

[In Confidence – Budget Sensitive]

Office of the Minister of Housing

Chair, Cabinet Social Wellbeing Committee

Report Back on the Progressive Home Ownership Fund

Proposal

1. This paper reports back on aspects of the Progressive Home Ownership Fund (the Fund) as directed by Cabinet [CAB–19–MIN–0444 refers]. It seeks decisions on the targeting, high-level approach and design of the Fund, and costs associated with establishing, administering and operating it.

Executive Summary

2. As part of the Government Build Programme Reset, Cabinet made available \$400 million for the delivery of progressive home ownership schemes and invited me to report back by the end of this year on the high-level approach and design features of the Fund.
3. The Fund sits alongside our other key housing programmes to help every New Zealander have a safe, warm, dry home to call their own. It will be an important tool to assist some people into home ownership who otherwise would not be able to buy a home. However, it cannot address all housing issues. For this, we have a comprehensive housing work programme in place.
4. My expectation is that the Fund will support between 1,500 and 4,000 households into home ownership. To most effectively use the Fund, I propose that we target the Fund towards households that would only become home owners with government support, and specifically the following cohorts:
 - 4.1. lower to median income households that are unlikely to buy a home without a reasonable level of financial and non-financial support;
 - 4.2. 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.
5. The Fund is an initiative targeted to increasing opportunities for people to access home ownership. I consider that the Fund will have a specific aim to address affordability issues for priority groups (including Māori, Pacific peoples, and families with children) who have an aspiration for home ownership in areas where housing affordability issues are most severe.

6. I will work with the Minister for Māori Development to ensure that the Fund is designed to work alongside current products and will work with initiatives such as the Te Puni Kōkiri Māori Housing Network to improve Māori housing outcomes.
7. I will also work with the Minister for Pacific Peoples to identify how the Fund is able to work with the approach that the Ministry for Pacific Peoples is developing to support Pacific households' aspirations for home ownership.
8. I recognise that there is no single best approach to delivering progressive home ownership schemes and that households can benefit from different schemes to achieve their home ownership aspirations. To ensure our approach can address these different needs, I intend to establish the Fund through three distinct delivery channels:
 - 8.1. through government direct to households;
 - 8.2. through providers that offer a range of progressive home ownership schemes;
 - 8.3. through working with iwi and Māori organisations to deliver progressive home ownership schemes in particular places and/or projects.
9. Under the government direct to households channel, I consider that we should use a shared ownership scheme. Shared ownership is a form of shared equity that involves the government being a joint owner (tenant in common) with the household.
10. While I considered other scheme types, ultimately these would not be suitable for the government direct to households scheme as they would require the government to own entire homes. This would either involve full investment in the home, or entering into complicated mortgage arrangements. This requires far more administration and oversight, increasing the overall cost and risk of the Fund.
11. The two other delivery channels will be open to the wider range of scheme types, including rent-to-buy, to ensure there are a variety of schemes to meet the different needs of different households.
12. To deliver at speed, while still providing sufficient time to ensure we get the settings right, I propose we implement a staged approach. The initial focus would be on the piloting of schemes beginning in April 2020 delivered through existing providers of progressive home ownership schemes and those able to operate in specific places or with particular groups. The pilot will be used to inform the amount of funding that might be allocated through this channel and whether the channel is opened to other providers at a later stage. We will then establish relationships with iwi and Māori organisations by July 2020 to deliver progressive home ownership schemes in particular projects or places. A government direct to households scheme and full panel of progressive home ownership providers will then be established.
13. For the detailed design of the pilot, I propose that Cabinet delegate decisions to the Minister of Housing and the Minister of Finance, in accordance with the approach and high-level design set out in this paper. I will report back to Cabinet in May 2020 outlining the:
 - 13.1. progress made on the pilot of the Fund;

- 13.2. more detailed design of the government direct and iwi and Māori channels.
14. During engagement with the sector, officials heard, almost unanimously, that requiring funding to be returned to the Crown within 10 years would significantly hinder the effectiveness of providers' schemes. I therefore propose that the \$400 million funding for the Fund be treated as fiscally neutral under the Fiscal Management Approach, with funding being returned to the Crown within 15 years, rather than the standard 10 years.
15. The Fund will require a total of \$85 million over the first four years. The costs associated with operationalising the Fund will be approximately \$43 million over the first four years. In addition, approximately \$42 million (depending on cash disbursement timing) will need to be counted towards the Budget operating allowance.
16. I propose that the costs of operating the Fund are progressed through Budget 2020 as a Priority D Reducing child poverty and improving child wellbeing new spending initiative. I also propose that \$2.5 million of this funding, for wraparound support and establishment costs, be brought forward to the 2019/20 fiscal year so that the pilot can be implemented by April 2020.

