



PORTFOLIO HOLDER DECISION NOTICE

INDIVIDUAL DECISION BY THE PORTFOLIO HOLDER FOR THE BUILT ENVIRONMENT

TOPIC – GOVERNMENT STARTER HOMES TECHNICAL CONSULTATION

PROCEDURAL INFORMATION

The Access to Information Procedure Rules – Part 4, Section 22 of the Council's Constitution provides for a decision to be made by an individual member of Cabinet.

In accordance with the Procedure Rules, the Head of Legal and Democratic Services, the Chief Executive and the Head of Finance are consulted together with Chairman and Vice Chairman of The Overview and Scrutiny Committee and any other relevant overview and scrutiny committee. In addition, all Members are notified.

If five or more Members from those informed so request, the Leader may require the matter to be referred to Cabinet for determination.

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SUMMARY

- The Government wishes to promote the delivery of starter homes. The statutory framework for starter homes is contained within the Housing and Planning Bill that is currently before Parliament. Detailed implementation of the framework will be set out in regulations made by the Secretary of State. This technical consultation sets out the Governments proposed approach for these regulations (<https://www.gov.uk/government/consultations/starter-homes-regulations-technical-consultation>).
- The consultation poses a number of detailed questions, which are commented on in the attached paper. Headline issues include:
 - Eligibility restricted to first time buyers under the age of 40.
 - Properties to be sold at a discount of at least 20%
 - A price cap of £250,000 outside London.

- Discounts being locked in for 5-8yrs.
- The proposal that 20% of new housing on development sites on sites of 10 or more units (or 0.5ha). Planning permission could not be granted for developments that failed to meet this requirement, other than for viability reasons.
- Where viable on an individual sites this could be alongside affordable rented or shared ownership houses. However, in practice, this is would probably be at the expense of these forms of affordable housing as it is unlikely that site viability could sustain 20% starter homes plus the full provision of affordable homes as set out in Local Plan 1 Policy CP3.

DECISION

That the consultation response set out in the attached paper is submitted to Government for consideration.

REASON FOR THE DECISION AND OTHER ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

The Government's proposed approach would undermine the Council's ability to determine local housing priorities and compromise it's ability to meet local housing needs.

RESOURCE IMPLICATIONS:

None

CONSULTATION UNDERTAKEN ON THE DECISION

The Portfolio Holder for Housing endorses the recommendation.

FURTHER ALTERNATIVE OPTIONS CONSIDERED AND REJECTED FOLLOWING PUBLICATION OF THE DRAFT PORTFOLIO HOLDER DECISION NOTICE

n/a

DECLARATION OF INTERESTS BY THE DECISION MAKER OR A MEMBER OR OFFICER CONSULTED

None.

DISPENSATION GRANTED BY THE STANDARDS COMMITTEE

n/a

Approved by: (signature)

Date of Decision: 08.06.16

Councillor Victoria Weston – Portfolio Holder for Built Environment

APPENDICES:

WCC response to Government consultation

Starter Homes Regulations

Technical Consultation March 2016

- 1. Do you support restrictions on the sale and sub-letting of starter homes for 5 years following initial sale? Do you support allowing individuals to sell at a higher proportion of market value as the number of years they have lived in the home increases? If not, what other approaches can we adopt to meet our objectives?**

No – because 5 years is not long enough to ensure that the policy does not distort a local housing market.

There is a risk that by locking in the discount for only a short period of time this will create inflationary pressures by driving up the initial market valuation on which the 20% discount is based. This may happen because the higher the market valuation (within the cap) the greater the benefit of an initial 20% discount and the larger the windfall at the end of the subsidy period. It could suit both the house builder and the property purchaser for this inflation to take place.

This effect would be dampened by a longer period before the discount is fully realised such that predicting the value would be more difficult and encouraging people to buy the home they need to live, and not to treat it as a speculative financial instrument. It is also important that there are restrictions on sub-letting to prevent other obvious abuses of the system.. The amendment agreed in the House of Lords in April 2016 (a 20 year, tapered discount reduction) is an approach that is less likely to result in the difficulties outlined above, while still supporting the Government's home ownership aspirations.

