



Report to Cabinet

Subject: New Homes Bonus - Consultation

Date: 13 January 2011 (updated version of report originally scheduled for 2 December 2010 meeting)

Author: Head of Strategy and Performance

1. Purpose of the Report

- To inform members of Communities and Local Government (CLG) department's consultation on the introduction of the New Homes Bonus
- To inform members of the Council's response to that consultation

2. Background

The Coalition Government made clear in its "Programme for Government"¹ that it intended to introduce incentives to encourage local authorities to deliver new housing. It also indicated its intention to explore measures to help local authorities bring empty homes back into use.

On 12 November 2010, the Government published a consultation paper on the "New Homes Bonus", which is likely to represent its key policy to address this issue. The initiative has also been cross-referenced in other related policy documents, including the Local Growth White Paper, which is the subject of a separate report on this agenda. It is also likely to link closely to wider changes to the planning system, also promised in the Coalition Programme for Government.

In the consultation paper, the Government makes clear that more new homes need to be built to address needs and meet demand. It argues that the previous "top-down, target-driven" approach has failed to deliver new homes, citing housing completion figures from 2009 as the lowest in peacetime since 1923/24 to support its argument.

¹ As reported to Cabinet 8 July 2010

It describes the New Homes Bonus as a “powerful, simple, transparent and permanent means of incentivising local authorities to increase their housing supply”. The new policy will reward local authorities and communities for the building of new homes, by making payments to local authorities for each new home built.

The Government argues that this should prompt debate and discussion with local communities, who may be more open to new development if they can see that this will result in benefits to the local and wider community, funded by the bonus scheme. It expresses the hope that this will help local politicians lead a mature debate with communities about these issues.

Key points from the Consultation paper, including issues on which the government is seeking views, are set out below. The full consultation paper is available at

<http://www.communities.gov.uk/publications/housing/newhomesbonusconsult>

The government aims to review consultation responses and announce the final design of the scheme in early 2011. It held a six week consultation, with a deadline for responses of 24 December 2010.

3. Key points and issues for consultation

The Consultation Paper explains how the New Homes Bonus Scheme has been designed around five principles

- **Powerful** – the grant will be payable for the following six years, so the total amount paid to each authority will rise each year for those first six years as payments for the intervening years are factored in.
- **Simple** - for each new home built, the Government will pay the equivalent of the average national Council Tax for the home for a six year period.
- **Transparent** – the aim is for it to be easy for councillors, the community and developers to see the benefits of growth derived from the Bonus. The Government will make available an on line calculator to support this.
- **Predictable** - The Government intends the scheme to be a “permanent feature of local government funding”, continuing beyond the initial six year period. It says it will keep its design features simple and stable.
- **Flexible** - The Bonus will be paid as an unringfenced grant² - this means that local authorities will have maximum flexibility over how the funding is spent. However, the Government suggests to authorities that spending should be in line with local community wishes and expects councillors will liaise closely with those communities directly affected by housing growth to understand their priorities for investment and communicate how the money will be spent.

² Through Section 31 of the Local Government Act 2003

Government is seeking views on a number of issues relating to implementation of the scheme and these are set out below.

Additional rewards – the proposed unit of reward is the national average annual Council Tax for the new home built. Therefore, for each new Band D home built, the government would pay the local authority³ £1,439 (or £8,634 over six years) – for a Band A property, the payment would be 6/9th of this amount, reflecting the Council Tax banding weightings. Actual payments would be reviewed as Council Tax levels increase.

Enhanced payment for affordable homes – The Government wants to further incentivise the building of new affordable homes. It proposes an additional flat rate payment of £350 per year for each new affordable home, over and above the basic unit of reward. This equates to around 25% of the current average band D Council Tax and would mean each new affordable home would attract a premium payment of £2,100 over six years.

The definition of affordable homes would be as set out in Planning Policy Statement 3 (including shared ownership and affordable homes for rent), with the addition of pitches on Gypsy and Traveller sites. Affordable homes for rent are further defined as those for which rents are set at levels between social rents and local market rents on tenancies reviewable after an agreed period of time.

Rewards for bringing empty homes back into use – The Paper proposes that the Scheme is used to reward authorities for bringing empty homes back into use and asks whether there are any practical constraints that may impact on this.

Allocation of reward in two-tier areas – The Paper acknowledges that, for the incentive to be most powerful, it must be strongest at the level at which the planning decision rests. In two-tier areas, this is with the district council. It therefore proposes an 80/20 split in two tier areas, with 80% allocated to the district council.

However, the Paper does state that this should be a “starting point” for local negotiation, and makes reference to the role of county councils in the provision of services and infrastructure and their “contribution to strategic planning”. It implies, but does not directly state, that such negotiations may be carried out in relation to individual sites. There is also a suggestion that, in some cases, it may be appropriate to pool New Homes Bonus funding through Local Enterprise Partnerships to support infrastructure planning and other wider strategic objectives.

Methods of data collection – The Paper suggests that the Council Tax Base form is used as the basis for data collection. This has the advantage of being simple, already collected data that brings together information about additions, demolitions and empty homes in one place. CLG’s official statistics on gross

³ For local authority, read local authorities in two tier areas. Proposed upper/lower tier split is set out in later paragraph

additional affordable housing would be used to calculate affordable housing enhancements.

Timing of payments – The Council Tax Base form cover the period from October to October each year. The paper proposes using this to make a single New Homes Bonus payment the following April. This would allow announcements of funding to be made alongside local authority finance settlements, but recognises that this results in a considerable time lag between housing completions and payment of grant. Options involving an earlier payment, based on additions only at a mid-point in the year and corrected for demolitions and empty homes in October, are also suggested.

