

LGA submission to the Ministry of Housing, Communities and Local Government: First Homes

1 May 2020

1. About the Local Government Association

- 1.1 The Local Government Association (LGA) is the national voice of local government. We are a politically-led, cross party membership organisation, representing councils from England and Wales.
- 1.2. Our role is to support, promote and improve local government, and raise national awareness of the work of councils. Our ultimate ambition is to support councils to deliver local solutions to national problems.

2. Summary

- 2.1. The LGA fully supports the ambition to increase housing supply that is sustainable, meets demand and is matched by the required services and infrastructure. Local government has an important role to play in achieving this ambition, both as leaders of place through the planning system and as builders of homes in their own right.
- 2.2. Everyone has the right to live in a safe and secure home they can afford. However, not everyone will be able to, or aspires to own their own home. Councils want to play a lead role in developing a locally responsive mix of tenures, which includes homes for sale, as well as social homes and other affordable homes for those who are not ready or do not want to buy.
- 2.3. Affordability is more than just the price of a house and includes other housing-related costs including rent or mortgage payments, heating and transport. Analysis undertaken on behalf of the LGA found that there are just four local authorities where the median income household could afford to buy the average new build home at a 30% discount with a 5% deposit. First Homes should therefore sit alongside other affordable home ownership and rental initiatives, as determined by the housing needs of local areas.
- 2.4. The LGA broadly supports the principle of First Homes, as a discounted home-ownership product, which could assist first-time buyers to purchase a home they can afford in their own communities. We also welcome the proposal to place an in-perpetuity discount on First Homes through restrictive covenants, which we advocated for during the Government's Starter Homes consultation.
- 2.5. We are, however, concerned about the potential impact on the delivery of social and affordable rented homes if proposals for up to 80% of Section 106 (s106) units to be First Homes are taken forward. In 2018-19, just under 40% of s106 affordable housing units were for affordable home ownership (largely shared ownership). There is a risk that a nationally set First Homes requirement may

displace other discounted-market products, particularly affordable and social homes for rent of which there is already an undersupply in many local authority areas.

- 2.6. The requirement for developers to deliver First Homes on their sites may also result in the provision of a smaller range of housing tenures which could result in slowing down housing delivery because of market absorption rates.
- 2.7. We support proposals that take into account local housing need rather than those that would strengthen a national presumption in favour of First Homes. First Homes could make a valuable contribution to the mix of housing options, but local planning authorities must maintain the levers to deliver them alongside other housing products in a way that addresses need identified locally as part of the planning process.
- 2.8. Ensuring the right mix of tenures across the country will create balanced communities, and support first time buyers and those who prefer or need to rent, as well as the needs of different groups.
- 2.9. We do not support the proposal for a single national income cap for First Homes. Local authorities should be able to set their own eligibility criteria for First Homes determined with regard to local incomes and local house prices, so that they can genuinely be targeted at those who would otherwise struggle to buy an appropriate home in their local areas.
- 2.10. Council housebuilding and reform to Right to Buy are also both critical to boosting the supply of new homes. Allowing councils to retain 100% of sales receipts, set discounts locally, and be able to adjust the proportion of receipts used for replacement homes, will ensure they are able to reinvest in new supply.
- 2.11. Should First Homes become policy, there needs to be greater clarity regarding how they will be delivered, administered, monitored and enforced. Any policies for First Homes must also be properly resourced and allow local authorities the discretion needed to implement them to ensure they contribute to local housing needs.
- 2.12. Going forward it will be important to consider the impact that Covid-19 pandemic may have on delivering housing, the risk to sales, as well as people's ability to borrow and afford to pay for housing.

3. Response to First Homes proposals

In the following section we set out our broad views and respond to questions posed in the First Homes consultation document.

