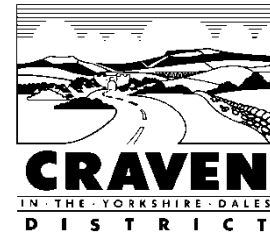


Policy Committee

1st March 2016



New Homes Bonus Review

Report of the Strategic Manager for Planning and Regeneration

Lead Member: Councillor Foster

Ward(s) affected: All wards

1. **Purpose of Report** – To highlight the key aspects of the current Government consultation on the reform of the New Homes Bonus and to present an initial response to the consultation.

2. Recommendations

Members are recommended to:

- 2.1 Note the issues raised in the Government's consultation on reform of the New Homes Bonus.
- 2.2 Discuss and suggest amendments to the draft response to the consultation.
- 2.3 Give authority to the Chief Executive in consultation with the Leader of the Council to produce the final consultation submission.

3.0 Background

- 3.1 The New Homes Bonus was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas.
- 3.2 The New Homes Bonus reflects the crucial role local authorities play in supporting housing and wider economic growth by rewarding additional homes built in their areas. The Bonus is a sum of money for each additional new build and conversion using the national average council tax in each band. Long-term empty properties brought back into use are also included and there is a premium for affordable homes. Each year's grant is paid for 6 years. The Bonus is not ring-fenced. In two-tier areas payments are split between both county (20%) and district (80%) authorities.
- 3.3 The existing model has the strength of being straight forward both in order to collect the data using existing sources and also providing a clear incentive between the dwelling built or brought back into use and the bonus paid.

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- 3.4 The Government's aim is to save £800m from the NHB to reallocate it to adult social care and also to sharpen the incentive on councils to encourage more house building. This consultation, therefore, seeks views on the options for change to two aspects of the Bonus: reducing overall costs by moving from 6 years to 4 of payments and reform of the Bonus in order to better reflect local authorities' performance on housing growth. It also considers options for staying within the funding envelope in the event of a sudden surge in housing growth.
- 3.5 The deadline for responses to the consultation is the 10th March 2016.

4.0 Options for Change

- 4.1 The following section covers the options that the government has put forward in the consultation.

Changing the number of years for which payments are made

- 4.2 At present, each year's allocation is provided for the following 6 years. The current system builds up the bonus over time up until year 7 when the first year allocation drops out of the bonus.

Legacy Payments

- 4.3 The government argues that by allowing legacy payments to continue unchanged it would reduce the incentive to build more houses as we rely on past performance so to increase the incentive effect of the Bonus the Government is therefore consulting on whether from 2017-18, the number of years for which legacy payments under the Bonus are to be paid will be reduced from 6 years to 4 years. This is the Government's preferred option but it is considering whether to move further and reduce payments to 3 or 2 years.
- 4.4 The current 6 years of funding smooths the fluctuations in house building and so supports longer term financial planning. In the last 6 years our change in dwelling numbers for the purposes of the New Homes Bonus has fluctuated from minus 24 to plus 257. By reducing the number of years from 6 to 4 would mean that Craven DC would lose approximately £330,000 pa.

Transition

- 4.5 The consultation looks at a number of ways to reduce the number of years over which payments would be made. One option is to reduce the numbers of years for which payments are made for both existing and future allocations to 5 years in 2017-18 and 4 years in 2018-19. It has the advantage of protecting

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existing payments for both 2016-17 and 2017-18 and reduces the cost impact on the council.

- 4.6 Alternative approaches are to introduce the reduction in years earlier or without the intermediate step to 5 years. A further alternative would be to reduce the numbers of years for which payments are made to 3 or 2 years. All of these approaches would have a greater negative impact.
- 4.7 The consultation raises the issue that we may be influenced to build bigger homes because they have a higher NHB value. The consultation does not give a solution to this problem.

