



Briefing

FURTHER ADVICE ON THE FIRST HOME GRANT			
To Minister	Hon Chris Bishop	Portfolio	Minister of Housing
CC Minister	Hon Nicola Willis	Portfolio	Minister of Finance
Date	7 May 2024	Priority	High
Tracking number	HUD2024-004411		
ACTION SOUGHT			
Action sought	Agree to the decisions required to wind-down the First Home Grant scheme		
Deadline	14 May 2024		
CONTACT FOR DISCUSSION			
Name	Position	Telephone	1st contact
Julia Pearce	Manager, Housing Access and Support	s 9(2)(a)	✓
Nick McNabb	Chief Advisor	s 9(2)(a)	
OTHER AGENCIES CONSULTED			
None.			



Purpose

- On 29 April 2024, as part of Budget 2024 decisions, Cabinet agreed to discontinue the First Home Grant scheme (FHG). This briefing provides you with further advice on decisions needed to wind down the FHG.

RECOMMENDED ACTIONS	
It is recommended that you:	
2.	<p>Agree to EITHER of these options:</p> <p>a. Agree (recommended) to cease receiving new FHG applications effective on announcement day and allow for Kāinga Ora to process grant payments of approved applications up to their expiry <i>Agree/Disagree</i></p> <p>OR</p> <p>b. Agree to cease receiving new FHG applications effective one week after announcement day and allow for Kāinga Ora to process grant payments of approved applications up to their expiry <i>Agree/Disagree</i></p>
3.	<p>Agree to honour all applications received by the cutoff date that have been pre-approved or fully approved by Kāinga Ora as some of buyers are likely to have incurred reasonable costs on the understanding the FHG would be paid out <i>Agree/Disagree</i></p>
4.	<p>Agree to allow Kāinga Ora to assess all FHG applications received by the cutoff date that have not been assessed or not given a final outcome to prevent confusion and disappointment from first home buyers who have submitted an application <i>Agree/Disagree</i></p>
5.	<p>Note that there is an operational risk that the shut-down of the application page on Kāinga Ora’s website cannot take place in time if they are not provided with advanced notice prior to announcement day to prepare their website system for the change <i>Noted</i></p>



<p>6. Note there will be operational and communication risks to Kāinga Ora if they are not given advance notice prior to announcement day:</p> <ul style="list-style-type: none">a. FHG application may not be able to be shut down immediately after the announcement or within the same dayb. Kāinga Ora may not be sufficiently prepared to respond to an influx of enquiries and may cause further confusion to the publicc. Kāinga Ora may not be able to remove all FHG promotional materials or communicate to stakeholders about the changes within the same day of the announcement	<p><i>Noted</i></p>
<p>7. Agree to inform Kāinga Ora of the FHG closure prior to announcement day to allow them sufficient time to prepare to wind down the scheme</p>	<p><i>Agree/Disagree</i></p>

Julia Pearce
**Manager, Housing Access
and Support**
07 / 05 / 2024

Hon Chris Bishop
Minister of Housing
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Background

8. The FHG is supports first home buyers to overcome the deposit barrier to home ownership by providing grant payments of between \$3,000 and \$10,000 to put towards the deposit.
9. Similar to how buyers can approach a lender for a pre-approved or a fully approved home loan, first home buyers can apply to Kāinga Ora – Homes and Communities (Kāinga Ora) for either a:
 - FHG pre-approval, when a buyer applies for the FHG before they have found a property. This is valid for six months.
 - FHG full approval, where a buyer has already found a property and signed a sale and purchase agreement.

Key Decisions Required

To prevent an influx of new applications being submitted after announcements are made, we recommend ceasing new applications effective on announcement day

10. FHG applications are submitted on Kāinga Ora’s website. Closing the First Home Grant will require Kāinga Ora to shut down the online application page to stop new applications from coming in.
11. We have listed two options to consider around the timing to cease new applications in Table 1 below, with their benefits and downsides.

Table 1: Options around timing to cease new FHG applications

OPTIONS	BENEFITS	DOWNSIDES
Option A¹ (recommended): Cease accepting new applications effective on announcement day and allow for Kāinga Ora to process grant payments of approved applications up to their expiry	<ul style="list-style-type: none"> • Lower estimated operating cost compared to Option B (\$35m² in 2024/25 FY) to cover wind down • Prevents an influx of new applications due to short gap between 	<ul style="list-style-type: none"> • Assuming Kāinga Ora is notified on announcement day, there is a risk that the application page cannot be shut down within the same day. This risk can be significantly mitigated

¹ If Option A in Table 1 is agreed, there is an estimated Operating Balance before Gains & Losses (OBEGAL) impact of \$35m in 2024/25 FY. We estimate approximately 950 FHG applications would be paid out each month at an average of \$6,000 grant payment per application.

² Current forecasts have allowed for \$35m of expenditure in 2024/25 FY for First Home Grants. Any expenditure greater than this will deteriorate the OBEGAL position.



	<p>announcement and end date</p> <ul style="list-style-type: none"> • Lower financial risk of exceeding forecasts due to more manageable levels of new applications than Option B 	<p>the earlier we notify Kāinga Ora</p> <ul style="list-style-type: none"> • Lack of notice and short gap between announcement and end date will disappoint some people who are in the process of completing the application or about to start
<p>Option B: Cease accepting new applications effective one week after announcement day and allow for Kāinga Ora to process grant payments of approved applications up to their expiry</p>	<ul style="list-style-type: none"> • Assuming Kāinga Ora is notified on announcement day Day, this option provides reasonable timeframe for the website system to shut application page³ • Mitigates disappointment from first home buyers for those in the process of submitting an application 	<ul style="list-style-type: none"> • Higher estimated operating cost than Option A (\$40m⁴ in 2024/25 FY) to cover wind down • The gap between announcement date and end date may cause an influx of new applications. This creates a higher financial risk of exceeding forecasts for the wind down than Option A.

