Budget 2022 Initiative Summary – Main Budget Process

First Home Products Modernisation

Section 1: Overview

<u>This section must be completed for all initiatives</u>.

Section 1A: Basic Initiative Information

Lead Minister	*Minister of Housing, Hon Dr Megan Woods*					
Department	*Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development*					
What type of initiative is this?	*Critical cost pressure initiative*	*x*	*Manifesto commitment initiative*		*Health and Disability System Reform initiative*	
	Climate Emergency Response Fund initiative		*Savings initiative*		*Non-Spending initiative*	
Initiative description [max 800 Characters]	*This initiative will adjust the settings to the First Home Grant (the grant) and First Home Loan (the loan) to enable an approximately additional 7000 first home buyers to access the grant and 2500 to access the loan each year. The changes to the grant will align house price caps with lower quartile prices, review the house price caps every six months, reduce the minimum KiwiSaver savings requirement, allow relocatable homes to qualify as new properties and allow rent to buy schemes to qualify for the new property grant. The main change to the loan is removing the house price caps. The income cap for single buyers with dependents will be increased to $150,000 for both the grant and the loan. Some of these changes will also improve access for Māori, Pacific peoples and families with children. This initiative will also increase the loan caps for Kāinga Whenua Loans from $200,000 to $350,000.*					
Is this a Cross-Vote initiative?	***Y/N***	*N*				
Department contact	*Naomi Stephen-Smith; naomi.stephen-smith@hud.govt.nz*					
Treasury contact	*Alex Smith*					

Section 1B: Total Funding Sought

Operating funding sought ($m)	2021/22	2022/23	2023/24	2024/25	2025/26 & outyears	Total
First Home Grant	0	**25.888**	**33.103**	**40.697**	**48.690**	**148.378**
First Home Loan	0	**0**	**0**	**0**	**0**	**0**

Section 1C: Initiative Classifications

Is this initiative seeking funding from the Climate Emergency Response Fund (CERF)? [max 300 characters in CFISnet].	***N***	
Is this initiative climate-related, but not seeking funding from the CERF? [max 300 characters in CFISnet].	***N***	
Does this initiative align with the Crown's	***Strong***	*This initiative aligns with the Crown's obligations under the Te Tiriti o Waitangi because the policy changes were developed with the primary goal of increasing access to the First Home*

obligations under the Treaty of Waitangi?		*Products for Māori. Te Tūāpapa Kura Kāinga worked with Te Puni Kōkiri and Te Matapihi during the review process to identify changes that would best support Māori to access the First Home Products. Through kōrero, Kāinga Whenua Loans were also identified as a key issue for Māori. Part of this initiative is to adjust the loan caps for the Kāinga Whenua Loans, which helps affirm the principles of 'protection' by helping address the poor housing outcomes some Māori currently experience and "partnership" by better enabling iwi to serve their own rohe.*
Specify if this initiative will help reduce child poverty and describe the impact [max 300 characters in CFISnet].	***N***	
Does this initiative align with the Child and Youth Wellbeing Strategy?	***Y***	*This initiative aligns with the Child and Youth Wellbeing Strategy. The two main outcomes it contributes to are 'Children and Young People have what they need' and 'Children and Young People are happy and healthy'. These outcomes are achieved by supporting more whānau with children and young people into homeownership, and improving housing, health and education outcomes for children compared to renting households.*
Does the initiative include funding to procure from NGOs?	***N***	
Does the initiative include funding to support digital and data related investments?	***N***	
Is this a regulatory or legislative initiative (according to the guidance provided)?	***N***	
Is this a significant investment initiative per the definition at section 4.8 of the Budget 2022 guidance?	***N***	*If yes, please specify the type of significant initiative below*
		Data / Digital / ICT ☐ Physical Infrastructure ☐ Organisational Transformation ☐ Specialised Equipment ☐
	<u>See Annex A for further questions – mandatory to complete for all significant initiatives</u>	

Section 2: Cost pressure information

This section must be completed for all cost pressure initiatives. Skip this section for Manifesto Commitment, Savings, Non-Spending, Health and Disability System Reform (HDSR), Climate Emergency Response Fund (CERF) and Pre-Commitment initiatives.

*See **section 4.2** of the Budget 2022 guidance for more information on cost pressure initiatives.*

Answers must not exceed 1-2 paragraphs per section.						
Cost pressure driver	x	Volume		Price		Personnel (driven by volume/price)
Cost pressure description	*The First Home Products are designed to support first home buyers on modest incomes to overcome the deposit barriers to purchasing modest homes. Historically, the First Home Products have targeted modest homes by aligning house price caps with lower quartile house prices. Since the last reset in April 2021 house price inflation has disconnected house price caps from lower quartile house prices, decreasing uptake of the First Home Products.* *To realign the First Home Products with the above intent this initiative will:* • *increase house price caps for the grant* • *introduce a six-monthly house price cap review for the grant* • *remove house price caps from the loan* • *increase the single buyers with dependents income cap to $150,000 for the grant and loan* • *reduce the KiwiSaver minimum annual savings requirement for the grant* • *include relocatable homes and rent-to-buy schemes in the eligibility criteria for the new build grant.* *By expanding these eligibility criteria, uptake of the First Home Products will increase. The initiative will also increase the loan caps for Kāinga Whenua Loans from $200,000 to $350,000 (which will be undertaken from within the existing appropriation).*					
	If this initiative is not funded the uptake of the First Home Products will be significantly limited as house price caps and other eligibility criteria continue to restrict uptake. Fewer families with children will be able to purchase a suitable home through accessing the First Home Products, reducing the products' effectiveness.					
Cost pressure management	*The First Home Products are both demand driven schemes. The eligibility criteria is limiting the volume of grants paid and loans issued. Adjusting the eligibility criteria to support more households into homeownership will require additional funding.*					
Case for funding	*The First Home Product settings have not kept pace with a rapidly changing housing market and uptake has fallen significantly. Some of the key issues are:* • *uptake by Māori and Pacific peoples is lower than uptake by other New Zealanders* • *house price caps have constrained uptake of the First Home Products in most urban areas* • *income cap settings do not effectively accommodate single earners with dependents.* *Without expanding the eligibility criteria, the uptake of the First Home Products will continue to decrease and Māori, Pacific peoples and single earners with dependents will continue to access the First Home Products at a lower rate.*					

