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(AGENCY TO AMEND CLASSIFICATION AS REQUIRED FOR SUBMISSION)

Annex 2: Budget 2024 Savings Template

Section 1: Overview

Section 1A: Basic initiative information										
Initiative title (max 120 characters)	First Home Grant – wind down of scheme									
Lead Minister	Hon Chris Bishop Minister of Housing			Agency	Ministry of Housing and Urban Development					
Initiative description (max 800 characters)	This initiative proposes to end the First Home Grant that provides deposit support for eligible first home buyers who have contributed to KiwiSaver for at least three years. The First Home Grant is a payment of between \$3,000 and \$10,000 for eligible buyers to put towards a deposit. The First Home Grant is less effective than other measures in addressing the deposit barrier.									
Type of saving (PA objective in CFISnet)		Baseline reduction	<input checked="" type="checkbox"/>	Targeted policy savings	<input type="checkbox"/>	Capital pipeline review				
Is this a cross-Vote initiative?	N	No								
Is this a revenue initiative?	No									
Agency contact	Name: Nick McNabb Phone: s 9(2)(a) Email: nick.mcnabb@hud.govt.nz			Treasury contact (Vote Analyst)	Name: Phone: Email:					
Section 1B: Summary of savings profile										
Operating funding available for return (\$m)										
2023/24	2024/25	2025/26	2026/27	2027/28 & outyears*	Total					
0	35	70	70	70	245					
*For irregular outyears, add additional rows above to display the full profile of the initiative. Delete "& outyears" for time-limited funding. See the Guide to Submitting Initiatives on CFISnet for Budget 2024 for more information on entering outyears into CFISnet.										
Capital funding available for return (\$m)										
23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33*	Total
*Extend the profile above if funding is needed beyond 2032/33.										

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Section 2: Alignment and options analysis

Section 2A: Alignment			
The answer to each question must not exceed 1-2 paragraphs			
Does this savings initiative have consequences for the Budget priorities? (if there are implications for multiple Priorities, select the most relevant)	<input type="checkbox"/>	Addressing the rising cost of living	<input checked="" type="checkbox"/> Delivering effective and fiscally sustainable public services
	<input type="checkbox"/>	Building for growth and enabling private enterprise	<input type="checkbox"/> No consequences
	The return of funding aligns with delivering effective and fiscally sustainable public services.		
Section 2B: Options analysis			
The answer to each question must not exceed 1-2 paragraphs			
What was the process used to select the preferred option?	<p>To meet the baseline savings target HUD has sought to minimise the impact housing supply and support for households to transition to permanent housing. This initiative was prioritised for savings as the evidence indicates the First Home Grant is ineffective in supporting most first home buyers to overcome the deposit barrier compared to other measures.</p> <p>First Home Buyers' ability to purchase a home is generally determined by their ability to raise a deposit and to service a mortgage. The FHG aims to help first home buyers raise a deposit for a home. To be effective it would need to support buyers to raise the necessary deposit when they otherwise could not. The evidence suggests that for many buyers, the FHG brings forward the purchase of a home or increases how much can be borrowed rather than helping buyers to purchase when they would otherwise be unable to do so. Specifically, we find that for three quarters of buyers, the FHG is worth around 11% of household income or less. Many of these buyers – who are in a position to service a mortgage – are likely to be able to save the value of the grant within a year.</p> <p>Buyers who do derive significant benefit from the First Home Grant could still access the First Home Loan which enables them to purchase with a minimum deposit of 5%.</p>		

Section 3: Costs and benefits analysis

Section 3A: Benefits and non-fiscal costs	
The answer to each question must not exceed 1-2 paragraphs. The primary benefit of savings is fiscal. Therefore, the primary purpose of this section is to highlight any risks or impacts of the savings initiative.	
The Risks and Impacts section below is required for all initiatives invited into the capital pipeline review, regardless of whether there are any changes proposed to this initiative.	
Where do the savings or revenue arise from?	<p>Savings arise from removing the current payment to eligible first home buyers. Spending in 2022/23 was \$64m through payment of grants to 10,872 recipients.</p> <p>Further savings would arise from Kāinga Ora no longer administering the First Home Grant. The budget for administering the First Home Grant in 2022/23 was \$2.998m. Kāinga Ora would still administer and offer the First Home Loan.</p>

