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| Report to: | Scrutiny & Overview Committee | 03/03/2022 |
| Lead Cabinet Member: | Councillor John Batchelor - Housing | |
| Lead Officer: | Peter Campbell – Head of Housing | |

Greater Cambridge First Homes Interim Position Statement

Executive Summary

1. The First Homes Interim Position Statement has been developed following the publication of the Written Ministerial Statement on 24th May 2021 and changes to the National Planning Practice Guidance which states that local authorities should provide 25% First Homes as part of the affordable housing contribution.
2. The Interim Statement is a joint statement between South Cambridgeshire District Council and Cambridge City Council. It sets out the proposed local criteria for the provision of First Homes and options for the overall affordable tenure split on new developments where First Homes are provided.
3. It is intended that the provisions set out within the Interim Statement will only apply where developers wish to include First Homes as part of the affordable housing provision. Whilst the Written Ministerial Statement is a material consideration for planning purposes, it is ultimately for local decision-makers to determine the relative weight to assign to local and national planning policy. The Council's current Local Plan remains sound and up to date and therefore it is proposed that the Council take a flexible approach in terms of considering First Homes, rather than a requirement to provide First Homes as . This position has been taken because of the uncertainty around the operational aspects of First Homes and the significant impacts First Homes will have in terms of affordability, meeting housing needs and providing a mixed and balanced community. Legal advice regarding this position has been sought and appears to be aligned to the current thinking of other local authorities in the sub region.
4. The Statement sets out our interim position and will be reviewed regularly to ensure it is fit for purpose as further details emerge.

Key Decision

5. Yes
 - (b) It is significant in terms of its effects on communities living or working in an area comprising two or more wards or electoral divisions in the area of the relevant local authority.
6. The key decision was first published in the January 2022 Forward Plan.

Recommendations

7. It is recommended that the Scrutiny & Overview Committee considers the proposed flexible approach to First Homes; and to recommend to Cabinet the approval of the First Homes Interim Position Statement.

Reasons for Recommendations

8. Without an Interim Position Statement, First Homes will revert to the national policy with no local context. There is currently ambiguity in terms of the requirement for First Homes and the Interim Position Statement sets out clearly the Council's current direction.

Details

First Homes Requirement

9. First Homes is a new model of affordable home ownership aimed at first-time buyers. They must be sold at a minimum discount of 30% of open market value and the initial sale price must not exceed £250,000. The discount will remain in perpetuity by way of a restricted covenant. Where First Homes can't be sold within 6 months of marketing, they can be sold on the open market free from restrictions with the local authority receiving a capital receipt.
10. The main concern relating to First Homes is the impact this will have on delivering other affordable housing tenures that better meet the housing needs of the area. In particular, the potential loss of Affordable Rent/social rented homes which is the highest priority for the Council in meeting the housing needs of those on low incomes. First Homes is likely to only be affordable to households earning around £55,000 per year, with a 5% deposit. The provision of First Homes at 25% of the affordable housing contribution will also provide an imbalance of smaller properties being delivered on a scheme.
11. Both South Cambridgeshire District Council and Cambridge City Council have written to the Department for Levelling Up, Housing and Communities (DLUHC) to express their concerns regarding First Homes. Following this, the councils have sought further clarification from DLUHC in terms of the '**requirement**' to provide

First Homes. In their response, they have confirmed that there is no requirement to update local plans early to accommodate First Homes, so a plan adopted before the transitional arrangement can continue to apply until such time as it is due for an update. They further confirm that there is no specific legislative requirement to deliver First Homes, but it is a requirement of national planning policy. Where local plans are at odds with national policy, it is for local decision-makers to consider the relative weight to assign to each material consideration. Therefore, whilst we will consider First Homes if a developer wishes to bring them forward as a material consideration, it is not felt that there is sufficient weight to override the current Local Plan in terms of a '**requirement**' for First Homes. The Issues and Options Paper attached at Appendix B, gives further details as to the impacts of First Homes for Greater Cambridge.

12. From Officer discussions with housing providers, other local authorities and developers, there does not seem to be an appetite to deliver First Homes generally. Therefore, it is considered that this course of action is the most appropriate until such time that there is further detail from government as to how First Homes will work in practice.

