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Council**

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17th March 2020

Dear Sir/Madam,

Design and Delivery of First Homes Consultation

Thank you for the opportunity to comment on your consultation on the design and delivery of First Homes. This letter is Surrey Heath Borough Council's formal response. This response addresses the questions within the consultation that the Council considers relevant for its plan making and decision taking purposes.

- 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)*

A higher minimum discount for market housing above the existing discount of 20% in the NPPF Annex 2 definition of discounted market sales housing is essential in order for First Homes to be affordable for first time buyers and key workers. It is worth noting that there is already a premium attached to new build properties, with evidence to suggest that the cost of a new build is 27% higher than existing homes, in England¹. This indicates that a discount of 30% would pitch the price of First Homes at a similar level to established market housing. Taking this into account, it is strongly suggested that a discount of 40% or higher would be more appropriate to provide any notable assistance to the scheme's entrants.

The ability for local authorities to set higher discounts is welcomed. For areas with high property values such as Surrey Heath, this will be vital in certain parts of the Borough, to ensure the properties are affordable for first time buyers and other local people falling within the need

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/>

bracket for discounted market housing. Moreover, the need for First Homes as discounted market housing should be assessed and taken account of alongside all other types of affordable housing needs within local areas, to ensure delivery of other types of affordable housing such as social and affordable rented is not stymied by the introduction of First Homes.

It can be expected that there will be resistance from developers to the level of discount offered, particularly if it is 40% or above. The government will therefore need to be clear whose responsibility it is to subsidise the discount for First Homes, and how their delivery should be achieved. A particular concern is that developers may seek to artificially inflate the prices of First Homes to absorb the requisite discount, thus undermining the aims and objectives of the project and fundamentally, not assisting those groups of people that the scheme seeks to help. It is therefore considered that a requirement should be introduced for First Homes properties to be independently valued based on the local market to prevent developers from uplifting their asking prices. It would also be beneficial for a proportion of grant funding to be centrally provided from the government toward First Homes, to help ensure their discounts are achievable, without impacting the delivery of other types of affordable housing.

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)

It is considered that pricing by region would be more appropriate. See answer to Question 3 below.

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

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)

Regional price caps for the First Homes scheme are considered to be the most appropriate means for implementing an upper threshold for eligibility. It is often felt that schemes which introduce national caps provide the least benefit for the South East region, where values are well above the national average, but unlike London, the upper threshold for schemes in the region is rarely increased to take account of this. The introduction of regional price caps would take better account of variations throughout England. Whilst there will, of course, be a degree of variation in property values within a given region, this could be accounted for by enabling local authorities the flexibility to adjust the caps according to property prices in their area, as indicated in the consultation material.

It is not felt that the introduction of regional caps would appear centrally dictated to local areas, as implied at Question 2. This is because there is clear and transparent evidence for average house prices for different housing types and sizes by each region, which could be used to inform the level of the regional caps.

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?

It would be beneficial for price caps to be as reflective of local circumstances as possible. Whilst regional caps would provide a good benchmark and fall-back position for the caps, it would then be practical for additional flexibility in the level of caps to be provided at a local authority level, taking account of local variations in house prices. Whilst this should be evidence based, it need not be a complicated exercise to justify. Instead, the local caps can relate directly to ONS data or other local data as appropriate, for the average property prices within the given area.

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

It is considered that there are limitations to how a local connection can be identified. These are generally restricted to residency, family connections and place of work. It would therefore be reasonable for the government to set the parameters of such criteria for determining local connections, to ensure consistency in what criteria can be applied across the country. From this, it is then considered appropriate for local authorities to determine which of the set criteria they will apply, or whether all criteria should apply, as relevant.

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*

The importance that First Homes are for local people in the first instance is significant. A period of 12 months is considered to be most appropriate, to enable greater opportunity for local buyers to be found. Whilst local first time buyers should be given priority, it would be advantageous for local key workers, or people in need of assistance to purchase their second home due, for example, to overcrowding, to be offered eligibility to the First Homes scheme before it is made more widely available to people from outside the local area.

