

In Confidence

Office of the Minister of Housing

Chair, Cabinet Social Wellbeing Committee

Design of the Progressive Home Ownership Fund

Proposal

1. To report back, as directed by Cabinet [CAB-19-MIN-0672], on progress made on the first phase of the Progressive Home Ownership (PHO) Fund and to set out and seek Cabinet's agreement on the final design of the PHO Fund.

Relation to government priorities

2. This Government's focus remains on intervening in the housing market to address the housing crisis and get more New Zealanders into homes. As part of our Build Programme Reset, we made available \$400 million for the delivery of PHO schemes through a PHO Fund [CAB-19-MIN-0444 refers]. The PHO Fund, as described in this paper, is a targeted initiative to increase opportunities for people to access home ownership who would not have otherwise been able to do so and help them to have a safe, warm, dry home to call their own.
3. PHO can also play an important part in the recovery of housing markets post COVID-19. It can enable some households that have a lower deposit or income as a result of COVID-19, or as economic adjustments take place, to still buy a home. For builders and developers, PHO can signal demand for new housing that might not otherwise be apparent and enables them to respond accordingly.

Executive Summary

4. The housing crisis is a difficult long-term challenge that we face in New Zealand. It has been long in the making and is continuing to harm the wellbeing of New Zealanders. Our focus remains on addressing this crisis to ensure that every New Zealander has a safe, warm, dry home to call their own, whether this is in public housing, the rental market, or home ownership.
5. As part of our Build Programme reset in September 2019, Cabinet made available \$400 million for the delivery of PHO schemes. The PHO Fund will be an important tool for improving home ownership opportunities for some people. It sits alongside our comprehensive housing and urban development work programme that will ensure New Zealanders have safe, warm, dry homes to call their own.
6. Subsequently in December 2019, Cabinet agreed to the high-level approach that the PHO Fund would take and invited me to report back on progress made on its first phase and the design of the remaining parts of the PHO Fund. I am now reporting back with the detailed design of the PHO Fund.

7. It is important that our design of the PHO Fund is targeted to support the right people in the right places at the right price. To target the right people effectively, I acknowledge that our target households for the PHO Fund will vary. Some will be closer to achieving their home ownership aspirations than others. Given this, I consider that there will need to be two distinct approaches to ensure that households get the right level of support to suit them:
 - 7.1. the provider pathway and iwi and Māori pathway will take a supported approach. This will include wraparound support for households and a range of different PHO products catering to many different households. It will require providers and iwi and Māori organisations to select their own PHO product, the place or places in which they want to operate, and have responsibility for the entire delivery. Responsibility for delivery includes selecting households to finding suitable homes, to supporting households through to graduation.
 - 7.2. the direct-to-household pathway will take a lighter touch approach, with minimal wraparound support and only using shared ownership. This approach is better suited for those closer to home ownership. Under the lighter touch approach, households will be responsible for finding a home to buy, which opens up a wider range of houses that could be bought with our support.
8. Tying this together, and to guide our overall approach to the PHO Fund, I will set and regularly review an investment framework. This will outline our ongoing strategy for the PHO Fund, its objective and priorities, and how funding decisions will be made across the three pathways.
9. I have also considered how the PHO Fund would operate, what functions are needed to deliver it, and who would be best placed to deliver those functions. I consider that Kāinga Ora is best placed to deliver the direct-to-household pathway, while PHO providers and iwi and Māori organisations would deliver PHO schemes under the two other pathways.
10. I also recommend that the Ministry of Housing and Urban Development (HUD) be responsible for the overarching policy and the investment framework, and undertake the PHO function responsible for contract management, monitoring and assurance to give effect to the PHO Fund.
11. The design is crucial for success. The first phase provided us with an opportunity to get early lessons on the approach we are taking to fund PHO schemes, which I have incorporated into my recommended design. I have also looked to incorporate the experience that Te Puni Kōkiri has in delivering Te Ara Mauwhare.
12. Implementation of the PHO Fund will take place over the end of 2020 and beginning of 2021. The provider pathway and the iwi and Māori pathway will be opened to further organisations in late 2020, to provide enough time to set up the systems, processes and resources to deliver it. The direct-to-household pathway requires more time to design, develop and implement, and will be implemented in early 2021.

