New Homes Bonus: final scheme design

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Department for Communities and Local Government

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Ministerial foreword

We all want to live in a home that meets our needs and from which our families can reach for their aspirations.

For decades house building has failed to keep pace with people's needs. And recently, a combination of the recession, divisive top-down targets and a public subsidy-driven approach has led to a catastrophic decline in the number of new homes. We are currently experiencing the lowest level of house building in England and Wales in peace-time since 1923-24, and the cost of a home doubled in real terms between 1997 and 2007.

Housing is central to economic success. We need to make building homes a motor for growth again – creating new jobs and great places to live and work. The previous system did not provide the right incentives for councils and local people to welcome the local growth that they can see is needed. Instead communities were penalised for accepting new homes and understandably opposed development. Now, communities will see the economic and social benefits of having the housing they want. Communities could benefit from reductions in council tax, or a redeveloped town centre or a new community centre or play park as a consequence of accepting new homes. It will be up to them.

The New Home Bonus will have localism at its heart. It will re-energise communities. It will encourage local politicians to lead a debate with communities about the benefits of new homes. Local authorities will be expected to work with local people to develop their housing plans in ways that meet their needs and concerns. The Community Right to Build, mutual solutions and self-build schemes will give people more say in providing new homes for themselves. And its not just new build. Empty homes are a blight on communities and are a cause of anti-social behaviour. The Government has already stated that empty homes that are returned to use will qualify for the New Homes Bonus - something that will not only improve the supply of homes, but also improve communities.

The New Homes Bonus is a key part of a wider framework of incentives to support growth. The Community Infrastructure Levy is an effective way of ensuring that development is supported by adequate infrastructure. Through the Local Government Resource Review the Government will explore a range of options for encouraging local authorities to support business growth including the full localisation of business rates.

Local authorities have a central role in facilitating this economic and social growth. In housing this means building strong partnerships with the private sector, writing ambitious development plans, releasing land for development and engaging with their communities to ensure their plans our based on their views. Where they are proactive in securing growth they will reap the benefits.

Communities know they need new homes. The New Homes Bonus gives them the incentive to welcome them.

Rt Hon Grant Shapps MP

Minister for Housing and Local Government

Final scheme design

Background

1. The formal consultation on the Government's proposed design for the New Homes Bonus closed on 24 December 2010. Four hundred and eighty responses were received and the proposals were met with widespread support. DCLG is therefore implementing the scheme without delay. The consultation document and a summary of responses to the consultation can be found on the DCLG website at www.communities.gov.uk/housing/housingsupply/newhomesbonus/ . This document sets out the final scheme design for the New Homes Bonus. Appendix C provides a worked example.

Summary

2. The New Homes Bonus is designed to create an effective fiscal incentive to encourage local authorities to facilitate housing growth. It will ensure the economic benefits of growth are more visible within the local area, by matching the council tax raised on increases in effective stock. This will redress the imbalance in the local government finance system, whereby resources for growth areas did not keep pace with growth.

3. The Bonus will sit alongside the existing planning system. It is intended to help deliver the vision and objectives of the community and the spatial strategy for the area. In particular, it will be relevant to the preparation of development plans which concern housing where it assists with issues such as service provision and infrastructure delivery. However, it is not intended to encourage housing development which would otherwise be inappropriate in planning terms.

4. The scheme will provide local authorities with a New Homes Bonus, 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. In particular the scheme has been designed in line with the following key principles:

- *Powerful* - the grant will be payable for the following six years, so the total will rise for at least the first six years. The diagram below shows how the profile will rise as the grant rolls forward. By year six, even at a steady rate of build, we expect it to be over £1bn. In fact, we expect building rates to increase and the grant to be significantly higher by year six. DCLG has allocated nearly £200m to fund the scheme fully in 2011-12. For the following three years of the spending review (2012-13 to 2014-15) we have allocated £250m per annum with funding beyond these levels coming from Formula Grant. Those authorities which respond to the incentive and embrace housing growth will reap the benefits.

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Year 1	£	£	£	£	£	£	
Year 2		£	£	£	£	£	£
Year 3			£	£	£	£	£
Year 4				£	£	£	£
Year 5					£	£	£
Year 6						£	£
Year 7							£

- *Simple* - for each additional home local authorities will receive six years of grant based on the council tax, ensuring the economic benefits of growth are more visible to the local community.

- *Transparent* - it will be easy for councillors, the community and developers to calculate and to see the early benefits of growth.

- *Predictable* - the scheme is intended to be a permanent feature of local government funding and will therefore continue beyond the six-year cycle. The design features have been kept simple and stable to ensure that expected rewards for growth are delivered.