Section 3: Value

<u>Section 3 must be completed for all initiatives</u>, unless exempted by the Minister of Finance in the invitation letter. Further information on the questions in this section can be found at ***Annex Two*** *of the Budget 2022 guidance.*

Section 3A: Opportunity/Problem	
Opportunity/Problem	*Home ownership has been declining since the 1990s because of house price inflation and a range of other factors. One of those factors is the deposit barrier. Overtime house prices have increased faster than household income growth across New Zealand. This reflects a decrease in deposit affordability for first home buyers, since a greater proportion of annual income is required to raise a deposit assuming the same proportion of purchase price is required as a deposit.*
Section 3B: He Ara Waiora	
Tikanga- decisions are made by the right decision-makers, following a tikanga process, according to tikanga values	*The understanding of tikanga was developed through kōrero with Te Matapihi and Te Puni Kōkiri. One of the key perspectives was the importance of place and a sense of belonging. Increasing the First Home Products' availability could better support Māori to purchase a home in their rohe rather than in cheaper locations where they are not connected through whakapapa, for example.* *Another change considered was increasing the loan cap for the Kāinga Whenua Loans. This change will better support Māori to build on their whenua. Again, aligning with the importance of a sense of belonging, particularly since Māori connection to whenua through whakapapa is central to te ao Māori and Māori identity.* *While not covered specifically by this initiative, these discussions have led to a proposal to review Kāinga Whenua Loans and barriers to building on Māori land. A report on the scope and timing of the review to be provided to the Minister of Housing and the Associate Minister of Housing by March 2022.*
Manaakitanga- focus on improved wellbeing and enhanced mana for iwi and Māori, and for other affected communities and groups, demonstrating an ethic of care and mutual respect	*When developing this policy, Te Tūāpapa Kura Kāinga worked with Te Matapihi and Te Puni Kōkiri to better understand Māori housing aspirations and the barriers to achieving them. Te Matapihi and Te Puni Kōkiri highlighted that the First Home Products could help but that there would be a need for greater support for many lower income whānau (e.g. initiatives such as Progressive Home Ownership). However, there were still some specific barriers to accessing the First Home Products that could be addressed to better support Māori.* *This process embodied manaakitanga because there was a focus on understanding Māori housing aspirations and how this policy could enhance the mana of each whānau accessing the products. As noted above, a review of Kāinga Whenua Loans and barriers to building on whenua Māori, which arose from this work, will be scoped by March 2022. By better enabling building on whenua Māori this initiative will enhance the mana of the iwi including through their ability to better āwhina whanaunga, rebuild or maintain community and live in a way which is consistent with tikanga Māori.*
Section 3C: Outputs – The good or service the initiative purchases	
Output	**Description**
First Home Loans	*The First Home Loan provides a low deposit loan (minimum five percent deposit) to first home buyers. Kāinga Ora – Homes and Communities insure the loans and a number of different lenders provide the loans. This initiative will purchase an additional 2500 loans per annum.*
First Home Grants	*The First Home Grant provides a cash payment for first home buyers to contribute towards the purchase of their first home. The payments sizes vary from $3,000 to $10,000 per applicant, depending on the number of years of regular saving in KiwiSaver, and if the property is new or existing. Multiple buyers can combine their grants when purchasing a home together. This initiative will purchase an additional 7000 grants per annum.*
Kāinga Whenua Loans	*The Kāinga Whenua Loan is a mortgage insurance scheme that supports first home ownership for Māori to own a home on their whenua Māori. The loans provided can be up to a maximum of $200,000 per house and do not require a deposit. There is some flexibility provide loans above*

	$200,000 but there must be a reason for the larger loan. This initiative is likely to increase the uptake of the loans.

