

# FAREHAM

## BOROUGH COUNCIL

### Report to Housing Scrutiny Panel

**Date** 28 October 2021

**Report of:** Deputy Chief Executive Officer

**Subject:** First Homes Scheme Update

#### SUMMARY

To provide an update on the First Homes scheme following a presentation from the Head of Housing Delivery in relation to the introduction of First Homes at the Panel meeting in September.

#### RECOMMENDATION

It is recommended that the Panel considers and notes the contents of the report and make any comments or raise any questions for clarification.

## **INTRODUCTION**

1. First Homes is a new Affordable Home Ownership product introduced by Government through a Written Ministerial Statement and update to the Planning Practice Guidance on 24<sup>th</sup> May 2021.
2. A presentation at the September Housing Scrutiny Panel outlined the First Homes product, including the potential for Local Eligibility requirements and the implications to traditional affordable housing delivery.
3. This update report builds on the information provided in the First Homes presentation at the September Housing Scrutiny Panel meeting, providing further detail on the introduction of First Homes and local eligibility criteria that can be applied.

## **FIRST HOMES CRITERIA**

4. First Homes is a new type of affordable home ownership, introduced by the Government in May this year. Both Shared Ownership and First Homes are affordable home ownership products. First Homes will sit alongside Shared Ownership as an alternative affordable home ownership product.
5. For a home to be classified as a First Home, it must satisfy several criteria. First Homes;
  - (a) Must be newly built homes at first classification (by developers)
  - (b) Must be offered at a minimum of 30% discount on the market price
  - (c) Must remain discounted - discount stays with the property in perpetuity
  - (d) Must be capped at £250,000 on initial/ first sale (outside of London) (once initial discount has been applied)
6. A qualifying purchaser of a First Home also must satisfy national criteria. A First Home purchaser;
  - (a) Must be a first-time buyer
  - (b) Must purchase the property as their main residence
  - (c) Must need a mortgage or equivalent for at least 50% of the discounted purchase price
  - (d) Must be able to put down a minimum 5% deposit
  - (e) Must not have a household income of more than £80,000 (outside of London)

## **LOCAL ELIGIBILITY CRITERIA**

7. In addition to the national criteria, Local Authorities can set and administer local criteria. There are however some important points to note about local eligibility criteria:
  - a) Any local eligibility criteria would only apply for the first 3 months of marketing. After 3 months, any of the homes not reserved or sold revert to the national criteria for the remaining 3 months of marketing

b) Any local eligibility criteria would not apply to members of the armed forces or their spouse/ civil partner, the spouse/ civil partner of a deceased member of the armed forces (if death caused by service) or veterans within five years of leaving the armed forces

8. The local eligibility criteria can include the following:

a) *Local connection test*

- i) A local connection test can be a restriction which links the applicant to the application area for a specified length of time. It would enable the Council to initially prioritise applicants who have a connection with Fareham borough. A local connection criterion could include a minimum time that an applicant is required to have lived or worked in Fareham. It could also consider immediate family connections. The Council already uses established local connection as a qualification criterion to join the housing register for rented accommodation. To join the housing register with a local connection, one or more of the following needs to apply:
- They live in the Borough in settled housing arrangements and have done so continuously for at least 2 years immediately prior to their application
  - They are employed in the Borough. Employment must be permanent in nature and for a minimum of 16 hours per week
  - They need to move to the area to be near to a close member of their family to give or receive essential care and support. The family member must live in the Borough and have been resident continuously for 5 years or more
  - They can demonstrate a strong local connection to the Borough
  - They need to move to receive specialist care and support, which can only be accessed within the Borough of Fareham
- ii) A local connection test for First Homes would be straightforward for the Council to implement since one is already in existence for the housing register. Using the same local connection test for First Homes would align the criteria to apply for a First Home in the borough with the local connection criteria to apply to join the housing register for rented accommodation. Officers would recommend introducing a local connection test that aligns with the housing register. This can be monitored and reviewed once we have some First Homes in the borough.

