

Report to Sustainable Development Panel
18 March 2020
Report of Director of place
Subject First Homes Consultation

Item

6

Purpose

To consider Norwich City Council's response to the First Homes Consultation.

The Ministry of Housing, Communities and Local Government is currently seeking views on the First Homes scheme. The Government states that it is committed to making home ownership a reality for everyone. The proposal is that First Homes will be sold to local people with a minimum discount of 30 per cent off the market price.

Recommendation

To endorse Norwich City Council's response to the First Homes Consultation.

Corporate and service priorities

The report helps to meet the corporate priority "A prosperous and vibrant city" and the service plan priority to implement the local plan for the city.

Financial implications: None directly

Wards: All wards

Cabinet member: Councillor Stonard – Sustainable and inclusive growth

Contact officer(s)

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Background documents

None

Report

Introduction

1. The government has set out that more needs to be done to help people buy their own home in their local area. With affordability being the biggest barrier to home ownership, the government wants to ensure that more new homes are available at a discount to local people who would otherwise struggle to buy a home on the open market.
2. Previous 'discounted market sale housing' schemes have delivered very few homes nationally and the government considers that this is due to a number of factors including a lack of detail about 'discounted market sale homes'; a lack of prioritisation in the planning system and a complex design and mortgage lenders from understanding and engaging with the concept. The government understands that changes need to be made to the way discount market sales scheme operate in order to have the biggest impact and therefore they are proposing the First Homes scheme.
3. The Government is currently consulting on the First Homes scheme with the deadline for responses being 3 April 2020.
4. This report provides a summary of the First Homes proposal and provides an officer's response to the consultation. The full consultation document is available at the following link: <https://www.gov.uk/government/consultations/first-homes>

The First Homes proposal

5. The National Planning Policy Framework currently defines discounted market sales homes as those made available at a minimum discount of 20% off full market value but the Government does not feel that this level of discount is sufficient. Therefore it is proposing that a 30% discount off market price should be the minimum level of discount under the scheme with Local Authorities having the discretion to set higher discounts on properties on a site-by-site basis.
6. Under the proposals, local people would get first refusal on First Homes with the definition of 'Local people' being at the discretion of the Local Authority. This could be based on either residency or work location, as appropriate and would also include serving and recent veterans of the Armed Forces. The consultation documents states that, if there are more people interested in purchasing a First Home than there are homes available under the scheme, it would be important to ensure that decisions about who is prioritised are made in a fair and transparent way which avoids price inflation through offers and counter-offers. This could be allocating on a first-come, first-served basis or using local eligibility criteria (which could include household income and assets). If units remain unsold then it is proposed that any prioritisation of local connections should be time-limited to allow for homes to be made available more widely if local buyers cannot be found.
7. The discounted sale price of the home will last in perpetuity so that future home buyers can access the discounts i.e. if a purchaser received a 30% discount from the market price when they bought their home, they must sell it for 30% below market price. Discounts in perpetuity will be achieved by placing restrictive

covenants on these home. An independent valuation would need to be undertaken on the First Home property at resale.

8. The Government is proposing a cap on the value of properties available for this scheme and they are asking whether there should be a nationally defined price cap or regionally varied price caps. Setting a national cap would not prevent Local Authorities from introducing a more targeted, lower price cap according to local circumstances if they chose to do so.
9. Purchasers of First Homes will be restricted to using them as their 'sole or primary residence' but there would be some flexibility e.g. if someone needs to spend time away from home due to work commitments then they could let their properties for a period not exceeding two years. If individuals needed to let their property for more than two years then they would be required to make an application to the Local Authority.
10. It is proposed to amend secondary legislation to exempt First Homes from the Community Infrastructure Levy (CIL).
11. In terms of delivery the government is consulting on two options for supporting the delivery of First Homes through the planning system. The first is to create a new requirement for developers to deliver First Homes alongside market housing, either through changes to planning policy or legislation (setting developer contributions for First Homes) and the second is to amend the existing entry-level exception site policy to a First Home exception site policy (Delivery through exception sites). Further details of these are set out below.

