

## How might the New Homes Bonus work in the Cambridge housing sub-region?

### Introduction

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Following the October 2010 comprehensive spending review (CSR) Grant Shapps (housing minister) announced in his letter to local authority partners:

*“Our commitment to increasing housing supply will be delivered by devolving power to local people and stimulating increased private sector investment. In April 2011 we will introduce the New Homes Bonus, a powerful fiscal incentive for local authorities to deliver more homes. We have set aside over £900m of funding and the scheme will match fund the Council Tax on every new home for each of the following six years. Many Local Authorities have the opportunity to benefit substantially from this scheme, which will commence in financial year 2011-12. A consultation on the scheme design will be launched in November 2010.”*

In Chapter 3 of the White Paper<sup>1</sup> published 28 October 2010 titled “Local growth: realizing every place’s potential” some further detail is provided:

“Government will create a framework of powerful incentives for local authorities to deliver sustainable economic development, including:

- the New Homes Bonus scheme, starting in 2011-12, will provide a simple, powerful and transparent incentive for local authorities to support new housing development;
- considering options to enable councils to retain locally-raised business rates in the Local Government Resource Review; and
- bringing forward proposals that will enable local authorities to offer local discounts on business rates.

To provide local authorities and with a new tool for enabling additional investment to go ahead we will introduce new borrowing powers to enable authorities to carry out Tax Increment Financing.

### Local authority incentives and support for growth (quoting paras 3.24 to 3.28)

In concert with our planning reforms Government will create a framework of powerful incentives for local authorities to deliver sustainable economic development, including for new homes and businesses. Changes to the local government finance system will reward those authorities that go for growth by ensuring that they receive real benefits for hosting housing and economic development...

### The New Homes Bonus

The current local government finance system does not provide the right incentive or rewards for councils to build new homes as little of the economic gain from new development is captured by the local community. A particular issue is that any increases in a local authority’s council tax base are reflected in its formula grant allocation, thereby reducing the financial return from new homes. As a result, local communities and their elected representatives on local councils object to many proposed developments.

The previous government tried, and failed, to remedy this by imposing development through the imposition of top-down targets. The Housing and Planning Delivery Grant (HPDG) was introduced with the intention of improving housing delivery. However, HPDG was ineffective and complicated and local authorities could not rely on it as a sufficient and stable incentive. In fact it coincided with a sustained shortfall in housing

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<sup>1</sup> Source: <http://bis.gov.uk/assets/biscore/corporate/docs/L/PU1068%20-%20Local%20growth>

development; in 2009, there were just 118,000 completions, the lowest level of house building in England in peace-time since 1923-24. Rewarding rather than penalising councils for new homes is not only fairer, but will be far more effective than the failed top-down regional targets.

The government's New Homes Bonus is the cornerstone of the new framework for incentivising housing growth. The scheme will ensure that communities and local authority decision-makers enjoy the benefits of growth and not just the costs. It will return the ownership of this debate to a local level and encourage local authorities and local communities to develop their housing in way that meets local need, both in terms of numbers and sensitively to local concerns. Local authorities will need to lead this debate with their communities. Starting in 2011-12 the scheme will match fund the additional council tax for each new home and property brought back into use, for each of the six years after that home is built.

Central government will help establish the scheme with support of £196 million in the first year and £250 million for each of the following three years. The New Homes Bonus will be a simple, powerful, transparent and permanent feature of the local government finance system. A consultation will shortly be published setting out the government's proposed model for implementation."

Other measures detailed (but not included in this note) are

- Incentives for Growth: the Local Government Resource Review
- Tax Increment Finance
- Renewable Energy Projects
- National Insurance Contributions reduction (but not in our region).

In Eric Pickles' letter to local authorities, of 20 October 2010, he also states:

"The New Homes Bonus will reward communities that build houses - planning permissions granted now will count against the Bonus."

As an area planning high levels of growth, whether through strategic sites or though smaller market town and rural housing sites, the new homes bonus will affect funding available to local authorities in our sub-region, and how it is delivered.