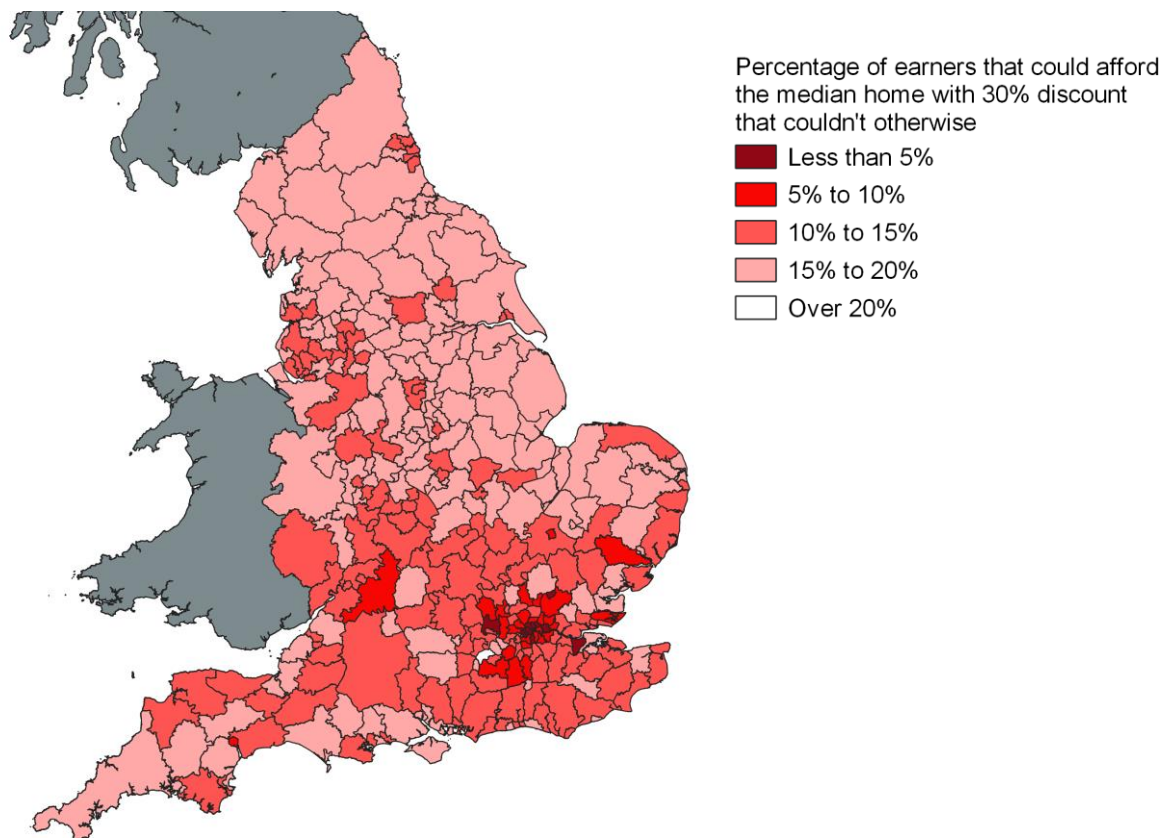
Ensuring First Homes are affordable Q1-4

- 3.1. The LGA supports the proposals to ensure First Homes are affordable to local people in areas where affordability is particularly challenging, such as London

and the South East, by giving local authorities the discretion to set higher discounts on properties on a site-by-site basis.

3.2. First Homes will have a minimum level 30% discount off market price. To better understand how many households may be able to access First Homes, Savills has undertaken initial analysis for the LGA on the impact of a 30% discount across local authorities in England using data from Consolidated Analysis Centers, Inc. (CACI), Land Registry, and Ministry of Housing Communities and Local Government data. The analysis illustrates why councils need discretion to set higher discounts and discretion to determine mix of tenures on site to meet local need.

3.5 Should First Homes be discounted by 30%, they still would not be affordable to the median income household in most cases. There are just four local authorities where the median income household could afford to buy the average new build home at a 30% discount with a 5% deposit. In more than half of local authorities, or approximately 171 in total, the discount would need to be greater than 50% to be affordable to the median income household.

