

- Health Authority
- Police
- Other Bodies/Individuals Jasbir Kaur, Robert Leahy - EED

FINAL DECISION NO

SUGGESTED NEXT STEPS:

Details to be specified

- Further consideration by this Committee
- To Council
- To Cabinet
- To an O & S Committee
- To an Area Committee
- Further Consultation Further work on the technical aspects of the response, prior to the submission date of 24 December 2010

Leader Decision Making Session - 16 December 2010

New Homes Bonus Consultation

Report of the Strategic Director, Resources and Strategic Director, Environment and Economy

Recommendation

That the Leader:

- i. supports the approach being taken in the draft response to the New Homes Bonus consultation, as outlined in the report and in Appendix A
- ii. delegates authority to the Strategic Director, Resources and the Strategic Director, Environment and Economy to;
 - Make technical updates as necessary in line with the overall approach contained in this report, and;
 - Submit the final response to Government by the deadline of 24 December 2010.

1 The New Homes Bonus

- 1.1 On 12 November 2010 the Department for Communities and Local Government issued a "*New Homes Bonus*" consultation paper, with a response deadline of 24 December 2010.
- 1.2 The New Homes Bonus (NHB) is a scheme designed, by the Coalition Government, to address the low level of new housing supply. The scheme has been designed alongside the abolition of regional spatial strategies and house-building targets as a bottom-up, rather than top-down approach to incentivise the building of new houses. The NHB aims to do this by providing financial rewards to local authorities for every new house built. It is part of a wider range of incentives set out in the Local Growth white paper, including reforms to business rates and the Community Infrastructure Levy.
- 1.3 Overall, local authorities will receive an NHB payment equal to the additional council tax revenue they would receive from the increased tax base. The proposal is to use the national average council tax of for each band D equivalent house. The payment will be maintained for six years following the year the house is built. An additional bonus payment will also be made for every one of the new houses categorised as "affordable".

- 1.4 The Government have set aside an initial fund of over £900 million, made up of £200 million in 2011/12 and £250 million a year thereafter. But, once this fund is exhausted, the costs of the bonus payments will be met by reducing Formula Grant. Therefore, after the initial cash injection, the scheme is simply redistributing funding from within the overall resource available for local government.
- 1.5 Our draft response is attached at **Appendix A**. The tight consultation deadline set by the Government, means work is still on-going to expand the technical arguments supporting our response. The Leader is therefore asked to support the approach being taken in the draft response to the New Homes Bonus consultation and delegate authority to the Strategic Director, Resources and the Strategic Director, Environment and Economy to finalise the response in accordance with the overall approach by the deadline of 24 December 2010.

2 Summary of Key Issues

- 2.1 Our response to the consultation is based on an acceptance that the shortage of new housing needs to be addressed. We also welcome the abolition of regional targets and the associated flexibility to plan new housing as appropriate to the needs of our communities.
- 2.2 The consultation provides us with the opportunity to provide feedback on the nature of the proposed scheme in order to ensure that its final design offers an appropriate incentive to house building, whilst protecting the services we prioritise. The key issues associated with the scheme are summarised below. These form the basis of our consultation response.
- 2.3 **Effectiveness:** The consultation acknowledges that “the New Homes Bonus only [affects] the distribution of a small proportion of overall formula grant”. This raises concerns that the scheme will not be sufficiently powerful to alter the behaviour of local authorities and will simply redirect funds to areas where levels of house building are already higher than average. The “new” money will only fund the payments for 150,000 new homes nationally over 4 years. And yet, in 2009, where there was the lowest level of house building since 1924, 118,000 homes were completed. The potential penalty of loss of Formula Grant may well become the key feature of the scheme. Attempting to address the issue by increasing the bonus payment would exacerbate the problems associated with directing funds away from services in areas that cannot build enough homes to recoup reductions in their Formula Grant.
- 2.4 **Funding:** In the long term, the cost of the scheme will be met from Formula Grant. This means that if a local authority does not build new houses, it will be penalised by a reduction in grant funding. This contradicts the scheme’s stated aim of rewarding rather than penalising local authorities as an incentive to deliver new homes. It also penalises areas where the construction of new homes is not possible, practical or needed.