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

The inclusion of a percentage of First Homes on suitable sites, for key workers and constrained households that need assistance to purchase their second home due, for example, to overcrowding, would be beneficial to local people. These groups could be subject to the same local connection time restrictions as first time buyers.

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

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?

A cap on household income for eligibility to First Homes is necessary to help ensure that the scheme is not used by those on higher incomes to access cheaper housing unfairly over those who are in need of the scheme's assistance to purchase a property of their own. This should be reflective of local incomes. However, it should also be recognised that where the local connection restriction for First Homes within a local authority area falls away, there is a risk that people from higher income areas could take advantage of the scheme in areas that have lower income threshold requirements. The government will need to give consideration to how this can be prevented, to ensure that the purpose of First Homes remains to be only for those who need assistance to afford their own home. Evidence in Surrey Heath's draft Housing Need Assessment suggests an estimated household income of £60,200 is needed to buy a house in the Borough. Using similar evidence as a basis for determining the level of the cap by local authority area is considered to be a reasonable and sound approach.

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

Suitable household income level restrictions and local connection criteria are considered to be the key requirements for entry to the First Homes scheme.

*Q10. a) Are Local Authorities best placed to oversee that discounts on First Homes are offered in perpetuity?
b) If no, why?*

In the Surrey Heath area, the valuation and assessment of eligibility for affordable home ownership products is currently undertaken through Local HomeBuy agents. Local HomeBuy Agents signpost applicants to relevant affordable home ownership schemes in the area, administer the schemes, and guide entrants through the process of purchasing properties that are available through the relevant schemes. As the local authority, Surrey Heath Borough Council does not have involvement in these administration or allocations processes, to avoid duplication.

On account of the current administration processes in place, it is considered that HomeBuy Agents would be best placed to oversee the administration of First Homes, and ensure that First Homes discounts are offered in perpetuity. It would also be logical for First Homes to be identified through land charges searches and allocated to HomeBuy Agents accordingly.

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

See answer to Question 10. The administration of the First Homes scheme and oversight of restrictive covenants should be undertaken by HomeBuy Agents, to ensure consistency with the approach taken to administering existing affordable home ownership schemes.

Q12. How could costs to Local Authorities be minimised?

See answers to Questions 10 and 11. The administration of the First Homes scheme should be undertaken by HomeBuy Agents, to ensure consistency with the approach taken to administering existing affordable home ownership schemes. It is understood that HomeBuy Agents are government funded, and as such the proposed replacement of existing affordable homeownership schemes with the First Homes scheme should not have significant additional cost implications for the government.

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

The need for a standardised model to support mortgage lending and encourage lenders to approve First Homes products at competitive rates is recognised. The details of the standardised model should be provided and ideally be subject to further consultation before it is agreed, to ensure input is sought for what the model would include and how it would operate.

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

It is again recognised that lenders will need encouragement to provide mortgages for First Homes products as with any newly introduced scheme on the market, there can initially be some uncertainty. The proposed mortgage protection clause should help provide some assurance to lenders, and it is welcomed that the consultation advises, "*We will seek to ensure that this system cannot be abused.*" Details should be provided for how the government intend to prevent this clause from being misused for financial gain by lenders, or other interested parties. It will be necessary for the government to demonstrate how entrants to the First Homes scheme are protected from misuse of the clause to provide buyer confidence in the scheme.

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)*

A balance needs to be struck in respect of this matter. As suggested in the consultation material, it is vital that First Homes are not used as a subsidised investment opportunity, which would be of no benefit to local people, and in particular, those struggling to own their own home. However, home owners also have a right to be able to let out their property in times when circumstances require them to be away from their sole residence. On balance the limitation of up to two years to let out a First Home property seems reasonable. However, it must be ensured that this cannot take place on a recurring basis, as a loophole to the requirement. Therefore it would be necessary for the government to consider introducing a restriction that would prevent First Homes homeowners from re-letting their homes within a given time period following the termination of the previous tenant's occupancy.