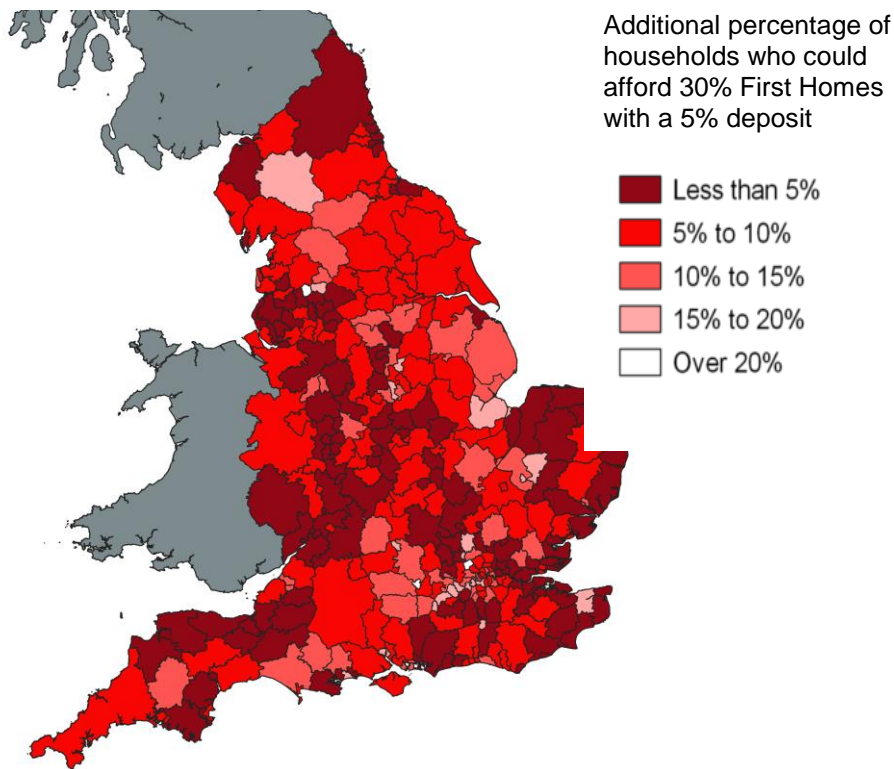


3.6 Alternatively, when comparing incomes by tenure, this suggests a 30% First Homes discount will only make the median new build home affordable to a small proportion of households. In a third of local authorities, or approximately 115 in total, a 30% First Homes discount will make home ownership accessible for less than 10% of non-owner households who could not afford to buy already.

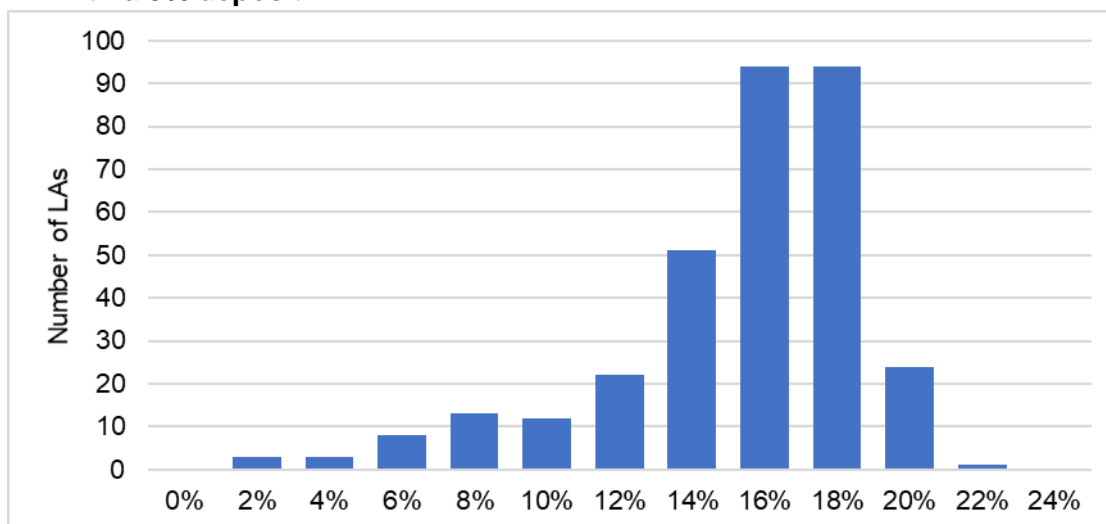
3.7 Just under 60 of those local authorities would require a discount of 50% or more to make First Homes affordable. Of those, five delivered no affordable homes

through nil grant s106 in 2018/19. A further 23 of those authorities predominantly delivered social rent through their nil grant s106 contributions. If these local authorities set their local First Homes discount to 50% or more, it would have a negative impact on the supply of social rented homes.