Section 3D: Impacts – The direct effect of the initiative		
Please repeat these questions for each impact		
Impact 1	**Description of the impact**	*Support more first home buyers to purchase a home through addressing deposit barriers.*
	Quantification	*Increasing and regularly updating the house price caps for the grant is expected to increase the uptake of the grant by 7400 per annum. Removing the house price caps for the loan is expected to increase the number of loans issued by 2500 per annum.*
	Supporting Evidence	*A model developed by Te Tūāpapa Kura Kāinga informs the estimated number of additional grants paid and loans issued. The model draws on a range of data including house price distributions by new and existing property for each territorial authority (Source: CoreLogic/HUD), historic grant and loan data (source: Kāinga Ora), affordability modelling (source: Kāinga Ora) and income distributions (source: Stats NZ/HUD). More detail on the model is provided in Section 5B.* *Administrative data from Kāinga Ora shows that most households needed the grant to overcome the deposit barrier. However, nine percent of households who received the grant already had a 20 percent deposit.* *Administrative data from Kāinga Ora shows that all the loan recipients required the support to overcome the deposit barrier. There were no loan recipients with more than a 20 percent deposit.*
	Gaps in Evidence	*It is unclear how much the grant contributes to lowering the deposit barrier compared to helping first home buyers to purchase a more expensive home.* *The actual effect of the grant is difficult to estimate with complete accuracy as there a number of factors impacting access to homeownership for first home buyers and data predicting future house prices and the number of houses being completed each year is uncertain.* *Limited data is available to determine whether recipients of the grants use the grants to access only the dwelling type and size they need or whether they use the grants to boost their purchasing power to acquire more expensive dwellings.*
	Assumptions	*The grant will lower the deposit barrier, subsequently supporting more first home buyers into homeownership.* *The loan will lower the deposit barrier and subsequently support more first home buyers into homeownership.* *The assumptions in the uptake/costing model were:* • *the proportion of first home buyers will remain constant with increased house price caps, up to the income level constraint* • *no movement between territorial authorities will happen (or all movement will cancel each other out)* • *the housing market will remain stable (no market crash)* • *buyers using the scheme will have the required five percent deposit and borrow the 95 percent remaining house value* • *the number of new builds is expected to be equal to latest period build data* • *historic uptake of the grants by individual vs multiple buyers is used to build in the income constraint.*

	Implications	*The assumptions relating to the grant pose some risk. It is unclear how much the grant contributes to lowering the deposit barrier and supporting households who otherwise could not have bought a home. Given most grants are paid to first home buyers without a 20 percent deposit, this is relatively low risk.* *The assumptions relating to the loan pose little risk. Especially when one of the loans eligibility requirements is that the first home buyer cannot access a normal mortgage from their lender.*
Impact 2	**Description of the impact**	*Supporting more Māori and Pacific first home buyers into homeownership by lowering the deposit barrier.*
	Quantification	*Two policy changes are proposed that will support more Māori and Pacific people to access the First Home Products:* *1. **re-categorising the income caps to better support single buyers with dependents** – this will disproportionately benefit Māori and Pacific people because there are more single parent families in these groups compared to other ethnic groups* *2. **lowering the KiwiSaver minimum savings eligibility requirement** – this will benefit Māori and Pacific peoples more because their savings rates are, on average, lower compared to other ethnic groups. Kāinga Ora data also shows the KiwiSaver eligibility requirement is more difficult for Māori to meet.* *Given the constraints on data it is unclear how many additional Māori and Pacific buyers will access the First Home Products because of these changes.*
	Supporting Evidence	*Māori and Pacific homeownership rates are significantly lower than the rest of the population. The 2018 census shows that approximately 47.5 percent of Māori owned their home, 35 percent Pacific peoples owned their own home, compared to 64.5 percent of the population.* *Data from the 2013 census shows that 28 percent of Māori and 27 percent of Pacific families are single parent households. This compares to 11 percent of European and nine percent of Asian families being single parent households.* *Kāinga Ora administrative data shows that in 2021, 52 percent of Māori applicants were declined because of the KiwiSaver requirement compared to 46 percent for non-Māori.* *The 'Whānau and Low-Income Household Savings Report' (2015), notes that Māori have lower savings rates and homeownership rates compared to the rest of the population.* *Statistics New Zealand net worth data highlights that Pacific peoples' individual net worth is lower than that of other groups due to lower equity held in owner-occupier homes, a lower number of households who own their own home, lower amounts in savings and on term-deposits, and lower balances in KiwiSaver and other managed funds.*
	Gaps in Evidence	*From the changes to the eligibility criteria, it is difficult to quantify how many more Māori or Pacific peoples will access the First Home Products. Especially since there are a number of policy changes that will influence uptake for Māori and Pacific peoples.* *There is also limited ethnicity data collected on KiwiSaver. Therefore, it is hard to determine how the changes to the KiwiSaver minimum savings requirement will influence uptake.*
	Assumptions	*The grant will lower the deposit barrier, subsequently supporting more first home buyers into homeownership.*

		The loan will lower the deposit barrier, subsequently supporting more first home buyers into homeownership.
	Implications	*The changes to the income caps are likely to particularly benefit Māori and Pacific people. Therefore, the risk of these changes not supporting these groups is low.* *The changes to the KiwiSaver minimum savings requirement are intended to particularly benefit Māori and Pacific peoples. The reason these groups do not meet the KiwiSaver regular savings requirement could be driven by length of time in the scheme rather than amount contributed. The policy change only decreases the contribution requirement. There is a risk that Māori and Pacific people may not benefit from this change if length of time in KiwiSaver is the main barrier to access.*
Impact 3	**Description of the impact**	*Supporting more families with children into homeownership by lowering the deposit barrier.*
	Quantification	*Adjusting the house price caps settings for the grant is expected to increase the uptake of the grant by 7400 per annum. Removing the house price caps for the First Home Loan is expected to increase the number of loans issued by 2500 per annum. Some of the additional first home buyers accessing the First Home Products will include families with children.* *Adjusting the income caps to support single buyers with dependents will specifically target families with children, since individual buyers with dependents often have the same housing need as multiple buyers. They are likely to require larger homes compared to those without dependents but are often unable to afford such a home at an income cap of $95,000.*
	Supporting Evidence	*The grant data does not include whether grant recipients have dependents. However, the average age of a grant recipient is 32, so it is likely many recipients have or intend to have children (the median age of mothers and fathers at birth of their child in 2018 was 30.5 for mothers and 32.4 for fathers). The Minister of Housing also receives correspondence on a regular basis from individual earners who are unable to access the products to provide a home for their families due to the $95,000 income cap.* *This change to support single buyers is expected to primarily support families with children. There could be some situations where the dependent is an adult with a disability or ageing parent.*
	Gaps in Evidence	*Kāinga Ora does not gather any data on family status, making it difficult to quantify how many children will be supported into homeownership.* *It is also unclear how many individual buyers with dependents will want to access the products after the changes to the income caps.*
	Assumptions	*The grant will lower the deposit barrier, subsequently supporting more first home buyers into homeownership.* *The loan will lower the deposit barrier, subsequently supporting more first home buyers into homeownership.*
	Implications	*The changes to the income caps specifically target families with children. Therefore, the risk of these changes not supporting these families with children is low. However, the change to income caps will also support individual buyers with non-child dependents such as disabled or older dependents.*