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)*
- iii. Relationship breakdown*
- iv. Redundancy*
- v. Caring for relative/friend*
- vi. Long-term travelling*
- vii. Other (please specify)*

It is considered reasonable that members of the Armed Forces should be able to move out of their First Homes residence and let it for longer than the 2 year period indicated in answer to Question 15, in circumstances where they are deployed elsewhere (50 miles or greater distance). Aside from this allowance, there are likely to be quite specific circumstances for First Homes homeowners choosing to move out of their homes, warranting the situation to be considered on a case by case basis.

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?

It is reasonable 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 connection criteria, particularly given that they often will have been required to relocate relatively frequently throughout the duration of their service. However, clarity will need to be provided by 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 eligibility for the First Homes scheme. Prior to the scheme's implementation, it must also be determined how the allocation of First Homes to first time buyers, key workers, servicing members and recent veterans of the Armed Forces, or any other relevant groups should be prioritised.

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

The length of time for which veterans of the Armed Forces should be eligible for the First Homes exemption should be determined centrally and applied nationwide. It is not a decision that can be made by individual local authorities.

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?

The ability for members of the Armed Forces and recent veterans not to have to fulfil eligibility criteria, and the freedom to let their own First Home properties during assignments more than 50 miles from their home without restrictions, are considered reasonable concessions in acknowledgment of their service.

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*

The Council has concerns about both of the above approaches to the delivery First Homes, but in particular the introduction of legislative requirements specifically for First Homes, whilst not having similar legislative requirements for other types of affordable housing. For 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.

Our housing need evidence tells us that the greatest need in the Borough is for social rented and affordable rented accommodation. It should remain for local authorities to determine their local affordable housing needs, and categorise the types of affordable housing sought based on the locally determined evidence accordingly. Legislating or introducing a policy requirement for a set percentage of First Homes at a national level would circumvent local authorities from setting out policies requiring affordable housing types that best reflect the housing needs of their areas. Consequences of this are wide ranging and could include increased homelessness, declining housing conditions, and higher levels of poverty. The delivery of First Homes should therefore be determined through local planning policies, informed by local evidence.

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*

Implementing the delivery of First Homes through either Section 106 agreements or as a percentage of all units delivered on suitable sites over 10 units could undermine the delivery of traditional affordable housing products such as social rented, affordable rented and shared ownership housing. There is a risk that the viability to deliver a range of affordable housing types would be compromised, should developer contributions or set percentages against overall housing delivery be required for First Homes only. It is a requirement of to assess and meet the housing needs for a local area. Due to affordability, and a range of local incomes, there will inevitably always be a diverse range of housing needs that must be met. On this basis, 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.

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)*

Please see the above response to questions 20 and 21.

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?

It is understood that entry-level exception sites, as referenced in the NPPF (2019) are to support the delivery of affordable housing (as defined in Annex 2 of the NPPF), for first time buyers within a local area. According to paragraph 71 of the Framework, the sites can be adjacent to settlements, but not located within specific protected areas of importance, as specified in footnote 34 of the NPPF, hence they are an exception to sequentially preferable sites and will not be allocated in the Local Plan.

The use of entry-level exception sites solely for First Homes is not supported by the Council. It is recognised that a proportion of First Homes could be included at the sites. Nevertheless, the purpose of an exception site is considered to be for the provision of affordable housing for local people, including first time buyers. First Homes will meet an element of affordable local needs, providing discounted market housing. However, local authorities determine local housing needs through locally derived evidence which sets out the range of affordable housing needs in the area. It is considered that entry-level exception sites should therefore provide affordable housing that reflects the range of needs identified, and should not be restricted exclusively to First Homes.

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?

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?

See answer to question 23. All exception sites including entry-level exception sites should be used to provide for affordable housing needs, as determined through a local authority's evidence base. This would help ensure an area's most significant housing needs can be prioritised and met. It is important to reiterate that the identified housing need for discounted market products in Surrey Heath is far lower than the identified housing need for social rented and affordable rented housing. To restrict entry-level exception sites to providing for First Homes except in rare circumstances, would therefore be contrary to providing for the greatest housing needs in our Borough, informed by our own evidence.

Q25. What more could the Government do to encourage the use of the existing rural exception site policy?