Setting developer contributions for First Homes

12. Developer contributions are an established method for ensuring that local communities benefit from new development. In 2018-19, around 28,168 affordable homes were delivered nationally of which 17,800 were for rent-including affordable rent and social rent – and around 10,300 were for affordable home ownership (including shared ownership).
13. The Government wishes to ensure that more developer contributions are used to deliver homes sold at a discount. There are two broad options:
 - (a) Prescribe that a percentage of affordable homes delivered through section 106 planning obligations should be First Homes; or
 - (b) Prescribe that a percentage of all units delivered on suitable sites (over 10 units) are to be sold as First Homes.
14. The first option means that in some cases no First Homes could be provided as there is no legal obligation to deliver affordable housing. Within the consultation document thresholds of 40%, 60% and 80% are outlined but the consultation paper stresses that the three threshold options shown do not represent the government intentions at this stage. A set percentage of all units (option b)) would provide greater assurance of delivery of First Homes but there is the risk of impacting on the viability of specific sites which could have negative consequences for other developer contributions (such as social rent and

affordable rent housing) or may lead to developments on these site being delayed.

Delivery through exception sites

15. Exception sites are small sites brought forward outside the local plan to deliver affordable housing. There are two types set out within the National Planning Policy Framework: entry-level exception sites and rural exception sites. The rural exception policy would not be applicable to Norwich and due to Norwich having very tight boundaries it is unlikely that entry-level exception sites would come forward. The revised NPPF (2018) introduced a new exception site policy aimed at entry-level housing suitable for first-time buyers but this consultation proposes to make amendments to this to specify that the affordable homes delivered should be First Homes for local, first-time buyers and that a small proportion of market homes would be allowed where essential to ensure the development will be deliverable.

Norwich City Council's proposed response to the consultation

16. The planning policy team along with colleagues in Strategic Housing have considered the consultation document. Our proposed response is set out in the paragraphs below. The consultation document asks 28 specific questions. Whilst we are proposing to object to the principle of the First Homes proposal, we have provided answers to some of the questions as it is felt that it is important to provide our views on the detail of the First Homes proposal should it be implemented. The questions are taken from the government's consultation document.
17. Norwich City Council is supportive of measures to increase the number of people who are able to buy their own home. The proposals seek to increase access to home ownership by providing discounted new homes, however they do not appear to acknowledge that owner-occupation is not suitable for everyone, such as transient populations and those with insufficient incomes to afford maintenance costs. The provision of decent quality and affordable rented housing will always be a feature of a satisfactory housing market.
18. The proposals do not address the need for affordable housing both nationally and locally. Evidence in the 2017 Central Norfolk Strategic Housing Market Assessment (SHMA) shows that there is a need for 38% of new homes over the period 2015 – 2036 to be affordable. The 2017 Strategic Housing Market Assessment (2017) however showed that the greatest affordable housing need in Norwich is for rented homes (84%, 240 dwellings per annum), compared to a need for intermediate tenures of just 16%, (38 homes per annum).
19. Therefore, there is very little need in Norwich for affordable home ownership, shared ownership and shared equity products. This illustrates why policy prescription is incompatible with meeting identified local housing need. To impose specific housing types and targets at a national level would be inconsistent with the requirement to assess and meet local housing need. Imposing First Homes on a market where there is limited demand for affordable home ownership could potentially distort the market for new homes.

20. Although the aim of the proposals is to increase access to home ownership, there is no evidence that the proposals will significantly increase the numbers of people who are able to buy. There is a significant premium for new housing stock over second hand stock. Provision of a significant discount on new stock will only result in those people who are already able to buy second hand stock having a greater choice and potentially being able to buy new homes, or giving those currently able to buy a new home the chance to buy a larger home.
21. In addition, the proposals are likely to discourage investment in the housing stock. The fact that someone contemplating an improvement to a First Home would only be able to capture 70% of the uplift in value when the house is sold is likely to be a disincentive to invest.
22. The proposals will also create an unnecessary and bureaucratic regime for managing the First Homes scheme going forward.
23. Furthermore, the proposals are likely to reduce the number of affordable homes being built for lower income households. The provision of First Homes would impact upon development viability and therefore cut the scale of developer contributions available for social rent and other affordable housing tenures.
24. In summary, although Norwich City Council supports measures to extend home ownership, it is important that this is not at the expense of providing truly affordable homes for rent to meet local needs. Although the First Homes proposals will increase the choice on offer to first time buyers, they will do this at the expense of those who are in greater housing need and who have far less choice about how to meet those needs. Therefore, the council does not support the First Homes proposals and urges the government to develop a housing strategy that enables the delivery of a housing stock that is capable of meeting the needs of the population as a whole.
25. Notwithstanding the above, Norwich City Council has provided responses to a number of the questions asked within the consultation document. By providing a response to these questions, we are not supporting the First Homes proposal but instead we are setting out our preferred option should the First Homes proposal be implemented.