Section 3E: Goals – What this initiative aims to achieve		
Please repeat these questions for each goal		
Goal 1	**Description**	*A primary goal of this initiative is to increase the wellbeing of New Zealanders by supporting an additional 9500 first home buyers into homeownership each year.* *Supporting more first home buyers will improve household's security of tenure (housing domain), ability to accumulate wealth (income and consumption domain), improve education outcomes for children (knowledge and skills domain), improve health outcomes (health domain) and better connect whānau to their communities (social connections).* *The initiative will also promote long-run wellbeing by increasing the number of New Zealander's living in their own homes (physical capital), increasing the economic resilience of the families that live in their own homes and improving the educational and employment prospects of the children who will grow up in them.*
	Quantification	*The impact on security of tenure for those who benefit from these changes will be significant. Stats NZ's Housing in Aotearoa (2020) report shows that owner-occupiers were less likely to have moved address in the last five years and less likely to have moved frequently. They were also more likely to have moved for positive reasons, such as to move to a more suitable house, compared with renters. It was also found that homeowners rate their dwelling suitability higher than renters.* *Homeownership has much greater security of tenure compared to renting households. The rental market provides less security of tenure compared to many countries overseas. An increasing number of households are also struggling to pay rent in New Zealand.* *The effect on income and consumption will be significant. This is because homeowners accumulate wealth as their house appreciates and are forced to save through a mortgage.* *A positive impact on education outcomes for children is expected. One study found homeownership increases high school graduation rates by 9.6 percent. Another study found for children living in owned homes, math achievement is up to nine percent higher, reading achievement is up to seven percent higher and children's behavioural problems are one to three percent lower. Both studies controlled for a range of factors such as income, education and ethnicity.* *Health outcomes are likely to improve in homeownership for a number of reasons. Households in homeownership are less likely to live with damp, cold and mould than renters. A study also found that 74 percent of families overall health had improved since moving into their own home.* *Homeownership can also contribute to more connected communities. This is because, on average, homeowners have a longer tenure and are more likely to have supportive neighbours. Some whānau are also being priced out of their neighbourhoods and looking to buy elsewhere. Greater access to the First Home Products could help whānau to stay connected to their communities. The changes to the Kāinga Whenua Loans will allow more Māori to live more easily on their whenua and with their community.*
	Timeframes	*The initiative will have short, medium and long-term effects. Additional homeowners will be supported into homeownership as soon as the changes come into effect. The additional homeownership will positively affect the families' income and health from when they move in and will continue to benefit them throughout their lives. The children of the*

		families will have benefits that accrue over multiple decades, including better health and improved educational achievement and increased lifetime earnings. *The short-term benefits of homeownership are fairly certain, but the longer-term benefits could vary more due to the time horizon, where assumptions are more difficult to validate.*
	Evidence and Assumptions	*Research from Statistics New Zealand found that owner-occupiers were less likely to have moved address in the last five years and less likely to have moved frequently. They were also more likely to have moved for positive reasons, such as to move to a more suitable house, compared with renters. It was also found that homeowners rate their dwelling suitability higher than renters (Statistics New Zealand, 2019, renting vs owning in NZ; Statistics New Zealand, 2020, Housing in Aotearoa: 2020)* *The recent amendments to the Residential Tenancies Act 1986 are likely to improve security of tenure for renters. The changes won't be captured in the 2019 or 2020 Statistics New reports referred to above.* *Other research from Statistics New Zealand found that home owning households' net worth is over ten times more than renting households (Statistics New Zealand, 2018, Household Net Worth Survey)* *Research from the United States has found that educational outcomes improve for homeowning households. Including increasing the probability of graduating high school by 9.6 percent. For children living in owned homes, math achievement is up to nine percent higher, reading achievement is up to seven percent higher and children's behavioural problems are one to three percent lower (Waldegrave, 2016, Social Economic Impact of Housing Tenure; Donald R. Haurin, Toby L. Parcel and R. Jean Haurin, 2001, The Impact of Homeownership on Child Outcomes, Harvard University; Donald R. Haurin, Toby L. Parcel, R. Jean Haurin, 2003, Does Homeownership Affect Child Outcomes?).* *The General Social Survey 2018 found that households in homeownership are less likely to live with damp, cold and mould than renters. A national survey of Habitat homeowners found that 74 percent said their families' overall health had improved since moving into their home (Statistics New Zealand, 2019, Renting vs owning in NZ; Habitat for Humanity, 2016, Beneficial Impacts of homeownership: A research summary).* *A Statistics New Zealand Survey found that homeowners are more likely to live in the same neighbourhood long term. This can help to build more supportive neighbourhoods. Providers of the First Home Loan suggested that the low house price caps were causing many buyers to look outside their local area to purchase a first home. By removing house price caps from the loan this could better support first home buyers to purchase a home in closer proximity to their community (Statistics New Zealand, 2015, How connected are we to our neighbours?).*
	Implications	*The benefits of homeownership cannot be estimated precisely. The wellbeing benefits of each person supported into homeownership will vary. Nonetheless, the evidence provided above suggest that the initiative is likely to be helpful to people independently across multiple wellbeing domains, so if it falls short in one then it is still likely to be beneficial in others.* *The benefits of homeownership compared to renting is a function of New Zealand's rental market and regulation. Homeownership has much*