Rural exception sites should remain as exception sites that provide affordable housing in accordance with paragraph 145(f) of the NPPF (2019). As such, these sites should continue only to be delivered where there is a demonstrated need for affordable housing that cannot be met within the settlement area, and subject to requirements set out in policies in a Local Plan. A key benefit of rural exception sites is their ability to reflect the key types of housing need, and the range of affordable housing needs in the local community where they are delivered. It is important that this is not compromised through any changes to government policy.

Q26. What further steps could the Government take to boost First Home delivery?

The proportion of affordable housing that needs to be delivered as First Homes should be locally determined to ensure all affordable housing needs are met. However, to boost the delivery of First Homes specifically, it is considered the scheme could replace affordable housing types b) starter homes and c) discounted market sales housing in the definition for affordable housing at Annex 2 of the NPPF (2019). This would provide a greater emphasis on First Homes specifically as the sole type of discounted market housing product to meet this sub-category of affordable housing need. Further consideration should also be given to how the discount for the product could be funded, without detriment to other types of affordable housing.

Should there be significant future delivery of First Homes, developers are likely to look toward government for additional funding to help promote this type of housing to its target market, and to contribute financially to the discounted purchase price of First Homes.

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

It is important that a balance can be struck whereby First Homes and other types of affordable housing can be delivered in order to meet a local authority's housing needs, but also the necessary infrastructure for the new homes is implemented. This is particularly important, given that a key concern often raised by communities in opposition to new development is a lack of sufficient new infrastructure provided. Therefore, rather than exempting First Homes from CIL, a suitable compromise may be to provide a First Homes CIL discount, to enable the delivery of infrastructure that can sufficiently mitigate the impact of new development.

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?

It is not fully clear what the consultation is suggesting here in relation to nationally setting the level of CIL, or what this measure seeks to achieve. If the government takes steps to regulate the rates that a local authority can set their CIL, thus potentially restricting the delivery of new infrastructure, regard will need to be had to the impact this may have on communities where new development is delivered. In particular, regard should be had to the Government's press release² dated 4th June 2019 which stated,

"New rules which make the way housing developers stump up money for infrastructure simpler and more transparent are being brought in, the government confirmed today... They will not only make it simpler for communities to know what the money has been spent on, but also make it faster for councils to introduce the Community Infrastructure Levy in the first place – so areas can benefit from getting the infrastructure they need in good time."

CIL should remain to be determined locally, so that the rates set can take account of an area's land values and specific viability evidence. Setting the level of CIL nationally would inhibit such considerations from informing rates of CIL, and it would not be able to reflect local circumstances. A likely outcome of this would be insufficient levels of infrastructure being delivered in many local authorities, and correspondingly, increased opposition to development from local communities.

Q29. a) What equality impacts do you think the First Homes scheme will have on protected groups? b) What steps can the Government take through other programmes to minimise the impact on protected groups?

As mentioned earlier in this response, the implementation of First Homes as set out in the government's consultation is likely to impact the delivery of other types of affordable housing. The proposed requirement for a set percentage or proportion of First Homes to be delivered is not conducive to meeting locally identified affordable housing needs, which will vary from area to area. As previously stated, in areas with high property values such as Surrey Heath and much of the wider South East region, many local people will still not be able to afford to buy subsidised market housing, even with a First Homes discount. It is therefore important to stress again that our Borough's local housing need for social rented and affordable rented housing far outstrips the need for discounted market sales housing. Accordingly, it is felt that protected groups in Surrey Heath would be adversely affected by the mechanism for delivery of First Homes set out in this consultation.

² Press release - Communities to benefit from new housing infrastructure rules:

<https://www.gov.uk/government/news/communities-to-benefit-from-new-housing-infrastructure-rules>

The most practical way to minimise any negative impacts of the First Homes scheme to protected groups and others who are in need of affordable housing is to enable local authorities to use their own locally derived evidence to determine the required proportions for each type of affordable housing within their areas. This information should then continue to be used to inform local affordable housing policies that set requirements based on the identified needs.

Yours faithfully,

Planning Policy and Conservation
Surrey Heath Borough Council