Reforms to improve the incentive

- 4.8 The current system allocates the NHB based purely on the number of additional dwellings and the number of homes brought back into use. The government argues that this may not sufficiently reward “really strongly performing authorities.” In order to counteract these effects, the Government has considered three ways in which the incentive impact of the Bonus could be improved:
 - (a) withholding new Bonus allocations in areas where no Local Plan has been produced in accordance with the Planning and Compulsory Purchase Act 2004;
 - (b) reducing payments for homes built on appeal; and
 - (c) only making payments for delivery above a baseline representing deadweight.
- 4.9 It is not clear what constitutes a “really strongly performing” authority as performance, in relation to the NHB, was always based on an increase in dwelling numbers. The three proposed changes aim to influence the process but not necessarily the outcome. This was the approach tried by the last Labour Government but it did not achieve the desired goal of building more homes.

A. Withholding the Bonus where no Local Plan has been produced

- 4.10 The Government’s preferred option is that from 2017-18 onwards, local authorities who have not submitted a Local Plan prepared under the 2004 Act should not receive new New Homes Bonus allocations for the years for which that remains the case. The legacy payments relating to allocations in previous years would be unaffected. An alternative would be for local authorities to receive a set percentage (50%) of the Bonus allocation where they have published a Local Plan but not yet submitted it to the Secretary of State for examination. This approach would recognise progress against the different stages in the plan-making process. The Government proposes to use

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information held by the Planning Inspectorate to determine the level of abatement.

- 4.11 Because each authorities Local Plan are at different stages the Government has, therefore, considered an alternative approach to abatement based on a banded mechanism whereby authorities would lose a fixed percentage of the Bonus they would otherwise have received based on the date of their adopted Local Plan i.e. the older the Plan the less NHB. However, they recognise that this option would bring more complexity to the bonus calculation.
- 4.12 Although the Government does not intend to link Bonus payments to the type of plans that are commonly prepared by County Councils such as minerals plans they recognise that they do have an essential role in supporting the production of the Local Plan. The consultation therefore asks whether there should be a corresponding percentage reduction in the bonus available to County Councils.
- 4.13 The proposal is a clear incentive to submit the Local Plan on the assumption that the Local Plan will encourage more house building. The consultation is only envisioning the submission of the Core Strategy and not the site allocations despite the purpose of this measure is to give developers greater certainty which the Core Strategy without the site allocations will not.
- 4.14 Our current position is that we will publish our draft Core Strategy and site allocation in early March 2016 and aim to publish the final Local Plan in the summer. The final Local Plan will be submitted to the Planning Inspectorate in the autumn.

B. Reducing payments for homes allowed on appeal

- 4.15 Currently, where a development is granted planning permission on appeal the council receives the same reward as when development takes place that the local planning authority has permitted. The Government believes that this does not always reflect positive decisions to allow development, and nor do they reflect the additional costs and delays for applicants arising as a result of the appeal process. The Government is, therefore, proposing to reduce new in-year allocations payments to individual authorities where a residential development is allowed on appeal.
- 4.16 Government's preferred approach is to use existing data collected by the Planning Inspectorate as the basis for these adjustments. The Inspectorate record the number of houses associated with each planning appeal decision. This data would be used on an annual basis to calculate the change required to the overall New Homes Bonus grant for each local authority, to reflect the total number of homes allowed on appeal in a given year.
- 4.17 The consultation appreciates that some time can elapse between a decision by a local planning authority to refuse an application, any subsequent appeal decision and when the resulting homes get built and added to the council tax

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base. To allow for this, there would be a time lag between the appeal outcomes that are counted for the purposes of New Homes Bonus adjustments, and the point at which those changes are then applied to Bonus payments. They hope that this will reduce any possibility of a significant mismatch between the pattern of current planning decisions by an authority and any change in Bonus payments which are made.

4.18 Government proposes that there would be a 50% reduction in the New Homes Bonus payment per home allowed on appeal, rather than it being withheld in full. This is for two reasons:

- Not all refusals of permission – and subsequent appeals – result from authorities opposing the principle of development (some, for example, arise from unresolved disagreements over technical issues such as the adequacy of highways access).
- The New Homes Bonus is intended to provide a benefit to the community as a whole, and there is a limit to the extent to which local people should be penalised as a result of poor decisions made by their local planning authority.