In order to avoid increases in Council Tax or reductions in services where house building is not possible, the scheme costs should be met from outside the current quantum of local authority funding. Initial analysis suggests that the net addition of approximately 2,500 homes per year would be needed in Warwickshire in order to recoup the potential reductions in Formula Grant. Recent building rates in Warwickshire have been at or below this level, implying Warwickshire will need to continue with the current level of building just to stand still. Building just half that level could result in the County Council losing funding of approximately £1.8 million per year.

2.5 Interaction with the Local Government Finance System: In practice the actual implications of the New Homes Bonus are impossible to determine due to the myriad of ways it will impact on the local government finance system. The current consultation fails to acknowledge this and any potential perverse incentives that may result. For example, building more homes will, within the Formula Grant system, result in increased ability to raise council tax locally and therefore a reduced entitlement to Formula Grant. Also there is no acknowledgement that deprivation indices, relative needs assessments and the floors and ceilings mechanisms, all designed to bring fairness to the grant distribution system, will be affected. In this way, when combined with the need to top-slice Formula Grant to fund the scheme, the NHB can be seen as a simplistic add-on, the exact impact of which is impossible to predict.

2.6 Sustainability: The reward payment is limited to six years following the construction of a new house. This means that, after those six years, the level of grant received by an authority will reach a “cliff edge” and begin to reduce unless new house building continues at the same rate. The scheme will therefore provide a short-term benefit from increased income and only serve to delay the financial consequences of increased infrastructure and service demand. This will artificially inflate the financial benefits of house building to the local authority and discourage decisions from being based on a true assessment of the cost and benefits.

The “cliff-edge” effect should be limited as much as possible, potentially by tapering the grant payment so that the reductions are manageable or by paying a higher amount over a much shorter timescale so that authorities are rewarded up-front but maintain a true picture of the financial implications of their decisions.

The scheme is intended to become a permanent part of local government finance, but its impact will be diminished as areas reach saturation in levels of housing. In order to protect the overall level of funding available to local government, any reductions in the total NHB should be accompanied by an explicit commitment to use the funding to increase Formula Grant.

2.7 Distribution in two-tier areas: In two-tier local authority areas, such as Warwickshire, the default position is for the grant to be split 80:20 in favour of the shire districts, although local negotiation is possible. The default split is intended to provide the biggest incentive to the authority where planning decisions lie. Warwickshire County Council is fundamentally opposed to this split. It does not reflect the distribution and cost of service provision between

shire districts and counties. More fundamentally, without introducing more ministerial judgement into the system, will have the effect of redirecting funding arbitrarily from upper to lower tier authorities.

Whilst we recognise that the scheme aims to provide incentives to the planning authority, the scheme should fairly reflect the cost of providing services to the upper tier authority, particularly when the latter is likely to contribute a significant level of Formula Grant into funding the scheme. If this concern is not addressed, then services provided by an upper tier authority may suffer as the financial consequences of planning decisions become disconnected from the decision making authority.

- 2.8 **Timing:** The scheme is intended to incentivise the construction of New Homes. However, due to the time lag between approving planning permission and the completion of new homes, payments in the early years of the scheme will be based on decisions taken potentially years previously. Conversely, planning decisions made now will not be rewarded until construction is completed. The reward needs to be responsive to the decisions it is intended to incentivise. The current proposal does not do this.

3 Conclusion

- 3.1 Our draft response to the Government's consultation is attached as **Appendix A**. Subject to the Leader's support for the approach being taken, delegated authority is sought for the Strategic Director, Resources and the Strategic Director, Environment and Economy to:
- Make technical updates as necessary in line with the overall approach contained in this report, and;
 - Submit the final response to Government by the deadline of 24 December 2010.

