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Portfolio Holder for Housing

Item

20th April 2020

Report of	Assistant Director Place and Client Services	Author	Ruth Newcombe
Title	Response to Government's consultation paper "First Homes - Getting you on the ladder"		
Wards affected	All wards		

1 Executive Summary

- 1.1 The Ministry of Housing Communities and Local Government (MHCLG) published a consultation in February 2020 seeking views on the First Homes scheme.
- 1.2 The consultation paper makes a number of proposals which the Government are seeking views on:
 - First Homes being aimed at first time buyers with a local connection to the area where the home is built to help them get onto the housing ladder.
 - Exceptions for the need to have a local connection to an area for armed forces personnel
 - The consultation paper proposes that the properties will be discounted at a minimum of 30% lower than the market sale price in perpetuity.
 - Whether there should be a price cap on properties available under the scheme.
 - If First Homes should be delivered through S106 planning obligations, which could risk the delivery of truly affordable housing for those most in need or as a proportion of homes across a whole site.
 - Changes to the Entry Level exception site rules so that First Homes can be provided on these sites.
- 1.3 Colchester Borough Council (CBC) welcomes the opportunity to respond to the consultation and influence decisions made in this area.

2. Recommended Decision

- 2.1 To approve the CBC response to the government's consultation on First Homes – Getting you on the Ladder as shown at Appendix A.

3. Reason for Recommended Decision

- 3.1 Local Authorities have been given the opportunity to respond to the consultation. Increasing affordable housing supply is a key strategic aim for the Council.
- 3.2 The Council has a legal duty to ensure that the local housing market offers a range of housing options and tenures to meet local housing need and demand. It is therefore in the Council's interest to take the opportunity to try to influence Government Policy making in this area.

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4. Alternative Options

- 4.1 Not to respond. However, this would mean that CBC would not take the opportunity to influence government decisions on the introduction of First Homes.

5. Background Information

- 5.1 The consultation paper sets out the Government's commitment to making home ownership a reality and it recognises that this is out of reach for many. The Government feel that further action is needed to support home ownership and ensure that young people today have the same opportunity to become homeowners as their parents and grandparents.
- 5.2 First Homes will give people the opportunity to buy a discounted home, which applies to newbuild homes only.
- 5.3 The consultation sets out the Government's proposals for First Homes in the following areas;
- **Affordability;**
 - A minimum discount on new homes will be by 30%, but could potentially be set higher at the Local Authority's discretion.
 - The homes will be for first time buyers and the discount will be secured in perpetuity so that future buyers will also benefit
 - There could be a price cap on the homes which are eligible, which may be set nationally or locally.
 - **Eligibility;**
 - First homes will be for local first time buyers to help them get onto the housing ladder.
 - There may be a cap set for income to ensure that First Homes are available to local buyers who may not otherwise be able to purchase
 - **Support;**
 - Local Authorities will be required to support and manage the delivery of first homes.
 - **Supporting competitive mortgage lending;**
 - A standardised First Home model with an appropriate mortgage protection clause may be developed to reduce risk to lenders and support competitive mortgage lending.
 - **Restrictions on letting First Homes;**
 - There will be restrictions on whether a First Home purchaser can let their home
 - **Delivering the Armed Forces Covenant**
 - There could be exceptions to local connection criteria and eligibility criteria for former and current armed forces personnel

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- Delivery;
 - A percentage of First Homes may be delivered as part of Section 106 affordable housing obligations or may be delivered across whole sites.
 - The entry level exception site policy may be amended to deliver First Homes.
 - First Homes may be exempt from payment of the Community Infrastructure Levy (CIL)
- Equality Impact
 - Consideration will be given to the impact on protected groups.

5.4 The full consultation document can be found by following the link below:
[First Homes Consultation](#)

5.5 The proposed CBC response to the consultation 'First Homes - Getting you on the ladder' can be found below at Appendix A.

