



Briefing

Design of the Progressive Home Ownership Pilot

Date:	20 February 2020	Security level:	In Confidence
Priority:	Medium	Report number:	BRF19/20010538

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to the recommendations on the design of the Progressive Home Ownership Pilot.	27 February 2019
Hon Dr Megan Woods Minister of Housing	Agree to the recommendations on the design of the Progressive Home Ownership Pilot.	27 February 2019

Contact for discussion

Name	Position	Telephone	1 st contact
Caleb Johnstone	Manager, Market and Supply Responses	s 9(2)(a)	✓
Ross Taylor	Policy Advisor, Market and Supply Responses	04 832 2454	

Other agencies consulted

The Treasury, Te Puni Kōkiri, Ministry for Pacific Peoples, Kāinga Ora – Homes and Communities, and the Department of the Prime Minister and Cabinet

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:



Briefing

Design of the Progressive Home Ownership Pilot

For: Hon Grant Robertson, Minister of Finance
Hon Dr Megan Woods, Minister of Housing

Date: 20 February 2020

Security level: In Confidence

Priority: Medium

Report number: BRF19/20010538

Purpose

1. This briefing sets out and seeks your joint agreement to the key design elements of the Progressive Home Ownership Pilot.

Executive summary

2. Cabinet made available \$400 million for the delivery of progressive home ownership schemes through a Progressive Home Ownership Fund (the Fund). The first stage of the Fund is an initial pilot of \$45 million, which aims to support up to 300 households. The pilot will set the foundations for the full implementation of the Fund by enabling us to get early lessons to inform the final design and settings.
3. As agreed by Cabinet, the pilot will be delivered through providers (including iwi and Māori providers) of existing schemes identified through a limited invitation process.
4. To ensure that providers are well-placed to deliver their progressive home ownership schemes, we intend to invite providers that are well placed to deliver in the timeframes, have sufficient size and scale, have access to developments, and operate (or are able to) in places selected for the pilot.
5. We do note however, that when selecting iwi and Māori providers, we will work with them separately on the places that those providers will deliver to. This reflects that places that have severe housing affordability needs for Māori may not be identified through our broader place-based approach.
6. Providers that meet the above characteristics and confirm interest in participating, will go through the appropriate due diligence. We also intend to assess their proposals against an objective framework to ensure each proposal is appropriate for funding.
7. Providers included in the pilot will be able to put forward proposals to offer their schemes through two pathways:
 - a. a supported pathway with a range of wraparound support services and where providers (including iwi and Māori providers) will match households to houses. This pathway will support both Cohorts A and B.
 - b. a direct to households pathway where a household can find a home it wishes to buy, and then approach a provider for help buy that home. This pathway will aim to support Cohort B.

8. Through dialogue with providers about the pilot we will test their willingness to provide a direct to households pathway. As this will lead to a change in model for these providers, increasing operating costs, we may not receive any proposals for this pathway.
9. We also recommend that some parameters are set for the provision of PHO schemes in the pilot:
 - a. Income caps: to ensure that support under the supported pathway is directed to the Government's target cohorts, we recommend setting a household income cap of \$130,000 before tax. Under the direct pathway, we recommend more detailed selection criteria that includes the income cap above but also a range of other factors that will be as consistent as possible with other government products.
 - b. House price caps: we will also test the applicability of using the price caps for First Home Loans and Grants and KiwiBuild for progressive home ownership schemes during the limited invitation process to ensure that homes bought are affordably priced.
 - c. Multigenerational households: We recommend that providers have flexibility to help multigenerational households that exceed the income cap and any house price caps as they may require a larger income to afford a larger home that is fit for purpose.
10. In applying a place-based approach, the pilot will focus on places where housing affordability issues are most severe and where progressive home ownership schemes can best help to address this. We identified the below places to be the highest and medium priority for the pilot.
 - a. Highest priority: Auckland; Matamata-Piako, Hamilton and Waipa District; Tauranga City and Western Bay of Plenty; Napier City; Kapiti Coast, Porirua City, Upper Hutt City, Hutt City and Wellington City; Dunedin City; and Queenstown-Lakes District.
 - b. Medium priority: Manawatu District and Palmerston North; Carterton District and South Wairarapa District; Nelson City and Tasman District; Whangarei District; and Hastings District.
11. So that we do not stretch the ability of providers to deliver, we recommend that the pilot only target the places identified as highest priority. However, if you wish for a wider selection, we recommend including no more than the highest and medium priority places.
12. As agreed by Cabinet, the pilot 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. We consider that there are both Māori whānau and Pacific households that could be eligible for progressive home ownership schemes in the places we have identified.
13. The pilot will deliver interest free loans to providers that are repayable with 15 years of the loan drawdown. Providers may acquire capital gains through the design of their progressive home ownership scheme. We recommend that providers can retain any capital gains, but with the expectation that these gains are used for further progressive home ownership schemes.
14. As HUD does not have any expressly authorised statute for lending money, we recommend that you agree to the Minister of Finance considering each of the pilot's provider loan facilities under section 65L of the Public Finance Act 1989. We will provide the Ministers of Finance and Housing with advice and recommendations on whether to establish each of the pilot's provider loan facilities, lend to each provider, and delegate authority to lend. This will include assessment of whether making the loans meets the public interest test.
15. If you agree to the design details in this paper, we will begin to establish the pilot. This will involve inviting providers to participate in early March with the aim to have proposals ready for funding in April 2020.

