

Response to government's consultation on the design and delivery of First Homes

Summary

This report sets out the Council's response to the government's First Homes Consultation, which began on Friday 7th February and ends on Friday 3rd April 2020.

The consultation proposes a new type of affordable housing called First Homes. It is proposed that First Homes will be subsidised market homes sold at the discounted rate of at least 30% held in perpetuity, meaning the same reduction must be applied when the original purchaser decides to sell. First Homes will be prioritised for first-time buyers, serving members and veterans of the Armed Forces, and key workers. The consultation states that delivery of First Homes is to be achieved either as a prescribed proportion of all units at new schemes of more than ten homes, or as a stipulated percentage of section 106 affordable housing secured through developer contributions. To ensure their delivery, the consultation proposes either amending planning policy or/and legislating the requirement for First Homes.

The Council's letter of response to the First Homes consultation is included at Annex A.

Portfolio: Planning & People

Date Portfolio Holder signed off report: 26/02/2020

Wards Affected

All

Recommendation

The Executive is advised to RESOLVE that

- (i) the publication of the government's First Homes consultation be noted; and
- (ii) the response set out in the letter at Annex A of this report be agreed as the Council's formal response to the government's First Homes Consultation.

1. Resource Implications

- 1.1 There are no resource implications beyond that provided for within the agreed budget for 2019/20.

2. Key Issues

- 2.1 The government is consulting on plans to introduce a new housing product called First Homes; a subsidised form of market housing for

sale with proposed discounts at a minimum 30% of market values. The consultation indicates that First Homes will be included in the National Planning Policy Framework's (NPPF) definition of affordable housing, replacing the existing category of discounted market homes, which currently includes homes available for a 20% discount from market values.

2.2 The consultation material covers information about the proposed level of discount for First Homes, eligibility for entrants to the First Homes scheme, how the scheme will be administered and delivered through changes to planning policy and/or legislation, and the proposed financing mechanism for First Homes.

2.3 Officers have considered the consultation material and have identified the key issues, from Surrey Heath's perspective.

Proposed level of discount and cap

2.4 The consultation asks what the minimum level of discount should be for First Homes. The Council's response initially sets out that land values in Surrey Heath are high, just like many other parts of the South East and across the nation, also drawing attention to evidence that suggests the premium attached to new build properties is often as high as 27% above established properties¹. We therefore strongly suggest a discounted rate of 40% or above would be more appropriate, to help ensure the target market for First Homes is able to afford the scheme. It is proposed that local authorities should be given the ability to set higher discounts than those set by government, which we support.

2.5 In our response, we raise concerns that developers may seek to artificially inflate the cost of First Homes to absorb their requisite discount, thus undermining the scheme and not assisting the target groups that the scheme seeks to help. To avoid this occurring, we suggest that First Homes properties should be independently valued based on the local market to prevent developers from uplifting asking prices. Our response also suggests that grant funding for the scheme should be made available by the government, to help ensure the discounts are achievable.

2.6 The consultation proposes introducing a defined price cap on the value of housing that is included under the First Homes scheme, to help ensure the scheme serves as a gateway to homeownership and is not misused to subsidise the purchase of exceptionally expensive property. The Council's response supports the introduction of a cap and suggests that regional caps rather than a nationally set cap would be the most appropriate approach, accounting for variations in property prices across the country. We advise that there is clear and transparent evidence for average house prices by region, which should be used to

¹ Mortgage Finance Gazette - New build price premiums hit 108% in parts of the UK:
<https://www.mortgagefinancegazette.com/market-news/housing/new-build-price-premiums-hit-108-parts-uk-28-08-2019/>

inform the caps. We also support the government's proposal that local authorities should be able to impose their own caps in addition to the regional caps, to reflect their local housing market. This is because there can be significant variations in property prices within the regions.

Eligibility for entrants to the First Homes scheme

- 2.7 The consultation advises that local people will be prioritised for First Homes schemes, within each local authority. First Homes will therefore be made available for people with a local connection, in the first instance. The consultation asks whether local authorities are best placed to determine what the local connection restrictions are, and provides some examples of eligibility criteria including residency, family connections and place of work. We suggest that considerations for identifying a local connection are generally restricted to those specified, and it would therefore be logical for the government to set the criteria, to ensure consistency across the country. We suggest that it is then considered appropriate for local authorities to determine which combination of the nationally set criteria they will apply.
- 2.8 The Council's response expresses support that the First Homes scheme is broadened to key workers, and households in need of assistance to purchase their second home due, for example, to overcrowding. In addition, our response agrees that it is reasonable for serving members and recent veterans of the Armed Forces to be exempt from local eligibility criteria, as set out in the consultation. However, we ask for clarity from government in respect of the maximum length of time a veteran of the Armed Forces can have been retired from their post to qualify as a 'recent veteran' and accordingly meet the eligibility requirement. Our response advises that prior to the scheme's implementation, it must be determined how the allocation of First Homes dwellings to each of these groups should be prioritised.
- 2.9 A national cap is proposed for entrants to the First Homes scheme, based on household income levels. In our response, we agree that a cap is necessary, but do not expressly support a nationally set cap. Instead, we advise that caps should be reflective of local incomes, to ensure areas with higher land values and correspondingly higher incomes are not subject to the same cap as localities with lower house prices and incomes.

