

COUNCIL BUSINESS COMMITTEE

Response to the First Homes Consultation 5 March 2020

Report of Director of Economic Growth and Regeneration

PURPOSE OF REPORT

To advise Members of the Government's First Homes Consultation and seek approval for submission of a response.

The Consultation commenced on 7th February and runs until 7th April 2020.

First Homes are intended to deliver homes for first time buyers at a discounted rate, and to future buyers. The consultation seeks views on how First Homes should be implemented and delivered. The provision would have implications for planning policy and how affordable housing is delivered on development sites.

This report is public.

RECOMMENDATIONS

- (1) That the draft response to the consultation, at Appendix 1 of the Report, is submitted as a formal response from Lancaster City Council.
- (2) The officers keep Members informed of progress of First Homes policy and the implications for the delivery of affordable housing in development sites.

1.0 Introduction

- 1.1 The consultation seeks views on 'First Homes' for local people and covers the following areas:
 - What First Homes are and who should be eligible for them.
 - How the scheme should work in practice.
 - How to deliver more of these homes through developer contributions.
 - The requirement for delivering these homes through planning or legislation.
- 1.2 First Homes are intended to increase accessibility to home ownership. The proposals aim to deliver homes at a minimum of 30% discount below market values, to local people and key workers, such as nurses, police and teachers, who are unable to purchase homes at market prices. The discount would be passed onto future buyers when the home is sold.
- 1.3 This report provides an overview of the proposals and officers have provided a draft response to the consultation document at Appendix A. The consultation document poses a series of questions and the draft response provides comments in respect of

each question. Subject to this committee's agreement, the response, or a version amended to reflect Members' specific concerns, will be submitted as Lancaster City Council's formal response to the consultation.

2.0 Proposal Details

2.1 Future Homes appear to provide a combination of Starter Homes and Discounted Sales. The consultation documents do not however state that Future Homes are a type of Starter Home or that they replace the concept of Starter Homes.

2.2 The National Planning Policy Framework (NPPF) defines affordable housing and includes reference to Starter Homes and Discounted Market Sale Housing.

2.3 Starter Homes are defined in the Housing and Planning Act 2016 as:

- a new dwelling;
- is available for purchase by qualifying first-time buyers only;
- is to be sold at a discount of at least 20% of the market value;
- is to be sold for less than the price cap; and is subject to any restrictions on sale or letting specified in regulations made by the Secretary of State (for more about regulations under this paragraph, see section 3).

2.4 The Act legislates that local authorities have a duty to promote the supply of Starter Homes. Whilst primary legislation now exists through the Act, there remains no secondary legislation or statutory requirement in place which provides detail on the implementation of Starter Homes or a requirement for delivery.

2.5 Discounted market sales housing provides intermediate affordable homes and is defined as homes which are sold at a discount of at least 20% below local market value. Eligibility is determined with regard to local incomes and local house prices and provisions should be in place to ensure housing remains at a discount for future eligible households. Discounted sales have not been a preferred option for Lancaster City Council. A 20% discount is not considered affordable and the low level of discount limits accessibility to the tenure. Discounted sales also have administration costs arising from determining eligibility and the appropriate discount rate. The majority of intermediate affordable home ownership is provided as shared ownership in association with Registered Providers.

2.6 The consultation document is split into topics. This report addresses each topic heading.

Ensuring First Homes are affordable

2.7 The Government acknowledge that 20% is an insufficient discount below market value. The consultation document recommends that the discount should be a minimum of 30%. It is also acknowledged that in some locations, such as London and the South East, 30% may be insufficient and recommends that local authorities have the discretion to set higher discounts on a site-by-site basis to reflect local conditions. To provide this flexibility it is not proposed to set a maximum discount. This will be a matter for agreement between developers and local authorities.

2.8 The flexible approach is positive as it allows the discount to be tailored to local affordable levels taking into account income levels and market values. It will, however, require additional resources in determining what the discount should be for each development.

