



The New Homes Bonus:

Risks and Opportunities for the North

September 2011

About the Northern Housing Consortium

The Northern Housing Consortium is a non-profit making and non political membership organisation. Our full membership is drawn from Local Authorities, Registered Providers, ALMOs, and other organisations involved in housing, from across the three Northern regions of the North East, North West and Yorkshire & Humberside.

The Northern Housing Consortium's primary role is to support and represent our members, who, between them, are responsible for 86% of social housing in the North. We do this through the provision of a range of products and services aimed at ensuring that the interests of the North are fully consulted, represented and served at sub-regional, regional and national level.

Our position of independence; relationships with local and national government; support from our member organisations, and over 30 years of expertise & influence, has enabled the Northern Housing Consortium to develop unrivalled respect and credibility within the housing sector, and we thus believe we can legitimately claim our role as 'the Voice of the North'.

Acknowledgments

Thanks go to the Northern Housing Consortium members who responded to our survey, to Blackpool and Sefton Councils for allowing us to showcase their proposed use of the Bonus, and to ComRes for conducting the polling work with the general public.

Executive Summary

The New Homes Bonus sits at the intersection of ambitious government plans to reform housing, planning and local government finance. With latest figures showing housing starts and completions continuing to fall¹, the incentive scheme is yet to have a major impact on housing supply.

This report examines public and professional attitudes to the concept of the New Homes Bonus. It takes a detailed look at how the Bonus affects the North in the short and medium term, and provides some examples of how Northern local authorities are grasping the opportunities the Bonus offers their areas.

We found that both the public and professionals are largely unmoved by the advent of the Bonus:

- Most members of the public (49%) said the Bonus would make 'no difference' to their attitude towards a new development of private housing in their area, with a significant minority (19%) saying more cash for their local council would actually make them less likely to support a new development of housing. A large majority of housing professionals in the North felt the Bonus would have no impact on delivery of housing for outright sale.
- The Bonus proved more successful when British adults were asked to consider a development of affordable housing, with a plurality (42%) saying the concept of the New Homes Bonus would make them more likely to support a new development of affordable housing in their area. Housing professionals in the North remained sceptical, with a large majority believing the scheme will have no impact on affordable housing delivery.
- The Bonus proved most successful when considered in the context of empty homes. Here, a clear majority of the public (58%) said they would be more likely to support bringing empty homes back into use if their local authority received extra funding from government in return. Northern housing professionals were also keen, with a majority believing the New Homes Bonus will have a positive or very positive impact in this area.

The report also examines how the Bonus affects the North. We found no relationship between New Homes Bonus payments and levels of deprivation. However, in the longer-term we are very concerned about the large net losses in funding many local authorities in the North will suffer from, once the majority of the Bonus is funded through top-slicing Formula Grant allocations. That is why the Consortium is calling for the Bonus to be fully-funded in future Comprehensive Spending Review rounds.

A recurring theme throughout the report is the potential for what we have termed 'two tier tension' in areas which retain county and district arrangements. This tension occurs because the Government has chosen to 'invert' the traditional 80/20 split in funding between County and District Councils, so that District Councils gain substantially from the Bonus, whilst County Councils, as major beneficiaries of Formula Grant, lose out once top-slicing begins. It is right that District Councils are rewarded for taking the political risk of making planning approvals, but we believe local negotiation will be appropriate to ensure the advantages of new housing that the public identify as persuasive are realised.

Finally, the report takes a look at interesting uses of New Homes Bonus revenue, focussing on Blackpool and Sefton, where Councils are using future New Homes Bonus receipts to secure prudential borrowing enabling much needed housing renewal and growth to take place. 75% of Northern local authorities we surveyed expected to place some emphasis on reinvesting the proceeds of the New Homes Bonus back into housing.

1 DCLG House Building Statistical Release, August 2011: <http://www.communities.gov.uk/publications/corporate/statistics/housebuildingq22011>

Introduction

The Coalition Agreement committed the Government to:

“provide incentives for local authorities to deliver sustainable development, including for new homes and businesses”²

Following a consultation in late 2010, the housing incentive scheme emerged as the New Homes Bonus – which the Government describes as a “powerful, simple and transparent incentive... [which will] ensure the natural economic benefits of growth are returned to the local authorities and communities where growth takes place”³.

The reward element of the New Homes Bonus is relatively straightforward. When a new home is first occupied, it triggers a payment to the local authority equivalent to national average council tax for the band the property falls in – currently the national average ‘Band D’ charge is £1,439 per annum. This payment continues on an annual basis for the first six years of a new home’s life. The payment is also made when homes which have been empty for more than six months are brought back into use. The reward is topped up by a flat-rate payment of £350 per year for affordable housing or gypsy and traveller sites, though due to data issues, this is paid at a later point than the first grant.

Whilst payments are only made for the first six years of a new homes’ life, the New Homes Bonus isn’t a temporary scheme – the Government intends for it to become a permanent feature of local government funding. By year six, councils will be receiving funding for six years’ worth of housing completions:

Figure 1 : How New Homes Bonus payments are intended to grow over six years:

	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							£

The Bonus is paid as an un-ringfenced grant, so local authorities can spend the revenue however they choose. The Government has suggested that the Bonus can be used to ease the additional strain any growth places on local public services, but there is no obligation on local authorities to spend the Bonus in this way.

In two-tier areas, the Bonus will be paid 80% to the district council, 20% to the county council; though the Government has suggested that this 80/20 split of resources in favour of the district council should be seen as the starting point for local negotiations between the two tiers.

For the first year, the c£200m cost of Bonus payments has been fully funded by the Department for Communities and Local Government. In the following three years of the current spending review (2012-13 to 2014-15), the Government has allocated £250m per annum, with funding beyond those levels coming from Formula Grant.

2 The Coalition : Our Programme for Government; http://www.cabinetoffice.gov.uk/sites/default/files/resources/coalition_programme_for_government.pdf
 3 Letter to Local Authority Leaders from Terrie Alafat, DCLG Director Housing Growth & Affordable Housing, 17/2/11

The New Homes Bonus needs to be seen in the context of wider changes to local government finance and planning. It is consistent with the Government’s move towards incentive-based forms of financing for local government such as business rate retention. It is also a component of the Government’s radical changes to the planning system which have seen the abolition of Regional Spatial Strategies and the forthcoming introduction of a presumption in favour of sustainable development through the Localism Bill.

The Bonus has potential to grow in importance if a controversial amendment to the Localism Bill which allows local authorities to take into account the financial impact of planning decisions remains on the face of the Bill when it receives Royal Assent.

The Northern Housing Consortium does not oppose the principle of incentivisation, indeed we believe it has a part to play. However, we believe the impacts of the Bonus, as currently constituted, have not been widely discussed or understood. This Report is intended to present some evidence to start that debate, and also to alert our members in the North of England to the risks and opportunities the Bonus offers them.