6. Equality, Diversity and Human Rights implications

6.1 The purpose of this report is to respond to the Government's consultation paper "First Homes – Getting you on the ladder". As set out in the consultation paper any policy changes brought forward as a result of the outcome of the consultation would be subject to appropriate equality impact assessment which would be carried out by central government.

7. References

7.1 Strategic Plan

The response has been written to reflect the Council's Strategic Plan 2018-2021:

Opportunity: Ensure a good supply of land available for new homes through our Local Plan

Wellbeing: Target support to the most disadvantaged residents and communities

7.2 Consultation and Publicity considerations

Colchester Borough Council's response to this consultation paper will be published on the Council's website and will therefore available to the public and stakeholders.

7.3 Financial Considerations

There may be financial implications for the Council in implementing and monitoring a First Homes scheme. Resources and expertise would be required across a number of areas including planning, housing, legal and valuation.

7.4 Standard References

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There are no references to community safety; health and safety or risk management implications.

Appendices

Appendix A: Colchester's response to the MHCLG 'First Homes – Getting on the ladder' consultation.

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Appendix A

Colchester Borough Council's Response to :

Ministry of Housing, Communities and Local Government Consultation:

First Homes – Getting you on the ladder

Consultation on the design and delivery of First Homes

February 2020

Q1.

a) Do you agree with a minimum discount of 30% (but with local flexibility to set a higher one)? - No

b) If not, what should the minimum discount be?

i. 20%

ii. 40%

iii. Other (please specify) 50%

It is unlikely that a 30% discount will be helpful to First Time Buyers in Colchester.

For example, land registry data (2019) shows that the average sale value of a newbuild flat/maisonette was £228,852 and a terraced home in Colchester was £304,999.

In 2017/18 the average Median household income was £29,661 but the Model (most common) was £15,000 to £20,000 per annum (As published in Colchester Council's Economic Annual Report 2017/2018).

Shared ownership, which could potentially disappear in future if First Homes is implemented, gives households a "foot on the ladder" by offering a share in a property as low as 25% of the value. A discount of 30% as proposed under First Homes requires a much bigger share and investment.

The tables below illustrate that First Homes will not be affordable in Colchester without significant discounts.

Household income of £17,500	Flat/Maisonette Market Value £228,852	Terraced House Market Value £304,999
Mortgage at 4.5% household income	£78,750	£78,750
Funding Gap	£150,102	£226,249
Discount Required	65%	74%

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Household income of £29,661	Flat/Maisonette Market Value £228,852	Terraced House Full Market Value £304,999
Mortgage at 4.5% household income	£133,474	£133,474
Funding Gap	£95,478	£171,525
Discount Required	41%	46%

In addition, there is concern that an unintended consequence of discounts is that prices for market sale homes could increase to pay for the discount or the quality of the discounted homes could be lower than other homes on a site.

Q2.

a) Should we set a single, nationally defined price cap rather than centrally dictate local/regional price caps – No

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)

Q3.

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

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) Separate price caps for each local authority area

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

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- iii. Longer than 6 months
- iv. Left to Local Authority discretion

Q7.

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

None

Q8.

a) Should there be a national income cap for purchasers of First Homes? No, should be locally determined to reflect local incomes.

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?

Because LA's do not have the resources or expertise to assess the value of the discount, the process could become overly complex if future valuations of discount are disputed, or if households argue that selling at full discount disadvantages their household. We have seen this with the repayment of RTB discounts. It also requires monitoring.

Q11.

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

We are not clear what is meant by "affordable homes administration service". There needs to be clearer guidance as to where the benefit of the covenant resides. The affordable homes administration service (whatever this is) would not normally be involved with covenants on the title deeds of individual market sale properties. The resource required to do this, including the legal resource, could be significant in future years. We already know that right of first refusal covenants on properties sold under the right to buy are often missed by legal advisors and only notified to the L.A. very late in the day.

Q12. How could costs to Local Authorities be minimised?

