

Committee: Full Council

Agenda Item

Date: 14 December 2010

12

Title: **New Homes Bonus**

Author: Roger Harborough, Director of Public Services, Item for decision 01799 510457

Summary

- 1. This report outlines the Government’s proposals for a New Homes Bonus Scheme, which seeks to incentivise councils to deliver sustainable housing development by providing them with financial rewards, and seeks a decision as to how the council wishes to respond to the current consultation on the scheme.

Recommendations

- a. That the council responds to the consultation; and
- b. That the council determines its views on the proposal.
- c. That the Council approves the mitigating action set out in the risk assessment.

Financial Implications

- 2. There are no significant costs in responding to the consultation, but decisions that the government may make based on consultation responses could result in substantial financial resources being made available to the council as an unringfenced grant. It should be noted though that if the costs exceed the sum set aside by the government in the current CSR for new homes bonus payments (£946m nationally to 2014/15) the balance will have to come from the formula grant pot.

Background Papers

- 3. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

DCLG consultation paper, which can be viewed via the following link:
<http://www.communities.gov.uk/publications/housing/newhomesbonusconsult>
 DCLG press notice <http://www.communities.gov.uk/news/corporate/1768236>

Impact

- 4.

Communication/Consultation	The consultation is open and anybody can
----------------------------	--

	respond
Community Safety	
Equalities	The government has carried out an equalities impact assessment of its proposals
Health and Safety	
Human Rights/Legal Implications	
Sustainability	<p>The government’s impact assessment is that:</p> <ul style="list-style-type: none"> • There will be a positive effect on the construction sector and more widely on business. • There may be environmental effects in respect of the consumption of land and increased carbon emissions through construction etc, but these impacts will still be the subject of national guidance to minimise them. • There could be positive social impacts where local authorities oversee the quantity, type and location of development where they deem necessary, thus responding to and meeting local needs. • There could be adverse impacts on development in rural areas and of Greenfield land. However, the risks are mitigated given that local authorities determine the quantity, type and location of housing development. Green Belt protection will remain, and locally-led plans will give local communities greater control. • With communities able to play a

	greater role in decisions over local development, there could be a positive impact on sustainable development.
Ward-specific impacts	Related to the distribution of new development
Workforce/Workplace	

Situation

BACKGROUND

- 5 The Coalition considers that the current incentive system is flawed – little of the economic gain from building new homes goes to the local community. The perception is that new homes are a strain on public resources and result in reduced amenities. Therefore, the default position is to object.

- 6 The Coalition considers that top-down targets and the Housing and Planning Delivery Grant (HPDG) have failed. The HPDG was introduced to improve housing delivery, but was deemed ineffective and complicated and could not be relied upon as a sufficient and stable incentive.

NEW HOMES BONUS - SCHEME DESIGN

- 7 The New Homes Bonus (NHB) will be “equal to the national average for the council tax band on each additional property and paid for the following six years as an unringfenced grant. There will be an enhancement for affordable homes”.

 Total NHB will obviously increase for the first six years, expected to top £1bn by year six. £200m has been set aside for the first year. Local authorities will be able to decide how to spend the funding in line with local community wishes.

 £946m has been set aside over the Spending Review period. In 2011-12 this is almost £200m and £250m in each of the remaining years. Funding beyond these levels will come from Formula Grant.

Unit of reward

- 8 This will be calculated by measuring the change in dwellings on council tax valuation lists. The proposed approach is intended to recognise:
 - Net increases in housing stock
 - The relative value of the properties
 - Varied historic and local reasons for local council tax levels (no wish to penalise authorities which have been prudent)

Currently, this means that a new band D property would generate £8,634 over six years, or £10,553 for band E. Rises in council tax would lead to a review. This system incentivises the building of larger family homes, which the Coalition feels were neglected as a consequence of the previous administration's policies on minimum density.

Affordable housing enhancement

- 9 The Coalition wants to ensure a good balance of market and affordable housing. NHB will include a flat rate enhancement of £350 per annum for each additional affordable home. This enhancement would be reviewed if council tax rises.

Affordable homes will be defined as "Affordable housing includes social rented and intermediate housing provided to specified eligible households whose needs are not met by the market", which is the definition used in Appendix B of PPS3

As traveller sites in public ownership also contribute to the supply of affordable homes, pitches on gypsy and traveller sites owned and managed by local authorities or registered social landlords will also be included in the description.

Empty homes

- 10 The coalition regards these as a blight on local communities and an unaffordable waste. Through the NHB, incentives will be strengthened "for local authorities to identify empty properties and work with property owners to find innovative solutions that allow these properties to be brought back into use". Local authorities will be rewarded through the NHB for bringing empty properties back into use.