4.19 At the time of an appeal decision the ultimate council tax banding of the homes being proposed is not known (as this will depend on their valuation once built). For this reason where homes are allowed on appeal the national Band D average value is proposed to be used for all dwellings.

4.20 The proposed change adds a great deal of uncertainty and complexity to the allocation of the NHB. As the consultation recognises the decision to refuse an application is not because of an objection to development but with various reasons both technical and also based on the quality of the development. There is always a degree of subjectivity in the planning process around questions of quality and it is reasonable for a planning authority to view something differently to an inspector. The purpose of this change on the surface is to stop the planning authority from being unreasonable but as there is already the deterrence based on the award of costs for unreasonable behaviour these changes are more about deterring the planning authorities from refusing applications.

4.21 Of all of the proposed changes in the consultation this could potentially have the biggest financial impact as half of the NHB is lost for each of the years.

C. Removing deadweight

4.22 The Bonus is currently paid on all new housing regardless of whether or not it would have been built without an incentive. The government are interested in removing this deadweight from the calculation of the Bonus. One option for removing deadweight from payments would be to set a single baseline for all areas and only make payments under new allocations relating to housing above that baseline. A possible level of the baseline is 0.25% of existing

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stock as this is lower than the average housing growth over the years prior to the introduction of the Bonus in order to ensure that, whilst it acts as an incentive, not too many authorities fall outside the Bonus entirely. For Craven DC this would mean that the first 70 dwellings built would not be awarded any NHB and as our build rates have fluctuated greatly in some years we would not receive anything. Even if we built our identified objectively assessed need of 290 that would equate to just 1% of our stock so at best we will lose a quarter of our NHB.

- 4.23 An alternative option would be to set a baseline based on the average growth rate of dwellings in each local authority or local area however this is largely discounted as it penalises those authorities with a strong history of growth.
- 4.24 The consultation also make the point that the Government would also make adjustments to the baseline in order to manage the budget to take account of significant and unexpected housing growth. The consultation believes that by increasing the baseline it would ensure that the Bonus acts as a true incentive to housing growth. The problem is if the baseline goes too high it will become a disincentive if the reward is unlikely to be achieved. There is no mention of baselines being reduced in times of low growth.
- 4.25 Of all of the proposals this one is the only one that will encourage local authorities to support build rates beyond their historic norm. Although this measure could have a significant impact on our income it does have the benefit of being simple, having a clear link to growth and also support longer term financial planning.

National parks, development corporations and county councils

- 4.26 National Park Authorities (and the Broads Authority) are responsible for decisions on planning applications in their areas, and for producing a Local Plan; whereas New Homes Bonus payments are made to the relevant district and county councils. This reflects the fact that local authorities are responsible for many of the services that would be affected by increased population in their areas.
- 4.27 Government has considered whether, in such areas, the Bonus paid to local authorities should be removed or reduced in the circumstances set out in this consultation: that is, where a local plan is not yet in place, where homes are allowed on appeal or where the homes being delivered are not additional to planned targets. As a more tightly-focused Bonus would have an increased focus on rewarding proactive planning, we think that the same approach should apply in these areas as elsewhere: in other words, the appropriate reductions would apply.
- 4.28 Government has also considered the position of county councils in two tier areas, who receive 20% of Bonus payments, but are not the planning authority for decisions involving residential development. Again, Government is not

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proposing to exempt county councils from the calculation of any adjustments, given the need to more tightly focus future Bonus payments.

- 4.29 The National Park will likely make up 11% of Craven's housing growth and so it is not insignificant. The district and county council do not have any control over the plan preparation, planning decisions or house building ambitions of the Park yet the consultation seems to state that the district and county councils will be the ones who are punished. It is difficult to see what the incentive is for the National Park to increase the rate of house building therefore we believe that the National Parks should be excluded from these changes.
- 4.30 The county council have a strong role in supporting the development of Local Plans, creating the infrastructure to support house building and in the development control process especially through highways. By including the proportion of the NHB given to county council within the adjustments would on balance seem appropriate.

