



REPORT TO: Housing Portfolio Holder
LEAD OFFICER: Housing Director

21 March 2018

Starter Homes at Northstowe Heads of Terms for use of capital receipts

Purpose

1. To seek approval for the principles in the attached Heads of Terms (**Appendix 1**) which sets out a framework for how the Council and Homes England (formerly known as the HCA) will work together to reinvest receipts realised through 'stair-casing' of the Northstowe Starter Homes. This follows the deed of variation to the S.106 for Northstowe Phase 2 approved in December 2017.
2. This is not a key decision but has been brought before the Housing Portfolio Holder for formal approval of the Heads of Terms to enable the Council to work with Homes England to draft the Strategic Collaboration Agreement.

Recommendations

3. It is recommended that the Housing Portfolio Holder approves the Heads of Terms attached at **Appendix 1**.
4. Following approval of the Heads of Terms, a legally binding Strategic Collaboration Agreement will be drafted for both parties to sign up to. It is estimated that the Agreement will be completed by June 2018.

Reasons for Recommendations

5. Approval of the Heads of Terms and subsequent Strategic Collaboration Agreement will ensure there is a robust and transparent process in place that enables the Council and Homes England to prioritise future funding realised from stair-casing receipts from the Northstowe Starter Homes. This will support the delivery of affordable housing in Northstowe and, where appropriate, the wider District.

Background

6. On 7th December 2016, Planning Committee approved amendments to the S.106 Agreement to revise the affordable housing provision from 20% affordable housing to 40% starter homes and 10% affordable rented housing. This decision was based on the proposals set out within the Housing & Planning Act 2016 relating to starter homes, which would be subject to further regulations.

7. Following the Housing & Planning Act 2016, the government published its White Paper 'Fixing our broken housing market' which set out further proposals for starter homes, namely:
 - Starter homes to be targeted to households that need them most, with an income of less than £80,000 (similar to the income criteria for shared ownership)
 - 15 year repayment period for starter homes - so that when the property is sold on to a new owner within this period, some or all of the discount is repaid.
8. Proposed changes to the initial starter homes model will need to be made through regulations, which are still awaited.
9. SCDC and Homes England have been developing a bespoke Northstowe Starter Homes product that will ensure that monies deriving from the Northstowe Starter Homes discount are reinvested locally. A deed of variation to the S106 Agreement was completed on 22 December 2017 to incorporate the bespoke Northstowe Starter Homes model.

Considerations

10. Officer negotiations are still progressing relating to the operational aspects of how the Northstowe Starter Homes model would work. However, the principles of the model are similar to an equity product and include:
 - SCDC and Homes England to enter into a Strategic Collaboration Agreement, that will set out a framework within which both parties will work together to utilise the receipts realised through 'staircasing' [as set out below].
 - All receipts to be reinvested by agreement of SCDC and Homes England to support the delivery of new affordable housing, with priority given to provision within the Northstowe development and cascading out to the District.
11. Whilst the mechanism for the Northstowe Starter Home is still being explored, the model will apply a 5 year restricted period, following which the owner/occupier has the ability to:
 - staircase out to 100%. The 20% capital receipt from the equity is paid into an Escrow Account controlled by both parties.
 - If the owner/occupier wishes to sell:
 - SCDC has the option to purchase the remaining 80% at market value (through proceeds in the Escrow account or other funds). Property can then be used for other tenures of affordable housing.
 - Option for property to be marketed at full market value – 20% of proceeds to be paid into Escrow Account.
 - Option for property to be marketed at 20% discount of full market value (price cap & first time buyer qualification no longer apply, but mechanism for securing discount to apply to new mortgagee).
 - If property sold within the five year restricted period, then it must be sold on as a Northstowe Starter Home and the same discount as first disposal to be applied (minimum 20%).

12. The criteria agreed for the Northstowe Starter Home (as set out in the deed of variation to the S.106 Agreement) includes:
- Property price capped at £250,000 (subject to indexation following the delivery of the first 70 starter homes)
 - Must be a first time buyer (although age restriction would not apply)
 - Must occupy a Northstowe Starter Home as their only or main residence
 - Must not have a gross annual household income of more than £80,000.
13. An indicative example of the potential receipts that could be achieved is shown below:
- Property purchased at £250,000 with the 20% discount applied (open market value (£313,000))
 - Property 'stair-cased' out after 6 years (assuming 5% increase in house prices) = £328,650 open market value
 - 20% discount/value balance = £65,730 (payable into Escrow Account)

Options

14. The proposed Heads of Terms are attached at **Appendix 1**.
15. The deed of variation for the S.106 Agreement has been approved which allows the 'equity model' for the Northstowe Starter Homes to be delivered. However, without the approval of the Heads of Terms and subsequent Strategic Collaboration Agreement there is no legally binding process agreed between the parties as to the administration of the future capital receipts. It is therefore essential that the Council and Homes England continue to work together to agree the Strategic Collaboration Agreement.

Implications

16. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered: -

Financial

17. Any monies realised through stair-casing or resale of the Northstowe Starter Homes is bound by the S.106 Agreement to be placed in the joint Escrow account which cannot be spent unless agreed between the Council and Homes England. However, without an agreed mechanism as set out in the Heads of Terms and subsequent Strategic Collaboration Agreement, there is no clear and transparent process to ensure appropriate governance, strategic overview and grant conditions.

Legal

18. The deed of variation and Heads of Terms have been drafted in consultation with 3C Shared Legal Service.

Staffing
19. None.

Risk Management
20. The risk of not agreeing the Heads of Terms and subsequent Strategic Collaboration Agreement would put the Council at a disadvantage in terms of its influence and strategic overview for reinvesting funds in the District.

Equality and Diversity
21. None.

Climate Change
22. None.

Consultation responses

23. The principles of the Heads of Terms and the Northstowe Starter Homes model have previously been discussed at Leaders meetings which have received their support.

Effect on Strategic Aims

Aim 1 – Homes for our Future
24. Increasing the range of housing and tenure options for residents.

Background Papers

Where [the Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012](#) require documents to be open to inspection by members of the public, they must be available for inspection: -

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

Deed of Variation dated 22 December 2017 made pursuant to Sections 106 & 106A of The Town and Country Planning Act 1990

Report Author: Julie Fletcher – Head of Housing Strategy
Telephone: (01954) 713352