Background

17. On 2 September 2019, Cabinet agreed to make available \$400 million in funding to support the delivery of progressive home ownership schemes through the Fund [CAB-19-MIN-0444 refers]. The objective of the Fund is to assist people into home ownership who otherwise would not be able to buy a home.
18. Progressive home ownership schemes aim to provide more people with opportunities to own their own home by reducing the deposit requirements and/or the costs of servicing a mortgage. Progressive home ownership schemes can come in the form of shared equity (including shared ownership), rent-to-buy, leasehold and deferred settlement.
19. These innovative arrangements are already offered in relatively small numbers through community housing providers, a small trial through Te Puni Kōkiri that is targeted to iwi and Māori¹, Christchurch City Council², Tāmaki Regeneration Company, and some financial institutions. Through the Fund, we will help more households to access progressive home ownership schemes.
20. The Fund sits alongside our wider housing programme to help every New Zealander have a safe, warm, dry home to call their own. We are working to:

¹ Te Puni Kōkiri is trialing a set of progressive home ownership models for low to median income whānau Māori working with iwi and other groups. The schemes used are shared ownership and rent-to-buy, and includes both bespoke models and one scheme from an existing provider.

² Christchurch City Council launched its new housing initiative, Te Whāriki tū-ā-Rongo (Christchurch Housing Initiative), on 1 November 2019. This initiative is jointly funded by the government and Christchurch City Council, and is being administered by Habitat for Humanity.

- 20.1. prevent and reduce homelessness and reduce reliance on motels as emergency accommodation. Funding provided through Budget 2019 will expand and strengthen the Housing First programme and help to fund and maintain over 2,800 Transitional Housing places throughout New Zealand;
 - 20.2. make life better for renters, by passing the Healthy Homes Guarantee Act 2017. We have also banned letting fees, and our reforms of the Residential Tenancies Act are underway;
 - 20.3. increase the stock of public houses owned by Kāinga Ora and community housing providers. Through Budget 2018, we funded the delivery of 6,400 new public housing places, of which 2,178 were delivered in 2018/19.
21. We have also improved incomes for low- and middle-income families with children through the Families Package in 2018. The Families Package increased the Accommodation Supplement, providing an estimated 135,000 households with an additional \$35 per week on average to help pay for their housing related costs.
22. This paper reports back on the following aspects of the Fund, as directed by Cabinet:
- 22.1. the target households for the Fund;
 - 22.2. the high-level approach and design features including;
 - 22.2.1. the process for a call for proposals from community housing providers, iwi and Māori organisations and financial institutions to deliver progressive homeownership schemes;
 - 22.2.2. the process to establish a Crown shared equity scheme;
 - 22.3. the establishment, administrative and other operating costs for the Fund and how these will be funded;
 - 22.4. how the Fund could improve home ownership for Pacific peoples.

The objective of the Fund is to help households who aspire to own a home but cannot afford to buy a home

- 23. Home ownership rates have fallen from 74 per cent in June 1991 to just 62 per cent in June 2019, their lowest in 60 years. These declines can, in large part, be attributed to house prices increasing faster than incomes. Between 2013 and 2018, house prices rose 54 per cent while household incomes rose by only 23 per cent.
- 24. As house prices have increased, people who would previously have purchased homes have been priced out of home ownership. While these households may be able get a commercial mortgage, it would not be large enough to pay for the cost of a home in some housing markets at today's prices.
- 25. Increasing the supply of modestly priced homes through the government's Build Programme will help to put downward pressure on prices in the medium to longer term. However, affordability may remain a challenge for these households. Alongside our supply initiatives, progressive home ownership can be an effective demand side

support to assist households bridge both mortgage serviceability and/or deposit barriers by sharing the capital cost of purchasing the home.

26. Within this wider context, the Fund is an important and complementary tool to fill a gap in our demand side interventions. I will ensure that the settings of the Fund are aligned with our other demand side initiatives, including the First Home Grant and the First Home Loan. I will also ensure that the Fund is complementary to government support for building homes on Māori land, including access to finance loans and infrastructure grants. This is important for households that are not otherwise in a position to buy to become home owners by combining the different government support products together.
27. The Fund is an initiative targeted at increasing the opportunities for people to access home ownership. It cannot address all housing issues, which is why we have a comprehensive housing work programme in place. I consider that the Fund will have a specific aim to address affordability issues for priority groups (including Māori, Pacific peoples, and families with children) who have an aspiration for home ownership in areas where housing affordability issues are most severe.