Protecting individual local authorities

- 4.31 In proposing the reforms set out in the consultation, the Government recognises that there may be factors which are outside that local authority's control in building more homes. Government would, therefore, welcome views on whether there is merit in some form of mechanism to protect local authorities who are particularly adversely affected by the reforms proposed in the consultation paper.
- 4.32 Areas of low housing market demand would be harshly affected by these reforms but it is difficult to see how the thrust of these reforms can be easily mitigated. By adopting the changes to the reforms highlighted in our response in section 5 it is hoped that a more fair set of reforms can be achieved that meets the Governments aspirations. In particular, by keeping the 6 year legacy to address peaks and troughs while capping the payments at Band F it will support low housing demand areas and support the Government policy of more starter homes.

5.0 Consultation Questions and Initial Response

Summary

The current system is simple to administer, it provides a clear incentive linking the dwelling built or brought back into use and the bonus paid and is increasing powerful as it starts to drive support for our communities. The current proposals make the whole system more complicated and weaker.

We understand that the Government wants to take £800m from the Bonus and to spend that on social care but as the New Homes Bonus (NHB) was

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originally taken from the Revenue Support Grant the government is proposing to take further funding from rural district councils to give higher tier authorities.

The New Homes Bonus in Craven has been used entirely on activities aimed at increasing the strength of our local economy through activities such as increasing rural broadband coverage, building cycling infrastructure, bringing empty homes back into use and revitalising our town and village centres. We would have preferred that the Government had found the additional £800m from an alternative source and if the Government wished to direct us on how to use the New Homes Bonus that it was towards generating economic growth.

The consultation seeks to transfer £800m to those authorities responsible for providing social care and also to sharpen the incentive encourage more houses to be built. We strongly believe that if the Government is determined to use the NHB for social care that the easiest approach is to simply increase the proportion of funding that is shared by county councils as the unitary authorities already retain 100% of the funding they generate. We also believe that as these proposals fundamentally reduce the scale of the Bonus (we estimate that Craven will see at least a 56% reduction in NHB) that any sharpening has a reduced impact.

Craven District Council is ambitious about meeting our housing needs and accordingly we have increased our housing target to a rate that is 60% higher than our normal long term build rate. If the government wants to accelerate housing growth then a necessary change would be to introduce additional powers to encourage developers to start to build. In Craven we currently have nearly 2000 additional dwellings with planning permission in place. If they were built that would be a 7% uplift on our housing stock which would support our communities and the economy.

Question 1 What are your views on moving from 6 years of payments under the Bonus to 4 years, with an interim period for 5 year payments?

This is part of the wider transfer of funding from rural districts to others in particular the metropolitan councils. We also are disappointed that despite progress by this Government to give local flexibility to funding they are now proposing a retrograde step by hypothecating £800m for social care. Surely those councils responsible for social care can be allowed to determine how they spend their money to meet their requirements.

If the Government wishes to persist with this aim the simplest approach that maintains the incentive to build more dwellings and reallocate the funding must be to increase the proportion that is allocated to county councils. We are not sure what this level would be but, for example, it would be simpler to increase the proportion given to county councils from 20% to 40% without adding layers of complexity. Unitary authorities already retain 100% of their New Homes Bonus and therefore the incentive for them to maximise their bonus by supporting the construction of more dwellings to support social care

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is already in place. Therefore the proportion of the funds that would be allocated to county councils can be achieved by increasing the percentage given to them.

This would also create a stronger incentive to County Councils to support growth and also to release their own land assets for development.

Question 2 Should the number of years of payments under the Bonus be reduced further to 3 or 2 years?

Reducing the number of years to 3 or 2 makes the incentive negligible and does not allow any sensible financial planning. Also the fluctuations of house building rates in a district council area can dramatically change based on the development rate of one or two sites so the fewer years the less smoothing affect that an exceptional year can influence in the financial stability of the council.

Question 3 Should the Government continue to use this approach (use Band D average values as the basis of funding calculations)? If not, what alternatives would work better?

