

TELFORD & WREKIN COUNCIL

CABINET – 02/12/21

FIRST HOMES – SUPPORTING PEOPLE IN TELFORD & WREKIN

**REPORT OF DIRECTOR OF HOUSING, EMPLOYMENT &
INFRASTRUCTURE**

LEAD CABINET MEMBER – CLLR DAVID WRIGHT

PART A) – SUMMARY REPORT

1. SUMMARY OF MAIN PROPOSALS

The Council have an excellent record of delivering new homes in the borough with around a third of these being homes available for affordable rent, social rent or shared ownership. This clearly demonstrates the Council's commitment and performance in delivering quality homes for all residents. In the last 10 years the supply of affordable housing has increased significantly to over 300 homes per annum.

First Homes is a Government initiative to introduce a new form of discounted market housing available for first time buyers. From 28th December the Government will require Local Planning Authorities (LPA) to set aside a quarter of the affordable homes that they would secure through Planning Obligations (Section 106 Agreements) as First Homes. This means that of the 25% of homes in Telford and 35% in Newport and the rural area that would be secured for social or affordable rent and shared ownership properties, the Council will now be required to set aside a quarter of these for First Homes.

The Government have set national criteria for the scheme which includes a minimum discount of 30% on the market value of eligible properties. However LPAs have the flexibility to; apply their own local eligibility criteria and determine a local discount level for First Homes, as well as setting a price cap on the first sale. The purpose of this report is to set out the impact of Government policy on affordable housing in the borough and to propose local criteria that seek to mitigate this impact and maximise opportunities for local people.

First Homes will impact on the Council's ability to secure affordable housing tenures for those most in need. In setting local criteria the Council will seek to ensure that First Homes are as affordable as possible and targeted to local need, whilst ensuring that the Council continues to prioritise and secure homes for social and affordable rent.

2. RECOMMENDATIONS

2.1 Cabinet note the impact of First Homes on the supply of local affordable housing.

2.2 Cabinet approve the introduction of local First Homes criteria contained in the accompanying Policy Position Statement.

3. IMPACT OF ACTION

The Council is required by Government to introduce First Homes within the borough. The scheme is directed towards the provision of discounted market housing. The Council are clear that First Homes will reduce the number of homes coming forward for other more affordable tenures such as rented or shared ownership accommodation. The effect of Government policy will raise the bar for people needing to access affordable housing and wishing to live in their own property.

The proposals set out in this report seek to balance the need for 'affordable' first homes with the need to protect the number of homes coming forward for other tenures such as social and affordable rent.

4. SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Co-Operative Council priority objective(s)?	
	Yes	1. every child, young person and adult lives well in their community 2. all neighbourhoods are a great place to live
	Will the proposals impact on specific groups of people?	
	Yes	A reduction in other more affordable housing tenures will disadvantage those most in need. First Homes will benefit first time buyers.
TARGET COMPLETION/DELIVERY DATE	First Homes comes into force in the borough for planning applications determined after the 28 December 2021 (28 March 2022 in cases of significant upfront pre-application advice).	
FINANCIAL/VALUE FOR MONEY IMPACT	Yes	The Council will place obligations on developers through Section 106 agreements to ensure Developers comply with the First Homes arrangements.

		<p>The planning application will include a First Homes monitoring fee, anticipated to be around £350 based on benchmarking with pilot Local Planning Authorities. This will be charged against each development and would be available to support additional resources to monitor the scheme if required. It is not possible at this time to identify the annual additional income.</p> <p>The Government are monitoring pilot schemes to determine any additional burdens, they are not allocating any new burdens funding at this stage.</p> <p>The developers will bear the burden of the reduced sales proceeds for any First Homes properties.</p> <p>There are some circumstances (identified within appendix A) where homes may cease to be classed as a First Home. Whilst it is expected that these occasions will be very few, in the event of that happening the Council will receive either a full or a part compensation payment for the loss of these homes. This will be re-invested in future First Homes provision.</p> <p>AEM 21/10/21</p>
LEGAL ISSUES	Yes	<p>As it determines planning applications, the Council is required to implement the First Homes arrangements as set out in National Planning Practice Guidance and the 24th May Written Ministerial Statement. This report summarises the requirements and explains that there is scope for local planning authorities to apply local adjustments. Adjustments for the borough have been proposed and are being consulted upon. Cabinet is considering whether the adjustments are justified in the circumstances pertaining in the borough. Legal</p>

		advice will be provided generally and, in particular, regarding the terms of the Section 106 planning obligations and the restrictions on title which will be necessary to secure First Homes going forward (IR20.10.21)
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	First Homes will reduce other affordable housing tenures which could leave more people in need of lower cost affordable housing products. There may be additional administrative burdens on the Council to monitor First Homes implementation.
IMPACT ON SPECIFIC WARDS	No	Borough-wide impact.