Recommended actions

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

1. **Note** that the purpose of the pilot is to set the foundations for the full implementation of the Fund; *Noted*

Pilot approach

2. **Note** that in December 2019 Cabinet agreed that the pilot would be delivered through providers of existing schemes in a limited invitation process; *Noted*

3. **Note** that it is important that providers invited to participate are well-placed to deliver within the pilot's timeframes and therefore providers should: *Noted*

- 3.1. be ready to go with an existing scheme in place and evidence of the ability to deliver;
- 3.2. have the size and scale required for delivering progressive home ownership schemes;
- 3.3. have access to developments that could be available for home buyers using progressive home ownership schemes in places selected for the pilot;
- 3.4. already operate, or have an ability to operate, in the places selected for the pilot as agreed in recommendation 14.

4. **Note** that for iwi and Māori providers, we intend to apply only recommendations 3.1 through 3.3 when taking into consideration that Māori need may not be reflected in a district level analysis of severe housing affordability issues. *Noted*

5. **Note** that HUD will carry out due diligence assessments on invited providers to ensure that providers are financially sound and have the necessary capacity and capability to deliver progressive home ownership schemes throughout the lifetime of the pilot contract; *Noted*

6. **Note** that HUD intends to assess proposals using the following criteria: *Noted*

- 6.1. value for money;
- 6.2. alignment towards priority groups;
- 6.3. project viability and readiness.

Pathways

7. **Agree** that the pilot be delivered through both a supported pathway and a direct to household pathway; *Agree / Disagree*

- | | | |
|-----|--|-------------------------|
| 8. | Note that there will be a preference for new supply in the first instance, but with flexibility for providers to use existing homes in limited circumstances; | <i>Noted</i> |
| 9. | Note that we will test the applicability of the price caps for First Home Loans and Grants and KiwiBuild for progressive home ownership schemes during the limited invitation process; | <i>Noted</i> |
| 10. | Agree that under the pilot's supported pathway, providers have flexibility for households that they select, but that households do not have household income exceeding \$130,000; | <i>Agree / Disagree</i> |
| 11. | Agree that the income cap and house price cap can be exceeded for multigenerational households in a scheme as they may require a larger income to afford a larger home that is fit for purpose; | <i>Agree / Disagree</i> |
| 12. | Agree that the direct pathway use criteria that are as consistent as possible with other government products; | <i>Agree / Disagree</i> |