DAVID CLARKE
Strategic Director, Resources

PAUL GALLAND
Strategic Director,
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Shire Hall
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Draft Consultation Response

As an upper tier authority, Warwickshire County Council plays a key role in the delivery of new housing through our responsibilities to provide appropriate infrastructure and services and our involvement in planning and development.

We are responsible for services including social care, education, transportation and traffic, heritage and culture, fire and rescue and public health (from 2013). Each of these services is affected by increases to our population associated with new housing. They are also vital services if we are to develop viable, sustainable communities into the future.

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?

Yes. We agree that local variations in council tax should be removed from the scheme in order that each local authority receives an equal incentive.

However, despite the incentive being financially equal, the ability to attract the New Homes Bonus will vary. Pressure for new housing is not uniform and there are significant differences in the level and type of demand for housing both nationally and across Warwickshire. In Warwickshire, the prosperous south would be able to maximise the NHB incentive. However, the northern areas of the county have different economic pressures and may not be able to attract the NHB to the same level.

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

Because the reward payment is linked to council tax banding, the scheme as it currently stands provides stronger incentives to build properties in higher valuation bands. In order to redress this balance, the banding should be replaced with a flat payment for each new home built, or be reversed so that more affordable homes receive a higher reward.

The vast majority of affordable homes fall into Bands A and B. Therefore as a minimum, if the banding remains as per the consultation, the payment for affordable homes should be at least enough to bridge the deficit between the reward for a Band A property and the reward for a Band D property and therefore ensure that there is no disincentive to build Band A homes.

Under the proposed scheme, a Band A property would receive £960. The additional bonus for affordable homes should therefore be £480.

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?

We agree with the proposal to include pitches on Gypsy and Traveller sites subject to our comments on the split between upper and lower tier authorities under question 6. As an upper tier authority, the planning considerations and costs related to providing

pitches on Gypsy and Traveller sites rest almost entirely with us, so we would only welcome their inclusion in the scheme if the upper tier authority attracts a fair share of the bonus.

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?

We agree that local authorities should be rewarded for genuinely bringing empty homes back into use. However, we have concerns about the definition of empty homes and the possibility of the reward payment being distorted by local interpretations of that definition.

The scheme should be based on clear definitions of an empty property in order to minimise any local distortion.

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?

Whilst we recognise that the scheme aims to provide incentives to the planning authority, we do not believe that the default split does not fairly reflect the cost of providing services to the upper tier authority. There are potentially significant financial impacts of keeping an 80:20 split as upper tier authorities are likely to contribute a significant level of top-sliced Formula Grant into the scheme.

The proposed split will be a serious disincentive to upper tier authorities to support new housing development as the cost of providing infrastructure and services would outweigh the bonus received. Furthermore, lower tier authorities would need to approve far fewer new homes in order to recoup losses in Formula Grant, and would have little incentive to approve the number required by the upper tier authority.

We believe the split should be reversed. Allocating a smaller proportion of the payment to the lower-tier authority would therefore provide a stronger incentive for them to approve new homes. The grant should be targeted in proportion to the level and cost of services already provided by each tier of local government.

If this is not acceptable, then the principle that, for each tier, an average authority, providing the average number of new homes should be financially no worse off when combining the NHB and the top-slice of Formula Grant.

If this concern is not addressed, then services provided by an upper tier authority may suffer as the financial consequences of planning decisions are disconnected from the decision making authority.

Parallels can be drawn between the New Homes Bonus and the Local Authority Business Growth Incentive (LABGI) scheme. Originally, LABGI provided the majority of the payment to the lower tier authority, but it was subsequently recognised that it would be more effective to direct the majority of the funds to the upper tier authority.

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?

We agree with the use of existing data in order to minimise the administrative cost of the scheme to local authorities.

However, we are concerned that only tracking net additions will fail to incentivise the replacement of demolitions. An authority whose net supply is falling will have no incentive to encourage building within that overall reduction, and so the scheme may miss the opportunity to slow reductions in certain areas. Rewarding based on gross additions to supply would incentivise net additions as well as slowing reductions.