- 2.9 It is intended to ensure that discounts are carried forward to future buyers in perpetuity. This would be enforced by placing restrictive covenants on homes and requiring an independent valuation at first sale and future sales to ensure that the percentage discount is applied. This mechanism ensures that discounts are provided, however, if house prices rise significantly without a similar rise in income levels, an affordable discount of 30% may no longer be affordable in future years. Local authority resources will also be required to assess valuations and administer the discount.
- 2.10 It is proposed to set maximum open market values for new houses prior to the discount being applied. This may be a national cap of up to £600,000 with the ability for local authorities to set lower local caps, regional caps or geographical caps. Regional and geographical caps would reduce local flexibility as the consultation does not propose local caps with this model. Geographical caps could be inflexible to market conditions. The setting of a local cap would ensure that First Homes reflect local conditions and provide for local need. This will however require additional staff resource at the Council to determine the appropriate cap, update the cap as and when required and it is not clear how this cap would be implemented.

Eligibility for the First Homes scheme

- 2.11 The consultation seeks views on the implementation of a local connection test. First Homes are intended to meet local needs and the definition of 'local people' will be at the discretion of the local authority. The existing local connection criteria for the Council housing allocation waiting list seeks either a 3-year residency in the district, the offer of or employment in district, or immediate family connections. This is restricted further in rural areas. Similar restrictions would be appropriate for First Homes. Mortgage lenders are often reluctant to lend on property with local connection criteria. They would need to be more flexible than they are at present. To ensure homes are not left empty, restrictions would need to be time-limited with a cascade. The restriction may potentially need to fall away if the homes cannot be sold in a reasonable time period.
- 2.12 The proposal aims to prioritise first time buyers but seeks views on access for non-first-time buyers. The consultation document acknowledges that in some cases, homeowners are in unsuitable accommodation with the next step being unaffordable to them or in need of specialist housing, such as housing for older people or disabled people. Key workers may also be unable to afford homes to meet their needs when moving or stepping up the housing ladder to meet family circumstances. This would open up First Homes to a wider range of people. There is however no detail on how this access would be expected to cascade.
- 2.13 The Government is considering applying an income cap for eligibility. This cap could be set locally and ensure that First Homes are targeted towards those who cannot afford a home on the open market. This will require additional resources for the local authority in determining what the income cap should be, ongoing review of the income cap and assessing prospective purchasers' income. The proposals would not prioritise people on the Council housing allocation waiting list.

Supporting the First Homes scheme

- 2.14 First Homes would be administered by local authorities. This will add ongoing resource implications. Local authorities may outsource these functions however, this would also incur a cost.

Supporting competitive mortgage lending

- 2.15 Lenders are currently reluctant to support shared ownership homes. To address this the Government is considering developing a standardised First Home model. In order to deliver First Homes, the model would need support from lenders and there would

need to be certainty that mortgages would be available in Lancaster district. Without certainty, developers are unlikely to be willing to deliver First Homes and they would not be available to those who need them.

Restrictions on letting First Homes

- 2.16 If purchasers were able to let homes, this would reduce the numbers of homes available for ownership. It is proposed to restrict lettings on First Homes. There may however need to be exceptions, for instance where an occupier may be working away from home for a specified period or for armed services personnel.

Delivering the Armed Forces Covenant

- 2.17 It is proposed to make provisions for armed services personnel to enable people to buy a home. The documentation does not include the necessity for a local connection. A connection would be appropriate but with a broader definition to the Council waiting list definition to allow armed forces personnel to purchase a home where they may once have had a connection.

