



# Cabinet Social Wellbeing Committee

## Minute of Decision

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### Progressive Home Ownership Fund: Report-back

**Portfolio**                      **Housing**

On 11 December 2019, the Cabinet Social Wellbeing Committee:

#### Background

- 1        **noted** that \$400 million was made available by Cabinet for a Progressive Home Ownership Fund (the Fund) [CAB-19-MIN-0444];
- 2        **noted** that in September 2019, Cabinet directed the Minister of Housing to report-back on:
  - 2.1      target households for the progressive home ownership fund;
  - 2.2      the high-level approach and design features including:
    - 2.2.1    the process for a call for proposals from community housing providers, iwi and Māori organisations and financial institutions to deliver progressive homeownership schemes;
    - 2.2.2    the process to establish a Crown shared equity scheme;
  - 2.3      the establishment, administrative and other operating costs for the Fund and how these will be funded;
  - 2.4      with the Minister for Pacific Peoples, on how this fund could improve homeownership for Pacific peoples;

[CAB-19-MIN-0444]

#### Objectives

- 3        **agreed** that the objective of the Fund is to enable opportunities for people whose aspirations are to own their own home, but for whom either the size of the deposit and/or the full ongoing cost of mortgage repayments is a barrier preventing them from doing so;
- 4        **agreed** that the Fund will aim to address housing affordability issues by assisting priority groups, including Māori, Pacific peoples, and families with children, who have an aspiration for home ownership in areas of New Zealand where housing affordability is an issue;
- 5        **agreed** that the Fund target:
  - 5.1      lower to medium income households that are unlikely to buy a home without a reasonable level of financial and non-financial support (Cohort A);

5.2 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 (Cohort B);

6 **agreed** that households who can become home-owners without assistance from the Fund (Cohort C) will not be a target cohort for the Fund;

### Delivery channels

7 **agreed** that the Fund progress through three delivery channels:

7.1 through the government providing shared equity (in the form of shared ownership – tenancy in common) directly to households, where households contact the government directly to apply for a progressive home ownership scheme and will be required to satisfy criteria in order to qualify for equity from the Fund (the government direct-to-household channel);

7.2 through providers that already offer a range of progressive home ownership schemes (the provider channel);

7.3 through working with iwi and Māori organisations to deliver progressive home ownership schemes in particular places or projects;

### Delivery through the government directly

8 **noted** that the government direct-to-household channel would provide funding directly to households who have applied and are approved as eligible for the scheme;

9 **noted** that there would be a single standardised scheme used through the government direct-to-household channel as this would establish a new market model widely understood by all parties;

10 **agreed** that the government direct-to-household channel be delivered by the government entering into shared ownership with the household (as tenants in common);

11 **noted** that officials will do further work to understand how the government direct-to-household channel can be used for Māori freehold land;

12 **agreed** that to apply a place-based approach:

12.1 the eligibility criteria will be adjusted to reflect the underlying need in each region;

12.2 households in areas where affordability issues are most severe will be prioritised;

12.3 households that already reside in the area they wish to buy will be prioritised;

13 **agreed** that the government direct-to-household channel focus on households from Cohort B:

13.1 with good credit histories and minimal debt, as they would be in a position to secure a commercial mortgage;

13.2 that are first home owners and second chancers as defined in the eligibility criteria for KiwiBuild;

- 13.3 that have saved some amount of a deposit, demonstrating an ability and aspiration for home ownership;

#### Delivery through providers of schemes

- 14 **noted** that providers may, but would not be required to, use the government's standardised shared ownership scheme, meaning providers could offer other types of progressive home ownership schemes, including:
- 14.1 rent-to-buy;
  - 14.2 leasehold;
  - 14.3 deferred settlement;
- 15 **noted** that providers are typically better placed to target Cohort A due to their use of:
- 15.1 pre-selection processes;
  - 15.2 a range of options to help households progressively reach home ownership;
  - 15.3 wraparound support;
- 16 **agreed** that the provider channel would be able to target both Cohort A and Cohort B;
- 17 **noted** that, to establish the provider channel, the Ministry of Housing and Urban Development will set up an open panel of suppliers and will use an outcomes-based selection process to elect providers to this panel;
- 18 **noted** that the panel will be open to new providers but that the initial funding will be focused on existing providers that have systems and processes in place to scale up delivery of their existing progressive home ownership schemes;

#### Working with iwi and Māori organisations

- 19 **noted** that iwi and Māori organisations will be able to use the delivery channel referred to in paragraph 7.3 to deliver progressive home ownership schemes on a project or place basis;
- 20 **noted** that iwi and Māori organisations can still seek funding through the provider channel and Māori households can still seek a progressive home ownership scheme through the government direct-to-household channel;

#### Staged approach

- 21 **agreed** that a staged approach will be taken to establishing the Fund through:
- 21.1 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;
  - 21.2 development of relationships with Māori and iwi to deliver progressive home ownership schemes intended to be established by July 2020;
  - 21.3 development of a government direct to household scheme and provider channel;
- 22 **authorised** the Minister of Housing and Minister of Finance to take decisions on the detailed design of the initial pilot;