		greater security of tenure compared to renting households. The rental market provides less security of tenure compared to many countries overseas. An increasing number of households are also struggling to pay rent in New Zealand. *The wellbeing benefits also rely on the assumption that these products support first home buyers who otherwise could not have bought a home. Kāinga Ora data shows this is the case with all loans, but the grant does not always support those that need it.* *Currently, the loan to value ratio set by the Reserve Bank of New Zealand are tight, restricting banks' ability to provide low deposit loans. This Makes the First Home Loan a more attractive option to first home buyers because the loan is exempt from these restrictions. If this setting changes the attractiveness of the First Home Loan could change.*
Goal 2	**Description**	*A primary goal of this initiative is increasing the wellbeing of Māori and Pacific peoples by better supporting these groups into homeownership. This is because these groups face higher barriers to ownership such as lower incomes, larger whānau (so greater expenses) and lower savings. This is reflected by lower homeownership rates for these groups compared to their proportion of the population.* *The changes will support the same wellbeing domains as goal one (increasing the wellbeing of New Zealanders by supporting more first home buyers into homeownership). However, this goal looks at the distribution of the wellbeing across the different groups of people in New Zealand. The Living Standard Framework dashboard shows that Māori and Pacific peoples have relative low wellbeing outcomes. This is most pronounced for the income and consumption and housing domains. Given these inequities, the initiative will contribute to spreading the wellbeing benefits of this policy more evenly across different ethnicities in New Zealand.*
	Quantification	*Current uptake of the grant is 14 percent for Māori compared to 17 percent of the population. The uptake of the grant is five percent for Pacific peoples compared to eight percent of the population. The changes to the eligibility criteria are intended to increase the number of grants and loans received by Māori and Pacific peoples. The changes to the income cap and KiwiSaver minimum savings requirement are intended to rebalance the percentages being accessed by Māori and Pacific peoples.*
	Timeframes	*The timeframes for the benefits are the same as Goal one.*
	Evidence and Assumptions	*The evidence underpinning the wellbeing outcomes are the same as Goal one.* *The information on the twelve domains is from the Living Standards Framework dashboard. The statistics on percentage of population by ethnicity is from Statistics New Zealand. The data on uptake are from Kāinga Ora administrative data on self-reported ethnicity data.* *The main assumption underpinning this goal is that the initiative will help more Māori and Pacific peoples into homeownership. It is difficult to quantify exactly how many more people from these groups will benefit. Rebalancing the percentage of households accessing the products relies on the eligibility criteria changes. The products are demand driven and changing eligibility alone may not benefit some households.*
	Implications	*This goal relies on the assumption that changes to the income caps and KiwiSaver requirement will disproportionately benefit Māori and Pacific peoples. Regardless, the expansion of the products is likely to support more Māori and Pacific peoples into homeownership. However, rebalancing the percentage of households accessing the products relies*

		on the eligibility criteria changes. There is a risk that changing eligibility alone may not benefit Māori and Pacific peoples.
Goal 3	**Description**	*A primary goal of this initiative is increasing the wellbeing of families with children by supporting more into homeownership. This is because these whānau face higher barriers to homeownership such as paying higher rents for larger homes making it more difficult to save a deposit, needing more expensive homes, and only one income.* *The changes will support the same wellbeing domains as explained in goal one. However, this goal looks at the distribution of wellbeing across different groups of people in New Zealand. The Living Standard Framework dashboard shows that for sole parents they are likely to have significantly lower wellbeing in all domains. Therefore, the targeted change to support sole parents will help distribute the wellbeing benefits of this policy more equally across different groups in New Zealand.*
	Quantification	*The changes to the house price caps will increase uptake of the products and are likely to support more families with children. Quantifying the number of families with children is difficult since Kāinga Ora does not collect data on family status or dependents.* *The changes to the income caps primarily target single parents so uptake will increase for this group. Again, quantifying the number of single parents that will benefit from this policy is difficult because Kāinga Ora does not collect the data needed.*
	Timeframes	*The timeframes for the benefits are the same as Goal one. The benefits to children will be long-term and build over the coming decades.*
	Evidence and Assumptions	*The evidence underpinning the wellbeing outcomes are the same as Goal one.* *The information on the twelve domains is from the Living Standards Framework Dashboard.* *This goal relies on the assumption that expanding those eligible for the products will increase the uptake of families with children. Given this initiative will support an additional 9500 at least some of those will be families with children.* *The Minister of Housing receives regular correspondence from single parents who cannot access support because of the income caps, suggesting there are single earners with dependents in New Zealand who would benefit from this change.*
	Implications	*The assumption that expanding the eligibility criteria will help more children is low risk. However, it is uncertain how many families with children will be supported.* *The changes to the income caps specifically target single parents. It is fairly certain there will be an increase in uptake for these families. The change will not only support single parents, some individual earners with other dependents could also access the support (e.g. disabled or elderly dependents).*

