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New Homes Bonus

Consultation paper

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1. Purpose of briefing note

- 1.1. The Government published its consultation paper “New Homes Bonus” on 12 November 2010. The scope of the consultation is as follows:

“This consultation sets out the details of the scheme and the rationale for the proposed mechanisms. It also sets out how the scheme sits within the wider context of the Government’s locally-driven growth strategy.

This is largely a technical consultation for local authorities. In the current financial circumstances, it is important that the final scheme is announced alongside the local government finance settlement early in the new year so that local authorities have clarity when they set their budgets and council tax in March.”

and:

“We would like to invite views from interested parties on some key design features.”

- 1.2. This briefing note highlights the main items of note contained within the consultation paper.
- 1.3. The consultation closes on 24 December 2010.
- 1.4. The remainder of this briefing note follows the structure of the consultation paper.

2. Introduction

Aim

- 2.1 The aim of the New Homes Bonus (NHB) is: *“to create a powerful, simple, transparent and permanent incentive which rewards local authorities that deliver sustainable housing development.”*

Background

- 2.2 The NHB was initially mooted in the Conservative Party’s General Election 2010 manifesto and features in both the Spending Review 2010 and the Local Growth White Paper. The government does not believe *“the current local government finance system... provides the right incentive or rewards for councils to build new homes or bring long-term empty properties back into use”*.
- 2.3 The government intends the scheme to be “revenue neutral” (i.e. the scheme will be primarily funded by taking money out of future formula grant allocations). The government admits that *“this redistributive mechanism....means that the scheme will*

create financial winners and losers". A recent House of Commons Briefing¹ notes that the government intends to pay for the scheme by:

- Abolishing the Housing Planning and Delivery Grant;
- Use the £250m of HPDG funding allocated for 2010-11 as the first contribution to a new Matching Fund; and
- add a further £250m to the Matching Fund in each of the succeeding four years (to take the total to £1,250 million per year in 2014-15), by taking £250m per year off what would otherwise be the overall increase in formula grant to councils in each of those years.

2.4 The government's model on the potential impact of the NHB is based on the 2005/06 finance settlement. It is therefore possible that, in future, more cash will be required to fund the scheme than has been currently anticipated. If this situation were to occur, it is likely that an even greater top-slice from future formula grant allocations would be made.

2.5 The government state that they *"will not tell local authorities what type of development or homes they should build or where"*; however, additional "enhancements" will be paid for new affordable homes (including pitches on Gypsy or Traveller sites).

2.6 The consultation paper also highlights that *"since the publication of the Local Growth white paper, the Government has also announced that it will retain and reform the existing Community Infrastructure Levy (CIL)"*.

3. Scheme design

3.1 The consultation paper sets out the government's preferred model for implementing the New Homes Bonus (NHB). The scheme will reward local authorities with a bonus, paid through Section 31 of the Local Government Act 2003 as unfenced grant, equal to the national average for the council tax band on each additional property and paid for the following six years.

3.2 The scheme has been designed in line with the following key principles:

- 1) Powerful – the grant will be payable for the following six years (2011/12 to 2017/18), therefore the total amount of funding will rise *"for at least the first six years"*;

¹ <http://www.parliament.uk/briefingpapers/commons/lib/research/briefings/snsp-05724.pdf>

- 2) Simple – additional homes will be rewarded with six years of grant based on the council tax;
- 3) Transparent – easy to understand;
- 4) Predictable – the scheme is intended to be a permanent feature of local government funding and will therefore continue beyond the six year cycle.
- 5) Flexible – local authorities can decide how to spend funding in line with local communities. The government expects local councillors to work particularly with those neighbourhoods most affected by growth, to communicate how the money will be spent and the benefits it will bring.

3.3 As part of the consultation, the government has published an “online calculator”² which allows local authorities to see how much they would have received from the scheme had it been introduced in 2005/06. Unsurprisingly, this calculator does not show the potential reductions in formula grant individual local authorities would have received in order to fund the scheme.