b) *Key Workers*

- i) Local eligibility criteria also allows the Council to include a priority for key workers. The Council could prioritise applicants with certain occupations for the homes, for the first 3 months of marketing. The most recent example of a key worker definition is the list provided by government for jobs essential to continue during the recent lockdowns for COVID. This extensive list includes:

- All NHS and social care staff
  - Essential public services staff
  - Public safety and national security staff
  - Transport and border workers
  - Critical personnel in the production and distribution of food, drink, and essential goods
  - Local and national government staff
  - Funeral industry workers
  - Frontline local authority staff and volunteers
  - Utilities, communication, and financial services staff
- ii) The National Planning Policy Framework (NPPF) provides a definition of essential local workers. It includes all frontline public sector roles; NHS, education, public safety, national security, and child/social care.
- iii) The option for local key worker eligibility criteria allows the Council the opportunity to prioritise First Homes for occupations performing essential services in the borough. However, the only key worker definitions currently available are at a national level in the NPPF and to identify national essential workers during the COVID lockdowns. It is likely that the Council would want to amend these lists for a local focus if a key worker criterion was to be considered.
- iv) Officers have recommended a local connection test for First Homes. There is a current local connection test definition, which includes working in the borough. If implemented, this would enable local key workers to be prioritised for First Homes as part of this definition. A specific key worker definition requires further investigation and officers would recommend that in the first instance First Homes with a local connection priority is reviewed before introducing another local criterion.

## **NATIONAL ELIGIBILITY CRITERIA**

9. In addition to the local eligibility criteria, there is the option to amend some of the national eligibility criteria, if supported by evidence.

### *a) Reduced household income cap*

- i) The national income cap for a First Homes applicant, outside of London, is £80,000. This means that a household with an income of up to £80,000 can access a First Home. If a Local Authority can demonstrate that this cap should be lower, the new cap can be applied in the first 3 months of marketing. Any homes not reserved or sold within 3 months would revert to the national cap of £80,000.
- ii) £80,000 income cap is the same as the income cap for established affordable home ownership products, such as shared ownership. It could therefore be argued that the suitability of this cap for First Homes has already to some extent been tested.

- iii) The £250k First Home discounted property price might allow for a 3-bed semi-detached home in some areas of the borough. With the minimum 5% deposit required for a First Home, the mortgage payments on this home would likely be over £1,100 a month for a standard 25-year mortgage period. To afford this home a household would require an income more than £50k. These estimates assume the household would have no other loans. With other loans the income required would be even higher. The household in question would still be using a significant amount of their household income for mortgage payments. There is a concern that First Homes, particularly 3-bedroom homes, would not be affordable to households on lower incomes.
- iv) The Council is required to carry out further research if it wishes to justify and apply a reduced household income cap. Officers would recommend that monitoring of the purchasers of First Homes is undertaken in the first instance so that actual income levels of purchasers can be reviewed.

*b) Reduced price cap*

- i) The price cap of £250k for a discounted First Home outside of London can also be reduced if local evidence can demonstrate the need for this. There is the option for the price cap to be lowered for short periods of time if local conditions require.
- ii) With relatively high house prices in the borough, Officers would recommend that the price cap is not reduced at this time. This should be reviewed once there is some data on First Homes. The discounted price cap of £250k could, at present, allow for 3-bedroom homes in some areas of the borough. A lower price cap would reduce the likelihood of larger homes under this scheme. First Homes are however for first time buyers and we have limited information on the size of homes required. Data from Help to Buy South for affordable home ownership products, such as shared ownership, would suggest that 2-bedroom homes are the most sought after, but there is also some need for larger family homes. Officers would recommend that the price cap is reviewed once data of First Homes in the borough is available.

*c) Deeper minimum discount*

- i) The minimum discount required of 30% of market value can be increased to 40% or 50% if there is local evidence to support this need. The discount would stay with the property in perpetuity, secured through a planning obligation. This discount would apply to the entire Borough.
- ii) A deeper discount could enable a wider range of property types for First Homes in areas of high house prices. Fareham does have relatively high house prices, however the discount of 30% is likely to allow for some 3-bedroom properties in some areas to be possible. First Homes are for first time buyers and we would expect most of the need to be for smaller accommodation. A higher discount is also likely to impact on the viability of First Homes and ultimately result in fewer affordable homes being built.