Public attitudes towards the bonus

“The New Homes Bonus will have localism at its heart. It will re-energise communities.” – Rt Hon Grant Shapps MP, Minister of State for Housing and Local Government

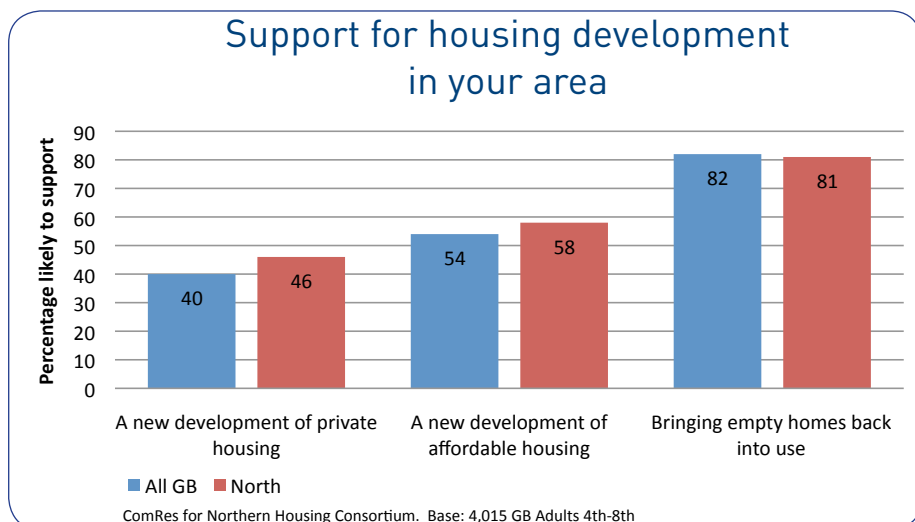
The Government has set high expectations about the impact the New Homes Bonus will have on the attitude of communities towards new housing development. To test current attitudes, and gauge the impact of the Bonus in principle, the Northern Housing Consortium has commissioned a survey of over 4,000 adults across the country from respected pollsters ComRes.

Current attitudes to development

To understand the scale of the problem the New Homes Bonus is expected to tackle, we felt it was important to test the public’s current attitudes to different types of housing development. The polling conducted on our behalf found strong support for action to bring empty homes back into use. 82% of British adults said they would be likely to support bringing homes that are currently unoccupied back into use in their area. A majority of adults (54%) said they would support a new development of affordable housing in their area. There was less support (40%) for new developments of private housing.

Interestingly, there was slightly more support for private and affordable housing in the North of England. 46% of adults in the North said they would support a new development of private housing in their area, and 58% said they would support a new development of affordable housing.

Figure 2 : Support for housing development in your area



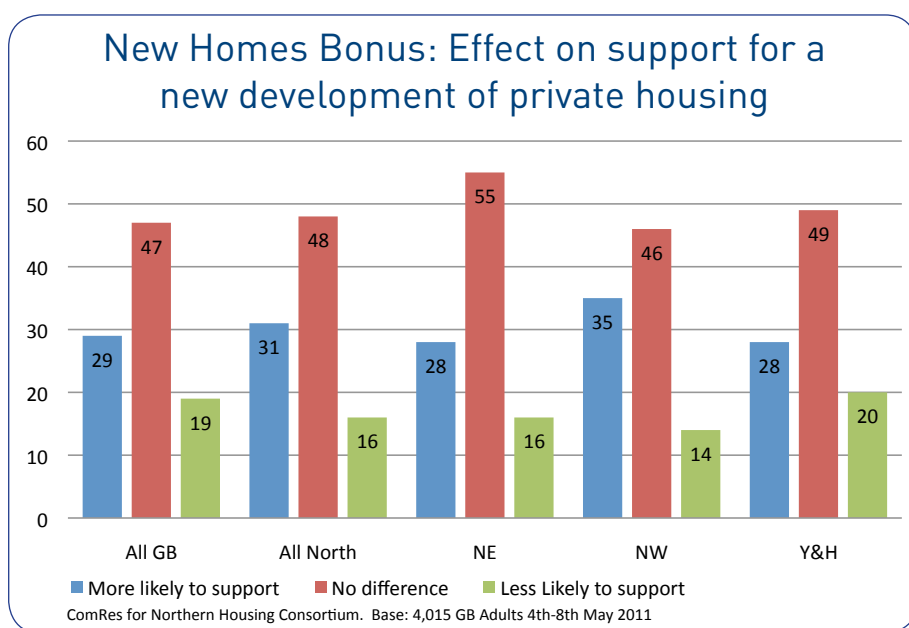
The New Homes Bonus Effect

So, to what extent does the concept of the New Homes Bonus re-energise communities in the way the Housing Minister wishes to see? As part of our polling, the same group of adults were introduced to the concept of the New Homes Bonus and asked how it would affect their level of support for new housing development or bringing empty homes back into use.

Our polling asked: "Councils bringing unoccupied homes back into use or that allow new housing developments to be built in their area now receive extra funding from central government. In principle, how would this additional funding for your local council affect your level of support for each of the following, if at all?"

Below, we set out the findings for private housing, affordable housing and empty homes.

Figure 3: Private housing : the New Homes Bonus Effect



As can be seen, the concept of the New Homes Bonus providing additional funding for their local authority made no difference to a plurality of respondents in all regions when they were asked to consider housing for outright sale. Residents in the North West were marginally more likely to find the Bonus persuasive than the rest of the country.

Worryingly, a significant minority – 19% nationally – said that the concept of the Bonus would make them less likely to support a development of private housing in their area. This perhaps reflects concerns which have been expressed elsewhere about financial incentives distracting local authorities from considering applications on their planning merits. Property industry professionals have reported similar concerns:

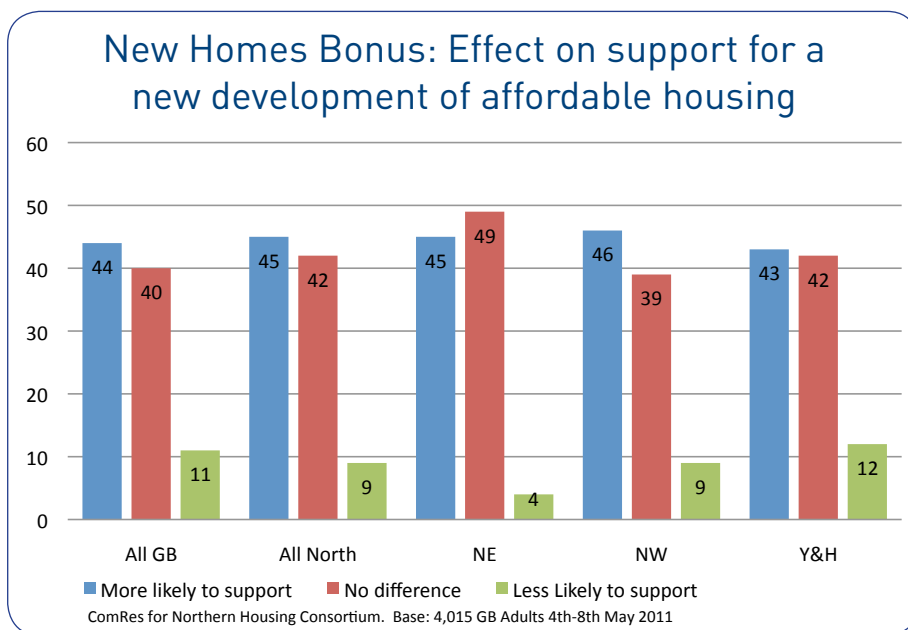
"I'm a big supporter of the New Homes Bonus. I have seen at first hand schemes approved that would have definitely been thrown out under the old regime. But I have also seen its drawbacks. About six months ago, I was brought in by a developer just two weeks before committee. The scheme was recommended for approval by officers but had generated over 1,800 objections. Ordinarily, the application would have had no chance. However, the site was located in an opposition held ward and the New Homes Bonus brought the council the promise of a £7.5m windfall. Despite there being 400 objectors packed into the public gallery, the councillors from the ruling group voted it through.

I was so impressed at the power of incentives, that it became a central feature of the next consultation I ran. We asked the public how they would want the New Homes Bonus spent? But far from winning people over, it triggered the accusation that we were trying to buy and bribe our planning permission.

This could become the New Homes Bonus' Achilles heel. In using the incentives' package to justify development, councils will antagonise local resident groups. Far from winning over community support, it will provoke further cynicism about the planning process."