3.8 Using household income data from CACI to calculate how many households could afford to buy the average new build home in each district, and assuming households have a 5% deposit and can borrow up to four times their income households will have to save a 5% deposit. The proportion of households that could afford to buy the average new build home with a 5% deposit ranges from close to zero in Westminster to just under half (49%) in Hyndburn.



Additional percentage of households who could afford 30% First Homes with a 5% deposit



Eligibility for the First Homes scheme Q5-9

- 3.9 Local authorities are best placed to decide upon the detail of local connection eligibility criteria for First Homes. Any new burdens involved in undertaking local connection checks should be fully funded. We support proposals for local connection restrictions to fall away if a buyer for a First Home cannot be found, but the time period should be left to local authority discretion to take into account local circumstances.
- 3.10 Local authorities should have flexibility to allow non-first-time buyers to access First Homes in exceptional circumstances. There should be local discretion to determine under what circumstances this would be appropriate. However, priority should be first given to those who are first-time buyers who meet eligibility and any local connection criteria.
- 3.11 We do not support the proposal for a single national income cap for First Homes. As the consultation document itself recognises, this would not reflect local variations in income levels and affordability across different parts of the country. However, we do support the principle of providing a clear signal on eligibility to ensure that First Homes are genuinely targeted at those who would otherwise struggle to buy an appropriate home in their local areas.
- 3.12 Local authorities should therefore be able to set their own eligibility criteria for First Homes determined with regard to local incomes and local house prices. The right mechanisms would need to be in place to ensure that the price caps are regularly reviewed to reflect changes in local house prices and incomes. We would also support flexibility for more detailed local consideration to be given to applicants' income and assets, to target First Homes at those most in need of support, particularly where local demand exceeds supply.

Supporting the First Homes scheme Q10-13

- 3.13 If local authorities are given new responsibilities to ensure that discounts on First Homes are offered in perpetuity, then this must be fully funded. In addition, we seek clarity regarding whether there would be penalties should a property be sold on without the discount, and if so, how this would be enforced.

Supporting competitive mortgage lending Q13-14

- 3.14 It is likely that most first-time starter home buyers will need to secure some level of mortgage in order to purchase a starter home. Therefore, it will be vital that any approach introduced is supported by the mortgage industry and that they are able to offer appropriate mortgage products.
- 3.15 We urge the Government to urgently provide further detail on how it will ensure that the proposal to waive restrictions on First Homes, including the policy requirement to sell homes at a discount, if lenders are forced to take possession in the event of a default in mortgage payments, cannot be abused.

Restrictions on letting First Homes Q15-16

3.16 We strongly support the Government's emphasis that First Homes should be treated as homes and not opportunities for short-term investment. We therefore agree with the proposal to restrict purchasers to using First Homes as their 'sole or primary residence'. We agree that in a defined set of circumstances First Home owners should have flexibility to move out and let their property for a time-limited period (for 6-12 months), without seeking permission from the local authority, but consider that as a minimum the local authority should be notified. We support in principle the circumstances outlined in Question 16 in the consultation. Local authorities should also have discretion to agree to additional circumstances as determined locally.

3.17 The mechanisms for enforcing any of the occupancy and restricted period rules which are eventually determined need to be clarified. These responsibilities should not be passed to councils unless the full costs are identified and mechanisms for the recovery of these costs established.

Delivering the Armed Forces Covenant Q17-19

3.18 Local government is fully committed to the Armed Forces Covenant. We support exempting serving members and recent veterans of the Armed Forces from local connections criteria.

Setting developer contributions for First Homes Q20-22

3.19 First Homes could make a valuable contribution to the mix of housing options, but local planning authorities must maintain the levers to deliver them alongside other housing products in a way that addresses need identified locally as part of the planning process. Housing markets operate differently not just regionally or across the country, but within local authority areas.

3.20 We therefore would not support any proposals that would mandate the delivery of First Homes through primary legislation.

3.21 We also do not support proposals that would introduce either a national requirement for a percentage of s106 affordable housing through developer contributions or as a percentage of all units delivered on suitable sites.