Background

13. The housing crisis is one of the most difficult long-term challenges that we face in New Zealand. It has been a long time in the making and continues to harm the wellbeing of New Zealanders. Our focus remains on addressing this crisis to ensure that every New Zealander has a safe, warm, dry home to call their own, whether this is in public housing, the rental market, or home ownership.
14. To extend opportunities for home ownership to more New Zealanders, we made several changes as part of our reset of the Government Build Programme. A key change we made was to make available \$400 million for the delivery of Progressive Home Ownership (PHO) schemes through a PHO Fund [CAB-19-MIN-0444 refers].
15. We subsequently formalised this funding through Budget 2020 and provided additional funding to operationalise the PHO Fund. This includes \$14 million for wraparound support, such as financial capability services, for participating households.
16. The PHO Fund is a targeted initiative 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. In particular, it will support:
 - 16.1. lower to medium income households that are unlikely to buy a home without a reasonable level of financial and non-financial support (Cohort A);
 - 16.2. at or above median income households that cannot get a large enough deposit together to buy a home due to high rents and growing house prices, and/or have insufficient income to service a low deposit mortgage at current house prices (Cohort B).
17. It will also have a specific aim 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 of New Zealand where housing affordability is an issue.
18. In December 2019, Cabinet agreed that the PHO Fund would be delivered through three pathways:
 - 18.1. through government directly to households (the direct-to-household pathway);
 - 18.2. through providers that offer a range of progressive home ownership schemes (the provider pathway);
 - 18.3. through working with iwi and Māori organisations to deliver progressive home ownership schemes in particular places and/or projects (the iwi and Māori pathway).
19. Cabinet also agreed that the PHO Fund would take a staged approach. The first phase is piloting our approach for funding providers of PHO schemes with \$45 million available through a limited invitation process. This has provided some early lessons to inform the design and approach taken for the later stages of the PHO

Fund. The Minister of Finance and I were delegated the decision-making for the detailed design of the first phase.

20. The subsequent phases would see the rollout of the provider pathway to all providers, the establishment of the iwi and Māori pathway with early relationship-forming with iwi and Māori organisations, and the development of the direct-to-household pathway.
21. This paper sets out the more detailed design of the pathways as well as the progress made on the first phase to pilot our approach for the PHO Fund.

Progress has been made on the first phase of the PHO Fund to pilot our approach

22. The first phase aimed to pilot our approach to funding existing providers of PHO schemes through a limited invitation process.

s 9(2)(f)(iv)

23. The intention of the first phase was to test our approach to funding PHO schemes and to take lessons that could feed into our design of the wider PHO Fund. These lessons include that:

s 9(2)(i)

24.

s 9(2)(i)

Through the Fund we can target a lower number of those in greater need (Cohort A) or a higher number of households requiring less assistance (Cohort B). Where the provider pathway and iwi and Māori pathway are likely to target households across both cohorts, the direct-to-household pathway will likely target more Cohort B households. I would expect a mix of both cohorts to be supported through the PHO Fund and that this mix would be both driven by household demand and informed through the PHO investment framework.

There are common design elements across the delivery pathways to ensure the PHO Fund is suitably targeted

25. The PHO Fund must deliver on our objective 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. To best deliver this, I recommend that the following elements are applied to the approach taken across all three pathways.

Our support should help household buy homes that are resaleable, affordably priced, and preferably new builds

26. I expect there will be a range of different homes bought depending on the type of scheme, location and approach that each PHO scheme takes. However, I consider that as a baseline, homes bought through the PHO Fund should be:

26.1. **affordably priced** to give households the best chance to graduate to full independent home ownership. The first phase is currently testing the applicability of the First Home Grant and Loan price caps.

26.2. **new builds in the first instance** as places where new and existing homes are similarly priced indicates systemic housing affordability issues that could be address by PHO schemes. Existing homes should be supported in limited circumstances, such as where Kāinga Ora tenants buy a Kāinga Ora home through its Tenant Home Ownership programme. Any impacts that COVID-19 may have on the pipeline of new builds will also be kept in mind over the short-term.

26.3. **easily resaleable** to ensure that households are able to sell if their circumstances change.

Our support should go to first home buyers and second chancers on moderate incomes

27. As agreed by Cabinet, the target cohorts for the PHO Fund are Cohorts A and B. This broadly equates to supporting households with income up to \$130,000, which aligns with our other support for first home buyers through the First Home Grant and Loan.

28. I consider we need to apply some flexibility for multigenerational households to exceed this income cap. While they are likely to include more earners, which may push household income above \$130,000, they equally require higher household

income to afford a suitably sized home. This flexibility would also need to apply to what we consider to be an affordably priced home for a multigenerational household.

29. Our support should also be targeted to only first home buyers or second chancers who are eligible to buy a home in New Zealand.¹ For second chancers, they must not currently own a home in New Zealand or overseas.
30. I expect that further bespoke eligibility criteria will likely apply across the pathways, depending on the individual design of each PHO scheme, that go above and beyond what I consider should be set as a minimum.