Changes to planning policy and/or legislation

- 2.10 The consultation asks whether it is most appropriate to deliver First Homes through changes to national planning policy and guidance, or through primary legislation supported by planning policy changes. In our response, we raise concerns about both of these approaches, but particularly the introduction of legislative requirements for First Homes without similar legislative requirements for other types of affordable housing. We explain that in areas such as Surrey Heath, house prices are well above the national average, and therefore even with First

Home scheme discounts, it would not be feasible for large sections of our local community to purchase discounted market housing. We emphasise that our housing need evidence tells us the greatest need in the Borough is for social rented and affordable rented accommodation.

- 2.11 Our response to this section of the consultation concludes that legislating or introducing a policy requirement at a national level for a set percentage of First Homes would circumvent local authorities from setting out policies requiring affordable housing types that best reflect the needs of their areas. We explain that the consequences of this are wide ranging and could include increased homelessness, declining housing conditions, and higher levels of poverty. Therefore, we advise that it should remain for local authorities to determine their local affordable housing needs, and categorise the types of affordable housing sought based on this locally determined evidence. We summarise that the delivery of First Homes should therefore be determined alongside other types of affordable housing, through local planning policies, informed by local evidence, and not specifically attributed greater weight in policy or legislation.

Financing First Homes

- 2.12 The consultation asks whether First Homes should be delivered either as a percentage of section 106 affordable housing through developer contributions, or as a percentage of all units delivered on suitable sites. The Council's response to this reflects our comments in response to the proposed changes to planning policy and legislation, stating that the suggested methods of implementation for First Homes could undermine the delivery of traditional affordable housing products such as social rented, affordable rented and shared ownership housing. We emphasise that should developer contributions or set percentages be required for First Homes, there will be a risk that the viability to deliver a range of affordable housing types would be compromised. On this basis, we recommend that percentage requirements should be set out for all types of affordable housing provision, and be locally set to reflect an area's specific housing needs.
- 2.13 Our response to the consultation explains that if the scheme is launched, developers may look toward the government for additional funding to help promote this type of housing to its target market, and to contribute financially to their discounted purchase price. We therefore emphasise that further consideration should also be given to how the discount for First Homes will be funded without detriment to other types of affordable housing.

First Homes and the Community Infrastructure Levy (CIL)

- 2.14 The consultation proposes to exempt First Homes from CIL, to help encourage their delivery. This could pose risks to the delivery of infrastructure to new communities in the Borough. In particular, it is widely suggested that one of the key reasons for local opposition to

development is the perceived lack of infrastructure to support new housing. Therefore, our response advises that it is important for a balance to be struck whereby First Homes and traditional affordable housing types can both be delivered, but also the necessary infrastructure for the new homes is funded and provided. We also cite the concerns that many communities have in respect of their perception that infrastructure is not delivered alongside new housing. Our response therefore suggests that a suitable compromise may be to provide a First Homes CIL discount, which would still allow infrastructure funding to be collected, but also provides relief from full CIL liability.

- 2.15 Finally, the consultation asks whether the government should take steps to prevent CIL rates being set at a level which would reduce the amount of affordable housing delivered through section 106 obligations. It is not fully clear what the consultation is suggesting here, or what its proposed measure seeks to achieve. Our interpretation is that government are suggesting CIL would be set nationally, rather than locally. If this is the case, and CIL levels are set and regulated nationally, this could restrict the delivery of new infrastructure in local authorities. Accordingly, our response advises that CIL should be determined locally, so that the rates set can take account of an area's land values and specific viability evidence. We also draw attention to recent government pledges to provide more infrastructure to mitigate the impacts of new residential development. Our response explains that a likely outcome of setting CIL nationally would be insufficient levels of infrastructure in many local authorities, and correspondingly, increased opposition to development from local communities.

3. Options

- 3.1 The options for the Executive to consider are:-

- (i) To **AGREE** the response to the First Homes Consultation, as set out in Annex A of this report.
- (ii) To **AGREE** the response to the First Homes Consultation, as set out in Annex A of this report with any additional comments which the Executive may wish to make.
- (iii) To **NOT AGREE** the response to the First Homes Consultation, as set out in Annex A of this report.

4. Proposals

- 4.1 It is proposed that Members agree to submit the letter of response attached at Annex A to the Ministry of Homes, Communities and Local Government as Surrey Heath Borough Council's formal response to the First Homes Consultation.

5. Supporting Information

- 5.1 The documentation that forms part of the First Homes Consultation is available at:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/864265/First_Homes_consultation_document.pdf

6. Corporate Objectives And Key Priorities

- 6.1 Responding to the First Homes consultation supports the objectives for Place and People through ensuring that local housing need considerations for people in Surrey Heath are fully represented in our response to the Ministry of Housing, Communities and Local Government.

7. Policy Framework

- 7.1 The government's consultation on the design and delivery of First Homes is a national consultation whose proposals apply to all local authorities within England.

8. Legal Issues

- 8.1 The First Homes consultation proposes to legislate that a set percentage of homes that are delivered must be First Homes. This would affect the types of homes that Surrey Heath Borough Council would be required to deliver, and could minimise the delivery of other types of affordable housing. The consultation also indicates amendments to the Community Infrastructure Levy (CIL) Regulations that would exempt First Homes from CIL and potentially set CIL rates at a nationally prescribed level.

9. Consultation

- 9.1 The Ministry of Housing, Communities and Local Government's First Homes consultation commenced on 7th February 2020 and closes on 3rd April 2020.

Annexes	Annex A: Surrey Heath Borough Council's letter of response to the First Homes Consultation
Background Papers	None
Author/Contact Details	Chris Kirk – Senior Planning Officer christopher.kirk@surreyheath.gov.uk
Head of Service	Jenny Rickard – Executive Head of Regulatory