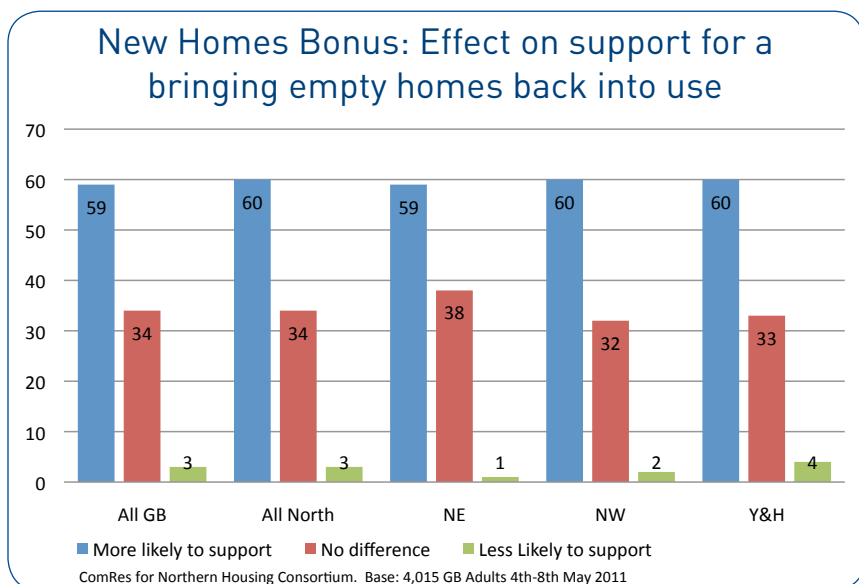
Wyn Evans, Founding Director, fortyshillings.com

Figure 4: Affordable housing : the New Homes Bonus Effect



In contrast to the indifference the concept of the New Homes Bonus was met with when considering private housing development, the concept did prove more successful when respondents were asked to consider a development of affordable housing. Both nationally, and across the North as a whole, most respondents said that knowing their local authority received extra funding from government would make them more likely to support a development of affordable housing. Of the Northern regions, only the North East bucked this trend, with the majority of respondents saying the Bonus would make no difference – though this was the region with the highest level of support for affordable housing development in the first place. The Bonus was less likely to prove counter-productive when respondents were asked to consider affordable housing development.

Figure 5 : Bringing empty homes back into use : the New Homes Bonus Effect



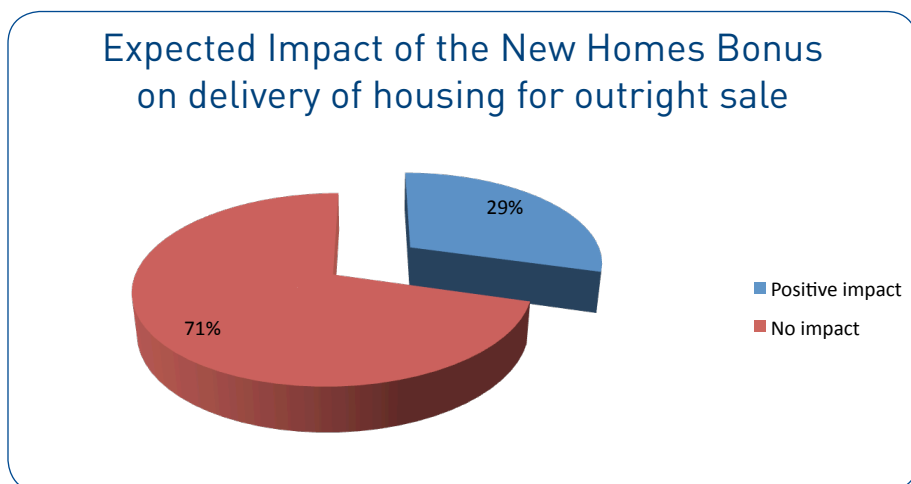
The concept of the New Homes Bonus is most effective at driving support for bringing empty property back into use – though it should be noted that this activity was relatively popular in the first place, and obtained more support than new-build development. We consider the consequences of this finding in more detail below.

Professional attitudes towards the Bonus

As well as commissioning ComRes to conduct polling amongst the general public, the Northern Housing Consortium has also conducted our own survey amongst our local authority and housing association members. For each of three key tenures incentivised by the Bonus (housing for outright sale, affordable housing, bringing empty homes back into use), we asked what impact members felt the New Homes Bonus would have on delivery in the areas they work in: very positive, positive, negative, very negative, or no impact.

The results are instructive, and suggest there is widespread indifference about the Bonus amongst housing professionals in the North of England:

Figure 6: Housing professionals' expectations for the impact of the New Homes Bonus on delivery of housing for outright sale in their local authority⁴



Less than one in three Northern housing professionals we surveyed felt the New Homes Bonus would have a positive impact on the delivery of housing for outright sale in their area. None thought it would have a 'very positive impact'. Comments received suggest that whilst no housing professionals

⁴ NHC survey of local authorities and housing associations in the north of England, 34 responses, May 2011

felt the New Homes Bonus would have a negative effect, wider market trends mean any impact will be limited:

“We already have a significant number of planning permissions for new build that have been granted. The issue is not one of the authority having no appetite to grow or deliver, it rests with the appetite of the developers to build in a depressed market”

Unitary Authority, North East of England

“The Council is committed to housing growth, but the economic factors have a dampening effect on development.”

District Council, North West

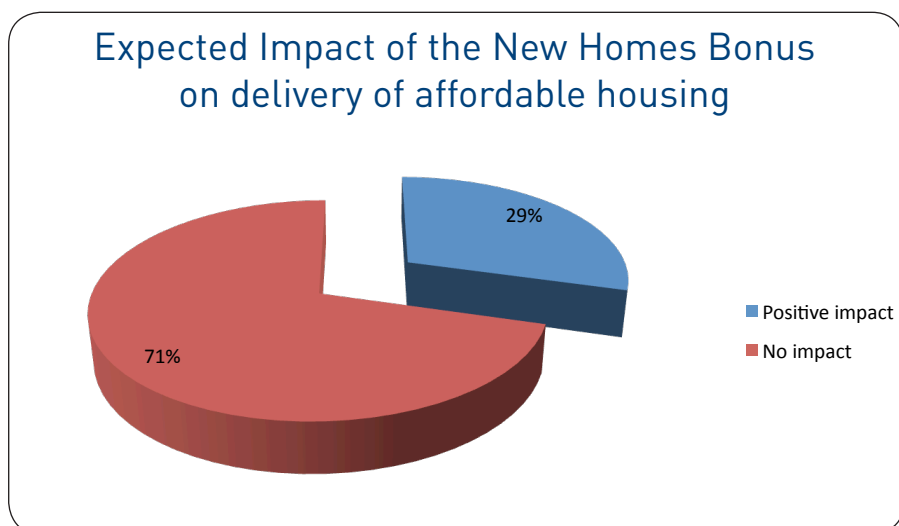
“There are more significant macro-economic and fiscal factors which will impact on the rate of housing development in the district than the existence of the New Homes Bonus”

Metropolitan Borough, Yorkshire & Humber

“Developers are telling us they won’t build because people cannot get mortgages without large deposits and in those circumstance they are not prepared to build in the hope that a strong market will suddenly emerge”

Metropolitan Borough, North West

Figure 7: Housing professionals’ expectations for the impact of the New Homes Bonus on delivery of affordable housing in their local authority



Despite the additional £350 per annum payment for affordable housing, it seems that housing professionals in the North of England do not believe the New Homes Bonus will have any greater impact on increasing delivery of affordable housing than on outright sale homes. As with housing for outright sale, housing professionals felt that wider considerations would mean the Bonus has a limited positive impact:

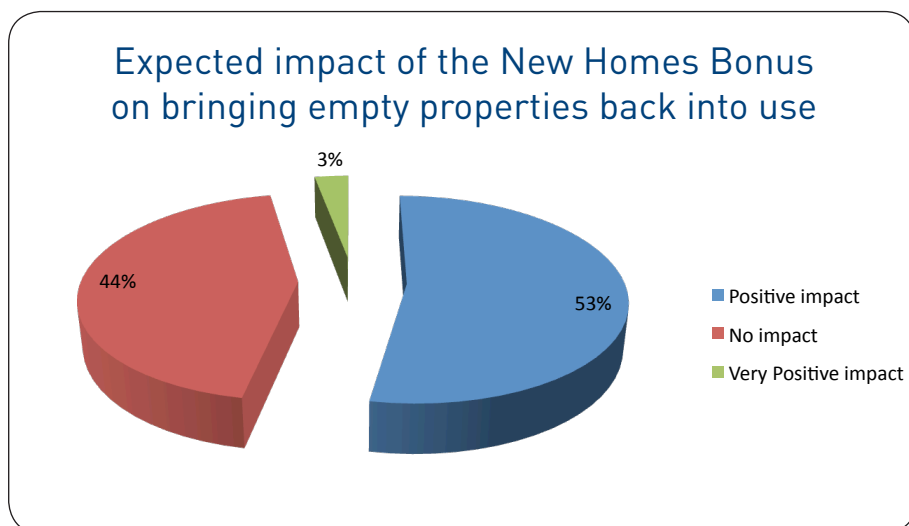
“I am chasing [housing associations] to submit bids to the Homes and Communities Agency, but as capital monies decrease, so will the viability of new affordable homes in [borough]”

Metropolitan Borough, North West

“There has always been a significant drive in the authority for housing based growth and regeneration. That has not changed. However, the ability to attract funding for this seems difficult, and New Homes Bonus, even with close working with housebuilders and housing associations, will never come near to the amount needed to complete work which has already begun”

Metropolitan Borough, North East

Figure 8: Housing professionals’ expectations for the impact of the New Homes Bonus on bringing empty homes back into use in their area



Northern housing professionals expect the Bonus to have a much more significant in bringing empty homes back into use, with over half of respondents expecting the Bonus to have a ‘positive’ or ‘very positive’ impact on bringing empty property back into use – consistent with the polling amongst the general public which showed greater levels of enthusiasm for empty homes activity.

With strong support from communities for bringing unoccupied homes back into use, and £100 million of Homes and Communities Agency Affordable Housing Programme investment available to fund work on empty homes, these figures do suggest that there now exists a real window of opportunity to make an impact on the empty homes problem. Receipts from the New Homes Bonus provide local authorities with an additional source of funding, which could enable empty homes work to cover its costs. Certainly, campaigners from the Empty Homes Agency are optimistic:

“The New Homes Bonus provides a strong business case for local authorities to bring empty homes into use. A local authority that is proactive could easily increase the numbers of homes returned to use and thus generate rewards that would more than offset the costs they incurred. But the reverse is also true, a local authority that left it to chance could see empty homes numbers increase and with it lose rewards they would otherwise have received as a result of new housing developments”

David Ireland, Chief Executive, Empty Homes Agency

Housing professionals who took part in our survey were also alert to the possibilities New Homes Bonus offered for bringing empty homes back into use:

“We will look to see if we can re-invest a proportion of the Bonus back into bringing further homes back into use. This will be dependent on a bid to the empty homes fund part of the Affordable Housing Programme. New Homes Bonus will only form one element of the funding to bring empties back into use due to the costs involved... but it will provide a tool to bring more back than would originally have been planned.”

Unitary Authority, Yorkshire & Humberside

“We are hopeful that some of the revenue raised by the Bonus could be used to support an officer to help bring empty homes back into use”

Metropolitan Borough, North West

“Our Year 1 New Homes Bonus allocation will be used to fund an existing Empty Homes Loans and Grants scheme, interest free loans for landlords to bring long term empties back into use, repayable over 2-5 years and grants to owner-occupiers. Empty Homes is an issue for us, and a large amount of funding has been lost through the end of regional housing money”

Unitary Authority, Yorkshire & Humber

Our findings in context

Whilst these results will be disappointing to those who hoped the Bonus would have a significant impact on housing supply, they are broadly consistent with the results of surveys conducted by other bodies:

A survey conducted by the Centre for Cities in April 2011 found that almost 50% of respondents thought that the New Homes Bonus would not have an impact on levels of house building⁵. The Royal Institute of Chartered Surveyors found that 40% of their members believed that the New Homes Bonus would have no effect at all on new development⁶.

How the Bonus affects the North

The Consortium is keen to raise levels of awareness of how the Bonus will affect the North in financial terms. Whilst there will be opportunities such as the one around empty homes we described above, we do have concerns that as the Bonus builds to form a larger proportion of the local government finance settlement, parts of the North risk losing out due to the interaction between Bonus payments and Formula Grant.

Figure 9: Ten largest year one New Homes Bonus payments in the North of England

Local authority	Year one payment ⁷
Bradford	£2,760,424
Leeds	£2,732,599
Manchester	£2,616,342
Salford	£2,016,347
Sheffield	£1,957,819
Durham	£1,299,616
Kirklees	£1,273,870
Wakefield	£1,198,710
East Riding of Yorkshire UA	£1,086,291
Northumberland UA	£961,719

⁵ Centre for Cities Survey, April 2011, 68 respondents, cited in 'Room for Improvement: Creating the financial incentives needed for economic growth', July 2011
⁶ RICS UK Housing Market Survey, January 2011, 217 respondents

Some of the authorities in the 'top ten' above are amongst the largest authorities in the North of England, so it might be expected they would attract large total payments. To provide an alternative way of looking at this, we have also examined payments per head of population:

Figure 10: Ten largest year one New Homes Bonus payments in the North of England per head of population

Local authority	Year one payment per head of population⁸
Salford	£8.96
Bradford	£5.45
Selby	£5.42
Manchester	£5.41
Craven	£4.13
Stockton on Tees	£4.04
Ryedale	£4.00
Wakefield	£3.70
Fylde	£3.65
Hambleton	£3.61
Calderdale	£3.59

Whilst large metropolitan boroughs like Salford, Bradford and Manchester remain in the top-ten, it is interesting that in this analysis, several small district councils in North Yorkshire emerge as beneficiaries of the Bonus.

Figure 11: Ten smallest year one New Homes Bonus payments in the North of England

Local authority	Year one payment⁹
Burnley	£69,722
Gateshead	£68,283
Hyndburn	£62,942
Ribble Valley	£62,046
Knowsley	£57,569
Richmondshire	£45,160
Preston	£38,251
South Lakeland	£25,842
Copeland	£14,968
Scarborough	£5,885

As you might expect, small district councils are amongst the recipients of the smallest total New Homes Bonus allocations. Again, to put this in context of the populations served by the Council concerned, we examined this by head of population:

Figure 12: Ten smallest year one New Homes Bonus payments in the North of England per head of population

Local authority	Year one payment per head of population ¹⁰
Burnley	£0.81
Blackburn with Darwen UA	£0.79
Hyndburn	£0.78
Lancashire	£0.40
Knowsley	£0.39
Gateshead	£0.36
Preston	£0.28
South Lakeland	£0.25
Copeland	£0.21
Scarborough	£0.05

Here, there striking similarities between the two tables, with the North West, and Pennine Lancashire in particular, doing very poorly from the Bonus. Many of the areas receiving the lowest level of payments per head of population are in former Housing Market Renewal areas, perhaps reflecting the effect of demolitions on their Bonus receipts.