Placed-based approach

- | | | |
|-----|---|-------------------------|
| 13. | Note that the pilot will: | <i>Noted</i> |
| | 13.1. focus on places where housing affordability issues are most severe and where progressive home ownership schemes can best help to address this; | |
| | 13.2. need to involve a limited number of places to not stretch the ability of providers to deliver the pilot; | |
| 14. | Agree that the places selected for the pilot: | |
| | 14.1. Highest priority: Auckland; Matamata-Piako, Hamilton and Waipa District; Tauranga City and Western Bay of Plenty; Napier City; Kapiti Coast, Porirua City, Upper Hutt City, Hutt City and Wellington City; Dunedin City; and Queenstown-Lakes District. | <i>Agree / Disagree</i> |

AND/OR

- | | | |
|-----|---|-------------------------|
| | 14.2. Medium priority: Manawatu District and Palmerston North; Carterton District and South Wairarapa District; Nelson City and Tasman District; Whangarei District; and Hastings District. | <i>Agree / Disagree</i> |
| 15. | Note that there are Māori households and Pacific households that could be eligible for progressive home ownership schemes delivered in the highest priority places; | <i>Noted</i> |

Funding mechanisms

- | | | |
|-----|---|-------------------------|
| 16. | Note that funding to providers will be interest free loans that are repayable within 15 years of the loan drawdown; | <i>Noted</i> |
| 17. | Agree to not require that providers return any capital gains received through the delivery of progressive home ownership | <i>Agree / Disagree</i> |

schemes but that there be an expectation that these be used for further progressive home ownership schemes;

18. **Note** that Section 65K of the Public Finance Act 1989 prohibits departments from lending money, except as expressly authorised by statute; *Noted*
19. **Note** that section 65L of the Public Finance Act 1989 allows the Minister of Finance to lend money to any person or organisation on behalf of departments if it is in the public interest; *Noted*
20. **Agree** that the Minister of Finance will consider establishing each of the pilot's provider loan facilities under section 65L of the Public Finance Act 1989; *Agree / Disagree*
21. **Note** that HUD will provide the Ministers of Finance and Housing with further advice and recommendations to establish each of the pilot's provider loan facilities, whether to lend to each provider, and whether to delegate authority to lend; *Noted*
22. **Note** that HUD will perform a self-assessment of its skill to track and trace loans to providers and that the quality of decisions made by HUD are sound; *Noted*
23. **Agree** to establish the following new multi-year appropriation, to run from 1 April 2020 to 30 June 2025: *Agree / Disagree*

Vote	Appropriation Minister	Title	Type	Scope
Vote Housing and Urban Development	Minister of Housing	Fair value write down of Progressive Home Ownership Loans	Non-Departmental Other Expense	This appropriation is limited to the expense incurred in the fair-value write down of interest-free loans from the Progressive Home Ownership Fund to suppliers of schemes.

24. **Approve** the following change to appropriations to give effect to the policy decision in recommendation 16 above, with a corresponding impact on the operating balance and/or debt: *Approve / Not Approve*

	\$m – increase/(decrease)	
	2019/20 to 2023/24	2024/25 and outyears
Vote Housing and Urban Development Minister of Housing		
Non-Departmental Other Expense		
Fair value write down of Progressive Home Ownership Loans (funded by revenue Crown)	31.360	-

25. **Note** the indicative spending for the new multi-year appropriation described in the recommendation 24 above are:

Noted

	\$m – increase/(decrease)				
Indicative annual spending profile	2019/20	2020/21	2021/22	2022/23	2023/24 and outyears
Non-Departmental Other Expense					
Fair value write down of Progressive Home Ownership Loans	6.969	24.391	-	-	-

26. **Agree** that the proposed change to appropriation above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.

Agree / Disagree

27. **Note** that the amount in recommendation 24 and 25 does not impact on allowances and that the amount relates to a technical accounting adjustment only.