A supported approach is most suitable for the iwi and Māori and provider pathways

31. Providers and iwi and Māori organisations through these pathways will select their own PHO product, the place in which they want to operate, and will be responsible for the entire delivery. This includes selecting households, to finding suitable homes, to supporting households through to graduation.
32. Cabinet agreed in December 2019 that these pathways will deliver to Cohorts A and B. In targeting Cohort A, I consider that a more supported approach is needed for delivering PHO schemes effectively.

This will include wraparound support for households

33. Most providers targeting these cohorts offer a wide range of wraparound support, such as financial capability services, discounted utilities deals, and other financial and non-financial support where a household is struggling to remain in the PHO scheme. This wraparound support is essential for PHO providers to support their target cohorts and to ensure households have the best chance to successfully graduate to independent home ownership.
34. I expect that providers and iwi and Māori organisations through these pathways will deliver a range of wraparound support. In particular, the PHO Fund Budget 2020 initiative provided grant funding for wraparound financial capability services that will support providers to deliver, or partner to deliver, wraparound financial capability services alongside their PHO schemes. Funding for wraparound financial capability services for providers and iwi and Māori organisations will be considered alongside their PHO proposals.

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

35. As Cabinet noted in December 2019, the provider pathway can deliver a range of different products, which may include rent-to-buy, shared ownership, leasehold, and deferred settlement schemes. This is also likely for the iwi and Māori pathway.
36. Allowing a wide range of PHO products is important so that providers can select the right product to best support their target cohort. For example, rent-to-buy schemes can work better for some households in Cohort A who need more time to accumulate

¹ 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'.

a deposit and address other issues such as consumer debt, poor credit histories and insecure employment.

37. The actual range of products will depend on what providers wish to offer. Providers may change the mix of households they support, or the product they offer, in response to the effects of COVID-19. My officials inform me that some providers have indicated a preference for offering rent-to-buy, as opposed to shared equity, in the short term. For some households rent-to-buy will be better suited to support them into home ownership because of the current economic climate.

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

38. This pathway will provide specific support to iwi and Māori organisations to deliver PHO schemes on a project or place basis while still being easy to use, cost effective and timely for iwi and Māori.
39. I expect that *Te Maihi o Te Whare Māori: Māori and Iwi Housing Innovation (MAIHI) Framework* for action will support the ongoing delivery of the PHO Fund, and particularly the iwi and Māori pathway. MAIHI provides a whānau-focused approach to delivering better housing outcomes. It aims to deliver a system-wide response to Māori housing stress, improve Māori access to housing, and review and reset systems and processes so that the housing system provides equitable solutions for Māori.
40. My proposed design for this pathway has also been, and will continue to be, informed by the experience of Te Puni Kōkiri in delivering Te Ara Mauwhare. Te Puni Kōkiri has been working with rōpū across the motu to trial innovative approaches to assist whānau Māori into home ownership. While I acknowledge that there are several differences between the PHO Fund and Te Ara Mauwhare, there are also several relevant aspects for this pathway's design. This includes 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.

It will use an outcomes-based funding approach

41. I recommend that the iwi and Māori pathway uses an outcomes-based funding approach. This will enable iwi and Māori to work with government, on a case-by-case basis, to determine the outcomes that they wish to achieve through the delivery of PHO schemes to their iwi, hapū, or whānau. I consider it important to identify the housing aspirations of the whānau and how the rōpū delivering PHO schemes can support the whānau involved to achieve those aspirations.

It will provide greater flexibility for how PHO schemes are delivered

42. I also propose taking a more flexible approach for the iwi and Māori pathway to enable greater participation and delivery of PHO schemes from iwi and Māori organisations. From my officials' market engagement, I understand there are some iwi and Māori organisations with an aspiration to help whānau but who do not have their own PHO product. This pathway should be flexible enough to enable iwi or

Māori organisations to partner with a PHO provider, as well as deliver their own PHO product where they are in a position to do so.

43. This pathway may also deliver PHO schemes in ways 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. This pathway should be 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. I understand from engagement my officials had with iwi, rūpū, and Māori organisations that the lack of development finance may be a barrier for participating in the PHO Fund. My officials intend to connect iwi and Māori organisations with other initiatives that could help get developments up and running as well as to form potential development partnerships. This may help some iwi and Māori organisations bridge the gap of development finance.