Relationship between New Homes Bonus payment and deprivation?

It might be expected that a system where the level of payment is based on council tax bands (and therefore property values) to favour less deprived areas. The Consortium shared this concern, and was therefore keen to establish whether there is any relationship between levels of deprivation and New Homes Bonus payments. Having looked at this by total payment and by level of payment by head of population, we have been unable to find any relationship between a Northern local authority's average Index of Multiple Deprivation (IMD) score and their year one New Homes Bonus Payment.

Similarly, the House of Commons Library, which has conducted research on this issue covering the whole of England, noted that "There appears to be no relationship between deprivation and Bonus grants amongst lower tier authorities". Indeed in their research, the House of Commons Library found that the most deprived single tier authorities have received relatively larger NHB grants, with the 10% most deprived authorities receiving a larger grant, equivalent on average to a saving of £20 on band D Council Tax. However, the Library noted that during this first year, the least deprived local authorities saw the greatest proportion of net additional band D-H homes, which bring a greater financial reward than band A-C homes.

By way of illustration, the tables produced above contain authorities with a mix of IMD profiles. The authority receiving the largest year one payment in the North is Bradford, which has the twelfth highest average IMD score of northern authorities⁸. Similarly, Salford had the highest year one payment per head of population, but has the ninth highest average IMD score of Northern authorities⁹. Conversely, South Lakeland, which has the third lowest year one payment on both measures, has the sixth lowest IMD average score of northern authorities. Bonus 'winners' and 'losers' have a mix of IMD profiles.

This analysis is based on only one year's Bonus allocations, which are themselves a result of housing completions which were granted planning approval before the Bonus came into force. There are major changes being made to the funding and planning environment in which the housing sector operates. It would therefore be sensible to revisit this analysis after a suitable period has elapsed

⁷ House of Commons Library Research Paper 11/38 : <http://www.parliament.uk/briefing-papers/SN05954.pdf>

⁸ Bradford's average IMD Score is 32.58, 12th highest lower tier/unitary local authority in the three northern government office regions.

⁹ Salford average IMD Score is 34.74, 9th highest lower tier/unitary local authority in the three northern government office regions.

to ascertain whether any pattern emerges after a number of years. It could be, for example, that regeneration projects begun under a more favourable funding environment have inflated payments to more deprived authorities at this early stage.

What happens long-term?

The Department for Communities and Local Government has fully-funded the £200million cost of the first year's Bonus payments. In the following three years of this spending review (e.g. 2012-13 to 2014-15), £250m per annum has been allocated to the Bonus. Additional funding above these levels will come from Formula Grant.

As we illustrated in the introduction to this report, because the Bonus is paid for six years, each year will see a substantial increase in the total cost of the scheme, building to year 6 (2016-17) when the Government states that "even at a steady rate of build, we expect it to be over £1bn¹⁰."

Figure 13: Estimated costs of the first seven years of the New Homes Bonus, assuming completions remain static:

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Year 1	£200m	£200m	£200m	£200m	£200m	£200m	
Year 2		£200m	£200m	£200m	£200m	£200m	£200m
Year 3			£200m	£200m	£200m	£200m	£200m
Year 4				£200m	£200m	£200m	£200m
Year 5					£200m	£200m	£200m
Year 6						£200m	£200m
Year 7							£200m
TOTAL COST OF NHB	£200m	£400m	£600m	£800m	£1bn	£1.2bn	£1.2bn

This table shows how – if completions were to continue at a constant rate – payments would increase. The year one total cost of the NHB is £199,260,645 but for ease of comparison, we have rounded this to £200m in the table above:

By year 6, the total cost of the scheme is some £1.2bn. This is a conservative estimate based upon completions continuing at the current reduced rate.

When the sixth year of Bonus payments is reached in 2016-17, we will be in a new Comprehensive Spending Review round, so we do not know how much funding will be allocated to the Bonus by government. Were it to continue at the rate proposed for the rest of the current spending review period (£250m per annum), then by 2016-17 there will be a shortfall of some £950m, to be funded from Formula Grant.

The Government distributed over £12bn in Formula Grant this year. £950m is equivalent to 4.6% of the year's total Formula Grant allocations. If the Government were to make a 4.6% top slice at a flat rate, local authorities would lose an average of £2.6million each. This average figure disguises a huge variation in losses – Christchurch District Council would see just £88,320 top-sliced from their Formula Grant allocation, but by contrast the City of Birmingham would have over £31million top-sliced. Of course, authorities will be receiving New Homes Bonus payments for six years of completions by this point, so some will receive more in New Homes Bonus than they lose in Formula Grant, making them net winners. Others will face substantial losses.

Below, we set out some of the winners and losers were this to take place:

Figure 14: Top Ten Net winners by 2016/17

Local authority	Region	4.6% of 2011-12 Formula Grant (£)	Yr 6 Bonus payment (£)*	Net gain by year 6 (£)
Tower Hamlets	London	10,564,960	25,723,656	15,158,698
Islington	London	7,583,192	22,238,826	14,655,634
Milton Keynes UA	South East	4,070,816	15,083,988	11,013,172
Basingstoke & Dean	South East	304,290	7,949,868	7,645,578
Croydon	London	5,760,328	13,111,082	7,540,754
Hillingdon	London	3,949,652	11,092,548	7,142,896
Shropshire UA	West Mids	4,378,372	10,750,014	6,371,642
Wiltshire UA	South West	4,794,350	11,048,212	6,254,062
Swindon UA	South West	2,488,416	8,707,284	6,218,868
Salford	North West	6,230,102	12,098,082	5,867,980

(*Including empty homes, but excluding affordable homes premium)

Figure 15: Top Ten Net losers by 2016/17

Local authority	Region	4.6% of 2011-12 Formula Grant (£)	Yr 6 Bonus payment (£)*	Net loss by Yr 6 (£)
Birmingham	West Midlands	31,797,180	19,213,590	-12,583,588
Lancashire	North West	15,355,770	2,789,208	-12,566,558
Liverpool	North West	15,643,170	5,261,790	-10,384,314
Derbyshire	East Mids	9,460,222	2,310,426	-7,149,796
Norfolk	Eastern	11,817,680	4,794,330	-7,023,346
Essex	Eastern	13,062,760	6,060,078	-7,002,680
Cumbria	North West	7,287,688	895,194	-6,392,494
Kent	South East	14,542,390	8,271,678	-6,270,716
Nottinghamshire	East Midlands	9,143,742	3,198,714	-5,945,028
Wirral	North West	7,305,766	1,560,114	-5,745,652

(*Including empty homes, but excluding affordable homes premium)

Note that seven of the top ten 'net loser' authorities are County Councils in areas which retain two-tier arrangements. This is another example of the 'two tier tension' we have identified. County Councils receive large formula grant allocations, reflecting their responsibility for costly service activities like education and social services. They therefore lose large sums in any Formula Grant top-slice (e.g Lancashire sees £15.6m top-sliced from its budget). However, it is difficult for County Councils to ameliorate this loss through New Homes Bonus payments as County Councils only receive a small proportion - 20% - of local Bonus payments. By year six, therefore, County Councils become big net losers - even in areas like Kent and Essex where relatively large New Homes Bonus payments are being made.

Ministers acknowledge that the 80/20 split in favour of the district council is an inversion of the usually 80/20 split in favour of the county council.¹¹ The Government has stated that it sees the 80/20 county district split as a starting point for local negotiation¹² and that, for example, a local negotiation

11 Andrew Stunell MP, Parliamentary Under Secretary of State, DCLG in Westminster Hall Debate on the New Homes Bonus, 15th March 2011

12 New Homes Bonus Final Scheme Design p.10 <http://www.communities.gov.uk/publications/housing/finalschemedesign>

may need to take place if a development of new housing prompted the need for facilities such as a new primary school¹³. As we examine in more detail later in this report, many of the factors which the public find persuasive when considering new homes being built in their area are the responsibility of the upper-tier authority.