The proposal for First Homes (assessing local connection, income and price caps, key worker eligibility, armed forces eligibility, prioritization of certain households, releasing developers from minimum sales periods to local households, permissions to rent out properties, oversight and potential agreement of discounts, oversight and enforcement of restrictive covenants) all point to a heavily administrative burdensome system for local authorities at a time when there have been severe cuts to local authority funding. Given the amount of evidence that would be required to verify the elements listed above, process and act on them, it would appear that it would be difficult to minimize costs if the system is to be fair, transparent and effective.

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Q13.

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

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)**

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**
- ii. Deployment elsewhere (Armed Forces)**
- ii. Relationship breakdown**
- iii. Redundancy**
- iv. Caring for relative/friend**
- v. Long-term travelling**
- vi. 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**

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?

A central database of homes on offer under the scheme similar to service that Homebuy agents offer. Appropriate publicity regarding the scheme.

We would welcome a definition of “recent” veterans. There is already inconsistent application of the armed forces reasonable preference in

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social housing, housing register applications and we would not want to see that repeated here.

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**

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 (but not at the expense of other affordable tenures and infrastructure)**

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) 10% of all units on suitable sites**

However, we also feel that the provision of First Homes should reflect the local need and affordability for this tenure and therefore not be at the expense of other affordable housing products/tenures where a greater need and better affordability is evidenced.

Q23.

Do you agree with these proposals to amend the entry-level exception site policy to a more focused and ambitious First Homes exception site policy? No.

The use of Entry Level Exception sites has been extremely limited. Sites adjacent to existing settlements will always have hope value and landowners will hold on to them.

At present the government are not suggesting any change to rural exception sites in order to support the delivery of First Homes. It is important that this remains the case. Failure to do so would likely lead to there being a financial incentive for landowners to develop their sites for First Homes instead of a Rural Exception Site which would include affordable rent homes for local communities. First Homes could have a negative impact on the delivery of the tenures that are truly affordable and reflect the true local need in rural areas.

Q24.

a) Do you think there are rare circumstances where Local Authorities should have the flexibility to pursue other forms of affordable housing on entry-level exception sites, because otherwise the site would be unviable? Yes

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b) If yes, what would be an appropriate approach for Local Authorities to demonstrate the need for flexibility to allow other forms of affordable housing on a specific entry-level exception site? Entry level exceptions sites are on unallocated land and so should not be unviable. But there should be the flexibility for all forms of affordable housing

Q25.

What more could the Government do to encourage the use of the existing rural exception site policy? Rural exception sites are important to local communities because they provide affordable housing (included rented housing) to local people in perpetuity. The Government could provide an incentive to landowners to bring forward land for rural exception site policy. Incentives may include a property or plot for the landowner and a Government subsidy for planning fees including pre application advice. Some additional grant availability for registered providers at feasibility stage could be helpful so they can put in the required resource to explore opportunities. Additional resource for Rural Housing Enablers so they can provide more support to Parish Councils if required. There also seem to be few providers of rural exception sites.

Q26.

What further steps could the Government take to boost First Home delivery? There would probably be more support for First Homes if the policy covered more than one tenure. A national policy/primary legislation which secures a % of genuinely affordable housing on all sites above a threshold would avoid the need for local negotiation. It would ensure the requirement was known and understood from the outset and reflected in land values.

Q27.

Do you agree that the proposal to exempt First Homes from the Community Infrastructure Levy would increase the delivery of these homes? Yes, however exempting certain tenures from CIL appears to be in direct conflict with the Government's (and our own and our local communities) renewed focus on developments with the better provision of and designed infrastructure.

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? In theory this is already the case as CIL rates should not be set at a level which would undermine the delivery of adopted policy (including that concerned with the delivery of affordable housing). Any policy which limits the delivery of infrastructure could undermine the Government's intention to ensure that local people support new development (para.27 in the consultation).

Q29.

a) What equality impacts do you think the First Homes scheme will have on protected groups? Significant unless it is stipulated that First Homes can also be designed to accommodate first time buyers with a disability. It will also have a significant impact if First Homes reduces the delivery of affordable rented tenure for those protected groups who are on the housing register and do not have the financial means or secure employment to purchase their own home, regardless of the level of discount.