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

45. In December 2019, Cabinet agreed that the Minister of Finance and I would be delegated the decisions for the design of the first phase of the PHO Fund. I consider that this approach should be largely applied for the rollout of the provider pathway for the full Fund with one key difference.
46. This pathway will take an output-based funding 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, I expect that we will improve home ownership opportunities for households located in the priority places and our priority groups.
47. While the first phase piloted our approach for the PHO Fund with existing providers of PHO schemes through a limited invitation, Cabinet previously noted that to establish the provider pathway, my officials would need to set up an open panel of suppliers. This panel will be open to existing PHO providers, but also new providers to the market who have developed a PHO product and scheme.
48. An open panel works by pre-approving providers that are considered suitable for funding for PHO schemes. It will reduce the ongoing administrative costs for the PHO Fund, as it will only need to be run for assessing funding bids from the pre-approved providers.
49. To be pre-approved to join the panel, providers will go through appropriate due diligence. This will draw from the due diligence carried out by officials for selecting providers in the roll-out of the first phase, which included looking at the soundness of the organisation and whether it had a developed a PHO product.
50. In December, Cabinet agreed to apply a place-based approach for the PHO Fund. I consider that this approach would be most appropriate for the provider pathway, but that the places remain more open in the two other pathways. As such, I recommend

that the provider pathway focusses on those areas where housing affordability issues are most severe and where PHO schemes can help address these. This will align with the approach we have already taken for the first phase of the PHO Fund.

51. A home ownership affordability heatmap developed for the first phase will continue to inform this place-based approach. It will be reviewed regularly and supplemented with any other place-based insights and on-the-ground knowledge that HUD has, to ensure that our support continues to be well targeted.

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

52. As Cabinet agreed in December 2019, the direct-to-household pathway will be targeted primarily to Cohort B:
 - 52.1. with good credit histories and minimal debt as they would be in a position to secure a commercial mortgage;
 - 52.2. that are first home ownership and second chancers as defined in the eligibility criteria for KiwiBuild;
 - 52.3. that have saved some amount of a deposit, demonstrating an ability and aspiration for home ownership.
53. Given that this pathway is targeted only to Cohort B, I consider that the design of this pathway should take a lighter touch approach. In particular, I recommend that it:
 - 53.1. **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 government. Shared ownership schemes are typically more suitable for households closer to home ownership than other types of PHO product.
 - 53.2. **be household initiated**, where the household is responsible for finding a house that they wish to buy (within the common criteria for which houses are suitable for the PHO Fund). This will provide an option for us to support those who wish to buy from the private market, rather than select from a list of predetermined homes in specific locations as offered by providers.
 - 53.3. **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.
 - 53.4. **have light touch relationship between the service provider and household**. The service provider may 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

54. While the other pathways will have a range of providers and iwi and Māori organisations delivering PHO schemes, the direct-to-household pathway will need a single service provider. This service provider will be responsible for engaging with households, managing the approval process, and oversight of properties bought, among other things. This role will last for the entire time that households remain in the shared ownership scheme.
55. I recommend the government shared ownership product have the following parameters, to ensure that it is designed in a way that is consistent with the overall approach of the PHO Fund:
 - 55.1. shared ownership through tenants in common;
 - 55.2. designed around households graduating from the scheme within 15 years, to align with the capital recycling requirement;
 - 55.3. interest-free, but with the flexibility to potentially charge some reasonable fees to operate the product as intended;
 - 55.4. designed so that households are responsible for the costs of home ownership, including rates, insurance, and maintenance;
 - 55.5. designed to have any capital gains, or losses, shared with the home owner;
 - 55.6. available to an individual once only.

An investment framework will set out the outcome and priorities to guide the PHO Fund's approach

56. An investment framework would outline our ongoing strategy for investment in progressive home ownership schemes through the PHO Fund. The investment framework would set out how funding decisions are made and guide decision making of those delivering PHO schemes across all three pathways. The investment framework will include the:
 - 56.1. desired outcome and priorities for the PHO Fund, which includes that the PHO Fund should deliver PHO schemes in a range of places across New Zealand with severe housing affordability issues;
 - 56.2. application of the design principles² that guide the design of the PHO Fund;
 - 56.3. eligibility aspects that are common across the pathways, those being the restriction of the types of houses and the broad household eligibility criteria;
 - 56.4. detail on the place-based approach that will be taken through the provider pathway;

² These are the principles of additionality, graduation, administrative simplicity, cost effectiveness, and place-based.

- 56.5. approach for how funding is handled, including expectations around fund management, how funding will be staged, and the approach for allocating across the pathways;
- 56.6. reporting regime, including requirements to track progress towards the outcome and priorities of the PHO Fund.
- 57. I consider that an investment framework is important given the different approaches for delivering on the priorities that each pathway will take. This will ensure that there is a coordinated and consistent approach for delivering on our desired outcomes for the PHO Fund.
- 58. The investment framework would ultimately be 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.
- 59. I intend to set and regularly review the investment framework to outline our ongoing strategy for funding PHO schemes. I will design the investment framework within the bounds that I have set out in this paper.