- *Flexible* - local authorities will be able to decide how to spend the funding in line with local community wishes. The Government expects local councillors to work closely with their communities – and in particular the neighbourhoods most affected by housing growth – to understand their priorities for investment and to communicate how the money will be spent and the benefits it will bring. This may relate specifically to the new development or more widely to the local community. For example, they may wish to offer council tax discounts to local residents, support frontline services like bin collections, or improve local facilities like playgrounds and parks. This will enable local councillors to lead a more mature debate with local people about the benefits of growth, not just the costs. The Bonus will be paid through section 31 of the Local Government Act 2003 as an unringfenced grant.

Unit of reward

5. Previous policies have not met Britain's housing needs. The top-down targets that were set were not reached and sometimes led to undesirable outcomes. For example, local authorities were encouraged to focus on high density developments of at least 30 dwellings per hectare. One consequence of this was fewer houses were built - the proportion of flats built increased considerably from 15 per cent in 1997-98 to 45 per cent in 2009-10 - but this did not necessarily reflect the types of homes the local community needed or wanted. This left demand for larger family homes unmet.

6. We want the economic benefits of housing growth to be more visible to the local community. We have therefore designed the New Homes Bonus around the council tax revenues generated from housing development.

7. We will link the level of grant for each additional dwelling to the national average of the council tax band for the following six years to incentivise local authorities to build and bring back into use the types of homes people want and need, in the places that people want them. We are doing this by measuring the change in dwellings on council tax valuation lists as set out in paragraph 28. This approach recognises:

- increases in housing stock
- the relative value of the properties – larger family homes require more land and that homes built in areas of highest need are more expensive and tend to be in a higher council tax band and
- that local council tax levels have a variety of historic and local reasons and we do not want to penalise authorities which have been prudent

8. Currently the amount of grant relating to an additional council tax band D property will be about £1,439 per annum or £8,634 over six years, and the grant relating to an additional band E property will be about £1,759 per annum or £10,553 over six years. This will be reviewed if council taxes rise.

9. The full calculation is set out fully in paragraphs 26-28 and exemplified in Appendix D.

Affordable housing enhancement

10. It is crucial that there is a good balance of market and affordable housing. We want to incentivise local authorities to provide the right balance of housing to meet the needs of local people. Particularly in bringing forward land for development, granting planning permissions and negotiating section 106 agreements. This will support the commitment made in the Spending Review of almost £4.5bn over a four year period to support affordable housing.

11. To ensure that affordable homes are sufficiently prioritised within supply, there will be a simple and transparent enhancement of a flat rate £350 per annum for each additional affordable home. This is about 25 per cent of the current average Band D council tax or 36 per cent of the average Band A council tax, and will be reviewed if council tax rises. Over six years an affordable home would receive an enhancement of £2,100.

Affordable housing definition

12. The Government considers that the housing market should offer a range of affordable housing options that meet people's varying needs. There are low cost homeownership products that offer housing at less than market cost, for example shared ownership, which allow households which would otherwise have been excluded from the market to purchase a home. These products allow purchasers to get a first step up on the property ladder with the later ability to 'staircase up' and own a larger share later.

13. Affordable housing will include the new 'affordable rent' homes which will be offered to new tenants at a level between social rents and local market rents and on a tenancy agreement that will be reviewed after an agreed period of time. Local authorities will be able to nominate prospective tenants to these properties in the same way as they do now. Affordable rent homes will be eligible for the same bonus as other affordable homes.

14. Traveller sites in public ownership also contribute to the supply of affordable homes. Provision of public traveller caravan sites is now included in the Homes and Communities Agency's affordable housing programme. In agreeing Local Investment Planning with local authorities, the Homes and Communities Agency will seek to ensure that provision of appropriate sites forms part of the overall package of housing and regeneration in the area.

15. We are defining affordable homes using Appendix B of Planning Policy Statement 3 (PPS3) and also including pitches on traveller sites owned and managed by local authorities or registered social landlords. Following the Government's announcement on Affordable Rent this is subject to consultation. Appendix B of this document sets out the types of housing which will currently be eligible for the enhanced rate and form the basis for the DCLG statistics on affordable homes. We are also considering how other below market traveller sites can be included.

Empty homes

16. The Coalition Agreement set out the Government's commitment to explore a range of measures to bring empty properties back into use.

17. There are a number of reasons why properties become and remain empty including low demand, the cost of repairs, reluctance to rent, or personal circumstances. Around 300,000 privately owned homes have been vacant for over six months and many are in areas of high demand. Empty homes are a blight on local communities and a waste which we cannot afford. We need to harness this potential to meet pressing housing need.