New Homes Bonus allocation

a) tier split

The proposed starting point for local negotiation is 80% to the lower tier authority and 20% to the upper tier. The reason for this split is that for the NHB incentive to be the most powerful, it must be strongest where the planning decision sits. However, the Coalition does recognise the role of the upper tier in the provision of services and infrastructure and their contribution to strategic planning.

b) local flexibility

The proposed tier splits are a starting point for debate. Local authorities can pool funding by allocating more to the upper tier to deliver infrastructure. Also, it is suggested that pooling some of the NHB at Local Enterprise Partnership level could have many benefits.

Grant calculation

- 11 There are eight separate calculations for each year, based on the housing stock in each council tax band (A – H). Adjustments are made for demolitions and long term empty homes in each band.
- 12 The resulting number of homes in each band is then adjusted to its band D equivalent using the standard council tax calculation. The calculated figure is then compared with the one for the next year to give the net change in each band on which NHB is calculated.
- 13 The net changes in each band from one year compared to the previous year are then multiplied by the average band D council tax and added together to give the NHB for that year. The affordable housing enhancement would be paid in addition.
- 14 The net change is a factor both of the number of new additions and their council tax banding, so it is a weighted figure, not a discrete number of homes. This is because the Coalition is seeking to especially reward the construction of larger family homes which lie in the higher council tax bands.
- 15 A worked example using council tax data for Uttlesford is set out at the end of this note.

Timing of grant allocation and payment

- 16 NHB would be paid alongside the local government finance timetable. Provisional allocations would be announced in early December and final allocations in early February, allowing local authorities to include NHB in their budget setting process. Year one allocations would be issued as soon as possible after the consultation.
- 17 NHB for houses built between successive Octobers would be paid from the following April, but there is concern at the resulting time lag. An option would be for data to be collected on additions only at a mid-point in April, and an additional payment made as soon as possible. The fuller October data would then correct for demolitions and empty homes. The disadvantages would be an increased burden on local authorities and NHB being harder to predict when budgets are being set.

Affordable homes

- 18 DCLG's official statistics on gross additional affordable housing supply would be used to calculate the NHB affordable homes enhancement, but:
- These statistics run from April – April, meaning there could be a year's delay in payment of the enhancement
 - These statistics measure affordable supply on a gross basis and do not deduct demolitions or other losses
 - These statistics do measure acquisitions, which would receive the enhancement but not the council tax element as they are not new housing supply

SUMMARY OF CONSULTATION QUESTIONS

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?
2. The Government proposes an affordable homes enhancement of £350 for each of the six years – what do you think the enhancement should be?
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?
4. Do you agree with the proposal to reward local authorities for bringing empty properties back into use through the NHB? Are there any practical constraints?
5. Outside London: Do you agree with the proposal to split the payment of the NHB between tiers: 80% to the lower tier and 20% to the upper tier, as a starting point for local negotiation?

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

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?
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?
8. Do you agree that allocations should be announced alongside the local government finance table?
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?
10. How significant are demolitions? Is there a proportionate method of collecting demolitions data at local authority level?
11. Do you think the proposed scheme will impact any groups with protected characteristics? (Note: the Government's conclusion is that no equality issues arise with the NHB)
12. Do you agree with the methodology used in the impact assessment? (Note: the methodology has not been considered in this note)
13. We would particularly welcome your wider views on the proposed NHB, particularly where there are issues that have not been addressed in the proposed model

IMPACTS

19 The Coalition considers that:

Full Council item 12, New Homes Bonus

- As NHB is a redistributive policy, there will be winners and losers. However, authorities will adjust their spending accordingly, and NHB only concerns a small proportion of overall grant.
- NHB will lead to an increase in supply of homes 8-13% above the baseline from 2016-17 onwards, with associated land value uplifts and extra direct construction jobs supported.
- There will be no new burdens on local authorities, as NHB payment will use data that is already collected.
- There will be a positive effect on the construction sector and more widely on business.
- There may be environmental effects in respect of the consumption of land and increased carbon emissions through construction etc, but these impacts will still be the subject of national guidance to minimise them.
- There could be positive social impacts where local authorities oversee the quantity, type and location of development where they deem necessary, thus responding to and meeting local needs.
- There could be adverse impacts on development in rural areas and of Greenfield land. However, the risks are mitigated given that local authorities determine the quantity, type and location of housing development. Green Belt protection will remain, and locally-led plans will give local communities greater control.
- With communities able to play a greater role in decisions over local development, there could be a positive impact on sustainable development.