Delivering First Homes and setting developer contributions

- 2.18 There are two options for delivering First Homes through the planning system:
- To create a new requirement for developers to deliver First Homes alongside market housing, either through changes to planning policy or legislation.
 - To amend the existing entry level exception site policy to a First Home exception site policy.
- 2.19 There are two options for the delivery of First Homes through S106 agreements:
- Prescribe that a percentage of affordable homes delivered through section 106 planning obligations should be First Homes; or,
 - Prescribe that a percentage of all units delivered on suitable sites (over 10 units) are to be sold as First Homes.
- 2.20 A blanket percentage of First Homes delivery on a site has the potential to affect the viability of development and the delivery of other types of affordable homes, such as shared ownership and affordable rented properties. It could also affect the delivery of infrastructure through S106 contributions. Allowing local authorities to determine the percentage of each type of housing would enable a mixture of affordable homes to meet the needs of the community. However, if the Government were to require a set percentage through legislation, rather than relying on planning policy, the development industry would have less flexibility to avoid the provision of this type of home.
- 2.21 Additional resource will be required to carry out a viability assessment to determine the percentage of First Homes deliverable on a site, together with other forms of affordable housing and infrastructure.

Delivery through exception sites

- 2.22 The Government seeks views on including First Homes within the house types delivered on exception sites. As the NPPF currently allows a mixture of affordable housing types, supported, where necessary market housing, the inclusion may not significantly alter delivery providing the discounts and income caps are set at appropriate levels. It would be important to ensure that the provision of First Homes does not prevent the delivery of a range of affordable tenures on sites.

Community Infrastructure Levy (CIL)

- 2.23 The consultation seeks the views on exempting First Homes from CIL. Lancaster City Council does not currently have a CIL. If the discounts and income caps are set at

appropriate levels, the properties will form a type of affordable home. As affordable homes are currently exempt, this proposal would not significantly alter any future CIL collected.

Equality Impact

- 2.24 The consultation acknowledges that First Homes could have an impact upon the delivery of affordable homes which may affect disadvantaged groups. It must be ensured that a range of affordable tenure types are available on sites to meet the needs of a wide range of people including those of disadvantaged groups and those with specific needs.

3.0 Details of Consultation

- 3.1 The First Homes Consultation ends on the 3rd April 2020. The full documentation can be viewed using the following link:
<https://www.gov.uk/government/consultations/first-homes>

4.0 Options and Options Analysis (including risk assessment)

	Option 1: To formally respond to the First Homes Consultation with the comments provided in Appendix 1 of this report	Option 2: To formally respond with any other comments	Option 3: To provide no response to the consultation
Advantages	The views of the Council will be considered by the Government when the policy details are formulated.	The views of the Council will be considered by the Government when the policy details are formulated.	No advantages
Disadvantages	While the Council may submit comments, they may not result in the issues raised being reflected in the final policy.	While the Council may submit comments, they may not result in the issues raised being reflected in the final policy.	That the views/opinions of the Council will not be taken into account and future opportunities to feed into the process will be lost.
Risks	The First Homes policy may not be revised to reflect the views of the Council.	The First Homes policy may not be revised to reflect the views of the Council.	That the views/opinions of the Council will not be taken into account and future opportunities to feed into the process will be lost.

5.0 Officer Preferred Option (and comments)

- 5.1 Option 1 is the preferred Officer opinion. This option ensures that Lancaster City Council provides its views and will be able to make further comments should revisions and further consultation be carried out.

6.0 Conclusion

- 6.1 It is recommended that the response set out in Appendix 1 is submitted as Lancaster City Council's formal response to the consultation.

**CONCLUSION OF IMPACT ASSESSMENT
(including Health & Safety, Equality & Diversity, Human Rights, Community Safety,
Sustainability and Rural Proofing):**

The introduction of First Homes has the potential to deliver an increase amount of a discounted sale tenure but could adversely affect the delivery of other affordable tenures. This could disadvantage groups who are unable to purchase homes at the discounted rate, including those in need of affordable and social rented homes.

Responding to the consultation is Lancaster City Council's opportunity to ensure that these impacts on equality are taken into account in the development of the policy.

