

## **Briefing Note: Rural Implications of the Government's response to Changes to the Planning System and the new Shared Ownership model**

<https://www.gov.uk/government/consultations/changes-to-the-current-planning-system/outcome/government-response-to-the-first-homes-proposals-in-changes-to-the-current-planning-system>

<https://www.gov.uk/government/consultations/new-model-for-shared-ownership-technical-consultation/outcome/new-model-for-shared-ownership-technical-consultation-summary-of-responses>

### **Response to the methodology for assessing housing needs -**

The national methodology provides the total housing number for each local authority area across all tenures. The Government response repeats the announcement made earlier this year that the current methodology will be retained, but with a 35% uplift in the 20 most populated cities and urban centres. It is expected that this will be accommodated by these urban areas themselves, rather than in their surrounding areas.

#### ***Rural implications***

From a rural perspective, particularly those in the south, it will avoid the significant increase in housing numbers that would have resulted from the proposed methodology. In the selected urban areas, there will be intense pressure to deliver, but challenges finding sufficient sites, including brownfield and underused land, to accommodate this growth. In consequence these authorities may have to look for greenfield sites, potentially in Green Belts and surrounding rural areas.

### **Response to Changing the affordable housing threshold**

The Government has decided for the moment not to raise the threshold to 40 dwellings. It will retain current arrangements of a threshold of 10 dwellings, except in designated rural areas where a threshold of 5 dwellings or fewer will continue to apply. This will be kept under review and be given further consideration as Government develops its Planning White Paper proposal to introduce an Infrastructure Levy.

#### ***Rural implications***

Not increasing the threshold to 40 dwellings is very welcome. However, Government did not take the opportunity to change the definition of designated rural areas, so almost 70% of parishes with populations of 3k or fewer will still only gain affordable housing from sites of more than 10 dwellings. As evidence has shown most residential sites in rural areas fall below this threshold and since the introduction of the 10 dwelling threshold there has been a reduction in the supply of new rural affordable homes. In the future the failure to change the definition means that in these communities there will only be limited opportunities to provide affordable and social rent and affordable sale housing, including First Homes.

Moreover, the threat has not gone away as this will be considered further as Government explores replacing S106 and CIL with an Infrastructure Levy. In particular the threshold below which no charge will be made and therefore no affordable housing provided.

### **Response to First Homes consultation**

In its response Government has set out the parameters for the First Homes product as follows:

- the price must at a minimum be discounted by 30% of open market value. Local authorities and Neighbourhood Planning (NDP) groups can seek higher discounts of 40% - 50% if the evidence supports this approach.
- A legal agreement at initial sale (covenant in the deed of sale) will require the same % to apply to future sales, but with a mortgagee in possession exemption.
- The initial sale price must not exceed £250k after the discount has been applied (£420k in London). LAs and NDP groups can set lower levels at a local level where this is supported by the evidence
- For the first 3 months it can be restricted to sales for people with a local connection.
- The household must not have an income of more than £80k pa (£90k in London). LAs and NDPs can apply other criteria such as a lower income cap, local connection or prioritisation for key workers.
- Local connection criteria are limited to the first 3 months of marketing before reverting to the national criteria.
- It should be the only home of the purchaser who will need to use a mortgage or home purchase plan for at least 50% of the purchase price.

The Government's response also sets out how First Homes will be delivered through the planning system.

- A minimum of 25% of S106 affordable housing contributions must be in the form of First Homes.
- For the remaining 75% - "social rent as described in the development plan should be protected", but where the Local Plan sets out a requirement of more than 75% for social rent, the 25% First Homes requirement will remain.
- There is no requirement to provide First Homes on rural exception sites or by people who wish to commission or build their own homes.
- First Homes Exception Sites will replace entry level exception sites, but the size thresholds will be removed. A small proportion of market housing and/or other forms of affordable housing tenures will be permitted to support viability.
- Designated rural areas will be exempt from First Homes Exception sites
- First Homes will be exempt from CIL

Further details of how the policy should be implemented will be included in a Written Ministerial Statement. This will include more detail on calculating developer contributions and the exemptions.