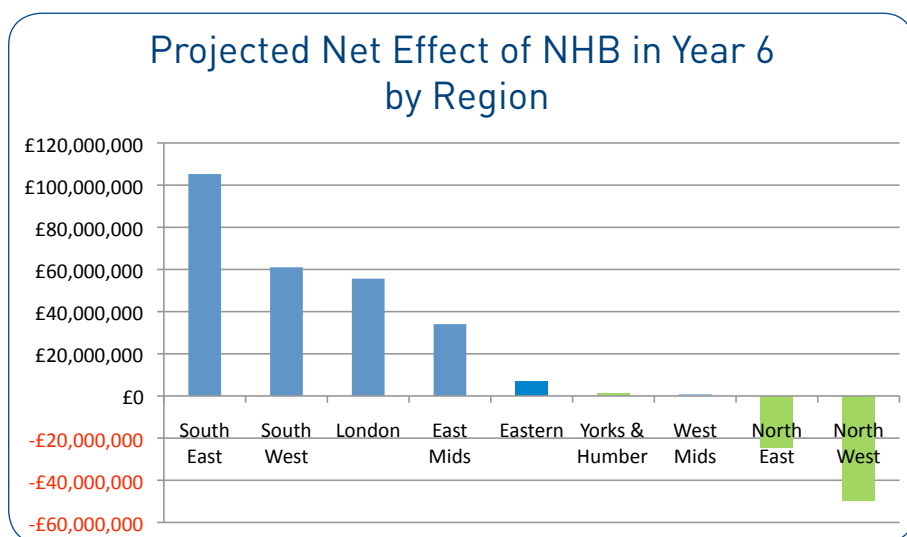
Net effect by region

One of the striking factors about the inter-play between Formula Grant losses and gains made through the New Homes Bonus is the regional disparity which emerges. Many authorities in the North have large Formula Grant Allocations, reflecting higher levels of deprivation, and smaller New Homes Bonus payments, whilst for many authorities in the South the converse is true. Were top-slicing to take place at a flat rate of 4.6% and payments remain steady, as we have modelled above, by year six, the following net effects would occur in each region:

Figure 16 : Projected net effect of New Homes Bonus/Formula Grant Interactions by 2016-17

Region	Gain/loss
South East	£105,255,680
South West	£61,012,658
London	£55,625,404
East Mids	£34,054,096
Eastern	£6,647,300
Yorks & Humber	£1,010,868
West Mids	£570,946
North East	-£24,345,150
North West	-£49,792,848

Figure 17 : Projected net effect of New Homes Bonus/Formula Grant Interactions by 2016-17



Our findings are broadly consistent with the findings of the National Housing Federation, who last year estimated that the New Homes Bonus would see Northern regions lose a net £104m per year, whilst southern regions gained £324m.¹⁴

Of course, the figures above are projections, and are based upon house-building completions remaining steady over the next six years. It is possible that the authorities who stand to be net losers could increase their income from the NHB through a policy of proactively encouraging housing completions in their area. Indeed, we found some evidence from our survey of local authorities in the

¹³ Andrew Stunell MP, Parliamentary Under Secretary of State, DCLG in Westminster Hall Debate on the New Homes Bonus, 15th March 2011

¹⁴ National Housing Federation response to New Homes Bonus consultation, December 2010 : http://www.housing.org.uk/publications/find_a_publication/development_and_regeneration/new_homes_bonus.aspx

North that this may prove to be the case:

“I think there will be encouragement from Members to maximise house building to derive the greatest return from the New Homes Bonus. This will be partially to compensate for any lost income through reductions in Formula Grant”

Unitary Authority, North East

“We have an increased drive to provide affordable housing in our areas... I think that will be reinforced when members of the Council realise that in future years the [NHB] allocation will come from a redistribution of formula grant”

District Authority, North West

However, an increasing national budget for New Homes Bonus allocations would be funded through further top-slicing of Formula Grant, so unless their proportion of all completions increases fairly dramatically, local authorities may find that increased NHB payments are balanced by further reductions in their Formula Grant allocations.

If the Government’s intention remains to see the Bonus become a permanent feature of the local government funding landscape, the Northern Housing Consortium believes that a far greater proportion of the Bonus should be funded independently of Formula Grant. We believe the current review of Local Government Finance¹⁵ presents an opportunity to examine this proposal in a wider context.

How the New Homes Bonus could be used

Our survey of local authorities in the North of England found that 75% expected to place some emphasis on re-investing proceeds of the New Homes Bonus back into housing¹⁶. This is a sensible way to proceed – a ‘virtuous circle’ can be created whereby housing development leads to receipts which can then be re-invested in activity such as site assembly and remediation, generating further – and larger – Bonus receipts.

Here, we look at how the Bonus could be spent in ways which either directly enable housing development, or which change public attitudes to housing and therefore make housing development more acceptable in their locality.

British Social Attitudes Survey

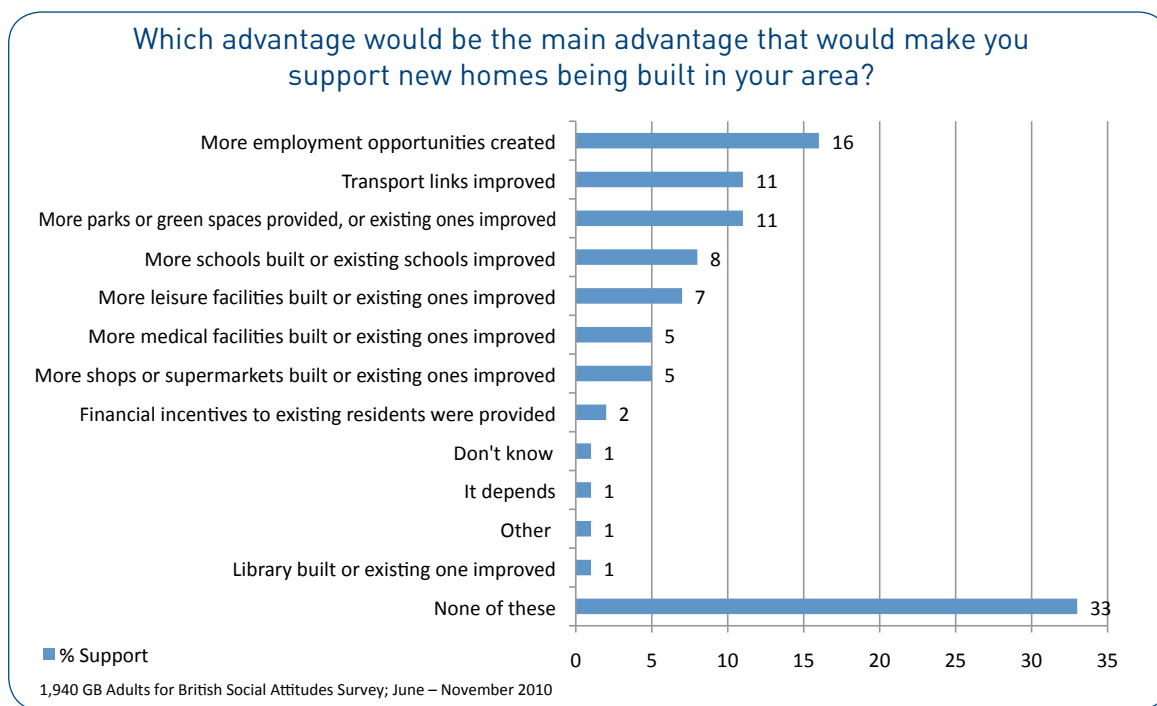
The British Social Attitudes Survey (BSAS) explored advantages which might persuade people to accept new homes in their area. They asked those who neither support nor oppose new housing, or who oppose the building of more homes in their local area, to think about the advantages of new homes that might persuade them to change their views.