Noted



Caleb Johnstone
Manager, Market and Supply Responses

20 / 2 / 20
..... / /

Hon Grant Robertson
Minister of Finance

..... / /

Hon Dr Megan Woods
Minister of Housing

..... / /

Background

17. As part of the Government Build Programme Reset, Cabinet made available \$400 million for the delivery of progressive home ownership schemes through a Progressive Home Ownership Fund (the Fund) [CAB-19-MIN-0444 refers].
18. The Fund is a targeted initiative to increase opportunities for people to access home ownership who would not have otherwise been able to. It will support between 1,500 and 4,000 households into home ownership. A specific aim of the Fund is to address housing 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 subsequently agreed to take a staged approach to establish the Fund starting with an initial pilot of \$45 million [CAB-19-MIN-0672 refers]. This pilot aims to support up to 300 households. The pilot will be directed to existing providers of progressive home ownership schemes through a limited invitation process from April 2020. Funding will be delivered over the 2019/20 and 2020/21 financial years.
20. Cabinet agreed that the principles of additionality, graduation, administrative simplicity, cost effectiveness, and place-based would inform the design, and delegated decisions about the detailed design to the Ministers of Finance and Housing.
21. We understand that the Minister of Housing's expectation for the pilot is that there will be some funding in place by April 2020. This will enable providers to put together a clear pipeline of households that could be supported into home ownership through their progressive home ownership schemes. Providers would then start to assist households towards home ownership by mid-2020.

Pilot objectives

22. The purpose of the pilot is to set the foundations for the full implementation of the Fund. We will get early lessons from the pilot, which will inform our advice on the design and settings of the full Fund ahead of your report back to Cabinet in May 2020. In particular, we intend to better understand:
 - a. the ability of providers to deliver progressive home ownership schemes at greater pace and scale than at present
 - b. the ability to target the cohorts and priority groups that the Fund intends to assist
 - c. the place-based approach taken to identify the areas where housing affordability issues are most severe
 - d. how different delivery pathways can operate in a complementary way
 - e. the potential demand for government funded progressive home ownership schemes
 - f. the operating systems and processes needed to deliver an effective Fund
 - g. the relationships with scheme providers and others (including banks).
23. While we intend to get early lessons from the pilot, it is long-term as households helped through the pilot may take up to 15 years to graduate. We will be evaluating the pilot alongside the full Fund to assess the benefits of enabling home ownership opportunities.

Pilot process

24. HUD will be managing the delivery of funding to providers for the pilot. We are still working through the different roles and functions that need to be in place for the full Fund and which entities are best placed to perform them. We will be providing you with advice on the roles and functions for your report back to Cabinet in May 2020.

The pilot will be delivered through existing providers in a limited invitation process

25. As agreed by Cabinet, the pilot will be delivered through providers of existing schemes identified through a limited invitation process. To ensure that providers invited to participate well-placed to deliver their progressive home ownership schemes within the pilot's timeframes and that they are experienced in this sector, we intend use the gateway criteria that providers:
 - a. are ready to go with an existing scheme in place and evidence of the ability to deliver
 - b. have the size and scale required for delivering progressive home ownership schemes
 - c. have access to developments that could be available for home buyers using a progressive home ownership scheme in places selected for the pilot
 - d. already operate in the places selected for the pilot or have an ability to do so.
26. For iwi and Māori providers, we intend to apply only (a) through (c) of the above gateway criteria. This reflects that Māori housing need may not be reflected in broader district level analysis and that iwi and Māori providers with existing schemes may not be located in the places we have identified at a district level as having severe housing affordability issues.
27. For providers that meet the above characteristics and confirm interest in participating, we will carry out a due diligence assessment before inviting them to submit a proposal. This will ensure, among other things, that providers are financially sound and have the necessary capacity and capability to deliver the progressive home ownership schemes throughout the lifetime of the contract.
28. Where HUD already undertakes due diligence on a provider, we will look to leverage this process to minimise compliance costs on the provider and to HUD. Due diligence may take more time for other providers.

Proposals will be assessed to ensure that they are appropriate for funding

29. Providers will then be invited to submit proposals for funding of their progressive home ownership schemes. We intend to assess schemes proposed for funding against an objective framework that will ensure each proposal is appropriate for funding. The criteria we intend to use are:
 - a. Value for money – ensuring that a proposal will deliver at a cost that is reasonable based on what the proposal will offer and to whom (noting that households further away from home ownership will require greater support).
 - b. Alignment towards priority groups – ensuring that a proposal is aligned to deliver to the priority groups (including Māori, Pacific peoples, and families with children).
 - c. Proposal viability and readiness – ensuring delivery within the pilot timeframes and mitigating risk by assessing the probability of a proposal being successfully implemented.
30. We consider that funding from the pilot would be allocated based on the quality of funding proposals put forward from providers. This will also take into consideration that the pilot needs to test funding a range of different progressive home ownership schemes, a cross-section of different places, and have diversity in the providers that are funded, including funding of existing iwi and Māori providers. The criteria may also be used to weight proposals if more funding is sought by providers than is available.