Proposed Tenure Split where First Homes are provided

13. The National Planning Policy Framework states that once a minimum of 25% of First Homes has been accounted for, social rent should be delivered in the same percentage as set out in the local plan. The remainder of the affordable housing tenures should be delivered in line with the proportion set out in the local plan policy.
14. There is no explicit reference to 'social rent' in either Councils' Local Plan. In summary both plans look to ensure that the overall tenure mix meets the local housing needs and there is no specific tenure split.
15. Both Local Plans seek 40% affordable housing on qualifying sites. There is an existing preferred affordable housing tenure split set out in the Greater Cambridge Housing Strategy, which the Interim Statement would supersede where First Homes are provided. The current tenure mix is set out below:

Table 1: Current policy tenure split

| Local Authority | Social/Affordable Rent | Intermediate (Shared Ownership) |
|------------------------|-------------------------------|--|
| South Cambridgeshire | 70% | 30% |
| Cambridge City | 75% | 25% |

16. The tenure split set out within the Greater Cambridge Housing Strategy does not differentiate between social and Affordable Rent, but states that where viable the preference is for social rent. However, the provision of Affordable Rent has become the norm given that there is no grant funding available on S.106 sites for affordable housing.

17. Because there is no specific tenure split set out in the Local Plans, Officers believe that this gives the Council flexibility to set a revised tenure split that will better meet the housing needs overall, taking into account the requirement of First Homes.

18. Consideration was given to the following three options in determining what would be the most appropriate tenures for South Cambridgeshire where First Homes are provided. In considering the options, the key points to bear in mind are:

- Affordable/Social Rent being our highest priority to meet those on the lowest incomes.
- The right tenure balance to meet a wide range of housing needs for those that can't access the housing market
- Impacts on viability

19. **Option 1:** based on the existing proportional split on the remainder of the affordable housing after applying the First Home requirement.

25% First Homes, 53% Affordable Rent, 22% Shared Ownership

20. **Option 2:** based on First Homes being part of the intermediate tenure portion.

25% First Homes, 70% Affordable Rent, 5% Shared Ownership

21. **Option 3:** based on a compromise of the two options above.

25% First Homes, 65% Affordable Rent, 10% Shared Ownership

22. To better understand the impacts of the different options, the following table shows an example scheme of 100 units, with 40 units being affordable (40%).

Table 2: Impact of the different affordable housing options

| | Current Policy 70% AR 30% SO | Option 1 53% AF 22% SO 25% FH | Option 2 70% AF 5% SO 25% FH | Option 3 65% AR 10% SO 25% FH |
|-----------|---|---|--|---|
| No. of AR | 28 | 21 | 28 | 26 |
| No. of SO | 12 | 9 | 2 | 4 |
| No. of FH | 0 | 10 | 10 | 10 |
| Nos. lost | - | 7AR 3 SO | 10 SO | 2 AR 8 SO |

23. In terms of trying to understand the viability on the different options, we asked housing providers what they would offer on the example scheme above for the affordable based on a percentage of the open market value. At the time we only asked them to provide information on Option 1 or Option 2. All housing providers who responded said they would still bid on either option.

Table 3: Housing Provider bids based on percentage of open market value

| | Current Policy 70% AR 30% SO | Option 1 53% AF 22% SO 25% FH | Option 2 70% AF 5% SO 25% FH |
|----------------------------------|---|---|--|
| Average offers based on % of OMV | 58%-72% On all 40 units | 58%-72% On 30 units (exc. FH) | 52%-70% On 30 units (exc. FH) |

24. Based on the above exercise, from the various responses received, there was a difference of between 0.6% to 7% of open market value between Option 1 and 2. It should be noted that because individual providers will bid on a scheme based on their own financial business plans, that these will vary, and therefore a range has been provided to take the different offers into account. It is difficult to estimate what this could mean in monetary terms because of the wide range, but based on the example scheme, this could identify a loss to the developer of between £235,500 to £743,000 between Option 1 and 2. Further viability work will need to be undertaken as part of the development of the Joint Local Plan.
25. Whilst there is likely to be a reduction on offers to the developer from the housing provider on either option, there is an argument that the 25% of First Homes will generate a 70% open market return and therefore should balance out any lower offers made for the remaining affordable housing. However, there is more risk to the developer in terms of having to sell the First Homes individually, alongside the additional administrative burdens, the loss of upfront cashflow, as well as properties being capped at £250,000.
26. The following table sets out an analysis of the pros and cons for each of the options.