12. On balance, we recommend Option A on the expectation that this option would produce the most certain level of savings from the FHG closure by reducing the risk of an influx of applications. If Option A is agreed, we expect the estimated savings is in line with the savings package agreed in Budget 2024. We expect that the application page is closed as soon as practical on announcement day. The biggest risk if this option is agreed, the application page on Kāinga Ora’s website may not be able to shut down within the same day of the announcement. However, this risk can be significantly mitigated if Kāinga Ora is provided with advanced notice of the closure as early as possible.

³ This assumption is based on an initial indication from Kāinga Ora without consulting with the appropriate teams involved in the digital process to confirm exact details.

⁴ This includes factoring in the potential surge of applications from buyers rushing in before applications are closed once announcements are made.



13. The First Home Grants Appropriation is a Benefit or Related Expense (BORE), and therefore there is no risk of a breach in appropriation from either option. However, Option B will likely result in a higher operating cost estimated at an additional \$5.7m⁵ in 2024/25 FY relative to submitted forecasts and would reduce the estimated savings that were agreed in the Budget 2024 savings package. Option B has a much higher degree of uncertainty due to the challenge to predict the potential wave of new applicants that could come in.
14. Our understanding for applicants with a pre-approval is that they do not have the option to extend the validity period of six months before it expires (even if it is approaching the expiry date). s 9(2)(f)(iv)

We recommend allowing Kāinga Ora to honour grant payments for all applications received by the cutoff date that have been pre-approved or fully approved

15. We recommend allowing Kāinga Ora to honour full approvals and pre-approvals (that convert to sale and purchase agreements) on all applications received by the cutoff date to minimise reputational risks to the Government. To the best of our understanding, there is no legal obligation for Kāinga Ora to follow through with grant payments for full approvals. However, it could be considered that there is an implied obligation as first home buyers have sought to purchase a home on the assumption that they will be able to access this funding.
16. If full approvals are not honoured, the Government will need to consider how to respond to applicants who have incurred reasonable costs on the understanding that the grant would be paid. It is difficult to determine what stage a first home buyer with a pre-approval is at in their home buying journey and it is possible they have also incurred some costs on the understanding that the grant would be paid.
17. At the time of writing, it is unclear how many valid pre-approvals there are currently but their validity period will be staggered across the next six months. Kāinga Ora indicated in March 2024 that there were around 11,000 pre-approved FHGs. We have assumed there is the same number of pre-approvals waiting to convert into sale and purchase agreements by the time the scheme closes.
18. We do not have an estimate of conversion rates of pre-approvals that result in a sale and purchase agreement and a grant payment. However, we have modelled the costs for grant payments on the assumption that 950 applications are paid per month at an average grant of \$6,000.

⁵ Costs modelled on 950 applications paid per month at an average grant of \$6,000.



We recommend allowing Kāinga Ora to assess all FHG applications received by the cutoff date that have not been assessed or not given a final outcome

19. Kāinga Ora states on their website that they aim to assess FHG applications within four weeks after receiving it. If more information is needed from the applicant, Kāinga Ora will contact them to request it. We assume this includes instances where Kāinga Ora may need to request further information from applicants that they have not asked for upfront in the application form (and not due to an error made by the applicant).
20. By announcement day, there will be applications that Kāinga Ora have started assessing and may have been in contact with applicants as part of the process. To minimise confusion and disappointment from applicants who have already submitted an application but have not received a final outcome, we recommend allowing Kāinga Ora to assess all applications received by the cutoff date. This includes applications that Kāinga Ora have not started assessing.
21. Applications that have been assessed and where the final outcome is not an approval (i.e., declined due to failing to meet the eligibility criteria or applicant withdrew) will not be considered further nor be given an exception for an opportunity to re-apply after the cutoff date.

Risks

22. The FHG scheme is a public-facing scheme that interacts with thousands of first home buyers across New Zealand each year. Assuming that the closure of the FHG will only be known to Kāinga Ora on announcement day when it is announced, there are a number of risks as we have discussed. These include:
 - an operational risk that the application page may not be able to shut down within the same day (if this is agreed). Kāinga Ora will also likely need time to upload communication material on their website to explain the application shut down, change their public facing materials and notify partners⁶ of the changes.
 - Kāinga Ora may not be sufficiently prepared to effectively communicate the wind down of the FHG to the public. We expect an influx of enquiries, including emails and phone calls from first home buyers following the announcement to Kāinga Ora.
23. The risks outlined in this section can be significantly mitigated if Kāinga Ora is provided with advance notice prior to announcement day to put them in a good position to implement the necessary changes and be able to quickly and effectively respond to enquiries. A minimum of two working days' notice, or more if possible, would be beneficial to ensure a smooth, coordinated wind-down of the FHG.
24. As we have not consulted with Kāinga Ora on the process to wind down the FHG, there is a risk that there may be further Ministerial decisions not covered in this briefing required to wind down the scheme.

⁶ Partners include mortgage advisors, lenders, Citizens Advice Bureau, etc. who promote the scheme to the public.



Consultation

25. Due to the Budget 2024 sensitivities of decisions around winding down the FHG, we have not consulted with Kāinga Ora on this briefing. We have utilised some earlier targeted information on administrative and operational aspects involved to close down the scheme which we have drawn from in preparing this advice.

Next steps

26. We will prepare communication materials to support Ministerial announcements on announcement day.
27. We will work with Kāinga Ora as soon as they are notified of the FHG closure (either on the day of announcement or prior to) to coordinate a cross-agency communication plan and other steps required to ensure a smooth, coordinated closure of the FHG.

SENSITIVE