Unit of reward

3.4 The government proposes linking the level of grant for each additional dwelling to the national average council tax for the following six years. One of the reasons given for not linking the reward to local council tax levels is that “*we do not want to penalise authorities which have been prudent*”.

3.5 For the purposes of the consultation paper, it is noted that the national average 2010/11 council tax at Band D is £1,439. We provide the equivalent averages by region and authority type below:

	2010-11
England	1,439
	-
North East	1,511
North West	1,469
Yorkshire and the Humber	1,406
East Midlands	1,486
West Midlands	1,415
East of England	1,480
London	1,309
South East	1,468
South West	1,499

² <http://www.communities.gov.uk/housing/housingsupply/newhomesbonus/>

Inner London boroughs (including GLA)	1,116
Outer London boroughs (including GLA)	1,429
London boroughs (including GLA)	1,309
Metropolitan districts (including major precepting authorities)	1,399
Unitary authorities (including major precepting authorities)	1,461
Shire districts (including major precepting authorities)	1,495

Consultation question 1

Do you agree with our proposal to link the level of grant for each additional dwelling to the national average of the council tax band?

Affordable housing enhancement

- 3.6 The government is proposing a flat-rate enhancement of £350 per annum for each additional affordable home, which would be reviewed if council tax rises.

Consultation question 2

The Government proposes an affordable homes enhancement of £350 for each of the six years - what do you think the enhancement should be?

Affordable housing definition

- 3.7 The government intends defining “affordable homes” based on Appendix B of Planning Policy Statement 3 and to also include pitches on Gypsy and Traveller sites owned and managed by local authorities or registered social landlords.

Proposed definition

Affordable housing is: *Housing which includes social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market.*

Affordable housing should: Meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices.

Include provision for the home to remain at an affordable price for future eligible households or, if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision.

Social rented housing is: *Rented housing owned and managed by local authorities and registered social landlords, for which guideline target rents are determined through the national rent regime. The proposals set out in the Three Year Review of*

Rent Restructuring (July 2004) were implemented as policy in April 2006. It may also include rented housing owned or managed by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Housing Corporation as a condition of grant.

Intermediate affordable housing is: *Housing at prices and rents above those of social rent, but below market price or rents, and which meet the criteria set out above. These can include shared equity products (e.g. HomeBuy), shared ownership, other low cost homes for sale and intermediate rent.*

For the purposes of the New Homes Bonus, this definition can include homes provided by private sector bodies and homes without grant funding, provided that the above criteria are met.

Consultation question 3

Do you agree with the proposal to use PPS3 and also include pitches on Gypsy and Traveller sites owned and managed by local authorities or registered social landlords to define affordable homes?

Empty homes

- 3.8 The government intends to include empty properties being brought back into use as part of the New Homes Bonus.

Consultation question 4

Do you agree with the proposal to reward local authorities for bringing empty properties back into use through the New Homes Bonus?

Are there any practical constraints?

Tier split

- 3.9 The government propose to split the payment of the New Homes Bonus as follows:

Tier	Proposed split of NHB	Comment
London	100% to London Borough	Similar to LABGI – GLA again have been denied a share.
Upper-Tier (Outside London)	20% as starting point for local negotiation	Under the revised LABGI scheme the split was 50%

		(35% under the initial LABGI scheme)
Lower-Tier (Outside London)	80% as starting point for local negotiation	Under the revised LABGI scheme the split was 50% (65% under the initial LABGI scheme)

Consultation question 5

Outside London: Do you agree with the proposal to split the payment of the New Homes Bonus between tiers: 80 per cent to the lower tier and 20 per cent to the upper tier, as a starting point for local negotiation?

If not, what would the appropriate split be, and why?