Table 4: Option Pros and Cons

| | Pros | Cons |
|---|--|--|
| Option 1 53% AF 22% SO 25% FH | <ul style="list-style-type: none"> • Aligned to the Government Guidance for a proportional split • Enables a wider mix of intermediate tenures • Family sized homes available through shared ownership • Greater cross-subsidy for housing providers through more shared ownership • Viability should not be affected | <ul style="list-style-type: none"> • Reduces the amount of Affordable Rent. On a 100-unit scheme, would mean a loss of 7 Affordable Rented homes and 3 shared ownership • Tenure split doesn't meet latest housing needs evidence which indicates around 10% of all new homes across the housing market area should be for affordable home ownership. (10% of all homes equates to 25% of the Council's affordable housing requirement). |

| | | |
|---|--|---|
| Option 2 70% AF 5% SO 25% FH | <ul style="list-style-type: none"> • Best meets the housing needs of the area • No loss of Affordable Rent | <ul style="list-style-type: none"> • Balance of property types likely to be skewed in favour of smaller properties for both Affordable Rent and First Homes • Options for home ownership for larger properties greatly reduced. Loss of 10 shared ownership units on a 100-unit scheme in favour of First Homes • Potential viability issues which may lead to developers seeking a lower percentage of affordable housing |
| Option 3 65% AR 10% SO 25% FH | <ul style="list-style-type: none"> • Middle ground between the two options • Seeks to provide a better mix of property tenures and sizes • Offers from housing providers likely to be higher than Option 2 due to greater cross-subsidy through a higher proportion of shared ownership | <ul style="list-style-type: none"> • Still reduces the amount of Affordable Rent. On a 100-unit scheme, would mean a loss of 2 Affordable Rented homes and 8 shared ownership |

27. Based on the above options, it is recommended that Option 2 best supports the housing needs of the District, ensuring that we retain the Affordable/social rent within our preferred tenure mix. This option has been put forward within the Interim Position Statement (Appendix A).
28. At the time of writing this report, the City Council are also considering the best tenure split to meet their housing needs. From early discussions, it would appear that their preferred tenure mix will also be Option 2 above, providing 70% Affordable/social rent, 5% shared ownership and 25% First Homes.
29. In terms of the remaining proposed local criteria, the following options are recommended and are included within the Interim Position Statement (Appendix A):
- **Property Price Cap:** set at maximum allowed of £250,000
Rationale: high land values and build costs. Any reduction will affect viability of development and likely reduction in the number of affordable homes overall.
 - **Discount:** set at national policy of 30%
Rationale: as evidenced in GL Hearn report on housing needs of specific groups which suggests between 22% and 33% discount is affordable. Increased

discounts would also lead to viability challenges and potential reduction overall in affordable housing.

- **Household Income Cap:** set at £80,000
Rationale: Reducing the income cap would reduce the pool of purchasers and would be out of sync with the shared ownership household income cap. There is also some concern that if we restrict First Homes to those on incomes of around £55,000, any increases in interest rates and cost of living may put households into financial hardship and potentially increased homelessness.
- **Local connection criteria:** Apply criteria set out in our Lettings Policy
Rationale: Ensure priority is given to local people who want to purchase a First Home.
- **Key worker housing:** No specific priority
Rationale: Has to be district-wide rather than scheme specific. Better to prioritise through the local connection criteria for work purposes, rather than being too specific. Can target organisations where appropriate dependent on location of scheme.

Implications

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

Financial

31. There is no specific financial implication for the Council. However, in determining the local criteria including the tenure split, Members are asked to give consideration to financial viability of a scheme.

Legal

32. In drafting the Interim Position Statement, Officers have sought legal advice in terms of the interpretation of the Written Ministerial Statement and National Planning Practice Guidance.

Staffing

33. There are no staffing implications relating to the Interim Position Statement. However, Members should be aware that the introduction of First Homes will put administrative burdens on the Council in terms of verification of applicants for First Homes.

Risks/Opportunities

34. The requirement to provide 25% First Homes as part of the affordable housing contribution is a risk to the Council in terms of delivering the most appropriate forms of affordable housing to meet housing needs. It is considered that the local evidence as detailed in Appendix B, provides justification to take a flexible approach to only consider First Homes as a material consideration where developers wish to provide them.

Equality and Diversity

35. The introduction of First Homes will skew the property types provided to smaller homes. This will impact families seeking to purchase a home through shared ownership.

Climate Change

36. First Homes will need to meet the same requirements as any other new home.

Consultation responses

37. In the development of the Interim Position Statement, Officer and Member briefings have been held. Housing Providers operating in the local area have also been contacted to seek their views on the impacts of First Homes.

Alignment with Council Priority Areas

Growing local businesses and economies

38. The local criteria set out in the Interim Position Statement will ensure that priority is given to local workers that support the economy who wish to purchase a First Home.

Housing that is truly affordable for everyone to live in

39. The Interim Position Statement will set out the Council's requirements in terms of the most appropriate affordable housing tenures to be provided within the context of the local area.

Background Papers

[Written Ministerial Statement on First Homes](#) published 24th May 2021
[National Planning Policy Guidance on First Homes](#)

Appendices

Appendix A: Greater Cambridge First Homes Interim Position Statement
Appendix B: Issues & Options Paper on First Homes

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