Guiding principles for design

28. To inform and guide the approach for designing the Fund, I have used the following principles:
 - 28.1. **Additionality** – that this Government’s support will increase the number of households that would not otherwise have bought a home to become home owners;
 - 28.2. **Graduation** – that households assisted into home ownership through the Fund will be able to successfully graduate from progressive home ownership and move into fully independent home ownership;
 - 28.3. **Administrative simplicity** – the design of our support should be done in a way that keeps the administration of the scheme as simple as possible for all parties, including the households we will assist;
 - 28.4. **Cost effectiveness** – that we provide the greatest benefit possible to households that would not have otherwise bought a home at minimum cost;
 - 28.5. **Place-based** – that we focus on places where housing affordability issues are most severe and where progressive home ownership schemes can help to address this.

Applying a place-based approach

29. Housing and urban outcomes manifest differently in different places. This means that we cannot deploy the same tools in the same ways in every part of the country and expect them to be effective. To target places where there is clear housing affordability need, I propose that the Fund takes a place-based approach. This

approach is already being taken across our other housing initiatives³ and will align the Fund with the wider programme.

30. This will help to improve both the coordination and the effectiveness of this Government's housing related initiatives to ensure we have the right mix of solutions to improve housing outcomes in all places, including where it makes most sense to deploy the Fund. To assess and select areas, I will consider a range of factors such as median income levels, lower quartile house prices, and the cost of building new homes.
31. An initial assessment identifies that the Fund would be a useful tool in most main urban areas, as well as in some smaller centres. I also expect that as we work with iwi and Māori, a more specific look at places and projects may identify more specific areas of Māori housing need that might not be identified at regional, district or urban level.
32. In applying a place-based approach, I consider that the Fund would be targeted towards:
 - 32.1. households in areas where there is a clear need for progressive home ownership schemes and where providers, Māori and iwi organisations, and financial institutions are able to deliver schemes to households located in these areas;
 - 32.2. new supply in the first instance. Locations where new build homes are similarly priced to existing homes is an initial indication of a systemic housing affordability issue that prevents people on lower incomes from being able to buy a home.⁴ These are areas where a progressive home ownership scheme can be effective. A preference for new supply can also help to stimulate supply of housing and reduce the chance of heating up the housing market further in this area.

Targeting households for the Progressive Home Ownership Fund

33. The target cohort will determine how the Fund should be designed. Households further away from home ownership will need more and, in some cases, different support to be able to successfully enter and graduate from a progressive home ownership scheme.
34. To help us decide who our target cohort is I have considered three potential cohorts:
 - 34.1. **Cohort A:** Lower to median income households that are unlikely to buy a home without a reasonable level of financial and non-financial support;

³ These include the whānau-centred community development approach used by Te Puni Kōkiri, and the place-making approach used by local government.

⁴ If both existing homes and new builds are equally unaffordable, then this demonstrates an area where there are systemic housing affordability issues that can be addressed through progressive home ownership schemes. Where existing homes are much lower priced, this is an indication of wider issues that would be better addressed through other interventions.

- 34.2. **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;
- 34.3. **Cohort C:** Higher income households that are not yet home owners but would be able to achieve home ownership without financial assistance.

Description of Cohort A

35. Cohort A are lower to median income households that are unlikely to buy a home without a reasonable level of support. This includes financial support and non-financial support, such as wraparound financial capability services and in some cases pastoral care.
36. Households in this cohort are generally eligible to receive existing government support products such as the First Home Grant and First Home Loan. They are also likely to be receiving other forms of government support, such as the Accommodation Supplement. Being eligible to receive multiple different government support products alongside a progressive home ownership scheme is important for many households, particularly those in Cohort A that are further away from home ownership.
37. Progressive home ownership schemes offered through existing providers are mostly focussed on supporting Cohort A, although these schemes also help households in Cohort B. As at the end of October 2019, around 1,060 households are being assisted into home ownership by these schemes. I understand that a large number of the households assisted by existing providers are Māori households and Pacific households.
38. Without our support, these households may not otherwise reach their home ownership aspirations. However, this support will come at a higher cost per household compared to other cohorts, meaning that we can support fewer households into home ownership. However, the effect on each household will be much greater.

Description of Cohort B

39. Cohort B are 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. These households are consistently locked out of the market as their incomes and savings are growing at a slower rate than house prices. However, they are likely to have slightly higher incomes than those in Cohort A.
40. Households in Cohort B are generally eligible for the government's First Home products and the Accommodation Supplement, but this is still not enough to help them into home ownership. In addition, while some households in Cohort B may be eligible for existing progressive home ownership schemes, they typically earn too much to be eligible for non-housing related government support.

41. By supporting Cohort B, we are able to increase the number of households assisted into home ownership. This is because Cohort B are closer to home ownership than Cohort A. Support for Cohort B will still be a focus on those that are struggling to afford to buy their own home and, therefore, would benefit from progressive home ownership schemes.