- 2. Do you agree that flexibility over the age 40 restriction should be given when joint purchasers are looking to buy a starter home, one purchaser being under 40 years old but the other older than 40?**

Yes. Also see response to Q17 re the impact assessment

- 3. Do you agree that there should be an exception from the age 40 restriction for injured military services personnel and those whose partner has died in service?**

Yes, however it is important to also consider the impact on those groups with Protected Characteristics (see Q17). Eligibility criteria that take account of local incomes and prices (as required by the National Planning Policy Framework (NPPF) for affordable housing) should be developed as an alternative to age restrictions.

4. Would a site size of 10 units or more (or 0.5 ha) be an appropriate minimum threshold for the start home requirement? If not, what threshold would be appropriate and why?

There should be no site threshold imposed.

LPAs already objectively assess housing needs as part of their plan making process and as such have an understanding about the role that Starter Homes can play in meeting housing needs (the responses to Q18 provide an illustration of this). In Winchester, for example, it may be possible to deliver Starter Homes as part of overall provision, including open market and various other forms of affordable housing, on smaller sites.

Appropriate provision can, therefore, be made through the local planning process, taking account of local market circumstances, including relative housing needs and the economics of provision. A national one-size fits all approach fails to take account of how market conditions, and access to home ownership (or other tenures of housing) varies dramatically across the country.

Proposed Transitional Arrangements are capable of dealing with any situations where LPAs do not have up to date Local Plans.

5. Should the minimum percentage requirement be applied uniformly on all sites over 10 units to provide a single requirement across the country?

There should be no minimum percentage or nationally imposed threshold.

LPAs already objectively assess housing needs as part of their plan making process and as such have an understanding about the role that Starter Homes can play in meeting housing needs (the responses to Q18 provide an illustration of this). Appropriate provision can, therefore, be made through the local planning process, taking account of local market circumstances, including relative housing needs and the economics of provision. A national one-size fits all approach fails to take account of how market conditions, and access to home ownership (or other tenures of housing) varies dramatically across the country and may have unintended consequences for the local housing market.

Proposed Transitional Arrangements are capable of dealing with any situations where LPAs do not have up to date Local Plans.

6. If so, do you agree that 20% represents a reasonable requirement for most areas?

No, it is important that LPAs are able to take account of local housing needs and development economics.

LPAs already objectively assess housing needs as part of their plan making process and as such have an understanding about the role that Starter Homes can play in meeting housing needs (the responses to Q18 provide an illustration of this).

Appropriate provision can, therefore, be made through the local planning process, taking account of local market circumstances, including relative housing needs and the economics of provision. A national one-size fits all approach fails to take account of how market conditions, and access to home ownership (or other tenures of housing) varies dramatically across the country.

Proposed Transitional Arrangements are capable of dealing with any situations where LPAs do not have up to date Local Plans.

7. Do you support an exemption from the starter homes requirement for those developments which would be unviable if they had to deliver any affordable housing including starter homes? If so, how prescriptive should the viability test be in the regulations?

Clearly there is no point in a policy for the delivery of Starter Homes which requires a minimum percentage of Starter Homes without regard to viability. The effect could be to render some schemes non-viable and prohibit development.

Local planning authorities should be able to determine what number of Starter Homes, and what other affordable housing, should be provided on individual sites. This includes flexing headline policy requirements in respect of numbers, tenure and type in situations where there are viability challenges. There is no need for a prescriptive viability test to be set out in regulations. The NPPF makes clear (and local plans should make clear) that viability is a material consideration. Applicants and local planning authorities should be relied upon to ensure they are able to apply the most appropriate assessment methodology in each case, taking account of the market conditions at the time of a planning decision. The regulations should provide guidance on the extent to which information provided in support of viability challenges is open for public scrutiny.

Whatever decision the Government makes on this question it is essential that the regulations state clearly how the net cost of Starter Homes within any assessment of viability is to be treated in relation to the LPAs existing policy on affordable housing provision.

8. Do you support the proposed exemptions from the starter home requirement? If not, why not?

As with all housing developments, each case should be decided on its merits, taking account of the development plan and other material considerations such as design, access, layout, development economics, operational requirements and local priorities. Residential care home developments (often a C2 use), would not, generally, require an affordable housing contribution. Similarly large scale student housing by virtue of its design and nature of use would often not be generate an affordable housing requirement. Whether or not a proposal generates the need for Starter Homes, as it is for any form of

affordable housing, is a matter best determined by the local planning authority in relation to individual development proposals.

- 9. Should group custom build developments and developments with a very high level of affordable housing such as estate regeneration schemes be exempt? If not, why not?**

This should be a matter for local judgement.

