and quality of proposals put forward by providers and iwi and Māori organisations.
108. We also consider that each pathway should disperse at least \$15 million, while the actual amount will depend on the demand seen for each pathway. Providing a minimum is important to ensure that funding is dispersed through each pathway and that there is sufficient funding going to each pathway to warrant the cost of establishment.

109. For outyears, we will base allocation decisions on the anticipated demand for each pathway, giving consideration to the priorities of the PHO Fund. We expect to get better information of the demand across the pathways during the first year of the PHO Fund and will set out the allocation for the entire PHO Fund during 2021/22.

Timing and implementation

110. In December 2019, Cabinet agreed that the PHO Fund would take a staged approach with:
- a. an initial pilot where \$45 million of the Fund would be directed to existing providers of progressive home ownership schemes through a limited invitation process in April 2020
 - b. development of relationships with Māori and iwi to deliver progressive home ownership schemes intended to be established by July 2020
 - c. development of a government direct to household scheme and provider pathway.
111. As we noted in “Implications for Progressive Home Ownership Fund from Covid-19” [BRF19/20040606 refers], we have continued to work on the design of all proposed PHO pathways, however COVID-19 affected our timing for reporting to you and to Cabinet. We provide our updated timing for implementation of the different pathways below.

The provider and iwi and Māori pathway will be open to further organisations in late 2020

112. Following Cabinet agreement to the roles and functions of the PHO Fund, we consider that the provider pathway and iwi and Māori pathway could be opened up to further organisations in late 2020. This would provide time for the PHO function to hire staff, to setup the operational systems and processes, and develop the appropriate documentation and resources needed to deliver these pathways.
113. We expect that that providers from the first phase could be transitioned to the full provider pathway or iwi and Māori pathway, depending on meeting any additional due diligence that we may require. There are also several organisations that may be interested in participating that were not in the first phase that may be of significant benefit to the Fund, including organisations that we are not aware of yet, who will need to go through the full due diligence.
114. We consider that it is important that these two pathways are implemented together as both are applying the supported approach to the PHO Fund, with some similarities in approach. It will also provide clarity to iwi and Māori organisations about which pathway would be best for them before seeking funding and not delay iwi and Māori organisations from getting funding any later than other providers.
115. Once implemented, we expect that new providers, and iwi and Māori organisations will submit proposals for funding from the PHO Fund. Providers involved in the first phase will also be able to propose further opportunities at this time. The PHO function will then assess these proposals before recommending successful proposals for funding to the Ministers of Housing and Finance.
116. While we have engaged with some providers while piloting our approach through the first phase, there are likely to be several other organisations interested in the PHO Fund. We will apply a consistent and standard approach within and across the pathways to ensure interested organisations understand the expectations of each pathway, so they are able to determine which pathways they might best operate within.

We consider that the direct-to-household pathway will following the other pathways

117. For the direct-to-household pathway, we recommend that it should be implemented in early 2021. We will engage with the service provider, whether it be Kāinga Ora or an existing PHO provider, on the exact timing of its launch.

118. This pathway requires significantly more lead in time and resource to design, develop and implement than the two other pathways. This includes, at a minimum:
- a. development of the shared ownership product itself
 - b. setting up the necessary arrangements (including the funding) with the service provider, and the associated monitoring
 - c. ensuring the service provider has the capacity and capability in place to offer that service, which includes the necessary operational policy, processes, systems and documentation.
119. Working towards an implementation date of late this year or early next will ensure that this work has the necessary priority (noting it will need to be managed alongside other priorities emerging from COVID-19), that there is enough time to design and develop the pathway correctly, and that it is then ready to go when you choose to launch it.

Progress made on the first phase to pilot our approach

120. We have made progress on the first phase of the PHO Fund to pilot our approach to funding PHO providers. We are currently assessing proposals from invited providers and negotiating the terms of some proposals. We will be providing the Ministers of Finance and Housing with a briefing seeking agreement to the loan facilities and terms for the initial providers in June 2020.
121. We also intend to run an internal process-focussed review of the first phase before progressing with further implementation of the provider and iwi and Māori pathways, to ensure that we take into account any lessons learnt.

Risks

122. We cannot be certain about the level of demand for a shared ownership product that may be delivered through the direct-to-household pathway. We understand that there may be greater demand for a rent-to-buy product in the short-term. We are looking at more than just short-term reactions to COVID-19 for the design of the PHO Fund, as it could play an important part of the recovery from COVID-19's effects.
123. We are not proposing to change the shared ownership approach to the direct-to-household pathway and consider that it will still remain a preferable choice for the direct-to-household pathway, given the target cohort. It is difficult, however, to predict what the demand for a shared ownership product may look like. That said, rent-to-buy products will be available through the first phase, and later through the provider pathway once implemented.
124. We recently conducted a survey of renters as part of our customer research. The survey showed that while there are fewer people actively looking to buy than before COVID-19 – mostly for economic reasons – around 36 per cent of renters are still seriously considering buying a home as soon as they can, indicating that there will likely still be demand for PHO schemes through the COVID-19 recovery. We are also about to undertake targeted customer research to better understand how the PHO Fund can support households.

Consultation

125. We have consulted with Te Puni Kōkiri, The Treasury, Kāinga Ora, MPP, Ministry of Social Development, and the Department of the Prime Minister and Cabinet (Policy Advisory Group) on the development of this paper.

Next steps

126. We will draft the Cabinet paper in early June based on your direction and agreement on the detailed design of the PHO Fund in this briefing. We intend to provide you with a draft Cabinet paper in time to be considered by the Cabinet Social Wellbeing Committee on 24 June 2020. As an alternative, the Cabinet Social Wellbeing Committee could consider the

paper on 1 July 2020. Any later than 1 July would mean that the paper would not be considered until late July.

127. Regarding the progress on the first phase, we will be providing the Ministers of Finance and Housing with a briefing seeking agreement to the loan facilities and terms for the initial pilot providers in June 2020.