Q1

- a) *Do you agree with a minimum discount of 30% (but with local flexibility to set a higher One)?*
- b) *If no, what should the minimum discount be?*
- i. 20%
 - ii. 40%
 - iii. *Other (please specify)*

Response to Q1

Norwich City Council does not support the First Homes proposal however should it be implemented the Council would prefer a minimum of 20% with

flexibility to set a higher one. Norwich City Council currently has a 25% charge on a number of shared equity properties and the 25% charge has made the properties affordable to their owners.

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)*

Response to Q2

Norwich City Council does not support the First Homes proposal however should it be implemented the Council's view is that Local Authorities should retain the discretion to determine their own price caps based on local evidence, as is the case with shared ownership products.

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)*

Response to Q3

Norwich City Council does not support the First Homes proposal however should it be implemented the Council would provide the following response to question 3.

- a) No. Regional and county areas are too broad. There are marked differences in housing markets across Norfolk and the East region, e.g. between Cambridge and Fenland or Great Yarmouth and Saffron Walden.
- b) v. Local authorities should be able to determine their own price caps, based on local evidence, e.g. SHMA.

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?

Response to Q4

No. The Council does not support the First Homes proposal however should it be implemented the Local authorities should be able to determine their own price caps, based on local evidence, e.g. SHMA.

Q5

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

Response to Q5

The Council does not support the First Homes proposal however should it be implemented the view of the Council is that the Local Authority is best placed to decide upon the detail of local connection restrictions. Local connection is an important criterion in determining eligibility for affordable housing of all tenures, including intermediate products such as shared ownership and shared equity.

Q6

When should local connection restrictions fall away if a buyer for First Home cannot be found?

- i. Less than 3 months*
- ii. 3 – 6 months*
- iii. Longer than 6 months*
- iv. Left to the Local Authority discretion*

Response to Q6

Norwich City Council does not support the First Homes proposal; however should it be implemented, the local authority is best placed to decide whether or not to waive the local connection criterion on a case by case basis, as is the case with eligibility rules on exception sites.

Q7

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

Response to Q7

Norwich City Council does not support the First Homes proposal however should it be implemented, we consider that intermediate tenure homes should be available to all households provided they satisfy locally determined criteria. This includes older and disabled applicants, for example, or single parents who have experienced relationship breakdown and have a capital sum towards buying a new home.

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?

Response to Q8

Norwich City Council does not support the First Homes proposal however should it be implemented, our response to question 8 is as follows:

- a) Yes. Experience from Help to Buy schemes has shown that operating the scheme without an income cap could potentially distort the market and inflate already high house prices (National Audit Office 2019).
- b) The current income threshold for shared ownership for authorities outside of London is £80,000 and this should be replicated for First Homes.
- c) Yes. Norwich is committed to meeting local housing need by offering a range of housing solutions including intermediate tenure housing. As part of the Housing Options assessment, checks are made on the applicant's income, existing assets and local connection.

Q9)

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

Response to Q9

Norwich City Council does not support the First Homes proposal however should it be implemented the Council is of the view that First Homes should only be available to first time buyer applicants who:

- have registered with the local authority for housing
- have not previously benefited from a publicly funded home ownership scheme including local authority supported schemes.

Q10

Are Local Authorities best place to oversee that discounts on First Homes are offered in perpetuity?

Response to Q10

Norwich City Council does not support the First Homes proposal however should it be implemented the Council does not feel that Local Authorities should carry out this role. Local authorities have a role in determining eligibility and income levels for their area based on local knowledge. However, ensuring homes remain affordable in perpetuity is an administrative function that can be performed by an external, Government appointed agency with regular reports to the local authority.

Q11

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

Response to Q11

The Council does not support the First Homes proposal however should it be implemented administration of the scheme should be managed as per the existing Help to Buy scheme via a dedicated Government appointed agency.

Q12

How could costs to Local Authorities be minimised?

Response to Q12

The Council does not support the First Homes proposal however should it be implemented the role of the local authorities should be minimised e.g. by limiting it to existing functions such as determining local affordability criteria and carrying out housing options assessments.