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?

The time delay between the period of data analysed and the payment of the reward is inconsequential in comparison to potentially much bigger delays between the approval of planning permission and the delivery of new housing. More detail on this point is provided in our response to question 13.

It would be useful if the New Homes Bonus was paid in March to maximise its incentive effect and avoid the need to accrue for its receipt.

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

Yes. This will be crucial in order to effectively build the grant into the budget setting process, particularly as Formula Grant will be reduced to fund the scheme.

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?

We agree with this proposal.

10. How significant are demolitions? Is there a proportionate method of collecting demolitions data at local authority level?

We do not believe that demolitions will materially affect the scheme.

11. Do you think the proposed scheme will impact any groups with protected characteristics?

If the final scheme design maintains the proposed split between lower and upper tier authorities, groups with protected characteristics may be impacted upon as funding for services provided by upper tier authorities is reduced.

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

Although the New Homes Bonus will only affect the distribution of a relatively small proportion of local government funding, the impact on authorities who lose funding as a result of the scheme would need to be modelled in more detail in order to establish the effect on specific customer groups.

A £1bn reduction in Formula Grant at 2010/11 levels equates to a reduction of approximately 4-5%. For authorities who are unable to build any new homes, this reduction could have a significant effect.

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

Our response to the consultation is based on an acceptance that the shortage of new housing needs to be addressed. We also welcome the abolition of regional targets and the associated flexibility to plan house building at a level appropriate to our local communities.

However, we do have some additional concerns relating to the current proposals for the New Homes Bonus, detailed below.

Effectiveness as an Incentive: The consultation acknowledges that “the New Homes Bonus only [affects] the distribution of a small proportion of overall formula grant.” This raises concerns that the scheme will not be sufficiently powerful to alter the behaviour of local authorities and will instead redirect funds to areas where levels of house building are already higher than average.

The potential penalty of loss of Formula Grant may well become the key feature of the scheme. Attempting to address the issue by increasing the bonus payment would exacerbate the problems associated with directing funds away from services in areas that cannot build enough homes to recoup reductions in their Formula Grant.

Funding the Scheme: In the long term, the cost of the scheme will be met from Formula Grant. This means that if a local authority does not build new houses, it will be penalised by a reduction in grant funding. This contradicts the scheme’s stated aim of rewarding rather than penalising local authorities as an incentive to deliver new homes. It also penalises areas where the construction of new homes is not possible, practical or needed.

In order to avoid increases in Council Tax or reductions in services where house building is not possible, the scheme costs should be met from outside the current quantum of local authority funding. This is of particular concern when comparing the potential loss of Formula Grant to the potential additional benefit of only 20% of the NHB for an upper tier authority.

Interaction with the Local Government Finance System: In practice the actual implications of the New Homes Bonus are impossible to determine due to the myriad of ways it will impact on the local government finance system. The current consultation fails to acknowledge this and any potential perverse incentives that may result. For example, building more homes will, within the Formula Grant system, result in increased ability to raise council tax locally and therefore a reduced entitlement to Formula Grant. Also there is no acknowledgement that deprivation indices, relative

needs assessments and the floors and ceilings mechanisms, all designed to bring fairness to the grant distribution system, will be affected. In this way, when combined with the need to top-slice Formula Grant to fund the scheme, the NHB can be seen as a simplistic add-on, the exact impact of which is impossible to predict.

Sustainability: The reward payment is limited to six years following the construction of a new house. This means that, after those six years, the level of grant received by an authority will reach a “cliff edge” and begin to reduce unless new house building continues at the same rate. The scheme will therefore provide a short-term benefit from increased income and only serve to delay the financial consequences of increased infrastructure and service demand. This will artificially inflate the financial benefits of house building to the local authority and discourage decisions from being based on a true assessment of the cost and benefits.

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