Pilot pathways

31. Providers included in the pilot will be able to put forward proposals to offer their schemes through two pathways. One will be a supported pathway with a range of wraparound support services and where providers (including iwi and Māori providers) will match households to houses. The other pathway will be direct to households where a household can find a home it wishes to buy, and then approach a provider for a scheme to help buy that home. We have provided more details about the two pathways below.

Supported pathway

32. Under this pathway, providers will use their existing schemes, including shared equity, rent-to-buy, leasehold or deferred settlement schemes. In line with the Cabinet decision [CAB-19-MIN-0672 refers] schemes will target two cohorts:
 - a. Cohort A: lower to median income households that are unlikely to buy a home without a reasonable level of financial and non-financial support
 - b. Cohort B: households at or above median income 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.
33. Providers typically provide wraparound support (including budgeting services) to help households achieve and sustain home ownership. We understand that this support is a key part of the success of these schemes, especially for households further from home ownership. Wraparound support will be delivered and funded through this pathway. Cabinet agreed to bring forward \$1.5 million of funding for wraparound financial capability services for the 2019/20 financial year. This will be used to fund some of these services. The Budget bid *Progressive Home Ownership implementation: delivering on the Government Build Programme* is seeking further funding for wraparound financial capability services for the 2020/21 financial year and beyond.
34. Providers will also be responsible for both selecting households and matching households to a home, which we have provided more detail on below.

Households

35. To ensure that support is directed to the government's target cohorts, we recommend setting a broad income cap. A cap of household income before tax of no more than \$130,000 would align with the First Home Grant and Loan and is consistent with the target cohorts for the Fund.
36. We recommend that providers retain flexibility to use their existing processes for selecting households within broader income caps as this is an essential part of the success of providers' schemes. In retaining flexibility for who they select, we expect that households assisted would be from their existing waiting lists that are ready for a progressive home ownership scheme.

Homes

37. Providers will find homes suitable for households to buy under this scheme. We expect that this will contribute towards additional progressive home ownership places in one of two ways. Early delivery from the pilot may include homes in developments already underway. This will free up a provider's capital to secure a pipeline of future progressive home ownership places. Later delivery from the pilot may include new developments that were not secured for progressive home ownership. Developments could include a provider's own developments, or developments from Kāinga Ora, iwi organisations, or other private developers.
38. While the pilot will prefer new supply in the first instance, there will be flexibility for providers to use existing homes in limited circumstances, such as where there is not enough new supply available. A preference for new supply can help to stimulate supply of housing and reduce the chance of heating up the housing market further. However, development of new supply takes time. As part of our engagement with invited providers, we will seek to maximise the new supply that can be practically delivered under the pilot's timeframes. In line with criteria for the First Home Grant we will consider a house to be new where it received its building code compliance certificate less than twelve months earlier.
39. We consider it is important that the Fund, including the pilot, supports people into affordably priced homes. We intend to test the applicability of the price caps for First Home Grants and Loans, and KiwiBuild, with the providers invited to participate in the pilot. This will help us to understand at what price providers can actually deliver progressive home ownership

schemes, which will inform the full Fund's design. The price caps for First Home Grant and Loan are set out in Table 1.

Table 1: House prices that we will test during the pilot

Places	Price cap
Auckland and Queenstown Lakes	New builds \$650,000 Existing \$600,000
Hamilton City, Tauranga City, Western Bay of Plenty District, Kāpiti Coast District, Porirua City, Upper Hutt City, Hutt City, Wellington City, Tasman District, Nelson City, Waimakariri District, Christchurch City, Selwyn District	New builds \$550,000 Existing \$500,000
Rest of New Zealand	New builds \$500,000 Existing \$400,000

40. While the price caps are broadly consistent between KiwiBuild and the First Home Grant, we note that the price caps of \$550,000 for some places are higher than the respective KiwiBuild caps.¹ Given that this is a small difference, and that households may need to access the First Home Grant alongside the progressive home ownership scheme, we consider that it would make sense to align with the First Home Grant caps.