OFFICER COMMENT ON THE CONSULTATION

- 20 The New Homes Bonus scheme has significant advantages over the Housing and Planning Delivery Grant. It is much clearer to assess what incentive is being offered by the government. With HPDG, the former government announced the size of the HPDG pot but there was no certainty as to what a council needed to do to achieve a certain grant award. In part it depended on the performance of a council relative to other planning authorities.
- 21 The scheme also enables bonus payments to be taken into account in setting a council's budget for the following year. The risk assessment below sets out some concerns but in principle the objective is supported. It was difficult to rely on HPDG in budget setting.
- 22 Although there will inevitably be concerns about balancing sustainability considerations against maximising income, the scheme does offer an

authority like Uttlesford significant potential to achieve income. There must be a concern though that more and more local authority income will depend on delivery of growth particularly if the government's estimates of the funds necessary for the scheme are exceeded and bonus payments are funded in due course from transfers from formula grant.

- 23 A key consideration is how the bonus should be split between government tiers. County Councils may be expected to exert considerable pressure in responding to the consultation for a greater percentage of the bonus payment. However, the argument being advanced, that county councils needs resource to provide infrastructure to support growth, should be resisted. That infrastructure should be funded through Section 106 Agreements or a Community Infrastructure Levy. The government is currently also consulting on proposals to raise funds through CIL.

Risk Analysis

24

Risk	Likelihood	Impact	Mitigating actions
The government has not correctly estimated the cost of implementing the proposals set out in the consultation	2-3 The government has explicitly considered the likely response to the incentives offered to councils. It has stated in launching the consultation that funds in excess of the £946m it has set aside for the CSR period (2010/11 to 2014/15) will come from formula grant. Use of DCLG's calculator tool suggests that provided the scale of net	3-4 The amounts of money involved are potentially substantial in the context of both the council's budget and its financial support from the government	Make no assumption about income from the new homes bonus in setting the council's 2011/12 budget. Bonus payments should be directed to an earmarked reserve.

Full Council item 12, New Homes Bonus

	change is maintained UDC alone could be in line to receive £30m.		
--	---	--	--

- 1 = Little or no risk or impact
- 2 = Some risk or impact – action may be necessary.
- 3 = Significant risk or impact – action required
- 4 = Near certainty of risk occurring, catastrophic effect or failure of project.

Full Council item 12, New Homes Bonus

NHB – WORKED EXAMPLE

This gives an indicative calculation of the NHB payable to Uttlesford District Council in 2011 - 2012

YEAR 2009 – the base year

COUNCIL TAX BAND	A	B	C	D	E	F	G	H
Number of homes in each band excluding demolitions / long term vacancies etc	981	3,594	7,689	6,151	5,425	3,789	3,955	389
Adjust to band D	6/9	7/9	8/9	1	11/9	13/9	15/9	2
Band D equivalent	654	2,795	6,835	6,151	6,631	5,473	6,591	778

YEAR 2010– the relevant year

COUNCIL TAX BAND	A	B	C	D	E	F	G	H
Number of homes in each band excluding demolitions / long term vacancies etc	1,006	3,638	7,726	6,308	5,582	3,887	3,935	397
Adjust to band D	6/9	7/9	8/9	1	11/9	13/9	15/9	2
Band D equivalent	671	2,830	6,868	6,308	6,822	5,615	6,558	794

NET CHANGE CALCULATION

COUNCIL TAX BAND	A	B	C	D	E	F	G	H
Band D equivalent Year 2010	671	2,830	6,868	6,308	6,822	5,615	6,558	794
minus Band D equivalent Year 2009	654	2,795	6,835	6,151	6,631	5,473	6,591	778
gives the <i>NET CHANGE (i.e unit of reward)</i>	17	35	33	157	191	142	-33	16
Multiply by £1439 (the average band D council tax)	24,463	50,365	47,487	225,923	274,849	204,338	-47,487	23,024

Adding the 8 numbers together, the resulting figure = £802,962, excluding affordable housing enhancement.

If we assume that 25% of the 506 new homes are affordable (126) the total NHB is increased by $126 \times £350 = £44,100$, giving a final payment of £847,062 for 2011 – 2012

As this sum is payable for 6 years, it would be worth £5,082,372.

Inputting this data into DCLG's NHB calculator, sums of £868,667 and £5,212,000 respectively are obtained. The slight variation would seem to be because the DCLG calculator is making an allowance for empty homes brought back into use.

Band G is a negative figure because there seems to be a net loss of homes in this band. The DCLG's calculator does subtract a payment to take this into account, and so does the calculation set out above.