Section 3F: Distributional Analysis								
Question 1: Does the initiative have the following types of distributional impacts for Māori?	A	Direct	x	Indirect		No Impact	
		If direct, please complete Question 1B. If indirect or no impact, please progress to Question 2.					
	B	Targeted and tailored for Māori		Disproportionate positive impact	*x*	Other *(explain)*	
		The changes to the income cap, to some eligibility settings and KiwiSaver requirement are intended to disproportionately benefit Māori.					
Question 2: Does the initiative have the following types of distributional impacts for Pacific Peoples?	A	Direct	*x*	Indirect		No Impact	
		If direct, please complete Question 1C. If indirect or no impact, please progress to Question 2.					
	B	Targeted and tailored for Pacific Peoples		Disproportionate positive impact	*x*	Other (*explain)*	
		The changes to the income cap, to some eligibility settings and KiwiSaver requirement are intended to disproportionately benefit Pacific peoples.					
Question 3: Does the initiative have the following types of distributional impacts for children?	A	Direct	*x*	Indirect		No Impact	
		If direct, please complete Question 3B. If indirect or no impact, please progress to Question 4.					
	B	Targeted and tailored for children		Disproportionate positive impact	*x*	Other *(explain)*	
		This initiative will support more whānau with children into homeownership. In particular, the children of single parents because of the changes to the income cap.					
Question 4: Does the initiative have direct impacts on any other population groups?	Y/N	*This initiative is targeted at supporting more single parents and individuals with adult dependents (e.g. disabled or unwell) into homeownership.*					

Question 5: What region is this initiative expected to impact?							
x	*All of New Zealand*		*Gisborne*		*Northland*		*Tasman*
	Areas outside regions		*Hawke's Bay*		*Offshore*		*Waikato*
	Auckland		*Manawatū-Whanganui*		*Otago*		*Wellington*
	Bay of Plenty		*Marlborough*		*Southland*		*West Coast*
	Canterbury		*Nelson*		*Taranaki*		

Section 4: Alignment

*Section 4 must be completed for all initiatives, unless exempted by the Minister of Finance in the invitation letter. Further information on the questions in this section can be found at **Annex Two** of the Budget 2022 guidance.*

Section 4A: Strategic Alignment	
How does this initiative link with your strategic intentions/statement of intent?	*This initiative contributes to thriving communities where everyone has a place to call home by supporting more whānau into homeownership. This contributes to one of Te Tūāpapa Kura Kāinga key outcomes: affordable homes for every generation. This is achieved by lowering the deposit barrier for New Zealanders and making the loans more accessible, which can limit access to homeownership. This also aligns with the strategic objective to improve the support available to New Zealanders to rent or buy.*
Does this initiative link with other sectoral or whole-of-government strategies (e.g. the Pacific Wellbeing Outcomes Frameworks)?	*This initiative will contribute to:* • *the Māori housing support component of MAIHI Ka Ora (Māori Housing Strategy) by providing better support to whānau with aspirations of homeownership* • *improving financial security and economic participation of older people by supporting more people into homeownership. This is a key area of the Better Later Life Strategy produced by the Office for Seniors* • *Resilient and Healthy Pacific peoples by supporting more pacific peoples into homeownership. This is the third goal of the 'all of government Pacific Wellbeing strategy'* • *children and young people have what they need, and children and young people are happy and healthy as a result of supporting more whānau into homeownership. These are two key outcomes of the child and youth wellbeing strategy.*
Does this initiative impact other agencies directly or indirectly? If so, how?	*This initiative will be implemented by Kāinga Ora who process applications for the grant and loan. It also pays out the grant. Te Tūāpapa Kura Kāinga will continue to work with Kāinga Ora to monitor and evaluate the products.* *Banks and lenders also play a key role in delivering the products. For the grant to be paid a bank has to provide finance so that a home can be purchased. For the loan, each bank processes the first home buyer's application and gets the application approved by Kāinga Ora. Finally, the bank provides the First Home Loan to first home buyers.*

Section 4B: Alignment to Government's goals	
The Government's goals for this term are: **1) Continuing to keep New Zealand safe from COVID-19** **2) Accelerating the recovery and rebuild from the impacts of COIVD-19** **3) Laying the foundations for the future, including addressing key issues such as our climate change response, housing affordability and child poverty**	
Alignment to Government goals	*This initiative contributes to the Government's goal of laying the foundation for the future by addressing issues relating to housing affordability and long-term challenges related to children and child poverty.* *Lowering the deposit barrier will directly contribute to improving access to homeownership for whānau across the country. By supporting more whānau into homeownership, it is likely to reduce child poverty because of the education, health, and other wellbeing benefits associated with homeownership.*

Section 4C: Contribution to the Government's Wellbeing Objectives
The Government's five wellbeing Objectives are: • **Just Transition:** supporting the transition to a climate-resilient, sustainable, and low-emissions economy. • **Future of Work:** enabling all New Zealanders and New Zealand businesses to benefit from new technologies and lift productivity and wages through innovation • **Physical and Mental Wellbeing:** supporting improved health outcomes for all New Zealanders, including protecting New Zealanders from the impacts of COVID-19. • **Māori and Pacific:** lifting Māori and Pacific incomes, skills, and opportunities, including through access to affordable, safe, and stable housing