Description of Cohort C

42. Cohort C consists of higher income households that are not home owners yet but will own homes in the future without any additional government assistance. Cohort C are unlikely to be eligible for much government support as their household incomes are typically above the threshold for most support.
43. Supporting Cohort C would assist as many households into homes as possible, as these households are already close to home ownership and so will require much less individual financial support. However, this means that there would be a very limited impact on home ownership in the long term. While these households would be able to get into home ownership faster with assistance from a progressive home ownership scheme, they are likely to buy a home without assistance from the government. The only benefit to this cohort would be to bring forward their purchase of a home.

I propose that we target our support towards Cohorts A and B but not Cohort C

44. The decision about which cohorts to target will impact on the number of households that the Fund can support and the outcomes that it will achieve. Households in greater need of support will come at a higher cost per household, which means that the Fund would support fewer households. Conversely, households requiring less assistance would need less support, meaning a greater number of households could be assisted.
45. I propose that we target households that would not become home owners without our support, which would be to target both Cohorts A and B. This will balance the need to support a greater number of households with helping those that need a greater amount of support.
46. I also consider that the Fund should be demand driven, rather than setting a quota of the number of households to be assisted in each cohort. While there is a large group of renting households in both Cohorts A and B that might have interest in accessing a progressive home ownership product, it can be difficult to predict exactly who and where the actual demand will be.
47. My officials inform me that the Fund could support around 2,700⁵ households if funding targeted mostly to Cohort A or possibly as high as 4,000⁶ if more targeted towards Cohort B. Given uptake could be variable, I expect the total number of households that could be assisted into home ownership to be between 1,500 and

⁵ Assuming a household earning \$85,000 buys a \$540,000 home receives around \$150,000 in support from the Fund.

⁶ Assuming a household earning \$110,000 buys a \$650,000 home receives around \$100,000 in support from the Fund.

4,000. The actual number helped will depend heavily on the households that apply for support, where they are located, and the type of scheme they enter into.

48. It is important that the Fund reaches the households that will most benefit from our support. I consider it is important that the Fund has a particular focus on priority groups, including Māori, Pacific peoples, and families with children, who have an aspiration for home ownership, as these groups are characterised by low levels of home ownership.
49. Cohort C do not need support through the Fund to become home owners. As such, I do not propose that we target Cohort C. Where they are eligible, Cohort C can access other initiatives, such as the First Home Grant and the First Home Loan, to own a home.

Breakdown of Cohorts A and B

50. My expectation is that demand has the potential to outstrip the number of households that we can assist through the Fund. Table one sets out a breakdown of Cohorts A and B by the number of renting households in respective income brackets and by the number of Māori households and Pacific households.

Table 1: Breakdown of Cohorts A and B⁷

	\$50k-\$70k (Cohort A)	\$70k-\$90k (Cohort A or B)⁸	\$90k-\$130k (Cohort B)
	Auckland		
No of renting households	30,000	22,000	26,000
Māori households	3,500 (12%)	2,600 (12%)	2,800 (11%)
Pacific households	4,000 (13%)	3,000 (14%)	3,100 (12%)
	Rest of New Zealand		
No of renting households	66,000	42,000	42,000
Māori households	12,800 (19%)	7,000 (17%)	6,500 (15%)
Pacific households	2,400 (4%)	1,600 (4%)	1,500 (4%)

51. While there is a sufficiently large number of people that the scheme can target, uptake is likely to be a subset as:
- 51.1. some households may not be ready for home ownership or may choose not to buy even if their current income meets the threshold;
- 51.2. some of the households may have more difficulty graduating from the scheme based on individual circumstances.

⁷ The income ranges in the table are indicative of the households in each cohort. For example, a household income of \$130,000 may be required for some households to buy a home in Auckland or Queenstown. However, a household may not need as high an income for other parts of the country where house prices are relatively more affordable.

⁸ Households in this income range could be either Cohort A or B depending on where the household lives and the average income and house prices in that area.

52. In addition, Māori households and Pacific households are, on average, larger, particularly when living with extended family members. This is likely to reduce the number of eligible households as their non-housing related expenditure will be higher and a suitable house would need to be larger and, therefore, more costly.

Delivery of progressive home ownership schemes

53. I recognise that there is not a single best approach to delivering progressive home ownership schemes and that households can benefit from different forms of assistance to achieve their home ownership aspirations. Our approach for delivering progressive home ownership schemes through the Fund can address these different needs across three different delivery channels:

- 53.1. through government directly to households;
- 53.2. through providers that offer a range of progressive home ownership schemes;
- 53.3. through working with iwi and Māori organisations to deliver progressive home ownership schemes in particular places and/or projects.