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b) What steps can the Government take through other programmes to minimise the impact on protected groups? The Government could introduce a scheme specifically for people with disabilities who wish to purchase a newbuild home which can be adapted to their needs. It could also impose a minimum accessibility standard of Part M4 Cat 2 for all new homes and a percentage of homes to meet Part M4 Cat 3 so that people with disabilities have access to a supply of new homes. The government could also make more capital funding available to develop social and affordable rent homes so that more affordable homes can be delivered independently of Section 106 affordable housing.

Q30.

Do you have any other comments on the First Homes Scheme

There is a significant and unmet affordable housing need across the country where many individuals and families do not have the financial means to purchase a home, whether on the open market, or whether it is an affordable home ownership product which would include First Homes. The introduction of First Homes could undermine the delivery of affordable homes that will actually meet the identified needs in an area.

In March 2020 there were 2787 applicants on the housing register in Colchester who are waiting for a social rent or an affordable rent home. These applicants would almost certainly not benefit from the First Homes product.

The local adopted affordable housing policy supports no less than 80% affordable rent and no more than 20% affordable home ownership for Section 106 affordable housing. This tenure mix provides a fair balance to address the needs of applicants on the housing register and also first time buyers.

The average number of newbuild affordable homes from 2015 to 2020 has been approximately 138 homes per year.

In recent years, the majority of the affordable housing delivery has been through Section 106 affordable housing, as opposed to Affordable Housing led schemes. If First Homes are to be introduced as an affordable home ownership product within Section 106 affordable housing obligations, then each local authority should have discretion to decide on the proportion of First Homes that would be appropriate, and would be subject to the evidenced affordable housing needs in the borough. This would be to ensure that the affordable housing tenures that are delivered are proportionate and fair, in accordance with need and that the applicants on the housing register are not disadvantaged through the introduction of First Homes. In Colchester for example, the Objectively Assessed Housing Need (2015) calculated an annual need of 266 affordable rent homes and 12 shared ownership homes. The Council is taking a pro active approach to increase social and affordable rented housing delivery through it's own development and acquisition programme. Additionally, North Essex Authorities are seeking to develop Garden Communities that would offer a wider range of housing types than standard volume house builders, including custom, self-build and a variety of affordable ownership and rental options.

But whilst the number of newbuild affordable homes is not meeting the evidenced annual need it would be a concern for any new policy to be

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introduced which may be prohibitive to the delivery of Section 106 affordable rent homes.

It would also be useful to have a tool available for local authorities and other agencies to use, to compare the affordability of all of the affordable home ownership products in each local area. The inputs could include variables such as average house prices, average household income, average mortgage interest rate and rent (in the case of shared ownership), deposit required and purchased equity. The outputs of the tool could provide a clear comparison of the variety of affordable home ownership products so that local authorities can make an informed decision on the most appropriate affordable home ownership product for their borough.

The table below shows that Shared Ownership would be a more affordable home ownership product in Colchester.

	First Homes Flat /Maisonette (70% equity)	Shared Ownership Flat Maisonette (25% equity)	First Homes Terraced House (70% equity)	Shared Ownership Terraced House (25% equity)
Full Market Value	£228,852	£228,852	£304,999	£304,999
Purchased Equity	£160,196	£57,213	£213,499	£76,249
10% deposit	£16,019	£5,721	£21,349	£7,624
Monthly mortgage Capital repayment over 25 years (4% interest)	£761	£272	£1,014	£362
Rent per month (2.75% unpurchased equity)	£0	£393	£0	£524
Total Monthly cost	£761	£665	£1014	£886

The diverse range of affordable home ownership products will become increasingly confusing with the introduction of another product. Some clear guidance on the range of products available and some clear signposting would also be useful for Local authorities, Housing Associations, developers, potential purchasers and other stakeholders.

The full impact of the Covid 19 pandemic on the economy and newbuild housing supply is yet to be determined and so the timing of launching a new affordable home ownership product will need to be given careful consideration in light of any adverse effects on the economy and housing market