PART B) – ADDITIONAL INFORMATION

5. INFORMATION

Introduction

The requirement for First Homes has been introduced by Government as a new form of discounted market housing available for first time buyers and which meets its definition of affordable housing. The details of its introduction were confirmed in a Written Ministerial Statement on 24 May 2021, this followed consultation undertaken in late 2020. The Council responded to the consultation and set out its concerns that the proposals would adversely impact on the Local Planning Authority's (LPA) ability to deliver genuinely affordable homes for those most in need.

First Homes requirements come into force locally from the 28 December, or 28 March 2022 where there has been significant¹ pre-application engagement.

The Government have set national criteria for the scheme which includes a minimum discount of 30% on the market value of eligible properties. Other elements of the national criteria include:

- Combined income of purchaser(s) not exceeding £80,000
- Initial sale price cannot exceed £250,000 following 30% discount
- Must be a first time buyer/s – but no age limit
- The discount on market value applies to all subsequent sales and these must be to first time buyer/s
- First Homes are intended to be used as a person's sole or primary residence and should not be used for investment or commercial gain.

Impact of First Homes on affordable housing in Telford & Wrekin

The Council has a strong track record in delivering affordable housing with on average a third of all new homes being homes for social rent, affordable rent or shared ownership. Since 2011 the Council have delivered over 3,000 affordable homes in the borough, averaging 300 new affordable homes per year.

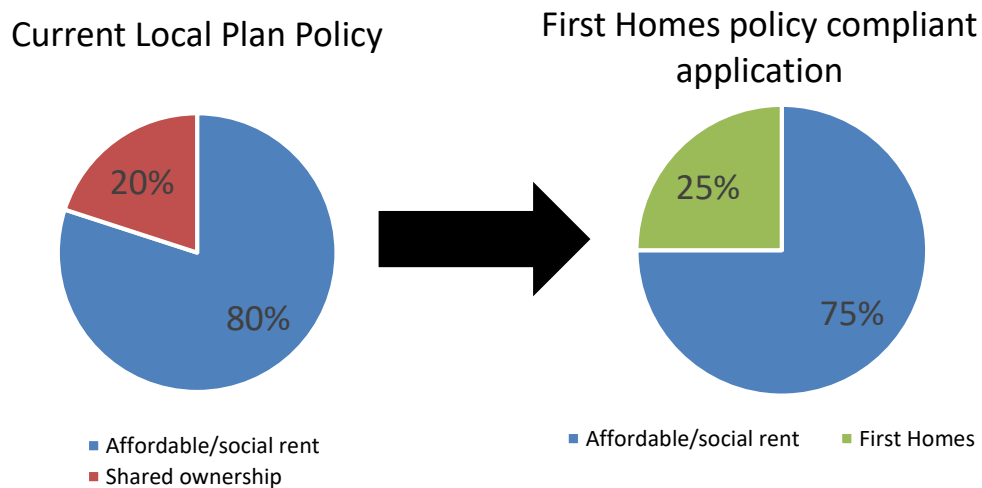
The Council secure around 40% of the Borough's affordable housing supply through Section 106 Agreements which would be subject to First Homes requirements. The remaining 60% are secured through other routes such as 100% affordable housing schemes delivered by Registered Providers or sites benefiting from Homes England grant.

¹ Any substantive discussions between the Council and the applicant relating to the proposed quantity or tenure mix of the affordable housing contribution associated with that application.

Based on current rates of affordable housing completions it is projected that around 30 affordable homes per annum (10% of total delivery) will be First Homes.

The adopted Telford & Wrekin Local Plan secures affordable housing through policy HO5 with the following proportions for affordable homes; 25% in Telford and 35% in Newport and the rural area.

The charts below sets out the example of a policy compliant scheme coming forward in Telford under the current system where the tenure split is 80% of homes for social and affordable rent and 20% for shared ownership. The second chart demonstrates the impact that First Homes would have in displacing shared ownership and reducing the proportion of homes for social and affordable rent.



The Council's priority in considering local First Homes criteria (set out below) is to protect affordable homes for rent. This is where the greatest need for affordable accommodation is in the borough.

The need to maximise the number of homes for affordable rent recognises that there are other costs associated with home ownership that would need to be met regardless of the level of discount such as; mortgage fees, legal costs, stamp duty, repair and maintenance costs.