Through government direct to households

54. Delivery through government direct to households will be a household-initiated delivery channel. Households will go through a criteria-based application process to be approved as eligible for the government scheme. For example, the criteria will likely include income and house price caps. This is similar to the settings for the First Home Grant. Households would be responsible for applying for the scheme as well as acquiring a commercial mortgage and finding a home to purchase (which could be a KiwiBuild home).
55. This channel will enable the Fund to be available in areas where households want to apply directly for the shared ownership product and where there are no providers in place, and where there are acute affordability needs that progressive home ownership schemes are well placed to address. Officials will apply a place-based approach to determining the locations in which this channel will be available to ensure that support is targeted to where it is needed.
56. Some of the eligibility criteria for the scheme would be varied to reflect the particular place where the scheme is available. For example, house price and income caps for the scheme may need to be varied across the country to reflect different housing markets and income levels. Officials will do further work as part of the detailed design of this channel to identify the appropriate eligibility criteria.
57. This channel may also include some financial capability services to help households prepare for home ownership. Services for building Māori financial capability are in place through Te Puni Kōkiri and some iwi schemes. These could provide a platform for expansion of financial capability services that would be embedded into the delivery of the Fund. That said, I do not expect that this delivery channel would deliver the same level of wraparound support that providers deliver. Given that wraparound support is a large part of the success of providers being able to support

Cohort A, this channel will focus primarily on supporting households in Cohort B into home ownership.

58. Cabinet asked that the design of the government direct to household scheme be complementary to existing products in the market. There are several different progressive home ownership products available in New Zealand and these are delivered in a variety of ways. Many are delivered through closer relationships with households who aspire to home ownership. This leaves open a market for a lighter touch scheme that provides the financial support without the bespoke relationships, providing the opportunity for the scheme to be scaled up more easily.
59. I consider that a shared ownership scheme would be most suitable for our standardised government scheme. Shared ownership involves the government being *tenants in common* with the household, meaning the government would be a joint owner of the property alongside the household.
60. I also considered a second mortgage scheme, which is another form of shared equity. This would have involved offering a low interest (or interest free) loan to households equal to a certain proportion of a property with requirements set on when it must be paid back to the Crown. However, this may be seen as further debt by banks and other financial institutions, affecting the ability of households to acquire a commercial mortgage, or – if the household is still able to get a mortgage – increasing mortgage servicing costs.
61. Compared to rent-to-buy, leasehold and deferred settlement schemes, shared ownership involves less administration and oversight as the other schemes require bespoke relationships with potential home owners. For example, a rent-to-buy scheme would require administration to manage tenancies. It would also require the government to either own entire homes for the length of the scheme, reducing the size of support we can offer, or otherwise enter into complicated mortgage arrangements which would be more complex and result in a higher risk to the Crown (and which would therefore need more oversight to manage these risks).
62. Officials will develop a standardised shared equity product that will be delivered through the government direct to households channel. Progressive home ownership schemes can be varied and are not always well understood by all parties, including banks, insurance providers and households. Through a standardised product, these issues would be addressed and it will be the foundation for a new, long-lasting housing product.
63. Where land is Māori freehold land, third parties, including the Crown, cannot acquire any ownership interests in the land as part of a progressive home ownership scheme. That said, third parties can have ownership interests in a property located on Māori freehold land. I have directed my officials to undertake further work to understand how the government shared ownership scheme can be used for Māori freehold land, and to consider any implications for general land returned pursuant to Treaty settlements, both of which are particularly important for the iwi and Māori delivery channel.

Through providers that offer a range of progressive home ownership schemes

64. This delivery channel will deliver schemes through providers under a contractual relationship between the provider and the Crown. Providers will be responsible for selecting households and matching those households to a home. To do this, I expect that some providers may partner with developers and others to put together a pipeline of new homes for households where the provider does not already have a development underway.
65. In this channel, providers will use their established progressive home ownership schemes, which include rent-to-buy, shared equity, leasehold and deferred settlement schemes. Providers will also retain the flexibility they already have for selecting households, which I understand is typically people in Cohorts A and B.
66. There are already several providers that offer schemes to households, albeit only at a relatively small scale. With the success providers have had in helping households into home ownership, I can see a clear case for greater government support to provide funding that will allow more households to access these schemes. I understand that a large part of the success of these schemes, particularly for targeting Cohort A, is due to their use of:
 - 66.1. pre-selection processes. Providers typically have a pre-selection process to ensure that the households that are offered progressive home ownership schemes will be successful. This process takes into account factors that are difficult to measure from a desk-based process. For example, they may require that the household shows a demonstrated commitment towards becoming a home owner. In addition, where a household is not quite ready, some providers continue to work with the household to get them prepared for entering a scheme at a later date;
 - 66.2. offering a range of options to reach home ownership. Some of the larger and more established providers offer a range of progressive home ownership products. This provides a pathway of products for households that are further away from home ownership. For example, a household exiting a rent-to-buy scheme may not be ready to take out a commercial mortgage and could instead enter into a shared equity scheme;
 - 66.3. wraparound support. Current providers offer a wide range of wraparound support for households, including financial capability services, discounted utilities deals, and other financial and non-financial support where a household is struggling to remain in the scheme. Wraparound support is essential for the success of their schemes given their main target cohort.