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

- 60. The performance of the PHO Fund will be tracked to ensure it delivers on its priorities. To effectively track the performance, data will be collected from those entities receiving 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:
 - 60.1. how many households have been assisted or have registered interest, which will be broken down by region, priority groups, and cohorts;
 - 60.2. how many homes are completed and ready for purchase, how many homes are in the pipeline and when will they be completed (including a regional breakdown);
 - 60.3. progress that households have made towards graduating from their respective PHO schemes, including repayments or complete sale of the home;
 - 60.4. the size of any equity gain made by providers and the details of where this gain has been reinvested into PHO schemes;
 - 60.5. the cost of delivery of different PHO schemes;
 - 60.6. whether any households have defaulted or graduated from the scheme.
- 61. Over time, we may need to make changes to how the PHO Fund operates to ensure it continues to deliver on the outcomes sought. Any changes made will be informed by officials' monitoring and evaluation and consistent with MAIHI. HUD will work with Te Puni Kōkiri, the Ministry for Pacific Peoples, and the Ministry of Social Development to get regional intelligence that will inform this approach.

The PHO Fund will have several functions to deliver effectively

62. There are three main functions that need to be in place for the PHO Fund to operate. The functions vary considerably, from substantive policy roles to operational roles to the delivery of PHO schemes. These functions are:
- 62.1. an ongoing policy function to not only establish the PHO Fund but also monitor and evaluate the PHO Fund, and provide me with advice on the settings set out in the investment framework as needed;
 - 62.2. a PHO function to give effect to the policy and to perform the necessary contract management, monitoring and assurance needed for the PHO Fund to operate;
 - 62.3. a service provider to deliver the direct-to-household pathway and to design the government shared ownership product.
63. It is important, for the success of the PHO Fund, that we give these functions to organisations well-suited and equipped to perform them.

HUD should continue to undertake the policy function

64. HUD is the lead agency for strategy, policy, funding, monitoring and regulation of the housing and urban development system. The policy function falls within HUD's existing responsibilities and will include monitoring, evaluating and reviewing the PHO Fund and investment framework. HUD is also already responsible for the development of the PHO Fund, which will minimise any administrative costs that would be incurred by any transfer. For these reasons, I recommend that HUD undertake the policy function as the agency best placed to deliver it.

The PHO function is also best placed within HUD

65. The PHO function will give effect to the policy as a contract management, monitoring and assurance function that will:
- 65.1. 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;
 - 65.2. enter into arrangements with providers (including iwi and Māori providers) to deliver their PHO schemes (the supported approach), and with the service provider for the direct scheme (the direct approach);
 - 65.3. determine the levels of funding allocated to (and within) the different pathways, in accordance with the investment framework;
 - 65.4. manage and monitor the contracts;
 - 65.5. report on the performance of the allocated funding and provide assurance that PHO Fund priorities are being met.
66. I recommend that HUD also performs this role as it:

- 66.1. already has skills necessary to be the PHO function through its experience performing a similar function for public housing as it has:
 - 66.1.1. good relationship management skills and established relationships with community housing providers, some developers, and some iwi and Māori groups;
 - 66.1.2. expertise in procurement, funding, managing and monitoring contracts, and operational policy for funding and delivery of public housing.
- 66.2. will allow for easier coordination across the HUD's housing and urban development functions and work programme;
- 66.3. will keep a separation between funding decisions and potential recipients of funding as HUD will not be directly involved in the delivery of PHO schemes.

Kāinga Ora – Homes and Communities is best placed to deliver the direct-to-household pathway and design the government shared ownership product

- 67. The service provider is a delivery role that will design the government shared ownership product and deliver it through the direct-to-household pathway. The role will involve various ongoing activities:
 - 67.1. engaging directly with prospective households;
 - 67.2. managing the application and approval processes;
 - 67.3. entering into and facilitating co-ownership with households;
 - 67.4. managing the ongoing relationships with households;
 - 67.5. providing ongoing oversight of the property;
 - 67.6. reporting to the PHO function on the performance and outcomes of the direct-to-household pathway.
- 68. I recommend that this role be carried out by Kāinga Ora – Homes and Communities (Kāinga Ora). Kāinga Ora is the delivery arm for our priorities for housing and urban development and would be best placed to deliver this function as it:
 - 68.1. is well placed to work closely with HUD's policy and PHO functions;
 - 68.2. is able to have a national presence;
 - 68.3. will not be directly involved in the delivery of PHO schemes under the other pathways, which will ensure that its deliver of the direct-to-household pathway will not detract from delivering in the other pathways;
 - 68.4. performs complementary functions for managing the delivery of the government's 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;

68.5. has experience owning and managing a property portfolio and dealing with property maintenance for its over 63,000 public housing places. I acknowledge that a lighter touch would be required for PHO, as co-ownership of properties is different to managing public housing. However, this experience still places Kāinga well to deliver the direct-to-household pathway.