LEGAL IMPLICATIONS

There are no legal implications stemming from this report.

FINANCIAL IMPLICATIONS

There are no financial implications resulting directly from the recommendations.

**OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services,
Property, Open Spaces**

There will be resource implications if the First Homes policy is implemented. The policy will require the provision of evidence to determine appropriate discount rates and incomes caps and an ongoing staff resource in administering the sales process.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments to make.

BACKGROUND PAPERS

The First Homes Consultation is available to view in the following link:

<https://www.gov.uk/government/consultations/first-homes>

Contact Officer: Fiona Clark
Telephone: 01524 582222
Email: fjclark@lancaster.gov.uk
Ref: N/A

Appendix 1 – Proposed Lancaster City Council response to the consultation

The consultation poses a series of question to which the following responses are recommended.

Q1. a) Do you agree with a minimum discount of 30% (but with local flexibility to set a higher

one)?

b) If not, what should the minimum discount be? i. 20% ii. 40% iii. Other (please specify)

Yes

Q2. a) Should we set a single, nationally defined price cap rather than centrally dictate local/regional price caps?

b) If yes, what is the appropriate level to set this price cap? i. £600,000 ii. £550,000 iii. £500,000 iv. £450,000 v. Other (please specify)

No – A national price cap would not adequately reflect local house prices and incomes. Price caps at the level suggested would not result in homes being affordable for first time buyers with discounts in the region of 30%.

Q3. a) If you disagree with a national price cap, should central Government set price caps which vary by region instead?

No – they should be set by Local Authority area to reflect local house prices and incomes.

b) If price caps should be set by the Government, what is the best approach to these regional caps? i. London and nationwide ii. London, London surrounding local authorities, and nationwide iii. Separate caps for each of the regions in England iv. Separate caps for each county or metropolitan area v. Other (please specify)

See answer to Q3

Q4. Do you agree that, within any central price caps, Local Authorities should be able to impose their own caps to reflect their local housing market?

Yes

Q5. Do you agree that Local Authorities are best placed to decide upon the detail of local connection restrictions on First Homes?

Yes

Q6. When should local connection restrictions fall away if a buyer for a First Home cannot be found? i. Less than 3 months ii. 3 - 6 months iii. Longer than 6 months iv. Left to Local Authority discretion

iv. Left to Local Authority discretion

Q7. In which circumstances should the first-time buyer prioritisation be waived?

To meet the needs of people on the Council's housing allocation waiting list and for specialist needs such as homes for older people, for those with particular needs or for community groups where an affordable discount is made.

Q8. a) Should there be a national income cap for purchasers of First Homes?

No – income caps should be at a regional or county level to reflect local incomes. The differentials within regions and county areas should be taken into account.

b) If yes, at what level should the cap be set?

c) Do you agree that Local Authorities should have the ability to consider people's income and assets when needed to target First Homes?

Yes

Q9: Are there any other eligibility restrictions which should apply to the First Homes scheme?

No

Q10. a) Are Local Authorities best placed to oversee that discounts on First Homes are offered in perpetuity?

No

b) If no, why?

At present Local Authorities are not resourced to oversee discounts. The process would add an additional burden to Local Authorities. While they may be best placed to determine local eligibility, additional resources would need to be made available for this process to be carried out and to ensure that it does not slow down the purchase process.

Q11. How can First Homes and oversight of restrictive covenants be managed as part of Local Authorities' existing affordable homes administration service?

Affordable housing provided through S106 agreement in Lancaster City Council area are administered by Registered Providers. A similar provision could be put in place by Government to oversee First Homes. If the Council were to oversee the ongoing provision, additional resources would be required from government to provide the capacity to assess valuations and eligibility and for the ongoing enforcement of the restrictions.

Q12. How could costs to Local Authorities be minimised?

Appointment and funding of specified independent valuers funded by Government could remove the burden upon local authorities. The cost should not however be passed onto purchasers.