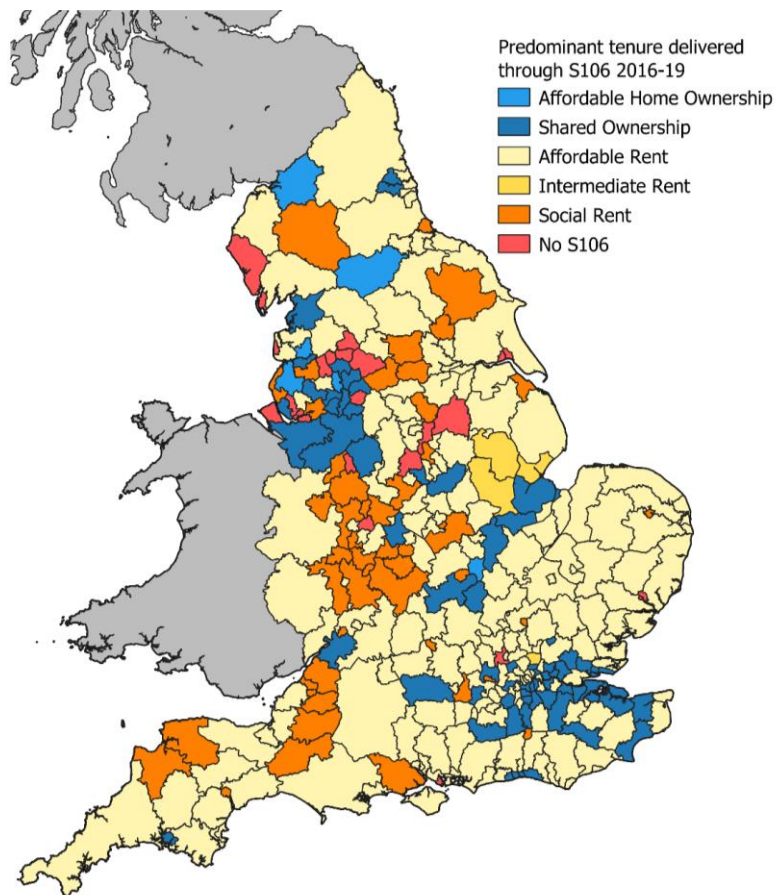
3.22 These proposals would not take account of specific local circumstances and would restrict the ability of local planning authorities to address local housing need. There is a risk that such a nationally set requirement will displace other discounted market products, particularly affordable and social homes for rent of which there is already an undersupply in many local authority areas.

3.23 For example, there is potentially a significant negative impact on the delivery of social and affordable rented homes if proposals for up to 80% of s106 units to be First Homes are taken forward. In 2018-19, just under 40% of s106 affordable housing units were for affordable home ownership (largely shared ownership). Increasing this to 80% would inevitably squeeze out affordable and social rented

supply as well as other existing home ownership products including shared ownership.

- 3.24 If the government is minded to take proposals for a national First Homes requirement forward we would want to see an increase in affordable housing through the Affordable Homes Programme to compensate for the loss of affordable homes due to the First Homes policy.
- 3.25 Councils should also have full flexibility to negotiate down any nationally set requirement or to include other home ownership products where it can demonstrate that the requirement might reduce overall supply in an area, for example where it might have an adverse impact on viability of schemes across a housing market area.
- 3.26 Alongside this, council housebuilding and reform to Right to Buy are also both critical to boosting the supply of new homes. Allowing councils to retain 100% of sales receipts, set discounts locally, and be able to adjust the proportion of receipts used for replacement homes, will ensure they are able to reinvest in new supply.
- 3.27 The requirement for developers to deliver First Homes on their sites may also result in the provision of a smaller range of housing tenures which could result in slowing down housing delivery because of market absorption rates. This was an issue raised in the Letwin Review¹. Moving to a position where the majority of new developments is housing for sale, could slow down development and have a negative impact on housing supply targets.
- 3.28 In addition, there is likely to be a higher sales risk to a developer of First Homes compared to agreements with housing associations or local authorities to deliver other affordable housing tenures, which needs to be given careful consideration, particularly given the current Covid-19 outbreak. In the short-term, cash flow will be critical to house builders and therefore there may be less appetite for First Homes, compared to delivery of other affordable housing tenures. Notwithstanding our view that there should not be a nationally set requirement, allowing local authority flexibility to negotiate down any nationally set requirement that is introduced, as outlined in 3.25, could address this issue.
- 3.29 The Savills analysis suggests that there will be difficulties in meeting proposed national percentage requirements for First Homes in some local housing markets. Nationally, nil grant s106 delivery accounts for 52% of all new build affordable completions. However, as the map below demonstrates, this is not distributed uniformly across the country.