Direct to households pathway

41. Through dialogue with providers about the pilot we will test their willingness to provide a direct to households pathway. This would lead to a change in model for these providers and higher initial operating costs. As such they may decide not to provide a proposal for this pathway.
42. As with the supported pathway, this will be delivered by providers of existing schemes. This pathway will, however, take a lighter touch approach and has two key difference to the supported pathway:
- the target cohort will generally be closer to home ownership but still need assistance through a progressive home ownership scheme
 - households, rather than the provider, would find a home to buy

The target cohort for this pathway is different

43. The direct to household pathway will take a lighter touch for Cohort 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 insufficient income to service a low deposit mortgage at current house prices.
44. While these households have a need for financial support to reach home ownership, they are unlikely to need the same level of wraparound support as those in the supported pathway. such as ongoing budgeting advice. As such, we do not intend to incorporate intensive wraparound support services into this pathway.
45. To focus support through this pathway to this cohort, we recommend using the following selection criteria, that those assisted:
- are a New Zealand citizen, or permanent resident;
 - are 18 years or older;

¹ In particular, Hamilton, Tauranga, Western Bay of Plenty, Tasman District, Nelson, Waimakariri District, Christchurch, and Selwyn District.

- c. have a household income before tax of no more than \$130,000;
 - d. have household debt of less than \$10,000 (noting that student loans will not count for the purposes of this assessment);
 - e. must be a first home buyer or a second chancer, as defined in the eligibility criteria for KiwiBuild;
 - f. commit to living in the home for at least three years, aligned with KiwiBuild's highest requirement;
 - g. have a minimum deposit of 5 percent of the house price, including KiwiSaver contributions and the First Home Grant, if eligible;
 - h. a preference for households living in, working in, or whakapapa to the place they wish to buy.
46. Households may also be required to demonstrate that they are unable to purchase a home without support from a progressive home ownership scheme. This would involve assessing a mortgage pre-approval from the household's choice of bank, alongside the household's deposit across personal savings, KiwiSaver (if eligible to use for a home purchase), and the First Home Grant (if eligible for the Grant). This would ensure that households assisted this way would not otherwise have been able to buy a home.

Households would be able to select their own home to buy

47. Under this pathway, households would be responsible for finding a suitable home that they wish to buy. It is important that households are assisted into affordably priced homes. To align the approach across both pathways, and to align with the First Home Grant and Loan, we recommend that this pathway also applies the house price caps set out in Table 1.
48. This pathway would also have a preference for new builds but remain flexible to supporting households into existing homes. Regarding what would be considered as new builds, we will align with the First Home Grant to ensure that households can combine support, which would include:
- a. a completed newly built dwelling, defined as a dwelling of any type that received its building code compliance certificate less than twelve months earlier
 - b. a house and land package purchased off the plans (including terraced houses, flats and town houses)
 - c. a new apartment purchased off the plans.

We recommend providing flexibility for multigenerational households

49. Multigenerational households (households with more than two generations living together) may be restricted by rigid household income and price caps. In addition, Māori households and Pacific households are, on average, larger, particularly when living with extended family members. Houses designed for multigenerational houses need to be larger, which will be reflected in the house price. Multigenerational households may need higher incomes to afford a larger home. In addition, with multiple people in the household in employment, it is easier to exceed the income cap.
50. We consider that there should be flexibility within the income caps, and any house price caps to allow providers to be able to support multigenerational households under either pathway. Our recommendation is to allow 10 percent of households supported to be multigenerational households exceeding the household income and price caps.

Place-based approach

51. In December, Cabinet agreed to apply a place-based approach. In applying this the pilot will focus on places where housing affordability issues are most severe and where progressive home ownership schemes can best help to address this.