- 23 **noted** that decisions made by the Minister of Housing and Minister of Finance for the final design will be made while taking into consideration the key design principles:
- 23.1 additionality;
  - 23.2 graduation;
  - 23.3 administrative simplicity;
  - 23.4 cost effectiveness;
  - 23.5 place-based;
- 24 **noted** that at a later stage, residual funding directed to the provider channel would be allocated to providers appointed through an open selection process, informed by the findings from the pilot;
- 25 **noted** that during (and following) the pilot, a focus will be placed on establishing the two remaining channels (the provider channel and iwi and Māori organisation channel);
- 26 **invited** the Minister of Housing to report-back to the Cabinet Social Wellbeing Committee in May 2020 on the:
- 26.1 progress made on the pilot of the Fund;
  - 26.2 more detailed design of the government direct-to-household channel and iwi and Māori channels;

**Fiscal and budget implications**

- 27 **noted** that during engagement, officials heard, almost unanimously, that requiring funding to be returned to the Crown within 10 years would significantly hinder the effectiveness of providers’ schemes, but the schemes could be delivered effectively if funding could be returned in 15 years instead;
- 28 **noted** that under the Fiscal Management Approach, for funding to be treated fiscally neutral, it must be returned to the Crown within 10 years;
- 29 **agreed** that the \$400 million funding for the Fund be treated as fiscally neutral if it is returned to the Crown within 15 years, as a one-off exception to the Fiscal Management Approach, to enable effective delivery of progressive home ownership schemes;
- 30 **noted** that the operating costs associated with operationalising the scheme (which will need to be counted if agreed against the Budget 2020 operating allowance) over the first four years will be approximately \$43 million made up of:

	\$m – appropriation increase/(decrease)					Total
	2019/20	2020/21	2021/22	2022/23	2023/24	2019/24
Wrap around financial capability services	1.5	0.5	1	4	7	14
Administration costs	0	3	3	3	3	12
Establishment costs	1	4	2	2	0	9
Bad debt provisioning	0	1	2	2	3	8
<b>Total</b>	<b>2.5</b>	<b>8.5</b>	<b>8</b>	<b>11</b>	<b>13</b>	<b>43</b>

31 **noted** that in line with the Fiscal Management Approach an allowance for the cost of borrowing of approximately \$42 million (depending on cash disbursement timing) will need to be counted towards the Budget operating allowance:

	\$m – appropriation increase/(decrease)					Total
	2019/20	2020/21	2021/22	2022/23	2023/24	2019-2024
Concessionary expense	0	2	6	13	21	42

32 **noted** that the costs of operating the Fund are progressing through Budget 2020 as a Priority D new spending initiative: Reducing child poverty and improving child wellbeing;

33 **agreed** that \$2.5 million of the funding for wraparound financial capability services and establishment costs be brought forward to the 2019/20 fiscal year so that the pilot of the Fund can be implemented by April 2020;

34 **agreed** to establish the following new multi-year appropriation, to run from 1 February 2020 to 30 June 2024:

Vote	Appropriation Minister	Title	Type	Scope
Housing and Urban Development	Minister of Housing	Progressive Home Ownership Fund	Non-Departmental Capital Expense	This appropriation is limited to addressing housing affordability issues by assisting access to home ownership through progressive home ownership schemes.

35 **approved** the following change to appropriations to give effect to the policy decisions in paragraph 21 above, with a corresponding impact on net core Crown debt:

	\$m – increase/(decrease)	
	2019/20 to 2023/24	2024/25 and outyears
Vote Housing and Urban Development Minister of Housing		
Non-Departmental Capital Expenditure Progressive Home Ownership	45.000	-
	2019/20 to 2021/22	2022/23 and outyears
Non-Departmental Output Expense KiwiBuild Housing	(45.000)	-

36 **noted** that the indicative spending profile for the new multi-year appropriation described in paragraph 35 above is as follows:

Indicative annual spending profile	\$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24
	10.000	35.000	-	-	-

37 **agreed** that the change to appropriations above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

38 **agreed** to establish the following new annual appropriations:

Vote	Appropriation Minister	Title	Type	Scope
Housing and Urban Development	Minister of Housing	Support Services to increase home ownership	Non-Departmental Output Expense	This appropriation is limited to the delivery of support services for applications to progressive home ownership schemes.

39 **agreed** the following changes to appropriations to give effect to the policy decision in paragraph 33 above as a pre-commitment against Budget 2020 with a corresponding impact on the operating balance and net core Crown debt:

Vote Housing and Urban Development Minister of Housing	\$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24
Non-Departmental Output Expense: Support Services to increase home ownership	1.500	-	-	-	-
Multi-Category Expenses and Capital Expenditure: <i>Policy Advice and Related Outputs</i> MCA					
Departmental Output Expense: Policy Advice (funded by Revenue Crown)	1.000	-	-	-	-
Total Operating	2.500	-	-	-	-
Total Capital	-	-	-	-	-

40 **agreed** that the changes to appropriations for 2019/20 in 39 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

Vivien Meek  
Committee Secretary

**Present:**

Rt Hon Jacinda Ardern  
Hon Kelvin Davis  
Hon Grant Robertson  
Hon Dr Megan Woods  
Hon Andrew Little  
Hon Carmel Sepuloni (Chair)  
Hon Dr David Clark  
Hon Stuart Nash  
Hon Jenny Salesa  
Hon Kris Faafoi  
Hon Tracey Martin  
Hon Willie Jackson  
Hon Aupito William Sio  
Hon Julie Anne Genter

**Officials present from:**

Office of the Prime Minister  
Officials Committee for SWC  
Office of the Chair

**Hard-copy distribution:**

Minister of Housing