¹ Ministry of Housing, Communities and Local Government and HM Treasury, Independent review of build out: final report, 28 October 2018. <https://www.gov.uk/government/publications/independent-review-of-build-out-final-report>



3.30 In 2018-19, 24 local authorities had no delivery from nil grant s106 contributions. Previous high-level analysis of the impact of Starter Homes suggested that this depends on the existing affordable housing policy and how strictly it had been enforced to date. Where there had been delivery of more than 10-15% traditional affordable housing, delivery of 20% Starter Homes would return approximately the same blended land value, but with no capacity for additional affordable housing.

3.31 A similar impact for First Homes sold at a 30% discount would be likely. However, if a larger discount were to be set by local authorities to tackle affordability challenges, the potential to deliver other forms of affordable housing would be more limited. The impact would be most pronounced in areas where there is already little delivery from nil grant s106 contributions.

Delivery through exception sites Q23-26

3.32 We do not support proposals to amend the entry-level exception site policy to a First Homes exception site policy. There is a risk that this proposal will undermine the effectiveness of a long-established rural exceptions policy through raising the expectations of land owners and land prices through offering increased receipts from development of exception sites for discounted homes for first-time buyers. This risks undermining the delivery of truly affordable homes for those in genuine affordable housing need. Councils need to retain the flexibility to plan for the tenures of homes needed by local communities, in the locations they are needed.

- 3.33 If the government is minded to take forward proposals to amend the entry-level exception site policy, then as a principle, to ensure that First Homes are affordable in their wider sense, they should be located on sites with access to the community and social infrastructure needed to support resilient communities.
- 3.34 In addition, local authorities should have the flexibility to pursue other forms of affordable housing on entry-level exception sites, in cases where they would otherwise be unviable. This should be considered on a site by site basis.
- 3.35 The Government could encourage further use of the existing rural exception site policy by promoting local authority best practice and providing additional capacity support. Consideration should also be given to the additional support that could be provided to organisations and individuals that work to secure affordable housing for local people in rural areas e.g. Rural Housing Enablers and Community Land Trusts.

Community Infrastructure Levy (CIL) Q27-28

- 3.36 Our longstanding view is that mandatory national exemptions to CIL reduce flexibility for charging authorities to cater for local needs and priorities. The cumulative impact of national exemptions ultimately means a reduction in the amount of funding to invest in critical infrastructure to facilitate development.
- 3.37 We therefore do not support proposals to introduce a national CIL exemption for First Homes. Instead any exemptions should be decided by councils at a local level. As the consultation points out councils can already apply discretionary Community Infrastructure Levy relief to homes sold under the 'Discount Market Sale' principle, so this flexibility should remain.
- 3.38 We consider it unnecessary for the Government 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.
- 3.39 The Local Plan process already requires policy requirements that set out contributions to be expected from development e.g. affordable housing provision and other infrastructure, to be informed by evidence of infrastructure and affordable housing need. It also needs to be informed by a proportionate assessment of viability that takes into account all relevant policies, as well as local and national standards, including the cost implications of the Community Infrastructure Levy and section 106. Making policy requirements clear means that they can then be accurately accounted for in the price paid for land.

Equality impacts of the First Homes scheme Q29-30

- 3.40 First Homes have the potential to reduce the delivery of shared ownership and other affordable home ownership products delivered through section 106 and also reduce the delivery of social and affordable rent. Councils want and need local discretion to ensure that homes are delivered and meet the needs of all different groups in the community. Although the consultation document states that

there is a desire to empower local authorities to take proactive decisions to support this principle, it is unclear how this would be implemented.

3.41 First Homes needs to be considered within the wider housing policy landscape, and as one of a range of housing products supporting people into secure, safe housing. It is key that we build homes of all tenures to provide people with opportunities to live in a safe and secure home. Local government has an important role to play in achieving this ambition, both as leaders of place through the planning system and as builders of homes in their own right.

3.42 The LGA believes that social housing should be treated as a vital national investment and seen as a desirable long-term option for a home. The building of homes at social rent is at an historic low, leading to more and more families being pushed into the insecure private rented sector. Social housing therefore should be recognised as an important national investment and seen as a desirable long-term option for a home.