- 10. Are any further exceptions from the starter homes requirement warranted, and why?**

Developments carried out by, or on behalf of, strategic housing authorities (SHA), for instance when building new Council homes. The SHA should be able to exercise judgment on tenure mix, taking account of its Local Housing Strategy, which may include the provision of Starter Homes. This way it can best meet local housing needs.

Rural exception sites should also be exempt, in order to allow provision to meet local housing needs and secure community acceptance. Issues around perpetuity are important on such sites and exemptions would reflect the safeguards in place for intermediate affordable housing products through, for instance Designated Protection Area status. The absence of such safeguards may undermine community support and ultimately constrain supply. Supply of housing on rural exception sites is often the only supply housing local to a particular village and so it is important the maximum community benefit is derived from that site. Again, provision may include Starter Homes, but this should be discretionary.

- 11. Do you support the use of commuted sums to deliver starter homes where the local planning authority agrees?**

Yes, if the LPA agrees.

- 12. Do you support the proposal that private rented sector housing (for institutional investment) and specialist older people's housing should meet the requirement through off-site contributions?**

Each case should be decided on its merits, taking account of the development plan and other material considerations such as design, access, layout, development economics, operational requirements and local priorities. As with traditional affordable housing, there will be cases when local priorities, and the characteristics and economics of development either allow or

preclude the inclusion of Starter Homes. The approach to take is best judged by the LPA in each case. If it is determined that on-site provision is not appropriate, then off-site provision, whether actual, by way of land, or a financial contribution would be an acceptable alternative.

13. Do you agree that starter homes monitoring reports should be an annex to the Authority Monitoring Report?

The need to monitor starter home provision is accepted, but it should be for planning authorities to decide how to incorporate this into their AMR, rather than a standardised form.

14. Do you agree that these reports establish the key actions taken to support starter home delivery and the outcomes in terms of permissions granted and completions?

Yes, agree the AMR does this, but not that there should be a standard annex to it.

15. Do you agree that April 2017 is a reasonable date for the first report to be published? If not, do you have alternative suggestions and why?

This authority publishes its AMR in December of each year, covering the previous financial year. Therefore, it is agreed that April 2017 is a suitable base date to commence monitoring, but not that the report should be published on that date.

16. Do you support a transitional provision for the starter homes regulations?

Yes

17. Is there further evidence we should be considering in our assessment of equalities implications?

It is disappointing that an equalities impact assessment has not been produced at the same time as the technical consultation. There should be further opportunity to comment once this has been done.

The Impact Assessment for the Starter Homes element of the Housing and Planning Bill 2015/16 does not properly analyse implications of a nationally imposed requirement to provide a particular proportion or number of starter homes. In analysing the impact of starter homes on exception sites it correctly recognises that where homes are additional to planned provision there would be no opportunity cost to those requiring (other forms) of affordable housing, assuming these sites would not have come forward for housing in the foreseeable future (para 1.1.23). (Though it is noteworthy that in areas where

there are significant programmes of rural exception house building the imposition of a starter homes requirement would have an opportunity cost).

However, the Impact Assessment on conventional housing sites fails to recognise the opportunity cost, despite recognising that Starter Homes provided on these sites will not be additional to housing supply (para 1.1.24 & 1.1.28)

An analysis of the impact on those “individuals who require affordable housing” should be carried out as part of the impact assessment on this consultation, particularly with respect to the opportunity cost to other affordable housing provision.

As part of this the implications for those groups with Protected Characteristics, especially where these may impact on economic circumstances and the ability to afford to purchase a Starter Home in high value areas, should be thoroughly assessed. The age restriction to eligibility deserves specific attention as this creates a cliff edge (at both ends of the age range) that fails to take account of local market conditions and needs.

18. (i): How do you anticipate the open market value of starter homes would compare to other affordable housing products such as social rent, affordable rent and affordable home ownership?

Winchester City Council has recently carried out a study into the affordability of Starter Homes and affordable housing, the results of which will be published in the near future. A draft version of its study can be made available on request.