Through working with iwi and Māori organisations

67. This delivery channel will involve working more closely with iwi and Māori organisations to deliver schemes on a project or place basis. This does not preclude iwi and Māori organisations from seeking funding through the provider channel. Nor does it prevent whānau from applying for support to buy a home through any of the three channels.

68. Instead, this channel provides a separate pathway to enable the government to work with iwi and Māori organisations that seek to deliver schemes to their community. These schemes could be bespoke arrangements possibly delivered through partnerships with other providers, or through leveraging off the government shared ownership scheme.
69. This channel will be open to using iwi and Māori housing and land developments to create new supply of homes. The partner iwi and Māori organisations would be responsible for selecting and matching whānau with an appropriate home.
70. The functions and processes to establish each relationship will vary on a case-by-case basis depending on the needs of the iwi and Māori organisation. This will allow for a more bespoke approach that will better meet the needs of the particular community being assisted through the iwi and Māori channel.

I propose we take a staged approach to delivering the Fund

71. The initial focus of a staged approach will be to pilot delivery of progressive home ownership schemes through providers of existing schemes and those able to operate in specific places or with particular groups, such as Māori or Pacific households. Participation in this pilot would be by invitation. Officials will develop the criteria for selecting which providers are invited to participate.
72. The pilot will take the form of either:
 - 72.1. the government entering into a contract to fund a provider directly to deliver progressive home ownership schemes (including the administration and wraparound support that providers offer). The provider would then put equity funding into each household through its progressive home ownership scheme;
 - 72.2. the government entering into a contract for services with a provider. The provider would bring its progressive home ownership product and administration processes, but the government would put the equity funding directly into the household rather than through the provider.
73. I propose that we put around \$45 million of funding over two years towards this initial pilot. I expect that this pilot could be launched in April 2020, assisting up to 300 households into home ownership over the term of the pilot. At a later stage, officials will establish a panel of progressive home ownership providers so that further funding from the Fund to providers is allocated through an open process, allowing new providers to access the Fund. This will likely build off the initial pilot.
74. I consider it is important that we can benefit from what we learn from the trial so that we get the best outcomes and public value from the Fund. This pilot would provide an opportunity to:
 - 74.1. ensure that the government is familiar with the progressive home ownership products that providers can offer and with the processes required to establish the Fund;
 - 74.2. ensure that providers have the ability to scale up further before releasing further funding;

- 74.3. better understand the amount of financial support that households need to achieve their home ownership aspirations;
- 74.4. better understand the potential demand for progressive home ownership schemes.
75. The Crown will work with iwi and Māori organisations to set up the different means by which we can work together to deliver progressive home ownership schemes. I expect that officials will have begun this work with iwi and Māori organisations by July 2020.
76. Alongside this, officials will progress the development of a full scale government shared ownership scheme available direct to households. This will involve:
- 76.1. the development of a standardised government shared ownership product and related policies and processes;
- 76.2. market warming with banks and other financial institutions so that there is wide awareness of how the product will work;
- 76.3. additional support that may be provided to households (for example, an introductory service, and financial capability services or budget support);
- 76.4. the way that the Crown delivers, administers and monitors this product and which organisation/s will do this.
77. This delivery channel is more complex to set up and will therefore take more time to implement than the other channels. My report back in May will set out when this will be established. I have an expectation that this will be set up during 2020.
78. There will be some level of overlap between the three channels, particularly for iwi and Māori organisations that could access the Fund through multiple avenues. During the implementation officials will work to ensure that households, providers, iwi and Māori organisations, financial institutions and others have clarity about the interface between the channels and where they are able to access funding.
79. There is also the potential for the Fund to stimulate equity investment into the delivery of progressive home ownership schemes. I have directed my officials to explore potential options for setting up the Fund as a sustainable model that could establish an equity investment fund for the delivery of Progressive Home Ownership Schemes beyond the initial government funding.
80. I propose that Cabinet delegate the decisions for the detailed design of the pilot to the Minister of Housing and the Minister of Finance. The detailed design for the Fund will be developed in accordance with the design principles that I set out earlier in this paper. I will then report back to Cabinet in May 2020 outlining the:
- 80.1. progress made on the pilot of the Fund;
- 80.2. more detailed design of the government direct and iwi and Māori channels.

Improving homeownership outcomes for Pacific peoples

81. I will work with the Minister for Pacific Peoples to identify how the Fund can work with the approach that the Ministry for Pacific Peoples is developing to support Pacific households' aspirations for home ownership.
82. I envisage that the Fund will be able to assist Pacific peoples into home ownership through the provider channel and through the government direct to household channel, as one of the priority groups for the Fund.