Q13

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

Norwich City Council does not propose providing a response to this question.

Q14

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

Response to Q14

The Council does not support the First Homes proposal however should it be implemented the Council does not agree with a mortgage protection clause. In the event of default on the mortgage, we consider the same objective can be achieved by inserting the mortgage possession clause that is currently used in existing shared equity and shared ownership schemes, i.e. that the property must be offered to an RSL in the first instance. In that way, the mortgage is redeemed and the home remains affordable in perpetuity.

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)

Response to Q15

Norwich City Council does not support the First Homes proposal however should it be implemented the Council feels that letting should not be permitted; the property should be the owner's principal home. This is consistent with the Council's charge on shared equity properties.

Q16

Under what circumstances should households be able to move out of their First Home and let it for a longer time period?

Response to Q16

Norwich City Council does not support the First Homes proposal however if exceptions are to be permitted, it should be in cases of redundancy, relationship breakdown, caring responsibilities and armed forces deployment only and limited to a period of one year.

Q17

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

Response to Q17

Norwich City Council does not support the First Homes proposal however if implemented Norwich would signed up to the Armed Forces Covenant.

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

Response to Q18

Norwich City Council does not support the First Homes proposal however if implemented an appropriate length of time would be up to two 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?

Norwich City Council does not propose providing a response to this question.

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*

Response to Q20

Norwich City Council does not support the First Homes proposal however if implemented it should be brought in through changes to the National Planning Policy Framework. Any policy should allow for Local Authorities to respond to local circumstances as Local authorities are best placed to analyse their local housing market and formulate policies that are sensitive to local need, taking account of national policies 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*

Response to Q21

Norwich City Council does not support the First Homes proposal however if implemented, First Homes should be a percentage of section 106 affordable housing and this should be set at the Local Authority level. Local authorities are best placed to analyse their local housing market and formulate policies that are sensitive to local need, taking account of national policies and guidance. It is considered that both options (i) and (ii) will affect viability and reduce the number of social and affordable rent homes being delivered for lower income households; however option (i) is more likely to allow for some social rent properties to be built alongside First Homes whereas option (ii) would prioritise the delivery of First Homes over other forms of affordable housing.

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)

Response to Q22

Norwich City Council does not support the First Homes proposal however if implemented, Local Authorities should be able to set the proportion of affordable housing that should be First Homes. Local authorities are best placed to analyse their local housing market and formulate policies that are sensitive to local need, taking account of national policies and guidance. To impose specific housing types and targets at a national level would be inconsistent with the requirement to assess and meet local housing need. The most recent Strategic Housing Market Assessment (2017) showed that the greatest affordable housing need in Norwich is for rented homes (84%, 240 units per annum), compared to a need for intermediate tenures of just 16%, (38 homes per annum). This starkly illustrates why policy prescription is incompatible with meeting identified local housing need.

Imposing First Homes on a market where there is no demand could perversely have a negative impact on sale prices which in turn could affect the supply of new private sector schemes coming forward and would impact upon the delivery of other forms of affordable housing. Policy prescription is incompatible with identified local need for affordable rented homes in Norwich with evidence over the last 5 years showing that just 21 (6.91%) of 304 affordable homes delivered through s.106 agreements were intermediate tenure.

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?

Norwich City Council does not propose providing a response to this question.

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?*

Response to Q24

Norwich City council does not support the First Homes proposal however if implemented other forms of affordable housing should be allowed on entry-level exception sites in order to best meet need. Norwich's most recent Strategic Housing Market Assessment (2017) showed that the greatest

affordable housing need in Norwich is for rented homes (84%, 240 per annum), compared to a need for intermediate tenures of just 16%, (38 homes per annum). Imposing First Homes on a market where there is no demand could perversely have a negative impact on sale prices which in turn could affect the supply of new private sector schemes coming forward and will impact upon the delivery of other forms of affordable housing.

Q25

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

Norwich City Council does not propose providing a response to this question.

Q26

What further steps could the Government take to boost First Homes delivery?

Norwich City Council does not propose providing a response to this question.

Q27

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

Norwich City Council does not propose providing a response to this question.

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?

Norwich City Council does not propose providing a response to this question.

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?*

Response to Q29

Norwich City Council does not support the First Homes proposal however if implemented the scheme should ensure they are accessible to people with physical disabilities. The First Homes should also meet Nationally Described Space Standards.