18. The Spending Review announced that the Government is investing £100m - through the Homes and Communities Agency - to enable housing associations to support local authorities to bring over 3,000 empty homes back into use as low cost housing. The New Homes Bonus will complement this measure and provide a further mechanism to support returning empty homes to use.

19. Many local authorities already work with property owners to bring homes back into use. Some also take enforcement action where advice and support fails. The New Homes Bonus will strengthen the incentive 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. Where local authorities are pro-active they will see the benefits.

20. The New Homes Bonus is designed to increase the supply of effective housing so it follows that local authorities should be rewarded for bringing empty homes back into use. In addition, making use of existing stock can be important in overcoming some local opposition to new housing.

New Homes Bonus allocation

Tier split

21. Lower tier local authorities are better placed to understand local needs and concerns, and this should be reflected in how the bonus is allocated. However, in two tier areas outside London, we recognise the role of the upper tier in the provision of services and infrastructure and the contribution they make to strategic planning.

22. The payment of the New Homes Bonus will be split between tiers outside London: 80 per cent to the lower tier and 20 per cent to the upper tier, as a starting point for local negotiation. In London 100 per cent will go to the London borough.

Local flexibility

23. Local authorities will have flexibility on how to spend the unringfenced grant. Every development is different and will need different services to support it. Local authorities are best placed to decide how to meet the needs of local neighbourhoods and communities. In many cases this will involve advanced planning with other local service providers to ensure that there is timely delivery of infrastructure for the new development. For example, local authorities can pool funding to deliver infrastructure.

24. Billing authorities will be expected to negotiate with National Park Authorities and the Broads Authority to recognise their role as the sole local planning authority for their area in granting planning permissions. This could conclude in an agreement to split the funding from New Homes Bonus between them at a locally determined rate or to reach an agreement on funding a specific community project.

25. Equally, Local Enterprise Partnerships can support the delivery of new housing through infrastructure planning and providing the best business environment for growth. Local authorities may choose to pool some New Homes Bonus at the level of the Local Enterprise Partnership to reinvest into shared priorities which support long-term prosperity for the area, increased efficiency and reduced transaction costs by managing the money collectively, greater transparency and increased potential for alignment with other partner sources of funding (e.g. Regional Growth Fund and European Structural Funds).

Basis of calculation

26. The basis on which grant to individual authorities is calculated must be fair and equitable and support the objective of the scheme – to increase housing supply. We want to collect data in a way which is simple and minimises additional burdens on local authorities and others, but is robust and sufficiently timely.

27. We will therefore use the Council Tax Base form to calculate increases in effective stock. This has the advantage of bringing together data on additions, demolitions and empty homes in one place and is already used to calculate formula grant. This data is provided by local authorities. Collection of affordable homes data is considered separately below.

28. We will calculate the grant for a billing authority's area and a financial year ('the relevant year') as follows:

- The baseline for the number of effective stock for the preceding financial year will be established using the following lines in the Council Tax Base form submitted by the authority for the preceding year:

Dwellings on the valuation list (Line 1) – adjustment for recent demolitions and out of area dwellings (Line 3) – Long term empty homes (Lines 12, 14 & 15)

- The position for the relevant year will be established in the same way, but using the Council Tax Base form for that year.

- Both these calculations will be converted to numbers of Band D equivalents using the standard table below.

Ratio to Band D	
Band A	6/9
Band B	7/9
Band C	8/9
Band D	1
Band E	11/9
Band F	13/9
Band G	15/9
Band H	2

- We will then calculate the annual change from the preceding financial year ('the relevant figure') using the Band D equivalent calculations.

- The grant for the authority's area will be calculated by multiplying the relevant figure by the average Band D council tax in England for the previous year.

- The grant will be payable for the relevant year and the five financial years following that year (that is, for a total of six financial years). The total will not be less than zero.

- This process will be repeated each financial year with each new amount of grant being added to the amount of grant payable in the preceding financial 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 (and so in the seventh year the amount calculated for the first year will not longer be paid, in the eighth year the amount calculated for the second year will no longer be paid and so on).

Timing of grant allocation and payments

29. The grant has been designed to be stable and predictable. To maximise this we will normally pay the New Homes Bonus alongside the local government finance timetable. This means that provisional allocations will be announced in early December and final allocations in early February. This will allow local authorities to include the grant in their budget setting process in February. We are issuing allocations for year one slightly later than usual in parallel to the publication of this document.

30. Grant for increases in effective stock between successive Octobers will be paid from the following April. Using this approach means that there is a potential time lag for payment of the grant. Houses built between October 2010 and October 2011 will be paid the following financial year - between April 2012 and March 2013.