The question asked was: “Sometimes, when new homes are built there are advantages to local residents. Which one, of any, of the following advantages would be the main thing that would make you support homes being built in your area?”. Respondents were asked to give one advantage only.

¹⁵ Local Government Resource Review: <http://www.communities.gov.uk/statements/corporate/localgovernmentfinance>

¹⁶ NHC survey of strategic housing authorities in the North of England, May 2011

Figure 18 : British Social Attitudes Survey Research looking at the main advantage that would make respondents support new homes being built in their area



The BSAS research is noteworthy in that it seems there is a 'hard core' of around a third of those who do not support development who will not be swayed by any inducement or advantage whatsoever. Employment opportunities are the most frequently cited advantage of new housing development, which suggests that housing providers should emphasise jobs created in the construction phase and beyond when seeking community support for development.

In terms of items the New Homes Bonus could realistically be spent on, transport links are selected by 11% of those who do not support development. This could involve Bonus revenues being spent on physical improvements to roads or public sector infrastructure, or perhaps being used to subsidise public transport services as a 'kickstart' until they are commercially viable.

Two tier tension?

Many of the advantages identified as persuasive by the BSAS are, in two-tier areas, the responsibility of the upper tier county council. Economic development, transport and schools are all areas which fall within the county council's domain.

The New Homes Bonus will be paid to the lower-tier district council, though the Government has suggested an 80/20 split in favour of the district as a starting point for local negotiations on distribution of Bonus receipts between the two tiers – the inverse proportion of the usual spending pattern in two tier areas. The Department for Communities & Local Government argued in their response to the New Homes Bonus consultation that:

"An 80:20 split does strike the right balance between targeting the resources at the authority responsible for planning decisions and closest to communities, whilst at the same time ensuring that the upper tier authorities' responsibility for some services and infrastructure is recognised"¹⁷

Department for Communities & Local Government

17 New Homes Bonus Scheme: Summary of Responses to Consultation, DCLG, February 2011 link

Clearly, if the priorities identified by the public in the BSAS study are to be acted upon, this balance may need to change significantly, though of course it should be born in mind that it is the district council which will be taking the 'political risk' of granting planning permission for developments.

If, as the Housing Minister has often proposed, the New Homes Bonus is to be used to change views on development by responding to the demands of local residents, this 'two tier tension' will need to be resolved in the 27 counties of England which retain the traditional district/county split.

Raised expectations?

Our survey of Northern local authorities and housing providers also found some concern amongst professionals that the Bonus could 'raise expectations' amongst communities affected by housing growth:

"We see potential for a positive effect on public opinion where we are able to demonstrate that the Bonus will be used for community benefit. However, there is also the potential for raising public expectations which may be difficult to meet, given the time lag between granting planning permission and receipt of the Bonus on completion, and the likely requirement to use some Bonus to offset the reduction in formula grant"

Local Authority, North West England

"If it was demonstrated that the Bonus money was being used to fund improvements for local communities... then I think people would be in favour of the Bonus . However, this Council is so strapped for cash, any Bonus money is likely to go towards 'central funds' rather than being directed towards the specific areas in which new housing is built"

Local Authority, Yorkshire & Humber

Blackpool

As the number of Brits taking traditional bucket-and-spade holidays has fallen, so has demand for traditional guest house accommodation in Blackpool. Many former guest houses in Britain's favourite seaside resort are now being used to accommodate permanent residents. Others have been subdivided to form houses in multiple occupation and small, poor quality privately rented residential units.

Blackpool Council has recognised that this excess supply of low-value accommodation is driving social deprivation and deterring private sector investment. It means the housing market is extremely imbalanced, and there are few opportunities for working families to live in the centre of town.

One site in particular – around Tyldesley Road – had been identified as a priority for investment, but high up-front costs and uncertainty around public sector funding meant that much-needed redevelopment had not been brought forward. However, the unexpected availability of a neighbouring site, which had previously been earmarked for a college campus, presented an opportunity to link the two sites to create a more viable development opportunity.

The larger site, which covers some 7 acres, represents a unique development opportunity in terms of scale and location for Blackpool. It has been conceptualised as a "Distinctive, mixed tenure neighbourhood located close to the sea, with approximately 400 new homes that will appeal to a range of families and smaller households".

To move towards making this vision a reality, the Council intends to acquire property in the area and carry out necessary site remediation. This will initially be funded by up to £5million of prudential

borrowing, with repayment costs underpinned by receipts from the New Homes Bonus. Additional borrowing will be secured upon the anticipated receipt from eventual sale of the site.

Cautious estimates suggest that Blackpool Council will receive just over £6.8m of New Homes Bonus funding over the next six years. This site, which can accommodate around 400 new homes, will itself generate £3.3m of New Homes Bonus receipts. As organisations which might previously have part-funded this type of work such as Regional Development Agency's are wound up, the New Homes Bonus provides a new source of revenue which can be helpful in kick-starting development, alongside support from the Homes & Communities Agency.

Sefton

Like many local authorities in the North of England, Sefton Council has been affected by the cessation of Housing Market Renewal (HMR) funding. If nothing is done, from March 2012 Sefton will face almost £4million of unfunded contractual commitments, and a £250,000 liability in respect of council tax and void security. In addition to the financial consequences, 87 households will be left living amongst 388 derelict and empty properties, and some 475 obsolete houses will remain, undermining significant previous investments.

Clearly, it is important that the work started under the HMR programme is brought to a close. To enable completion of the programme, Sefton have decided to use income from the New Homes Bonus as match-funding for a bid to the Government's £30m HMR Transition Fund.

Sefton expect to receive £2.4million over 6 years from their 2011/12 NHB allocation (e.g. £405,860 per annum). In addition, if the HMR activity were to continue, Sefton calculate that this would generate at least £6.46m in Bonus receipts between 2012/3 and 2020/1. By using the 2011/12 NHB allocation for HMR, together with some prudential borrowing and match-funding from the HMR Transition Fund, Sefton can effectively create a self-financing programme which will remove the empty and derelict properties, and deliver 750 new properties over four years, 324 of which will be affordable.

Sefton will need to conduct some short-term borrowing, but the programme is expected to break-even by the 2018/19 financial year.

What councils elsewhere in the country are doing:

- Islington – using the majority of their New Homes Bonus receipts to provide grants to housing associations, which the authority hopes will enable them to develop homes for rent at traditional social rents. Islington has been critical of the affordable rent model and intends to offer local authority grants and land assets to facilitate social rented development.
- Brighton – the Council's 2011 budget committed to using £200,000 of New Homes Bonus receipts to create a 'Local Homes Venture Fund' to provide equity investment in new housing in the city. This relatively small fund will be used as match-funding to invest in joint venture housing initiatives. As an equity investment, the Council hopes to grow this fund over time.
- Cambridge – are seeking to use New Homes Bonus receipts to replace lost 'growth point' funding. This will pay for staff to work in planning and other functions to ensure that new neighbourhoods are mixed sustainable communities

Risks and opportunities for the North

As this report shows, the New Homes Bonus presents both risks and opportunities for the North. The Northern Housing Consortium would encourage members to consider doing the following:

- Model the impact the New Homes Bonus will have on your local authority over the next six years. The appendix to this report sets out the position based on static levels of completions – but you can use local knowledge to predict your own receipts and balance this against future losses from Formula Grant.
- Review your empty homes activity. Bringing empty homes back into use is popular with the general public, there is HCA funding available, and it can build New Homes Bonus receipts for your authority relatively quickly and easily.
- Ensure Elected Members are aware that housing development now generates additional income – and also the reductions in Formula Grant which will occur and can be ameliorated to some extent by increased housing activity.
- Look at whether the models used in Sefton and Blackpool could work for you. Neither of those councils are in the top tier of Bonus recipients this year, but both have managed to devise schemes which use Bonus receipts to secure borrowing for activity which should generate further receipts.
- Consider opportunities to work right across the Council (and with the county council if you are in a two-tier area) to deliver the advantages identified by the BSAS survey as changing the views of those who oppose housing development.