Engagement with the housing sector and financial institutions

83. In developing the high-level approach and design of the Fund, the Ministry of Housing and Urban Development has consulted with current community housing providers of progressive home ownership schemes, with iwi and Māori housing providers, and with the Pacific Housing Network.
84. Feedback from the groups that have been consulted has substantially shaped the high-level approach and design proposed for the Fund. This is reflected in the approach I have proposed in this paper.
85. Generally, the groups were supportive of the high-level approach. I have incorporated the main issues raised during the consultation into my recommended approach. That is:
 - 85.1. the diverse set of delivery channels acknowledges the importance of enabling flexibility in the approach to deliver progressive home ownership schemes. The provider delivery channel will allow providers to have flexibility across the cohorts they target, tenure types and other products that they consider essential to sit alongside their schemes;
 - 85.2. expanding the recycling requirement to 15 years addresses concerns regarding the feasibility of meeting a 10-year recycling requirement for the scheme. Providers tend to operate on a longer, typically 15-year, repayment term. A 10-year requirement may mean that their existing schemes are not set up to accommodate a shorter timeframe;
 - 85.3. the iwi and Māori delivery channel will potentially bring together Māori housing outcomes, and iwi, Māori and government housing supply initiatives, which will be developed to be consistent with the Treaty of Waitangi. This will address issues raised that there needed to be more emphasis on and recognition of the Treaty of Waitangi in the approach. Māori housing providers consulted also sought an explicit Te Tiriti approach that focused on Māori outcomes and solutions determined by Māori.
86. As part of consultation, Māori housing providers made a number of recommendations related to Māori housing. Many of these recommendations are reflected in the proposed iwi and Māori delivery channel. Remaining recommendations will be considered as the iwi and Māori channel is further developed or through other conversations with iwi and Māori on housing.

87. The community housing sector also proposed a broader set of outcomes for the Fund. That is, alleviating intergenerational poverty and supporting thriving communities. These broader outcomes reflect how community housing providers currently operate to match supply of affordable houses with progressive home ownership schemes and other services to support those people who are least advantaged in home ownership statistics. The intention of the Fund is to help households that aspire to be home owners to be able to afford to buy a home. While this may have a number of broader outcomes, such as alleviating intergenerational poverty, this is not the primary objective of the Fund.
88. The sector expressed a desire to partner with the government to access affordable housing and for the Fund. While the Fund, as a demand-based financial product, can help households into homes, supply of affordable housing for the sector will be a matter of partnering with developers, iwi and others. In the future, as place-based assessments take place, and as part of initiatives such as Land for Housing, partnerships may also include the government.
89. Officials will continue to engage with these groups on the design of the Fund to ensure that their views can be taken into account. Officials will also engage with banks and other financial institutions on the detailed design of the product and policies to ensure that lenders are comfortable lending on properties alongside the progressive home ownership product.

Consultation

90. This paper has been prepared by the Ministry of Housing and Urban Development. 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).

Financial Implications

91. During engagement with providers of existing schemes, officials tested the practicality of requiring funding to be recycled within 10 years for their schemes. Officials heard, almost unanimously, that requiring funding to be returned to the Crown within 10 years would significantly hinder the effectiveness of providers' schemes. Providers tend to operate on a longer, typically 15-year, repayment term. A 10-year requirement may mean that their existing schemes are not set up to accommodate a shorter timeframe.
92. To address this issue, I propose that the \$400 million be treated as fiscally neutral under the Fiscal Management Approach with the funding being returned to the Crown within 15 years, rather than the standard 10 years.
93. 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.
94. These operating costs, set out in Table 2, includes:

- 94.1. wrap around financial capability services for eligible households;
- 94.2. administration costs;
- 94.3. establishment costs for putting systems and processes in place;
- 94.4. bad debt provisioning for lending to providers.

Table 2: Operating costs for the Fund over the first four years

	\$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
Total	2.5	8.5	8	11	13	43

95. In addition, 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. I have set out the funding needed in each year in Table 3.

Table 3: Concessionary expense for the Fund over the first four years

	\$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

96. The \$400 million fund is already incorporated in the Budget fiscal forecasts as it will be reprioritised from the KiwiBuild Housing \$2 billion appropriation and, as it is paid back within 15 years, is not counted against the Budget 2020 Capital Allowance.
97. The fiscal implications are noted in this paper with final decisions to be made through Budget 2020 as a Priority D new spending initiative: Reducing child poverty and improving child wellbeing. I propose that \$2.5 million of this funding for wrap financial capability services around 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.
98. I am also working with my colleague, the Associate Minister of Housing (Māori Housing), on how to improve Māori housing outcomes in line with our Māori and Iwi Housing Innovation framework. Officials will be investigating how the Fund can best support this approach to reflect Māori need and aspiration for home ownership.