69. Given that Kāinga Ora will deliver the direct-to-household pathway, I consider that it would also be best placed to design the operational aspects of the government shared ownership product that it will deliver. I recommend that Kāinga Ora's board be delegated responsibility for making final decisions on the design of the government shared ownership product, aligned with Cabinet's agreement on the overall design of this pathway and product.

70. While I consider that Kāinga Ora would be best placed to deliver this pathway, it does not have a proven track record of delivering PHO schemes in recent years. While the current number of organisations active in progressive home ownership is low, they offer valuable expertise and insights. As such:

70.1. I expect that Kāinga Ora and HUD will work with the sector to design the government shared ownership scheme and learn from the sector's experience in developing a PHO product.

70.2. I will maintain the option of whether Kāinga Ora should remain the sole service provider delivering the direct-to-household pathway and/or whether any other organisation is well placed to deliver this pathway.

71. In developing the government shared ownership product, Kāinga Ora will also explore potential opportunities for it to form a standardised product that could be used by providers and iwi and Māori organisations. A standardised product could be hugely beneficial in gaining market adoption through acceptance of the financial sector and understanding from lawyers and potential first home buyers.

72.

s 9(2)(f)(iv)

73.

s 9(2)(f)(iv)

Funding approach for providers and iwi and Māori organisations

74. The *Public Finance Act 1989* applies to any arrangements which involve the Crown lending money to a person or organisation. The *Public Finance Act* specifically provides that the Crown must not lend money except as expressly authorised by an Act.
75. However, it also empowers the Minister of Finance (on behalf of the Crown) to lend money where necessary or expedient in the public interest under section 65L of the *Public Finance Act*. This power was used in the first phase for funding providers, iwi and Māori organisations. I consider that this power should continue to be used for consideration of whether to make loans to providers and iwi and Māori organisations.

The funding approach for the provider pathway and iwi and Māori pathway will also use the approach developed for the first phase

76. As Cabinet agreed in December 2019, the \$400 million funding will 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. This means that providers will have 15 years to return funding to the Crown.
77. I consider that funding should be interest free, to enable providers to deliver the maximum benefit to households through PHO schemes. I also consider that within the 15-year period, contracted organisations should 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.
78. I also recommend that contracted organisations keep any capital gains that they make in the delivery of PHO schemes. However, we will require that any capital gains retained 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 share of capital gains.

Funding should be staged for the delivery of PHO schemes

79. 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.
80. That said, my officials have heard during development of the first phase 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. HUD will, however, require that any organisations that receive staged 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 being secured are in the right place, at the right price.

Funding approach for Kāinga Ora

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

86. While the PHO Fund will fill a gap in our demand-side interventions to support people into home ownership, it is equally important that it is designed to be complementary to the existing demand- and supply-side interventions, many of which are administered by Kāinga Ora.

Our existing demand-side support is still important for many households

87. The design of the PHO Fund set out in this paper will broadly enable most households to access the First Home Grant and Loan products where needed.

These products help households that have insufficient deposits and are an important part of how we can help households achieve their home ownership aspirations.

88. Tenant Home Ownership is a programme run by Kāinga Ora. Under this programme, existing Kāinga Ora tenants can buy the house they are living in, although not all properties are available under this programme. I recommend that the PHO Fund be open as an option, where appropriate, alongside the Tenant Home Ownership 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.