- iii) Officers would not recommend considering a deeper discount unless evidence from reviewing First Homes schemes completed in the borough suggests otherwise. Following government guidance on First Homes, this investigation would be more suited to future Local Plan reviews where the wider viability implications could be considered.

## **PLANNING IMPLICATIONS**

- 10. Various transition periods apply before First Homes will be fully applied through the planning system.

### *Development Management/Planning Applications*

- 11. From 28th December 2021, on new developments which meet the threshold for affordable housing contributions (10 or more dwellings or sites of 0.5 hectares or more), 25% of the affordable homes should be First Homes. Before this date there is no requirement for First Homes in planning applications, although developers can propose First Homes. Where a proposed development has had significant pre-application work, First Homes will not be required on these planning applications until 28th March 2022.

### *Local Plan*

- 12. The Council submitted the New Local Plan to the Planning Inspectorate on 30th September 2021. The transition period which applies to First Homes means that there is no need to include First Homes in the New Local Plan. It is likely that First Homes will need to be considered whenever the Local Plan is subsequently reviewed.

## **AFFORDABLE HOUSING IMPLICATIONS**

- 13. As outlined to Housing Scrutiny Panel members in September, the introduction of First Homes has the potential to reduce the delivery of Affordable Rent homes through the planning system. This is due to the First Homes 25% requirement on any major development having to be met first, with the remaining affordable homes then split by Affordable Rent to Shared Ownership in the normal way.
- 14. For example, currently a planning application for 100 homes would be required to provide 40% affordable housing (i.e., 40 units), 65% of which should be for rent and 35% for affordable home ownership. A policy compliant scheme would therefore be 26 affordable rent units and 14 shared ownership units. A planning application for 100 homes after December 2021/ March 2022 (depending on pre application work) would be required to provide at least 25% of the 40 affordable homes for First Homes (10 units). The remainder of the 30 affordable homes would then need to be split into 65% rented units and 35% shared ownership units. This would mean 10 First Homes, 20 affordable rented units and 10 shared ownership units.
- 15. The above example shows that First Homes will reduce the amount of Affordable Rent homes delivered on new build sites, and to a lesser extent shared ownership homes. A further worked example has been provided below:

#### Example 1 – 20-unit scheme

Working	Result
40% Affordable in line with Policy CS18	8 affordable units
25% First Homes	2 units
Remaining 6 units split as 65% affordable rent and 35% affordable home ownership	4 units as affordable rent and 2 units as affordable home ownership.
<b>Resulting Tenure Split</b>	<b>2 First Homes, 4 Affordable Rent and 2 Affordable Home Ownership.</b>

16. The New Local Plan, which has now been submitted and is at Examination stage, includes an affordable housing policy which specifically requires Social Rent homes (the most affordable of affordable homes). The 10% Social Rent requirement would be protected. This means that First Homes and Social Rent will be cut from the affordable housing provision first, before splitting the remainder into just over 60% Affordable Rent units and 40% Shared Ownership units. Once the new Local Plan is adopted this policy will apply which will slightly reduce the detrimental impact to traditional affordable housing delivery caused by First Homes.

#### **RISK ASSESSMENT**

17. There are no significant risk considerations in relation to this report

#### **CONCLUSION**

18. Whilst we still do not have all the details to implement First Homes, First Homes is now part of the planning system. Officers therefore suggest an interim policy with some local criteria is put in place, ideally by early 2022. Officers can then conduct more research around the affordability and cap implications, whilst also monitoring any uptake in First Homes, before an updated First homes policy can then later be brought in if appropriate or necessary (2022/23). This will also allow this new housing product to settle, and some of the currently unclear elements of how it will work to be established nationally.

19. We will continue to investigate whether it would be beneficial for additional criterion to be applied to First Homes in the borough, as new information emerges.

20. In due course an interim First Homes policy will be developed for consideration by the Council's Executive.

**Appendices:** None

**Background Papers:** None

**Reference Papers:**

Optimising Social Housing – Applications and Allocations Policy

**Enquiries:** For further information on this report please contact Helen Farnham. (Ext 4498)