Legislative Implications

99. 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. However, it also empowers the Minister of Finance (on behalf of the Crown) to lend money where necessary or expedient in the public interest.

100. Under the provider delivery channel, the Crown will be lending money directly to providers to expand their progressive home ownership schemes, and the lending of money for this purpose by the Ministry of Housing and Urban Development is not expressly authorised by any existing Act. Although subject to approval and funding, Kāinga Ora – Homes and Communities does have the ability to lend for this purpose.
101. Based on timing imperatives for this delivery channel, I propose that we rely on the Minister of Finance's power to lend money on behalf of the Crown. This would mean that we do not need to enact a specific empowering provision to lend money.
102. Where the government enters into a shared ownership scheme with a household as a tenant in common, it is likely that this will not fall under the definition of lending under the Public Finance Act. However, this depends on how it is structured. When the detailed design of the scheme is finalised, further thought will be given to whether it would be feasible to rely on the Minister of Finance's reserve power for lending, or whether it is preferable to enact a specific empowering authority.

Impact Analysis

103. No regulatory impact analysis is required for this paper.

Human Rights

104. Through the Fund I will be giving priority to Māori households and Pacific households. The delivery channel, which involves working closely with iwi and Māori organisations, will also specifically serve Māori households. Any potential implications for the Human Rights Act 1993 or New Zealand Bill of Rights Act 1990 will be kept in mind when developing the more detailed design of the Fund, and the different delivery channels.

Gender Implications

105. Improving opportunities for home ownership will improve housing choice for all New Zealanders, but in particular will support greater participation and access to opportunities for women.

Disability Perspective

106. Improving opportunities for home ownership will improve housing choice for all New Zealanders. With a focus on new supply, homes bought through the Fund may be better suited to disabled people.

Publicity

107. No publicity is planned.

Proactive Release

108. I propose to proactively release this paper in whole, subject to redactions as appropriate under the *Official Information Act 1982* in early 2020.

Recommendations

The Minister of Housing recommends that Cabinet:

1. **Note** that \$400 million was made available by Cabinet for a Progressive Home Ownership Fund.
2. **Note** that 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, how this fund could improve homeownership for Pacific peoples.

Objectives

3. **Agree** that 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. **Agree** 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. **Agree** 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. **Agree** 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. **Agree** 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;
 - 7.2. through providers that already offer a range of progressive home ownership schemes;
 - 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. **Note** that this channel would provide funding directly to households who have applied and are approved as eligible for the scheme.
9. **Note** that there would be a single standardised scheme used through this channel as this would establish a new market model widely understood by all parties.
10. **Agree** that the government scheme be delivered by the government entering into shared ownership with the household (as tenants in common).
11. **Note** that officials will do further work to understand how the government shared ownership scheme can be used for Māori freehold land.
12. **Agree** 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. **Agree** that this delivery 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. **Note** 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. **Note** 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. **Agree** that this channel would be able to target both Cohort A and Cohort B.
17. **Note** that, to establish this 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. **Note** 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. **Note** that iwi and Māori organisations will be able to use this channel to deliver progressive home ownership schemes on a project or place basis.
20. **Note** 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. **Agree** 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. **Agree** that decisions for the detailed design of the initial pilot be delegated to the Minister of Housing and Minister of Finance.
23. **Note** 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. **Note** that at a later stage, residual funding directed to this delivery channel would be allocated to providers appointed through an open selection process, informed by the findings from the pilot.
25. **Note** that during, and following, the pilot a focus will be placed on establishing the two remaining channels.
26. **Invite** 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 and iwi and Māori channels.

Fiscal and budget implications

27. **Note** 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. **Note** that under the Fiscal Management Approach, for funding to be treated fiscally neutral, it must be returned to the Crown within 10 years.
29. **Agree** 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. **Note** 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
Total	2.5	8.5	8	11	13	43

31. **Note** 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. **Note** 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. **Agree** that \$2.5 million of this funding for wrap financial capability services around 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. **Agree** 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. **Approve** the following change to appropriations to give effect to the policy decisions in recommendation 21 above, with a corresponding impact on net core Crown debt:

Vote Housing and Urban Development Minister of Housing	\$m – increase/(decrease)	
	2019/20 to 2023/24	2024/25 and outyears
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. **Note** that the indicative spending profile for the new multi-year appropriation described in recommendation 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. **Agree** that the proposed 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. **Agree** 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. **Agree** the following changes to appropriations to give effect to the policy decision in recommendation 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 MCA</i>	1.000	-	-	-	-

Departmental Output Expense: Policy Advice (funded by Revenue Crown)					
Total Operating	2.500	-	-	-	-
Total Capital	-	-	-	-	-

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

Authorised for lodgement

Hon Dr Megan Woods

Minister of Housing