As we believe strongly that the 6 years should be maintained, an alternative approach to release funding for other uses would be to cap the NHB at houses in council tax band F so houses in bands G and H would be paid at band F rates. This would support the development of dwellings in the more affordable bands which would in turn support the government aims to increase the number of affordable homes for sale, especially to increase the number of starter homes. This would save funding but also support government policy.

More generally Band D should still form the basis of the calculation.

Question 4 Do you agree that local authorities should lose their Bonus allocation in the years during which their Local Plan has not been submitted? If not, what alternative arrangement should be in place?

The premise of these changes is based on the assumption that “really strong performing authorities” are not being fully rewarded. The basis for this is not clear. In the terms of the NHB success is based on how many dwellings are created or brought back into use. A successful authority will therefore be building dwellings. The previous Labour government implemented a regime that tried to influence the process rather than the results and this is generally regarded as being unsuccessful. The proposed changes take the NHB a long way down the path tried by the Labour Government by making the process complicated and ultimately not achieving the primary aim. If houses are not being built because of a lack of a Local Plan then the local authority is already being penalised.

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The proposals also will only have a short term impact as more Local Plans are submitted the savings will reduce.

Many of the Local Plans do not have site allocations which is the only true way to give developers certainty which is the stated aim of the consultation.

Question 5 Is there merit in a mechanism for abatement which reflects the date of the adopted plan?

We agree that such a sliding scale of payments to the date of an adopted plan is unnecessarily complicated. Some authorities' core strategies are very limited in scope and as they are being reviewed some are undergoing a partial review. Such variation only adds to the complexity.

Question 6 Do you agree to this mechanism for reflecting homes only allowed on appeal in Bonus payments?

The proposed change adds a great deal of uncertainty and complexity to the allocation of the NHB. As the consultation recognises the decision to refuse an application is not because of an objection to development but with various reasons both technical and also based on the quality of the development. There is always a degree of subjectivity in the planning process around questions of quality and it is reasonable for a planning authority to view something differently to an inspector. The purpose of these changes is to stop the planning authority from being unreasonable but as there is already the deterrence based on the award of costs for unreasonable behaviour these changes are more about deterring the planning authorities from refusing applications.

Question 7 Do you agree that New Homes Bonus payments should be reduced by 50%, or 100%, where homes are allowed on appeal? If not, what other adjustment would you propose, and why?

One of the great strengths of the NHB is its simplicity but this recommendation breaks the link between houses built and reward by placing unnecessary complications in the way.

As stated in question 6 the problem are those applications that a Local Planning Authority refuses without a sound reason. Many inspectors' decisions are finely balanced and therefore it is unfair to penalise a planning authority based on the nuanced views of a single person.

In addition in our case an overturned planning appeal for the National Park would result in the district council being financially penalised and/or the county council is penalised for the actions of the district council. This does not appear to be fair and reasonable.

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An alternative approach may be to add an additional fine per dwelling for appeal decisions that award costs due to the planning authority being unreasonable. This should reduce the number of unwarranted refusals and speed the process.

Question 8 Do you agree that reductions should be based on the national average Band D council tax? If this were to change (see question 3) should the new model also be adopted for this purpose?

In Craven's case, based on the 2016/17 allocation, the median type of house built is a band C with 199 dwelling below band D and only 25 above band D. The continuation with Band D fits with other aspects of council tax calculations but the recognition that this question raises complications highlights that this change is in our view unnecessarily complicated.

Question 9 Do you agree that setting a national baseline offers the best incentive effect for the Bonus?

We acknowledge that of the three proposals this is the only one that will have a clear effect on the need for local authorities to encourage more houses to be built.

That said the impact of introducing a deadweight baseline on those authorities that are either constrained due to poor demand for housing or because of the restrictions of a National Park would be unfairly damaging. By reducing and in some case removing the incentive and support to build more housing and improve their communities the task faced in such authorities becomes more difficult.