Discount levels and price caps for Telford & Wrekin

LPAs have some flexibility to apply their own discounts on the market value and initial price caps. The Council have assessed the affordability of First Homes based on 30% and 40% discounts vs the affordability, this has also been supported by consultation with Housing Developers and registered housing providers to inform the level of discount.

Proposed local discounts in Telford & Wrekin include:

- **40% discount on market value of homes** where sites have no significant constraints to development. For sites that can demonstrate significant constraints to development, that impact on viability, the Council will consider reverting to the national discount.

The discount level will help ensure that First Homes are affordable for single income households including police, teachers, nurses and many private sector workers. As an example a home with an open market value of £150,000 sold with a 40% discount and a 10% deposit would require an income of around £22,500. At 30% discount the income required would rise to around £26,500 which would be out of reach for example for many single income key workers on starting salaries.

- **Initial sale cannot be at a price greater than £180,000** after the discount has been applied – the price cap reflects the fact that the scheme can also benefit families wishing to own their own home. The initial price cap will also include an uplift for Consumer Prices Index Housing (CPIH) to reflect inflation.

A local price cap of £180,000 based on a 40% discount would ensure that 1 – 3 bed properties with a maximum open market value of £300,000 could be First Homes.

The discount on market value and price cap on the initial sale would be in force for the full 6 month² marketing period for First Homes.

Local Eligibility Criteria for Telford & Wrekin

LPA's can also introduce local eligibility criteria that would remain in place for 3 months after the start of the marketing period. At the end of the initial 3 month period the local eligibility criteria falls away and the national criteria would apply. This process would also apply to all future re-sales of First Homes.

Proposed local criteria that would apply in Telford & Wrekin include:

- **Combined household income not exceeding £60,000** – this reduces minimum national income threshold to target the scheme at lower income households and joint income households. The income cap will be indexed to CPIH to take account of inflation.

The table below sets the starting salaries for a range of key worker professions. It demonstrates that at £60,000 the price cap for First Homes is would not exclude single or joint income households in similar professions.

Key worker profession	Starting salary
Newly qualified nurse	£25,000

² This includes 3 month period where local eligibility criteria is in place.

Newly qualified teacher	£25,000
Police constable	£21,000 – £24,000
Trainee fire fighter	£24,000
Care worker	£16,000 – £18,000
Army Private	£20,000

- **A local connection test** – it is a Council priority to ensure that First Homes are first and foremost available for local residents who live and work in the borough or have relatives that need care. The affordability of housing can also act as a barrier to recruitment into key sectors such as health and social care, homes that are more affordable will help make the Borough an attractive place to live for workers in those sectors.

The local connections criteria is in line with criteria applied through the local plan to demonstrate local residency or are employed in the borough.

- **Priority for key workers** – this includes NHS staff, teachers, police, firefighters and military personnel, social care and childcare workers as defined in the National Planning Policy Framework. This would support key workers who work within Telford & Wrekin and wish to purchase their own property.

In line with national requirements local eligibility criteria will be waived for all active members of the Armed Forces, spouses, partners and veterans within 5 years of leaving the armed forces. This is inline with the Council commitments under the armed forces as set out in the Armed Forces Covenant.

Marketing of local eligibility criteria

It is critical that house builders effectively promote the scheme during the first 3 month period when local eligibility criteria would apply. It is proposed that house builders are obliged (through the Section 106 Agreement) to ensure that homes are marketed via the following channels:

- Local press
- Company website
- Rightmove / zoopla or other such website
- Guidance documents will be available on the Councils website for

The Council reserves the right to challenge house builders who cannot demonstrate that they have effectively marketed First Homes subject to the local criteria, leading to a re-introduction of the 3 month local criteria period.

Other key operating features of the scheme will include:

- Guidance on the scheme and local eligibility criteria will be available for prospective first time buyers and developers / housebuilders via the Councils website.

- The Council will consider enforcement action if First Homes restrictions are not followed as this could result in a reduction in the number of 'affordable homes' in the borough.
- First Homes should be delivered on-site unless an off-site financial contribution in lieu can be robustly justified. Any cash contributions for affordable housing should ensure a minimum 25% of these contributions are used to secure First Homes.
- As with Local Plan Policy HO 6 (delivery of affordable housing) a landowner should enter into a section 106 legal agreement to secure First Homes and ensure that a legal restriction is registered onto a First Home's title on its first sale. The legal agreement will also ensure the discount on market value is secured in perpetuity on future re-sales.
- To protect lenders a Mortgagee Exclusion Clause should be included in the planning obligations if a home owner defaults on mortgage payments. This would allow a property to be sold to anyone on the open market at open market value and the property will cease to be a First Home. Once the mortgagee has recovered the funds due to them, any remaining proceeds from the sale would be used to reimburse the Council for the loss of the First Home.