### What does it replace?

As mentioned in the White Paper the new homes bonus replaces Housing and Planning Delivery Grant. This was a financial incentive provided on the basis that the district delivered things like a SHMA, SHLAA and processed planning applications in a timely fashion. On the basis of the various elements (detailed below), provisional allocations for 2008/9 for districts across our sub-region were:

**Table 1: About how much did HPDG represent? (provisional allocations for 2008/9)**

	5 Year land supply of deliverable sites and bonus for published SHLAA	Core Strategy and DPDs allocate sites totaling 2000+ dwellings	Abatement of plan making element due to poor dev control performance	Joint Working and publication of SHMA	Total planning after abatement re-distribution	Total planning after capping (£1.0 million)	Housing completions (0.75% above existing stock)	Total HPDG Provisional Allocation £
City	£0	£759,103	£75,910	£38,400	£721,593	£721,593	£282,128	<b>£1,003,721</b>
ECDC	£108,597	£228,315	£0	£11,215	£351,463	£351,463	£345,332	<b>£696,795</b>
FDC	£108,597	£20,000	£0	£11,215	£141,152	£141,152	£368,232	<b>£509,384</b>
HDC	£72,398	£10,000	£0	£0	£83,188	£83,188	£158,468	<b>£241,656</b>
SCDC	£108,597	£1,810,678	£0	£38,400	£1,976,434	£1,000,000	£318,768	<b>£1,318,768</b>
FHDC	£72,398	£20,000	£0	£0	£93,284	£93,284	£66,868	<b>£160,152</b>
SEBC	£72,398	£10,000	£1,000	£0	£81,398	£81,398	£18,320	<b>£99,718</b>

Source: CLG website [www.clg.gov.uk](http://www.clg.gov.uk)

## What is proposed?

The New Homes Bonus aims to incentivize all home building across the country, by giving the equivalent of 6 years' council tax per new home completed.

**Table 2: How much council tax do districts across our sub-region charge?<sup>2</sup>**

	£ rounded							
	A	B	C	D	E	F	G	H
City	961	1121	1282	1442	1762	2083	2403	2884
ECDC	973	1135	1298	1460	1784	2109	2433	2920
FDC	1026	1198	1369	1540	1882	2224	2567	3080
HDC	962	1122	1283	1443	1764	2084	2405	2886
SCDC	960	1120	1280	1441	1761	2081	2401	2881
FHDC	980	1143	1307	1470	1797	2124	2450	2940
SEBC	994	1159	1325	1491	1822	2153	2485	2982

Source: Individual district's web pages

**Table 3: How many homes fall into each council tax band at present?**

	A	B	C	D	E	F	G	H	Total
City	3,377	9,957	18,055	8,868	4,999	3,218	3,126	532	52,132
ECDC	5,492	11,048	7,826	6,986	4,539	2,056	755	112	38,814
FDC	18,889	12,173	8,897	4,458	2,130	553	175	30	47,305
HDC	13,065	19,583	17,838	11,778	8,823	3,777	1,858	194	76,916
SCDC	3,676	7,220	19,631	11,944	10,922	7,343	4,224	417	65,377
FHDC	7,159	10,212	5,725	3,627	1,732	734	486	71	29,746
SEBC	6,208	17,735	9,656	7,558	4,604	2,074	1,625	151	49,611
Total	57,866	87,928	87,628	55,219	37,749	19,755	12,249	1,507	359,901

Source: Council Tax Office website

**Table 3: Delivery of new homes over the past 5 years**

	2004/5	2005/6	2006/7	2007/8	2008/9	Average
City	601	730	668	521	589	622
ECDC	401	796	688	751	475	622
FDC	636	781	758	934	312	684
HDC	698	743	650	728	822	728
SCDC	570	877	924	1291	615	855
FHDC	201	334	265	548	280 <sup>3</sup>	326
SEBC	170	367	536	546	360 <sup>1</sup>	396

Source: District AMRs

## How might the New Homes Bonus affect the Cambridge sub-region?

So if we apply the New Homes Bonus concept to the delivery figures for each district, over the past 5 years, the table below shows how much incentive each district would (given the current level of information available to us) have received.

<sup>2</sup> Note: where districts charge slightly different amounts for different parishes, I have averaged all the "Band A" values, "Band B" etc to give a borough-wide average per band value.

<sup>3</sup> This is the planned figure from the previous AMR – time constraints made getting the true 2008/9 figure too difficult at present.

For the purpose of this discussion note Band D, as the band commonly quoted as the national indicator of council tax levels, has been used. However Table 1 sets out the variation in Band values and therefore how the level of incentive may vary.