For Craven DC this would mean that the first 70 dwellings built would not be awarded any NHB and as our build rates have fluctuated greatly in some years and if the legacy is less than 6 years then the financial impact could be dramatic as the other years will not smooth the impact of a single year. This would be particularly unfair as the speed that a site is developed is not in the control of the local authority once planning permission has been granted.

Question 10 Do you agree that the right level for the baseline is 0.25%?

A baseline of 0.25% to address deadweight but in association with a reduction in the number of years it could create significant financial difficulties. If it is set at 0.25% then Craven would see a loss of at least 35% of its average NHB on top of a loss of NHB due to the cut from 6 to 4 years.

It is difficult to know what the true deadweight figure should be. An alternative approach may be to have payments based on a delivery curve projection. This would ensure that those authorities that are constrained still receive some NHB but those with higher rates of growth benefit more.

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Question 11 Do you agree that adjustments to the baseline should be used to reflect significant and unexpected housing growth? If not, what other mechanism could be used to ensure that the costs of the Bonus stay within the funding envelope and ensure that we have the necessary resources for adult social care?

Craven District Council has set an ambitious housing target that is significantly higher than our historic build levels in order to meet our social and economic aspirations.

If the rate of housing building across the country rises rapidly due to high growth in one area such as the south east of England then the rest of the country would be penalised purely because there is not the same level of demand. The proposed adjustments are therefore as much about an accident of location rather than the aspirations of the council or the local communities. The consultation does not make reference to the baseline being reduced in times of low levels of house building. Is it not possible to hold any underspend in a year in a reserve in order to address national peaks in house building?

As part of our sound financial management we strongly argue that the baseline does not change from year to year as again this creates further financial uncertainty.

Again as the stated aim is to support social care and as raised in question 1 the simplest approach is to increase the proportion given to county councils.

Question 12 Do you agree that the same adjustments as elsewhere should apply in areas covered by National Parks, the Broads Authority and development corporations?

The National Park is likely to make up 11% of Craven's housing growth so we regard their contribution as significant. The district and county council do not have any control over the plan preparation, planning decisions or house building ambitions of the Park yet the consultation seems to state that the district and county councils will be the ones who are punished. It is difficult to see what the incentive is for the National Park to increase the rate of house building therefore we strongly believe that the National Parks should be excluded from these changes.

Question 13 Do you agree that county councils should not be exempted from adjustments to the Bonus payments?

The county council have a strong role in supporting the development of Local Plans, creating the infrastructure to support house building and in the development control process especially through highways. By including the proportion of the NHB given to county council within the adjustments would on balance seem appropriate.

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Question 14 What are your views on whether there is merit in considering protection for those who may face an adverse impact from these proposals?

Our comments above should mitigate the worst aspects of the proposal. Any scheme should not leave a local authority in a financially perilous situation because of the possible fluctuations in funding that are likely if both the number of years is reduced and if a deadweight calculation is introduced. The impact from these proposals will not only be in the first year but they could impact in any year therefore any protection would need to limit the percentage fall in funding between years.

6.0 Implications

6.1 Financial Implications – Although there are no financial implications arising from this report it is clear that the outcome of the consultation is likely to have a significant impact on the Council's finances in the coming years due to a reduction in NHB.

6.2 Legal implications – There are no legal implications arising in this report.

4.1 Contribution to Corporate Priorities –

The proposals in this report directly contribute to the delivery of all aspects of the Council Plan (2015 – 2018) as it is a key revenue source that supports the delivery of the Council Plan.

4.2 Risk Management –

Depending on the final set of reforms there are possibly significant risks to the Council as a result of reduced revenue. The risks are highlighted throughout the report.

4.5 Equality Impact Assessment -

The Council's Equality Impact Assessment Procedure **has been** followed and an Equality Impact Assessment has been completed on the proposed consultation and at this stage the report's recommendations do not have the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

5. Consultations with Others –

Legal Team
Finance Team

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6. **Access to Information : Background Documents** –

The full consultation document can be found at:

[https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487095/151217 - nhb draft condoc published version.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487095/151217_-_nhb_draft_condoc_published_version.pdf)

7. **Author of the Report** –

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Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions.

8. **Appendices** –

None