

East Herts Council Report

Executive

Date of meeting: 22 November 2022

Report by: Councillor Peter Boylan– Executive Member for Neighbourhoods

Report title: First Homes Technical Advice Note

Ward(s) affected: All

Summary – The proposal for First Homes was introduced by the government in 2020. First Homes are a new form of low cost home ownership that can be sold at a discount of between 30% and 50% of the market value for all such homes, to be determined by the local authority.

The government requires that a maximum price cap, currently £250,000 per property, must apply regardless of the percentage discount.

Local authorities are obliged to produce a policy for the development of First Homes which will then be incorporated into future versions of their District Plan.

It is proposed that the Technical Advice Note here presented forms the council's guidance to developers.

RECOMMENDATIONS FOR EXECUTIVE:

- a) That the First Homes Technical Advice Note be recommended to Council for approval.**

1.0 Proposals

1.1 Each local authority is required to state its policy on First Homes. The proposed Technical Advice Note states that:

- East Herts Council does not consider First Homes to be a suitable form of affordable housing delivery in the district given its limited role in meeting locally identified housing need
- the council will not seek the inclusion of First Homes in new developments
- the council's preferred low cost home ownership product is shared ownership as this better addresses the needs of residents on lower incomes wishing to buy a home
- should a developer propose the inclusion of First Homes as part of a planning application, East Herts Council's policy will be to seek a tenure mix which maximises affordable housing for rent on the site
- where developers propose to construct First Homes, the discount should be 30% of the full market price, subject to the any government-specified price cap after the discount (currently £250,000)
- the local connection criteria should be consistent with the criteria applied for other low cost home ownership homes in East Herts, principally Shared Ownership.

2.0 Background

2.1 The proposal for First Homes was introduced by the government in 2020. First Homes are a new form of low cost home ownership that can be sold at a discount. The discount applying to all homes should be set by the local authority but must be between 30% and 50% of the market value for all First Homes.

- 2.2 The government requires that a maximum price cap, currently £250,000 per property, must apply regardless of the percentage discount.
- 2.3 First Homes meet the definition of affordable housing for planning purposes and therefore can be included within the overall percentage of affordable housing delivered on any particular site.
- 2.4 Local authorities are obliged to produce a policy for the development of First Homes which will then be incorporated into future versions of their District Plan.
- 2.5 First Homes must:
- be sold at a discount of no less than 30% of market value and no more than 50%, with the actual percentage discount that should be applied to all First Homes in a district determined by the local authority
 - have their initial sale price capped at no more than the government-set maximum, regardless of the percentage discount. The cap is currently £250,000
 - remain a First Home in perpetuity, with subsequent sales subject to the initial percentage discount. Note: local authorities are expected to keep track of subsequent sales through a mechanism yet to be defined by the government
 - only sold (initially and subsequently) to those eligible for a First Home, these primarily being first time buyers
 - be offered exclusively within the first three months of availability to those with a local connection as defined by the local authority with the local connection requirement falling away after the three months.

- 2.6 At present, there is no legislative requirement for local authorities to ensure the delivery of First Homes. Developers may, however, wish to include First Homes in their proposals and if the council were to provide an obstruction to this, developers could launch a legal challenge on the grounds that the local authority is failing to permit the development of a low cost home ownership product which is defined as Affordable Housing under the National Planning Policy Framework.
- 2.7 Although local authorities cannot preclude the development of First Homes in their district, it is reasonable to advise developers on their stance which can then guide developers when considering the tenure mix most likely to meet local need. The proposed Technical Advice Note would provide this guidance.

3. Reasons

- 3.1 The council wishes to publish a Technical Advice Note on First Homes to provide developers with guidance on the council's stance on the new product. The note lays out that First Homes are not considered by the council to be suitable in East Herts for the following reasons.

First Homes do not adequately address the needs of those on lower incomes in the district wishing to buy a home; shared ownership is better suited to meet these needs

- 3.2 Officers have compared the accessibility of the shared ownership product with First Homes for households incomes at the maximum within the lowest quartile of incomes in East Herts in 2021, that is £26,105 a year for each annual income considered (*source: Annual Survey of Hours and Earnings*).
- 3.3 Two important factors have been considered:

- could the household get the required mortgage with a 5% deposit?
- if the household were able to get the required mortgage, would their monthly housing costs be no more than 30% of the gross household earned income? (Assuming a mortgage rate of 3.5% and a rental payment for shared ownership homes of 2.75% of the unsold equity per year.)

3.4 If the answer to at least one of these questions is 'no', the property can be considered unaffordable and thus not accessible. The results are shown in the table below.

Can the household access the required mortgage and, if so, expend no more than 30% of gross earned income on housing costs?								
	1 bed		2 bed		3 bed		4 bed	
	Shared Ownership	First Home						
Market value	£240,000	£240,000	£290,000	£290,000	£420,000	£420,000	£575,000	£575,000
Purchase price	£96,000	£168,000	£116,000	£203,000	£168,000	£250,000	£230,000	£250,000
Single full-time income	Yes	No	No	No	No	No	No	No
One full-time and one part-time income	Yes	No	Yes	No	No	No	No	No
Two full-time incomes	Yes	Yes	Yes	No	Yes	No	No	No

Notes

- Shared ownership purchased at 40% of market value.
- A 30% discount applied to First Homes, capped at a £250,000 maximum price.
- Mortgage rate of 3.5%.
- Purchase with a deposit of 5% of the purchase price.
- A rental payment for shared ownership homes of 2.75% of the unsold equity per year.
- Single full-time income = £26,105. One full-time income and one part-time income = £39,158. Two full-time incomes = £52,210.
- Market values based on typical new build values in East Herts. Note: 4 bed new build is 10th percentile to control for larger price range of this size of home.