**Table 4: Calculating the Bonus due per home**

	Band D ave value (£)	Times 6 (for 6 years CT)	Equals (per home)
City	1442	x 6	£ 8,651
ECDC	1460	x 6	£ 8,759
FDC	1540	x 6	£ 9,240
HDC	1443	x 6	£ 8,659
SCDC	1441	x 6	£ 8,643
FHDC	1470	x 6	£ 8,821
SEBC	1491	x 6	£ 8,945

**Table 5: Bonus x number of homes delivered each year** (though believe it will be paid over the course of 6 years, not in a “lump” as the table below suggests)

	2004/5	2005/6	2006/7	2007/8	2008/9
City	£ 5,199,059	£ 6,314,996	£ 5,778,654	£ 4,507,004	£ 5,095,251
ECDC	£ 3,512,341	£ 6,972,128	£ 6,026,161	£ 6,577,975	£ 4,160,503
FDC	£ 5,876,332	£ 7,216,062	£ 7,003,553	£ 8,629,708	£ 2,882,729
HDC	£ 6,043,724	£ 6,433,362	£ 5,628,110	£ 6,303,483	£ 7,117,394
SCDC	£ 4,926,571	£ 7,580,005	£ 7,986,231	£ 11,158,251	£ 5,315,511
FHDC	£ 1,773,032	£ 2,946,233	£ 2,337,580	£ 4,833,939	£ 2,469,896
SEBC	£ 1,520,582	£ 3,282,669	£ 4,794,307	£ 4,883,753	£ 3,220,057

**Table 6: Comparing 2008/9 notional new homes bonus to provisional 2008/9 HPDG amounts** (see Table 1)

Local Authority	Total HPDG Provisional Allocation 2008/9 £	Notional NHB for 2008/9
City	£1,003,721	£ 5,095,251
ECDC	£696,795	£ 4,160,503
FDC	£509,384	£ 2,882,729
HDC	£241,656	£ 7,117,394
SCDC	£1,318,768	£ 5,315,511
FHDC	£160,152	£ 2,469,896
SEBC	£99,718	£ 3,220,057

**Some pros and cons of the new approach...**

- The NHB looks significantly higher than HPDG amounts. Will the national budget be over-subscribed?
- The amount of NHB available across the country (£900m) is likely to be phased as follows:
 

Year 1 (2011/12)	£196 million in the first year
Year 2 (2012/13)	£250 million
Year 3 (2013/14)	£250 million
Year 4 (2014/15)	£250 million
- No further commitment is (or maybe can) be made, the next general election being scheduled for May 2015.

- Timing may be an issue. HPDG was paid annually, and depended on more “stable” elements.
- New Homes Bonus may prove more volatile, with (guessing) amounts of bonus being allocated as properties become liable for Council Tax. Presumably it will be onerous to do this for individual properties and some system will need to be devised to claim the incentive every quarter or so?
- This means we may not get the incentive payment until the home is virtually or actually occupied, whereas HPDG was a fairly predictable annual amount.
- What happens if a home stands empty? Council Tax may become due or does someone actually have to be in residence? Need to seek some advice on this.
- Will the incentive relate to the individual council tax bands of individual properties? Will this give an incentive to partners to affect the likely CT valuations of homes on a site? May be useful to find out how many new homes delivered in recent years, fell into each CT band?

## Conclusions

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- The New Homes Bonus is a different approach which aims to incentivize building rates across England. It also refers briefly to bringing empty homes back into use - but is not clear how this will work.
- The amounts using all the above local information sources looks promising. However if every housing sub-region adds up what it might get, will this total more than the amounts of NHB specified in the white paper?
- There is a risk if moving from one fairly complicated system (HPDG) to another, with different issues relating to CT systems, billing dates, issues of new homes standing empty etc.
- There is little mention as yet of how the incentive may be used, will it be “freely available” for local authorities to spend, or will there be a requirement to consult local people on its use?
- How useful will it be as an incentive when it is received after a home is completed? Or is there some way we can get the money earlier on by predicting how many homes will be completed in, say, the coming year?
- Will the reliance on CT band provide some incentive to adjust the mix of homes on a site, to maximize the NHB available?
- Will the variation in CT levels shown in Table 2 provide an incentive to develop more homes where CT levels are higher? And might either of these 2 factors affect the incentive to deliver affordable homes?

We all await further enlightenment in the proposed consultation, due in November, but need to be thinking about these (and other) issues if we are going to be ready to respond and make positive suggestions about how this could work in practice.

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