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Methodology note: ComRes interviewed 4,015 GB adults online between 4th and 8th May 2011. Data were weighted to be representative demographically of all GB adults. ComRes is a member of the British Polling Council and abides by its rules (www.britishpollingcouncil.org). Full data tables can be found at www.comres.co.uk

Appendix: The New Homes Bonus and Northern local authorities

North East

	Year One Payments (£) Inc empty homes, but excluding Affordable Homes premium	Projected NHB payment by year six, assuming static completions	Projected loss of formula grant by year six	Net gain/loss by year six
Darlington UA	£274,411.00	£ 1,646,466.00	£1,898,374	-£251,908
Durham	£1,299,616.00	£ 7,797,696.00	£10,827,020	-£3,029,324
Gateshead	£68,283.00	£ 409,698.00	£4,871,630	-£4,461,932
Hartlepool	£277,130.00	£ 1,662,780.00	£2,392,690	-£729,910
Middlesbrough UA	£461,350.00	£ 2,768,100.00	£3,972,008	-£1,203,908
Newcastle upon Tyne	£455,753.00	£ 2,734,518.00	£7,883,526	-£5,149,008
North Tyneside	£516,840.00	£ 3,101,040.00	£2,392,690	£708,350
Northumberland UA	£961,719.00	£ 5,770,314.00	£5,933,402	-£ 163,088
Redcar & Cleveland UA	£125,692.00	£ 754,152.00	£3,127,724	-£2,373,572
South Tyneside	£158,314.00	£ 949,884.00	£4,142,668	-£3,192,784
Stockton on Tees UA	£771,262.00	£ 4,627,572.00	£3,539,930	£1,087,642
Sunderland	£576,967.00	£ 3,461,802.00	£7,274,072	-£3,812,270

North West

	Year One Payments (£) Inc empty homes, but excluding Affordable Homes premium	Projected NHB payment by year six, assuming static completions	Projected loss of formula grant by year six	Net gain/loss by year six
Allerdale	£84,178	£505,068	£374,486	£130,582
Barrow-in-Furness	£157,866	£947,196	£320,528	£626,668
Blackburn with Darwen UA	£110,500	£663,000	£3,797,990	-£3,134,990
Blackpool UA	£466,147	£2,796,882	£3,975,918	-£1,179,036
Bolton	£759,269	£4,555,614	£5,882,848	-£1,327,234
Burnley	£69,722	£418,332	£416,392	£1,940
Bury	£253,623	£1,521,738	£3,224,876	-£1,703,138
Carlisle	£243,452	£1,460,712	£321,816	£1,138,896
Cheshire East UA	£869,769	£5,218,614	£3,233,524	£1,985,090
Cheshire West & Chester	£326,383	£1,958,298	£4,442,496	-£2,484,198
Chorley	£301,916	£1,811,496	£307,924	£1,503,572
Copeland	£14,968	£89,808	£258,566	-£168,758
Cumbria	£149,199	£895,194	£7,287,688	-£6,392,494
Eden	£70,490	£422,940	£169,602	£253,338
Fylde	£278,633	£1,671,798	£199,134	£1,472,664
Halton	£347,332	£2,083,992	£3,083,518	-£999,526
Hyndburn	£62,942	£377,652	£360,686	£16,966
Knowsley	£57,569	£345,414	£5,440,926	-£5,095,512
Lancashire	£464,868	£2,789,208	£15,355,766	-£12,566,558
Lancaster	£231,427	£1,388,562	£599,702	££788,860
Liverpool	£876,965	£5,261,790	£15,643,174	-£10,381,384
Manchester	£2,616,342	£15,698,052	£16,286,852	-£588,800
Oldham	£257,780	£1,546,680	£5,623,362	-£4,076,682
Pendle	£101,065	£606,390	£404,570	£201,820
Preston	£38,251	£229,506	£534,842	-£305,336
Ribble Valley	£62,046	£372,276	£147,844	£224,432
Rochdale	£334,699	£2,008,194	£5,304,490	-£3,296,296
Rossendale	£102,472	£614,832	£209,668	£405,164
Salford	£2,016,347	£12,098,082	£6,230,102	£5,867,980
Sefton	£405,860	£2,435,160	£5,807,316	-£3,372,156
South Lakeland	£25,842	£155,052	£233,542	-£78,490
South Ribble	£165,158	£990,948	£246,146	£744,802
St Helens	£343,974	£2,063,844	£4,185,172	-£2,121,328
Stockport	£322,225	£1,933,350	£3,985,854	-£2,052,504
Tameside	£637,894	£3,827,364	£4,902,542	-£1,075,178
Trafford	£625,261	£3,751,566	£3,235,962	£515,604
Warrington UA	£670,517	£4,023,102	£2,639,526	£ 1,383,576
West Lancashire	£174,242	£1,045,452	£338,330	£707,122
Wigan	£884,001	£5,304,006	£6,200,018	-£896,012
Wirral	£260,019	£1,560,114	£7,305,766	-£5,745,652
Wyre	£271,597	£1,629,582	£350,244	£1,279,338

Yorkshire & Humber

	Year One Payments (£) Inc empty homes, but excluding Affordable Homes premium	Projected NHB payment by year six, assuming static completions	Projected loss of formula grant by year six	Net gain/loss by year six
Barnsley	£698,661	£4,191,966	£5,040,312	-£848,346
Bradford	£2,760,424	£16,562,544	£12,597,330	£3,965,214
Calderdale	£724,567	£4,347,402	£3,787,778	£559,624
Craven	£229,124	£1,374,744	£148,258	£1,226,486
Doncaster	£403,301	£2,419,806	£6,667,792	£4,247,986
East Riding of Yorkshire UA	£1,086,291	£6,517,746	£4,713,482	£1,804,264
Hambleton	£315,221	£1,891,326	£215,050	£1,676,276
Harrogate	£272,620	£1,635,720	£386,170	£1,249,550
Kingston upon Hull UA	£444,559	£2,667,354	£7,173,010	£4,505,656
Kirklees	£1,273,870	£7,643,220	£7,323,844	£319,376
Leeds	£2,732,599	£16,395,594	£14,491,426	£1,904,168
North East Lincolnshire UA	£383,312	£2,299,872	£3,411,038	-£1,111,166
North Lincolnshire	£518,919	£3,113,514	£2,903,152	£210,362
North Yorkshire	£381,969	£2,291,814	£5,619,498	-£3,327,684
Richmondshire	£45,160	£270,960	£153,916	£117,044
Rotherham	£508,364	£3,050,184	£5,665,544	-£2,615,360
Ryedale	£214,540	£1,287,240	£164,358	£1,122,882
Scarborough	£5,885	£35,310	£409,768	-£374,458
Selby	£445,327	£2,671,962	£240,166	£2,431,796
Sheffield	£1,957,819	£11,746,914	£13,049,648	-£1,302,734
Wakefield	£1,198,710	£7,192,260	£6,431,444	£760,816
York UA	£714,173	£4,285,038	£2,288,638	£1,996,400

Notes:

Notes:



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