Our supply side interventions will open up options for households

89. HUD officials will further explore opportunities with Kāinga Ora and Land for Housing around how the Government's other supply initiatives could interact with the PHO Fund across the three pathways. In Crown led developments, this includes considering 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.
90. This will likely involve active partnerships between the Crown, PHO providers, iwi, Māori rūpū, 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.
91. The KiwiBuild programme and Axis Series homes are complementary to the PHO Fund in that they deliver affordably priced new builds for sale to first home buyers (and second chancers). Households should have as wide a range of options as possible for finding their ideal home, as long as it is affordably priced. Given this, I consider that households should be able to buy a KiwiBuild or Axis Series home through the direct-to-household pathway if it is the right home for them.
92. Under the direct-to-household pathway, Kāinga Ora would be a co-owner and purchaser of homes. At present, only an eligible KiwiBuild buyer, or a charitable or not-for-profit organisation, iwi, or Community Housing Provider as a PHO scheme provider can purchase a KiwiBuild home. This means that Kāinga Ora is unable to buy KiwiBuild homes alongside eligible KiwiBuild buyers through shared ownership. I therefore recommend that we agree to enable Kāinga Ora to enter into shared ownership arrangements with eligible KiwiBuild buyers to buy KiwiBuild homes. For the Axis Series homes, this will only require joint agreement from the Ministers of Housing and Finance to adjust the eligibility criteria.
93. I expect that households may choose to buy homes that we deliver through our various supply side interventions. Equally, they may choose to buy from private developments. To give households the widest range of options to buy the right home for them, we should make sure that both options are available. I do not consider that the direct-to-household pathway should solely focus on either our supply interventions or private developments.

Our existing support to rōpū may support our approach in the iwi and Māori pathway

94. 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.

Our newly funded support for improving housing for Pacific families and communities may support and be supported by the PHO Fund

95. For Pacific peoples, my officials 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, that will invest approximately \$41m over a four-year period to improve housing for Pacific peoples across the continuum. It will fund:
- 95.1. financial literacy services so that Pacific families are able to cope with significant economic shocks;
 - 95.2. Pacific organisations to partner and build more homes for Pacific families and create more employment opportunities to build the homes;
 - 95.3. more Pacific organisations to be able to deliver housing to Pacific families and communities;
 - 95.4. exploration of opportunities outside of metropolitan cities for Pacific peoples to create their own success.

Funding allocation

96. For the first year (the 2021/22 financial year), I anticipate that between \$50 and \$90 million may be dispersed to providers, iwi and Māori organisations, and through Kāinga Ora. This is in addition to the \$45 million to be disbursed through phase one. 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.
97. I consider that to provide greater certainty to those who wish to seek funding across the pathways, that we set a minimum amount of funding that should be delivered each year for each pathway. Providing a minimum is also important to ensure that there is enough funding going to each pathway to warrant the cost of establishment. This amount should be at least \$15 million, although I acknowledge that the actual amount will depend on the demand for each pathway.
98. For outyears, HUD will base allocation decisions on the anticipated demand for each pathway, giving consideration to the priorities of the PHO Fund. I expect that HUD will get better information about demand across the pathways during the first year of the PHO Fund.

Implementation and timing

99. I consider that the provider pathway and iwi and Māori pathway will be opened up to further organisations in late 2020. This would provide time for the PHO function to hire staff, to set up the operational systems and processes, develop the appropriate documentation and resources, and establish monitoring and assurances frameworks that are needed to deliver these pathways.
100. The direct-to-household pathway requires significantly more lead in time and resource to design, develop, and implement than the two other pathways. It will also require robust testing with the market to ensure that it is accepted by banks and lawyers. To give sufficient time to get this right, I consider that the direct-to-household pathway should be implemented in early 2021.

Financial Implications

101. HUD and Kāinga Ora will need to build their capability and capacity to perform their PHO related functions. Funding for administrative and establishment costs has been secured through Budget 2020. HUD and Kāinga Ora officials will work together to analyse what existing funding is available to be used for the PHO Fund and then identify how the funding for administrative and establishment costs will be split between the two agencies. As the funding is already approved, the Ministers of Housing and Finance will agree on any final split between these agencies.

Legislative Implications

102. There are no legislative implications resulting from the design of the PHO Fund as set out in this paper.

Population Implications

103. I expect that improving opportunities for home ownership will improve housing choices for New Zealanders. The PHO Fund has a specific focus on our priority groups, including Māori, Pacific peoples, and families with children. The PHO Fund will be one way that we can help to address the low levels of home ownership that Māori and Pacific peoples face in New Zealand.

Human Rights

104. A priority of the PHO Fund is to support Māori whānau and Pacific households. The iwi and Māori pathway, which involves working closely with iwi and Māori organisations, will also specifically serve Māori whānau. I will continue to be cognisant of any potential implications for the *Human Rights Act 1993* or *New Zealand Bill of Rights Act 1990* as the pathways are implemented.

Consultation

105. This paper has been prepared by HUD. The following agencies have been consulted: The Treasury, Te Puni Kōkiri, the Ministry of Social Development, the Ministry for Pacific Peoples, Kāinga Ora – Homes and Communities, and the Department of the Prime Minister and Cabinet (Policy Advisory Group).

Communications

106. I intend to make announcements on the first phase and the wider design of the PHO Fund, as agreed by Cabinet, in July 2020.