52. We intend to inform providers of the places where progressive home ownership schemes can be delivered (and funded) through the pilot. Within the specified places, the actual places where schemes will be delivered will likely be determined by where providers are able to deliver. Through the proposal assessment, we will look to have a variety of places included in the pilot so that we can thoroughly test the place-based approach.
53. To help identify these places, we have taken into consideration several factors, including median income levels, lower quartile house prices, the cost of building homes, the number of empty dwellings, GDP growth, and functional urban areas². Table 2 below sets out the highest priority and medium priority places for the targeting the pilot.

Table 2: Priority place-based approach

Priority for pilot	Places
Highest priority	Auckland; Matamata-Piako, Hamilton and Waipa District; Tauranga City and Western Bay of Plenty; Napier City; Kapiti Coast, Porirua City, Upper Hutt City, Hutt City and Wellington City; Dunedin City; and Queenstown-Lakes District.
Medium priority	Manawatu District and Palmerston North; Carterton District and South Wairarapa District; Nelson City and Tasman District; Whangarei District; and Hastings District.
Not recommended	Rest of New Zealand

54. We recommend that the pilot only target the highest priority places identified in Table 2. This includes a limited number of places that will not stretch the ability of providers to deliver. If providers look to deliver across too many places, they may not be able to deliver at pace and scale and may not have enough time to understand the particular market given the timeframe of the pilot.
55. The places identified as medium priority have also displayed housing affordability issues where progressive home ownership could be effective. If you wish to have a wider selection of places for the pilot, we do not recommend including more than the highest and medium priority places as this would be inconsistent with the place-based approach agreed by Cabinet [CAB-19-MIN-0672 refers].
56. We will be doing further work on the place-based approach to ensure it is accurately identifying the areas where the Fund should be deployed. The assessment of priority places may change following lessons from the pilot, and subsequently for the development of the full Fund.
57. We have also set out what other government support is being delivered across the country in Annex A.

Places identified have Māori whānau and Pacific households that could be eligible

58. As agreed by Cabinet, the pilot 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.
59. Looking at the ethnicity and incomes of households in the highest priority places, we consider that there are both Māori whānau and Pacific households that could be eligible for progressive home ownership schemes delivered through the pilot.

² Functional urban areas are based on draft measures as developed by Statistics New Zealand.

Funding mechanisms

60. We intend to fund providers with an interest free loan for the delivery of progressive home ownership schemes. Loans to providers will be required to be repaid back to the Crown within 15 years of each drawdown of the loan.
61. As the loans to providers will be interest free, there needs to be an appropriation in place to account for the expense incurred from the fair-value write down of the interest. While this would usually be done through the Budget process, contracts with providers for funding may be agreed to as early as April. It is therefore prudent to establish the appropriation now. The Budget bid *Progressive Home Ownership implementation: delivering on the Government Build Programme* is seeking ongoing funding to cover the fair-value write down from the 2020/21 financial year. In the interim, we recommend that the increase in appropriation, as shown in Table 3 below be met from Imprest Supply

Table 3: Appropriation required to cover the fair-value write down of loans to providers

	\$m – increase/(decrease)				
Indicative annual spending profile	2019/20	2020/21	2021/22	2022/23	2023/24 and outyears
Non-Departmental Other Expense					
Fair value write down of Progressive Home Ownership Loans	6.969	24.391	-	-	-

62. While providers may receive some form of capital gain, depending on the design of their scheme, we will not require that providers pass these gains to the Crown. However, we will have an expectation that any capital gains received through the delivery of progressive home ownership schemes be reinvested into the delivery of further progressive home ownership schemes.
63. We expect to engage further with providers to ensure that the funding is optimally designed to achieve the outcomes of the pilot.