3.5 The table shows that shared ownership is a more accessible low cost home ownership product in East Herts for those on lower incomes. Of course, for those on higher incomes, First Homes become more affordable although, arguably, the market is able to provide a supply of homes for those on median incomes, that is £38,763 per year for a single earner household and £77,526 for a two earner household.

The government's requirement that where a development contains First Homes, the number of First Homes should constitute 25% of all affordable dwellings would reduce the supply of affordable homes for rent

3.6 At present, in practice the council's District Plan seeks 25% of affordable homes as shared ownership and 75% as affordable rent. Government guidance states, however, that where First Homes are provided in a development, they should make up a minimum of 25% of all affordable homes. The council could then apply its preferred tenure mix to the remaining affordable units.

3.7 This guidance would constrain the supply of much needed affordable homes for rent because if a quarter of the total were First Homes, affordable homes would only make up 75% of the remaining 75% of affordable properties, that is, 56% of all affordable homes on that site.

Consideration of matters raised by the Overview and Scrutiny Committee

3.8 The Overview and Scrutiny Committee considered the First Homes Technical Advice Note at its meeting on 20th September 2022. Before approving the recommendation to endorse the strategy for presentation to the Executive, members of the

committee raised several points which have been carefully considered by the Executive Member for Neighbourhoods, in consultation with the Head of Housing and Health. The table in Appendix B summarises the points raised and the Executive Member's responses.

3.9 Specifically, as a result of the discussion at Overview and Scrutiny Committee, the following information has been provided:

- how developers can make decisions about social housing and where these homes are built in East Herts
- the affordability of First Homes which contain four bedrooms and the wider point regarding larger homes for low cost home ownership.
- the levels of incomes required for First Homes in East Herts and how they compare with households on median average incomes in the district.

4.0 Options

4.1 Not to produce a First Homes Technical Advice Note – NOT RECOMMENDED. Under government guidance, local authorities are obliged to produce a policy for the development of First Homes which will then be incorporated into their District Plan. A First Homes Technical Advice Note will provide information for developers, registered providers and other stakeholder organisations. It will also set a framework for maintaining the supply of affordable housing for rent and of genuinely affordable low cost home ownership products in East Herts.

4.2 Amend the First Homes Technical Advice Note to support and promote the development of First Homes – NOT RECOMMENDED for reasons discussed in section 3 above.

4.3 Amend the First Homes Technical Advice Note to require First

Homes to be sold at a discount set at above the recommended 30% – NOT RECOMMENDED. If developers were obliged to sell First Homes at a higher discount than 30%, the 'subsidy' being provided by the developer would be greatly increased per property. In turn, this would in all probability significantly erode the viability of the whole scheme with the result would offer a far smaller percentage of the total development as affordable housing. This would compromise the council's ability to enable an ongoing supply of much needed affordable housing

- 4.4 Endorse the draft First Homes Technical Advice Note as proposed – RECOMMENDED for the reason laid out in this report.

5.0 Risks

- 5.1 The proposed East Herts Council First Homes Technical Advice Note takes the form of information and guidance to its partners, rather than specific contractual or legal obligations. Therefore, there is no risk associated with the production of this Technical Advice Note.

6.0 Implications/Consultations

- 6.1 The draft First Homes policy Technical Advice Note has been produced by the Housing team following consultation with the East Herts Council Planning Policy team and with the Executive Member for Neighbourhoods and the Executive Member for Planning and Growth.

Community Safety

No implications arising from this report.

Data Protection

No implications arising from this report.

Equalities

The First Homes Technical Advice Note seeks to bring forward a supply of low cost home ownership properties at prices which are affordable to local working people with low to average incomes. The Housing service's information indicates that the people in the following protected characteristic groups who are highly represented upon households in housing need are thus would be more negatively impacted by substitute the supply of shared ownership and affordable rent homes with First Homes which require higher incomes to access than these two tenures:

- age – a high percentage of younger households, with a household head aged between 18 and 44
- pregnancy and maternity – a high percentage of households with children, especially those headed by a lone parent.
- gender – a high percentage of households headed by females
- marriage and civil partnership – a high percentage of households headed by a single person and by a lone parent
- disability and health – a comparatively high percentage of households in housing need have poor health and/or a form of disability.

Environmental Sustainability

No implications arising from this report.

Financial

Whilst there are no direct financial implications arising from this report, any reduction in future affordable rental property supply will increase the cost of housing benefit payments and not lead to

reductions in housing benefit administration costs. Registered Providers of housing send bulk uploads of rental amounts. This leads to less administration in uprating claims and reduced rental verification evidence requirements for social housing compared to privately rented housing.

Health and Safety

No implications arising from this report.

Human Resources

No implications arising from this report.

Human Rights

No implications arising from this report.

Legal

East Herts Council does not have a legal obligation to ensure that First Homes are delivered in the district. The local authority could, however, be subject to legal challenge if it attempted to obstruct a developer from constructing First Homes in East Herts. The First Homes Technical Advice Note provides information and guidance and it not of itself obstructive. The document does not provide specific contractual or legal obligations.

Specific Wards

No implications arising from this report.

7.0 Background papers, appendices and other relevant material

7.1 Appendix A – draft First Homes Technical Advice Note

7.2 Appendix B – Response to comments from the Overview and Scrutiny Committee

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