Local Flexibility

- 3.10 The government state that the proposed splits are “a starting point for local debate” and that local authorities could pool funding by allocating more to the upper tier to deliver infrastructure or at the level of the Local Enterprise Partnership.
- 3.11 No further detail is provided regarding how these negotiations/debates will be conducted.

4. Basis of calculation

Grant calculation

- 4.1 The government’s preferred option for collecting the data required to determine NHB allocations is to use information from the annual Council Tax Base (CTB) form that local authorities currently submit each year.
- 4.2 To calculate NHB allocations:
 - The previous year’s baseline would be established using the following lines on the relevant CTB:
 - Dwellings on the valuation list (Line 1);
 - Minus adjustment for recent demolitions and out of area dwellings (Line 3);
 - Minus long-term empty homes (Lines 12, 14 and 15).
 - The position for the current year will be calculated in the same way;

- Both of these calculations would be converted to Band D equivalents using the standard council tax band ratios;
- The annual change, using Band D equivalents, from the preceding year would then be calculated (the ‘relevant figure’);
- The grant payable would be calculated by multiplying the “relevant figure” by the average Band D council tax in England for the previous year;
- The grant would be payable for the relevant year and the five following financial years;
- The process would be repeated each financial year with each new amount of grant being added to the amount of grant payable in the preceding year;
- From the seventh year of the scheme onwards the grant calculated six years earlier will no longer be included in the total grant payable.

Consultation question 6

Do you agree with the proposal to use the data collected on the Council Tax Base form as at October to track net additions and empty homes?

Timing of grant allocation and payments

- 4.3 The government propose to pay the New Homes Bonus alongside the local government finance timetable (e.g. provisional allocations will be announced in early December and final allocations in early February).
- 4.4 It is intended that Year 1 (i.e. 2011/12) allocations will be published “as soon as possible” after the consultation.
- 4.5 Because CTB forms are completed in October each year, the government recognises that there will be a time-lag for payment for houses built after October each year, and is therefore seeking views on whether this time lag should and could be reduced.

Consultation question 7

Do you agree with the proposal for one annual allocation based on the previous year’s Council Tax Base form, paid the following April?

Consultation question 8

Do you agree that allocations should be announced alongside the local government finance timetable?

Affordable homes

- 4.6 The government considers the DCLG official statistics on gross additional affordable housing supply to be the best source of data on affordable homes.
- 4.7 The government notes that these statistics measure additional affordable supply on a gross basis (i.e. they do not deduct demolitions or other losses to stock).
- 4.8 The statistics also measure “acquisitions” of affordable homes. However, as these “acquisitions” are not new supply they would receive the £350 enhancement but not the council tax element.

Consultation question 9

Do you agree with the proposal to reward local authorities for affordable homes using data reported through the official statistics on gross additional affordable supply?

Consultation question 10

How significant are demolitions?

Is there a proportionate method of collecting demolitions data at local authority level?

5. Additional issues

Equalities

- 5.1 The government state that “no equalities issues [concerning the NHB scheme] have been identified to this point”. However, they wish to consult widely on this issue.

Consultation question 11

Do you think the proposed scheme will impact any groups³ with protected characteristics?

Consultation stage impact assessment

- 5.2 An Impact Assessment of the proposed scheme has been included as an appendix to the consultation paper.
- 5.3 The Impact Assessment does not appear to illustrate the “*distribution of [local authority] financial winners and losers*” arising from the proposed introduction of the scheme.

³ According to the Equality Act 2010, the following characteristics are protected: age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex; sexual orientation.

Consultation question 12

Do you agree with the methodology used in the impact assessment?

Conclusions

- 5.4 No conclusions are provided in the consultation paper. Rather, a further question is asked.

Consultation question 13

We would welcome your wider views on the proposed New Homes Bonus, particularly where there are issues that have not been addressed.

6. Responding to the consultation

- 6.1 Responses to the consultation must be received by 24 December 2010.
- 6.2 Authorities are encouraged to email their response to:
newhomesbonus@communities.gsi.gov.uk

LG Futures
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