Affordable homes

31. We have considered how to include data on affordable homes in the scheme design, in a way which is proportionate – again minimising administrative burdens on central and local government, while ensuring that the data is consistent and accurate.

32. Currently, the best source of data on affordable homes defined by Planning Policy Statement 3 and including Traveller Sites is considered to be the Department for Communities and Local Government official statistics on gross additional affordable housing supply. This includes data from a range of sources including the Homes and Communities Agency Investment Management System and other Homes and Communities Agency monitoring systems, and returns made by local authorities to DCLG through the Housing Strategy Statistical Appendix and the P2 quarterly house building return. The data is collected for financial years and published in the following October. It includes newly built affordable homes and acquisitions to the affordable stock.

33. We will use the Department for Communities and Local Government official statistics on gross additional affordable housing supply to calculate the affordable homes enhancement. Local authorities will receive an additional £350 for the following six years for all additional affordable homes reported in this statistical release. Similar to paragraph 28, this process will be repeated each financial year with each new amount of grant being added to the amount of grant payable in the preceding financial 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.

34. These statistics measure additional affordable supply on a gross basis. They do not deduct demolitions or other losses to stock. Local authorities

will therefore receive the enhancement for all new affordable homes regardless of whether there have been any reductions to stock. This will also serve as an incentive for regeneration schemes which demolish unfit housing and include a large number of affordable homes.

35. The statistics also measure acquisitions – previously market homes that have been made affordable. Acquisitions increase the availability of affordable homes and so would receive the £350 enhancement. They would not receive the council tax element as they are not new supply and would not be included in the data set from the valuation list.

36. These statistics run from April to April and do not become available until October. For reasons of simplicity the affordable homes enhancement of £350 per home will be paid the following April. So the enhancement for affordable homes delivered between April 2010 and April 2011 will start to be paid alongside the main grant payments for year two.

Monitoring and evaluation

37. We want to ensure that the New Homes Bonus achieves maximum impact and will therefore work closely with local authorities to monitor and evaluate the effectiveness of the scheme.

Appendix A – Calculation of council tax

Each authority is required to set a 'basic amount of council tax'. This is a Band D amount set by an authority under section 33(1) (if the authority is a billing authority), or 44(1) (if the authority is a major precepting authority other than the GLA) of the Local Government Finance Act 1992, or sections 88(2) and 89(3) of the Greater London Authority Act 1999 in the case of the GLA. An authority calculates it 'basic amount of council tax' by dividing the total council tax requirement (the total amount that it wishes to raise in council tax) by its tax base.

The tax base is the number of Band D equivalent dwellings in a local authority area. To calculate the tax base for an area, the number of dwellings in each council tax band is reduced to take account of discounts and exemptions. The resulting figure for each band is then multiplied by its proportion relative to Band D (from 6/9 for Band A to 18/9 for Band H) and the total across all eight bands is calculated. The tax base figure that is used by a local authority when it sets its council tax uses an adjustment for the collection rate and the actual discount for second homes.

The average Band D is calculated by taking the total council tax requirement for England and dividing by the total tax base for England. The average for each band is calculated by using the proportions relative to Band D.

Appendix B – Planning Policy Statement 3, affordable housing definition

This Appendix should be read in conjunction with Planning Policy Statement 3[1]

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.

[1] http://www.communities.gov.uk/documents/housing/pdf/152897.pdf

Appendix C – Worked example

<u>Year X</u>

Council Tax Band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**
Line 1	600	750	500	300	250	100	50	10
minus								
Line 3	20	10	12	8	3	1	0	0
minus								
Lines 12, 14, 15	50	20	2	0	0	0	1	0
Adjusted line 1	530	720	486	292	247	99	49	10
Adjust to band D	6/9	7/9	8/9	1	1/9	13/9	15/9	2
Band D equivalent	353	560	432	292	302	132	71	20

<u>Year X+1</u>

Council Tax Band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**
Line 1	650	780	520	340	260	110	55	12
minus								
Line 3	18	9	12	5	3	2	0	0
minus								
Lines 12, 14, 15	40	18	2	0	0	0	0	0
Adjusted line 1	592	753	506	335	257	108	55	12
Adjust to band D	6/9	7/9	8/9	1	11/9	13/9	15/9	2
Band D equivalent	395	586	450	335	314	144	79	24
Net change	41	26	18	43	12	12	9	4

Multiply by £1,439	59,479	36,934	25,582	61,877	17,588	17,268	12,471	5,756
Gross incentive (Y1)	**£236,955**							
Gross incentive over 6 years	**£1,421,732**							

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