Q13. Do you agree that we should develop a standardised First Home model with local discretion in appropriate areas to support mortgage lending?

Yes – engagement with lenders will be key as at present lenders are reluctant to support shared ownership or existing forms of discounted market sale units. Without mortgage products in place in each local area, developers are unlikely to wish to deliver the tenure and if delivered it would not be attainable by those they are intended for.

Q14. Do you agree that it is appropriate to include a mortgage protection clause to provide additional assurance to lenders?

Yes

Q15. For how long should people be able to move out of their First Home and let it out (so it is not their main or only residence) without seeking permission from the Local Authority?

i. Never ii. Up to 6 months iii. 6- 12 months iv. Up to 2 years v. Longer than 2 years vi. Other (please specify)

i. Never

Q16. Under what circumstances should households be able to move out of their First Home and let it for a longer time period? (Tick all that apply)

- | | | |
|------|-------------------------------------|---|
| i. | Short job posting elsewhere | X |
| ii. | Deployment elsewhere (Armed Forces) | X |
| iii. | Relationship breakdown | |
| iv. | Redundancy | |
| v. | Caring for relative/friend | X |
| vi. | Long-term travelling | |
| vii. | Other (please specify) | |

Q17. Do you agree that serving members and recent veterans of the Armed Forces should be able to purchase a First Home in the location of their choice without having to meet local connections criteria?

Yes

Q18. What is the appropriate length of time after leaving the Armed Forces for which veterans should be eligible for this exemption?

i. 1 year ii. 2 years iii. 3-5 years iv. Longer than 5 years

ii. 2 years

Q19. Are there any other ways we can support members of the Armed Forces and recent veterans in their ability to benefit from the First Homes scheme?

Q20. Which mechanism is most appropriate to deliver First Homes?

- i. Planning policy through changes to the National Planning Policy Framework and guidance
- ii. Primary legislation supported by planning policy changes

i. Planning policy through changes to the National Planning Policy Framework and guidance

Q21. Which do you think is the most appropriate way to deliver First Homes?

- i. As a percentage of section 106 affordable housing through developer contributions
- ii. As a percentage of all units delivered on suitable sites

i. As a percentage of section 106 affordable housing through developer contributions

Q22. What is the appropriate level of ambition for First Home delivery?

- i. 40% of section 106
- ii. 60% of section 106
- iii. 80% of section 106
- iv. Other (please specify)

The percentage should be determined by local circumstances and the needs for other

types of affordable housing. Additional resource will be required for local authorities to produce viability assessments to determine the level of First Homes and the mix with other types of affordable homes necessary to meet local needs. Support from Government and the Planning Inspectorate will also be required to ensure that First Homes, together with other types of affordable home and infrastructure can be delivered without landowners and developers being able to reduce requirements on viability grounds.

Q27. Do you agree that the proposal to exempt First Homes from the Community Infrastructure Levy would increase the delivery of these homes?

Yes

Q28. Do you think the Government should take steps to prevent Community Infrastructure Levy rates being set at a level which would reduce the level of affordable housing delivered through section 106 obligations?

Yes – however, steps are also needed to be taken to ensure that the necessary infrastructure, including the requirements for incremental infrastructure, either through S106 or CIL is provided. To be sustainable affordable housing requires the provision of infrastructure to support placemaking and community.

Q29. a) What equality impacts do you think the First Homes scheme will have on protected groups?

The provision of homes to meet specific needs may be reduced due to the impact on the viability of development.

b) What steps can the Government take through other programmes to minimise the impact on protected groups?

Ensure that the provision of First Homes does not prevent the delivery of other types of affordable housing and specific housing that meet the needs of groups and local people. The amount of delivery and the mix of First Homes and other affordable products should be determined at the local level depending upon local need.

Q30. Do you have any other comments on the First Homes scheme?

Controls on service charges should be included to ensure that First Homes are not made unaffordable by high additional charges.