There are likely to be some additional administrative burdens on LPAs as part of their role in the administration of the scheme. The Government are planning to issue template planning obligations for inclusion in s106 agreements. Where restrictions are not being implemented the Council will have determine what action to take. Government are monitoring pilot authorities to determine any resource implications but are not proposing funding support at this stage.

The Council will secure local criteria, marketing periods, obligations on developers and the requirements for future re-sale of homes through Section 106 agreements. This will also include a monitoring fee for Section 106 agreements, anticipated to be around £350 based on benchmarking with pilot Local Planning Authorities. This will be charged against each development to help cover costs the Council will incur in having to monitor the scheme.

Potential risks and mitigation

There are risks associated with First Homes that may impact on the housing market:

- The requirement to remove the initial price cap will have significant detrimental impact on affordability when First Homes are re-sold. In some areas of the borough house prices may rise increasing the barrier to accessing First Homes even after the application of the 40% discount. This would negate the benefits of of the discount and potentially put First Homes out of reach of key workers. This may also lead to an increase in

applications to remove the First Homes obligations from the title of properties in those areas should no eligible purchaser be found within a 6 month period – *In areas of higher value it may be more appropriate to seek more 1 – 2 bed units as First Homes to mitigate any subsequent rise in house prices. Where an application to remove title is made the Council will require compensation for the 'loss' of a First Homes unit to up to 40% of the OMV, these funds would then be reinvested in new First Homes provision.*

- Home owners of First Homes maybe disincentivised to invest in property they will be required to sell at a discount – *the initial price cap is removed for resales allowing the property to appreciate in value where improvements have been made.*
- Developers may be disincentivised to promote First Homes whilst local criteria is in place for the first 3 months – *the Section 106 Agreement will set out requirements developers will need to adhere to when marketing homes.*
- It will displace shared ownership which risks locking out residents who would have benefited from the gradual purchase of a property over a longer period of time – *The majority of affordable housing is secured through routes other than Section 106 Agreements, therefore these sites can continue to deliver shared ownership properties.*
- Future resales may distort the market – *Any future resale needs to be validated by the Council and the property should be valued in accordance with Royal Institute of Chartered Surveyors guidance ensuring a fair market value before the First Homes discount is applied.*
- A strategic risk is a slump in the wider housing market that could put some homeowners in negative equity, this could potentially impact owners of First Homes – *Should this happen the Council would need to review and consider the impacts on affordable housing supply.*

Can First Homes be sold without restrictions?

In instances where a suitable buyer cannot be found the Council can include provisions in a section 106 agreement which allow a developer or First Home owner to sell a First Home on the open market and remove the title restriction.

It should be demonstrated that before a First Home is “lost” in this way, it have been marketed for at least 6 months and all reasonable steps must have been taken to secure a sale as a First Home, including the reduction in the asking price.

Where it is still not possible to secure a sale as a First Home the seller should compensate the Council for the loss of the First home property, based on the value of the discount the First Home was to be sold for, as a percentage of the final sale price.

Exempt developments

The following types of development are exempt from the First Homes policy:

- Build to rent developments – this would include Nu Place and Telford & Wrekin homes
- Specialist accommodation (such as purpose-built accommodation for the elderly or students)
- Self-build or custom house building; or
- 100% affordable housing schemes, entry-level exception sites or a rural exception site.

Exception sites

Government guidance allows for First Homes exception sites. These would be sites that are 100% First Homes or sites with some 'enabling' market housing. These could come forward in areas where there are tighter controls on open market housing such as on the edge of villages. Proposals should not be disproportionate to the location.

Consultation

In establishing the local criteria targeted consultation was undertaken with developers and registered housing providers that operate within Telford & Wrekin. The main feedback included:

- Consultees were supportive of the Councils approach
- The need to increase the initial sales cap to take account of house prices in higher value areas – the cap has been increased to £180,000
- The need to index link price and income caps – Consumer Prices Index (Housing) will be used.

6. PREVIOUS MINUTES - None

7. BACKGROUND PAPERS

Annex 1 – First Homes - Policy Position Statement

**Report prepared by Gavin Ashford, Strategic Planning Team Leader,
Telephone: 01952 384260.**