Drawing on the above, in consultation with the Strategic Planning Portfolio Holder, responses relating to the housing and financial elements of the consultation were prepared and submitted. Copies are attached for information at **Appendix A**.

4. Resource Implications

The New Homes Bonus has the potential to make a significant contribution to the Council's overall financial position.

As outlined above, if the scheme is implemented as set out in the consultation paper, the Council would receive 80% of the average national council tax⁴ for each new home completed in the Borough every year for 6 years.

Based on the 2009/10 Council Tax base and using the formula the Government is suggesting here, net homes completed in 2009/10 would generate £2,038,400 additional New Homes Bonus funding for the Council over six years, equal to around £340,000 a year. The overall amount payable to the Borough Council would grow annually over the first six years of the scheme as each additional years' completions are factored in, at which point payments would plateau, varying annually according to the number of homes completed each year.

Average completions will vary – the average rate of completions (based on Planning Policy data) for the period 2005 – 2010 was 293 per year, while the average from 2000-2005 was 220 per year. The actual number of completions will obviously impact on the amount of funding received.

It is therefore very difficult to assess how much the scheme might contribute to the Council's finance overall (Council Tax bandings also impact) but, given similar levels of new homes built each year with a similar split of Council Tax bandings, this might equate to around £2million a year in additional payments at the end of the first six years of the scheme.

⁴ Payment would be based on the Council Tax band of the completed property i.e. if a Band A property is completed, the payment would be based on the national average Band A Council Tax

However, this income has to be set against the significant reductions in grant payable to local government announced in the Comprehensive Spending Review (CSR). Details of the settlement as it affects Gedling BC are not yet known, but it is unlikely that the benefit derived from the New Homes Bonus will exceed the 28% reduction over four years in central government grant at national level heralded in the CSR. These grant reductions will begin to take effect from April 2011 and are understood to be “front loaded” (i.e. more significant reductions early in the plan period) whereas it will take six years for the Council to receive the full benefit to be derived from the New Homes Bonus.

Moreover, it is understood that the New Homes Bonus is being funded by “top slicing” from current local government grants. The Government says it will provide £200 million to fully fund the scheme in 2011/12 and is setting aside £250 million a year to contribute towards its funding between 2012-2015. However, government estimates actual costs could grow to around £1 billion a year by year 6 and admits that any funding over the £250 million set aside will be taken from Formula Grant.

It should also be noted that the previous incentive scheme linked to housebuilding⁵ (Housing and Planning Delivery Grant) has been withdrawn – this had brought in around £100,000 in recent years. It is also worth stressing that New Homes Bonus is not intended as a substitute for developer contributions - section 106 contributions will still be expected to pay for works needed to overcome what would otherwise be a reason for refusal of planning permission. New Homes Bonus is also separate from the Community Infrastructure Levy, details of which will be reported to members separately.

5. Recommendation

Members are **recommended** to: -

- Note the report

⁵ Housing and Planning Delivery Grant was paid against criteria relating to progression of the Local Development Scheme

Appendix A

Responses to Government Consultation on the New Homes Bonus

1. Housing aspects

Thank you for the opportunity to comment on the proposed New Homes Bonus programme.

We have already responded to the Council Tax related questions 6, 7 and 8 separately. This response concentrates on the housing related aspects of the scheme.

Overall, we broadly welcome the scheme. We are not totally convinced that the scheme will, of itself, encourage local people to support development – it seems to place a lot of faith in the power of such incentives – but it may prove to be useful as part of a wider package of measures.

Our response to the specific questions is set out below.

Question 1: We agree that the proposal to link the level of grant for each additional home to the national average of the Council Tax band seems fair and transparent.

Question 2: We support an enhanced payment for affordable homes, over and above the Council Tax band based payment. The £350 a year flat rate enhancement seems reasonable.

Question 3: We agree with the proposed definition of affordable homes and the inclusion of gypsy and traveller pitches.

Question 4: We strongly support the use of the New Homes Bonus as a means of supporting local authorities to bring empty homes back into use. There is work to do on the detail of this, making sure that authorities have the right powers available to them, but the principle is in our view entirely correct.

Question 5: On the split between tiers outside of London, we believe that 80% should be the absolute minimum payable to district councils, and that this should not be a “starting point for negotiation”. As local planning authority, all of the political risk associated with new development rests with the district council, and it is the district council which incurs the cost of managing delivery of a new development. Moreover, we would argue those issues relating to new and additional facilities that may be required should first be dealt with through existing channels, such as section 106 agreements – these would remain the first route to address service needs arising from new development within a county council’s sphere of responsibility (such as highways, schools etc).

Our comments on questions 6, 7 and 8 have been forwarded separately. We have no comments on questions 9-12.

2. Finance aspects

The response from Gedling Borough Council in respect of consultation questions 6, 7, and 8 is as follows:-

Question 6: Do you agree with the proposal to use data collected on the Council Tax Base form as at October to track net additions and empty homes?

Response: Yes. However, it is relatively straight forward to provide this information and would therefore not be overly administratively burdensome to provide this as at April if required.

Question 7: Do you agree with proposal for one annual allocation based on the previous year's Council Tax Base form, paid the following April?

Response: Yes. However the same comment applies as for question 6.

Question 8: Do you agree that allocations should be announced alongside the local government finance timetable?

Response: Yes.