The table below shows the income required to afford different tenures in Winchester (2 bed and/or Lowest Quartile Property)

Tenure/ Product	Income Required to Afford
Social Rent (2 bed)	£18,600
'Living' Rent (2 bed)	£21,200
Affordable Rent at 74% of market rent(2 bed)	£25,700
Market Rent (Lower Quartile 2 bed)	£29,400
Shared Ownership (2 bed)	£25,000 (theoretical) - £31,600 (average in practice)
Starter Home (priced at £250k cap)	£50,000 - £64,300 (dependent on mortgage income multiple)
Market Ownership (LQ property valued at £250k in 2015)	£50,000 - £64,300 (dependent on mortgage income multiple)

Source: Health & Housing Partnership/WCC 2016

The table below allows for an affordability comparison to be made taking account of local incomes and prices (as required by NPPF). The difficulties likely to be faced by those on lower quartile, or even average, incomes in purchasing a Starter Home is evident.

Annual Earnings	Average	Lower Quartile
Residents in Winchester (Gross, All Employees)	£31,180	£14,665
Residents in Winchester (Gross, <u>Full Time</u> Employees)	£31,910	£24,915

Source: Annual Survey of Hours and Earnings (ASHE 2014) Rounded to nearest £5

(ii): How do you envisage the market value of starter homes when compared to the market value of full priced new build homes bought by first time buyers?

The purchase price of a starter home will inevitably be lower than a comparable open market property. However, the research carried out by Winchester City Council indicates that Starter Homes will be no more affordable than the lower quartile property price for the District, which takes into account the value of new build and second hand properties.

	Assumption	Value (£)	Value (£)
Overall price of Starter Home (before discount)	Starter Homes outside of London can be a maximum of £250k	£312,500	
Price of home after 20% discount	20% discount on market value	£250,000	
Price of Lower Quartile Open Market Home			£250,000
Deposit	10% required		£25,000

Mortgage required	Minus 20% discount and 10% deposit	£225,000
Income required to afford home	Assuming maximum mortgage up to 4.5x income	£50,000
	Assuming a mortgage up to 3.5x income	£64,300

Source: Health & Housing Partnership/WCC 2016

(iii): What is your view on the proportion of sites that would be able to delivery 20% starter homes with out viability being affected? How would this affect other developer contributions?

This is impossible to say without carrying out a strategic viability assessment using a methodology that is robust enough to withstand scrutiny at a local plan examination in public.

It is possible to say in general terms that since most developments are subject to CIL (which is mandatory) and therefore have no associated developer contributions other than affordable housing, that it will be affordable housing contributions which fall as a result of this policy.

(iv): Do you agree that in most instances s106 negotiations occur on residential sites of 10 or more units, regardless of whether a s106 agreement is ultimately put in place? And do you agree that before April 2015 pooling restrictions on Section 106, infrastructure contributions (as a proportion of development activity) tended to be higher in authorities that secured relatively low s106 affordable housing contributions?

No. Most of WCC's negotiations happen on sites of less than 10 units.

We do not understand the second part of this question.

(v): To what extent do you think the starter homes requirement and associated exemptions will affect site viability, if at all?

Much depends on what the Starter Homes replace. If they replace an intermediate product there is the potential to marginally increase revenue into a scheme, if to replace affordable rent, the increase in revenue could be larger. Unless the Government makes clear how the Starter Homes policy and the LPAs affordable housing policies are to interact then this area will be highly uncertain leading to frequent appeals and court cases.

Developers providing Starter Homes are likely to face several challenges which they will need to cost. Traditional affordable provision on S106 sites housing through Registered Providers generally results in pre-sales, reduced risk, less borrowing and improved cash flow for developers. Costs associated with these will impact on the benefits of any increased revenue to developments that may be generated by Starter Homes.

Starter Homes are likely to compete with other cheaper market products that developers already produce. Developers assumed absorption rate for homes for sale in a locality is likely to impact on the build out rate of these homes. A requirement to provide Starter Homes, rather than a choice, may impact on developers' ability to respond to the local market and potentially scheme revenues.

(vi): We would welcome (a) any estimates of the costs incurred by developers in negotiating s106 agreements on sites of different sizes, for example time costs, consultants or legal fees, and (b) views on the extent these costs might change as a result of the 20% starter homes requirement.

These are unlikely to change significantly. If anything they are likely to increase as the LPA will require verification of developers' position on Starter Homes for any site which might also produce LPA affordable housing. In many areas there are likely to be other S106 requirements, including affordable housing, and developers will need to absorb fees and costs associated with matters such as sales and longer term borrowing should they include Starter Homes on their sites.