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Risks and impacts	<p>Removal of the grant will reduce deposit support available for eligible first home buyers to purchase a home. For most recipients of the Grant this will most likely delay their purchase rather than prevent it entirely. The First Home Loan will still be available to enable buyers to purchase a home with a deposit as low as 5%.</p> <p>Removal of the grant may increase the uptake and use of the First Home Loan. 2,773 loans were made in 2022/23. Recent reductions to the insurance levy paid by the borrower and the government mean there is room within the current appropriation to support up to an estimated 4,700 First Home Loans in 2023/24.</p> <p>A higher First Home Grant is currently paid for the purchase of new build homes and may encourage some first home buyers to buy a new build rather than an existing home, supporting the demand for, and supply of, new build housing. The magnitude of this impact on new supply is uncertain though likely to be small. For two purchasers, the maximum First Home Grant for a new build is \$20,000 compared to \$10,000 for an existing home. This difference is equivalent to only 1.3% of the RIENZ national median house price (of \$740,000 in December 2023).</p>				
Impact on frontline services	<input type="checkbox"/>	High	<input type="checkbox"/>	Medium	<input checked="" type="checkbox"/> Low
	<p>Removing the First Home Grant would reduce the deposit support available to first home buyers. As the First Home Grant is ineffective compared to other measures in addressing the deposit barrier, we don't consider this savings initiative will impact front line services.</p>				
Climate impact	<input type="checkbox"/>	Yes - positive	<input type="checkbox"/>	Yes - negative	<input checked="" type="checkbox"/> No impact
	<p>No impact.</p>				

Section 3B: Status quo

The answer to each question must not exceed 1-2 paragraphs.

Status quo	<p>The First Home Grant is one of a suite of first home buyer support products administered by Kāinga Ora. It provides grants of between \$3,000 and \$10,000 per person to eligible buyers to purchase a home. Eligible buyers are subject to income tests and must purchase homes within regionally determined price caps. Due to movement in house prices over time the regional house price caps are reviewed every six months.</p>
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Existing operating funding for programme/service (\$m)

2023/24	2024/25	2025/26	2026/27	2027/28 & outyears*	Total
70	70	70	70	70	350

*Extend the profile above to a "steady state" if funding into outyears is irregular. Delete "& outyears" for time-limited funding.

Existing capital funding for programme/service (\$m)

23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33*	Total

*Extend the profile above if funding is needed beyond 2032/33.

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Section 3C: Savings profile and cost breakdown

The answer to each question must not exceed 1-2 paragraphs.

Formula and assumptions underlying costings	<p>Savings assume that the First Home Grant is removed from 1 July 2024. If the Grant were phased out over a longer timeframe this would affect savings across the forecast period.</p> <p>Kāinga Ora currently pre-approves First Home Grant applications which last for six months. This means First Home Grants would be paid into the 2024/25 year for applications approved in 2023/24. We have conservatively assumed savings of \$35m in 2024/25 to reflect that First Home Grant payments would continue to be made for applications approved prior to the schemes end date.</p> <p>If the Grant were removed from 1 July 2024 there may be an increase in applications ahead of the end date as buyers bring forward grant applications. An alternative would be that new pre-approvals for First Home Grants end from the date of announcement.</p>
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Provide a breakdown of total initiative expenditure by individual expense category. Total operating and capital expenses in this section must match the totals in Section 1B: Summary of funding profile. Insert additional rows as appropriate for additional expense categories.

Recommended operating savings (\$m)

Operating expense category	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears*	Total
Benefits or Related Expenses: First Home Grants	0	35	70	70	70	245
Total (\$m)	0	35	70	70	70	245

*Extend the profile above to a "steady state" if funding into outyears is irregular. Delete "& outyears" for time-limited funding.

Headcount Change	2023/24	2024/25	2025/26	2026/27	2027/28	Total
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Section 4: Delivery

Implementation of savings

The answer to each question must not exceed 1-2 paragraphs

Implementation of savings from this programme, activity or investment	<p>HUD has not yet engaged with Kāinga Ora around how the removal of the grant would be implemented. Previous changes to house price and income caps have been made via Cabinet and implemented within a couple of months.</p> <p>HUD will need to engage with Kāinga Ora to understand potential savings in administration and any associated transition costs. Budget for administering the First Home Grant in 2022/23 was \$2.998m.</p>
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Transition costs associated with the savings initiative (\$m)

2023/24	2024/25	2025/26	2026/27	2027/28 & outyears*	Total
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0	0	0	0	0	0
Was this activity funded from the Climate Emergency Response Fund?	Y/N	This was not an activity funded from the Climate Emergency Response Fund.			

Section 5: Equity

The answer to each question must not exceed 1-2 paragraphs.

Timing of costs and benefits	The benefits of returning this funding are purely fiscal from the 2024/25 year as pre-approvals expire, and grants are paid for remaining pre-approved applications.	
Specific implications regarding the Crown's obligations under the Treaty of Waitangi	Y/N	There are no direct implications for the Crown's obligations under the Treaty.
Distributional Impacts	Home ownership rates have declined since their peak in the early 1990's, with rates of home ownership lower for Māori and Pasifika. However, the evidence indicates the First Home Grant brings forward a buyers purchase and/or increases how much households can borrow. Given the continued availability of the First Home Loan there is likely to be little impact on overall rates of home ownership. Full distributional analysis is yet to be undertaken.	

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