We recommend that lending is done through the Minister of Finance's powers under the Public Finance Act 1989

64. Section 65K of the Public Finance Act 1989 prohibits departments from lending money, except as expressly authorised by statute. HUD is not expressly authorised to lend money under any existing statute. However, the Minister of Finance (on behalf of the Crown) may lend money to any person or organisation if it is in the public interest under section 65L of the Public Finance Act. We consider that the Minister of Finance's power should be relied on to make any loans to providers of progressive home ownership schemes to expand their delivery as part of the pilot.
65. This will require either the Minister or his delegate³ to consider each of the pilot's providers loan facilities under section 65L of the Public Finance Act. Given the relatively small number of providers and thus small number of loan facilities, the administrative burden on the Minister of Finance to consider each loan facility would be minimal.
66. We recommend that you agree to the Minister of Finance considering each of the pilot's provider loan facilities under section 65L of the Public Finance Act 1989. For the Minister of Finance to approve the loan facility, each proposal will need to be considered and meet the

³ We note that the Minister of Finance may wish to consider delegating this power to the Secretary of the Treasury to allow further sub-delegation to the Chief Executive of the Ministry of Housing and Urban Development to make loans as part of the pilot.

public interest threshold. We will provide the Ministers of Finance and Housing with advice on whether to:

- a. establish each of the pilot's provider loan facilities
 - b. lend to each provider
 - c. delegate authority to lend to the Chief Executive of HUD
67. This advice will include information and advice on the provider, the assessment of the provider's proposal (including how it meets the public interest threshold), the terms of the loan, any risks and mitigations, and any budgetary issues.

Risks

68. As the pilot will be by invitation only, there will be some smaller provider and aspiring providers that will not be invited. Providers not included in the pilot may be concerned that they will not have an opportunity to receive funding for progressive home ownership schemes. For the full Fund (the remaining \$355 million), we intend that this will include a panel of progressive home ownership providers. We are managing this risk by communicating that further funding from the Fund to providers will be allocated through an open process, allowing new providers to access the Fund. Lessons from the pilot will be made available to those parties who are interested in participating in the full Fund.
69. Early indications are that existing providers can get some households into progressive home ownership schemes in 2020 through the pilot. However, we will have a better understanding of this pipeline once we have begun negotiations with providers. Following this we will be able to update you on how many places can be delivered and when they are expected to be delivered during the life of the pilot.

Next steps

70. If you agree to the design details in this paper, we will begin to establish the pilot. We will start by inviting providers to participate in the pilot in early March and doing our due diligence on each provider.
71. As we receive finalised proposals from each provider, we will provide the Minister of Finance and Minister of Housing with information and advice on whether to accept providers' proposals and recommendations on whether to establish each loan. We expect that some proposals will be ready in April 2020.
72. We will also be providing you with advice on the full implementation of the Fund in advance of your report back to Cabinet in May 2020. This will include any early lessons from the pilot's implementation.

Annexes

Annex A: Government interventions across the country

Annex A: Government interventions across the country

73. While the pilot, and the wider Fund, is a targeted intervention that will increase opportunities for people to access home ownership, it needs to be considered within the government's wider housing work programme.
74. KiwiBuild and Land for Housing are delivering modestly priced homes across the country. In particular, there are developments agreed, under development, or completed in Whangarei, Auckland, Hamilton, Tauranga, Rotorua, Napier, New Plymouth, Porirua, Wellington City, Christchurch, and Queenstown-Lakes. These are mostly urban centres where there is a clear need to increase the supply of affordable homes.
75. In regional areas, first home buyers appear to be under less pressure than those in urban areas. The number of first home buyers have held up better in regional areas and home ownership rates are generally higher. In addition, uptake of the First Home Grant is generally higher in regional areas, particularly when compared to the urban areas that we have identified as the highest priority for the pilot. This suggests that there is need for more acute support in these urban areas to address housing affordability, which the pilot would be well suited to address.
76. There are also places where home ownership affordability is not as severe, but there may be other issues, such as the need for public housing. For example, Christchurch features relatively low in our home ownership affordability heat map but it has the second highest number of public housing primary applicants. This is a driver for the higher delivery of public housing places in Christchurch to target the specific need in that place.
77. The government is also undertaking housing and urban development place-based assessments and responses in Hastings and Rotorua. Neither of these areas is included in the proposed priority places for the pilot. However, once the Fund is fully implemented, we will be taking a closer look at the places that would be included for the Fund to ensure it is targeted to places with severe housing affordable issues, while being complementary to other system interventions.