## ***Rural Implications***

From a rural perspective, the First Homes product could be helpful in extending access to affordable housing to those on higher incomes, but whose earnings are insufficient to buy in the open market. Indeed, it is a form of tenure that has already been used successfully in some areas, notably Cornwall Council who have a well-developed methodology for working out the level of discount required which is set out in their SPD. <https://indd.adobe.com/view/d6991b3d-474f-4b3a-953a-77b4d812c222>

### *Implications for delivery on rural market led sites*

The wording on at what point the 25% of First Homes will be required is a little ambiguous. However, if this to be on a site by site basis it poses a threat to delivery of other forms of affordable housing notably social and affordable rent. Modelling shows that except in higher value areas First Homes will require some level of subsidy. Therefore, the requirement for 25% of all affordable housing contributions to be in the form of First Homes, will impact on the viability of being able to provide social and affordable rented homes.

A further squeeze will come from the requirement set out in changes to the NPPF in February that 10% of the total housing of any development should be in the form of affordable sale homes. On larger sites it is possible that in meeting the First Homes requirement the 10% affordable housing sales requirement will also be fulfilled. However, on smaller sites this will not be achieved and to meet both requirements the % of social/affordable rented housing may fall below 50%, despite evidence that this is predominant need.

### *Implications for rural exception sites*

For the above reasons it is helpful that there will not be a requirement to provide First Homes on rural exception sites whether or not they are in a designated rural area. They could however be part of the tenure mix on these sites where this is appropriate.

The Government response confirms that a small proportion of market housing and other affordable tenures can be used on First Home Exception sites to support viability. It is probable that this will lead to higher land values for these sites than RES sites, which will dissuade landowners from offering traditional RES sites.

It is, therefore, welcome that First Homes Exception sites will not apply in designated rural areas. However, it is very disappointing that the definition of designated rural area remains unchanged. In consequence, in almost 70% of parishes with populations of 3k or fewer, First Homes Exception Sites may squeeze out rural exception sites, with their higher levels of social and affordable housing provision.

However it is very welcome that the Minister for Housing has confirmed in a letter to the Chair of the Rural Services Network APPG, that rural exception sites will remain a route to providing affordable housing in **all** rural areas.

## **Response to New Model for Shared Ownership**

The new model for Shared Ownership provides that

- The initial minimum equity stake can be 10%
- The lease will be for 990 years. This will also apply to lease extensions on existing SO properties where possible.
- Staircasing can be as low as a 1% increase in equity stake
- Valuations at the point of staircasing will be based on the House Price Index for the local authority area with a 3 month valuation period.
- Housing associations will be responsible for supporting residents with repairs and maintenance for the first 10 years of the building's life. This will be capped at £500 pa for internal repairs, with some provision for roll over across years.
- All new Shared Ownership homes provided through S106 contributions will be required to be based on the new model.
- These homes will still be eligible for grant under the Affordable Homes Programme
- This model will apply to all new SO delivered through the AHP and S106 contributions, including those provided as rural affordable housing (i.e. in parishes <3k population)
- Rural restrictions, conferred through Designated Protected Area status that limit staircasing to 80% or give pre-emptive right for housing association to buy back when the home is sold onto the open market, will still apply.

### ***Rural implications***

The new model has a number of implications for delivery of affordable housing that apply generally as well as in rural areas. Although the Government has responded to some of these it is likely that these will be insufficient to meet the concerns of smaller providers, including CLH schemes operating in rural areas. These primarily revolve around three challenges:

#### *Lender appetite*

Government and Homes England are working with mortgage lenders to ensure Shared Owners have access to mortgages. Homes England will also be producing an information document for use by providers to highlight the responsibilities, processes and costs.

However, there remain concerns that lenders will be more cautious to lend residential mortgages on these properties where affordability to the resident may be marginal. Similarly, there are concerns that the lower equity entrance and uncertainty over the income from staircasing will reduce availability and/or increase the cost of capital loan finance. Small housing associations and CLH schemes are less likely to have an asset base that can absorb extra loan costs.

#### *Administrative burden/cost*

The Government acknowledges that there is likely to be an increase in the number of staircasing transactions with resultant increase in administrative costs for the provider. It also makes clear that these costs should not be passed on to the purchaser. For small housing associations and CLH groups this will be costly and they may not have the staff capacity to administer these applications. In consequence they may be deterred from offering this tenure. It may however result in more affordable forms of affordable home ownership being offered, including First Homes.

#### *Affordability/vulnerability*

Being able to buy a 10% equity stake will be attractive, but it is also likely that if this is all the household can afford, maintaining payments and meeting the other rental and service charges will leave them financially vulnerable. This may be particularly an issue in rural areas where incomes are low and households can be dependent on more than one job to make up the household income. It could also lead a loss of homes from the affordable housing sector because in the event of foreclosure the mortgagee in possession will be able to sell these homes into the open market.

Jo Lavis  
21st April 2021