• **Child Wellbeing:** reducing child poverty and improving child wellbeing, including through access to affordable, safe, and stable housing. ***Please note: these objectives have been agreed by Cabinet subject to wider consultation. The final versions of the objectives will be published in the Budget Policy Statement in December 2021.***	
Contribution to Wellbeing Objective(s)	*This initiative aligns with the following wellbeing objectives:* • ***Physical and Mental Wellbeing*** *because supporting more whānau into homeownership has a range of physical and mental wellbeing benefits as discussed in goal one* • ***Māori and Pacific*** *because the initiative will improve access to affordable housing* • ***Child Wellbeing*** *because the initiative will improve access to affordable housing.*

Section 5: Delivery

*<u>Section 5 must be completed for all initiatives</u>. Further information on the questions in this section can be found at **Annex Two** of the Budget 2022 guidance.*

Section 5A: Fit with existing activity		
The answer must not exceed 1-2 paragraphs.		
How does the initiative link with existing initiatives with similar objectives?	*This initiative builds on the First Home Grant and First Home Loan. There are other homeownership programmes that sit alongside the First Home Products including: KiwiSaver First Home Withdrawal, Kāinga Whenua Loans, Progressive Home Ownership (PHO), and KiwiBuild.* *There are also a number of private sector initiatives designed to support first home buyers into homeownership. These include existing providers of progressive home ownership (e.g. entities who provide a rent-to-buy scheme for low income whānau) and lenders that provide cash grants to first home buyers (e.g. ANZ provide a $3,000 cash grant).*	
Is the initiative an expansion or a cost pressure for an existing initiative?	*Y*	*This initiative proposes a range of changes to the settings of the products. These changes are to support the products to better achieve their objectives. These changes will expand the number of first home buyers and homes that can be purchased with this support.* *In 2020 there were 13,978 First Home Grants paid. By funding this initiative the number of grants paid will increase by approximately 7,400 per annum.* *In 2020 there were 1,171 First Home Loans issued. By funding this initiative the number of loans issued will increase by approximately 2,400 per annum.*
		If no, move on to section 5B.

Provide an overview of existing funding levels for this initiative, and/or initiatives with similar objectives, in the two tables below.

	Operating Funding profile ($m)					
	2021/22	2022/23	2023/24	2024/25	2025/26 & outyears	Total
Existing funding for First Home Grant	122.320	122.320	122.320	122.320	122.320	611.600
Total funding sought for this initiative	0	25.888	33.103	40.697	48.690	148.378
% change between existing funding and funding sought	0	21	27	33	40	24
Comments (optional)	*The changes to the First Home Loan house price caps, and re-categorisation of the income caps can be funded through a fiscally neutral transfer of appropriation between the First Home Grant appropriation and the First Home Loan appropriation. The transfer would move $10.773 million from the First Home Grant appropriation to the First Home Loan appropriation starting in 2022/23 financial year. The funding above is that sought to adjust the KiwiSaver eligibility criteria, increase and annually review the house price caps for the First Home Grant.*					

	Capital Funding profile ($m)										
	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	Total
Existing funding for this/similar initiatives											
Total funding sought for this initiative											
% change between existing funding and funding sought											
Comments (optional)	*Provide explanatory comments to help interpretation of the above baseline figures.*										

Section 5B: Funding sought by input

Provide a breakdown of what the requested funding will purchase. Briefly explain the formula used, or key assumptions made, to calculate the cost of each output. Add additional rows to the table as needed to capture each output separately. Please include which Vote(s) will be impacted by each component.

Formula and assumptions underlying costings	*Te Tūāpapa Kura Kāinga developed a model that projects the increase in uptake of the First Home Grant and First Home Loan. This model was then used to cost the various policy changes.* *The model takes the distributions of house prices in each territorial authority (source: Corelogic/HUD) and looks at the percentage of homes sold below the current house price caps. The model then looks at the percentage increase in homes sold below the proposed house price caps. That percentage increase is then used to project forward historic uptake (source: Kāinga Ora). The model also builds in a constraint on uptake based on the highest house price a first home buyer could service given the $95,000 and $150,000 income caps. The model is split out by new and existing properties. The cost associated with each grant is assumed to be the average grant size over the previous 12 months (source: Kāinga Ora).*

	Funding profile ($m)					Total
Input – Operating [Enter <u>one number value</u> per field only into CFISnet]	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26 & outyears**	**Number values only, i.e. 15 or 100000. Do not enter any text, $ signs or % signs.**
Input Information						

Removing house price caps from the First Home Loan (FHL appropriation)	0	10.773	10.773	10.773	10.773	43.092
Removing house price caps form the First Home Loan (FHG appropriation)	0	(10.773)	(10.773)	(10.773)	(10.773)	(43.092)
Increasing house price caps for the First Home Grant	0	16.151	16.151	16.151	16.151	64.604
Reviewing house price caps for the First Home Grant every six months	0	3.192	10.064	17.297	24.909	55.462
Reducing the KiwiSaver requirement	0	6.545	6.888	7.250	7.630	28.313
Total	0	25.888	33.103	40.697	48.690	148.378

Appropriations	*Removing the house price caps for the First Home Loan will be funded by a fiscally neutral transfer between the First Home Grant appropriation and the First Home Loan appropriation.* *There will still be some underspend in the First Home Grant appropriation after the fiscally neutral transfer. This underspend and an additional $16.151 million can fund the proposed changes to the First Home Grant house price caps.* *There is a five percent buffer added to the appropriation to fund future review of the house price caps, which compounds year on year. Another five percent buffer funds the adjustment to the KiwiSaver eligibility criteria.*

Section 5C: Options analysis

The answer must not exceed 1-2 paragraphs.