Proactive Release

107. This paper will be proactively released in whole, subject to redactions as appropriate under the *Official Information Act 1982* following the announcement of the first phase and wider design of the PHO Fund.

Recommendations

The Minister of Housing recommends that Cabinet:

1. **Note** that \$400 million was made available by Cabinet for a Progressive Home Ownership (PHO) Fund;
2. **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;
3. **Note** that the PHO Fund has three key priorities, to support:
 - 3.1. a range of places across New Zealand with severe housing affordability issues;
 - 3.2. 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. In particular, Cohorts A and B:
 - 3.2.1. lower to median income households that are unlikely to buy a home without a reasonable level of financial and non-financial support (Cohort A);
 - 3.2.2. 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);
 - 3.3. the priority groups (including Māori, Pacific peoples and families with children);

Pathway design

4. **Agree** that the common features that will be applied to each pathway be:
 - 4.1. that homes must be affordably priced, preferably new builds, and easily resaleable;
 - 4.2. 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;

5. **Agree** that the iwi and Māori pathway and provider pathway take a supported approach, which will have common features of:
 - 5.1. delivery of wraparound support alongside the PHO scheme;
 - 5.2. a wide range of different PHO products able to be used;
 - 5.3. delivery entirely by the PHO provider, from finding suitable homes to supporting households to graduation;
6. **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;
7. **Agree** that the provider pathway largely applies the process from the first phase, including the place-based approach, with the addition of a panel approach that is open to new providers;
8. **Agree** that the direct-to-household pathway takes a lighter touch approach to delivering PHO schemes, targeted towards those closer to home ownership than through the provider pathway and iwi and Māori pathway;
9. **Agree** that the government shared ownership product used in the direct-to-household pathway be designed by Kāinga Ora – Homes and Communities (Kāinga Ora) as the service provider applying Cabinet’s agreed design of the pathway, and that it will be:
 - 9.1. a shared ownership product through tenants in common;
 - 9.2. designed around households graduating from the scheme within 15 years, to align with the capital recycling requirement;
 - 9.3. interest-free for households, but with the flexibility to potentially charge reasonable fees needed to operate the product as intended;
 - 9.4. designed so that households are responsible for the costs of home ownership, including rates, insurance, and maintenance;
 - 9.5. designed to have any capital gains shared with the home owner;
 - 9.6. available to an individual once only;
10. **Agree** that the final design for the government shared ownership product be agreed to by the board of Kāinga Ora;

Funding approach

11. **Agree** that the Minister of Housing set and regularly review an investment framework, which sets out the objective and priorities of the PHO Fund and guides the approach taken;

12. **Agree** that the funding approach for providers and iwi and Māori organisations largely follow the approach from the first phase in that:
- 12.1. loans will be interest free that must be repaid within 15 years of the initial drawdown;
 - 12.2. any capital gains that a household would normally receive through the design of a PHO scheme could be kept by the household;
 - 12.3. any capital gains that a provider or iwi and Māori organisation receives can be retained so long as they are used to deliver PHO schemes to more households;

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13.

Roles and functions

14. **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;
15. **Agree** to the following allocation of functions and roles:
- 15.1. that HUD holds two separate functions:
 - 15.1.1. the policy function responsible for the overarching policy and the investment framework;
 - 15.1.2. the PHO function, a contract management, monitoring and assurance function that will give effect to the PHO Fund;
 - 15.2. that Kāinga Ora be the service provider for the direct-to-household pathway as it is the delivery arm of the Government's priorities for housing and urban development;
 - 15.3. that other PHO providers and iwi and Māori organisations deliver PHO schemes under the two other pathways;

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16.

17.

Interaction between the PHO Fund and other support products

18. **Note** that HUD officials will 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;
19. **Note** that KiwiBuild homes are complementary to the PHO Fund in that they deliver affordably priced new builds for sale to first home buyers and second chancers;
20. **Agree** that Kāinga Ora and the Crown be allowed co-purchase KiwiBuild homes with eligible KiwiBuild buyers where this is done under the direct-to-household pathway;
21. **Note** that HUD and Te Puni Kōkiri will explore opportunities for how programmes administered by Te Puni Kōkiri could interact with the PHO Fund across the three pathways, particularly for papakāinga developments of around ten homes;
22. **Note** that HUD and the Ministry for Pacific Peoples 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;

Implementation and timing

23. **Agree** that the provider pathway and iwi and Māori pathway be opened up to further organisations in late 2020;
24. **Agree** that the direct-to-household pathway be implemented in early 2021 to allow more time for it to be designed and developed.

Authorised for lodgement

Hon Dr Megan Woods

Minister of Housing