Options analysis	*Some of the options considered were:* • ***retaining the house price caps for the First Home Loan*** *– this option would continue to target the loan at modest homes. However, the loan targets first home buyers who need support so it would unnecessarily restrict the homes they could purchase* • ***reviewing the house price caps on an ad hoc basis*** *– this is the current practice which has caused significant disconnection between house price caps and lower quartile prices, restricting uptake of the products in some areas* • ***increasing the size of the grant*** *– the grant size could be increased to further decrease the deposit barrier. This would come at a significant cost. The preference was to make the products more accessible to first home buyers rather than provide more support.*
Counter-factual question	*The First Home Product settings have not kept pace with a rapidly changing housing market and uptake has fallen significantly. If the status quo is maintained:* • *house price caps will further constrain uptake of the products as house prices increase. This will limit the homes available to increasing smaller typologies, limiting the choice for first home buyers and particularly homes that are suitable for families with children* • *uptake of the products by Māori and Pacific peoples will remain lower than uptake by other New Zealanders* • *single parents who earn between $95,000 and $150,000 will not be able to access the products to buy a suitable home for themselves and their dependents* • *there is declining access to deposit barrier relief for first home buyers on modest incomes across the country* • *Loan to Value Ratios are likely to target low deposit lending to first home buyers, many modest income first home buyers with adequate incomes but insufficient deposits to purchase their first home will be crowded out of the home loan market as they are unable to overcome the deposit barrier.* *Other implications include delayed family formation, unmet home ownership aspirations as home ownership becomes increasingly distant, and otherwise home owners being locked into sub-optimal renting scenarios.*

	Not making these setting changes will mean about 2,500 additional people are unable to access the loan and about 7,000 additional people will not be able to access the grant compared to current levels of uptake. Buyers that can't access the loan will no longer be able to purchase a first home as well as a large share of those buyers accessing the grant.. The products will also continue to decline in effectiveness which means current levels of uptake can be expected to decline further.

Section 5D: Scaled option

The answer must not exceed 1-2 paragraphs.

Option overview	*There is an option to remove the house price caps for the First Home Loan and re-categorise the income caps for the First Home Grant and First Home Loan. This change can be funded within existing appropriation through a fiscally neutral transfer between the First Home Grant appropriation and the First Home Loan appropriation.*

Provide a breakdown of what the minimum viable option would purchase. If the formula used or key assumptions made differ from those used for the primary option, briefly explain these. Add additional rows to the table as needed to capture each output separately.

Formula and Assumptions	*There are no differences in the model that projects uptake for the products.*					
	Operating Funding profile ($m)					
Input - Operating	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26 & outyears**	**Total**
Removing house price caps from the First Home Loan (First Home Loan appropriation)	**0**	**10.773**	**10.773**	**10.773**	**10.773**	**43.092**
Removing house price caps from the First Home Loan (First Home Grant appropriation)	**0**	**(10.773)**	**(10.773)**	**(10.773)**	**(10.773)**	**(43.092)**
Total	**0**	**0**	**0**	**0**	**0**	**0**
Appropriations	*Removing the house price caps for the First Home Loan will be funded by a fiscally neutral transfer between the First Home Grant appropriation and the First Home Loan appropriation.*					

Section 5E: Monitoring and Evaluation

The answer must not exceed 1-2 paragraphs.

There are three key aspects of the monitoring and evaluation methodology of the First Home Products:

- *Kāinga Ora will run its own monitoring of the scheme. The results are published in the Kāinga Ora Financial Products Quarterly Report. It covers uptake of a range of products and a number of other indicators of success*
- *Te Tūāpapa Kura Kāinga will monitor a range of key indicators each month to determine the success of the policy changes. The key indicators will be uptake for the products by ethnicity, income level, Territorial Authority, new properties, and existing properties*
- *Te Tūāpapa Kura Kāinga will periodically undertake more comprehensive reviews of the products regarding their effectiveness. These reviews would look at how effectively the products are achieving their intent. In particular, how much they are decreasing the deposit barrier, how they are performing compared to other products like the Progressive Home Ownership Fund and what options are available to improve the products.*

Section 5F: Implementation readiness		
The answer to each question must not exceed 1-2 paragraphs.		
Workforce: Are additional FTEs or contractors required?	***Y/N***	*N*
Workforce: Resourcing considerations	*This initiative will be implemented by Kāinga Ora which has enough resource to implement the changes. For the First Home Loan the banks and lenders complete most of the application and assessment process. Given the loan allows the bank to provide loans and earn interest, banks are likely to scale up and down according to demand.*	
Timeframes	*It will take Kāinga Ora four to six weeks to implement the changes to the eligibility criteria from the date of the announcement.*	
Delivery Risks	*This initiative has no major delivery risks. The higher volume could reduce processing times but currently Kāinga Ora takes two working days to process a First Home Grant when the target time frame is ten working days.*	
Market capacity	*These products are demand driven and in any given year there are only a certain amount of first home buyers that can access the products.*	
Previous delivery experience	*Kāinga Ora currently delivers these products very effectively. In 2020 it received and processed 42,195 grant applications and approved 2,719 loan applications.*	